# 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)

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# 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. CHENG Kam Ho, CPA

## AUTHORISED REPRESENTATIVES

Mr. ZHANG Yuxiao
Mr. CHENG Kam Ho

## LEGAL ADVISORS

*As to Hong Kong Law:*
Deacons

*As to PRC Law:*
Jingtian & Gongcheng

## AUDITORS

Deloitte Touche Tohmatsu

## REGISTERED OFFICE

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

## HEAD OFFICE

6th Floor, No. 20, Lane 599
Yunling Road (East)
Putuo District
Shanghai 200062
China

## 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

| | 2009<br>RMB in million | 2008<br>RMB in million | Change |
|---|---|---|---|
| **OPERATING RESULTS** | | | |
| Revenue | **3,864** | 3,489 | +10.7% |
| Gross profit | **1,182** | 921 | +28.3% |
| EBITDA (1) | **1,177** | 931 | +26.4% |
| Profit for the year | **725** | 542 | +33.8% |
| Profit attributable to owners of the Company | **548** | 418 | +31.1% |
| Earnings per share – basic (RMB cents) | **39.50** | 30.17 | +30.9% |
| – diluted (RMB cents) | **39.36** | 25.39 | +55.0% |

| | 2009<br>RMB in million | 2008<br>RMB in million | Change |
|---|---|---|---|
| **FINANCIAL POSITION** | | | |
| Total assets | **7,370** | 5,438 | +35.5% |
| Total liabilities | **2,816** | 1,681 | +67.5% |
| Net assets | **4,554** | 3,757 | +21.2% |
| Equity attributable to owners of the Company | **3,459** | 2,886 | +19.9% |

| | 2009 | 2008 |
|---|---|---|
| **KEY RATIOS** | | |
| Gross profit margin (2) | **30.6%** | 26.4% |
| EBITDA margin (3) | **30.5%** | 26.7% |
| Return on equity (4) | **15.8%** | 14.5% |
| Current ratio (5) | **1.48** | 1.52 |
| Gearing ratio (6) | **24.9%** | 21.3% |
| Net debts to equity ratio (7) | **34.4%** | 24.7% |

*Notes:*

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

(2) Gross profit divided by revenue.

(3) EBITDA divided by revenue.

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

# Chairman's Statement

I am pleased to present the 2009 annual results of Xingda International Holdings Limited (the "Company") and its subsidiaries (together, the "Group" or "Xingda").

Taking advantage of the strong growth of the PRC economy helped with the PRC government's RMB4 trillion economic stimulus package, Xingda was able to tap the booming market and achieved encouraging results in 2009. For the year ended 31 December 2009, the Group's turnover increased by 10.7% year-on-year to RMB3,864 million. Gross profit grew by 28.3% year-on-year to RMB1,182 million and net profit rose by 33.8% year-on-year to RMB725 million. Profit attributable to owners of the Company amounted to RMB548 million, up by 31.1% against 2008. In the absence of fair value adjustment on convertible bonds, profit attributable to owners of the Company in 2009 increased by 39.7% year-on-year, or RMB156 million, to RMB549 million.

The Board of Directors of the Company (the "Board") proposed to distribute a final dividend of 10.00 HK cents per share or approximately RMB8.81 cents per share (2008: 8.00 HK cents per share or approximately RMB7.05 cents per share).

The Group is committed to research and development and related efforts have brought it financial benefits. During the year, Jiangsu Xingda Steel Tyre Cord Co., Ltd. ("Jiangsu Xingda"), a 69.54% indirectly owned subsidiary of the Company, was accredited as a High-tech Enterprise enjoying a preferential income tax rate at 15% in the next two years. The accreditation validates the effectiveness of the strategy emphasizing research and development and subsequent efforts put forth by Xingda.

Benefiting from the revival of the Mainland securities market during the year, the Group disposed of 19,500,000 A shares of Aeolus Tyre Co., Ltd ("Aeolus") in January 2010 and realized a gain of approximately RMB186.3 million which will be recognised in year 2010. We believe the disposal was opportune for the Group to realize a reasonable return for strengthening its financial position and enhancing its cash flow. In the future, Xingda will continue to seize investment opportunities that can maximize returns for our shareholders.

In view of the strong demand from domestic market as well as the increasing orders from overseas customers, the Group expanded its production capacity of radial tire cords for both trucks tires and passenger cars tires to 345,000 tonnes as at the end of 2009, representing an increase of 61,000 tonnes or 21.5%. In order to capture opportunities presented by the growing demand from China radial tire cord market and the new orders from our overseas customers, Xingda commenced the construction of a new factory in the second half of 2009 with a design production capacity of 150,000 to 180,000 tonnes. This expansion plan will be carried out in several phases adding a production capacity of about 50,000 tonnes per year and total production capacity for radial tire cords will exceed 500,000 tonnes in 2012.

Given Xingda's high quality products and its competitive price, overseas orders have been increasing amid the gradual recovering global automobile market. As a result, apart from focusing on the domestic market, we will strive to expand into the overseas markets which are expected to grow at a moderate pace. We will boost our competitiveness by upholding our commitment to providing tailored high quality products and comprehensive after-sales services to leading domestic and overseas tire manufacturers.

# Chairman's Statement

Last but not least, we acknowledge the importance of retention of good and dedicated employees. Therefore, the Group launched a share award scheme on top of its competitive remuneration package in September 2009. Employees with good performance who were invited to join the scheme will be entitled to certain number of shares from a pool of 5,000,000 Xingda shares in a period of five years as a token of appreciation.

On behalf of Xingda, I would like to thank our employees, customers, shareholders and suppliers for their contribution and tremendous support. We will strive to consolidate our leadership in China and forge ahead toward the goal of becoming a world-leading radial tire cord manufacturer.

**Liu Jinlan**
*Chairman*

Shanghai, the PRC, 8 April 2010

# Management Discussion and Analysis

## INDUSTRY OVERVIEW

The economic stimulus package launched by the PRC government during 2009 has served as a catalyst for the automobile industry in China. According to statistics of the China Association of Automobile Manufacturers, the country produced approximately 13.8 million vehicles in 2009, representing an increase of 47.8% as compared with the previous year. China has, for the first time, overtaken the United States to become the world's biggest automobile producer in terms of units, accounting for 29% of the world's total automobile output.

During the year, the sales of passenger cars and trucks increased by 54.2% and 42.3% respectively. The strong demand for automobiles in China in turn has provided an impetus for the growth of the country's tire industry. According to the China Rubber Industry Association, the country's total tire output in 2009 rose by 8.6% year-on-year to 380 million units, of which 290 million were radial tires, 16.0% more than the previous year. In addition, the rising fuel price has speeded up the radialization rate of tires in China to reach approximately 76.3% by the end of 2009.

## BUSINESS OVERVIEW

The expansion of the country's infrastructure projects spurred by the stimulus package and its provisions for stimulating the automobile industry have bolstered the sales of radial tires, especially the radial tire for trucks in replacement market, and hence the Group's major products, radial tire cord for truck. In 2009, the Group's total sales volume increased by 20.8% to 304,900 tonnes. Sales volume of radial tire cords increased by 22.4% to 261,100 tonnes, accounting for 85.6% of the total sales volume (2008: 84.5%), whereas the sales volume of bead wires increased by 12.3% to 43,800 tonnes, accounting for 14.4% of the total sales volume (2008: 15.5%) of the Group.

Radial tire cord for truck which has a higher profit than those for passenger car continued to be the Group's major source of revenue with sales volume increasing by 18.6% to 215,500 tonnes. Sales volume of radial tire cords for passenger cars recorded a notable rise of 44.3% to 45,600 tonnes. Sales volume of these two product categories contributed 82.5% and 17.5% to the Group's total sales volume, respectively (2008: 85.2% and 14.8%).

| **Sales Volume** | **2009 Tonnes** | 2008 Tonnes | Change |
|---|---|---|---|
| Radial Tire Cords | **261,100** | 213,300 | +22.4% |
| *– For Truck* | ***215,500*** | *181,700* | *+18.6%* |
| *– For Passenger Car* | ***45,600*** | *31,600* | *+44.3%* |
| Bead Wires | **43,800** | 39,000 | +12.3% |
| Total | **304,900** | 252,300 | +20.8% |

Recovery of domestic freight and passenger car traffic boosted tire consumption and correspondingly domestic radial tire cords consumption. Domestic sales volume of radial tire cords increased by 17.5% to 244,400 tonnes, accounting for 93.6% of the Group's total volume of radial tire cords sold (2008: 97.5%). At the same time, orders from overseas customers, especially those in the United States and European countries increased, leading to a marked 215.1% increase in overseas sales volume of radial tire cords to 16,700 tonnes, accounting for 6.4% of the Group's total sales volume of radial tire cords (2008: 2.5%).

# Management Discussion and Analysis

During the year, the Group expanded its production facilities to an annual capacity of 345,000 tonnes (2008: 283,900 tonnes) for radial tire cords and 66,000 tonnes (2008: 58,200 tonnes) for bead wires. Due to the impact of the global financial crisis in 2008, the demand for radial tire cords remained weak in the first quarter of 2009. Although the market demand rebounded in March 2009, the utilization rates of radial tire cords and bead wires were inevitably decreased slightly to 77% and 69% (2008: 84% and 77%), respectively.

| | **2009 Production Capacity (Tonnes)** | **2009 Utilization Rate** | 2008 Production Capacity (Tonnes) | 2008 Utilization Rate |
|---|---|---|---|---|
| Radial Tire Cords | **345,000** | **77%** | 283,900 | 84% |
| Bead Wires | **66,000** | **69%** | 58,200 | 77% |

To offer a more diverse range of high quality products, the Group developed 15 new types of radial tire cords and 5 new types of bead wires during the year. As at the end of 2009, the Group was offering a comprehensive range of products including 129 types of radial tire cords and 47 types of bead wires to customers.

## FINANCIAL REVIEW

### Revenue

The Group's revenue breakdown by product category is as follows:

| ***RMB in million*** | **2009** | **Proportion** | 2008 | Proportion | Change |
|---|---|---|---|---|---|
| Radial Tire Cords | **3,608** | **93%** | 3,197 | 92% | +411 |
| *– For Truck* | ***3,067*** | ***79%*** | *2,797* | *80%* | *+270* |
| *– For Passenger Car* | ***541*** | ***14%*** | *400* | *12%* | *+141* |
| Bead Wires | **256** | **7%** | 292 | 8% | -36 |
| Total | **3,864** | **100%** | 3,489 | 100% | +375 |

Benefited from the recovering China's automobile market, the total sales volume of the Group increased by 20.8% during the year. In addition, with its ceaseless effort and its effective pricing strategy, the Group was able to maintain the average selling price of its products at a level similar to that of the previous year. The total revenue of the Group was therefore up by 10.7% or RMB375 million to RMB3,864 million in 2009. Besides, overseas sales which has a higher margin than domestic sales contributed 6.1% of the Group's total sales in 2009 (2008: 1.9%).

### Gross profit and gross profit margin

The cost of the major raw material steel wire rods accounted for 54.1% of the Group's cost of sales (2008: 54.8%). Although the price of domestic steel wire rods dropped, the Group managed to maintain the average selling price of its products, enabling it to increase its gross profit margin by 4.2 percentage points to 30.6%. The increase in sales and margin boosted the Group's gross profit by 28.3% or RMB261 million to RMB1,182 million in 2009 (2008: RMB921 million).

## Other income and government grant

Other income increased by RMB28.8 million or 41.8% from RMB68.9 million in 2008 to RMB97.7 million in 2009. The increase was attributable to the discounts received from various creditors fully offsetting the decrease in both bank interest income and sales of scrap raw materials. On the other hand, the Government grant for the year dropped by 19.3% from RMB65.8 million in 2008 to RMB53.1 million in 2009 due to the decrease in incentive subsidies on project basis from the local government.

## Operating expenses

Selling and distribution expenses increased by RMB39.1 million or 28.0% from RMB139.5 million in 2008 to RMB178.6 million in 2009. The increase was mainly caused by the increase in transportation costs and salaries payable to the sales team in line with the growth in sales volume. Meanwhile, administrative expenses increased by RMB5.6 million or 3.2% to RMB179.6 million in 2009 mainly due to a slight increase in administrative staff cost. Other expenses increased by RMB13.9 million or 36.4% from RMB38.2 million in 2008 to RMB52.1 million in 2009. The increment was mainly attributable to an increase in impairment loss recognised on trade and other receivables.

## Finance costs

Finance costs decreased by RMB49.6 million or 47.8% to RMB54.2 million from RMB103.8 million in 2008. The decrease was mainly caused by the drop in effective interest rate.

## Fair value adjustment on convertible bonds

The Company issued convertible bonds for an aggregate principal amount of approximately USD30.4 million, USD19.7 million and USD3.9 million (the "Convertible Bonds") on 7 May 2005, 29 December 2005 and 18 January 2006 respectively, with a coupon rate of 1.0% per annum and the respective maturity date is the banking day immediately preceding the third anniversary of the relevant date of issue (subject to extension in accordance with the terms and conditions of the Convertible Bonds). 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 as 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 a number of variables including the closing share price of the Company's shares, the volatility of the market for the Company's shares and the time to maturity of the Convertible Bonds.

The loss on fair value adjustment on the Convertible Bonds was RMB1.0 million for the year ended 31 December 2009, representing a difference of RMB26.0 million, when compared to the gain of RMB25.0 million in 2008. The loss of 2009 was mainly due to the increase in market price of the Company's shares from HKD0.74 per share as at 31 December 2008 to HKD1.65 per share as at 6 May 2009, the maturity date of the remaining Convertible Bonds held by the Company.

## Income tax

The Group had an income tax charge of RMB142.6 million which was due to the increase in operating profit during the year. The effective tax rate increased from 13.7% in 2008 to 16.4% in 2009 as one of the major operating subsidiaries of the Group, Jiangsu Xingda Special Cord Co., Ltd., which has a prevailing tax rate of 25% and made a higher profit contribution to the Group.

### Net profit

Taking the above factors into account, the Group's net profit for the year ended 31 December 2009 amounted to RMB725 million, representing an increase of RMB183 million, or 33.8% from RMB542 million in 2008. If the gain or loss on fair value adjustment on the convertible bonds was excluded, the adjusted net profit of the Group for the year ended 31 December 2009 would be RMB726 million, representing an increase of RMB209 million, or 40.4%, when compared with last year.

### Reconciliation of report profit and underlying profit

| | **2009**<br>**RMB'000** | 2008<br>RMB'000 |
|---|---|---|
| Profit for the year | **725,143** | 542,398 |
| (Gain) loss on fair value adjustment on the convertible bonds (note) | **1,033** | (24,903) |
| Underlying profit for the year | **726,176** | 517,495 |
| Underlying profit for the year attributable to: | | |
| Owners of the Company | **548,537** | 393,316 |
| Minority interests | **177,639** | 124,179 |
| | **726,176** | 517,495 |

Note: Gain or loss on fair value adjustment on the Convertible Bonds represented the change in the fair value of the Convertible Bonds as calculated by an independent and recognized international business valuer. The gain or loss on fair value adjustment of the convertible bonds was adjusted in the profit for the year as it did not arise from the ordinary course of operation of the Group.

## LIQUIDITY, CAPITAL RESOURCES AND CAPITAL STRUCTURE

During the year, there was no change in the Group's funding and treasury policy. The principal source of liquidity and capital resources was cash flows generated from operating and financing 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 increased by RMB200.5 million from RMB446.0 million as at 31 December 2008 to RMB646.5 million as at 31 December 2009. The increase was due to the cash generated from operating activities of RMB617.6 million and financing activities of RMB504.0 million exceeds the net cash outflow of RMB921.1 million from investing activities.

The bank borrowings were in Renminbi and increased by RMB717.3 million or 64.2% to RMB1,835.0 million as at 31 December 2009 from RMB1,117.7 million as at 31 December 2008. The bank borrowings carry interest at market rates from 4.37% to 4.86% (2008: 4.54% to 9.20%) and are repayable within five years from 31 December 2009.

The Group's current assets increased by 32.7% to RMB3,398.2 million as at 31 December 2009 from RMB2,560.3 million as at 31 December 2008 and its current liabilities increased by 36.2% from RMB1,681.1 million as at 31 December 2008 to RMB2,289.4 million as at 31 December 2009. The Group's current ratio (being defined as current assets over current liabilities) was reduced from 1.52 times as at 31 December 2008 to 1.48 times as at 31 December 2009. The decrease was mainly caused by the increase in bank borrowings repayable within one year. The gearing ratio which is measured by total debts (bank borrowings and Convertible Bonds) to total assets increased from 21.3% as at 31 December 2008 to 24.9% as at 31 December 2009 due to an overall increase in debts despite the decrease of Convertible Bonds.

# Management Discussion and Analysis

## CONVERTIBLE BONDS

In May 2005, the Company issued the first tranche of Convertible Bonds ("First Tranche Bonds") to Tetrad Ventures Pte Ltd ("Tetrad") and Henda Limited ("Henda") for an aggregate principal amount of USD30.4 million (approximately RMB222.1 million). Subject to adjustment, the First Tranche Bonds are convertible at approximately HKD1.853 (approximately RMB1.735) per ordinary share of the Company ("Share") to be issued upon conversion. If the First Tranche Bonds have not been converted in full into shares by 6 May 2008 ("First Tranche Maturity Date"), Tetrad and Henda may require the Company to redeem the outstanding amounts of the First Tranche Bonds respectively. In December 2005 and January 2006, Tetrad and Henda subscribed for the second tranche of Convertible Bonds ("Second Tranche Bonds") for an aggregate principal amount of USD23.6 million (approximately RMB172.4 million), which will be repayable by Tetrad and Henda in December 2008 and January 2009 respectively. The Second Tranche Bonds are also convertible at approximately HKD1.853 (approximately RMB1.735) per Share subject to adjustment. On 13 September 2006, Tetrad agreed to transfer to Goldman Sachs Strategic Investments (Asia) L.L.C. ("GSSIA") part of the First Tranche Bonds in the aggregate principal amount of approximately USD5.3 million (approximately RMB38.4 million) ("GSSIA Bond").

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

In July 2007, Tetrad elected to convert a principal amount of approximately USD19.9 million (approximately RMB151.1 million) of the First Tranche Bonds into Shares at a conversion price of HKD1.853 per Share. Immediately following such conversion, Tetrad held 83,628,471 Shares, and the outstanding principal amount of the First Tranche Bond and the Second Tranche Bond held by Tetrad was USD204,804 (approximately RMB1.42 million) and approximately USD19.7 million (approximately RMB134.9 million) respectively.

In July 2007 and December 2007, Henda elected to convert a principal amount of USD4.5 million (approximately RMB32.9 million), being part of the First Tranche Bonds, and a principal amount of USD4.5 million, being the total outstanding principal amount of the First Tranche Bonds and the Second Tranche Bonds held by Henda, respectively, into shares at a conversion price of HKD1.853 per Share. Immediately following such conversions, Henda held 37,876,222 Shares and the First Tranche Bonds and the Second Tranche Bonds held by Henda were fully converted.

In April 2008, the Company received a notice given by GSSIA to extend the First Tranche Maturity Date for a period of one year to 6 May 2009.

In May 2008, the Company received a notice given by Tetrad requiring the Company to redeem on the First Tranche Maturity Date an aggregate principal amount of USD204,804 (approximately RMB1.42 million) of the First Tranche Bonds, being all the outstanding principal amount of the First Tranche Bonds held by Tetrad, at the redemption amount of USD230,942. The Company also paid Tetrad an amount of USD34,169 (approximately RMB240,000) being all the outstanding and unpaid interests accrued on the First Tranche Bonds held by Tetrad up to and including the First Tranche Maturity Date. Upon the said redemption becoming effective, Tetrad held 83,628,471 Shares and the principal amount of USD204,804 of the First Tranche Bonds so redeemed was forthwith cancelled whereas the outstanding principal amount of the Second Tranche Bonds held by Tetrad remained unchanged at approximately USD19.7 million (approximately RMB134.9 million).

In December 2008, the Company received a notice given by Tetrad to require the Company to redeem on 24 December 2008 ("Second Tranche Maturity Date") an aggregate principal amount of USD19,666,667 of the Second Tranche Bonds, being all the outstanding principal amount of the Second Tranche Bonds held by Tetrad, at the redemption amount of USD22,178,781. The Company also paid Tetrad an amount of USD194,511, being all the outstanding and unpaid interests accrued on the Second Tranche Bonds held by Tetrad up to and including the Second Tranche Maturity Date. Upon the said redemption becoming effective, Tetrad held 83,628,471 Shares and the Second Tranche Bonds so redeemed were forthwith cancelled whereupon Tetrad ceased to hold any convertible bond issued by the Company.

In May 2009, the Company received a notice given by GSSIA to require the Company to redeem on 6 May 2009 an aggregate principal amount of USD5,257,058 of the GSSIA Bond, being all the outstanding principal amount of the GSSIA Bond, at the redemption amount of USD6,179,704. The Company also paid GSSIA an amount of USD52,570 (approximately RMB359,000) (2008: USD137,691 or approximately RMB969,000), being all the outstanding and unpaid interests accrued on the GSSIA Bond up to and including 6 May 2009. Upon the said redemption becoming effective, the GSSIA Bond so redeemed was forthwith cancelled and GSSIA ceased to hold any convertible bond issued by the Company.

All convertible bonds issued by the Company were redeemed or converted into Shares before 31 December 2009.

## FOREIGN EXCHANGE RISK

The Group's sales and purchases were principally denominated in Renminbi and US dollars. As there is no significant fluctuation of exchange rate between Renminbi and US dollars throughout the year, the slight appreciation of the Renminbi did not have a materially unfavourable effect on the operations of the Group.

As apart from certain bank balances in HK and US dollars, almost all of the assets and liabilities of the Group were denominated in Renminbi, the Group was not exposed to significant foreign exchange risk. Thus, during the year under review, exchange rate fluctuation had not caused any major adverse impact on the operation or liquidity of the Group. Accordingly, the Group did not enter any financial derivative instruments to hedge against the foreign exchange currency exposures in 2009. However, the Group will closely monitor the impact of change in value of the Renminbi on its operation and consider appropriate hedging solutions to use, if required.

## CAPITAL EXPENDITURE

For the year ended 31 December 2009, capital expenditure of the Group for property, plant and equipment amounted to RMB874.1 million (2008: RMB738.6 million).

## CAPITAL COMMITMENTS

As at 31 December 2009, the Group had made capital commitment of approximately RMB198.0 million (31 December 2008: RMB53.8 million) for acquisition of property, plant and equipment contracted for but not provided in the financial statements. The Group did not make any capital commitment for acquisition of property, plant and equipment authorized but not contracted for in both years.

# Management Discussion and Analysis

## CONTINGENT LIABILITIES

The Group did not have any material contingent liabilities as at 31 December 2009 (31 December 2008: nil).

## PLEDGE OF ASSETS

As at 31 December 2009, the Group did not pledge any bank deposits to secure its bank borrowings (31 December 2008: RMB33.9 million).

## SIGNIFICANT INVESTMENTS

The Group had no new significant external investments for the year ended 31 December 2009 (2008: RMB98.1 million).

## SIGNIFICANT ACQUISITIONS AND DISPOSALS

The Group had no significant acquisitions and disposals for the years ended 31 December 2009 and 2008.

## HUMAN RESOURCES

As at 31 December 2009, the Group had approximately 7,200 (31 December 2008: approximately 4,500) full time employees and all of them were based in China. Total staff costs including directors' remuneration for the year ended 31 December 2009 was approximately RMB280.3 million (2008: approximately RMB257.7 million). The salaries are generally reviewed with reference to the employees' merit, qualifications and competence. The calculation of bonuses was based on an evaluation of individual efforts and contributions to the financial performance of the Group. The Group also continues to provide training programs for staff to enhance their technical and product knowledge as well as knowledge of industry quality standards.

In addition to salaries and bonuses, the Group also provides various benefits to employees through the Labour Union of Jiangsu Xingda Steel Tyre Cord Co., Ltd. ("Xingda Labour Union"). Each year, Jiangsu Xingda contributes 2% of the total salary of staff ("Union Fee") to support operation of the Xingda Labour Union. The Union Fee, together with other funds obtained by the Xingda Labour Union are used to provide a variety of welfare benefits and services to employees of the Group, including provision of staff quarters which employees may choose to purchase. For the year ended 31 December 2009, the amount of Union Fees contributed by Jiangsu Xingda to the Xingda Labour Union amounted to RMB4.3 million (2008: RMB4.6 million).

According to the Social Insurance Regulations published by the State Council of China on 14 January 1999, the Group is required to make contributions to pension funds and insurance policies for its employees. Full-time employees of the Group in the China are covered by the contributory pension scheme managed by the state entitling them to a monthly pension after they retire. The PRC government is responsible for crediting the pension to the retired and the Group is required to make annual contributions to the retirement scheme run by the Xinghua Municipality at a specified rate. The contribution is booked in due course as an operating expense of the Group. Under the scheme, no forfeited contributions are available to reduce the existing level of contributions. Apart from the pension funds, the Group has provided medical, personal accidental and unemployment insurance policies for its employees of different levels.

# Management Discussion and Analysis

On 4 September 2009, the Board of Directors resolved to adopt a share award scheme to encourage and retain elite employees to work with the Group and to provide incentives to achieve performance goals with a view to attaining the objectives of increasing the value of the Group and aligning the interests of the participants of the scheme directly to the shareholders of the Company through ownership of shares. Pursuant to the scheme, shares will be purchased by the trustee in the market out of cash contributed by the Company and be held in trust for the participants until such shares are vested to them in accordance with the provisions of the scheme. No shares of the Company were bought in the open market by the trustee from the adoption date of the scheme to 31 December 2009.

## PROSPECTS

At the drive of thriving economy activities in the country as well as the continued expansion of the national highway system, freight and passenger traffic have been sharply increasing. This bolstered the revival of radial tire cord demand in 2009, which momentum remained strong even in the traditional slack season in January 2010. To maintain GDP growth, the PRC government is expected to continue the stimulus policies in 2010 and push on with infrastructure development. Such development plus effects of the on-going automobile stimulus scheme will translate into radial tire cord demand conducive to development of the entire industry. Due to high entry barriers, oligopoly situation in China is expected to remain. As a leading manufacturer of radial tire cords in China, Xingda benefits from the trend and stands well in this market environment.

To live up to the High-tech Enterprise accreditation, Xingda will continue to invest in research and development to facilitate offering of greater varieties of products of superb quality. The Group will formulate rational capital expenditure plan driven by market demand and China’s macro economy. The Group will also expand horizontally in other wire applications for higher margin to maintain strong growth momentum. With good control on the selling price of its products trusted by customers, the Group is able to resist profit erosion brought by raw material fluctuation, and is confident of sustaining a stable profit margin and its leadership in China.

As one of the first tier cord manufacturers in China, the Group has laid a solid position in the industry with growing overseas market exposure. Looking ahead, China will remain the core focus of the Group and at the same time, the Group will accelerate its expansion into overseas markets by developing strategic relations with various global tire manufacturers. With the global automobile market rebounding and an increasing number of international tire giants turning to China for radial tire cords at lower costs, fast penetration into the overseas market is foreseeable and the Group believes its share of revenue contribution from overseas markets will grow in future. To fortify its global foothold, the Group will seek to capture every opportunity that can allow it to expand presence in the global radial tire cord industry.

# Directors' and Senior Management's Biographies

## EXECUTIVE DIRECTORS

Mr. LIU Jinlan ( 劉錦蘭 ), aged 60, 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. He 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 14 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 33, 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. In 2009, he graduated from Fudan University with a master's degree in business administration. Mr. Liu has approximately 14 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.

Mr. TAO Jinxiang ( 陶進祥 ), aged 47, 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 14 years of experience in the radial tire cord manufacturing industry.

# Directors' and Senior Management's Biographies

Mr. WU Xinghua (吳興華), aged 46, 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 practise 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 9 years of experience in investment banking and capital markets activities.

Mr. CAO Junyong (曹俊勇), aged 47, 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.

Mr. ZHANG Yuxiao (張宇曉), aged 40, 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. Mr. Zhang obtained a bachelor's degree in sciences from Fudan University in July 1991. Mr. Zhang has more than 9 years of experience in the radial tire cord manufacturing industry.

# Directors' and Senior Management's Biographies

## NON-EXECUTIVE DIRECTORS

Mr. LU Guangming George (魯光明), aged 45, 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. 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 11 years of experience in private equity investments.

Ms. WU Xiaohui (鄔小蕙), aged 49, 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 currently serves as a supervisor of Industrial Bank Co. Ltd (a company listed on the Shanghai Stock Exchange). In 2009, she resigned as a director of 中信證券有限公司 (CITIC Securities Brokerage Limited*) (a company listed on the Shanghai Stock Exchange). 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 22 years of experience in finance. She has been nominated to serve on the Board to represent Surfmax-Estar Fund A, LLC.

Mr. ZHOU Mingchen (周明臣), aged 69, 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 "Hong Kong Stock Exchange")) and Top Glory International Holdings Limited (a company previously listed on the Main Board of the Hong Kong Stock Exchange). Mr. Zhou graduated from the University of International Business and Economics in Beijing and has more than 32 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.

# Directors' and Senior Management's Biographies

## INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. KOO Fook Sun, Louis (顧福身), aged 53, has been an independent non-executive Director since August 2005. Mr. Koo is the managing director of Hercules Capital Limited, a corporate finance advisory firm. Prior to the founding of Hercules Capital Limited, he was the managing director and head of 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 Hong Kong Stock Exchange. Mr. Koo also serves currently as an independent non-executive director of Li Ning Company Limited, Midland Holdings Limited, Good Friend International Holdings Inc. and Weichai Power Company Limited (all of which are companies listed on the Main Board of the Hong Kong Stock Exchange) and Richfield Group Holdings Limited (a company listed on the Growth Enterprise Market of the Hong Kong Stock Exchange). From September 2006 to December 2009, Mr. Koo served as an independent non-executive director of China Communications Construction Company Limited (a company listed on the Main Board of the Hong Kong Stock Exchange); and from January 2007 to October 2009, he was the Vice Chairman, Chief Financial Officer, Treasurer and Principal Accounting Officer of 2020 ChinaCap Acquirco, Inc. (a company listed on NYSE Amex). Mr. Koo graduated with a bachelor's degree in business administration from University of California, Berkeley in the United States of America and is a certified public accountant.

Mr. William John SHARP, aged 68, has been an independent non-executive Director since August 2005. He is a director of Ferro Corporation (FOE), a manufacturer of performance materials listed on the NYSE. Since November 2009. he has been served as an independent director of Exceed Co Ltd (EDS) (a company listed on the NASDAQ). 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 from 1992 to 1996. 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 42 years of experience in the tire manufacturing industry.

Ms. XU Chunhua (許春華), aged 66, 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 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. From December 2006 to August 2007, she was 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 completed her studies in the macromolecular curriculum of the chemistry faculty of Fudan University in 1965 and has more than 42 years of experience in technology research relating to rubber chemicals.

## COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Mr. CHENG Kam Ho (鄭錦豪), aged 34, is the qualified accountant and company secretary of the Company. Mr. Cheng joined the Company as a member of its senior management in July 2008. He has more than 10 years of experience in finance, accounting and auditing. Mr. Cheng worked in the accounting firms in Hong Kong from July 1998 to June 2008, before joining the Company. He has been a member of the Hong Kong Institute of Certified Public Accountants since 19 July 2005. Mr. Cheng graduated from The Hong Kong Polytechnic University with the degree of Bachelor of Arts in Accountancy in 1998.

* *denotes an English translation of a 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 2009.

## PRINCIPAL ACTIVITIES

The Group is principally engaged in the manufacturing and trading of radial tire cords and bead wires. The Company acts as an investment holding company. The principal activities of the principal subsidiaries of the Company are set out in note 39 to the financial statements.

## RESULTS AND APPROPRIATIONS

Details of the Group's results for the year ended 31 December 2009 are set out in the consolidated statement of comprehensive income on pages 37 and 38 of the annual report.

A final dividend of 8.00 HK cents per share for the year ended 31 December 2008 was paid to the shareholders of the Company during the year ended 31 December 2009.

The Board has recommended the payment of a final dividend of 10.00 HK cents (approximately RMB 8.81 cents) per share for the financial year ended 31 December 2009 to the shareholders whose names appear on the register of members of the Company on Thursday, 20 May 2010. The final dividend will be payable on Thursday, 10 June 2010.

## CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 18 May 2010 to Thursday, 20 May 2010, both days 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 Thursday, 20 May 2010, 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 Monday, 17 May 2010.

## DONATION

During the year, the Group did not make any charitable donations.

## 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 pages 101 and 102 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 19 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 of Hong Kong Limited (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 2009, the Group has utilised approximately HKD680 million of the net proceeds and the details are as follows:

| | **Proposed uses of fund as stated in the Prospectus** *HKD'000* | **Actual uses of funds during the year ended 31 December 2009** *HKD'000* | **Balance of net proceeds as at 31 December 2009** *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 | 3,801 | 66,199 |
| Implementing the overseas expansion strategies through acquisition of suitable business targets | 250,000 | — | 250,000 |
| Set-up of international development departments | 180,000 | 89,358 | 90,642 |
| Working capital | 37,000 | 37,000 | — |
| Total | 1,087,000 | 680,159 | 406,841 |

The remaining amount of approximately HKD407 million was placed in short term deposits with licensed banks in Hong Kong and the People's Republic of 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 33 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 RMB969.3 million as at 31 December 2009 (2008: RMB1,080.2 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 of 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 2009 are set out in notes 30 and 31 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 Jinlan, Mr. WU Xinghua, Mr. LU Guangming George and Ms. XU Chunhua will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company. The biographical details of the Directors and senior management of the Group are set out on pages 14 to 17 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 ("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' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2009, the interests 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 2009 |
|---|---|---|---|
| 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)* | 705,541,693 | 50.90% |
| 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)* | 705,541,693 | 50.90% |
| 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)* | 705,541,693 | 50.90% |
| 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)* | 705,541,693 | 50.90% |
| Lu Guangming George | Interests of controlled corporations *(note 6)* | 195,549,000 | 14.11% |

*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 2009, Great Trade Limited held 253,480,000 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 2009, In-Plus Limited held 143,814,000 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 2009, 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 2009, Power Aim Limited held 43,534,000 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.

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 2009, Surfmax-Estar Fund A, LLC held 187,269,000 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 2009. 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.

### (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 2009 |
|---|---|---|---|---|
| Zhang Yuxiao | Beneficial Owner | Jiangsu Xingda Steel Tyre Cord Co., Ltd. | 100 | 0.000074% |

Save as disclosed above, as at 31 December 2009, 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 2009, the interests 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 2009 |
|---|---|---|---|
| Great Trade Limited | Beneficial owner | 251,848,000 | 18.17% |
| In-Plus Limited | Beneficial owner | 142,714,000 | 10.30% |
| Perfect Sino Limited | Beneficial owner | 117,529,000 | 8.48% |
| 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)* | 705,541,693 | 50.90% |
| Surfmax-Estar Fund A, LLC | Beneficial owner | 187,269,000 | 13.51% |
| Surfmax Corporation | Interest of a controlled corporation *(note 2)* | 187,269,000 | 13.51% |

*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 2009, 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.

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.

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 2009 which are required to be recorded in the register maintained under section 336 of the SFO.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2009.

## 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 2009 is disclosed in note 16 to the financial statements.

## MAJOR CUSTOMERS AND SUPPLIERS

The five largest customers of the Group contributed approximately 48% of the Group's total revenue for the year and the largest customer contributed approximately 12% of the Group's total revenue. The five largest suppliers represented approximately 65% of the Group's total purchases for the year and the largest supplier represented approximately 19% of the Group's total purchases.

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

## PRE-EMPTIVE RIGHTS

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

## SUFFICIENCY OF PUBLIC FLOAT

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

## AUDITORS

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

On behalf of the Board
**LIU Jinlan**
*Chairman*

8 April 2010

# 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 maintaining 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 2009, 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 that 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 three executive Directors and one non-executive Director) 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 re-appointment, 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 14 to 17 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 co-ordination 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 the 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.

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.

# Corporate Governance Report

The Board will meet regularly at least four times a year at approximately quarterly intervals. For the year ended 31 December 2009, 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 2009:

| | 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 | 1/1 |
| 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 | 1/1 |
| Mr. WU Xinghua | 4/4 | N/A | N/A | N/A | N/A | N/A | 1/1 |
| 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 | 1/1 |
| **Non-executive Directors** | | | | | | | |
| Mr. LU Guangming George | 3/4 | N/A | N/A | 0/0 | 1/1 | 1/1 | 1/1 |
| Ms. WU Xiaohui | 4/4 | N/A | N/A | N/A | N/A | N/A | N/A |
| Mr. ZHOU Mingchen | 3/4 | 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 | 3/3 | N/A | N/A | N/A | N/A |
| Mr. William John SHARP | 3/4 | 2/2 | 3/3 | 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 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 meetings 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 relevant 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 2009 to indemnify the Directors and officers for their liabilities arising out of corporate activities. The insurance coverage and premium is reviewed on an annual basis.

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

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

Pursuant to Article 87 of the Articles of Association of the Company, one-third of the Directors shall retire from office by rotation, and shall be eligible for re-election, at each annual general meeting. Mr. Liu Jinlan, Mr. Wu Xinghua, Mr. Lu Guangming George and Ms. Xu Chunhua 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 the Board has 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.

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

(a) to make recommendation to the Board on the appointment, re-appointment 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 review the financial and accounting policies and practices of the Company and its subsidiaries;

(h) 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;

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

(j) 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 2009. During the meetings held, the Audit Committee had performed the following work:

- reviewing the audited financial statements for the year ended 31 December 2008 and the unaudited financial statements for the six months ended 30 June 2009;
- reviewing and discussing the management letter issued by the external auditors; and
- monitoring the measures taken by the management to improve the Group's internal control systems.

On 7 April 2010, the Audit Committee met with the external auditors to discuss the general scope of their audit work and reviewed the financial statements for the year ended 31 December 2009 as well as the management letter issued by the external auditors for the annual audit for the year ended 31 December 2009.

## 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 monitor the operation of and make recommendations of awards under share award scheme that was adopted by the Company during the year. The purposes of the share award scheme are to encourage and retain employees to work with the Group and to provide incentive for them to achieve performance goals with a view to achieving the objectives of increasing the value of the Group and aligning the interests of the employees directly to the shareholders of the Company through ownership of its shares.

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 three times during the year ended 31 December 2009. 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 2009; and

- approving the proposal of the share award scheme for the employees of the Group and recommending such scheme to the Board for adoption.

Subsequent to the year 2009, the Remuneration Committee held another meeting on 5 February 2010. At such meeting, the Remuneration Committee among other things:-

- considered the performance of the executive Directors and the Group and the total remuneration and compensation of the executive Directors for the year 2009, and resolved that the total remuneration and compensation of the executive Directors paid for the year ended 31 December 2009 was approved, ratified and recommended to the Board; and

- approved the participants of the share award scheme adopted by the Company during the year 2009 and the respective numbers of shares to be awarded to them.

## 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 2009.

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 2009.

### 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 2009.

### 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 2009.

### Investment and International Development Committee

The Company established the Investment and International Development Committee on 30 September 2005. The principal functions and responsibilities of the Investment and International Development Committee are to consider, approve and oversee the Group's international market development and investment related initiatives and allocations of resources, and make recommendations on new development initiatives to the Board for approval. The Investment and International Development Committee consists of five Directors, namely Mr. Liu Jinlan, Mr. Lu Guangming George, Mr. Zhang Yuxiao, Mr. Wu Xinghua and Mr. Tao Jinxiang. The chairman of the Investment and International Development Committee is Mr. Lu Guangming George. The Investment and International Development Committee had one meeting during the year ended 31 December 2009.

## DIRECTORS' AND AUDITORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Board acknowledges the responsibilities of overseeing the preparation of the financial statements for the year ended 31 December 2009, 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 2009, 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 35 and 36 of this annual report.

## AUDITORS' REMUNERATIONS

For the year ended 31 December 2009, the Group paid approximately RMB1,488,000 and RMB279,000 to the external auditor 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 systems of internal control, and is committed to the ongoing development of an effective internal control system to safeguard assets against unauthorized use, to ensure the maintenance of proper accounting records for the provision of reliable financial information and to enhance risk management and compliance with applicable legislation and regulations. The Group has adopted a set of internal control procedures and policies to safeguard the Group's assets and to ensure the reliability of financial reporting. The internal control systems are designed to ensure that the financial and operational functions, compliance control, asset management and risks management functions are in place and functioning effectively. In order to monitor the systems effectively, the Group established an internal audit department in January 2007. The internal audit department is responsible for performing regular reviews on the internal control systems of the Group to provide reasonable assurance on the effectiveness, soundness, adequacy and completeness of the Group's internal control systems.

The Board will continue to conduct reviews on the internal control systems 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, the Company has received confirmations from all Directors that they have complied with the required standards set out in the Model Code during the year ended 31 December 2009.

The Company has also adopted procedures on terms no less exacting than the Model Code in respect of the securities transactions of the employees who are likely to be in possession of unpublished price-sensitive information.

## COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS RELATIONS

The Company values its relationship with investors and shareholders and communications with them is a high priority. The Company announces interim and annual results as early as possible to update shareholders of the Group's financial performance in a timely manner. Apart from that, the Company has assigned its chief financial officer, the financial controller 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 2009, the management conducted over 40 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 global steel cords industry through publicly disclosed information. Comments and advices from the investors were communicated to the management for providing responses in a timely manner. In order to strengthen the communication and interaction with the investors, the Company will continue to focus on enhancing communications with investors through various means by organizing more non-deal roadshows, company visits and meetings 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 37 to 100, which comprise the consolidated statement of financial position as at 31 December 2009, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows 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.

# Independent Auditor's Report

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.

## 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 2009 and of its 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 2010

# Consolidated Statement of Comprehensive Income

For the year ended 31 December 2009

| | NOTES | 2009 RMB'000 | 2008 RMB'000 |
|---|---|---|---|
| Revenue | 8 | **3,864,409** | 3,488,518 |
| Cost of sales | | **(2,682,026)** | (2,567,757) |
| Gross profit | | **1,182,383** | 920,761 |
| Other income | 9 | **97,713** | 68,920 |
| Government grants | 10 | **53,102** | 65,840 |
| Selling and distribution expenses | | **(178,575)** | (139,488) |
| Administrative expenses | | **(179,581)** | (173,990) |
| Other expenses | 11 | **(52,102)** | (38,185) |
| Finance costs | 12 | **(54,176)** | (103,808) |
| (Loss) gain on fair value adjustment on the convertible bonds | | **(1,033)** | 24,903 |
| Gain on deregistration of a subsidiary | 13 | **—** | 3,398 |
| Profit before tax | | **867,731** | 628,351 |
| Income tax expense | 14 | **(142,588)** | (85,953) |
| Profit for the year | 15 | **725,143** | 542,398 |
| **Other comprehensive income** | | | |
| Fair value gain on available-for-sale investments | | **211,177** | — |
| Reclassification adjustment upon disposal of available-for-sale investments | | **(1,942)** | — |
| Deferred tax liability on recognition of fair value gain on available-for-sale investments | | **(31,385)** | — |
| Total other comprehensive income for the year (net of tax) | | **177,850** | — |
| Total comprehensive income for the year | | **902,993** | 542,398 |

# Consolidated Statement of Comprehensive Income

For the year ended 31 December 2009

| | NOTE | 2009 RMB'000 | 2008 RMB'000 |
|---|---|---|---|
| Profit for the year attributable to: | | | |
| Owners of the Company | | **547,504** | 418,219 |
| Minority interests | | **177,639** | 124,179 |
| | | **725,143** | 542,398 |
| Total comprehensive income attributable to: | | | |
| Owners of the Company | | **671,181** | 418,219 |
| Minority interests | | **231,812** | 124,179 |
| | | **902,993** | 542,398 |
| Earnings per share | 18 | | |
| Basic (RMB cents) | | **39.50** | 30.17 |
| Diluted (RMB cents) | | **39.36** | 25.39 |

# Consolidated Statement of Financial Position

AT 31 DECEMBER 2009

| | NOTES | 2009 | 2008 |
|---|---|---|---|
| | | **RMB'000** | RMB'000 |
| ASSETS AND LIABILITIES | | | |
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 19 | **3,187,656** | 2,575,489 |
| Prepaid lease payments | 20 | **232,034** | 179,524 |
| Investment properties | 21 | **119,300** | — |
| Available-for-sale investments | 22 | **307,320** | 98,585 |
| Deferred tax assets | 23 | **—** | 12,605 |
| Deposits paid for purchase of property, plant and equipment | | **125,242** | 11,870 |
| | | **3,971,552** | 2,878,073 |
| CURRENT ASSETS | | | |
| Prepaid lease payments | 20 | **4,921** | 3,858 |
| Inventories | 24 | **430,904** | 510,985 |
| Trade and other receivables | 25 | **2,315,835** | 1,565,652 |
| Pledged bank deposits | 26 | **—** | 33,880 |
| Bank balances and cash | 26 | **646,544** | 445,971 |
| | | **3,398,204** | 2,560,346 |

# Consolidated Statement of Financial Position

AT 31 DECEMBER 2009

| | NOTES | 2009 RMB'000 | 2008 RMB'000 |
|---|---|---|---|
| CURRENT LIABILITIES | | | |
| Trade and other payables | 27 | **877,550** | 472,614 |
| Amount due to a director | 28 | **48** | 48 |
| Amount due to a related company | 29 | **1,284** | 827 |
| Amount due to a minority shareholder | | **—** | 1,718 |
| Government grants | 32 | **—** | 900 |
| Tax payable | | **75,546** | 45,738 |
| Bank borrowings - due within one year | 30 | **1,335,000** | 1,117,739 |
| Convertible bonds | 31 | **—** | 41,561 |
| | | **2,289,428** | 1,681,145 |
| NET CURRENT ASSETS | | **1,108,776** | 879,201 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | **5,080,328** | 3,757,274 |
| NON-CURRENT LIABILITIES | | | |
| Deferred tax liabilities | 23 | **15,515** | — |
| Bank borrowings - due after one year | 30 | **500,000** | — |
| Government grants | 32 | **10,500** | — |
| | | **526,015** | — |
| NET ASSETS | | **4,554,313** | 3,757,274 |

# Consolidated Statement of Financial Position

AT 31 DECEMBER 2009

| | NOTE | **2009** | 2008 |
|---|---|---|---|
| | | **RMB'000** | RMB'000 |
| CAPITAL AND RESERVES | | | |
| Share capital | 33 | **139,091** | 139,091 |
| Reserves | | **3,319,935** | 2,746,508 |
| EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY | | **3,459,026** | 2,885,599 |
| MINORITY INTERESTS | | **1,095,287** | 871,675 |
| TOTAL EQUITY | | **4,554,313** | 3,757,274 |

The consolidated financial statements on pages 37 to 100 were approved and authorised for issue by the Board of Directors on 8 April 2010 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 2009

| | Attributable to owners of the Company | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital RMB'000 | Share premium RMB'000 | Special reserve RMB'000 (note a) | Capital contribution reserve RMB'000 (note b) | Statutory common reserve RMB'000 (note c) | Investment revaluation reserve RMB'000 | Capital redemption reserve RMB'000 | Retained earnings RMB'000 | Total RMB'000 | Minority interests RMB'000 | Total RMB'000 |
| At 1 January 2008 | 139,091 | 1,289,942 | 283,352 | (126,702) | 183,818 | — | 2,062 | 769,860 | 2,541,423 | 747,538 | 3,288,961 |
| Profit and total comprehensive income for the year | — | — | — | — | — | — | — | 418,219 | 418,219 | 124,179 | 542,398 |
| Release upon deregistration of a subsidiary | — | — | — | (3,448) | — | — | — | 3,448 | — | (42) | (42) |
| Appropriations | — | — | — | — | 46,185 | — | — | (46,185) | — | — | — |
| Dividend recognised as distribution (note 17) | — | (74,043) | — | — | — | — | — | — | (74,043) | — | (74,043) |
| At 31 December 2008 and 1 January 2009 | 139,091 | 1,215,899 | 283,352 | (130,150) | 230,003 | — | 2,062 | 1,145,342 | 2,885,599 | 871,675 | 3,757,274 |

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2009

| | Attributable to owners of the Company | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital RMB'000 | Share premium RMB'000 | Special reserve RMB'000 (note a) | Capital contribution reserve RMB'000 (note b) | Statutory common reserve RMB'000 (note c) | Investment revaluation reserve RMB'000 | Capital redemption reserve RMB'000 | Retained earnings RMB'000 | Total RMB'000 | Minority interests RMB'000 | Total RMB'000 |
| Profit for the year | – | – | – | – | – | – | – | 547,504 | 547,504 | 177,639 | 725,143 |
| Fair value gain on available-for-sale investments | – | – | – | – | – | 146,853 | – | – | 146,853 | 64,324 | 211,177 |
| Reclassification adjustment upon disposal of available-for-sale investments | – | – | – | – | – | (1,351) | – | – | (1,351) | (591) | (1,942) |
| Deferred tax liability on recognition of fair value gain on available-for-sale invstments | – | – | – | – | – | (21,825) | – | – | (21,825) | (9,560) | (31,385) |
| Total other comprehensive income for the year | – | – | – | – | – | 123,677 | – | – | 123,677 | 54,173 | 177,850 |
| Total comprehensive income for the year | – | – | – | – | – | 123,677 | – | 547,504 | 671,181 | 231,812 | 902,993 |
| Appropriations | – | – | – | – | 72,440 | – | – | (72,440) | – | – | – |
| Dividend recognised as distribution (note 17) | – | (97,754) | – | – | – | – | – | – | (97,754) | – | (97,754) |
| Dividend recognised as distribution to minority shareholder of a subsidiary | – | – | – | – | – | – | – | – | – | (8,200) | (8,200) |
| **At 31 December 2009** | **139,091** | **1,118,145** | **283,352** | **(130,150)** | **302,443** | **123,677** | **2,062** | **1,620,406** | **3,459,026** | **1,095,287** | **4,554,313** |

Note:

(a) Special reserve represents the difference between the paid-in capital of Faith Maple International Ltd. ("Faith Maple") acquired by the Company and the nominal value of the share capital of the Company through an exchange of shares. It also represents the difference between the consideration paid by Faith Maple and the net carrying amount of equity interest in Jiangsu Xingda Steel Tyre Cord Co., Ltd. ("Jiangsu Xingda") at date of acquisition.

(b) Capital contribution reserve represents deemed distribution to shareholders for the acquisition of equity interest in Jiangsu Xingda and contribution received from shareholders. Upon the deregistration of a subsidiary during the year ended 31 December 2008, negative goodwill of approximately RMB3,448,000 relating to the acquisition of this subsidiary has been released to retained earnings.

(c) According to the Articles of Association of the subsidiaries, Jiangsu Xingda, Jiangsu Xingda Special Cord Co., Ltd. ("Xingda Special Cord"), Xingda International (Shanghai) Special Cord Co., Ltd. ("Xingda International (Shanghai)") and Shanghai Xingda Steel Tyre Cord 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.

# Consolidated Statement of Cash Flows

For the year ended 31 December 2009

| | 2009 RMB'000 | 2008 RMB'000 |
|---|---|---|
| OPERATING ACTIVITIES | | |
| Profit before tax | **867,731** | 628,351 |
| Adjustments for: | | |
| Depreciation and amortisation | **254,408** | 227,534 |
| Interest income | **(13,872)** | (19,705) |
| Gain on disposal of available-for-sale investments | **(1,942)** | — |
| Decrease in fair value upon transfer of property, plant and equipment to investment properties | **5,524** | — |
| Gain on fair value change on investment properties | **(3,810)** | — |
| Loss on disposal of property, plant and equipment | **3,503** | 10,135 |
| Impairment loss recognised on trade and other receivables | **35,279** | 21,826 |
| Gain on deregistration of a subsidiary | **—** | (3,398) |
| Finance costs | **54,176** | 103,808 |
| Government grants | **(900)** | (24,000) |
| Loss (gain) on fair value adjustment on the convertible bonds | **1,033** | (24,903) |
| Exchange gain arising on the convertible bonds | **(17)** | (15,145) |
| Operating cash flows before movements in working capital | **1,201,113** | 904,503 |
| Decrease (increase) in inventories | **80,081** | (222,261) |
| (Increase) decrease in trade and other receivables | **(825,307)** | 55,081 |
| Increase (decrease) in trade and other payables | **268,615** | (12,450) |
| Decrease in amount due to a director | **—** | (287) |
| Increase in government grants | **10,500** | — |
| Increase (decrease) in amount due to a related company | **457** | (2,017) |
| (Decrease) increase in amount due to a minority shareholder | **(1,718)** | 1,718 |
| Cash generated from operations | **733,741** | 724,287 |
| Income tax paid | **(116,045)** | (100,948) |
| NET CASH GENERATED FROM OPERATING ACTIVITIES | **617,696** | 623,339 |

# Consolidated Statement of Cash Flows

For the year ended 31 December 2009

| | 2009 | 2008 |
|---|---|---|
| | RMB'000 | RMB'000 |
| INVESTING ACTIVITIES | | |
| Purchase of property, plant and equipment | (715,343) | (640,391) |
| Deposits paid for purchase of property, plant and equipment | (125,242) | — |
| Purchase of investment properties | (88,135) | — |
| Additions of prepaid lease payments | (43,761) | — |
| Decrease in pledged bank deposits | 33,880 | 8,796 |
| Interest received | 13,872 | 19,705 |
| Proceeds on disposal of available-for-sale investment | 2,442 | — |
| Proceeds on disposal of property, plant and equipment | 1,207 | 2,557 |
| Purchase of available-for-sale investments | — | (98,085) |
| NET CASH USED IN INVESTING ACTIVITIES | (921,080) | (707,418) |
| FINANCING ACTIVITIES | | |
| New bank loans raised | 3,139,142 | 3,297,998 |
| Repayment of bank loans | (2,421,881) | (3,381,979) |
| Interest paid | (64,773) | (103,808) |
| Dividend paid | (97,754) | (74,043) |
| Payment for redemption of convertible bonds | (42,218) | (153,188) |
| Dividends paid to minority shareholders | (8,200) | — |
| Interest paid on the convertible bonds | (359) | (2,286) |
| NET CASH GENERATED FROM (USED IN) FINANCING ACTIVITIES | 503,957 | (417,306) |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 200,573 | (501,385) |
| CASH AND CASH EQUIVALENTS AT 1 JANUARY | 445,971 | 947,356 |
| CASH AND CASH EQUIVALENTS AT 31 DECEMBER, represented by bank balances and cash | 646,544 | 445,971 |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

## 1. GENERAL

The Company is a limited company incorporated in the Cayman Islands and 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 trading 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 the following new and revised Standards, Amendments and Interpretations ("new and revised IFRSs") issued by the International Accounting Standards Board ("IASB").

| | |
|---|---|
| IAS 1 (Revised 2007) | Presentation of Financial Statements |
| IAS 23 (Revised 2007) | Borrowing Costs |
| IAS 32 & 1 (Amendments) | Puttable Financial Instruments and Obligations Arising on Liquidation |
| IFRS 1 & IAS 27 (Amendments) | Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate |
| IFRS 2 (Amendment) | Vesting Conditions and Cancellations |
| IFRS 7 (Amendment) | Improving Disclosures about Financial Instruments |
| IFRS 8 | Operating Segments |
| IFRIC - Int 9 & IAS 39 (Amendments) | Embedded Derivatives |
| IFRIC - Int 13 | Customer Loyalty Programmes |
| IFRIC - Int 15 | Agreements for the Construction of Real Estate |
| IFRIC - Int 16 | Hedges of a Net Investment in a Foreign Operation |
| IFRIC - Int 18 | Transfers of Assets from Customers |
| IFRSs (Amendments) | Improvements to IFRSs issued in 2008, except for the amendment to IFRS 5 that is effective for annual periods beginning or after 1 July 2009 |
| IFRSs (Amendments) | Improvements to IFRSs issued in 2009 in relation to the amendment to paragraph 80 of IAS 39 |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

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

Except as described below, the adoption of the new and revised IFRSs had no material effect on the consolidated financial statements of the Group for the current or prior accounting periods.

**IAS 1 (Revised 2007) Presentation of Financial Statements**

IAS 1 (Revised 2007) has introduced terminology changes (including revised titles for the financial statements) and changes in the format and content of the financial statements.

**Improving Disclosures about Financial Instruments (Amendments to IFRS 7 Financial Instruments: Disclosures)**

The amendments to IFRS 7 expand the disclosures required in relation to fair value measurements in respect of financial instruments which are measured at fair value. The amendments also expand and amend the disclosures required in relation to liquidity risk.

**IAS 23 (Revised 2007) Borrowing Costs**

In previous years, the Group expensed all borrowing costs as no borrowing were directly attributable to the acquisition, construction or production of a qualifying asset when they were incurred. IAS 23 (Revised 2007) removes the option previously available to expense all borrowing costs when incurred. The adoption of IAS 23 (Revised 2007) has resulted in the Group changing its accounting policy to capitalise all such borrowing costs as part of the cost of the qualifying asset. The Group has applied the revised accounting policy to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009 in accordance with the transitional provisions in IAS 23 (Revised 2007). As the revised accounting policy has been applied prospectively from 1 January 2009, this change in accounting policy has not resulted in restatement of amounts reported in respect of prior accounting periods.

In the current year, borrowing costs of RMB10,597,000 were capitalised as part of the cost of a manufacturing plant. Profit for the year ended 31 December 2009 has therefore been increased by RMB9,272,000 (net of tax effect).

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

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

**Amendments to IAS 40 Investment Property**

As part of *Improvements to IFRSs (2008),* IAS 40 has been amended to include within its scope properties under construction or development for future use as investment properties and to require such properties to be measured at fair value (where the fair value model is used and the fair values of the properties are reliably determinable). In the past, the leasehold land and building elements of investment properties under construction were accounted for separately. The leasehold land element was accounted for as an operating lease and the building element was carried at cost less accumulated impairment losses, if any. The Group has used the fair value model to account for its investment properties.

The Group has applied the amendments to IAS 40 prospectively from 1 January 2009 in accordance with the relevant transitional provision. The Group does not have investment properties under construction that should be reclassified as investment properties as at 1 January 2009. There is no impact on the reported result and financial position of the Group for the current or prior accounting periods.

**Summary of the effect of the above changes in accounting policies**

The effect of the changes in accounting policies described above on the Group's basic and diluted earnings per share for the current and prior year is as follows:

**Impact on basic and diluted earnings per share:**

| | Impact on basic earnings per share | | Impact on diluted earnings per share | |
|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 |
| | **RMB cents** | RMB cents | **RMB cents** | RMB cents |
| Figures before incorporating change | **38.83** | 30.17 | **38.69** | 25.39 |
| Effect of changes in accounting policy in relation to: | | | | |
| - capitalisation of borrowing costs | **0.67** | — | **0.67** | —- |
| Reported figures | **39.50** | 30.17 | **39.36** | 25.39 |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

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

The Group has not early applied the following new and revised Standards, Amendments or Interpretations that have been issued but are not yet effective.

| | |
|---|---|
| IFRSs (Amendments) | Amendment to IFRS 5 as part of Improvements to IFRSs 2008[1] |
| IFRSs (Amendments) | Improvements to IFRSs 2009[2] |
| IAS 24 (Revised) | Related Party Disclosures[6] |
| IAS 27 (Revised) | Consolidated and Separate Financial Statements[1] |
| IAS 32 (Amendment) | Classification of Rights Issues[4] |
| IAS 39 (Amendment) | Eligible Hedged Items[1] |
| IFRS 1 (Amendment) | Additional Exemptions for First-time Adopters[3] |
| IFRS 1 (Amendment) | Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters[5] |
| IFRS 2 (Amendment) | Group Cash-settled Share-based Payment Transactions[3] |
| IFRS 3 (Revised) | Business Combinations[1] |
| IFRS 9 | Financial Instruments[7] |
| IFRIC - Int 14 (Amendment) | Prepayments of a Minimum Funding Requirement[6] |
| IFRIC - Int 17 | Distributions of Non-cash Assets to Owners[1] |
| IFRIC - Int 19 | Extinguishing Financial Liabilities with Equity Instruments[5] |

1 Effective for annual periods beginning on or after 1 July 2009
2 Amendments that are effective for annual periods beginning on or after 1 July 2009 and 1 January 2010, as appropriate
3 Effective for annual periods beginning on or after 1 January 2010
4 Effective for annual periods beginning on or after 1 February 2010
5 Effective for annual periods beginning on or after 1 July 2010
6 Effective for annual periods beginning on or after 1 January 2011
7 Effective for annual periods beginning on or after 1 January 2013

The application of IFRS 3 (Revised) may affect the accounting for business combinations 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.

IFRS 9 *Financial Instruments* introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. The Standard requires all recognised financial assets that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of IFRS 9 might affect the classification and measurement of the Group's financial assets.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

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

The directors of the Company (the "Directors") anticipate that the application of the other new and revised Standards, Amendments or Interpretations will have no material impact on the consolidated financial statements.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis, except for certain properties and financial instruments which are measured at fair values, as explained in the accounting policies set out below.

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 of Hong Kong Limited and by the Hong Kong Companies Ordinance.

### Basis of consolidation

The consolidated financial statements incorporate 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 statement of comprehensive income 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 in 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

## 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's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

### Excess of the Group's interest in the net fair value of acquiree's identifiable assets and liabilities over cost prior to 1 January 2005

Excess of Group's interest in the net fair value of acquiree's identifiable assets and liabilities over cost arising on acquisitions of its subsidiaries prior to 1 January 2005 continues to be held in capital contribution reserve, and will be credited to the retained earnings at the time when the business to which the excess over cost relates is disposed of.

### 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 on initial recognition.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

## 3. SIGNIFICANT ACCOUNTING POLICIES – continued

### Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or service, or for administrative purposes 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.

If an item of property, plant and equipment becomes an investment property because its use has changed as evidenced by end of owner-occupation, any excess of the carrying amount over the fair value of that item at the date of transfer is recognised in profit or loss. Any surplus of fair value over the carrying amount of that item at the date of transfer is recognised in other comprehensive income and accumulated in property revaluation reserve. On the subsequent sale or retirement of the asset, the relevant revaluation reserve will be transferred directly to retained profits.

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 profit or loss in the period in which the item is derecognised.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

## 3. SIGNIFICANT ACCOUNTING POLICIES – continued

### Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

Construction costs incurred for investment properties under construction are capitalised as part of the carrying amount of the investment properties under construction. Starting from 1 January 2009, investment properties under construction are measured at fair value at the end of the reporting period. Any difference between the fair value of the investment properties under construction and their carrying amounts is recognised in profit or loss in the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. 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 asset) is included in the profit or loss in the period 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 profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

#### The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the terms of the relevant leases. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

## 3. SIGNIFICANT ACCOUNTING POLICIES – continued

### Leasing – continued

**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 and amortised over the lease term on a straight-line basis except for those that are classified and accounted for as investment properties under the fair value model.

### 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 the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date.

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.

### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, for which the commencement date for capitalisation is on or after 1 January 2009 are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

## 3. SIGNIFICANT ACCOUNTING POLICIES – continued

### Government grants

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Government grants related to depreciable assets are recognised as a deduction from the carrying amount of the relevant asset in the consolidated statement of financial position and transferred to profit or loss over the useful lives of the related assets. Other government grants are recognised as revenue over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

### 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 statement of comprehensive income 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 end of the reporting period.

Deferred tax is recognised on temporary 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. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences 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 that affects neither the taxable profit nor the accounting profit.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

## 3. SIGNIFICANT ACCOUNTING POLICIES – continued

### Taxation – continued

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period 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 assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly to equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

### Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

## 3. SIGNIFICANT ACCOUNTING POLICIES – continued

### Research and development expenditure – continued

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset is measured at cost less accumulated amortisation and accumulated impairment losses (if any).

### Inventories

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

### Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position 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 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 to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

## 3. SIGNIFICANT ACCOUNTING POLICIES – continued

### Financial instruments – continued

**Financial assets** – continued

***Effective interest method*** *– continued*

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, 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. Available-for-sale financial assets are measured at fair value at the end of each reporting period. Changes in fair value are recognised in other comprehensive income and accumulated in investment revaluation reserve, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss (see accounting policy on impairment loss on financial assets below).

***Impairment of financial assets***

Financial assets are assessed for indicators of impairment at the end of the reporting period. 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 affected.

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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

## 3. SIGNIFICANT ACCOUNTING POLICIES – continued

### Financial instruments – continued

**Financial assets** – continued

***Impairment of financial assets*** *– continued*

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 and other 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 or other 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.

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 other comprehensive income and accumulated in investment revaluation reserve.

**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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

## 3. SIGNIFICANT ACCOUNTING POLICIES – continued

### Financial instruments – continued

**Financial liabilities and equity** – continued

***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 (including all fees 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 liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

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

*Financial liabilities at fair value through profit or loss*

Financial liabilities at fair value through profit or loss ("FVTPL") comprise the convertible bonds which are designated as FVTPL. Convertible bonds are regarded as hybrid 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 hybrid 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 the end of the reporting period subsequent to initial recognition, the entire convertible bonds are measured at fair value, with changes in fair value arising on remeasurement 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 a director/a related company/a minority shareholder) are subsequently measured at amortised cost, using the effective interest method.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

## 3. SIGNIFICANT ACCOUNTING POLICIES – continued

### Financial instruments – continued

**Financial liabilities and equity** – continued

***Effective interest method*** *– continued*

*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 in other comprehensive income 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 paid and payable is recognised in profit or loss.

### Impairment losses

At the end of the reporting period, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. 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, unless the relevant asset is carried at a revalued amount under another standard in which case the impairment loss is treated as a revaluation decrease under that standard.

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. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that standard.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

## 3. SIGNIFICANT ACCOUNTING POLICIES – continued

### Share-based payment transactions

**Equity-settled share-based payment transactions**

The fair value of services received determined by reference to the fair value of shares awarded at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in awarded shares compensation reserve.

When trustee purchases the Company's shares from the open market, the consideration paid, including any directly attributable incremental costs, is presented as shares held for share purchase scheme and deducted from total equity. No gain or loss is recognised on the transactions of the Company's own shares.

When the trustee transfers the Company's shares to grantees upon vesting, the related costs of the granted shares vested are reversed from shares held for share purchase scheme. Accordingly, the related expense of the granted shares vested is reversed from awarded shares compensation reserve. The difference arising from such transfer is debited/credited to retained profits.

## 4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

### Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

## 4. KEY SOURCES OF ESTIMATION UNCERTAINTY – continued

### Valuation of the convertible bonds

The fair value for the convertible bonds is established by using valuation techniques. Assumptions are made based on various inputs adjusted for specific features of the convertible bonds. The Group has a process to ensure that valuation techniques are properly employed and the outputs reflect actual market conditions. However, 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. Carrying amount of the convertible bonds is approximately RMB41,561,000 as at 31 December 2008 and was fully settled in 2009.

### Income taxes

As at 31 December 2009, a deferred tax liability of RMB15,515,000 (2008: deferred tax asset RMB12,605,000) in relation to temporary differences on available-for-sale investments, property, plant and equipment and allowances for doubtful debts has been recognised in the Group's consolidated statement of financial position. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which would be recognised in profit or loss for the period in which such a reversal takes place.

### Estimated impairment of trade receivable

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2009, the carrying amount of trade receivable is RMB1,077,323,000 (net of allowance for doubtful debts of RMB59,170,000) (31 December 2008: carrying amount of RMB838,505,000, net of allowance for doubtful debts of RMB32,237,000).

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

## 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 shareholders 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 bank borrowings disclosed in note 30, convertible bonds disclosed in note 31 and equity, comprising share capital and reserves.

The Directors 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

| | **2009** | 2008 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| **Financial assets** | | |
| Available-for-sale investments | **307,320** | 98,585 |
| Loans and receivables at amortised cost (including cash and cash equivalents) | **2,719,567** | 1,917,121 |
| **Financial liabilities** | | |
| Liabilities at amortised cost | **2,600,748** | 1,499,705 |
| Liabilities designated as at fair value through profit and loss | **—** | 41,561 |

### 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 a director/a related company/a minority shareholder, 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

## 6. FINANCIAL INSTRUMENTS – continued

### b. Financial risk management objectives and policies – continued

**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 25.0% (2008: 26.6%) of the Group's sales are denominated in currencies other than the functional currency of the group entity making the sale, whilst almost 13.3% (2008: 20.7%) of costs are denominated in currencies other than the functional currency of the group.

Certain trade and other receivables, bank balances, other payables and bank borrowings of the Group are denominated in United States Dollars ("USD"), Hong Kong Dollars ("HKD") and Euro ("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*

The following details the Group's sensitivity to a 3% (2008: 3%) increase and decrease in RMB against the relevant foreign currencies. 3% (2008: 3%) represents management's assessment of the reasonably possible change in exchange rates, for the purpose of assessing foreign currency risk. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 3% change in foreign currency rates.

At the end of each reporting period, if exchange rates of RMB against USD, HKD and EUR had appreciated by 3% (2008: 3%) and all other variables were held constant, the Group's post-tax profit for the year would decrease by approximately RMB13,286,000 (2008: RMB3,689,000). 3% 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.

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year. RMB denominated sales were higher in the last quarter of the financial year, which results in a growth in RMB receivables at year end.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

## 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 to fixed-rate bank borrowings (see note 30 for details of these borrowings). 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 arise.

The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank borrowings (see note 30 for details of these borrowings) and bank balances (see note 26 for details of these bank balances). It is the Group's policy to keep certain of 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 bank balances and variable interest rates bank borrowings at the end of the reporting period.

A 25 basis points (2008: 75 basis points) increase or decrease is used which represents management's assessment of the reasonably possible change in interest rates. If interest rate had been 25 basis points (2008: 75 basis points) higher/lower and all other variables were held constant, the Group's post-tax profit for the year would decrease/increase by approximately RMB84,000 (2008: increase/decrease by approximately RMB1,352,000).

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

## 6. FINANCIAL INSTRUMENTS – continued

### b. Financial risk management objectives and policies – continued

**Market risk** – continued

***(iii) Equity price risk on convertible bonds and other investments***

The Group is exposed to equity price risk through its available-for-sale investments for the year ended 31 December 2009 and convertible bonds and available-for-sale investments for the year ended 31 December 2008 which the fair values are determined mainly based on the share price of the Company and the market bid price of the investments respectively. The Group monitors regularly the price risk and considers hedging the risk exposure should the need arise.

*Equity price sensitivity*

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

**Available-for-sale investment**

| | **Increase (decrease) in investment revaluation reserve for the year** | |
|---|---|---|
| | **2009** | 2008 |
| | **RMB'000** | RMB'000 |
| Change in market bid price of available-for-sale investments | | |
| Increased by 20% (2008: 30%) | **61,464** | 29,575 |
| Decreased by 20% (2008: 30%) | **(61,464)** | (29,575) |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

## 6. FINANCIAL INSTRUMENTS – continued

### b. Financial risk management objectives and policies – continued

**Market risk** – continued

***(iii) Equity price risk on convertible bonds and other investments*** *– continued*

*Equity price sensitivity – continued*

**Convertible bonds**

| | Increase (decrease) in post-tax profit for the year | |
|---|---|---|
| | **2009** | 2008 |
| | **RMB'000** | RMB'000 |
| Change in underlying share price of the Company inputted to the valuation model and all other variables held constant | | |
| Increased by 30% | — | (67) |
| Decreased by 30% | — | 21 |

**Credit risk**

As at 31 December 2009, 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 statement of financial position.

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 consider that Group's credit risk is significantly reduced.

The credit risk on liquid funds and concentration of credit risk are limited because the counterparties are various 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 larger number of customers, spread across diverse geographical areas.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

## 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 the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. Management also monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

The Group relies on bank borrowings as a significant source of liquidity. As at 31 December 2009, the Group has available unutilised banking facilities of approximately RMB865,000,000 (2008: RMB715,000,000).

*Liquidity risk tables*

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms as at 31 December 2009 and 2008. 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. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate at the end of the reporting period.

**At 31 December 2009**

| | Weighted average interest rate | Less than 30 days | 31 - 60 days | 61 - 90 days | 91 - 360 days | Over 1 year | Total undiscounted cash flow | Carrying amount |
|---|---|---|---|---|---|---|---|---|
| | % | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Trade and other payables | — | 572,238 | 35,522 | 52,584 | 99,192 | 4,880 | 764,416 | 764,416 |
| Amount due to a director | — | 48 | — | — | — | — | 48 | 48 |
| Amount due to a related company | — | 1,284 | — | — | — | — | 1,284 | 1,284 |
| Bank borrowings | 3.99 | 30,100 | 50,333 | 222,195 | 1,059,307 | 547,880 | 1,909,815 | 1,835,000 |
| | | 603,670 | 85,855 | 274,779 | 1,158,499 | 552,760 | 2,675,563 | 2,600,748 |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

## 6. FINANCIAL INSTRUMENTS – continued

### b. Financial risk management objectives and policies – continued

**Liquidity risk** – continued

*Liquidity risk tables – continued*

At 31 December 2008

| | Weighted average interest rate | Less than 30 days | 31 - 60 days | 61 - 90 days | 91 - 360 days | Over 1 year | Total undiscounted cash flow | Carrying amount |
|---|---|---|---|---|---|---|---|---|
| | % | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Trade and other payables | — | 250,930 | 21,452 | 47,376 | 58,282 | 1,333 | 379,373 | 379,373 |
| Amount due to a director | — | 48 | — | — | — | — | 48 | 48 |
| Amount due to a related company | — | 827 | — | — | — | — | 827 | 827 |
| Amount due to a minority shareholder | — | 1,718 | — | — | — | — | 1,718 | 1,718 |
| Bank borrowings | 6.46 | — | 4,951 | 28,284 | 1,124,554 | — | 1,157,789 | 1,117,739 |
| Convertible bonds | 1.00 | — | — | — | 36,057 | — | 36,057 | 41,561 |
| | | 253,523 | 26,403 | 75,660 | 1,218,893 | 1,333 | 1,575,812 | 1,541,266 |

The amounts included above for variable interest rate instruments for non-derivative financial liabilities is subject to change if change in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

## 6. FINANCIAL INSTRUMENTS – continued

### c. Fair value

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

- the fair value of financial assets with standard terms and conditions and traded in active liquid markets are determined with reference to quoted market bid prices;
- the fair value of other financial assets and financial liabilities (excluding derivative instruments) is 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; and

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

**Fair value measurements recognised in the consolidated statement of financial position**

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

| | 31 December 2009 | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| | **RMB'000** | **RMB'000** | **RMB'000** | **RMB'000** |
| **Available-for-sale financial assets** | | | | |
| Listed equity securities | 307,320 | — | — | 307,320 |

There were no transfer between Level 1 and 2 in the current year.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

## 7. SEGMENT INFORMATION

The Group has adopted IFRS 8 "Operating Segments" with effect from 1 January 2009. IFRS 8 is a disclosure standard that requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker for the purpose of allocating resources to segments and assessing their performance. In contrast, the predecessor Standard (IAS 14 "Segment Reporting") required an entity to identify two sets of segments (business and geographical) using a risks and rewards approach, with the entity's "system of internal financial reporting to key management personnel" serving only as the starting point for the identification of such segments.

In the past, no analyses by business segment and geographical areas of operations are provided under IAS 14 as the Group's operations are located in the PRC and substantially all of the Group's consolidated revenue and segment profit from operations are derived from the manufacture and trading of radial tire cords and bead wires to customers substantially located in the PRC.

The Directors regularly review revenue analysis by types of products which are basically radial tire cords and bead wires, for the purposes of resource allocation and assessment of performance. However, other than revenue analysis, no operating results and other discrete financial information is available for the assessment of performance of the respective types of products. The Directors review the operating results of the Group as a whole to make decisions about resource allocation. The operation of the Group constitutes one single operating and reportable segment under IFRS 8 and accordingly no separate segment information is prepared. The Group's non-current assets (other than financial instruments and deferred tax assets) are located in the PRC.

### Revenue from major products

The following is an analysis of the Group's revenues from its major products:

| | **Year ended** | |
|---|---|---|
| | **2009** | 2008 |
| | **RMB'000** | RMB'000 |
| Radial Tire Cord | | |
| - For Truck | **3,067,282** | 2,796,359 |
| - For Passenger Car | **540,901** | 400,160 |
| Bead Wire | **256,226** | 291,999 |
| | **3,864,409** | 3,488,518 |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

## 7. SEGMENT INFORMATION – continued

### Information about major customers

Revenues from customers of the corresponding years contributing over 10% of the total sales of the Group are as follows:

| | **2009** | 2008 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Customer 1 | **458,954** | 377,955 |
| Customer 2 | **452,499** | 477,541 |
| Customer 3 | N/A* | 570,042 |

* Revenue attributed to this customer is less than 10% of the Group's total sales in 2009.

## 8. REVENUE

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

## 9. OTHER INCOME

| | **2009** | 2008 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Interest income earned on bank balances and bank deposits | **13,872** | 19,705 |
| Sales of scrap materials | **41,283** | 45,510 |
| Cash discounts received on early settlement of trade payables | **27,975** | — |
| Gain on disposal of available-for-sale investments | **1,942** | — |
| Gain on fair value change of investment properties | **3,810** | — |
| Sundry income | **8,831** | 3,705 |
| | **97,713** | 68,920 |

## 10. GOVERNMENT GRANTS

Government grants represent incentive subsidies received by the Group from The People's Government of Xinghua Municipality 興化市人民政府 for technology improvement and environmental protection during the years ended 31 December 2009 and 2008. For the government grants where there were specific conditions attached to the grants, the Group recognised the grants of RMB900,000 (2008: RMB24,000,000) in the consolidated statement of comprehensive income when it fulfills all the conditions specified in the grant notice. For the government grants that do not have any specific conditions attached, an amount of RMB52,202,000 (2008: RMB41,840,000) was recognised in the consolidated statement of comprehensive income when the grants were received.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

## 11. OTHER EXPENSES

| | 2009 | 2008 |
|---|---|---|
| | RMB'000 | RMB'000 |
| Impairment loss recognised on trade and other receivables | **35,279** | 21,826 |
| Research and development expenditure | **11,299** | 16,359 |
| Loss on fair value change upon transfer of property, plant and equipment to investment properties | **5,524** | — |
| | **52,102** | 38,185 |

## 12. FINANCE COSTS

| | 2009 | 2008 |
|---|---|---|
| | RMB'000 | RMB'000 |
| Interest on: | | |
| Bank loans wholly repayable within five years | **64,600** | 89,986 |
| Less: amounts capitalised | **(10,597)** | — |
| | **54,003** | 89,986 |
| Note receivables discounted | **173** | 13,822 |
| | **54,176** | 103,808 |

## 13. GAIN ON DEREGISTRATION OF A SUBSIDIARY

On 26 December 2008, a subsidiary of the Group, Xinghua Municipality Lianxing Machinery Manufacturing Co., Ltd ("Xinghua Municipality Lianxing") was deregistered. The net liabilities at the date of deregistration were as follows:

| | 2008 |
|---|---|
| | RMB'000 |
| Net liabilities | |
| Accounts payables | 3,042 |
| Other payables | 314 |
| | 3,356 |
| Minority interest | 42 |
| Gain on deregistration | 3,398 |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

## 14. INCOME TAX EXPENSE

| | **2009** | 2008 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| The charge comprises: | | |
| Current tax | | |
| Current year | **146,919** | 98,558 |
| Overprovision in prior year | **(1,066)** | — |
| Deferred taxation (note 23) | **(3,265)** | (12,605) |
| | **142,588** | 85,953 |

The tax charge in respect of the current year represents income tax in the PRC which is calculated at the prevailing tax rate of 25% (2008: 25%) on the taxable income of the group entities in the PRC. Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulations of the EIT Law, the tax rate for certain PRC subsidiaries of the Company is 25% from 1 January 2008 onwards.

On 11 September 2009, Jiangsu Xingda was accredited as a High-tech Enterprise, a preferential tax rate of 15% was granted by the relevant tax bureaus in Jiangsu province. In accordance with the High-tech Enterprise Certificate, the status of High-tech Enterprise is effective for the years 2009, 2010 and 2011 and the management is of the opinion that this status will be renewed before the end of year 2011 and this preferential tax rate will continue to be obtained. As a result, the tax rate of 15% is used to calculate the amount of deferred taxation.

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

Pursuant to the Foreign-Invested Enterprises and Foreign Enterprise Income Tax Law 外商投資企業和外國企業所得稅法 in the PRC, Jiangsu Xingda was entitled to the exemptions from PRC Foreign Enterprise Income Tax ("FEIT") for two years starting from its first profit-making year, followed by a 50% tax relief for the next three years. Jiangsu Xingda was exempted from FEIT for the years ended 31 December 2005 and 2006 and enjoyed a 50% tax relief for the years ended 31 December 2007, 2008 and 2009.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

## 14. INCOME TAX EXPENSE – continued

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

| | 2009 RMB'000 | 2008 RMB'000 |
|---|---|---|
| Profit before tax | **867,731** | 628,351 |
| Tax at the PRC tax rate of 25% (2008: 25%) | **216,933** | 157,088 |
| Tax effect of fair value adjustment on the convertible bonds not deductible/taxable for tax purposes | **258** | (6,226) |
| Tax effect of expenses not deductible for tax purposes | **14,089** | 22,654 |
| Tax effect of income not taxable for tax purposes | **(4,503)** | (24,225) |
| Tax effect of tax relief/tax exemption | **(88,062)** | (58,051) |
| Recognition of deferred tax assets previously not recognised | **—** | (8,237) |
| Tax effect of deductible temporary differences not recognised | **89** | — |
| Overprovision in prior year | **(1,066)** | — |
| Decrease in opening deferred tax assets resulting from a decrease in applicable tax rate | **2,624** | — |
| Others | **2,226** | 2,950 |
| Tax charge for the year | **142,588** | 85,953 |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

## 15. PROFIT FOR THE YEAR

| | 2009 RMB'000 | 2008 RMB'000 |
|---|---|---|
| Profit for the year has been arrived at after charging (crediting): | | |
| Staff cost, including directors' remuneration (note 16) | | |
| Salaries, wages and other benefits | **257,777** | 250,477 |
| Retirement benefits scheme contributions (note 37) | **22,494** | 7,195 |
| Total staff costs | **280,271** | 257,672 |
| Amortisation of prepaid lease payments | **4,765** | 2,942 |
| Auditor's remuneration | **1,767** | 1,818 |
| Cost of inventories recognised as an expense | **2,682,026** | 2,567,757 |
| Depreciation for property, plant and equipment | **249,643** | 224,592 |
| Loss on disposal of property, plant and equipment | **3,503** | 10,135 |
| Gross rental income from investment properties | **(1,556)** | — |
| Less: direct operating expenses from investment properties that generated rental income during the year | **1,283** | — |
| | **(273)** | — |
| Net foreign exchange loss | **1,958** | 9,289 |

## 16. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

### Directors

The emoluments paid or payable to the 12 (2008: 12) directors are as follows:

| | 2009 RMB'000 | 2008 RMB'000 |
|---|---|---|
| Fees | **3,460** | 3,507 |
| Salaries and other allowances | **5,625** | 7,907 |
| Bonus (note) | **30,680** | 22,925 |
| Retirement benefits scheme contributions | **4** | 4 |
| | **39,769** | 34,343 |

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

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

## 16. DIRECTORS' AND EMPLOYEES' EMOLUMENTS – continued

### Directors – continued

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

**Year ended 31 December 2009**

| | Fee<br>RMB'000 | Salary and other allowance<br>RMB'000 | Bonus<br>RMB'000 | Retirement benefits scheme contributions<br>RMB'000 | Total<br>RMB'000 |
|---|---|---|---|---|---|
| *Executive Directors* | | | | | |
| LIU Jinlan | — | 1,640 | 11,130 | 1 | 12,771 |
| LIU Xiang | — | 1,402 | 7,480 | 1 | 8,883 |
| TAO Jinxiang | — | 1,399 | 7,470 | 1 | 8,870 |
| WU Xinghua | — | 240 | 100 | — | 340 |
| CAO Junyong | — | 240 | 400 | — | 640 |
| ZHANG Yuxiao | — | 704 | 4,100 | 1 | 4,805 |
| *Non-executive Directors* | | | | | |
| LU Guangming George | 1,750 | — | — | — | 1,750 |
| WU Xiaohui | 342 | — | — | — | 342 |
| ZHOU Mingchen | 342 | — | — | — | 342 |
| *Independent Non-executive Directors* | | | | | |
| William John SHARP | 342 | — | — | — | 342 |
| KOO Fook Sun, Louis | 342 | — | — | — | 342 |
| XU Chunhua | 342 | — | — | — | 342 |
| | 3,460 | 5,625 | 30,680 | 4 | 39,769 |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

## 16. DIRECTORS' AND EMPLOYEES' EMOLUMENTS – continued

### Directors – continued

Year ended 31 December 2008

| | 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 | — | 3,165 | 7,475 | 1 | 10,641 |
| LIU Xiang | — | 1,404 | 6,000 | 1 | 7,405 |
| TAO Jinxiang | — | 1,396 | 6,000 | 1 | 7,397 |
| WU Xinghua | — | 610 | — | — | 610 |
| CAO Junyong | — | 628 | 150 | — | 778 |
| ZHANG Yuxiao | — | 704 | 3,300 | 1 | 4,005 |
| *Non-executive Directors* | | | | | |
| LU Guangming George | 1,777 | — | — | — | 1,777 |
| WU Xiaohui | 346 | — | — | — | 346 |
| ZHOU Mingchen | 346 | — | — | — | 346 |
| *Independent Non-executive Directors* | | | | | |
| William John SHARP | 346 | — | — | — | 346 |
| KOO Fook Sun, Louis | 346 | — | — | — | 346 |
| XU Chunhua | 346 | — | — | — | 346 |
| | 3,507 | 7,907 | 22,925 | 4 | 34,343 |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

## 16. DIRECTORS' AND EMPLOYEES' EMOLUMENTS – continued

### Employees

Of the five individuals with the highest emoluments in the Group, there were four (2008: four) directors of the Company whose emoluments are included in the disclosures above. The emoluments of the remaining one (2008: one) individual was as follows:

| | **2009** | 2008 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Salaries and other allowances | **299** | 298 |
| Bonus | **4,220** | 3,890 |
| Retirement benefit scheme contributions | **1** | 1 |
| | **4,520** | 4,189 |

None of the directors waived any emoluments for both years.

## 17. DIVIDEND

| | **2009** | 2008 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Dividend recognised as distribution during the year: | | |
| Final dividend paid for 2008 - 8.0 HK cents per share (2008: final dividend paid for 2007 - 6.0 HK cents per share) | **97,754** | 74,043 |
| Final dividend proposed, 10.0 HK cents (2008: 8.0 HK cents) per share | **122,122** | 97,754 |

A final dividend for the year ended 31 December 2009 of 10.0 HK cents (2008: 8.0 HK cents) per share has been proposed by the Directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

## 18. EARNINGS PER SHARE

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

| | 2009 | 2008 |
|---|---|---|
| | RMB'000 | RMB'000 |
| **Earnings** | | |
| Earnings for the purpose of basic earnings per share | 547,504 | 418,219 |
| Effect of dilutive potential ordinary shares: | | |
| Fair value adjustment on the convertible bonds | 1,033 | (24,903) |
| Exchange realignment on the convertible bonds | (17) | (15,145) |
| Earnings for the purpose of diluted earnings per share | 548,520 | 378,171 |
| | '000 | '000 |
| **Number of shares** | | |
| Number of ordinary shares in issue for the purpose of basic earnings per share | 1,386,177 | 1,386,177 |
| Effect of dilutive potential ordinary shares on convertible bonds | 7,576 | 103,147 |
| Number of ordinary shares in issue for the purpose of diluted earnings per share | 1,393,753 | 1,489,324 |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

## 19. 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 2008 | 547,726 | 1,600 | 1,908,304 | 16,377 | 28,326 | 274,916 | 2,777,249 |
| Additions | 21,163 | — | 18,389 | 4,549 | 1,961 | 692,492 | 738,554 |
| Reclassifications | 144,878 | — | 197,933 | 1,557 | — | (344,368) | — |
| Disposals/write-off | — | (1,600) | (38,850) | — | (1,048) | — | (41,498) |
| At 31 December 2008 | 713,767 | — | 2,085,776 | 22,483 | 29,239 | 623,040 | 3,474,305 |
| Additions | 1,815 | 3,203 | 48,663 | 6,892 | 3,418 | 810,140 | 874,131 |
| Reclassifications | 198,208 | — | 606,795 | — | — | (805,003) | — |
| Transferred to investment properties | (7,827) | — | — | — | — | — | (7,827) |
| Disposals/write-off | — | — | (22,343) | (1,305) | (478) | — | (24,126) |
| **At 31 December 2009** | **905,963** | **3,203** | **2,718,891** | **28,070** | **32,179** | **628,177** | **4,316,483** |
| **DEPRECIATION** | | | | | | | |
| At 1 January 2008 | 95,084 | 1,200 | 583,691 | 8,627 | 14,428 | — | 703,030 |
| Provided for the year | 32,807 | 400 | 184,463 | 3,077 | 3,845 | — | 224,592 |
| Eliminated on disposals | — | (1,600) | (26,713) | — | (493) | — | (28,806) |
| At 31 December 2008 | 127,891 | — | 741,441 | 11,704 | 17,780 | — | 898,816 |
| Provided for the year | 37,223 | 135 | 205,747 | 2,941 | 3,597 | — | 249,643 |
| Eliminated upon transfer to investment properties | (216) | — | — | — | — | — | (216) |
| Eliminated on disposals | — | — | (17,992) | (1,280) | (144) | — | (19,416) |
| **At 31 December 2009** | **164,898** | **135** | **929,196** | **13,365** | **21,233** | **—** | **1,128,827** |
| **CARRYING VALUES** | | | | | | | |
| **At 31 December 2009** | **741,065** | **3,068** | **1,789,695** | **14,705** | **10,946** | **628,177** | **3,187,656** |
| At 31 December 2008 | 585,876 | — | 1,344,335 | 10,779 | 11,459 | 623,040 | 2,575,489 |

Construction in progress as at 31 December 2009 represents factories and plant, machinery and equipment constructed for the Group's own use.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

## 19. 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 | shorter of lease term of land or 20 to 30 years |
| Leasehold improvement | Over the term of the lease |
| Plant, machinery and equipment | 2 to 10 years |
| Furniture and fixtures | 5 years |
| Motor vehicles | 5 years |

## 20. PREPAID LEASE PAYMENTS

| | RMB'000 |
|---|---|
| At 1 January 2008 | 117,785 |
| Transfer from deposits paid for purchase of property, plant and equipment | 68,539 |
| Charge to profit or loss | (2,942) |
| At 31 December 2008 | 183,382 |
| Additions | 83,606 |
| Charge to profit or loss | (4,765) |
| Transferred to investment properties | (25,268) |
| **At 31 December 2009** | **236,955** |

Analysed as:

| | **2009** | 2008 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Non-current assets | **232,034** | 179,524 |
| Current assets | **4,921** | 3,858 |
| | **236,955** | 183,382 |

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

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

## 21. INVESTMENT PROPERTIES

| | Completed investment properties | |
|---|---|---|
| | **2009** | 2008 |
| | **RMB'000** | RMB'000 |
| **FAIR VALUE** | | |
| At 1 January 2008, 31 December 2008 and 1 January 2009 | **—** | — |
| Additions | **88,135** | — |
| Transferred from prepaid lease payments and property, plant and equipment | **27,355** | — |
| Increase in fair value recognised in profit or loss | **3,810** | — |
| **At 31 December 2009** | **119,300** | — |

Investment properties represent the office premises located in Shanghai, the PRC, under long-term lease.

In 2009, certain property, plant and equipment and prepaid lease payment ("Transferred Properties") with an aggregate carrying amount of RMB32,879,000 were transferred to investment properties as they have been rented out to third party. Fair value at date of transfer amounted to RMB27,355,000, resulting in a revaluation deficit of RMB5,524,000 recognised as other expenses in profit or loss for the year.

As at 31 December 2009, the fair values of the Transferred Properties at date of transfer and the investment property at 31 December 2009 have been arrived at on the basis of a valuation carried out by DTZ Debenham Tie Leung Limited, independent qualified professional valuers not connected with the Group. DTZ Debenham Tie Leung Limited has appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuations were arrived at by reference to market evidence of transactions prices for similar properties in the same locations and conditions.

All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

## 22. AVAILABLE-FOR-SALE INVESTMENTS

| | **2009** | 2008 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Listed investments | **307,320** | 98,585 |

The above investments represent 19,500,000 non-public offer shares of Aeolus Tyre Co., Ltd. ("Aeolus"). Aeolus is a joint stock limited company incorporated in the PRC principally engaged in the design, research and development, manufacture and sale of tires. Aeolus' issued A shares (stock code: 600469) are listed on the Shanghai Stock Exchange since 21 October 2003. The Group holds 5.2% of the issued share capital of Aeolus as at 31 December 2009 (31 December 2008: 5.2%).

The investments provide the Group with an opportunity for return through dividend income and gain on disposal.

At 31 December 2009 and 2008, the investment is stated at its fair value with reference to the bid price quoted in the active market.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

## 23. DEFERRED TAXATION

For the purose of presnetation in the consolidated statement of financail position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

| | **2009** | 2008 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Deferred tax assets | **15,870** | 12,605 |
| Deferred tax liabilities | **(31,385)** | — |
| | **(15,515)** | 12,605 |

The following are the major deferred tax liabilities and assets recognised and movements thereon during the current and prior periods:

| | **Fair value gain on available-for-sale investments** | **Excess of accounting depreciation over tax depreciation** | **Allowance for doubtful debts** | **Total** |
|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| At 31 December 2007 and 1 January 2008 | — | — | — | — |
| Credit to profit or loss | — | (8,576) | (4,029) | (12,605) |
| At 31 December 2008 and 1 January 2009 | — | (8,576) | (4,029) | (12,605) |
| Credit to profit or loss | — | (1,775) | (4,114) | (5,889) |
| Effect of change in tax rate | — | 3,430 | (806) | 2,624 |
| Charge to equity for the year | 31,385 | — | — | 31,385 |
| **At 31 December 2009** | **31,385** | **(6,921)** | **(8,949)** | **15,515** |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

## 23. DEFERRED TAXATION – continued

At the end of the reporting period, the Group has deductible temporary difference of approximately RMB107,012,000 (2008: RMB67,394,000) in relation to the excess of accounting depreciation over tax depreciation and allowance for doubtful debts available for offset against future taxable profits. A deferred tax asset has been recognised in respect of approximately RMB105,799,000 (2008: RMB66,538,000) of such deductible temporary difference. At the end of the reporting period, Xingda Special Cord has deductible temporary differences of RMB1,213,000 (2008: RMB856,000). No deferred tax asset has been recognised in relation to such deductible temporary difference as it is not probably that taxable profit will be available against which the deductible temporary differences can be utilised.

On 11 September 2009, Jiangsu Xingda was accredited as a High-tech Enterprise, a preferential tax rate of 15% was granted by the relevant tax bureaus in Jiangsu province. In accordance with the High-tech Enterprise Certificate, the status of High-tech Enterprise is effective for the years 2009, 2010 and 2011 and the management is of the opinion that this status will be renewed before the end of year 2011 and this preferential tax rate will continue to be obtained. As a result, the tax rate of 15% is used to calculate the amount of deferred taxation.

Under the New Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to RMB658 million (2008: RMB476 million) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

## 24. INVENTORIES

| | **2009** | 2008 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Raw materials | **225,329** | 333,874 |
| Work in progress | **38,722** | 25,745 |
| Finished goods | **166,853** | 151,366 |
| | **430,904** | 510,985 |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

## 25. 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 presented based on the invoice date at the end of the reporting period:

| | **2009** | 2008 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Trade receivables | | |
| 0 - 90 days | **860,275** | 415,486 |
| 91 - 180 days | **92,729** | 217,723 |
| 181 - 360 days | **41,983** | 183,528 |
| Over 360 days | **82,336** | 21,768 |
| | **1,077,323** | 838,505 |
| Note receivables | | |
| 0 - 90 days | **397,739** | 298,682 |
| 91 - 180 days | **560,676** | 247,009 |
| 181 - 360 days | **19,650** | — |
| | **978,065** | 545,691 |
| Advances to raw material suppliers | **231,424** | 125,555 |
| Spools | **11,388** | 2,479 |
| Value-added tax receivables | **—** | 10,846 |
| Other receivables and prepayments | **17,755** | 42,696 |
| Less: Allowance for doubtful debts on other receivables | **(120)** | (120) |
| | **260,447** | 181,456 |
| | **2,315,835** | 1,565,652 |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

## 25. 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:

| | **2009** | **Equivalent to RMB** | 2008 | Equivalent to RMB |
|---|---|---|---|---|
| | **'000** | **'000** | '000 | '000 |
| USD | **20,429** | **139,530** | 8,626 | 58,955 |
| EUR | **403** | **3,950** | — | — |

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.

Movements in the allowance for doubtful debts on trade and other receivables are as follows:

| | **2009** | 2008 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Balance at 1 January | **32,357** | 10,531 |
| Impairment loss recognised on receivables | **35,279** | 21,826 |
| Amounts written off as uncollectible | **(8,346)** | — |
| Balance at 31 December | **59,290** | 32,357 |

The Group reviews all receivables overdue more than 1 year for allowance for doubtful debt, amounting to approximately RMB141,506,000 as at 31 December 2009 (2008: RMB54,005,000) before provision of allowance for doubtful debts of RMB59,170,000 (2008: RMB32,237,000) because historical experience showed that receivables that are past due beyond 1 year generally have recoverability problems. The Group will review the recoverability of long aged receivables on a case by case basis. Trade receivables are provided for based on estimated irrecoverable amounts of discounted cash flow, determined by reference to past default experience. Other receivables are provided for based on estimated irrecoverable amount of discounted cash flow.

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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

## 25. TRADE AND OTHER RECEIVABLES – continued

Included in the Group's trade receivables are debtors with a carrying amount of RMB124,319,000 at 31 December 2009 (2008: RMB205,296,000) which are past due as at the reporting date for which the Group has not provided for impairment loss 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 449 days (2008: 270 days) at 31 December 2009. No other receivables are past due as at the reporting date.

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

| | **2009** | 2008 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| 181-360 days | **41,983** | 183,528 |
| Over 360 days | **82,336** | 21,768 |
| | **124,319** | 205,296 |

Out of the balance of RMB124,319,000 which are past due but not impaired as at 31 December 2009, an amount of approximately RMB94,068,000 (2008: RMB21,815,000) was settled by the trade debtors subsequent to the end of the reporting period and up to the date of this report.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

## 26. 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 interest rates ranging from 0.001% to 1.150% (2008: 0.02% to 4.72%) per annum.

As at 31 December 2008, deposits amounting to approximately RMB33,880,000 (31 December 2009: Nil) had been pledged to a bank to secure banking facilities granted to the Group for short-term bank borrowing and are therefore classified as current assets. All pledged bank deposits were released upon the settlement of the relevant bank borrowings before 31 December 2009.

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:

| | **2009** | **Equivalent to RMB** | 2008 | Equivalent to RMB |
|---|---|---|---|---|
| | **'000** | **'000** | '000 | '000 |
| HKD | **191,799** | **167,904** | 56,079 | 49,138 |
| USD | **20,612** | **140,744** | 13,677 | 93,477 |
| EUR | **175** | **1,713** | — | — |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

## 27. TRADE AND OTHER PAYABLES

The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting period:

| | **2009** | 2008 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Trade payables | | |
| 0 - 90 days | **315,416** | 169,379 |
| 91 - 180 days | **61,634** | 51,311 |
| 181 - 360 days | **2,558** | 6,971 |
| Over 360 days | **4,880** | 1,333 |
| | **384,488** | 228,994 |
| Note payables | | |
| 91 - 180 days | **35,000** | — |
| Value-added tax payables and other tax payables | **32,145** | 9,555 |
| Accrued staff costs | **110,328** | 90,324 |
| Payables for purchase of property, plant and equipment | **235,318** | 98,997 |
| Advances from customers | **165** | 631 |
| Accrued pension | **26,834** | 13,629 |
| Accrued interest expense | **2,642** | 2,288 |
| Accrued electricity charges | **39,746** | 17,581 |
| Others | **10,884** | 10,615 |
| | **493,062** | 243,620 |
| | **877,550** | 472,614 |

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:

| | | **Equivalent to** | | Equivalent to |
|---|---|---|---|---|
| | **2009** | **RMB** | 2008 | RMB |
| | **'000** | **'000** | '000 | '000 |
| HKD | **3,930** | **3,459** | 1,420 | 1,244 |
| USD | **419** | **2,862** | 210 | 1,435 |
| EUR | **34** | **333** | — | — |

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

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

## 28. AMOUNT DUE TO A DIRECTOR

Advance from a director Mr. Zhang Yuxiao is non-trading in nature. It is unsecured, non-interest bearing and repayable on demand.

## 29. 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） ("Xingda Xiu Yuan"), which is trading in nature. It is unsecured, non-interest bearing and repayable on demand. Relationship of Xingda Xiu Yuan with the Group is set out in note 38.

## 30. BANK BORROWINGS

| | **2009** | 2008 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Bank loans | **1,835,000** | 1,117,739 |
| Secured | **—** | 32,739 |
| Unsecured | **1,835,000** | 1,085,000 |
| | **1,835,000** | 1,117,739 |
| Carrying amount repayable: | | |
| On demand or within one year | **1,335,000** | 1,117,739 |
| More than one year, but not exceeding two years | **250,000** | — |
| More than two years but not more than five years | **250,000** | — |
| | **1,835,000** | 1,117,739 |
| Less: Amounts due within one year shown under current liabilities | **(1,335,000)** | (1,117,739) |
| | **500,000** | — |
| Bank borrowings comprise: | | |
| Fixed-rate borrowings | **1,155,000** | 852,739 |
| Variable-rate borrowings | **680,000** | 265,000 |
| | **1,835,000** | 1,117,739 |

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

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

## 30. BANK BORROWINGS – continued

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

| | 2009 | 2008 |
|---|---|---|
| Effective interest rate: | | |
| Fixed-rate borrowings | **4.37% to 4.78%** | 4.54% to 9.20% |
| Variable-rate borrowings | **4.37% to 4.86%** | 6.24% to 6.72% |

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

| | 2009 '000 | Equivalent to RMB '000 | 2008 '000 | Equivalent to RMB '000 |
|---|---|---|---|---|
| USD | **—** | **—** | 4,790 | 32,738 |

During the year, the Group obtained new loans amounting to approximately RMB3,139,142,000 (2008: RMB3,297,998,000). The loans bear interest at market rates. The proceeds were used to finance daily working capital.

No bank borrowings were secured by the Group's bank deposits as at 31 December 2009 (2008: RMB33,880,000).

## 31. CONVERTIBLE BONDS

The movements of the convertible bonds for the year are set out as below:

| | 2009 | | 2008 | |
|---|---|---|---|---|
| | **USD'000** | **RMB'000** | USD'000 | RMB'000 |
| At 1 January | **6,081** | **41,561** | 32,457 | 237,083 |
| Exchange realignment | **—** | **(17)** | — | (15,145) |
| Interest payment | **(52)** | **(359)** | (332) | (2,286) |
| Loss (gain) arising on changes of fair value | **151** | **1,033** | (3,634) | (24,903) |
| Redemption of the bonds | **(6,180)** | **(42,218)** | (22,410) | (153,188) |
| At 31 December | **—** | **—** | 6,081 | 41,561 |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

## 31. CONVERTIBLE BONDS – continued

On 4 May 2009, the Company received a notice given by the transferred first tranche bondholder to require the Company to redeem on the maturity date an aggregate principal amount of USD5,257,058 of the transferred first tranche bond, being all the outstanding principal amount of the transferred first tranche bond, at the redemption amount of US$6,179,704. The Company shall also pay the transferred first tranche bondholder an amount of US$52,570, being all the outstanding and unpaid interests accrued on the transferred first tranche bond up to and including the maturity date.

Immediately after the said redemption became effective, the transferred first tranche bond so redeemed was forthwith cancelled and the transferred first tranche bondholder ceased to hold any convertible bond issued by the Company. There is no outstanding convertible bonds as at 31 December 2009.

## 32. GOVERNMENT GRANTS

| | **RMB'000** |
|---|---|
| At 31 December 2007 and 1 January 2008 | 24,900 |
| Credited to consolidated statement of comprehensive income | (24,000) |
| At 31 December 2008 and 1 January 2009 | 900 |
| Credited to consolidated statement of comprehensive income | (900) |
| Additions for the year | 10,500 |
| **At 31 December 2009** | **10,500** |

Analysed as:

| | **2009** | 2008 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Current liabilities | **—** | 900 |
| Non-current liabilities | **10,500** | — |
| | **10,500** | 900 |

The amounts represent government grants received to be used mainly for a technological advancement project which is expected to be completed in 2011. They are recorded as liabilities until the Group completes the project which will be subject to approval by the Technology Bureau of Taizhou, the PRC.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

## 33. SHARE CAPITAL

| | Number of shares | Amount | Equivalent to |
|---|---|---|---|
| | | HKD | RMB'000 |
| Authorised: | | | |
| Ordinary shares of HKD0.10 each at 1 January 2008, 31 December 2008 and 31 December 2009 | **3,000,000,000** | **300,000,000** | **301,410** |
| Issued and fully paid: | | | |
| At 1 January 2008, 31 December 2008, 1 January 2009 and 31 December 2009 | **1,386,176,693** | **138,617,669** | **139,091** |

## 34. SHARE-AWARD SCHEME

The Company's share award scheme (the "Scheme"), was adopted pursuant to a resolution passed on 4 September 2009 for the primary purpose of providing incentives to the participants of the Scheme (the "Participants") including the Directors and certain employees of the Group, to achieve performance goals which in turn achieve the objectives of increasing the value of the Group and align the interests of Directors and eligible employees directly to the shareholders of the Company through ownership of shares. A trustee, as an independent third party, was appointed by the Company for the administration of the Scheme. The trustee shall purchase the Company's shares from the market out of cash contributed by the Company and shall hold such shares in trust until they are vested to the Participants in accordance to the rules of the Scheme.

During the year, no share was bought and held in trust for the Participants nor any share award was granted.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

## 35. OPERATING LEASES

### The Group as lessee

| | 2009 RMB'000 | 2008 RMB'000 |
|---|---|---|
| Minimum lease payments paid under operating leases for premises during the year | **600** | 1,801 |

At 31 December 2009, the Group had no commitments under non-cancellable operating leases (31 December 2008: Nil).

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

### The Group as lessor

Property rental income earned during the year was RMB1,556,000 (2008: Nil). The properties are expected to generate rental yields of 3.6% on an ongoing basis. All of the properties held have committed tenants for the next four years.

At 31 December 2009, the Group had contracted with tenants for the following future minimum lease payments:

| | 2009 RMB'000 | 2008 RMB'000 |
|---|---|---|
| Within one year | **4,320** | — |
| In the second to fifth year inclusive | **13,202** | — |
| | **17,522** | — |

## 36. CAPITAL COMMITMENTS

| | 2009 RMB'000 | 2008 RMB'000 |
|---|---|---|
| Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements | **198,006** | 53,753 |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

## 37. RETIREMENT BENEFIT SCHEME CONTRIBUTIONS

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

The Group's contribution to the retirement benefit scheme that is charged to profit or loss is approximately RMB22,494,000 (2008: RMB7,195,000) for the year ended 31 December 2009.

## 38. RELATED PARTY TRANSACTIONS

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

| **Name of related party** | **Nature of transaction** | Notes | **2009**<br>**RMB'000** | 2008<br>RMB'000 |
|---|---|---|---|---|
| Xingda Xiu Yuan | Income from the provision of electricity | (a) | **593** | 365 |
| | Provision of hotel and catering services | | **4,182** | 1,947 |
| Labour Union of Jiangsu Xingda Steel Tyre Cord Co., Ltd. ("Xingda Labour Union") | Union fees | (b) | **4,299** | 4,613 |

Notes:

(a) Xingda Xiu Yuan is a limited company whose equity interest is held as to 15% by Xingda Labour Union.

(b) Xingda Labour Union is one of the shareholders of a subsidiary of the Group, Jiangsu Xingda and thus is a minority shareholder of the Group. The union fees were calculated at 2% on the annual staff salaries and wages of Jiangsu Xingda.

Details of the balances with related parties are set out in the consolidated statement of financial position on page 40 and notes 28 and 29 to the consolidated financial statements.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

## 38. RELATED PARTY TRANSACTIONS – continued

### Compensation of key management personnel

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

| | 2009 | 2008 |
|---|---|---|
| | RMB'000 | RMB'000 |
| Short-term benefits | 59,160 | 49,097 |
| Post-employment benefits | 18 | 11 |
| | 59,178 | 49,108 |

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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

## 39. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Details of the Company's subsidiaries as at 31 December 2009 and 2008 are disclosed as follows:

| Name of subsidiary | Place of incorporation/ registration and operations | Issued and fully paid up share capital/ registered capital | Attributable to 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. 江蘇興達鋼簾綫股份有限公司 (note a) | PRC | RMB134,600,000 | 69.54% | Manufacture and distribution of radial tire cords and bead wires |
| Shanghai Xingda Steel Tyre Cord Co., Ltd. 上海興達鋼簾綫有限公司 (note b) | PRC | RMB2,000,000 (2008: RMB500,000) | 70.23% (2008: 72.28%) | Trading of radial tire cords and bead wires |
| Xingda International (Shanghai) Special Cord Co., Ltd. 興達國際（上海）特種簾綫有限公司 (note c) | PRC | USD12,000,000 | 100% | Investment holding |
| Jiangsu Xingda Special Cord Co., Ltd. 江蘇興達特種金屬复合綫有限公司 (note a) | PRC | USD60,000,000 | 96.95% | Manufacture of radial tire cords and bead wires |

Notes: For those subsidiaries established in the PRC, their classification of establishment is as follows:

(a) sino-foreign equity joint venture
(b) domestic invested company
(c) wholly foreign owned enterprise

## 40. SUBSEQUENT EVENT

Subsequent to year ended 31 December 2009, the Group disposed of all the available-for-sale investments in the open market of the Shanghai Stock Exchange from 4 January 2010 to 12 January 2010, both dates inclusive (the "Disposal") for an aggregate consideration of approximately RMB284,425,000. Upon the completion of the Disposal, the Group has no remaining available-for-sale investments. It is expected that the net gain of the Disposal is amounting to approximately RMB186,340,000.

# Financial Summary

| | Year ended 31 December | | | | |
|---|---|---|---|---|---|
| | 2005 | 2006 | 2007 | 2008 | **2009** |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | **RMB'000** |
| Revenue | 2,357,420 | 2,516,189 | 2,778,061 | 3,488,518 | **3,864,409** |
| Cost of sales | (1,648,118) | (1,784,329) | (2,076,112) | (2,567,757) | **(2,682,026)** |
| Gross profit | 709,302 | 731,860 | 701,949 | 920,761 | **1,182,383** |
| Other income | 57,676 | 73,555 | 102,628 | 68,920 | **97,713** |
| Government grants | 46,649 | 10,062 | 11,282 | 65,840 | **53,102** |
| Selling and distribution expenses | (84,324) | (90,047) | (102,128) | (139,488) | **(178,575)** |
| Administrative expenses | (117,133) | (112,316) | (162,247) | (173,990) | **(179,581)** |
| Other expenses | (26,345) | (20,556) | (25,242) | (38,185) | **(52,102)** |
| Finance costs | (84,806) | (88,614) | (89,743) | (103,808) | **(54,176)** |
| (Loss) gain on fair value adjustment on the convertible bonds | (179,599) | (158,597) | 76,915 | 24,903 | **(1,033)** |
| Gain on deregistration of subsidiary | — | — | — | 3,398 | **—** |
| Loss on dilution of interest in a subsidiary | (824) | — | — | — | **—** |
| Profit before tax | 320,596 | 345,347 | 513,414 | 628,351 | **867,731** |
| Income tax credit (charge) | 1,526 | (478) | (64,593) | (85,953) | **(142,588)** |
| Profit for the year | 322,122 | 344,869 | 448,821 | 542,398 | **725,143** |
| Profit attributable to: | | | | | |
| Owners of the Company | 116,171 | 194,235 | 345,412 | 418,219 | **547,504** |
| Minority interests | 205,951 | 150,634 | 103,409 | 124,179 | **177,639** |
| | 322,122 | 344,869 | 448,821 | 542,398 | **725,143** |
| Dividend attributable to: | | | | | |
| Owners of the Company | 15,721 | 18,627 | 50,305 | 74,043 | **97,754** |
| Earnings per share | | | | | |
| Basic (RMB cents) | 12.91 | 21.31 | 25.97 | 30.17 | **39.50** |
| Diluted (RMB cents) | 12.91 | 21.31 | 16.05 | 25.39 | **39.36** |

# Financial Summary

| | As at 31 December | | | | |
|---|---|---|---|---|---|
| | 2005 | 2006 | 2007 | 2008 | **2009** |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | **RMB'000** |
| **ASSETS AND LIABILITIES** | | | | | |
| Total assets | 3,384,282 | 5,170,990 | 5,304,113 | 5,438,419 | **7,369,756** |
| Total liabilities | (2,232,240) | (2,612,846) | (2,015,152) | (1,681,145) | **(2,815,443)** |
| | 1,152,042 | 2,558,144 | 3,288,961 | 3,757,274 | **4,554,313** |
| Equity attributable to owners of the Company | 642,147 | 1,905,815 | 2,541,423 | 2,885,599 | **3,459,026** |
| Minority interests | 509,895 | 652,329 | 747,538 | 871,675 | **1,095,287** |
| | 1,152,042 | 2,558,144 | 3,288,961 | 3,757,274 | **4,554,313** |