XINGDA
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XINGDA INTERNATIONAL HOLDINGS LIMITED
興 達 國 際 控 股 有 限 公 司

(incorporated in the Cayman Islands with limited liability)

(Stock Code : 1899)

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. LIU Jinlan *(Chairman)*
Mr. LIU Xiang
Mr. TAO Jinxiang
Mr. WU Xinghua
Mr. CAO Junyong
Mr. ZHANG Yuxiao

Non-executive Directors

Mr. LU Guangming George
Ms. WU Xiaohui
Mr. ZHOU Mingchen

Independent Non-executive Directors

Mr. KOO Fook Sun, Louis
Mr. William John SHARP
Ms. XU Chunhua

AUDIT COMMITTEE

Mr. KOO Fook Sun, Louis *(Chairman)*
Mr. William John SHARP
Ms. XU Chunhua

REMUNERATION AND MANAGEMENT DEVELOPMENT COMMITTEE

Mr. William John SHARP *(Chairman)*
Mr. KOO Fook Sun, Louis

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Mr. TSE Shiu Wah *FCCA, CPA*

AUTHORISED REPRESENTATIVES

Mr. ZHANG Yuxiao
Mr. TSE Shiu Wah

LEGAL ADVISORS

As to Hong Kong Law:
Deacons

As to PRC Law:
Jingtian & Gongcheng

AUDITOR

Deloitte Touche Tohmatsu

COMPLIANCE ADVISOR

DBS Asia Capital Limited

REGISTERED OFFICE

Cricket Square
Hutchins Drive, P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

HEAD OFFICE

Room 03-07, 30th Floor, Shanghai Mart
2299 Yanan Road West
Shanghai 200336, PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Level 28, Three Pacific Place
1 Queen's Road East
Hong Kong

PRINCIPAL BANKERS

Agricultural Bank of China
China Construction Bank
DBS Bank (Hong Kong) Limited
Standard Chartered Bank (Hong Kong) Limited

SHARE REGISTRARS AND TRANSFER OFFICES

Principal:
Butterfield Fund Services (Cayman) Limited
Butterfield House
68 Fort Street, P.O. Box 705
George Town, Grand Cayman
Cayman Islands
British West Indies

Hong Kong Branch:
Computershare Hong Kong Investor Services Limited
Shops 1712-16, 17th Floor, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

INVESTOR RELATIONS

Strategic Financial Relations (China) Limited
Unit A, 29th Floor, Admiralty Centre I
18 Harcourt Road
Hong Kong

STOCK CODE

1899

WEBSITE

www.irasia.com/listco/hk/xingda/index.htm

Financial Highlights

	2007 RMB in million	2006 RMB in million	Change
OPERATING RESULTS			
Revenue	**2,778**	2,516	+10.4%
Gross profit	**702**	732	-4.1%
EBITDA [(1)]	**707**	745	-5.1%
Profit for the year	**449**	345	+30.1%
Profit attributable to equity holders of the Company	**345**	194	+77.8%
Earnings per share – basic (RMB cent)	**25.97**	21.31	+21.9%
– diluted (RMB cent)	**18.70**	21.31	-12.2%

	2007 RMB in million	2006 RMB in million	Change
FINANCIAL POSITION			
Total assets	**5,304**	5,171	+2.6%
Total liabilities	**2,015**	2,613	-22.9%
Net assets	**3,289**	2,558	+28.6%
Shareholders' equity	**2,541**	1,906	+33.3%

	2007	2006
KEY FINANCIAL RATIOS		
Gross profit margin [(2)]	**25.3%**	29.1%
EBITDA margin [(3)]	**25.5%**	29.6%
Return on equity [(4)]	**13.6%**	10.2%
Current ratio [(5)]	**1.47**	1.92
Gearing ratio [(6)]	**27.1%**	40.8%
Net debts to equity ratio [(7)]	**19.3%**	38.8%

Notes:

(1) It is arrived at profit for the year before finance costs, income tax, depreciation, amortization and gain or loss on fair value adjustment on the convertible bonds.

(2) Gross profit divided by revenue.

(3) EBITDA divided by revenue.

(4) Profit attributable to equity holders of the Company divided by equity attributable to the equity holders of the Company.

(5) Current assets divided by current liabilities.

(6) Total debts (bank borrowings and convertible bonds) divided by total assets.

(7) Total debts (bank borrowings and convertible bonds) less cash and bank balances divided by equity attributable to the equity holders of the Company.

Chairman's Statement

I am pleased to present the 2007 annual results of Xingda International Holdings Limited (the "Company") and its subsidiaries (together, the "Group" or "Xingda").

For the year ended 31 December 2007, the Group achieved satisfactory performance and continued to maintain leadership in the People's Republic of China ("China" or the "PRC") as a leading independent radial tire cords manufacturer, offering quality radial tire cords to international and domestic tire companies. Its revenue increased by 10.4% year-on-year to RMB2,778 million. The decrease in average selling price of products together with the unfavourable change in product mix have lowered the gross profit by 4.1% year-on-year to RMB702 million. Profit attributable to equity holders of the Company surged to RMB345 million, up by 77.8% against 2006. In the absence of fair value adjustment on the convertible bonds and the effect of exchange differences arising from non-operating activities, profit attributable to equity holders of the Company decreased from RMB338 million in 2006 to RMB294 million in 2007, representing a decrease of 12.9% or RMB43.7 million.

The Board of Directors ("Directors") of the Company proposed to distribute a final dividend of 6.00 HK cents per share or approximately RMB 5.39 cents per share (2006: 4.00 HK cents per share or approximately RMB4.02 cents per share).

As part of our expansion plan, the Company's wholly-owned subsidiary Faith Maple International Ltd. ("Faith Maple"), and its indirect non wholly-owned subsidiary Jiangsu Xingda Steel Tyre Cord Co. Ltd. ("Jiangsu Xingda"), signed an agreement in June 2007 to establish a joint venture company, Jiangsu Xingda Special Cord Co., Ltd. ("Xingda Special Cord"), in China, with Faith Maple and Jiangsu Xingda holding 90% and 10% of the equity interests in Xingda Special Cord respectively. Supported by Jiangsu Xingda's production facilities and technicians, the new joint venture company has commenced production and sale of radial tire cords and bead wires during the year and has begun to bring profit to the Group.

Guided by the principle of maximizing return for shareholders and without material prejudice to the Company's working capital and gearing ratio, the Company repurchased a total of 21,328,000 shares of the Company in September and October 2007, equivalent to 1.54% of the total issued shares of the Company as at 31 December 2007. Besides, the Company's controlling shareholders purchased a total of 3,232,000 shares on The Stock Exchange of Hong Kong Limited in 2007. The Directors believe that the endeavor would enhance shareholder value in the long run.

Riding on the promising market environment in the PRC, the Group is confident on its development and its prospect of strong growth. First of all, the radialization of the tires in the PRC, especially the truck tires, will continue to speed up. According to the statistics of the China Rubber Industry Association, the radialization rate in China will grow to about 80-90% in 2010. The Chinese Government aims to raise radialization rate to nearly 100% in 2015. Secondly, more and more world-class tire manufacturers set up their own production plants in China and increasingly outsource production process to local tire manufacturers. As one of the leading manufacturers of radial tire cords in China, Xingda will benefit from the strong growth and huge development room of the radial tire cords market directly. Furthermore, with the consolidation of the radial tire cords industry, the market of radial tire cords in China has reached equilibrium with average selling price of radial tire cords climbing steadily. Riding on the healthier market environment, we are very confident to secure a more stable profit margin ahead.

Chairman's Statement

With years of experience in supplying radial tire cords to key domestic and world-class tire manufacturers, the Company expects to secure more new customers from both domestic market and overseas market in the future. With the commencement of operation of Xingda's No.8 Factory Phase I during the year, the Group's production capacity for radial tire cords increased by 22.2% to 237,100 tonnes. It is expected to increase by 40,000 to 50,000 tonnes a year in each of the next three years, which enables Xingda to capture the abundant market opportunities ahead. Apart from consolidating its leadership in China, Xingda also aspires to become one of the world's leading radial tire cord manufacturers.

On behalf of Xingda, I would like to express my gratitude to all our employees for their diligence and contribution in the past year, which had made our excellent results possible. With the support and contribution from our staff, customers, suppliers and shareholders, Xingda will continue to work hard and deliver better returns to its shareholders.

Liu Jinlan
Chairman

Shanghai, the PRC, 8 April 2008

Management Discussion and Analysis

INDUSTRY OVERVIEW

According to relevant market statistics, China's automobile industry is growing currently at around 25% a year and the country's ranking in the global automobile market had climbed from the eighth to the third place. China is now the second largest consumer and the third largest producer of automobiles in the world. According to the statistics of the China Association of Automobile Manufacturers, China produced nearly 9,000,000 vehicles in 2007, representing a year-on-year growth of 22%.

Persistent strong demand for automobiles in China continued to be the major drive behind the rapidly growing tire industry of the country. According to the China Rubber Industry Association, the country's total tire output in 2007 rose by 18% year-on-year to 330 million units of which 230 million units were radial tire, representing a rise of 28% against previous year. Positive effects brought from structural adjustment of China-made tires have so far achieved a radialization rate of around 70%. In addition, demand for radial tires from the global market has been surging. The country exported more than 141 million units during the year, representing a 27% growth against the previous year.

BUSINESS REVIEW

The Group is a global leading independent radial tire cords manufacturer. It produces primarily radial tire cords and bead wires and sells its products to both domestic and renowned global tire manufacturers.

In 2007, the Group's total sales volume had grown stably to 234,400 tonnes, 20.8% more than that in 2006. During the year, the Group's radial tire cords achieved an 18.7% increase in sales volume to 198,200 tonnes, accounting for 84.6% of the Group's total sales volume (2006: 86.1%). Sales volume of bead wires rose by 34.1% to 36,200 tonnes, accounting for 15.4% of the Group's total sales volume (2006: 13.9%).

During the year, the Group sold 162,300 tonnes of radial tire cords for truck, up by 21.2% against the previous year. The sales volume of radial tire cords for passenger car also increased by 8.5%, to 35,900 tonnes. Sales volumes of radial tire cords for truck and passenger car accounted for 81.9% and 18.1% of the Group's total sales volume of radial tire cords (2006: 80.2% and 19.8%), respectively.

Sales Volume	**2007**	2006	Change
	Tonnes	Tonnes	
Radial Tire Cord	**198,200**	167,000	+18.7%
- For Truck	***162,300***	*133,900*	*+21.2%*
- For Passenger Car	***35,900***	*33,100*	*+8.5%*
Bead Wire	**36,200**	27,000	+34.1%
Total	**234,400**	194,000	+20.8%

Management Discussion and Analysis

During the year under review, China remained the Group's major market. Domestic sales volume of radial tire cords increased by 19.0% to 196,000 tonnes, accounting for 98.9% of the Group's total volume of radial tire cords sold (2006: 95.0%). In 2007, the Group secured several new overseas customers and expects overseas sales portion to increase gradually.

The Group implemented active cost control measures including increasing procurement of domestic high-end steel wire rods and enhancing relationship with suppliers to ensure it can obtain raw materials at a competitive price. The practice maintained the proportion of the steel wire rods cost to total cost of sales at 53.1% (2006: 53.1%).

Moreover, the Group made better than expected progress with the expansion of its business. With the completion of Phase I of the Group's No. 8 Factory ("Factory No.8"), the Group's production capacity of radial tire cords was boosted to 237,100 tonnes by the end of 2007, representing an increase of 22.2% compared with last year. The production capacity of bead wires remained at 39,000 tonnes for both 2006 and 2007. The utilization rate of radial tire cords maintained at about 84% in 2007 (2006: 85%).

	2007 Production Capacity (Tonnes)	**2007 Utilization Rate**	2006 Production Capacity (Tonnes)	2006 Utilization Rate
Radial Tire Cords	**237,100**	**84%**	194,100	85%
Bead Wires	**39,000**	**93%**	39,000	70%

To keep in pace with the fast changing market of radial tire cords, the Group places utmost emphasis on developing new products. During the year under review, it added 37 new types of radial tire cords and 12 new types of bead wires to its product line. As at the end of 2007, the Group offered a well-diversified range of products including 83 types of radial tire cords and 30 types of bead wires to its customers.

FINANCIAL REVIEW

Revenue

The Group's revenue by product categories is as follows:

RMB in million	**2007**	**Proportion**	2006	Proportion	Change
Radial Tire Cord	**2,589**	**93%**	2,369	94%	+220
- For Truck	***2,183***	***78%***	*1,971*	*78%*	*+212*
- For Passenger Car	***406***	***15%***	*398*	*16%*	*+8*
Bead Wire	**189**	**7%**	147	6%	+42
Total	**2,778**	**100%**	2,516	100%	+262

Management Discussion and Analysis

Benefiting from the strong and sustainable growth in the domestic China radial tire cord market, the Group managed to maintain leadership and market share in China. During the year ended 31 December 2007, the Group sold 234,400 tonnes of radial tire cords and bead wires, representing a growth of 20.8% compared with last year. However, due to fierce market competition and the unfavourable product mix change, the overall average selling price of the products fell 8.2% year-on-year. As a result, the total revenue of the Group increased by 10.4%, or RMB261.9 million, from RMB2,516.2 million in 2006 to RMB2,778.1 million in 2007.

Gross profit and gross profit margin

Facing consistent hikes in the price of steel wire rods and other direct materials, the Group increased domestic sourcing and improved manufacturing efficiency to raise the output ratio so as to minimize the impact from increasing production cost. Moreover, with the boosted economy of scale, the Group's overall gross profit margin maintained at 25.3% (2006: 29.1%) while gross profit declined by RMB29.9 million, or 4.1%, from RMB731.9 million in 2006 to RMB701.9 million in 2007.

Other income and government grant

Other income increased by 39.5%, or RMB29.1 million, from RMB73.6 million in 2006 to RMB102.6 million in 2007. The increase was mainly due to the increase in bank interest income and cash discounts received from suppliers. Government grant increased by RMB1.2 million, or 12.1%, from RMB10.1 million in 2006 to RMB11.3 million in 2007. The increment was mainly due to increase in incentive subsidies received from the local government during the year.

Operating expenses

Selling and distribution expenses increased from RMB90.0 million in 2006 to RMB102.1 million in 2007, representing a 13.4% increase. It was mainly caused by the increase in transportation cost brought by the growth in sales volume. When compared to last year, administrative expenses increased by RMB54.6 million in 2007. Such an increment was mainly due to the increase in staff costs of RMB7.5 million and the exchange loss of RMB31.2 million recorded during the year.

Finance costs

Finance costs increased slightly by RMB1.1 million, or 1.3%, to RMB89.7 million in 2007 when compared to RMB88.6 million in 2006. The increase was mainly contributed by the increase in interest on note receivables discounted, partially offset by the decrease in interest on bank borrowings wholly repayable within five years.

Management Discussion and Analysis

Fair value adjustment on convertible bonds

The Company issued convertible bonds of principal amount of USD30,400,000, USD19,666,667 and USD3,933,333 (the "Convertible Bonds") on 7 May 2005, 29 December 2005 and 18 January 2006 respectively at a coupon rate of 1% per annum and a maturity of three years from the date of issue. Under International Accounting Standard 32 and 39, the Convertible Bonds have to be stated at fair value which is determined by an independent expert valuer at each period end. The fair value of the Convertible Bonds is arrived at after using the Black-Scholes option pricing model with the input of various variables including the closing price of the shares, the volatility of the market for the Company's shares and the time to maturity of the Convertible Bonds.

The gain on fair value adjustment on the convertible bonds was RMB76.9 million in 2007, representing a difference of RMB235.5 million when compared with the loss of RMB158.6 million in 2006. The gain in 2007 was mainly contributed by the drop in market price of the Company's shares from the closing price of HKD3.18 per share as at 29 December 2006 (the last trading day of 2006) when compared to the closing price of HKD1.91 per share as at 31 December 2007.

Income tax

Due to the expiration of the tax holiday of a major operating subsidiary on 1 January 2007, the Group had an income tax charge of RMB64.6 million with an effective tax rate of 12.6% reflecting a tax rate of 15% levied on the taxable income of the major operating subsidiary, partially offset by the gain on fair value adjustment on the convertible bonds which was non-taxable under relevant tax rules.

Net profit

Taking all the above factors into account, the Group's net profit for the year ended 31 December 2007 amounted to RMB448.8 million, representing an increase of 30.1%, or RMB103.9 million, from RMB344.9 million in last year. Should the gain or loss on fair value adjustment on the convertible bonds and exchange difference arising from non-operating activities be excluded, the adjusted net profit for the year ended 31 December 2007 would be RMB397.9 million, representing an decrease of 18.6%, or RMB90.9 million when compared with RMB488.8 million in last year.

Management Discussion and Analysis

Reconciliation of report profit and underlying profit for the year

	2007	2006
	RMB'000	RMB'000
Profit for the year	**448,821**	344,869
(Gain) loss on fair value adjustment on the convertible bonds (note)	**(76,915)**	158,597
Net exchange loss (gain) arising from non-operating activities	**25,951**	(14,682)
Underlying profit for the year	**397,857**	488,784
Underlying profit for the year attributable to:		
Equity holders of the Company	**294,448**	338,150
Minority shareholders	**103,409**	150,634
	397,857	488,784

Note: Gain or loss on fair value adjustment on the convertible bonds represented the change in the fair value of the convertible bonds calculated by an independent and recognized international business valuer. The impact of the change in fair value of the convertible bonds was not considered to be arising from the ordinary course of business of the Group.

LIQUIDITY AND CAPITAL RESOURCES

The principal source of liquidity and capital resources was cash flow generated from operating activities whereas the principal uses of cash were operational costs and expansion of production capacity.

Bank balances and cash including bank deposits of the Group decreased by RMB422.9 million from RMB1,370.2 million as at 31 December 2006 to RMB947.3 million as at 31 December 2007. The decrease was due to the net cash used in investing activities of RMB552.0 million which was mainly for the expansion of production capacity and the net cash used in financing activities of RMB369.2 million which was mainly for the repayment of bank borrowings and payment of interest and dividends, partially offset by the net cash generated from operating activities of RMB498.3 million.

Bank borrowings decreased by 11.6%, or RMB158.3 million from RMB1,360.0 million as at 31 December 2006 to RMB1,201.7 million as at 31 December 2007. The bank borrowings carry interest at market rates from 5.43% to 8.69% per annum and are repayable within one year from the balance sheet date.

The Group's current assets dropped by 7.8% from RMB3,172.7 million as at 31 December 2006 to RMB2,923.8 million as at 31 December 2007 whereas Group's current liabilities increased by 20.2% from RMB1,656.1 million as at 31 December 2006 to RMB1,990.3 million as at 31 December 2007. The Group's current ratio (being defined as current assets over current liabilities) decreased from 1.92 times as at 31 December 2006 to 1.47 times as at 31 December 2007. The decrease was mainly attributable to the decrease in bank balances and increase in current portion of the convertible bonds. The gearing ratio which is measured by total debts (bank borrowings and convertible bonds) to total assets decreased from 41% as at 31 December 2006 to 27% as at 31 December 2007 due to the decrease in convertible bonds causing by the conversion made during the year and the decrease in fair value on the convertible bonds.

CONVERTIBLE BONDS

In May 2005, the Company issued the first tranche of Convertible Bonds to Tetrad Ventures Pte Ltd ("Tetrad") and Henda Limited ("Henda") for an aggregate principal amount of USD30,400,000 (approximately RMB222.1 million) Subject to adjustment clause, the Convertible Bonds are convertible at approximately HKD1.853 (approximately RMB1.735) per ordinary share of the Company ("Share"). Should the holders of the Convertible Bonds opt not to convert the Convertible Bonds, the Company will be required to redeem the Convertible Bonds in May 2008. In December 2005 and January 2006, Tetrad and Henda subscribed for the second tranche of Convertible Bonds for an aggregate principal amount of USD23,600,000 (approximately RMB172.4 million), which will be repayable in December 2008 and January 2009. Such second tranche of Convertible Bonds is also convertible at approximately HKD1.853 (approximately RMB1.735) per Share. On 13 September 2006, Tetrad transferred to Goldman Sachs Strategic Investments (Asia) L.L.C. ("GSSIA") Convertible Bonds in the aggregate principal amount of USD5,257,058 (approximately RMB38.4 million).

Under the terms of the Convertible Bonds, each of Henda, Tetrad and GSSIA has the right to require the early redemption of their respective Convertible Bonds under certain circumstances, including change in control of the Company other than as a result of listing.

During the year ended 31 December 2007, the Company paid the holders of the Convertible Bonds interest of USD540,000 (approximately RMB3.9 million) (2006: USD500,667 or approximately RMB3.9 million).

On 5 July 2007, the Company received a conversion notice served by Tetrad, electing to convert a principal amount of USD19,871,471 of the first tranche of convertible bond issued by the Company to Tetrad ("First Tranche Tetrad Bond") into Shares at a conversion price of HKD1.853 per Share pursuant to the conditions of the First Tranche Tetrad Bond. Immediately following the allotment and issue of the Shares pursuant to the said conversion, Tetrad held 83,628,471 Shares, representing approximately 6.5% of the issued share capital of the Company immediately prior to such conversion and approximately 6.1% of the enlarged issued share capital of the Company immediately following to such conversion.

Management Discussion and Analysis

On 26 July 2007 and 31 December 2007, the Company received conversion notices served by Henda electing to convert an aggregate principal amount of USD9,000,000 of the total outstanding principal amount of the first tranche of convertible bond ("First Tranche Henda Bond") and the second tranche of convertible bond ("Second Tranche Henda Bond") issued by the Company to Henda, into a total number of 37,876,222 Shares at a conversion price of HKD1.853 per Share pursuant to the relevant conditions of the First Tranche Henda Bond and the Second Tranche Henda Bond. Immediately following the allotment and issue of the Shares pursuant to the said conversions, Henda held an aggregate of 37,876,222 Shares, representing approximately 2.73% of the enlarged issued share capital of the Company immediately following to such conversions.

The outstanding principal of the Convertible Bonds has been reduced from USD54,000,000 to USD25,128,529 upon the allotment of Shares pursuant to the conversions mentioned above.

FOREIGN EXCHANGE RISK

The Group's sales were principally denominated in Renminbi and US dollars whereas purchases were also transacted mainly in the same currencies. The amount received from sales in US dollars had been fully utilized for the payments in US dollars. Therefore, the appreciation of Renminbi did not bring material unfavourable effect to the Group's operations. Apart from certain bank balances in HK dollars and convertible bonds in US dollars, almost all of the Group's assets and liabilities are denominated in Renminbi, thus the foreign exchange risk of the Group was not significant except for the said bank balances and convertible bonds which may expose to foreign exchange fluctuation. The Group did not engage in any instrument to hedge against the foreign exchange risk during the year under review. However, the Group will closely monitor the Renminbi appreciation and will use appropriate hedging solution if necessary.

CAPITAL EXPENDITURE

For the year ended 31 December 2007, capital expenditure of the Group for property, plant and equipment amounted to RMB374.5 million (2006: RMB357.8 million).

CAPITAL COMMITMENTS

As at 31 December 2007, the Group had capital commitment in respect of acquisition of property, plant and equipment contracted for but not provided in the financial statements of approximately RMB307.8 million (2006: RMB85.5 million).The Group did not have any capital commitment in respect of acquisition of property, plant and equipment authorized but not contracted for in both years.

CONTINGENT LIABILITIES

The Group did not have any material contingent liabilities as at 31 December 2007.

Management Discussion and Analysis

PLEDGE OF ASSETS

As at 31 December 2007, the Group pledged bank deposits of RMB42.7 million (2006: land use right and property, plant and equipment with an aggregate carrying value of approximately RMB808.5 million) to secure its bank borrowings.

SIGNIFICANT INVESTMENTS

For the year ended 31 December 2007, the Group had no new significant external investments.

SIGNIFICANT ACQUISITIONS AND DISPOSALS

On 8 June 2007, the Company's wholly-owned subsidiary Faith Maple International Ltd. ("Faith Maple") and its non wholly-owned subsidiary Jiangsu Xingda Steel Tyre Cord Co., Ltd. ("Jiangsu Xingda") entered into a joint venture contract to set up a joint venture company, Jiangsu Xingda Special Cord Co., Ltd. ("Xingda Special Cord"), in the PRC for the manufacture and distribution of radial tire cords and bead wires. The total investment amount of Xingda Special Cord is USD90,000,000 and the total registered capital is USD60,000,000. Faith Maple contributed 90% of the registered capital amounting to USD54,000,000 by cash and Jiangsu Xingda contributed 10% of the registered capital amounting to USD6,000,000 by injecting certain production facilities of Factory No.8 into Xingda Special Cord. Faith Maple and Jiangsu Xingda hold 90% and 10% of the equity interests in Xingda Special Cord respectively.

Save as disclosed herein, the Group had no significant acquisitions and disposals for the year ended 31 December 2007.

HUMAN RESOURCES

As at 31 December 2007, the Group had approximately 6,500 (2006: approximately 5,800) full time employees and all of them were based in China. The total staff costs including directors' emoluments for the year ended 31 December 2007 were approximately RMB224.3 million (2006: approximately RMB180.2 million). The remuneration packages which consist of salaries and bonuses are based on the employees' merit, qualifications and competence and are generally reviewed annually. The Group continues to provide training programs for staff to enhance technical and product knowledge as well as knowledge of industry quality standards.

In addition to salary payments, the Group also provides various kinds of welfare benefits to the employees through Labour Union of Jiangsu Xingda Steel Tyre Cord Co., Ltd. ("Xingda Labour Union"). Each year, Jiangsu Xingda contributes 2% of the annual staff salary of Jiangsu Xingda to Xingda Labour Union to support its operation ("Union Fee"). The Union Fee, together with funding obtained by Xingda Labour Union from other sources are utilized by Xingda Labour Union to provide different welfare benefits and services to the employees, including provision of staff quarters which are available for sale to employees. For the year ended 31 December 2007, the amount of Union Fee contributed by Jiangsu Xingda to Xingda Labour Union amounted to RMB3.7 million (2006: RMB3.1 million).

Management Discussion and Analysis

On 14 January 1999, the State Council of PRC promulgated Provisional Regulations for Collection of Social Funds (the "Social Insurance Regulations"). Pursuant to the Social Insurance Regulations, the Group has made contributions to pension funds, medical insurance, work-related injury insurance and unemployment insurance (collectively, "Social Insurance Funds") for the employees who are entitled to such funds. The full-time employees in the PRC are covered by a state-managed defined contribution pension scheme, and are entitled to a monthly pension from their retirement dates. The PRC government is responsible for the pension liability to these retired employees. The Group is required to make annual contributions to the retirement plan at a specific rate in the Xinghua Municipality, which are charged to operations as an expense when the contributions are due. Under the scheme, no forfeited contributions are available to reduce the existing level of contributions.

PROSPECTS

More and more worldwide tire giants are setting up production facilities in China and the tire industry in China has been undergoing consolidation. Such phenomena have directly benefited upstream manufacturers in the tire production chain, in favor of particularly large scale manufacturers like the Group. According to the forecasts of the China Rubber Industry Association and other authoritative organizations, the demand for radial tire cords in China will exceed 800,000 tonnes in 2008, an increase of over 25% when compared with 2007. Capitalizing on the Group's leadership in the radial tire cord industry in China, the Group is confident of delivering better financial results and better returns to the shareholders of the Company in the future.

In the second half of 2007, the sustainable strong market demand for radial tire cords has helped stabilizing the average selling price of the Group's products. In order to migrate the surging raw material prices and production costs, the Group raised the selling price of both radial tire cords and bead wires on 1 January 2008. Besides, to cope with the hiking steel rod price, the Group changed the pricing strategy from annual basis to quarterly basis in order to align with the steel rod procurement contracts, aiming to maintain a more stable gross profit margin.

Riding on the strong and growing domestic demand, the Group will speed up expansion of Factory No. 8 targeting to increase the annual production capacity for high performance radial tire cords by 40,000 to 50,000 tonnes a year in each of the next three years, reaching a total production capacity for radial tire cords of approximately 400,000 tonnes by 2011.

The Group will continue to focus on China's market. By consolidating its leadership in the country, the Group keeps exploring overseas markets and strive to secure more renowned world-class tire manufacturers as long-term customers. This will ultimately boost the Group's sales in the future and allow it to strengthen its foothold in the global market.

To heighten production efficiency, the Group will actively develop new products and improve production craftsmanship. It will also increase the proportion of domestic steel wire rods so as to reduce production cost. In addition, the Group will keep a close watch on industry development and continue to expand its operation through organic growth and mergers and acquisitions. Being one of the largest independent radial tire cord manufacturers in the world, the Group sees its global standing continuing to improve, aiding its advance towards becoming one of the top radial tire cord manufacturers in the world.

Directors' and Senior Management's Biographies

EXECUTIVE DIRECTORS

Mr. LIU Jinlan（劉錦蘭）, aged 58, has been a Director and the chairman of the Board since April 2005 and was in August 2005 designated as an executive Director. He is also a director of Faith Maple International Ltd. ("Faith Maple") since 16 June 2004, a director of 興達國際（上海）特種簾線有限公司 (Xingda International (Shanghai) Special Cord Co., Ltd.*) ("Xingda International (Shanghai)") since 18 September 2006 and a director of 江蘇興達特種金屬複合線有限公司 (Jiangsu Xingda Special Cord Co., Ltd.*) ("Xingda Special Cord") since 13 June 2007. Both Faith Maple and Xingda International (Shanghai) are wholly-owned subsidiaries of the Company whereas Xingda Special Cord is a non-wholly owned subsidiary of the Company. Mr. Liu joined Xingda Steel Tyre Cord Group, the predecessor of 江蘇興達鋼簾線股份有限公司 (Jiangsu Xingda Steel Tyre Cord Co., Ltd.*) ("Jiangsu Xingda"), since May 1994 and has been a director of Jiangsu Xingda since its establishment in 1998. He is also the sole director of Great Trade Limited, a company which has an interest in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance ("SFO"). Mr. Liu was awarded 國家科學技術進步獎二等獎 (the State Science and Technology Improvement Award (Second Class)*) in respect of development of production technology for high-performance (new structures) radial tire cords for use in radial tires by the State Council in 2005. He was recognized as 中國橡膠工業科學發展帶頭人 (Leader in Technology Development in China Rubber Industry*) by the China Rubber Industry Association in April 2005 and was awarded 科技進步獎一等獎 (the Technology Improvement Award (First Class)*) in respect of development of production technology for high-performance (new structures) radial tire cords for use in radial tires by 中國石油和化學工業協會 (China Petroleum and Chemical Industry Association*) in December 2003 and 全國五一勞動節獎章 (the National 1 May Labor medal*) by 中華全國總工會 (All China Federation of Trade Unions*) in April 2003. He is a senior engineer. Mr. Liu has more than 12 years of experience in the radial tire cord manufacturing industry. He is the father of Mr. Liu Xiang who is an executive Director of the Company.

Mr. LIU Xiang（劉祥）, aged 31, has been an executive Director since August 2005. He is also a director of Xingda International (Shanghai) since 18 September 2006 and a director of Xingda Special Cord since 13 June 2007. He has been the general manager and a director of Jiangsu Xingda since January 2003 and is responsible for the overall operation of Jiangsu Xingda with a particular focus on production. He joined Xingda Steel Tyre Cord Group, the predecessor of Jiangsu Xingda, in late 1995 and served in the supply and marketing department. He is also the sole director of In-Plus Limited, a company which has an interest in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO. Mr. Liu Xiang obtained a bachelor degree in computer science and technology from 西安通信學院 (Xi'an Tongxin Xueyuan*) of 中國人民解放軍 (the People's Liberation Army*) in 2004. He is studying for a master's degree in business administration in Fudan University. Mr. Liu has approximately 12 years of experience in the radial tire cord manufacturing industry. He is the son of Mr. Liu Jinlan who is an executive Director of the Company.

Directors' and Senior Management's Biographies

Mr. TAO Jinxiang（陶進祥）, aged 45, has been an executive Director since August 2005. He is also a director of Xingda International (Shanghai) since 18 September 2006 and a director of Xingda Special Cord since 13 June 2007. He joined Xingda Steel Tyre Cord Group, the predecessor of Jiangsu Xingda, in May 1994, and since the establishment of Jiangsu Xingda in 1998, he has been a vice president and a director of the sales and marketing department of Jiangsu Xingda with the overall responsibility of formulating sales and marketing plans. He is also the sole director of Perfect Sino Limited, a company which has an interest in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO. He attended senior sales and marketing executives training classes organized by 職業經理訓練中心 (Executives Training Centre*) of Tsinghua University and obtained a certificate in May 2004. Mr. Tao has more than 12 years of experience in the radial tire cord manufacturing industry.

Mr. WU Xinghua（吳興華）, aged 44, has been an executive Director since August 2005. He is also a director of Xingda International (Shanghai) since 18 September 2006. He joined Jiangsu Xingda in July 2005 and is currently a vice president, responsible for investment and capital market activities. Between October 1997 and June 2005, he had served in various positions in China International Capital Corporation Limited in Beijing and was responsible for development of mutual fund and asset management business and execution of merger and acquisition transactions. Before that, Mr. Wu had worked for China Construction Bank ("CCB"). He obtained a license to practice in the general securities business in the PRC from 中國證券業協會 (The Securities Association of China*) in December 2001. Mr. Wu was awarded a British Chevening Scholarship to study for a master's in business administration at Imperial College of Science and Technology from 1995 to 1996. He graduated from Imperial College of Science, Technology and Medicine, University of London, with a master of business administration degree in November 1996. Mr. Wu graduated from 中國科學院地理研究所 (the Geography Institute of the Chinese Academy of Sciences*) with a master's degree in sciences in September 1987. Mr. Wu has more than 8 years of experience in investment banking and capital markets activities.

Mr. CAO Junyong（曹俊勇）, aged 45, has been an executive Director since August 2005. He is also a director of Xingda International (Shanghai) since 18 September 2006 and a director of Xingda Special Cord since 13 June 2007. He joined Jiangsu Xingda in July 2005 and is currently a vice president. He is responsible for procurement. Mr. Cao joined CCB in July 1987 and had served in various positions in different branches. Mr. Cao was the branch manager of a branch of CCB in Nanjing between December 2004 and July 2005 and the deputy general manager of the Business Division of the Jiangsu branch of CCB between January 2001 and December 2004. He was also the deputy branch manager and then branch manager of the Taizhou branch of CCB from December 1997 to September 1998, and then from September 1998 to January 2001, respectively. Mr. Cao graduated from 中國人民大學 (Renmin University of China*) with a bachelor's degree in economics in 1987. He obtained a doctor's degree in agricultural economics management from 南京農業大學 (Nanjing Agricultural University*) in December 2006. Mr. Cao is a registered accountant (non-practicing member of The Chinese Institute of Certified Public Accountants). Mr. Cao has more than 18 years of experience in the banking industry.

Directors' and Senior Management's Biographies

Mr. ZHANG Yuxiao（張宇曉）, aged 38, has been an executive Director and Chief Financial Officer of the Company since August 2005. He is also a director of Jiangsu Xingda since 25 January 2003, a director of Xingda International (Shanghai) since 18 September 2006 and a director of Xingda Special Cord since 13 June 2007. He joined Jiangsu Xingda in January 2000 and has been a vice president of Jiangsu Xingda since then. He is responsible for accounting and finance and international market development. From 1995 to 2000, he was the vice president of Clemente Capital (Asia) Limited and was responsible for investment management. He is also the sole director of Power Aim Limited, a company which has an interest in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO. Mr. Zhang obtained a bachelor's degree in sciences from Fudan University in July 1991. Mr. Zhang has more than 7 years of experience in the radial tire cord manufacturing industry.

NON-EXECUTIVE DIRECTORS

Mr. LU Guangming George（魯光明）, aged 43, is a non-executive Director and the non-executive Vice Chairman of the Board. He is also a director of Faith Maple since 16 June 2004 and a director of Jiangsu Xingda since 20 May 2005. Mr. Lu was first appointed as a Director and the non-executive Vice Chairman of the Company in April 2005 and was in August 2005 designated as a non-executive Director. He founded Surfmax Corporation, a private investment firm incorporated in the United States, in 1997 and has been principally involved in private equity investments in the United States and the PRC. Surfmax Corporation is the member manager of Surfmax-Estar Fund A, LLC, which is a substantial shareholder (as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited) of the Company. Surfmax-Estar Fund A, LLC has an interest in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO. For the purpose of the SFO, Surfmax Corporation was deemed to be interested in the shares held by Surfmax-Estar Fund A, LLC. Mr. Lu has more than 9 years of experience in private equity investments.

Ms. WU Xiaohui（鄔小蕙）, aged 47, has been a non-executive Director since August 2005. Ms. Wu has been the Chief Financial Officer of China National Cereals, Oils and Foodstuffs Import and Export Corporation ("COFCO") since February 2002 and has also been the general manager of the COFCO Financial Business Centre since October 2004. She joined COFCO in August 1986 and had served in various positions. She was the director of the Finance Department of COFCO from July 2000 to February 2002. She has been a director of 中信證券有限公司 (CITIC Securities Brokerage Limited*) (a company listed on the Shanghai Stock Exchange) since 29 December 1999. She graduated from 首都經貿大學 (the Capital University of Economics and Business*) with a master's degree in economics in July 2002 and from 中國人民大學一分校 (The First Branch Campus of Renmin University of China*) with a bachelor's degree in economics in July 1986. Ms. Wu has over 20 years of experience in finance. She has been nominated to serve on the Board to represent Surfmax-Estar Fund A, LLC.

Directors' and Senior Management's Biographies

Mr. ZHOU Mingchen（周明臣）, aged 67, has been a non-executive Director since August 2005. Mr. Zhou was the chairman of COFCO and COFCO (Hong Kong) Limited, and a director of COFCO International Limited (a company listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange")) and Top Glory International Holdings Limited (a company previously listed on the Main Board of the Stock Exchange). Mr. Zhou graduated from the University of International Business and Economics in Beijing and has more than 30 years of experience in international trade and management. He was also a vice-president of China National Metals & Minerals Import & Export Corporation and president of China National Instruments Import & Export Corporation.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. KOO Fook Sun, Louis（顧福身）, aged 51, has been an independent non-executive Director since August 2005. He is a founder and the managing director of Hercules Capital Limited, a corporate finance advisory firm. He has many years of experience in investment banking and professional accounting. Prior to founding Hercules Capital Limited, he was the managing director and head of the corporate finance department of a major international bank, and a director and chief executive officer of SilverNet Group Limited (now known as Enerchina Holdings Limited), a company listed on the Main Board of the Stock Exchange. Mr. Koo currently also serves as an independent non-executive director of Weichai Power Co. Ltd., Li Ning Company Limited, China Communications Construction Company Limited, Good Friend International Holdings Inc. and Midland Holdings Limited, which are companies listed on the Main Board of the Stock Exchange, and Midland IC&I Limited and Richfield Group Holdings Limited, which are listed on the Growth Enterprise Market of the Stock Exchange. He graduated with a bachelor's degree in business administration from the University of California at Berkeley and is a certified public accountant.

Mr. William John SHARP, aged 66, has been an independent non-executive Director since August 2005. He is a director of Ferro Corporation, a manufacturer of performance materials listed on the New York Stock Exchange. He joined The Goodyear Tire & Rubber Company in 1964 and was the President of its North American Tire group between 1999 and 2000. Prior to that, he was the President of its Global Support Operations between 1996 and 1999, and the President of Goodyear Europe and head of Goodyear's World-wide operations. Mr. Sharp graduated with a bachelor's degree of science, majoring in industrial engineering, from The Ohio State University in 1963 and has more than 40 years of experience in the tire manufacturing industry.

Directors' and Senior Management's Biographies

Ms. XU Chunhua（許春華）, aged 64, has been an independent non-executive Director since August 2005. She has served in various positions in Beijing Research and Design Institute of Rubber Industry since 1965. She was the deputy dean in charge of technology research and development between 1995 and 2003. She was also the person in charge of the "高速、低滾動阻力子午線輪胎系列產品生產技術開發" (Development of Production Techniques for Radial Tyre Products of High Speed and Low Rolling Resistance*) project, one of the "九五"國家重點科技攻關項目 (Key Technologies Research and Development Program for the Ninth "Five-Year Plan"*) in 1995. Ms. Xu has been the deputy chairman of the China Rubber Industry Association since 2004. She is a director of 青島高校軟控股份有限公司 (Qingdao Mesnac Co., Ltd.*), a company listed on the Small & Medium Enterprise Board of the Shenzhen Stock Exchange. She has been the head of 骨架材料專業委員會 (the skeleton materials committee*) and 橡膠助劑專業委員會 (the rubber chemicals committee*) since 2002 and 2001, respectively. She completed her studies in the macromolecular curriculum of the chemistry faculty of Fudan University in 1965 and has more than 40 years of experience in technology research relating to rubber chemicals.

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Mr. TSE Shiu Wah（謝紹華）, aged 32, is the qualified accountant and company secretary of the Company. Mr. Tse joined the Company as a member of its senior management in September 2005. He has more than 9 years of experience in finance, accounting and auditing, including experience as the qualified accountant of a company listed on the Main Board of the Stock Exchange. Mr. Tse also worked with an international accounting firm, from April 2000 to April 2002 and in another accounting firm in Hong Kong between July 1998 and March 2000, before joining the Company. He has been an associate of the Hong Kong Institute of Certified Public Accountants since 1 January 2004 and a fellow member of The Association of Chartered Certified Accountants since November 15, 2006. Mr. Tse graduated from The Hong Kong Polytechnic University with the degree of Bachelor of Arts in Accountancy in 1998.

* *denotes English translation of Chinese name*

Directors' Report

The directors of the Company ("Directors") present their annual report and the audited financial statements of the Group for the year ended 31 December 2007.

PRINCIPAL ACTIVITIES

The Group is principally engaged in the manufacturing and distribution of radial tire cords and bead wires. The Company acts as an investment holding company. The principal activities of the principal subsidiaries of the Company are set out in note 38 to the financial statements.

RESULTS AND APPROPRIATIONS

Details of the Group's results for the year ended 31 December 2007 are set out in the consolidated income statement on page 43 of the annual report.

A final dividend of 4.00 HK cents per share for the year ended 31 December 2006 was paid to the shareholders of the Company during the year ended 31 December 2007.

The Board has recommended the payment of a final dividend of 6.00 HK cents (approximately RMB5.39 cents) per share for the financial year ended 31 December 2007 to the shareholders whose names appear on the register of members of the Company on Wednesday, 28 May 2008. The final dividend will be payable on Monday, 23 June 2008.

CLOSURE OF REGISTER OF MEMBERS

The register of member of the Company will be closed from Saturday, 24 May 2008 to Wednesday, 28 May 2008, both dates inclusive, during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend to be approved at the forthcoming annual general meeting to be held on Wednesday, 28 May 2008, all transfers of shares accompanied by the relevant share certificates and properly completed transfer forms must be lodged with the Hong Kong branch share registrar and transfer office of the Company, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30p.m. on Friday, 23 May 2008.

DONATION

During the year, the Group made charitable donations amounting to RMB1,837,000.

FINANCIAL SUMMARY

A summary of the published results and assets and liabilities of the Group for the past five financial years, as extracted from the audited financial statements and the prospectus of the Company dated 8 December 2006 (the "Prospectus"), is set out on page 95 of the annual report. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 17 to the financial statements.

USE OF PROCEEDS

The net proceeds from the Company's offering of new shares at its listing on the Main Board of the Stock Exchange amounting to approximately HKD1,087 million are intended to be applied for the following purposes:

- approximately HKD550 million is intended for the expansion of the production capacity of the production facilities;
- approximately HKD70 million is intended for the installation of a manufacturing execution system (MES) and logistics management system;
- approximately HKD250 million is intended for implementing the overseas expansion strategies through acquisition of suitable business targets;
- approximately HKD180 million is intended for the set-up of international development departments;
- the remaining balance of approximately HKD37 million is intended to be used as general working capital.

Up to 31 December 2007, the Group has utilised approximately HKD647 million of the net proceeds and the details are as follows:

	Proposed uses of fund as stated in the Prospectus	Actual uses of funds during the year ended 31 December 2007	Balance of net proceeds as at 31 December 2007
	HKD'000	HKD'000	HKD'000
Expansion of the production capacity of the production facilities	550,000	550,000	—
Installation of a manufacturing execution system (MES) and logistics management system	70,000	895	69,105
Implementing the overseas expansion strategies through acquisition of suitable business targets	250,000	—	250,000
Set-up of international development departments	180,000	59,604	120,396
Working capital	37,000	37,000	—
Total	1,087,000	647,499	439,501

The remaining amount of approximately HKD440 million was placed in short term deposits with licensed banks in Hong Kong and China. The Group intends to apply the use of proceeds in accordance with that as disclosed in the Prospectus.

Directors' Report

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 31 to the financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution represent the share premium and contributed surplus net of retained losses which in aggregate amounted to approximately RMB1,202.1 million as at 31 December 2007 (2006: RMB885.9 million). Under the Companies Law (Revised) Chapter 22 of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its memorandum and articles of association and provided that immediately following the distribution or dividend the Company is able to pay its debts as they fall due in the ordinary course of business. In accordance with the Company's articles of association (the "Articles of Association"), dividends shall be distributed out of the retained profits or other reserves, including share premium and contributed surplus, of the Company.

BANK BORROWINGS AND CONVERTIBLE BONDS

Particulars of bank borrowings and convertible bonds of the Group as at 31 December 2007 are set out in notes 28 and 29 to the financial statements and the Management Discussion and Analysis section of this annual report.

DIRECTORS

The Directors during the year and up to the date of this annual report were:

Executive Directors:

Mr. LIU Jinlan *(Chairman)*
Mr. LIU Xiang
Mr. TAO Jinxiang
Mr. WU Xinghua
Mr. CAO Junyong
Mr. ZHANG Yuxiao

Non-executive Directors:

Mr. LU Guangming George
Ms. WU Xiaohui
Mr. ZHOU Mingchen

Independent Non-executive Directors:

Mr. KOO Fook Sun, Louis
Mr. William John SHARP
Ms. XU Chunhua

Pursuant to Article 87 of the Articles of Association, Mr. Liu Xiang, Mr. Cao Junyong, Mr. Zhou Mingchen and Mr. Koo Fook Sun, Louis will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company. The biographical details of the Directors and senior management of the Group are set out on pages 15 to 19 of this annual report.

The Company has received from each of the independent non-executive Directors an annual confirmation of his/her independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("the Listing Rules"). The Company considers that, as at the date of this annual report, all of the independent non-executive Directors are independent.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service agreement with the Company for an initial term of three years. Thereafter, the term will continue subject to termination by the Company by giving three months' prior written notice to the relevant Director.

Each of the non-executive Directors has entered into a service agreement with the Company for a period of three years, upon the expiration of which the service agreement shall lapse and expire, and subject to termination at any time by either party giving not less than three months' prior notice in writing to the other party.

Each of the independent non-executive Directors has signed a letter of appointment for a term of three years which is determinable by either party at any time by giving to the other not less than three months' prior written notice. Thereafter, the term shall continue subject to termination by either party by giving to the other not less than three months' prior written notice.

None of the Directors being proposed for re-election at the forthcoming annual general meeting of the Company has a service contract which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contract of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

Directors' Report

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2007, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (as defined in Part XV of the Securities and Futures Ordinance (the "SFO")) , as recorded in the register maintained under Section 352 of Part XV of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Director of Listed Companies ("Model Code"), were as follows:

(1) Long positions in shares, underlying shares and debentures of the Company

Name of Director	Capacity	Number of ordinary shares	Approximate percentage of issued share capital of the Company as at 31 December 2007
Liu Jinlan	Interest of a controlled corporation and interests of parties to an agreement required to be disclosed under section 317 of the SFO *(notes 1 and 5)*	804,406,164	58.83%
Liu Xiang	Interest of a controlled corporation and interests of parties to an agreement required to be disclosed under section 317 of the SFO *(notes 2 and 5)*	804,406,164	58.83%
Tao Jinxiang	Interest of a controlled corporation and interests of parties to an agreement required to be disclosed under section 317 of the SFO *(notes 3 and 5)*	804,406,164	58.83%
Zhang Yuxiao	Interest of a controlled corporation and interests of parties to an agreement required to be disclosed under section 317 of the SFO *(notes 4 and 5)*	804,406,164	58.83%
Lu Guangming George	Interests of controlled corporations *(note 6)*	215,549,000	15.77%

Notes:

1. Mr. Liu Jinlan owned 100% of the issued share capital of Great Trade Limited for and on behalf of the 98 Owners (as defined in the Prospectus) (including himself) and Mr. Wu Xinghua subject to the terms of the Five Parties' Agreement (as defined in the Prospectus). As at 31 December 2007, Great Trade Limited held 251,848,000 shares in the Company. For the purpose of Part XV of the SFO, Mr. Liu Jinlan was deemed to be interested in the shares held by Great Trade Limited. Mr. Liu Jinlan was also a party to the Five Parties' Agreement, and was deemed to be interested in the shares in which the other parties to the Five Parties' Agreement (being Mr. Liu Xiang, Mr. Tao Jinxiang, Mr. Zhang Yuxiao and Mr. Hang Youming) were interested for the purpose of Part XV of the SFO.

2. Mr. Liu Xiang owned 100% of the issued share capital of In-Plus Limited for and on behalf of the 98 Owners (including himself) and Mr. Wu Xinghua subject to the terms of the Five Parties' Agreement. As at 31 December 2007, In-Plus Limited held 142,714,000 shares in the Company. For the purpose of Part XV of the SFO, Mr. Liu Xiang was deemed to be interested in the shares held by In-Plus Limited. Mr. Liu Xiang was also a party to the Five Parties' Agreement, and was deemed to be interested in shares in which the other parties to the Five Parties' Agreement (being Mr. Liu Jinlan, Mr. Tao Jinxiang, Mr. Zhang Yuxiao and Mr. Hang Youming) were interested for the purpose of Part XV of the SFO.

3. Mr. Tao Jinxiang owned 100% of the issued share capital of Perfect Sino Limited for and on behalf of the 98 Owners (including himself) and Mr. Wu Xinghua subject to the terms of the Five Parties' Agreement. As at 31 December 2007, Perfect Sino Limited held 117,529,000 shares in the Company. For the purpose of Part XV of the SFO, Mr. Tao Jinxiang was deemed to be interested in the shares held by Perfect Sino Limited. Mr. Tao Jinxiang was also a party to the Five Parties' Agreement, and was deemed to be interested in the shares in which the other parties to the Five Parties' Agreement (being Mr. Liu Jinlan, Mr. Liu Xiang, Mr. Zhang Yuxiao and Mr. Hang Youming) were interested for the purpose of Part XV of the SFO.

4. Mr. Zhang Yuxiao owned 100% of the issued share capital of Power Aim Limited for and on behalf of the 98 Owners (including himself) and Mr. Wu Xinghua subject to the terms of the Five Parties' Agreement. As at 31 December 2007, Power Aim Limited held 41,975,000 shares in the Company. For the purpose of Part XV of the SFO, Mr. Zhang Yuxiao was deemed to be interested in the shares held by Power Aim Limited. Mr. Zhang Yuxiao was also a party to the Five Parties' Agreement, and was deemed to be interested in the shares in which the other parties to the Five Parties' Agreement (being Mr. Liu Jinlan, Mr. Liu Xiang, Mr. Tao Jinxiang and Mr. Hang Youming) were interested for the purpose of Part XV of the SFO.

5. Mr. Liu Jinlan, Mr. Liu Xiang, Mr. Tao Jinxiang and Mr. Zhang Yuxiao, being parties to each of the Tetrad Bond Agreement (as defined in the Prospectus) and the Henda Bond Agreement (as defined in the Prospectus), were deemed to be interested in the shares in which the other parties to such agreements (being Mr. Hang Youming, Tetrad Ventures Pte Ltd and Henda Limited) were interested for the purpose of Part XV of the SFO. As at 31 December 2007, Tetrad Ventures Pte Ltd held 83,628,471 shares in the Company which were issued upon conversion of part of the Tetrad Bond (as defined in the Prospectus), and Henda Limited held 37,876,222 shares in the Company which were issued upon full conversion of the Henda Bond (as defined in the Prospectus). As at 31 December 2007, Tetrad Ventures Pte Ltd was the holder of convertible bonds issued by the Company which are convertible into an aggregate of 83,628,471 shares in the Company subject to the terms and conditions thereof.

6. Mr. Lu Guangming George legally owned 100% of the issued share capital of Surfmax Corporation, which was the member manager of Surfmax-Estar Fund A, LLC. As at 31 December 2007, Surfmax-Estar Fund A, LLC held 207,269,000 shares in the Company. Mr. Lu Guangming George also legally owned approximately 45.48% of the issued share capital of Win Wide International Ltd., which held 8,280,000 shares in the Company as at 31 December 2007. For the purpose of Part XV of the SFO, Mr. Lu Guangming George was deemed to be interested in the shares held by Surfmax-Estar Fund A, LLC and Win Wide International Ltd. respectively.

Directors' Report

(2) Long position in shares and underlying shares of the associated corporation of the Company

Name of Director	Capacity	Associated corporation	Number of ordinary shares in associated corporation	Approximate percentage of registered capital of the associated corporation as at 31 December 2007
Zhang Yuxiao	Beneficial Owner	Jiangsu Xingda Steel Tyre Cord Co., Ltd.	100	0.000074%

Save as disclosed above, as at 31 December 2007, none of the Directors, the chief executives of the Company and their associates had any interests or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register maintained by the Company in accordance with section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Directors (including their spouse and children under 18 years of age) to acquire benefits by means of an acquisition of shares or underlying shares in, or debentures of, the Company or any other body corporate.

DEED OF NON-COMPETITION

On 4 December 2006, (i) Mr. Liu Jinlan, Mr. Liu Xiang, Mr. Tao Jinxiang, Mr. Zhang Yuxiao, Mr. Hang Youming, Great Trade Limited, In-Plus Limited, Perfect Sino Limited, Power Aim Limited and Wise Creative Limited (together as a controlling shareholder), (ii) the Directors, and (iii) the 98 Owners (as defined in the Prospectus) (not being controlling shareholders) (collectively the "Covenantors"), as covenantors, entered into a deed of non-competition ("Non-competition Deed") in favour of the Company pursuant to which each of the Covenantors has undertaken to the Company (for itself and for the benefits of its subsidiaries) that, among other matters, it shall not, and shall procure that his/her/its associates will not, directly or indirectly be interested or involved or engaged in or acquire or hold any right or interest in any business which is or is about to be engaged in any business which competes or is likely to compete directly or indirectly with the business of the Group. Details of the terms of the Non-competition Deed have been set out in the paragraph headed "Deed of non-competition entered into by the controlling shareholder" under the section headed "Controlling shareholder and substantial shareholders" of the Prospectus.

The Company has received the annual declaration from Mr. Liu Jinlan, Mr. Liu Xiang, Mr. Tao Jinxiang, Mr. Zhang Yuxiao, Mr. Hang Youming, Great Trade Limited, In-Plus Limited, Perfect Sino Limited, Power Aim Limited and Wise Creative Limited (together as a controlling shareholder) in respect of their respective compliance with the terms of the Non-competition Deed.

The Directors have confirmed that they have not engaged in any business which competes or is likely to compete with the business of the Group, and the Directors are not aware that any of the Convenantors or their respective associates has engaged in any business which competes or is likely to compete with the business of the Group.

The independent non-executive Directors have reviewed the annual declaration and are not aware that any of the Convenantors or their respective associates has engaged in any business which competes or is likely to compete with the business of the Group.

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

As at 31 December 2007, the interests and short positions of the persons (other than the Directors or chief executive of the Company) in the shares and underlying shares of the Company as recorded in the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO were as follows:

Long positions in shares and underlying shares of the Company

Name of shareholder	Capacity	Number of ordinary shares	Approximate percentage of issued share capital of the Company as at 31 December 2007
Great Trade Limited	Beneficial owner	251,848,000	18.39%
In-Plus Limited	Beneficial owner	142,714,000	10.42%
Perfect Sino Limited	Beneficial owner	117,529,000	8.58%
Hang Youming	Interest of a controlled corporation and interests of parties to an agreement required to be disclosed under section 317 of the SFO *(note 1)*	804,406,164	58.83%
Surfmax-Estar Fund A, LLC	Beneficial owner	207,269,000	15.16%
Surfmax Corporation	Interest of a controlled corporation *(note 2)*	207,269,000	15.16%
Tetrad Ventures Pte Ltd	Beneficial owner *(note 3)*	167,256,942	12.21%
GIC Special Investments Pte. Ltd.	Interest of a controlled corporation *(notes 3 & 4)*	167,256,942	12.21%
Government of Singapore Investment Corp. Pte. Ltd.	Interest of a controlled corporation *(notes 3 & 4)*	167,256,942	12.21%
Government of Singapore Investment Corporation (Ventures) Pte. Ltd.	Interest of a controlled corporation *(notes 3 & 4)*	167,256,942	12.21%
Minister for Finance (Incorporated)	Interest of a controlled corporation *(notes 3 & 4)*	167,256,942	12.21%

Notes:

1. Mr. Hang Youming owned 100% of the issued share capital of Wise Creative Limited for and on behalf of the 98 Owners (as defined in the Prospectus) (including himself) and Mr. Wu Xinghua subject to the terms of the Five Parties' Agreement (as defined in the Prospectus). As at 31 December 2007, Wise Creative Limited held 42,475,000 shares in the Company. For the purpose of Part XV of the SFO, Mr. Hang Youming was deemed to be interested in the shares held by Wise Creative Limited. Mr. Hang Youming is also a party to the Five Parties' Agreement, and was deemed to be interested in the shares in which the other parties to the Five Parties' Agreement (being Mr. Liu Jinlan, Mr. Liu Xiang, Mr. Tao Jinxiang and Mr. Zhang Yuxiao) were interested for the purpose of Part XV of the SFO. Mr. Hang Youming, being a party to each of the Tetrad Bond Agreement (as defined in the Prospectus) and the Henda Bond Agreement (as defined in the Prospectus), was also deemed to be interested in the shares in which the other parties to such agreements (being Mr. Liu Jinlan, Mr. Liu Xiang, Mr. Tao Jinxiang, Mr. Zhang Yuxiao, Tetrad Ventures Pte Ltd and Henda Limited) were interested for the purpose of Part XV of the SFO. As at 31 December 2007, Tetrad Ventures Pte Ltd held 83,628,471 shares in the Company which were issued upon conversion of part of the Tetrad Bond (as defined in the Prospectus), and Henda Limited held 37,876,222 shares in the Company which were issued upon full conversion of the Henda Bond (as defined in the Prospectus). As at 31 December 2007, Tetrad Ventures Pte Ltd was the holder of convertible bonds issued by the Company which are convertible into an aggregate of 83,628,471 shares in the Company subject to the terms and conditions thereof.

2. Surfmax Corporation was the member manager of Surfmax-Estar Fund A, LLC. For the purpose of Part XV of the SFO, Surfmax Corporation was deemed to be interested in the shares held by Surfmax-Estar Fund A, LLC.

3. As at 31 December 2007, Tetrad Ventures Pte Ltd held 83,628,471 shares in the Company which were issued upon conversion of part of the Tetrad Bond (as defined in the Prospectus), and was the holder of convertible bonds issued by the Company which are convertible into an aggregate of 83,628,471 shares in the Company subject to the terms and conditions thereof.

4. Tetrad Ventures Pte Ltd is a wholly owned subsidiary of Government of Singapore Investment Corporation (Ventures) Pte. Ltd., which in turn is a wholly-owned subsidiary of Minister for Finance (Incorporated). Tetrad Ventures Pte Ltd is also an investment vehicle managed by GIC Special Investments Pte. Ltd., the private equity investment arm of Government of Singapore Investment Corp. Pte. Ltd., which in turn is a wholly-owned subsidiary of Minister for Finance (Incorporated).

Save as aforesaid and as disclosed in the section "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures" above, the Company has not been notified of any interest or short position in the shares or underlying shares of the Company as at 31 December 2007 which are required to be recorded in the register maintained under section 336 of the SFO.

Directors' Report

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year ended 31 December 2007, the Company purchased a total of 21,328,000 shares of par value of HKD0.10 each in its issued share capital on the Stock Exchange at an aggregate consideration, before expenses, of HKD54,295,000 (equivalent to approximately RMB52,496,000) as follows:

Month of purchase	Number of shares repurchased	Purchase price per share Highest	Purchase price per share Lowest	Total consideration	Total consideration
		HKD	HKD	HKD'000	RMB'000
September 2007	13,641,000	2.64	2.40	34,560	33,382
October 2007	7,687,000	2.66	2.46	19,735	19,114
Total	21,328,000			54,295	52,496

The repurchase of the Company's shares were made pursuant to the general mandate granted to the board of Directors by the shareholders of the Company at the annual general meeting of the Company held on 28 May 2007 to repurchase not more than 128,600,000 shares of par value of HKD0.10 each in the issued share capital of the Company during the Approved Period (as defined in the circular of the Company dated 26 April 2007). The funds used for the said share repurchase were made out of the internal resources of the Company which was legally available for such repurchase in accordance with the memorandum and articles of association of the Company, the Listing Rules and the applicable laws of the Cayman Islands. The Directors believed that the repurchase of shares was in the best interests of the Company and its shareholders due to the enhancement of the earnings per share of the Company. All the shares repurchased during the year ended 31 December 2007 have been duly cancelled in accordance with the memorandum and articles of association of the Company and applicable laws of the Cayman Islands. The issued share capital of the Company was redued by the nominal value of the repurchased shares. The premium paid on the repurchase of shares and related expenses was charged against the retained earnings.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2007.

EMOLUMENT POLICY

The emolument policy of the employees of the Group is set up by the Human Resources Department on the basis of their merit, qualifications and competence and reviewed by the executive Directors.

The ordinary remuneration of the Directors is subject to approval by the board of Directors in general meetings. The Remuneration and Management Development Committee (the "Remuneration Committee") comprising two independent non-executive Directors has been established to make recommendations to the board of Directors on the Group's policy and structure for all remuneration of Directors and senior management of the Group. The Remuneration Committee will consult the chairman of the board of Directors in respect of their recommendations in determining the remuneration of the Directors and senior management of the Group. No individual Director would be involved in deciding his/her own remuneration.

In determining or recommending the remuneration packages of the Directors and senior management, the Remuneration Committee should consider factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors and senior management, employment conditions elsewhere in the Group and desirability of performance-based remuneration. In reviewing and approving performance-based remuneration, reference will be made by the Remuneration Committee to the Group's corporate goals and objectives resolved by the board of Directors from time to time.

The recommended remuneration package comprises salaries, directorship fees, bonuses, discretionary bonuses, benefits in kind, pension rights and compensation payments, and any compensation payable for loss or termination of office or appointment.

HIGHEST PAID INDIVIDUALS

The relevant information of the five individuals with the highest remuneration in the Group for the year ended 31 December 2007 is disclosed in note 14 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The five largest customers of the Group contributed approximately 56% of the Group's total revenue for the year and the largest customer contributed approximately 17% of the Group's total revenue. The five largest suppliers represented approximately 72% of the Group's total purchases for the year and the largest supplier represented approximately 19% of the Group's total purchases.

None of the Directors, their associates or any shareholders of the Company which, to the knowledge of the Directors, owned more than 5% of the Company's issued share capital, had any interest in any of the five largest customers or suppliers of the Group.

Directors' Report

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the date of this annual report, the Company has maintained a sufficient prescribed public float under the Listing Rules.

AUDITOR

Messrs. Deloitte Touche Tohmatsu will retire and a resolution for their reappointment as auditor of the Company will be proposed at the forthcoming annual general meeting of the Company.

On behalf of the Board

LIU Jinlan
Chairman

8 April 2008

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

To promote high level of transparency, accountability and independence in the interests of the shareholders, the Company is committed to maintain high standards of corporate governance.

The Company has applied the principles in and complied with the code provisions of the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules throughout the year ended 31 December 2007, except for the deviation from code provision A.2.1 which provides that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

The chairman of the Board, Mr. Liu Jinlan, provides overall leadership for the Board and takes the lead to ensure the Board acts in the best interest of the Company. The Company does not have the position of chief executive officer and the daily operation of the Group is assigned among the executive Directors. In addition to the fact that the responsibilities of the chairman are shared by the remaining five executive Directors, the Executive Committee of the Company (comprising four executive Directors) which has been established for determining, approving and overseeing the day-to-day control over the allocation of the Group's resources also segregates the duties of Mr. Liu Jinlan.

THE BOARD

The Board is responsible for formulation and execution of the Company's long term strategies and determination of the direction of future development, setting of financial and operational targets, approval of material transactions and significant investment as well as evaluation of the performance of the senior management. The Board has reserved its decision over the major acquisitions and disposals, annual budgets, interim and annual results, recommendations on directors' appointment or reappointment, approval of major capital investment and other significant operational and financial matters of the Group. The Board has to act in the best interest of the Company and its shareholders as a whole.

The Board currently comprises twelve members, including six executive Directors, three non-executive Directors and three independent non-executive Directors. The biographical details of the Directors are set out on pages 15 to 19 of the annual report. Mr. Liu Jinlan, being the chairman of the Board and an executive Director, is the father of Mr. Liu Xiang, an executive Director. Save for the aforesaid, there is no financial, business, family or other material or relevant relationships among the members of the Board.

The executive Directors are responsible for business management of the Group, formulation and implementation of business strategies, daily business decision and coordination of overall business operation. Mr. Liu Jinlan and the other three executive Directors, Mr. Liu Xiang, Mr. Tao Jinxiang and Mr. Zhang Yuxiao, have many years of experience in radial tire cord manufacturing industry. The remaining two executive Directors, Mr. Cao Junyong and Mr. Wu Xinghua who have worked with investment banks and commercial banks for many years, strengthen both financial and treasury operations of the Company.

Corporate Governance Report

The non-executive Directors and the independent non-executive Directors, who possess wide expertise, bring relevant experience and knowledge in various aspects to the Board. The Company has received confirmation from each independent non-executive Director about his/her independence as set out in Rule 3.13 of the Listing Rules and considers each of them to be independent. One of the independent non-executive Directors possesses appropriate professional qualifications in accounting or related financial management expertise as required under the Listing Rules.

The Board will meet regularly at least four times a year at approximately quarterly intervals. For the year ended 31 December 2007, the Board held four meetings to discuss and approve various important matters. The table below sets out the attendance of each Director at the meetings of the Board and other Board committees held during the year ended 31 December 2007:

	Board	Audit Committee	Remuneration and Management Development Committee	Nomination Committee	Executive Committee	Manufacturing and Operations Committee	Investment and International Development Committee
Executive Directors							
Mr. LIU Jinlan	4/4	N/A	N/A	0/0	1/1	1/1	2/2
Mr. LIU Xiang	4/4	N/A	N/A	N/A	N/A	1/1	N/A
Mr. TAO Jinxiang	4/4	N/A	N/A	N/A	N/A	1/1	2/2
Mr. WU Xinghua	3/4	N/A	N/A	N/A	N/A	N/A	2/2
Mr. CAO Junyong	4/4	N/A	N/A	N/A	1/1	1/1	N/A
Mr. ZHANG Yuxiao	4/4	N/A	N/A	N/A	1/1	N/A	2/2
Non-executive Directors							
Mr. LU Guangming George	3/4	N/A	N/A	0/0	1/1	1/1	2/2
Ms. WU Xiaohui	4/4	N/A	N/A	N/A	N/A	N/A	N/A
Mr. ZHOU Mingchen	4/4	N/A	N/A	0/0	N/A	N/A	N/A
Independent non-executive Directors							
Mr. KOO Fook Sun, Louis	4/4	2/2	4/4	N/A	N/A	N/A	N/A
Mr. William John SHARP	4/4	2/2	4/4	N/A	N/A	N/A	N/A
Ms. XU Chunhua	4/4	1/2	N/A	N/A	N/A	N/A	N/A

The management of the Company shall submit all relevant materials for the discussion in the meeting in advance. Notice convening the meeting shall be sent to the Directors at least fourteen days before the meeting so that they can make necessary arrangement to attend the meeting either in person or by telephone. Documents and all relevant materials required for the Board meeting shall be sent to the Directors at least three days in advance, which ensures enough time is given to the Directors to review the documents and get prepared for the meeting.

The matters processed by the Board in the meetings are all recorded and kept pursuant to relevant laws and regulations. All Directors have full access to the minutes and papers of the Board meetings and Board committee meetings and all other relevant information of the Group. Minutes of the Board meetings and Board committee meetings recorded in sufficient detail the matters considered in the meetings and the decisions reached. Draft and final versions of minutes of the Board and Board committees are sent to all Directors or committee members for comments and records respectively within a reasonable time after the meeting. The Directors have separate and independent access to the company secretary and qualified accountant of the Company at all times for discussion. The Directors are also entitled to receive independent professional advice in performing their Directors' duties at the Company's expenses.

The Company has arranged for appropriate Directors' and officers' liability insurance throughout the year ended 31 December 2007 to indemnify the Directors and officers for their liabilities arising out of corporate activities. The insurance coverage and premium is reviewed on an annual basis.

Each of the non-executive Directors has entered into a service agreement with the Company for a term of three years, upon the expiration of which the service agreement shall lapse and expire, and subject to termination at any time by either party giving not less than three months' prior notice in writing to the other party.

Each of the independent non-executive Directors has signed a letter of appointment for a term of three years which is determinable by either party at any time by giving to the other not less than three months' prior written notice. Thereafter, the term shall continue subject to termination by either party by giving to the other not less than three months' prior written notice.

Pursuant to Article 87 of the Articles of Association of the Company, one-third of the Directors shall retire from office by rotation, and shall be eligible for re-election, at each annual general meeting. Mr. Liu Xiang, Mr. Cao Junyong, Mr. Zhou Mingchen and Mr. Koo Fook Sun, Louis will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company.

BOARD COMMITTEES

As part of good corporate governance practice, the Board has established six committees, namely the Audit Committee, the Remuneration and Management Development Committee, the Nomination Committee, the Executive Committee, the Manufacturing and Operations Committee and the Investment and International Development Committee, and two sub-committees under the Manufacturing and Operations Committee, namely the Manufacturing Sub-committee and the Operations Sub-committee, with respective terms of reference and delegated certain authorities to the committees. To further reinforce independence, the Audit Committee and the Remuneration and Management Development Committee are all consisting of independent non-executive Directors.

Audit Committee

The Company established the Audit Committee on 23 August 2005. The Audit Committee consists of three independent non-executive Directors, namely Mr. William John Sharp, Mr. Koo Fook Sun, Louis and Ms. Xu Chunhua. The chairman of the Audit Committee is Mr. Koo Fook Sun, Louis.

Corporate Governance Report

The major roles and functions of the Audit Committee are as follows:

(a) to make recommendation to the Board on the appointment, reappointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any questions of resignation or dismissal of that auditor;

(b) to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standard;

(c) to develop and implement policy on the engagement of an external auditor to supply non-audit services;

(d) to monitor integrity of financial statements of the Company and the Company's annual report and accounts, half-year report and to review significant financial reporting judgements contained in them;

(e) to review the Company's financial controls, internal control and risk management systems;

(f) to discuss with the management the system of internal control and ensure that management has discharged its duty to have an effective internal control system;

(g) to consider any findings of major investigations of internal control matters as delegated by the Board or on its own initiative and management's response;

(h) to review the financial and accounting policies and practices of the Company and its subsidiaries;

(i) to review the external auditor's management letter, any material queries raised by the auditor to management in respect of the accounting records, financial accounts or systems of control and management's response;

(j) to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter; and

(k) to report to the Board on the matters set out in the terms of reference for the Audit Committee.

The Audit Committee had two meetings during the year ended 31 December 2007. During the meetings held, the Audit Committee had performed the following work:

- reviewing the audited financial statements for the year ended 31 December 2007 and the unaudited financial statements for the six months ended 30 June 2007;
- reviewing and discussing the management letter issued by the external auditor;
- engaging Ernst & Young to perform a review on the Group's internal control systems and discussing with them for the scope of work to be performed in the review; and
- reporting the findings of Ernst & Young's review on the Group's internal control systems to the Board and monitoring the remedial measures taken by the management to improve the Group's internal control systems.

On 4 April 2008, the Audit Committee met with the external auditor to discuss the general scope of their audit work and reviewed the financial statements for the year ended 31 December 2007 as well as the management letter issued by the external auditor.

Remuneration and Management Development Committee

The Company established the remuneration committee on 23 August 2005, which was then re-designated as the Remuneration and Management Development Committee (the "Remuneration Committee") on 30 September 2005. The major roles and functions of the Remuneration Committee are to evaluate the performance of all Directors and senior management of the Group and make recommendations to the Board on the Group's policy and structure for all remuneration of Directors and senior management, to determine the specific remuneration packages of all executive Directors and senior management, to make recommendations of remuneration for non-executive Directors to the Board, and to evaluate and make recommendations on any share option schemes that may be adopted by the Company from time to time. The Remuneration Committee consists of two independent non-executive Directors, namely Mr. William John Sharp and Mr. Koo Fook Sun, Louis. The chairman of the Remuneration Committee is Mr. William John Sharp.

The Remuneration Committee met four times during the year ended 31 December 2007. A summary of work performed by the Remuneration Committee during the year is set out below:

- consultation with the chairman of the Board in respect of its recommendations in determining the remuneration of the executive Directors and senior management of the Group for the year ended 31 December 2007;
- engaging an external consultancy firm to perform a review on the Group's remuneration policy and the remuneration package of the Board for the year ended 31 December 2007 and discussing with the external consultants the scope of work to be performed in the review; and
- evaluating and making recommendations to the Board on the remuneration of the Directors and senior management of the Group for the year ended 31 December 2007 with reference to the findings of the review performed by the external consultants.

Corporate Governance Report

Nomination Committee

The Company established the Nomination Committee on 23 August 2005. The major roles and functions of the Nomination Committee are to evaluate the credentials of the candidates for directorship, to make recommendations to the Board regarding candidates to fill vacancies on the Board and to ensure that no Director or any of his associates is involved in approving his/her or any of his/her associates' nomination. The Nomination Committee consists of three Directors with a majority of non-executive directors, namely Mr. Liu Jinlan, Mr. Lu Guangming George and Mr. Zhou Mingchen. The chairman of the nomination committee is Mr. Zhou Mingchen. The Nomination Committee did not hold any meeting during the year ended 31 December 2007.

The Nomination Committee carries out the process of selecting and recommending candidates for directorship with reference to the selection guidelines which include appropriate professional knowledge and industry experience, personal ethics, integrity and personal skills. The Nomination Committee also considers referrals and engagement of external recruitment professionals when necessary and makes recommendations to the Board for selection and approval. There was no nomination of directors to fill Board vacancies in the year ended 31 December 2007.

Executive Committee

The Company established the Executive Committee on 30 September 2005. The principal functions and responsibilities of the Executive Committee are to determine, approve and oversee the day-to-day control over the allocation of the resources of the Group. The Executive Committee consists of four Directors, namely Mr. Liu Jinlan, Mr. Zhang Yuxiao, Mr. Lu Guangming George and Mr. Cao Junyong. The chairman of the Executive Committee is Mr. Zhang Yuxiao. The Executive Committee had one meeting during the year ended 31 December 2007.

Manufacturing and Operations Committee

The Company established the Manufacturing and Operations Committee (with the Manufacturing Sub-committee and the Operations Sub-committee) on 30 September 2005. The principal functions and responsibilities of the Manufacturing and Operations Committee and the respective sub-committees are to consider, approve and oversee the Group's day-to-day manufacturing and operations related strategic development and allocations of resources and make recommendations on new initiatives to the Board for approval. The Manufacturing and Operations Committee consists of five Directors, namely Mr. Liu Jinlan, Mr. Liu Xiang, Mr. Lu Guangming George, Mr. Tao Jinxiang and Mr. Cao Junyong. The chairman of the Manufacturing and Operations Committee is Mr. Liu Jinlan. The Manufacturing and Operations Committee had one meeting during the year ended 31 December 2007.

Investment and International Development Committee

The Company established the Investment and International Development Committee on 30 September 2005. The principal functions and responsibilities of the Investment and International Development Committee are to consider, approve and oversee the Group's international market development and investment related initiatives and allocations of resources, and make recommendations on new development initiatives to the Board for approval. The Investment and International Development Committee consists of five Directors, namely Mr. Liu Jinlan, Mr. Lu Guangming George, Mr. Zhang Yuxiao, Mr. Wu Xinghua and Mr. Tao Jinxiang. The chairman of the Investment and International Development Committee is Mr. Lu Guangming George. The Investment and International Development Committee had two meetings during the year ended 31 December 2007.

DIRECTORS' AND AUDITOR'S RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Board acknowledges the responsibilities of overseeing the preparation of the financial statements for the year ended 31 December 2007, which give a true and fair view of the state of affairs of the Group for that year. In preparing the financial statements for the year ended 31 December 2007, the Directors have selected appropriate accounting policies, applied them consistently in accordance with the International Financial Reporting Standards and made judgments and estimates that are prudent and reasonable, and have prepared the financial statements on the on-going concern basis. The statement of the external auditor about their reporting responsibilities is set out in the Independent Auditor's Report on pages 41 and 42 of this annual report.

AUDITORS' REMUNERATIONS

For the year ended 31 December 2007, the Group paid approximately RMB1,628,000 and RMB313,000 to the external auditors in respect of audit services and non-audit services, respectively. The non-audit service provided by the external auditors during the year was performing review on the interim financial statements of the Group.

INTERNAL CONTROL

The Board acknowledges the responsibilities for the Group's system of internal control, and is committed to the ongoing development of an effective internal control system to safeguard assets, and to enhance risk management and compliance with applicable legislation and regulations. The Group has adopted a set of internal control procedures and policies to safeguard the Group's assets and to ensure the reliability of financial reporting. The internal control system is designed to ensure that the financial and operational functions, compliance control, asset management and risks management functions are in place and functioning effectively. In order to monitor the system effectively, the Group established an internal audit department in January 2007. The internal audit department is responsible for performing regular reviews on the internal control system of the Group to provide reasonable assurance on the effectiveness, soundness, adequacy and completeness of the Group's internal control system.

Corporate Governance Report

To further strengthen the internal control system of the Group, the Group has engaged Ernst & Young to assist with its review of the internal control, by conducting an entity-level control review based on the Committee of Sponsoring Organizations of the Treadway Commission internal control framework and assisting the management of the Group in conducting an initial risk assessment. The entity-level control review and initial risk assessment were completed in August 2007. The Audit Committee reported the findings and recommendations made by the external consultants to the Board. Furthermore, the Audit Committee monitored the execution of the action plans for minimizing the control gap difference identified in the review by the management.

The Board will continue to conduct annual review on the internal control system either through the Audit Committee or professional firms in the future and will take all necessary measures to safeguard the Group's assets and shareholders' interests.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules as the code of conduct regarding Directors' securities transactions. After having made specific enquiry with all Directors by the Company, all Directors have confirmed that they have complied with the required standards set out in the Model Code during the year ended 31 December 2007.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS RELATIONS

The Company values its relationship with investors and shareholders and communications with them is a high priority. The Company has assigned its chief financial officer and the company secretary to be the spokespersons of the Company and be responsible for meeting with financial analysts and institutional investors.

In addition to the annual general meeting which is opened to all shareholders and members of the press, the Company holds analysts briefings and press conferences through various channels to maintain communications between the shareholders and the management of the Company. During the year ended 31 December 2007, the management conducted over 50 one-on-one meetings with and company visits for various institutional investors and shareholders to assist them to have a better understanding of the Group as well as the radial tire cords industry through publicly disclosed information. In order to strengthen the communication and interaction with the investors, the management is committed to organize non-deal roadshows, company visits for and meetings with investors and shareholders from time to time in the future.

Independent Auditor's Report

Deloitte.
德勤

TO THE SHAREHOLDERS OF XINGDA INTERNATIONAL HOLDINGS LIMITED
興達國際控股有限公司
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Xingda International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 43 to 94, which comprise the consolidated balance sheet as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with our agreed terms of the engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the Group's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Auditor's Report

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2007 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

8 April 2008

Consolidated Income Statement

For the year ended 31 December 2007

	NOTES	2007	2006
		RMB'000	RMB'000
Revenue	8	**2,778,061**	2,516,189
Cost of sales		**(2,076,112)**	(1,784,329)
Gross profit		**701,949**	731,860
Other income	9	**102,628**	73,555
Government grants	10	**11,282**	10,062
Selling and distribution expenses		**(102,128)**	(90,047)
Administrative expenses		**(187,489)**	(132,872)
Finance costs	11	**(89,743)**	(88,614)
Gain (loss) on fair value adjustment on the convertible bonds		**76,915**	(158,597)
Profit before tax		**513,414**	345,347
Income tax expense	12	**(64,593)**	(478)
Profit for the year	13	**448,821**	344,869
Profit attributable to:			
Equity holders of the Company		**345,412**	194,235
Minority shareholders		**103,409**	150,634
		448,821	344,869
Dividend recognized as distribution	15	**50,305**	18,627
Earnings per share	16		
Basic (RMB cent)		**25.97**	21.31
Diluted (RMB cent)		**18.70**	21.31

Consolidated Balance Sheet

At 31 December 2007

	NOTES	2007 RMB'000	2006 RMB'000
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	17	**2,074,219**	1,879,021
Prepaid lease payments	18	**115,298**	117,783
Available-for-sale investments	19	**500**	500
Deposits paid for purchase of property, plant and equipment	20	**190,294**	1,017
		2,380,311	1,998,321
CURRENT ASSETS			
Prepaid lease payments	18	**2,487**	2,487
Inventories	21	**288,724**	226,045
Trade and other receivables	22	**1,642,559**	1,573,895
Pledged bank deposits	23	**42,676**	—
Bank balances and cash	23	**947,356**	1,370,242
		2,923,802	3,172,669
CURRENT LIABILITIES			
Trade and other payables	24	**500,142**	454,139
Amounts due to directors	25	**335**	319
Amount due to a related company	26	**2,844**	607
Amounts due to minority shareholders	27	**—**	8,996
Tax payable		**48,128**	24,541
Bank borrowings - due within one year	28	**1,201,720**	1,159,960
Convertible bonds	29	**237,083**	7,493
		1,990,252	1,656,055
NET CURRENT ASSETS		**933,550**	1,516,614
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,313,861**	3,514,935

Consolidated Balance Sheet

At 31 December 2007

	NOTES	2007 RMB'000	2006 RMB'000
NON-CURRENT LIABILITIES			
Bank borrowings - due after one year	28	—	200,000
Convertible bonds	29	—	741,791
Government grants	30	**24,900**	15,000
		24,900	956,791
NET ASSETS		**3,288,961**	2,558,144
CAPITAL AND RESERVES			
Share capital	31	**139,091**	129,405
Reserves		**2,402,332**	1,776,410
		2,541,423	1,905,815
MINORITY INTERESTS		**747,538**	652,329
TOTAL EQUITY		**3,288,961**	2,558,144

The consolidated financial statements on pages 43 to 94 were approved and authorised for issue by the Board of Directors on 8 April 2008 and are signed on its behalf by:

LIU Jinlan
Director

ZHANG Yuxiao
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2007

	Attributable to equity holders of the Company										
	Share capital RMB'000	Share premium RMB'000	Special reserve RMB'000	Capital contribution reserve RMB'000	Statutory common reserve RMB'000 (note a)	Statutory public welfare fund RMB'000 (note b)	Capital redemption reserve RMB'000	Retained earnings RMB'000	Total RMB'000	Attributable to minority interests RMB'000	Total RMB'000
At 1 January 2006	83	—	283,352	(126,702)	70,134	35,067	—	380,213	642,147	509,895	1,152,042
Profit for the year, representing total recognised income for the year	—	—	—	—	—	—	—	194,235	194,235	150,634	344,869
Appropriations	—	—	—	—	34,439	—	—	(34,439)	—	—	—
Dividend (note 15)	—	—	—	—	—	—	—	(18,627)	(18,627)	(8,200)	(26,827)
Transfer	—	—	—	—	35,067	(35,067)	—	—	—	—	—
Capitalisation issue (note c)	90,500	(90,500)	—	—	—	—	—	—	—	—	—
Issue of shares through initial public offering	38,822	1,156,907	—	—	—	—	—	—	1,195,729	—	1,195,729
Transaction costs attributable to issue of shares	—	(107,669)	—	—	—	—	—	—	(107,669)	—	(107,669)
At 31 December 2006 and 1 January 2007	129,405	958,738	283,352	(126,702)	139,640	—	—	521,382	1,905,815	652,329	2,558,144
Profit for the year, representing total recognised income for the year	—	—	—	—	—	—	—	345,412	345,412	103,409	448,821
Appropriations	—	—	—	—	44,178	—	—	(44,178)	—	—	—
Dividend (note 15)	—	—	—	—	—	—	—	(50,305)	(50,305)	(8,200)	(58,505)
Repurchase of ordinary shares	(2,062)	—	—	—	—	—	2,062	(52,756)	(52,756)	—	(52,756)
Issue of new shares upon conversion of convertible bonds	11,748	381,509	—	—	—	—	—	—	393,257	—	393,257
At 31 December 2007	**139,091**	**1,340,247**	**283,352**	**(126,702)**	**183,818**	**—**	**2,062**	**719,555**	**2,541,423**	**747,538**	**3,288,961**

Consolidated Statement of Changes in Equity

For the year ended 31 December 2007

Notes:

(a) According to the Articles of Association of the subsidiaries, Jiangsu Xingda Steel Type Cords Co., Ltd. ("Jiangsu Xingda"), Jiangsu Xingda Special Cord Co., Ltd. ("Xingda Special Cord"), Xinghua Municipality Lianxing Machinery Manufacturing Co., Ltd. ("Xinghua Lianxing") and Shanghai Xingda Steel Tyre Cords Co., Ltd. ("Shanghai Xingda"), they are required to transfer 10% of the profit after tax to the statutory common reserve until the reserve reaches 50% of the registered capital. Transfer to this fund must be made before distributing dividends to shareholders. The statutory common reserve can be used to make up for previous year's losses, expand the existing operations or convert into additional capital of the subsidiaries.

(b) According to the Articles of Association of the subsidiaries, Jiangsu Xingda, Xingda Special Cord, Xinghua Lianxing and Shanghai Xingda, they are required to transfer 5% to 10% of the profit after tax to the statutory public welfare fund. Transfer to this fund must be made before distributing dividends to shareholders. This fund can be used for the collective welfare of the employees of the subsidiaries in the People's Republic of China (the "PRC"). The public welfare fund is not distributable to shareholders. There has been no utilisation of the public welfare fund during both years. In accordance with the latest PRC relevant laws and regulations, the appropriation of the statutory public welfare fund was terminated from 2006, and the unutilised statutory public welfare fund should be transferred to statutory common reserve.

(c) On 3 December 2006, the Company capitalised an amount of HKD89,922,000 (approximately RMB90,500,000) from the amount standing to the credit of the share premium account to pay up in full at par 899,220,000 shares for allotment and issue to persons whose names appear on the register of shareholders of the Company at the close of business on 30 November 2006 in proportion to their then respective shareholdings in the Company.

Consolidated Cash Flow Statement

For the year ended 31 December 2007

	2007 RMB'000	2006 RMB'000
OPERATING ACTIVITIES		
Profit before tax	**513,414**	345,347
Adjustments for:		
Depreciation and amortisation	**181,097**	152,078
Interest income	**(51,941)**	(26,823)
Gain on disposal of property, plant and equipment	**(119)**	—
Allowance for doubtful debts	**4,328**	4,833
Finance costs	**89,743**	88,614
(Gain) loss on fair value adjustment on the convertible bonds	**(76,915)**	158,597
Exchange gain arising on the convertible bonds	**(38,083)**	(20,618)
Operating cash flows before movements in working capital	**621,524**	702,028
(Increase) decrease in inventories	**(62,679)**	77,013
Increase in trade and other receivables	**(71,502)**	(592,396)
Increase in trade and other payables	**42,838**	45,606
Increase in amounts due to directors	**16**	140
Increase in amount due to a related company	**2,237**	607
Increase in government grants	**9,900**	7,500
Decrease in amounts due to minority shareholders	**(2,996)**	(43,212)
Cash generated from operations	**539,338**	197,286
Income tax paid	**(41,006)**	(7,598)
NET CASH GENERATED FROM OPERATING ACTIVITIES	**498,332**	189,688
INVESTING ACTIVITIES		
Purchase of and deposit paid for purchase of property, plant and equipment	**(560,605)**	(407,606)
Increase in pledged bank deposits	**(42,676)**	—
(Advance to) repayment from a minority shareholder	**(1,490)**	958
Proceeds on disposal of property, plant and equipment	**802**	—
Interest received	**51,941**	26,823
Purchase of prepaid lease	**—**	(123)
NET CASH USED IN INVESTING ACTIVITIES	**(552,028)**	(379,948)

Consolidated Cash Flow Statement

For the year ended 31 December 2007

	2007 RMB'000	2006 RMB'000
FINANCING ACTIVITIES		
Repayment of bank loans	**(2,175,000)**	(1,665,110)
Interest paid	**(89,743)**	(88,614)
Payment for share repurchase	**(52,756)**	—
Dividends paid	**(50,305)**	(20,827)
Dividends paid to minority shareholders	**(14,200)**	(2,200)
Interest paid on the convertible bonds	**(3,946)**	(3,910)
New bank loans raised	**2,016,760**	1,917,510
Repayment to a related company	**—**	(15,000)
Proceeds from initial public offering	**—**	1,195,729
Issue of the convertible bonds	**—**	31,706
Transaction costs attributable to issue of shares	**—**	(82,454)
Transaction cost attributable to issue of the convertible bonds	**—**	(629)
NET CASH (USED IN) GENERATED FROM FINANCING ACTIVITIES	**(369,190)**	1,266,201
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(422,886)**	1,075,941
CASH AND CASH EQUIVALENTS AT 1 JANUARY	**1,370,242**	294,301
CASH AND CASH EQUIVALENTS AT 31 DECEMBER, represented by bank balances and cash	**947,356**	1,370,242

Notes to the Consolidated Financial Statements

1. GENERAL

The Company was incorporated under the laws of the Cayman Islands with limited liability on 19 April 2005. Its shares are listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The registered office of the Company is located at Cricket Square, Hutchins Drive, P. O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The principal place of its business is Xinghua City, Jiangsu Province, the People's Republic of China (the "PRC").

The consolidated financial statements are presented in Renminbi ("RMB") which is also the functional currency of the Company and its subsidiaries.

The Company is an investment holding company and the Group is engaged in the manufacture and distribution of radial tire cords and bead wires.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, the following new and revised International Accounting Standard ("IAS"), International Financial Reporting Standard ("IFRS"), amendments and interpretations ("new IFRSs") issued by the International Accounting Standards Board (the "IASB") and the International Financial Reporting Interpretations Committee (the "IFRIC") of the IASB which are effective for the Group's financial year beginning 1 January 2007.

IAS 1 (Amendment)	Capital Disclosures
IFRS 7	Financial Instruments: Disclosures
IFRIC 7	Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies
IFRIC 8	Scope of IFRS 2
IFRIC 9	Reassessment of Embedded Derivatives
IFRIC 10	Interim Financial Reporting and Impairment

No prior period adjustment has been required since the adoption of the new IFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented.

The Group has applied the disclosure requirements under IAS 1 (Amendment) and IFRS 7 retrospectively. Certain information presented in prior year under the requirements of IAS 32 has been removed and relevant comparative information based on the requirements of IAS 1 (Amendment) and IFRS 7 has been presented for the first time in the current year.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS – continued

The Group has not early applied the following new and revised standards or interpretations that have been issued but are not yet effective.

IAS 1 (Revised)	Presentation of Financial Statements[1]
IAS 23 (Revised)	Borrowing Costs[1]
IAS 27 (Revised)	Consolidated and Separate Financial Statements[2]
IAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[1]
IFRS 2 (Amendment)	Vesting Conditions and Cancellations[1]
IFRS 3 (Revised)	Business Combinations[2]
IFRS 8	Operating Segments[1]
IFRIC 11	IFRS 2 - Group and Treasury Share Transactions[3]
IFRIC 12	Service Concession Arrangements[4]
IFRIC 13	Customer Loyalty Programmes[5]
IFRIC 14	IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[4]

1 Effective for annual periods beginning on or after 1 January 2009

2 Effective for annual periods beginning on or after 1 July 2009

3 Effective for annual periods beginning on or after 1 March 2007

4 Effective for annual periods beginning on or after 1 January 2008

5 Effective for annual periods beginning on or after 1 July 2008

The directors of the Company anticipate that the application of these standards, amendments and interpretations will have the following impact on the results and the financial position of the Group.

The adoption of IFRS 3 (revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. IAS 27 (revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions.

Notes to the Consolidated Financial Statements

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared under the historical cost basis, except for certain financial instruments that have been measured at fair values.

The consolidated financial statements have been prepared in accordance with IFRSs issued by the IASB. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporates the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policy of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Business combinations

The acquisition of businesses is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under *IFRS 3 Business Combinations* are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Goodwill

Goodwill arising on an acquisition of a subsidiary represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant subsidiary at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a business is presented separately in the consolidated balance sheet.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of the relevant cash-generating unit, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of discounts and sales related taxes.

Revenue from sales of goods are recognised when goods are delivered and title has passed.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Property, plant and equipment

Property, plant and equipment other than construction in progress are stated at cost less subsequent accumulated depreciation and accumulated impairment loss.

Depreciation is provided to write off the cost of items of property, plant and equipment other than construction in progress over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method.

Construction in progress represents property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in the consolidated income statement on a straight-line basis over the term of the relevant lease.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

The Group as lessee

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the terms of the relevant leases. Benefits received and receivabe as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Leasehold land and building

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is generally treated as a finance lease and accounted for as property, plant and equipment. To the extent the allocation of the lease payments can be made reliably, leasehold interests in land are accounted for as operating leases.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss for the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period.

Borrowing costs

All borrowing costs are recognised as and included in finance costs in the income statement in the period in which they are incurred.

Government grants

Government grants are recognised as income over the periods necessary to match them with the related costs. Grants related to depreciable assets are presented as a reduction from the carrying amount of the relevant asset and are released to income over the useful lives of the assets. Grants related to expense items are recognised in the same period as those expenses are charged in the consolidated income statement and are reported separately as 'other income'.

Notes to the Consolidated Financial Statements

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Retirement benefit costs

Payments to state-managed retirement benefit schemes and defined contribution retirement benefit plans are charged as an expense when employees have rendered service entitling them to the contributions.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction which affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Development expenditure is charged to profit or loss in the period in which it is incurred, unless it meets the recognition criteria of an intangible asset in which case it is capitalised.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and other receivables, amount due from a minority shareholder, pledged bank deposits and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments. At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss (see accounting policy on impairment loss on financial assets below).

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments – continued

Financial assets – continued

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 120 days, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments – continued

Financial assets – continued

Impairment of financial assets – continued

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Impairment losses on available-for-sale equity investments will not be reversed in profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in equity. For available-for-sale debt investments, impairment losses are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The Group's financial liabilities are classified into financial liabilities at fair value through profit or loss and other financial liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis other than those financial liability designated as at fair value through profit or loss, of which the interest expense is included in net gains or losses.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments – continued

Financial liabilities and equity – continued

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss comprise the convertible bonds. Convertible bonds are regarded as compound instruments, consisting of a liability component and the conversion option component, in the case that the conversion option is not settled by the exchange of a fixed monetary amount for a fixed number of equity instruments, the accounting standard requires the issuer to recognise the compound financial instrument in the form of financial liability with embedded derivatives. Derivatives embedded in a financial instrument are treated as separated derivatives when their economic risks and characteristics are not closely related to those of the host contract (the liability component) and the host contract is not carried at fair value through profit or loss. The Group, however, has elected to designate all its convertible bonds with embedded derivatives as financial liabilities at fair value through profit or loss on initial recognition. At each balance sheet date subsequent to initial recognition, the entire convertible bonds are measured at fair value, with changes in fair value recognised directly in profit or loss in the year in which they arise.

Transaction costs that are directly attributable to the issue of the convertible bonds designated as financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Other financial liabilities

Other financial liabilities (including bank borrowings, trade and other payables and amounts due to directors/a related company/minority shareholders) are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Impairment losses

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Valuation of the convertible bonds

The fair value for the convertible bonds is established by using valuation techniques. The Group has established a process to ensure that valuation techniques are developed by qualified personnel employed by the Group and are validated and reviewed by personnel independent of the area that developed the valuation techniques. Valuation techniques are certified before being implemented for valuation and are calibrated to ensure that outputs reflect actual market conditions. However, it should be noted that some inputs, such as credit and counterparty risk and risk correlations, volatility of share price and dividend yield of the Company, require management estimates. Management estimates and assumptions are reviewed periodically and are adjusted if necessary. Should any of the estimates and assumptions changed, it may lead to a change in the fair value of the convertible bonds.

Notes to the Consolidated Financial Statements

5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to the equity holders of the Company through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 28, convertible bonds disclosed in note 29 and equity, comprising share capital and reserves.

The directors of the Company review the capital structure on an annual basis. As part of this review, the directors consider the cost of capital and the risks associate with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through new share issues as well as raising of new borrowings and repayment of existing borrowings.

6. FINANCIAL INSTRUMENTS

a. Categories of financial instruments

	2007	2006
	RMB'000	RMB'000
Financial assets		
Available-for-sales investment	**500**	500
Loans and receivables at amortised cost (including cash and cash equivalents)	**2,473,830**	2,849,543
Financial liabilities		
Liabilities at amortised cost	**1,651,756**	1,810,306
Liabilities designated as at fair value through profit and loss	**237,083**	749,284

6. FINANCIAL INSTRUMENTS – continued

b. Financial risk management objectives and policies

The Group's major financial instruments include bank balances, pledged bank deposits, trade and other receivables, amounts due to minority shareholders/directors/a related company, available-for-sale investments, trade and other payables, bank borrowings and convertible bonds. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) Currency risk

Certain subsidiaries of the Company have foreign currency sales and purchases, which expose the Group to foreign currency risk. Approximately 13.3% (2006: 8.87%) of the Group's sales and 18.4% (2006: 21.9%) of costs are denominated in currencies other than the functional currency of the group.

Certain bank balances, other payables, bank borrowings and convertible bonds of the Group are denominated in United States Dollars ("USD") and Hong Kong Dollars ("HKD") and European Dollars ("EUR"). The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Foreign currency sensitivity

At the balance sheet date, if exchange rates of RMB against USD and HKD had appreciated by 7% and all other variables were held constant, the Group's profit for the year would decrease by approximately RMB21,506,000 (2006: RMB35,097,000). 7% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates.

6. FINANCIAL INSTRUMENTS – continued

b. Financial risk management objectives and policies – continued

Market risk – continued

(ii) Interest rate risk

The Group is exposed to fair value interest rate risk in relation primarily to fixed rate bank borrowings (see note 28 for details of these borrowings) and convertible bonds (see note 29 for details of the convertible bonds). The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arises.

The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank borrowings (see note 29 for details of these borrowings). It is the Group's policy to keep its borrowings at floating rate of interests so as to minimise the fair value interest rate risk.

The Group's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of interest rate determined by the People's Bank of China arising from the Group's Renminbi denominated borrowings.

Interest rate sensitivity

The sensitivity analyses below have been determined based on the exposure to pledged deposits, bank balances and cash, variable interest rates for bank borrowings and convertible bonds at the balance sheet date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period in case of instruments that have floating rates.

If interest rate had been 75 basis points higher/lower and all other variables were held constant, the Group's profit for the year would increase/decrease by approximately RMB5,631,000 (2006: RMB6,601,000). This is mainly attributable to the Group's exposure to interest rates on its variable rate bank borrowings and convertible bond.

6. FINANCIAL INSTRUMENTS – continued

b. Financial risk management objectives and policies – continued

Market risk – continued

(iii) Equity price risk on convertible bonds

The Group is exposed to equity price risk through its convertible bonds.

Equity price sensitivity

The sensitivity analyses below have been determined based on the exposure to equity price risk at the reporting date.

	Increase (decrease) in profit for the year	
	2007	2006
	RMB'000	RMB'000
Change in underlying share price		
Increased by 30%	**(38,476)**	(189,343)
Decreased by 30%	**26,116**	177,735

The Group's price sensitivity in respect of the available-for-sale investments did not change significantly from the prior year.

Credit risk

As at 31 December 2007, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge obligations by the counterparties or debtors is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated balance sheet.

In order to minimise the credit risk, management of the Group has delegated a team recognised for determination of credit limits, credit approvals and other monitoring procedures to ensure that the follow-up action is taken to recover overdue debts. In this regard, the directors of the Company consider that Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

The Group does not have any significant concentration of credit risk. Trade receivables consist of a large number of customers, spread across diverse geographical areas.

Notes to the Consolidated Financial Statements

6. FINANCIAL INSTRUMENTS – continued

b. Financial risk management objectives and policies – continued

Liquidity risk

In the management of liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. Management monitors the utilisation of bank borrowings.

The Group relies on bank borrowings as a significant source of liquidity. As at 31 December 2007, the Group has available unutilised banking facilities of approximately RMB310,000,000 (2006: RMB1,010,000,000).

Liquidity and interest risk tables

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities as at 31 December 2007and 2006. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest dates on which the Group can be required to pay. The tables include both interest and principal cash flows.

At 31 December 2007

	Weighted average effective interest rate	Less than 30 days	31-60 days	61-90 days	91-360 days	Over 1 year	Total undis-counted cash flow	Adjust-ments	Total
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade and other payables	—	223,093	101,165	26,538	96,061	—	446,857	—	446,857
Amounts due to directors	—	335	—	—	—	—	335	—	335
Amount due to a related company	—	2,844	—	—	—	—	2,844	—	2,844
Bank borrowings	6.09	130,660	149,886	109,019	841,056	—	1,230,621	(28,901)	1,201,720
Convertible bonds	5.10	—	—	—	191,578	—	191,578	45,505	237,083
		356,932	251,051	135,557	1,128,695	—	1,872,235	16,604	1,888,839

6. FINANCIAL INSTRUMENTS – continued

b. Financial risk management objectives and policies – continued

Liquidity risk – continued

At 31 December 2006

	Weighted average effective interest rate	Less than 30 days	31-60 days	61-90 days	91-360 days	Over 1 year	Total undis-counted cash flow	Adjust-ments	Total
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade and other payables	—	80,632	118,572	50,888	190,332	—	440,424	—	440,424
Amounts due to directors	—	319	—	—	—	—	319	—	319
Amount due to a related company	—	607	—	—	—	—	607	—	607
Amounts due to minority shareholders	—	—	—	—	8,996	—	8,996	—	8,996
Bank borrowings	5.86	70,342	—	79,143	1,047,425	211,720	1,408,630	(48,670)	1,359,960
Convertible bonds	7.22	—	—	—	4,716	466,829	471,545	277,739	749,284
		151,900	118,572	130,031	1,251,469	678,549	2,330,521	229,069	2,559,590

c. Fair value

The fair value of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities (including derivative instruments) with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices and ask prices respectively; and

- the fair value of other financial assets and financial liabilities (including derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as input.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

7. SEGMENT INFORMATION

The Group's operations and assets are located in the PRC and substantially all of the Group's consolidated revenue and segment profit from operations are derived from the manufacture and distribution of radial tire cords and bead wires to customers substantially located in the PRC. Accordingly, no analyses by business segment and geographical area of operations are provided.

8. REVENUE

Revenue represents amounts receivable for sales of radial tire cords and bead wires in the normal course of business, net of discount.

9. OTHER INCOME

	2007	2006
	RMB'000	RMB'000
Interest income	**51,941**	26,823
Sales of scrap materials	**34,403**	26,762
Cash discounts received from suppliers	**11,924**	—
Sundry income	**4,241**	5,288
Gain on disposal of property, plant and equipment	**119**	—
Net foreign exchange gain	**—**	14,682
	102,628	73,555

10. GOVERNMENT GRANTS

	2007	2006
	RMB'000	RMB'000
Incentive subsidies	**11,282**	10,062

During the years ended 31 December 2007 and 2006, the Group received incentive subsidies from The People's Government of Xinghua Municipality 興化市人民政府 for the Group's technology research and advancement activities. They were granted on the basis that the Group has achieved results which was higher than the average result achieved by other enterprises in Xinghua Municipality. There were no specific conditions attached to the grants in the consolidated income statement and, therefore, the Group recognised the grants in the consolidated income statement when it becomes receivable.

Notes to the Consolidated Financial Statements

11. FINANCE COSTS

	2007	2006
	RMB'000	RMB'000
Interest on:		
Bank loans wholly repayable within five years	**69,043**	72,328
Note receivables discounted	**20,700**	16,286
	89,743	88,614

12. INCOME TAX EXPENSE

	2007	2006
	RMB'000	RMB'000
The charge comprises:		
Current tax		
Current year	**64,593**	1,087
Overprovision in prior year	**—**	(609)
	64,593	478

The tax charge represents income tax in the PRC which is calculated at the prevailing tax rate of 33% on the taxable income of the group entities in the PRC.

No provision for Hong Kong Profits Tax has been made as the Group's profits neither arises in, nor is derived from, Hong Kong for both years.

Pursuant to the Foreign-Invested Enterprises and Foreign Enterprise Income Tax Law 外商投資企業和外國企業所得稅法 in the PRC, Jiangsu Xingda Steel Tyre Cord Co., Ltd. ("Jiangsu Xingda") was entitled to the exemptions from PRC Foreign Enterprise Income Tax ("FEIT") for two years starting from its first profit-making year, followed by a 50% tax relief for the next three years. Jiangsu Xingda was exempted from FEIT for the year ended 31 December 2005 and 2006 and enjoyed a 50% tax relief for the year ended 31 December 2007.

On 16 March 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations will change the tax rate from 33% to 25% on a progressive basis for certain subsidiaries of the Company from 1 January 2008. The deferred tax balance has been adjusted to reflect the tax rates that are expected to apply to the respective periods when the asset is realised or the liability is settled.

12. INCOME TAX EXPENSE – continued

The tax charge for the year can be reconciled to the profit before tax per the income statement as follows:

	2007	2006
	RMB'000	RMB'000
Profit before tax	**513,414**	345,347
Tax at the PRC tax rate of 33%	**169,427**	113,965
Tax effect of fair value adjustment on the convertible bonds not (taxable) deductible for tax purposes	**(25,382)**	52,337
Tax effect of expenses not deductible for tax purposes	**15,422**	54,279
Tax effect of income not taxable for tax purposes	**(11,859)**	(7,308)
Tax effect of tax relief/tax exemption	**(88,263)**	(212,163)
Tax effect of deductible temporary differences not recognised	**4,041**	—
Overprovision in prior year	**—**	(609)
Others	**1,207**	(23)
Tax charge for the year	**64,593**	478

The Group has no significant unprovided deferred tax at the balance sheet date.

13. PROFIT FOR THE YEAR

	2007 RMB'000	2006 RMB'000
Profit for the year has been arrived at after charging and crediting:		
Staff cost, including directors' emoluments (note 14)		
Salaries, wages and other benefits	**222,092**	180,150
Retirement benefits scheme contributions (note 36)		
Current year	**3,515**	4,132
Over provision in prior year	**(1,331)**	(4,132)
Total staff costs	**224,276**	180,150
Allowance for doubtful debts	**4,328**	4,833
Amortisation of prepaid lease payments	**2,485**	2,523
Auditor's remuneration	**1,941**	1,120
Cost of inventories recognised as an expense	**2,076,112**	1,784,329
Depreciation for property, plant and equipment	**178,612**	149,555
Net foreign exchange loss	**31,189**	—
Transaction costs attributable to issue of the convertible bonds	**—**	629

14. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Directors

The emoluments paid or payable to each of 12 (2006: 13) directors are as follows:

	2007 RMB'000	2006 RMB'000
Fees	**3,842**	4,859
Salaries and other allowances	**8,411**	6,569
Bonus (note)	**17,038**	18,942
Retirement benefits scheme contributions	**12**	4
	29,303	30,374

Note: The bonus is determined based on the performance of the Group.

Notes to the Consolidated Financial Statements

14. DIRECTORS' AND EMPLOYEES' EMOLUMENTS – continued

Directors – continued

Details of emoluments of individual directors are set out as follows:

Year ended 31 December 2007

	Fee RMB'000	Salary and other allowance RMB'000	Bonus RMB'000	Retirement benefits scheme contributions RMB'000	Total RMB'000
Executive Directors					
LIU Jinlan	—	3,000	6,200	2	9,202
LIU Xiang	—	1,396	4,604	2	6,002
TAO Jinxiang	—	1,371	4,629	2	6,002
WU Xinghua	—	720	329	2	1,051
CAO Junyong	—	1,220	280	2	1,502
ZHANG Yuxiao	—	704	996	2	1,702
Non-executive Directors					
LU Guangming George	1,947	—	—	—	1,947
WU Xiaohui	379	—	—	—	379
ZHOU Mingchen	379	—	—	—	379
Independent Non-executive Directors					
William John SHARP	379	—	—	—	379
KOO Fook Sun, Louis	379	—	—	—	379
XU Chunhua	379	—	—	—	379
	3,842	8,411	17,038	12	29,303

14. DIRECTORS' AND EMPLOYEES' EMOLUMENTS – continued

Directors – continued

Year ended 31 December 2006

	Fee RMB'000	Salary and other allowance RMB'000	Bonus RMB'000	Retirement benefits scheme contributions RMB'000	Total RMB'000
Executive Directors					
LIU Jinlan	—	3,116	5,438	1	8,555
LIU Xiang	—	942	5,952	1	6,895
TAO Jinxiang	—	867	6,016	1	6,884
WU Xinghua	—	720	203	—	923
CAO Junyong	—	720	333	—	1,053
ZHANG Yuxiao	—	204	1,000	1	1,205
Non-executive Directors					
LU Guangming George	2,042	—	—	—	2,042
WU Xiaohui	541	—	—	—	541
ZHOU Mingchen	541	—	—	—	541
LIM Mengann	511	—	—	—	511
Independent Non-executive Directors					
William John SHARP	408	—	—	—	408
KOO Fook Sun, Louis	408	—	—	—	408
XU Chunhua	408	—	—	—	408
	4,859	6,569	18,942	4	30,374

Notes to the Consolidated Financial Statements

14. DIRECTORS' AND EMPLOYEES' EMOLUMENTS – continued

Employees

Of the five individuals with the highest emoluments in the Group, there were three (2006: three) directors of the Company whose emoluments are included in the disclosures above. The emoluments of the remaining two (2006: two) individuals were as follows:

	2007	2006
	RMB'000	RMB'000
Salaries and other allowances	**316**	333
Bonus	**6,320**	6,767
Retirement benefits scheme contributions	**4**	2
	6,640	7,102

Their emoluments are within the following bands:

	2007	2006
	(Number of employees)	
HKD2,500,001 to HKD3,000,000	**1**	—
HKD3,000,001 to HKD3,500,000	**—**	1
HKD3,500,001 or above	**1**	1
	2	2

None of the directors waived any emoluments for both years.

15. DIVIDEND

	2007	2006
	RMB'000	RMB'000
Ordinary shares:		
2006 interim paid – USD232.96 per share	—	18,627
2006 final paid – 4.00 HK cents per share	50,305	—
	50,305	18,627

A final dividend for the year ended 31 December 2007 of 6.00 HK cents (2006: 4.00 HK cents) per share has been proposed by the directors of the Company and is subject to approval by its shareholders in general meeting.

16. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the equity holders of the Company is based on the following data:

	2007	2006
	RMB'000	RMB'000 (note)
Earnings		
Earnings for the purposes of basic earnings per share	345,412	194,235
Effect of dilutive potential ordinary shares on convertible bonds	(76,915)	—
Earnings for the purposes of diluted earnings per share	268,497	194,235
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	1,329,949	911,633
Effect of dilutive potential ordinary shares on convertible bonds	105,753	—
Weighted average number of ordinary shares for the purposes of diluted earnings per share	1,435,702	911,633

Note: For the year ended 31 December 2006, the calculation of the basic earnings per share for the year is based on the profit attributable to the equity holders of the Company for the year and by reference to the weighted average number of shares 911,632,877. The computation of diluted earnings per share does not assume the conversion of the Company's outstanding convertible bonds since their exercise would result in an increase in earnings per share.

Notes to the Consolidated Financial Statements

17. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Leasehold improvement RMB'000	Plant, machinery and equipment RMB'000	Furniture and fixtures RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
COST							
At 1 January 2006	347,042	—	1,274,165	8,992	19,784	395,988	2,045,971
Additions	3,168	1,600	46,816	1,625	2,400	302,187	357,796
Reclassifications	59,311	—	184,612	—	—	(243,923)	—
At 31 December 2006	409,521	1,600	1,505,593	10,617	22,184	454,252	2,403,767
Additions	—	—	34,248	5,849	6,142	328,254	374,493
Reclassifications	138,205	—	369,385	—	—	(507,590)	—
Disposals	—	—	(922)	(89)	—	—	(1,011)
At 31 December 2007	**547,726**	**1,600**	**1,908,304**	**16,377**	**28,326**	**274,916**	**2,777,249**
DEPRECIATION							
At 1 January 2006	53,968	—	310,065	4,800	6,358	—	375,191
Provided for the year	17,767	400	126,001	1,635	3,752	—	149,555
At 31 December 2006	71,735	400	436,066	6,435	10,110	—	524,746
Provided for the year	23,349	800	147,917	2,228	4,318	—	178,612
Eliminated on disposals	—	—	(292)	(36)	—	—	(328)
At 31 December 2007	**95,084**	**1,200**	**583,691**	**8,627**	**14,428**	**—**	**703,030**
CARRYING VALUES							
At 31 December 2007	**452,642**	**400**	**1,324,613**	**7,750**	**13,898**	**274,916**	**2,074,219**
At 31 December 2006	337,786	1,200	1,069,527	4,182	12,074	454,252	1,879,021

17. PROPERTY, PLANT AND EQUIPMENT – continued

The above items of property, plant and equipment other than construction in progress are depreciated over their estimated useful lives and after taking into account of their estimated residual value, on a straight-line basis at the following rates per annum:

Buildings	20 years
Leasehold improvement	Over the term of the lease
Plant, machinery and equipment	10 years
Furniture and fixtures	5 years
Motor vehicles	5 years

At 31 December 2006, the Group had pledged property, plant and equipment with a carrying value of approximately RMB764,268,000 to secure its bank borrowings. The pledged assets were released during the year.

18. PREPAID LEASE PAYMENTS

	RMB'000
At 1 January 2006	122,670
Additions	123
Charge to income statement	(2,523)
At 31 December 2006	120,270
Charge to income statement	(2,485)
At 31 December 2007	**117,785**

Analysed as:

	2007	2006
	RMB'000	RMB'000
Non-current assets	**115,298**	117,783
Current assets	**2,487**	2,487
	117,785	120,270

Prepaid lease payments are amortised on a straight-line basis over the lease terms from 50 to 70 years as stated in the land use rights certificates.

At 31 December, 2006, the Group had pledged land use rights (prepaid lease payments) with a carrying value of approximately RMB44,274,000 to secure its bank borrowings. The pledged assets were released during the year.

Notes to the Consolidated Financial Statements

19. AVAILABLE-FOR-SALE INVESTMENTS

	2007	2006
	RMB'000	RMB'000
Listed available-for-sale investments	500	500

The above investments represent investment in Qingdao Yellowsea Rubber Co., Ltd., listed equity securities in the PRC. The investment provides the Group with an opportunity for return through dividend income and gain on disposal.

At 31 December 2007, the investment is stated at its approximate at fair value with reference to the bid price quoted in the active market.

20. DEPOSITS PAID FOR PURCHASE OF PROPERTY, PLANT AND EQUIPMENT

	2007	2006
	RMB'000	RMB'000
Deposit paid for the purchase of buildings	94,433	—
Deposit paid for the purchase of other property, plant and equipment	95,861	1,017
	190,294	1,017

21. INVENTORIES

	2007	2006
	RMB'000	RMB'000
Raw materials	170,064	140,299
Work in progress	30,849	17,848
Finished goods	87,811	67,898
	288,724	226,045

22. TRADE AND OTHER RECEIVABLES

The Group has a policy of allowing an average credit period of 120 days to its trade customers. The following is an aged analysis of trade receivables at the balance sheet date:

	2007 RMB'000	2006 RMB'000
Trade receivables		
0 - 90 days	**706,665**	632,378
91 - 180 days	**115,024**	236,585
181 - 360 days	**98,824**	54,528
Over 360 days	**49,238**	6,082
	969,751	929,573
Less: Allowance for doubtful debts	**(10,411)**	(6,082)
	959,340	923,491
Note receivables		
0 - 90 days	**241,199**	356,474
91 - 180 days	**228,733**	181,142
181 - 360 days	**—**	2,636
	469,932	540,252
Advance to raw material suppliers	**137,581**	71,903
Import tax and value-added tax receivable from the PRC customs	**—**	7,619
Spools	**20,381**	15,072
Excess payment for purchase of properties	**29,166**	—
Other receivables and prepayments	**26,279**	15,678
Less: Allowance for doubtful debts	**(120)**	(120)
	213,287	110,152
	1,642,559	1,573,895

Notes to the Consolidated Financial Statements

22. TRADE AND OTHER RECEIVABLES – continued

The Group's trade and other receivables that are denominated in currencies other than the functional currency of the group entities are set out below:

	2007	2006
	'000	'000
USD	**8,195**	6,378
HKD	**356**	578

Before accepting any new customer, the Group will assess the credit quality of each potential customer and defined credit rating and limit for each customer. In addition, the Group will review the repayment history of receivables by each customer with reference to the payment terms stated in contracts to determine the recoverability of a trade receivable. In the opinion of the directors, receivables not past due at year end have good credit quality.

Movement in the allowance for doubtful debts:

	2007	2006
	RMB'000	RMB'000
Balance at 1 January	**6,203**	5,091
Amounts written off during the year	**—**	(3,721)
Provision for the year	**4,328**	4,833
Balance at 31 December	**10,531**	6,203

The Group reviews all receivables overdue more than 1 year for allowance for doubtful debt, amounting to approximately RMB49,238,000 as at 31 December 2007 (2006: RMB6,082,000) because historical experience is such that receivables that are past due beyond 1 year generally have recoverability problems. Trade receivables are provided for based on estimated irrecoverable amounts of discounted cash flow from the sales of goods, determined by reference to past default experience. Other receivables are provided for based on estimated irrecoverable amounts of discounted cash flow, determined by reference to past default experience.

In order to minimise the credit risk, management continuously monitor the level of exposure to ensure that follow-up action and/or corrective actions are taken promptly to lower the risk exposure or to recover overdue balances. Accordingly, the directors believe that adequate allowance for doubtful debts has been made during the year.

22. TRADE AND OTHER RECEIVABLES – continued

Included in the Group's trade receivables are debtors with a carrying amount of RMB137,651,000 at 31 December 2007 (2006: RMB54,528,000) which are past due at the balance sheet date for which the Group has not provided as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances. The average age of these receivables are 270 days at 31 December 2007. No other receivables are past due at the balance sheet date.

The age of trade receivables which are past due but not impaired:

	2007	2006
	RMB'000	RMB'000
181-360 days	**98,824**	54,528
Over 360 days	**38,827**	—
	137,651	54,528

23. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH

Bank balances and cash comprise cash held by the Group and short-term bank deposits, with an original maturity of three months or less. The bank balances carry variable interest rates ranging from 0.72% to 3.68% (2006: 0.72% to 4.20%) for the year. The pledged bank deposits carry variable interest rate of from 3.33% to 4.14%. The pledged bank deposits will be released upon the settlement of relevant bank borrowings.

Pledged bank deposits represent deposits pledged to a bank to secure banking facilities granted to the Group for short-term bank borrowings and are therefore classified as current assets.

The Group's bank balances and cash that are denominated in currencies other than the functional currency of the respective group entities are set out below:

	2007	2006
	'000	'000
HKD	**557,006**	1,127,094
USD	**2,145**	13,214

Notes to the Consolidated Financial Statements

24. TRADE AND OTHER PAYABLES

The following is an aged analysis of trade payables at the balance sheet date:

	2007	2006
	RMB'000	RMB'000
Trade payables		
0 - 90 days	139,113	146,334
91 - 180 days	30,476	18,224
181 - 360 days	9,220	5,427
Over 360 days	5,686	9,071
	184,495	179,056
Value-added tax payables and other tax payables	28,046	13,715
Accrued staff costs	100,077	78,998
Payables for purchase of property, plant and equipment	110,719	113,884
Advance from customers	25,239	—
Accrual pension and unemployment income	13,629	14,960
Accrued interest expense	2,105	2,424
Accrued electricity charges	25,777	20,115
Accrued listing expenses	—	21,375
Others	10,055	9,612
	315,647	275,083
	500,142	454,139

The Group's trade and other payables that are denominated in currencies other than the functional currency of the group entities are set out below:

	2007	2006
	'000	'000
HKD	4,030	23,351
USD	1,142	587
EUR	—	778

The average credit period on purchase of goods is 90 days.

25. AMOUNTS DUE TO DIRECTORS

	2007 RMB'000	2006 RMB'000
WU Xinghua	**208**	208
TAO Jinxiang	**56**	41
ZHANG Yuxiao	**71**	70
	335	319

Advances from directors are non-trading in nature. They are unsecured, non-interest bearing and repayable on demand.

26. AMOUNT DUE TO A RELATED COMPANY

The amount represents hotel and catering service fee payable to Xinghua Municipality Xingda Xiu Yuan Hotel Co., Ltd. 興化市興達綉園酒店有限公司 , which is non-trading in nature.

It is unsecured, non-interest bearing and repayable on demand.

27. AMOUNTS DUE TO MINORITY SHAREHOLDERS

The amounts mainly represented dividend payable to Jiangsu Xing Hong Da Industrial Co., Ltd. and union fees payable to Labour Union of Jiangsu Xingda Steel Tyre Cord Co., Ltd. which were non-trading in nature.

They were unsecured, non-interest bearing and repayable on demand.

Notes to the Consolidated Financial Statements

28. BANK BORROWINGS

	2007 RMB'000	2006 RMB'000
Bank loans	**1,201,720**	1,359,960
Secured	**41,720**	589,960
Unsecured	**1,160,000**	770,000
	1,201,720	1,359,960

The borrowings are repayable as follows:

	2007 RMB'000	2006 RMB'000
On demand or within one year	**1,201,720**	1,159,960
In the second year	**—**	75,000
In the third year	**—**	125,000
	1,201,720	1,359,960
Less: Amount due for settlement within 12 months (shown under current liabilities)	**(1,201,720)**	(1,159,960)
Amount due for settlement after 12 months	**—**	200,000

The Group has variable-rate borrowings which carry interest at rates determined by People's Bank of China.

The ranges of effective interest rates (which are also equal to contracted interest rates) on the Group's borrowings are as follows:

	2007 RMB'000	2006 RMB'000
Bank borrowings comprise:		
Fixed-rate borrowings	**1,101,720**	1,359,960
Variable-rate borrowings	**100,000**	—
	1,201,720	1,359,960

	2007	2006
Effective interest rate:		
Fixed-rate borrowings	**5.43%-8.69%**	5.58%-6.12%
Variable-rate borrowings	**5.84%**	—

28. BANK BORROWINGS – continued

The Group's bank borrowings that are denominated in currencies other than the functional currency of the respective group entities are set out below:

	2007	2006
	'000	'000
USD	**5,711**	—

During the year, Group obtained new loans in the amount of RMB2,016,760,000 (2006: RMB1,917,510,000). The loans bore interest at market rates. The proceeds were used to finance daily working capital.

Bank borrowings were secured by the Group's bank deposit with a carrying value of approximately RMB42,676,000 (2006: secured by the Group's property, plant and equipment and prepaid lease payments with an aggregate carrying value of approximately RMB808,542,000).

29. CONVERTIBLE BONDS

The movement of the convertible bonds for the year is set out as below:

	2007		2006	
	USD'000	**RMB'000**	USD'000	RMB'000
At 1 January	**95,955**	**749,284**	72,294	584,138
Issue of new bonds	**—**	**—**	3,933	31,077
Exchange realignment	**—**	**(38,083)**	—	(20,618)
Interest payment	**(540)**	**(3,946)**	(501)	(3,910)
Gain (loss) arising on changes of fair value	**(10,893)**	**(76,915)**	20,229	158,597
Conversion of the bonds	**(52,065)**	**(393,257)**	—	—
At 31 December	**32,457**	**237,083**	95,955	749,284

On 7 May 2005, 29 December 2005 and 18 January 2006, the Company issued convertible bonds (referred to as the "Convertible Bonds" in this note) for an aggregate principal amount of approximately USD30,400,000 ("First Tranche"), USD19,667,000 and USD3,933,000 (together known as "Second Tranche"), respectively, to two independent third parties who are entitled to interest at 1% per annum.

On 13 September 2006, one of the Convertible Bonds holders transferred part of the First Tranche bonds of a face value of approximately USD5,257,000 ("Transferred First Tranche") to another independent third parties.

29. CONVERTIBLE BONDS – continued

The terms of conversion are as follows:

For each of the First Tranche (excluding the Transferred First Tranche bonds) and Second Tranche bonds, up to 50% of the outstanding amounts may be converted into shares at any time during the period from six months after 21 December 2006 (the "Listing date") to 30 days prior to maturity date of each of such tranches of the Convertible Bonds, which are the banking day immediately preceding each of 7 May 2008, 29 December 2008 and 18 January 2009 respectively (the "Maturity date"). The remaining outstanding amounts may be converted into shares at any time during the period from twelve months after the Listing date to 30 days prior to the relevant Maturity date. Each bondholder may require the Company to convert the whole or any part of the principal amount outstanding under the Convertible Bonds into shares at the conversion price of HKD1.853, subject to adjustments. The Maturity date may be extended by the bondholders for a period of one year by giving notice in writing to the Company not less than 14 days to the Maturity date.

For the Transferred First Tranche bond, the bondholder may, at any time during the period from the expiry of a six months period after the Listing date to 30 days prior to the maturity date of the First Tranche bond, which is the banking day immediately preceding 7 May 2008, require the Company to convert the entire principal amount (or any part thereof) outstanding under the Transferred First Tranche bond into shares at the conversion price of HKD1.853, subject to adjustments. The maturity date may be extended by the bondholder for a period of one year by giving notice in writing to the Company not less than 14 days prior to the banking day immediately prior to 7 May 2008.

The bondholders may request redemption before maturity date if certain conditions occur.

The outstanding Convertible Bonds were fair valued by the directors with reference to a valuation report carried out by an independent valuer, Vigers Appraisal & Consulting Limited, on 31 December 2007 at approximately RMB237,083,000 (2006: RMB749,284,000). The outstanding principal of the Convertible Bonds as at 31 December 2007 is USD25,128,529 (2006: USD54,000,000). The gain on fair value adjustment on the Convertible Bonds amounting to approximately RMB76,915,000 (2005: a loss of RMB158,597,000) has been recognised in the consolidated income statement.

The assumptions adopted for both years for the valuation of the Convertible Bonds are as follows:

(1) The estimation of risk free rate has made reference to the yield of Exchange Fund Notes with same duration as the Convertible Bonds;

(2) The estimation of volatility for the underlying share price has considered the historical price movements of those companies engaged in relatively similar industry; and

(3) The dividend yield on the Company's share is approximately 1% per annum.

The bondholders could elect to extend the Convertible Bonds for a period of one year by giving notice in writing to the Company not less than 14 days prior to the maturity date.

The effective interest rate of the Convertible Bonds is ranging from 5.10% to 5.51% (2006: 7.22% to 7.52%).

29. CONVERTIBLE BONDS – continued

On 5 July 2007, 26 July 2007 and 31 December 2007, the Company received three conversion notices served by two of the bondholders, electing to convert principal amount of USD24,938,138 of the First Tranche bond (excluding the Transferred First Tranche bond) and USD3,933,333 of the Second Tranche bond into ordinary shares of the Company ("Share") at a conversion price of HKD1.853 per Share pursuant to the conditions of the bond agreements. Immediately following the allotment and issue of the Shares pursuant to the said conversions, the total number of Share increased by 121,504,693 shares, representing approximately 8.77% of the enlarged issued share capital of the Company immediately following the last conversion.

The outstanding principal of the Convertible Bonds has been reduced from USD54,000,000 to USD25,128,529 upon the allotment of Shares pursuant to the conversions mentioned above.

30. GOVERNMENT GRANTS

	RMB'000
At 1 January 2006 and 1 January 2007	**15,000**
Additions	**9,900**
At 31 December 2007	**24,900**

The amounts represent government grants received to be used mainly for a technological advancement project which is expected to be completed after 2007. They are recorded as liabilities until the Group completes the project which will be subject to approval by the Technology Bureau of Taizhou.

Notes to the Consolidated Financial Statements

31. SHARE CAPITAL

	Number of shares	Amount	Equivalent to
		USD	RMB'000
Authorised:			
Ordinary shares of USD1.00 each at 1 January 2006	50,000	50,000	413
		HKD	
Re-denomination from USD to HKD (note a) and subdivision of shares by 1 into 78 shares of HKD0.10 each (note b) on 3 December 2006	3,900,000	390,000	413
Increase on 3 December 2006 (note c)	2,996,100,000	299,610,000	300,997
At 31 December 2006, 1 January 2007 and 31 December 2007	3,000,000,000	300,000,000	301,410
		USD	RMB'000
Issued and fully paid:			
At 1 January 2006	10,000	10,000	83
		HKD	
Re-denomination from USD to HKD (note a) and subdivision of shares by 1 into 78 shares of HKD0.10 each (note b) on 3 December 2006	780,000	78,000	83
Capitalisation of the share premium account (note d)	899,220,000	89,922,000	90,500
Issue of shares on 21 December 2006 (note e)	386,000,000	38,600,000	38,822
At 31 December 2006 and 1 January 2007	1,286,000,000	128,600,000	129,405
Issue of shares upon conversion of convertible bonds	121,504,693	12,150,469	11,748
Repurchase of shares (note f)	(21,328,000)	(2,132,800)	(2,062)
At 31 December 2007	**1,386,176,693**	**138,617,669**	**139,091**

31. SHARE CAPITAL – continued

Notes:

(a) On 3 December 2006, the authorised and issued share capital of USD50,000 and USD10,000 of USD1.00 each were re-denominated to HKD390,000 and HKD78,000, respectively, by adopting the exchange rate of USD1.00 to HKD7.8.

(b) On 3 December 2006, every issued and unissued share of par value of HKD7.8 was sub-divided into 78 shares of HKD0.10 each.

(c) On 3 December 2006, the authorised share capital was increased from HKD390,000 to HKD300,000,000 by the creation of 2,996,100,000 shares.

(d) On 3 December 2006, conditional upon the share premium account being credited as a result of the issue of shares pursuant to the initial public offering, the Company issued an aggregate 899,200,000 shares of HKD0.10 each by way of capitalisation of the amount of HKD89,922,000 from the amount standing to the credit of the share premium account.

(e) On 21 December 2006, 386,000,000 shares of HKD0.10 each were issued at HKD3.08 each pursuant to the initial public offering.

(f) During the year ended 31 December 2007, the Company repurchased a total of 21,328,000 of its own shares on the Stock Exchange at a price of HKD2.40 to HKD2.66 per share, for a total consideration, before expenses, of RMB52,496,000. The repurchased shares were cancelled and an amount equivalent to the nominal value of these shares of RMB2,062,000 was transferred from retained earnings to the capital redemption reserve. The premium paid on the repurchased shares was charged against the retained earnings.

Notes to the Consolidated Financial Statements

32. OPERATING LEASE COMMITMENTS

	2007	2006
	RMB'000	RMB'000
Minimum lease payments under operating leases during the year	**2,200**	3,624

The Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of office premises and staff quarters which fall due as follows:

	2007	2006
	RMB'000	RMB'000
Within one year	**949**	2,706
In the second to fifth year inclusive	**—**	1,404
	949	4,110

Leases are negotiated and rentals are fixed for terms from one to three years.

33. CAPITAL COMMITMENTS

	2007	2006
	RMB'000	RMB'000
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the financial statements	**307,756**	85,519

Notes to the Consolidated Financial Statements

34. MAJOR NON-CASH TRANSACTIONS

During the year ended 31 December 2006, dividend declared but not yet paid of approximately RMB6,000,000, were included in amounts due to minority shareholders.

35. CONTINGENT LIABILITIES

On 1 September 2004, The Shanghai Second Intermediate People's Court 上海市第二中級人民法院 served a formal notice to Jiangsu Xingda that 30,000,000 shares of Jiangsu Xingda held by 江蘇興宏達實業有限公司 Jiangsu Xing Hong Da Industrial Co., Ltd. ("Xing Hong Da") were frozen. The notice was silent on the prohibition of payment of dividends by Jiangsu Xingda to Xing Hong Da. However, advised by the PRC legal adviser to the Group, pursuant to the 最高人民法院關於人民法院執行工作若干問題規定 (Provisions of People's Court on Several Issues Concerning the Execution (for Trial Implementation)), the relevant enterprise, of which share capital is the subject of the frozen shares, shall be formally notified by the People's Court of the PRC not to (i) take any procedures to effect any transfer of the frozen shares nor (ii) pay any dividends to the person, whose interest in the frozen shares are the subject matter of the prohibition judgment, after the date of receipt of such notice.

Inadvertently, Jiangsu Xingda paid a dividend of RMB6,000,000 to Xing Hong Da on 24 January 2005. The legal adviser to the Group advised that the legal consequence for the payment of the dividend will only be confined to a monetary liability of up to RMB6,000,000 and that the probability of being liable for repayment of the amount is remote.

No provision has been made at 31 December 2006 as the directors concur with the legal opinion that the chance of being liable for repaying RMB6,000,000 is remote.

In connection with the above, Jiangsu Xingda has obtained an indemnity from the parties who were shareholders of the Company prior to the listing, to indemnify the Company from time to time against any actions, claims losses, damages, costs, charges and expenses which may be made against, suffered or incurred in respect of arising, directly or indirectly, from or in connection with the dividend payment. The indemnity amount of each shareholder is calculated by the actual amount compensated by Jiangsu Xingda multiplied by the proportional interest of each shareholder.

The Court has released the injunction order on 8 August 2007. Consequently, the Group has no contingent liability regarding the payment of such dividend since then.

Notes to the Consolidated Financial Statements

36. RETIREMENT BENEFIT SCHEME CONTRIBUTIONS

The Group's full-time employees are covered by a government-sponsored defined contribution pension scheme, and are entitled to a monthly pension from their retirement dates. The PRC government is responsible for the pension liability to these retired employees. The Group is required to make annual contributions to the retirement plan at a rate of 22% of the employees' salaries subject to the minimum requirement in the Xinghua Municipality, which are charged to operations as expenses when the contributions are due.

The Group's contributions to the retirement benefit scheme are charged to the consolidated income statement as follows:

	2007	2006
	RMB'000	RMB'000
Retirement benefit scheme contributions		
Current year	**3,515**	4,132
Overprovision for prior year	**(1,331)**	(4,132)
	2,184	—

37. RELATED PARTY TRANSACTIONS

Details of transactions between the Group and related parties are disclosed below:

Name of related party	**Nature of transaction**	**Notes**	**2007**	2006
			RMB'000	RMB'000
Xingda Municpality Xingda Xiu Yuan Hotel Co., Ltd. ("Xingda Xiu Yuan")	Provision of hotel and catering services	(a)	**3,075**	3,482
Labour Union of Jiangsu Xingda ("Xingda Labour Union")	Rental expenses	(b)	**—**	720
	Union fees	(c)	**3,733**	3,094
Surfmax Corporation	Incentive compensation paid for negotiating and procuring the execution of the Convertible Bonds agreements	(d)	**—**	317

37. RELATED PARTY TRANSACTIONS – continued

Notes:

(a) Xingda Xiu Yuan is a limited company whose equity interest is held as to 49% by Xingda Labour Union.

(b) The Group entered into tenancy agreements with Xingda Labour Union, a minority shareholder of the Group, pursuant to which Xingda Labour Union agreed to lease to the Group the premises located in Shanghai and Beijing at a monthly rental of RMB50,000 and RMB60,000, respectively. Leases were negotiated and rentals were fixed for terms from one to three years. The leases were terminated at the beginning of the year.

In addition, Xingda Labour Union also agreed to lease the land use rights to the Group at a monthly rental of approximately RMB217,000 for May and June 2006.

(c) The union fees were calculated at 2% on the annual staff salaries and wages of Jiangsu Xingda.

(d) Surfmax Corporation is wholly-owned by Mr. Lu Guangming, George, a common shareholder and director of Surfmax Corporation and the Company. An incentive compensation was calculated at 1% on the principal amount of the convertible bonds issued.

Details of the balances with related parties are set out in the consolidated balance sheet on pages 44 and 45 and notes 25, 26 and 27 to the consolidated financial statements.

Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	2007	2006
	RMB'000	RMB'000
Short-term benefits	**33,091**	32,355
Post-employment benefits	**19**	6
	33,110	32,361

The remuneration of directors and key management is determined by the Remuneration and Management Development Committee having regard to the performance of individuals and market trends.

38. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Details of the Company's subsidiaries as at 31 December 2007 and 2006 are disclosed as follows:

Name of subsidiary	Place incorporation/ registration and operations	Issued and fully paid up share capital/ registered capital	Attributable equity interest held by the Group	Principal activities
Faith Maple International Ltd.	The British Virgin Islands	USD14,083	100%	Investment holding
Jiangsu Xingda Steel Tyre Cord Co., Ltd. 江蘇興達鋼簾線股份有限公司 (note a)	PRC	RMB134,600,000	69.54%	Manufacture and distribution of radial tire cords and bead wires
Xinghua Municipality Lianxing Machinery Manufacturing Co., Ltd. 興化市聯興機械製造有限公司 (note b)	PRC	RMB1,000,000	66.06%	Assembly of plant, machinery and equipment
Shanghai Xingda Steel Tyre Cord Co., Ltd. 上海興達鋼簾線有限公司 (note b)	PRC	RMB500,000	69.19%	Trading of radial tire cords and bead wires
Xingda International (Shanghai) Special Cord Co., Ltd. 興達國際（上海）特種簾線有限公司 (note c)	PRC	USD12,000,000	100%	Investment holding
Jiangsu Xingda Special Cord Co. Ltd. 江蘇興達特種金屬複合線有限公司 (note d)	PRC	USD60,000,000	96.95%	Manufacture of radial tire cords and bead wires

Notes: For the Company's subsidiaries established in the PRC, their respective nature of establishment are as follows:

(a) sino-foreign joint stock limited company
(b) domestic enterprise
(c) wholly foreign owned enterprise
(d) sino-foreign joint venture company

Financial Summary

	Year ended 31 December				
	2003	2004	2005	2006	**2007**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Revenue	962,789	1,683,179	2,357,420	2,516,189	**2,778,061**
Cost of sales	(481,265)	(1,020,143)	(1,648,118)	(1,784,329)	**(2,076,112)**
Gross profit	481,524	663,036	709,302	731,860	**701,949**
Other income	22,343	29,703	57,676	73,555	**102,628**
Government grants	27,611	57,010	46,649	10,062	**11,282**
Selling and distribution expenses	(33,933)	(50,412)	(84,324)	(90,047)	**(102,128)**
Administrative expenses	(107,243)	(112,608)	(143,478)	(132,872)	**(187,489)**
Finance costs	(40,030)	(70,974)	(84,806)	(88,614)	**(89,743)**
Gain (loss) on fair value adjustment on theconvertible bonds	—	—	(179,599)	(158,597)	**76,915**
Loss on dilution of interest in a subsidiary	—	—	(824)	—	**—**
Profit before tax	350,272	515,755	320,596	345,347	**513,414**
Income tax (charge) credit	(51,037)	(117,671)	1,526	(478)	**(64,593)**
Profit for the year	299,235	398,084	322,122	344,869	**448,821**
Profit attributable to:					
Equity holders of the Company	135,780	185,911	116,171	194,235	**345,412**
Minority shareholders	163,455	212,173	205,951	150,634	**103,409**
	299,235	398,084	322,122	344,869	**448,821**
Dividend attributable to:					
Equity holders of the Company	12,219	12,219	15,721	18,627	**50,305**
Earnings per share					
Basic (RMB cent)	21.25	28.52	12.91	21.31	**25.97**
Diluted (RMB cent)	N/A	N/A	12.91	21.31	**18.70**

Financial Summary

	As at 31 December				
	2003	2004	2005	2006	**2007**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
ASSETS AND LIABILITIES					
Total assets	1,766,088	2,445,431	3,384,282	5,170,990	**5,304,113**
Total liabilities	(1,165,792)	(1,703,967)	(2,232,240)	(2,612,846)	**(2,015,152)**
	600,296	741,464	1,152,042	2,558,144	**3,288,961**
Equity attributable to equity holders of the Company	272,367	337,163	642,147	1,905,815	**2,541,423**
Minority interests	327,929	404,301	509,895	652,329	**747,538**
	600,296	741,464	1,152,042	2,558,144	**3,288,961**