

COOPER TIRE & RUBBER CO

FORM 10-K (Annual Report)

Filed 3/1/2006 For Period Ending 12/31/2005

Address	LIMA & WESTERN AVENUES FINDLAY, Ohio 45840
Telephone	419-423-1321
CIK	0000024491
Industry	Tires
Sector	Consumer Cyclical
Fiscal Year	12/31

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

For Annual and Transition Reports Pursuant to Sections 13 or 15(d) of the Securities Exchange Act of 1934

(Mark One)

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2005

or

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from ___ to ___

Commission File Number 001-04329



COOPER TIRE & RUBBER COMPANY

(Exact name of registrant as specified in its charter)

DELAWARE
(State of incorporation)

34-4297750
(I.R.S. employer
identification no.)

701 Lima Avenue, Findlay, Ohio
(Address of principal executive offices)

45840
(Zip Code)

Registrant's telephone number, including area code: (419) 423-1321

Securities registered pursuant to Section 12(b) of the Act:

(Title of each class)
Common Stock, \$1 par value per share
Rights to Purchase Series A Preferred Stock

(Name of each exchange on which registered)
New York Stock Exchange
New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

The aggregate market value of the voting common stock held by non-affiliates of the registrant at June 30, 2005 was \$1,126,457,606.

The number of shares outstanding of the registrant's common stock as of January 31, 2006 was 61,328,610.

DOCUMENTS INCORPORATED BY REFERENCE

The registrant's definitive proxy statement for its 2006 Annual Meeting of Stockholders is hereby incorporated by reference into Part III, Items 10 – 14, of this report.

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PART I

Item 1. BUSINESS

Cooper Tire & Rubber Company (“Cooper” or the “Company”) is a leading manufacturer of replacement tires. It is the fourth largest tire manufacturer in North America and, according to a recognized trade source, is the eighth largest tire company in the world based on sales. Cooper focuses on the manufacture and sale of passenger and light truck replacement tires. It also manufactures radial medium truck tires and materials and equipment for the truck tire retread industry.

The Company is organized into two separate, reportable business segments: North American Tire Operations and International Tire Operations. Each segment is managed separately because they operate in different geographic locations. Additional information on the Company’s segments, including their financial results, total assets, products, markets and presence in particular geographic areas, appears in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the “Business Segments” note to the consolidated financial statements.

In 2004, as a result of the anticipated sale of its automotive operations and the announced exiting of the inner tube business, Cooper designated certain plants and facilities as Discontinued Operations. These included the assets and facilities of Cooper-Standard Automotive, which was sold on December 23, 2004, and the Company’s inner tube operations in Clarksdale, Mississippi which were held for sale at December 31,

2004.

Cooper was incorporated in the State of Delaware in 1930 as the successor to a business originally founded in 1914. Based in Findlay, Ohio, Cooper currently operates 9 manufacturing facilities and 19 distribution centers in 7 countries. As of December 31, 2005, the Company employed 8,762 persons worldwide.

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Business Segments

North American Tire Operations

The North American Tire Operations segment produces passenger car and light truck tires, primarily for sale in the United States replacement market, and materials and equipment for the tread rubber industry. Major distribution channels and customers include independent tire dealers, wholesale distributors, regional and national retail tire chains, and large retail chains that sell tires as well as other automotive products. The segment does not sell its products directly to end users and does not manufacture tires for sale to the automobile original equipment manufacturers (“OEMs”).

The segment operates in a highly competitive industry, which includes Bridgestone Corporation, Goodyear Tire & Rubber Company and Groupe Michelin. These competitors are substantially larger than the Company and serve the OEM as well as the replacement portion of the tire market. The segment also faces competition from low-cost producers in Asia and South America. Some of those producers are foreign subsidiaries of the segment’s competitors in North America. The segment had a market share in 2005 of approximately 16 percent of all light vehicle replacement tire sales in the United States. A small percentage of the products manufactured by the segment in the United States are exported throughout the world.

In the tread rubber industry, which supplies retread equipment and materials to the commercial truck tire industry, there are numerous suppliers, of which Bandag, Inc., Goodyear Tire & Rubber Company and Groupe Michelin have a combined market share that is believed to exceed 80 percent.

Success in competing for the sale of replacement tires is dependent upon many factors, the most important of which are price, quality, availability through appropriate distribution channels and relationships with dealers. Other factors of importance are warranty, credit terms and other value-added programs. The segment has built close working relationships through the years with its independent dealers and believes those relationships have enabled it to obtain a competitive advantage in the replacement market. As a steadily increasing percentage of replacement tires are sold by large regional and national tire retailers, the segment has increased its penetration of those distribution channels, while maintaining a focus on its traditionally strong network of independent dealers. In addition, as an increasing percentage of replacement tires sold are in the high performance and ultra-high performance categories, the segment has worked aggressively to increase its production capacity of this type of premium tire so as to be able to keep up with increasing customer demand. Part of this capacity expansion is comprised of the outsourcing of opening price point and economy type tires to contract manufacturers in Asia. This outsourcing frees up essential production capacity within the segment’s North American facilities to build additional high performance and ultra-high performance premium products. The segment currently has manufacturing supply agreements with two Asian manufacturers to provide entry level passenger tires from China for distribution in the United States. In total, the segment sourced approximately 1.2 million tires from China in 2005.

Both the replacement tire and retread products businesses of the segment have broad customer bases. Overall, a balanced mix of customers and the offering of both proprietary brand and private label tires help to protect the segment from the adverse effects that could result from the loss of a major customer. Customers place orders on a month to month basis and the segment adjusts production and inventory to meet those orders which results in varying backlogs of orders at different times of the year.

International Tire Operations Segment

The International Tire Operations segment has manufacturing facilities in the United Kingdom under the Cooper Tire Europe subsidiary and is pursuing opportunities for future expansion in Asia through joint ventures and other forms of alliance, as well as through existing contract manufacturing arrangements. The segment has an administrative and sales office in China through which it will manage and develop the Company’s increasing relationships in Asia.

The segment currently produces passenger car, light truck, racing and motorcycle tires and markets these products primarily to dealers in the replacement markets in the United Kingdom, continental Europe and Scandinavia. The segment does not sell its products directly to end users and does not manufacture tires for sale to OEMs, other than several small contracts with specialty vehicle manufacturers in the United Kingdom.

The segment has formed a joint venture with an Asian partner to build a manufacturing plant in China. Production in this facility is scheduled to commence in 2006. In addition, the segment currently has a manufacturing supply agreement with an Asian manufacturer to provide entry level passenger tires from China for distribution in the European market. In total, the segment sourced approximately 700,000 tires from China in 2004 and 536,000 tires in 2005.

As in North America, the segment operates in a highly competitive industry, which includes Bridgestone Corporation, Goodyear Tire & Rubber Company and Groupe Michelin. These competitors are substantially larger than the Company and serve the OEM as well as the replacement portion of the tire market.

Discontinued Operations

The discontinued operations as reported in this Form 10-K include the operations of Cooper-Standard Automotive (formerly the Automotive segment) which was sold on December 23, 2004 and the operations of the Company's inner tube business in Clarksdale, Mississippi (formerly part of the North American Tire Operations segment) which was exited in the fourth quarter of 2004.

Cooper-Standard Automotive produced components, systems, subsystems and modules for incorporation into the passenger vehicles and light trucks manufactured by the global automotive OEMs. Replacement parts for current production vehicles were also produced. The main products include automotive body sealing systems and products, noise, vibration and harshness ("NVH") control products and fluid systems products as well as a small amount of extruded plastic body side moldings.

Nearly all of Cooper-Standard's products were sold as original equipment directly to the OEMs for installation on new vehicles or, in a lesser number of cases, to Tier 1 suppliers who do the same. Accordingly, sales of such products were directly affected by the annual vehicle production of OEMs, and in particular, the production levels of the vehicles for which specific parts were being provided. In most cases, Cooper-Standard's products were designed and engineered for a specific vehicle platform and could be used on other vehicles.

The Company elected to sell Cooper-Standard Automotive in order to more fully focus management attention and Company resources on the primary business of replacement tires.

The Company's inner tube operations faced increasing competition from foreign manufacturers over the past several years. The resulting price erosion has made it extremely difficult to continue the operation profitably and so the decision was made in the third quarter of 2004 to exit this business.

Raw Materials

The Company's principal raw materials include synthetic rubber, carbon black, natural rubber, chemicals and reinforcement components. The Company acquires its raw materials from multiple sources around the world to provide greater assurance of continuing supplies for its manufacturing operations.

The Company experienced significant increases in the costs of certain of its principal raw materials and natural gas costs, the principal energy source used in its manufacturing processes, during 2005 when compared with the levels experienced during 2004. Approximately 65 percent of the Company's raw materials are petroleum-based, and crude oil set new price records during 2005. The increases in the cost of petroleum-based and steel reinforcement materials were the most significant drivers of higher raw material costs during the year. The pricing volatility in commodities such as crude oil and, to a lesser extent, steel continued to contribute to the difficulty in managing the costs of related raw materials. The increased price of crude oil, the growing global demand for its derivative products, and recent supply disruptions in the United States for certain commodities have contributed to the cost increases experienced for raw materials used by the Company and add to concerns regarding their availability. The disruption of supply in the United States for carbon black and synthetic rubber caused by Hurricane Rita late in the third quarter resulted in the Company's decision to reduce production levels for certain of its products in its domestic facilities, effective in early October. The production reductions were necessary to ensure the adequate and uninterrupted availability of these commodities to maintain production efficiencies and to assure the supply of certain products in high demand by the Company's customers. The Company also reacted promptly to the supply disruptions by working to secure synthetic rubber and carbon black from alternative suppliers. These actions and the return to normal production levels by raw material suppliers, allowed the Company to maintain the reduced scheduled production levels with no interruption in supply.

The Company has a purchasing office in Singapore to acquire natural rubber and various raw materials directly from producers in the Far East. This purchasing operation enables the Company to work directly with producers to continually improve the consistency of quality and to reduce the costs of materials, transportation and transactions.

The Company is an equity investor in RubberNetwork.com LLC, which was established by the major manufacturers in the tire and rubber industry to achieve cost savings in the procurement processes of raw materials, indirect materials and services through the application of e-business technology. The Company recognized significant savings in purchasing certain raw materials and indirect materials through the use of this procurement method during 2005.

The Company's contractual relationships with its raw material suppliers are generally based on long-term agreements and/or purchase order arrangements. For natural rubber and natural gas, procurement is managed using long-term agreements, buying forward of production requirements and utilizing the spot market when advantageous. For steel-based tire reinforcement materials, procurement is managed through long-term supply contracts. For other principal materials, procurement arrangements include multi-year supply agreements that may contain formula-based pricing based on commodity indices. These arrangements only cover quantities needed to satisfy normal manufacturing demands.

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Working Capital

The Company sold its automotive operations, known as Cooper-Standard Automotive, in a transaction which closed on December 23, 2004. The sale generated proceeds of approximately \$1.2 billion which has been used for debt reduction, the repurchase of shares and investment in tire operations. At December 31, 2005 the Company held cash of \$281 million.

The Company maintains a strong working capital position. Inventories turn regularly and accounts receivable and accounts payable are well managed. The Company engages in a rigorous credit analysis of its independent tire dealers and monitors their financial positions. The North American Tire Operations segment offers incentives to certain of its customers to encourage the payment of account balances prior to their scheduled due dates.

Research, Development and Product Improvement

The Company directs its research activities toward product development, improvements in quality, and operating efficiency. The Company continues to actively develop new light vehicle tires, primarily in the specialty light truck, sport truck and high performance categories. The Company conducts extensive testing of current tire lines, as well as new concepts in tire design, construction and materials. During 2005, approximately 53 million miles of tests were performed on indoor test wheels and in monitored road tests. The Company has a tire and vehicle test track in Texas that assists the Company's testing efforts. Uniformity equipment is used to physically monitor its tires for high standards of ride quality. The Company continues to design and develop specialized equipment to fit the precise needs of its manufacturing and quality control requirements. Research and development expenditures were \$17.5 million, \$18.6 million and \$15.9 million during 2003, 2004 and 2005, respectively.

Patents, Intellectual Property and Trademarks

The Company owns and/or has licenses to use patents and intellectual property, covering various aspects in the design and manufacture of its products and processes, and equipment for the manufacture of its products which will continue to be amortized over the next four to 11 years. While the Company believes these assets as a group are of material importance, it does not consider any one asset or group of these assets to be of such importance that the loss or expiration thereof would materially affect its business.

The Company owns and uses tradenames and trademarks worldwide. While the Company believes such tradenames and trademarks as a group are of material importance, the trademarks the Company considers most significant to its business are those using the words "Cooper," "Mastercraft" and "Avon." The Company believes all of these significant trademarks are valid and will have unlimited duration as long as they are adequately protected and appropriately used. Certain other tradenames and trademarks are being amortized over the next ten to 23 years.

Seasonal Trends

There is a year-round demand for passenger and truck replacement tires, but passenger replacement tire sales are generally strongest during the third and fourth quarters of the year. Winter tires are sold principally during the months of August through November.

Environmental Matters

The Company recognizes the importance of compliance in environmental matters and has an organizational structure to supervise environmental activities, planning and programs. The Company also participates in activities concerning general industry environmental matters.

The Company's manufacturing facilities, like those of the industry generally, are subject to numerous laws and regulations designed to protect the environment. In general, the Company has not experienced difficulty in complying with these requirements and believes they have not had a material adverse effect on its financial condition or the results of its operations. The Company expects additional requirements with respect to environmental matters will be imposed in the future. The Company's 2005 expense and capital expenditures for environmental matters at its facilities were not material, nor is it expected that expenditures in 2006 for such uses will be material.

Foreign Operations

The Company has a manufacturing facility located in the United Kingdom and six distribution centers and five sales offices in Europe. The Company has an administrative and sales office in China and a purchasing office in Singapore.

The Company believes the risks of conducting business in less developed markets, including China and other Asian countries, are somewhat greater than in the United States, Canadian and Western European markets. This is due to the potential for currency volatility, high interest and inflation rates, and the general political and economic instability that are associated with emerging markets.

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The Company's 2005 net sales attributable to its foreign subsidiaries, and shipments of exports from the United States, approximated \$414 million, or approximately 19 percent of consolidated net sales. Additional information on the Company's foreign operations can be found in the "Business Segments" note to the consolidated financial statements.

Available Information

The Company makes available free of charge on or through its Internet website its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as reasonably practicable after it electronically files such material with, or furnishes it to, the U.S. Securities and Exchange Commission ("SEC"). The Company's Internet address is <http://www.coopertire.com>. The Company had adopted corporate governance guidelines, a code of business conduct and ethics and charters for each of its Audit Committee, Compensation Committee and Nominating and Governance Committee each of which are available on the Company's Internet website and will be available to any stockholder who requests them from the Company's Director of Investor Relations. The information contained on the Company's website is not incorporated by reference in this annual report on Form 10-K and should not be considered a part of this report.

Item 1A. RISK FACTORS

From time to time, information provided by our employees, or information included in our filings with the Securities and Exchange Commission may contain forward-looking statements that are not historical facts. Those statements are "forward-looking" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements, and our future performance, operating results, financial position and liquidity, are subject to a variety of factors that could materially affect results, including those described below. Any forward-looking statements made in this report or otherwise speak only as of the date of the statement and, except as otherwise required by law, we undertake no obligation to update those statements. Comparisons of results for current and any prior periods are not intended to express any future trends or indications of future performance, unless expressed as such, and should only be viewed as historical data.

You should carefully consider the risks described below and other information contained in this Annual Report on Form 10-K when considering an investment decision with respect to our securities. Additional risks and uncertainties not presently known to us, or that we currently deem immaterial, may also impair our business operations. Any of the events discussed in the risk factors below may occur. If they do, our business, results of operations or financial condition could be materially adversely affected. In such an instance, the trading price of our securities could decline, and you might lose all or part of your investment.

Increases in the costs of certain raw materials, including steel, rubber and carbon black may affect our profitability.

Costs for certain raw materials used in our operations, including natural rubber, chemicals, carbon black, steel reinforcements and synthetic rubber and other crude-oil based products remain at unprecedented high levels. Increasing costs for raw materials supplies will increase our production costs and harm our margins and results of operations if we are unable to pass the higher production costs on to our customers in the form of price increases.

Further, if we are unable to obtain adequate supplies of raw materials in a timely manner, our operations could be interrupted.

If the price of natural gas or other energy sources increases, our operating expenses could increase significantly.

Our nine manufacturing facilities rely principally on natural gas, as well as electrical power and other energy sources. High demand and limited availability of natural gas and other energy sources have resulted in significant increases in energy costs in the past several years, which have increased our operating expenses and transportation costs. For example, the average cost of natural gas during 2005 increased approximately 20% from the average cost in 2004. Overall, our energy costs were at historically high levels on average during 2005, and those costs may increase further. Increasing energy costs would increase our production costs and adversely affect our margins and results of operations.

Our industry is highly competitive, and we may not be able to compete effectively with low-cost producers and larger competitors.

The replacement tire industry is a highly competitive, global industry. Some of our competitors are large overseas companies with greater financial resources. In recent years, the replacement tire industry has experienced significant consolidation which has increased the capital base and geographic reach of some of our competitors. We also compete against low-cost producers in Asia and South America. Increased competitive activity in the replacement tire industry has caused and will continue to cause pricing pressures on our business. Our ability to compete successfully will depend in part on our ability to reduce costs by reducing excess capacity, leveraging global purchasing of raw materials, improving productivity, eliminating redundancies and increasing production at low-cost supply sources. If we are unable to offset continued pricing pressures with improved operating efficiencies and reduced spending, our sales, margins, operating results and market share would decline.

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We may be unable to recover new product development and testing costs, which could increase the cost of operating our business.

Our business strategy emphasizes the development of new equipment and new products and using new technology to improve quality and operating efficiency. Developing new products and technologies requires significant investment and capital expenditures, is technologically challenging and requires extensive testing and accurate anticipation of technological and market trends. If we fail to develop new products that are appealing to our customers, or fail to develop products on time and within budgeted amounts, we may be unable to recover our product development and testing costs.

We conduct our manufacturing, sales and distribution operations on a worldwide basis and are subject to risks associated with doing business outside the United States.

We have operations worldwide, including in the U.S., the United Kingdom, continental Europe, and Asia (primarily in China). Recently, we have expanded our operations in Asia and are building a manufacturing plant in China. There are a number of risks in doing business abroad, including political and economic uncertainty, social unrest, shortages of trained labor and the uncertainties associated with entering into joint ventures or similar arrangements in foreign countries. These risks may impact our ability to expand our operations in Asia and elsewhere and otherwise achieve our objectives relating to our foreign operations. In addition, compliance with multiple and potentially conflicting foreign laws and regulations, import and export limitations and exchange controls is burdensome and expensive. Our foreign operations also subject us to the risks of international terrorism and hostilities and to foreign currency risks, including exchange rate fluctuations and limits on the repatriation of funds.

Our expenditures for pension and other post-retirement obligations could be materially higher than we have predicted if our underlying assumptions prove to be incorrect.

We provide defined benefit and hybrid pension plan coverage to union and non-union employees in the U. S. and a contributory defined benefit plan in the U. K. Our pension expense and our required contributions to our pension plans are directly affected by the value of plan assets, the projected and actual rates of return on plan assets and the actuarial assumptions we use to measure our defined benefit pension plan obligations, including the discount rate at which future projected and accumulated pension obligations are discounted to a present value. We could experience increased pension expense due to a combination of factors, including the decreased investment performance of our pension plan assets, decreases in the discount rate, increases in the salary increase rate and changes in our assumptions relating to the expected return on plan assets. We could also experience increased other post retirement expense due to decreases in the discount rate and/or increases in the health care trend rate.

Increases in our pension expense could have a significant negative impact on our profitability. Based on current guidelines, assumptions and estimates, including stock market prices and interest rates, we anticipate that we may be required to make a cash contribution of approximately \$30-33 million to our defined benefit and hybrid pension plans in 2006. If our current assumptions and estimates are not correct, a contribution in years beyond 2006 may be greater than the projected 2006 contribution. We cannot predict whether changing market or economic conditions, regulatory changes or other factors will increase our pension expenses or our pension funding obligations, thereby diverting funds we would otherwise apply to other uses.

The Financial Accounting Standards Board may propose changes to the current accounting principles used to report our pension and other post retirement plans' funding status and the manner in which related costs are expensed. These changes could result in reflecting additional liabilities on our balance sheet, reduction of shareholders' equity and higher pension and other post-retirement costs.

Compliance with the TREAD Act and similar regulatory initiatives could increase the cost of operating our business.

We are subject to the Transportation Recall Enhancement Accountability and Documentation Act, or TREAD Act, which was adopted in 2000. Proposed and final rules issued under the TREAD Act regulate test standards, tire labeling, tire pressure monitoring, early warning reporting, tire recalls and record retention. Compliance with TREAD Act regulations has increased, and will continue to increase, the cost of producing and distributing tires in the U.S. Compliance with the TREAD Act and other federal, state and local laws and regulations now in effect or that may be enacted could require significant capital expenditures, increase our production costs and affect our earnings and results of operations.

In addition, while we believe that our tires are free from design and manufacturing defects, it is possible that a recall of our tires, under the TREAD Act or otherwise, could occur in the future. A substantial recall could harm our reputation, operating results and financial position.

Any interruption in our skilled workforce could impair our operations and harm our earnings and results of operations .

Our operations depend on maintaining a skilled workforce and any interruption of our workforce due to shortages of skilled technical, production and professional workers could interrupt our operations and affect our operating results. Further, a significant number of our U.S. employees are currently represented by unions. The labor agreement at Findlay does not expire until 2009 and the labor agreement at Texarkana does not expire until 2011. Although we believe that our relations with our employees are generally good, we cannot assure you that we will be able to successfully maintain our relations with our employees or our collective bargaining agreements with those unions.

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If we fail to extend or renegotiate our agreements with the labor unions on satisfactory terms, or if our unionized employees were to engage in a strike or other work stoppages, our business and operating results could suffer. For example, we experienced a work stoppage in March and April 2005 at our Texarkana, Arkansas manufacturing facility during contract negotiations with the United Steelworkers of America, which resulted in lost volume of approximately 936,000 tires in 2005 and reduced our 2005 operating profit by \$26 million. Certain of the North American Tire Operations segment's products remain in short supply as a result of that work stoppage.

We have a risk of exposure to product liability claims, which if successful could have a negative impact on our financial position, cash flows and results of operations.

Our operations expose us to potential liability for personal injury or death as a result of the failure of or defects in the products that we design and manufacture. Specifically, we are a party to a number of products liability cases in which individuals involved in motor vehicle accidents seek damages resulting from allegedly defective tires that we manufactured. This type of litigation has increased substantially for all tire manufacturers following the Firestone tire recall announced in 2000. Products liability claims and lawsuits, including possible class action litigation, could have a negative effect on our financial position, cash flows and results of operations.

While we believe that our liability insurance is adequate to protect us from future products liability claims, those claims may result in material losses in the future and cause us to incur significant litigation defense costs. Further, we cannot assure you that our insurance coverage will be adequate to address any claims that may arise. A successful claim brought against us in excess of our available insurance coverage may have a significant negative impact on our business and financial condition.

Further, we cannot assure you that we will be able to maintain adequate insurance coverage in the future at an acceptable cost or at all. In 2003, we established a new excess liability insurance program, which covers our products liability claims occurring on or after April 1, 2003. This new occurrence-based insurance coverage has higher premium costs for coverage in excess of the self-insured amounts, an increased per claim retention limit, no aggregate retention limit, and increased excess liability coverage. As a result of these changes to our insurance program, if the cost of our litigation and the number of claims brought against us remain at current levels, our products liability costs could have a much greater impact on our results of operations and financial position than in the past.

We may be unable to access the financial markets on favorable terms if our credit ratings or our financial condition deteriorates.

We rely on access to financial markets as a significant source of liquidity for capital requirements that we cannot satisfy by cash on hand or operating cash flows. Various factors, including a deterioration of our credit ratings or our business or financial condition, could impair our access to the financial markets. Each of Standard & Poor's and Moody's Investor Services reduced our credit ratings in 2005. Further downgrades in our credit ratings would require us to pay a higher interest rate for future borrowing needs and any new borrowing facilities that we enter into may have stricter terms. Additionally, any inability to access the capital markets or incur additional debt in the future on favorable terms could impair our liquidity and operations, and could require us to consider deferring planned capital expenditures, reducing discretionary spending, selling assets or restructuring existing debt.

If we are unable to execute our Asian strategy effectively, our profitability and financial condition could decline.

In the replacement tire industry, an increasing percentage of replacement tires are sold in the high performance and ultra-high performance categories. We have increased our production capacity in the United States for these types of premium tires to keep up with increasing customer demand. We have also outsourced our manufacturing of certain economy-type tires to contract manufacturers in Asia. This outsourcing strategy, a component of our Asian strategy, is intended to free up essential production capacity within our North American facilities to manufacture additional high performance and ultra-high performance tires.

Our Asian strategy also calls for us to align with strategic partners we believe will provide access to the local market and position us to take advantage of the significant anticipated growth within Asia over the next five to ten years. For example, we have made an investment in Kumho Tire Co., Inc. of South Korea, are building a plant in the Peoples Republic of China with Kenda Tire of Taiwan, and have acquired 51% of Cooper Chengshan (Shandong) Passenger Tire Company Ltd. and Cooper Chengshan (Shandong) Tire Company, Ltd. and continue to evaluate opportunities for acquisitions or strategic alliances that will provide us with an adequate competitive position, immediate market recognition, and a platform on which to build as the Asian market develops. Our Asian strategy is subject to the risks of operating abroad and other operational and logistical challenges. Our failure to execute our Asian strategy effectively would harm our sales, margins and profitability.

We may not be able to successfully implement our cost savings initiatives.

We have numerous initiatives to improve manufacturing efficiencies and implement other cost reductions in an effort to offset increased raw material costs and other costs. If these cost reduction initiatives are not successful, our margins and profitability would decline.

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We may not be able to protect our intellectual property rights adequately.

Our success depends in part upon our ability to use and protect our proprietary technology and other intellectual property, which generally covers various aspects in the design and manufacture of our products and processes. We own and use tradenames and trademarks worldwide. We rely upon a combination of trade secrets, confidentiality policies, nondisclosure and other contractual arrangements and patent, copyright and trademark laws to protect our intellectual property rights. The steps we take in this regard may not be adequate to prevent or deter challenges, reverse engineering or infringement or other violation of our intellectual property, and we may not be able to detect unauthorized use or take appropriate and timely steps to enforce our intellectual property rights. In addition, the laws of some countries may not protect and enforce our intellectual property rights to the same extent as the laws of the United States.

We may not be successful in integrating future acquisitions into our operations, which could harm our results of operations and financial condition.

We routinely evaluate potential acquisitions and may pursue acquisition opportunities, some of which could be material to our business. While we believe there are a number of potential acquisition candidates available that would complement our business, we currently have no agreements to acquire any specific business or material assets other than as disclosed elsewhere in this report. We cannot predict whether we will be successful in pursuing any acquisition opportunities or what the consequences of any acquisition would be. Additionally, in any future acquisitions, we may encounter various risks, including:

- the possible inability to integrate an acquired business into our operations;
- increased goodwill amortization;
- diversion of management's attention;
- loss of key management personnel;
- unanticipated problems or liabilities; and
- increased labor and regulatory compliance costs of acquired businesses.

Some or all of those risks could impair our results of operations and impact our financial condition. These risks could also reduce our flexibility to respond to changes in our industry or in general economic conditions.

Future acquisitions and their related financings may adversely affect our liquidity and capital resources.

We may finance any future acquisitions, including those that are part of our Asian strategy, from internally generated funds, bank borrowings, public offerings or private placements of equity or debt securities, or a combination of the foregoing. Future acquisitions may involve the expenditure of significant funds and management time. Future acquisitions may also require us to increase our borrowings under our bank credit facilities or other debt instruments, or to seek new sources of liquidity. Increased borrowings would correspondingly increase our financial leverage, and could result in lower credit ratings and increased future borrowing costs.

We may be required to comply with environmental laws and regulations that cause us to incur significant costs.

Our manufacturing facilities are subject to numerous laws and regulations designed to protect the environment, and we expect that additional requirements with respect to environmental matters will be imposed on us in the future. Material future expenditures may be necessary if compliance standards change or material unknown conditions that require remediation are discovered. If we fail to comply with present and future environmental laws and regulations, we could be subject to future liabilities or the suspension of production, which could harm our business or results of operations. Environmental laws could also restrict our ability to expand our facilities or could require us to acquire costly equipment or to incur other significant expenses in connection with our manufacturing processes.

A portion of our business is seasonal, which may affect our period to period results .

Although there is year-round demand for replacement tires, demand for passenger replacement tires is typically strongest during the third and fourth quarters of the year in the northern hemisphere where the majority of our business is conducted, principally due to higher demand for winter tires during the months of August through November. The seasonability of this portion of our business may affect our operating results from quarter to quarter.

Item 1B. UNRESOLVED STAFF COMMENTS

None.

Item 2. PROPERTIES

As shown in the following table, at December 31, 2005 the Company maintained 47 manufacturing, distribution, retail stores, and office facilities worldwide. The Company owns a majority of the manufacturing facilities while some manufacturing, distribution and office facilities are leased.

Type of Facility	North	International		Total
	American Tire Operations	Europe	Asia	
Manufacturing	8	1	—	9
Distribution	13	6	—	19
Retail stores	3	—	—	3
Technical Centers and Offices	7	7	2	16
Total	31	14	2	47

The Company believes its properties have been adequately maintained, generally are in good condition, and are suitable and adequate to meet the demands of each segment's business.

Item 3. LEGAL PROCEEDINGS

The Company is a defendant in various judicial proceedings arising in the ordinary course of business. A significant portion of these proceedings are products liability cases in which individuals involved in vehicle accidents seek damages resulting from allegedly defective tires manufactured by the Company. Litigation of this type has increased significantly throughout the tire industry following the Firestone tire recall announced in 2000. In the future, products liability costs could have a materially greater impact on the consolidated results of operations and financial position of the Company than in the past. After reviewing all of these proceedings, and taking into account all relevant factors concerning them, the Company does not believe that any liabilities resulting from these proceedings are reasonably likely to have a material adverse effect on its liquidity, financial condition or results of operations in excess of amounts recorded at December 31, 2005.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matter was submitted to a vote of security holders during the fourth quarter of the fiscal year ended December 31, 2005.

Executive Officers of the Registrant

See Item 10 of Part III for information regarding the executive officers of the registrant, which is incorporated into Part I by this reference.

PART II

Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

(a) Market information

Cooper Tire & Rubber Company common stock is traded on the New York Stock Exchange under the symbol CTB. The following table sets forth, for the periods indicated, the high and low sales prices of the common stock as reported in the consolidated reporting system for the New York Stock Exchange Composite Transactions:

Year Ended December 31, 2004	High	Low
First Quarter	\$23.36	\$18.23
Second Quarter	23.60	19.65
Third Quarter	23.89	19.49
Fourth Quarter	22.48	17.20
Year Ended December 31, 2005	High	Low
First Quarter	\$22.50	\$18.15
Second Quarter	19.75	16.47
Third Quarter	20.99	15.04
Fourth Quarter	15.73	13.05

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(b) Holders

The number of holders of record at December 31, 2005 was 3,413.

(c) Dividends

The Company has paid consecutive quarterly dividends on its common stock since 1973. Future dividends will depend upon the Company's earnings, financial condition, and other factors. Additional information on the Company's liquidity and capital resources can be found in "Management's Discussion and Analysis of Financial Condition and Results of Operations." The Company's retained earnings are available for the payment of cash dividends and the purchases of the Company's shares and are only limited by debt covenants, described in the "Debt" note to the consolidated financial statements. Quarterly dividends per common share for the most recent two years are as follows:

	<u>2004</u>		<u>2005</u>
March 31	\$0.105	March 31	\$0.105
June 30	0.105	June 30	0.105
September 30	0.105	September 30	0.105
December 28	0.105	December 28	0.105
Total:	<u>\$0.420</u>	Total:	<u>\$0.420</u>

(d) Issuer purchases of equity securities

There were no repurchases of Company stock during the fourth quarter.

Item 6. SELECTED FINANCIAL DATA

The following Selected Financial Data of the Company reflects its continuing operations after the sale of its automotive operations, known as Cooper-Standard Automotive, in a transaction which closed on December 23, 2004. The balance sheet data for 2003, 2004 and 2005 and income statement data for 2002, 2003, 2004 and 2005 were derived from audited financial statements. The balance sheet data for 2001 and 2002 and the income statement data for 2001 are unaudited.

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(Dollar amounts in thousands except for per share amounts)

	Net Sales	Operating Profit	Income (loss) from Continuing Operations Before Income Taxes	Income (loss) from Continuing Operations	Earnings (Loss) Per Share from Continuing Operations	
					Basic	Diluted
2001	\$1,673,160	\$ 49,513	\$ 11,762	\$ 7,328	\$ 0.10	\$ 0.10
2002	1,742,218	113,716	83,635	55,032	0.75	0.74
2003	1,850,853	65,019	37,205	27,344	0.37	0.37
2004	2,081,609	63,224	35,006	27,446	0.37	0.37
2005	2,155,185	26,435	(14,351)	(15,033)	(0.24)	(0.24)

	Stockholders' Equity	Total Assets	Net Property, Plant & Equipment	Capital Expenditures	Depreciation	Long-term Debt
2001	\$ 910,240	\$2,764,250	\$728,775	\$ 77,806	\$106,892	\$877,748
2002	941,716	2,712,209	696,208	74,935	109,347	875,378
2003	1,030,389	2,876,319	691,374	96,081	109,709	863,892
2004	1,170,533	2,668,084	729,420	159,308	109,805	773,704
2005	938,776	2,143,347	786,225	172,152	108,340	491,618

	Long-term Debt To Capitalization	Dividends Per Share	Average Common Shares (000)	Number of Employees
2001	55.7%	\$ 0.42	72,559	8,324
2002	48.8	0.42	73,312	8,012
2003	45.6	0.42	73,688	8,325
2004	39.8	0.42	74,201	8,739
2005	34.4	0.42	63,653	8,762

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Business of the Company

The Company produces and markets passenger, light truck, medium truck and motorcycle tires which are sold nationally and internationally in the replacement tire market to independent tire dealers, wholesale distributors, regional and national retail tire chains, and large retail chains that sell tires as well as other automotive and racing products, and supplies retread equipment and materials to the commercial truck tire industry.

The Company sold its automotive operations, known as Cooper-Standard Automotive, in a transaction which closed on December 23, 2004. Cooper-Standard produced body sealing systems, active and passive vibration control systems, and fluid handling systems, primarily for the global automotive original equipment manufacturing and replacement markets. The sale generated proceeds of approximately \$1.2 billion and a gain of \$112 million. The sale provides the Company significant opportunities to focus exclusively on its global tire business where it believes more value can be generated over the longer term.

In February 2005, the Company purchased 15 million global depository shares, representing approximately an 11 percent interest, of Kumho Tire Co., Inc. ("Kumho Tire") of Seoul, Korea. The acquired shares are subject to a lock-up agreement for a three-year period, to a put option by the Company after three years, and to a reciprocal call provision by Kumho. The Company and Kumho have also agreed to a standstill agreement relative to the shares of Kumho as well as to the shares of the Company. The Company believes it is important to

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form strategic relationships with other strong players in the global tire industry to realize a good return for shareholders and continue its planned growth in products, technology and market share. This investment will serve as a platform to explore synergies in various areas of shared interest.

The Company has two reportable segments for continuing operations — North American Tire Operations and International Tire Operations. The Company's reportable segments are each managed separately because they operate in different geographic locations.

The following discussion of financial condition and results of operations should be read together with "Selected Financial Data," the Company's consolidated financial statements and the notes to those statements and other financial information included elsewhere in this report.

This Management's Discussion and Analysis of Financial Condition and Results of Operations presents information related to the consolidated results of the continuing operations of the Company, including the impact of restructuring costs on the Company's results, a discussion of past results and future outlook of each of the Company's segments, and information concerning both the liquidity and capital resources and critical accounting policies of the Company. A discussion of the past results of its discontinued operations and information related to the gain recognized on the sale of Cooper-Standard are also included. This report contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those indicated in the forward-looking statements. See Risk Factors in Item 1A for information regarding forward-looking statements.

Consolidated Results of Continuing Operations

(Dollar amounts in millions except per share amounts)

	2003	% Change	2004	% Change	2005
Revenues:					
North American Tire	\$1,682.6	11.4%	\$1,874.9	4.4%	\$1,957.7
International Tire	209.6	22.7%	257.2	2.8%	264.4
Eliminations	(41.4)	22.0%	(50.5)	32.5%	(66.9)
Net sales	<u>\$1,850.8</u>	12.5%	<u>\$2,081.6</u>	3.5%	<u>\$2,155.2</u>
Segment profit (loss):					
North American Tire	\$ 76.8	-1.2%	\$ 75.9	-52.8%	\$ 35.8
International Tire	10.3	-8.7%	9.4	-138.3%	(3.6)
Unallocated corporate charges and eliminations	(22.1)	—	(22.1)	—	(5.8)
Operating profit	65.0	-2.8	63.2	-58.2	26.4
Interest expense	29.1	-5.2	27.6	97.5	54.5
Debt extinguishment (gains) losses	—		—		4.2
Interest income	(1.2)		(2.1)		(18.5)
Other — net	(0.1)	n/m	2.7	-77.8	0.6
Income (loss) before income taxes	37.2	-5.9	35.0	-141.1	(14.4)
Provision for income taxes	9.9	-23.2	7.6	-90.8	0.7
Net income/(loss) from continuing operations	<u>\$ 27.3</u>	0.4%	<u>\$ 27.4</u>	-155.1%	<u>\$ (15.1)</u>
Basic earnings/(loss) per share	<u>\$ 0.37</u>	—	<u>\$ 0.37</u>	—	<u>\$ (0.24)</u>
Diluted earnings/(loss) per share	<u>\$ 0.37</u>	—	<u>\$ 0.37</u>	—	<u>\$ (0.24)</u>

2005 versus 2004

Consolidated net sales increased by \$74 million in 2005. The increase was primarily a result of improved net pricing and product mix. This increase was offset by lower unit volume and unfavorable foreign currency translation. Operating profit in 2005 was \$37 million less than the operating profit reported in 2004. The favorable impacts of improved pricing and mix, lower products liability costs and reductions to cost of sales resulting from settlements with raw material suppliers for reimbursements of previously expensed costs were offset by increased raw material costs, lower sales volumes, increasing production complexity and the impact of the work stoppage at the Texarkana, AR tire manufacturing facility.

The North American Tire Operations segment reached a contract agreement with members of United Steelworkers of America Local No. 7521 on April 10, 2005 following a work stoppage at its Texarkana, AR facility which commenced on March 12, 2005. The facility employs approximately 1,700 production people and produces approximately 40,000 tires per day at capacity.

The Company continued to experience significant increases in the costs of certain of its principal raw materials and natural gas, the principal energy source used in its manufacturing processes, during 2005 compared with the levels experienced during 2004. The principal raw materials for the Company include synthetic rubber, carbon black, natural rubber, chemicals and reinforcement components. The increases in the cost of crude oil based materials were the most significant driver of higher raw material costs, with synthetic rubber increasing approximately 30 percent from 2004. The pricing volatility in commodities such as crude oil and, to a lesser extent, steel continued to contribute to the difficulty in managing the costs of related raw materials. Approximately 65 percent of the Company's raw materials are crude oil-based, a commodity which repeatedly set new price records during 2005. The average cost of natural gas during 2005 increased approximately 20 percent from the average cost during 2004.

Reliable supply of raw materials was a significant concern during 2005, and contributed to the volatility of the Company's costs for certain commodities. The increased price of crude oil, the growing global demand for its derivative products, and the recent supply disruption in the United States for certain commodities are contributing to the cost increases being experienced for raw materials used by the Company and adding to concerns regarding their availability. The disruption of supply in the United States for carbon black and synthetic rubber caused by Hurricane Rita resulted in the Company's decision to reduce production levels for certain of its products in its domestic facilities during the fourth quarter. The production reductions were necessary to ensure the adequate and uninterrupted availability of these commodities to maintain production efficiencies and to assure the supply of certain products that are in high demand by the Company's customers.

The Company manages the procurement of its raw materials and natural gas to assure supply and to obtain the most favorable pricing. For natural rubber and natural gas, procurement is managed by buying forward of production requirements and utilizing the spot market when advantageous. For steel-based tire reinforcement materials, procurement is managed through long-term supply contracts. For other principal materials, procurement arrangements include multi-year supply agreements that may contain formula-based pricing based on commodity indices. These arrangements provide quantities needed to satisfy normal manufacturing demands. The Company reacted promptly to the supply disruptions occurring late in the third quarter by working to secure synthetic rubber and carbon black from alternative vendors.

Selling, general, and administrative expenses were \$161 million (7.5 percent of net sales) in 2005 compared to \$172 million (8.3 percent of net sales) in 2004. The decrease resulted primarily from lower advertising costs and fringe benefits associated with employee programs that provide for compensation based on the profitability of total Company financial results.

The North American Tire Operations segment conducts annual reviews of the enhanced product warranty reserve established in connection with the 2001 settlement of class action litigation. This review resulted in a decrease to the reserve of \$.3 million in 2005 compared to a decrease of \$11.3 million recorded in 2004.

The Company is a defendant in various judicial proceedings arising in the ordinary course of business. A significant portion of these proceedings are products liability cases in which individuals involved in vehicle accidents seek damages resulting from allegedly defective tires manufactured by the Company. Litigation of this type has increased significantly throughout the tire industry following the Firestone tire recall announced in 2000.

Effective April 1, 2003, the Company established a new excess liability insurance program. The new program covers the Company's products liability claims occurring on or after April 1, 2003 and is occurrence-based insurance coverage which includes an increased per claim retention limit, increased policy limits, and the establishment of a captive insurance company. Premium costs for insurance coverage in excess of the self-insured amounts for the April 1, 2004 to March 31, 2005 policy year were \$10.4 million higher than under the program in place prior to April 1, 2003, the per claim retention limit increased \$13.3 million and the aggregate retention limit was eliminated, while excess liability coverage increased by \$35 million. The Company continued the program effective April 1, 2005 with an increase in the per claim retention limit of \$10 million and a premium cost reduction of \$5.3 million. The total per claim retention limit for claims occurring in this policy year is \$25 million.

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The products liability expense reported by the Company includes amortization of insurance premium costs, adjustments to settlement reserves, and legal costs incurred in defending claims against the Company offset by recoveries of legal fees. Legal costs are expensed as incurred and products liability insurance premiums are amortized over coverage periods. The Company is entitled to reimbursement, under certain insurance contracts in place for periods ending prior to April 1, 2003, of legal fees expensed in prior periods based on events occurring in those periods. The Company records the reimbursements under such policies in the period the conditions for reimbursement are met. Products liability costs totaled \$60.5 million and \$52.3 million in 2004 and 2005, respectively. Recoveries of legal fees were \$9.3 million and \$12.7 million in 2004 and 2005, respectively. Policies applicable to claims occurring on April 1, 2003 and thereafter do not provide for recovery of legal fees.

Interest expense increased \$26.9 million in 2005 from 2004 primarily due to the allocation of \$34.0 million of interest expense to discontinued operations in 2004. This increase was partially offset by the reductions in interest expense resulting from the Company's repurchases of debt in 2004 and 2005. Also included in interest expense in 2005 is a gain of \$1.7 million from interest rate swap agreements on the Company's senior notes which were settled in the second quarter of 2005.

The Company incurred \$4.2 million in costs associated with the repurchase of \$278.4 million of its long-term debt during 2005. Interest income increased \$16.4 million in 2005 from 2004 as a result of the high levels of cash on hand in 2005. Other-net decreased by \$2.1 million in 2005 compared to 2004. In 2004, the Company recorded a write-down of its investment in RubberNetwork.com LLC of \$1.9 million and, in 2005, recorded an additional write-down of \$.2 million.

The Company recorded income tax expense of \$.7 million on a loss before taxes of \$14.3 million for 2005. This compares to income tax expense of \$7.6 million on earnings before taxes of \$35 million for 2004. The net tax expense results primarily from an \$8.4 million tax expense related to the repatriation of \$169 million under the provisions of the Homeland Investment Act, a provision of the American Jobs Creation Act of 2004, offset by deferred tax benefits from operations.

The effects of inflation in areas other than raw materials and natural gas did not have a material effect on the results of operations of the Company in 2005.

2004 versus 2003

Consolidated net sales increased by \$231 million in 2004. The increase was a result of improved net pricing and mix, higher unit volume and favorable foreign currency translation. Operating profit in 2004 was \$2 million less than the operating profit reported in 2003. The favorable impacts of improved volume and pricing and mix were offset by increased raw material costs, increased product liability costs, less efficient plant operations, increased advertising costs and increased restructuring costs.

Selling, general, and administrative expenses were \$172 million (8.3 percent of net sales) in 2004 compared to \$146 million (7.9 percent of net sales) in 2003. The increased costs associated with an expanded advertising program, increases in salaries and fringe benefits associated with employee programs that provide for compensation based on the profitability of total Company financial results, and increased costs associated with professional services were the major factors causing this increase.

During 2004 the North American Tire Operations segment conducted a review of the enhanced product warranty reserve established in connection with the 2001 settlement of class action litigation. This review resulted in an \$11.3 million decrease to the segment's reserve. In 2003, the segment conducted a similar review and reduced the reserve \$3.9 million.

The Company is a defendant in various judicial proceedings arising in the ordinary course of business. A significant portion of these proceedings are products liability cases in which individuals involved in vehicle accidents seek damages resulting from allegedly defective tires manufactured by the Company. Litigation of this type has increased significantly throughout the tire industry following the Firestone tire recall announced in 2000.

Effective April 1, 2003, the Company established a new excess liability insurance program as more fully described in the discussion of 2005 versus 2004 results

The Company experienced significant increases in the costs of certain of its principal raw materials and natural gas, the principal energy source used in its manufacturing processes, during 2004 compared with the levels experienced during 2003. The principal raw materials for the Company include synthetic rubber, carbon black, natural rubber, chemicals and reinforcement components. The increase in the cost of natural rubber was the most significant driver of higher raw material costs, increasing approximately 30 percent from 2003. The pricing volatility in commodities such as crude oil and steel contributed to the difficulty in managing the costs of related raw materials. Approximately 65 percent of the Company's raw materials are crude oil-based, a commodity which repeatedly set new price ceilings during 2004. The average cost of natural gas during 2004 increased approximately 14 percent from the average cost during 2003. Reliable supply of raw materials was a significant concern during 2004, and contributed to the volatility of the Company's costs for certain commodities. Supply was adversely affected by production curtailments resulting from scheduled and unplanned maintenance at supplier facilities, rationalization of supplier capacity through facility and processing line closures, and strong global demand primarily in

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Asia. Synthetic rubber and steel reinforcement materials were most significantly affected. The availability of the types of steel rod used to produce tire reinforcement components improved during the year as new U. S. production came on stream in late 2004. The Company was successful in its efforts to manage supply and, as a result, did not experience shortages of the raw materials needed to meet its production requirements.

Interest expense decreased \$1.5 million in 2004 reflecting the repayment of long-term debt. Other - net was \$1.9 million lower in 2004 as a result of the write-down of the Company's investment in RubberNetwork.com LLC.

The Company's effective income tax rate for continuing operations was 21.6 percent in 2004, lower than the 2003 rate of 26.5 percent. The net decrease is due primarily to the benefits of the Medicare prescription drug subsidy and other permanent differences.

The effects of inflation in areas other than raw materials and natural gas did not have a material effect on the results of operations of the Company in 2004 or 2003.

Restructuring

During 2003, the North American Tire Operations segment recorded \$2.1 million of employee severance costs related to a management reorganization. All employees affected by this reorganization have left the Company and were paid their severance package in accordance with the terms of their separation. The segment also incurred an additional \$90,000 of nonaccrualable restructuring expenses associated with this initiative in 2003.

During 2004, the North American Tire Operations segment initiated two restructuring plans. In the second quarter, the segment announced an initiative to consolidate its pre-cure retread operations in Asheboro, NC, and recorded a charge of \$1.7 million to write certain related equipment down to its scrap salvage value (the fair market value) and recorded \$102,000 in equipment disposal costs. In the third quarter, a plan to cease production of radial medium truck tires by the end of 2005 at the Albany, GA tire facility was announced. These tires are being sourced from Asian manufacturers. No employees were affected by this initiative. The segment recorded an impairment charge of \$7.3 million for equipment associated with radial medium truck tire production, writing it down to its fair market value, as determined by the Company's expectations for proceeds upon its disposition.

Additional information related to these restructuring initiatives appears in the "Restructuring" note to the consolidated financial statements.

North American Tire Operations Segment

	2003	Change %	2004	Change %	2005
(Dollar amounts in millions)					
Sales	\$1,682.6	11.4%	\$1,874.9	4.4%	\$1,957.7
Operating profit	\$ 76.8	-1.2%	\$ 75.9	-52.8%	\$ 35.8
Operating profit margin	4.6%	-0.5%	4.0%	-2.2%	1.8%
United States unit sales changes:					
Passenger tires					
Company		-1.6%		-5.8%	
RMA members		1.6%		1.4%	
Light truck tires					
Company		9.1%		4.4%	
RMA members		1.6%		-2.5%	
Total light vehicle tires					
Company		0.3%		-3.8%	
RMA members		1.6%		0.8%	
Total segment unit sales changes		0.2%		-3.7%	

Overview

Shipments of passenger car and light truck tire replacement units in the United States market by members of the Rubber Manufacturers Association (“RMA”), a group comprised of the largest eleven tire companies in the world including the segment, and which accounted for approximately 90 percent of the total United States tire market in both 2004 and 2005, increased .8 percent in 2005 from levels in 2004. In 2004, RMA member replacement unit sales increased by 1.6 percent from 2003 sales levels. Sales of replacement tire units in the United States by non-RMA members, which consist primarily of smaller manufacturers located outside the United States, increased approximately 5 percent in 2005 following an increase of approximately 11 percent during 2004.

2005 versus 2004

Sales of the North American Tire Operations segment increased \$83 million in 2005 from levels in 2004. The increase in sales was a result of improved net pricing and product mix (\$178 million), offset by lower unit volume (\$95 million). The segment’s increased unit sales in the light truck tire replacement market and new product offerings of high performance tires contributed to the improved product mix. The segment recorded decreases in the sales of its proprietary brand tires and in sales to the segment’s mass merchandiser customers. These decreases were partially offset by increased sales to its distributor customers.

Shipments of passenger tires by RMA members increased 1.4 percent from 2004 levels but shipments of light truck tires decreased 2.5 percent. The North American Tire Operations segment’s unit sales of passenger tires decreased 5.8 percent from 2004 while light truck tire unit sales increased 4.4 percent. Passenger tires accounted for nearly 80 percent of the combined passenger and light and medium truck replacement tire market in 2005. The segment’s decreased sales of passenger tires were primarily in the broadline economy tire lines, offset partially by increased sales in the high performance and sport utility vehicle tire lines. The increase in light truck tire units was due, in part, to the continuing expansion of light truck products into the marketplace and was accomplished in spite of the work stoppage at the Texarkana, AR tire manufacturing facility.

Segment operating profit in 2005 decreased \$40 million from 2004. Operating margins in 2005 were 2.2 percentage points below 2004 levels. The impacts of higher raw material costs (\$126 million), lower sales volumes, partially attributable with the work stoppage at the Texarkana, AR tire manufacturing facility (\$36 million), and increasing production complexity and higher manufacturing costs associated with the Texarkana facility work stoppage (\$16 million) were partially offset by improvements in pricing and product mix (\$103 million), lower product liability costs (\$8 million) and reductions to cost of sales resulting from the settlements with raw material suppliers for reimbursements of previously expensed costs (\$18 million). In 2005 approximately \$12 million of corporate general and administrative expenses, which would have been allocated to the Company’s automotive operations in previous periods, were allocated to the North American Tire Operations segment.

2004 versus 2003

Sales of the North American Tire Operations segment increased \$192 million in 2004 from levels in 2003. Improved net pricing and product mix (\$159 million), increased volume (\$12 million), and the full year impact of the segment’s March 2003 acquisition of Mickey Thompson Performance Tires & Wheels (\$6 million) accounted for the majority of the sales increase. Increased demand resulting from a stronger market environment and new product offerings of high performance, sport utility vehicle and light truck tires contributed to the increased unit tire sales. The segment recorded increases in the sales of its proprietary, brand name tires and increased sales in the distributor and regional retail business. Declines in sales to the segment’s mass merchandiser customers were primarily in the broadline economy passenger tire lines.

In the United States, the segment’s unit sales of passenger and light truck tires increased slightly from the 2003 levels. During the first six months of 2004, the segment’s passenger and light truck tire sales increased 6.5 percent and 24.2 percent, respectively, compared to increases of 5.5 percent and 9.1 percent for RMA members. Passenger tires accounted for nearly 80 percent of the combined passenger and light and medium truck replacement tire market in 2004. The segment’s increased sales of its high performance and sport utility vehicle tires were factors contributing to this performance. New light truck products introduced since 2003 helped the segment to outperform the RMA increase in that product category. For the year, the segment’s sales of passenger tires decreased 1.6 percent and light truck tire sales increased 9.1 percent. The RMA increases in these categories each approximated two percent for the year. Limitations in product availability resulting from capacity constraints during the last six months of 2004 limited the segment’s ability to satisfy customer requirements. The decreases in passenger tire sales occurred primarily in the broadline and economy products distributed through the segment’s mass merchandiser customers. The incremental expansions initiated at the segment’s United States tire facilities during the year increased capacity to support higher production levels of high performance tires in the future.

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Segment operating profit in 2004 decreased less than \$1 million from 2003. Operating margins in 2004 were .6 percentage points below 2003 levels. The impacts of higher raw material costs (\$86 million), increasing production complexity, increases in products liability costs (\$20 million), increased costs associated with an expanded advertising program (\$12 million) and marketing and promotional programs were partially offset by higher volume and improved pricing and product mix.

Outlook

The segment is optimistic regarding its opportunities for 2006. Improved product availability and increased volumes of high performance products are expected to contribute to 2006 sales. The segment continues to develop new products in its specialty light truck, sport truck, and high performance product offerings to satisfy current market demand. These new products are expected to improve the profitability of the segment by increasing sales and improving the mix of its products.

Outsourcing of radial medium truck and certain passenger tire products to Asian manufacturers and production expansions at the segment's domestic tire manufacturing facilities are anticipated to provide adequate supply to meet customer demands into 2006. Investments in new and more efficient production equipment since the beginning of 2004 are expected to increase productivity, help to offset increased complexity in the segment's production facilities in future periods and provide additional annual production capacity of more than three million tires to meet additional demand for the segment's tires.

The segment has completed the transfer of its radial medium truck tire production to China through contract manufacturing arrangements, making domestic production capacity available for the production of larger light truck tires and other higher-margin products. The segment expects to source approximately one million medium truck and economy passenger tires in 2006 through various manufacturing initiatives. These initiatives are important to the segment's ability to profitably provide tire products to its customers in North America.

Raw material costs for crude oil based materials, such as synthetic rubber and carbon black, chemicals, and fabric reinforcements are expected to remain at unprecedented high levels near term due to ongoing tight supply of certain monomers and feedstocks, recovery from disruptions at supplier production facilities, and the continued historically high price for crude oil. The segment believes raw material, energy, and transportation costs will significantly increase on average in the first half of 2006 compared to the first half of 2005. Natural gas cost also continues to remain at historical high levels. Supply and price of natural gas are managed through the use of long-term agreements and forward positions.

The Company is a defendant in various judicial proceedings arising in the ordinary course of business. A significant portion of these proceedings are products liability cases in which individuals involved in vehicle accidents seek damages resulting from allegedly defective tires manufactured by the Company. In the future, products liability costs could have a materially greater impact on the consolidated results of operations and financial position of the Company.

The Transportation Recall Enhancement Accountability and Documentation Act ("TREAD Act") which became law on November 1, 2000 will directly impact the tire industry. The TREAD Act and any rules promulgated under the TREAD Act are applicable to all tire manufacturers and importers of tires who sell tires in the United States, regardless of where such tires are manufactured. Pursuant to the statute, the National Highway Transportation Safety Administration ("NHTSA"), the federal agency that oversees certain aspects of the tire industry, has proposed rules relating to test standards, tire labeling, tire pressure monitoring, early warning reporting, tire recalls and record retention. Rules for certain of these issues have been finalized; however, petitions for reconsideration of certain of the finalized rules have been filed by the RMA on behalf of its member tire manufacturers with NHTSA and the outcome of those petitions cannot be predicted with any certainty. The segment incurred approximately \$.9 million of costs during 2005 to comply with changes mandated by the technical design rules of the TREAD Act and anticipates incurring approximately \$1.7 million in each of the years 2006, 2007 and 2008 to comply with the rules phasing in during 2006.

The segment believes its operating profit levels will improve beyond the first quarter of 2006 not only due to higher sales volumes and the implementation of recent price increases, but also due to the favorable impact of improved product mix. Aggressive growth plans for specific proprietary brand and key private brand customers, growth in high performance product lines, and increasing demand for sport utility vehicle and light truck tire lines are expected to yield higher margins and contribute favorably to the segment's operating profit. Additionally, the segment continues to improve manufacturing efficiencies and implement lean manufacturing and cost reduction initiatives to help offset increased raw material costs.

International Tire Operations Segment

	<u>2003</u>	<u>Change %</u>	<u>2004</u>	<u>Change %</u>	<u>2005</u>
<i>(Dollar amounts in millions)</i>					
Sales	\$209.6	22.7%	\$257.2	2.8%	\$264.4
Operating profit	\$ 10.3	-8.7%	\$ 9.4	-138.3%	\$ (3.6)
Operating profit margin	4.9%	-1.3%	3.7%	-4.9%	-1.4%
Unit sales change		5.8%		-0.5%	

Overview

The International Tire Operations segment manufactures and markets passenger car, light truck and motorcycle tires for the replacement market, as well as racing tires and materials for the tire retread industry, in Europe and the United Kingdom. The segment began construction of a plant in China in 2005 in a joint venture arrangement and continues to pursue opportunities for expansion in Asia and growth in Europe through joint ventures and other forms of alliance.

Shipments of passenger car and light truck tires in the segment’s European markets, based on data published by the industry and other sources, increased approximately one percent in 2005 from 2004. During 2004, industry shipments increased approximately three percent from 2003.

2005 versus 2004

Sales of the International Tire Operations segment increased \$7 million, or 2.8 percent, in 2005 from the sales levels in 2004. The segment’s unit sales decreased .5 percent in 2005 from levels in 2004. The foreign currency impact of a strengthened United States dollar in relation to the British pound decreased sales in this segment approximately \$1 million. The increase in sales resulted from improved pricing and customer/product mix, including new product offerings in the performance line of tires (\$11 million), partially offset by lower sales volumes (\$3 million).

Operating profit for the segment in 2005 was approximately \$13 million lower than in 2004 as the contributions of improved pricing and customer/product mix (\$3 million) were offset by higher raw material costs (\$6 million), expenses related to the startup of the segment’s Asian operations (\$5 million) and increases in utility and other plant costs.

2004 versus 2003

Sales of the International Tire Operations segment increased almost \$48 million, or 23 percent, in 2004 from the sales levels in 2003. The segment’s unit sales increased 5.8 percent in 2004 from levels in 2003. Approximately \$28 million of the increase was attributable to the foreign currency impact of a weakened United States dollar in relation to the British pound. The remaining sales growth resulted from increased sales volumes in established distribution channels, sales growth of new product offerings in the performance line of tires and improved pricing.

Operating profit for the segment in 2004 was approximately \$1 million lower than in 2003 as the contributions of increased volume (\$7 million) and improved pricing were offset by higher raw material costs (\$3 million), expenses related to the startup of the segment’s Asian operations (\$1.5 million), higher advertising costs and increases in utility and other plant costs.

Outlook

The segment’s strategy calls for alignment with strategic partners it believes will provide access to local markets and position the segment to take advantage of the significant growth anticipated within Asia.

In Europe, the focus is on growing the Cooper and Avon brands in profitable channels using performance and niche products. The strategically placed subsidiaries should continue to grow the volume. A new subsidiary in Spain, established in late 2005, should help to continue sales growth in the market. Opportunities are ongoing for motorsport and motorcycle business worldwide. The manufacturing facility in Melksham, England will concentrate on high performance, racing and motorcycle products while outsourced products from low cost suppliers will round out the product mix to supply customer needs.

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On October 27, 2005 the Company announced that an agreement had been reached to obtain a 51 percent ownership position in Cooper Chengshan (Shandong) Passenger Tire Co. Ltd. and Cooper Chengshan (Shandong) Tire Company, Ltd. The agreement includes a 25 percent position in the steel cord factory which is located adjacent to the tire manufacturing facility in Rongchen City, Shandong, China. The two companies together were known as Shandong Chengshan Tire Company, Ltd. (“Chengshan”) of Shandong, China. Chengshan is the third largest Chinese-owned tire manufacturer with expected replacement, original equipment and export sales for 2005 of approximately \$500 million. The company manufactures passenger car and light truck radial tires as well as radial and bias commercial tires primarily under the brand names of Chengshan and Austone. The initial cash investment in this venture will approximate \$77 million and assumed debt will be about \$100 million. The agreement was subject to a number of government and regulatory approvals and was finalized effective February 4, 2006.

The International Tire Operations segment has a joint venture with Kenda Rubber Industrial Co., Ltd. of Taiwan (“Kenda”) to build a tire manufacturing facility in China. The joint venture received final approval of this project in 2005 and construction of the facility began in July 2005. Initial production from this facility is anticipated to begin in the second half of 2006. All tires produced at the facility during the first five years will be exported to the rest of the world. The segment also has a manufacturing supply agreement with Kenda to provide opening-price point passenger tires from China for distribution in the European and North American markets.

The segment has formed these agreements in Asia which, when combined with the Company’s investment in Kumho and the North American Tire Operations segment’s off-take agreement with Hangzhou Zhongce Rubber Co., Ltd. of China (“Hangzhou Zhongce”) for the manufacture of passenger and radial medium truck tires, will be sufficient to provide an adequate competitive position, immediate market recognition in China and a platform on which to build as the Asian market develops.

Discontinued Operations

On December 23, 2004 the Company sold its automotive business, Cooper-Standard Automotive. In September 2004, the North American Tire Operations segment announced its intent to cease its inner tube business. These operations are considered to be discontinued operations as defined under Statement of Financial Accounting Standard (“SFAS”) No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets,” and require specific accounting and reporting which differs from the approach used to report the Company’s results in prior years. It also requires restatement of comparable prior periods to conform to the required presentation.

Automotive Operations

	2003	Change %	2004
(Dollar amounts in millions)			
Sales	\$1,662.2	11.4%	\$1,852.0
Operating profit	\$ 110.8	24.4%	\$ 137.8
Operating profit margin	6.7%	0.7%	7.4%
Vehicle build (millions)			
North America	15.8	-0.6%	15.7
Europe	19.5	3.1%	20.1
Sales to U.S.-based OEMs	77%		78%

Overview

The Company’s former automotive operations produced body sealing systems, active and passive vibration control systems, and fluid handling systems, primarily for the global automotive original equipment manufacturing and replacement markets. The sale of these operations generated proceeds of approximately \$1.2 billion and a gain of \$112 million. The sale provided the Company significant opportunities to focus exclusively on its global tire business where it believes more value can be generated over the longer term.

2004 versus 2003

Sales for the automotive operations in 2004 increased \$190 million from the 2003 level. Sales increases in North America of \$111 million were the result of net new business and the impact of favorable foreign currency translation offset by lower production levels and price concessions. In the international operations, a sales increase of \$79 million was attributable to the favorable impact of foreign currency translation, the impacts of increased production and new business, and the inclusion of the sales of Cooper-Standard Automotive Korea, Inc. for the full year in 2004 compared to the last seven months of 2003.

Approximately 70 percent of sales in 2004 were in North America and 30 percent were outside of North America in Europe, Brazil, Korea, Australia and India, collectively. Comparable percentages in 2003 were approximately 71 percent in North America and 29 percent outside of North America. The automotive operations conducted business with all of the world's major automakers. Nearly all of its foreign sales were of body sealing components and fluid handling systems. Approximately 36 percent of the total sales of body sealing components and 35 percent of the total sales of fluid handling systems were derived from foreign operations in 2004 compared to approximately 38 percent of the total sales of body sealing components and 35 percent of the total sales of fluid handling systems in 2003.

Operating profit in 2004 was \$27 million higher than the operating profit reported in 2003. Operating margins in 2004 were .7 percentage points higher than in 2003. The positive impacts of net new business (\$64 million), foreign currency translation (\$8 million) and Lean savings (\$69 million) were offset by increased raw material costs (\$42 million), price concessions (\$40 million), restructuring expenses (\$8 million), and increased manufacturing costs not related to volume.

Automotive's North American operations were less profitable in 2004 than in 2003. Net new business, Lean savings and favorable foreign currency translation did not fully offset price concessions, raw material increases, increased manufacturing costs not related to volume and lower volumes.

Automotive's business outside of North America was more profitable in 2004 than in 2003. This improvement was a result of the positive impacts of Lean savings, higher volumes and favorable foreign currency translation which exceeded price concessions.

Inner Tube Business

In September 2004 the Company announced its intent to cease its inner tube business, recording restructuring charges of \$5.1 million related to this decision, which included an impairment charge \$2.9 million to write the inner tube assets down to their fair market value, severance costs of \$1.1 million, employee benefit costs of \$826,000 and other costs of \$300,000.

Sales for the Company's inner tube business for 2004 declined to \$17 million compared to sales in 2003 of \$22 million. Without the restructuring charge, the operating loss in 2004 was \$.7 million compared to an operating profit of \$1.3 million in 2003.

Gain on Sale of Cooper-Standard Automotive

On December 23, 2004, the Company sold its automotive operations, known as Cooper-Standard Automotive, to an entity formed by The Cypress Group and Goldman Sachs Capital Partners. Proceeds from the sale were \$1.226 billion, including additional proceeds of approximately \$54.3 million received during 2005.

The Company recorded a gain of \$112.4 million on the sale based on the preliminary sales price, including a tax benefit of \$6.4 million resulting primarily from currently deductible compensation expenses and other costs associated with the sale. Differences from the buyer's reported post-closing amounts and the final payment amount, if any, were to be reflected as adjustments to the gain on the sale after the final payment amount was agreed upon. There was no tax liability on the gain due to a capital loss in the United States resulting from book and tax bases differences and a statutory exemption from tax on the capital gain in the United Kingdom.

During the first quarter of 2005, the Company recorded the final settlement on purchase price adjustments reached with the buyer of Cooper-Standard during April, resulting in additional sales proceeds of \$5,500 and total proceeds of \$1,226,537. The Company received the final \$54,270 due from the buyer related to the sale in April. Other minor adjustments were recorded in subsequent quarters as additional information became known.

For 2005, the Company recorded a net additional gain of \$5,463 plus a tax benefit of \$214 resulting primarily from currently deductible compensation expenses and other costs associated with the sale. There was no tax liability on the additional gain due to a non-tax-benefited capital loss in the United States resulting from book and tax bases differences and a statutory exemption from tax on the capital gain in the United Kingdom. These amounts are included in "Income (loss) from discontinued operations, net of income taxes," on the Company's consolidated statements of operations.

In connection with the sale, the Company agreed to indemnify the buyer against pre-closing income tax liabilities and other items specified in the Sale Agreement. For indemnity commitments where the Company believes future payments are probable, it also believes the

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expected outcomes can be estimated with reasonable accuracy. Accordingly, for such amounts, a liability has been recorded with a corresponding decrease in the gain on the sale. Other indemnity provisions will be monitored for possible future payments not presently contemplated. With the passage of time, additional information may become available to the Company which would indicate the estimated indemnification amounts require revision. Changes in estimates of the amount of indemnity payments will be reflected as an adjustment to the gain on sale in the periods in which the additional information becomes known.

Outlook for the Company

The Company has advanced its Asian strategy. The acquisition of an ownership share in Cooper Chengshan (Shandong) Passenger Tire Company and Cooper Chengshan (Shandong) Tire Company of China will add nearly \$500 million in annualized net sales. The Company believes improving operating efficiencies and production expansion projects will enable it to manufacture and sell more specialty high performance and large light truck tires in the future. In addition, recently implemented price increases will help the Company offset the forecasted higher costs of raw materials. However, the increasing costs of raw materials and energy and the considerable uncertainty present in the North American tire industry and economy are causing the Company to be cautious about future projections of profitability. It is very difficult to assess the strength of the global tire markets, particularly in North America, where the impact of high gasoline prices, declining consumer confidence and the lingering impacts of hurricanes along the Gulf Coast of the United States and Florida are being experienced. It is expected that starting with the first quarter of 2006, more normalized conditions will be present in the economy as well as improvements in the Company's productivity and manufacturing efficiency.

The Company will continue to pursue strategic investments in the tire business and advance its Asian strategy, including the development of its relationship with Kumho. On February 16, 2005, the Company acquired approximately 11 percent of the common equity of Kumho in connection with Kumho's public offering of common stock. Kumho shares are listed on the Korean Stock Exchange and London Stock Exchange. The Company believes it is important to form strategic relationships with other strong players in the global tire industry to realize a good return for shareholders and continue its planned growth in products, technology and market share. This investment will serve as a platform to explore synergies in various areas of shared interest. Several other opportunities and areas for consideration involving Kumho include partnering on purchasing and procurement and product sourcing, as well as possible technology agreements.

The Company's Asian strategy calls for alignment with strategic partners it believes will provide access to the local market and position the Company to take advantage of the significant anticipated growth within the region over the next five to ten years. The Company continues to evaluate opportunities for a small acquisition or strategic alliances which, when combined with its recent acquisition of Chengshan and its existing relationships with Kumho, Hangzhou Zhongce and Kenda will be sufficient to provide an adequate competitive position, immediate market recognition, and a platform on which to build as the market develops.

Challenging industry conditions, higher raw material costs, and some continuing capacity constraints will be obstacles in the near term to the Company's success. Significant sales growth is anticipated in 2006 due to new customer agreements and a favorable industry growth forecast. Product mix will continue to grow richer as new, premium products continue to be introduced. The Company is aggressively managing its exposure to products liability litigation.

Raw material costs for crude oil based materials such as synthetic rubber, carbon black, chemicals, and fabric reinforcements are expected to remain at unprecedented high levels near term due to ongoing tight supply of certain monomers and feedstocks, recovery from disruptions at supplier production facilities, and the continued historically high price for crude oil. As oil is a major input into the production of tires, it also has an impact on plant operating costs and the cost of transporting tires. Natural rubber prices have also risen steadily, reaching new highs. The continued volatility and strength of natural rubber prices is being forecasted to remain through much of 2006. The Company believes raw material, energy, and transportation costs will significantly increase on average in the first half of 2006 compared to the first half of 2005. Supply and price of natural gas are managed through the use of long-term agreements and forward positions.

Liquidity and Capital Resources

Generation and uses of cash - Net cash provided by the operating activities of continuing operations was \$71 million in 2005, \$78 million more than the \$7 million used in 2004. Net income after adjustments for non-cash items decreased \$47 million to \$79 million in 2005. Changes in operating assets and liabilities used \$8 million in 2005 compared to \$133 million used in 2004. Accounts payable balances decreased from the high levels in 2004 and the Company's pension funding in excess of expense was \$75 million in 2004 and \$13 million in 2005.

Net cash used in operating activities of continuing operations was \$7 million in 2004, \$175 million less than the \$168 million generated in 2003 due primarily to changes in operating assets and liabilities. In 2003, changes in operating assets and liabilities resulted in a source of cash of \$20 million versus a use of cash in 2004 of \$133 million. This change resulted from \$56 million of cash consumed due to an increase in inventories at December 31, 2004 from unusually low 2003 levels and additional pension funding of \$75 million in excess of expense in 2004.

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Net cash used in investing activities during 2005 reflects the Company's investment in Kumho Tire Co., Inc. of Korea of \$108.0 million. Capital expenditures in 2005 were \$172.2 million, a \$12.9 million increase from \$159.3 million in the comparable 2004 period. This increase is primarily due to investments in the Company's joint venture with Kenda to build a tire plant in China and domestic manufacturing facilities to increase productivity, flexibility and capacity. The Company's capital expenditure commitments at December 31, 2005 are \$33.3 million and are included in the "Unconditional purchase" line of the Contractual Obligations table which appears later in this section. These commitments, which primarily relate to plant expansions, will be satisfied with existing cash and cash flows from operations in early 2006. In April 2005 the Company reached final settlement on purchase price adjustments with the buyer of Cooper-Standard and received \$54.3 million. The Company also decreased its investment in available-for-sale debt securities during 2005 by \$46.1 million.

The Board of Directors authorized the repurchase of up to \$200 million of the Company's outstanding debt in February of 2005 and increased the authority to \$350 million on May 2, 2005. The Company repurchased \$84.4 million of its Senior Notes due in 2009 in the second quarter, an additional \$12.0 million of the notes in the third quarter, and in the fourth quarter repurchased \$61.5 million of the 2009 notes, \$48.4 million of its Senior Notes due in 2019 and \$72.0 million of its Senior Notes due in 2027.

The Company paid \$189.8 million to repurchase shares of its common stock during the first six months of 2005. Dividends paid on the Company's common shares in 2005 were \$26.6 million compared to \$31.1 million in 2004. The Company has maintained a quarterly dividend of 10.5 cents per share during the two years.

Net cash generated from investing activities during 2004 reflects proceeds from the sale of Cooper-Standard Automotive in late December 2004. Capital expenditures in 2004 were \$159 million, compared to \$96 million in 2003. The increases in 2004 are primarily attributable to the expansion of capacity in the North American Tire Operations segment.

Investing activities during 2003 included the acquisition of Max-Trac Tire Co., Inc., known as Mickey Thompson Performance Tires & Wheels. Mickey Thompson is a designer and distributor of specialty tires for the street, strip, track and off-road racing markets.

The Company's financing activities during 2004 reflect the repayment of a \$90 million floating-rate note that was due in 2006. The Company has a global cash pooling arrangement which allows the efficient management of cash between its operations in various foreign countries. Prior to the sale of Cooper-Standard, the Company's continuing operations were a net debtor within the pool. This position was settled prior to the sale transaction in late December, resulting in the repayment of \$32 million of cash pool debt during 2004. The Company spent \$83 million to repurchase shares of its common stock during the fourth quarter of 2004.

Available credit facilities – On June 30, 2004, the Company restated and amended its revolving credit facility with a consortium of ten banks ("the Agreement"). The Agreement contains two primary covenants. An interest coverage ratio (consolidated earnings before interest, taxes, depreciation and amortization divided by consolidated net interest expense) is required to be maintained at a minimum of 3.0 times by the Company. A ratio of consolidated net indebtedness to consolidated capitalization below 55 percent is also required. Consolidated net indebtedness is indebtedness measured in accordance with generally accepted accounting principles in the United States reduced by cash and eligible short term investments in excess of \$30 million. At December 31, 2005 the Company was in compliance with the financial covenants contained in its credit agreements. At that date, the ratio of consolidated net indebtedness to consolidated capitalization was 20.5 percent as a result of the debt repurchases during 2005. The interest coverage ratio was adequate. The Company anticipates that it will remain in compliance with these covenants in 2006 based upon its business forecast for the year.

The Agreement, as amended, provides up to \$175 million in credit facilities until August 31, 2008. On March 31, 2005, the Company cancelled the additional \$175 million short-term facility which would have expired on June 29, 2005. This action was taken due to the strong cash position of the Company resulting from the sale of the Company's automotive operations in December 2004.

The Company's revolving credit facility also contains a covenant which prevents the disposition of a substantial portion of its assets. A waiver of this covenant was granted by the bank group in December 2004 to permit the disposition of Cooper-Standard Automotive.

The Company had entered into \$150 million of interest rate swap contracts to convert a portion of the 2009 Senior Notes to floating rates. In the second quarter of 2005, the Company settled these contracts recording a gain of \$1,700 which is included in interest expense. The carrying value of the 7.75 percent notes had been increased by the change in the fair value of the related interest rate swap contracts of \$3.7 million at December 31, 2004. The net amounts paid or received from these interest rate swap contracts were recorded as an adjustment to interest expense.

The Company established a \$1.2 billion universal shelf registration in 1999 in connection with an acquisition. Fixed rate debt of \$800 million was issued pursuant to the shelf registration in December 1999 to fund the acquisition. The remaining \$400 million available under the shelf registration continues to be available at December 31, 2005. Securities that may be issued under this shelf registration include debt securities, preferred stock, fractional interests in preferred stock represented by depositary shares, common stock, and warrants to purchase debt securities, common stock or preferred stock.

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Available cash and contractual commitments - At December 31, 2005 the Company had cash and cash equivalents totaling \$281 million. The Company's additional borrowing capacity through use of its credit agreement with its bank group and other bank lines at December 31, 2005 was \$170 million.

The Company's objectives related to the investment of cash not required for operations is to preserve capital, meet the Company's liquidity needs, and earn a return consistent with these guidelines and market conditions. Investments deemed eligible for the investment of the Company's cash include 1) U.S. Treasury securities and general obligations fully guaranteed with respect to principle and interest by the government, 2) obligations of U.S. government agencies, 3) commercial paper or other corporate notes of prime quality purchased directly from the issuer or through recognized money market dealers, 4) time deposits, certificates of deposit or bankers' acceptances of banks rated "A-" by Standard & Poor's or "A3" by Moody's, 5) collateralized mortgage obligations rated "AAA" by Standard & Poor's and "Aaa" by Moody's, 6) tax-exempt and taxable obligations of state and local governments of prime quality, and 7) mutual funds or outside managed portfolios that invest in the above investments. The short-term investments in 2004 are comprised of corporate notes and floating-rate securities.

The Company's Board of Directors, at its February 15, 2005 meeting, authorized the repurchase of up to \$200 million of the Company's publicly traded notes and increased the authority to \$350 million on May 2, 2005. The repurchase of debt may be accomplished through open market transactions, a tender offer, or a combination of the two. During 2005, the Company repurchased \$278.4 million of its publicly traded notes. In addition, the Board authorized the repurchase of up to \$200 million worth of the Company's common stock through open market transactions. As of December 31, 2005, the Company had repurchased 10,151,636 shares for \$189.8 million under this authorization.

The Company anticipates that cash flows from operations in 2006 will be positive and will approximate its projected capital expenditures, including its portion of expenditures in partially-owned subsidiaries and dividend goals. The Company is investing in China through a joint venture formed to build a tire production facility and by its obtaining a 51 percent ownership position in Cooper Chengshan (Shandong) Passenger Tire Co. Ltd. and Cooper Chengshan (Shandong) Tire Company, Ltd. Projected investments in the joint venture for 2006 are about \$60 million of which the Company is obligated to fund 50 percent and the cash investment for the acquisition of the Chengshan ownership position will approximate \$77 million. Additional investment amounts relating to acquisitions, if any, are difficult to predict at this time. As of December 31, 2005, there are no significant long-term debt repayment obligations due until 2009.

The Company's cash requirements relating to contractual obligations at December 31, 2005 are summarized in the following table:

(Dollar amounts in thousands)	Payment Due by Period				
	Total	Less than 1 year	1-3 years	3-5 years	After 5 years
Contractual Obligations					
Long-term debt	\$ 486,538	\$ —	\$ —	\$192,080	\$294,458
Capital lease obligations	5,080	—	—	—	5,080
Operating leases	67,122	12,293	20,341	21,265	13,223
Notes payable	79	79	—	—	—
Unconditional purchase (a)	68,801	68,801	—	—	—
Postretirement benefits other than pensions (b)	198,682	16,685	33,639	36,068	112,290
Other long-term liabilities (b) (c)	240,257	450	69,967	1,687	168,153
Total contractual cash obligations	<u>\$1,066,559</u>	<u>\$98,308</u>	<u>\$123,947</u>	<u>\$251,100</u>	<u>\$593,204</u>

- (a) Noncancelable purchase order commitments for capital expenditures and raw materials, principally natural rubber, made in the ordinary course of business.
- (b) Based on long-term amounts recorded under U.S. generally accepted accounting principles.
- (c) Minimum pension liability, class action settlement, nonqualified benefit plans, warranty reserve, and other non-current liabilities.

Credit agency ratings – Standard & Poor's has rated the Company's long-term corporate credit, senior unsecured debt and senior unsecured shelf registration at BB+ with a negative outlook. The Company's short-term credit and commercial paper rating is A-2. Moody's Investors Service has assigned a Ba2 rating to the Company's long-term debt and a rating of P-2 to the short-term credit and commercial paper. The Company believes it will continue to have access to the credit markets, although at higher borrowing costs than in the past.

New Accounting Standards

For a discussion of recent accounting pronouncements and their impact on the Company, see the "Significant Accounting Policies — Accounting pronouncements" note to the consolidated financial statements.

Critical Accounting Policies

“Management’s Discussion and Analysis of Financial Condition and Results of Operations” discusses the Company’s consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. When more than one accounting principle, or the method of its application, is generally accepted, the Company selects the principle or method that is appropriate in its specific circumstances. The Company’s accounting policies are more fully described in the “Significant Accounting Policies” note to the consolidated financial statements. Application of these accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses during the reporting period. Management bases its estimates and judgments on historical experience and on other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. The Company believes that of its significant accounting policies, the following may involve a higher degree of judgment or estimation than other accounting policies.

Use of estimates in connection with the sale of the Company’s automotive operations – The sale of the Company’s automotive operations in 2004 included contract provisions which required estimates to be made in accounting and reporting the impact of the sale. The most significant of these were estimates of final proceeds, estimates of future payments under provisions of the agreement which require the Company to indemnify the buyer upon the occurrence of certain liabilities, the amount of pension obligations and plan assets being transferred to the buyer, the amount of post-retirement pension obligations assumed by the buyer, and possible severance obligations for key executives of the automotive operations.

The agreement provided for various post-closing adjustments based on differences between estimated amounts of cash, debt and target working capital used at closing and final amounts later agreed to by the parties. The agreement provided for reporting by the buyer of final amounts in early February 2005 with subsequent periods for review by the Company and resolution of disputes, if any. Amounts used in determining the gain of the sale of the automotive operations at December 31, 2004 included the final amounts reported by the buyer. Differences from those amounts and the final payment amounts agreed to by both parties have been reflected as adjustments to the gain on the sale in the period the final amounts were determined.

The agreement also provided for indemnification of the buyer by the Company for all income tax liabilities related to periods prior to closing and for various additional items outlined in the agreement. Indemnity payments would reduce the purchase price and the amount of gain on the sale. The recorded gain on the sale included reductions for estimates of the expected tax liabilities and the other potential indemnity items to the extent they were deemed to be probable and estimable at December 31, 2004. Where amounts are probable and a range of loss is possible, the Company considered whether an amount within the range of outcomes was more likely than other amounts. If so, the most likely amount was recorded as a reduction of the gain with corresponding liabilities for the future indemnity payments. If no amount within the range of possible amounts was more likely than other amounts, the Company recorded the minimum amount believed to be probable. The Company will reevaluate the probability of indemnity payments being required quarterly and adjustments, if any, to the initial estimates will be reflected as income or loss of discontinued operations in the periods when revised estimates are determined.

In connection with the divestiture of the automotive operations, defined benefit plans relating to automotive operations were assumed by the buyer except those relating to previously closed automotive plants. Obligations assumed by the buyer consisted of 1) plans established under collective bargaining agreements, all of which related to discrete automotive employee units, which have been separately measured and were transferred to the buyer at closing and 2) obligations relating to active automotive employees and retirees who participated in the Company’s non-bargained defined benefit plan which covered all eligible non-bargained employees. In 2004 the Company’s actuary had provided estimates of the total obligations, computed using the Company’s accounting methods and actuarial assumptions, and assets to be transferred to the buyer. The estimated amounts to be transferred to the buyer and amounts for plans to be retained by the Company were measured at December 31, 2004 and were reflected in the disclosures contained in footnotes to the financial statements. Actual amounts transferred were determined in the third quarter of 2005 and did not differ materially from the estimates prepared.

Similarly, post-retirement benefit obligations relating to the automotive operations sold were transferred to the buyer. Actuarial estimates of the amount of obligation being assumed by the buyer and the remaining obligations of the Company are disclosed in the accompanying footnotes to financial statements. Final actuarial determinations were completed in 2005 and did not differ materially from the estimated amounts shown in the footnotes to the financial statements at December 31, 2004.

Under terms of an employment agreement with the president of the automotive operations and terms of a change in control severance pay plan for eight additional key automotive executives, such executives are entitled to specified severance payments if terminated by the buyer within predetermined time periods after the sale. The Company is obligated to pay the severance costs and related excise taxes, if any, if severance occurs on or prior to December 31, 2007 in the case of the automotive operation’s president and on or prior to December 22, 2006 for the eight other automotive executives. The Company was required to fund, immediately following the sale, its potential

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obligation for such severance payments into a rabbi trust with a third party trustee for the possible benefit of these executives. During the third quarter of 2005, the Company recorded a liability for the separation of one of these executives. Based on the positions the remaining executives retained after the sale, the ownership interests they acquired as a result of the transaction, and the incentives provided to them by the buyer after the sale, the Company does not believe it is presently probable that any of these executives will be terminated within the periods in which it is obligated to pay the severance costs. Accordingly, no additional accrual for severance has been recorded. If information becomes known to the Company at a later date which indicates severance of one or more of the remaining covered executives is probable within the time period covered by the Company, accruals for severance will be required.

Certain operating leases related to property and equipment used in the operations of Cooper-Standard Automotive were guaranteed by the Company. These guarantees require the Company, in the event Cooper-Standard fails to honor its commitments, to satisfy the terms of the lease agreements. As part of the sale of the automotive operations, the Company is seeking releases of those guarantees but to date has been unable to secure releases from certain lessors. The most significant of those leases is for a U. S. manufacturing facility with a remaining term of 11 years and total remaining payments of approximately \$12.5 million. Other leases cover two facilities in the United Kingdom and manufacturing equipment. These leases have remaining terms of from one to eight years and remaining payments of approximately \$5.9 million. The Company does not believe it is presently probable that it will be called upon to make these payments. Accordingly, no accrual for these guarantees has been recorded. If information becomes known to the Company at a later date which indicates its performance under these guarantees is probable, accruals for the obligations will be required.

Products liability – The Company is a defendant in various products liability claims in which individuals involved in vehicle accidents seek damages resulting from allegedly defective tires manufactured by the Company. Litigation of this type has increased significantly throughout the tire industry following the Firestone tire recall announced in 2000.

The Company accrues costs for products liability at the time a loss is probable and the amount of loss can be estimated. The Company believes the probability of loss can be established and the amount of loss can be estimated only after certain minimum information is available, including verification that Company-produced products were involved in the incident giving rise to the claim, the condition of the product purported to be involved in the claim, the nature of the incident giving rise to the claim, and the extent of the purported injury or damages. In cases where such information is known, each products liability claim is evaluated based on its specific facts and circumstances. A judgment is then made, taking into account the views of counsel and other relevant factors, to determine the requirement for establishment or revision of an accrual for any potential liability. In most cases, the liability cannot be determined with precision until the claim is resolved. Pursuant to applicable accounting rules, the Company accrues the minimum liability for each known claim when the estimated outcome is a range of possible loss and no one amount within that range is more likely than another. No specific accrual is made for individual unasserted claims or for asserted claims where the minimum information needed to evaluate the probability of a liability is not yet known. However, an accrual for such claims based, in part, on management's expectations for future litigation activity is maintained. Because of the speculative nature of litigation in the United States, the Company does not believe a meaningful aggregate range of potential loss for asserted and unasserted claims can be determined. The total cost of resolution of such claims, or increase in reserves resulting from greater knowledge of specific facts and circumstances related to such claims, could have a greater impact on the consolidated results of operations and financial position of the Company in future periods and, in some periods, could be material.

The Company's exposure for each claim occurring prior to April 1, 2003 is limited by the coverage provided by its excess liability insurance program. The program for that period includes a relatively low per claim retention and a policy year aggregate retention limit on claims arising from occurrences which took place during a particular policy year. Effective April 1, 2003, the Company established a new excess liability insurance program. The new program covers the Company's products liability claims occurring on or after April 1, 2003 and is occurrence-based insurance coverage which includes an increased per claim retention limit, increased policy limits, and the establishment of a captive insurance company. Premium costs for insurance coverage in excess of the self-insured amounts for the April 1, 2004 to March 31, 2005 policy year were \$10,419 higher than under the program in place prior to April 1, 2003, the per claim retention limit increased \$13,250 and the aggregate retention limit was eliminated, while excess liability coverage increased by \$35,000. The Company continued the program effective April 1, 2005 with an increase in the per claim retention limit of \$10,000 and a premium cost reduction of \$5,320. The total per claim retention limit for claims occurring in this policy year is \$25,000.

The products liability expense reported by the Company includes amortization of insurance premium costs, adjustments to settlement reserves, and legal costs incurred in defending claims against the Company offset by recoveries of legal fees. Legal costs are expensed as incurred and products liability insurance premiums are amortized over coverage periods. The Company is entitled to reimbursement, under certain insurance contracts in place for periods ending prior to April 1, 2003, of legal fees expensed in prior periods based on events occurring in the those periods. The Company records the reimbursements under such policies in the period the conditions for reimbursement are met.

Products liability costs totaled \$41,040, \$60,476 and \$52,323 in 2003, 2004 and 2005, respectively, and include recoveries of legal fees of \$14,752, \$9,349 and \$12,700 in 2003, 2004 and 2005, respectively. Policies applicable to claims occurring on April 1, 2003 and thereafter do not provide for recovery of legal fees.

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Income Taxes — The Company is required to make certain estimates and judgments to determine income tax expense for financial statement purposes. These estimates and judgments are made in the calculation of tax credits, tax benefits and deductions (such as the tax benefit for export sales) and in the calculation of certain tax assets and liabilities which arise from differences in the timing of the recognition of revenue and expense for tax and financial statement purposes. Significant changes to these estimates may result in an increase or decrease to tax provisions in subsequent periods.

The Company must assess the likelihood that it will be able to recover its deferred tax assets. If recovery is not likely, the provision for income tax expense must be increased by recording a valuation allowance against the deferred tax assets that are deemed to be not recoverable. The Company has recorded a valuation allowance against its net capital loss, state net operating losses and state tax credits at December 31, 2005 as it does not anticipate the utilization of these assets before they expire. In the event there is a change in circumstances in the future which would affect the utilization of these deferred tax assets, the tax provision in that accounting period would be reduced by the amount of the assets then deemed to be realizable.

In addition, the calculation of the Company's tax liabilities involves a degree of uncertainty in the application of complex tax regulations. The Company recognizes liabilities for anticipated tax audit issues in the United States and other jurisdictions based on its estimates of whether, and the extent to which, additional tax payments are probable. If, and at the time, the Company determines payment of such amounts are not probable, the liability will be reversed and a tax benefit recognized to reduce the provision for income taxes. The Company will record an increase to its provision for income tax expense in the period it determines it is probable that recorded liabilities are less than the ultimate tax assessment.

Impairment of long-lived assets — The Company's long-lived assets include property, plant and equipment, long-term investments, goodwill and other intangible assets. If an indicator of impairment exists for certain groups of property, plant and equipment or definite-lived intangible assets, the Company will compare the forecasted undiscounted cash flows attributable to the assets to their carrying values. If the carrying values exceed the undiscounted cash flows, the Company then determines the fair values of the assets. If the carrying values exceed the fair values of the assets, then an impairment charge is recognized for the difference. During 2005, impairments of \$.9 million were recorded related to molds used in the North American Tire Operations segment. During 2004, impairments of \$7.5 million were recorded as part of the Company's restructuring expenses related to the decision to cease radial medium truck tire production.

The Company assesses the potential impairment of its goodwill and other indefinite-lived assets at least annually or when events or circumstances indicate impairment may have occurred. The carrying value of these assets is compared to their fair value. If the carrying values exceed the fair values, then a hypothetical purchase price allocation is computed and the impairment charge, if any, is then recorded. As discussed in the notes to the consolidated financial statements, the Company assessed its goodwill and indefinite-lived intangible assets at December 31, 2005 and no impairment was indicated.

The Company cannot predict the occurrence of future impairment-triggering events. Such events may include, but are not limited to, significant industry or economic trends and strategic decisions made in response to changes in the economic and competitive conditions impacting the Company's businesses.

Pension and postretirement benefits — The Company has recorded significant pension liabilities in the United States and the United Kingdom and other postretirement benefit liabilities in the United States that are developed from actuarial valuations. The determination of the Company's pension liabilities requires key assumptions regarding discount rates used to determine the present value of future benefits payments, expected returns on plan assets, and the rates of future compensation increases. The discount rate is also significant to the development of other postretirement benefit liabilities. The Company determines these assumptions in consultation with, and after input from, its actuaries.

The discount rate reflects the rate used to estimate the value of the Company's pension and other postretirement liabilities for which they could be settled at the end of the year. When determining the discount rate, the Company considers the most recent available interest rates on Moody's Aa Corporate bonds, with maturities of at least twenty years, late in the fourth quarter and then factors into the rate its expectations for change by year-end. The Company discounted the expected pension disbursements over the next fifty years using a yield curve based on market data as of December 31, 2005 which validated the present value determined using the single benchmark rate for all years. Based upon this analysis, the Company reduced the discount rate used to measure its United States pension and postretirement benefit liabilities to 5.75 percent at December 31, 2005 from 6.00 percent at December 31, 2004. A similar analysis was completed in the United Kingdom and the Company reduced the discount rate used to measure its United Kingdom pension liabilities to 5.5 percent at December 31, 2005 from 6.5 percent at December 31, 2004. The effect of these reductions in the discount rate assumption was to increase the projected benefit obligation at December 31, 2005 which will also result in increases of approximately \$7 million in pension expense and approximately \$500,000 in other postretirement benefits expense during 2006.

The rate of future compensation increases is used to determine the future benefits to be paid for salaried and non-bargained employees, because the amount of a participant's pension is partially attributable to the compensation earned during his or her career. The rate reflects the Company's expectations over time for salary and wage inflation and the impacts of promotions and incentive compensation, which is based on profitability. The Company used 3.25 percent for the estimated future compensation increases in measuring its United States

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pension liabilities at December 31, 2005 and December 31, 2004. In the United Kingdom, the Company used 4.0 percent for the estimated future compensation increase at December 31, 2005 compared to a rate of 4.5 percent at December 31, 2004.

The assumed long-term rate of return on pension plan assets is applied to the market value of plan assets to derive a reduction to pension expense that approximates the expected average rate of asset investment return over ten or more years. A decrease in the expected long-term rate of return will increase pension expense whereas an increase in the expected long-term rate will reduce pension expense. Decreases in the level of actual plan assets will serve to increase the amount of pension expense whereas increases in the level of actual plan assets will serve to decrease the amount of pension expense. Any shortfall in the actual return on plan assets from the expected return will increase pension expense in future years due to the amortization of the shortfall whereas any excess in the actual return on plan assets from the expected return will reduce pension expense in future periods due to the amortization of the excess.

The Company's investment policy for United States plans' assets is to maintain an allocation of 65 percent in equity securities and 35 percent in debt securities. The Company's investment policy for United Kingdom plan assets is to maintain an allocation of 70 percent in equity securities and 30 percent in debt securities. Equity security investments are structured to achieve an equal balance between growth and value stocks. The Company determines the annual rate of return on pension assets by first analyzing the composition of its asset portfolio. Historical rates of return are applied to the portfolio. This computed rate of return is reviewed by the Company's investment advisors and actuaries. Industry comparables and other outside guidance is also considered in the annual selection of the expected rates of return on pension assets.

The actual return on United States pension plans' assets approximated 8.0 percent in 2005 and 9.6 percent in 2004. The lower actual return on plan assets reflects more modest equity and fixed income returns than the prior year. The actual return on United Kingdom pension plan assets approximated 19.4 percent in 2005 and 9.9 percent in 2004. The higher returns in 2005 were mainly the result of very strong equity returns, with the United Kingdom plan's U. K. equities returning more than 23 percent and its overseas equities returning more than 30 percent. Using recent and projected market and economic conditions, the Company maintained its estimate for the expected long-term return on its United States plan assets at nine percent, the same assumption used to derive 2004 and 2005 expense. The expected long-term return on United Kingdom plan assets used to derive the 2005 pension expense was 8.75 percent compared to a rate of 9.0 percent used to derive the 2004 pension expense. The lower rate is the result of a reduction in bond yields in 2004 which led to an expectation of lower investment returns in 2005.

The Company has accumulated net deferred losses resulting from the shortfalls and excesses in actual returns on pension plan assets from expected returns and, in the measurement of pensions liabilities, decreases and increases in the discount rate and the rate of future compensation increases and differences between actuarial assumptions and actual experience totaling \$314 million at December 31, 2005. These amounts are being amortized in accordance with the corridor amortization requirements of SFAS No. 87, "Employers' Accounting for Pensions," over periods ranging from ten years to 15 years. Amortization of these net deferred losses was \$13 million in 2005 and \$14 million in 2004.

The Company adopted SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," in 1992 and, to mitigate the impact of medical cost inflation on the Company's retiree medical obligation, instituted per participant, or per household, caps on the amounts of retiree medical benefits it will provide to future retirees. The caps do not apply to individuals who retired prior to certain specified dates. Costs in excess of these caps will be paid by plan participants. The Company implemented increased cost sharing in 2004 in the retiree medical coverage provided to certain eligible current and future retirees. Since then cost sharing has expanded such that nearly all covered retirees pay a charge to be enrolled. The medical care cost trend rate has a significant impact on the liabilities recorded by the Company. A one percent increase in the assumed health care cost trend rate would increase retiree medical obligations by \$5.2 million and increase retiree medical benefits expense by \$.6 million.

The Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the "Act") was enacted in December 2003. The Act introduced a prescription drug benefit under Medicare Part D as well as an option for a federal subsidy to sponsors of retiree health plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. In May 2004, the FASB issued FASB Staff Position ("FSP") 106-2, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug Improvement and Modernization Act of 2003." This FSP provided accounting and disclosure guidance for employers who sponsor postretirement health care plans that provide drug benefits. Regulations regarding implementation of provisions relevant to the Company's accounting are complex and contain acknowledged open issues. The Act reduced the Company's net periodic postretirement benefit cost by \$2,183 in 2004 including service cost, interest cost and amortization of the actuarial gain. The total impact on the Company's actuarial liability in 2004, under all U. S. plans, was a reduction of \$15,300 and is being accounted for as an actuarial gain that will be amortized as a reduction of the Company's periodic expense and balance sheet liability over a period of fifteen years. The 2005 net periodic postretirement benefit cost includes the benefits of the Act. The Company has applied to receive the federal drug subsidy in 2006 and intends to continue to analyze the options available with respect to the relationship of the Company health care benefits with all parts of Medicare to attain the most cost effective coordination.

Off-Balance Sheet Arrangements

Certain operating leases related to property and equipment used in the operations of Cooper-Standard Automotive were guaranteed by the Company. These guarantees require the Company, in the event Cooper-Standard fails to honor its commitments, to satisfy the terms of the lease agreements. As part of the sale of the automotive operations, the Company is seeking releases of those guarantees but to date has been unable to secure releases from certain lessors. The most significant of those leases is for a U. S. manufacturing facility with a remaining term of 11 years and total remaining payments of approximately \$12.5 million. Other leases cover two facilities in the United Kingdom and manufacturing equipment. These leases have remaining terms of from one to eight years and remaining payments of approximately \$5.9 million. The Company does not believe it is presently probable that it will be called upon to make these payments. Accordingly, no accrual for these guarantees has been recorded. If information becomes known to the Company at a later date which indicates its performance under these guarantees is probable, accruals for the obligations will be required.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to fluctuations in interest rates and currency exchange rates from its financial instruments. The Company actively monitors its exposure to risk from changes in foreign currency exchange rates and interest rates. Derivative financial instruments are used to reduce the impact of these risks. See the “Significant Accounting Policies — Derivative financial instruments” and “Fair Value of Financial Instruments” notes to the consolidated financial statements for additional information.

The Company has estimated its market risk exposures using sensitivity analysis. These analyses measure the potential loss in future earnings, cash flows or fair values of market sensitive instruments resulting from a hypothetical ten percent change in interest rates or foreign currency exchange rates.

A ten percent decrease in interest rates would have adversely affected the fair value of the Company’s fixed-rate, long-term debt by approximately \$27.1 million at December 31, 2005 and approximately \$40.7 million at December 31, 2004. A ten percent increase in the interest rates for the Company’s floating rate long-term debt obligations would not have been material to the Company’s results of operations and cash flows.

To manage the volatility of currency exchange exposures related to future sales and purchases, the Company nets the exposures on a consolidated basis to take advantage of natural offsets. For the residual portion, the Company enters into forward exchange contracts and purchases options with maturities of less than 12 months pursuant to the Company’s policies and hedging practices. The changes in fair value of these hedging instruments are offset in part or in whole by corresponding changes in the fair value of cash flows of the underlying exposures being hedged. The Company’s unprotected exposures to earnings and cash flow fluctuations due to changes in foreign currency exchange rates were not significant at December 31, 2005 and 2004.

The Company enters into fair value, foreign exchange contracts to manage its exposure to foreign currency denominated receivables and payables. The impact from a ten percent change in foreign currency exchange rates on the Company’s foreign currency denominated obligations and related foreign exchange contracts would not have been material to the Company’s results of operations and cash flows.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

CONSOLIDATED STATEMENTS OF OPERATIONS

Years ended December 31

(Dollar amounts in thousands except per share amounts)

	2003	2004	2005
Net sales	\$1,850,853	\$2,081,609	\$2,155,185
Cost of products sold	<u>1,641,468</u>	<u>1,848,616</u>	<u>1,967,835</u>
Gross profit	209,385	232,993	187,350
Selling, general and administrative	146,076	171,689	161,192
Adjustments to class action warranty	(3,900)	(11,273)	(277)
Restructuring	<u>2,190</u>	<u>9,353</u>	<u>—</u>
Operating profit	65,019	63,224	26,435
Interest expense	29,146	27,569	54,511
Debt extinguishment costs	—	—	4,228
Interest income	(1,170)	(2,068)	(18,541)
Other — net	<u>(162)</u>	<u>2,717</u>	<u>588</u>
Income/(loss) from continuing operations before income taxes	37,205	35,006	(14,351)
Provision for income taxes	<u>9,861</u>	<u>7,560</u>	<u>704</u>
Income/(loss) from continuing operations before minority interests	27,344	27,446	(15,055)
Minority interests	<u>—</u>	<u>—</u>	<u>22</u>
Income/(loss) from continuing operations	27,344	27,446	(15,033)
Income from discontinued operations, net of income taxes	46,491	61,478	—
Gain on sale of discontinued operations including income tax benefit	<u>—</u>	<u>112,448</u>	<u>5,677</u>
Net income/(loss)	<u>\$ 73,835</u>	<u>\$ 201,372</u>	<u>\$ (9,356)</u>
Basic earnings (loss) per share:			
Income/(loss) from continuing operations	\$ 0.37	\$ 0.37	\$ (0.24)
Income from discontinued operations	0.63	0.83	—
Gain on sale of discontinued operations	—	1.52	0.09
Net income/(loss)	<u>\$ 1.00</u>	<u>\$ 2.71*</u>	<u>\$ (0.15)</u>
Diluted earnings (loss) per share:			
Income/(loss) from continuing operations	\$ 0.37	\$ 0.37	\$ (0.24)
Income from discontinued operations	0.63	0.82	—
Gain on sale of discontinued operations	—	1.50	0.09
Net income/(loss)	<u>\$ 1.00</u>	<u>\$ 2.68*</u>	<u>\$ (0.15)</u>

* Amounts do not add due to rounding

See Notes to Consolidated Financial Statements, pages 35 to 60.

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CONSOLIDATED BALANCE SHEETS

December 31

(Dollar amounts in thousands)

	2004	2005
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 881,728	\$ 280,712
Short-term investments	46,064	—
Accounts receivable, less allowances of \$4,868 in 2004 and \$5,765 in 2005	340,897	338,793
Accounts receivable from sale of automotive operations	48,770	—
Inventories at lower of cost (last-in, first-out) or market:		
Finished goods	172,890	221,968
Work in process	16,726	21,820
Raw materials and supplies	59,166	62,258
	<u>248,782</u>	<u>306,046</u>
Prepaid expenses, income taxes refundable and deferred income taxes	65,425	42,850
Assets of discontinued operations and held for sale	10,813	400
Total current assets	1,642,479	968,801
Property, plant and equipment:		
Land and land improvements	35,034	39,152
Buildings	258,532	266,364
Machinery and equipment	1,308,498	1,396,248
Molds, cores and rings	206,457	225,555
	<u>1,808,521</u>	<u>1,927,319</u>
Less accumulated depreciation and amortization	<u>1,079,101</u>	<u>1,141,094</u>
Net property, plant and equipment	729,420	786,225
Goodwill	48,172	48,172
Intangibles, net of accumulated amortization of \$15,038 in 2004 and \$18,028 in 2005	34,098	31,108
Restricted cash	12,484	12,382
Other assets	201,431	305,498
	<u>\$2,668,084</u>	<u>\$2,152,186</u>

See Notes to Consolidated Financial Statements, pages 35 to 60.

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December 31

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:

Notes payable	\$ 459	\$ 79
Accounts payable	182,061	157,785
Accrued liabilities	108,197	99,659
Income taxes	1,320	15,390
Liabilities related to the sale of automotive operations	19,201	4,684
Liabilities of discontinued operations	727	—
Total current liabilities	311,965	277,597

Long-term debt	773,704	491,618
Postretirement benefits other than pensions	169,484	181,997
Other long-term liabilities	178,282	225,850
Long-term liabilities related to the sale of automotive operations	23,116	14,407
Deferred income taxes	41,000	21,941

Stockholders' equity:

Preferred stock, \$1 par value; 5,000,000 shares authorized; none issued	—	—
Common stock, \$1 par value; 300,000,000 shares authorized; 86,321,889 shares issued in 2004 and 86,322,514 in 2005	86,322	86,323
Capital in excess of par value	38,072	37,667
Retained earnings	1,397,268	1,361,269
Cumulative other comprehensive loss	(74,085)	(86,323)
	1,447,577	1,398,936
Less: common shares in treasury at cost (15,182,567 in 2004 and 25,001,503 in 2005)	(277,044)	(460,160)
Total stockholders' equity	1,170,533	938,776
	<u>\$2,668,084</u>	<u>\$2,152,186</u>

See Notes to Consolidated Financial Statements, pages 35 to 60.

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CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(Dollar amounts in thousands except per share amounts)

	Common Stock \$1 Par Value	Capital In Excess of Par Value	Retained Earnings	Cumulative Other Comprehensive Income (Loss)	Common Shares in Treasury	Total
Balance at January 1, 2003	\$ 84,862	\$18,981	\$1,184,115	\$ (149,230)	\$(197,012)	\$ 941,716
Net income			73,836			73,836
Other comprehensive income:						
Minimum pension liability adjustment, net of \$7,113 tax effect				(12,555)		(12,555)
Currency translation adjustment				55,223		55,223
Change in the fair value of derivatives and unrealized gain on marketable securities, net of \$1,919 tax effect				(3,117)		(3,117)
Comprehensive income						113,387
Stock compensation plans	406	5,832				6,238
Cash dividends — \$.42 per share			(30,952)			(30,952)
Balance at December 31, 2003	85,268	24,813	1,226,999	(109,679)	(197,012)	1,030,389
Net income			201,372			201,372
Other comprehensive income:						
Minimum pension liability adjustment, net of \$16,641 tax effect				24,798		24,798
Currency translation adjustment				23,200		23,200
Change in the fair value of derivatives and unrealized gain on marketable securities, net of \$894 tax effect				1,454		1,454
Sale of Automotive				(13,858)		(13,858)
Comprehensive income						236,966
Purchase of treasury shares					(83,064)	(83,064)
Stock compensation plans	1,054	13,259			3,032	17,345
Cash dividends — \$.42 per share			(31,103)			(31,103)
Balance at December 31, 2004	86,322	38,072	1,397,268	(74,085)	(277,044)	1,170,533
Net loss			(9,356)			(9,356)
Other comprehensive income (loss):						
Minimum pension liability adjustment, net of \$4,238 tax effect				(4,818)		(4,818)
Currency translation adjustment				(10,714)		(10,714)
Change in the fair value of derivatives and unrealized gain on marketable securities, net of \$2,034 tax effect				3,294		3,294
Comprehensive income (loss)						(21,594)
Purchase of 10,151,636 treasury shares					(189,764)	(189,764)
Stock compensation plans, including tax benefit of \$1,273	1	(405)			6,648	6,244
Cash dividends — \$.42 per share			(26,643)			(26,643)
Balance at December 31, 2005	\$ 86,323	\$37,667	\$1,361,269	\$ (86,323)	\$(460,160)	\$ 938,776

See Notes to Consolidated Financial Statements, pages 35 to 60.

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CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31

(Dollar amounts in thousands)

	2003	2004	2005
Operating activities:			
Net income/(loss) from continuing operations	\$ 27,344	\$ 27,446	\$ (15,033)
Adjustments to reconcile net income/(loss) from continuing operations to net cash provided by continuing operations:			
Depreciation	109,709	109,805	108,340
Amortization	5,958	4,792	7,327
Deferred income taxes	11,532	(12,296)	(16,522)
Stock based compensation	—	—	248
Joint venture partner losses	—	—	(22)
Adjustments to class action warranty	(3,900)	(11,273)	(277)
Restructuring asset write-down	—	9,251	—
Changes in operating assets and liabilities of continuing operations:			
Accounts receivable	(65,529)	(8,379)	(2,952)
Inventories	13,599	(55,823)	(62,715)
Prepaid expenses	15,252	(24,765)	28,156
Accounts payable	39,772	44,154	(21,329)
Accrued liabilities	(22,624)	1,106	15,931
Other non-current items	36,725	(91,335)	30,100
Net cash provided by (used in) continuing operations	167,838	(7,317)	71,252
<i>Net cash provided by (used in) discontinued operations</i>	<i>66,744</i>	<i>109,289</i>	<i>(17,635)</i>
Net cash provided by operating activities	234,582	101,972	53,617
Investing activities:			
Property, plant and equipment	(96,081)	(159,308)	(172,152)
Investment in Kumho Tire Company	—	—	(107,961)
Proceeds from the sale of (investment in) available-for-sale debt securities	—	(46,064)	46,064
Acquisition of businesses, net of cash acquired	(13,110)	—	—
Proceeds from the sale of business	—	1,172,267	54,270
Proceeds from the sale of assets	474	37	3,709
Net cash provided by (used in) continuing operations	(108,717)	966,932	(176,070)
<i>Net cash provided by (used in) discontinued operations</i>	<i>(53,310)</i>	<i>(45,318)</i>	<i>3,170</i>
Net cash provided by (used in) investing activities	(162,027)	921,614	(172,900)
Financing activities:			
Payments on long-term debt	(12,504)	(90,003)	(278,362)
Net borrowings (repayments) under credit facilities	12,683	(32,751)	(354)
Contributions of joint venture partner	—	—	4,210
Purchase of treasury shares	—	(83,064)	(189,764)
Payment of dividends	(30,952)	(31,103)	(26,643)
Issuance of common shares	6,238	17,345	4,673
Net cash used in continuing operations	(24,535)	(219,576)	(486,240)
<i>Net cash provided by (used in) discontinued operations</i>	<i>(36,306)</i>	<i>14,495</i>	<i>—</i>
Net cash used in financing activities	(60,841)	(205,081)	(486,240)
Effects of exchange rate changes on cash of continuing operations	(10,183)	9,757	4,507
<i>Effects of exchange rate changes on cash of discontinued operations</i>	<i>20,147</i>	<i>(12,960)</i>	<i>—</i>
Changes in cash and cash equivalents	21,678	815,302	(601,016)
Cash and cash equivalents at beginning of year	44,748	66,426	881,728
Cash and cash equivalents at end of year	<u>\$ 66,426</u>	<u>\$ 881,728</u>	<u>\$ 280,712</u>
Cash and cash equivalents at end of year:			
Continuing operations	\$ 28,550	\$ 881,728	\$ 280,712
Discontinued operations	37,876	—	—
	<u>\$ 66,426</u>	<u>\$ 881,728</u>	<u>\$ 280,712</u>

See Notes to Consolidated Financial Statements, pages 35 to 60.

Notes to Consolidated Financial Statements

(Dollar amounts in thousands except per share amounts)

Significant Accounting Policies

Reclassification – On December 23, 2004, the Company sold its automotive business, Cooper-Standard Automotive (“Cooper-Standard”) to an entity formed by The Cypress Group and Goldman Sachs Capital Partners. Also in September 2004, the North American Tire Operations segment announced its intent to cease its inner tube business. These operations are considered to be discontinued operations as defined under Statement of Financial Accounting Standard (“SFAS”) No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets,” and require specific accounting and reporting.

The Company’s consolidated financial statements reflect the accounting and disclosure requirements of SFAS No. 144, which mandate the segregation of operating results for the current year and comparable prior year periods and the balance sheets related to the discontinued operations from those related to ongoing operations. Accordingly, the consolidated statements of operations for the years ended December 31, 2003 and 2004 reflect this segregation as income from continuing operations and income from discontinued operations and the consolidated balance sheet at December 31, 2004 displays the segregation of the total assets of the operations to be sold as an aggregated current asset and the related total liabilities as an aggregated current liability.

Certain amounts for prior years have been reclassified to conform to 2005 presentations.

Principles of consolidation - The consolidated financial statements include the accounts of the Company and its subsidiaries. Acquired businesses are included in the consolidated financial statements from the dates of acquisition. All intercompany accounts and transactions have been eliminated.

The equity method of accounting is followed for investments in 20 percent to 50 percent owned companies. The cost method is followed in those situations where the Company’s ownership is less than 20 percent and the Company does not have the ability to exercise significant influence over the affiliate.

The Company has entered into a joint venture with Kenda Tire Company to construct and operate a tire manufacturing facility in China. The Company has determined it is the primary beneficiary of this variable interest entity and has included its assets, liabilities, and operating results in its consolidated financial statements. The Company has recorded the minority interest related to the joint venture partners’ ownership in other long-term liabilities. The following table summarizes the balance sheet of this variable interest entity:

Assets	
Cash and cash equivalents	\$ 608
Accounts receivable	106
Prepaid expenses	39
Total current assets	753
Property, plant and equipment	9,563
Total assets	<u>\$ 10,316</u>
Liabilities and stockholders’ equity	
Accounts payable	\$ 404
Accrued liabilities	4
Current liabilities	408
Stockholders’ equity	9,908
Total liabilities and stockholders’ equity	<u>\$ 10,316</u>

Cash and cash equivalents and Short-term investments - The Company considers highly liquid investments with an original maturity of three months or less to be cash equivalents. Short-term investments consist of available-for-sale debt securities that the Company carries at fair value. Available-for-sale debt securities are classified as current assets based upon the Company’s intent and ability to use any and all of these securities as necessary to support its current operations and near-term strategic initiatives related to debt reduction, the repurchase of shares, investment in its tire operations, or a combination thereof. The Company includes unrealized gains and losses on short-term investments, net of tax, in stockholders’ equity.

The Company’s objectives related to the investment of cash not required for operations is to preserve capital, meet the Company’s liquidity needs, and earn a return consistent with these guidelines and market conditions. Investments deemed eligible for the investment of the Company’s cash include 1) U.S. Treasury securities and general obligations fully guaranteed with respect to

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principle and interest by the government, 2) obligations of U.S. government agencies, 3) commercial paper or other corporate notes of prime quality purchased directly from the issuer or through recognized money market dealers, 4) time deposits, certificates of deposit or bankers' acceptances of banks rated "A-" by Standard & Poor's or "A3" by Moody's, 5) collateralized mortgage obligations rated "AAA" by Standard & Poor's and "Aaa" by Moody's, 6) tax-exempt and taxable obligations of state and local governments of prime quality, and 7) mutual funds or outside managed portfolios that invest in the above investments. At December 31, 2004 the Company had cash and cash equivalents totaling \$881,728 and short-term investments totaling \$46,064, resulting from the sale of Cooper-Standard on December 23, 2004. The short-term investments were comprised of corporate notes and floating-rate securities. At December 31, 2005, the Company has cash and cash equivalents totaling \$280,712. The majority of the cash and cash equivalents was invested in eligible financial instruments in excess of amounts insured by the Federal Deposit Insurance Corporation and therefore subject to credit risk.

Accounts receivable – The Company records trade accounts receivable when revenue is recorded in accordance with its revenue recognition policy and relieves accounts receivable when payments are received from customers.

Allowance for doubtful accounts - The allowance for doubtful accounts is established through charges to the provision for bad debts. The Company evaluates the adequacy of the allowance for doubtful accounts on a periodic basis. The evaluation includes historical trends in collections and write-offs, management's judgment of the probability of collecting accounts and management's evaluation of business risk. This evaluation is inherently subjective, as it requires estimates that are susceptible to revision as more information becomes available. Accounts are determined to be uncollectible when the debt is deemed to be worthless or only recoverable in part, and are written off at that time through a charge against the allowance for doubtful accounts.

Inventories — Inventories are valued at cost, which is not in excess of market. Inventory costs have been determined by the last-in, first-out ("LIFO") method for substantially all U. S. inventories. Costs of other inventories have been determined principally by the first-in, first-out ("FIFO") method.

Long-lived assets - Property, plant and equipment are recorded at cost and depreciated or amortized using the straight-line or accelerated methods over the following expected useful lives:

Buildings and improvements	10 to 40 years
Machinery and equipment	5 to 14 years
Furniture and fixtures	5 to 10 years
Molds, cores and rings	4 to 10 years

Intangibles with definite lives include trademarks, technology and intellectual property which are amortized over their useful lives which range from five years to 30 years. The Company evaluates the recoverability of long-lived assets based on undiscounted projected cash flows excluding interest and taxes when any impairment is indicated. Goodwill and other indefinite-lived intangibles are assessed for potential impairment at least annually or when events or circumstances indicate impairment may have occurred.

Pre-production costs related to long-term supply arrangements - When the Company has a contractual arrangement for reimbursement of costs incurred during the engineering and design phase of customer-owned mold projects by the customer, development costs are recorded in Other assets in the accompanying consolidated balance sheets. Reimbursable costs for customer-owned molds included in Other assets were \$3,798 and \$1,773 at December 31, 2004 and 2005, respectively. Upon completion and acceptance of customer-owned molds, reimbursable costs are recorded as accounts receivable. At December 31, 2004 and 2005, respectively, \$1,442 and \$1,664 were included in Accounts receivable for customer-owned molds.

Restricted cash — In conjunction with the sale of Cooper-Standard, under terms of an employment agreement with the president of the automotive operations and terms of a change in control severance pay plan for eight additional key executives, such executives are entitled to specified severance payments if terminated by the buyer within predetermined time periods after the sale. The Company is obligated to pay the severance costs and related excise taxes, if any, if severance occurs on or prior to December 31, 2007 in the case of the automotive operation's president and on or prior to December 22, 2006 for the eight other executives. The Company was required to fund, immediately following the sale, its potential obligation for such severance payments into a rabbi trust with a third party trustee for the possible benefit of these executives. During 2005, a payment was made as a result of the separation of one executive covered by this change in control agreement. The balances of this and other smaller trusts at December 31, 2004 and 2005 were \$12,484 and \$12,382, respectively.

Earnings (loss) per common share – Net income (loss) per share is computed on the basis of the weighted average number of common shares outstanding each year. Diluted earnings (loss) per share from continuing operations includes the dilutive effect of stock options and other stock units. The following table sets forth the computation of basic and diluted earnings (loss) per share:

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(Number of shares in thousands)	<u>2003</u>	<u>2004</u>	<u>2005</u>
Numerator for basic and diluted earnings (loss) per share — income (loss) from continuing operations available to common stockholders	\$27,344	\$27,446	\$(15,033)
Denominator for basic earnings (loss) per share — weighted-average shares outstanding	73,688	74,201	63,653
Effect of dilutive securities — stock options and other stock units	<u>515</u>	<u>984</u>	<u>—</u>
Denominator for diluted earnings (loss) per share — adjusted weighted-average shares outstanding	74,203	75,185	63,653
Basic earnings (loss) per share from continuing operations	\$ 0.37	\$ 0.37	\$ (0.24)
Diluted earnings (loss) per share from continuing operations	\$ 0.37	\$ 0.37	\$ (0.24)

Options to purchase shares of the Company's common stock not included in the computation of diluted earnings per share because the options' exercise prices were greater than the average market price of the common shares were 563 in 2003 and 501 in 2004. These options could be dilutive in the future depending on the performance of the Company's stock. Due to the loss recorded in 2005, 3,165 options were not included in the computation of diluted earnings (loss) per share. During 2005, the Company repurchased 10,151 shares.

Derivative financial instruments – Derivative financial instruments are utilized by the Company to reduce foreign currency exchange and interest rate risks. The Company has established policies and procedures for risk assessment and the approval, reporting and monitoring of derivative financial instrument activities. The Company does not enter into financial instruments for trading or speculative purposes.

The Company uses foreign currency forward contracts as hedges of the fair value of certain non-U.S. dollar denominated asset and liability positions, primarily accounts receivable. Gains and losses resulting from the impact of currency exchange rate movements on these forward contracts are recognized in the accompanying consolidated statements of income in the period in which the exchange rates change and offset the foreign currency gains and losses on the underlying exposure being hedged.

Foreign currency forward contracts are also used to hedge variable cash flows associated with forecasted sales and purchases denominated in currencies that are not the functional currency of certain entities. The forward contracts have maturities of less than twelve months pursuant to the Company's policies and hedging practices. These forward contracts meet the criteria for and have been designated as cash flow hedges. Accordingly, unrealized gains and losses on such forward contracts are recorded as a separate component of stockholders' equity in the accompanying consolidated balance sheets and reclassified into earnings as the hedged transaction affects earnings.

The Company's hedges are designed to be highly effective at inception because the critical terms of the hedging instrument and the hedged item are identical. The Company, therefore, is not required to perform a detailed test of effectiveness. However, a reduction in the forecasted or actual hedged item below the hedged amount could result in an ineffective hedge. The Company monitors the forecasted cash flow exposures on an ongoing basis to determine if any ineffectiveness exists. Any hedge ineffectiveness is recorded as an adjustment in the accompanying consolidated statements of operations in the period in which the ineffectiveness occurs. To date, no ineffectiveness has been identified.

Income taxes — Income tax expense for continuing operations and discontinued operations is based on reported earnings (loss) before income taxes in accordance with the tax rules and regulations of the specific legal entities within the various specific taxing jurisdictions where the Company's income is earned. The income tax rates imposed by these taxing jurisdictions vary substantially. Taxable income may differ from income before income taxes for financial accounting purposes. To the extent that

differences are due to revenue or expense items reported in one period for tax purposes and in another period for financial accounting purposes, a provision for deferred income taxes is made using enacted tax rates in effect for the year in which the differences are expected to reverse. A valuation allowance is recognized if it is anticipated that some or all of a deferred tax asset may not be realized. Deferred income taxes are not recorded on undistributed earnings of international affiliates based on the Company's intention that these earnings will continue to be reinvested.

Products liability – The Company accrues costs for products liability at the time a loss is probable and the amount of loss can be estimated. The Company believes the probability of loss can be established and the amount of loss can be estimated only after certain minimum information is available, including verification that Company-produced products were involved in the incident giving rise to the claim, the condition of the product purported to be involved in the claim, the nature of the incident giving rise to the claim, and the extent of the purported injury or damages. In cases where such information is known, each products liability claim is evaluated based on its specific facts and circumstances. A judgment is then made, taking into account the views of counsel and other relevant factors, to determine the requirement for establishment or revision of an accrual for any potential liability. In most cases, the liability cannot be determined with precision until the claim is resolved. Pursuant to applicable accounting rules, the Company accrues the minimum liability for each known claim when the estimated outcome is a range of possible loss and no one amount within that range is more likely than another. No specific accrual is made for individual unasserted claims or for asserted claims where the minimum information needed to evaluate the probability of a liability is not yet known. However, an accrual for such claims based, in part, on management's expectations for future litigation activity is maintained. Because of the speculative nature of litigation in the United States, the Company does not believe a meaningful aggregate range of potential loss for asserted and unasserted claims can be determined. The total cost of resolution of such claims, or increase in reserves resulting from greater knowledge of specific facts and circumstances related to such claims, could have a greater impact on the consolidated results of operations and financial position of the Company in future periods and, in some periods, could be material.

The Company's exposure for each claim occurring prior to April 1, 2003 is limited by the coverage provided by its excess liability insurance program. The program for that period includes a relatively low per claim retention and a policy year aggregate retention limit on claims arising from occurrences which took place during a particular policy year. Effective April 1, 2003, the Company established a new excess liability insurance program. The new program covers the Company's products liability claims occurring on or after April 1, 2003 and is occurrence-based insurance coverage which includes an increased per claim retention limit, increased policy limits, and the establishment of a captive insurance company. Premium costs for insurance coverage in excess of the self-insured amounts for the April 1, 2004 to March 31, 2005 policy year were \$10,419 higher than under the program in place prior to April 1, 2003, the per claim retention limit increased \$13,250 and the aggregate retention limit was eliminated, while excess liability coverage increased by \$35,000. The Company continued the program effective April 1, 2005 with an increase in the per claim retention limit of \$10,000 and a premium cost reduction of \$5,320. The total per claim retention limit for claims occurring in this policy year is \$25,000.

The products liability expense reported by the Company includes amortization of insurance premium costs, adjustments to settlement reserves, and legal costs incurred in defending claims against the Company offset by recoveries of legal fees. Legal costs are expensed as incurred and products liability insurance premiums are amortized over coverage periods. The Company is entitled to reimbursement, under certain insurance contracts in place for periods ending prior to April 1, 2003, of legal fees expensed in prior periods based on events occurring in those periods. The Company records the reimbursements under such policies in the period the conditions for reimbursement are met.

Products liability costs totaled \$41,040, \$60,476 and \$52,323 in 2003, 2004 and 2005, respectively, and include recoveries of legal fees of \$14,752, \$9,349 and \$12,700 in 2003, 2004 and 2005, respectively. Policies applicable to claims occurring on April 1, 2003 and thereafter do not provide for recovery of legal fees.

Advertising expense – Expenses incurred for advertising include production and media and are generally expensed when incurred. Dealer-earned cooperative advertising expense is recorded when earned. Advertising expense for 2003, 2004 and 2005 was \$42,002, \$51,745 and \$48,064, respectively.

Stock-based compensation - The Company accounts for expenses related to employee stock option plans in accordance with Accounting Principles Board Opinion ("APB") No. 25, "Accounting for Stock Issued to Employees." Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation" requires, if APB Opinion No. 25 is followed, disclosure of pro forma information regarding net income and earnings per share determined as if the Company accounted for its employee stock options under the fair value method. The fair value for these options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions:

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	2003	2004	2005
Risk-free interest rate	1.9%	2.4%	3.5%
Dividend yield	2.8%	2.1%	1.9%
Expected volatility of the Company's common stock	0.341	0.336	0.240
Expected life in years	6.6	6.7	6.8

The weighted-average fair value of options granted in 2003, 2004 and 2005 was \$3.74, \$5.69 and \$5.28, respectively. For purposes of pro forma disclosures, the estimated fair value of options is amortized to expense over the options' vesting period.

On December 16, 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 123(R), "Share-Based Payment," which is a revision of SFAS No. 123. SFAS No. 123(R) supersedes APB Opinion No. 25 and amends SFAS No. 95, "Statement of Cash Flows." Generally, the approach in SFAS No. 123(R) is similar to the approach described in SFAS No. 123; however, this Statement requires all share-based payments to employees, including grants of employee stock options, be recognized as an expense in the statement of operations based on their fair values. Pro forma disclosure will no longer be an alternative to financial statement recognition. The Company will be required to adopt SFAS No. 123(R) effective January 1, 2006.

On November 16, 2005, the Compensation Committee of the Company approved an acceleration of vesting of employee stock options and approximately 1,768 options with varying remaining vesting schedules became immediately exercisable. The action to accelerate vesting was done for the purpose of avoiding future expenses associated with any unvested stock options granted prior to the effective date of SFAS No. 123(R). The Company's reported and pro forma financial results are as follows:

	2003	2004	2005
Income (loss) from continuing operations as reported	\$27,344	\$27,446	\$(15,033)
Deduct: Total stock-based employee compensation expense determined under the fair value based method for all awards, net of related tax effects	<u>(1,659)</u>	<u>(1,322)</u>	<u>(5,138)</u>
Pro forma income (loss) from continuing operations	<u>\$25,685</u>	<u>\$26,124</u>	<u>\$(20,171)</u>
Basic earnings (loss) per share from continuing operations:			
Reported	\$ 0.37	\$ 0.37	\$ (0.24)
Pro forma	0.35	0.35	(0.32)
Diluted earnings (loss) per share from continuing operations:			
Reported	\$ 0.37	\$ 0.37	\$ (0.24)
Pro forma	0.35	0.35	(0.32)

Warranties – The Company provides for the estimated cost of product warranties at the time revenue is recognized based primarily on historical return rates, estimates of the eligible tire population, and the value of tires to be replaced. During the third quarters of 2004 and 2005, as a result of the review of the adequacy of its warranty liabilities which is performed each quarter, the Company reduced the enhanced warranty accrual established in 2001 as a result of the class action settlement by \$11,273 and \$371, respectively. The reduction to the enhanced warranty liability is attributed to a reduction in the eligible population of tires subject to the enhanced warranty due to the passage of time and to lower than expected claims. The reduction to the enhanced warranty liability was offset by an increase in the amount reserved for tire disposal costs. The following table summarizes the activity in the Company's product warranty liabilities:

	2004	2005
Reserve at January 1	\$ 22,642	\$10,048
Additions	4,643	5,789
Reduction to enhanced warranty reserve	(11,273)	(371)
Payments	<u>(5,964)</u>	<u>(6,402)</u>
Reserve at December 31	<u>\$ 10,048</u>	<u>\$ 9,064</u>

Use of estimates – The preparation of consolidated financial statements in conformity with U. S. generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of (1) revenues and expenses during the reporting period, and (2) assets and liabilities, as well as disclosure of contingent assets and liabilities, at the date of the consolidated financial statements. Actual results could differ from those estimates.

Revenue recognition - Revenues are recognized when title to the product passes to customers. Shipping and handling costs are recorded in cost of products sold. Allowance programs such as volume rebates and cash discounts are recorded at the time of sale based on anticipated accrual rates for the year.

Research and development - Costs are charged to cost of products sold as incurred and amounted to approximately \$17,496, \$18,582 and \$15,946 in 2003, 2004 and 2005, respectively.

Accounting pronouncements – In November, 2004, the FASB issued SFAS No. 151, “Inventory Costs.” This statement amends Accounting Research Bulletin (“ARB”) No. 43, Chapter 4, “Inventory Pricing,” to clarify that abnormal amounts of idle facility expense, freight, handling costs, and wasted materials (spoilage) should be recognized as current-period charges. The provisions of this Statement are effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The adoption of this standard will have no impact on the Company’s consolidated financial statements.

On December 16, 2004, the FASB issued SFAS No. 123 (revised 2004), “Share-Based Payment,” which is a revision of FASB No. 123, “Accounting for Stock-Based Compensation.” SFAS No. 123(R) supersedes APB Opinion No. 25, “Accounting for Stock Issued to Employees” and amends SFAS No. 95, “Statement of Cash Flows.” Generally, the approach in SFAS No. 123(R) is similar to the approach described in SFAS No. 123; however, this Statement requires all share-based payments to employees, including grants of employee stock options, be recognized as an expense in the statement of operations based on their fair values. Pro forma disclosure is no longer an alternative to financial statement recognition. SFAS No. 123(R) must be adopted by the Company effective January 1, 2006.

SFAS No. 123(R) permits public companies to adopt its requirements using one of two methods:

1. A “modified prospective” method, in which compensation cost is recognized beginning with the effective date based on the requirements of SFAS No. 123(R) for (a) all share-based payments granted after the effective date and (b) for all awards granted to employees prior to the effective date of SFAS No. 123(R) that remain unvested on the effective date.
2. A “modified retrospective” method, which includes the requirements of the modified prospective method described above for new awards and unvested awards but also permits entities to restate based on the amounts previously determined under SFAS No. 123 for purposes of pro forma disclosures either (a) all prior periods presented or (b) prior interim periods of the year of adoption.

The Company currently accounts for share-based payments to employees using the intrinsic value method prescribed in APB Opinion No.25 and as currently permitted by SFAS No. 123. In accordance with that Standard, the Company generally recognizes no compensation cost for employee stock options. Accordingly, the Company’s adoption of the fair value method prescribed in SFAS No. 123(R) will have an impact on its future results of operations. The impact of the adoption of SFAS No. 123(R) will depend on levels of share-based payments granted in the future. Beginning in 2006, compensation expense will be recognized over the vesting period which is generally four years. The Company estimates the amount of expense to be recognized in its 2006 financial statements will be less than \$500. SFAS No. 123(R) also requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow, rather than as an operating cash flow as required under current literature. This requirement will reduce net operating cash flows and increase net financing cash flows in periods after adoption. While the Company cannot estimate what those amounts will be in the future (because they depend on, among other things, when employees exercise stock options), the amount of operating cash flows recognized in prior periods for such excess tax deductions were \$551 and \$2,718 in 2003 and 2004, respectively.

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In December 2004, the FASB issued SFAS No. 153, "Exchanges of Nonmonetary Assets." This Statement amends APB Opinion No. 29, "Accounting for Nonmonetary Transactions" to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. The Company will adopt this standard on January 1, 2006.

In May, 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections." This statement replaces APB Opinion No. 20, "Accounting Changes" and SFAS No. 3, "Reporting Accounting Changes in Interim Financial Statements" and changes the requirements for the accounting for and reporting of a change in accounting principle. This Statement requires retrospective application to prior periods' financial statements of changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. The Company will adopt this standard on January 1, 2006.

Acquisitions

On March 10, 2003, the Company purchased Max-Trac Tire Co., Inc., better known as Mickey Thompson Performance Tires & Wheels. The Company had been a supplier to Mickey Thompson for a number of years, providing specialty and off-road tires under the Mickey Thompson and Dick Cepek names. The results of operations of Max-Trac Tire Co., Inc. are included in the consolidated financial statements from the date of acquisition. The acquisition does not meet the thresholds for a significant acquisition and therefore no pro forma financial information is presented.

Divestiture of Cooper-Standard Automotive

On December 23, 2004 the Company sold its automotive operations, known as Cooper-Standard Automotive, to an entity formed by The Cypress Group and Goldman Sachs Capital Partners. In addition to the segregation of operating financial results, assets, and liabilities, Emerging Issues Task Force ("EITF") No. 87-24, "Allocation of Interest to Discontinued Operations," mandates the reallocation to continuing operations of general corporate overhead previously allocated to discontinued operations and permits the allocation of interest to discontinued operations in accordance with specific guidelines. Corporate overhead that previously would have been allocated to Cooper-Standard of \$12,048 and \$12,201 for the years ended 2003 and 2004, respectively, is charged against continuing operations in the Company's consolidated statements of income. The Company used the permitted allocation method for interest expense on corporate debt, which is based on the ratio of net assets sold or discontinued to the sum of total net assets of the consolidated Company plus consolidated debt. Under this method, interest expense of \$31,165 and \$34,019 for the years ended 2003 and 2004, respectively, was allocated to discontinued operations in addition to interest on debt held directly by Cooper-Standard. Operating results for Cooper-Standard included in income from discontinued operations, net of income taxes, on the Company's consolidated statements of operations are presented in the following table. These amounts plus the results of other, smaller discontinued operations comprise the total income from discontinued operations.

(Dollar amounts in millions except per share amounts)

	Years Ended December 31,	
	2003	2004
Net sales	\$1,662,216	\$1,851,954
Operating profit, including restructuring costs	110,834	137,838
Interest expense	38,789	36,365
Other — net	<u>(3,584)</u>	<u>(2,696)</u>
Income from discontinued operations before income taxes	75,629	104,169
Provision for income taxes	<u>29,968</u>	<u>39,053</u>
Income from discontinued operations, net of income taxes	<u>\$ 45,661</u>	<u>\$ 65,116</u>

Gain on Sale of Cooper-Standard Automotive

Proceeds from the December 2004 sale of Cooper-Standard Automotive were \$1,226,537. In December 2004, the Company recorded a gain of \$112,448 on the sale based on the preliminary sales price, including a tax benefit of \$6,362 resulting primarily from currently deductible compensation expenses and other costs associated with the sale. During 2005, the Company recorded adjustments to the gain on sale totaling \$5,463, plus a tax benefit of \$214. There was no tax liability on the gain due to a capital loss in the United States resulting from book and tax bases differences and a statutory exemption from tax on the capital gain in the United Kingdom.

In connection with the sale, the Company agreed to indemnify the buyer against pre-closing income tax liabilities and other items specified in the Sale Agreement. For indemnity commitments where the Company believes future payments are probable, it also believes the expected outcomes can be estimated with reasonable accuracy. Accordingly, for such amounts, a liability has been recorded with a corresponding decrease in the gain on the sale. Other indemnity provisions will be monitored for possible future payments not presently contemplated. With the passage of time, additional information may become available to the Company which would indicate the estimated indemnification amounts require revision. Changes in estimates of the amount of indemnity payments will be reflected as income or loss from discontinued operations in the periods in which the additional information becomes known.

Other Discontinued Operations

In September 2004, the North American Tire Operations segment announced its intent to cease its inner tube business. The segment recorded restructuring charges of \$5,163 related to this decision, which included an impairment charge of \$2,922 to write the inner tube assets down to their fair market value, severance costs of \$1,115, employee benefit costs of \$826,000 and other costs of \$300,000. All employees affected by this initiative have left the Company and are being paid their severance package in accordance with the terms of their separation. The following table summarizes the activity associated with this initiative since its announcement:

	Employee Separation Costs
Accrual at January 1, 2005	\$ 727
Severance costs accrued	—
Cash payments	<u>(727)</u>
Accrual at December 31, 2005	<u> —</u>

Sales for the Company’s inner tube business were \$22,019 and \$17,301 for the years 2003 and 2004, respectively. Operating profit of \$1,277 was generated in 2003. An operating loss of \$5,821 was recorded in 2004, including the restructuring charges described above. Net income for the tube operation was \$830 in 2003. A net loss of \$3,638 was recognized in 2004.

Restructuring

During 2003, the North American Tire Operations segment recorded \$2,100 of employee severance costs related to a management reorganization. All employees affected by this reorganization have left the Company and were paid their severance package in accordance with the terms of their separation. The segment also recorded an additional \$90 of restructuring costs associated with this initiative.

During 2004, the North American Tire Operations segment initiated two restructuring plans. In the second quarter, the segment announced an initiative to consolidate its pre-cure retread operations in Asheboro, NC, and recorded a charge of \$1,715 to write certain related equipment down to its scrap salvage value (the fair market value) and recorded \$102 in equipment disposal costs. In the third quarter, a plan to cease production of radial medium truck tires by the end of 2005 at the Albany, GA tire facility was announced. These tires are being sourced from Asian manufacturers. No employees were affected by this initiative. The segment recorded an impairment charge of \$7,536 for equipment associated with radial medium truck tire production to write the equipment down to its fair market value as determined by sales proceeds negotiated with a potential buyer.

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Assets Held for Sale

As a result of the closure of an Automotive manufacturing facility in the United Kingdom, the assets of that facility with a carrying value of \$1,587, were classified as “Assets Held for Sale” on the consolidated balance sheet of the Company at December 31, 2004. This facility was sold in May, 2005.

The assets of the Cleveland, OH manufacturing facility, a closed Cooper-Standard plastics parts operation, valued at \$811, remained with the Company and were also classified as “Assets Held for Sale” on the consolidated balance sheet of the Company at December 31, 2004. During 2005, a portion of these assets were sold and the remaining assets were further written down based on updated information regarding their fair value.

The assets of the Clarksdale, MS facility with a carrying value of \$6,965 were also classified as “Assets Held for Sale” at December 31, 2004. During the first quarter of 2005, manufacturing equipment associated with the discontinued inner tube operations was sold for \$1,235. Discussions regarding the potential sale of the remaining assets of the facility ceased during the first quarter resulting in their reclassification from the “Assets Held for Sale” category to land, buildings and machinery and equipment on the consolidated balance sheet of the Company. This facility currently is producing bladders and providing mixing for the Company’s tire manufacturing facilities.

The radial medium truck tire equipment located at the Albany, GA tire facility that had been classified as “Assets Held for Sale” on the consolidated balance sheet of the Company at December 31, 2004 was sold in April 2005.

“Assets Held for Sale” are recorded at the lower of carrying value or fair value and adjusted if necessary in accordance with SFAS No. 144. The following table summarizes the activity in these assets since December 31, 2004:

	December 31, 2004	Assets Sold	Transferred (from)/to Held for Sale	Asset Writedown to Fair Value	December 31, 2005
United Kingdom manufacturing facility	\$ 1,587	\$(1,587)	\$ —	\$ —	\$ —
Cleveland, OH manufacturing facility	811	(162)	—	(249)	400
Clarksdale, MS manufacturing facility	6,965	(1,235)	(5,730)	—	—
Albany, GA radial medium truck equipment	1,450	(1,450)	—	—	—
Switzerland tire warehouse	—	(764)	764	—	—
	<u>\$ 10,813</u>	<u>\$(5,198)</u>	<u>\$ (4,966)</u>	<u>\$ (249)</u>	<u>\$ 400</u>

Inventories

Under the LIFO method, inventories have been reduced by approximately \$85,954 and \$125,617 at December 31, 2004 and 2005, respectively, from current cost which would be reported under the first-in, first-out method. Approximately 77 percent of the Company’s inventories have been valued under the LIFO method at both December 31, 2004 and 2005.

Goodwill and Intangibles

Goodwill is recorded in the segment where it was generated by acquisitions. Purchased goodwill and indefinite-lived intangible assets are tested annually for impairment. The Company also reevaluates its intangible assets and determined that there were no significant changes in their useful lives in 2005. During the fourth quarters of 2004 and 2005, the Company completed its annual tests for goodwill impairment and no impairment was indicated at those times.

The following table presents intangible assets and accumulated amortization balances as of December 31, 2004 and 2005:

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	December 31, 2004			December 31, 2005		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Definite-lived:						
Trademarks and tradenames	\$16,480	\$ (4,141)	\$12,339	\$16,500	\$ (5,075)	\$11,425
Patents and technology	14,151	(8,898)	5,253	14,131	(10,191)	3,940
Other	5,314	(1,999)	3,315	5,314	(2,762)	2,552
	<u>35,945</u>	<u>(15,038)</u>	<u>20,907</u>	<u>35,945</u>	<u>(18,028)</u>	<u>17,917</u>
Indefinite-lived:						
Trademarks	13,191	—	13,191	13,191	—	13,191
	<u>\$49,136</u>	<u>\$ (15,038)</u>	<u>\$34,098</u>	<u>\$49,136</u>	<u>\$ (18,028)</u>	<u>\$31,108</u>

Estimated amortization expense over the next five years is as follows: 2006 - \$3,000, 2007 - \$2,982, 2008 - \$2,608, 2009 - \$1,028, and 2010 - \$1,028.

Debt

On June 30, 2004, the Company restated and amended its revolving credit facility with a consortium of ten banks (“the Agreement”). The Agreement contains two primary covenants. An interest coverage ratio (consolidated earnings before interest, taxes, depreciation and amortization divided by consolidated net interest expense) is required to be maintained at a minimum of 3.0 times by the Company. A ratio of consolidated net indebtedness to consolidated capitalization below 55 percent is also required. Consolidated net indebtedness is indebtedness measured in accordance with generally accepted accounting principles in the United States reduced by cash and eligible short term investments in excess of \$30 million. At December 31, 2005 the Company was in compliance with the financial covenants contained in its credit agreements. At that date, the ratio of consolidated net indebtedness to consolidated capitalization was 20.5 percent as a result of the debt repurchases during 2005. The interest coverage ratio was adequate. The Agreement, as amended, provides up to \$175,000 in credit facilities until August 31, 2008. In addition, the terms of the Agreement permit the Company to request bid rate loans from banks participating in the Agreement. Borrowings under the Agreement bear a margin linked to the Company’s long-term credit ratings from Moody’s and Standard & Poor’s. There are no compensating balances required and the facility fees are not material. The credit facilities also support issuance of commercial paper and letters of credit. There were no borrowings under the revolving credit facilities and no commercial paper was outstanding at December 31, 2004 or 2005.

The Company’s revolving credit facility also contains a covenant which prevents the disposition of a substantial portion of its assets. A waiver of this covenant was granted by the bank group in December 2004 to permit the disposition of Cooper-Standard Automotive.

The Company had entered into \$150,000 of interest rate swap contracts to convert a portion of the 2009 Senior Notes to floating rates. In the second quarter of 2005, the Company settled these contracts recording a gain of \$1,700 which is included in interest expense. The carrying value of the 7.75 percent notes had been increased by the change in the fair value of the related interest rate swap contracts of \$3,721 at December 31, 2004.

During 2005, the Company repurchased \$157,920 of its long-term debt due in 2009, \$48,422 of its long-term debt due in 2019 and \$72,020 of its long-term debt due in 2027. The Company incurred transaction-related costs of \$4,228 related to these repurchases, including \$3,026 of deferred financing costs written off.

The following table summarizes the long-term debt of the Company at December 31, 2004 and 2005:

	2004	2005
7.75% unsecured notes, aggregate principal payment due December 2009	\$353,721	\$192,080
8% unsecured notes, aggregate principal payment due December 2019	225,000	176,578
7.625% unsecured notes, aggregate principal payment due March 2027	189,900	117,880
Capitalized leases and other	5,083	5,080
	<u>773,704</u>	<u>491,618</u>
Less current maturities	—	—
	<u>\$773,704</u>	<u>\$491,618</u>

The Company has no long-term debt maturities due until December 2009 when \$192,080 of notes mature.

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The Company's revolving credit facility requires it to maintain, among other things, certain financial ratios. Retained earnings at December 31, 2005 are available for the payment of cash dividends and purchases of the Company's common shares and are limited by the above ratios.

The Company and its subsidiaries also have, from various banking sources, approximately \$15,200 of available short-term lines of credit of which \$79, included in Notes payable on the consolidated balance sheet, is outstanding at December 31, 2005, at rates of interest approximating euro-based interest rates. The amounts available and outstanding vary based on exchange rates as borrowings may be in currencies other than the U.S. Dollar.

The weighted average interest rate of short-term notes payable at December 31, 2004 and 2005 was 5.25 percent and 6.00 percent, respectively.

Interest paid on debt, net of payments received under interest rate swap agreements, during 2003, 2004 and 2005 was \$64,027, \$61,723 and \$55,783, respectively. The amount of interest capitalized was \$990, \$2,014 and \$2,612 during 2003, 2004 and 2005, respectively.

Fair Value of Financial Instruments

The fair value of the Company's debt is computed using discounted cash flow analyses based on the Company's estimated current incremental borrowing rates. The carrying amounts and fair values of the Company's financial instruments as of December 31 are as follows:

	2004		2005	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	\$ 881,728	\$ 881,728	\$ 280,712	\$ 280,712
Short-term investments	46,064	46,064	—	—
Notes payable	(459)	(459)	(79)	(79)
Long-term debt	(773,704)	(894,204)	(491,618)	(474,318)
Derivative financial instruments	(1,625)	(1,625)	616	616

The derivative financial instruments include fair value and cash flow hedges of foreign currency exposures and fair value hedges of fixed rate debt. Exchange rate fluctuations on the foreign currency-denominated intercompany loans and obligations are offset by the change in values of the fair value foreign currency hedges. The Company presently hedges exposures in the Euro, Canadian dollar, British pound sterling, Swiss franc, Swedish kronar and Chinese Yuan generally for transactions expected to occur within the next 12 months. The notional amount of these foreign currency derivative instruments at December 31, 2004 and 2005 was \$187,000 and \$208,600, respectively. The counterparties to each of these agreements are major commercial banks. Management believes that the probability of losses related to credit risk on investments classified as cash and cash equivalents and short-term investments is remote.

Preferred Stock Purchase Rights

Under the Company's rights plan, one right is associated with each outstanding common share. Each right entitles the holder to purchase 1/100th of a share of Series A Preferred Stock of the Company at an exercise price of \$135. The rights will become exercisable only if a person or group (i) acquires beneficial ownership of 15 percent or more of the Company's outstanding common stock ("Acquiring Person"), or (ii) subject to extension of the date by the Board of Directors of the Company, commences a tender or exchange offer which upon consummation would result in such person or group beneficially owning 15 percent or more of the Company's outstanding common stock (ten days following the date of announcement of (i) above, the "Stock Acquisition Date").

If any person becomes an Acquiring Person, or if an Acquiring Person engages in certain self-dealing transactions or a merger transaction in which the Company is the surviving corporation and its common stock remains outstanding, or an event occurs which results in such Acquiring Person's ownership interest being increased by more than one percent, then each right not owned by such Acquiring Person or certain related parties will entitle its holder to purchase a number of shares of the Company's Series A Preferred Stock (or in certain circumstances, Company common stock, cash, property, or other securities of the Company) having a value equal to twice the then-current exercise price of the right. In addition, if, following the Stock Acquisition Date, the Company (i) is acquired in a merger or other business combination and the Company is not the surviving corporation, (ii) is involved in a merger or other business combination transaction with another person after which all or part of the Company's

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common stock is converted or exchanged for securities, cash or property of any other person, or (iii) sells 50 percent or more of its assets or earning power to another person, each right (except rights that have been voided as described above) will entitle its holder to purchase a number of shares of common stock of the ultimate parent of the Acquiring Person having a value equal to twice the then-current exercise price of the right.

The Company will generally be entitled to redeem the rights at one cent per right, subject to adjustment in certain events, payable in cash or shares of the Company's common stock at any time until the tenth business day following the Stock Acquisition Date.

Stock-Based Compensation

Stock Options

The Company's 1998 and 2001 incentive compensation plans allow the Company to grant awards to key employees in the form of stock options, stock awards, restricted stock units, stock appreciation rights, performance units, dividend equivalents and other awards. The 1996 incentive stock option plans and the 1998 and 2001 incentive compensation plans provide for granting options to key employees to purchase common shares at prices not less than market at the date of grant. Options under these plans may have terms of up to ten years becoming exercisable in whole or in consecutive installments, cumulative or otherwise. The plans allow the granting of nonqualified stock options which are not intended to qualify for the tax treatment applicable to incentive stock options under provisions of the Internal Revenue Code.

Options which were outstanding at January 1, 2003 under these plans had a term of ten years and became exercisable 50 percent after the first year and 100 percent after the second year. Options which were granted during 2003 and after under the 2001 incentive compensation plan have terms of ten years and become exercisable 25 percent per year. On November 16, 2005, the Compensation Committee of the Company approved an acceleration of vesting of employee stock options and approximately 1,768 options with varying remaining vesting schedules became immediately exercisable. As a result of the acceleration, all of the options of the Company are now exercisable.

The 1998 employee stock option plan allowed the Company to make a nonqualified option grant to substantially all of its employees to purchase common shares at a price not less than market value at the date of grant. Options granted under this plan have a term of ten years and became exercisable in full beginning three years after the date of grant.

The Company's 2002 nonqualified stock option plan provides for granting options to directors who are not current or former employees of the Company to purchase common shares at prices not less than market at the date of grant. Options granted under this plan have a term of ten years and, since 2005, become exercisable 25 percent per year.

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Summarized information for the plans follows:

		Number of Shares	Weighted Average Exercise Price	Available For Grant
January 1, 2003				
	Outstanding	3,351,810	\$ 17.24	
	Exercisable	2,166,410	18.67	
	Granted	703,150	14.61	
	Exercised	(266,155)	14.23	
	Expired	(22,603)	25.17	
	Cancelled	<u>(136,806)</u>	17.75	
December 31, 2003				4,475,862
	Outstanding	3,629,396	16.89	
	Exercisable	2,545,146	17.78	
	Granted	705,900	19.81	
	Exercised	(394,012)	14.29	
	Expired	(20,629)	24.55	
	Cancelled	<u>(127,627)</u>	18.84	
December 31, 2004				3,987,480
	Outstanding	3,793,028	17.60	
	Exercisable	2,599,954	17.56	
	Granted	446,585	21.45	
	Exercised	(209,155)	14.30	
	Expired	(26,168)	24.13	
	Cancelled	<u>(343,171)</u>	19.95	
December 31, 2005				3,405,990
	Outstanding	3,661,119	17.78	
	Exercisable	3,661,119	17.78	

The weighted average remaining contractual life of options outstanding at December 31, 2005 is 6.3 years.

Segregated disclosure of options outstanding at December 31, 2005 is as follows:

	Range of Exercise Prices		
	Less than or equal to \$14.75	Greater than \$14.75 and less than \$19.80	Greater than or equal to \$19.80
Options outstanding	1,128,906	1,097,781	1,434,432
Weighted average exercise price	\$ 13.82	\$ 17.78	\$ 21.43
Remaining contractual life	5.9	7.1	4.7
Options exercisable	1,128,906	1,097,781	1,434,432
Weighted average exercise price	\$ 13.35	\$ 17.78	\$ 21.43

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Restricted Stock Units

Under the 1998 and 2001 Incentive Compensation Plans, restricted stock units may be granted to officers and other key employees. Compensation related to the restricted stock units is determined based on the fair value of the Company's stock on the date of grant and is amortized to expense over the vesting period. The restricted stock units granted in 2004 and 2005 have vesting periods ranging from one to three years. With the adoption of SFAS No. 123 (R), the Company will recognize compensation expense based on the earlier of the vesting date or the date when the employee becomes eligible to retire. The following table provides details of the restricted stock units granted by the Company:

	<u>2004</u>	<u>2005</u>
Restricted stock unit outstanding at beginning of period	70,439	100,523
Restricted stock units granted	34,074	63,534
Accrued dividend equivalents	2,056	4,165
Restricted stock units settled	(5,004)	(23,405)
Restricted stock units cancelled	<u>(1,042)</u>	<u>(3,129)</u>
Restricted stock unit outstanding at end of period	<u>100,523</u>	<u>141,688</u>

Common Stock

There were 11,550 common shares reserved for grants under compensation plans and contributions to the Company's Spectrum Investment Savings Plan and Pre-Tax Savings plans at December 31, 2005. The Company matches contributions made by participants to these plans in accordance with a formula based upon the financial performance of the Company. Matching contributions are directed to the Company Stock Fund and must remain invested in that fund until an employee has attained three years of service with the Company. Once an employee has attained three years of service, any matching contributions may be transferred to any of the other investment funds offered under the plans.

Pensions and Postretirement Benefits Other than Pensions

The Company and its consolidated U. S. subsidiaries have a number of plans providing pension, retirement or profit-sharing benefits for substantially all domestic employees. These plans include defined benefit and defined contribution plans. The Company has an unfunded, nonqualified supplemental retirement plan covering certain employees whose participation in the qualified plan is limited by provisions of the Internal Revenue Code.

For defined benefit plans, benefits are generally based on compensation and length of service for salaried employees and length of service for hourly employees. In 2002 a new hybrid pension plan covering all domestic salaried and non-bargained hourly employees was established. Employees at the effective date, meeting certain requirements were grandfathered in the previous defined benefit rules. The new pension plan resembles a savings account. Nominal accounts are credited based on a combination of age, years of service and percentage of earnings. A cash-out option is available upon termination or retirement.

The Company's general funding policy is to contribute more than minimum requirements but not in excess of amounts deductible for United States federal income tax purposes. Employees of certain of the Company's foreign operations are covered by either contributory or non-contributory trusteed pension plans.

Participation in the Company's defined contribution plans is voluntary. The Company matches certain plan participants' contributions up to various limits. Participants' contributions are limited based on their compensation and for certain supplemental contributions which are not eligible for company matching based on their age. Company contributions for certain of these plans are dependent on operating performance. Expense for those plans was \$3,932, \$6,069 and \$0 for 2003, 2004 and 2005, respectively.

The Company currently provides retiree health care and life insurance benefits to a significant percentage of its domestic salaried and hourly employees. Domestic salaried and non-bargained hourly employees hired on or after January 1, 2003 are not eligible for retiree health care or life insurance coverage. The majority of new hires covered by domestic bargaining

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units are also not eligible for retiree health care or life insurance coverage. Subject to specific provisions contained in certain of its labor agreements, the Company has reserved the right to modify or terminate such benefits at any time.

The Company adopted SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," in 1992 and, to mitigate the impact of medical cost inflation on the Company's retiree medical obligation, instituted per participant, or per household, caps on the amounts of retiree medical benefits it will provide to future retirees. The caps do not apply to individuals who retired prior to certain specified dates. Costs in excess of these caps will be paid by plan participants. The Company implemented increased cost sharing in 2004 in the retiree medical coverage provided to certain eligible current and future retirees. Since then cost sharing has expanded such that nearly all covered retirees pay a charge to be enrolled.

The Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the "Act") was enacted in December 2003. The Act introduced a prescription drug benefit under Medicare Part D as well as a federal subsidy to sponsors of retiree health plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. In May 2004, the FASB issued FASB Staff Position ("FSP") 106-2, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug Improvement and Modernization Act of 2003." This FSP provided accounting and disclosure guidance for employers who sponsor postretirement health care plans that provide drug benefits. Regulations regarding implementation of provisions relevant to the Company's accounting are complex and contain acknowledged open issues. The Act reduced the Company's net periodic postretirement benefit cost by \$2,183 in 2004 including service cost, interest cost and amortization of the actuarial gain. The total impact on the Company's actuarial liability in 2004, under all U. S. plans, was a reduction of \$15,300 and is being accounted for as an actuarial gain that will be amortized as a reduction of the Company's periodic expense and balance sheet liability over a period of fifteen years. The 2005 net periodic postretirement benefit cost includes the benefits of the Act. The Company has applied to receive the federal drug subsidy in 2006 and intends to continue to analyze the options available with respect to the relationship of the Company health care benefits with all parts of Medicare to attain the most cost effective coordination.

In connection with the divestiture of the Company's automotive operations, defined benefit plans relating to automotive operations were assumed by the buyer except those relating to previously closed plants. Obligations assumed by the buyer consisted of 1) plans established under collective bargaining agreements all of which related to discrete automotive employee units and which have been separately measured and transferred to the buyer at closing and 2) obligations relating to active automotive employees and retirees who participated in the Company's non-bargained defined benefit plan which covered all eligible non-bargained employees. Pursuant to terms of the sale, an actuarial determination was made of the obligations and assets being split from the Company's non-bargained plan. As of December 31, 2004, the Company's actuary provided estimates of the obligations, computed using the Company's accounting methods and actuarial estimates, and trust assets to be transferred to the buyer. The estimated amounts were reflected in the table below in 2004. The final derivation of trust assets was agreed with the buyer and transferred during the third quarter of 2005 and minor adjustments are reflected in 2005 in the following table.

The table below reflects changes in the projected obligations and fair market values of assets in all defined benefit pension and other postretirement benefit plans of the Company, including those relating to the automotive group through December 23, 2004, the date of the sale of the automotive operations, and, in 2004, are reduced by the estimated amounts assumed by the buyer to arrive at estimated amounts retained by the Company. The funded status of the plans, amounts recognized in the consolidated balance sheets at December 31, 2004 and 2005 and components of periodic expense in the following table, relate only to the amounts for continuing operations.

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	Pension Benefits		Other Postretirement Benefits	
	2004	2005	2004	2005
Change in projected benefit obligation:				
Projected benefit obligation at January 1	\$ 1,036,383	\$ 920,654	\$ 348,232	\$ 264,842
Impact of the Medicare Act	—	—	(15,300)	—
Divestiture	(252,312)	148	(92,421)	—
Service cost	32,336	20,643	7,857	5,473
Plan curtailments	668	—	—	—
Participant contributions	2,327	2,363	—	—
Interest cost	66,729	55,112	20,624	15,704
Actuarial loss	63,486	82,309	17,206	183
Amendments	5,852	7,275	—	—
Benefits paid	(55,501)	(48,273)	(21,716)	(12,616)
Foreign currency translation effect	20,686	(29,132)	360	—
Projected benefit obligation at December 31	<u>\$ 920,654</u>	<u>\$ 1,011,099</u>	<u>\$ 264,842</u>	<u>\$ 273,586</u>
Change in plans' assets:				
Fair value of plans' assets at January 1	\$ 835,977	\$ 819,054	\$ —	\$ —
Actual return on plans' assets	90,698	87,085	—	—
Employer contributions	115,210	31,234	—	—
Participant contributions	2,327	2,363	—	—
Divestiture	(185,162)	2,475	—	—
Benefits paid	(54,832)	(48,273)	—	—
Foreign currency translation effect	14,836	(22,764)	—	—
Fair value of plans' assets at December 31	<u>\$ 819,054</u>	<u>\$ 871,174</u>	<u>\$ —</u>	<u>\$ —</u>
Funded status of the plans	\$ (101,600)	\$ (139,925)	\$(264,842)	\$(273,586)
Unrecognized actuarial loss	265,902	314,061	80,609	78,445
Unrecognized prior service cost	(18,309)	(13,270)	(2,430)	(3,541)
Unrecognized net transition obligation	(30)	—	—	—
Adjustment for minimum liability	(140,079)	(152,507)	—	—
Net amount recognized	<u>\$ 5,884</u>	<u>\$ 8,359</u>	<u>\$(186,663)</u>	<u>\$(198,682)</u>
Amounts recognized in the balance sheets:				
Other assets	\$ 153,399	\$ 167,027	\$ —	\$ —
Accrued liabilities	—	—	(17,179)	(16,685)
Postretirement benefits other than pensions	—	—	(169,484)	(181,997)
Other long-term liabilities	(147,515)	(158,668)	—	—
Net amount recognized	<u>\$ 5,884</u>	<u>\$ 8,359</u>	<u>\$(186,663)</u>	<u>\$(198,682)</u>

The accumulated benefit obligation for all defined benefit pension plans was \$846,527 and \$930,322 at December 31, 2004 and 2005, respectively.

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Weighted-average assumptions used to determine benefit obligations at December 31:

	Pension Benefits		Other Postretirement Benefits	
	2004	2005	2004	2005
All plans				
Discount rate	6.14%	5.68%	6.00%	5.75%
Rate of compensation increase	3.60%	3.44%	—	—
Domestic plans				
Discount rate	6.00%	5.75%	6.00%	5.75%
Rate of compensation increase	3.25%	3.25%	—	—
Foreign plans				
Discount rate	6.49%	5.49%	n/a	n/a
Rate of compensation increase	4.48%	3.98%		

At December 31, 2005 the weighted average assumed annual rate of increase in the cost of medical benefits was 7.0 percent per year for 2006 through 2008 and 6.0 percent per year for 2009 and thereafter. The weighted average assumed annual rate of increase in the cost of prescription drugs was 11.0 percent per year for 2006 through 2008 and 6.0 percent per year for 2009 and thereafter.

	Pension Benefits			Other Postretirement Benefits		
	2003	2004	2005	2003	2004	2005
Components of net periodic benefit cost:						
Service cost	\$ 17,692	\$ 20,782	\$ 20,643	\$ 5,099	\$ 5,048	\$ 5,473
Interest cost	47,791	51,603	55,112	15,249	15,106	15,704
Expected return on plan assets	(49,212)	(58,426)	(67,566)	—	—	—
Amortization of transition obligation	342	(38)	(30)	—	—	—
Plan curtailment	—	826	—	—	—	—
Amortization of prior service cost	3,253	2,463	1,445	1,081	(122)	(219)
Recognized actuarial loss	<u>13,518</u>	<u>14,031</u>	<u>12,651</u>	<u>2,252</u>	<u>3,047</u>	<u>3,677</u>
Net periodic benefit cost	<u>\$ 33,384</u>	<u>\$ 31,241</u>	<u>\$ 22,255</u>	<u>\$23,681</u>	<u>\$23,079</u>	<u>\$24,635</u>

Weighted-average assumptions used to determine net periodic benefit cost for the years ended December 31:

	Pension Benefits			Other Postretirement Benefits		
	2003	2004	2005	2003	2004	2005
All plans						
Discount rate	6.81%	6.38%	6.14%	6.75%	6.25%	6.00%
Expected return on plan assets	8.98%	8.98%	8.92%	—	—	—
Rate of compensation increase	3.93%	3.58%	3.60%	—	—	—
Domestic plans						
Discount rate	6.75%	6.25%	6.00%	6.75%	6.25%	6.00%
Expected return on plan assets	9.00%	9.00%	9.00%	—	—	—
Rate of compensation increase	3.75%	3.25%	3.25%	—	—	—
Foreign plans						
Discount rate	7.00%	6.73%	6.49%	n/a	n/a	n/a
Expected return on plan assets	8.92%	8.93%	8.66%			
Rate of compensation increase	4.48%	4.47%	4.49%			



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The following table lists the projected benefit obligation, accumulated benefit obligation and fair value of plan assets for the pension plans with projected benefit obligations and accumulated benefit obligations in excess of plan assets at December 31, 2004 and 2005:

	2004		2005	
	Projected benefit obligation exceeds plan assets	Accumulated benefit obligation exceeds plan assets	Projected benefit obligation exceeds plan assets	Accumulated benefit obligation exceeds plan assets
Projected benefit obligation	\$906,641	\$503,334	\$1,004,435	\$553,459
Accumulated benefit obligation	832,513	487,720	923,659	533,721
Fair value of plan assets	804,023	423,894	864,087	461,202

Assumed health care cost trend rates for other postretirement benefits have a significant effect on the amounts reported. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

	One Percentage Point	
	Increase	Decrease
Increase (decrease) in total service and interest cost components	\$ 551	\$ (475)
Increase (decrease) in the postretirement benefit obligation	5,235	(4,601)

The Company's weighted average asset allocations for its domestic and foreign pension plans' assets at December 31, 2004 and December 31, 2005 by asset category are as follows:

Asset Category	U. S. Plans		U. K. Plan	
	2004	2005	2004	2005
Equity securities	64%	66%	73%	75%
Debt securities	34	32	26	25
Cash	<u>1</u>	<u>2</u>	<u>1</u>	<u>—</u>
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

The Company's investment policy for United States plans' assets is to maintain an allocation of 65 percent in equity securities and 35 percent in debt securities. The Company's investment policy for United Kingdom plan assets is to maintain an allocation of 70 percent in equity securities and 30 percent in debt securities. Rebalancing of the asset portfolios occurs periodically if the mix differs from the target allocation. Equity security investments are structured to achieve an equal balance between growth and value stocks. The Company also has a pension plan in Germany and the assets of that plan consist of investments in a German insurance company.

At December 31, 2004, after the sale of Cooper-Standard, the fair market value of domestic plan assets was \$624,135. The fair value of domestic plan assets was \$655,141 at December 31, 2005. The fair value of United States plans' assets at the end of each December are derived using assets held by the Trust at the end of each November, then adding contributions made during December and deducting benefits paid to the plans' participants during December.

Until 2004, the United Kingdom defined benefit pension plan had a September 30 measurement date for its liabilities and trust assets. The fair market value of the plan's assets at September 30, 2004 was \$192,399 and that amount is disclosed in this footnote. During 2005, the United Kingdom adopted a change in the measurement date of its pension plan from September 30 to December 31. The Company believes this change in measurement date is preferable as it facilitates and improves the year-end benefit cost planning. The impact of the change in measurement date was not material to the plan's expense recognized in 2005 or the plan's liability recorded at December 31, 2005. The fair market value of the plan assets disclosed in this footnote for December 31, 2005, \$213,977, was derived using the method described above for the domestic plan assets.

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The fair value of the German pension plan assets was \$2,520 and \$2,056 at December 31, 2004 and 2005, respectively.

The Company determines the annual expected rates of return on pension assets by first analyzing the composition of its asset portfolio. Historical rates of return are applied to the portfolio. These computed rates of return are reviewed by the Company's investment advisors and actuaries. Industry comparables and other outside guidance are also considered in the annual selection of the expected rates of return on pension assets.

The Company estimates it would contribute between \$30,000 and \$33,000 to its domestic and foreign pension plans in 2006 under its normal funding policy.

The Company estimates its benefit payments for its domestic and foreign pension plans and postretirement benefit plans during the next ten years to be as follows:

	Pension Benefits	Other Postretirement Benefits
2006	\$41,000	\$17,000
2007	42,000	16,000
2008	44,000	17,000
2009	45,000	18,000
2010	47,000	18,000
2011 through 2015	269,000	99,000

Income Taxes

Components of income (loss) from continuing operations before income taxes were as follows:

	2003	2004	2005
United States	\$27,147	\$21,666	\$(26,358)
Foreign	10,058	13,340	12,007
Total	<u>\$37,205</u>	<u>\$35,006</u>	<u>\$(14,351)</u>

The provision for income taxes for continuing operations consists of the following:

	2003	2004	2005
Current:			
Federal	\$ (2,559)	\$ 14,936	\$ 4,283
State and local	448	273	217
Foreign	440	4,647	4,263
	<u>(1,671)</u>	<u>19,856</u>	<u>8,763</u>
Deferred:			
Federal	10,903	(9,917)	(18,470)
State and local	(219)	(94)	(25)
Foreign	848	(2,285)	1,973
	<u>11,532</u>	<u>(12,296)</u>	<u>(16,522)</u>
Section 965 repatriation			8,463
	<u>\$ 9,861</u>	<u>\$ 7,560</u>	<u>\$ 704</u>

A reconciliation of income tax expense for continuing operations to the tax based on the U.S. statutory rate is as follows:

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	2003	2004	2005
Income tax provision (benefit) at 35%	\$13,021	\$12,252	\$(5,015)
State and local income tax, net of federal income tax effect	138	163	125
Medicare prescription benefit	—	(764)	—
Section 404(k) dividend	(1,089)	(1,117)	(738)
U.S. tax credits	(430)	(825)	(237)
Extraterritorial income exclusion	(735)	(735)	(183)
Difference in effective tax rates of international operations	(2,227)	(2,307)	(2,661)
Section 965 repatriation	—	—	8,463
Tax exempt income	—	—	(272)
Tax on foreign deemed dividend	—	—	268
Adjustments to tax accruals	363	750	198
Other — net	<u>820</u>	<u>143</u>	<u>756</u>
Income tax expense	<u>\$ 9,861</u>	<u>\$ 7,560</u>	<u>\$ 704</u>

Payments for income taxes in 2004 and 2005, net of refunds, were \$24,861 and \$1,017, respectively. Refunds in 2003, net of payments, were \$20,215.

Deferred tax assets and liabilities result from differences in the basis of assets and liabilities for tax and financial reporting purposes. Significant components of the Company's deferred tax assets and liabilities at December 31 were as follows:

	2004	2005
Deferred tax assets:		
Postretirement and other employee benefits	\$ 133,961	\$ 141,479
Net operating loss, capital loss, and tax credits carryforwards	48,396	45,609
All other items	42,778	56,452
Total deferred tax assets	<u>225,135</u>	<u>243,540</u>
Deferred tax liabilities:		
Property, plant and equipment	(113,750)	(114,648)
Pension benefits	(58,503)	(65,731)
All other items	(24,792)	(21,335)
Total deferred tax liabilities	<u>(197,045)</u>	<u>(201,714)</u>
	28,090	41,826
Valuation allowances	(41,061)	(40,637)
Net deferred tax asset (liability)	<u>\$ (12,971)</u>	<u>\$ 1,189</u>

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The net deferred taxes in the consolidated balance sheets are as follows:

	<u>2004</u>	<u>2005</u>
Current assets	\$ 28,029	\$ 23,130
Non-current liabilities	(41,000)	(21,941)
Net deferred tax asset (liability)	<u>\$(12,971)</u>	<u>\$ 1,189</u>

At December 31, 2005 the Company has, as well as certain state tax losses, \$9,119 of foreign tax losses, \$87,219 of U. S. capital losses, and \$2,527 of federal and state credits available for carryforward. The state tax losses and credits are almost completely offset with valuation allowances and expire from 2006 through 2026. The foreign tax losses have an indefinite carryforward period and the federal tax credits generally expire in two to 20 years. The U. S. capital loss carryover will expire in 2009 and has been fully offset with a valuation allowance.

United States income taxes were not provided on a cumulative total of approximately \$25,009 of undistributed earnings, as well as a minimal amount of other comprehensive income for certain non- U. S. subsidiaries. The Company currently intends to reinvest these earnings in operations outside the United States. It is not practicable to determine the amount of additional U. S. income taxes that could be payable upon remittance of these earnings since taxes payable would be reduced by foreign tax credits based upon income tax laws and circumstances at the time of distribution.

Lease Commitments

The Company rents certain distribution facilities and equipment under long-term leases expiring at various dates. The total rental expense for the Company, including these long-term leases and all other rentals, was \$19,709, \$19,469 and \$24,122 for 2003, 2004 and 2005, respectively.

Future minimum payments for all non-cancelable operating leases through the end of their terms, which in aggregate total \$67,122 are listed below. Certain of these leases contain provisions for optional renewal at the end of the lease terms.

2006	\$12,293
2007	11,102
2008	9,239
2009	7,386
2010	13,879
Thereafter	13,223

Cumulative Other Comprehensive Loss

The balances of each component of Cumulative other comprehensive loss in the accompanying consolidated statements of stockholders' equity are as follows:

	<u>2004</u>	<u>2005</u>
Cumulative currency translation adjustment	\$ 15,533	\$ 4,819
Changes in the fair value of derivatives and unrealized gains/(losses) on marketable securities	(5,068)	260
Tax effect	1,935	(99)
Net	(3,133)	161
Minimum pension liability	(133,771)	(142,827)
Tax effect	47,286	51,524
Net	<u>(86,485)</u>	<u>(91,303)</u>
	<u>\$ (74,085)</u>	<u>\$ (86,323)</u>

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Net income (loss) reflects realized gains and losses on marketable securities and derivatives. Losses of \$8,262, \$3,724 and \$153 were recognized in 2003, 2004 and 2005, respectively.

Other Assets

In February 2005, the Company purchased 15 million global depository shares of Kumho Tire Co., Inc. of Korea (“Kumho Tire”) for \$107,961. In accordance with SFAS No. 115, “Accounting for Certain Investments in Debt and Equity Securities,” the Company is accounting for this investment as restricted stock due to the contractual requirements of the Strategic Subscription Agreement with Kumho Tire.

Other assets at December 31 are as follows:

	<u>2004</u>	<u>2005</u>
Pension funding in excess of amounts expensed	\$153,399	\$167,027
Investment in Kumho Tire Co., Inc.	—	107,961
Other	<u>48,032</u>	<u>30,510</u>
	<u>\$201,431</u>	<u>\$305,498</u>

Accrued Liabilities

Accrued liabilities at December 31 are as follows:

	<u>2004</u>	<u>2005</u>
Payroll	\$ 27,616	\$23,181
Products liability	23,289	16,690
Other	<u>57,292</u>	<u>59,788</u>
	<u>\$108,197</u>	<u>\$99,659</u>

Other Long-term Liabilities

Other long-term liabilities at December 31 are as follows:

	<u>2004</u>	<u>2005</u>
Minimum pension liability	\$140,080	\$152,507
Other	<u>38,202</u>	<u>73,343</u>
	<u>\$178,282</u>	<u>\$225,850</u>

Other – Net

The components of Other — net in the statement of operations for the years 2003, 2004 and 2005 are as follows:

	<u>2003</u>	<u>2004</u>	<u>2005</u>
Foreign currency (gains)/losses	\$(259)	\$1,010	\$1,187
Partial write-off of long term investment	—	1,940	240
Other	<u>97</u>	<u>(233)</u>	<u>(839)</u>
	<u>\$(162)</u>	<u>\$2,717</u>	<u>\$ 588</u>

Contingent Liabilities

Indemnities Related to the Sale of Cooper-Standard Automotive

The sale of the Company's automotive operations included contract provisions which provide for indemnification of the buyer by the Company for all income tax liabilities related to periods prior to closing and for various additional items outlined in the agreement. Indemnity payments would be reflected as expenses of discontinued operations. The recorded gain on the sale includes reductions for estimates of the expected tax liabilities and the other potential indemnity items to the extent they are deemed to be probable and estimable at December 31, 2005. For indemnity commitments where the Company believes future payments are probable, it also believes the expected outcomes can be estimated with reasonable accuracy. Accordingly, for such amounts, a liability has been recorded with a corresponding decrease in the gain on the sale. Other indemnity provisions will be monitored for possible future payments not presently contemplated. The Company will reevaluate the probability and amounts of indemnity payments being required quarterly and adjustments, if any, to the initial estimates will be reflected as a change in the gain on sale in the periods when revised estimates are determined.

Guarantees

Certain operating leases related to property and equipment used in the operations of Cooper-Standard Automotive were guaranteed by the Company. These guarantees require the Company, in the event Cooper-Standard fails to honor its commitments, to satisfy the terms of the lease agreements. As part of the sale of the automotive operations, the Company is seeking releases of those guarantees but to date has been unable to secure releases from certain lessors. The most significant of those leases is for a U. S. manufacturing facility with a remaining term of 11 years and total remaining payments of approximately \$12,500. Other leases cover two facilities in the United Kingdom and manufacturing equipment. These leases have remaining terms of from one to eight years and remaining payments of approximately \$5,900. The Company does not believe it is presently probable that it will be called upon to make these payments. Accordingly, no accrual for these guarantees has been recorded. If information becomes known to the Company at a later date which indicates its performance under these guarantees is probable, accruals for the obligations will be required.

Products Liability

The Company is a defendant in various products liability claims in which individuals involved in vehicle accidents seek damages resulting from allegedly defective tires manufactured by the Company. Litigation of this type has increased significantly throughout the tire industry following the Firestone tire recall announced in 2000.

Information concerning the Company's products liability exposures and its accounting policy relating to such claims are outlined in "Significant Accounting Policies – Products liability" in these notes to financial statements. The accounting process is based on estimates derived from information known by the Company when the reserves are determined. In most cases, the liability cannot be determined with precision until the claim is resolved. Pursuant to applicable accounting rules, the Company accrues the minimum liability for each known claim when the estimated outcome is a range of possible loss and no one amount within that range is more likely than another. No specific accrual is made for individual unasserted claims or for asserted claims where the minimum information needed to evaluate the probability of a liability is not yet known. However, an accrual for such claims based, in part, on management's expectations for future litigation activity is maintained. Because of the speculative nature of litigation in the United States, the Company does not believe a meaningful aggregate range of potential loss for asserted and unasserted claims can be determined. The total cost of resolution of such claims, or increase in reserves resulting from greater knowledge of specific facts and circumstances related to such claims, could have a greater impact on the consolidated results of operations and financial position of the Company in future periods and, in some periods, could be material.

Employment Contracts

The Company has employment arrangements with three key executive employees and has change in control severance agreements covering eight additional key executives. These arrangements provide for continuity of management and provide for payments of multiples of annual salary, certain incentives and continuation of benefits upon the occurrence of specified events in a manner that is believed to be consistent with comparable companies. In addition, the Chief Executive Officer's agreement provides for retention payments which accrue at various amounts annually and amount to \$325 if he leaves the Company at any time in 2006 and increase annually thereafter to a payment of \$2,750 if he leaves in 2016, the year in which he will reach age 65.

Under terms of an employment agreement with the president of the automotive operations and terms of a change in control severance pay plan for eight additional key automotive executives, such executives are entitled to specified severance payments if terminated by the buyer within predetermined time periods after the sale. The Company is obligated to pay the severance costs and related excise taxes, if any, if severance occurs on or prior to December 31, 2007 in the case of the automotive operation's president and on or prior to December 22, 2006 for the eight other automotive executives. The Company was required to fund,

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immediately following the sale, its potential obligation for such severance payments into a rabbi trust with a third party trustee for the possible benefit of these executives. During 2005, the Company paid one executive covered by the change in control agreement. The Company does not believe it is presently probable that any of the remaining executives will be terminated within the periods in which it is obligated to pay the severance costs. Accordingly, no additional accrual for severance has been recorded. If information becomes known to the Company at a later date which indicates severance of one or more of the covered executives is probable within the time period covered by the Company, accruals for severance will be required.

Unconditional Purchase Orders

Noncancelable purchase order commitments for capital expenditures and raw materials, principally natural rubber, made in the ordinary course of business were \$68,801 at December 31, 2005.

Supplier Dispute

During 2005, the Company resolved a dispute with raw material suppliers resulting in an agreement for reimbursement of \$18,000 of previously expensed costs. This recovery was recorded as a reduction to cost of goods sold in the financial results of the North American Tire Operations segment.

Business Segments

The Company has two reportable segments – North American Tire Operations and International Tire Operations. The Company's reportable segments are each managed separately because they operate in different geographic locations.

North American Tire Operations produces passenger and light truck tires, which are sold nationally and internationally in the replacement tire market to independent tire dealers, wholesale distributors, regional and national retail tire chains, and large retail chains that sell tires as well as other automotive products, and supplies retread equipment and materials to the commercial truck tire industry.

The International Tire Operations segment currently manufactures and markets passenger car, light truck and motorcycle tires for the replacement market, as well as racing tires and materials for the tire retread industry, in Europe and the United Kingdom. The lower operating profit in the segment is partially a result of higher start-up costs associated with the Asian operations in 2005 which were \$5,000 higher than in 2004.

The following customers of the North American Tire segment contributed ten percent or more of the Company's total consolidated net sales in 2003, 2004 and 2005. Net sales and percentage of consolidated Company sales for these customers in 2003, 2004 and 2005 are as follows:

Customer	2003		2004		2005	
	Net Sales	Consolidated Net Sales	Net Sales	Consolidated Net Sales	Net Sales	Consolidated Net Sales
Pep Boys	\$198,626	11%				
TBC/Treadways			\$279,172	13%	\$323,815	15%

The accounting policies of the reportable segments are consistent with those described in the Significant Accounting Policies note to the consolidated financial statements. Corporate administrative expenses are allocated to segments based principally on assets, employees and sales. The following table details segment financial information:

	2003	2004	2005
Revenues			
North American Tire	\$1,682,593	\$1,874,905	\$1,957,666
International Tire	209,631	257,220	264,451
Eliminations and other	<u>(41,371)</u>	<u>(50,516)</u>	<u>(66,932)</u>
Consolidated	1,850,853	2,081,609	2,155,185
Segment profit			
North American Tire	76,783	75,952	35,819
International Tire	10,295	9,420	(3,643)
Unallocated corporate charges and eliminations	<u>(22,059)</u>	<u>(22,148)</u>	<u>(5,741)</u>
Operating profit	65,019	63,224	26,435
Interest income	1,170	2,068	18,541
Debt extinguishment costs	—	—	4,228
Other — net	162	(2,717)	(588)
Interest expense	<u>(29,146)</u>	<u>(27,569)</u>	<u>(54,511)</u>
Income (loss) before income taxes from continuing operations	37,205	35,006	(5,895)
Depreciation and amortization expense			
North American Tire	99,107	98,327	97,526
International Tire	11,814	12,612	12,186
Corporate	<u>1,840</u>	<u>1,999</u>	<u>1,618</u>
Consolidated	112,761	112,938	111,330
Segment assets			
North American Tire	1,138,094	1,222,723	1,320,557
International Tire	181,802	203,714	208,464
Corporate and other	<u>169,594</u>	<u>1,241,647</u>	<u>614,326</u>
Consolidated	1,489,490	2,668,084	2,143,347
Expenditures for long-lived assets			
North American Tire	86,257	143,290	146,686
International Tire	9,094	10,817	24,970
Corporate	<u>730</u>	<u>5,201</u>	<u>496</u>
Consolidated	96,081	159,308	172,152

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Geographic information for revenues, based on country of origin, and long-lived assets follows:

	2003	2004	2005
Revenues			
North America	\$1,650,743	\$1,830,858	\$1,904,498
Europe	200,110	250,751	250,687
Consolidated	1,850,853	2,081,609	2,155,185
Long-lived assets			
North America	612,032	648,879	700,006
Europe	79,330	81,178	76,279
Other	12	813	9,940
Consolidated	691,374	730,870	786,225

Shipments of domestically-produced products to customers outside the U. S. approximated seven percent of net sales in 2003 and 2004 and eight percent of net sales in 2005.

Subsequent Event

On October 27, 2005 the Company announced that an agreement had been reached to obtain a 51 percent ownership position in Cooper Chengshan (Shandong) Passenger Tire Co. Ltd. and Cooper Chengshan (Shandong) Tire Company, Ltd. The agreement includes a 25 percent position in the steel cord factory which is located adjacent to the tire manufacturing facility in Rongchen City, Shandong, China. The new companies, which will be formed upon governmental approval of the transaction, together were known as Shandong Chengshan Tire Company, Ltd. ("Chengshan") of Shandong, China. Chengshan is the third largest Chinese-owned tire manufacturer with expected replacement, original equipment and export sales for 2005 of approximately \$500,000. The company manufactures passenger car and light truck radial tires as well as bias commercial tires primarily under the brand names of Chengshan and Austone. The initial cash investment in this venture will approximate \$77,000 plus assumed debt which is anticipated to approximate \$100,000 for these companies. The agreement is subject to a number of government and regulatory approvals in China, and was completed effective February 4, 2006.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Cooper Tire & Rubber Company

We have audited the accompanying consolidated balance sheets of Cooper Tire & Rubber Company (the “Company”) as of December 31, 2005 and 2004, and the related consolidated statements of operations, shareholders’ equity, and cash flows for each of the three years in the period ended December 31, 2005. Our audits also included the financial statement schedule listed in the index at Item 15(a)(2). These financial statements and schedule are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Cooper Tire & Rubber Company at December 31, 2005 and 2004, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2005, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Cooper Tire & Rubber Company’s internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 10, 2006 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Ernst & Young LLP

Toledo, Ohio
February 10, 2006

SELECTED QUARTERLY DATA

(Dollar amounts in thousands except per share amounts.)

	2004			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net sales	\$480,010	\$509,186	\$551,446	\$540,967
Gross profit	52,476	64,707	62,141	53,669
Net income	2,183	8,870	13,175	3,217
Basic earnings per share	0.03	0.12	0.18	0.04
Diluted earnings per share	0.03	0.12	0.17	0.04
Revenues from external customers:				
North American Tire	\$427,947	\$456,344	\$499,372	\$491,242
International Tire	65,289	63,129	65,985	62,817
Eliminations and other	(13,225)	(10,288)	(13,912)	(13,090)
Net sales	<u>\$480,011</u>	<u>\$509,185</u>	<u>\$551,445</u>	<u>\$540,969</u>
Segment profit:				
North American Tire	\$ 13,083	\$ 21,898	\$ 26,807	\$ 14,164
International Tire	3,035	3,661	2,802	(79)
Corporate	(6,614)	(4,934)	(3,874)	(6,725)
Operating profit	9,504	20,625	25,735	7,360
Interest expense	(6,547)	(7,832)	(6,580)	(6,610)
Interest income	422	307	317	1,022
Other – net	(206)	(206)	(323)	(1,982)
Income (loss) from continuing operations before income taxes	<u>\$ 3,173</u>	<u>\$ 12,894</u>	<u>\$ 19,149</u>	<u>\$ (210)</u>
2005				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net sales	\$514,057	\$510,930	\$557,795	\$572,403
Gross profit	52,476	37,910	55,426	45,332
Net income/(loss)	2,183	(6,881)	(840)	(6,851)
Basic earnings/(loss) per share	0.03	(0.11)	(0.01)	(0.11)
Diluted earnings/(loss) per share	0.03	(0.11)	(0.01)	(0.11)
Revenues from external customers:				
North American Tire	\$463,870	\$459,807	\$509,415	\$524,574
International Tire	65,489	70,141	67,520	61,301
Eliminations and other	(15,302)	(19,018)	(19,140)	(13,472)
Net sales	<u>\$514,057</u>	<u>\$510,930</u>	<u>\$557,795</u>	<u>\$572,403</u>
Segment profit:				
North American Tire	\$ 7,467	\$ 2,264	\$ 16,937	\$ 9,151
International Tire	(836)	1,602	(590)	(3,819)
Corporate	(750)	(3,453)	(2,275)	737
Operating profit	5,881	413	14,072	6,069
Interest expense	(14,215)	(13,715)	(13,545)	(13,036)
Debt extinguishment gains (losses)	—	(9,075)	(1,328)	6,175
Interest income	5,614	4,520	3,857	4,550
Other – net	1,229	305	(1,296)	(826)
Income (loss) from continuing operations before income taxes	<u>\$ (1,491)</u>	<u>\$ (17,552)</u>	<u>\$ 1,760</u>	<u>\$ 2,932</u>

Certain amounts for the second and third quarters have been reclassified to conform to the fourth quarter presentation.

COOPER TIRE & RUBBER COMPANY
 SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS
 Years ended December 31, 2003, 2004 and 2005

	Balance at Beginning of Year	Additions		Deductions (a)	Balance at End of Year
		Charged To Income	Business Acquisitions		
Allowance for doubtful accounts					
2003	<u>\$5,291,432</u>	<u>\$ 87,758</u>	<u>\$ 100,000</u>	<u>\$ 637,524</u>	<u>\$4,841,666</u>
2004	<u>\$4,841,666</u>	<u>\$ 961,322</u>		<u>\$ 934,802</u>	<u>\$4,868,186</u>
2005	<u>\$4,868,186</u>	<u>\$2,154,686</u>		<u>\$1,257,506</u>	<u>\$5,765,366</u>

(a) Accounts charge off during the year, net of recoveries of accounts previously charged off.

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

Item 9A. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

Pursuant to the requirements of the Sarbanes-Oxley Act of 2002, the Company's management, with the participation of the Chief Executive Officer and Chief Financial Officer of the Company, have evaluated, as of the end of the period covered by this Annual Report on Form 10-K, the effectiveness of the Company's disclosure controls and procedures, including its internal controls and procedures. Based upon that evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that, as of the end of such period, the Company's disclosure controls and procedures were effective in identifying the information required to be disclosed in the Company's periodic reports filed with the SEC, including this Annual Report on Form 10-K, and ensuring that such information is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

(b) Management's Annual Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. In order to evaluate the effectiveness of internal control over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act of 2002, management has conducted an assessment, including testing, using the criteria in *Internal Control – Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). The Company's system of internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Based on its assessment, management has concluded that the Company maintained effective internal control over financial reporting as of December 31, 2005, based on criteria in *Internal Control – Integrated Framework* issued by the COSO, and that the Company's internal control over financial reporting is effective. Management's assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2005, has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their attestation report which is included herein.

(c) Attestation Report of the Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Cooper Tire & Rubber Company

We have audited management's assessment, included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting, that Cooper Tire & Rubber Company maintained effective internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Cooper Tire & Rubber Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations

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of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that Cooper Tire & Rubber Company maintained effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, Cooper Tire & Rubber Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on the COSO criteria .

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Cooper Tire & Rubber Company as of December 31, 2005 and 2004, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2005 and our report dated February 10, 2006 expressed an unqualified opinion thereon.

Ernst & Young LLP
Toledo, Ohio
February 10, 2006

(d) Changes in Internal Control over Financial Reporting

During 2005, the Company experienced reorganizations in its information technology area and its finance organization. The internal controls in these were evaluated for effectiveness and the controls were assessed to be effective. The Company continues to assess and improve the design and effectiveness of its internal controls over financial reporting. In addition, the Company appointed a new "Principal Accounting Officer" effective as of January 1, 2006 in anticipation of the retirement of its Corporate Controller in February 2006.

Item 9B. OTHER INFORMATION

None.

PART III

Item 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information concerning the Company's directors, corporate governance guidelines, Compensation Committee and Nominating and Governance Committee appears in the Company's definitive Proxy Statement for its 2006 Annual Meeting of Stockholders, which will be herein incorporated by reference. The names, ages, and all positions and offices held by all executive officers of the Company, as of the same date, are as follows:

Name	Age	Executive Office Held	Business Experience
Thomas A. Dattilo	54	Chairman of the Board, President and Chief Executive Officer and Director	Chairman of the Board and Chief Executive Officer since 2000. President since 1999 and Chief Operating Officer from 1999 to 2000. Director since 1999. Formerly with Dana Corporation, an automotive parts supplier, since 1977, having served as President, Sealing Products and previously in other senior management positions. Director of Harris Corporation.

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Name	Age	Executive Office Held	Business Experience
James E. Kline	64	Vice President, General Counsel and Secretary	Vice President, General Counsel and Secretary since April 2003. Vice President from February to April 2003. Previously, Executive Vice President (real estate development) Cavista Corporation, an integrated real estate company, from 2000 through August 2001, and Vice President and General Counsel, Aeroquip-Vickers, Inc., a manufacturer of power and motion control and fluid conveyancing products, from 1989 to 1999.
James H. Geers	58	Vice President	Vice President Global Human Resources since 2004, Vice President Corporate Human Resources from 1999 to 2004
Harold C. Miller	53	Vice President	Vice President since March 2002. Formerly Vice President and General Manager, Eaton Fluid Power Hose and Plastic Operations, Eaton Corporation, an automotive and truck parts producer, from January through March 2002. Director, Finance and Planning, Eaton Fluid Power Automotive Operations from 2001 through 2002. General Manager, Eaton Aeroquip Global Hose Division from 1998 through 2001.
D. Richard Stephens	58	Vice President	Vice President since 2001. President, Cooper Tire since 2001. President, International Tire Division, Cooper Tire from 2000 to 2001. Vice President, Technical and Commercial Tire Operations, Cooper Tire from March 2000 to December 2000. Vice President, Technical from 1994 to 2000.
Philip G. Weaver	53	Vice President and Chief Financial Officer	Vice President and Chief Financial Officer since 1999. Tire Operations Vice President from 1994 through 1998.
Eileen B. White	55	Corporate Controller	Corporate Controller since 1997. Assistant Corporate Controller from 1994 to 1997.

Each such officer shall hold such office until a successor is selected and qualified.

AUDIT COMMITTEE

Information regarding the Audit Committee, including the identification of the Audit Committee members and the “audit committee financial expert,” appears in the Company’s definitive Proxy Statement for its 2006 Annual Meeting of Stockholders, which will be herein incorporated by reference.

COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT

Information regarding compliance with Section 16(a) of the Securities Exchange Act of 1934, as amended, appears in the Company’s definitive Proxy Statement for its 2006 Annual Meeting of Stockholders, which will be herein incorporated by reference.

CODE OF ETHICS

Information regarding the Company’s code of business conduct and ethics appears in the Company’s definitive Proxy Statement for its 2006 Annual Meeting of Stockholders, which will be herein incorporated by reference.

Item 11. EXECUTIVE COMPENSATION

Information regarding executive compensation appears in the Company’s definitive Proxy Statement for its 2006 Annual Meeting of Stockholders, which will be herein incorporated by reference.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED SHAREHOLDER MATTERS

Information concerning the security ownership of certain beneficial owners and management of the Company’s voting securities and equity securities appears in the Company’s definitive Proxy Statement for its 2006 Annual Meeting of Stockholders, which will be herein incorporated by reference.

Equity Compensation Plan Information

The following table provides information as of December 31, 2005 regarding the Company’s equity compensation plans, all of which have been approved by the Company’s security holders:

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by stockholders	3,661,119	\$17.78	3,405,990
Equity compensation plans not approved by stockholders	—	—	—
Total	3,661,119	\$17.78	3,405,990

Additional information on equity compensation plans is contained in the “Stock-Based Compensation” note to the consolidated financial statements.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

None.

Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information regarding the Company’s independent auditor appears in the Company’s definitive Proxy Statement for its 2006 Annual Meeting of Stockholders, which will be herein incorporated by reference.

PART IV

Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) The following documents are filed as part of this report:

1. Consolidated Financial Statements

	<u>Page(s)</u> <u>Reference</u>
Consolidated Statements of Operations for the years ended December 31, 2003, 2004 and 2005	30
Consolidated Balance Sheets at December 31, 2004 and 2005	31-32
Consolidated Statements of Stockholders' Equity for the years ended December 31, 2003, 2004 and 2005	33
Consolidated Statements of Cash Flows for the years ended December 31, 2003, 2004 and 2005	34
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2. Financial Statement Schedule

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All other schedules have been omitted since the required information is not present or not present in amounts sufficient to require submission of the schedules, or because the information required is included in the Consolidated Financial Statements or the notes thereto.

3. Exhibits

The exhibits listed on the accompanying exhibit index are filed as part of this Annual Report on Form 10-K.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

COOPER TIRE & RUBBER COMPANY

/s/ Thomas A. Dattilo
 THOMAS A. DATTILO, Chairman of the Board, President, and Chief Executive Officer

Date: March 1, 2006

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
<u>/s/ Thomas A. Dattilo</u> THOMAS A. DATTILO	Chairman of the Board, President, Chief Executive Officer and Director (Principal Executive Officer)	March 1, 2006
<u>/s/ Philip G. Weaver</u> PHILIP G. WEAVER	Vice President and Chief Financial Officer (Principal Financial Officer)	March 1, 2006
<u>/s/ Robert W. Huber</u> ROBERT W. HUBER	Director of External Reporting (Principal Accounting Officer)	March 1, 2006
ARTHUR H. ARONSON*	Director	March 1, 2006
LAURIE J. BREININGER*	Director	March 1, 2006
JOHN J. HOLLAND*	Director	March 1, 2006
JOHN F. MEIER*	Director	March 1, 2006
BYRON O. POND*	Director	March 1, 2006
JOHN H. SHUEY*	Director	March 1, 2006
RICHARD L. WAMBOLD*	Director	March 1, 2006

* The undersigned, by signing his name hereof, does sign and execute this Annual Report on Form 10-K pursuant to a Power of Attorney executed on behalf of the above-indicated officers and directors of the registrant and filed herewith as Exhibit 24 on behalf of the registrant.

*By: /s/ James E. Kline
 JAMES E. KLINE, Attorney-in-fact

EXHIBIT INDEX

- (3) Certificate of Incorporation and Bylaws
- (i) Certificate of Incorporation, as restated and filed with the Secretary of State of Delaware on May 17, 1993, is incorporated herein by reference from Exhibit 3(i) of the Company's Form 10-Q for the quarter ended June 30, 1993
Certificate of Correction of Restated Certificate of Incorporation as filed with the Secretary of State of Delaware on November 24, 1998 is incorporated by reference from Exhibit 3(i) of the Company's Form 10-K for the year ended December 31, 1998
 - (ii) Bylaws, as amended May 5, 1987, are incorporated herein by reference from Exhibit 19 of the Company's Form 10-Q for the quarter ended June 30, 1987
- (4)
- (i) Prospectus Supplement dated March 20, 1997 for the issuance of \$200,000,000 notes is incorporated herein by reference from Form S-3 – Registration Statement No. 33-44159
 - (ii) Amended and Restated Rights Agreement, dated May 11, 1998, between the Company and The Fifth Third Bank as Rights Agent is incorporated herein by reference from Exhibit 4 to the Company's Form 8-K dated May 15, 1998
 - (iii) Amendment No. 1 to Amended and Restated Rights Agreement dated as of May 7, 2004, by and among Cooper Tire & Rubber Company, Fifth Third Bank and Computershare Investor Services, LLC is incorporated herein by reference from Exhibit 4 of the Company's Form 10-Q for the quarter ended September 30, 2004
 - (iv) Prospectus Supplement dated December 8, 1999 for the issuance of an aggregate \$800,000,000 notes is incorporated herein by reference from Form S-3 – Registration Statement No. 333-89149
- (10)
- (i) Cooper Tire & Rubber Company Executive Financial Planning Assistance is incorporated herein by reference from Exhibit (10) of the Company's Form 10-Q for the quarter ended September 30, 2000 *
 - (ii) Second Amended and Restated Employment Agreement dated as of February 6, 2002 between Cooper Tire & Rubber Company and Thomas A. Dattilo is incorporated herein by reference from Exhibit (10)(ii) of the Company's Form 10-K for the year ended December 31, 2001 *
 - (iii) First Amendment to Amended and Restated Employment Agreement dated as of July 18, 2003 between Cooper Tire & Rubber Company and Thomas A. Dattilo is incorporated herein by reference from Exhibit (10) of the Company's Form 10-Q for the quarter ended June 30, 2003 *
 - (iv) Employment Agreement dated as of June 6, 2000 between Cooper Tire & Rubber Company and Philip G. Weaver is incorporated herein by reference from Exhibit (10)(v) of the Company's Form 10-K for the year ended December 31, 2001 *
 - (v) Employment Agreement dated as of July 17, 2002 between Cooper Tire & Rubber Company and D. Richard Stephens incorporated herein by reference from Exhibit (10)(ii) of the Company's Form 10-Q for the quarter ended September 30, 2002 *
 - (vi) First Amendment to Employment Agreement dated as of February 4, 2004 between Cooper Tire & Rubber Company and D. Richard Stephens incorporated herein by reference from Exhibit (10)(i) of the Company's Form 10-Q for the quarter ended March 31, 2004 *
 - (vii) Description of management contracts, compensatory plans, contracts, or arrangements will be herein incorporated by reference from the Company's definitive Proxy Statement for its 2006 Annual Meeting of Stockholders*
 - (viii) Amended and Restated Credit Agreement dated as of September 1, 2000 by and among Cooper Tire & Rubber Company, the Banks and PNC Bank, National Association, as agent for the Banks is incorporated herein by reference from Exhibit (10)(i) of the Company's Form 10-Q for the quarter ended March 31, 2001
 - (ix) Amendment No. 1 to the Amended and Restated Credit Agreement dated as of March 27, 2001 by and among Cooper Tire & Rubber Company, the Banks and PNC Bank, National Association, as agent for the Banks is incorporated herein by reference from Exhibit (10)(ii) of the Company's Form 10-Q for the quarter ended March 31, 2001

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- (x) Amendment No. 2 to the Amended and Restated Credit Agreement dated as of August 30, 2001 among Cooper Tire & Rubber Company, the Banks, and PNC Bank, National Association, as agent for the Banks is incorporated herein by reference from Exhibit (10)(i) of the Company's Form 10-Q for the quarter ended September 30, 2001
- (xi) Amendment No. 3 to the Amended and Restated Credit Agreement dated as of September 30, 2001 among Cooper Tire & Rubber Company, the Banks, and PNC Bank, National Association, as agent for the Banks is incorporated herein by reference from Exhibit (10)(ii) of the Company's Form 10-Q for the quarter ended September 30, 2001
- (xii) Amendment No. 4 to the Amended and Restated Credit Agreement dated as of November 1, 2001 among Cooper Tire & Rubber Company, the Banks, and PNC Bank, National Association, as agent for the Banks is incorporated herein by reference from Exhibit (10)(iii) of the Company's Form 10-Q for the quarter ended September 30, 2001
- (xiii) Amendment No. 5 to the Amended and Restated Credit Agreement dated as of December 21, 2001 among Cooper Tire & Rubber Company, the Banks, and PNC Bank, National Association, as agent for the Banks is incorporated herein by reference from Exhibit (10)(xiii) of the Company's Form 10-K for the year ended December 31, 2001
- (xiv) Amendment No. 6 to the Amended and Restated Credit Agreement dated as of August 29, 2002 among Cooper Tire & Rubber Company, the Banks, and PNC Bank, National Association, as agent for the Banks is incorporated herein by reference from Exhibit (10)(i) of the Company's Form 10-Q for the quarter ended September 30, 2002
- (xv) Amendment No. 7 to the Amended and Restated Credit Agreement dated as of August 28, 2003 among Cooper Tire & Rubber Company, the Banks, and PNC Bank, National Association, as agent for the Banks is incorporated herein by reference from Exhibit (10) of the Company's Form 10-Q for the quarter ended September 30, 2003
- (xvi) Amendment No. 8 to the Amended and Restated Credit Agreement dated as of June 30, 2004 among Cooper Tire & Rubber Company, the Banks, and PNC Bank, National Association, as agent for the Banks is incorporated herein by reference from Exhibit (10) of the Company's Form 10-Q for the quarter ended June 30, 2004
- (xvii) 1991 Stock Option Plan for Non-Employee Directors is incorporated herein by reference from the Appendix to the Company's Proxy Statement dated March 26, 1991 *
- (xviii) 1996 Stock Option Plan is incorporated herein by reference from the Appendix to the Company's Proxy Statement dated March 26, 1996 *
- (xix) 1998 Incentive Compensation Plan and 1998 Employee Stock Option Plan are incorporated herein by reference from the Appendix to the Company's Proxy Statement dated March 24, 1998 *
- (xx) Amended and Restated 1998 Non-Employee Directors Compensation Deferral Plan is incorporated herein by reference from the Appendix to the Company's Proxy Statement dated March 24, 1998*
- (xxi) 2001 Incentive Compensation Plan is incorporated herein by reference from the Appendix A to the Company's Proxy Statement dated March 20, 2001 *
- (xxii) Executive Deferred Compensation Plan is incorporated herein by reference from Exhibit (10)(iv) of the Company's Form 10-Q for the quarter ended September 30, 2001 *
- (xxiii) 2002 Non-Employee Directors Stock Option Plan is incorporated herein by reference from Appendix A to the Company's Proxy Statement dated March 27, 2002 *
- (xxiv) Stock Purchase Agreement dated as of September 16, 2004 by and among Cooper Tire & Rubber Company, Cooper Tyre & Rubber Company UK Limited and CSA Acquisition Corp. is incorporated herein by reference from Exhibit (10) of the Company's Form 10-Q for the quarter ended September 30, 2004
- (xxv) First Amendment to Stock Purchase Agreement dated as of December 3, 2004 by and among Cooper Tire & Rubber Company, Cooper Tyre & Rubber Company UK Limited and CSA Acquisition Corp. is herein incorporated by reference from Exhibit (xxvi) of the Company's Form 10-K for the year ended December 31, 2004
- (xxvi) Strategic Subscription Agreement dated as of January 7, 2005 between Kumho Tire Co., Inc. and Cooper Tire & Rubber Company is herein incorporated by reference from Exhibit (xxvii) of the Company's Form 10-K for the year ended December 31, 2004
- (xxvii) Sino-Foreign Equity Joint Venture Contract for Cooper Chengshan (Shandong) Passenger Tire Company Ltd. by and among Shandon Chengshan Tire Company Limited by Shares and Cooper Tire Investment Holding (Barbados) Ltd. and Joy Thrive Investments Limited

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- (xxviii) Asset Purchase Agreement by and among Shandong Chengshan Tire Company Limited by Shares and Cooper Chengshan (Shandong) Passenger Tire Company Ltd. and Chengshan Group Limited
- (xxix) Sino-Foreign Equity Joint Venture Contract for Cooper Chengshan (Shandong) Tire Company Ltd. By and among Shandong Chengshan Tire Company Limited by Shares and Cooper Tire Investment Holding (Barbados) Ltd. and Joy Thrive Investments Limited
- (xxx) Asset Purchase Agreement by and among Shandong Chengshan Tire Company Limited by Shares and Cooper Chengshan (Shandong) Tire Company Limited and Chengshan Group Company Limited
- (xxxi) Sino-Foreign Equity Joint Venture Contract for Rongcheng Chengshan Steel Cord Company Ltd by and between Chengshan Group Company Limited and CTB (Barbados) Investment Co. Ltd.
- (xxxii) Share Purchase Agreement by and among Chengshan Group Company Limited and CTB (Barbados) Investment Co. Ltd
- (13) Annual report to security holders
- (18) Letter Regarding Change in Accounting Principles
- (21) Subsidiaries of the Registrant
- (23) Consent of Independent Registered Public Accounting Firm
- (24) Power of Attorney
- (31.1) Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Exchange Act
- (31.2) Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Exchange Act
- (32) Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

* Indicates management contracts or compensatory plans or arrangements.

SINO-FOREIGN EQUITY JOINT VENTURE CONTRACT

FOR

COOPER CHENGSHAN (SHANDONG) PASSENGER TIRE COMPANY LTD.

BY AND AMONG

SHANDONG CHENGSHAN TIRE COMPANY LIMITED BY SHARES

AND

COOPER TIRE INVESTMENT HOLDING (BARBADOS) LTD.

AND

JOY THRIVE INVESTMENTS LIMITED

OCTOBER 27, 2005

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EQUITY JOINT VENTURE CONTRACT

This Sino-foreign Equity Joint Venture Contract (this "CONTRACT") is made and entered into in the People's Republic of China ("CHINA" or "PRC") on this 27th. day of October, 2005, in accordance with the PRC Sino-foreign Equity Joint Venture Law (the "JOINT VENTURE LAW") and other relevant PRC laws and regulations, by and among:

(1) SHANDONG CHENGSHAN TIRE COMPANY LIMITED BY SHARES, a company limited by shares duly organized and existing under the laws of the PRC with its legal address at No. 98, Nanshan Road North, Rongcheng City, Shandong Province, PRC ("PARTY A");

(2) COOPER TIRE INVESTMENT HOLDING (BARBADOS) LTD., a company duly organized and existing under the laws of Barbados with its legal address at Whitepark House, White Park Road, Bridgetown, Barbados ("PARTY B"); and

(3) JOY THRIVE INVESTMENTS LIMITED, a company duly organized and existing under the laws of British Virgin Islands with its legal address at P.O. Box 957, Offshore Incorporations Center, Road Town, Tortola, British Virgin Islands ("PARTY C").

(Each party is hereinafter individually referred to as a "PARTY" and collectively as the "PARTIES".)

In accordance with the principles of equality and mutual benefit, the Parties have held friendly negotiations in relation to the terms and conditions for establishing a Sino-foreign equity joint venture.

NOW, THEREFORE, the Parties hereby agree as follows:

CHAPTER 1 DEFINITIONS

Unless the terms or context of this Contract provide otherwise, capitalized terms used herein without definition have the meanings assigned to them in Appendix 1 attached to this Contract.

CHAPTER 2 PARTIES TO THE CONTRACT

2.1 The Parties. The Parties to this Contract are as follows:

(1) Party A:	Shandong Chengshan Tire Company Limited by Shares
Country of Registration:	PRC
Legal Address:	No. 98, Nanshan Road North, Rongcheng City, Shandong Province, PRC
Current Legal Representative:	Che Hong-Zhi

Nationality:	Chinese
(2) Party B:	Cooper Tire Investment Holding (Barbados) Ltd.
Country of Registration:	Barbados
Legal Address:	Whitepark House, White Park Road, Bridgetown, Barbados
Current Legal Representative:	Harold C. Miller
Nationality:	U.S.A
(3) Party C:	Joy Thrive Investments Limited
Country of Registration:	British Virgin Islands
Legal Address:	P.O. Box 957, Offshore Incorporations Center, Road Town, Tortola, British Virgin Islands
Current Legal Representative:	Nuansir Sirisuwat
Nationality:	Thailand

CHAPTER 3 ESTABLISHMENT OF THE JOINT VENTURE

3.1 Establishment of the Joint Venture. In accordance with the Joint Venture Law and other relevant PRC laws and regulations, the Parties hereby enter into this Contract for the establishment of the Joint Venture as a Sino-foreign equity joint venture in the form of a limited liability company.

3.2 Joint Venture Name, Legal Address.

(1) The name of the Joint Venture in English is "Cooper Chengshan (Shandong) Passenger Tire Company Ltd." The name of the Joint Venture in Chinese is [CHINESE CHARACTERS]

(2) The legal address of the Joint Venture is No. 99, West Qingshan Road , Rongcheng City, Shandong Province, PRC.

3.3 Limited Liability Company. The Joint Venture shall be organized as a company with limited liability under PRC law, liable for its own debts with its own assets. The liability of each Party shall be limited to the amount of the Registered Capital expressly subscribed by such Party according to Article 5.2 hereof. No Party shall be obligated at any time to provide any funds to, or on behalf of, the Joint Venture by way of capital contribution, loan, advance, guarantee or otherwise, except as specifically provided in this Contract, or as otherwise agreed to in writing by the Parties. The Parties shall not be liable for the debts of the Joint Venture, unless otherwise specifically agreed in writing

between a particular creditor and the Party or Parties concerned. Subject to the terms and conditions of this Contract, the profits, risks and losses of the Joint Venture shall be shared by the Parties in proportion to their respective contributions to the Registered Capital.

3.4 PRC Law. The activities of the Joint Venture shall be governed by, and its legal rights and operational autonomy shall be protected in accordance with, the laws and regulations of the PRC.

CHAPTER 4 PURPOSE, BUSINESS SCOPE AND SCALE OF THE JOINT VENTURE

4.1 Purpose of Joint Venture. The purpose of the Joint Venture is to fully initiate advantages of the Parties so as to enhance production technical standard, to promote high quality products, to produce internationally reputable products, to apply brand-new operation concept and management method, to strengthen overall capacity and competitiveness in the international market, to increase economic benefit, and to produce a satisfactory return to all investors; meanwhile, to boost the industrial level through an integration of the tire industry, to provide job opportunities in the locale, to introduce more foreign capital to the locale, and for sure to enhance the fast economic development in Rongcheng City.

4.2 Scope of Business. The Joint Venture's scope of business shall be to design, develop, manufacture, and sell half-steel radial passenger tires and half-steel radial light truck tires; provide technical support and services for such products.

4.3 Scale of Joint Venture. The tire manufacture volume of the Joint Venture shall to the extent practicable increase by 10% per year over the next three years. The Joint Venture shall from time to time introduce and utilize the international modern technology and management expertise to fully activate investment benefits.

CHAPTER 5 TOTAL INVESTMENT AND REGISTERED CAPITAL

5.1 Total Investment and Registered Capital. The Total Investment of the Joint Venture shall be United States Dollars ninety-nine million (US\$99,000,000). The Registered Capital of the Joint Venture shall be United States Dollars thirty-three million (US\$33,000,000).

5.2 Capital Contributions. Subject to the Capital Contribution Schedule attached as Appendix 2 hereto, each Party shall contribute to the Registered Capital as follows:

(1) Party A shall contribute all of the land use rights and buildings free of all liens and encumbrances to the Joint Venture, valued in the amount of United States Dollars eleven million five hundred fifty thousand (US\$ 11,550,000), representing thirty five percent (35%) of the Registered Capital;

(2) Party B shall contribute cash in the amount of United States Dollars sixteen million eight hundred and thirty thousand (US\$16,830,000), representing fifty one percent (51%) of the Registered Capital; and

(3) Party C shall contribute cash in the amount of United States Dollars four million six hundred and twenty thousand (US\$4,620,000), representing fourteen percent (14%) of the Registered Capital.

5.3 Schedule for Capital Contributions. Subject to Article 5.4 below, the Parties shall contribute their respective contributions to the Registered Capital in accordance with the Capital Contribution Schedule attached as Appendix 2 hereto.

5.4 Conditions Precedent to the Contribution of Registered Capital. The Parties' contribution to the Registered Capital of the Joint Venture pursuant to Article 5.2 hereof shall be conditioned on the satisfaction of all of the following:

(1) the Examination and Approval Authority has issued a Certificate of Approval, and any required changes to this Contract have been agreed to in writing by the Parties; and

(2) a Business License has been granted to the Joint Venture which authorizes the full scope of business of the Joint Venture described in Article 4.2 or any required changes thereto have been agreed to in writing by the Parties.

5.5 Capital Contribution Verification and Certificate. An accountant registered in the PRC shall be engaged by the Joint Venture to verify the respective capital contributions of each Party and provide a capital verification report(s) accordingly. The Joint Venture, upon the receipt of a satisfactory capital verification report, shall issue a capital contribution certificate to the relevant Party. This certificate shall include the following items: name of the Joint Venture; the Establishment Date; the names of the Parties and the amount of their respective capital contributions; the date on which the capital contributions were made; and the date of issuance of the capital contribution certificate. Each capital contribution certificate shall be signed by the Chairman and the Vice-Chairman of the Joint Venture. The capital contribution certificates shall only certify the investment of each Party and shall not be deemed as a note or other negotiable instrument.

5.6 Financing. Subject to the terms and conditions of this Contract, to the greatest extent permitted by relevant law, the Joint Venture may finance its operations and capital needs by way of loans, including but not limited to shareholder loans, loans from such banks, other financial institutions or qualified lenders inside or outside of China and upon such terms and subject to such conditions as may be approved by the Board.

5.7 Increase of Registered Capital. The Registered Capital of the Joint Venture may be increased by a unanimous resolution of the Board, which resolution shall stipulate the timing and other terms of such increase, with such increase subject to the approval of the Examination and Approval Authority and registration with the Registration Authority. If any Party chooses not to participate in any such additional investment in the Joint Venture, any other Party or Parties shall have the option to make the additional contribution to the Joint Venture's Registered Capital and the ownership percentages of the Parties' equity in the Joint Venture shall be adjusted accordingly.

5.8 Failure to Make Contributions to Registered Capital.

(1) If any Party or Parties ("BREACHING PARTY(IES)") fails to make any contribution to the Registered Capital within the period set forth in Article 5.3 (the amount due and owing is referred to as the "DEFAULT CAPITAL CONTRIBUTION"), the Breaching Party(ies) shall pay the other Parties or Party (the "NON-BREACHING Party(ies)") (in proportion to their Percentage Interests) a default penalty of 0.05% per day based on the Default Capital Contribution from the first day of the breach until the day on which the Default Capital Contribution is contributed in full by the Breaching Party(ies).

(2) Notwithstanding the foregoing, if the Breaching Party(ies) fails to make the Default Capital Contribution for more than 30 days, the Non-Breaching Party(ies) shall have the right to determine, in accordance with the applicable laws and regulations, to:

(i) make the additional contribution to satisfy the amount of the Registered Capital of the Joint Venture, so as to increase the Percentage Interest(s) of the Non-Breaching Party(ies) and dilute the Percentage Interest(s) of the Breaching Party(ies) accordingly; or

(ii) terminate this Contract in accordance with Article 16.2, subject to the approval of the Examination and Approval Authority.

(3) The provisions of this Article 5.8 shall not prejudice any other

rights or remedies the Non-Breaching Party(ies) may have under this Contract or under applicable laws and regulations with respect to the failure of the Breaching Party(ies) to contribute capital.

5.9 Transfer of Equity Interests. If one Party wishes to transfer all or part of its Percentage Interest in the Joint Venture to any third party, it shall obtain the written consent of (including waiver of preemptive rights by) the other Parties, and the transfer shall be presented to the Examination and Approval Authority for approval.

5.10 Assets Transfer. On the date of this Contract, Party A and the Joint Venture shall enter into an asset purchase agreement (the "ASSET PURCHASE AGREEMENT") in substantially the form attached as Appendix 3 hereto for any existing assets of Party A in respect of the business specified in Article 4.2 hereof, as identified by the Joint Venture and Party A, to be transferred to the Joint Venture.

CHAPTER 6 REPRESENTATIONS AND WARRANTIES

6.1 Representations and Warranties. Each Party hereby represents and warrants that, as of the date of this Contract and as of a date on which a Party makes a capital contribution to the Joint Venture in accordance with Article 5.2 herein, it:

(1) has the capacity and authority to enter into this Contract and to perform its obligations hereunder, and is duly organized and validly existing under the laws of the PRC in the case of Party A, and under the laws of Barbados in the case of Party B, and under the laws of British Virgin Islands in the case of Party C;

(2) is not a party to, bound by or subject to any contract, instrument, charter or by-law provision, statute, regulation, order, judgment, decree or law which would be violated, contravened or breached by, or under which any default would occur as a result of, the execution and delivery by such Party of this Contract or the performance by such Party of any of the terms of this Contract, or which restricts such Party from entering into this Contract or performing its obligations and abiding by the terms hereunder;

(3) has duly authorized, executed and delivered this Contract and that this Contract constitutes a legal, valid and binding obligation enforceable in accordance with its terms;

(4) will contribute or transfer assets in a manner which does not conflict with, violate or result in a breach of, any of the terms, conditions or provisions of any law, regulation, order, writ, injunction, decree, determination or award of any court, governmental department, board, agency or instrumentality or any arbitrator, or result in the creation or imposition of any lien, charge, security interest or encumbrance of any nature whatsoever upon such assets;

(5) freely enters into this Contract and has not and will not hereafter incur any obligations or commitments of any kind which would in any way hinder or interfere with its acceptance or performance of its obligations hereunder; and

(6) (i) has carefully read the entire Contract including the Appendices hereto; (ii) fully understands all of the terms, conditions, restrictions and provisions set forth in this Contract, (iii) agrees that the terms, conditions, restrictions and provisions herein are necessary for the reasonable and proper protection of the business of the Joint Venture and the other Parties, and (iv) acknowledges that each such term, condition, restriction and provision is fair and reasonable with respect to the subject matter thereof.

6.2 Representations and Warranties in Respect of Party A's Assets. In respect of Party A's existing assets relating to the business specified in Article 4.2 hereof, Party A represents, warrants and undertakes to Party B and Party C, as of the date of this Contract and as of the Closing Date (as such term defined in the Asset Purchase Agreement), those representations, warranties and undertakings set forth in the Asset Purchase Agreement are true and accurate in material way.

6.3 Cure and Indemnification Obligations.

(1) In case of any breach of the Contract by any Party, it shall, in accordance with the direction of any non-breaching Party within thirty (30) days after receiving a notice of such non-breaching Party concerning any breach, take all necessary actions to cure such breach.

(2) Each Party agrees to indemnify and hold the other Parties and the Joint Venture harmless from and against any and all claims, losses, damages, and costs arising out of any of its breach of any of its covenants or representations and warranties contained herein, including reasonable attorneys' fees incurred in connection with the enforcement of this Contract or the undertaking of any necessary legal actions or responses involving any third parties.

CHAPTER 7 RESPONSIBILITIES OF THE PARTIES

7.1 Party A's Responsibilities. In addition to its other obligations under this Contract, Party A shall be responsible for the following matters:

- (1) Providing capital contributions in accordance with the terms and conditions of this Contract and the Capital Contribution Schedule attached as Appendix 2 hereto;
- (2) Using its best endeavors (acting at all times in close consultation with Party B and Party C) to assist the Joint Venture to:
 - (a) obtain all necessary governmental approvals and completing all required registrations for the establishment and operation of the Joint Venture;
 - (b) liaise with PRC national, provincial, municipal or local governmental authorities and other relevant institutions or organizations;
 - (c) obtain the most preferential tax, customs, foreign exchange and other favorable treatment that are or may become available to the Joint Venture and/or the Parties under relevant national and local laws and regulations of the PRC; and
 - (d) procure necessary equipment, materials, articles for office use, means of transportation, telecommunications facilities and other public utilities, in accordance with the Joint Venture's request.
- (3) Using its best endeavors (acting at all times in close consultation with Party B and Party C) to assist the Joint Venture to register with the relevant tax bureau, to open such foreign exchange and RMB bank accounts, assist the Joint Venture with all required foreign exchange approvals, and assist the Joint Venture in applying for all approvals required to remit to Party B and Party C in foreign exchange distributable profits and all other payments required to be paid to Party B and/or Party C;
- (4) Providing necessary assistance to the Joint Venture in recruiting suitable management personnel, technical personnel and other necessary employees to be employed by the Joint Venture;
- (5) Assisting the Joint Venture to contact banks and other financial institutions inside the PRC and hold discussions with them with respect to the raising of any loans required by the Joint Venture;
- (6) Assisting foreign workers, staff, and personnel (including Directors, managers, technicians, and contractors appointed or selected by Party B and/or Party C) in obtaining PRC visas and work permits for travel to China directly related to the operation of the Joint Venture if requested by Party B and/or Party C;

(7) Causing Chengshan Group to enter into the lease agreements in substantially the form attached as Appendix 5 hereto in respect of the office space, single-worker dormitories and employee cafeteria with the Joint Venture, pursuant to which Chengshan Group, at the discretion and request of the Joint Venture, shall lease the office space, single-worker dormitory and employee cafeteria to the Joint Venture as necessary for normal and effective use and operation of the Joint Venture.

(8) Executing and performing, in accordance with the terms therein, the various Supplementary Contracts to which it is a party;

(9) Be responsible for any environmental pollution, fines, charges or losses caused by it prior to the Establishment Date, and indemnify the Joint Venture for any financial burden and/or losses arising out of any contamination caused by Party A prior to the Establishment Date; and

(10) Assisting with and carrying out other relevant matters as may be reasonably requested by the Board from time to time.

7.2 Responsibilities of Party B. In addition to its other obligations under this Contract, Party B shall be responsible for the following matters:

(1) Providing capital contributions in accordance with the terms and conditions of this Contract and the Capital Contribution Schedule attached as Appendix 2 hereto;

(2) Providing any necessary assistance to the Joint Venture's recruitment of suitable expatriate management personnel, technical personnel and other necessary expatriate employees to be employed by the Joint Venture on the basis of merit;

(3) Assisting the Joint Venture to contact banks and other financial institutions outside of the PRC and hold discussions with them with respect to the raising of any foreign exchange loans required by the Joint Venture;

(4) Assisting the Joint Venture in training key staff and employees;

(5) Seconding relevant management personnel, technical personnel and other necessary staff to work for the Joint Venture as per the Joint Venture's request;

(6) To the extent practicable, providing internationally advanced technology to the Joint Venture; and

(7) Assisting with and carrying out other relevant matters requested by the Joint Venture from time to time.

7.3 Responsibilities of Party C. In addition to its other obligations under this Contract, Party C shall be responsible for the following matters:

(1) Providing capital contributions in accordance with the terms and conditions of this Contract and the Capital Contribution Schedule attached as Appendix 2 hereto; and

(2) Assisting with and carrying out other relevant matters requested by the Joint Venture from time to time.

7.4 Execution of Supplementary Contracts. Before the Establishment Date, the Parties may jointly sign the Supplementary Contracts on behalf of the Joint Venture. After the Establishment Date, all Supplementary Contracts signed by the Parties shall be ratified by the Board in accordance with the procedures set forth herein and in the Joint Venture's Articles of Association and formally executed by the legal representative of the Joint Venture. Each Party shall be bound by the relevant Supplementary Contracts to which it is a contracting party on his own behalf, provided that, however, no Party shall incur any liability or assume any obligations solely as a result of its signing of any Supplementary Contracts on behalf of the Joint Venture before the Establishment Date.

7.5 Related Party Transactions. The Parties shall procure that all related party transactions with respect to the Joint Venture shall be transparent to the Parties and be conducted on an arm's length basis. Any significant purchases (including purchases of raw materials but excluding Products) by the Joint Venture from Party B or its Affiliates shall be sold by Party B or its Affiliates to the Joint Venture at cost, unless otherwise agreed by the Parties. The Vice General Manager or another member of the senior management team nominated by Party A, and either the General Manager or another member of the senior management team nominated by Party B shall approve all related party purchases.

CHAPTER 8 BOARD OF DIRECTORS

8.1 Formation of the Board.

(1) The Board shall be the highest authority of the Joint Venture. It shall discuss and determine all strategic business and financial issues and operational issues of the Joint Venture in accordance with the provisions of this Contract and the Articles of Association.

(2) The Board shall consist of seven (7) Directors, of which two (2) shall be appointed by Party A, four (4) shall be appointed by Party B, and one (1) shall be appointed by Party C. At the time this Contract is executed and when replacement Directors are appointed, the Parties shall notify one another in writing of the names and addresses of its appointees, together with a brief curriculum vitae and a list of other official functions, if any, that the relevant appointees will concurrently carry out for the Joint Venture. Each Party shall cause the Directors appointed by it to perform the obligations specified in this Contract and as required under relevant PRC laws and regulations.

(3) Directors shall each be appointed for terms of four (4) years, and may serve consecutive terms if reappointed by the Party originally appointing such Director.

(4) Any Party may, at any time with or without cause, remove and replace a Director that it has appointed by written notice to the Joint Venture and to the other Party. If a seat on the Board is vacated due to the retirement, resignation, illness, disability or death of a Director or by the removal of such Director by the

original appointing Party, the Party which originally appointed such Director shall appoint a successor to serve the remainder of such Director's term.

(5) If either Party or the Board has reason to believe that a Director has materially breached his/her duties as a Director (provided such breach appear to be supported by reasonable grounds as determined by a simple majority of the Directors), or has been convicted of committing an act or omission constituting fraud, theft, embezzlement or other violations of relevant PRC law, the Board may remove the relevant Director immediately. Following any such removal, the Party that originally appointed the relevant Director shall appoint a successor to serve the remainder of such Director's term.

8.2 Chairman and Vice Chairman of the Board.

(1) The Board shall have one (1) Chairman and one (1) Vice Chairman. A Director appointed by Party B shall serve as Chairman of the Board, and a Director appointed by Party A shall serve as Vice Chairman of the Board.

(2) The Chairman of the Board shall be the sole legal representative of the Joint Venture. The Chairman shall perform his or her duties and responsibilities within the scope of authority delegated by the Board, and in accordance with this Contract and relevant PRC laws. Without prejudice to Article 8.1(4) above, when the Chairman is temporarily unable to perform his or her responsibilities, he or she may designate in writing the Vice Chairman or any other Director to represent the Joint Venture in such capacity within such temporary period.

8.3 Powers of the Board.

(1) Each Director shall have one vote on any matter subjected to Board vote. Neither the Chairman nor the Vice-Chairman, in their capacity as such, shall be entitled to have any extra vote in any meeting of the Board. This provision is without prejudice to Article 8.4(6) on proxies.

(2) The quorum necessary for a meeting of the Board shall be two thirds (2/3) of the Directors. This requires at least five (5) directors to be in attendance for a quorum.

(3) The following matters require a decision by the Board supported by the affirmative vote of all Directors present and eligible to vote (or represented in accordance with Article 8.4(6) in a duly constituted meeting of the Board or as per Article 8.4(9):

- (a) any amendment of the Articles of Association;
- (b) termination of this Contract;
- (c) dissolution of the Joint Venture;
- (d) increase or decrease of the Registered Capital of the Joint Venture;

(e) amalgamation or merger of the Joint Venture with any other company, association, partnership or legal entity; and

(f) division or change in the form of legal organization of the Joint Venture.

(4) The following matters require a decision by the Board supported by the affirmative vote of two thirds (2/3) of the Directors present and eligible to vote (or represented in accordance with Article 8.4(6) in a duly constituted meeting of the Board or as per Article 8.4(9):

(a) overall macro business strategy;

(b) derivation from profit distribution plan set forth in Article 12;

(c) the Joint Venture's external guarantee;

(d) major assets disposal (defined as assets with a net book value greater than Five Million United States Dollars (US\$5,000,000));

(e) selection of the External Financial Auditor with the restriction that the selected Auditor must be one of the Big Four; and

(f) approval of financial control and financial reporting / accounting policies (must be in compliance with Chinese law and applicable U.S. law)

(5) The Parties agree that all matters except those listed in Article 8.3(3) and Article 8.3(4) above can be decided by the Board supported by a simple majority of Directors present and eligible to vote (or represented in accordance with Article 8.4(6)) in a duly constituted meeting of the Board or as per Article 8.4(9).

(6) The Board shall by resolution supported by a simple majority of Directors formally authorize the General Manager and/or other Persons with necessary powers to implement decisions of the Board in accordance with this Contract, and, more generally, to conduct the day-to-day business of the Joint Venture in accordance with the then current business plan.

(7) The Board shall adopt rules and procedures regarding (a) provision of guarantee or security by the Joint Venture to any Person, (b) creation of any security interest on any property of the Joint Venture, (c) custody of the Joint Venture's chops, and (d) such other matters as the Board deems necessary.

8.4 Board Meetings.

(1) Board meetings shall be held at least twice (2) a year. Meetings shall be held at the registered address of the Joint Venture or such other address in China or abroad as may be agreed by the Board. The first Board meeting shall be held no later than sixty (60) days after the Establishment Date.

(2) The agenda for Board meetings shall be determined by the Chairman of the Board, but shall include in any event the items proposed by other members of the Board.

- (3) Board Meetings shall require prior written notice to all Directors of not less than four (4) weeks (unless otherwise agreed unanimously by all the Directors) setting forth the date, time, place and agenda. Directors may waive their right to receive prior written notice of any meeting.
- (4) Upon the written notice of the Chairman of the Board or upon written request of one third (1/3) or more of the Directors of the Joint Venture specifying the matters to be discussed, the Chairman of the Board shall within thirty (30) days convene an interim meeting of the Board, provided that a quorum will be present for such an interim meeting, whether in person or by proxy.
- (5) The Chairman is responsible for convening and presiding over all Board meetings. If the Chairman is unable to convene and/or preside over a Board meeting, the Vice Chairman or a Director designated in writing by the Chairman shall convene and/or preside over such Board meeting.
- (6) Board meetings may be attended by Directors in person, by telephone or video conference, provided, however, that if a Director is unable to participate in a Board meeting, he/she shall issue a written proxy authorizing another Director or individual to attend the meeting on his/her behalf. A Director or other individual so entrusted shall have the same rights and powers as the Director who issued the proxy.
- (7) Board meetings shall be duly convened if a quorum is constituted in attendance, in person or by proxy. In the event that the Directors appointed by any Party fail to attend a Board meeting resulting in a lack of a quorum, and such failure to attend is due to a dispute between the Directors or Parties, such Party shall be deemed to be in breach of this Contract, and Article 17 will become applicable. If after two attempts to convene Board meetings that are not achieved due to the lack of a quorum, a Board meeting may be convened with a simple majority of Directors (provided such policy only applies to the face-to-face Board meetings).
- (8) For the purpose of this clause, if a written resolution is executed in identical counterparts, such signed counterparts shall together be deemed to constitute a single resolution, effective on the day the last Director signs the relevant counterpart.
- (9) Notwithstanding any other provisions herein, Board resolutions may be adopted by written consent by the Board in lieu of a meeting if the relevant resolutions are sent to all Directors and the resolutions are affirmatively signed and adopted by all Directors. Such written Board resolutions may consist of several counterparts in identical form each signed by one or more of the Directors. Such written Board resolutions shall be filed with the Board meeting minutes and shall have the same force and effect as a Board resolution adopted at a duly constituted and convened Board meeting.
- (10) Board meetings shall be held in English and Chinese and all Board minutes and Board resolutions and agendas and other Board meeting documents shall be prepared and provided in both English and Chinese. The Chairman shall cause complete and accurate minutes (in English and Chinese versions) to be kept of all

meetings (including meeting notices) and of matters addressed or raised at such meetings. Minutes of all Board meetings shall be circulated to all Directors promptly after each meeting. Any Director who wishes to propose any amendment or addition to the meeting minutes shall submit the same in writing to the Chairman not later than fifteen (15) days after receipt of the minutes, and the Chairman shall circulate such proposal to all the Directors. Any Director who wishes to object to the proposed amendment to the minutes shall submit the same in writing to the Chairman and all other Directors not later than fifteen (15) days after receipt of the proposed amendment, otherwise such proposed amendment shall be adopted and the minutes shall be amended accordingly. If the proposed amendment and relevant objection are not resolved within thirty (30) days of the Chairman's receipt of such objection, neither the proposal nor the objection shall be adopted but both would be noted as an attachment to the minutes. All Directors shall sign each page of the final minutes within sixty (60) days after receipt of same, and return such signed copy to the Joint Venture. The original minutes shall be kept on file with the Joint Venture and shall be available to any Director or their proxies for inspection or copying at any reasonable time.

(11) No remuneration shall be paid by the Joint Venture to any of its Directors in his/her capacity as such; provided, however, that in the event that a Director is concurrently an officer of the Joint Venture, such Director shall be entitled to remuneration for his/her service as an officer only. A Director may recover from the Joint Venture such expenses as are reasonably and properly incurred in connection with his/her attending the Board meetings or other activities of the Joint Venture where his/her presence is required. The Board shall establish a policy to implement this subsection.

CHAPTER 9 OPERATION AND MANAGEMENT

9.1 Operation Principle. The Joint Venture will through the technical exchange of the Parties constantly boost production technical level to reach an international modern level, including product design, manufacture process, testing method, material recipe, quality standard and personnel training. The Joint Venture will constantly exert efforts on technical reform based on the current production equipment, in order to enhance capability of product line and automatization, satisfy the technical requirement and the needs to promote the product grade.

9.2 Management Organization

(1) The Joint Venture shall establish an operation and management team to be responsible for the Joint Venture's daily operation and management. Such team shall include the General Manager and such other personnel as determined by the Board of Directors (the "MANAGEMENT PERSONNEL").

(2) The General Manager shall be appointed by the Board upon the nomination of Party B and the Joint Venture Controller ("JV CONTROLLER") shall be appointed by the Board upon the nomination of Party A. Each of the Management Personnel shall be appointed or removed by the General Manager, except that the Vice General Manager and JV Controller shall be appointed or removed by the Board. Any of the Management Personnel shall handle matters delegated to him or her

by the General Manager and shall be responsible to the General Manager for the efficient implementation of such responsibilities.

(3) In the event that the General Manager, Vice General Manager or JV Controller is found incompetent, commits graft or serious dereliction of duty, he/she shall be dismissed by the Board.

9.3 Responsibilities of Management Personnel

(1) The responsibility of the General Manager shall be to carry out the various resolutions of the Board and to organize and direct the daily operation and management of the Joint Venture. The General Manager may consult with the Vice General Manager in dealing with material matters, but the General Manager shall have the authority to make final decisions.

(2) Subject to the terms and conditions imposed by the Board, the JV Controller shall be in charge of the day-to-day financial operations of the Joint Venture under the supervision of the General Manager, shall assist the General Manager in preparation of the documents set out in Article 9.3(5)(a)(1) below, and shall carry out the decisions of the Board and General Manager.

(3) If the General Manager or any other Management Personnel intends to resign from his or her position, such person shall be required to submit the resignation notice to the Board at least thirty (30) days prior to the intended departure date.

(4) The General Manager shall, within the scope of the authority conferred upon him/her by the Board, represent the Joint Venture in dealings with other parties, and appoint and dismiss subordinates.

(5) The General Manager shall be responsible for preparation of following documents (all in both Chinese and English languages):

(a) he/she shall prepare for submission to the Board for review and approval, and upon such approval shall implement, the following:

(i) an annual operating plan, operating budget, marketing and sales budget, financial budget, business and sales performance targets for the Joint Venture;

(ii) the organizational and managerial rules of the Joint Venture;

(iii) any other documents or plans for the Joint Venture that are deemed necessary by the Board.

(b) he/she shall submit any major revisions to such budgets, plans or manuals for the Joint Venture to the Board for review and approval prior to their implementation.

(6) The General Manager shall submit a quarterly production and sales report and quarterly financial statements for the Joint Venture to the Board. Such reports

and statements shall be submitted in both Chinese and English languages within thirty (30) days following the close of the quarter to which such a report relates.

(7) When the General Manager is unable to carry out his duties, the Vice General Manager may serve as the acting General Manager until a new General Manager or acting General Manager is appointed by the Board upon the nomination of Party B in the next Board meeting convened in accordance with Article 8.4 herein.

(8) The General Manager and all other Management Personnel and working personnel of the Joint Venture shall be required not to disclose any commercial secrets or trade secrets of the Joint Venture.

9.4 Qualifications of Management Personnel

(1) The General Manager and the other Management Personnel shall be skilled and qualified as for the management of the Joint Venture, and meet other qualifications and the performance criteria established by the Board.

(2) Compensation and other terms and conditions of employment for the General Manager and other Management Personnel shall be determined by the Board and provided in the employment contracts signed between the relevant individual and the Joint Venture. The Joint Venture shall bear the salary as well as proper compensation package of expatriate employees (if any).

CHAPTER 10 LABOR MANAGEMENT

- 10.1 Governing Principle. Matters relating to the recruitment, employment, management, dismissal, resignation, wages, welfare benefits, subsidies, labor insurance, social security and other matters concerning the staff of the Joint Venture shall be determined by the Board in accordance with the labor and social security laws and regulations of the PRC. The General Manager shall implement plans approved by the Board.
- 10.2 Working Personnel. Employees of the Joint Venture shall be employed in accordance with the provisions of this Contract, the Articles of Association, and the terms and conditions of the individual employment contracts concluded with each respective employee.
- 10.3 Compensation. In accordance with PRC laws and regulations concerning labor compensation, the General Manager shall implement a compensation system whereby employees are compensated in accordance with their technical ability, education, performance and position.
- 10.4 Confidentiality and Non-compete. The Joint Venture shall enter into Non-Disclosure and Non-Compete Contracts with each of its key employees, and the terms of such contract shall be determined by the Board. The Board may require the Joint Venture to enter into similar contracts with other employees.
- 10.5 Labor Union. Employees of the Joint Venture may establish a labor union in accordance with the Labor Union Law of the PRC (the "LABOR UNION LAW") and other laws and

regulations relating to labor union activities of foreign invested enterprises. The Joint Venture shall allocate an ascertained amount of funds to the labor union in accordance with the published and effective laws and regulations in relation to labor union, which amount shall be determined by the Board in accordance with the applicable laws and regulations in China.

- 10.6 Agreement on Labor/Personnel Issues. The Parties shall, at the same time of the execution of this Contract, enter into an agreement on labor/personnel issues as attached as Appendix 4 hereto to provide for the details of the labor personnel issues.

CHAPTER 11 FINANCIAL AFFAIRS AND ACCOUNTING

11.1 Business Plan and Financial Budget

The Parties have agreed on the procedure to make the annual business plan and annual financial budget as follows: the Parties shall work together in the manner of from bottom to the top and for the best interest of the Joint Venture to establish the annual business plan and annual financial budget to be submitted to the Board.

11.2 Accounting System.

- (1) The Joint Venture shall maintain its books and record in accordance with accounting systems and procedures established in accordance with relevant PRC laws and regulations. Accounting systems and records in accordance with any international accounting rules preferred by Party B shall also be maintained to the full extent permitted by PRC law. The accounting systems and procedures to be adopted by the Joint Venture shall be submitted to the Board for approval. Once approved by the Board, the accounting systems and procedures shall be filed with the relevant government finance department and tax department for records. The debit and credit method, as well as the accrual basis of accounting, shall be adopted as the methods and principles for keeping accounts.
- (2) Unless this Article 11.2 provides otherwise, all accounting books and financial statements of the Joint Venture, and all routine accounting records, vouchers, etc., shall be made in both English and Chinese if necessary.
- (3) The Joint Venture shall adopt RMB as its standard bookkeeping base currency and shall also use US Dollar as supplementary bookkeeping currency. For purposes of preparing the Joint Venture's accounts and statements of the Parties' capital contributions, and for any other purposes where it may be necessary to effect a currency conversion, such conversion shall be made in accordance with the applicable accounting rules and relevant PRC laws and regulations.
- (4) Monthly and annual financial statements for the Joint Venture shall be prepared in both the Chinese and English languages, and in RMB and in US Dollars. Such statements shall include at least the following: balance sheet, profit and loss statements, and cash flow statement, and shall be kept and provided to each Party and to the relevant authorities as required by relevant PRC accounting regulations, and to Party B within ten (10) days following the close of the quarter to which each of them relates to meet the relevant U.S. reporting requirement.

11.3 Auditing.

- (1) At the expense of the Joint Venture, the Joint Venture's Auditor shall be appointed by the Board to conduct an audit of the annual financial statements and accounts of the Joint Venture. The Parties agree that the Joint Venture shall, within three (3) months after the end of a fiscal year, submit to the Parties an annual statement of final accounts (including the audited profit and loss statement, balance sheet, cash flow statement, and statement for retained earnings for the fiscal year), together with the audit reports of the Joint Venture's Auditor.
- (2) Each Party shall have the right at any time to audit the entire accounts of the Joint Venture within thirty-six (36) months from the end of the period to be audited. At the end of such audit, the Party requesting such an audit may submit queries concerning the audit to the Board. The Board shall reply in written form within sixty (60) days after receipt of the queries concerning the audit. Reasonable access to the Joint Venture's financial records shall be given to such auditor and such auditor shall keep confidential all documents under his/her audit.
- (3) When a Party conducts an audit pursuant to Article 11.3(2), it shall bear the expenses incurred and the responsibility for the appointed auditor in maintaining confidentiality of all the documents so audited.

11.4 Bank Account & Foreign Exchange Control. The Joint Venture shall open foreign exchange accounts and RMB accounts and handle foreign exchange transactions in accordance with relevant PRC laws and regulations. The Board shall determine the signatories required for any disbursements of funds from such accounts and shall establish internal control policies relating to these accounts.

11.5 Fiscal Year. The Joint Venture shall adopt the calendar year as its fiscal year, which shall begin on January 1 and end on December 31 of the same year. The first fiscal year of the Joint Venture shall commence on the Establishment Date and shall end on December 31 thereafter.

CHAPTER 12 PROFIT DISTRIBUTION

- 12.1 Allocation to Funds. After payment of income taxes by the Joint Venture, the Board shall determine the annual allocations from the after-tax net profits to set aside reserve funds, expansion funds and bonus and welfare funds for staff and workers in accordance with applicable PRC laws and regulations.
- 12.2 Dividend Policy. After payment of all payable income tax, and the allocation of funds pursuant to Article 12.1 hereof, the Board shall determine the annual dividend distribution of the Joint Venture each year. The amount of dividend to be distributed in respect of any year shall be 25% (or such higher percentage as determined by the Board) of the Joint Venture's net income after tax as reported in the audited annual financial statements of the Joint Venture for the year as provided for in Article 11.5 above, but not to exceed the projected Free Cashflow of the Joint Venture for the immediate

following year. The projected Free Cashflow for the immediate following year shall be the amount of surplus cash projected to be generated by the Joint Venture in its ordinary course of business less any projected capital expenditures for that immediate following year based on the Joint Venture's operating budget as approved by the Board for that immediate following year.

For fiscal years 2009, 2010 and 2011, a dividend in the amount of the greater of (i) the amount calculated above; or (ii) 10% of the Joint Venture's net income after tax as reported in the audited annual financial statement will be distributed. In 2011, the Parties shall review and agree the methodology of the amount of dividend distribution for subsequent fiscal years.

For the avoidance of doubt, the Joint Venture shall not, in any circumstances, obtain any additional borrowings from any bank or other third party for the purpose of financing such dividend payment other than the 10% dividend payable in fiscal years 2009, 2010 and 2011.

All dividends payable to Party B and Party C shall be paid in US\$. The Joint Venture shall bear any loss, gain or bank charges or other fees associated with the dividends payment.

CHAPTER 13 TAXATION AND INSURANCE

- 13.1 Income Tax, Customs Duties and Other Taxes. The Joint Venture and its employees shall pay taxes pursuant to relevant PRC laws and regulations. The Joint Venture shall use its best endeavors to apply for and obtain preferential treatment, including tax and customs benefits, permitted by the law.
- 13.2 Insurance. The Joint Venture shall maintain, in accordance with relevant PRC law, insurance as determined by the Board from time to time to cover the Joint Venture's assets, operations and other business activities.
- 13.3 Product Liability Insurance. The Joint Venture shall secure and will maintain combined limits of twenty-five million U.S. dollars (US\$25,000,000.00) product liability insurance for each occurrence and aggregate. Such insurance coverage shall name Cooper and its Affiliates which might be held liable for the Products of the Joint Venture as additional insureds and such insurance shall not be subject to cancellation without thirty (30) calendar days prior written notice to Cooper. A certificate of such insurance will be provided to Cooper.

CHAPTER 14 PURCHASE OF MATERIALS AND SALE OF PRODUCTS

- 14.1 Purchase of Materials
 - (1) In meeting its requirements for materials, equipment, components, transportation vehicles and articles for office use, the Joint Venture will at its discretion purchase such items inside or outside the PRC to the maximum extent consistent with the efficient operation and quality standards of the Joint Venture.

(2) All the reasonable costs and expenses incurred by any Party in connection with the sourcing and purchase for the Joint Venture as stipulated in Article 14.1(1) shall be reimbursed by the Joint Venture.

14.2 Sale of Products

(1) The Joint Venture shall formulate and, with the approval of the Board, adopt both domestic and international sales plans for the Products. The Joint Venture shall market, distribute and sell its Products according to a pricing policy approved by the Board. The Joint Venture may appoint distributors and sale agents in different regions inside or outside the PRC, subject to the general terms and conditions of such appointment.

(2) In order for the convenience of distributing, marketing and selling

the Products, the Joint Venture may establish branch offices inside or outside the PRC subject to authorization by the Board and the approval by the relevant authorities.

14.3 Sale of Cooper Branded Products

The Parties hereby acknowledge that the Products to be produced by the Joint Venture and branded with the trademarks belonging to Cooper (the "COOPER BRANDED PRODUCTS") will be merely sold to and distributed by Cooper or its Affiliates.

CHAPTER 15 CONFIDENTIALITY AND NON-COMPETE

15.1 Confidentiality.

- (1) Except as otherwise specifically provided in this Article 15.1, neither any Party nor the Joint Venture shall divulge, disclose or communicate, or permit to be divulged, disclosed or communicated, to any unaffiliated third party in any manner, directly or indirectly, any Confidential Information, and each Party and the Joint Venture shall ensure that their respective Affiliates, officers, directors, employees (including, without limitation, individuals seconded thereto), agents and contractors (collectively "REPRESENTATIVES") do not divulge, disclose or communicate, or permit to be divulged, disclosed or communicated, to any unaffiliated third party in any manner, directly or indirectly, any Confidential Information. Confidential Information shall remain the exclusive and sole property of the relevant disclosing party (the "PROTECTED PARTY") and shall be promptly returned upon the request of the Protected Party.
- (2) The Parties and the Joint Venture shall only disclose or permit to be disclosed Confidential Information to those of their respective Representatives who have a need to know such Confidential Information (and then shall only disclose such portion of the Confidential Information as is necessary) in order to consummate the transactions contemplated herein and to establish or conduct the Joint Venture's business and operations in the ordinary course. Each Party and the Joint Venture shall advise its Representatives of the confidentiality provisions hereunder, shall require relevant Representatives to sign agreements substantially similar to the Non-Disclosure and Non-Compete Contract, and shall be

responsible to the Protected Party for any noncompliance by any such Representative.

- (3) In the event that any Party, the Joint Venture, or any of their respective Representatives is required by applicable law or is validly ordered by a governmental entity having proper jurisdiction to disclose any Confidential Information, the affected party shall, as soon as possible in the circumstances, provide the Protected Party with prompt prior written notice of the disclosure request or requirement, and, if requested by the Protected Party, shall furnish to the Protected Party an opinion of legal counsel that the release of all such Confidential Information is required by applicable law. The proposed disclosing party shall seek, with the reasonable cooperation of the Protected Party if necessary, a protective order or other appropriate remedy and shall exercise best efforts to obtain assurances that confidential treatment will be accorded to any Confidential Information disclosed.
- (4) The Parties and the Joint Venture shall take all other necessary, appropriate or desirable actions to preserve the confidentiality of the Confidential Information.
- (5) This Article 15.1 and the obligations and benefits hereunder shall survive for a period of ten (10) years after the termination or expiration of this Contract or the termination, dissolution or liquidation of the Joint Venture or any of the Parties, provided that, however, any information concerning, directly or indirectly, the proprietary trade secrets of the Joint Venture or a Party shall be preserved in confidentiality and be entitled to the obligations and benefits hereunder in perpetuity.

15.2 Non-Compete.

- (1) Party A hereby specifically undertakes that it shall, and shall cause its Affiliates or related companies, to refrain from directly or indirectly engaging in, whether by itself or through any individual or entity, any activities that competes with any business or activities of the Joint Venture anywhere in the PRC, except as otherwise provided in this Contract, during the period when it holds any Interest in this Joint Venture and for a period of five (5) years after it has ceased to hold any Interest in the Joint Venture, provided, however, that Party A shall have the right to sell its inventories under Customs control outside of China within nine (9) months from the date of this Contract.
- (2) Without prejudice to the terms and conditions under this Contract, in the event that Party B or any of its Affiliates contemplates an investment in Shandong Province in a half-steel radial passenger and light truck tires manufacturing entity other than the Joint Venture during the period of Party A or its permitted successor holding any Interest of the Joint Venture, Party B or its said Affiliate will consider and support in good faith and with every best effort the opportunity for Party A or its permitted successor to participate in such investment, subject to the following conditions that:
 - (a) Party B or its said Affiliate shall own majority percentage of such investment;

(b) Party A or its permitted successor shall use its own fund for such investment;

(c) the extent of Party A or its permitted successor's participation in such investment shall be agreed upon by Party B or its said Affiliate, Party A or its permitted successor and the said tire manufacturing entity where such investment will be made; and

(d) the said investment of Party A or its permitted successor shall originate from within the territory of China.

CHAPTER 16 DURATION, TERMINATION AND LIQUIDATION

16.1 Joint Venture Term and Extension. The term of the Joint Venture shall be fifty (50) years ("JOINT VENTURE TERM"), which shall commence on the Establishment Date. One (1) year prior to the expiration of the Joint Venture Term, the Parties may discuss the extension of such term. If the Parties agree and the Board approves, an application for such extension shall be submitted to the Examination and Approval Authority for approval no less than six (6) months prior to the expiration of the Joint Venture Term.

16.2 Termination.

- (1) Unless extended in accordance with Article 16.1, this Contract shall terminate automatically upon the expiration of the Joint Venture Term.
- (2) This Contract may be terminated at any time upon the written agreement of all of the Parties, in which case the Parties shall instruct the Directors to vote to liquidate the Joint Venture as per this Contract and the relevant laws and regulation of the PRC.
- (3) A Party (the "NOTIFYING PARTY") shall have the right to terminate this Contract by providing written notice ("TERMINATION NOTICE") to the other Parties if any of the following events occur:
 - (a) one or more of the conditions specified in Article 5.4 are not met within three (3) months of the date of execution by the Parties of this Contract, and no resolution is agreed upon following consultations between the Parties to extend the Capital Contribution Schedule, or the extended Capital Contribution Schedule would go beyond the required time period under the relevant PRC laws and regulations;
 - (b) a Party (not being the Notifying Party) materially breaches the obligations contained in this Contract or any Supplementary Contract to which the Party is a party or any of its representations or warranties under said contract is or becomes untrue in any material respect (the "EVENT OF DEFAULT"), and has failed to remedy such Event of Default within sixty (60) days of a written notice from the Notifying Party;
 - (c) a Party (not being the Notifying Party) is or becomes a party to, bound by or held liable by any orders, decisions, judgments, awards, decrees or

rulings of any courts, arbitral tribunals, governmental or regulatory agencies, as a result of such Party's breach in any way of any applicable legislation, laws, regulations, statutes, rules, guidelines, notices, or circulars of any statutory or regulatory bodies, and said breach would affect or change the intent or mind of any other Party to enter into this Contract or maintain the partnership with such Party, or would in any way hinder or interfere with the execution or delivery by any Party of this Contract or its performance of any of the terms and obligations hereof;

- (d) any Party (not being the Notifying Party) becomes bankrupt, or is the subject of proceedings for liquidation or dissolution, or ceases to carry on business (except Party A) or becomes unable to pay its debts as they come due so as to become insolvent, in which case the relevant Party shall immediately notify the other Parties in respect of such situation;
- (e) the Joint Venture becomes bankrupt, or is the subject of proceedings for liquidation or dissolution, or ceases to carry on business or becomes unable to pay its debts as they come due;
- (f) the conditions or consequences of any event of Force Majeure continue for a period of three (3) months without any equitable solution agreed to by the Parties;
- (g) a majority of the members of the Board are unable to reach an agreement on an annual operating plan, operating budget, marketing and sales budget, financial budget, business and sales performance targets for the Joint Venture or the issues not specified in the business scope of the Joint Venture as defined in Article 4.2 above and such deadlock cannot be resolved after a period of one hundred and twenty (120) days;
- (h) the Joint Venture's Business License is revoked, suspended, or amended (in a manner not agreed to in writing by the Parties) or in any other situation such that the Joint Venture is precluded or prevented from carrying out its business; or
- (i) the Joint Venture fails to obtain external finance such that the Joint Venture is substantially prevented from implementing its business plan, except if the Board decides to continue.

16.3 Subsequent Obligations

- (1) Where a Termination Notice has been served in the circumstances set out in Article 16.2(3)(b) or Article 16.2(3)(c), the non-breaching Party(ies) shall have the option, but not the obligation, to buy out the breaching Party's Percentage Interest in the Joint Venture in accordance with the following procedures:
 - (a) within 30 days of the issuance of the Termination Notice, the Board of Directors shall, by a majority vote appoint an internationally recognized accounting firm or other appraiser (an "APPRAISER") to determine the Book Value of the Joint Venture, which value should not take into consideration the values of the trademarks and technologies licensed by

Cooper to the Joint Venture. Such Appraiser shall complete its assessment of the Book Value of the Joint Venture and notify the Parties thereof in writing within 60 days of their appointment.

- (b) upon completion of the determination of the Book Value of the Joint Venture, the non-breaching Party(ies) shall have the option to purchase the breaching Party's share of the Registered Capital of the Joint Venture at a price equal to:

Book Value x the breaching Party's share of the Registered Capital at the time of valuation x 80%

If more than one non-breaching Party exercises its option, each shall have the right to purchase a fraction of the Interest of the breaching Party equal to its Percentage Interest divided by the sum of the Percentage Interests of both non-breaching Parties.

- (c) The purchasing Party(ies) shall have the right to designate a third party enterprise to purchase all or part of the breaching Party's Percentage Interest for the price (or portion thereof) set forth in Article 16.3(1)(b) hereof.
- (d) The Parties agree to take all such steps as may be required to effect the sale of the selling Party's Interest in the Joint Venture, including obtaining all necessary government approvals for the transfer of the Interest to the purchasing Party (or its designee) and causing their respective Board appointees to approve such transfer, and executing all documents necessary or advisable to effect such transfer. If such government approvals are not obtained within ninety (90) days after the signing of the interest transfer agreement between the selling Party and the purchasing Party(ies) (or its designee), the exercise of the option shall be null and void and the Joint Venture shall be liquidated, if so proposed by a non-breaching Party, in accordance with the provisions of Article 16.4 hereof. Such liquidation shall not prejudice the rights that the non-breaching Party(ies) may otherwise have against the breaching Party.

- (2) Where a Termination Notice has been served in any circumstances except as set out in Article 16.2(3)(b) and Article 16.2(3)(c), the following shall apply:

- (a) Party B shall have the right, at its sole discretion, to purchase the Percentage Interest(s) of Party A and/or Party C at a price equal to the Book Value as determined by the Auditor of such Percentage Interest(s) at the time x 80%, which value should not take into consideration the values of the trademarks and technologies licensed by Cooper to the Joint Venture. To exercise its right, Party B must provide a written notice of its intention thereof ("NOTICE") within fifteen (15) days after the Termination Notice was issued. The Parties shall then complete the sale of Percentage Interest(s) of Party A and/or Party C to Party B within the longer of the period of ninety (90) days after receipt of the Notice or fifteen (15) days after such sale of Percentage Interest(s) is duly approved by the Examination and Approval Authority and registered with the

Registration Authority. If Party B fails to exercise its right to purchase the Percentage Interest of either Party A or Party C, Party A and/or Party C shall have the right to purchase Party B's Percentage Interest at a price equal to the Book Value of such Percentage Interest at the time x 80%. To exercise its right, Party A and/or Party C shall provide a Notice to Party B within the 15-day period starting from the sixteenth (16th) day after the Termination Notice is issued or a later date on which Party A and/or Party C learns that Party B will not exercise its right stated above. The Parties shall then complete the sale of Party B's Percentage Interest to Party A and/or Party C within the longer of the period of ninety (90) days after receipt of the Notice or fifteen (15) days after such sale of Percentage Interest is duly approved by the Examination and Approval Authority and registered with the Registration Authority. If Party A and Party C both exercise their purchase options, each shall have the right to purchase a fraction of the Interest of Party B equal to its Percentage Interest divided by the sum of the Percentage Interests of Party A and Party C.

- (b) If no Party wishes to exercise its right to purchase the Percentage Interest(s) of other Party(ies), the Parties shall use all reasonable efforts to sell the Joint Venture as a going concern to one or more third parties, either as a single transaction or through more than one transaction. In this Article 16.3(2), third parties include Affiliates. The Parties shall cooperate and cause the Directors appointed by them to cooperate in any required re-structuring of the Joint Venture prior to such sale if necessary or desirable to facilitate the same or optimize the salability of the Joint Venture and the business conducted by it and the sales proceeds for the Parties. The price and terms of such sale shall be agreed between the third party(ies) concerned and the Parties.
- (3) In the event that Party B together with any of its Affiliates cease to have any interest in the Registered Capital of the Joint Venture, each Party shall take all steps necessary to ensure that the name of the Joint Venture is immediately changed so that it no longer contains any reference to "Cooper" in English or the local Chinese language equivalent of such name.
- (4) Termination of this Contract shall not affect the rights and obligations of the Parties and the Joint Venture incurred prior to the termination or caused by such termination. If termination of this Contract is caused by a Party's breach of any of its obligations under this Contract, then such Party shall compensate the other Party(ies) and the Joint Venture for all of their losses resulting from such breach.

16.4 Liquidation.

- (1) Liquidation of the Joint Venture shall begin from the earliest of the date of liquidation approval by the relevant Examination and Approval Authority, the date on which this Contract is terminated under Article 16.2 (provided a buy-sell is not effected), the date on which the Asset Purchase Agreement is terminated under Article 5.3.1, Article 7.5.3, Article 10.2.1 or Article 12.4 thereof, or by a court or arbitration order, or the date which is 30-day prior to expiration of the Joint Venture Term.

(2) The Board shall within fifteen (15) days from the beginning of the liquidation as provided in Article 16.4 hereof, appoint a liquidation committee that shall be entitled to represent the Joint Venture in all legal matters during the period of liquidation. The liquidation committee shall value and liquidate the Joint Venture's assets in accordance with applicable PRC laws and regulations and the principles set out herein.

(3) The liquidation committee shall be made up of three (3) members appointed by the Board, two (2) of whom shall be recommended by Party B and one (1) of whom shall be recommended by Party A and Party C. Members of the liquidation committee in principle shall be selected from the Directors of the Joint Venture. Any Party may recommend the appointment of professional advisors to be members of or to assist the liquidation committee.

(4) The liquidation committee shall conduct a thorough examination of the Joint Venture's assets and liabilities, on the basis of which it shall, in accordance with the relevant provisions of this Contract, develop a liquidation plan which, if approved by the Board, shall be executed under the liquidation committee's supervision. Settlement of any claim, debt or assets under liquidation shall be approved unanimously by members of the liquidation committee; failing such unanimous approval, simple majority approval by the Board shall be required.

(5) In developing and executing the liquidation plan, the liquidation committee shall use every effort to obtain the highest possible price for the Joint Venture's assets.

(6) The liquidation expenses, including remuneration to members of and advisors to the liquidation committee, shall be paid in accordance with the PRC law out of the Joint Venture's assets in priority to the claims of other creditors.

(7) After the liquidation committee has settled all legitimate debts of the Joint Venture, including, if applicable, the expenses of the liquidation committee in accordance with Article 16.4 (6), any remaining assets shall be distributed to the Parties in proportion to their Percentage Interests. With respect to fixed assets distributed to the Parties, in the event that a Party intends to sell such fixed assets to a third party, the other Parties shall have the preemptive right during the liquidation period to purchase such fixed assets on the same terms and conditions and at the same price as offered to any third party.

(8) On completion of liquidation, the liquidation committee shall prepare a liquidation report and liquidation accounting statement. The liquidation committee shall, with its unanimous approval (failing such approval, simple majority approval by the Board), appoint a certified public accounting firm to examine the report and statement and issue a verification report.

(9) After completion of the liquidation of the Joint Venture, unless the tax authority requires otherwise, the original accounting books and other documents of the Joint Venture shall be left in the care of Party A to make and retain copies of all or any of such books and documents, after which the copies of such books and documents shall be left in the care of Party B and Party C.

CHAPTER 17 BREACH OF CONTRACT

In the event that a breach of contract committed by any Party to this Contract results in the non-performance of or inability to fully perform this Contract, the liabilities arising from the breach of Contract shall be borne by the Party in breach. In the event that the Parties commit a breach of Contract, each Party shall bear its individual share of the liabilities arising from the breach of Contract. Any breach of this Contract by any Party's Affiliate shall be deemed a breach by such Party. Any breach of contract committed by any Party resulting in the nonperformance of or inability to fully perform any Supplementary Contract(s) shall be deemed a breach by such Party of this Contract.

CHAPTER 18 FORCE MAJEURE

- 18.1 Scope of Force Majeure. A "FORCE MAJEURE EVENT" shall mean any event, circumstance or condition that (i) directly or indirectly prevents the fulfillment of any material obligation set forth in this Contract, (ii) is beyond the reasonable control of the respective Party, and (iii) could not, by the exercise of reasonable care, have been avoided or overcome in whole or in part by such Party. Subject to the aforementioned items (i), (ii) and (iii), Force Majeure Event includes, but is not limited to, natural disasters such as acts of God, earthquake, windstorm and flood, terrifying events such as war, terrorism, civil commotion, riot, blockade or embargo, fire, explosion, off-stream or strike or other labor disputes, epidemic and pestilence, material accident or by reason of any law, order, proclamation, regulation, ordinance, demand, expropriation, requisition or requirement or any other act of any governmental authority, including military action, court orders, judgments or decrees.
- 18.2 Notice. Should any Party be prevented from performing the terms and conditions of this Contract due to the occurrence of a Force Majeure Event, the prevented Party shall send notice to the other Parties within fourteen (14) days from the occurrence of the Force Majeure Event stating in the details of such Force Majeure Event.
- 18.3 Performance. Any delay or failure in performance of this Contract caused by a Force Majeure Event shall not constitute a default by the prevented Party or give rise to any claim for damages, losses or penalties. Under such circumstances, the Parties are still under an obligation to take reasonable measures to perform this Contract, so far as is practical. The prevented Party shall send notice to the other Parties as soon as possible of the elimination of the Force Majeure Event, and confirm receipt of such notice.
- 18.4 Consultations and Termination. Should the Force Majeure Event continue to delay implementation of this Contract for a period of more than three (3) months, the Parties shall, through consultations, decide whether to terminate or modify this Contract. Should the Force Majeure Event continue for a period of six (6) months or longer, any Party may terminate this Contract by giving notice to the other Parties in accordance with Article 16.2.

CHAPTER 19 DISPUTE RESOLUTION

- 19.1 Consultations and Arbitration. Any and all disputes, controversies or claims (the "DISPUTE") arising out of or relating to the formation, validity, interpretation,

implementation or termination of this Contract, or the breach hereof or relationships created hereby shall be settled through friendly consultations. If a Dispute is not resolved through friendly consultations within thirty (30) days from the date a Party gives the other Parties written notice of a Dispute, then it shall be resolved exclusively and finally by arbitration in Hong Kong at the Hong Kong International Arbitration Center ("HKIC") in accordance with the arbitration rules of the HKIC (the "HKIC RULES") for the time being in force which rules are deemed to be incorporated by reference to this clause.

- 19.2 Arbitration Proceedings and Award. Any arbitration shall be heard before a tribunal consisting of three (3) arbitrators. Each side of the Dispute shall appoint one (1) arbitrator. The two arbitrators thus appointed shall choose the third arbitrator who will act as the presiding arbitrator of the tribunal. If the two arbitrators have not agreed on the choice of the presiding arbitrator, the presiding arbitrator shall be appointed by the Chairman of the HKIC. The language of the arbitration shall be English and Chinese. The arbitration shall be final and binding on the Parties, shall not be subject to any appeal, and the Parties agree to be bound thereby and to act accordingly. The award of the arbitrators may be enforced by any court having jurisdiction to do so. Throughout any dispute resolution and arbitration proceedings, the Parties shall continue to perform this Contract, to the extent practical, with the exception of those parts of this Contract that are under arbitration. Except as otherwise determined by the arbitration tribunal, each Party shall be responsible for its expenses incurred in connection with resolving any Dispute, but the arbitration fees shall be borne by the losing side of the Dispute.
- 19.3 Injunctive Relief. Notwithstanding any other provision of this Contract, each Party acknowledges that a breach of provisions on confidentiality as provided in Article 15.1 or non-competition in Article 15.2 or other obligations under this Contract may result in irreparable harm and damage to the affected Party and its Affiliates in an amount that is difficult to ascertain and that cannot be adequately compensated by a monetary award. Accordingly, in addition to any other relief to which the affected Party and its Affiliates may be entitled, such Party shall be entitled to temporary and/or permanent injunctive relief from any breach or threatened breach by the relevant Party without proof of actual damages that have been or may be caused to such Parties by such breach or threatened breach.

CHAPTER 20 GOVERNING LAW & CHANGE OF LAW

- 20.1 Applicable Law. The formation of this Contract, its validity, interpretation, execution and any performance of this Contract, and the settlement of any Disputes hereunder, shall be governed by published and publicly available laws, rules and regulations of the PRC, the applicable provisions of any international treaties and conventions to which the PRC is a party, and, if there are no published or publicly available PRC laws, rules or regulations, or treaties or conventions governing a particular matter, by general international commercial practices.
- 20.2 Change of Law. If any Party's economic benefits as a shareholder in the Joint Venture is adversely and materially affected by the promulgation of any new PRC laws, rules or regulations or the amendment or interpretation of any existing PRC laws, rules or regulations after the Effective Date, the Parties shall promptly consult with each other and use their best endeavors to implement any adjustments necessary to maintain each

Attn: Zhang Jun-quan

Party B Address: Whitepark House, White Park Road, Bridgetown,
Barbados
Tel: (1-246) 4310-070
Fax: (1-246) 4310-076
Attn: Keisha N. Hgde

Party C Address: P.O. Box 957, Offshore Incorporations Center,
Road Town, Tortola, British Virgin Islands
Tel: (852) 2526-8111
Fax: (852) 2526-5322
Attn: Iris Yeung

- 22.4 Severability. If any provision of this Contract should be or become fully or partially invalid, illegal or unenforceable in any respect for any reason whatsoever, the validity, legality and enforceability of the remaining provisions of this Contract shall not in any way be affected or impaired thereby.
- 22.5 Entire Agreement. This Contract, together with its Appendices which are hereby incorporated by reference as an inseparable and integral part of this Contract, constitutes the entire agreement among the Parties with reference to the subject matter hereof, and supersede any agreements, contracts, representations and understandings, oral or written, made prior to the signing of this Contract.
- 22.6 Modification and Amendment. No amendment or modification of this Contract, whether by way of addition, deletion or other change of any of its terms, shall be valid or effective unless a variation is agreed to in writing and signed by authorized representatives of each of the Parties and approved by the Examination and Approval Authority.
- 22.7 Successors. The Parties agree and procure that this Contract shall inure to the benefit of and be binding upon each of the Parties and their respective permitted successors and permissible assignees.
- 22.8 Originals. This Contract is executed in nine (9) original counterparts, each of which shall have equal effect in law.
- 22.9 Costs and Expenses. Except as otherwise provided herein, each Party shall be responsible for the costs and expenses it incurred in connection with the negotiation and execution of this Contract, the Articles of Association, and the Supplementary Contracts.

IN WITNESS WHEREOF, each of the Parties has executed this Contract or has caused this Contract to be executed by its duly authorized officer or officers as of the date first above written.

**PARTY A: SHANDONG CHENGSHAN TIRE COMPANY
LIMITED BY SHARES**

By: _____
Name: Che Hong-Zhi
Title: Chairman of Board
Nationality: Chinese

**PARTY B: COOPER TIRE INVESTMENT HOLDING
(BARBADOS) CO., LTD.**

By: _____
Name: Harold C. Miller
Title: Authorized representative
Nationality: U.S.A.

PARTY C: JOY THRIVE INVESTMENTS LIMITED

By: _____
Name: Stacey Wong
Title: Authorized representative
Nationality: Hong Kong, China

JOINT VENTURE CONTRACT

APPENDIX 1

DEFINITIONS AND INTERPRETATION

- 1.1 "AFFILIATE" means, with respect to any Person, any other Person controlling or controlled by or under common control with such specified Person. For purposes of this definition, "control" when used with respect to any specified Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of shares, registered capital or voting securities, by contract or otherwise, and the terms "controlling" and "controlled" have meanings correlative to the foregoing.
- 1.2 "ASSET PURCHASE AGREEMENT" shall have the meaning ascribed to such term in Article 5.10.
- 1.3 "ARTICLES OF ASSOCIATION" means the articles of association of the Joint Venture executed by the Parties simultaneously with this Contract, as such articles of association may be amended from time to time by the Parties.
- 1.4 "AUDITOR" means an accounting firm registered in the PRC, engaged at the Joint Venture's own expense upon resolution of the Board, which shall be the auditor of the Joint Venture and which firm shall be independent of the Parties and independent of the Joint Venture.
- 1.5 "BIG FOUR" means four internationally reputable accounting firms, such as, Price Water Coopers, Deloitte, Ernst & Young, and KPMG.
- 1.6 "BOARD OF DIRECTORS" or "BOARD" means the board of directors of the Joint Venture established in accordance with this Contract.
- 1.7 "BOOK VALUE" means the historic accounting value of the equity of the Joint Venture based on Chinese generally accepted accounting principles (GAAP).
- 1.8 "BREACHING PARTY" shall have the meaning ascribed to such term in Article 5.8 hereof.
- 1.9 "BUSINESS LICENSE" means the business license of the Joint Venture as issued, amended and replaced, as the case may be, from time to time by the Registration Authority.
- 1.10 "CAPITAL CONTRIBUTION SCHEDULE" means a schedule set forth in Appendix 2 to this Contract, which schedule specifies the time and amount of contribution by the Parties to the Registered Capital of the Joint Venture.
- 1.11 "CHENGSHAN GROUP" means Chengshan Group Company LTD., a limited liability company duly organized and existing under the laws of the PRC in Rongcheng City, Shandong Province, which owns 73.76% equity interests of Party A.

- 1.12 "CERTIFICATE OF APPROVAL" means the certificate of approval issued by the Examination and Approval Authority approving this Contract and the Articles of Association.
- 1.13 "CONFIDENTIAL INFORMATION" means the terms of this Contract and all technical, financial, business, commercial, operational and strategic information and data, know-how, trade secrets and any analysis, amalgamation, market studies or compilation, whether written or unwritten and in any format or media, concerning, directly or indirectly, the business of the Joint Venture or a Party, which has been prior to the Establishment Date, or which may be during the Joint Venture Term, delivered or furnished by a Party, the Joint Venture, or any of their respective Representatives, to another Party, the Joint Venture, or any of their respective Representatives, but shall not include any information that: (a) at the time of disclosure is (or thereafter becomes) generally available to the public through no act of any Person in violation of a confidentiality obligation or applicable law; or (b) the receiving Party has obtained lawfully from an independent source not subject to a confidentiality obligation; or (c) the receiving Party can prove was known to it or to its Representatives prior to the receipt of such information from the disclosing Party; or (d) is independently developed by the receiving Party without any access to or knowledge of such information.
- 1.14 "COOPER" means Cooper Tire & Rubber Company or its relevant Affiliate, which may license or cause to be licensed to the Joint Venture, the technology in respect of the Products and Processes after duly establishment of the Joint Venture.
- 1.15 "DAY" refers to a calendar day.
- 1.16 "DEFAULT CAPITAL CONTRIBUTION" shall have the meaning ascribed to such term in Article 5.8(1).
- 1.17 "DIRECTOR" or "DIRECTOR OF THE JOINT VENTURE" means any member of the Board.
- 1.18 "DISPUTE" shall have the meaning ascribed to such term in Article 19.1.
- 1.19 "EFFECTIVE DATE" means the date on which this Contract comes into effect in accordance with Article 21.1.
- 1.20 "EQUITY JOINT VENTURE LAW" means the PRC, Sino-foreign Equity Joint Venture Law (adopted by the National People's Congress on July 1, 1979 and revised on March 15, 2001), as such law may from time to time be amended, or its successor laws.
- 1.21 "EQUITY JOINT VENTURE REGULATIONS" means the PRC, Sino-foreign Equity Joint Venture Law Implementing Regulations (promulgated by the State Council on September 20, 1983 and revised on July 22, 2001), as such regulations may from time to time be amended, or any successor regulations.
- 1.22 "ESTABLISHMENT DATE" means the date on which the Joint Venture's first Business License is issued by the Registration Authority.
- 1.23 "EXAMINATION AND APPROVAL AUTHORITY" means the Ministry of Commerce, or its authorized local division or any successor government institution or agency empowered to approve the Asset Purchase Agreement, this Contract, the Articles of Association, and any amendments, supplements, modifications or termination hereof or thereof.

- 1.24 "FAIR VALUE" means the transfer price of the equity interest of the Joint Venture calculated by an internationally recognized accounting firm jointly appointed by the Parties.
- 1.25 "FREE CASHFLOW" means the after-tax income less: (i) reserves provided for the reserve, expansion, and bonus and welfare fund, (ii) capital spending, (iii) working capital funding, and (iv) debt payment, and increased by: (i) depreciation and amortization expenses, and (ii) any other non-cash expenses included in the after-tax income.
- 1.26 "JOINT VENTURE" means Cooper Chengshan (Shandong) Passenger Tire Company Ltd., the Sino-foreign equity joint venture limited liability company established and operated by the Parties pursuant to this Contract.
- 1.27 "JOINT VENTURE TERM" shall have the meaning ascribed to such term in Article 16.1 hereof.
- 1.28 "NET PASSENGER TIRE AND MIXING ASSETS" means the price agreed by the Parties to pay for the passenger tire and mixing assets, net of allocated debts and liabilities, of Party A.
- 1.29 "NON-BREACHING PARTY" shall have the meaning ascribed to such term in Article 5.8(1) hereof.
- 1.30 "NON-DISCLOSURE AND NON-COMPETE CONTRACT" means the contract between the Joint Venture and each of its key employees (including, without limitation, the General Manager, all other management personnel, and all technical personnel), whereby such key employees undertake to keep confidential the confidential information of the Joint Venture and to refrain from engaging in any business or activities that directly or indirectly compete with any business of the Joint Venture.
- 1.31 "NOTIFYING PARTY" shall have the meaning ascribed to such term in Article 16.2(3).
- 1.32 "PERCENTAGE INTEREST" means, with respect to each Party, such Party's percentage interest in the equity of the Joint Venture, as set forth in Article 5.2.
- 1.33 "PERSON" means any individual, company, legal person enterprise, non-legal person enterprise, joint venture, partnership, wholly owned entity, unit, trust or other entity or organization, including, without limitation, any government or political subdivision or any agency or instrumentality of a government or political subdivision and other body corporate or unincorporated; Person also includes a reference to that Person's legal representatives, assignees, successors or heirs.
- 1.34 "PRC" or "CHINA" means the People's Republic of China.
- 1.35 "PROCESSES" means the technical and working processes in respect of producing and/or processing the Products.
- 1.36 "PRODUCTS" means half-steel radial passenger tires and half-steel radial light truck tires.
- 1.37 "PROTECTED PARTY" shall have the meaning ascribed to such term in Article 15.1(1) hereof.

- 1.38 "REGISTERED CAPITAL" means the total amount of equity of the Joint Venture pursuant to Chapter 5 as such equity amount may be adjusted according to the relevant provisions of this Contract and relevant PRC law.
- 1.39 "REGISTRATION AUTHORITY" means the State Administration of Industry and Commerce, or its local division or any successor government institution or agency empowered to issue a Business License to the Joint Venture.
- 1.40 "RENMINBI" or "RMB" means the lawful currency of the PRC.
- 1.41 "REPRESENTATIVES" shall have the meaning ascribed to such term in Article 15.1(1) hereof.
- 1.42 "SUPPLEMENTARY CONTRACTS" shall mean the following: Asset Purchase Agreement; Technical Assistance and Technology License Agreement; Real Estate Lease Agreement.
- 1.43 "TERMINATION NOTICE" shall have the meaning ascribed to such term in Article 16.2(3).
- 1.44 "TOTAL INVESTMENT" means the total amount of funds required to establish and operate the Joint Venture in accordance with its business scope set forth herein, as provided in Article 5.1 and as may be adjusted according to the relevant provisions of this Contract and relevant PRC law.
- 1.45 "UNITED STATES DOLLARS" or "US\$" means the lawful currency of the United States of America.
- 1.46 "AND/OR" means that both cases apply, or either the first or the second case applies.
- 1.47 Words used in any gender in this Contract shall include references to all other genders; and words used in the singular in this Contract shall include references to the plural, and vice versa.
- 1.48 Descriptive headings in this Contract are for convenience only and shall not control or affect the meaning or construction of any of the provisions of this Contract or any of the Appendices.

JOINT VENTURE CONTRACT

APPENDIX 2

CAPITAL CONTRIBUTION SCHEDULE

1. The Total Investment of the Joint Venture shall be US\$99,000,000.
2. The Registered Capital of the Joint Venture shall be US\$33,000,000.
3. Immediately upon the satisfaction of the conditions specified in Article 5.4 herein:
 - (a) Party A will contribute land use rights and buildings valued at 35% of the Registered Capital of the Joint Venture, payable to the Joint Venture in exchange for a 35% ownership interest in the Joint Venture.
 - (b) Party B will sign a promissory note for an amount equal to 51% of the Registered Capital of the Joint Venture, payable to the Joint Venture, in exchange for a 51% ownership interest in the Joint Venture.
 - (c) Party C will sign a promissory note for an amount equal to 14% of the Registered Capital of the Joint Venture, payable to the Joint Venture, in exchange for a 14% ownership interest in the Joint Venture.
4. As specified in Article 5.10 hereof, on the date of this Contract Party A and the Joint Venture shall enter into the Asset Purchase Agreement transferring certain identified assets to the Joint Venture from Party A for the consideration as detailed in Article 3 of the Asset Purchase Agreement..
5. Within ten (10) working days upon satisfaction of the conditions specified in Article 5.4 hereof, Party B will contribute US\$16,830,000 to the Joint Venture satisfying the promissory note issued in step 3.(b) above.
6. Within ten (10) working days upon satisfaction of the conditions specified in Article 5.4 hereof, Party C will contribute US\$4,620,000 to the Joint Venture satisfying the promissory note issued in step 3.(c) above.

JOINT VENTURE CONTRACT

APPENDIX 3

**ASSET PURCHASE AGREEMENT (FOR THE ASSETS TO BE PURCHASED BY
THE JOINT VENTURE FROM PARTY A)**

JOINT VENTURE CONTRACT

APPENDIX 4

AGREEMENT ON LABOR/PERSONNEL ISSUES

JOINT VENTURE CONTRACT

APPENDIX 5

**OFFICE, SINGLE-WORKER DORMITORY AND EMPLOYEE CAFETERIA LEASE AGREEMENT
(TO BE ENTERED INTO BETWEEN CHENGSHAN GROUP AND JOINT VENTURE)**

ASSET PURCHASE AGREEMENT

BY AND AMONG

SHANDONG CHENGSAN TIRE COMPANY LIMITED BY SHARES

AND

COOPER CHENGSAN (SHANDONG) PASSENGER TIRE COMPANY LTD.

AND

CHENGSAN GROUP COMPANY LIMITED

Dated as of October 27, 2005

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This ASSET PURCHASE AGREEMENT (this "AGREEMENT") is made and entered into in the People's Republic of China ("CHINA" or "PRC") on this 27th day of October, 2005, in accordance with the PRC Tentative Regulations Regarding Merger with and Acquisition of Domestic Enterprises by Foreign Investors (the "M&A REGULATIONS") and other applicable PRC laws and regulations, pursuant to the principles of equality and mutual benefit, by and among:

SELLER: SHANDONG CHENGSHAN TIRE COMPANY LIMITED BY SHARES, a company limited by shares registered and incorporated under the laws of the PRC, with its registered address at No. 98, Nanshan Road North, Rongcheng City, Shandong Province, PRC;

PURCHASER: COOPER CHENGSHAN (SHANDONG) PASSENGER TIRE COMPANY LTD., a Sino-foreign limited liability company registered and incorporated under the laws of the PRC, with its registered address at No. 99, Qingshan Road West, Rongcheng City, Shandong Province, PRC; and

GUARANTOR: CHENGSHAN GROUP COMPANY LIMITED, a limited liability company registered and incorporated under the laws of the PRC, with its registered address at No. 98, Nanshan Road North, Rongcheng City, Shandong Province, PRC.

(Each of Seller, Purchaser and Guarantor is hereinafter individually referred to as a "PARTY" and collectively as the "PARTIES".)

RECITALS:

(A) Seller is the lawful owner of the Purchased Assets as set out in this Agreement and lawful party to the Contracts in connection with the HSR Business of Seller.

(B) In accordance with a Sino-foreign equity joint venture contract executed on the date as of October 27, 2005 among the Seller and Cooper Tire Investment Holding (Barbados) Ltd. and Joy Thrive Investments Limited ("JV CONTRACT"), Seller has agreed to contribute the Owned Properties as set out in this Agreement to the Purchaser as its capital contribution, in exchange for a thirty five percent (35%) equity interest in the Purchaser.

(C) In accordance with the JV Contract, the Seller agrees to sell the Purchased Assets (other than the Owned Properties contributed to the Purchaser in accordance with the JV Contract) to the Purchaser upon the duly establishment of the Purchaser.

(D) In accordance with the terms and conditions of this Agreement, the Purchaser wishes to purchase and the Seller wishes to sell and transfer the Purchased Assets and Contracts, with the Purchaser's assumption of the Assumed Liabilities as at the Closing Date as specified herein, so as to accomplish the goal of transferring the HSR Business of Seller to Purchaser for continuous operation (hereinafter "TRANSACTION").

(E) The Guarantor, which owns 73.76% equity interests of the Seller, agrees to provide a joint and several guarantee for all of the obligations of the Seller under this Agreement.

THE PARTIES HEREBY AGREE AS FOLLOWS:

ARTICLE 1 DEFINITIONS AND INTERPRETATIONS

1.1 Unless the terms or context of this Agreement provide otherwise, capitalized terms used herein without definition have the meanings assigned to them in Schedule 1 as attached to this Agreement.

1.2 In this Agreement, save where the context otherwise requires:

- 1.2.1 words in the singular shall include the plural, and vice versa;
- 1.2.2 a reference to a person shall include a reference to a firm, a body corporate, an unincorporated association or to a person's executors or administrators;
- 1.2.3 a reference to an Article, sub-article, Schedule and Exhibit shall be a reference to an Article, sub-article, Schedule and Exhibit (as the case may be) of or to this Agreement;
- 1.2.4 if a period of time is specified and commences from a given day or the day of an act or event, it shall be calculated inclusive of that day;
- 1.2.5 references to writing shall include any modes of reproducing words in a legible and non-transitory form;
- 1.2.6 a reference to a balance sheet or profit and loss account shall include a reference to any note forming part of it;
- 1.2.7 the obligations and liabilities of the Seller and Guarantor hereunder are the joint and severally obligations and liabilities of the Seller and Guarantor;
- 1.2.8 references to this Agreement include this Agreement as amended or supplemented in accordance with its terms.

1.3 The designations adopted in the recitals and introductory statements preceding this Article apply throughout this Agreement and the Schedules.

ARTICLE 2 SALE AND PURCHASE OF PURCHASED ASSETS

2.1 The Purchaser, relying on the agreements, covenants, representations, warranties, undertakings and indemnities of the Seller herein, hereby agrees to purchase from the Seller and the Seller as legal and/or beneficial owner hereby agree to sell to the Purchaser on the Closing Date free and clear of all Encumbrances, assets, properties and rights related to the HSR Business of every kind and description, wherever located, real, personal or mixed, owned, held or used in the conduct of the HSR Business by Seller as the same shall exist at the Closing Date, including those assets of the HSR Business shown on the Management Accounts and not disposed of in the ordinary course of business (but excluding the Owned Properties) and those assets of the HSR Business thereafter acquired by the Seller (the "PURCHASED ASSETS"), and including, subject to the

limitations in Article 2.4, all rights, title, benefits and interests of the Seller in, to and under such of the foregoing as are more specifically described below:-

- 2.1.1 all customer accounts of the Seller relating to the HSR Business, all customer mailing and prospect lists of the Seller relating to the HSR Business, and all of the Seller's rights to service the customer accounts of the HSR Business;
- 2.1.2 all the Properties relating to the HSR Business together with all buildings, fixtures, and improvements erected thereon (except for those Owned Properties injected by the Seller as its capital contribution in accordance with the JV Contract);
- 2.1.3 all vehicle, machinery, equipment, furniture and computer relating to the HSR Business (together with all the data stored therein);
- 2.1.4 all claims, benefits, rights and entitlements under the Lease(s), Insurances and all contracts, contract rights, agreements, licenses, commitments, sales and purchase orders and other instruments (whether uncompleted or pending) relation to the HSR Business and the Purchased Assets, as wholly and fully disclosed to the Purchaser by the Seller (collectively, the "CONTRACTS") including all deposits or progress payments received prior to the Closing Date in respect of the same;
- 2.1.5 accounts, notes, receivables and other amounts owing to the Seller by trade debtors in connection with the HSR Business in respect of goods or services supplied by the Seller (whether or not invoiced or which are only payable upon completion of the outstanding work/stage of work under the Contracts at Closing Date) and the benefit of all guarantees or other security in respect thereof (collectively the "ACCOUNTS RECEIVABLE");
- 2.1.6 prepaid expenses and deposits in connection with the HSR Business, including, without limitation, ad valorem taxes, leases and rentals;
- 2.1.7 Seller's rights, claims, credits, causes of action or rights of set-off against third parties relating to the HSR Business and the Purchased Assets, including, without limitation, unliquidated rights under manufacturers' and Seller' warranties;
- 2.1.8 claims and rights (if any) under all franchises, transferable licenses, including, but not limited to, licenses, permits, consents, authorizations, certificates and approvals of any governmental agency or other governmental authorizations affecting, or relating in any way to, the HSR Business;
- 2.1.9 all books, records, files and papers, whether in hard copy or computer format, including, without limitation, sales and promotional literature, manuals and data, sales and purchase correspondence, lists of present and former suppliers, lists of present and former customers, personnel and employment records, and any information relating to taxes imposed on the Purchased Assets;
- 2.1.10 other properties and assets owned by the Seller and used in connection with the HSR Business at the Closing Date (wherever located).

2.2 Required Consent

- 2.2.1 Where the Seller is unable to transfer to the Purchaser a Contract on the Closing Date because consent from the relevant party to the Contract (other than the Seller) for such transfer has not been obtained on or before that date, without prejudice to Article 4.4 the Seller shall use its best endeavors to obtain such consent and transfer the full benefit and legal right under such Contract to the Purchaser within 90 days from the Closing Date.
- 2.2.2 The Purchaser shall use its best endeavors to assist the Seller in obtaining the consent for the purpose of Article 2.2.1. Without prejudice to Article 4, the Purchaser may at its absolute discretion waive any of the requirements under Article 2.2.1.

2.3 Assumption of Liabilities

- 2.3.1 Without prejudice to the provisions in Article 2.3.2, the Purchaser shall assume the transferable liabilities incurred by the Seller in connection with the HSR Business and identified by the Purchaser and stated on the balance sheet of the Seller dated as of the Closing Date (the "ASSUMED LIABILITIES").
- 2.3.2 Except as otherwise contained in Article 2.3.1 above or as otherwise agreed by the Parties in writing, the Seller shall remain liable for and the Purchaser shall not assume any other liabilities incurred by the Seller in connection with the HSR Business or the Purchased Assets and any other claims arising from the operation of the HSR Business prior to the Closing Date. The Seller shall promptly pay and discharge in full all liabilities and claims referred to in this Article 2.3.2, which may adversely impact the normal operation of the Purchaser, to the extent practicable and as soon as practicable after the Closing Date in all other cases, but in no event later than sixty (60) days from the Closing Date.

2.4 Limitations

- 2.4.1 Those Owned Properties injected by the Seller as its capital contribution in accordance with the JV Contract shall be excluded from the Purchased Assets.
- 2.4.2 On or after the Closing Date, Seller will retain the ownership of certain inventories sufficient to liquidate the duty and value-added tax (VAT) exempt importations of raw materials that shall be owned by Seller as of the Closing Date.
- 2.4.3 On or after the Closing Date, Seller shall retain the ownership of the working capital assets and liabilities (the "NET WORKING CAPITAL") to the extent that the net of the retained assets less the retained liabilities (including those specified in Article 2.4.2 above) will not exceed the net change in Net Working Capital between December 31, 2004 and the Closing Date.
- 2.4.4 The net of the Purchased Assets less the Assumed Liabilities shall not result in the amount of the Purchaser's assumption of debt that will cause the excess of the permitted total investment of the Purchaser stated in the JV Contract.

3.1 As consideration for the purchase of the Purchased Assets, in reliance upon the representations and warranties, covenants, agreements and undertakings of the Seller made herein, and subject to the terms and conditions of this Agreement, the Purchaser shall pay to the Seller, the sum equivalent to the excess of the Purchased Assets over the Assumed Liabilities in United States Dollars (the "PURCHASE PRICE") (determined by reference to the appraisal value of the Purchased Assets) within three (3) months of the issuance of the Business License of the Purchaser.

3.2 If any liabilities, save to extent the Assumed Liabilities in Article 3.1, cannot be transferred to the Purchaser due to any reason arising out of legal proceedings or approval procedures, the Purchased Assets described in Article 3.1 shall be reduced proportionately.

3.3 Without prejudice to any other remedies available to the Purchaser, in the event that the Seller is in material breach of this Agreement or the JV Contract ("DEFAULT") before the full amount of the Purchase Price has been paid under this Article 3, at the discretion and request of the Purchaser, the Seller shall forthwith cease to have any right to receive and the Purchaser shall cease to have any further obligation to pay any remaining balance of the Purchase Price to the Seller, and the Seller shall refund the amount of the Purchase Price, which has been paid by the Purchaser immediately preceding the occurrence of the Default, to the Purchaser within five (5) days from demand by the Purchaser.

3.4 If the Purchaser fails to pay the Purchase Price within the period set forth in Article 3.1 (the amount due and owing is referred to as the "DEFAULT PAYMENT"), the Purchaser shall pay to the Seller a default penalty of 0.05% per day based on the Default Payment from the first day of the default until the day on which the Default Payment is fulfilled in full by the Purchaser.

ARTICLE 4 ASSIGNMENT OF CONTRACTS AND RIGHTS

4.1 Seller agrees to assign or cause to be assigned to the Purchaser as of the Closing Date, all of the rights of the Seller under the Contracts that are assignable without license, consent, agreement, approval or waiver of any third party or as to which consent has been obtained and, without prejudice to Article 4.6, the Purchaser shall assume all obligations of the Seller thereunder which will arise after the Closing Date.

4.2 This Agreement shall not constitute an agreement to assign any Purchased Asset, Contract, or any claim, right or any benefit arising thereunder or resulting therefrom if an attempted assignment thereof, without license, consent, agreement, approval or waiver of a third party, would constitute a breach or other contravention thereof or in any way adversely affect the rights of the Purchaser thereunder and such consent cannot be obtained by the Seller.

4.3 If any licenses, consents, agreements, approvals or waivers from third parties are required for the transfer, assignment or novation to or in favour of the Purchaser of any Contracts under this Agreement, the Seller shall use its best efforts (but without requiring any payment of money by the Purchaser) to obtain such licenses, consents, agreements,

approvals or waivers from the other parties or claim any right or any benefit arising thereunder for the assignment thereof to the Purchaser as the Purchaser may request.

4.4 If such license, consent, agreement, approval or waiver is not obtained, or if an attempted assignment thereof would be ineffective or would adversely affect the rights of the Seller thereunder so that Purchaser would not in fact receive or otherwise be entitled to the full benefit of all such rights, the Seller (i) shall enter into such arrangement with the Purchaser at the Purchaser's direction under which the Purchaser will obtain the benefits and assume the obligations thereunder in accordance with this Agreement, or under which the Seller would exercise for the benefit of the Purchaser, with the Purchaser assuming Seller's obligations, any and all rights of the Seller against a third party thereto in accordance with the applicable PRC laws and regulations. The Seller shall promptly pay to the Purchaser when received all monies received by the Seller under any Purchased Asset, Contracts, or any claim, right or any benefit arising thereunder; or (ii) shall exercise or cause to be exercised, at the Purchaser's direction, any rights of the Seller arising from such Contracts against the other party(ies) thereto, including the right to elect to terminate any such Contracts in accordance with the terms thereunder upon the request of the Purchaser.

4.5 The foregoing provisions do not affect Purchaser's rights and remedies against the Seller in respect of a Contract which has been warranted to be assignable, or may be performed by Purchaser instead of the Seller without any novation or transfer agreement.

4.6 Except as otherwise expressly contained herein, nothing in this Agreement:

- 4.6.1 shall require the Purchaser to perform any obligation falling due for performance or which should have been performed before the Closing Date;
- 4.6.2 shall make the Purchaser liable for any act, neglect, default or omission in respect of any Contracts or for any claim, expense, loss or damage arising from any failure to obtain the consent or agreement of any third party to the entry into of this Agreement or from any breach of any of the Contracts caused by this Agreement or its Closing; or
- 4.6.3 shall impose any obligation on the Purchaser for or in respect of any goods supplied by the Seller or any service performed by the Seller.

4.7 The Seller shall indemnify the Purchaser against all actions, proceedings, costs, damages, claims and demands in respect of:

- 4.7.1 any act or omission on the part of the Seller in relation to the Contracts; or
- 4.7.2 any alleged fault, defect or error of any kind arising from goods supplied, services provided by the Seller or otherwise arising from the operation of the HSR Business prior to the Closing Date.

ARTICLE 5 CONDITIONS

5.1 Conditions Precedent

Closing is conditional upon satisfaction of the following conditions prior to the Closing Date:

- 5.1.1 Seller's completion of the capital contribution in accordance with the JV Contract, with the contribution having been verified by a PRC registered accountant;
- 5.1.2 the completion of satisfactory (in Purchaser' sole and discretionary judgment) legal, commercial, human resources, taxation and financial due diligence on the Seller;
- 5.1.3 the completion of any formal internal corporate approvals as may be required by the Purchaser including approval by the board of directors of each of the Purchaser, Seller and Guarantor and approval by the shareholders assembly of Seller;
- 5.1.4 Seller's publication of the notice and announcement of transfer relating to the sale of the Purchased Assets within not more than 10 days from the date on which the Seller's board of directors and/or shareholders assembly have approved the sale of the Purchased Assets in compliance with the provisions of the M&A Regulations;
- 5.1.5 any and all Claims notified to Seller or Purchaser pursuant to the notice published pursuant to the relevant assets transfer legislation applicable in China as set forth in Article 8 have been paid in full or otherwise settled to the satisfaction of the Purchaser. The Seller having confirmed to the Purchaser in writing that it has had no further Claims in writing notified to it in response to the notices served by it under the relevant assets transfer legislation applicable in China, other than those Claims which have been paid, compromised, defended or otherwise dealt with subject to the prior consent of, and to the satisfaction of the Purchaser;
- 5.1.6 the parties to the Contracts (other than the Seller) having given their respective consents if required to the assignments or novations of the same in favour of the Purchaser;
- 5.1.7 the Seller have certified in writing:
 - (i) there having occurred no Material Adverse Change in the period between the date of this Agreement and Closing;
 - (ii) nothing having occurred or been omitted which is, or had it occurred or been omitted on or before the date of this Agreement would have constituted, a breach of the Warranties;
 - (iii) no order or judgment of any court or governmental, statutory or regulatory body having been issued or made prior to Closing, which has the effect of making unlawful or otherwise prohibiting the purchase of the Purchased Assets by the Purchaser;
 - (iv) the Seller having performed or complied with, in all material respects, all covenants, obligations and agreements contemplated by this Agreement

to be performed or complied with by it at or prior to Closing, including without limitations those set forth in Article 5.

- 5.1.8 any and all approvals, consents, registrations and permissions necessary for or to the best benefit of the Transaction contemplated hereby having been duly obtained from the appropriate government authorities, including, without limitation, approval of this Agreement, approval of the employment settlement plan of Seller, and approval of the transfer of "bonded" equipment from Seller to Purchaser.
- 5.1.9 all corporate and other proceedings and actions taken in connection with the Transaction contemplated hereby and all certificates, opinions, agreements, instruments, release and documents referenced herein, or incident to the Transaction contemplated hereby, being in form and substance satisfactory to Purchaser.

5.2 Responsibility for Satisfaction

Without prejudice to the foregoing, it is agreed that all requests and enquiries from any government, governmental, trade agency, court or regulatory body shall be dealt with by the Seller and the Purchaser in consultation with each other and each of the Seller and the Purchaser shall promptly co-operate with and provide all necessary information and assistance reasonably required by such government, agency, court or body upon being requested to do so by the other.

5.3 Non-Satisfaction

- 5.3.1 If any of the conditions in Article 5.1 is not satisfied or waived by the Purchaser within 6 months after the execution of the Agreement such other date as the Purchaser and Seller may agree or the Purchaser becomes aware of any fact that would prevent any of the conditions in Article 5.1 from being satisfied, the Purchaser may, in its sole discretion, by written notice to the Seller, terminate this Agreement and no Party shall have any claim against any other under it, save for any claim arising from any antecedent breach (including breach of any undertaking contained in Article 5.1).
- 5.3.2 In the event that the Purchaser shall terminate this Agreement in accordance with Article 5.3.1, and without limiting the Purchaser's right to claim all obligations of the Seller under this Agreement, the Purchaser shall, unless otherwise expressly stated, cease to enjoy and assume all rights and liabilities hereunder, but, for the avoidance of doubt, all rights and liabilities of the Parties which have accrued before termination shall continue to exist.

ARTICLE 6 ACTION PENDING CLOSING

6.1 Seller's General Obligations

The Seller undertakes to procure that from the date of this Agreement until Closing:

- 6.1.1 the Seller will carry on HSR Business only in the ordinary and usual course and in the manner and scope carried on as at the date of this Agreement, save insofar as agreed in writing by the Purchaser;
- 6.1.2 the Purchaser and its agents will, upon reasonable notice, be allowed access to the employees and premises of the Seller and shall also be allowed access to, and to take copies of, the books and records of the Seller, the HSR Business and the Purchased Assets including, without limitation, the statutory books, minute books, leases, licences, contracts, details of receivables, tax records, supplier lists and customer lists in the possession or control of the Seller;
- 6.1.3 such representatives and advisers as the Purchaser requests may be designated to work with the Seller with regard to the management and operations of the HSR Business. The Seller will consult with such representatives and advisers with respect to any action which may materially affect the HSR Business of the Seller taken as a whole. The Seller will furnish to such representatives and advisers such information as it may reasonably request for this purpose;
- 6.1.4 the Seller shall take all reasonable steps to preserve its property and assets in relation to the HSR Business (including the Purchased Assets) and, shall notify the relevant insurance companies of the interest of the Purchaser in the Insurances and shall procure that with effect from the Closing Date the interest of the Purchaser therein is noted on the relevant Insurance policies;
- 6.1.5 the Seller shall promptly provide to the Purchaser monthly Management Accounts in the usual form.

6.2 Restrictions on the Seller

Without prejudice to the generality of Article 6.1, the Seller shall not between the date of this Agreement and Closing (except as may be expressly provided in this Agreement) without the prior written consent of the Purchaser:

- 6.2.1 enter into or amend any contract or commitment in relation to the HSR Business: (i) which is not capable of being terminated without compensation at any time with one months' notice or less; or (ii) which is not in the ordinary and usual course of business and on arms' length terms or (iii) which involves or may involve total revenue or total expenditure in excess of US\$500,000 (excluding purchase contracts for raw materials);
- 6.2.2 incur any indebtedness in relation to the HSR Business otherwise than in the ordinary and usual course of business;
- 6.2.3 save as required by law, make any amendment to the terms and conditions of employment (including, without limitation, remuneration, pension entitlements and other benefits) of any employee or consultants engaged in the HSR Business, provide or agree to provide any gratuitous payment or benefit to any such person or any of their dependants, or dismiss or terminate (except with good cause) the engagement of any such person or engage or appoint any additional employee in relation to the HSR Business;

- 6.2.4 acquire or agree to acquire or sell, transfer, lease, assign or dispose of or agree to sell, transfer, lease, assign or dispose of any material asset or material stocks or enter into or amend any material contract or arrangement in relation to the HSR Business;
- 6.2.5 sell, convey, lease, assign or otherwise transfer or dispose of any interest in any debts or factor any notes or amounts receivable in relation to the HSR Business;
- 6.2.6 delay making payment to any trade creditors of the HSR Business generally beyond the date on which payment of the relevant trade debt should be paid in accordance with credit periods authorised by the relevant creditors (or (if different) the period extended prior to the date of this Agreement by creditors in which to make payment);
- 6.2.7 amend, to any material extent, any of the terms on which goods, facilities or services in relation to the HSR Business are supplied, such supplies being material in the context of the HSR Business, except where required to do so in order to comply with any applicable legal or regulatory requirement;
- 6.2.8 enter into any guarantee, indemnity or other agreement to secure any obligation of a third party or create or agree to create any Encumbrance over any of its assets or undertaking in relation to the HSR Business (including the Purchased Assets);
- 6.2.9 amend or discontinue any insurance contract in relation to the HSR Business or the Purchased Assets, fail to notify any insurance claim in accordance with the provisions of the relevant policy or settle any such claim below the amount claimed;
- 6.2.10 acquire or agree to acquire any share, shares or other interest in any company, partnership or other venture or incorporate any subsidiary in relation to the HSR Business;
- 6.2.11 make any change to its accounting practices or policies or accounting reference date or amend its articles of association (or equivalent constitutional documents);
- 6.2.12 make any substantial change in the nature or organisation of its HSR Business;
- 6.2.13 discontinue or cease to operate all or a material part of the HSR Business or resolve to be wound up;
- 6.2.14 change its residence for Taxation purposes;
- 6.2.15 commence, compromise or discontinue any legal or arbitration proceedings in relation to the HSR Business (other than in respect of the collection of debts which are not material in the context of the HSR Business in the ordinary and usual course of business); or
- 6.2.16 acquire or agree to acquire or dispose of or agree to dispose of any land use rights or leasehold interest in land in relation to the HSR Business.

6.3 Covenant to Pay

The Seller covenant to pay to the Purchaser an amount equal to the Losses suffered or incurred by the Purchaser or, subject to Closing, through the Seller's failure or delay in complying with the provisions of Articles 6.1 and 6.2.

6.4 Exercise of Purchaser's Rights

It is hereby acknowledged (for the avoidance of doubt) that none of the provisions of this Article 6 or the exercise or failure to exercise by the Purchaser of its rights thereunder, shall give rise to any liability on the part of the Purchaser or any of its employees, consultants or representatives or any person connected with it.

ARTICLE 7 CLOSING

7.1 Closing shall take place at the offices of the Seller or such other place as the Purchase and Seller may agree, on the Closing Date.

7.2 On the Closing Date:

- 7.2.1 the Seller shall deliver or cause to be delivered to the Purchaser:
- (i) such conveyances, assurances, transfers, assignments, releases, novation agreements, consents and other documents duly executed by the relevant parties as the Purchaser may require to vest in the Purchaser the full benefit of and legal title to the Purchased Assets and all other rights and assets hereby agreed to be sold and the full benefit of this Agreement and all liabilities and debts agreed to be assumed including without limitation:
 - (a) duly executed assignments in the Agreed Form of the Accounts Receivable;
 - (b) duly executed assignments or novation agreements in the Agreed Form of the Contracts;
 - (c) duly executed assignments in the Agreed Form of the Accounts Payable;
 - (d) duly executed assignments or novation agreements in the Agreed Form of the Borrowings;
 - (e) in respect of each of the motor vehicles used in the HSR Business owned by the Seller (if any), the prescribed notice and the vehicle registration documents (and shall deliver or procure delivery of a duplicate of the prescribed notice to the relevant transportation authorities in China as soon as possible after Closing);
 - (ii) the title deeds and documents relating to the Leased Properties and Owned Properties occupied or owned by the Seller (all re-registered in the name of the Purchaser);

- (iii) all subsisting contracts, license and permits in connection with the HSR Business and all books, papers, records and other documents (including financial records) relating to the HSR Business and Purchased Assets and all lists of customers and suppliers and other information or documents in relation to the HSR Business as the Purchaser may require;
- (iv) all the designs and drawings, plans, technical and sales publications, advertising material, brochures, catalogues and other technical and sales matter of the Seller in relation to the HSR Business together with any plates, blocks, negatives and other like material relating thereto as the Purchaser may require;
- (v) any other documents of title relating to any of the other Purchased Assets as the Purchaser may require;
- (vi) such other documents as may be required to give to the Purchaser good title to the Purchased Assets and to enable the Purchaser or its nominees to become the registered owner thereof as the Purchaser may require; and
- (vii) certificate in writing duly executed by the Seller pursuant to Article 5.1.7 confirming the matters mentioned thereunder.

7.2.2 the Seller shall permit the Purchaser to take possession of the HSR Business and Purchased Assets.

7.3 Upon Closing, the Seller shall deliver to the Purchaser a copy of the resolution of the shareholders assembly of the Seller approving and authorizing the transfer of the Purchased Assets hereunder and all the transactions contemplated hereby, and such resolution shall be in form and substance in accordance with the applicable laws and regulations.

7.4 Within three (3) months upon compliance by the Seller with the provisions of Articles 7.2.1 and 7.2.2 the Purchaser will pay the Purchase Price to the Seller in accordance with Article 3.

7.5 Without prejudice to any other remedies available to the Purchaser, if in any respect the provisions of Article 7.2 are not complied with on the Closing Date the Purchaser may:

- 7.5.1 defer Closing to a date not more than thirty (30) days after the Closing Date (and so that the provisions of this Article 7.5 shall apply to Closing as so deferred); or
- 7.5.2 proceed to Closing so far as practicable (without prejudice to its rights hereunder); or
- 7.5.3 terminate this Agreement, and without limiting the Purchaser's right to claim all obligations of the Seller under this Agreement, the Purchaser shall, unless otherwise expressly stated, cease to enjoy and assume all rights and liabilities hereunder, but, for the avoidance of doubt, all rights and liabilities of the Parties which have accrued before termination shall continue to exist.

The Seller shall, within not more than 10 days from the date on which Seller's board of directors and/or shareholders assembly have approved the sale of the Purchased Assets pursuant to this Agreement, give notice to its creditors and release public announcement of the sale of the Purchased Assets contemplated under this Agreement in accordance with the provisions of the M&A Regulations and the publication costs of such notifications shall be borne by the Seller. The Purchaser and the Seller shall notify each other as soon as practicable in the event of any Claim being received by any of them pursuant to such notification. Any such notice given shall be without prejudice to the rights and obligations of the Parties, as against each other, under this Agreement.

ARTICLE 9 WARRANTIES

The Seller warrants, represents and undertakes to the Purchaser as to the matters set forth hereunder:

9.1 General Warranties

9.1.1 The Accounts and Management Accounts:

Except as otherwise disclosed to the Purchaser:

- (i) have been prepared in accordance with Chinese GAAP;
- (ii) are accurate and show a true and fair view of the affairs of the Seller and the HSR Business as at the specified accounting date and of its results for the accounting reference period ended on that date, with the Management Accounts having been properly prepared in a manner consistent with that adopted in the preparation of the management accounts of the HSR Business for all periods during the financial year ended on the Accounts Date;
- (iii) comply with the requirements of all relevant statutes;
- (iv) are prepared on consistent bases and policies of accounting;
- (v) are not affected by any unusual or non-recurring items.

9.1.2 Purchased Assets

- (i) Title to Purchased Assets

Otherwise disclosed in writing:

the Purchased Assets included in the Accounts and Management Accounts or acquired by the Seller since the Accounts Date (other than trading stock disposed of since that date in the ordinary course of business) and all other Purchased Assets used or employed by the Seller

are the absolute property of the Seller free from any mortgage, charge, lien, bill of sale or other encumbrance and are not the subject of any leasing, hiring or hire-purchase agreement or agreement for payment on deferred terms or assignment or factoring or other similar agreement or any interests of the third parties, and all such assets are in the possession or under the control of the Seller.

(ii) Condition of plant machinery and equipment

the machinery, office equipment, computer systems and vehicles used by the Seller in the HSR Business are in good repair, regularly maintained and normally usable and comply with any applicable legal requirement or restriction, and the vehicles are duly licensed and suitable for the purposes for which they are used.

(iii) Control of records and information

all records and information belonging to the Seller (whether or not held in written form) are in its exclusive possession, under its direct control and subject to unrestricted access by it.

9.1.3 Borrowings

- (i) in relation to the HSR Business and the Purchased Assets, except as otherwise disclosed to the Purchaser in the manner acceptable to the Purchaser, the Seller does not have outstanding any obligation for the payment or repayment of money, whether present or future, actual

or contingent, in respect of:

- (a) monies borrowed or raised;
- (b) any recourse to a company selling or discounting receivables in respect of receivables sold or discounted;
- (c) moneys raised under any bond, note, stock, or other security;
- (d) moneys raised under or in respect of acceptance credit and documentary credit facilities;
- (e) the acquisition cost of assets or services to the extent payable after the time of acquisition or possession;
- (f) rental payments under chattel leases and hire purchase agreement; or
- (g) any guarantee, indemnity or other assurance against or arrangement intended to prevent or limit loss in respect of any obligation for the payment or repayment of money described in paragraphs (a) to (f) above (any such obligation being referred to below as a "BORROWING").

- (ii) Except as otherwise disclosed to the Purchaser in the manner acceptable to the Purchaser, the Seller does not have subsisting over the whole or any part of its present or future revenues or assets in relation to the HSR Business any encumbrance, mortgage, charge, pledge, lien or other security interest or any other agreement or arrangement having a similar effect.
- (iii) no Borrowing of the Seller has become or is now due and payable, or capable of being declared due and payable, before its normal or originally stated maturity and no demand or other notice requiring the payment or repayment of money before its normal or originally stated maturity has been received by the Seller.
- (iv) no event or circumstance has occurred, or may occur with the giving of notice or lapse of time determination of materiality or satisfaction of any other condition, such as to entitle any person to require the payment or repayment of any Borrowing before its normal or originally stated maturity or which is or shall be such as to terminate, cancel or render incapable of exercise any entitlement to draw money or otherwise exercise the rights of the Seller under an agreement relating to Borrowing.

9.1.4 Environment

Except as otherwise disclosed to the Purchaser:

- (i) the Seller has complied with the applicable environmental law;
- (ii) there are no circumstances in relation to the Seller or the HSR Business which give rise or could give rise or have given rise to any civil, criminal, administrative or other action, claim, suit, complaint, proceeding, investigation, decontamination, remediation or expenditure by any person or competent authority under Environmental Law in relation to any matter including properties now owned or formerly owned by the Seller or used in the HSR Business;
- (iii) the Seller has obtained and there are in full force and effect and the Seller has at all times complied with all Permits necessary for the HSR Business, there are no circumstances which could lead to the revocation, cancellation, suspension, modification, variation or alteration of such Permits and there are no circumstances which necessitate any works, remediation or expenditure (other than routine maintenance) in order to continue to comply with the Permits;
- (iv) at no time has the Seller received from the governmental environment authority any unresolved notice or intimation alleging a breach of the terms of a Permit or alleging any other breach of the applicable environmental law;
- (v) all assessments reviews reports returns information and audits required by the applicable environmental law or any Permit have been properly carried out and submitted to the appropriate authorities and their

recommendations and requirements implemented where required by the applicable environmental law;

- (vi) there are no circumstances which could require any further Permits to be obtained in connection with the current HSR Business of the Seller which require works, remediation or additional expenditure to ensure compliance with such Permits.

9.1.5 Commercial Arrangements and Conduct

Except as otherwise disclosed to the Purchaser:

(i) Material contracts

In relation to the HSR Business and the Purchased Assets, there is not outstanding:

- (a) any contract of guarantee, indemnity or suretyship or any contract to secure any obligation of any person;
- (b) any joint venture, consortium or partnership agreement or arrangement to which the Seller is a party;
- (c) any sale or purchase option or similar agreement or arrangement affecting any assets owned or used by the Seller or by which it is bound;
- (d) any liability, obligation or commitment of any kind (other than those listed in (a) to (c) above) on the part of the Seller (including a capital commitment) which:
 - (1) is incapable of complete performance within three months from the date of Agreement; or
 - (2) has not been incurred in the ordinary course of business; or
 - (3) is, or is likely to be, of major significance to the Seller; or
 - (4) exceeds, or is likely to exceed, in aggregate a sum of US\$500,000.

(ii) Effect of Agreement on other agreements

there is no agreement or arrangement in relation to the HSR Business and the Purchased Assets between the Seller and any other person which shall or may be terminated as a result of this Agreement (or Closing) or which shall be affected by it or which includes any provision with respect to a change in the control, management or shareholders of the Seller.

(iii) Commercial position

so far as the Seller is aware:

- (a) there is no substantial customer or supplier of the Seller in relation to the HSR Business who has ceased purchasing from or supplying to it or who is likely after the date of this Agreement (or Closing) to reduce substantially or terminate purchases from or supplies to it;
- (b) there are no special circumstances which might lead to the supply by the Seller or to it of any goods or services, in relation to the HSR Business being restricted or hindered.

(iv) Restrictive agreements and anti-competitive behaviour

so far as the Seller is aware:

- (a) the Seller does not infringe and has not infringed any legislation applicable in any jurisdiction relating to anti-competitive agreements or practices or behaviour or any similar matter;
- (b) the Seller is not in relation to the HSR Business, bound by or party to any order or decision made or undertakings (binding or not) given to or any court or tribunal of competent jurisdiction or any similar authority in any jurisdiction, under or in any law, regulation or administrative process relating to fair competition anti-trust, monopolies, mergers or other similar matters;
- (c) the Seller has not in relation to the HSR Business, within the last two years been party to any merger or other similar arrangement which was capable of review by any anti-trust or similar authorities in any jurisdiction.

(v) Notice of official action

the Seller is not aware of any process, notice or communication, formal or informal, by or on behalf of any authority of any country having jurisdiction in anti-trust matters, in relation to any aspect of the HSR Business or the conduct of the Seller or any agreement or arrangement to which the Seller is or was, or is alleged to be or have been, a party, and so far as the Seller is aware it is not likely to receive any such process, notice or communication.

9.1.6 Litigation, Defaults and Insurance

Except as otherwise disclosed to the Purchaser:

(i) Legal proceedings

the Seller is not engaged or proposing to engage in any litigation, arbitration, prosecution or other legal proceedings, and there are no

claims or actions (whether criminal or civil) in progress, outstanding, pending or threatened against the Seller, any of its assets or any of its directors or officers or in respect of which the Seller is liable to indemnify any party concerned.

(ii) Unlawful acts by the Seller

so far as the Seller is aware:

neither the Seller nor any of its directors, officers or employees has by any act or default committed, to the extent adversely impacting the normal operation of the Purchaser:

- (a) any criminal or unlawful act in connection with the business of the Seller, other than minor road traffic offences;
- (b) any breach of trust in relation to the business or affairs of the Seller;
- (c) any breach of contract or statutory duty or any tortious act which could entitle any third party to terminate any contract to which the Seller is a party or could lead to a claim against the Seller for damages, compensation or an injunction.

(iii) Defaults by others

So far as the Seller is aware, no party with whom the Seller has entered into any contract in relation to the HSR Business or the Purchased Assets is in default under it, and there are no circumstances likely to give rise to such a default.

(iv) Official investigations

so far as the Seller is aware, no governmental or official investigation or inquiry concerning the Seller is in progress or threatened and there are no circumstances which are likely to give rise to any such investigation or inquiry.

(v) Adequacy of insurance

the Seller has, and since 2003 has had, valid insurance cover in respect of the HSR Business and the Purchased Assets:

- (a) against all risks (including product liability for a period of at least six months) normally insured against by companies carrying on the same type of business or having similar assets;
- (b) for the full replacement value of the Purchased Assets and for such amount in respect of the HSR Business as would in the circumstances be prudent for such a business;

(c) from a well-established and reputable insurer.

(vi) Policies

All policies of insurance taken out in connection with the HSR Business or the Purchased Assets have been disclosed to the Purchaser, are written in the name of the Seller and are in full force and effect; and the Seller has not done or omitted to do or allowed anyone to do or not to do anything which might render any of those policies void or voidable and has complied with all conditions attached to them.

(vii) Claims

No claim under any policy of insurance taken out in connection with the HSR Business or the Purchased Assets is outstanding and, so far as the Seller is aware, there are no circumstances likely to give rise to such a claim.

9.1.7 Corporate Organisation and Business

Except as otherwise disclosed to the Purchaser:

(i) Corporate Status

The Seller (including any of its representative offices or branches) has been duly incorporated and constituted, and is legally subsisting under the laws of its respective place of incorporation.

(ii) Title to HSR Business and Purchased Assets

The Seller has a good and marketable title to, and is the exclusive legal and beneficial owner of the HSR Business and the Purchased Assets, and, therefore, has an absolute right to sell and transfer the HSR Business and the Purchased Assets. All the Purchased Assets will be sold to the Purchaser free and clear of any Encumbrance together with all accrued beneficial rights attached to them at the date of this Agreement or subsequently becoming attached to them;

(iii) Licences, permissions or consents

so far as the Seller is aware, all licences, permissions and consents required for the carrying on of the HSR Business of the Seller have been obtained by it and are in full force and effect, and the Seller is not aware of any circumstances indicating that any of those licences, permissions or consents is likely to be revoked or not renewed in the ordinary course.

(iv) Existence of subsidiaries and other business

The Seller does not have, and has never had, any subsidiary. Save for the HSR Business, the Seller has not carried on any other HSR Business.

(v) No material change

No material changes have occurred to the HSR Business since the Accounts Date.

(vi) Conflict of Interest

Save for the HSR Business carried on by the Seller, the Seller does not and whether on its own account or in conjunction with or on behalf any person, firm or company, directly or indirectly or whether as a shareholder, partner, agent or otherwise, carry on, and is not engaged or interested in a competing business or restricted services save for the holding of investment up to two (2) % of any class of securities quoted or dealt in on a recognized stock exchange.

9.1.8 Miscellaneous

Except as otherwise disclosed to the Purchaser:

(i) Insolvency

- (a) No order has been made and no resolution has been passed for the winding up of, or a provisional liquidator to be appointed in respect of, the Seller and no petition has been presented and no meeting has been convened for the purpose of winding up the Seller;
- (b) no receiver has been appointed in respect of the Seller, the HSR Business or the Purchased Assets;
- (c) the Seller is not insolvent or unable to pay its debts within the meaning of the applicable legislation to which it is subject and the Seller has not stopped paying its debts as they fall due;
- (d) no event analogous to any of the foregoing has occurred with respect to the Seller in any jurisdiction outside China;
- (e) no unsatisfied judgment is outstanding against the Seller.

(ii) Consents

All consents, permissions, approvals and agreements of third parties which are necessary or desirable for the Seller to obtain in order to enter into and perform this Agreement in accordance with its terms have been unconditionally obtained in writing and have been disclosed to the Purchaser.

(iii) Material information

all information relating to the Seller, the HSR Business and the Purchased Assets which is known or would on reasonable enquiry be known to the

Seller and which should be known by a Purchaser for a proper valuation of the Purchased Assets has been disclosed to the Purchaser.

(iv) Brokers and Finders

No person or entity acting on behalf or under the authority of the Seller is or will be entitled to any broker's, finder's or similar fee or commission in connection with the transactions contemplated hereby.

(v) Recitals and disclosures

The recitals, Schedules to the Agreement and all information and documents relating to the HSR Business and Purchased Assets (including without limitation budgets and forecasts) supplied by the Seller or any agent of Seller to the Purchaser, its lawyers, accountants or other agents or advisers during or with a view to the negotiations leading up to the Agreement, are true and accurate in material respects, and there is no fact not disclosed which would render any such information or document inaccurate or misleading or which, if disclosed, might reasonably affect the willingness of the Purchaser to purchase the Purchased Assets for the consideration or otherwise on the terms specified in the Agreement.

9.1.9 Authority of the Seller

Except as otherwise disclosed to the Purchaser:

- (i) The Seller has full power and authority to enter into and perform this Agreement and the provisions of this Agreement, when executed, will constitute valid and binding obligations on the Seller, in accordance with its terms;
- (ii) The execution and delivery of, and the performance by the Seller of its obligations under, this Agreement will not result in a breach of any order, judgment or decree of any court or governmental agency to which any Seller is a party or by which it is bound;
- (iii) None of the Seller or any of its agents or advisers is aware of any fact or matter which would or may constitute a breach of any of the Seller's Warranties.

9.2 Tax Warranties

Seller represents and warrants:

- (i) That it will pay any and all taxes in compliance with the applicable laws and regulations;
- (ii) that all forms, filings, and information provided to any taxing authority were timely filed and were, at the time of filing and continue to be, complete and accurate;

(iii) so far as the Seller is aware, there is no liability in respect of taxation (whether actual or contingent) or any liability for interest, penalties or charges imposed in relation to any taxation arising in any part of the world that is not adequately disclosed or provided for in full in the Accounts and Management Accounts;

(iv) so far as the Seller is aware, Seller is not and has not in the last three years been the subject of a Tax Authority unresolved investigation or other dispute regarding Tax or duty recoverable from the Seller or regarding the availability of any relief from Tax or duty to the Seller and there are no facts which are likely to cause such an investigation or audit to be instituted or such a dispute to arise and all returns made by the Seller are agreed with the appropriate Tax Authority;

(v) Seller has neither been a party to nor otherwise involved in any transaction, scheme or arrangement:

(a) the sole or dominant purpose of which was to obtain a tax benefit by the avoidance, postponement or reduction of a liability to tax within the meaning of the applicable tax legislation.

(b) which reduces or would reduce the amount of tax payable by any person and which is artificial or fictitious or in respect of which any disposition is not given effect to within the meaning of the applicable tax legislation.

(vi) Seller will assist Buyer in responding to any future inquiry from or dispute with a Taxing Authority.

9.3 Property Warranties

Except as otherwise disclosed to the Purchaser:

9.3.1 Interests

The Properties comprise, and will as at Closing comprise, all the land, buildings and premises used in the HSR Business owned by the Seller or occupied by the Seller or in which the Seller has, or will as at Closing have, any interest.

9.3.2 Insurance

- (i) Where the Seller is responsible for maintaining insurance in respect of any of the Leased Properties, the policy conforms in all respects with the requirements of the Lease.
- (ii) True and complete copies of all insurance policies, in respect of the Leased Properties for which the Seller is responsible for maintaining insurance, have been delivered to the Purchaser.
- (iii) The Seller has not done or omitted to do anything which may result, directly or indirectly, in any of the insurance policies may become void or voidable.

- (iv) No claims outstanding or circumstances which the Seller is aware of which would give rise to a claim under any of the insurance policies.

9.3.3 Owned Properties

The Owned Properties represent all the real properties owned by the Seller or in respect of which the Seller has any estate, interest, right or liability (as defined below), and in respect of each of the Owned Properties:

- (i) the Seller is the sole beneficial owner of and has a proper legal title (in the form of granted land use rights the premium for which has been fully paid) to the Owned Properties and is entitled to transfer, dispose, sell, mortgage or otherwise deal with the Owned Properties and is entitled the use of such property in the manner in which it is used or is proposed to be used;
- (ii) except as otherwise created for the Assumed Liabilities and disclosed to the Purchaser in the manner acceptable to the Purchaser, each of the Owned Properties held by the Seller is free from mortgage, debenture, charge, lien, lease, encumbrances or any third party rights and the Seller has not entered into any agreement to do any of the foregoing;
- (iii) the Seller has not received or is not aware of there being any notice from any government or other competent authorities requiring it to revise the terms of the ownership rights relating to the Owned Properties or adversely affecting the Owned Properties or the rights of the Seller in relation thereto;
- (iv) all land premium, purchase price, land grant fees or other fees payable in respect of the Owned Properties have been paid in full and will be duly paid up to the date of Closing and no further such premiums, price or fees are payable under any applicable laws;
- (v) none of the terms and conditions contained in the relevant sale and purchase or transfer contracts, deed of mutual covenants, government grant, occupation permit, real estate title certificate, land use right certificate, building ownership certificates and/or certificate of ownership and the applicable laws, rules and regulations have been breached in respect of the Owned Properties;
- (vi) the Seller has duly performed and observed all the terms and conditions contained in the sale and purchase or transfer contracts (if any), assignment, deed of mutual covenant, land use right certificate and building ownership certificates for the Owned Properties to be performed and observed on the part of the Seller as Purchaser thereof;
- (vii) all relevant legal requirements or conventions for notarization and registration of the sale and purchase contracts and assignments for the Owned Properties have been complied with;

- (viii) the land and building ownership rights pertaining to the Owned Properties are valid and subsisting and has not been amended, modified or supplemented in any manner whatsoever;
- (ix) no contracts have been entered into by the Seller to sell, assign, subdivide, let or lease, licence, charge, mortgage, partition, share, grant any option over or otherwise dispose of an interest in or part with the possession or occupation of the Owned Properties or any part thereof or otherwise encumber the Owned Properties nor is there any agreement by the Seller to do any of the aforesaid;
- (x) the Seller is in physical possession and actual occupation of, each and every one of the Owned Properties on an exclusive basis and no right of possession or enjoyment has been acquired or is in the course of being acquired by any third party or has been granted or agreed to be granted to any third party;
- (xi) except as otherwise included in the Assumed Liabilities, the Seller does not have any outstanding liabilities under the terms and conditions upon which the land and building ownership rights pertaining to the Owned Properties are granted;
- (xii) except as otherwise disclosed to the Purchaser in the manner acceptable to the Purchaser, the Owned Properties are not subject to any restrictive covenants, stipulations, easements, licences, restrictions or other like rights vested in third parties other than those stipulated in the terms and conditions upon which the land and building ownership rights pertaining to the Owned Properties are granted which terms and conditions are of a usual nature with reference to such terms and conditions in China;
- (xiii) there are no circumstances which would entitle or require any person to exercise any powers of entry or taking possession of the Owned Properties;
- (xiv) compliance has been made with all applicable statutory and by-law requirements with respect to the Owned Properties;
- (xv) all requisite licences, certificates and authorities necessary for the existing use of the Owned Properties by the Seller have been duly obtained and are in full force, validity and effect;
- (xvi) there are no disputes with any adjoining or neighbouring owner with respect to boundary walls and fences, or with respect to any easement, right or means of access to the Owned Properties;
- (xvii) the Owned Properties are used by the Seller for legal purposes and has not violated any relevant land or construction regulations;
- (xviii) all requisite approvals, consents, permits and licences necessary for the user of the Owned Properties as it is presently being used by the Seller have been duly obtained and are in full force, validity and effect;

- (xix) no default (or event which with notice or lapse of time or both will constitute a default) by the Seller has occurred or is continuing under the government grant, occupation permit, deed of mutual covenant, land use right certificate, building ownership rights certificate and/or other documents applicable to the property and it is not in breach of any applicable laws, rules, regulations, guidelines, notices, circulars, orders, judgments, decrees or rulings of any court, government, governmental or regulatory authorities in respect of the use occupation and enjoyment of the Owned Properties;
- (xx) all requisite planning and building approvals required for any government, local or public authority with respect to the Owned Properties have been obtained and are in full force and effect;
- (xxi) all the buildings and other structures on the Owned Properties are in good and substantial repair and fit for the purposes for which they are being used; and
- (xxii) there is (and has been) no breach of any applicable statutory, by-law or regulatory requirement as to fire precautions, public health, pollution, discharge of effluents, environmental or any other matters to which, in respect of any of the Owned Properties compliance is required.

9.3.4 Other involvement in relation to property

So far as the Seller is aware, the Seller has not at any time:

- (i) had vested in it (whether as an original tenant or undertenant or as an assignee, transferee or otherwise) any immovable property used in relation to the HSR Business other than the Properties.
- (ii) given any covenant or entered into any agreement, deed or other document (whether as a tenant or undertenant or as an assignee, transferee, guarantor or otherwise) in respect of any immovable property used in relation to the HSR Business in respect of which any contingent or potential liability remains with the Seller other than those disclosed to the Purchaser in relation to the Properties.
- (iii) done, omitted or knowingly suffered or been party or privy to any act, deed, matter or thing whereby or by means whereof the Properties or any part thereof are or can or shall or may be impeached, charged, affected or encumbered in title, estate or otherwise.

9.4 The Seller acknowledges that, in entering into this Agreement and in purchasing the Purchased Assets, the Purchaser has relied and will reply upon the Warranties given herein and the Warranties as confirmed by the Seller.

9.5 Each of the Warranties shall be construed as a separate warranty and shall not be otherwise limited or restricted by reference to or inference from the terms of any other Warranty or any other term of this Agreement.

- 9.6 The Seller shall procure that the Warranties are true and accurate in material respects at the date of this Agreement and, for this purpose the Warranties shall be deemed to be repeated at the Closing Date and any express or implied reference therein to the date of this Agreement shall be replaced by a reference to the Closing Date. The Warranties shall remain in full force and effect notwithstanding Closing.
- 9.7 The Purchaser shall be entitled to claim both before and after Closing that any of the Warranties is or was untrue or misleading or has or had been breached even if the Purchaser discovered or could have discovered on or before Closing that the Warranty in question was untrue misleading or had been breached and Closing shall not in any way constitute a waiver of any of the Purchaser's rights.
- 9.8 The rights and remedies of the Purchaser in respect of a breach of any of the Warranties shall not be affected by Closing, by any investigation made by or on behalf of the Purchaser into the affairs of the Seller and the HSR Business, by the giving of any time or other indulgence by the Purchaser to any person, by the Purchaser rescinding or not rescinding this Agreement, or by any other cause whatsoever except a specific waiver or release by the Purchaser in writing; and any such waiver or release shall not prejudice or affect any remaining rights or remedies of the Purchaser.
- 9.9 All representations and warranties made by the Seller contained in this Agreement, any Exhibit, Schedule, certificate or other instrument specifically referred to in the Warranties pursuant hereto or made in writing by or on their behalf in connection with the transactions contemplated by this Agreement, and all indemnification obligations of the Seller under this Agreement shall survive the execution and delivery of this Agreement and the Closing of the transactions contemplated hereunder. All statements contained in any Exhibit, Schedule, certificate or other instrument specifically referred to in the Warranties shall be deemed representations and Warranties under this Agreement.
- 9.10 The Seller undertakes with the Purchaser that it will both before and after Closing promptly notify the Purchaser in writing of any event or circumstance of which it becomes aware which is or may be inconsistent with any of the Warranties or which might make any of the Warranties untrue or misleading if given at Closing.

ARTICLE 10 INDEMNIFICATION

10.1 General Indemnification

10.1.1 As used in this Article 10.1, the following terms shall have the following meanings:

- (i) "EVENT OF INDEMNIFICATION" with respect to the Seller shall mean:
 - (a) any untruth, inaccuracy or breach of any representation or Warranty relating to anything undisclosed to Purchaser as of the Closing Date, any untruth, inaccuracy, omission, in non-compliance with PRC laws and regulations or breach of any representation or Warranty relating to anything disclosed the Purchaser as of the Closing Date, or any breach or failure of

observance or performance of any agreement, undertaking, commitment, obligation, indemnity or covenant of the Seller contained in this Agreement (including the Schedules) or in any certificate or other writing delivered in connection herewith at, before or after Closing or any facts or circumstances constituting such untruth, inaccuracy or breach; and

(b) except for the Assumed Liabilities, any other Claims, liabilities or obligations of any kind or nature relating to the HSR Business or the Purchased Assets arising from, relating to or in connection with the HSR Business, operations or affairs of the Seller or any of the assets, properties, interests in assets or properties or rights of the Seller which were existing at or as of Closing or arising in whole or in part out of any acts, transactions, conditions, circumstances or facts which occurred or existed on or prior to Closing, and which were not disclosed on or before the execution of this Agreement and explicitly assumed by Purchaser pursuant to this Agreement.

(ii) "LOSSES" shall mean any and all Losses sustained, suffered or incurred by any Indemnified Person directly.

10.1.2 "INDEMNIFIED PERSONS" shall mean and include the Purchaser and its respective officers, directors, employees, Affiliates, successors and assignees.

10.1.3 The Seller shall indemnify, defend and hold harmless the Indemnified Persons, and each of them, from and against any and all Losses and Claims (including Claims by third party) arising from or in connection with any Event of Indemnification.

10.1.4 This indemnity is to be a continuing security to the Purchaser for each representation, Warranty, agreement, undertaking, commitment, obligation, indemnity or covenant on the part of the Seller under or pursuant to this Agreement notwithstanding settlement of account or other matter or thing whatsoever.

10.1.5 This indemnity is in addition and without prejudice to and not in substitution for any rights or security which the Purchaser may now or hereafter have or hold for performance and observance of any agreement, undertaking, commitment, obligation, indemnity or covenant on the part of the Seller under or in connection with this Agreement.

10.1.6 The Guarantor shall be jointly and severally liable for the liabilities of the Seller under Article 10.1, as well as all other liabilities of Seller arising under this Agreement.

10.2 Exercise of Purchaser's Rights

10.2.1 Without prejudice to any other right or remedy of the Purchaser hereunder, if before Closing the Purchaser becomes aware that any of the material Warranties was at the date of this Agreement, or has since become, untrue or misleading or

that the Seller is in breach of any term of this Agreement, the Purchaser shall be entitled to, by written notice to the Seller, terminate this Agreement without liability to the Seller. In the event of the termination of this Agreement, without limiting the Purchaser's right to claim all obligations of the Seller under this Agreement, the Purchaser shall, unless otherwise expressly stated, cease to enjoy and assume all rights and liabilities hereunder, but, for the avoidance of doubt, all rights and liabilities of the Parties which have accrued before termination shall continue to exist.

- 10.2.2 The rights, including rights of rescission, conferred on the Purchaser by this Agreement are in addition and without prejudice to all other rights and remedies available to the Purchaser; and no exercise or failure to exercise a right under this Agreement or otherwise or to invoke a remedy shall constitute a waiver of that right or remedy by the Purchaser.

ARTICLE 11 GUARANTEE AND INDEMNITY BY GUARANTOR

- 11.1 In consideration of the Purchaser entering into this Agreement, Guarantor hereby unconditionally and irrevocably guarantees to the Purchaser the due and punctual performance and observance by the Seller of all obligations, commitments, undertakings, warranties, indemnities and covenants under or pursuant to this Agreement and agrees to indemnify the Purchaser and its Affiliates against any and all Losses and Claims which the Purchaser or any of its Affiliates may suffer through or arising from any breach by the Seller of such obligations, commitments, warranties, undertakings, indemnities or covenants. The liability of Guarantor as aforesaid shall not be released or diminished by any arrangements or alterations of terms (whether of this Agreement or otherwise) or any forbearance, neglect or delay in seeking performance of the obligations hereby imposed or any granting of time for such performance.
- 11.2 Guarantor hereby waives any right which it may have to require the Purchaser to proceed first against or claim payment from the Seller to the intent that as between the Purchaser and Guarantor the latter shall be liable as principal obligor as if it had entered into all undertakings, agreements and other obligations jointly and severally with the Seller.
- 11.3 This guarantee and indemnity is to be a continuing security to the Purchaser for all obligations, commitments, warranties, undertakings, indemnities and covenants on the part of the Seller under or pursuant to this Agreement notwithstanding any settlement of account or other matter or thing whatsoever.
- 11.4 This guarantee and indemnity is in addition to and without prejudice to and not in substitution for any rights or security which the Purchaser may now or hereafter have or hold for the performance and observance of the obligations, commitments, undertakings, covenants, indemnities and warranties of the Seller under or in connection with this Agreement.
- 11.5 As a separate and independent stipulation, Guarantor agrees that any obligation expressed to be undertaken by the Seller under this Agreement (including, without limitation, any moneys expressed to be payable under this Agreement) which may not be enforceable against or recoverable from the Seller by reason of any legal limitation, disability or incapacity of the Seller or any other fact or circumstance shall nevertheless

be enforceable against or recoverable from Guarantor as though the same had been incurred by Guarantor and Guarantor was sole or principal obligors in respect thereof and shall be performed or paid by Guarantor on demand.

ARTICLE 12 FORCE MAJEURE

- 12.1 Scope of Force Majeure. A "FORCE MAJEURE EVENT" shall mean any event, circumstance or condition that (i) directly or indirectly prevents the fulfillment of any material obligation set forth in this Contract, (ii) is beyond the reasonable control of the respective Party, and (iii) could not, by the exercise of reasonable care, have been avoided or overcome in whole or in part by such Party. Subject to the aforementioned items (i), (ii) and (iii), Force Majeure Event includes, but is not limited to, natural disasters such as acts of God, earthquake, windstorm and flood, terrifying events such as war, terrorism, civil commotion, riot, blockade or embargo, fire, explosion, off-stream or strike or other labor disputes, epidemic and pestilence, material accident or by reason of any law, order, proclamation, regulation, ordinance, demand, expropriation, requisition or requirement or any other act of any governmental authority, including military action, court orders, judgments or decrees.
- 12.2 Notice. Should any Party be prevented from performing the terms and conditions of this Agreement due to the occurrence of a Force Majeure Event, the prevented Party shall send notice to the other Parties within fourteen (14) days from the occurrence of the Force Majeure Event stating in the details of such Force Majeure Event.
- 12.3 Performance. Any delay or failure in performance of this Agreement caused by a Force Majeure Event shall not constitute a default by the prevented Party or give rise to any claim for damages, losses or penalties. Under such circumstances, the Parties are still under an obligation to take reasonable measures to perform this Agreement, so far as is practical. The prevented Party shall send notice to the other Parties as soon as possible of the elimination of the Force Majeure Event, and confirm receipt of such notice.
- 12.4 Consultations and Termination. Should the Force Majeure Event continue to delay implementation of this Agreement for a period of more than three (3) months, the Parties shall, through consultations, decide whether to terminate or modify this Agreement. Should the Force Majeure Event continue for a period of six (6) months or longer, any Party may terminate this Agreement by giving written notice to the other Parties. In the event of the termination of this Agreement, without limiting the Purchaser's right to claim all obligations of the Seller under this Agreement, the Purchaser shall, unless otherwise expressly stated, cease to enjoy and assume all rights and liabilities hereunder, but, for the avoidance of doubt, all rights and liabilities of the Parties which have accrued before termination shall continue to exist.

ARTICLE 13 CONFIDENTIALITY

- 13.1 The Parties undertake with each other that they shall treat as strictly confidential all information received or obtained by them or their employees, agents or advisers as a result of entering into or performing this Agreement including information relating to the provisions of this Agreement, the negotiations leading up to this Agreement, the subject matter of this Agreement or the business or Affairs of the Seller or the Purchaser

and that it will not at any time hereafter make use of or disclose or divulge to any person any such information (except in relation to the operation of the HSR Business after Closing by the Purchase) and shall use its best endeavours to prevent the publication or disclosure of any such information.

- 13.2 The restrictions contained in Article 13.1 shall not apply so as to prevent the Parties from making any disclosure required by law or by any supervisory or regulatory or governmental body or from making any disclosure to any professional adviser for the purposes of obtaining advice (providing always that the provisions of this Article 13 shall apply to and the Parties shall procure that they apply to and are observed in relation to, the use or disclosure by such professional adviser of the information provided to them) nor shall the restriction apply in respect of any information which comes into the public domain otherwise than by a breach of this Article 13 by any Party.

ARTICLE 14 GOVERNING LAW

The formation of this Agreement, its validity, interpretation, execution and any performance of this Agreement, and the settlement of any Disputes hereunder, shall be governed by published and publicly available laws, rules and regulations of the PRC, the applicable provisions of any international treaties and conventions to which the PRC is a party, and, if there are no published or publicly available PRC laws, rules or regulations, or treaties or conventions governing a particular matter, by general international commercial practices.

ARTICLE 15 DISPUTE RESOLUTION

- 15.1 Consultations and Arbitration. Any and all disputes, controversies or claims (the "DISPUTE") arising out of or relating to the formation, validity, interpretation, implementation or termination of this Agreement, or the breach hereof or relationships created hereby shall be settled through friendly consultations. If a Dispute is not resolved through friendly consultations within thirty (30) days from the date a Party gives the other Parties written notice of a Dispute, then it shall be resolved exclusively and finally by arbitration in Beijing at the China International Economic and Trade Arbitration Commission ("CIETAC") in accordance with the arbitration rules of the CIETAC (the "CIETAC RULES") for the time being in force which rules are deemed to be incorporated by reference to this clause.
- 15.2 Arbitration Proceedings and Award. Any arbitration shall be heard before a tribunal consisting of three (3) arbitrators. Each side of the Dispute shall appoint one (1) arbitrator. The two arbitrators thus appointed shall choose the third arbitrator who will act as the presiding arbitrator of the tribunal. If the two arbitrators have not agreed on the choice of the presiding arbitrator, the presiding arbitrator shall be appointed by the Chairman of the CIETAC. The language of the arbitration shall be Chinese and English. The arbitration shall be final and binding on the Parties, shall not be subject to any appeal, and the Parties agree to be bound thereby and to act accordingly. The award of the arbitrators may be enforced by any court having jurisdiction to do so. Throughout any dispute resolution and arbitration proceedings, the Parties shall continue to perform this Agreement, to the extent practical, with the exception of those parts of this Agreement that are under arbitration. Except as otherwise determined by the arbitration tribunal, each Party shall be responsible for its expenses incurred in connection with

resolving any Dispute, but the arbitration fees shall be borne by the losing side of the Dispute.

- 15.3 Injunctive Relief. Notwithstanding any other provision of this Agreement, each Party acknowledges that a breach of confidentiality as provided in Article 13 or other obligations under this Agreement may result in irreparable harm and damage to the affected Party and its Affiliates in an amount that is difficult to ascertain and that cannot be adequately compensated by a monetary award. Accordingly, in addition to any other relief to which the affected Party and its Affiliates may be entitled, such Party shall be entitled to temporary and/or permanent injunctive relief from any breach or threatened breach by the relevant Party without proof of actual damages that have been or may be caused to such Parties by such breach or threatened breach.

ARTICLE 16 MISCELLANEOUS PROVISIONS

- 16.1 Language. This Agreement is written and executed in a Chinese version and in an English version. Both language versions of this Agreement are of equal validity and effect. In case of any discrepancy between the Chinese version and the English version, the Chinese version approved by the Examination and Approval Authority shall prevail.
- 16.2 Waiver and Preservation of Remedies. No delay on the part of any Party in exercising any right, power or privilege under this Agreement shall operate as a waiver thereof, nor shall any waiver on the part of any Party of any right, power or privilege hereunder, nor any single or partial exercise of any right, power or privilege hereunder, preclude any other or other exercise thereof hereunder. The rights and remedies herein provided are cumulative and are not exclusive of any rights or remedies that any Party may otherwise have.
- 16.3 Notices. All notices or other communications under this Agreement shall be in writing and shall be delivered or sent to the correspondence addresses or facsimile numbers of the Parties set forth below or to such other addresses or facsimile numbers as may be hereafter designated in writing on seven (7) days' notice by the relevant Party. All such notices and communications shall be effective: (i) when delivered personally; (ii) when sent by telex, telefacsimile or other electronic means with sending machine confirmation; (iii) ten (10) days after having been sent by registered or certified mail, return receipt requested, postage prepaid; or (iv) four (4) days after deposit with a commercial overnight courier, with evidence of delivery provided by the courier.

Seller	Address:	No. 98, Nanshan Road North, Rongcheng City, Shandong Province, PRC
	Tel:	0631-7523205
	Fax:	0631-7523888
	Attn:	Zhang Junquan
Purchaser	Address:	No. 99, Qingshan Road West, Rongcheng City, Shandong Province, PRC
	Tel:	
	Fax:	
	Attn:	

IN WITNESS WHEREOF, each of the Parties has executed this Agreement or has caused this Agreement to be executed by its duly authorized officer or officers as of the date first above written.

PURCHASER:

COOPER CHENGSHAN (SHANDONG) PASSENGER
TIRE COMPANY LTD.

Represented by Cooper Tire Investment Holding
(Barbados) Ltd. before legal establishment:

By: _____

Name: Harold C. Miller
Title: President
Nationality: U.S.A.

SELLER:

SHANDONG CHENGSHAN TIRE COMPANY
LIMITED BY SHARES

By: _____

Name: Che Hongzhi
Title: Chairman
Nationality: Chinese

GUARANTOR:

Confirmed and ratified after legal
establishment:

By: _____

Name:
Title:
Nationality:

SHANDONG CHENGSHAN GROUP COMPANY

By: _____

Name: Che Hongzhi
Title: Chairman
Nationality: Chinese

SCHEDULE 1

DEFINITIONS AND INTERPRETATION

ACCOUNTS -- The audited financial statements of the Seller (including, without limitation, a balance sheet, profit and loss statement and cash flow statement together in each case with the notes thereon) made up to the Accounts Date and for the financial period from January 1, 2005 to the Accounts Date prepared in accordance with relevant PRC laws and regulations, the Chinese GAAP, and in manner consistent with past practice.

ACCOUNTS DATE -- **The date of Closing.**

AFFILIATES -- Any person which directly or indirectly controls, is controlled by, or is under common control with Seller, or Seller or any of its related companies; the term "control" means ownership, the power to elect or appoint directors or senior management, and/or the ability to determine and enforce the strategic, business or operations policies of any person.

AGREED FORM -- In relation to any document, such document in the terms agreed between the Purchaser and Seller and signed by or on behalf of them for the purposes of identification.

AGREEMENT -- **This Assets Purchase Agreement**

BUSINESS LICENSE -- The business license of the Purchaser as issued, amended and replaced, as the case may be, from time to time by the Registration Authority.

CERTIFICATE OF APPROVAL -- The certificate of approval issued by the Examination and Approval Authority approving the JV Contract and establishment of the Purchaser.

CHINESE GAAP -- The general accepted accounting principles applicable in China, consistently applied.

CLAIM -- Any claim, demand, dispute, action, suit, investigation or legal or analogous proceedings

CLOSING -- The completion of the purchase by the Purchaser from the Seller of the Purchased Assets in accordance with Article 7.

CLOSING DATE -- the date mutually agreed by the Parties subsequent to the conditions in Article 5.1 being satisfied or such other date as is determined by the Seller and Purchaser.

CONTRACTS -- The meaning set forth in Article 2.1.4

EMPLOYEES -- The employees to be employed in relation to the HSR Business by Purchaser.

ENCUMBRANCES -- Any mortgage, charge (fixed or floating), pledge, lien, hypothecation, trust, right of set off or other third party right or interest (legal or equitable) including any right of pre-emption, assignment by way of security, reservation of title or any other security interest of any kind however created or arising or any other agreement or arrangement (including a sale and repurchase arrangement) having similar effect.

EXAMINATION AND APPROVAL AUTHORITY -- The Ministry of Commerce, or its authorized local division or any successor government institution or agency empowered to approve the JV Contact, this Agreement, and any amendments, supplements, modifications or termination thereof or hereof.

GUARANTOR -- Chengshan Group Company Limited.

HSR BUSINESS -- The business in relation to the half-steel radial tires for passenger vehicles and light trucks, which has been carried on by Seller as part of the business scope specified on the effective business license of Seller, such as "production and sales of rubber products; import and export business within the approved scope; sales of vehicles (including cars); contracting of offshore rubber industry projects and onshore international tender offer projects and exporting of the equipment and materials required for the aforesaid projects; and expatriation of the labor personnel required for enforcing the aforesaid offshore projects.

INSURANCES -- The policies of assurance and insurance in connection with the HSR Business and the Purchased Assets and the Employees.

LEASE(s) -- The lease(s) or tenancy agreement(s) between the Landlord (as therein defined) and the Seller by which the premises used by the HSR Business was let to the Seller.

LEASED PROPERTIES -- All the real properties used by the HSR Business leased by the Seller, particulars of which are set out in this Agreement.

LOSSES -- All losses, liabilities, costs (including, without limitation, legal costs arising out of any disputes involving any third party), charges and expenses.

MANAGEMENT ACCOUNTS -- The unaudited balance sheet of the Seller as at the Management Accounts Date and the unaudited statements of profit and loss and cash flow of the Seller for the period commencing from December 31, 2004 and ended on the Management Accounts Date prepared in a manner consistent with past practice.

MANAGEMENT ACCOUNTS DATE -- The date of Closing.

M&A REGULATIONS -- The Tentative Provisions Regarding Merger with, and Acquisition of, Domestic Enterprises by Foreign Investors, promulgated by the Ministry of Foreign Trade and Economic Cooperation, State Administration of Taxation, State Administration for Industry and Commerce and State Administration of Foreign Exchange on March 7, 2003, and effective as of April 12, 2003.

MATERIAL ADVERSE CHANGE -- Any material adverse change in the business, assets or position (financial, trading or otherwise), profits or prospects of the HSR Business or any event or circumstance that may result in such a material adverse change. Without prejudice to the generality of the foregoing and to the extent that any adverse change or series of adverse change can be quantified, any adverse change to the extent of more than USD500,000 or series of adverse change to the aggregate extent of more than USD500,000 shall be deemed to be a material adverse change.

OWNED PROPERTIES -- All the real properties used by the HSR Business owned by the Seller.

PRC -- People's Republic of China

PROPERTIES -- The Leased Properties and Owned Properties set out in this Agreement.

PURCHASER -- Cooper Chengshan (Shandong) Passenger Tire Company Ltd., a Sino-foreign limited liability company registered and incorporated under the laws of the PRC, with its registered address at No. 99, Qingshan Road West, Rongchen City, Shandong Province, PRC.

PURCHASED ASSETS -- The meaning set forth in Article 2.1

REGISTRATION AUTHORITY -- The State Administration of Industry and Commerce, or its local division or any successor government institution or agency empowered to issue a Business License to the Purchaser.

RENMINBI or RMB -- The lawful currency of the PRC

SELLER -- Shandong Chengshan Tire Company Limited by Shares. A company limited by shares registered and incorporated under the laws of the People's Republic of China, with its registered address at No. 98, Nanshan Road North, Rongchen City, Shandong Province, People's Republic of China.

TAX AUTHORITY -- Any local, municipal, governmental, provincial, State or fiscal, revenue, customs or excise authority, body, agency or official in China having or purporting to have power or authority in relation to Tax, including without limitation the PRC State Administration for Taxation or any other relevant fiscal authority in China.

TAXATION/TAX -- All taxes, charges, duties, imposts, fees, levies or other assessments, and all estimated payments thereof, including without limitation income, business profits, property, sales, use, value added taxes (VAT), environmental, franchise, customs, import, payroll, transfer, gross receipts, withholding, social security, as well as stamp duties and other costs, imposed by any Tax Authority, or any subdivision or agency thereof, and any interest and penalty relating to such taxes, charges, fees, levies or other assessments.

WARRANT(IES) -- the warranties, representations, and undertakings stated in Article 9.

SINO-FOREIGN EQUITY JOINT VENTURE CONTRACT
FOR
COOPER CHENGSHAN (SHANDONG) TIRE COMPANY LTD.
BY AND AMONG
SHANDONG CHENGSHAN TIRE COMPANY LIMITED BY SHARES
AND
COOPER TIRE INVESTMENT HOLDING (BARBADOS) LTD.
AND
JOY THRIVE INVESTMENTS LIMITED

OCTOBER 27, 2005

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EQUITY JOINT VENTURE CONTRACT

This Sino-foreign Equity Joint Venture Contract (this "CONTRACT") is made and entered into in the People's Republic of China ("CHINA" or "PRC") on this 27th. day of October, 2005, in accordance with the PRC Sino-foreign Equity Joint Venture Law (the "JOINT VENTURE Law") and other relevant PRC laws and regulations, by and among:

(1) SHANDONG CHENGSHAN TIRE COMPANY LIMITED BY SHARES, a company limited by shares duly organized and existing under the laws of the PRC with its legal address at No. 98, Nanshan Road North, Rongcheng City, Shandong Province, PRC ("PARTY A");

(2) COOPER TIRE INVESTMENT HOLDING (BARBADOS) LTD., a company duly organized and existing under the laws of Barbados with its legal address at Whitepark House, White Park Road, Bridgetown, Barbados ("PARTY B"); and

(3) JOY THRIVE INVESTMENTS LIMITED, a company duly organized and existing under the laws of British Virgin Islands with its legal address at P.O. Box 957, Offshore Incorporations Center, Road Town, Tortola, British Virgin Islands ("PARTY C").

(Each party is hereinafter individually referred to as a "PARTY" and collectively as the "PARTIES".)

In accordance with the principles of equality and mutual benefit, the Parties have held friendly negotiations in relation to the terms and conditions for establishing a Sino-foreign equity joint venture.

NOW, THEREFORE, the Parties hereby agree as follows:

CHAPTER 1 DEFINITIONS

Unless the terms or context of this Contract provide otherwise, capitalized terms used herein without definition have the meanings assigned to them in Appendix 1 attached to this Contract.

CHAPTER 2 PARTIES TO THE CONTRACT

2.1 The Parties. The Parties to this Contract are as follows:

(1) Party A:	Shandong Chengshan Tire Company Limited by Shares
Country of Registration:	PRC
Legal Address:	No. 98, Nanshan Road North, Rongcheng City, Shandong Province, PRC

Current Legal Representative: Che Hong-Zhi

Nationality: Chinese

(2) Party B: Cooper Tire Investment Holding (Barbados) Ltd.

Country of Registration: Barbados

Legal Address: Whitepark House, White Park Road, Bridgetown, Barbados

Current Legal Representative: Harold C. Miller

Nationality: U.S.A

(3) Party C: Joy Thrive Investments Limited

Country of Registration: British Virgin Islands

Legal Address: P.O. Box 957, Offshore Incorporations Center, Road Town, Tortola, British Virgin Islands

Current Legal Representative: Nuansir Sirisuwat

Nationality: Thailand

CHAPTER 3 ESTABLISHMENT OF THE JOINT VENTURE

3.1 Establishment of the Joint Venture. In accordance with the Joint Venture Law and other relevant PRC laws and regulations, the Parties hereby enter into this Contract for the establishment of the Joint Venture as a Sino-foreign equity joint venture in the form of a limited liability company.

3.2 Joint Venture Name, Legal Address.

(1) The name of the Joint Venture in English is "Cooper Chengshan (Shandong) Tire Company Ltd." The name of the Joint Venture in Chinese is [CHINESE CHARACTERS]

(2) The legal address of the Joint Venture is No. 98, North Nanshan Road , Rongcheng City, Shandong Province, PRC.

3.3 Limited Liability Company. The Joint Venture shall be organized as a company with limited liability under PRC law, liable for its own debts with its own assets. The liability of each Party shall be limited to the amount of the Registered Capital expressly subscribed by such Party according to Article 5.2 hereof. No Party shall be obligated at any time to provide any funds to, or on behalf of, the Joint Venture by way of capital contribution, loan, advance, guarantee or otherwise, except as specifically provided in this Contract, or as otherwise agreed to in writing by the Parties. The Parties shall not be liable for the debts of the Joint Venture, unless otherwise specifically agreed in writing between a particular creditor and the Party or Parties concerned. Subject to the terms

and conditions of this Contract, the profits, risks and losses of the Joint Venture shall be shared by the Parties in proportion to their respective contributions to the Registered Capital.

3.4 PRC Law. The activities of the Joint Venture shall be governed by, and its legal rights and operational autonomy shall be protected in accordance with, the laws and regulations of the PRC.

CHAPTER 4 PURPOSE, BUSINESS SCOPE AND SCALE OF THE JOINT VENTURE

4.1 Purpose of Joint Venture. The purpose of the Joint Venture is to fully initiate advantages of the Parties so as to enhance production technical standard, to promote high quality products, to produce internationally reputable products, to apply brand-new operation concept and management method, to strengthen overall capacity and competitiveness in the international market, to increase economic benefit, and to produce a satisfactory return to all investors; meanwhile, to boost the industrial level through an integration of the tire industry, to provide job opportunities in the locale, to introduce more foreign capital to the locale, and for sure to enhance the fast economic development in Rongcheng City.

4.2 Scope of Business. The Joint Venture's scope of business shall be to design, develop, manufacture, and sell heavy load radial tires, bias tires and Related Products; provide technical support and services for such products.

4.3 Scale of Joint Venture.

(1) The tire manufacture volume of the Joint Venture shall to the extent practicable increase by 10% per year over the next three years. The Joint Venture shall from time to time introduce and utilize the international modern technology and management expertise to fully activate investment benefits.

(2) Upon its duly establishment, the Joint Venture shall not have any investment in the production assembly to enlarge the production scale of the bias tires.

CHAPTER 5 TOTAL INVESTMENT AND REGISTERED CAPITAL

5.1 Total Investment and Registered Capital. The Total Investment of the Joint Venture shall be United States Dollars ninety-nine million (US\$99,000,000). The Registered Capital of the Joint Venture shall be United States Dollars forty-three million eight hundred thousand (US\$43,800,000).

5.2 Capital Contributions. Subject to the Capital Contribution Schedule attached as Appendix 2 hereto, each Party shall contribute to the Registered Capital as follows:

(1) Party A shall contribute all of the land use rights and buildings free of all liens and encumbrances to the Joint Venture, valued in the amount of United States Dollars fifteen million three hundred and thirty thousand (US\$ 15,330,000), representing thirty five percent (35%) of the Registered Capital;

(2) Party B shall contribute cash in the amount of United States Dollars twenty-two million three hundred and thirty-eight thousand (US\$22,338,000), representing fifty one percent (51%) of the Registered Capital; and

(3) Party C shall contribute cash in the amount of United States Dollars six million one hundred and thirty-two thousand (US\$6,132,000), representing fourteen percent (14%) of the Registered Capital.

5.3 Schedule for Capital Contributions. Subject to Article 5.4 below, the Parties shall contribute their respective contributions to the Registered Capital in accordance with the Capital Contribution Schedule attached as Appendix 2 hereto.

5.4 Conditions Precedent to the Contribution of Registered Capital. The Parties' contribution to the Registered Capital of the Joint Venture pursuant to Article 5.2 hereof shall be conditioned on the satisfaction of all of the following:

(1) the Examination and Approval Authority has issued a Certificate of Approval, and any required changes to this Contract have been agreed to in writing by the Parties; and

(2) a Business License has been granted to the Joint Venture which authorizes the full scope of business of the Joint Venture described in Article 4.2 or any required changes thereto have been agreed to in writing by the Parties.

5.5 Capital Contribution Verification and Certificate. An accountant registered in the PRC shall be engaged by the Joint Venture to verify the respective capital contributions of each Party and provide a capital verification report(s) accordingly. The Joint Venture, upon the receipt of a satisfactory capital verification report, shall issue a capital contribution certificate to the relevant Party. This certificate shall include the following items: name of the Joint Venture; the Establishment Date; the names of the Parties and the amount of their respective capital contributions; the date on which the capital contributions were made; and the date of issuance of the capital contribution certificate. Each capital contribution certificate shall be signed by the Chairman and the Vice-Chairman of the Joint Venture. The capital contribution certificates shall only certify the investment of each Party and shall not be deemed as a note or other negotiable instrument.

5.6 Financing. Subject to the terms and conditions of this Contract, to the greatest extent permitted by relevant law, the Joint Venture may finance its operations and capital needs by way of loans, including but not limited to shareholder loans, loans from such banks, other financial institutions or qualified lenders inside or outside of China and upon such terms and subject to such conditions as may be approved by the Board.

5.7 Increase of Registered Capital. The Registered Capital of the Joint Venture may be increased by a unanimous resolution of the Board, which resolution shall stipulate the timing and other terms of such increase, with such increase subject to the approval of the Examination and Approval Authority and registration with the Registration Authority. If any Party chooses not to participate in any such additional investment in the Joint Venture, any other Party or Parties shall have the option to make the additional

contribution to the Joint Venture's Registered Capital and the ownership percentages of the Parties' equity in the Joint Venture shall be adjusted accordingly.

5.8 Failure to Make Contributions to Registered Capital.

(1) If any Party or Parties ("BREACHING PARTY(IES)") fails to make any contribution to the Registered Capital within the period set forth in Article 5.3 (the amount due and owing is referred to as the "DEFAULT CAPITAL CONTRIBUTION"), the Breaching Party(ies) shall pay the other Parties or Party (the "NON-BREACHING PARTY(IES)") (in proportion to their Percentage Interests) a default penalty of 0.05% per day based on the Default Capital Contribution from the first day of the breach until the day on which the Default Capital Contribution is contributed in full by the Breaching Party(ies).

(2) Notwithstanding the foregoing, if the Breaching Party(ies) fails to make the Default Capital Contribution for more than 30 days, the Non-Breaching Party(ies) shall have the right to determine, in accordance with the applicable laws and regulations, to:

(i) make the additional contribution to satisfy the amount of the Registered Capital of the Joint Venture, so as to increase the Percentage Interest(s) of the Non-Breaching Party(ies) and dilute the Percentage Interest(s) of the Breaching Party(ies) accordingly; or

(ii) terminate this Contract in accordance with Article 16.2, subject to the approval of the Examination and Approval Authority.

(3) The provisions of this Article 5.8 shall not prejudice any other

rights or remedies the Non-Breaching Party(ies) may have under this Contract or under applicable laws and regulations with respect to the failure of the Breaching Party(ies) to contribute capital.

5.9 Transfer of Equity Interests. If one Party wishes to transfer all or part of its Percentage Interest in the Joint Venture to any third party, it shall obtain the written consent of (including waiver of preemptive rights by) the other Parties, and the transfer shall be presented to the Examination and Approval Authority for approval.

5.10 Assets Transfer. On the date of this Contract, Party A and the Joint Venture shall enter into an asset purchase agreement (the "ASSET PURCHASE AGREEMENT") in substantially the form attached as Appendix 3 hereto for any existing assets of Party A in respect of the business specified in Article 4.2 hereof, as identified by the Joint Venture and Party A, to be transferred to the Joint Venture.

CHAPTER 6 REPRESENTATIONS AND WARRANTIES

6.1 Representations and Warranties. Each Party hereby represents and warrants that, as of the date of this Contract and as of a date on which a Party makes a capital contribution to the Joint Venture in accordance with

Article 5.2 herein, it:

(1) has the capacity and authority to enter into this Contract and to perform its obligations hereunder, and is duly organized and validly existing under the laws of the PRC in the case of Party A, and under the laws of Barbados in the case of Party B, and under the laws of British Virgin Islands in the case of Party C;

(2) is not a party to, bound by or subject to any contract, instrument, charter or by-law provision, statute, regulation, order, judgment, decree or law which would be violated, contravened or breached by, or under which any default would occur as a result of, the execution and delivery by such Party of this Contract or the performance by such Party of any of the terms of this Contract, or which restricts such Party from entering into this Contract or performing its obligations and abiding by the terms hereunder;

(3) has duly authorized, executed and delivered this Contract and that this Contract constitutes a legal, valid and binding obligation enforceable in accordance with its terms;

(4) will contribute or transfer assets in a manner which does not conflict with, violate or result in a breach of, any of the terms, conditions or provisions of any law, regulation, order, writ, injunction, decree, determination or award of any court, governmental department, board, agency or instrumentality or any arbitrator, or result in the creation or imposition of any lien, charge, security interest or encumbrance of any nature whatsoever upon such assets;

(5) freely enters into this Contract and has not and will not hereafter incur any obligations or commitments of any kind which would in any way hinder or interfere with its acceptance or performance of its obligations hereunder; and

(6) (i) has carefully read the entire Contract including the Appendices hereto; (ii) fully understands all of the terms, conditions, restrictions and provisions set forth in this Contract, (iii) agrees that the terms, conditions, restrictions and provisions herein are necessary for the reasonable and proper protection of the business of the Joint Venture and the other Parties, and (iv) acknowledges that each such term, condition, restriction and provision is fair and reasonable with respect to the subject matter thereof.

6.2 Representations and Warranties in Respect of Party A's Assets. In respect of Party A's existing assets relating to the business specified in Article 4.2 hereof, Party A represents, warrants and undertakes to Party B and Party C, as of the date of this Contract and as of the Closing Date (as such term defined in the Asset Purchase Agreement), those representations, warranties and undertakings set forth in the Asset Purchase Agreement are true and accurate in material way.

6.3 Cure and Indemnification Obligations.

(1) In case of any breach of the Contract by any Party, it shall, in accordance with the direction of any non-breaching Party within thirty (30) days after receiving a notice of such non-breaching Party concerning any breach, take all necessary actions to cure such breach.

(2) Each Party agrees to indemnify and hold the other Parties and the Joint Venture harmless from and against any and all claims, losses, damages, and costs arising out of any of its breach of any of its covenants or representations and warranties contained herein, including reasonable attorneys' fees incurred in connection with the enforcement of this Contract or the undertaking of any necessary legal actions or responses involving any third parties.

CHAPTER 7 RESPONSIBILITIES OF THE PARTIES

7.1 Party A's Responsibilities. In addition to its other obligations under this Contract, Party A shall be responsible for the following matters:

- (1) Providing capital contributions in accordance with the terms and conditions of this Contract and the Capital Contribution Schedule attached as Appendix 2 hereto;
- (2) Using its best endeavors (acting at all times in close consultation with Party B and Party C) to assist the Joint Venture to:
 - (a) obtain all necessary governmental approvals and completing all required registrations for the establishment and operation of the Joint Venture;
 - (b) liaise with PRC national, provincial, municipal or local governmental authorities and other relevant institutions or organizations;
 - (c) obtain the most preferential tax, customs, foreign exchange and other favorable treatment that are or may become available to the Joint Venture and/or the Parties under relevant national and local laws and regulations of the PRC; and
 - (d) procure necessary equipment, materials, articles for office use, means of transportation, telecommunications facilities and other public utilities, in accordance with the Joint Venture's request.
- (3) Using its best endeavors (acting at all times in close consultation with Party B and Party C) to assist the Joint Venture to register with the relevant tax bureau, to open such foreign exchange and RMB bank accounts, assist the Joint Venture with all required foreign exchange approvals, and assist the Joint Venture in applying for all approvals required to remit to Party B and Party C in foreign exchange distributable profits and all other payments required to be paid to Party B and/or Party C;
- (4) Providing necessary assistance to the Joint Venture in recruiting suitable management personnel, technical personnel and other necessary employees to be employed by the Joint Venture;
- (5) Assisting the Joint Venture to contact banks and other financial institutions inside the PRC and hold discussions with them with respect to the raising of any loans required by the Joint Venture;

(6) Assisting foreign workers, staff, and personnel (including Directors, managers, technicians, and contractors appointed or selected by Party B and/or Party C) in obtaining PRC visas and work permits for travel to China directly related to the operation of the Joint Venture if requested by Party B and/or Party C;

(7) Causing Chengshan Group to enter into the lease agreements in substantially the form attached as Appendix 5 hereto in respect of the office space, single-worker dormitories and employee cafeteria with the Joint Venture, pursuant to which Chengshan Group, at the discretion and request of the Joint Venture, shall lease the office space, single-worker dormitory and employee cafeteria to the Joint Venture as necessary for normal and effective use and operation of the Joint Venture.

(8) Executing and performing, in accordance with the terms therein, the various Supplementary Contracts to which it is a party;

(9) Be responsible for any environmental pollution, fines, charges or losses caused by it prior to the Establishment Date, and indemnify the Joint Venture for any financial burden and/or losses arising out of any contamination caused by Party A prior to the Establishment Date; and

(10) Assisting with and carrying out other relevant matters as may be reasonably requested by the Board from time to time.

7.2 Responsibilities of Party B. In addition to its other obligations under this Contract, Party B shall be responsible for the following matters:

(1) Providing capital contributions in accordance with the terms and conditions of this Contract and the Capital Contribution Schedule attached as Appendix 2 hereto;

(2) Providing any necessary assistance to the Joint Venture's recruitment of suitable expatriate management personnel, technical personnel and other necessary expatriate employees to be employed by the Joint Venture on the basis of merit;

(3) Assisting the Joint Venture to contact banks and other financial institutions outside of the PRC and hold discussions with them with respect to the raising of any foreign exchange loans required by the Joint Venture;

(4) Assisting the Joint Venture in training key staff and employees;

(5) Seconding relevant management personnel, technical personnel and other necessary staff to work for the Joint Venture as per the Joint Venture's request;

(6) To the extent practicable, providing internationally advanced technology to the Joint Venture; and

(7) Assisting with and carrying out other relevant matters requested by the Joint Venture from time to time.

7.3 Responsibilities of Party C. In addition to its other obligations under this Contract, Party C shall be responsible for the following matters:

- (1) Providing capital contributions in accordance with the terms and conditions of this Contract and the Capital Contribution Schedule attached as Appendix 2 hereto; and
- (2) Assisting with and carrying out other relevant matters requested by the Joint Venture from time to time.

7.4 Execution of Supplementary Contracts. Before the Establishment Date, the Parties may jointly sign the Supplementary Contracts on behalf of the Joint Venture. After the Establishment Date, all Supplementary Contracts signed by the Parties shall be ratified by the Board in accordance with the procedures set forth herein and in the Joint Venture's Articles of Association and formally executed by the legal representative of the Joint Venture. Each Party shall be bound by the relevant Supplementary Contracts to which it is a contracting party on his own behalf, provided that, however, no Party shall incur any liability or assume any obligations solely as a result of its signing of any Supplementary Contracts on behalf of the Joint Venture before the Establishment Date.

7.5 Related Party Transactions. The Parties shall procure that all related party transactions with respect to the Joint Venture shall be transparent to the Parties and be conducted on an arm's length basis. Any significant purchases (including purchases of raw materials but excluding Products) by the Joint Venture from Party B or its Affiliates shall be sold by Party B or its Affiliates to the Joint Venture at cost, unless otherwise agreed by the Parties. The Vice General Manager or another member of the senior management team nominated by Party A, and either the General Manager or another member of the senior management team nominated by Party B shall approve all related party purchases.

CHAPTER 8 BOARD OF DIRECTORS

8.1 Formation of the Board.

- (1) The Board shall be the highest authority of the Joint Venture. It shall discuss and determine all strategic business and financial issues and operational issues of the Joint Venture in accordance with the provisions of this Contract and the Articles of Association.
- (2) The Board shall consist of seven (7) Directors, of which two (2) shall be appointed by Party A, four (4) shall be appointed by Party B, and one (1) shall be appointed by Party C. At the time this Contract is executed and when replacement Directors are appointed, the Parties shall notify one another in writing of the names and addresses of its appointees, together with a brief curriculum vitae and a list of other official functions, if any, that the relevant appointees will concurrently carry out for the Joint Venture. Each Party shall cause the Directors appointed by it to perform the obligations specified in this Contract and as required under relevant PRC laws and regulations.
- (3) Directors shall each be appointed for terms of four (4) years, and may serve consecutive terms if reappointed by the Party originally appointing such Director.

(4) Any Party may, at any time with or without cause, remove and replace a Director that it has appointed by written notice to the Joint Venture and to the other Party. If a seat on the Board is vacated due to the retirement, resignation, illness, disability or death of a Director or by the removal of such Director by the original appointing Party, the Party which originally appointed such Director shall appoint a successor to serve the remainder of such Director's term.

(5) If either Party or the Board has reason to believe that a Director has materially breached his/her duties as a Director (provided such breach appear to be supported by reasonable grounds as determined by a simple majority of the Directors), or has been convicted of committing an act or omission constituting fraud, theft, embezzlement or other violations of relevant PRC law, the Board may remove the relevant Director immediately. Following any such removal, the Party that originally appointed the relevant Director shall appoint a successor to serve the remainder of such Director's term.

8.2 Chairman and Vice Chairman of the Board.

(1) The Board shall have one (1) Chairman and one (1) Vice Chairman. A Director appointed by Party B shall serve as Chairman of the Board, and a Director appointed by Party A shall serve as Vice Chairman of the Board.

(2) The Chairman of the Board shall be the sole legal representative of the Joint Venture. The Chairman shall perform his or her duties and responsibilities within the scope of authority delegated by the Board, and in accordance with this Contract and relevant PRC laws. Without prejudice to Article 8.1(4) above, when the Chairman is temporarily unable to perform his or her responsibilities, he or she may designate in writing the Vice Chairman or any other Director to represent the Joint Venture in such capacity within such temporary period.

8.3 Powers of the Board.

(1) Each Director shall have one vote on any matter subjected to Board vote. Neither the Chairman nor the Vice-Chairman, in their capacity as such, shall be entitled to have any extra vote in any meeting of the Board. This provision is without prejudice to Article 8.4(6) on proxies.

(2) The quorum necessary for a meeting of the Board shall be two thirds (2/3) of the Directors. This requires at least five (5) directors to be in attendance for a quorum.

(3) The following matters require a decision by the Board supported by the affirmative vote of all Directors present and eligible to vote (or represented in accordance with Article 8.4(6) in a duly constituted meeting of the Board or as per Article 8.4(9):

(a) any amendment of the Articles of Association;

(b) termination of this Contract;

(c) dissolution of the Joint Venture;

(d) increase or decrease of the Registered Capital of the Joint Venture;

(e) amalgamation or merger of the Joint Venture with any other company, association, partnership or legal entity; and

(f) division or change in the form of legal organization of the Joint Venture.

(4) The following matters require a decision by the Board supported by the affirmative vote of two thirds (2/3) of the Directors present and eligible to vote (or represented in accordance with Article 8.4(6) in a duly constituted meeting of the Board or as per Article 8.4(9):

(a) overall macro business strategy;

(b) derivation from profit distribution plan set forth in Article 12;

(c) the Joint Venture's external guarantee;

(d) major assets disposal (defined as assets with a net book value greater than Five Million United States Dollars (US\$5,000,000));

(e) selection of the External Financial Auditor with the restriction that the selected Auditor must be one of the Big Four; and

(f) approval of financial control and financial reporting / accounting policies (must be in compliance with Chinese law and applicable U.S. law)

(5) The Parties agree that all matters except those listed in Article 8.3(3) and Article 8.3(4) above can be decided by the Board supported by a simple majority of Directors present and eligible to vote (or represented in accordance with Article 8.4(6)) in a duly constituted meeting of the Board or as per Article 8.4(9).

(6) The Board shall by resolution supported by a simple majority of Directors formally authorize the General Manager and/or other Persons with necessary powers to implement decisions of the Board in accordance with this Contract, and, more generally, to conduct the day-to-day business of the Joint Venture in accordance with the then current business plan.

(7) The Board shall adopt rules and procedures regarding (a) provision of guarantee or security by the Joint Venture to any Person, (b) creation of any security interest on any property of the Joint Venture, (c) custody of the Joint Venture's chops, and (d) such other matters as the Board deems necessary.

8.4 Board Meetings.

(1) Board meetings shall be held at least twice (2) a year. Meetings shall be held at the registered address of the Joint Venture or such other address in China or abroad as may be agreed by the Board. The first Board meeting shall be held no later than sixty (60) days after the Establishment Date.

(2) The agenda for Board meetings shall be determined by the Chairman of the Board, but shall include in any event the items proposed by other members of the Board.

(3) Board Meetings shall require prior written notice to all Directors of not less than four (4) weeks (unless otherwise agreed unanimously by all the Directors) setting forth the date, time, place and agenda. Directors may waive their right to receive prior written notice of any meeting.

(4) Upon the written notice of the Chairman of the Board or upon written request of one third (1/3) or more of the Directors of the Joint Venture specifying the matters to be discussed, the Chairman of the Board shall within thirty (30) days convene an interim meeting of the Board, provided that a quorum will be present for such an interim meeting, whether in person or by proxy.

(5) The Chairman is responsible for convening and presiding over all Board meetings. If the Chairman is unable to convene and/or preside over a Board meeting, the Vice Chairman or a Director designated in writing by the Chairman shall convene and/or preside over such Board meeting.

(6) Board meetings may be attended by Directors in person, by telephone or video conference, provided, however, that if a Director is unable to participate in a Board meeting, he/she shall issue a written proxy authorizing another Director or individual to attend the meeting on his/her behalf. A Director or other individual so entrusted shall have the same rights and powers as the Director who issued the proxy.

(7) Board meetings shall be duly convened if a quorum is constituted in attendance, in person or by proxy. In the event that the Directors appointed by any Party fail to attend a Board meeting resulting in a lack of a quorum, and such failure to attend is due to a dispute between the Directors or Parties, such Party shall be deemed to be in breach of this Contract, and Article 17 will become applicable. If after two attempts to convene Board meetings that are not achieved due to the lack of a quorum, a Board meeting may be convened with a simple majority of Directors (provided such policy only applies to the face-to-face Board meetings).

(8) For the purpose of this clause, if a written resolution is executed in identical counterparts, such signed counterparts shall together be deemed to constitute a single resolution, effective on the day the last Director signs the relevant counterpart.

(9) Notwithstanding any other provisions herein, Board resolutions may be adopted by written consent by the Board in lieu of a meeting if the relevant resolutions are sent to all Directors and the resolutions are affirmatively signed and adopted by all Directors. Such written Board resolutions may consist of several counterparts in identical form each signed by one or more of the Directors. Such written Board resolutions shall be filed with the Board meeting minutes and shall have the same force and effect as a Board resolution adopted at a duly constituted and convened Board meeting.

(10) Board meetings shall be held in English and Chinese and all Board minutes and Board resolutions and agendas and other Board meeting documents shall be prepared and provided in both English and Chinese. The Chairman shall cause complete and accurate minutes (in English and Chinese versions) to be kept of all meetings (including meeting notices) and of matters addressed or raised at such meetings. Minutes of all Board meetings shall be circulated to all Directors promptly after each meeting. Any Director who wishes to propose any amendment or addition to the meeting minutes shall submit the same in writing to the Chairman not later than fifteen (15) days after receipt of the minutes, and the Chairman shall circulate such proposal to all the Directors. Any Director who wishes to object to the proposed amendment to the minutes shall submit the same in writing to the Chairman and all other Directors not later than fifteen (15) days after receipt of the proposed amendment, otherwise such proposed amendment shall be adopted and the minutes shall be amended accordingly. If the proposed amendment and relevant objection are not resolved within thirty (30) days of the Chairman's receipt of such objection, neither the proposal nor the objection shall be adopted but both would be noted as an attachment to the minutes. All Directors shall sign each page of the final minutes within sixty (60) days after receipt of same, and return such signed copy to the Joint Venture. The original minutes shall be kept on file with the Joint Venture and shall be available to any Director or their proxies for inspection or copying at any reasonable time.

(11) No remuneration shall be paid by the Joint Venture to any of its Directors in his/her capacity as such; provided, however, that in the event that a Director is concurrently an officer of the Joint Venture, such Director shall be entitled to remuneration for his/her service as an officer only. A Director may recover from the Joint Venture such expenses as are reasonably and properly incurred in connection with his/her attending the Board meetings or other activities of the Joint Venture where his/her presence is required. The Board shall establish a policy to implement this subsection.

CHAPTER 9 OPERATION AND MANAGEMENT

9.1 Operation Principle. The Joint Venture will through the technical exchange of the Parties constantly boost production technical level to reach an international modern level, including product design, manufacture process, testing method, material recipe, quality standard and personnel training. The Joint Venture will constantly exert efforts on technical reform based on the current production equipment, in order to enhance capability of product line and automatization, satisfy the technical requirement and the needs to promote the product grade.

9.2 Management Organization

(1) The Joint Venture shall establish an operation and management team to be responsible for the Joint Venture's daily operation and management. Such team shall include the General Manager and such other personnel as determined by the Board of Directors (the "MANAGEMENT PERSONNEL").

(2) The General Manager shall be appointed by the Board upon the nomination of Party B and the Joint Venture Controller ("JV CONTROLLER") shall be appointed by

the Board upon the nomination of Party A. Each of the Management Personnel shall be appointed or removed by the General Manager, except that the Vice General Manager and JV Controller shall be appointed or removed by the Board. Any of the Management Personnel shall handle matters delegated to him or her by the General Manager and shall be responsible to the General Manager for the efficient implementation of such responsibilities.

(3) In the event that the General Manager, Vice General Manager or JV Controller is found incompetent, commits graft or serious dereliction of duty, he/she shall be dismissed by the Board.

9.3 Responsibilities of Management Personnel

(1) The responsibility of the General Manager shall be to carry out the various resolutions of the Board and to organize and direct the daily operation and management of the Joint Venture. The General Manager may consult with the Vice General Manager in dealing with material matters, but the General Manager shall have the authority to make final decisions.

(2) Subject to the terms and conditions imposed by the Board, the JV Controller shall be in charge of the day-to-day financial operations of the Joint Venture under the supervision of the General Manager, shall assist the General Manager in preparation of the documents set out in Article 9.3(5)(a)(1) below, and shall carry out the decisions of the Board and General Manager.

(3) If the General Manager or any other Management Personnel intends to resign from his or her position, such person shall be required to submit the resignation notice to the Board at least thirty (30) days prior to the intended departure date.

(4) The General Manager shall, within the scope of the authority conferred upon him/her by the Board, represent the Joint Venture in dealings with other parties, and appoint and dismiss subordinates.

(5) The General Manager shall be responsible for preparation of following documents (all in both Chinese and English languages):

(a) he/she shall prepare for submission to the Board for review and approval, and upon such approval shall implement, the following:

(i) an annual operating plan, operating budget, marketing and sales budget, financial budget, business and sales performance targets for the Joint Venture;

(ii) the organizational and managerial rules of the Joint Venture;

(iii) any other documents or plans for the Joint Venture that are deemed necessary by the Board.

(b) he/she shall submit any major revisions to such budgets, plans or manuals for the Joint Venture to the Board for review and approval prior to their implementation.

(6) The General Manager shall submit a quarterly production and sales report and quarterly financial statements for the Joint Venture to the Board. Such reports and statements shall be submitted in both Chinese and English languages within thirty (30) days following the close of the quarter to which such a report relates.

(7) When the General Manager is unable to carry out his duties, the Vice General Manager may serve as the acting General Manager until a new General Manager or acting General Manager is appointed by the Board upon the nomination of Party B in the next Board meeting convened in accordance with Article 8.4 herein.

(8) The General Manager and all other Management Personnel and working personnel of the Joint Venture shall be required not to disclose any commercial secrets or trade secrets of the Joint Venture.

9.4 Qualifications of Management Personnel

(1) The General Manager and the other Management Personnel shall be skilled and qualified as for the management of the Joint Venture, and meet other qualifications and the performance criteria established by the Board.

(2) Compensation and other terms and conditions of employment for the General Manager and other Management Personnel shall be determined by the Board and provided in the employment contracts signed between the relevant individual and the Joint Venture. The Joint Venture shall bear the salary as well as proper compensation package of expatriate employees (if any).

CHAPTER 10 LABOR MANAGEMENT

10.1 Governing Principle. Matters relating to the recruitment, employment, management, dismissal, resignation, wages, welfare benefits, subsidies, labor insurance, social security and other matters concerning the staff of the Joint Venture shall be determined by the Board in accordance with the labor and social security laws and regulations of the PRC. The General Manager shall implement plans approved by the Board.

10.2 Working Personnel. Employees of the Joint Venture shall be employed in accordance with the provisions of this Contract, the Articles of Association, and the terms and conditions of the individual employment contracts concluded with each respective employee.

10.3 Compensation. In accordance with PRC laws and regulations concerning labor compensation, the General Manager shall implement a compensation system whereby employees are compensated in accordance with their technical ability, education, performance and position.

10.4 Confidentiality and Non-compete. The Joint Venture shall enter into Non-Disclosure and Non-Compete Contracts with each of its key employees, and the terms of such contract shall be determined by the Board. The Board may require the Joint Venture to enter into similar contracts with other employees.

- 10.5 Labor Union. Employees of the Joint Venture may establish a labor union in accordance with the Labor Union Law of the PRC (the "LABOR UNION LAW") and other laws and regulations relating to labor union activities of foreign invested enterprises. The Joint Venture shall allocate an ascertained amount of funds to the labor union in accordance with the published and effective laws and regulations in relation to labor union, which amount shall be determined by the Board in accordance with the applicable laws and regulations in China.
- 10.6 Agreement on Labor/Personnel Issues. The Parties shall, at the same time of the execution of this Contract, enter into an agreement on labor/personnel issues as attached as Appendix 4 hereto to provide for the details of the labor personnel issues.

CHAPTER 11 FINANCIAL AFFAIRS AND ACCOUNTING

11.1 Business Plan and Financial Budget

The Parties have agreed on the procedure to make the annual business plan and annual financial budget as follows: the Parties shall work together in the manner of from bottom to the top and for the best interest of the Joint Venture to establish the annual business plan and annual financial budget to be submitted to the Board.

11.2 Accounting System.

- (1) The Joint Venture shall maintain its books and record in accordance with accounting systems and procedures established in accordance with relevant PRC laws and regulations. Accounting systems and records in accordance with any international accounting rules preferred by Party B shall also be maintained to the full extent permitted by PRC law. The accounting systems and procedures to be adopted by the Joint Venture shall be submitted to the Board for approval. Once approved by the Board, the accounting systems and procedures shall be filed with the relevant government finance department and tax department for records. The debit and credit method, as well as the accrual basis of accounting, shall be adopted as the methods and principles for keeping accounts.
- (2) Unless this Article 11.2 provides otherwise, all accounting books and financial statements of the Joint Venture, and all routine accounting records, vouchers, etc., shall be made in both English and Chinese if necessary.
- (3) The Joint Venture shall adopt RMB as its standard bookkeeping base currency and shall also use US Dollar as supplementary bookkeeping currency. For purposes of preparing the Joint Venture's accounts and statements of the Parties' capital contributions, and for any other purposes where it may be necessary to effect a currency conversion, such conversion shall be made in accordance with the applicable accounting rules and relevant PRC laws and regulations.
- (4) Monthly and annual financial statements for the Joint Venture shall be prepared in both the Chinese and English languages, and in RMB and in US Dollars. Such statements shall include at least the following: balance sheet, profit and loss statements, and cash flow statement, and shall be kept and provided to each

Party and to the relevant authorities as required by relevant PRC accounting regulations, and to Party B within ten (10) days following the close of the quarter to which each of them relates to meet the relevant U.S. reporting requirement.

11.3 Auditing.

- (1) At the expense of the Joint Venture, the Joint Venture's Auditor shall be appointed by the Board to conduct an audit of the annual financial statements and accounts of the Joint Venture. The Parties agree that the Joint Venture shall, within three (3) months after the end of a fiscal year, submit to the Parties an annual statement of final accounts (including the audited profit and loss statement, balance sheet, cash flow statement, and statement for retained earnings for the fiscal year), together with the audit reports of the Joint Venture's Auditor.
- (2) Each Party shall have the right at any time to audit the entire accounts of the Joint Venture within thirty-six (36) months from the end of the period to be audited. At the end of such audit, the Party requesting such an audit may submit queries concerning the audit to the Board. The Board shall reply in written form within sixty (60) days after receipt of the queries concerning the audit. Reasonable access to the Joint Venture's financial records shall be given to such auditor and such auditor shall keep confidential all documents under his/her audit.
- (3) When a Party conducts an audit pursuant to Article 11.3(2), it shall bear the expenses incurred and the responsibility for the appointed auditor in maintaining confidentiality of all the documents so audited.

11.4 Bank Account & Foreign Exchange Control. The Joint Venture shall open foreign exchange accounts and RMB accounts and handle foreign exchange transactions in accordance with relevant PRC laws and regulations. The Board shall determine the signatories required for any disbursements of funds from such accounts and shall establish internal control policies relating to these accounts.

11.5 Fiscal Year. The Joint Venture shall adopt the calendar year as its fiscal year, which shall begin on January 1 and end on December 31 of the same year. The first fiscal year of the Joint Venture shall commence on the Establishment Date and shall end on December 31 thereafter.

CHAPTER 12 PROFIT DISTRIBUTION

- 12.1 Allocation to Funds. After payment of income taxes by the Joint Venture, the Board shall determine the annual allocations from the after-tax net profits to set aside reserve funds, expansion funds and bonus and welfare funds for staff and workers in accordance with applicable PRC laws and regulations.
- 12.2 Dividend Policy. After payment of all payable income tax, and the allocation of funds pursuant to Article 12.1 hereof, the Board shall determine the annual dividend distribution of the Joint Venture each year. The amount of dividend to be distributed in respect of any year shall be 25% (or such higher percentage as determined by the Board)

of the Joint Venture's net income after tax as reported in the audited annual financial statements of the Joint Venture for the year as provided for in Article 11.5 above, but not to exceed the projected Free Cashflow of the Joint Venture for the immediate following year. The projected Free Cashflow for the immediate following year shall be the amount of surplus cash projected to be generated by the Joint Venture in its ordinary course of business less any projected capital expenditures for that immediate following year based on the Joint Venture's operating budget as approved by the Board for that immediate following year.

For fiscal years 2009, 2010 and 2011, a dividend in the amount of the greater of (i) the amount calculated above; or (ii) 10% of the Joint Venture's net income after tax as reported in the audited annual financial statement will be distributed. In 2011, the Parties shall review and agree the methodology of the amount of dividend distribution for subsequent fiscal years.

For the avoidance of doubt, the Joint Venture shall not, in any circumstances, obtain any additional borrowings from any bank or other third party for the purpose of financing such dividend payment other than the 10% dividend payable in fiscal years 2009, 2010 and 2011.

All dividends payable to Party B and Party C shall be paid in US\$. The Joint Venture shall bear any loss, gain or bank charges or other fees associated with the dividends payment.

CHAPTER 13 TAXATION AND INSURANCE

- 13.1 Income Tax, Customs Duties and Other Taxes. The Joint Venture and its employees shall pay taxes pursuant to relevant PRC laws and regulations. The Joint Venture shall use its best endeavors to apply for and obtain preferential treatment, including tax and customs benefits, permitted by the law.
- 13.2 Insurance. The Joint Venture shall maintain, in accordance with relevant PRC law, insurance as determined by the Board from time to time to cover the Joint Venture's assets, operations and other business activities.
- 13.3 Product Liability Insurance. The Joint Venture shall secure and will maintain combined limits of twenty-five million U.S. dollars (US\$25,000,000.00) product liability insurance for each occurrence and aggregate. Such insurance coverage shall name Cooper and its Affiliates which might be held liable for the Products of the Joint Venture as additional insureds and such insurance shall not be subject to cancellation without thirty (30) calendar days prior written notice to Cooper. A certificate of such insurance will be provided to Cooper.

CHAPTER 14 PURCHASE OF MATERIALS AND SALE OF PRODUCTS

- 14.1 Purchase of Materials
 - (1) In meeting its requirements for materials, equipment, components, transportation vehicles and articles for office use, the Joint Venture will at its discretion

purchase such items inside or outside the PRC to the maximum extent consistent with the efficient operation and quality standards of the Joint Venture.

- (2) All the reasonable costs and expenses incurred by any Party in connection with the sourcing and purchase for the Joint Venture as stipulated in Article 14.1(1) shall be reimbursed by the Joint Venture.

14.2 Sale of Products

- (1) The Joint Venture shall formulate and, with the approval of the Board, adopt both domestic and international sales plans for the Products. The Joint Venture shall market, distribute and sell its Products according to a pricing policy approved by the Board. The Joint Venture may appoint distributors and sale agents in different regions inside or outside the PRC, subject to the general terms and conditions of such appointment.
- (2) In order for the convenience of distributing, marketing and selling the Products, the Joint Venture may establish branch offices inside or outside the PRC subject to authorization by the Board and the approval by the relevant authorities.

14.3 Sale of Cooper Branded Products

The Parties hereby acknowledge that the Products to be produced by the Joint Venture and branded with the trademarks belonging to Cooper (the "COOPER BRANDED PRODUCTS") will be merely sold to and distributed by Cooper or its Affiliates.

CHAPTER 15 CONFIDENTIALITY AND NON-COMPETE

15.1 Confidentiality.

- (1) Except as otherwise specifically provided in this Article 15.1, neither any Party nor the Joint Venture shall divulge, disclose or communicate, or permit to be divulged, disclosed or communicated, to any unaffiliated third party in any manner, directly or indirectly, any Confidential Information, and each Party and the Joint Venture shall ensure that their respective Affiliates, officers, directors, employees (including, without limitation, individuals seconded thereto), agents and contractors (collectively "REPRESENTATIVES") do not divulge, disclose or communicate, or permit to be divulged, disclosed or communicated, to any unaffiliated third party in any manner, directly or indirectly, any Confidential Information. Confidential Information shall remain the exclusive and sole property of the relevant disclosing party (the "PROTECTED PARTY") and shall be promptly returned upon the request of the Protected Party.
- (2) The Parties and the Joint Venture shall only disclose or permit to be disclosed Confidential Information to those of their respective Representatives who have a need to know such Confidential Information (and then shall only disclose such portion of the Confidential Information as is necessary) in order to consummate the transactions contemplated herein and to establish or conduct the Joint Venture's business and operations in the ordinary course. Each Party and the Joint Venture shall advise its Representatives of the confidentiality provisions

hereunder, shall require relevant Representatives to sign agreements substantially similar to the Non-Disclosure and Non-Compete Contract, and shall be responsible to the Protected Party for any noncompliance by any such Representative.

- (3) In the event that any Party, the Joint Venture, or any of their respective Representatives is required by applicable law or is validly ordered by a governmental entity having proper jurisdiction to disclose any Confidential Information, the affected party shall, as soon as possible in the circumstances, provide the Protected Party with prompt prior written notice of the disclosure request or requirement, and, if requested by the Protected Party, shall furnish to the Protected Party an opinion of legal counsel that the release of all such Confidential Information is required by applicable law. The proposed disclosing party shall seek, with the reasonable cooperation of the Protected Party if necessary, a protective order or other appropriate remedy and shall exercise best efforts to obtain assurances that confidential treatment will be accorded to any Confidential Information disclosed.
- (4) The Parties and the Joint Venture shall take all other necessary, appropriate or desirable actions to preserve the confidentiality of the Confidential Information.
- (5) This Article 15.1 and the obligations and benefits hereunder shall survive for a period of ten (10) years after the termination or expiration of this Contract or the termination, dissolution or liquidation of the Joint Venture or any of the Parties, provided that, however, any information concerning, directly or indirectly, the proprietary trade secrets of the Joint Venture or a Party shall be preserved in confidentiality and be entitled to the obligations and benefits hereunder in perpetuity.

15.2 Non-Compete.

- (1) Party A hereby specifically undertakes that it shall, and shall cause its Affiliates or related companies, to refrain from directly or indirectly engaging in, whether by itself or through any individual or entity, any activities that competes with any business or activities of the Joint Venture anywhere in the PRC, except as otherwise provided in this Contract, during the period when it holds any Interest in this Joint Venture and for a period of five (5) years after it has ceased to hold any Interest in the Joint Venture, provided, however, that Party A shall have the right to sell its inventories under Customs control outside of China within nine (9) months from the date of this Contract.
- (2) Without prejudice to the terms and conditions under this Contract, in the event that Party B or any of its Affiliates contemplates an investment in Shandong Province in a full-steel radial passenger and light truck tires manufacturing entity other than the Joint Venture during the period of Party A or its permitted successor holding any Interest of the Joint Venture, Party B or its said Affiliate will consider and support in good faith and with every best effort the opportunity for Party A or its permitted successor to participate in

such investment, subject to the following conditions that:

- (a) Party B or its said Affiliate shall own majority percentage of such investment;
- (b) Party A or its permitted successor shall use its own fund for such investment;
- (c) the extent of Party A or its permitted successor's participation in such investment shall be agreed upon by Party B or its said Affiliate, Party A or its permitted successor and the said tire manufacturing entity where such investment will be made; and
- (d) the said investment of Party A or its permitted successor shall originate from within the territory of China.

CHAPTER 16 DURATION, TERMINATION AND LIQUIDATION

- 16.1 Joint Venture Term and Extension. The term of the Joint Venture shall be fifty (50) years ("JOINT VENTURE TERM"), which shall commence on the Establishment Date. One (1) year prior to the expiration of the Joint Venture Term, the Parties may discuss the extension of such term. If the Parties agree and the Board approves, an application for such extension shall be submitted to the Examination and Approval Authority for approval no less than six (6) months prior to the expiration of the Joint Venture Term.
- 16.2 Termination.
- (1) Unless extended in accordance with Article 16.1, this Contract shall terminate automatically upon the expiration of the Joint Venture Term.
 - (2) This Contract may be terminated at any time upon the written agreement of all of the Parties, in which case the Parties shall instruct the Directors to vote to liquidate the Joint Venture as per this Contract and the relevant laws and regulation of the PRC.
 - (3) A Party (the "NOTIFYING PARTY") shall have the right to terminate this Contract by providing written notice ("TERMINATION NOTICE") to the other Parties if any of the following events occur:
 - (a) one or more of the conditions specified in Article 5.4 are not met within three (3) months of the date of execution by the Parties of this Contract, and no resolution is agreed upon following consultations between the Parties to extend the Capital Contribution Schedule, or the extended Capital Contribution Schedule would go beyond the required time period under the relevant PRC laws and regulations;
 - (b) a Party (not being the Notifying Party) materially breaches the obligations contained in this Contract or any Supplementary Contract to which the Party is a party or any of its representations or warranties under said contract is or becomes untrue in any material respect (the "EVENT OF DEFAULT"), and has failed to remedy such Event of Default within sixty (60) days of a written notice from the Notifying Party;

(c) a Party (not being the Notifying Party) is or becomes a party to, bound by or held liable by any orders, decisions, judgments, awards, decrees or rulings of any courts, arbitral tribunals, governmental or regulatory agencies, as a result of such Party's breach in any way of any applicable legislation, laws, regulations, statutes, rules, guidelines, notices, or circulars of any statutory or regulatory bodies, and said breach would affect or change the intent or mind of any other Party to enter into this Contract or maintain the partnership with such Party, or would in any way hinder or interfere with the execution or delivery by any Party of this Contract or its performance of any of the terms and obligations hereof;

(d) any Party (not being the Notifying Party) becomes bankrupt, or is the subject of proceedings for liquidation or dissolution, or ceases to carry on business (except Party A) or becomes unable to pay its debts as they come due so as to become insolvent, in which case the relevant Party shall immediately notify the other Parties in respect of such situation;

(e) the Joint Venture becomes bankrupt, or is the subject of proceedings for liquidation or dissolution, or ceases to carry on business or becomes unable to pay its debts as they come due;

(f) the conditions or consequences of any event of Force Majeure continue for a period of three (3) months without any equitable solution agreed to by the Parties;

(g) a majority of the members of the Board are unable to reach an agreement on an annual operating plan, operating budget, marketing and sales budget, financial budget, business and sales performance targets for the Joint Venture or the issues not specified in the business scope of the Joint Venture as defined in Article 4.2 above and such deadlock cannot be resolved after a period of one hundred and twenty (120) days;

(h) the Joint Venture's Business License is revoked, suspended, or amended (in a manner not agreed to in writing by the Parties) or in any other situation such that the Joint Venture is precluded or prevented from carrying out its business; or

(i) the Joint Venture fails to obtain external finance such that the Joint Venture is substantially prevented from implementing its business plan, except if the Board decides to continue.

16.3 Subsequent Obligations

(1) Where a Termination Notice has been served in the circumstances set out in Article 16.2(3)(b) or Article 16.2(3)(c), the non-breaching Party(ies) shall have the option, but not the obligation, to buy out the breaching Party's Percentage Interest in the Joint Venture in accordance with the following procedures:

(a) within 30 days of the issuance of the Termination Notice, the Board of Directors shall, by a majority vote appoint an internationally recognized

accounting firm or other appraiser (an "APPRAISER") to determine the Book Value of the Joint Venture, which value should not take into consideration the values of the trademarks and technologies licensed by Cooper to the Joint Venture. Such Appraiser shall complete its assessment of the Book Value of the Joint Venture and notify the Parties thereof in writing within 60 days of their appointment.

(b) upon completion of the determination of the Book Value of the Joint Venture, the non-breaching Party(ies) shall have the option to purchase the breaching Party's share of the Registered Capital of the Joint Venture at a price equal to:

Book Value x the breaching Party's share of the Registered Capital at the time of valuation x 80%

If more than one non-breaching Party exercises its option, each shall have the right to purchase a fraction of the Interest of the breaching Party equal to its Percentage Interest divided by the sum of the Percentage Interests of both non-breaching Parties.

(c) The purchasing Party(ies) shall have the right to designate a third party enterprise to purchase all or part of the breaching Party's Percentage Interest for the price (or portion thereof) set forth in Article 16.3(1)(b) hereof.

(d) The Parties agree to take all such steps as may be required to effect the sale of the selling Party's Interest in the Joint Venture, including obtaining all necessary government approvals for the transfer of the Interest to the purchasing Party (or its designee) and causing their respective Board appointees to approve such transfer, and executing all documents necessary or advisable to effect such transfer. If such government approvals are not obtained within ninety (90) days after the signing of the interest transfer agreement between the selling Party and the purchasing Party(ies) (or its designee), the exercise of the option shall be null and void and the Joint Venture shall be liquidated, if so proposed by a non-breaching Party, in accordance with the provisions of Article 16.4 hereof. Such liquidation shall not prejudice the rights that the non-breaching Party(ies) may otherwise have against the breaching Party.

(2) Where a Termination Notice has been served in any circumstances except as set out in Article 16.2(3)(b) and Article 16.2(3)(c), the following shall apply:

(a) Party B shall have the right, at its sole discretion, to purchase the Percentage Interest(s) of Party A and/or Party C at a price equal to the Book Value as determined by the Auditor of such Percentage Interest(s) at the time x 80%, which value should not take into consideration the values of the trademarks and technologies licensed by Cooper to the Joint Venture. To exercise its right, Party B must provide a written notice of its intention thereof ("NOTICE") within fifteen (15) days after the Termination Notice was issued. The Parties shall then complete the sale of Percentage Interest(s) of Party A and/or Party C to Party B within the

longer of the period of ninety (90) days after receipt of the Notice or fifteen (15) days after such sale of Percentage Interest(s) is duly approved by the Examination and Approval Authority and registered with the Registration Authority. If Party B fails to exercise its right to purchase the Percentage Interest of either Party A or Party C, Party A and/or Party C shall have the right to purchase Party B's Percentage Interest at a price equal to the Book Value of such Percentage Interest at the time x 80%. To exercise its right, Party A and/or Party C shall provide a Notice to Party B within the 15-day period starting from the sixteenth (16th) day after the Termination Notice is issued or a later date on which Party A and/or Party C learns that Party B will not exercise its right stated above. The Parties shall then complete the sale of Party B's Percentage Interest to Party A and/or Party C within the longer of the period of ninety (90) days after receipt of the Notice or fifteen (15) days after such sale of Percentage Interest is duly approved by the Examination and Approval Authority and registered with the Registration Authority. If Party A and Party C both exercise their purchase options, each shall have the right to purchase a fraction of the Interest of Party B equal to its Percentage Interest divided by the sum of the Percentage Interests of Party A and Party C.

(b) If no Party wishes to exercise its right to purchase the Percentage Interest(s) of other Party(ies), the Parties shall use all reasonable efforts to sell the Joint Venture as a going concern to one or more third parties, either as a single transaction or through more than one transaction. In this Article 16.3(2), third parties include Affiliates. The Parties shall cooperate and cause the Directors appointed by them to cooperate in any required re-structuring of the Joint Venture prior to such sale if necessary or desirable to facilitate the same or optimize the salability of the Joint Venture and the business conducted by it and the sales proceeds for the Parties. The price and terms of such sale shall be agreed between the third party(ies) concerned and the Parties.

(3) In the event that Party B together with any of its Affiliates cease to have any interest in the Registered Capital of the Joint Venture, each Party shall take all steps necessary to ensure that the name of the Joint Venture is immediately changed so that it no longer contains any reference to "Cooper" in English or the local Chinese language equivalent of such name.

(4) Termination of this Contract shall not affect the rights and obligations of the Parties and the Joint Venture incurred prior to the termination or caused by such termination. If termination of this Contract is caused by a Party's breach of any of its obligations under this Contract, then such Party shall compensate the other Party(ies) and the Joint Venture for all of their losses resulting from such breach.

16.4 Liquidation.

(1) Liquidation of the Joint Venture shall begin from the earliest of the date of liquidation approval by the relevant Examination and Approval Authority, the date on which this Contract is terminated under Article 16.2 (provided a buy-sell is not effected) or by a court or arbitration order, the date on which the Asset

Purchase Agreement is terminated under Article 5.3.1, Article 7.5.3, Article 10.2.1 or Article 12.4 thereof, or the date which is 30-day prior to expiration of the Joint Venture Term.

(2) The Board shall within fifteen (15) days from the beginning of the liquidation as provided in Article 16.4 hereof, appoint a liquidation committee that shall be entitled to represent the Joint Venture in all legal matters during the period of liquidation. The liquidation committee shall value and liquidate the Joint Venture's assets in accordance with applicable PRC laws and regulations and the principles set out herein.

(3) The liquidation committee shall be made up of three (3) members appointed by the Board, two (2) of whom shall be recommended by Party B and one (1) of whom shall be recommended by Party A and Party C. Members of the liquidation committee in principle shall be selected from the Directors of the Joint Venture. Any Party may recommend the appointment of professional advisors to be members of or to assist the liquidation committee.

(4) The liquidation committee shall conduct a thorough examination of the Joint Venture's assets and liabilities, on the basis of which it shall, in accordance with the relevant provisions of this Contract, develop a liquidation plan which, if approved by the Board, shall be executed under the liquidation committee's supervision. Settlement of any claim, debt or assets under liquidation shall be approved unanimously by members of the liquidation committee; failing such unanimous approval, simple majority approval by the Board shall be required.

(5) In developing and executing the liquidation plan, the liquidation committee shall use every effort to obtain the highest possible price for the Joint Venture's assets.

(6) The liquidation expenses, including remuneration to members of and advisors to the liquidation committee, shall be paid in accordance with the PRC law out of the Joint Venture's assets in priority to the claims of other creditors.

(7) After the liquidation committee has settled all legitimate debts of the Joint Venture, including, if applicable, the expenses of the liquidation committee in accordance with Article 16.4 (6), any remaining assets shall be distributed to the Parties in proportion to their Percentage Interests. With respect to fixed assets distributed to the Parties, in the event that a Party intends to sell such fixed assets to a third party, the other Parties shall have the preemptive right during the liquidation period to purchase such fixed assets on the same terms and conditions and at the same price as offered to any third party.

(8) On completion of liquidation, the liquidation committee shall prepare a liquidation report and liquidation accounting statement. The liquidation committee shall, with its unanimous approval (failing such approval, simple majority approval by the Board), appoint a certified public accounting firm to examine the report and statement and issue a verification report.

(9) After completion of the liquidation of the Joint Venture, unless the tax authority requires otherwise, the original accounting books and other documents of the Joint Venture shall be left in the care of Party A to make and retain copies of all

or any of such books and documents, after which the copies of such books and documents shall be left in the care of Party B and Party C.

CHAPTER 17 BREACH OF CONTRACT

In the event that a breach of contract committed by any Party to this Contract results in the non-performance of or inability to fully perform this Contract, the liabilities arising from the breach of Contract shall be borne by the Party in breach. In the event that the Parties commit a breach of Contract, each Party shall bear its individual share of the liabilities arising from the breach of Contract. Any breach of this Contract by any Party's Affiliate shall be deemed a breach by such Party. Any breach of contract committed by any Party resulting in the nonperformance of or inability to fully perform any Supplementary Contract(s) shall be deemed a breach by such Party of this Contract.

CHAPTER 18 FORCE MAJEURE

- 18.1 Scope of Force Majeure. A "FORCE MAJEURE EVENT" shall mean any event, circumstance or condition that (i) directly or indirectly prevents the fulfillment of any material obligation set forth in this Contract, (ii) is beyond the reasonable control of the respective Party, and (iii) could not, by the exercise of reasonable care, have been avoided or overcome in whole or in part by such Party. Subject to the aforementioned items (i), (ii) and (iii), Force Majeure Event includes, but is not limited to, natural disasters such as acts of God, earthquake, windstorm and flood, terrifying events such as war, terrorism, civil commotion, riot, blockade or embargo, fire, explosion, off-stream or strike or other labor disputes, epidemic and pestilence, material accident or by reason of any law, order, proclamation, regulation, ordinance, demand, expropriation, requisition or requirement or any other act of any governmental authority, including military action, court orders, judgments or decrees.
- 18.2 Notice. Should any Party be prevented from performing the terms and conditions of this Contract due to the occurrence of a Force Majeure Event, the prevented Party shall send notice to the other Parties within fourteen (14) days from the occurrence of the Force Majeure Event stating in the details of such Force Majeure Event.
- 18.3 Performance. Any delay or failure in performance of this Contract caused by a Force Majeure Event shall not constitute a default by the prevented Party or give rise to any claim for damages, losses or penalties. Under such circumstances, the Parties are still under an obligation to take reasonable measures to perform this Contract, so far as is practical. The prevented Party shall send notice to the other Parties as soon as possible of the elimination of the Force Majeure Event, and confirm receipt of such notice.
- 18.4 Consultations and Termination. Should the Force Majeure Event continue to delay implementation of this Contract for a period of more than three (3) months, the Parties shall, through consultations, decide whether to terminate or modify this Contract. Should the Force Majeure Event continue for a period of six (6) months or longer, any Party may terminate this Contract by giving notice to the other Parties in accordance with Article 16.2.

CHAPTER 19 DISPUTE RESOLUTION

- 19.1 Consultations and Arbitration. Any and all disputes, controversies or claims (the "DISPUTE") arising out of or relating to the formation, validity, interpretation, implementation or termination of this Contract, or the breach hereof or relationships created hereby shall be settled through friendly consultations. If a Dispute is not resolved through friendly consultations within thirty (30) days from the date a Party gives the other Parties written notice of a Dispute, then it shall be resolved exclusively and finally by arbitration in Hong Kong at the Hong Kong International Arbitration Center ("HKIC") in accordance with the arbitration rules of the HKIC (the "HKIC RULES") for the time being in force which rules are deemed to be incorporated by reference to this clause.
- 19.2 Arbitration Proceedings and Award. Any arbitration shall be heard before a tribunal consisting of three (3) arbitrators. Each side of the Dispute shall appoint one (1) arbitrator. The two arbitrators thus appointed shall choose the third arbitrator who will act as the presiding arbitrator of the tribunal. If the two arbitrators have not agreed on the choice of the presiding arbitrator, the presiding arbitrator shall be appointed by the Chairman of the HKIC. The language of the arbitration shall be English and Chinese. The arbitration shall be final and binding on the Parties, shall not be subject to any appeal, and the Parties agree to be bound thereby and to act accordingly. The award of the arbitrators may be enforced by any court having jurisdiction to do so. Throughout any dispute resolution and arbitration proceedings, the Parties shall continue to perform this Contract, to the extent practical, with the exception of those parts of this Contract that are under arbitration. Except as otherwise determined by the arbitration tribunal, each Party shall be responsible for its expenses incurred in connection with resolving any Dispute, but the arbitration fees shall be borne by the losing side of the Dispute.
- 19.3 Injunctive Relief. Notwithstanding any other provision of this Contract, each Party acknowledges that a breach of provisions on confidentiality as provided in Article 15.1 or non-competition in Article 15.2 or other obligations under this Contract may result in irreparable harm and damage to the affected Party and its Affiliates in an amount that is difficult to ascertain and that cannot be adequately compensated by a monetary award. Accordingly, in addition to any other relief to which the affected Party and its Affiliates may be entitled, such Party shall be entitled to temporary and/or permanent injunctive relief from any breach or threatened breach by the relevant Party without proof of actual damages that have been or may be caused to such Parties by such breach or threatened breach.

CHAPTER 20 GOVERNING LAW & CHANGE OF LAW

- 20.1 Applicable Law. The formation of this Contract, its validity, interpretation, execution and any performance of this Contract, and the settlement of any Disputes hereunder, shall be governed by published and publicly available laws, rules and regulations of the PRC, the applicable provisions of any international treaties and conventions to which the PRC is a party, and, if there are no published or publicly available PRC laws, rules or regulations, or treaties or conventions governing a particular matter, by general international commercial practices.

- 20.2 Change of Law. If any Party's economic benefits as a shareholder in the Joint Venture is adversely and materially affected by the promulgation of any new PRC laws, rules or regulations or the amendment or interpretation of any existing PRC laws, rules or regulations after the Effective Date, the Parties shall promptly consult with each other and use their best endeavors to implement any adjustments necessary to maintain each Party's economic benefits derived from this Contract on a basis no less favorable than the economic benefits it would have derived if such laws, rules or regulations had not been promulgated or amended or so interpreted.

CHAPTER 21 EFFECTIVE DATE OF THE CONTRACT

- 21.1 Effective Date. This Contract and the Articles of Association shall become effective on the date on which this Contract and the Articles of Association are approved by the Examination and Approval Authority as evidenced by the issuance of the Certificate of Approval (referred to as the "EFFECTIVE DATE"). In case of conflict between the provisions of this Contract and the provisions of the Articles of Association or any Supplementary Contracts, the terms of this Contract shall prevail.
- 21.2 Delivery. Party A shall promptly deliver to Party B and Party C copies of all approval certificates and registration documents issued by, and written confirmation of all communications with, the relevant Examination and Approval Authority and Registration Authority and all other relevant government authorities, in respect of this Contract, the Articles of Association, the Asset Purchase Agreement and the other Supplemental Contracts, and the operation of the Joint Venture.

CHAPTER 22 MISCELLANEOUS PROVISIONS

- 22.1 Language. This Contract is written and executed in a Chinese version and in an English version. Both language versions of this Contract are of equal validity and effect. In case of any discrepancy between the Chinese version and the English version, the Chinese version approved by the Examination and Approval Authority shall prevail.
- 22.2 Waiver and Preservation of Remedies. No delay on the part of any Party in exercising any right, power or privilege under this Contract shall operate as a waiver thereof, nor shall any waiver on the part of any Party of any right, power or privilege hereunder, nor any single or partial exercise of any right, power or privilege hereunder, preclude any other or other exercise thereof hereunder. The rights and remedies herein provided are cumulative and are not exclusive of any rights or remedies that any Party may otherwise have.
- 22.3 Notices. All notices or other communications under this Contract shall be in writing and shall be delivered or sent to the correspondence addresses or facsimile numbers of the Parties set forth below or to such other addresses or facsimile numbers as may be hereafter designated in writing on seven (7) days' notice by the relevant Party. All such notices and communications shall be effective: (i) when delivered personally; (ii) when sent by telex, telefacsimile or other electronic means with sending machine confirmation; (iii) ten (10) days after having been sent by registered or certified mail, return receipt requested, postage prepaid; or (iv) four (4) days after deposit with a commercial overnight courier, with evidence of delivery provided by the courier.

Party A	Address:	No. 98, Nanshan Road North, Rongcheng City, Shandong Province, PRC
	Tel:	(86-631) 7523-205
	Fax:	(86-631) 7523-888
	Attn:	Zhang Jun-quan
Party B	Address:	Whitepark House, White Park Road, , Bridgetown Barbados
	Tel:	(1-246) 4310-070
	Fax:	(1-246) 4310-076
	Attn:	Keisha N. Hgde
Party C	Address:	P.O. Box 957, Offshore Incorporations Center, Road Town, Tortola, British Virgin Islands
	Tel:	(852) 2526-8111
	Fax:	(852) 2526-5322
	Attn:	Iris Yeung

- 22.4 Severability. If any provision of this Contract should be or become fully or partially invalid, illegal or unenforceable in any respect for any reason whatsoever, the validity, legality and enforceability of the remaining provisions of this Contract shall not in any way be affected or impaired thereby.
- 22.5 Entire Agreement. This Contract, together with its Appendices which are hereby incorporated by reference as an inseparable and integral part of this Contract, constitutes the entire agreement among the Parties with reference to the subject matter hereof, and supersede any agreements, contracts, representations and understandings, oral or written, made prior to the signing of this Contract.
- 22.6 Modification and Amendment. No amendment or modification of this Contract, whether by way of addition, deletion or other change of any of its terms, shall be valid or effective unless a variation is agreed to in writing and signed by authorized representatives of each of the Parties and approved by the Examination and Approval Authority.
- 22.7 Successors. The Parties agree and procure that this Contract shall inure to the benefit of and be binding upon each of the Parties and their respective permitted successors and permissible assignees.
- 22.8 Originals. This Contract is executed in nine (9) original counterparts, each of which shall have equal effect in law.
- 22.9 Costs and Expenses. Except as otherwise provided herein, each Party shall be responsible for the costs and expenses it incurred in connection with the negotiation and execution of this Contract, the Articles of Association, and the Supplementary Contracts.

IN WITNESS WHEREOF, each of the Parties has executed this Contract or has caused this Contract to be executed by its duly authorized officer or officers as of the date first above written.

**PARTY A: SHANDONG CHENGSHAN TIRE COMPANY
LIMITED BY SHARES**

By: -----

Name: Che Hong-Zhi
Title: Chairman of Board
Nationality: Chinese

PARTY B: COOPER TIRE INVESTMENT HOLDING
(BARBADOS) LTD.

By: -----

Name: Harold C. Miller
Title: Authorized representative
Nationality: U.S.A.

PARTY C: JOY THRIVE INVESTMENTS LIMITED

By: -----

Name: Stacey Wong
Title: Authorized representative
Nationality: Hong Kong, China

JOINT VENTURE CONTRACT

APPENDIX 1

DEFINITIONS AND INTERPRETATION

- 1.1 "AFFILIATE" means, with respect to any Person, any other Person controlling or controlled by or under common control with such specified Person. For purposes of this definition, "control" when used with respect to any specified Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of shares, registered capital or voting securities, by contract or otherwise, and the terms "controlling" and "controlled" have meanings correlative to the foregoing.
- 1.2 "ASSET PURCHASE AGREEMENT" shall have the meaning ascribed to such term in Article 5.10.
- 1.3 "ARTICLES OF ASSOCIATION" means the articles of association of the Joint Venture executed by the Parties simultaneously with this Contract, as such articles of association may be amended from time to time by the Parties.
- 1.4 "AUDITOR" means an accounting firm registered in the PRC, engaged at the Joint Venture's own expense upon resolution of the Board, which shall be the auditor of the Joint Venture and which firm shall be independent of the Parties and independent of the Joint Venture.
- 1.5 "BIG FOUR" means four internationally reputable accounting firms, such as, Price Water Coopers, Deloitte, Ernst & Young, and KPMG.
- 1.6 "BOARD OF DIRECTORS" or "BOARD" means the board of directors of the Joint Venture established in accordance with this Contract.
- 1.7 "BOOK VALUE" means the historic accounting value of the equity of the Joint Venture based on Chinese generally accepted accounting principles (GAAP).
- 1.8 "BREACHING PARTY" shall have the meaning ascribed to such term in Article 5.8 hereof.
- 1.9 "BUSINESS LICENSE" means the business license of the Joint Venture as issued, amended and replaced, as the case may be, from time to time by the Registration Authority.
- 1.10 "CAPITAL CONTRIBUTION SCHEDULE" means a schedule set forth in Appendix 2 to this Contract, which schedule specifies the time and amount of contribution by the Parties to the Registered Capital of the Joint Venture.
- 1.11 "CHENGSHAN GROUP" means Chengshan Group Company LTD., a limited liability company duly organized and existing under the laws of the PRC in Rongcheng City, Shandong Province, which owns 73.76% equity interests of Party A.

- 1.12 "CERTIFICATE OF APPROVAL" means the certificate of approval issued by the Examination and Approval Authority approving this Contract and the Articles of Association.
- 1.13 "CONFIDENTIAL INFORMATION" means the terms of this Contract and all technical, financial, business, commercial, operational and strategic information and data, know-how, trade secrets and any analysis, amalgamation, market studies or compilation, whether written or unwritten and in any format or media, concerning, directly or indirectly, the business of the Joint Venture or a Party, which has been prior to the Establishment Date, or which may be during the Joint Venture Term, delivered or furnished by a Party, the Joint Venture, or any of their respective Representatives, to another Party, the Joint Venture, or any of their respective Representatives, but shall not include any information that: (a) at the time of disclosure is (or thereafter becomes) generally available to the public through no act of any Person in violation of a confidentiality obligation or applicable law; or (b) the receiving Party has obtained lawfully from an independent source not subject to a confidentiality obligation; or (c) the receiving Party can prove was known to it or to its Representatives prior to the receipt of such information from the disclosing Party; or (d) is independently developed by the receiving Party without any access to or knowledge of such information.
- 1.14 "COOPER" means Cooper Tire & Rubber Company or its relevant Affiliate, which may license or cause to be licensed to the Joint Venture, the technology in respect of the Products and Processes after duly establishment of the Joint Venture.
- 1.15 "DAY" refers to a calendar day.
- 1.16 "DEFAULT CAPITAL CONTRIBUTION" shall have the meaning ascribed to such term in Article 5.8(1).
- 1.17 "DIRECTOR" or "DIRECTOR OF THE JOINT VENTURE" means any member of the Board.
- 1.18 "DISPUTE" shall have the meaning ascribed to such term in Article 19.1.
- 1.19 "EFFECTIVE DATE" means the date on which this Contract comes into effect in accordance with Article 21.1.
- 1.20 "EQUITY JOINT VENTURE LAW" means the PRC, Sino-foreign Equity Joint Venture Law (adopted by the National People's Congress on July 1, 1979 and revised on March 15, 2001), as such law may from time to time be amended, or its successor laws.
- 1.21 "EQUITY JOINT VENTURE REGULATIONS" means the PRC, Sino-foreign Equity Joint Venture Law Implementing Regulations (promulgated by the State Council on September 20, 1983 and revised on July 22, 2001), as such regulations may from time to time be amended, or any successor regulations.
- 1.22 "ESTABLISHMENT DATE" means the date on which the Joint Venture's first Business License is issued by the Registration Authority.
- 1.23 "EXAMINATION AND APPROVAL AUTHORITY" means the Ministry of Commerce, or its authorized local division or any successor government institution or agency empowered to approve the Asset Purchase Agreement, this Contract, the Articles of Association, and any amendments, supplements, modifications or termination hereof or thereof.

- 1.24 "FAIR VALUE" means the transfer price of the equity interest of the Joint Venture calculated by an internationally recognized accounting firm jointly appointed by the Parties.
- 1.25 "FREE CASHFLOW" means the after-tax income less: (i) reserves provided for the reserve, expansion, and bonus and welfare fund, (ii) capital spending, (iii) working capital funding, and (iv) debt payment, and increased by: (i) depreciation and amortization expenses, and (ii) any other non-cash expenses included in the after-tax income.
- 1.26 "JOINT VENTURE" means Cooper Chengshan (Shandong) Tire Company Ltd., the Sino-foreign equity joint venture limited liability company established and operated by the Parties pursuant to this Contract.
- 1.27 "JOINT VENTURE TERM" shall have the meaning ascribed to such term in Article 16.1 hereof.
- 1.28 "NET TRUCK AND BIAS TIRE ASSETS" means the price agreed by the Parties to pay for the net assets of Party A less the amount allocated to the net truck and bias tire assets of Party A
- 1.29 "NON-BREACHING PARTY" shall have the meaning ascribed to such term in Article 5.8(1) hereof.
- 1.30 "NON-DISCLOSURE AND NON-COMPETE CONTRACT" means the contract between the Joint Venture and each of its key employees (including, without limitation, the General Manager, all other management personnel, and all technical personnel), whereby such key employees undertake to keep confidential the confidential information of the Joint Venture and to refrain from engaging in any business or activities that directly or indirectly compete with any business of the Joint Venture.
- 1.31 "NOTIFYING PARTY" shall have the meaning ascribed to such term in Article 16.2(3).
- 1.32 "PERCENTAGE INTEREST" means, with respect to each Party, such Party's percentage interest in the equity of the Joint Venture, as set forth in Article 5.2.
- 1.33 "PERSON" means any individual, company, legal person enterprise, non-legal person enterprise, joint venture, partnership, wholly owned entity, unit, trust or other entity or organization, including, without limitation, any government or political subdivision or any agency or instrumentality of a government or political subdivision and other body corporate or unincorporated; Person also includes a reference to that Person's legal representatives, assignees, successors or heirs.
- 1.34 "PRC" or "CHINA" means the People's Republic of China.
- 1.35 "PROCESSES" means the technical and working processes in respect of producing and/or processing the Products.
- 1.36 "PRODUCTS" means bias light truck tires, radial and bias medium truck tires, engineering tires and Related Products.

- 1.37 "PROTECTED PARTY" shall have the meaning ascribed to such term in Article 15.1(1) hereof.
- 1.38 "REGISTERED CAPITAL" means the total amount of equity of the Joint Venture pursuant to Chapter 5 as such equity amount may be adjusted according to the relevant provisions of this Contract and relevant PRC law.
- 1.39 "RELATED PRODUCTS" means those non-tire products produced by the Joint Venture, including but not limited to inner tubes and flaps.
- 1.40 "REGISTRATION AUTHORITY" means the State Administration of Industry and Commerce, or its local division or any successor government institution or agency empowered to issue a Business License to the Joint Venture.
- 1.41 "RENMINBI" or "RMB" means the lawful currency of the PRC.
- 1.42 "REPRESENTATIVES" shall have the meaning ascribed to such term in Article 15.1(1) hereof.
- 1.43 "SUPPLEMENTARY CONTRACTS" shall mean the following: Asset Purchase Agreement; Technical Assistance and Technology License Agreement; Real Estate Lease Agreement.
- 1.44 "TERMINATION NOTICE" shall have the meaning ascribed to such term in Article 16.2(3).
- 1.45 "TOTAL INVESTMENT" means the total amount of funds required to establish and operate the Joint Venture in accordance with its business scope set forth herein, as provided in Article 5.1 and as may be adjusted according to the relevant provisions of this Contract and relevant PRC law.
- 1.46 "UNITED STATES DOLLARS" or "US\$" means the lawful currency of the United States of America.
- 1.47 "AND/OR" means that both cases apply, or either the first or the second case applies.
- 1.48 Words used in any gender in this Contract shall include references to all other genders; and words used in the singular in this Contract shall include references to the plural, and vice versa.
- 1.49 Descriptive headings in this Contract are for convenience only and shall not control or affect the meaning or construction of any of the provisions of this Contract or any of the Appendices.

JOINT VENTURE CONTRACT

APPENDIX 2

CAPITAL CONTRIBUTION SCHEDULE

1. The Total Investment of the Joint Venture shall be US\$99,000,000.
2. The Registered Capital of the Joint Venture shall be US\$43,800,000.
3. Immediately upon the satisfaction of the conditions specified in Article 5.4 herein:
 - (a) Party A will contribute land use rights and buildings valued at 35% of the Registered Capital of the Joint Venture, payable to the Joint Venture in exchange for a 35% ownership interest in the Joint Venture.
 - (b) Party B will sign a promissory note for an amount equal to 51% of the Registered Capital of the Joint Venture, payable to the Joint Venture, in exchange for a 51% ownership interest in the Joint Venture.
 - (c) Party C will sign a promissory note for an amount equal to 14% of the Registered Capital of the Joint Venture, payable to the Joint Venture, in exchange for a 14% ownership interest in the Joint Venture.
4. As specified in Article 5.10 hereof, on the date of this Contract Party A and the Joint Venture shall enter into the Asset Purchase Agreement transferring certain identified assets to the Joint Venture from Party A for the consideration as detailed in Article 3 of the Asset Purchase Agreement.
5. Within ten (10) working days upon satisfaction of the conditions specified in Article 5.4 hereof, Party B will contribute US\$22,338,000 to the Joint Venture satisfying the promissory note issued in step 3.(b) above.
6. Within ten (10) working days upon satisfaction of the conditions specified in Article 5.4 hereof, Party C will contribute US\$6,132,000 to the Joint Venture satisfying the promissory note issued in step 3.(c) above.

JOINT VENTURE CONTRACT

APPENDIX 3

**ASSETPURCHASE AGREEMENT (FOR THE ASSETS TO BE PURCHASED BY THE JOINT VENTURE
FROM PARTY A)**

JOINT VENTURE CONTRACT

APPENDIX 4

AGREEMENT ON LABOR/PERSONNEL ISSUES

JOINT VENTURE CONTRACT

APPENDIX 5

OFFICE, SINGLE-WORKER DORMITORY AND EMPLOYEE CAFETERIA LEASE AGREEMENT (TO BE ENTERED INTO BETWEEN CHENGSHAN GROUP AND JOINT VENTURE)

ASSET PURCHASE AGREEMENT

BY AND AMONG

SHANDONG CHENGSHAN TIRE COMPANY LIMITED BY SHARES

AND

COOPER CHENGSHAN (SHANDONG) TIRE COMPANY LIMITED

AND

CHENGSHAN GROUP COMPANY LIMITED

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This ASSET PURCHASE AGREEMENT (this "AGREEMENT") is made and entered into in the People's Republic of China ("CHINA" or "PRC") on this 27th day of October, 2005, in accordance with the PRC Tentative Regulations Regarding Merger with and Acquisition of Domestic Enterprises by Foreign Investors (the "M&A REGULATIONS") and other applicable PRC laws and regulations, pursuant to the principles of equality and mutual benefit, by and among:

SELLER: SHANDONG CHENGSHAN TIRE COMPANY LIMITED BY SHARES, a company limited by shares registered and incorporated under the laws of the PRC, with its registered address at No. 98, Nanshan Road North, Rongcheng City, Shandong Province, PRC;

PURCHASER: COOPER CHENGSHAN (SHANDONG) TIRE COMPANY LIMITED, a Sino-foreign limited liability company registered and incorporated under the laws of the PRC, with its registered address at No. 98, Nanshan Road North, Rongcheng City, Shandong Province, PRC; and

GUARANTOR: CHENGSHAN GROUP COMPANY LIMITED, a limited liability company registered and incorporated under the laws of the PRC, with its registered address at No. 98, Nanshan Road North, Rongcheng City, Shandong Province, PRC.

(Each of Seller, Purchaser and Guarantor is hereinafter individually referred to as a "PARTY" and collectively as the "PARTIES".)

RECITALS:

(A) Seller is the lawful owner of the Purchased Assets as set out in this Agreement and lawful party to the Contracts in connection with the TTR Business of Seller.

(B) In accordance with a Sino-foreign equity joint venture contract executed on the date as of October 27, 2005 among the Seller and Cooper Tire Investment Holding (Barbados) Ltd. and Joy Thrive Investments Limited ("JV CONTRACT"), Seller has agreed to contribute the Owned Properties as set out in this Agreement to the Purchaser as its capital contribution, in exchange for a thirty five percent (35%) equity interest in the Purchaser.

(C) In accordance with the JV Contract, the Seller agrees to sell the Purchased Assets (other than the Owned Properties contributed to the Purchaser in accordance with the JV Contract) to the Purchaser upon the duly establishment of the Purchaser.

(D) In accordance with the terms and conditions of this Agreement, the Purchaser wishes to purchase and the Seller wishes to sell and transfer the Purchased Assets and Contracts, with the Purchaser's assumption of the Assumed Liabilities as at the Closing Date as specified herein, so as to accomplish the goal of transferring the TTR Business of Seller to Purchaser for continuous operation (hereinafter "TRANSACTION").

(E) The Guarantor, which owns 73.76% equity interests of the Seller, agrees to provide a joint and several guarantee for all of the obligations of the Seller under this Agreement.

THE PARTIES HEREBY AGREE AS FOLLOWS:

ARTICLE 1 DEFINITIONS AND INTERPRETATIONS

1.1 Unless the terms or context of this Agreement provide otherwise, capitalized terms used herein without definition have the meanings assigned to them in Schedule 1 as attached to this Agreement.

1.2 In this Agreement, save where the context otherwise requires:

1.2.1 words in the singular shall include the plural, and vice versa;

1.2.2 a reference to a person shall include a reference to a firm, a body corporate, an unincorporated association or to a person's executors or administrators;

1.2.3 a reference to an Article, sub-article, Schedule and Exhibit shall be a reference to an Article, sub-article, Schedule and Exhibit (as the case may be) of or to this Agreement;

1.2.4 if a period of time is specified and commences from a given day or the day of an act or event, it shall be calculated inclusive of that day;

1.2.5 references to writing shall include any modes of reproducing words in a legible and non-transitory form;

1.2.6 a reference to a balance sheet or profit and loss account shall include a reference to any note forming part of it;

1.2.7 the obligations and liabilities of the Seller and Guarantor hereunder are the joint and severally obligations and liabilities of the Seller and Guarantor;

1.2.8 references to this Agreement include this Agreement as amended or supplemented in accordance with its terms.

1.3 The designations adopted in the recitals and introductory statements preceding this Article apply throughout this Agreement and the Schedules.

ARTICLE 2 SALE AND PURCHASE OF PURCHASED ASSETS

2.1 The Purchaser, relying on the agreements, covenants, representations, warranties, undertakings and indemnities of the Seller herein, hereby agrees to purchase from the Seller and the Seller as legal and/or beneficial owner hereby agree to sell to the Purchaser on the Closing Date free and clear of all Encumbrances, assets, properties and rights related to the TTR Business of every kind and description, wherever located, real, personal or mixed, owned, held or used in the conduct of the TTR Business by Seller as the same shall exist at the Closing Date, including those assets of the TTR Business shown on the Management Accounts and not disposed of in the ordinary course of business (but excluding the Owned Properties) and those assets of the TTR Business thereafter acquired by the Seller (the "PURCHASED ASSETS"), and including, subject to the

limitations in Article 2.4, all rights, title, benefits and interests of the Seller in, to and under such of the foregoing as are more specifically described below:-

2.1.1 all customer accounts of the Seller relating to the TTR Business, all customer mailing and prospect lists of the Seller relating to the TTR Business, and all of the Seller's rights to service the customer accounts of the TTR Business;

2.1.2 all the Properties relating to the TTR Business together with all buildings, fixtures, and improvements erected thereon (except for those Owned Properties injected by the Seller as its capital contribution in accordance with the JV Contract);

2.1.3 all vehicle, machinery, equipment, furniture and computer relating to the TTR Business (together with all the data stored therein);

2.1.4 all claims, benefits, rights and entitlements under the Lease(s), Insurances and all contracts, contract rights, agreements, licenses, commitments, sales and purchase orders and other instruments (whether uncompleted or pending) relation to the TTR Business and the Purchased Assets, as wholly and fully disclosed to the Purchaser by the Seller (collectively, the "CONTRACTS") including all deposits or progress payments received prior to the Closing Date in respect of the same;

2.1.5 accounts, notes, receivables and other amounts owing to the Seller by trade debtors in connection with the TTR Business in respect of goods or services supplied by the Seller (whether or not invoiced or which are only payable upon completion of the outstanding work/stage of work under the Contracts at Closing Date) and the benefit of all guarantees or other security in respect thereof (collectively the "ACCOUNTS RECEIVABLE");

2.1.6 prepaid expenses and deposits in connection with the TTR Business, including, without limitation, ad valorem taxes, leases and rentals;

2.1.7 Seller's rights, claims, credits, causes of action or rights of set-off against third parties relating to the TTR Business and the Purchased Assets, including, without limitation, unliquidated rights under manufacturers' and Seller' warranties;

2.1.8 claims and rights (if any) under all franchises, transferable licenses, including, but not limited to, licenses, permits, consents, authorizations, certificates and approvals of any governmental agency or other governmental authorizations affecting, or relating in any way to, the TTR Business;

2.1.9 all books, records, files and papers, whether in hard copy or computer format, including, without limitation, sales and promotional literature, manuals and data, sales and purchase correspondence, lists of present and former suppliers, lists of present and former customers, personnel and employment records, and any information relating to taxes imposed on the Purchased Assets;

2.1.10 other properties and assets owned by the Seller and used in connection with the TTR Business at the Closing Date (wherever located).

2.2 Required Consent

2.2.1 Where the Seller is unable to transfer to the Purchaser a Contract on the Closing Date because consent from the relevant party to the Contract (other than the Seller) for such transfer has not been obtained on or before that date, without prejudice to Article 4.4 the Seller shall use its best endeavors to obtain such consent and transfer the full benefit and legal right under such Contract to the Purchaser within 90 days from the Closing Date.

2.2.2 The Purchaser shall use its best endeavors to assist the Seller in obtaining the consent for the purpose of Article 2.2.1. Without prejudice to Article 4, the Purchaser may at its absolute discretion waive any of the requirements under Article 2.2.1.

2.3 Assumption of Liabilities

2.3.1 Without prejudice to the provisions in Article 2.3.2, the Purchaser shall assume the transferable liabilities incurred by the Seller in connection with the TTR Business and identified by the Purchaser and stated on the balance sheet of the Seller dated as of the Closing Date (the "ASSUMED LIABILITIES").

2.3.2 Except as otherwise contained in Article 2.3.1 above or as otherwise agreed by the Parties in writing, the Seller shall remain liable for and the Purchaser shall not assume any other liabilities incurred by the Seller in connection with the TTR Business or the Purchased Assets and any other claims arising from the operation of the TTR Business prior to the Closing Date. The Seller shall promptly pay and discharge in full all liabilities and claims referred to in this Article 2.3.2, which may adversely impact the normal operation of the Purchaser, to the extent practicable and as soon as practicable after the Closing Date in all other cases, but in no event later than sixty (60) days from the Closing Date.

2.4 Limitations

2.4.1 Those Owned Properties injected by the Seller as its capital contribution in accordance with the JV Contract shall be excluded from the Purchased Assets.

2.4.2 On or after the Closing Date, Seller will retain the ownership of certain inventories sufficient to liquidate the duty and value-added tax (VAT) exempt importations of raw materials that shall be owned by Seller as of the Closing Date.

2.4.3 On or after the Closing Date, Seller shall retain the ownership of the working capital assets and liabilities (the "NET WORKING CAPITAL") to the extent that the net of the retained assets less the retained liabilities (including those specified in Article 2.4.2 above) will not exceed the net change in Net Working Capital between December 31, 2004 and the Closing Date.

2.4.4 The net of the Purchased Assets less the Assumed Liabilities shall not result in the amount of the Purchaser's assumption of debt that will cause the excess of the permitted total investment of the Purchaser stated in the JV Contract.

ARTICLE 3 PURCHASE PRICE

3.1 As consideration for the purchase of the Purchased Assets, in reliance upon the representations and warranties, covenants, agreements and undertakings of the Seller made herein, and subject to the terms and conditions of this Agreement, the Purchaser shall pay to the Seller, the sum equivalent to the excess of the Purchased Assets over the Assumed Liabilities in United States Dollars (the "PURCHASE PRICE") (determined by reference to the appraisal value of the Purchased Assets) within three (3) months of the issuance of the Business License of the Purchaser.

3.2 If any liabilities, save to extent the Assumed Liabilities in Article 3.1, cannot be transferred to the Purchaser due to any reason arising out of legal proceedings or approval procedures, the Purchased Assets described in Article 3.1 shall be reduced proportionately.

3.3 Without prejudice to any other remedies available to the Purchaser, in the event that the Seller is in material breach of this Agreement or the JV Contract ("DEFAULT") before the full amount of the Purchase Price has been paid under this Article 3, at the discretion and request of the Purchaser, the Seller shall forthwith cease to have any right to receive and the Purchaser shall cease to have any further obligation to pay any remaining balance of the Purchase Price to the Seller, and the Seller shall refund the amount of the Purchase Price, which has been paid by the Purchaser immediately preceding the occurrence of the Default, to the Purchaser within five (5) days from demand by the Purchaser.

3.4 If the Purchaser fails to pay the Purchase Price within the period set forth in Article 3.1 (the amount due and owing is referred to as the "DEFAULT PAYMENT"), the Purchaser shall pay to the Seller a default penalty of 0.05% per day based on the Default Payment from the first day of the default until the day on which the Default Payment is fulfilled in full by the Purchaser.

ARTICLE 4 ASSIGNMENT OF CONTRACTS AND RIGHTS

4.1 Seller agrees to assign or cause to be assigned to the Purchaser as of the Closing Date, all of the rights of the Seller under the Contracts that are assignable without license, consent, agreement, approval or waiver of any third party or as to which consent has been obtained and, without prejudice to Article 4.6, the Purchaser shall assume all obligations of the Seller thereunder which will arise after the Closing Date.

4.2 This Agreement shall not constitute an agreement to assign any Purchased Asset, Contract, or any claim, right or any benefit arising thereunder or resulting therefrom if an attempted assignment thereof, without license, consent, agreement, approval or waiver of a third party, would constitute a breach or other contravention thereof or in any way adversely affect the rights of the Purchaser thereunder and such consent cannot be obtained by the Seller.

4.3 If any licenses, consents, agreements, approvals or waivers from third parties are required for the transfer, assignment or novation to or in favour of the Purchaser of any Contracts under this Agreement, the Seller shall use its best efforts (but without requiring any payment of money by the Purchaser) to obtain such licenses, consents, agreements,

approvals or waivers from the other parties or claim any right or any benefit arising thereunder for the assignment thereof to the Purchaser as the Purchaser may request.

4.4 If such license, consent, agreement, approval or waiver is not obtained, or if an attempted assignment thereof would be ineffective or would adversely affect the rights of the Seller thereunder so that Purchaser would not in fact receive or otherwise be entitled to the full benefit of all such rights, the Seller (i) shall enter into such arrangement with the Purchaser at the Purchaser's direction under which the Purchaser will obtain the benefits and assume the obligations thereunder in accordance with this Agreement, or under which the Seller would exercise for the benefit of the Purchaser, with the Purchaser assuming Seller's obligations, any and all rights of the Seller against a third party thereto in accordance with the applicable PRC laws and regulations. The Seller shall promptly pay to the Purchaser when received all monies received by the Seller under any Purchased Asset, Contracts, or any claim, right or any benefit arising thereunder; or (ii) shall exercise or cause to be exercised, at the Purchaser's direction, any rights of the Seller arising from such Contracts against the other party(ies) thereto, including the right to elect to terminate any such Contracts in accordance with the terms thereunder upon the request of the Purchaser.

4.5 The foregoing provisions do not affect Purchaser's rights and remedies against the Seller in respect of a Contract which has been warranted to be assignable, or may be performed by Purchaser instead of the Seller without any novation or transfer agreement.

4.6 Except as otherwise expressly contained herein, nothing in this Agreement:

4.6.1 shall require the Purchaser to perform any obligation falling due for performance or which should have been performed before the Closing Date;

4.6.2 shall make the Purchaser liable for any act, neglect, default or omission in respect of any Contracts or for any claim, expense, loss or damage arising from any failure to obtain the consent or agreement of any third party to the entry into of this Agreement or from any breach of any of the Contracts caused by this Agreement or its Closing; or

4.6.3 shall impose any obligation on the Purchaser for or in respect of any goods supplied by the Seller or any service performed by the Seller.

4.7 The Seller shall indemnify the Purchaser against all actions, proceedings, costs, damages, claims and demands in respect of:

4.7.1 any act or omission on the part of the Seller in relation to the Contracts; or

4.7.2 any alleged fault, defect or error of any kind arising from goods supplied, services provided by the Seller or otherwise arising from the operation of the TTR Business prior to the Closing Date.

ARTICLE 5 CONDITIONS

5.1 Conditions Precedent

Closing is conditional upon satisfaction of the following conditions prior to the Closing Date:

- 5.1.1 Seller's completion of the capital contribution in accordance with the JV Contract, with the contribution having been verified by a PRC registered accountant;
- 5.1.2 the completion of satisfactory (in Purchaser' sole and discretionary judgment) legal, commercial, human resources, taxation and financial due diligence on the Seller;
- 5.1.3 the completion of any formal internal corporate approvals as may be required by the Purchaser including approval by the board of directors of each of the Purchaser, Seller and Guarantor and approval by the shareholders assembly of Seller;
- 5.1.4 Seller's publication of the notice and announcement of transfer relating to the sale of the Purchased Assets within not more than 10 days from the date on which the Seller's board of directors and/or shareholders assembly have approved the sale of the Purchased Assets in compliance with the provisions of the M&A Regulations;
- 5.1.5 any and all Claims notified to Seller or Purchaser pursuant to the notice published pursuant to the relevant assets transfer legislation applicable in China as set forth in Article 8 have been paid in full or otherwise settled to the satisfaction of the Purchaser. The Seller having confirmed to the Purchaser in writing that it has had no further Claims in writing notified to it in response to the notices served by it under the relevant assets transfer legislation applicable in China, other than those Claims which have been paid, compromised, defended or otherwise dealt with subject to the prior consent of, and to the satisfaction of the Purchaser;
- 5.1.6 the parties to the Contracts (other than the Seller) having given their respective consents if required to the assignments or novations of the same in favour of the Purchaser;
- 5.1.7 the Seller have certified in writing:
- (i) there having occurred no Material Adverse Change in the period between the date of this Agreement and Closing;
 - (ii) nothing having occurred or been omitted which is, or had it occurred or been omitted on or before the date of this Agreement would have constituted, a breach of the Warranties;
 - (iii) no order or judgment of any court or governmental, statutory or regulatory body having been issued or made prior to Closing, which has the effect of making unlawful or otherwise prohibiting the purchase of the Purchased Assets by the Purchaser;
 - (iv) the Seller having performed or complied with, in all material respects, all covenants, obligations and agreements contemplated by this Agreement

to be performed or complied with by it at or prior to Closing, including without limitations those set forth in Article 5.

5.1.8 any and all approvals, consents, registrations and permissions necessary for or to the best benefit of the Transaction contemplated hereby having been duly obtained from the appropriate government authorities, including, without limitation, approval of this Agreement, approval of the employment settlement plan of Seller, and approval of the transfer of "bonded" equipment from Seller to Purchaser.

5.1.9 all corporate and other proceedings and actions taken in connection with the Transaction contemplated hereby and all certificates, opinions, agreements, instruments, release and documents referenced herein, or incident to the Transaction contemplated hereby, being in form and substance satisfactory to Purchaser.

5.2 Responsibility for Satisfaction

Without prejudice to the foregoing, it is agreed that all requests and enquiries from any government, governmental, trade agency, court or regulatory body shall be dealt with by the Seller and the Purchaser in consultation with each other and each of the Seller and the Purchaser shall promptly co-operate with and provide all necessary information and assistance reasonably required by such government, agency, court or body upon being requested to do so by the other.

5.3 Non-Satisfaction

5.3.1 If any of the conditions in Article 5.1 is not satisfied or waived by the Purchaser within 6 months after the execution of the Agreement such other date as the Purchaser and Seller may agree or the Purchaser becomes aware of any fact that would prevent any of the conditions in Article 5.1 from being satisfied, the Purchaser may, in its sole discretion, by written notice to the Seller, terminate this Agreement and no Party shall have any claim against any other under it, save for any claim arising from any antecedent breach (including breach of any undertaking contained in Article 5.1).

5.3.2 In the event that the Purchaser shall terminate this Agreement in accordance with Article 5.3.1, and without limiting the Purchaser's right to claim all obligations of the Seller under this Agreement, the Purchaser shall, unless otherwise expressly stated, cease to enjoy and assume all rights and liabilities hereunder, but, for the avoidance of doubt, all rights and liabilities of the Parties which have accrued before termination shall continue to exist.

ARTICLE 6 ACTION PENDING CLOSING

6.1 Seller's General Obligations

The Seller undertakes to procure that from the date of this Agreement until Closing:

6.1.1 the Seller will carry on TTR Business only in the ordinary and usual course and in the manner and scope carried on as at the date of this Agreement, save insofar as agreed in writing by the Purchaser;

6.1.2 the Purchaser and its agents will, upon reasonable notice, be allowed access to the employees and premises of the Seller and shall also be allowed access to, and to take copies of, the books and records of the Seller, the TTR Business and the Purchased Assets including, without limitation, the statutory books, minute books, leases, licences, contracts, details of receivables, tax records, supplier lists and customer lists in the possession or control of the Seller;

6.1.3 such representatives and advisers as the Purchaser requests may be designated to work with the Seller with regard to the management and operations of the TTR Business. The Seller will consult with such representatives and advisers with respect to any action which may materially affect the TTR Business of the Seller taken as a whole. The Seller will furnish to such representatives and advisers such information as it may reasonably request for this purpose;

6.1.4 the Seller shall take all reasonable steps to preserve its property and assets in relation to the TTR Business (including the Purchased Assets) and, shall notify the relevant insurance companies of the interest of the Purchaser in the Insurances and shall procure that with effect from the Closing Date the interest of the Purchaser therein is noted on the relevant Insurance policies;

6.1.5 the Seller shall promptly provide to the Purchaser monthly Management Accounts in the usual form.

6.2 Restrictions on the Seller

Without prejudice to the generality of Article 6.1, the Seller shall not between the date of this Agreement and Closing (except as may be expressly provided in this Agreement) without the prior written consent of the Purchaser:

6.2.1 enter into or amend any contract or commitment in relation to the TTR Business: (i) which is not capable of being terminated without compensation at any time with one months' notice or less; or (ii) which is not in the ordinary and usual course of business and on arms' length terms or (iii) which involves or may involve total revenue or total expenditure in excess of US\$500,000 (excluding purchase contracts for raw materials);

6.2.2 incur any indebtedness in relation to the TTR Business otherwise than in the ordinary and usual course of business;

6.2.3 save as required by law, make any amendment to the terms and conditions of employment (including, without limitation, remuneration, pension entitlements and other benefits) of any employee or consultants engaged in the TTR Business, provide or agree to provide any gratuitous payment or benefit to any such person or any of their dependants, or dismiss or terminate (except with good cause) the engagement of any such person or engage or appoint any additional employee in relation to the TTR Business;

- 6.2.4 acquire or agree to acquire or sell, transfer, lease, assign or dispose of or agree to sell, transfer, lease, assign or dispose of any material asset or material stocks or enter into or amend any material contract or arrangement in relation to the TTR Business;
- 6.2.5 sell, convey, lease, assign or otherwise transfer or dispose of any interest in any debts or factor any notes or amounts receivable in relation to the TTR Business;
- 6.2.6 delay making payment to any trade creditors of the TTR Business generally beyond the date on which payment of the relevant trade debt should be paid in accordance with credit periods authorised by the relevant creditors (or (if different) the period extended prior to the date of this Agreement by creditors in which to make payment);
- 6.2.7 amend, to any material extent, any of the terms on which goods, facilities or services in relation to the TTR Business are supplied, such supplies being material in the context of the TTR Business, except where required to do so in order to comply with any applicable legal or regulatory requirement;
- 6.2.8 enter into any guarantee, indemnity or other agreement to secure any obligation of a third party or create or agree to create any Encumbrance over any of its assets or undertaking in relation to the TTR Business (including the Purchased Assets);
- 6.2.9 amend or discontinue any insurance contract in relation to the TTR Business or the Purchased Assets, fail to notify any insurance claim in accordance with the provisions of the relevant policy or settle any such claim below the amount claimed;
- 6.2.10 acquire or agree to acquire any share, shares or other interest in any company, partnership or other venture or incorporate any subsidiary in relation to the TTR Business;
- 6.2.11 make any change to its accounting practices or policies or accounting reference date or amend its articles of association (or equivalent constitutional documents);
- 6.2.12 make any substantial change in the nature or organisation of its TTR Business;
- 6.2.13 discontinue or cease to operate all or a material part of the TTR Business or resolve to be wound up;
- 6.2.14 change its residence for Taxation purposes;
- 6.2.15 commence, compromise or discontinue any legal or arbitration proceedings in relation to the TTR Business (other than in respect of the collection of debts which are not material in the context of the TTR Business in the ordinary and usual course of business); or
- 6.2.16 acquire or agree to acquire or dispose of or agree to dispose of any land use rights or leasehold interest in land in relation to the TTR Business.

6.3 Covenant to Pay

The Seller covenant to pay to the Purchaser an amount equal to the Losses suffered or incurred by the Purchaser or, subject to Closing, through the Seller's failure or delay in complying with the provisions of Articles 6.1 and 6.2.

6.4 Exercise of Purchaser's Rights

It is hereby acknowledged (for the avoidance of doubt) that none of the provisions of this Article 6 or the exercise or failure to exercise by the Purchaser of its rights thereunder, shall give rise to any liability on the part of the Purchaser or any of its employees, consultants or representatives or any person connected with it.

ARTICLE 7 CLOSING

7.1 Closing shall take place at the offices of the Seller or such other place as the Purchase and Seller may agree, on the Closing Date.

7.2 On the Closing Date:

7.2.1 the Seller shall deliver or cause to be delivered to the Purchaser:

(i) such conveyances, assurances, transfers, assignments, releases, novation agreements, consents and other documents duly executed by the relevant parties as the Purchaser may require to vest in the Purchaser the full benefit of and legal title to the Purchased Assets and all other rights and assets hereby agreed to be sold and the full benefit of this Agreement and all liabilities and debts agreed to be assumed including without limitation;

(a) duly executed assignments in the Agreed Form of the Accounts Receivable;

(b) duly executed assignments or novation agreements in the Agreed Form of the Contracts;

(c) duly executed assignments in the Agreed Form of the Accounts Payable;

(d) duly executed assignments or novation agreements in the Agreed Form of the Borrowings;

(e) in respect of each of the motor vehicles used in the TTR Business owned by the Seller (if any), the prescribed notice and the vehicle registration documents (and shall deliver or procure delivery of a duplicate of the prescribed notice to the relevant transportation authorities in China as soon as possible after Closing);

(ii) the title deeds and documents relating to the Leased Properties and Owned Properties occupied or owned by the Seller (all re-registered in the name of the Purchaser);

(iii) all subsisting contracts, license and permits in connection with the TTR Business and all books, papers, records and other documents (including financial records) relating to the TTR Business and Purchased Assets and all lists of customers and suppliers and other information or documents in relation to the TTR Business as the Purchaser may require;

(iv) all the designs and drawings, plans, technical and sales publications, advertising material, brochures, catalogues and other technical and sales matter of the Seller in relation to the TTR Business together with any plates, blocks, negatives and other like material relating thereto as the Purchaser may require;

(v) any other documents of title relating to any of the other Purchased Assets as the Purchaser may require;

(vi) such other documents as may be required to give to the Purchaser good title to the Purchased Assets and to enable the Purchaser or its nominees to become the registered owner thereof as the Purchaser may require; and

(vii) certificate in writing duly executed by the Seller pursuant to Article 5.1.7 confirming the matters mentioned thereunder.

7.2.2 the Seller shall permit the Purchaser to take possession of the TTR Business and Purchased Assets.

7.3 Upon Closing, the Seller shall deliver to the Purchaser a copy of the resolution of the shareholders assembly of the Seller approving and authorizing the transfer of the Purchased Assets hereunder and all the transactions contemplated hereby, and such resolution shall be in form and substance in accordance with the applicable laws and regulations.

7.4 Within three (3) months upon compliance by the Seller with the provisions of Articles 7.2.1 and 7.2.2 the Purchaser will pay the Purchase Price to the Seller in accordance with Article 3.

7.5 Without prejudice to any other remedies available to the Purchaser, if in any respect the provisions of Article 7.2 are not complied with on the Closing Date the Purchaser may:

7.5.1 defer Closing to a date not more than thirty (30) days after the Closing Date (and so that the provisions of this Article 7.5 shall apply to Closing as so deferred); or

7.5.2 proceed to Closing so far as practicable (without prejudice to its rights hereunder); or

7.5.3 terminate this Agreement, and without limiting the Purchaser's right to claim all obligations of the Seller under this Agreement, the Purchaser shall, unless otherwise expressly stated, cease to enjoy and assume all rights and liabilities hereunder, but, for the avoidance of doubt, all rights and liabilities of the Parties which have accrued before termination shall continue to exist.

ARTICLE 8 NOTICE OF SALE OF THE PURCHASED ASSETS

The Seller shall, within not more than 10 days from the date on which Seller's board of directors and/or shareholders assembly have approved the sale of the Purchased Assets pursuant to this Agreement, give notice to its creditors and release public announcement of the sale of the Purchased Assets contemplated under this Agreement in accordance with the provisions of the M&A Regulations and the publication costs of such notifications shall be borne by the Seller. The Purchaser and the Seller shall notify each other as soon as practicable in the event of any Claim being received by any of them pursuant to such notification. Any such notice given shall be without prejudice to the rights and obligations of the Parties, as against each other, under this Agreement.

ARTICLE 9 WARRANTIES

The Seller warrants, represents and undertakes to the Purchaser as to the matters set forth hereunder:

9.1 General Warranties

9.1.1 The Accounts and Management Accounts:

Except as otherwise disclosed to the Purchaser:

(i) have been prepared in accordance with Chinese GAAP;

(ii) are accurate and show a true and fair view of the affairs of the Seller and the TTR Business as at the specified accounting date and of its results for the accounting reference period ended on that date, with the Management Accounts having been properly prepared in a manner consistent with that adopted in the preparation of the management accounts of the TTR Business for all periods during the financial year ended on the Accounts Date;

(iii) comply with the requirements of all relevant statutes;

(iv) are prepared on consistent bases and policies of accounting;

(v) are not affected by any unusual or non-recurring items.

9.1.2 Purchased Assets

(i) Title to Purchased Assets

Otherwise disclosed in writing:

the Purchased Assets included in the Accounts and Management Accounts or acquired by the Seller since the Accounts Date (other than trading stock disposed of since that date in the ordinary course of business) and all other Purchased Assets used or employed by the Seller

are the absolute property of the Seller free from any mortgage, charge, lien, bill of sale or other encumbrance and are not the subject of any leasing, hiring or hire-purchase agreement or agreement for payment on deferred terms or assignment or factoring or other similar agreement or any interests of the third parties, and all such assets are in the possession or under the control of the Seller.

(ii) Condition of plant machinery and equipment

the machinery, office equipment, computer systems and vehicles used by the Seller in the TTR Business are in good repair, regularly maintained and normally usable and comply with any applicable legal requirement or restriction, and the vehicles are duly licensed and suitable for the purposes for which they are used.

(iii) Control of records and information

all records and information belonging to the Seller (whether or not held in written form) are in its exclusive possession, under its direct control and subject to unrestricted access by it.

9.1.3 Borrowings

(i) in relation to the TTR Business and the Purchased Assets, except as otherwise disclosed to the Purchaser in the manner acceptable to the Purchaser, the Seller does not have outstanding any obligation for the payment or repayment of money, whether present or future, actual or contingent, in respect of:

- (a) monies borrowed or raised;
- (b) any recourse to a company selling or discounting receivables in respect of receivables sold or discounted;
- (c) moneys raised under any bond, note, stock, or other security;
- (d) moneys raised under or in respect of acceptance credit and documentary credit facilities;
- (e) the acquisition cost of assets or services to the extent payable after the time of acquisition or possession;
- (f) rental payments under chattel leases and hire purchase agreement; or
- (g) any guarantee, indemnity or other assurance against or arrangement intended to prevent or limit loss in respect of any obligation for the payment or repayment of money described in paragraphs (a) to (f) above (any such obligation being referred to below as a "BORROWING").

(ii) Except as otherwise disclosed to the Purchaser in the manner acceptable to the Purchaser, the Seller does not have subsisting over the whole or any part of its present or future revenues or assets in relation to the TTR Business any encumbrance, mortgage, charge, pledge, lien or other security interest or any other agreement or arrangement having a similar effect.

(iii) no Borrowing of the Seller has become or is now due and payable, or capable of being declared due and payable, before its normal or originally stated maturity and no demand or other notice requiring the payment or repayment of money before its normal or originally stated maturity has been received by the Seller.

(iv) no event or circumstance has occurred, or may occur with the giving of notice or lapse of time determination of materiality or satisfaction of any other condition, such as to entitle any person to require the payment or repayment of any Borrowing before its normal or originally stated maturity or which is or shall be such as to terminate, cancel or render incapable of exercise any entitlement to draw money or otherwise exercise the rights of the Seller under an agreement relating to Borrowing.

9.1.4 Environment

Except as otherwise disclosed to the Purchaser:

(i) the Seller has complied with the applicable environmental law:

(ii) there are no circumstances in relation to the Seller or the TTR Business which give rise or could give rise or have given rise to any civil, criminal, administrative or other action, claim, suit, complaint, proceeding, investigation, decontamination, remediation or expenditure by any person or competent authority under Environmental Law in relation to any matter including properties now owned or formerly owned by the Seller or used in the TTR Business;

(iii) the Seller has obtained and there are in full force and effect and the Seller has at all times complied with all Permits necessary for the TTR Business, there are no circumstances which could lead to the revocation, cancellation, suspension, modification, variation or alteration of such Permits and there are no circumstances which necessitate any works, remediation or expenditure (other than routine maintenance) in order to continue to comply with the Permits;

(iv) at no time has the Seller received from the governmental environment authority any unresolved notice or intimation alleging a breach of the terms of a Permit or alleging any other breach of the applicable environmental law;

(v) all assessments reviews reports returns information and audits required by the applicable environmental law or any Permit have been properly carried out and submitted to the appropriate authorities and their

recommendations and requirements implemented where required by the applicable environmental law;

(vi) there are no circumstances which could require any further Permits to be obtained in connection with the current TTR Business of the Seller which require works, remediation or additional expenditure to ensure compliance with such Permits.

9.1.5 Commercial Arrangements and Conduct

Except as otherwise disclosed to the Purchaser:

(i) Material contracts

In relation to the TTR Business and the Purchased Assets, there is not outstanding:

- (a) any contract of guarantee, indemnity or suretyship or any contract to secure any obligation of any person;
- (b) any joint venture, consortium or partnership agreement or arrangement to which the Seller is a party;
- (c) any sale or purchase option or similar agreement or arrangement affecting any assets owned or used by the Seller or by which it is bound;
- (d) any liability, obligation or commitment of any kind (other than those listed in (a) to (c) above) on the part of the Seller (including a capital commitment) which:
 - (1) is incapable of complete performance within three months from the date of Agreement; or
 - (2) has not been incurred in the ordinary course of business; or
 - (3) is, or is likely to be, of major significance to the Seller; or
 - (4) exceeds, or is likely to exceed, in aggregate a sum of US\$500,000.

(ii) Effect of Agreement on other agreements

there is no agreement or arrangement in relation to the TTR Business and the Purchased Assets between the Seller and any other person which shall or may be terminated as a result of this Agreement (or Closing) or which shall be affected by it or which includes any provision with respect to a change in the control, management or shareholders of the Seller.

(iii) Commercial position

so far as the Seller is aware:

(a) there is no substantial customer or supplier of the Seller in relation to the TTR Business who has ceased purchasing from or supplying to it or who is likely after the date of this Agreement (or Closing) to reduce substantially or terminate purchases from or supplies to it;

(b) there are no special circumstances which might lead to the supply by the Seller or to it of any goods or services, in relation to the TTR Business being restricted or hindered.

(iv) Restrictive agreements and anti-competitive behaviour

so far as the Seller is aware:

(a) the Seller does not infringe and has not infringed any legislation applicable in any jurisdiction relating to anti-competitive agreements or practices or behaviour or any similar matter;

(b) the Seller is not in relation to the TTR Business, bound by or party to any order or decision made or undertakings (binding or not) given to or any court or tribunal of competent jurisdiction or any similar authority in any jurisdiction, under or in any law, regulation or administrative process relating to fair competition anti-trust, monopolies, mergers or other similar matters;

(c) the Seller has not in relation to the TTR Business, within the last two years been party to any merger or other similar arrangement which was capable of review by any anti-trust or similar authorities in any jurisdiction.

(v) Notice of official action

the Seller is not aware of any process, notice or communication, formal or informal, by or on behalf of any authority of any country having jurisdiction in anti-trust matters, in relation to any aspect of the TTR Business or the conduct of the Seller or any agreement or arrangement to which the Seller is or was, or is alleged to be or have been, a party, and so far as the Seller is aware it is not likely to receive any such process, notice or communication.

9.1.6 Litigation, Defaults and Insurance

Except as otherwise disclosed to the Purchaser:

(i) Legal proceedings

the Seller is not engaged or proposing to engage in any litigation, arbitration, prosecution or other legal proceedings, and there are no

claims or actions (whether criminal or civil) in progress, outstanding, pending or threatened against the Seller, any of its assets or any of its directors or officers or in respect of which the Seller is liable to indemnify any party concerned.

(ii) Unlawful acts by the Seller

so far as the Seller is aware:

neither the Seller nor any of its directors, officers or employees has by any act or default committed, to the extent adversely impacting the normal operation of the Purchaser:

- (a) any criminal or unlawful act in connection with the business of the Seller, other than minor road traffic offences;
- (b) any breach of trust in relation to the business or affairs of the Seller;
- (c) any breach of contract or statutory duty or any tortious act which could entitle any third party to terminate any contract to which the Seller is a party or could lead to a claim against the Seller for damages, compensation or an injunction.

(iii) Defaults by others

So far as the Seller is aware, no party with whom the Seller has entered into any contract in relation to the TTR Business or the Purchased Assets is in default under it, and there are no circumstances likely to give rise to such a default.

(iv) Official investigations

so far as the Seller is aware, no governmental or official investigation or inquiry concerning the Seller is in progress or threatened and there are no circumstances which are likely to give rise to any such investigation or inquiry.

(v) Adequacy of insurance

the Seller has, and since 2003 has had, valid insurance cover in respect of the TTR Business and the Purchased Assets:

- (a) against all risks (including product liability for a period of at least six months) normally insured against by companies carrying on the same type of business or having similar assets;
- (b) for the full replacement value of the Purchased Assets and for such amount in respect of the TTR Business as would in the circumstances be prudent for such a business;

(c) from a well-established and reputable insurer.

(vi) Policies

All policies of insurance taken out in connection with the TTR Business or the Purchased Assets have been disclosed to the Purchaser, are written in the name of the Seller and are in full force and effect; and the Seller has not done or omitted to do or allowed anyone to do or not to do anything which might render any of those policies void or voidable and has complied with all conditions attached to them.

(vii) Claims

No claim under any policy of insurance taken out in connection with the TTR Business or the Purchased Assets is outstanding and, so far as the Seller is aware, there are no circumstances likely to give rise to such a claim.

9.1.7 Corporate Organisation and Business

Except as otherwise disclosed to the Purchaser:

(i) Corporate Status

The Seller (including any of its representative offices or branches) has been duly incorporated and constituted, and is legally subsisting under the laws of its respective place of incorporation.

(ii) Title to TTR Business and Purchased Assets

The Seller has a good and marketable title to, and is the exclusive legal and beneficial owner of the TTR Business and the Purchased Assets, and, therefore, has an absolute right to sell and transfer the TTR Business and the Purchased Assets. All the Purchased Assets will be sold to the Purchaser free and clear of any Encumbrance together with all accrued beneficial rights attached to them at the date of this Agreement or subsequently becoming attached to them;

(iii) Licences, permissions or consents

so far as the Seller is aware, all licences, permissions and consents required for the carrying on of the TTR Business of the Seller have been obtained by it and are in full force and effect, and the Seller is not aware of any circumstances indicating that any of those licences, permissions or consents is likely to be revoked or not renewed in the ordinary course.

(iv) Existence of subsidiaries and other business

The Seller does not have, and has never had, any subsidiary. Save for the TTR Business, the Seller has not carried on any other TTR Business.

(v) No material change

No material changes have occurred to the TTR Business since the Accounts Date.

(vi) Conflict of Interest

Save for the TTR Business carried on by the Seller, the Seller does not and whether on its own account or in conjunction with or on behalf any person, firm or company, directly or indirectly or whether as a shareholder, partner, agent or otherwise, carry on, and is not engaged or interested in a competing business or restricted services save for the holding of investment up to two (2) % of any class of securities quoted or dealt in on a recognized stock exchange.

9.1.8 Miscellaneous

Except as otherwise disclosed to the Purchaser:

(i) Insolvency

- (a) No order has been made and no resolution has been passed for the winding up of, or a provisional liquidator to be appointed in respect of, the Seller and no petition has been presented and no meeting has been convened for the purpose of winding up the Seller;
- (b) no receiver has been appointed in respect of the Seller, the TTR Business or the Purchased Assets;
- (c) the Seller is not insolvent or unable to pay its debts within the meaning of the applicable legislation to which it is subject and the Seller has not stopped paying its debts as they fall due;
- (d) no event analogous to any of the foregoing has occurred with respect to the Seller in any jurisdiction outside China;
- (e) no unsatisfied judgment is outstanding against the Seller.

(ii) Consents

All consents, permissions, approvals and agreements of third parties which are necessary or desirable for the Seller to obtain in order to enter into and perform this Agreement in accordance with its terms have been unconditionally obtained in writing and have been disclosed to the Purchaser.

(iii) Material information

all information relating to the Seller, the TTR Business and the Purchased Assets which is known or would on reasonable enquiry be known to the

Seller and which should be known by a Purchaser for a proper valuation of the Purchased Assets has been disclosed to the Purchaser.

(iv) Brokers and Finders

No person or entity acting on behalf or under the authority of the Seller is or will be entitled to any broker's, finder's or similar fee or commission in connection with the transactions contemplated hereby.

(v) Recitals and disclosures

The recitals, Schedules to the Agreement and all information and documents relating to the TTR Business and Purchased Assets (including without limitation budgets and forecasts) supplied by the Seller or any agent of Seller to the Purchaser, its lawyers, accountants or other agents or advisers during or with a view to the negotiations leading up to the Agreement, are true and accurate in material respects, and there is no fact not disclosed which would render any such information or document inaccurate or misleading or which, if disclosed, might reasonably affect the willingness of the Purchaser to purchase the Purchased Assets for the consideration or otherwise on the terms specified in the Agreement.

9.1.9 Authority of the Seller

Except as otherwise disclosed to the Purchaser:

- (i) The Seller has full power and authority to enter into and perform this Agreement and the provisions of this Agreement, when executed, will constitute valid and binding obligations on the Seller, in accordance with its terms;
- (ii) The execution and delivery of, and the performance by the Seller of its obligations under, this Agreement will not result in a breach of any order, judgment or decree of any court or governmental agency to which any Seller is a party or by which it is bound;
- (iii) None of the Seller or any of its agents or advisers is aware of any fact or matter which would or may constitute a breach of any of the Seller's Warranties.

9.2 Tax Warranties

Seller represents and warrants:

- (i) That it will pay any and all taxes in compliance with the applicable laws and regulations;
- (ii) that all forms, filings, and information provided to any taxing authority were timely filed and were, at the time of filing and continue to be, complete and accurate;

(iii) so far as the Seller is aware, there is no liability in respect of taxation (whether actual or contingent) or any liability for interest, penalties or charges imposed in relation to any taxation arising in any part of the world that is not adequately disclosed or provided for in full in the Accounts and Management Accounts;

(iv) so far as the Seller is aware, Seller is not and has not in the last three years been the subject of a Tax Authority unresolved investigation or other dispute regarding Tax or duty recoverable from the Seller or regarding the availability of any relief from Tax or duty to the Seller and there are no facts which are likely to cause such an investigation or audit to be instituted or such a dispute to arise and all returns made by the Seller are agreed with the appropriate Tax Authority;

(v) Seller has neither been a party to nor otherwise involved in any transaction, scheme or arrangement:

(a) the sole or dominant purpose of which was to obtain a tax benefit by the avoidance, postponement or reduction of a liability to tax within the meaning of the applicable tax legislation.

(b) which reduces or would reduce the amount of tax payable by any person and which is artificial or fictitious or in respect of which any disposition is not given effect to within the meaning of the applicable tax legislation.

(vi) Seller will assist Buyer in responding to any future inquiry from or dispute with a Taxing Authority.

9.3 Property Warranties

Except as otherwise disclosed to the Purchaser:

9.3.1 Interests

The Properties comprise, and will as at Closing comprise, all the land, buildings and premises used in the TTR Business owned by the Seller or occupied by the Seller or in which the Seller has, or will as at Closing have, any interest.

9.3.2 Insurance

(i) Where the Seller is responsible for maintaining insurance in respect of any of the Leased Properties, the policy conforms in all respects with the requirements of the Lease.

(ii) True and complete copies of all insurance policies, in respect of the Leased Properties for which the Seller is responsible for maintaining insurance, have been delivered to the Purchaser.

(iii) The Seller has not done or omitted to do anything which may result, directly or indirectly, in any of the insurance policies may become void or voidable.

(iv) No claims outstanding or circumstances which the Seller is aware of which would give rise to a claim under any of the insurance policies.

9.3.3 Owned Properties

The Owned Properties represent all the real properties owned by the Seller or in respect of which the Seller has any estate, interest, right or liability (as defined below), and in respect of each of the Owned Properties:

(i) the Seller is the sole beneficial owner of and has a proper legal title (in the form of granted land use rights the premium for which has been fully paid) to the Owned Properties and is entitled to transfer, dispose, sell, mortgage or otherwise deal with the Owned Properties and is entitled the use of such property in the manner in which it is used or is proposed to be used;

(ii) except as otherwise created for the Assumed Liabilities and disclosed to the Purchaser in the manner acceptable to the Purchaser, each of the Owned Properties held by the Seller is free from mortgage, debenture, charge, lien, lease, encumbrances or any third party rights and the Seller has not entered into any agreement to do any of the foregoing;

(iii) the Seller has not received or is not aware of there being any notice from any government or other competent authorities requiring it to revise the terms of the ownership rights relating to the Owned Properties or adversely affecting the Owned Properties or the rights of the Seller in relation thereto;

(iv) all land premium, purchase price, land grant fees or other fees payable in respect of the Owned Properties have been paid in full and will be duly paid up to the date of Closing and no further such premiums, price or fees are payable under any applicable laws;

(v) none of the terms and conditions contained in the relevant sale and purchase or transfer contracts, deed of mutual covenants, government grant, occupation permit, real estate title certificate, land use right certificate, building ownership certificates and/or certificate of ownership and the applicable laws, rules and regulations have been breached in respect of the Owned Properties;

(vi) the Seller has duly performed and observed all the terms and conditions contained in the sale and purchase or transfer contracts (if any), assignment, deed of mutual covenant, land use right certificate and building ownership certificates for the Owned Properties to be performed and observed on the part of the Seller as Purchaser thereof;

(vii) all relevant legal requirements or conventions for notarization and registration of the sale and purchase contracts and assignments for the Owned Properties have been complied with;

- (viii) the land and building ownership rights pertaining to the Owned Properties are valid and subsisting and has not been amended, modified or supplemented in any manner whatsoever;
- (ix) no contracts have been entered into by the Seller to sell, assign, subdivide, let or lease, licence, charge, mortgage, partition, share, grant any option over or otherwise dispose of an interest in or part with the possession or occupation of the Owned Properties or any part thereof or otherwise encumber the Owned Properties nor is there any agreement by the Seller to do any of the aforesaid;
- (x) the Seller is in physical possession and actual occupation of, each and every one of the Owned Properties on an exclusive basis and no right of occupation or enjoyment has been acquired or is in the course of being acquired by any third party or has been granted or agreed to be granted to any third party;
- (xi) except as otherwise included in the Assumed Liabilities, the Seller does not have any outstanding liabilities under the terms and conditions upon which the land and building ownership rights pertaining to the Owned Properties are granted;
- (xii) except as otherwise disclosed to the Purchaser in the manner acceptable to the Purchaser, the Owned Properties are not subject to any restrictive covenants, stipulations, easements, licences, restrictions or other like rights vested in third parties other than those stipulated in the terms and conditions upon which the land and building ownership rights pertaining to the Owned Properties are granted which terms and conditions are of a usual nature with reference to such terms and conditions in China;
- (xiii) there are no circumstances which would entitle or require any person to exercise any powers of entry or taking possession of the Owned Properties;
- (xiv) compliance has been made with all applicable statutory and by-law requirements with respect to the Owned Properties;
- (xv) all requisite licences, certificates and authorities necessary for the existing use of the Owned Properties by the Seller have been duly obtained and are in full force, validity and effect;
- (xvi) there are no disputes with any adjoining or neighbouring owner with respect to boundary walls and fences, or with respect to any easement, right or means of access to the Owned Properties;
- (xvii) the Owned Properties are used by the Seller for legal purposes and has not violated any relevant land or construction regulations;
- (xviii) all requisite approvals, consents, permits and licences necessary for the user of the Owned Properties as it is presently being used by the Seller have been duly obtained and are in full force, validity and effect;

(xix) no default (or event which with notice or lapse of time or both will constitute a default) by the Seller has occurred or is continuing under the government grant, occupation permit, deed of mutual covenant, land use right certificate, building ownership rights certificate and/or other documents applicable to the property and it is not in breach of any applicable laws, rules, regulations, guidelines, notices, circulars, orders, judgments, decrees or rulings of any court, government, governmental or regulatory authorities in respect of the use occupation and enjoyment of the Owned Properties;

(xx) all requisite planning and building approvals required for any government, local or public authority with respect to the Owned Properties have been obtained and are in full force and effect;

(xxi) all the buildings and other structures on the Owned Properties are in good and substantial repair and fit for the purposes for which they are being used; and

(xxii) there is (and has been) no breach of any applicable statutory, by-law or regulatory requirement as to fire precautions, public health, pollution, discharge of effluents, environmental or any other matters to which, in respect of any of the Owned Properties compliance is required.

9.3.4 Other involvement in relation to property

So far as the Seller is aware, the Seller has not at any time:

(i) had vested in it (whether as an original tenant or undertenant or as an assignee, transferee or otherwise) any immovable property used in relation to the TTR Business other than the Properties.

(ii) given any covenant or entered into any agreement, deed or other document (whether as a tenant or undertenant or as an assignee, transferee, guarantor or otherwise) in respect of any immovable property used in relation to the TTR Business in respect of which any contingent or potential liability remains with the Seller other than those disclosed to the Purchaser in relation to the Properties.

(iii) done, omitted or knowingly suffered or been party or privy to any act, deed, matter or thing whereby or by means whereof the Properties or any part thereof are or can or shall or may be impeached, charged, affected or encumbered in title, estate or otherwise.

9.4 The Seller acknowledges that, in entering into this Agreement and in purchasing the Purchased Assets, the Purchaser has relied and will reply upon the Warranties given herein and the Warranties as confirmed by the Seller.

9.5 Each of the Warranties shall be construed as a separate warranty and shall not be otherwise limited or restricted by reference to or inference from the terms of any other Warranty or any other term of this Agreement.

- 9.6 The Seller shall procure that the Warranties are true and accurate in material respects at the date of this Agreement and, for this purpose the Warranties shall be deemed to be repeated at the Closing Date and any express or implied reference therein to the date of this Agreement shall be replaced by a reference to the Closing Date. The Warranties shall remain in full force and effect notwithstanding Closing.
- 9.7 The Purchaser shall be entitled to claim both before and after Closing that any of the Warranties is or was untrue or misleading or has or had been breached even if the Purchaser discovered or could have discovered on or before Closing that the Warranty in question was untrue misleading or had been breached and Closing shall not in any way constitute a waiver of any of the Purchaser's rights.
- 9.8 The rights and remedies of the Purchaser in respect of a breach of any of the Warranties shall not be affected by Closing, by any investigation made by or on behalf of the Purchaser into the affairs of the Seller and the TTR Business, by the giving of any time or other indulgence by the Purchaser to any person, by the Purchaser rescinding or not rescinding this Agreement, or by any other cause whatsoever except a specific waiver or release by the Purchaser in writing; and any such waiver or release shall not prejudice or affect any remaining rights or remedies of the Purchaser.
- 9.9 All representations and warranties made by the Seller contained in this Agreement, any Exhibit, Schedule, certificate or other instrument specifically referred to in the Warranties pursuant hereto or made in writing by or on their behalf in connection with the transactions contemplated by this Agreement, and all indemnification obligations of the Seller under this Agreement shall survive the execution and delivery of this Agreement and the Closing of the transactions contemplated hereunder. All statements contained in any Exhibit, Schedule, certificate or other instrument specifically referred to in the Warranties shall be deemed representations and Warranties under this Agreement.
- 9.10 The Seller undertakes with the Purchaser that it will both before and after Closing promptly notify the Purchaser in writing of any event or circumstance of which it becomes aware which is or may be inconsistent with any of the Warranties or which might make any of the Warranties untrue or misleading if given at Closing.

ARTICLE 10 INDEMNIFICATION

10.1 General Indemnification

10.1.1 As used in this Article 10.1, the following terms shall have the following meanings:

- (i) "EVENT OF INDEMNIFICATION" with respect to the Seller shall mean:
 - (a) any untruth, inaccuracy or breach of any representation or Warranty relating to anything undisclosed to Purchaser as of the Closing Date, any untruth, inaccuracy, omission, in non-compliance with PRC laws and regulations or breach of any representation or Warranty relating to anything disclosed the Purchaser as of the Closing Date, or any breach or failure of

observance or performance of any agreement, undertaking, commitment, obligation, indemnity or covenant of the Seller contained in this Agreement (including the Schedules) or in any certificate or other writing delivered in connection herewith at, before or after Closing or any facts or circumstances constituting such untruth, inaccuracy or breach; and

(b) except for the Assumed Liabilities, any other Claims, liabilities or obligations of any kind or nature relating to the TTR Business or the Purchased Assets arising from, relating to or in connection with the TTR Business, operations or affairs of the Seller or any of the assets, properties, interests in assets or properties or rights of the Seller which were existing at or as of Closing or arising in whole or in part out of any acts, transactions, conditions, circumstances or facts which occurred or existed on or prior to Closing, and which were not disclosed on or before the execution of this Agreement and explicitly assumed by Purchaser pursuant to this Agreement.

(ii) "LOSSES" shall mean any and all Losses sustained, suffered or incurred by any Indemnified Person directly.

10.1.2 "INDEMNIFIED PERSONS" shall mean and include the Purchaser and its respective officers, directors, employees, Affiliates, successors and assignees.

10.1.3 The Seller shall indemnify, defend and hold harmless the Indemnified Persons, and each of them, from and against any and all Losses and Claims (including Claims by third party) arising from or in connection with any Event of Indemnification.

10.1.4 This indemnity is to be a continuing security to the Purchaser for each representation, Warranty, agreement, undertaking, commitment, obligation, indemnity or covenant on the part of the Seller under or pursuant to this Agreement notwithstanding settlement of account or other matter or thing whatsoever.

10.1.5 This indemnity is in addition and without prejudice to and not in substitution for any rights or security which the Purchaser may now or hereafter have or hold for performance and observance of any agreement, undertaking, commitment, obligation, indemnity or covenant on the part of the Seller under or in connection with this Agreement.

10.1.6 The Guarantor shall be jointly and severally liable for the liabilities of the Seller under Article 10.1, as well as all other liabilities of Seller arising under this Agreement.

10.2 Exercise of Purchaser's Rights

10.2.1 Without prejudice to any other right or remedy of the Purchaser hereunder, if before Closing the Purchaser becomes aware that any of the material Warranties was at the date of this Agreement, or has since become, untrue or misleading or

that the Seller is in breach of any term of this Agreement, the Purchaser shall be entitled to, by written notice to the Seller, terminate this Agreement without liability to the Seller. In the event of the termination of this Agreement, without limiting the Purchaser's right to claim all obligations of the Seller under this Agreement, the Purchaser shall, unless otherwise expressly stated, cease to enjoy and assume all rights and liabilities hereunder, but, for the avoidance of doubt, all rights and liabilities of the Parties which have accrued before termination shall continue to exist.

10.2.2 The rights, including rights of rescission, conferred on the Purchaser by this Agreement are in addition and without prejudice to all other rights and remedies available to the Purchaser; and no exercise or failure to exercise a right under this Agreement or otherwise or to invoke a remedy shall constitute a waiver of that right or remedy by the Purchaser.

ARTICLE 11 GUARANTEE AND INDEMNITY BY GUARANTOR

- 11.1 In consideration of the Purchaser entering into this Agreement, Guarantor hereby unconditionally and irrevocably guarantees to the Purchaser the due and punctual performance and observance by the Seller of all obligations, commitments, undertakings, warranties, indemnities and covenants under or pursuant to this Agreement and agrees to indemnify the Purchaser and its Affiliates against any and all Losses and Claims which the Purchaser or any of its Affiliates may suffer through or arising from any breach by the Seller of such obligations, commitments, warranties, undertakings, indemnities or covenants. The liability of Guarantor as aforesaid shall not be released or diminished by any arrangements or alterations of terms (whether of this Agreement or otherwise) or any forbearance, neglect or delay in seeking performance of the obligations hereby imposed or any granting of time for such performance.
- 11.2 Guarantor hereby waives any right which it may have to require the Purchaser to proceed first against or claim payment from the Seller to the intent that as between the Purchaser and Guarantor the latter shall be liable as principal obligor as if it had entered into all undertakings, agreements and other obligations jointly and severally with the Seller.
- 11.3 This guarantee and indemnity is to be a continuing security to the Purchaser for all obligations, commitments, warranties, undertakings, indemnities and covenants on the part of the Seller under or pursuant to this Agreement notwithstanding any settlement of account or other matter or thing whatsoever.
- 11.4 This guarantee and indemnity is in addition to and without prejudice to and not in substitution for any rights or security which the Purchaser may now or hereafter have or hold for the performance and observance of the obligations, commitments, undertakings, covenants, indemnities and warranties of the Seller under or in connection with this Agreement.
- 11.5 As a separate and independent stipulation, Guarantor agrees that any obligation expressed to be undertaken by the Seller under this Agreement (including, without limitation, any moneys expressed to be payable under this Agreement) which may not be enforceable against or recoverable from the Seller by reason of any legal limitation, disability or incapacity of the Seller or any other fact or circumstance shall nevertheless

be enforceable against or recoverable from Guarantor as though the same had been incurred by Guarantor and Guarantor was sole or principal obligors in respect thereof and shall be performed or paid by Guarantor on demand.

ARTICLE 12 FORCE MAJEURE

- 12.1 Scope of Force Majeure. A "FORCE MAJEURE EVENT" shall mean any event, circumstance or condition that (i) directly or indirectly prevents the fulfillment of any material obligation set forth in this Agreement, (ii) is beyond the reasonable control of the respective Party, and (iii) could not, by the exercise of reasonable care, have been avoided or overcome in whole or in part by such Party. Subject to the aforementioned items (i), (ii) and (iii), Force Majeure Event includes, but is not limited to, natural disaster such as earthquake, acts of God, flood, windstorm, etc., contingency such as war, civil commotion, riot, blockade or embargo, fire, explosion, etc., delays of carriers that can be proved, epidemic, or by reason of any law, order, proclamation, regulation, ordinance, demand, expropriation, requisition or requirement or any other act of any governmental authority, including military action, court orders, judgments or decrees.
- 12.2 Notice. Should any Party be prevented from performing the terms and conditions of this Agreement due to the occurrence of a Force Majeure Event, the prevented Party shall send notice to the other Parties within fourteen (14) days from the occurrence of the Force Majeure Event stating in the details of such Force Majeure Event.
- 12.3 Performance. Any delay or failure in performance of this Agreement caused by a Force Majeure Event shall not constitute a default by the prevented Party or give rise to any claim for damages, losses or penalties. Under such circumstances, the Parties are still under an obligation to take reasonable measures to perform this Agreement, so far as is practical. The prevented Party shall send notice to the other Parties as soon as possible of the elimination of the Force Majeure Event, and confirm receipt of such notice.
- 12.4 Consultations and Termination. Should the Force Majeure Event continue to delay implementation of this Agreement for a period of more than three (3) months, the Parties shall, through consultations, decide whether to terminate or modify this Agreement. Should the Force Majeure Event continue for a period of six (6) months or longer, any Party may terminate this Agreement by giving written notice to the other Parties. In the event of the termination of this Agreement, without limiting the Purchaser's right to claim all obligations of the Seller under this Agreement, the Purchaser shall, unless otherwise expressly stated, cease to enjoy and assume all rights and liabilities hereunder, but, for the avoidance of doubt, all rights and liabilities of the Parties which have accrued before termination shall continue to exist.

ARTICLE 13 CONFIDENTIALITY

- 13.1 The Parties undertake with each other that they shall treat as strictly confidential all information received or obtained by them or their employees, agents or advisers as a result of entering into or performing this Agreement including information relating to the provisions of this Agreement, the negotiations leading up to this Agreement, the subject matter of this Agreement or the business or Affairs of the Seller or the Purchaser and that it will not at any time hereafter make use of or disclose or divulge to any person

any such information (except in relation to the operation of the TTR Business after Closing by the Purchase) and shall use its best endeavours to prevent the publication or disclosure of any such information.

- 13.2 The restrictions contained in Article 13.1 shall not apply so as to prevent the Parties from making any disclosure required by law or by any supervisory or regulatory or governmental body or from making any disclosure to any professional adviser for the purposes of obtaining advice (providing always that the provisions of this Article 13 shall apply to and the Parties shall procure that they apply to and are observed in relation to, the use or disclosure by such professional adviser of the information provided to them) nor shall the restriction apply in respect of any information which comes into the public domain otherwise than by a breach of this Article 13 by any Party.

ARTICLE 14 GOVERNING LAW

The formation of this Agreement, its validity, interpretation, execution and any performance of this Agreement, and the settlement of any Disputes hereunder, shall be governed by published and publicly available laws, rules and regulations of the PRC, the applicable provisions of any international treaties and conventions to which the PRC is a party, and, if there are no published or publicly available PRC laws, rules or regulations, or treaties or conventions governing a particular matter, by general international commercial practices.

ARTICLE 15 DISPUTE RESOLUTION

- 15.1 Consultations and Arbitration. Any and all disputes, controversies or claims (the "DISPUTE") arising out of or relating to the formation, validity, interpretation, implementation or termination of this Agreement, or the breach hereof or relationships created hereby shall be settled through friendly consultations. If a Dispute is not resolved through friendly consultations within thirty (30) days from the date a Party gives the other Parties written notice of a Dispute, then it shall be resolved exclusively and finally by arbitration in Beijing at the China International Economic and Trade Arbitration Commission ("CIETAC") in accordance with the arbitration rules of the CIETAC (the "CIETAC RULES") for the time being in force which rules are deemed to be incorporated by reference to this clause.
- 15.2 Arbitration Proceedings and Award. Any arbitration shall be heard before a tribunal consisting of three (3) arbitrators. Each side of the Dispute shall appoint one (1) arbitrator. The two arbitrators thus appointed shall choose the third arbitrator who will act as the presiding arbitrator of the tribunal. If the two arbitrators have not agreed on the choice of the presiding arbitrator, the presiding arbitrator shall be appointed by the Chairman of the CIETAC. The language of the arbitration shall be Chinese and English. The arbitration shall be final and binding on the Parties, shall not be subject to any appeal, and the Parties agree to be bound thereby and to act accordingly. The award of the arbitrators may be enforced by any court having jurisdiction to do so. Throughout any dispute resolution and arbitration proceedings, the Parties shall continue to perform this Agreement, to the extent practical, with the exception of those parts of this Agreement that are under arbitration. Except as otherwise determined by the arbitration tribunal, each Party shall be responsible for its expenses incurred in connection with

resolving any Dispute, but the arbitration fees shall be borne by the losing side of the Dispute.

- 15.3 Injunctive Relief. Notwithstanding any other provision of this Agreement, each Party acknowledges that a breach of confidentiality as provided in Article 13 or other obligations under this Agreement may result in irreparable harm and damage to the affected Party and its Affiliates in an amount that is difficult to ascertain and that cannot be adequately compensated by a monetary award. Accordingly, in addition to any other relief to which the affected Party and its Affiliates may be entitled, such Party shall be entitled to temporary and/or permanent injunctive relief from any breach or threatened breach by the relevant Party without proof of actual damages that have been or may be caused to such Parties by such breach or threatened breach.

ARTICLE 16 MISCELLANEOUS PROVISIONS

- 16.1 Language. This Agreement is written and executed in a Chinese version and in an English version. Both language versions of this Agreement are of equal validity and effect. In case of any discrepancy between the Chinese version and the English version, the Chinese version approved by the Examination and Approval Authority shall prevail.
- 16.2 Waiver and Preservation of Remedies. No delay on the part of any Party in exercising any right, power or privilege under this Agreement shall operate as a waiver thereof, nor shall any waiver on the part of any Party of any right, power or privilege hereunder, nor any single or partial exercise of any right, power or privilege hereunder, preclude any other or other exercise thereof hereunder. The rights and remedies herein provided are cumulative and are not exclusive of any rights or remedies that any Party may otherwise have.
- 16.3 Notices. All notices or other communications under this Agreement shall be in writing and shall be delivered or sent to the correspondence addresses or facsimile numbers of the Parties set forth below or to such other addresses or facsimile numbers as may be hereafter designated in writing on seven (7) days' notice by the relevant Party. All such notices and communications shall be effective: (i) when delivered personally; (ii) when sent by telex, telefacsimile or other electronic means with sending machine confirmation; (iii) ten (10) days after having been sent by registered or certified mail, return receipt requested, postage prepaid; or (iv) four (4) days after deposit with a commercial overnight courier, with evidence of delivery provided by the courier.

Seller	Address:	No. 98, Nanshan Road North, Rongcheng City, Shandong Province, PRC
	Tel:	0631-7523205
	Fax:	0631-7523888
	Attn:	Zhang Junquan
Purchaser	Address:	No. 98, Nanshan Road North, Rongcheng City, Shandong Province, PRC
	Tel:	
	Fax:	
	Attn:	

IN WITNESS WHEREOF, each of the Parties has executed this Agreement or has caused this Agreement to be executed by its duly authorized officer or officers as of the date first above written.

PURCHASER:

COOPER CHENGSHAN (SHANDONG) TIRE
COMPANY LIMITED

Represented by Cooper Tire Investment Holding
(Barbados) Ltd. before legal establishment:

By:

Name: Harold C. Miller
Title: President
Nationality: U.S.A.

SELLER:

SHANDONG CHENGSHAN TIRE
COMPANY
LIMITED BY SHARES

By:

Name: Che Hongzhi
Title: Chairman
Nationality: Chinese

GUARANTOR:

Confirmed and ratified after legal establishment:

SHANDONG CHENGSHAN GROUP
COMPANY

By:

Name:
Title:
Nationality:

By:

Name: Che Hongzhi
Title: Chairman
Nationality: Chinese

SCHEDULE 1

DEFINITIONS AND INTERPRETATION

ACCOUNTS - The audited financial statements of the Seller (including, without limitation, a balance sheet, profit and loss statement and cash flow statement together in each case with the notes thereon) made up to the Accounts Date and for the financial period from January 1, 2005 to the Accounts Date prepared in accordance with relevant PRC laws and regulations, the Chinese GAAP, and in manner consistent with past practice.

ACCOUNTS DATE - The date of Closing.

AFFILIATES - Any person which directly or indirectly controls, is controlled by, or is under common control with Seller, or Seller or any of its related companies; the term "control" means ownership, the power to elect or appoint directors or senior management, and/or the ability to determine and enforce the strategic, business or operations policies of any person.

AGREED FORM - In relation to any document, such document in the terms agreed between the Purchaser and Seller and signed by or on behalf of them for the purposes of identification.

AGREEMENT - This Assets Purchase Agreement

BUSINESS LICENSE - The business license of the Purchaser as issued, amended and replaced, as the case may be, from time to time by the Registration Authority.

CERTIFICATE OF APPROVAL - The certificate of approval issued by the Examination and Approval Authority approving the JV Contract and establishment of the Purchaser.

CHINESE GAAP - The general accepted accounting principles applicable in China, consistently applied.

CLAIM - Any claim, demand, dispute, action, suit, investigation or legal or analogous proceedings

CLOSING - The completion of the purchase by the Purchaser from the Seller of the Purchased Assets in accordance with Article 7.

CLOSING DATE - the date mutually agreed by the Parties subsequent to the conditions in Article 5.1 being satisfied or such other date as is determined by the Seller and Purchaser.

CONTRACTS - The meaning set forth in Article 2.1.4

EMPLOYEES - The employees to be employed in relation to the TTR Business by Purchaser.

ENCUMBRANCES - Any mortgage, charge (fixed or floating), pledge, lien, hypothecation, trust, right of set off or other third party right or interest (legal or equitable) including any right of pre-emption, assignment by way of security, reservation of title or any other security interest of any kind however created or arising or any other agreement or arrangement (including a sale and repurchase arrangement) having similar effect.

EXAMINATION AND APPROVAL AUTHORITY - The Ministry of Commerce, or its authorized local division or any successor government institution or agency empowered to approve the JV Contact, this Agreement, and any amendments, supplements, modifications or termination thereof or hereof.

GUARANTOR - Chengshan Group Company Limited.

TTR BUSINESS - The business in relation to the bias light truck tires, radial and bias medium truck tires, engineering tires and Related Products, which has been carried on by Seller as part of the business scope specified on the effective business license of Seller, such as "production and sales of rubber products; import and export business within the approved scope; sales of vehicles (including cars); contracting of the offshore rubber industry projects and onshore international tender offer projects and exporting of the equipment and materials required for the aforesaid projects; and expatriation of the labor personnel required for enforcing the aforesaid offshore projects".

INSURANCES - The policies of assurance and insurance in connection with the TTR Business and the Purchased Assets and the Employees.

LEASE(S) - The lease(s) or tenancy agreement(s) between the Landlord (as therein defined) and the Seller by which the premises used by the TTR Business was let to the Seller.

LEASED PROPERTIES - All the real properties used by the TTR Business leased by the Seller, particulars of which are set out in this Agreement.

LOSSES - All losses, liabilities, costs (including, without limitation, legal costs arising out of any disputes involving any third party), charges and expenses.

MANAGEMENT ACCOUNTS - The unaudited balance sheet of the Seller as at the Management Accounts Date and the unaudited statements of profit and loss and cash flow of the Seller for the period commencing from December 31, 2004 and ended on the Management Accounts Date prepared in a manner consistent with past practice.

MANAGEMENT ACCOUNTS DATE - The date of Closing.

M&A REGULATIONS - The Tentative Provisions Regarding Merger with, and Acquisition of, Domestic Enterprises by Foreign Investors, promulgated by the Ministry of Foreign Trade and Economic Cooperation, State Administration of Taxation, State Administration for Industry and Commerce and State Administration of Foreign Exchange on March 7, 2003, and effective as of April 12, 2003.

MATERIAL ADVERSE CHANGE - Any material adverse change in the business, assets or position (financial, trading or otherwise), profits or prospects of the TTR Business or any event or circumstance that may result in such a material adverse change. Without prejudice to the generality of the foregoing and to the extent that any adverse change or series of adverse change can be quantified, any adverse change to the extent of more than USD500,000 or series of adverse change to the aggregate extent of more than USD500,000 shall be deemed to be a material adverse change.

OWNED PROPERTIES - All the real properties used by the TTR Business owned by the Seller.

PRC - People's Republic of China

PROPERTIES - The Leased Properties and Owned Properties set out in this Agreement.

PURCHASER - Cooper Chengshan (Shandong) Tire Company Limited, a Sino-foreign limited liability company registered and incorporated under the laws of the PRC, with its registered address at No. 99, Qingshan Road West, Rongchen City, Shandong Province, PRC.

PURCHASED ASSETS - The meaning set forth in Article 2.1

REGISTRATION AUTHORITY - The State Administration of Industry and Commerce, or its local division or any successor government institution or agency empowered to issue a Business License to the Purchaser.

RENMINBI or RMB - The lawful currency of the PRC

SELLER - Shandong Chengshan Tire Company Limited by Shares. A company limited by shares registered and incorporated under the laws of the People's Republic of China, with its registered address at No. 98, Nanshan Road North, Rongchen City, Shandong Province, People's Republic of China.

TAX AUTHORITY - Any local, municipal, governmental, provincial, State or fiscal, revenue, customs or excise authority, body, agency or official in China having or purporting to have power or authority in relation to Tax, including without limitation the PRC State Administration for Taxation or any other relevant fiscal authority in China.

TAXATION/TAX - All taxes, charges, duties, imposts, fees, levies or other assessments, and all estimated payments thereof, including without limitation income, business profits, property, sales, use, value added taxes (VAT), environmental, franchise, customs, import, payroll, transfer, gross receipts, withholding, social security, as well as stamp duties and other costs, imposed by any Tax Authority, or any subdivision or agency thereof, and any interest and penalty relating to such taxes, charges, fees, levies or other assessments.

WARRANT(IES) - the warranties, representations, and undertakings stated in Article 9.

SINO-FOREIGN EQUITY JOINT VENTURE CONTRACT
FOR
RONGCHENG CHENGSHAN STEEL CORD COMPANY LTD
BY AND BETWEEN
CHENGSHAN GROUP COMPANY LIMITED
AND
CTB (BARBADOS) INVESTMENT CO. LTD.

OCTOBER 27, 2005

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EQUITY JOINT VENTURE CONTRACT

This Sino-foreign Equity Joint Venture Contract (this "CONTRACT") is made and entered into in the People's Republic of China ("CHINA" or "PRC") on this 27th. day of October, 2005, in accordance with the PRC Sino-foreign Equity Joint Venture Law (the "JOINT VENTURE Law") and other relevant PRC laws and regulations, by and among:

(1) CHENGSHAN GROUP COMPANY LTD., a limited liabilities company duly organized and existing under the laws of the PRC with its legal address at No 98, North Nan Shan Road, Rongcheng City, Shandong Province, PRC ("PARTY A"); and

(2) CTB (BARBADOS) INVESTMENT CO. LTD., a company duly organized and existing under the laws of [Barbados] with its legal address at Chancery House, High Street, Bridgetown, Barbados, W. I. ("PARTY B").

(Each party is hereinafter individually referred to as a "PARTY" and collectively as the "PARTIES".)

WHEREAS:

(A) On the date of this Contract, Party A and Mr. Teng Liu-zhi [CHINESE CHARACTERS] ("MR. TENG") are the existing shareholders of Rongcheng Chengshan Steel Cord Co., Ltd. (the "COMPANY"), a limited liability company duly organized and existing under the laws of the PRC;

(B) Party A will purchase from Mr. Teng, and Mr. Teng has agreed to sell to Party A, the Company's equity interests owned by Mr. Teng. Therefore, Party A will own all the equity interests of the Company prior to the Completion Date (as such term defined in the Share Purchase Agreement);

(C) Party A has agreed to sell to Party B, and Party B has agreed to purchase from Party A, a portion of twenty five percent (25%) of the equity interest of the Company in accordance with the terms and conditions of the Share Purchase Agreement entered into among Party A, Party B and the Company on the date of this Contract; and

(D) In accordance with the principles of equality and mutual benefit, the Parties have held friendly negotiations in relation to the terms and conditions for converting the Company from a domestic limited liability company into a Sino-foreign equity joint venture.

NOW, THEREFORE, the Parties hereby agree as follows:

CHAPTER 1 DEFINITIONS

Unless the terms or context of this Contract provide otherwise, capitalized terms used herein without definition have the meanings assigned to them in Appendix 1 attached to this Contract.

CHAPTER 2 PARTIES TO THE CONTRACT

2.1 The Parties. The Parties to this Contract are as follows:

- (1) Party A: Chengshan Group Company Ltd.
Country of Registration: PRC
Legal Address: No. 98, Nanshan Road North, Rongcheng City, Shandong Province, PRC
Current Legal Representative: Che Hong-Zhi
Nationality: Chinese
- (2) Party B: CTB (BARBADOS) INVESTMENT CO. LTD.
Country of Registration: Barbados
Legal Address: Chancery House, High Street, Bridgetown, Barbados, W. I.
Current Legal Representative: Harold C. Miller
Nationality: U.S.A.

CHAPTER 3 ESTABLISHMENT OF THE JOINT VENTURE

3.1 Establishment of the Joint Venture. In accordance with the Joint Venture Law and other relevant PRC laws and regulations, the Parties hereby enter into this Contract for the establishment of the Joint Venture as a Sino-foreign equity joint venture in the form of a limited liability company.

3.2 Joint Venture Name, Legal Address.

(1) The name of the Joint Venture in English is "Rongcheng Chengshan Steel Cord Company Ltd."

The name of the Joint Venture in Chinese is [CHINESE CHARACTER]

(2) The legal address of the Joint Venture is Chengshan Road, Rongcheng City, Shandong Province, PRC.

3.3 Limited Liability Company. The Joint Venture shall be organized as a company with limited liability under PRC law, liable for its own debts with its own assets. The liability of each Party shall be limited to the amount of the Registered Capital expressly subscribed by such Party. No Party shall be obligated at any time to provide any funds to, or on behalf of, the Joint Venture by way of capital contribution, loan, advance, guarantee or otherwise, except as specifically provided in this Contract, or as otherwise agreed to in writing by the Parties. The Parties shall not be liable for the debts of the Joint Venture, unless otherwise specifically agreed in writing between a particular creditor and the Party or Parties concerned. Subject to the terms and conditions of this Contract, the profits, risks and losses of the Joint Venture shall be shared by the Parties in proportion to their respective contributions to the Registered Capital.

3.4 PRC Law. The activities of the Joint Venture shall be governed by, and its legal rights and operational autonomy shall be protected in accordance with, the laws and regulations of the PRC.

CHAPTER 4 PURPOSE AND BUSINESS SCOPE OF THE JOINT VENTURE

4.1 Purpose of Joint Venture. The purpose of the Joint Venture is to use advanced technology and management methods to develop, manufacture and sell the Products on the international and domestic markets and to earn a satisfactory return on investment for the Parties.

4.2 Scope of Business. The Joint Venture's scope of business shall be to design, develop, manufacture, and process (consuming both domestic and imported materials) steel cords and tire bead wires; provide technical support and after sales service for such products; and market and sell such products.

CHAPTER 5 REGISTERED CAPITAL

5.1 Registered Capital. The Registered Capital of the Joint Venture shall be Renminbi one hundred and thirty million (RMB(Y)130,000,000).

5.2 Schedule for Capital Contributions. For avoidance of doubt, the Parties hereby agree that (i) conversion of the Party A's equity interest of the Company into its Percentage Interest in the Registered Capital of the Joint Venture on the Establishment Date; and (ii) completion of Party B's payment of the Transaction Price (as such term defined in the Share Purchase Agreement) pursuant to the payment schedule stipulated in Article 3.1 under the Share Purchase Agreement shall be deemed as completion of capital contribution of the Parties to the Joint Venture.

5.3 Conditions Precedent to the Contribution of Registered Capital.

The Parties' contribution to the Registered Capital of the Joint Venture pursuant to Article 5.2 hereof shall be conditioned on the satisfaction of all of the following:

- (1) Party A has acquired all the equity interests of the Company;
- (2) the Examination and Approval Authority has issued a Certificate of Approval, and any required changes to this Contract have been agreed to in writing by the Parties;
- (3) a Business License has been granted to the Joint Venture which authorizes the full scope of business of the Joint Venture described in Article 4.2 or any required changes thereto have been agreed to in writing by the Parties; and
- (4) all Parties have obtained corporate approvals in respect of this Contract from their respective board of directors as may be necessary.

5.4 Capital Contribution Verification and Certificate. An accountant registered in the PRC shall be engaged by the Joint Venture to verify the respective capital contributions of each Party and provide a capital verification report(s) accordingly. The Joint Venture, upon the receipt of a satisfactory capital verification report, shall issue a capital contribution certificate to the relevant Party. This certificate shall include the following items: name of the Joint Venture; the Establishment Date; the names of the Parties and the amount of their respective capital contributions; the date on which the capital contributions were made; and the date of issuance of the capital contribution certificate. Each capital contribution certificate shall be signed by the Chairman and the Vice-Chairman of the Joint Venture. The capital contribution certificates shall only certify the investment of each Party and shall not be deemed as a note or other negotiable instrument.

5.5 Financing. Subject to the terms and conditions of this Contract, to the greatest extent permitted by relevant law, the Joint Venture may finance its operations and capital needs by way of loans, including but not limited to shareholder loans, loans from such banks, other financial institutions or qualified lenders inside or outside of China and upon such terms and subject to such conditions as may be approved by the Board.

Party A hereby undertakes to appropriately support, and to the extent necessary, provide a loan at an amount of US\$ 6,400,000 to the Joint Venture as soon as practicable upon the Completion (as such term defined in the Share Purchase Agreement), which shall have a term of at least 10 years bearing interest at the prevailing market rate and will be subordinated to the claims against and liabilities incurred by the Joint Venture.

5.6 Increase of Registered Capital. The Registered Capital of the Joint Venture may be increased by a unanimous resolution of the Board, which resolution shall stipulate the timing and other terms of such increase, with such increase subject to the approval of the Examination and Approval Authority and registration with the Registration Authority. If any Party chooses not to participate in any such additional investment in the Joint Venture, the other Party shall have the option to make the additional contribution to the Joint Venture's Registered Capital and the ownership percentages of the Parties' equity interests in the Joint Venture shall be adjusted accordingly.

5.7 Transfer of Equity Interests.

(1) If one Party wishes to transfer all or part of its Percentage Interest in the Joint Venture to any third party, it shall obtain the written consent of (including waiver of preemptive rights by) the other Party, and the transfer shall be presented to the Examination and Approval Authority for approval. The Parties agree to be bound by the detailed rules set forth in Appendix 2 attached to this Contract, which rules are to implement the principle described in the preceding sentence.

5.8 Share Purchase. On the date of this Contract, Party A and Party B shall enter into a share purchase agreement (the "SHARE PURCHASE AGREEMENT") in substantially the form attached as Appendix 3 hereto, pursuant to which Party A has agreed to sell to Party B, and Party B has agreed to purchase from Party A, twenty five percent (25%) of the equity interest of the Company in accordance with the terms and conditions therein.

CHAPTER 6 REPRESENTATIONS AND WARRANTIES

6.1 Representations and Warranties. Each Party hereby represents and warrants that, as of the date of this Contract and as of a date on which a Party makes a capital contribution to the Joint Venture in accordance with Article 5.2 herein, it:

(1) has the capacity and authority to enter into this Contract and to perform its obligations hereunder, and is duly organized and validly existing under the laws of the PRC in the case of Party A, and under the laws of Barbados in the case of Party B;

(2) is not a party to, bound by or subject to any contract, instrument, charter or by-law provision, statute, regulation, order, judgment, decree or law which would be violated, contravened or breached by, or under which any default would occur as a result of, the execution and delivery by such Party of this Contract or the performance by such Party of any of the terms of this Contract, or which restricts such Party from entering into this Contract or performing its obligations and abiding by the terms hereunder;

(3) has duly authorized, executed and delivered this Contract and that this Contract constitutes a legal, valid and binding obligation enforceable in accordance with its terms;

(4) will contribute capital or transfer shares in a manner which does not conflict with, violate or result in a breach of, any of the terms, conditions or provisions of any law, regulation, order, writ, injunction, decree, determination or award of any court, governmental department, board, agency or instrumentality or any arbitrator, or result in the creation or imposition of any lien, charge, security interest or encumbrance of any nature whatsoever upon such capital or shares;

(5) freely enters into this Contract and has not and will not hereafter incur any obligations or commitments of any kind which would in any way hinder or interfere with its acceptance or performance of its obligations hereunder; and

(6) (i) has carefully read the entire Contract including the Appendices hereto; (ii) fully understands all of the terms, conditions, restrictions and provisions set forth in this Contract, (iii) agrees that the terms, conditions, restrictions and provisions herein are necessary for the reasonable and proper protection of the business of the Joint Venture and the other Party, and (iv) acknowledges that each such term, condition, restriction and provision is fair and reasonable with respect to the subject matter thereof.

6.2 Representations and Warranties in Respect of the Company's Equity Interest. In respect of the Company's equity interest relating to the share purchase specified in Article 5.8 hereof, Party A represents, warrants and undertakes to Party B, as of the date of this Contract and as of the Completion Date (as such term defined in the Share Purchase Agreement), those representations, warranties and undertakings set forth in the Share Purchase Agreement are true, accurate and complete.

6.3 Cure and Indemnification Obligations.

(1) In case of any breach of the Contract by any Party, it shall, in accordance with the direction of the non-breaching Party within thirty (30) days after receiving a notice of the non-breaching Party concerning any breach, take all necessary actions to cure such breach.

(2) Each Party agrees to indemnify and hold the other Party and the Joint Venture harmless from and against any and all claims, losses, damages, and costs arising out of any of its breach of any of its covenants or representations and warranties contained herein, .

CHAPTER 7 RESPONSIBILITIES OF THE PARTIES

7.1 Party A's Responsibilities. In addition to its other obligations under this Contract, Party A shall be responsible for the following matters:

(1) Providing capital contributions in accordance with the terms and conditions of this Contract;

(2) Using its best endeavors (acting at all times in close consultation with Party B) to assist the Joint Venture to:

(a) obtain all necessary governmental approvals and completing all required registrations for the establishment and operation of the Joint Venture;

(b) liaise with PRC national, provincial, municipal or local governmental authorities and other relevant institutions or organizations;

(c) obtain the most preferential tax, customs, foreign exchange and other favorable treatment that are or may become available to the Joint Venture and/or the Parties under relevant national and local laws and regulations of the PRC; and

(d) procure necessary equipment, materials, articles for office use, means of transportation, telecommunications facilities and other public utilities, in accordance with the Joint Venture's request.

(3) Using its best endeavors (acting at all times in close consultation with Party B) to assist the Joint Venture to register with the relevant tax bureau, to open such foreign exchange and RMB bank accounts, assist the Joint Venture with all required foreign exchange approvals, and assist the Joint Venture in applying for all approvals required to remit to Party B in foreign exchange distributable profits and all other payments required to be paid to Party B;

(4) Providing necessary assistance to the Joint Venture in recruiting suitable management personnel, technical personnel and other necessary employees to be employed by the Joint Venture;

(5) Assisting the Joint Venture to contact banks and other financial institutions inside the PRC and hold discussions with them with respect to the raising of any loans required by the Joint Venture;

(6) Assisting foreign workers, staff, and personnel (including Directors, managers, technicians, and contractors appointed or selected by Party B) in obtaining PRC visas and work permits for travel to China directly related to the operation of the Joint Venture if requested by Party B;

(7) Be responsible for any environmental pollution, fines, charges or losses caused by it prior to the Establishment Date, and indemnify the Joint Venture for any financial burden and/or losses arising out of any contamination caused by it prior to the Establishment Date;

(8) Providing a shareholder loan to the Joint Venture according to Article 5.5 herein; and

(9) Assisting with and carrying out other relevant matters as may be reasonably requested by the Board from time to time.

7.2 Responsibilities of Party B. In addition to its other obligations under this Contract, Party B and shall be responsible for the following matters:

(1) Providing capital contributions in accordance with the terms and conditions of this Contract;

(2) Providing any necessary assistance to the Joint Venture's recruitment of suitable expatriate management personnel, technical personnel and other necessary expatriate employees to be employed by the Joint Venture on the basis of merit;

(3) Assisting the Joint Venture to contact banks and other financial institutions outside of the PRC and hold discussions with them with respect to the raising of any foreign exchange loans required by the Joint Venture;

(4) Assisting the Joint Venture in training key staff and employees;

(5) Seconding relevant management personnel, technical personnel and other necessary staff to work for the Joint Venture as per the Joint Venture's request; and

(6) Assisting with and carrying out other relevant matters requested by the Joint Venture from time to time.

7.3 Related Party Transactions. The Parties shall procure that all related party transactions with respect to the Joint Venture shall be transparent to the Parties and be conducted on an arm's length basis, provided however, it is the intention of the Parties that if the price, quality and delivery of the Products meet the requirements of the Tire JVs, the Tire JVs will purchase from the Joint Venture. Any significant purchases (including purchases of raw materials) by the Joint Venture from the Parties or their Affiliates shall be approved by the Board in accordance with Article 8.3 herein.

CHAPTER 8 BOARD OF DIRECTORS

8.1 Formation of the Board.

(1) The Board shall be the highest authority of the Joint Venture. It shall discuss and determine all strategic business and financial issues and operational issues of the Joint Venture in accordance with the provisions of this Contract and the Articles of Association.

(2) The Board shall consist of three (3) Directors, of which two (2) shall be appointed by Party A and one (1) shall be appointed by Party B. At the time this Contract is executed and when replacement Directors are appointed, the Parties shall notify one another in writing of the names and addresses of its appointees, together with a brief curriculum vitae and a list of other official functions, if any, that the relevant appointees will concurrently carry out for the Joint Venture. Each Party shall cause the Directors appointed by it to perform the obligations specified in this Contract and as required under relevant PRC laws and regulations.

(3) Directors shall each be appointed for terms of four (4) years, and may serve consecutive terms if reappointed by the Party originally appointing such Director.

(4) Any Party may, at any time with or without cause, remove and replace a Director that it has appointed by written notice to the Joint Venture and to the other Party. If a seat on the Board is vacated due to the retirement, resignation, illness, disability or death of a Director or by the removal of such Director by the original appointing Party, the Party which originally appointed such Director shall appoint a successor to serve the remainder of such Director's term.

(5) If either Party or the Board has reason to believe that a Director has materially breached his/her duties as a Director (provided such breach appear to be supported by reasonable grounds as determined by a simple majority of the Directors), or has been convicted of committing an act or omission constituting fraud, theft, embezzlement or other violations of relevant PRC law, the Board may remove the relevant Director immediately. Following any such removal, the Party that originally appointed the relevant Director shall appoint a successor to serve the remainder of such Director's term.

8.2 Chairman and Vice Chairman of the Board.

(1) The Board shall have one (1) Chairman and one (1) Vice Chairman. A Director appointed by Party A shall serve as Chairman of the Board, and a Director appointed by Party B shall serve as Vice Chairman of the Board.

(2) The Chairman of the Board shall be the sole legal representative of the Joint Venture. The Chairman shall perform his or her duties and responsibilities within the scope of authority delegated by the Board, and in accordance with this Contract and relevant PRC laws. Without prejudice to Article 8.1(4) above, when the Chairman is temporarily unable to perform his or her responsibilities, he or she may designate in writing the Vice Chairman or any other Director to represent the Joint Venture in such capacity within such temporary period.

8.3 Powers of the Board.

(1) Each Director shall have one vote on any matter subjected to Board vote. Neither the Chairman nor the Vice-Chairman, in their capacity as such, shall be entitled to have any extra vote in any meeting of the Board. This provision is without prejudice to Article 8.4(6) on proxies.

(2) The quorum necessary for a meeting of the Board shall be two thirds (2/3) of the Directors. This requires at least two (2) Directors to be in attendance for a quorum, with at least one Director appointed by each Party at presence.

(3) The following matters require a decision by the Board supported by the affirmative vote of all Directors present and eligible to vote (or represented in accordance with Article 8.4(6) in a duly constituted meeting of the Board or as per Article 8.4(9):

(a) any amendment of the Articles of Association;

(b) termination of this Contract;

(c) dissolution of the Joint Venture;

(d) increase or decrease of the Registered Capital of the Joint Venture;

(e) amalgamation or merger of the Joint Venture with any other company, association, partnership or legal entity;

(f) division or change in the form of legal organization of the Joint Venture.;and

(g) annual capital expenditure budget.

(4) The Parties agree that all matters except those listed in Article 8.3(3) above can be decided by the Board supported by a simple majority of Directors present and eligible to vote (or represented in accordance with Article 8.4(6)) in a duly constituted meeting of the Board or as per Article 8.4(9).

(5) The Board shall by resolution supported by a simple majority of Directors formally authorize the General Manager and/or other Persons with necessary powers to implement decisions of the Board in accordance with this Contract, and, more generally, to conduct the day-to-day business of the Joint Venture in accordance with the then current business plan.

(6) The Board shall adopt rules and procedures regarding (a) provision of guarantee or security by the Joint Venture to any Person, (b) creation of any security interest on any property of the Joint Venture, (c) custody of the Joint Venture's chops, and (d) such other matters as the Board deems necessary.

8.4 Board Meetings.

(1) Board meetings shall be held at least twice a year. Meetings shall be held at the registered address of the Joint Venture or such other address in China or abroad as may be agreed by the Board. The first Board meeting shall be held no later than sixty (60) days after the Establishment Date.

(2) The agenda for Board meetings shall be determined by the Chairman of the Board, but shall include in any event the items proposed by other members of the Board.

(3) Board Meetings shall require prior written notice to all Directors of not less than four (4) weeks (unless otherwise agreed unanimously by all the Directors) setting forth the date, time, place and agenda. Directors may waive their right to receive prior written notice of any meeting.

(4) Upon the written notice of the Chairman of the Board or upon written request of one third (1/3) or more of the Directors of the Joint Venture specifying the matters to be discussed, the Chairman of the Board shall within thirty (30) days convene an interim meeting of the Board, provided that a quorum will be present for such an interim meeting, whether in person or by proxy.

(5) The Chairman is responsible for convening and presiding over all Board meetings. If the Chairman is unable to convene and/or preside over a Board meeting, a Director designated in writing by the Chairman shall convene and/or preside over such Board meeting.

(6) Board meetings may be attended by Directors in person, by telephone or video conference, provided, however, that if a Director is unable to participate in a Board meeting, he/she shall issue a written proxy authorizing another Director or individual to attend the meeting on his/her behalf. A Director or other individual so entrusted shall have the same rights and powers as the Director who issued the proxy.

(7) Board meetings shall be duly convened if a quorum is constituted in attendance, in person or by proxy. In the event that the Directors appointed by any Party fail to attend a Board meeting resulting in a lack of a quorum, and such failure to attend is due to a dispute between the Directors or Parties, such Party shall be deemed to be in breach of this Contract, and Article 17 will become applicable.

(8) For the purpose of this clause, if a written resolution is executed in identical counterparts, such signed counterparts shall together be deemed to constitute a single resolution, effective on the day the last Director signs the relevant counterpart.

(9) Notwithstanding any other provisions herein, Board resolutions may be adopted by written consent by the Board in lieu of a meeting if the relevant resolutions are sent to all Directors and the resolutions are affirmatively signed and adopted by the number of Directors necessary to make such a decision as stipulated in Article 8.3 above. Such written Board resolutions may consist of several counterparts in identical form each signed by one or more of the Directors. Such written Board re

solutions shall be filed with the Board meeting minutes and shall have the same force and effect as a Board resolution adopted at a duly constituted and convened Board meeting.

(10) Board meetings shall be held in English and Chinese and all Board minutes and Board resolutions and agendas and other Board meeting documents shall be prepared and provided in both English and Chinese. The Chairman shall cause complete and accurate minutes (in English and Chinese versions) to be kept of all meetings (including meeting notices) and of matters addressed or raised at such meetings. Minutes of all Board meetings shall be circulated to all Directors promptly after each meeting. Any Director who wishes to propose any amendment or addition to the meeting minutes shall submit the same in writing to the Chairman not later than fifteen

(15) days after receipt of the minutes, and the Chairman shall circulate such proposal to all the Directors. Any Director who wishes to object to the proposed amendment to the minutes shall submit the same in writing to the Chairman and all other Directors not later than fifteen (15) days after receipt of the proposed amendment, otherwise such proposed amendment shall be adopted and the minutes shall be amended accordingly. If the proposed amendment and relevant objection are not resolved within thirty (30) days of the Chairman's receipt of such objection, neither the proposal nor the objection shall be adopted but both would be noted as an attachment to the minutes. All Directors shall sign each page of the final minutes within sixty (60) days after receipt of same, and return such signed copy to the Joint Venture. The original minutes shall be kept on file with the Joint Venture and shall be available to any Director or their proxies for inspection or copying at any reasonable time.

(11) No remuneration shall be paid by the Joint Venture to any of its Directors in his/her capacity as such; provided, however, that in the event that a Director is concurrently an officer of the Joint Venture, such Director shall be entitled to remuneration for his/her service as an officer only. A Director may recover from the Joint Venture such expenses as are reasonably and properly incurred in connection with his/her attending the Board meetings or other activities of the Joint Venture where his/her presence is required. The Board shall establish a policy to implement this subsection.

CHAPTER 9 OPERATION AND MANAGEMENT

9.1 Management Organization

(1) The Joint Venture shall establish an operation and management team to be responsible for the Joint Venture's daily operation and management. Such team shall include the General Manager and such other personnel as determined by the Board of Directors (the "MANAGEMENT PERSONNEL").

(2) The General Manager and the Joint Venture Controller ("JV CONTROLLER") shall be appointed by the Board upon the nomination of Party A and the Vice General Manager shall be appointed by the Board upon the nomination of Party B. Each of the Management Personnel shall be appointed or removed by the General Manager, except that the Vice General Manager and JV Controller shall be appointed or removed by the Board. Any of the Management Personnel shall handle matters delegated to him or her by the General Manager and shall be

responsible to the General Manager for the efficient implementation of such responsibilities.

(3) In the event that the General Manager, Vice General Manager or JV Controller is found incompetent, commits graft or serious dereliction of duty, he/she shall be dismissed by the Board.

9.2 Responsibilities of Management Personnel

(1) The responsibility of the General Manager shall be to carry out the various resolutions of the Board and to organize and direct the daily operation and management of the Joint Venture. The General Manager may consult with the Vice General Manager in dealing with material matters, but the General Manager shall have the authority to make final decisions.

(2) Subject to the terms and conditions imposed by the Board, the JV Controller shall be in charge of the day-to-day financial operations of the Joint Venture under the supervision of the General Manager, shall assist the General Manager in preparation of the documents set out in Article 9.2(5)(a)(1) below, and shall carry out the decisions of the Board and General Manager.

(3) With the exception that Management Personnel nominated by Party B may remain to be employees of Party B, the other Management Personnel shall be the full time employees of the Joint Venture and shall not, without prior approval by the Board, hold any managerial posts in other economic organizations while serving as an employee of the Joint Venture. Without prior approval by the Board, Management Personnel shall not hold any position in any economic organization or other entities competing with the Joint Venture except those affiliated to any Party which the Board confirms as being exceptions. If the General Manager or any other Management Personnel intends to resign from his or her position, such person shall be required to submit the resignation notice to the Board at least thirty (30) days prior to the intended departure date.

(4) The General Manager shall, within the scope of the authority conferred upon him/her by the Board, represent the Joint Venture in dealings with other parties, and appoint and dismiss subordinates.

(5) The General Manager shall be responsible for preparation of following documents (all in both Chinese and English languages):

(a) he/she shall prepare for submission to the Board for review and approval, and upon such approval shall implement, the following:

(i) an annual operating plan, operating budget, marketing and sales budget, financial budget, business and sales performance targets for the Joint Venture;

(ii) the organizational and managerial rules of the Joint Venture;

(iii) any other documents or plans for the Joint Venture that are deemed necessary by the Board.

(b) he/she shall submit any major revisions to such budgets, plans or manuals for the Joint Venture to the Board for review and approval prior to their implementation.

(6) The General Manager shall submit a quarterly production and sales report and quarterly financial statements for the Joint Venture to the Board. Such reports and statements shall be submitted in both Chinese and English languages within thirty (30) days following the close of the quarter to which such a report relates.

(7) When the General Manager thinks he is unable to carry out his duties, he may designate one of the Management Personnel to serve as the acting General Manager in accordance with the terms and conditions to be imposed or specified by the General Manager.

(8) The General Manager and all other Management Personnel and working personnel of the Joint Venture shall be required not to disclose any commercial secrets or trade secrets of the Joint Venture.

9.3 Qualifications of Management Personnel

(1) The General Manager and the other Management Personnel shall be skilled and qualified as for the management of the Joint Venture, and meet other qualifications and the performance criteria established by the Board.

(2) Compensation and other terms and conditions of employment for the General Manager and other Management Personnel shall be determined by the Board and provided in the employment contracts signed between the relevant individual and the Joint Venture. The Joint Venture shall bear the salary as well as proper compensation package of expatriate employees (if any).

9.4 Budget Control. Notwithstanding any provisions contained herein, any capital expenditure of the Joint Venture in excess of United States Dollars One Hundred Thousand (US\$100,000) which is not included in the annual capital expenditure budget shall be pre-approved by Party B or its authorized representative.

CHAPTER 10 LABOR MANAGEMENT

10.1 Governing Principle. Matters relating to the recruitment, employment, management, dismissal, resignation, wages, welfare benefits, subsidies and other matters concerning the staff of the Joint Venture shall be determined by the Board in accordance with the labor laws of the PRC. The General Manager shall implement plans approved by the Board.

10.2 Working Personnel. Employees of the Joint Venture shall be employed in accordance with the provisions of this Contract, the Articles of Association, and the terms and conditions of the individual employment contracts concluded with each respective employee.

10.3 Compensation. In accordance with PRC laws and regulations concerning labor compensation, the General Manager shall implement a compensation system whereby

employees are compensated in accordance with their technical ability, education, performance and position.

- 10.4 Confidentiality and Non-compete. The Joint Venture shall enter into Non-Disclosure and Non-Compete Contracts with each of its key employees, and the terms of such contract shall be determined by the Board. The Board may require the Joint Venture to enter into similar contracts with other employees.
- 10.5 Labor Union. Employees of the Joint Venture may establish a labor union in accordance with the Labor Union Law of the PRC (the "LABOR UNION LAW") and other laws and regulations relating to labor union activities of foreign invested enterprises. The Joint Venture shall allocate an ascertained amount of funds to the labor union in accordance with the published and effective laws and regulations in relation to labor union, which amount shall be determined by the Board in accordance with the applicable laws and regulations in China.

CHAPTER 11 FINANCIAL AFFAIRS AND ACCOUNTING

11.1 Accounting System.

- (1) The Joint Venture shall maintain its books and record in accordance with accounting systems and procedures established in accordance with relevant PRC laws and regulations. Accounting systems and records in accordance with any international accounting rules preferred by Party B shall also be maintained to the full extent permitted by PRC law. The accounting systems and procedures to be adopted by the Joint Venture shall be submitted to the Board for approval. Once approved by the Board, the accounting systems and procedures shall be filed with the relevant government finance department and tax department for records. The debit and credit method, as well as the accrual basis of accounting, shall be adopted as the methods and principles for keeping accounts.
- (2) Unless this Article 11.1 provides otherwise, all accounting books and financial statements of the Joint Venture, and all routine accounting records, vouchers, etc., shall be made in both English and Chinese if necessary.
- (3) The Joint Venture shall adopt RMB as its standard bookkeeping base currency and shall also use US Dollar as supplementary bookkeeping currency. For purposes of preparing the Joint Venture's accounts and statements of the Parties' capital contributions, and for any other purposes where it may be necessary to effect a currency conversion, such conversion shall be made in accordance with the conversion rate published by and conversion method required by the State Administration of Foreign Exchange on the date of actual payment.
- (4) Monthly and annual financial statements for the Joint Venture shall be prepared in both the Chinese and English languages, and in RMB and in United States Dollars. Such statements shall include at least the following: balance sheet, profit and loss statements, and cash flow statement, and shall be kept by and provided to each Party and to the relevant authorities as required by relevant PRC accounting regulations.

11.2 Auditing.

(1) At the expense of the Joint Venture, the Joint Venture's Auditor shall be appointed by the Board to conduct an audit of the annual financial statements and accounts of the Joint Venture. The Parties agree that the Joint Venture shall, within three (3) months after the end of a fiscal year, submit to the Parties an annual statement of final accounts (including the audited profit and loss statement, balance sheet, cash flow statement, and statement for retained earnings for the fiscal year), together with the audit reports of the Joint Venture's Auditor.

(2) Each Party shall have the right at any time to audit the entire accounts of the Joint Venture within thirty-six (36) months from the end of the period to be audited. At the end of such audit, the Party requesting such an audit may submit queries concerning the audit to the Board. The Board shall reply in written form within sixty (60) days after receipt of the queries concerning the audit. Reasonable access to the Joint Venture's financial records shall be given to such auditor and such auditor shall keep confidential all documents under his/her audit.

(3) When a Party conducts an audit pursuant to Article 11.2(2), it shall

bear the expenses incurred and the responsibility for the appointed auditor in maintaining confidentiality of all the documents so audited.

11.3 Bank Account & Foreign Exchange Control. The Joint Venture shall open foreign exchange accounts and RMB accounts and handle foreign exchange transactions in accordance with relevant PRC laws and regulations. The Board shall determine the signatories required for any disbursements of funds from such accounts and shall establish internal control policies relating to these accounts.

11.4 Fiscal Year. The Joint Venture shall adopt the calendar year as its fiscal year, which shall begin on January 1 and end on December 31 of the same year. The first fiscal year of the Joint Venture shall commence on the Establishment Date and shall end on December 31 thereafter.

CHAPTER 12 PROFIT DISTRIBUTION

12.1 Allocation to Funds. After payment of income taxes by the Joint Venture, the Board shall determine the annual allocations from the after-tax net profits to set aside reserve funds, expansion funds and bonus and welfare funds for staff and workers in accordance with applicable PRC laws and regulations.

12.2 Dividend Policy. After payment of all payable income tax, and the allocation of funds pursuant to Article 12.1 hereof, the Board shall determine the annual dividend distribution of the Joint Venture to the Parties in proportion to their respective Percentage Interests each year. For the avoidance of doubt, the Joint Venture shall not, in any circumstances, obtain any additional borrowings from any bank or other third party for the purpose of financing dividend payment. All dividends payable to Party B shall be paid in US\$. The Joint Venture shall bear any loss, gain or bank charges or other fees associated with the dividends payment.

CHAPTER 13 TAXATION AND INSURANCE

- 13.1 Income Tax, Customs Duties and Other Taxes. The Joint Venture and its employees shall pay taxes pursuant to relevant PRC laws and regulations. The Joint Venture shall use its best endeavors to apply for and obtain preferential treatment, including tax and customs benefits, permitted by the law.
- 13.2 Insurance. The Joint Venture shall maintain, in accordance with relevant PRC law, insurance as determined by the Board from time to time to cover the Joint Venture's assets, operations and other business activities.

CHAPTER 14 PURCHASE OF MATERIALS AND SALE OF PRODUCTS

14.1 Purchase of Materials

- (1) In meeting its requirements for materials, equipment, components, transportation vehicles and articles for office use, the Joint Venture will at its discretion purchase such items inside or outside the PRC to the maximum extent consistent with the efficient operation and quality standards of the Joint Venture.
- (2) All the reasonable costs and expenses incurred by any Party in connection with the sourcing and purchase for the Joint Venture as stipulated in Article 14.1(1) shall be reimbursed by the Joint Venture.

14.2 Sale of Products

- (1) The Joint Venture shall formulate and, with the approval of the Board, adopt both domestic and international sales plans for the Products. The Joint Venture shall market, distribute and sell its Products according to a pricing policy approved by the Board. The Joint Venture may appoint distributors and sale agents in different regions inside or outside the PRC, subject to the general terms and conditions of such appointment.
- (2) In order for the convenience of distributing, marketing and selling the Products, the Joint Venture may establish branch offices inside or outside the PRC subject to authorization by the Board and the approval by the relevant authorities.

CHAPTER 15 CONFIDENTIALITY AND NON-COMPETE

15.1 Confidentiality.

- (1) Except as otherwise specifically provided in this Article 15.1, neither any Party nor the Joint Venture shall divulge, disclose or communicate, or permit to be divulged, disclosed or communicated, to any unaffiliated third party in any manner, directly or indirectly, any Confidential Information, and each Party and the Joint Venture shall ensure that their respective Affiliates, officers, directors, employees (including, without limitation, individuals seconded thereto), agents and contractors (collectively "REPRESENTATIVES") do not divulge, disclose or

communicate, or permit to be divulged, disclosed or communicated, to any unaffiliated third party in any manner, directly or indirectly, any Confidential Information. Confidential Information shall remain the exclusive and sole property of the relevant disclosing party (the "PROTECTED PARTY") and shall be promptly returned upon the request of the Protected Party.

- (2) The Parties and the Joint Venture shall only disclose or permit to be disclosed Confidential Information to those of their respective Representatives who have a need to know such Confidential Information (and then shall only disclose such portion of the Confidential Information as is necessary) in order to consummate the transactions contemplated herein and to establish or conduct the Joint Venture's business and operations in the ordinary course. Each Party and the Joint Venture shall advise its Representatives of the confidentiality provisions hereunder, shall require relevant Representatives to sign agreements substantially similar to the Non-Disclosure and Non-Compete Contract, and shall be responsible to the Protected Party for any noncompliance by any such Representative.
- (3) In the event that any Party, the Joint Venture, or any of their respective Representatives is required by applicable law or is validly ordered by a governmental entity having proper jurisdiction to disclose any Confidential Information, the affected party shall, as soon as possible in the circumstances, provide the Protected Party with prompt prior written notice of the disclosure request or requirement, and, if requested by the Protected Party, shall furnish to the Protected Party an opinion of legal counsel that the release of all such Confidential Information is required by applicable law. The proposed disclosing party shall seek, with the reasonable cooperation of the Protected Party if necessary, a protective order or other appropriate remedy and shall exercise best efforts to obtain assurances that confidential treatment will be accorded to any Confidential Information disclosed.
- (4) The Parties and the Joint Venture shall take all other necessary, appropriate or desirable actions to preserve the confidentiality of the Confidential Information.
- (5) This Article 15.1 and the obligations and benefits hereunder shall survive for a period of ten (10) years after the termination or expiration of this Contract or the termination, dissolution or liquidation of the Joint Venture or any of the Parties, provided that, however, any information concerning, directly or indirectly, the proprietary trade secrets of the Joint Venture or a Party shall be preserved in confidentiality and be entitled to the obligations and benefits hereunder in perpetuity.

15.2 Non-Compete. Party B hereby specifically undertakes that it shall, and shall cause its Affiliates or related companies, to refrain from directly or indirectly engaging in, whether by itself or through any individual or entity, any activities that competes with any business or activities of the Joint Venture anywhere in the PRC, during the period when it holds any Interest in the Joint Venture and for a period of five (5) years after it has ceased to hold any Interest in the Joint Venture.

CHAPTER 16 DURATION, TERMINATION AND LIQUIDATION

- 16.1 Joint Venture Term and Extension. The term of the Joint Venture shall be fifty (50) years ("JOINT VENTURE TERM"), which shall commence on the Establishment Date. One (1) year prior to the expiration of the Joint Venture Term, the Parties may discuss the extension of such term. If the Parties agree and the Board approves, an application for such extension shall be submitted to the Examination and Approval Authority for approval no less than six (6) months prior to the expiration of the Joint Venture Term.
- 16.2 Termination.
- (1) Unless extended in accordance with Article 16.1, this Contract shall terminate automatically upon the expiration of the Joint Venture Term.
 - (2) This Contract may be terminated at any time upon the written agreement of all of the Parties, in which case the Parties shall instruct the Directors to vote to liquidate the Joint Venture as per this Contract and the relevant laws and regulation of the PRC.
 - (3) A Party (the "NOTIFYING PARTY") shall have the right to terminate this Contract by providing written notice ("TERMINATION NOTICE") to the other Party if any of the following events occur:
 - (a) one or more of the conditions specified in Article 5.3 are not met within three (3) months of the date of execution by the Parties of this Contract, and no resolution is agreed upon following consultations between the Parties to extend the capital contribution schedule specified in Article 5.2 herein, or the extended capital contribution schedule would go beyond the required time period under the relevant PRC laws and regulations;
 - (b) a Party (not being the Notifying Party) materially breaches the obligations contained in this Contract, or any of its representations or warranties is or becomes untrue in any material respect, and has failed to remedy such breach within sixty (60) days of a written notice from the Notifying Party;
 - (c) a Party (not being the Notifying Party) is or becomes a party to, bound by or held liable by any orders, decisions, judgments, awards, decrees or rulings of any courts, arbitral tribunals, governmental or regulatory agencies, as a result of such Party's breach in any way of any applicable legislation, laws, regulations, statutes, rules, guidelines, notices, or circulars of any statutory or regulatory bodies, and said breach would affect or change the intent or mind of the other Party to enter into this Contract or maintain the partnership with such Party, or would in any way hinder or interfere with the execution or delivery by the other Party of this Contract or its performance of any of the terms and obligations hereof;
 - (d) any Party (not being the Notifying Party) becomes bankrupt, or is the subject of proceedings for liquidation or dissolution, or ceases to carry on business or becomes unable to pay its debts as they come due, in which

case the relevant Party shall immediately notify the other Party in respect of such situation;

- (e) the Joint Venture becomes bankrupt, or is the subject of proceedings for liquidation or dissolution, or ceases to carry on business or becomes unable to pay its debts as they come due;
- (f) the conditions or consequences of any event of Force Majeure continue for a period of three (3) months without any equitable solution agreed to by the Parties;
- (g) all the members of the Board are unable to reach an agreement on the business plans for the Joint Venture or the issues not specified in the business scope of the Joint Venture as defined in Article 4.2 above and such deadlock cannot be resolved after a period of ninety (90) days;
- (h) the Joint Venture's Business License is revoked, suspended, or amended (in a manner not agreed to in writing by the Parties) or in any other situation such that the Joint Venture is precluded or prevented from carrying out its business; or
- (i) the Joint Venture fails to obtain external finance such that the Joint Venture is substantially prevented from implementing its business plan, except if the Board decides to continue.

16.3 Subsequent Obligations

- (1) Where a Termination Notice has been served in the circumstances set out in Article 16.2(3)(b) or Article 16.2(3)(c), the non-breaching Party shall have the option, but not the obligation, to sell its Percentage Interest in the Joint Venture to the breaching Party in accordance with the following procedures:
 - (a) within 30 days of the issuance of the Termination Notice, the Board of Directors shall, by a majority vote appoint an internationally recognized accounting firm or other appraiser (an "APPRAISER") to determine the Book Value of the Joint Venture. Such Appraiser shall complete its assessment of the Book Value of the Joint Venture and notify the Parties thereof in writing within 60 days of their appointment.
 - (b) upon completion of the determination of the Book Value of the Joint Venture, the non-breaching Party shall have the option to sell its share of the Registered Capital of the Joint Venture to the breaching Party at a price equal to:

Book Value x 80% the non-breaching Party's share of the Registered Capital at the time of valuation
 - (c) The purchasing Party shall have the right to designate a third party enterprise to purchase all or part of the non-breaching Party's Percentage Interest for the price (or portion thereof) set forth in Article 16.3(1)(b) hereof.

(d) The Parties agree to take all such steps as may be required to effect the sale of the selling Party's Interest in the Joint Venture, including obtaining all necessary government approvals for the transfer of the Interest to the purchasing Party (or its designee) and causing their respective Board appointees to approve such transfer, and executing all documents necessary or advisable to effect such transfer. If such government approvals are not obtained within ninety (90) days after the signing of the interest transfer agreement between the selling Party and the purchasing Party (or its designee), the exercise of the option shall be null and void and the Joint Venture shall be liquidated, if so proposed by the non-breaching Party, in accordance with the provisions of Article 16.4 hereof. Such liquidation shall not prejudice the rights that the non-breaching Party may otherwise have against the breaching Party.

(2) Where a Termination Notice has been served in any circumstances except as set out in Article 16.2(3)(b) and Article 16.2(3)(c), the following shall apply:

(a) Party B shall have the option, but not the obligation, to sell its Percentage Interest in the Joint Venture to Party A at a price equal to the Book Value as determined by the Auditor of such Percentage Interest at the time To exercise its right, Party B must provide a written notice of its intention thereof ("NOTICE") within fifteen (15) days after the Termination Notice was issued. The Parties shall then complete the sale of Percentage Interest of Party B to Party A within the longer of the period of ninety (90) days after receipt of the Notice or fifteen (15) days after such sale of Percentage Interest is duly approved by the Examination and Approval Authority and registered with the Registration Authority. If Party B fails to exercise its right to sell its Percentage Interest to Party A, Party A shall have the right to purchase Party B's Percentage Interest at a price equal to the Book Value of such Percentage Interest at the time. To exercise its right, Party A shall provide a Notice to Party B within the 15-day period starting from the sixteenth (16th) day after the Termination Notice is issued or a later date on which Party A learns that Party B will not exercise its right stated above. The Parties shall then complete the sale of Party B's Percentage Interest to Party A within the longer of the period of ninety (90) days after receipt of the Notice or fifteen (15) days after such sale of Percentage Interest is duly approved by the Examination and Approval Authority and registered with the Registration Authority.

(b) If no Party wishes to exercise its right as stated in Article 16.3(2)(a), the Parties shall use all reasonable efforts to sell the Joint Venture as a going concern to one or more third parties, either as a single transaction or through more than one transaction. In this Article 16.3(2), third parties include Affiliates. The Parties shall cooperate and cause the Directors appointed by them to cooperate in any required re-structuring of the Joint Venture prior to such sale if necessary or desirable to facilitate the same or optimize the salability of the Joint Venture and the business conducted by it and the sales proceeds for the Parties. The price and terms of such sale shall be agreed between the third party(ies) concerned and the Parties.

(3) In the event that Party B together with any of its Affiliates cease to have any interest in the Registered Capital of the Joint Venture, each Party shall take all steps necessary to ensure that the name of the Joint Venture is immediately changed so that it no longer contains any reference to "Cooper" in English or the local Chinese language equivalent of such name.

(4) Termination of this Contract shall not affect the rights and obligations of the Parties and the Joint Venture incurred prior to the termination or caused by such termination. If termination of this Contract is caused by a Party's breach of any of its obligations under this Contract, then such Party shall compensate the other Party and the Joint Venture for all of their losses resulting from such breach.

16.4 Liquidation.

(1) Liquidation of the Joint Venture shall begin from the earliest of the date of liquidation approval by the relevant Examination and Approval Authority, the date on which this Contract is terminated under Article 16.2 (provided a buy-sell is not effected), the date on which the Share Purchase Agreement is terminated under Article 11 thereof, or by a court or arbitration order, or the date which is 30-day prior to expiration of the Joint Venture Term.

(2) The Board shall within fifteen (15) days from the beginning of the liquidation as provided in Article 16.4 hereof, appoint a liquidation committee that shall be entitled to represent the Joint Venture in all legal matters during the period of liquidation. The liquidation committee shall value and liquidate the Joint Venture's assets in accordance with applicable PRC laws and regulations and the principles set out herein.

(3) The liquidation committee shall be made up of three (3) members appointed by the Board, two (2) of whom shall be recommended by Party A and one (1) of whom shall be recommended by Party B. Members of the liquidation committee in principle shall be selected from the Directors of the Joint Venture. Any Party may recommend the appointment of professional advisors to be members of or to assist the liquidation committee.

(4) The liquidation committee shall conduct a thorough examination of the Joint Venture's assets and liabilities, on the basis of which it shall, in accordance with the relevant provisions of this Contract, develop a liquidation plan which, if approved by the Board, shall be executed under the liquidation committee's supervision. Settlement of any claim, debt or assets under liquidation shall be approved unanimously by members of the liquidation committee; failing such unanimous approval, simple majority approval by the Board shall be required.

(5) In developing and executing the liquidation plan, the liquidation committee shall use every effort to obtain the highest possible price for the Joint Venture's assets.

(6) The liquidation expenses, including remuneration to members of and advisors to the liquidation committee, shall be paid in accordance with the PRC law out of the Joint Venture's assets in priority to the claims of other creditors.

(7) After the liquidation committee has settled all legitimate debts of the Joint Venture, including, if applicable, the expenses of the liquidation committee in accordance with Article 16.4 (6), any remaining assets shall be distributed to the Parties in proportion to their Percentage Interests. With respect to fixed assets distributed to the Parties, in the event that a Party intends to sell such fixed assets to a third party, the other Party shall have the preemptive right during the liquidation period to purchase such fixed assets on the same terms and conditions and at the same price as offered to any third party.

(8) On completion of liquidation, the liquidation committee shall prepare a liquidation report and liquidation accounting statement. The liquidation committee shall, with its unanimous approval appoint an auditor to examine the report and statement and issue a verification report.

(9) After completion of the liquidation of the Joint Venture, unless the tax authority requires otherwise, the original accounting books and other documents of the Joint Venture shall be left in the care of Party A to make and retain copies of all or any of such books and documents, after which such books and documents shall be left in the care of Party B.

CHAPTER 17 BREACH OF CONTRACT

In the event that a breach of contract committed by any Party to this Contract results in the non-performance of or inability to fully perform this Contract, the liabilities arising from the breach of Contract shall be borne by the Party in breach. In the event that the Parties commit a breach of Contract, each Party shall bear its individual share of the liabilities arising from the breach of Contract. Any breach of this Contract by any Party's Affiliate shall be deemed a breach by such Party.

CHAPTER 18 FORCE MAJEURE

- 18.1 Scope of Force Majeure. A "FORCE MAJEURE EVENT" shall mean any event, circumstance or condition that (i) directly or indirectly prevents the fulfillment of any material obligation set forth in this Contract, (ii) is beyond the reasonable control of the respective Party, and (iii) could not, by the exercise of reasonable care, have been avoided or overcome in whole or in part by such Party. Subject to the aforementioned items (i), (ii) and (iii), Force Majeure Event includes, but is not limited to, acts of God, war, terrorism, civil commotion, riot, blockade or embargo, delays of carriers, fire, explosion, labor dispute, casualty, accident, earthquake, epidemic, flood, windstorm, or by reason of any law, order, proclamation, regulation, ordinance, demand, expropriation, requisition or requirement or any other act of any governmental authority, including military action, court orders, judgments or decrees.
- 18.2 Notice. Should any Party be prevented from performing the terms and conditions of this Contract due to the occurrence of a Force Majeure Event, the prevented Party shall send notice to the other Party within fourteen (14) days from the occurrence of the Force Majeure Event stating in the details of such Force Majeure Event.

- 18.3 Performance. Any delay or failure in performance of this Contract caused by a Force Majeure Event shall not constitute a default by the prevented Party or give rise to any claim for damages, losses or penalties. Under such circumstances, the Parties are still under an obligation to take reasonable measures to perform this Contract, so far as is practical. The prevented Party shall send notice to the other Party as soon as possible of the elimination of the Force Majeure Event, and confirm receipt of such notice.
- 18.4 Consultations and Termination. Should the Force Majeure Event continue to delay implementation of this Contract for a period of more than three (3) months, the Parties shall, through consultations, decide whether to terminate or modify this Contract. Should the Force Majeure Event continue for a period of six (6) months or longer, any Party may terminate this Contract by giving notice to the other Party in accordance with Article 16.2.

CHAPTER 19 DISPUTE RESOLUTION

- 19.1 Consultations and Arbitration. Any and all disputes, controversies or claims ("DISPUTE") arising out of or relating to the formation, validity, interpretation, implementation or termination of this Contract, or the breach hereof or relationships created hereby shall be settled through friendly consultations. If a Dispute is not resolved through friendly consultations within thirty (30) days from the date a Party gives the other Party written notice of a Dispute, then it shall be resolved exclusively and finally by arbitration in Singapore at the Singapore International Arbitration Center ("SIAC") in accordance with the Arbitration Rules of the SIAC ("SIAC RULES") for the time being in force which rules are deemed to be incorporated by reference to this clause.
- 19.2 Arbitration Proceedings and Award. Arbitration Proceedings and Award. Any arbitration shall be heard before a tribunal consisting of three (3) arbitrators. Each side of the Dispute shall appoint one (1) arbitrator. The two arbitrators thus appointed shall choose the third arbitrator who will act as the presiding arbitrator of the tribunal. If the two arbitrators have not agreed on the choice of the presiding arbitrator, the presiding arbitrator shall be appointed by the Chairman of the HKIC. The language of the arbitration shall be English and Chinese. The arbitration shall be final and binding on the Parties, shall not be subject to any appeal, and the Parties agree to be bound thereby and to act accordingly. The award of the arbitrators may be enforced by any court having jurisdiction to do so. Throughout any dispute resolution and arbitration proceedings, the Parties shall continue to perform this Contract, to the extent practical, with the exception of those parts of this Contract that are under arbitration. Except as otherwise determined by the arbitration tribunal, each Party shall be responsible for its expenses incurred in connection with resolving any Dispute, but the arbitration fees shall be borne by the losing side of the Dispute.
- 19.3 Injunctive Relief. Notwithstanding any other provision of this Contract, each Party acknowledges that a breach of provisions on confidentiality as provided in Article 15.1 or non-competition in Article 15.2 or other obligations under this Contract may result in irreparable harm and damage to the affected Party and its Affiliates in an amount that is difficult to ascertain and that cannot be adequately compensated by a monetary award. Accordingly, in addition to any other relief to which the affected Party and its Affiliates may be entitled, such Party shall be entitled to temporary and/or permanent injunctive

relief from any breach or threatened breach by the relevant Party without proof of actual damages that have been or may be caused to such Party by such breach or threatened breach.

CHAPTER 20 GOVERNING LAW & CHANGE OF LAW

- 20.1 Applicable Law. The formation of this Contract, its validity, interpretation, execution and any performance of this Contract, and the settlement of any Disputes hereunder, shall be governed by published and publicly available laws, rules and regulations of the PRC, the applicable provisions of any international treaties and conventions to which the PRC is a party, and, if there are no published or publicly available PRC laws, rules or regulations, or treaties or conventions governing a particular matter, by general international commercial practices.
- 20.2 Change of Law. If any Party's economic benefits as a shareholder in the Joint Venture is adversely and materially affected by the promulgation of any new PRC laws, rules or regulations or the amendment or interpretation of any existing PRC laws, rules or regulations after the Effective Date, the Parties shall promptly consult with each other and use their best endeavors to implement any adjustments necessary to maintain each Party's economic benefits derived from this Contract on a basis no less favorable than the economic benefits it would have derived if such laws, rules or regulations had not been promulgated or amended or so interpreted.

CHAPTER 21 EFFECTIVE DATE OF THE CONTRACT

- 21.1 Effective Date. This Contract and the Articles of Association shall become effective on the date on which this Contract and the Articles of Association are approved by the Examination and Approval Authority as evidenced by the issuance of the Certificate of Approval (referred to as the "EFFECTIVE DATE"). In case of conflict between the provisions of this Contract and the provisions of the Articles of Association, the terms of this Contract shall prevail.
- 21.2 Delivery. Party A shall promptly deliver to Party B copies of all approval certificates and registration documents issued by, and written confirmation of all communications with, the relevant Examination and Approval Authority and Registration Authority and all other relevant government authorities, in respect of this Contract, the Articles of Association, the Share Purchase Agreement, and the operation of the Joint Venture.

CHAPTER 22 MISCELLANEOUS PROVISIONS

- 22.1 Language. This Contract is written and executed in a Chinese version and in an English version. Both language versions of this Contract are of equal validity and effect. In case of any discrepancy between the Chinese version and the English version, the Chinese version approved by the Examination and Approval Authority shall prevail.
- 22.2 Waiver and Preservation of Remedies. No delay on the part of any Party in exercising any right, power or privilege under this Contract shall operate as a waiver thereof, nor shall any waiver on the part of any Party of any right, power or privilege hereunder, nor any single or partial exercise of any right, power or privilege hereunder, preclude any other or other exercise thereof hereunder. The rights and remedies herein provided are

22.9 Costs and Expenses. Except as otherwise provided herein, each Party shall be responsible for the costs and expenses it incurred in connection with the negotiation and execution of this Contract, the Articles of Association, and the Share Purchase Agreement.

IN WITNESS WHEREOF, each of the Parties has executed this Contract or has caused this Contract to be executed by its duly authorized officer or officers as of the date first above written.

PARTY A: CHENGSAN GROUP COMPANY LTD.

By: _____
Name: Che Hong-Zhi
Title: Chairman of Board
Nationality: Chinese

PARTY B: CTB (BARBADOS) INVESTMENT CO. LTD.

By: _____
Name: Harold C. Miller
Title: President
Nationality: USA

JOINT VENTURE CONTRACT

APPENDIX 1

DEFINITIONS AND INTERPRETATION

1.1 "AFFILIATE" means, with respect to any Person, any other Person controlling or controlled by or under common control with such specified Person. For purposes of this definition, "control" when used with respect to any specified Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of shares, registered capital or voting securities, by contract or otherwise, and the terms "controlling" and "controlled" have meanings correlative to the foregoing.

1.2 "ARTICLES OF ASSOCIATION" means the articles of association of the Joint Venture executed by the Parties simultaneously with this Contract, as such articles of association may be amended from time to time by the Parties.

1.3 "AUDITOR" means an accounting firm registered in the PRC, engaged at the Joint Venture's own expense upon resolution of the Board, which shall be the auditor of the Joint Venture and which firm shall be independent of the Parties and independent of the Joint Venture.

1.4 "BOARD OF DIRECTORS" or "BOARD" means the board of directors of the Joint Venture established in accordance with this Contract.

1.5 "BOOK VALUE" means the historic accounting value of the equity of the Joint Venture based on Chinese generally accepted accounting principles (GAAP).

1.6 "BUSINESS LICENSE" means the business license of the Joint Venture as issued by the Registration Authority to indicate the Company being converted into and registered as the Joint Venture, and any of amendments or replacements thereof.

1.7 "CERTIFICATE OF APPROVAL" means the certificate of approval issued by the Examination and Approval Authority approving this Contract and the Articles of Association.

1.8 "COMPANY" shall have the meaning ascribed to such term in Whereas (A).

1.9 "CONFIDENTIAL INFORMATION" means the terms of this Contract and all technical, financial, business, commercial, operational and strategic information and data, know-how, trade secrets and any analysis, amalgamation, market studies or compilation, whether written or unwritten and in any format or media, concerning, directly or indirectly, the business of the Joint Venture or a Party, which has been prior to the Establishment Date, or which may be during the Joint Venture Term, delivered or furnished by a Party, the Joint Venture, or any of their respective Representatives, to another Party, the Joint Venture, or any of their respective Representatives, but shall not include any information that: (a) at the time of disclosure is (or thereafter becomes) generally available to the public through no act of any Person in violation of a confidentiality obligation or applicable law; or (b) the receiving Party has obtained lawfully from an independent source not subject to a confidentiality obligation; or (c) the

receiving Party can prove was known to it or to its Representatives prior to the receipt of such information from the disclosing Party; or (d) is independently developed by the receiving Party without any access to or knowledge of such information.

- 1.10 "DAY" refers to a calendar day.
- 1.11 "DIRECTOR" or "DIRECTOR OF THE JOINT VENTURE" means any member of the Board.
- 1.12 "DISPUTE" shall have the meaning ascribed to such term in Article 19.1.
- 1.13 "EFFECTIVE DATE" means the date on which this Contract comes into effect in accordance with Article 21.1.
- 1.14 "EQUITY JOINT VENTURE LAW" means the PRC, Sino-foreign Equity Joint Venture Law (adopted by the National People's Congress on July 1, 1979 and revised on March 15, 2001), as such law may from time to time be amended, or its successor laws.
- 1.15 "EQUITY JOINT VENTURE REGULATIONS" means the PRC, Sino-foreign Equity Joint Venture Law Implementing Regulations (promulgated by the State Council on September 20, 1983 and revised on July 22, 2001), as such regulations may from time to time be amended, or any successor regulations.
- 1.16 "ESTABLISHMENT DATE" means the date on which the Joint Venture's first Business License is issued by the Registration Authority.
- 1.17 "EXAMINATION AND APPROVAL AUTHORITY" means the Ministry of Commerce, or its authorized local division or any successor government institution or agency empowered to approve the Asset Purchase Agreement, this Contract, the Articles of Association, and any amendments, supplements, modifications or termination hereof or thereof.
- 1.18 "INTEREST" shall have the meaning ascribed to such term in Article 2(1) of Appendix 2.
- 1.19 "JOINT VENTURE" means Cooper Taiji (Shandong) Steel Cord Company Ltd., the Sino-foreign equity joint venture limited liability company established and operated by the Parties pursuant to this Contract.
- 1.20 "JOINT VENTURE TERM" shall have the meaning ascribed to such term in Article 16.1 hereof.
- 1.21 "NON-DISCLOSURE AND NON-COMPETE CONTRACT" means the contract between the Joint Venture and each of its key employees (including, without limitation, the General Manager, all other management personnel, and all technical personnel), whereby such key employees undertake to keep confidential the confidential information of the Joint Venture and to refrain from engaging in any business or activities that directly or indirectly compete with any business of the Joint Venture.
- 1.22 "NOTIFYING PARTY" shall have the meaning ascribed to such term in Article 16.3(3).

- 1.23 "PERCENTAGE INTEREST" means, with respect to each Party, such Party's percentage interest in the equity of the Joint Venture.
- 1.24 "PERSON" means any individual, company, legal person enterprise, non-legal person enterprise, joint venture, partnership, wholly owned entity, unit, trust or other entity or organization, including, without limitation, any government or political subdivision or any agency or instrumentality of a government or political subdivision and other body corporate or unincorporated; Person also includes a reference to that Person's legal representatives, assignees, successors or heirs.
- 1.25 "PRC" or "CHINA" means the People's Republic of China.
- 1.26 "PRODUCTS" means the steel cords, tire bead wires
- 1.27 "PROTECTED PARTY" shall have the meaning ascribed to such term in Article 15.1(1) hereof.
- 1.28 "QUALIFIED LENDERS" shall have the meaning ascribed to such term in Part 2 of Appendix 2.
- 1.29 "REGISTERED CAPITAL" means the total amount of equity of the Joint Venture pursuant to Chapter 5 as such equity amount may be adjusted according to the relevant provisions of this Contract and relevant PRC law.
- 1.30 "REGISTRATION AUTHORITY" means the State Administration of Industry and Commerce, or its local division or any successor government institution or agency empowered to issue a Business License to the Joint Venture.
- 1.31 "RENMINBI" or "RMB" means the lawful currency of the PRC.
- 1.32 "REPRESENTATIVES" shall have the meaning ascribed to such term in Article 15.1(1) hereof.
- 1.33 "SHARE PURCHASE AGREEMENT" shall have the meaning ascribed to such term in Article 5.8.
- 1.34 "TERMINATION NOTICE" shall have the meaning ascribed to such term in Article 16.3(3).
- 1.35 "TRANSFERRING PARTY" shall have the meaning ascribed to such term in Article 6.2(1).
- 1.36 "UNITED STATES DOLLARS" or "US\$" means the lawful currency of the United States of America.
- 1.37 "AND/OR" means that both cases apply, or either the first or the second case applies.
- 1.38 Words used in any gender in this Contract shall include references to all other genders; and words used in the singular in this Contract shall include references to the plural, and vice versa.

1.39 Descriptive headings in this Contract are for convenience only and shall not control or affect the meaning or construction of any of the provisions of this Contract or any of the Appendices.

JOINT VENTURE CONTRACT

APPENDIX 2

PART 1

EQUITY TRANSFER/PLEDGE RULES

1. General Principles. Each Party undertakes that, except as permitted in this Appendix 2 or as otherwise agreed by the Parties, it shall not sell, transfer, assign or otherwise dispose of the legal or beneficial ownership of, or create any mortgage, charge, pledge, or other encumbrance over or security interest in, either the entire or any part of its equity interest in the Joint Venture or its rights and obligations under this Contract or otherwise in relation to the Joint Venture whatsoever without the prior written consent of the other Party and subject to compliance with relevant PRC law.

2. Procedure for Transfers.

(1) In the event that a Party (the "TRANSFERRING PARTY") desires to transfer or otherwise dispose of all or any portion of its Percentage Interest in the Joint Venture (the "INTEREST") (other than pursuant to the provisions of paragraph 2(3) below), it shall first notify the other Party (the "NON-TRANSFERRING PARTY") in writing of (i) its intent to transfer or otherwise dispose of its Interest, (ii) the proposed percentage of the Interest to be transferred or disposed, (iii) the price and principal terms and conditions of the proposed transfer or disposal, and (iv) the identity of the proposed third party transferee (the "NOTICE"). The Non-Transferring Party will have thirty (30) days from the receipt of the Notice to notify the Transferring Party whether they desire to purchase the Interest and, if so, the sale of Interest shall be completed in accordance with the terms and conditions set forth in the Notice within the longer of the period of ninety (90) days after receipt of the Notice or fifteen (15) days after such sale of Interest is duly approved by the Examination and Approval Authority and registered with the Registration Authority. If no response or a negative response is given by the Non-Transferring Party in respect of a proposed transfer within the thirty (30) day period, the Non-Transferring Party shall be deemed to have consented to the proposed transfer or disposal of the Interest between the Transferring Party and the proposed transferee identified in the Notice excluding any third party capable of competing against the Joint Venture. It shall be a condition of the transfer that such transferee shall agree to become party to and to be bound by the terms of this Contract and thereafter any reference to a Party herein shall be deemed to include a reference to such transferee as if named herein as a Party.

(2) In circumstances of a transfer of Interest under paragraph 2(1), the Non-Transferring Party shall be deemed to consent to, and shall cause all of the Directors nominated by it to vote in favor of, any such transfer carried out in accordance with the procedures stipulated herein.

(3) Notwithstanding any other provisions in this Contract or this Appendix, if a Party wishes to transfer all or any part of its portion of its Percentage Interest to an Affiliate, such Party shall notify the other Party in writing, and shall provide

documentary evidence of the relationship between the Party proposing the transfer and the relevant Affiliate. The other Party shall immediately agree such transfer, waive its preemptive rights, and cause all Directors nominated by them to vote in favor of such transfer, and such transfer shall thereafter be duly presented to the Examination and Approval Authority for approval.

(4) No transfer of any part of a Party's Interest shall become effective until the transferee (whether an Affiliate or a third party) has delivered to the Non-transferring Party a valid and effective undertaking to perform the obligations of the Transferring Party under this Contract and be bound by its terms as if the transferee had been an original Party to this Contract.

(5) Any sale, transfer, assignment, or disposal pursuant to this Appendix shall be submitted to the Examination and Approval Authority for examination and approval. Upon receipt of the approval document from the Examination and Approval Authority the Joint Venture shall register the change in ownership with the Registration Authority.

3. Pledge of Interest. Party B or its permitted successor may pledge not more than 70% of its Percentage Interest (the "PLEDGED INTEREST") to any of the Qualified Lenders set forth in the Part 2 herein for its own financing purposes with the prior written consent of Party A.

JOINT VENTURE CONTRACT

APPENDIX 2

PART 2

QUALIFIED LENDERS AS SELECTED BY PARTY B

(a) licensed PRC national commercial banks (and their permitted branches or subsidiaries), such as, Bank of China, China Construction Bank, Industrial and Commercial Bank of China, Agricultural Bank of China;

(b) reputable international banks (and their permitted branches or subsidiaries) licensed to carry out financial business and service in China;

(c) licensed PRC national policy banks (and their permitted branches or subsidiaries), such as, Export and Import Bank of China, National Development Bank, Agricultural Development Bank of China; and

(d) PRC joint-stock commercial banks (and their permitted branches or subsidiaries) licensed to carry out nationwide financial business and service in China, such as, for example, Bank of Communications, Minsheng Bank, China Merchants Bank, etc.

JOINT VENTURE CONTRACT

APPENDIX 3

SHARE PURCHASE AGREEMENT

SHARE PURCHASE AGREEMENT
BY AND AMONG
CHENGSHAN GROUP COMPANY LIMITED
AND
CTB (BARBADOS) INVESTMENT CO. LTD

DATED AS OF October 27, 2005

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This SHARE PURCHASE AGREEMENT (this "AGREEMENT") is made and entered into in the People's Republic of China ("CHINA" or "PRC") on this 27th day of October, 2005, in accordance with the PRC Tentative Regulations Regarding Merger with and Acquisition of Domestic Enterprises by Foreign Investors (the "M&A REGULATIONS") and other applicable PRC laws and regulations, pursuant to the principles of equality and mutual benefit, by and among:

SELLER: CHENGSHAN GROUP COMPANY LTD., a limited liability company registered and incorporated under the laws of the PRC, with its registered address at No. 98, North Nan Shan Road, Rongcheng City, Shandong Province, PRC;

BUYER: CTB (BARBADOS) INVESTMENT CO. LTD., an international business company, duly incorporated pursuant to the laws of Barbados and having its registered office at Chancery House, High Street, Bridgetown, Barbados, W.I.; and

COMPANY: RONGCHENG CHENGSHAN STEEL CORD CO., LTD., a limited liability company registered and incorporated under the laws of the PRC, with its registered address at No. 36, West Chengshan Avenue, Rongcheng City, Shandong Province, PRC.

(Each of Seller, Buyer and Company is hereinafter individually referred to as a "PARTY" and collectively as the "PARTIES".)

WHEREAS:

(A) On the date of this Agreement, Seller holds 95.3% of the equity interests of the Company. For the purpose of this Agreement, Seller will purchase all of the Company's equity interests held by the other shareholder prior to the Closing Date;

(B) Seller intends to sell to Buyer, and Buyer is willing to purchase from Seller, a portion of the equity interests of the Company owned by Seller in accordance with the terms and conditions of this Agreement;

(C) As consideration for the transfer of Equity Interests for Sale and the other transactions contemplated herein, Buyer intends to pay Seller the Transaction Price subject to the terms and conditions hereof;

(D) Upon completion of the above transfer of equity interests, Buyer shall own 25% of equity interest of the Company, and Seller shall own 75% of the equity interest of the Company; and

(E) Seller intends to use its best endeavors to support, and provide a loan at an amount of US\$ 6,400,000 to the Company after the Closing which will be subordinated to the claims against and liabilities incurred by the Company;

(F) On or prior to the Closing Date, the Company shall be registered as a Sino-foreign equity joint-venture enterprise, for which purpose Buyer and Seller have agreed to enter into a Sino-foreign equity joint venture contract (the "JOINT VENTURE CONTRACT") on the date of this Agreement.

THE PARTIES HEREBY AGREE AS FOLLOWS:

1. INTERPRETATION

1.1 Unless the terms or context of this Agreement provide otherwise, capitalized terms used herein without definition have the meanings ascribed to them in Appendix 1 as attached to this Agreement.

1.2 The following terms in this Agreement shall have the meanings set out below:

1.2.1 Reference to "entity" shall include the reference to any individual, firm, corporation, enterprise or other body corporate, government, state or state organization, any partnership, association or employees' representative organization (regardless of its eligibility as an independent legal person); and

1.2.2 Reference to an Article, paragraph or appendix shall mean the corresponding Article, paragraph or appendix in this Agreement, unless otherwise required herein.

1.3 Headings of this Agreement shall not affect the understanding of the contents of this Agreement.

2. PURCHASE AND SALE OF EQUITY INTEREST

2.1 Seller agrees to sell to Buyer, and Buyer agrees to purchase from Seller, the Equity Interests for Sale free and clear of all Encumbrances, together with any other the incidental rights accrued thereon on or after the execution of this Agreement.

2.2 Buyer shall pay, or cause to be paid, to Seller the Transaction Price set forth in Article 3 herein.

2.3 Seller hereby undertakes to appropriately support, and to the extent necessary, provide a loan at an amount of US\$ 6,400,000 to the Company as soon as practicable upon the Closing, which shall have a term of at least 10 years bearing interest at the prevailing market rate and will be subordinated to the claims against and liabilities incurred by the Company.

3. TRANSACTION PRICE

3.1 As consideration for the purchase of the Equity Interests for Sale, in reliance upon the representations and warranties, covenants, agreements and undertakings of Seller made herein, and subject to the terms and conditions of this Agreement, Buyer shall pay to Seller, the sum of United States Dollars Six Million Four Hundred Thousand (US\$6,400,000) (the "TRANSACTION PRICE") (subject to the adjustments contained in this Article) according to the payment schedule as follows:

3.1.1 United State Dollars Six Million Four Hundred Thousand (US\$6,400,000), representing a hundred percent (100%) of the Transaction Price, shall be paid by Buyer to Seller within three (3) months of the issuance of the New Business License of the Company.

3.2 Seller and Buyer hereby covenant that the Transaction Price has been determined by reference to the appraisal value of the entire equity interest of the Company as indicated in the appraisal report. Buyer shall pay the Transaction Price to Seller in accordance with the applicable PRC laws and regulations, including without limitation, the relevant foreign exchange supervision statutory requirements.

3.3 Upon Closing an audit of the Equity Interests for Sale (the "CLOSING AUDIT") shall be completed by a qualified audit firm selected by Buyer prior to payment of the Transaction Price by Buyer to Seller.

3.4 Without prejudice to any other remedies available to Buyer, in the event that Seller is in material breach of this Agreement or the Joint Venture Contract ("DEFAULT") before the full amount of the Transaction Price has been paid under this Article 3, at the discretion and request of Buyer, Seller shall forthwith cease to have any right to receive and Buyer shall cease to have any further obligation to pay any remaining balance of the Transaction Price to Seller, and Seller shall refund the amount of the Transaction Price, which has been paid by Buyer immediately preceding the occurrence of the Default, to Buyer within five (5) days from demand by Buyer.

4. TRANSACTION PRECONDITIONS

4.1 Closing is conditional upon satisfaction of the following Transaction Preconditions:

4.1.1 The representations and warranties of Seller made in this Agreement shall be true and correct in all material respects as of the date hereof and as of the Closing Date as though made as of the Closing Date, and Seller and the Company shall have performed and complied in all material respects with all terms, agreements and covenants contained in this Agreement required to be performed or complied by Seller or the Company on or before the Closing Date.

4.1.2 No provision of any applicable law and no judgment, injunction, order or decree of any governmental authority shall be in effect which shall prohibit the consummation of the Closing.

4.1.3 Seller and the Company shall have obtained all relevant corporate approvals for the execution and performance of this Agreement and the Joint Venture Contract, and the adoption of the Articles of Association of New Company, and such corporate approvals shall continue to be effective without amendment or revocation as of the Closing Date.

4.1.4 All consents, approvals, waivers, subordinations and permits, if any, required in connection with the consummation of the sale and purchase of the Equity Interest for Sale and the transactions contemplated herein shall have been received by Seller and the Company, including but not limited to the approval of the Ministry of Commerce, or examination and approval authorities authorized by the Ministry of Commerce, and other government or regulatory authorities necessary to complete the transactions contemplated herein, for the purpose of receiving approval for:

- (a) transfer of the Equity Interest for Sale and this Agreement;
- (b) change of shareholders of the Company;
- (c) conversion of the Company into a Sino-foreign joint venture enterprise;
- (d) the Joint Venture Contract; and
- (e) the Articles of Association of the New Company.

4.1.5 Prior to the Closing Date, no event shall have occurred which, individually or when considered together with all other matters, has had, or could reasonably be expected to have, a Material Adverse Effect the Company, and Buyer shall not have discovered any fact or circumstance which, individually or when considered together with all other matters, has, or could reasonably be expected to have, a Material Adverse Effect on the Company.

4.1.6 Seller and the Company shall have obtained an appraisal report in respect of the Equity Interests for Sale, which is reasonably acceptable to both Seller and Buyer and have been prepared and issued by an appraiser selected by Seller and reasonably agreed upon by Buyer.

4.1.7 Seller and the Company shall have delivered to Buyer the copy of the Accounts.

4.2 Each Party shall use its good-faith best efforts to satisfy and complete each of the Transaction Preconditions to be completed by such Party as soon as practicable after the execution of this Agreement.

4.3 Where Seller, the Company or Buyer is aware at any time that a certain fact or circumstance may impede the completion of a Transaction Precondition, it shall promptly inform all other Parties of such fact or circumstance in writing.

4.4 Seller and the Company shall forthwith notify Buyer of its receipt of any approval from the relevant government approval authorities on the transfer of the Equity Interests for Sale and the transactions contemplated herein. The Parties shall use their best efforts in attending to all necessary amendments with relevant government authorities in connection with the transfer of the Equity Interests for Sale and the transactions contemplated herein within the

time period prescribed by the relevant government authorities or applicable laws of China, including the obtaining of an approval certificate and a New Business License of the Company reflecting the result of the transfer of the Equity Interests for Sale.

4.5 Subject to the terms and conditions of this Agreement, each of the Company, Seller and Buyer shall use its commercially reasonable efforts to take, or cause to be taken, all actions, and do, or cause to be done, all things necessary, proper or advisable under this Agreement and applicable laws and regulations to consummate the sale and purchase of the Equity Interests for Sale and the other transactions contemplated by this Agreement as soon as practicable after the date hereof, including (i) preparing and filing as promptly as practicable all documentation to effect all necessary applications, notices, petitions, filings, ruling requests, and other documents and to obtain as promptly as practicable all consents, waivers, licenses, orders, registrations, approvals, permits, rulings, authorizations and clearances necessary or advisable to be obtained from any third party and/or any governmental authority in order to consummate the sale and purchase of the Equity Interests for Sale and the other transactions contemplated by this Agreement (collectively, the "REQUIRED APPROVALS") and (ii) taking all commercially reasonable steps as may be necessary to obtain all such Required Approvals.

4.6 During the period from the date of this Agreement to the Closing Date, the Company and Seller shall cause the Company to conduct operations only in the Ordinary Course of Business and use its commercially reasonable efforts to preserve intact its business organizations, and maintain its relationships and goodwill with licensors, suppliers, distributors, customers, landlords, employees, agents and others having business relationships with the Company. Notwithstanding the generality of the foregoing, Seller and the Company shall procure that, with effect from the date of this Agreement up to and including the Closing Date, the Company shall not, except with the written consent of Buyer (which consent should not be unreasonably withheld) or as otherwise specifically contemplated in this Agreement:

4.6.1 Grant any severance or termination pay to any officer or employee except pursuant to written agreements outstanding, or policies existing, on the date hereof and unless previously disclosed in writing or made available to Buyer, or adopt any new severance plan or agreement or make changes in the terms of employment of any of its employees.

4.6.2 Cause or permit any of the senior management employees and key technical personnel of the Company to be dismissed, resigned or terminated from their employment with the Company.

4.6.3 Sell, license or transfer to any person any intellectual property right, or buy or license any intellectual property right or enter into any agreement with respect to the intellectual property right of any person, other than agreements entered into with employees or ex-employees for the transfer or assignment of any intellectual property right of such employees or ex-employees in relations to their employment with the Company.

- 4.6.4 Split, combine or reclassify any shares or issue or authorize the issuance of any other securities in respect of, in lieu of or in substitution for any shares.
- 4.6.5 Purchase, redeem or otherwise acquire, directly or indirectly, any shares or other equity interest in the capital of the Company.
- 4.6.6 Issue any shares or other equity interest in the capital of the Company, or any securities convertible into shares or other equity interest in the capital of the Company.
- 4.6.7 Acquire or agree to acquire by merging or consolidating with, or by purchasing any equity interest in or a portion of the assets of, or by any other manner, any business or any company, partnership, association or other business organization or division thereof, or otherwise acquire or agree to acquire any assets for aggregate consideration in excess of US\$500,000, or enter into any joint venture, strategic partnership or alliance.
- 4.6.8 Sell, lease, license, encumber or otherwise dispose of any material properties or assets, except sales of inventory and used equipment in the Ordinary Course of Business.
- 4.6.9 Commence or settle any litigation the claims of which exceed US\$100,000.
- 4.6.10 Enter into any commitment, activity or transaction (including entering into any commitment to make any capital expenditure) not in the Ordinary Course of Business or in any event exceeding US\$100,000 individually or US\$500,000 in the aggregate.
- 4.6.11 Incur any material indebtedness for borrowed money, or guarantee any such indebtedness of another person, issue or sell any debt securities or options, warrants, calls or other rights to acquire any debt securities of the Company, other than drawdown of credit facilities granted prior to the date hereof within the Ordinary Course of Business.
- 4.6.12 Make any change in the nature, scope or organization of its business.
- 4.6.13 Make any loans or grant any credit (other than in the Ordinary Course of Business and advances made to employees against expenses incurred by them on its behalf).
- 4.6.14 Permit any of its insurances to lapse or do anything which would make any policy of insurance void or voidable.
- 4.6.15 Agree in writing or otherwise to take any of the actions described in 4.6.1 through 4.6.14 above.

5. CLOSING

5.1 Closing shall take place at the offices of the Company or such other place as the Buyer and Seller may agree, on the Closing Date.

5.2 Seller and the Company shall, at the Closing, submit the following to Buyer:

5.2.1 Copies of resolution of the board of directors of Seller and the Company on the approval and authorization of its execution, delivery and performance of this Agreement the Joint Venture Contract and Articles of Association of the New Company;

5.2.2 An appraisal report in respect of the Equity Interests for Sale prepared and issued by a qualified appraiser selected by Seller and agreed upon by Buyer in China.

5.3 Subject to the requirements of Articles 5.2, the transactions contemplated by this Agreement shall be effective on or subsequent to the Closing Date in the following sequence:

5.3.1 The Equity Interests for Sale shall be transferred by Seller to Buyer; and

5.3.2 The Company shall be registered as a Sino-foreign joint-venture enterprise (in the form of a limited liability company), in which Seller shall hold 75% of the Company's equity interest and Buyer shall hold 25% of the Company's equity interest.

5.4 If either Party shall fail to make a required payment on the due date of such payment in accordance with the terms and conditions of this Agreement, such Party shall pay the interest on such sum of money, with the interest period commencing from the due date of such payment to the date that the payment is actually made by the relevant Party. The interest assessed shall be 0.05% per day.

5.5 Without prejudice to any other remedies available to Buyer, if in any respect the provisions of Article 5.2 are not complied with on the Closing Date the Buyer may:

5.5.1 defer Closing to a date not more than thirty (30) days after the Closing Date (and so that the provisions of this Article 5.5 shall apply to Closing as so deferred); or

5.5.2 proceed to Closing so far as practicable (without prejudice to its rights hereunder); or

5.5.3 terminate this Agreement, and without limiting the Buyer's right to claim all obligations of Seller under this Agreement, Buyer shall, unless otherwise expressly stated, cease to enjoy and assume all rights and liabilities hereunder, but, for the avoidance of doubt, all rights

and liabilities of the Parties which have accrued before termination shall continue to exist.

6. SELLER'S REPRESENTATIONS AND WARRANTIES

Except otherwise disclosed, Seller hereby represents and warrants to Buyer, as of the date hereof and as of the Closing Date as though such representations and warranties were made at the Closing Date, all Seller's Representations and Warranties set forth hereunder are true, accurate and complete. For the sole purposes of Seller's Representations and Warranties, reference to the "Company" shall as of the Closing Date include the New Company:

6.1 Capacity and Authority

6.1.1 Incorporation and existence

Seller is a limited liability company as an independent legal entity established in accordance with the laws of China. Seller has been in continuous existence since its establishment.

6.1.2 Right, power, authority and action

(a) Each of Seller and the Company has the right, power and authority and has taken all actions necessary to execute and deliver, and to exercise its rights and perform its obligations under, this Agreement, the Joint Venture Contract, and the Articles of Association of the New Company.

(b) The execution, delivery and performance by Seller and the Company of this Agreement, the Joint Venture Contract, and the Articles of Association of the New Company and the consummation of the transactions contemplated thereby will not violate, constitute a default, conflict with, or give rise to any right of termination, cancellation, or acceleration under any agreement, note, bond, mortgage, lease, security, license, permit, or other similar instrument to which a Seller or the Company is a party; (ii) result in the imposition of any Encumbrance on any Equity Interests for Sale; (iii) violate or conflict with any relevant laws; or (iv) require any consent, approval or other action of, notice to, or filing with any person (governmental or private), except for those that have been obtained or will be obtained by the Closing Date.

(c) The Company has the right, power and authority to conduct its business as conducted at the date of this Agreement.

6.2 Information

6.2.1 General

All information given by, or on behalf of, Seller to Buyer, its advisers or agents before or during the negotiations leading to this Agreement is true, complete, accurate and not misleading.

6.2.2 This Agreement

The information set out in this Agreement (including the Appendices) is true, complete, accurate and not misleading in all material aspects.

6.2.3 Material information

All information about the Equity Interests for Sale and the business of the Company which might be material for disclosure to a buyer of the Equity Interests for Sale has been disclosed to Buyer in writing.

6.3 The Company

6.3.1 The Company has been duly established as a limited liability company pursuant to the laws of China. The business license of the Company is in full force and effect.

6.3.2 Save for the interests of Seller, no person has any rights of any nature whatsoever on, over or affecting the Company or the registered capital of the Company unless otherwise disclosed.

6.3.3 No event or omission has occurred whereby the constitution, subsistence or corporate status of the Company has been or is likely to be adversely affected.

6.3.4 The Company does not have and has never had any subsidiary, branch or representative office.

6.3.5 The Company is not the legal or beneficial owner of any shares, registered capital or other equity or contractual interest in any other company.

6.4 Equity Interests for Sale

Seller is the currently the legal and beneficial owner of 95.3% of the equity interests of the Company, and immediately prior to the Closing shall be the legal and beneficial owner of 100% of the equity interests of the Company. There is no Encumbrance and there is no agreement, arrangement or obligation to create or give an Encumbrance, in relation to the Equity Interests for Sale or any part of it. No person has claimed to be entitled to an Encumbrance in relation to the Equity Interests for Sale or any part of it.

6.5 Accounts

6.5.1 General

(a) The Accounts have been prepared in accordance with Chinese GAAP on a consistent basis.

(b) The Accounts show a true and fair view of the assets, liabilities, capital commitments and the state of affairs of the Company at their respective reference dates.

6.5.2 Debts and liabilities

(a) Subject to Chinese Accounting Rules, provision for bad and doubtful debts and all liabilities (whether actual, contingent or otherwise) and all financial commitments in existence at the Accounts Date have been made in the Accounts.

(b) To the knowledge of the Seller, all liabilities (actual, contingent or otherwise) and all financial commitments of the Company have been accurately reflected and disclosed in the Accounts.

6.5.3 Provision for tax

The Accounts reserve in full for all Tax to which the Company may become liable under Chinese law, for a period starting on or before the Accounts Date. The Accounts reserve in full for contingent or deferred liabilities to Tax for a period starting on or before the Accounts Date.

6.5.4 Accounting records

The accounting records of the Company are up-to-date, in its possession or under its control and fully and accurately completed in accordance with China law and applicable standards, principles and practices generally accepted in China.

6.6 Changes since The Accounts Date

Since the Accounts Date and through the date hereof, (i) the Company has conducted its business and operations only in the Ordinary Course of Business, and (ii) there has been no Material Adverse Effect on the Company.

6.7 Tax

6.7.1 General

(a) The Company will pay any and all taxes in compliance with the applicable laws and regulations;

(b) All forms, filings, and information provided by the Company to any taxing authority were timely filed and were, at the time of filing and continue to be, complete and accurate;

(c) Except otherwise disclosed, there is no liability in respect of taxation (whether actual or contingent) or any liability for

interest, penalties or charges imposed in relation to any taxation arising in any part of the world that is not adequately disclosed or provided by the Company;

(d) Except otherwise disclosed, the Company is not and has not in the last three years been the subject of a Tax Authority unresolved investigation or other dispute regarding Tax or duty recoverable from the Company or regarding the availability of any relief from Tax or duty to the Company and there are no facts which are likely to cause such an investigation or audit to be instituted or such a dispute to arise and all returns made by the Company are agreed with the appropriate Tax Authority;

6.7.2 Value added tax

The Company:

(a) is validly registered with the relevant Tax Authority for the purposes of China value added tax laws and regulations;

(b) has made, given, obtained and kept up-to-date, full and accurate records, invoices and documents appropriate or required for the purposes of payment of value added tax under Chinese laws and regulations;

(c) is not in arrears with payment or returns of value added tax due under Chinese laws and regulations;

(d) has lodged timely claims for any refund of value added tax under Chinese laws and regulations.

6.7.3 Customs duties

(a) All customs duties, charges, imposts or fees payable to a Tax authority in respect of the import, export or ownership of any asset (including, without limitation, trading stock) or goods by the Company have been paid.

(b) All plant, machinery, vehicles, equipment and raw materials and consumables imported by the Company as investment or required by the Company for production and operation, and which were imported with funds within the maximum amount of permitted registered capital of the Company were imported exempt of customs duties and value added tax. To the best knowledge of Seller, such exemption will continue as long as the value of imports fall within the maximum permitted registered capital of the Company.

6.8 Assets

6.8.1 Title and condition

(a) Each asset acquired by the Company since the Accounts Date and all assets used by the Company:

(i) are legally and beneficially owned by the Company free from any Encumbrance;

(ii) are not the subject of any agreement for lease, hire, hire purchase or sale on deferred terms;

(iii) where capable of possession, are in the possession or under the control of the Company; and

(iv) are situated in Rongcheng City, Shandong Province, China.

(b) The Company owns each asset necessary or desirable to enable the Company to carry on its business.

6.9 Intellectual Property

6.9.1 Each Intellectual Property Right is:

(a) valid and enforceable and nothing has been done or omitted to be done by which it may cease to be valid and enforceable;

(b) legally and beneficially owned by, and validly granted to the Company alone, free from any licence, Encumbrance, restriction on use or disclosure obligation, or is validly licensed to the Company in China; and

(c) is not, and will not be, the subject of a claim or opposition from a person (including, without limitation, an employee of the Company) as to title, validity, enforceability, entitlement or otherwise.

6.10 Debtors

6.10.1 Except otherwise disclosed, no debt of the Company is overdue by more than thirty (30) days or is the subject of an arrangement not made in the Company's Ordinary Course of Business.

6.10.2 The Company has not released a debt shown in its accounting records so that the debtor has paid or will pay less than the debt's book value. Except otherwise disclosed, none of those debts has been deferred, subordinated or written off or become irrecoverable to any extent. Seller has no reason to believe that any of those debts will fail to realize its book value in the usual course of collection.

6.11 Effect of Sale

6.11.1 Neither the execution nor performance of this Agreement or a document to be executed at or before Closing will:

(a) result in the Company losing the benefit of a permit or an asset, license, grant, subsidy, right or privilege which it enjoys at the date of this Agreement in any jurisdiction; or

(d) conflict with, or result in a breach of, or give rise to an event of default under, or require the consent of a person under, or enable a person to terminate, or relieve a person from an obligation under, an agreement, arrangement or obligation to which the Company is a party or a legal or administrative requirement in any jurisdiction.

6.12 Insurance

The Company maintains insurance coverage with reputable insurers in such amounts and covering such risks as are in accordance with normal industry practice for companies engaged in businesses similar to that of the Company in China.

6.13 Property

6.13.1 Property

(a) The land use rights and premises acquired, used or occupied by the Company and all the rights vested in the Company relating to such land use rights and premises at the date of this Agreement (the "PROPERTY") comprises all the land use rights and premises acquired, used or occupied by the Company and all the rights vested in the Company relating to such land use rights and premises at the date of this Agreement.

(b) Full and accurate particulars of all land use rights documents and all documents and agreements relating to the use and occupation of the Property by the Company (the "LAND DOCUMENTS") have been appropriately disclosed and delivered to Buyer.

(c) The Company does not own, hold or have any interest in any allocated land use rights or granted land use rights other than as disclosed to Buyer.

(d) The Properties are not subject to land premiums, land use fees, penalties or any other type of payment whatsoever, which remains unpaid as of the date hereof, or shall become otherwise due and payable as a result of

(i) the transactions contemplated herein; or (ii) the conversion of the Company into a Sino-foreign joint venture enterprise, except for those fees, expenses or Taxes that would arise in the Ordinary Course of Business.

6.13.2 Exclusive right to use the Property

(a) The Company has the exclusive right to use the Property. There are appurtenant to the Property all rights and easements necessary for its use and enjoyment by the Company.

(e) In respect of each Land Documents:

(i) all procedures pertaining to the requirement to approve or register such an agreement (where necessary) have been duly effected;

(ii) the Company has in all material respects observed and performed all obligations (including the payment of any rent or license fee) and restrictions;

(iii) the grantor or lessor of the Property (as appropriate) has not waived any obligation or restriction;

(iv) the land grant premium, other applicable land use fees and rental payments (whether in the form of advance payment or otherwise) have been paid in full;

(v) no extension or option for renewal has been exercised and no notice requesting an extension or renewal of the term of any Land Document has been served or received; and

(vi) there has not been any assignment, subletting, parting with the possession of or transferring of the Property or any part thereof or any interest therein by the Company to any other person whether formally or informally.

6.13.3 Encumbrances and adverse matters

(a) Except otherwise disclosed, the Property is not subject to any Encumbrance and there is no person in possession or occupation of or who has or may have or claims to have any right or easement of any kind in respect of the Property which may adversely affect the use occupation and enjoyment thereof by the Company.

(b) There are no disputes or outstanding or expected notices (whether given by the lesser, a government authority or any other person) affecting the Property.

(c) There are no rights for the grantor or lessor (as appropriate) to vary the terms of or to terminate the Land Document

before its expiry and there are no circumstances which would entitle or require the grantor or lessor or any other person (as appropriate) to exercise any power of entry or re-entry upon or to take possession of the Property or which would otherwise restrict or terminate the continued possession or occupation thereof or which could prevent or restrict the development thereof.

(d) The Company has duly performed, observed and complied with and there is no subsisting breach of any agreement, statutory requirement, order, building regulation or other obligation affecting the Property or the use thereof and no notice of any alleged breach of any of the terms of the Land Documents has been served on or received by the Company.

(e) The Company will not (without the prior written consent of Buyer, but such consent shall not be unreasonably rejected) exercise or cause to be exercised, any extension or option for renewal of any of the Land Documents.

6.13.4 No other adverse matters

There are no matters which adversely affect the value of, or the use and enjoyment of the Property by the Company, and there are no other facts or matters, the omission of which would affect the valuation of the Property.

6.13.5 Outstanding property liabilities

Save in relation to the Land Documents there is no actual or contingent liability on the Company arising directly or indirectly out of any agreement whatsoever relating to the Property or any other property not forming part of the Property, or to any interest therein.

6.14 Environmental Matters

The Company has not committed any breach of China legal or regulatory requirements for the protection of the environment or of human health or amenity, and has acted at all times in conformity with all relevant Chinese laws, regulations, codes of practice, guidance, notes, standards and other advisory material issued by any local and national governmental authority in China with regard to environmental protection and the protection of human health or amenity.

6.15 Material Agreements

Each Material Agreement is a legal, valid and binding obligation of the Company and, to the knowledge of Seller or the Company, each other party to such Material Agreement, enforceable against the Company and, to the knowledge of Seller or the Company, each such other party in accordance with its terms, and neither Seller nor the Company, or to the knowledge of Seller or

the Company, any other party to a Material Agreement, is in material default or material breach or has failed to perform any material obligation under a Material Agreement, and there does not exist any event, condition or omission that would constitute such a material breach or material default.

6.16 Creditors

The Company has paid its creditors within the times agreed with them.

6.17 Licenses and Statutory Compliance

6.17.1 The Company has obtained all licenses, permits, approvals and other authorizations as are necessary in order to enable it to own, operate, and use all its assets and conduct its business as it is currently being conducted. All such licenses, permits, approvals, and authorizations are in full force and effect. No violations have been recorded or alleged in respect of any such licenses, permits, approvals or authorizations, and no proceeding is pending or, to the knowledge of Seller, threatened or contemplated with respect to the revocation or limitation of the same.

6.17.2 The Company is not in breach of any such approvals, licenses, consents, permissions, authorizations and exceptions and there are no factors that might in any way prejudice the continuation or renewal of any of them, in whole or in part.

6.17.3 The Company has conducted its business and its corporate affairs in accordance with all applicable China laws and regulations and has not done or omitted to do anything in contravention or breach of any law or regulation of China or elsewhere applicable to it or the business of the Company which would have a material adverse effect upon the assets or business of the Company.

6.17.4 The Company has at all times carried on business in all respects in accordance with, and all acts and things done or performed by the Company are within the scope of business specified in the Articles of Association and the business license of the Company.

6.18 Employees

6.18.1 General

(a) Except otherwise disclosed, there is no employment or other contract of engagement (written or otherwise) between the Company and any of its directors. Except otherwise disclosed, the Company has not entered into any consultancy agreements with any person currently. The Company will not enter into any consultancy agreements with any person before Closing Date unless it gets a written approval from the Buyer in advance.

(b) There is no employment contract between the Company and any of its employees which cannot be terminated by three months' notice or less without giving rise to a claim for damages or compensation (other than economic compensation under applicable Chinese laws and regulations).

(c) There is no employment or other contract of engagement between the Company and any person which is in suspension or has been terminated but is capable of being revived or enforced or in respect of which the Company has a continuing obligation.

(d) There does not exist any waived or unpaid employee compensation (including salary, bonuses, allowances, or benefits) and there are no severance or pension liabilities pertaining to the period prior to the Closing. All recurring expenses related to severance, pension, medical or other benefits which the Company will incur post-transaction are reflected in the management projections.

6.18.2 Compliance with law

The Company has in relation to each of its employees (and, so far as relevant, to each of its former employees):

(a) complied with applicable PRC and local labor regulations, and all other obligations imposed on it by, and all orders and awards made under all regulations, codes of conduct and practice, collective agreements, customs and practices relevant to the relations between it and its employees or any trade union or the conditions of service of its employees; and

(b) maintained current, adequate and suitable records regarding the service of each of its employees.

6.18.3 Trade union

(a) The Company has no agreement or arrangement (binding or otherwise) with any trade union or other body representing its employees or any of them.

(b) The Company is not involved in any industrial or trade disputes or any dispute or negotiation regarding a claim of material importance with any trade union or association of trade unions or organization or body of employees and there are no circumstances likely to give rise to any such dispute.

6.19 Liabilities

6.19.1 Indebtedness

Save as may be reflected in the Accounts, the Company does not have outstanding and has not agreed to create or incur loan capital, borrowing or indebtedness in the nature of borrowing.

6.19.2 Guarantees and indemnities

(a) Save as disclosed in the Accounts, the Company is not a party to and is not liable (including, without limitation, contingently) under a guarantee, indemnity or other agreement to secure or incur a financial or other obligation with respect to another person's obligation.

(b) Except otherwise disclosed, no part of the loan capital, borrowing or indebtedness in the nature of borrowing of the Company is dependent on the guarantee or indemnity of, or security provided by, another person.

6.19.3 Events of default

No event has occurred or been alleged which:

(a) constitutes an event of default, or otherwise gives rise to an obligation to repay, under an agreement relating to borrowing or indebtedness in the nature of borrowing; or

(b) will lead to an Encumbrance constituted or created in connection with borrowing or indebtedness in the nature of borrowing, a guarantee, an indemnity or other obligation of the Company becoming enforceable (or will do so with the giving of notice or lapse of time or both).

6.19.4 SAFE registration

All loans made to the Company by overseas entities, if any, have been disclosed and have been approved by and/or registered with the State Administration of Foreign Exchange or its local branch in accordance with China law, and all other foreign currency indebtedness of the Company has been approved by and/or registered with the State Administration of Foreign Exchange or its local branch to the extent required by China law.

6.20 Insolvency

No order has been made or application for bankruptcy presented to the People's Court or resolution passed for the winding up of the Company; no distress, execution or other process has been levied on any of its assets; the Company has not stopped payment or become unable to pay its debts or become insolvent under China law and the Company has not applied for conciliation in order to settle its debts; no liquidation committee has been appointed by the Company, the People's Court or any other person for the

purpose of liquidating the business or assets of the Company or any part thereof; no meeting of the creditors of the Company has been held or is in prospect; no ruling declaring the bankruptcy of the Company has been made and no public announcement in respect of the same has been pronounced by the People's Court, and there is no unfulfilled or unsatisfied judgment or order of the People's Court outstanding against it; and there has been no delay by it in the payment of any obligation due for payment.

6.21 Pensions and Benefits

Other than as otherwise expressly disclosed to Buyer, there are no agreements, arrangements, schemes, customs or practices (whether legally enforceable or not) in operation at the date of this Agreement for the payment of or contributions towards any provident fund, pensions, allowances, lump sums or other like benefits on retirement or on death or during periods of sickness or disablement for the benefit of any director or former director or employee or former employee of the Company or for the benefit of the dependants of any such persons other than pursuant to obligations prescribed by applicable China labor laws and regulations, nor has any proposal been announced to establish any such agreement or arrangement.

6.22 Litigation and Compliance with Law

6.22.1 Litigation

(a) To the knowledge of the Seller, neither the Company nor a person for whose acts or defaults the Company may be vicariously liable is involved, or has during the two years ending on the date of this Agreement been involved, in a civil, criminal, arbitration, administrative or other proceeding in any jurisdiction. No civil, criminal, arbitration, administrative or other proceeding in any jurisdiction is pending or threatened by or against the Company or a person for whose acts or defaults the Company may be vicariously liable.

(b) To the best of the knowledge of Seller, information and belief, no fact or circumstance exists which might give rise to a civil, criminal, arbitration, administrative or other proceeding in any jurisdiction involving the Company or a person for whose acts or defaults the Company may be vicariously liable.

(c) There is no outstanding judgment, order, decree, arbitral award or decision of a court, tribunal, arbitrator or governmental agency in any jurisdiction against the Company or a person for whose acts or defaults the Company may be vicariously liable.

6.22.2 Compliance with law

The Company has conducted its business and dealt with its assets in all material respects in accordance with all applicable PRC laws and regulations.

6.22.3 Investigations

There is and has been no governmental or other investigation, enquiry or disciplinary proceeding concerning the Company in any jurisdiction and none is pending or threatened. To the best of the knowledge of Seller, information and belief, no fact or circumstance exists which might give rise to an investigation, enquiry or proceeding of that type.

6.23 Constitution

6.23.1 The Articles of Association were duly executed and delivered by the parties thereto and are legally valid, binding and enforceable in accordance with their respective terms. There is no circumstance which would give rise to the early termination of the Articles of Association or the term of operation of the Company as stated in its business license and no order or petition has been made or presented.

6.23.2 The Company is operating and has always operated its business in all respects in accordance with the Articles of Association and its business license.

6.23.3 The Company is not, and will not be, liable to any fine, penalty or other sanction (including any liability to the Tax Authority) to make payment or repayment of any Tax as a result of any breach by the Company of its obligations under this Agreement.

6.24 Brokerage or Commissions

No one is entitled to receive from the Company any finder's fee, brokerage or commission in connection with this Agreement or anything contained in it.

6.25 Foreign Exchange

There is no event which would render the Company liable to any fine, penalty or other sanction (including revocation of its business license) as a result of any breach of the foreign exchange regulations of China.

7. BUYER'S REPRESENTATIONS AND WARRANTIES

7.1 Buyer hereby represents and warrants to Seller, as of the date hereof and as of the Closing Date as though such representations and warranties were made at the Closing Date, as follows:

7.1.1 Buyer is a company duly existing under the laws of Barbados, has the power and authorization necessary to execute and implement

this Agreement, and has taken all corporate actions necessary to authorize the execution of this Agreement and implementation of all obligations under this Agreement, including obtaining all relevant approvals from the competent authorities of Buyer's country approving Buyer's purchase of the Equity Interests for Sale (if such approval is required by the local law).

7.1.2 This Agreement and the Joint Venture Contract shall each constitute effective and binding obligations of Buyer. Compliance with the terms and conditions of this Agreement will not be inconsistent with or violate any agreement or contract to which Buyer is a party or any provisions of the Articles of Association of Buyer, and will not be in violation of any order, law or regulation, judgment or decree issued by any court, governmental organization or other regulatory body to which Buyer is a party or bound by, nor require Buyer or any Affiliates of Buyer to obtain consent or approval from any government body, supervising body or other organizations (other than such bodies or organizations in China), or issue notices to or register with any of the aforesaid bodies and organizations;

7.1.3 No assets or businesses of Buyer and its subsidiaries, in part or in whole, have been taken over, seized, detained, frozen, auctioned and sold off, etc. by relevant government departments, liquidation committee or court.

7.1.4 The Buyer has sufficient money to pay for all its obligations hereunder.

8. INDEMNIFICATION

8.1 Seller and the Company shall give prompt notice to Buyer, and Buyer shall give prompt notice to Seller and the Company, of (a) the occurrence or non-occurrence of any event the occurrence or non-occurrence of which could reasonably be expected to cause any representation and warranty of such Party contained in this Agreement to be untrue or inaccurate, and (b) any failure of Seller, the Company or Buyer, as the case may be, to comply with or satisfy any covenant or agreement to be complied with or satisfied by it hereunder; provided however, that the delivery of any notice pursuant to this 8.1 shall not limit or otherwise affect the remedies available hereunder to the Party receiving such notice.

8.2 If after the execution hereof and before the Closing Date, Seller shall have committed a breach of any of its representations and warranties, covenants or agreements contained herein, Seller shall promptly notify Buyer of such breach pursuant to Article 8.1. Upon receipt of such written notice from Seller, either Buyer or Seller may request the other Party to convene a meeting to communicate the facts and circumstances surrounding the breach, determine the materiality of the breach, and seek a mutual agreement for the resolution of the breach. If the Parties are able to reach an agreement with respect to the resolution of the breach, then the Parties shall proceed in accordance with such agreement and enter into any amendment or

supplement to this Agreement as may be necessary. If the Parties do not reach an agreement with respect to the resolution of the breach, then the provisions of Article 8.3 shall apply.

8.3 Unless otherwise agreed by Seller and Buyer, if Seller is in breach of any of its representations and warranties, covenants or agreements contained herein giving rise to a Buyer's Relevant Claim, Buyer may seek compensation from Seller for all losses, liabilities and damages incurred by Buyer, including but not limited to any relevant interest, fine, expenditure and reasonable legal expenses, by promptly notifying Seller of the assertion of a Relevant Claim in respect of which indemnity may be sought hereunder, but failure to give such notice shall not relieve Seller of any liability hereunder (unless Seller has suffered material prejudice by such failure).

8.4 If after the Closing, Buyer discovers a breach by Seller of its representation and warranty, covenant or agreement contained herein, then Buyer may assert a Relevant Claim and seek compensation from Seller for all losses, liabilities and damages incurred by Seller, including but not limited to any relevant interest, fine, and expenditure.

8.5 If this Agreement is terminated pursuant to Article 11.1 hereof, each Party shall take all necessary or appropriate actions to return the Company to the situation before the execution hereof, including but not limited to application to relevant PRC governmental authorities for the cancellation or revocation of the approvals of transactions contemplated hereunder.

9. CONFIDENTIALITY

9.1 Except as otherwise specifically provided in this Article 9.1, no Party shall divulge, disclose or communicate, or permit to be divulged, disclosed or communicated, to any unaffiliated third party in any manner, directly or indirectly, any Confidential Information, and each Party shall ensure that their respective Affiliates, officers, directors, employees (including, without limitation, individuals seconded thereto), agents and contractors (collectively "REPRESENTATIVES") do not divulge, disclose or communicate, or permit to be divulged, disclosed or communicated, to any unaffiliated third party in any manner, directly or indirectly, any Confidential Information. Confidential Information shall remain the exclusive and sole property of the relevant disclosing party (the "PROTECTED PARTY") and shall be promptly returned upon the request of the Protected Party.

9.2 The Parties shall only disclose or permit to be disclosed Confidential Information to those of their respective Representatives who have a need to know such Confidential Information (and then shall only disclose such portion of the Confidential Information as is necessary) in order to consummate the transactions contemplated herein and to establish or conduct the Company's business and operations in the ordinary course. Each Party shall advise its Representatives of the confidentiality provisions hereunder, and shall be responsible to the Protected Party for any non-compliance by any such Representative.

9.3 In the event that any Party, or any of its Representative is required by applicable law or is validly ordered by a governmental entity having proper jurisdiction to disclose any Confidential Information, the affected party shall, as soon as possible in the circumstances, provide the Protected Party with prompt prior written notice of the disclosure request or requirement, and, if requested by the Protected Party, shall furnish to the Protected Party an opinion of legal counsel that the release of all such Confidential Information is required by applicable law. The proposed disclosing party shall seek, with the reasonable cooperation of the Protected Party if necessary, a protective order or other appropriate remedy and shall exercise best efforts to obtain assurances that confidential treatment will be accorded to any Confidential Information disclosed.

9.4 The Parties shall take all other necessary, appropriate or desirable actions to preserve the confidentiality of the Confidential Information.

10. EXPENSES

10.1 Unless otherwise agreed upon herein, all Parties shall bear all of its expenses incurred in the negotiation, preparation, execution and performance hereof and the documents as mentioned herein.

10.2 Each of the Parties shall be responsible for its own Tax liability arising from the Transaction. In the event where Buyer or the Company is required to withhold Tax payable by Seller in China, the Parties shall agree to set-off the amount of such Tax from the Transaction Price payable to Seller. Buyer and Seller further agree that any stamp duty payable in China shall be borne by them equally.

11. TERMINATION

11.1 This Agreement may be terminated at any time prior to the Closing:

11.1.1 by the mutual written consent of Buyer and Seller;

11.1.2 by Buyer or Seller if the Closing shall not have occurred by the end of the twelve-month period from the date of this Agreement or such other later date as the Parties may agree in writing; provided however that the right to terminate this Agreement under this Article 11.1.2 shall not be available to any Party whose action or failure to act has been a principal cause of or resulted in the failure of the Closing to occur on or before such date and such action or failure to act constitutes a breach of this Agreement;

11.1.3 by Buyer or Seller if (i) there shall be a final non-appealable order of a court of competent jurisdiction in effect preventing consummation of the Closing or the transactions contemplated herein, or (ii) there shall be any law, rule, regulation or order enacted or issued by any governmental body that would make consummation of the Closing illegal;

11.1.4 by Buyer if Buyer is not in material breach of its obligations under this Agreement and there has been a breach of any representation and warranty, covenant or agreement of Seller or regarding the Company contained in this Agreement such that any of the Transaction Preconditions set forth in Article 4 would not be satisfied and such breach has not been cured within twenty (20) Business Days after written notice thereof to Seller or the Company; provided however that no cure period shall be required for a breach which by its nature cannot be cured; or

11.1.5 by Seller if Seller is not in material breach of its obligations under this Agreement and there has been a breach of any representation and warranty, covenant or agreement of Buyer contained in this Agreement such that any of the Transaction Preconditions set forth in Article 4 would not be satisfied and such breach has not been cured within twenty (20) Business Days after written notice thereof to Buyer; provided however that no cure period shall be required for a breach which by its nature cannot be cured.

11.2 In the event of the termination of this Agreement in accordance with Article 11.1, nothing in this Article 11 shall be deemed to release any Party from any liability for any breach of any obligation under this Agreement prior to the termination hereof.

12. FORCE MAJEURE

12.1 A "Force Majeure Event" shall mean any event, circumstance or condition that (i) directly or indirectly prevents the fulfillment of any material obligation set forth in this Agreement, (ii) is beyond the reasonable control of the respective Party, and (iii) could not, by the exercise of reasonable care, have been avoided or overcome in whole or in part by such Party. Subject to the aforementioned items (i), (ii) and (iii), Force Majeure Event includes, but is not limited to, natural disasters such as acts of God, earthquake, windstorm and flood, terrifying events such as war, terrorism, civil commotion, riot, blockade or embargo, fire, explosion, off-stream or strike or other labor disputes, epidemic and pestilence, material accident or by reason of any law, order, proclamation, regulation, ordinance, demand, expropriation, requisition or requirement or any other act of any governmental authority, including military action, court orders, judgments or decrees.

12.2 Should any Party be prevented from performing the terms and conditions of this Agreement due to the occurrence of a Force Majeure Event, the prevented Party shall send notice to the other Parties within fourteen (14) days from the occurrence of the Force Majeure Event stating in the details of such Force Majeure Event.

12.3 Any delay or failure in performance of this Agreement caused by a Force Majeure Event shall not constitute a default by the prevented Party or give rise to any claim for damages, losses or penalties. Under such circumstances, the Parties are still under an obligation to take reasonable measures to perform

this Agreement, so far as is practical. The prevented Party shall send notice to the other Parties as soon as possible of the elimination of the Force Majeure Event, and confirm receipt of such notice.

12.4 Should the Force Majeure Event continue to delay implementation of this Agreement for a period of more than three (3) months, the Parties shall, through consultations, decide whether to terminate or modify this Agreement. Should the Force Majeure Event continue for a period of six (6) months or longer, any Party may terminate this Agreement by giving written notice to the other Parties. In the event of the termination of this Agreement, without limiting the Purchaser's right to claim all obligations of the Seller under this Agreement, the Purchaser shall, unless otherwise expressly stated, cease to enjoy and assume all rights and liabilities hereunder, but, for the avoidance of doubt, all rights and liabilities of the Parties which have accrued before termination shall continue to exist.

13. GOVERNING LAW AND DISPUTE RESOLUTION

13.1 The formation of this Agreement, its validity, interpretation, execution and any performance of this Agreement, and the settlement of any Disputes hereunder, shall be governed by published and publicly available laws, rules and regulations of the PRC, the applicable provisions of any international treaties and conventions to which the PRC is a party, and, if there are no published or publicly available PRC laws, rules or regulations, or treaties or conventions governing a particular matter, by general international commercial practices.

13.2 Any and all disputes, controversies or claims (the "Dispute") arising out of or relating to the formation, validity, interpretation, implementation or termination of this Agreement, or the breach hereof or relationships created hereby shall be settled through friendly consultations. If a Dispute is not resolved through friendly consultations within thirty (30) days from the date a Party gives the other Parties written notice of a Dispute, then it shall be resolved exclusively and finally by arbitration in Hong Kong at the Hong Kong International Arbitration Center ("HKIC") in accordance with the arbitration rules of the HKIC (the "HKIC Rules") for the time being in force which rules are deemed to be incorporated by reference to this clause.

13.3 Any arbitration shall be heard before a tribunal consisting of three (3) arbitrators. Each side of the Dispute shall appoint one (1) arbitrator. The two arbitrators thus appointed shall choose the third arbitrator who will act as the presiding arbitrator of the tribunal. If the two arbitrators have not agreed on the choice of the presiding arbitrator, the presiding arbitrator shall be appointed by the Chairman of the HKIC. The language of the arbitration shall be Chinese and English. The arbitration shall be final and binding on the Parties, shall not be subject to any appeal, and the Parties agree to be bound thereby and to act accordingly. The award of the arbitrators may be enforced by any court having jurisdiction to do so. Throughout any dispute resolution and arbitration proceedings, the Parties shall continue to perform this Agreement, to the extent practical, with the exception of those parts of this Agreement that are under arbitration. Except as otherwise determined by the arbitration tribunal, each Party shall be responsible for its expenses incurred in

connection with resolving any Dispute, but the arbitration fees shall be borne by the losing side of the Dispute.

13.4 Notwithstanding any other provision of this Agreement, each Party acknowledges that a breach of confidentiality as provided in Article 9 or other obligations under this Agreement may result in irreparable harm and damage to the affected Party and its Affiliates in an amount that is difficult to ascertain and that cannot be adequately compensated by a monetary award. Accordingly, in addition to any other relief to which the affected Party and its Affiliates may be entitled, such Party shall be entitled to temporary and/or permanent injunctive relief from any breach or threatened breach by the relevant Party without proof of actual damages that have been or may be caused to such Parties by such breach or threatened breach.

14. MISCELLANEOUS

14.1 This Agreement is written and executed in a Chinese version and in an English version. In case of any discrepancy between the Chinese version and the English version, the Chinese version approved by the Examination and Approval Authority shall prevail.

14.2 No delay on the part of any Party in exercising any right, power or privilege under this Agreement shall operate as a waiver thereof, nor shall any waiver on the part of any Party of any right, power or privilege hereunder, nor any single or partial exercise of any right, power or privilege hereunder, preclude any other or other exercise thereof hereunder. The rights and remedies herein provided are cumulative and are not exclusive of any rights or remedies that any Party may otherwise have.

14.3 All notices or other communications under this Agreement shall be in writing and shall be delivered or sent to the correspondence addresses or facsimile numbers of the Parties set forth below or to such other addresses or facsimile numbers as may be hereafter designated in writing on seven (7) days' notice by the relevant Party. All such notices and communications shall be effective: (i) when delivered personally; (ii) when sent by telex, telefacsimile or other electronic means with sending machine confirmation; (iii) ten (10) days after having been sent by registered or certified mail, return receipt requested, postage prepaid; or (iv) four (4) days after deposit with a commercial overnight courier, with evidence of delivery provided by the courier.

Seller	Address:	No 98, North Nan Shan Road, Rongcheng City, Shandong Province, PRC
	Tel:	(86-631) 7523 205
	Fax:	(86-631) 7523 888
	Attn:	Zhang Jun Quan
Buyer	Address:	Chancery House, High Street, Bridgetown, Barbados, W.I.
	Tel:	1 (246) 431-0070
	Fax:	1 (246) 431-0076
	Attn:	Keisha N. Hyde

IN WITNESS WHEREOF, each of the Parties has executed this Agreement or has caused this Agreement to be executed by its duly authorized officer or officers as of the date first above written.

SELLER:

CHENGSHAN GROUP COMPANY LIMITED

By: _____
Name: [-]
Title: [-]
Nationality: [-]

PURCHASER:

CTB (BARBADOS) INVESTMENT CO. LTD

By: _____
Name: Harold C. Miller
Title: President
Nationality: USA

COMPANY:

RONGCHENG CHENGSHAN STEEL CORD CO., LTD.

By: _____
Name: [-]
Title: [-]
Nationality: [-]

APPENDIX 1

DEFINITIONS AND INTERPRETATION

"ACCOUNTS"	The audited financial statements of the Seller (including, without limitation, a balance sheet, profit and loss statement and cash flow statement together in each case with the notes thereon) made up to the Accounts Date and for the financial period from January 1, 2005 to the Accounts Date prepared in accordance with relevant PRC laws and regulations, the Chinese GAAP, and in manner consistent with past practice
"ACCOUNTS DATE"	shall mean the date of Closing
"AFFILIATE"	shall mean, with respect to any Person, any other Person controlling or controlled by or under common control with such specified Person. For purposes of this definition, "control" when used with respect to any specified Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of shares, registered capital or voting securities, by contract or otherwise, and the terms "controlling" and "controlled" have meanings correlative to the foregoing.
"ARTICLES OF ASSOCIATION"	shall mean the Articles of Association of the Company as modified from time to time;
"ARTICLES OF ASSOCIATION OF THE NEW COMPANY"	shall mean the Articles of Association of the New Company signed by Seller and Buyer on the execution date of this Agreement;
"BUSINESS DAY"	shall mean all days except Saturday, Sunday and legal public holidays in (i) China, or (ii) U.S.A.;
"CHINESE GAAP"	shall mean the general accepted accounting principles applicable in China, consistently applied;
"CLOSING"	shall mean the completion of the sale and purchase of the Equity Interests for Sale in accordance with the terms and conditions of this Agreement;
"CLOSING DATE"	shall mean the date mutually agreed by both Parties subsequent to the condition that Article 4.1 is satisfied;
"CONFIDENTIAL INFORMATION"	shall mean the terms of this Agreement and all technical, financial, business, commercial, operational and strategic information and data, know-how, trade

secrets and any analysis, amalgamation, market studies or compilation, whether written or unwritten and in any format or media, concerning, directly or indirectly, the business of a Party, which has been delivered or furnished by a Party, or any of its Representative, to another Party, or any of its Representative, but shall not include any information that: (a) at the time of disclosure is (or thereafter becomes) generally available to the public through no act of any Person in violation of a confidentiality obligation or applicable law; or (b) the receiving Party has obtained lawfully from an independent source not subject to a confidentiality obligation; or (c) the receiving Party can prove was known to it or to its Representatives prior to the receipt of such information from the disclosing Party; or (d) is independently developed by the receiving Party without any access to or knowledge of such information.

"ENCUMBRANCE"

shall mean a mortgage, charge, pledge, lien, option, restriction, right of first refusal, right of pre-emption, third party right or interest, other encumbrance or security interest of any kind, or any type of preferential arrangement (including, without limitation, a title transfer or retention arrangement) having similar effect;

"EQUITY INTERESTS FOR SALE"

shall mean the equity interest accounting for 25% of the registered capital of the Company that Seller shall sell to Buyer in accordance with Article 2 of this Agreement;

"EVENT"

shall mean any event, action or omission, including but not limited to collection or generation of income, profit or benefit, distribution, non-distribution, acquisition, disposal, transfer, payment, borrowing or advance payment;

"INTELLECTUAL PROPERTY RIGHT" shall mean:

(a) rights in patent, trademark, service logo, registered pattern, trade name or company name, copyright, technical know-how, design and invention;

(b) Rights in connection to Paragraph (a) above obtained through license;

"JOINT VENTURE CONTRACT"

shall mean the Joint Venture Contract of the New Company, i.e. the joint venture contract of the New Company entered into by Seller and Buyer on the date of this Agreement;

"LAND DOCUMENTS" shall have the meaning ascribed to such term defined in Article 6.13 hereof;

"MATERIAL" shall mean, unless otherwise provided in specific Articles, any event involving an amount of [US\$500,000] or more, or any event that has or could be reasonably expected to have Material Adverse Effect (defined below);

"MATERIAL ADVERSE EFFECT" shall mean, with respect to the Company, Seller or Buyer, as the case may be, any change, event, violation, inaccuracy, circumstance or effect (any such item, an "EFFECT") that, individually or when taken together with all other Effects that have occurred during the applicable measurement period prior to the date of determination of the occurrence of the Material Adverse Effect, is or is reasonably likely to be materially adverse to (i) the business, capitalization, financial condition or results of operations of the Company, Seller or Buyer, as the case may be, taken as a whole or (ii) materially impede the ability of the Company, Seller or Buyer, as the case may be, to consummate the transactions contemplated by this Agreement;

"MATERIAL AGREEMENTS" shall mean any existing and effective agreements involving an amount of [US\$500,000] or above including without limitation any loan or guarantee agreements that are being performed by the Company as contract party (if applicable) on the day when this Agreement is signed, or any other agreements, of which any default, event of default or breach could reasonably be expected to invoke or trigger default, event of default or breach under other Material Agreements;

"NEW BUSINESS LICENSE" The new business license of the Company as issued, amended or replaced, as the case may be, by the Registration Authority to indicate the Company being converted into and registered as a Sino-foreign equity joint venture;

"NEW COMPANY" shall mean the Company upon registration as a Sino-foreign equity joint venture;

"ORDINARY COURSE OF BUSINESS" shall mean, with respect to any entity, the ordinary course of business of such entity and its subsidiaries, taken as a whole, consistent with such entity's past practice;

"PERSON" shall mean any individual, company, legal person enterprise, non-legal person enterprise, joint venture,

partnership, wholly owned entity, unit, trust or other entity or organization, including, without limitation, any government or political subdivision or any agency or instrumentality of a government or political subdivision and other body corporate or unincorporated; Person also includes a reference to that Person's legal representatives, assignees, successors or heirs.

"PRC" OR "CHINA" shall mean the People's Republic of China.

"PROPERTY" shall have the meaning ascribed to such term defined in Article 6.13 hereof;

"REGISTRATION AUTHORITY" The State Administration of Industry and Commerce, or its local division or any successor government institution or agency empowered to issue a Business License to the Buyer;

"RELEVANT CLAIMS" shall mean any claims or payment requests involving or concerning the breach of any provision of this Agreement asserted by Buyer in accordance with or based on this Agreement;

"REPRESENTATIVES" shall have the meaning ascribed to such term in Article 9.1 hereof;

"REQUIRED APPROVALS" shall have the meaning ascribed to such term defined in Article 4.5 hereof;

"SELLER'S REPRESENTATIONS AND WARRANTIES" shall mean any one of the representations or warranties of Seller set forth in Article 6, and "each Seller's Representations and Warranties" referring to all those representations and warranties;

"TAX AUTHORITIES" refers to Chinese government, provinces, municipalities and autonomous regions and other authorities of finance, taxation and customs administration;

"TAXES" shall mean all taxes, charges, withholdings and levies, however denominated, that are levied by or payable to the Tax Authorities (including but not limited to any related fines and interests);

"TRANSACTION PRECONDITIONS" shall mean the transaction preconditions listed in Article 4, and "each Transaction Precondition" shall mean all of such Transaction Preconditions;

"TRANSACTION PRICE" shall have the meaning ascribed to such term defined in Article 3.1 hereto.

Exhibit (13)

To our Shareholders:

Welcome to the new look for Cooper Tire & Rubber Company!

As you know, for the past few years we have been undergoing a transformation like no other in the history of our company. We are a performance tire manufacturer, we are involved in racing, and we own legendary off-road tire brand Mickey Thompson. We have completely changed our approach to commercial tires, we are now making racing tires in North America as well as in Europe and we will soon be making motorcycle tires in North America and Europe. We have manufacturing, sales and distribution operations around the world. Plus, we are now strictly a tire company.

The new logo that we launched in 2005 makes this transition and progress visible to the world and will help us better communicate all that we are:

- o Contemporary, smart, fast, fresh, high-tech, and innovative
- o Competing and connecting in new markets and arenas--performance tires, motorsports, young consumers, different cultures
- o A manufacturer and marketer of everyday tires for consumers around the world
- o And still known as reliable, friendly, consistent and dependable

This is a very exciting time for our company! We have made significant and positive changes that are creating new and increasing opportunities for all of us. Our new image and logo respects all the good things that Cooper has always been, but affirms and emphasizes all that we are today.

Progress and Changes

In 2005, following the sale of our automotive components operations in December of 2004, we were able to focus our energy, efforts and resources entirely on the tire business. This focus has enabled us to improve every aspect of the company.

In North America, we completed the expansion of our manufacturing operations by adding new, more efficient equipment to better meet the market demands for more flexible operations and more high performance and large diameter tires. We continued the introduction of new high performance products and we now have a total suite of products that compares favorably with any of our major competitors.

In Europe we have streamlined our manufacturing operations and increased our focus on high performance and racing tires. Low-cost supply relationships with Asian manufacturers provide the balance of the economy and broadline tires we need to serve our customers. We also expanded our sales and distribution in Europe with the opening of a new subsidiary operation in Spain and expanded relationships with key distributors across the continent.

In Asia, we are in the process of building a new Chinese manufacturing facility through our joint venture Cooper Kenda and construction is progressing. Production of tires in this plant is scheduled to begin in the second half of 2006. In January, 2005, we announced the acquisition of 11 percent of Kumho, a Korean tire manufacturer. In October we announced the acquisition of 51 percent of Cooper Chengshan (Shandong) Passenger Tire Co. Ltd. and Cooper Chengshan (Shandong) Tire Company, Ltd. This acquisition, which was finalized in early 2006, gives us a significant presence in the rapidly growing Chinese replacement tire market and provides tremendous opportunity for future growth. Finally, we continue to benefit from our relationships with Hangzhou Zhongce and Kenda as they supply us with various passenger, light truck and commercial tires produced in China for sale in North America and Europe.

Recapitalization

During 2005 we made significant strides in recapitalizing the company. We repurchased \$190 million worth of our common stock during the year and \$83 million in the fourth quarter of 2004, reducing the number of shares outstanding by about 20 percent. We paid down \$278 million of our debt, bringing our debt to total capital ratio down to 34 percent. And we invested in our business, just as we said we would. We made or announced acquisitions totaling \$185 million in cash consideration, invested more than \$45 million to expand production capacity for critical, high demand products in our North American plants and more than \$30 million in more efficient equipment, new tooling and molds, and new product development.

So 2005 was a pivotal year for our company. We accomplished a great many things that have expanded and improved our business. While we will continue to move forward with our strategy and still have work to do, we are confident that our efforts and accomplishments will generate increasing returns in 2006 and beyond. Our goal and purpose as a company remains the same as always: increase the value of our long-term shareholder's investment.

Thank you for your continued support.

Thomas A. Dattilo
Chairman, President and CEO

BRANDS

Through the transformation of our Company, the Cooper brand has come to mean so much more than ever before, and the world is taking notice. Today's Cooper is contemporary, smart, fast and innovative - capable of connecting in consumer and specialty markets around the world.

Cooper provides a full line of tires to meet the needs of virtually all consumers from everyday motorists to the most demanding high performance, off-road and motorsport enthusiasts. To those who know us, our products speak for themselves.

National advertising and promotions, such as our affiliation with Collegiate Athletics, have been key to our comprehensive strategy to raise brand awareness and reach the broadest audience possible.

Targeted print ads address the specific interests of specialty market segments and reflect the passion, style and energy of Cooper on an evolving culture.

Involvement in Motorsports programs affirms Cooper's technical capabilities and has put the Cooper brand in the global spotlight as the exclusive tire of the A1 Grand Prix.

Cooper still means "Dealer Friendly". Beyond Cooper, our suite of associate brands - including Mastercraft, Avon, Starfire and Dean along with Mickey Thompson tires, and Oliver tread rubber products - enables each of our customers to provide a full range of products for consumers, fleets and specialty markets with a measure of brand and territorial exclusivity. Through careful distribution and brand management, Cooper brings value to all our customers and their businesses and maximizes Cooper brand equity in the marketplace.

PRODUCTS

Passenger Car

Recent introductions and expansions of our performance tire lines complement one of the most comprehensive line-ups of passenger car tires in the industry. Innovative new sizes, styles and technology provide a winning combination of style, performance and value for just about anyone, no matter what they drive.

The Cooper Lifeliner products provide passenger car drivers with quality and value while the top of the line Lifeliner Touring SLE adds an extra measure of handling and performance in a range of speed ratings.

Cooper's Zeon line of performance and ultra-high performance tires brings out the best in handling, performance and style on today's most powerful and sporty rides.

SUV

Cooper's Discoverer line of tires for SUVs has been a leader in the industry - on the road and off - for years. Our reputation has been well earned and proven time and time again. Recent innovations include expanded sizes, more tread patterns for varying applications, improved traction and quieter ride.

Light Truck

Cooper offers the most comprehensive line-up of light truck tires in the industry. Durability, performance and value are the hallmarks of Cooper Discoverer Tires. But all work and no play makes for...well, all work and no play! So we have introduced the Zeon Sport Truck tires to provide style and speed to those who see their trucks as much more than a work tool.

Cooper manufactures nearly 1 out of every 4 light truck tires sold in North America today. This includes the Cooper brand, such as the Cooper Discoverer line, our associated brands like Mastercraft, Starfire and Dean, and the private brand tires we produce exclusively for certain customers.

Racing

When teams from around the world compete in the A1 Grand Prix racing series, every car will be driving on Cooper Tires. And while these road-hugging high-speed slicks may not be available to the public, the technology that went into them can be found in every tire we sell.

With the Cooper and Avon brands, we continue to supply competition tires to more than 100 championships around the world.

Other motor sports circuits and events we are involved with include European Formula 3000, Global Formula Ford Series, US Drift, Formula Drift Series, SCCA Cooper Tire Championship Series, Bob Land Off-Road Racing Team

Drag Racing

Mickey Thompson Performance Tires & Wheels, a performance and motorsport division of Cooper Tire, designs, develops, and markets some of the hottest and fastest racing and high performance tires for drag racing cars and motorcycles. The Mickey Thompson legend and Cooper racing tire technology have combined to deliver head-turning, eye-popping, record-setting results.

Motorcycle

Cooper's motorcycle tire history began in Europe. Cooper Tires Europe, began producing motorcycle tires in 1957 and has had a long record of championships. The success on the highways and autobahns of Europe has carried over to North American streets and drag strips with Avon and Mickey Thompson brands. Production of motorcycle tires continues in our Melksham, England facility and will expand in 2006 into our Athens, GA facility, which was recently converted from producing commercial retread products.

Specialty and Off-Road Tires

Cooper also designs, develops and produces a wide variety of specialty and performance products for modified street cars, off-road race vehicles, modified pick-up trucks and sport utility vehicles. Where ever and how ever you fulfill your need for speed, Cooper can take you there.

TECHNOLOGY

At Cooper, we employ innovative and advanced technology to give us a competitive edge in design, development and performance.

Our proprietary Vt2ech modeling tools employ state-of-the-art computer-aided engineering to create virtual tire models and prototypes that can predict tire performance, speed up new product development and improve the design of existing products.

The Cooper Tire & Vehicle Test Center is a world class test facility where professional drivers, including Cooper's performance tire consultant, Johnny Unser, and specialized engineers combine efforts to evaluate and refine new Cooper product designs to ensure that your tires deliver maximum performance in all conditions, on or off the road.

Our Tall Timbers Mold Facility combines the latest computer design technology with a modern, automated production facility to produce thousands of new tire molds each year. In 2005 this facility was expanded to add capacity, tools and technology to engrave steel molds in support of our increased focus on segmented molds and high-end products.

Cooper's materials and testing laboratories are ISO 17025 certified, which is what you should expect from a company with a focus on consistent, superior product design, quality and performance.

GLOBAL REACH

Cooper is a global competitor in the replacement tire industry. With manufacturing facilities on three continents, sales and distribution networks around the world, and products that meet and exceed the demands of the world's most dynamic markets, we have solid opportunities for growth today and well into the future.

In the North American market, we are benefiting from improving brand recognition, one of the industry's most effective distribution networks, and a tremendous customer base. We have grown our market share to about 16 percent of the North American light vehicle replacement tire market to date. New products are driving increased sales and creating additional opportunity and growth potential in this key market.

In 2005 we expanded our European Operations through the addition of a new sales, marketing and distribution subsidiary in Spain. This new operation complements the production and distribution operations in our European headquarters in the UK and the existing distribution subsidiaries in France, Germany, Italy and Switzerland. Production in Europe is concentrated on premium, high performance and racing tire products and entry level products are outsourced to maximize profitability.

The recent acquisition of Cooper Chengshan (Shandong) Passenger Tire Co. Ltd. and Cooper Chengshan (Shandong) Tire Company, Ltd. will add profitable sales to Cooper in 2006, mostly within the rapidly expanding Chinese market. Through an additional joint venture plant now under construction and supply agreements in China, Cooper is developing tires for export to Europe and North America.

This is an exciting time of global expansion for Cooper. We accomplished much in 2005 and we continue to study further opportunities in rapidly developing regions of the world. More change is a certainty. But the one constant for Cooper is that wherever we are in the world, our focus will be on serving our customers and growing our business in order to generate increasing returns for our shareholders.

Exhibit (18)

Letter Regarding Change in Accounting Principles

February 10, 2006

Mr. Philip G. Weaver
Chief Financial Officer
701 Lima Avenue
Findlay, Ohio 45840

Dear Mr. Weaver:

The Notes to the Consolidated Financial Statements of Cooper Tire & Rubber Company included in its Form 10-K for the year ended December 31, 2005 describe a change in accounting method relating to a change in the actuarial valuation measurement date for its pension plans in the United Kingdom from September 30 to December 31. There are no authoritative criteria for determining a preferable actuarial valuation measurement date based on the particular circumstances; however, we conclude that such change in the method of accounting is to an acceptable alternative method which, based on your business judgment to make this change and for the stated reasons, is preferable in your circumstances.

Very truly yours,

/s/ Ernst & Young LLP

Ernst & Young LLP

Exhibit (21)

**COOPER TIRE & RUBBER COMPANY
SUBSIDIARIES**

Cooper Tire & Rubber Company (Parent) (Delaware) Alga Investments Company (Georgia) Cooper International Holding Corporation (Delaware) Cooper International Rubber, Limited (Jamaica) (Inactive) Cooper Tire Holding Company (Ohio) Cooper Tire International Trading Company (Cayman Islands) Cooper Tire & Rubber International Trading Limited (Cayman Islands) Branch Office (Singapore) Cooper Tire & Rubber Co. Shanghai Rep Office (China) (Branch) Cooper Tire & Rubber Foundation (Ohio) Cooper Tyre & Rubber Company UK Limited (England) Cooper Tire & Rubber Company France Sarl (France) Cooper Tire & Rubber Company Deutschland GmbH (Germany) Cooper Tire & Rubber Company Suisse SA (Switzerland) Cooper Tire & Rubber Company Espana S.L. (Spain) Cooper Tire & Rubber Company Europe Ltd. (England) Cooper Tire & Rubber Company International Development Limited

(England)

Cooper Tire & Rubber Company Italia S.r.l. (Italy) CTB (Barbados) Investment Co. Ltd.
Cooper Kenda Global Holding Co. Ltd. (Barbados (50 % owned) Cooper Kenda Tire (Kunshan) Co., Ltd.
Cooper Kenda Global Investment Co. Ltd. (Barbados) (80 % owned)
Cooper (Shanghai) Trading Co., Ltd. CTBX Company (Ohio)
Ipea Equity, LLC (0.6264 % owned) Kumho Tire Co., Inc. (Korea) (10.7% owned) Master Assurance & Indemnity Ltd (Bermuda) Max-Trac Tire Co., Inc. (Ohio)
Mickey Thompson Performance Racing Inc. (Ohio) Mickey Thompson International, Inc. (Virgin Island) (Inactive) Nishikawa Rubber Co., Ltd (Japan) (1.43 % owned) Oliver Rubber Company (California) Admiral Remco Inc. (Ohio)
BFNZ-ORC Limited (New Zealand) (50 % owned) Oliver Rubber Canada Limited (Canada) Oliver Rubber Ltd. (Canada) (Inactive)
RubberNetwork.com LLC (Georgia) (5.56% Owned) TVTC Inc. (Texas)

Exhibit (23)

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statements of Cooper Tire & Rubber Company listed below, and in the related Prospectuses, of our reports dated February 10, 2006, with respect to the consolidated financial statements and schedule of Cooper Tire & Rubber Company, Cooper Tire & Rubber Company management's assessment of the effectiveness of internal control over financial reporting, and the effectiveness of internal control over financial reporting of Cooper Tire & Rubber Company, included in this Annual Report (Form 10-K) for the year ended December 31, 2005:

Form S-3	No. 33-44159 No. 333-89149	\$200,000,000 aggregate principal amount of the Company's Debt Securities Registration of securities not to exceed an initial public offering price of \$1,200,000,000
Form S-8	No. 2-58577 No. 33-35071 No. 33-47980 No. 33-47981 No. 333-09619 No. 333-83311 No. 333-83309	Thrift and Profit Sharing Plan Texarkana Pre-Tax Savings Plan 1991 Stock Option Plan for Non-Employee Directors Pre-Tax Savings Plan at the Findlay Plant 1996 Stock Option Plan Pre-Tax Savings Plan (Clarksdale) 1998 Employee Stock Option Plan 1998 Incentive Compensation Plan
	No. 333-83589 No. 333-84815 No. 333-84813 No. 333-84811 No. 333-103007 No. 333-113315	1998 Non-Employee Directors Compensation Deferral Plan Thrift & Profit Sharing Plan Texarkana Pre-Tax Savings Plan Pre-Tax Savings Plan at the Findlay Plant 2001 Incentive Compensation Plan Pre-Tax Savings Plan at the Auburn Plant, Pre-Tax Savings Plan (Bowling Green -- Hose), Pre-Tax Savings Plan (Bowling Green -- Sealing), Pre-Tax Savings Plan (Clarksdale), Pre-Tax Savings Plan at the El Dorado Plant, Pre-Tax Savings Plan at the Findlay Plant, Texarkana Pre-Tax Savings Plan

/s/ Ernst & Young LLP

ERNST & YOUNG LLP

Toledo, Ohio
February 24, 2006

Exhibit (24)

POWER OF ATTORNEY

**FOR EXECUTION OF ANNUAL REPORT ON FORM 10-K FOR
FISCAL YEAR ENDED DECEMBER 31, 2005**

KNOW ALL BY THESE PRESENTS, that each of the undersigned hereby constitutes and appoints James E. Kline as a true and lawful attorney-in-fact of the undersigned for the purpose of executing for and on behalf of all of the undersigned members of the Board of Directors of Cooper Tire & Rubber Company, the Company's Annual Report on Form 10-K for the fiscal year of the Company ended December 31, 2005.

The undersigned hereby grants such attorney-in-fact full power and authority to do and perform all and every act and thing whatsoever requisite, necessary and proper to be done in the exercise of any of the rights and powers herein granted, as fully to all intents and purposes as the undersigned might or could do if personally present, with full power of substitution or revocation, hereby ratifying and confirming all that such attorney-in-fact shall lawfully do or cause to be done by virtue of this Power of Attorney and the rights and powers herein granted.

This Power of Attorney shall remain in full force and effect until the filing by the Company of the Annual Report on Form 10-K for fiscal year 2005 with the Securities and Exchange Commission, unless earlier revoked by the undersigned in a signed writing delivered to the foregoing attorney-in-fact.

IN WITNESS WHEREOF, the undersigned has caused this Power of Attorney to be executed as of this 9th day of January, 2006.

/s/ Arthur H. Aronson

Arthur H. Aronson

/s/ Laurie J. Breininger

Laurie J. Breininger

/s/ Thomas A. Dattilo

Thomas A. Dattilo

/s/ John J. Holland

John J. Holland

/s/ John F. Meier

John F. Meier

/s/ Byron O. Pond

Byron O. Pond

/s/ John H. Shuey

John H. Shuey

/s/ Richard L. Wambold

Richard L. Wambold

Exhibit (31.1)

CERTIFICATIONS

I, Thomas A. Dattilo, certify that:

1. I have reviewed this Annual Report on Form 10-K of Cooper Tire & Rubber Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a -- 15(f) and 15d -- 15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 1, 2006

/s/ Thomas A. Dattilo

Thomas A. Dattilo
Chairman, President and Chief Executive Officer

Exhibit (31.2)

CERTIFICATIONS

I, Philip G. Weaver, certify that:

1. I have reviewed this Annual Report on Form 10-K of Cooper Tire & Rubber Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a -- 15(f) and 15d -- 15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 1, 2006

/s/ Philip G. Weaver

Philip G. Weaver
Vice President and Chief Financial Officer

Exhibit (32)

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO**

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Cooper Tire & Rubber Company (the "Company") on Form 10-K for the period ended December 31, 2005, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned officers of the Company certifies, pursuant to 18 U.S.C.

Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to such officer's knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods expressed in the Report.

Date: March 1, 2006

/s/Thomas A. Dattilo

Name: Thomas A. Dattilo
Title: Chief Executive Officer

/s/Philip G. Weaver

Name: Philip G. Weaver
Title: Chief Financial Officer

The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as part of the Report or as a separate disclosure document.