ANNUAL REPORT
2012

兴 达

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

(incorporated in the Cayman Islands with limited liability)

(Stock Code : 1899)

# Contents

# Corporate Information

## BOARD OF DIRECTORS

*Executive Directors*

Mr. LIU Jinlan *(Chairman)*
Mr. LIU Xiang
Mr. TAO Jinxiang
Mr. ZHANG Yuxiao

*Non-executive Director*

Ms. WU Xiaohui

*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

## NOMINATION COMMITTEE

Mr. LIU Jinlan *(Chairman)*
Mr. KOO Fook Sun, Louis
Ms. XU Chunhua

## COMPANY SECRETARY

Mr. CHENG Kam Ho, *CPA*

## AUTHORISED REPRESENTATIVES

Mr. ZHANG Yuxiao
Mr. CHENG Kam Ho

## LEGAL ADVISORS

*As to Hong Kong Law:*

Deacons

## AUDITOR

Deloitte Touche Tohmatsu

## INVESTOR RELATIONS

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

## 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

Room 3506, 35th Floor
Central Plaza, 18 Harbour Road
Wanchai
Hong Kong

## PRINCIPAL BANKERS

Agricultural Bank of China
China Construction Bank
Hang Seng Bank 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

## STOCK CODE

01899

## WEBSITE

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

# Financial Highlights

| | 2012<br>*RMB in million* | 2011<br>*RMB in million* | Change |
|---|---|---|---|
| OPERATING RESULTS | | | |
| Revenue | **5,246.9** | 5,551.4 | –5.5% |
| Gross profit | **1,070.1** | 1,298.5 | –17.6% |
| EBITDA(1) | **924.0** | 1,165.3 | –20.7% |
| Profit for the year | **259.4** | 562.7 | –53.9% |
| Profit attributable to owners of the Company | **188.8** | 418.1 | –54.8% |
| Earnings per share – basic (RMB fen) | **12.38** | 27.42 | –54.8% |

| | 2012<br>*RMB in million* | 2011<br>*RMB in million* | Change |
|---|---|---|---|
| FINANCIAL POSITION | | | |
| Total assets | **9,363.2** | 10,045.8 | –6.8% |
| Total liabilities | **3,052.7** | 3,755.8 | –18.7% |
| Net assets | **6,310.5** | 6,290.0 | +0.3% |
| Equity attributable to owners of the Company | **4,799.0** | 4,849.0 | –1.0% |

| | 2012 | 2011 |
|---|---|---|
| KEY RATIOS | | |
| Gross profit margin (2) | **20.4%** | 23.4% |
| EBITDA margin (3) | **17.6%** | 21.0% |
| Return on equity (4) | **3.9%** | 8.6% |
| Current ratio (5) | **1.60** | 1.45 |
| Gearing ratio (6) | **12.7%** | 18.4% |
| Net debts to equity ratio (7) | **13.9%** | 23.1% |

*Notes:*

(1) It is arrived at profit for the year before finance costs, income tax expense, depreciation and amortization.

(2) Gross profit divided by revenue.

(3) EBITDA divided by revenue.

(4) Profit for the year 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) divided by total assets.

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

# Chairman's Statement

On behalf of the Board of Directors (the "Board"), I am pleased to present the audited annual results of Xingda International Holdings Limited (the "Company") and its subsidiaries (together, the "Group" or "Xingda") for the year ended 31 December 2012.

For the year ended 31 December 2012, the Group recorded a revenue of RMB5,247 million, representing a decrease of 5.5% compared with RMB5,551 million of last year. Gross profit dropped by 17.6% to RMB1,070 million while gross profit margin declined to 20.4%. Profit attributable to owners of the Company in 2012 was RMB189 million, a decrease of 54.8% from that of 2011. Basic earnings per share was RMB12.38 fen, a year-on-year decrease of 54.8%.

Despite a decline in earnings brought about by weaker external environment, the Group was committed to strengthen its financial position with improvement in its cash flow from operating activities and debt ratio. During the year, net cash generated from operating activities increased to RMB1,163 million (2011:RMB 459 million), while net debts to equity ratio dropped to 13.9% (2011: 23.1%).

The Board of Directors has proposed a final dividend of 15.0 HK cents per share or approximately RMB12.2 fen per share for the year ended 31 December 2012 (2011: 20.0 HK cents per share or approximately RMB16.2 fen per share).

In 2012, the drastic global economic downturn had taken a toll on China's economy, which inevitably undermined domestic demand for radial tire cords. Facing the challenging operating environment, we were dedicated to minimize the risks from weakening global economy thanks to our continuous efforts to diversify our businesses geographically.

While Xingda has been at the forefront of the domestic radial tire cord industry over the past few years, the Group has actively explored business opportunities in overseas markets to mitigate the risk of over-reliance upon a single market. Through our global marketing efforts, we have successfully established our company as a high quality brand and a trusted supplier for an increasing number of overseas tire manufacturers. We believe that our vision and hard work will eventually be translated into rewards for years to come.

In face of weaker domestic demand, Xingda continued to suspend the expansion plan at the Jiangsu plant in 2012 and slowed down the construction of the Shandong plant. The plant in Shangdong is now expected to commence operation in the second half of 2013 or in 2014. During the year, we strived to streamline our existing production facilities, with an aim to exceed utilization rate over 78% achieved in 2012.

Since August 2012, we have seen a gradual rebound in truck sales in China, driven by the strong pickup of investment in real estate and infrastructure. We believe that the recovery will continue in 2013, given the growing optimism about the global economy.

At the same time, China's push for urbanization will continue to drive domestic economic growth for the longer term, which we believe will help unleash the enormous potential in the domestic radial tire cord market for both trucks and passenger cars.

Furthermore, in the National Energy Work Conference held in Beijing in January 2013, Mr. Liu Tienan, the deputy director of the National Development and Reform Commission said China has set a goal of reaching 21 gigawatts of installed solar power capacity by 2015. This policy will provide a strong and steady support to the solar industry in China and thus spur demand on sawing wire products.

Going forward, the Group will continue our efforts to expand our product offerings and to enhance our production efficiency as well as to broaden our sales network in order to drive earnings growth. Meanwhile, we will adopt a reasonable pricing strategy and carry out strict cost reduction measures to increase profit margin.

On behalf of Xingda, I would like to express my heartfelt thanks to our shareholders, customers and suppliers for their continuous trust and support. My sincere gratitude is also extended to every employee of Xingda for their contributions to the development of the Group.

**Liu Jinlan**
*Chairman*
Shanghai, PRC, 26 March 2013

# Management Discussion and Analysis

## INDUSTRY OVERVIEW

Due to China's slower GDP growth and the unprecedented car purchase restrictions imposed in some major cities, the domestic auto industry saw a weaker-than-expected growth in 2012.

According to the China Association of Automobile Manufacturers, China's production of passenger cars increased by 6%, while that of trucks declined by 6%, weighed by a slowdown in road freight activities, as well as property and infrastructure investments. In 2012, China's tire output recorded a modest growth of 3% to approximately 470 million units, of which approximately 414 million units or 88% were radial tires, according to the China Rubber Industry Association.

Going into 2013, the auto industry has maintained the growth momentum it built up at the end of 2012. For the longer term, China's ongoing urbanization should continue to create new demand for auto products, laying a solid foundation for the growth of the radial tire cord industry for many years to come. With an unmatched expertise and reputation in the radial tire cord industry, Xingda is in a strong position to capitalize on these opportunities in both the primary and replacement markets.

## BUSINESS REVIEW

In 2012, the continuous sluggishness in the global economy has led to a slowdown in domestic industrial activities, which in turn, has weakened the demand for domestic truck tires and passenger car tires. However, due to the growing export sales brought about by a gradually expanding global client base, the Group's total sales volume in 2012 increased by 4.2% to 474,900 tonnes. During the year, the sales volume of radial tire cords increased by 5.7% to 405,400 tonnes, accounting for 85.4% of the Group's total sales volume (2011: 84.1%). Sales volume of bead wires declined by 6.3% to 64,000 tonnes, occupying 13.5% of the total sales volume (2011: 15.0%) of the Group, whereas the sales volume of sawing wires increased by 41.0% to 5,500 tonnes, representing 1.1% of the Group's total sales volume (2011: 0.9%).

During the year under review, radial tire cords for trucks remained the Group's major product. The sales volume of radial tire cords for trucks increased by 5.4% to 269,100 tonnes. Radial tire cords for passenger cars recorded a 6.4% growth in sales volume, to 136,300 tonnes as the overseas market continually expanded. The sales volumes of radial tire cords for trucks and passenger cars contributed 66.4% and 33.6% respectively to the Group's total sales volume of radial tire cords (2011: 66.6% and 33.4%).

## BUSINESS REVIEW – *CONTINUED*

| **Sales Volume** | **2012** | 2011 | Change |
|---|---|---|---|
| | ***Tonnes*** | *Tonnes* | |
| Radial Tire Cords | **405,400** | 383,400 | +5.7% |
| – *For Trucks* | ***269,100*** | *255,300* | *+5.4%* |
| – *For Passenger Cars* | ***136,300*** | *128,100* | *+6.4%* |
| Bead Wires | **64,000** | 68,300 | –6.3% |
| Sawing Wires | **5,500** | 3,900 | +41.0% |
| Total | **474,900** | 455,600 | +4.2% |

In 2012, Xingda's businesses were influenced by slower growth in the infrastructure and industrial sectors. As a result, the domestic sales volume of radial tire cords only increased by 3.8% to 325,900 tonnes (2011: 314,100 tonnes), and accounted for 80.4% of the Group's total volume of radial tire cords sold (2011: 81.9%). Despite a relatively weak operating environment, Xingda continued to leverage its competitive advantages to maintain its leadership in the domestic market during the year, while advancing steadily in overseas markets. Overseas sales of radial tire cords rose by 14.7% to 79,500 tonnes in 2012 (2011: 69,300 tonnes) as the Group's products increasingly gained recognition by global tire manufacturers. Export sales accounted for 19.6% of total sales volume of radial tire cords in 2012 (2011: 18.1%).

During the year under review, Xingda continued to streamline its production operations at its existing facilities. In view of the softened demand, the Group has deferred the expansion plan in its Jiangsu plant and slowed down the construction work at its Shandong plant since the third quarter of 2011. By the end of 2012, the Group's annual production capacity for radial tire cords, bead wires and sawing wires remained at 500,000 tonnes, 100,000 tonnes and 12,000 tonnes, respectively.

## BUSINESS REVIEW – *CONTINUED*

| | **2012 Production Capacity (Tonnes)** | **2012 Utilization Rate** | 2011 Production Capacity (Tonnes) | 2011 Utilization Rate |
|---|---|---|---|---|
| Radial Tire Cords | **500,000** | **81%** | 500,000 | 79% |
| Bead Wires | **100,000** | **68%** | 100,000 | 70% |
| Sawing Wires | **12,000** | **45%** | 12,000 | 35% |

Xingda's overall utilization rate in 2012 increased by 1 percentage point to 78%. The Group was actively adjusting its capacity expansion plan in accordance with customers' feedback to maintain a high utilization rate. The Group continued to monitor the market demand and will resume the expansion at the right timing.

To accommodate the different needs of its growing customer base, Xingda has newly developed 11 types of radial tire cords, 2 types of bead wires and 3 types of sawing wires.

As of the end of 2012, the Group was committed to providing a variety of products for its clients, including 173 types of radial tire cords, 63 types of bead wires and 11 types of sawing wires.

## FINANCIAL REVIEW

### REVENUE

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

| ***RMB in million*** | **2012** | **Proportion** | 2011 | Proportion | Change (%) |
|---|---|---|---|---|---|
| Radial Tire Cords | **4,714** | **90%** | 4,918 | 88% | –4.1 |
| *– For trucks* | ***3,214*** | ***61%*** | *3,409* | *61%* | *–5.7* |
| *– For passenger cars* | ***1,500*** | ***29%*** | *1,509* | *27%* | *–0.6* |
| Bead wires | **384** | **7%** | 418 | 8% | –8.1 |
| Sawing wires | **149** | **3%** | 215 | 4% | –30.7 |
| Total | **5,247** | **100%** | 5,551 | 100% | –5.5 |

The Group's total revenue dropped by 5.5% or RMB304 million to RMB5,247 million in 2012 due to the pricing pressure caused by ongoing competition in domestic market. Domestic and overseas markets contributed 80.0% and 20.0% respectively to the Group's total sales revenue (2011: 82.7% and 17.3%).

## FINANCIAL REVIEW – *CONTINUED*

### GROSS PROFIT AND GROSS PROFIT MARGIN

The Group's gross profit decreased by 17.6% or RMB228.4 million to RMB1,070.1 million in 2012 (2011: RMB1,298.5 million) due to the decline in the average selling prices for both radial tire cord and sawing wire products. During the year, the cost of sales decreased by 1.8% or RMB76.1 million to RMB4,176.8 million as a result of the decline in unit cost of steel rods from approximately RMB5,100 to approximately RMB4,600. Steel rods accounted for 54.9% of the Group's cost of sales (2011: 58.3%). Consequently, gross profit margin dropped 3.0 percentage points to 20.4% (2011: 23.4%).

### OTHER INCOME

Other income decreased by RMB3.4 million or 4.2% from RMB80.3 million in 2011 to RMB76.9 million for the year under review. The decrease was mainly caused by a decrease in sales of scrap materials which was partially offset by an increment in fair value of investment properties.

### GOVERNMENT GRANT

Government grants for the year declined by 72.0% from RMB64.0 million in 2011 to RMB17.9 million mainly due to the decrease in recurring subsidies from the local government.

### SELLING AND DISTRIBUTION EXPENSES

Selling and distribution expenses increased by 4.6% to RMB356.7 million from RMB341.0 million in 2011. The increase was mainly caused by the corresponding rise in transportation costs for a higher sales volume as well as additional shipping cost associated with export sales.

### ADMINISTRATIVE EXPENSES AND OTHER EXPENSES AND LOSSES, NET

Administrative expenses decreased by RMB8.2 million or 3.5% to RMB223.3 million due to effective cost control measures of the Group. Other expenses and losses increased by RMB3.9 million or 4.8% from RMB81.8 million in 2011 to RMB85.7 million in 2012 due to an increase in provision for trade receivables and research and development expenditure partially offset by a decline in foreign exchange loss.

### FINANCE COSTS

Finance costs rose by RMB16.3 million or 17.1% to RMB111.4 million from RMB95.1 million in 2011. The increase was mainly caused by higher weighted average interest rates in 2012 and less interest expenses were capitalized in property, plant and equipment during the year under review.

## FINANCIAL REVIEW – *CONTINUED*

### INCOME TAX EXPENSE

The Group's income tax charge increased by RMB5.5 million to RMB134.4 million with an effective tax rate 34.1% (2011: 18.6%). The increased effective tax rate was mainly caused by the provision of deferred tax charge related to the provision of withholding tax on the accumulated distributable profits of a subsidiary of the Company for the year ended 31 December 2012. For further information, please refer to note 13 to the financial statements.

### NET PROFIT

Taking the above factors into account, the Group's net profit for the year ended 31 December 2012 decreased by RMB303.3 million or 53.9% from RMB562.7 million in 2011 to RMB259.4 million. If the deferred tax charge related to the provision of withholding tax and net exchange gain or loss arising from non-operating activities were excluded, the adjusted net profit of the Group for the year ended 31 December 2012 would be RMB314.1 million, representing a decrease of RMB265.9 million or 45.8% when compared with the previous year.

### RECONCILIATION OF REPORT PROFIT AND UNDERLYING PROFIT

| | **2012** | 2011 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Profit for the year | **259,376** | 562,655 |
| Deferred tax charges related to the provision of withholding tax | **56,411** | — |
| Net exchange (gain) loss arising from non-operating activities | **(1,646)** | 17,359 |
| Underlying profit for the year | **314,141** | 580,014 |
| Underlying profit for the year attributable to: | | |
| Owners of the Company | **243,551** | 435,477 |
| Non-controlling interests | **70,590** | 144,537 |
| | **314,141** | 580,014 |

## LIQUIDITY, CAPITAL RESOURCES AND CAPITAL STRUCTURE

During the year, there was no significant change in the Group's funding and treasury policy. The principal source of liquidity and capital resources was cash flows generated from operating activities whereas the principal uses of cash were operational costs, repayment of bank borrowings and expansion of production capacity.

Bank balances and cash including bank deposits of the Group decreased by RMB209.5 million from RMB730.9 million as at 31 December 2011 to RMB521.4 million as at 31 December 2012. The decrease was due to the cash used in investment activities of RMB349.7 million and financing activities of RMB1,022.6 million exceeding the cash generated from operating activities of RMB1,162.8 million.

Bank borrowings which were all denominated in Renminbi decreased by RMB660.0 million or 35.7% to RMB1,190.0 million as at 31 December 2012 from RMB1,850.0 million as at 31 December 2011. The bank borrowings carry interest at market rates from 5.70% to 6.56% (2011: 5.19% to 6.56%) and are repayable within one year from 31 December 2012.

The Group's current assets decreased by 11.5% to RMB4,793.2 million as at 31 December 2012 from RMB5,418.7 million as at 31 December 2011 and its current liabilities decreased by 20.1% from RMB3,744.6 million as at 31 December 2011 to RMB2,993.6 million as at 31 December 2012. The Group's current ratio, being defined as current assets over current liabilities, increased from 1.45 times as at 31 December 2011 to 1.60 times as at 31 December 2012. The increment was mainly caused by the decrease in bank borrowings repayable within one year outweighed the decrease in bank balances and cash. The gearing ratio which is measured by total debts (bank borrowings) to total assets decreased from 18.4% as at 31 December 2011 to 12.7% as at 31 December 2012 due to a decrease in bank borrowings repayable within one year.

## FOREIGN EXCHANGE RISK

The Group's sales and purchases were principally denominated in Renminbi, US dollars and Euro. Since more than half of the sales proceeds in US dollars and Euro have been used to purchase imported raw materials in the same currencies, the mild appreciation of the Renminbi did not have a materially unfavourable effect on the operating results of the Group in 2012.

Apart from certain bank and debtors' balances in Hong Kong dollars, US dollars and Euro, most of the assets and liabilities of the Group were denominated in Renminbi. Therefore, the Group was not exposed to significant foreign exchange risk. During the year under review, exchange rate fluctuation had not caused material adverse impact on the operation or liquidity of the Group. Accordingly, the Group did not enter into any financial derivative instruments to hedge against foreign exchange currency exposure during the year under review. However, the Group will closely monitor the impact of change in value of the Renminbi on its operation and consider appropriate hedging solutions, if required.

## CAPITAL EXPENDITURE

For the year ended 31 December 2012, capital expenditure of the Group for property, plant and equipment amounted to RMB365.9 million (2011: RMB756.9 million).

## CAPITAL COMMITMENTS

As at 31 December 2012, the Group had made capital commitment of approximately RMB113.1 million (31 December 2011: RMB61.4 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 authorised but not contracted for in both years.

## CONTINGENT LIABILITIES

The Group did not have any material contingent liabilities as at 31 December 2012 and 31 December 2011.

## PLEDGE OF ASSETS

As at 31 December 2012, the Group pledged bank deposits of RMB58.0 million to a bank to secure notes payables of the Group (31 December 2011: RMB108.3 million).

## SIGNIFICANT INVESTMENTS

The Group invested in the jointly controlled entity, Shandong Xingda Steel Tyre Cord Co. Ltd., amounting to RMB244.6 million in 2011. The Group had no other significant external investments for the year ended 31 December 2012.

## SIGNIFICANT ACQUISITIONS AND DISPOSALS

The Group had no significant acquisitions and disposals for the years ended 31 December 2012 and 31 December 2011 respectively.

## HUMAN RESOURCES

As at 31 December 2012, the Group had approximately 6,700 (31 December 2011: approximately 7,500) full time employees. Total staff costs including directors' remuneration for the year ended 31 December 2012 was approximately RMB448.3 million (2011: approximately RMB416.6 million). Salaries are generally reviewed with reference to 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 ("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 2012, the amount of Union Fees contributed by Jiangsu Xingda to the Xingda Labour Union amounted to RMB7.1 million (2011: RMB6.9 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 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 accident and unemployment insurance policies for its employees.

In 2009, the Board adopted a share award scheme to encourage and retain elite employees to stay 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 selected employees 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 relevant selected employees until such shares are vested in the relevant selected employees in accordance with the provisions of the scheme. In 2010, 5,000,000 Company's shares (the "First Batch Shares") were purchased by the trustee on the public market. In 2011, another 5,000,000 Company's shares (the "Second Batch Shares") were purchased by the trustee on the public market. The total consideration and other directly attributable incremental costs of the Second Batch Shares purchased under the share award scheme in an aggregate amount of approximately RMB17.7 million were recognised in the reserve of the Company. As at 31 December 2012, all the First Batch Shares held under the share award scheme were allocated to selected employees. The Second Batch Shares will be allocated to selected employees in a three-year period commencing from 2013.

## PROSPECTS

In the wake of uncertainty over the global economy, the Chinese government continued to take various measures to promote sustainable growth of China economy. China's long-term plan to improve the levels of urbanization will help stimulate the recovery of infrastructure and industrial activities within the country, thereby providing a more conducive environment where replacement demand for truck tires should gradually recover. The Group is cautiously optimistic about upcoming market conditions and will strive to maintain steady growth going forward.

In January 2013, the National Energy Work Conference announced its target to add 10 gigawatts in solar power capacity in China by 2013, up from 7 gigawatts at the end of 2012. The goal for 2013 will put China within easy reach of its stated target of 21 gigawatts of installed solar power capacity by 2015. As a result, we expect such policy to boost demand for our sawing wire products from our established solar clients.

In the face of sluggish demand, sustained price pressure and increasingly competitive market conditions, Xingda will focus on carrying out its cost control measures and carefully adjusting its expansion plan to maintain a high utilization rate and to better cope with future market trends. Moreover, the Group will continue to further expand its client base, and strengthen its global business by riding on its distinguished reputation built up with renowned tire manufacturers over the years.

Looking ahead, Xingda will leverage its competitive advantages to maintain its domestic market leadership while pushing forward to realize its plan to become the largest globally recognized radial tire cord manufacturer in China.

## EXECUTIVE DIRECTORS

**Mr. LIU Jinlan (劉錦蘭),** aged 63, has been a Director and the chairman of the Board since April 2005 and was in August 2005 designated as an executive Director. He has also been 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 17 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 36, has been an executive Director since August 2005. He has also been 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 17 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.

## EXECUTIVE DIRECTORS – *CONTINUED*

**Mr. TAO Jinxiang (陶進祥),** aged 50, has been an executive Director since August 2005. He has also been 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 17 years of experience in the radial tire cord manufacturing industry.

**Mr. ZHANG Yuxiao (張宇曉),** aged 43, has been an executive Director and Chief Financial Officer of the Company since August 2005. He has also been 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 12 years of experience in the radial tire cord manufacturing industry.

## NON-EXECUTIVE DIRECTOR

**Ms. WU Xiaohui (鄔小蕙),** aged 52, has been a non-executive Director since August 2005. She joined China National Cereals, Oils and Foodstuffs Import and Export Corporation ("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 served as the Chief Financial Officer of COFCO from February 2002 to November 2012. She has been the Vice President of COFCO since November 2012 and she is in charge of the financing activities of COFCO. She currently also 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 25 years of experience in finance.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. KOO Fook Sun, Louis (顧福身),** aged 56, 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 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 Good Friend International Holdings Inc., Li Ning Company Limited, Midland Holdings Limited and Richfield Group Holdings Limited (all of which are companies listed on the Main Board of the Hong Kong Stock Exchange). From 20 October 2003 to 29 June 2012, Mr. Koo served as an independent non-executive director of Weichai Power Co., Ltd. (a company listed on the Main Board of the Hong Kong Stock Exchange). From September 2006 to December 2009, he also 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 Euronext). 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 71, has been an independent non-executive Director since August 2005. Mr. Sharp is the president of Global Industrial Consulting, a consulting firm. He is also an independent director of Acquity Corporation, a leading Brand eCommerce and digital marketing company and China Zenix Auto International Limited that manufactures commercial vehicle wheels (all of which are companies listed on the NYSE). From 1998 to April 2012, he served as a director of Ferro Corporation, a manufacturer of performance materials listed on the NYSE. Mr. Sharp also served as an independent non-executive director of Exceed Co Ltd (a company listed on the NASDAQ) and resigned from his position on 4 February 2012. 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 45 years of experience in the tire manufacturing industry.

**Ms. XU Chunhua (許春華),** aged 69, 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. Since May 2007, she has served as an independent director of China Sunsine Chemical Holdings Ltd., a company listed on the Singapore Exchange Limited. She completed her studies in the macromolecular curriculum of the chemistry faculty of Fudan University in 1965 and has more than 45 years of experience in technology research relating to rubber chemicals.

## COMPANY SECRETARY

**Mr. CHENG Kam Ho (鄭錦豪),** aged 37, is the company secretary of the Company. Mr. Cheng joined the Company as a member of its senior management in July 2008. He has more than 13 years of experience in finance, accounting and auditing. Mr. Cheng worked in 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 2012.

## PRINCIPAL ACTIVITIES

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

## RESULTS AND APPROPRIATIONS

Details of the Group's results for the year ended 31 December 2012 are set out in the consolidated statement of comprehensive income on page 44 of the annual report.

A final dividend of 20.0 HK cents per share for the year ended 31 December 2011 was paid to the shareholders of the Company during the year ended 31 December 2012.

The Board has recommended the payment of a final dividend of 15.0 HK cents (approximately RMB12.2 fen) per share for the financial year ended 31 December 2012 to the shareholders whose names appear on the register of members of the Company on Wednesday, 5 June 2013. The final dividend will be payable on Friday, 28 June 2013.

## CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 22 May 2013 to Friday, 24 May 2013, both days inclusive, during which period no transfer of shares will be registered. In order to be entitled to attend and vote at the forthcoming annual general meeting to be held on Friday, 24 May 2013, all duly completed transfer forms accompanied by the relevant share certificates 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 4:30 p.m. on Tuesday, 21 May 2013.

The proposed final dividend for the year ended 31 December 2012 is subject to the approval by the shareholders of the Company at the forthcoming annual general meeting to be held on Friday, 24 May 2013. The register of members of the Company will be closed from Monday, 3 June 2013 to Wednesday, 5 June 2013, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for receiving the final dividend, all duly completed transfer forms accompanied by the relevant share certificates must be lodged with 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 4:30 p.m. on Friday, 31 May 2013.

## 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, is set out on pages 105 and 106 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 18 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; and
- the remaining balance of approximately HKD37 million is intended to be used as general working capital.

## USE OF PROCEEDS – *CONTINUED*

Up to 31 December 2012, the Group has utilised approximately HKD685 million of the net proceeds and the details are as follows:

| | Proposed uses of fund as stated in the Company's prospectus dated 8 December 2006 | Actual uses of funds during the year ended 31 December 2012 | Balance of net proceeds as at 31 December 2012 |
|---|---|---|---|
| | *HKD'000* | *HKD'000* | *HKD'000* |
| Expansion of the production capacity of the production facilities | 550,000 | 550,000 | – |
| Installation of a manufacturing execution system (MES) and logistics management system | 70,000 | 8,339 | 61,661 |
| 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 | 684,697 | 402,303 |

The remaining amount of approximately HKD402 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 Company's prospectus dated 8 December 2006 (the "Prospectus").

The net proceeds of approximately HKD740,700,000 from the placing and top-up subscription arrangement completed in September 2010 were also placed in short term deposits with licensed banks in Hong Kong. During the year ended 31 December 2012, all the remaining net proceeds were utilised for enhancing the production facilities of a jointly controlled entity invested by the Group and financing the working capital.

## SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 32 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 RMB906.1 million as at 31 December 2012 (2011: RMB1,169.7 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

Particulars of bank borrowings of the Group as at 31 December 2012 are set out in note 30 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. ZHANG Yuxiao

*Non-executive Director:*
Ms. WU Xiaohui

*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. Liu Xiang 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 15 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.

The non-executive Director 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 2012, 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 2012 |
|---|---|---|---|
| Liu Jinlan | Beneficial owner, interest of a controlled corporation and interests of parties to an agreement required to be disclosed under section 317 of the SFO *(note 1)* | 567,666,000 | 37.23% |
| Liu Xiang | Beneficial owner, interest of a controlled corporation and interests of parties to an agreement required to be disclosed under section 317 of the SFO *(note 2)* | 567,666,000 | 37.23% |
| Tao Jinxiang | Beneficial owner, interest of a controlled corporation and interests of parties to an agreement required to be disclosed under section 317 of the SFO *(note 3)* | 567,666,000 | 37.23% |
| Zhang Yuxiao | Beneficial owner, interest of a controlled corporation and interests of parties to an agreement required to be disclosed under section 317 of the SFO *(note 4)* | 567,666,000 | 37.23% |
| Koo Fook Sun, Louis | Beneficial owner | 50,000 | 0.003% |
| William John Sharp | Beneficial owner | 50,000 | 0.003% |
| Xu Chunhua | Beneficial owner | 50,000 | 0.003% |

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES – *CONTINUED*

### (1) LONG POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY – *CONTINUED*

*Notes:*

1. Mr. Liu Jinlan held 1,200,000 shares in his own name as at 31 December 2012. 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 2012, Great Trade Limited held 238,348,000 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 held 600,000 shares in his own name as at 31 December 2012. 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 2012, In-Plus Limited held 135,064,000 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 held 600,000 shares in his own name as at 31 December 2012. 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 2012, Perfect Sino Limited held 111,229,000 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 held 575,000 shares in his own name as at 31 December 2012. 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 2012, Power Aim Limited held 39,725,000 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.

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES – *CONTINUED*

### (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 2012 |
|---|---|---|---|---|
| Zhang Yuxiao | Beneficial Owner | Jiangsu Xingda Steel Tyre Cord Co., Ltd. | 100 | 0.000074% |

Save as disclosed above, as at 31 December 2012, 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

Save for the share award scheme adopted by the Company, 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. Details of movements of the shares granted under the share award scheme for the year ended 31 December 2012 are set out in note 33 to the financial statements.

## 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 then 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.

## DEED OF NON-COMPETITION – *CONTINUED*

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 Covenantors 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 Covenantors 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 PURSUANT TO PART XV OF THE SFO

As at 31 December 2012, 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 2012 |
|---|---|---|---|
| Great Trade Limited | Beneficial owner | 238,348,000 | 15.63% |
| In-Plus Limited | Beneficial owner | 135,064,000 | 8.86% |
| Perfect Sino Limited | Beneficial owner | 111,229,000 | 7.29% |
| Hang Youming | Beneficial owner, interest of a controlled corporation and interests of parties to an agreement required to be disclosed under section 317 of the SFO *(note 1)* | 566,474,000 | 37.15% |
| Lu Guangming George | Interests of controlled corporations *(note 2)* | 83,187,600 | 5.46% |
| E-Star Corporation | Beneficial owner *(note 3)* | 106,649,400 | 6.99% |
| COFCO (BVI) No. 88 Limited | Interest of a controlled corporation *(note 3)* | 106,649,400 | 6.99% |
| COFCO (BVI) Limited | Interest of a controlled corporation *(note 3)* | 106,649,400 | 6.99% |
| COFCO Corporation (formerly known as COFCO Limited) | Interest of a controlled corporation *(note 3)* | 106,649,400 | 6.99% |
| Matthews International Capital Management, LLC | Investment manager | 138,769,000 | 9.10% |
| Prudential plc | Interests of controlled corporations *(Note 4)* | 121,935,100 | 8.00% |

## INTERESTS OF SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS WHO ARE REQUIRED TO DISCLOSE THEIR INTERESTS PURSUANT TO PART XV OF THE SFO – *CONTINUED*

### LONG POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY – *CONTINUED*

*Notes:*

1. As recorded in the register of substantial shareholders maintained by the Company, Mr. Hang Youming held 400,000 shares in his own name as at 31 December 2012. 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 2012, Wise Creative Limited held 39,725,000 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.

2. Mr. Lu Guangming George legally owned 100% of the issued share capital of Surfmax Corporation, which was the member manager of Surfmax Investments, LLC (formerly known as Surfmax-Estar Fund A, LLC). As at 31 December 2012, Surfmax Investments, LLC held 74,907,600 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 2012. For the purpose of Part XV of the SFO, Mr. Lu Guangming George was deemed to be interested in the shares held by Surfmax Investments, LLC and Win Wide International Ltd. respectively.

3. COFCO Corporation (formerly known as COFCO Limited) owned 100% of the issued share capital of COFCO (BVI) Limited, which in turn owned 100% of the issued share capital of COFCO (BVI) No. 88 Limited, which in turn owned 100% of the issued share capital of E-Star Corporation. As at 31 December 2012, E-Star Corporation held 106,649,400 shares in the Company. For the purpose of Part XV of the SFO, COFCO Corporation (formerly known as COFCO Limited), COFCO (BVI) Limited and COFCO (BVI) No. 88 Limited are deemed to be interested in the shares in the Company held by E-Star Corporation

4. For the purpose of Part XV of the SFO, Prudential plc was deemed to be interested in the 121,935,100 shares in the Company held by its controlled corporations as at 31 December 2012.

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 2012 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 2012.

## 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.

## EMOLUMENT POLICY – *CONTINUED*

The ordinary remuneration of the Directors is subject to approval by the shareholders of the Company 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 2012 is disclosed in note 15 to the financial statements.

## MAJOR CUSTOMERS AND SUPPLIERS

The five largest customers of the Group contributed approximately 39% 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 81% of the Group's total purchases for the year and the largest supplier represented approximately 65% 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.

## AUDITOR

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

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

26 March 2013

## 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 (effective up to 31 March 2012) and the Corporate Governance Code (effective from 1 April 2012) contained in Appendix 14 of the Listing Rules throughout the year ended 31 December 2012, except for the following:–

Code provision A.2.1 provides that the roles of chairman and chief executive 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 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 executive Directors, the Executive Committee of the Company 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.

Code Provision A.4.1 provides that non-executive Directors should be appointed for a specific term and be subject to re-election. The Company has not fixed the term of appointment for its non-executive Director, Ms. Wu Xiaohui, since she is subject to retirement by rotation at least once every three years and re-election at the annual general meeting of the Company in accordance with the Articles of Association of the Company.

Code provision A.6.7 provides that independent non-executive directors and non-executive directors should attend general meetings. Ms. Wu Xiaohui, a non-executive Director, Mr. William John Sharp and Ms. Xu Chunhua, both being independent non-executive Directors, were unable to attend the annual general meeting of the Company held on 18 May 2012 ("AGM") as they had to attend other meetings or were engaged in other businesses and commitments. However, Ms. Wu, Mr. Sharp and Ms. Xu subsequently requested the company secretary of the Company to report to each of them on the views of the shareholders of the Company in the annual general meeting. As such, the Board considers that the development of a balanced understanding of the views of shareholders among the non-executive Directors and independent non-executive Directors was ensured.

In compliance with the code provisions of the Corporate Governance Code, the Company has set up the Audit Committee, the Remuneration and Management Development Committee and the Nomination Committee, and the Board has been responsible for performing the corporate governance duties as set out in the code provisions.

## THE BOARD

### COMPOSITION AND RESPONSIBILITIES

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 is also responsible for performing the relevant functions set out in the Corporate Governance Code, including developing and reviewing the policies and practices on corporate governance of the Group and making recommendations to the Board, reviewing and monitoring the Group's policies and practices on compliance with legal and regulatory requirements, reviewing and monitoring the code of conduct and compliance manual applicable to the Directors and employees, reviewing and monitoring the training and continuous professional development of Directors and senior management, and reviewing the Company's compliance with the Code on Corporate Governance Practices and the Corporate Governance Code (as applicable) and disclosures in the Company's corporate governance report. The Board, under the leadership of its chairman, adopted appropriate efforts and measures to ensure the Company's corporate governance policies and practices, training and continuous professional development of the Directors and company secretary are in compliance with the code provisions of the Code on Corporate Governance Practices and the Corporate Governance Code.

In addition to providing sufficient time and attention to the affairs of the Group, all Directors disclosed to the Company the number and nature of the offices held in other public companies and updated the Company on any subsequent changes in a timely manner.

The Board currently comprises eight members, including four executive Directors, one non-executive Director and three independent non-executive Directors. The biographical details of the Directors are set out on pages 15 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 non-executive Director 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.

A list of directors and their role and function has been uploaded and maintained on the websites of the Company and the Stock Exchange.

## MEETINGS

The Board will meet regularly at least four times a year at approximately quarterly intervals. For the year ended 31 December 2012, the Board held four meetings to discuss and approve various important matters. The table below sets out the attendance of each Director at the AGM and the meetings of the Board and other Board committees held during the year ended 31 December 2012:

| | AGM | 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 | 1/1 | 4/4 | N/A | N/A | 1/1 | 1/1 | 1/1 | 1/1 |
| Mr. LIU Xiang | 1/1 | 3/4 | N/A | N/A | N/A | N/A | 1/1 | N/A |
| Mr. TAO Jinxiang | 1/1 | 4/4 | N/A | N/A | N/A | N/A | 1/1 | 1/1 |
| Mr. ZHANG Yuxiao | 1/1 | 4/4 | N/A | N/A | N/A | 1/1 | N/A | 1/1 |
| **Non-executive Director** | | | | | | | | |
| Ms. WU Xiaohui | 0/1 | 4/4 | N/A | N/A | N/A | N/A | N/A | N/A |
| **Independent non-executive Directors** | | | | | | | | |
| Mr. KOO Fook Sun, Louis | 1/1 | 4/4 | 2/2 | 3/3 | 1/1 | N/A | N/A | N/A |
| Mr. William John SHARP | 0/1 | 4/4 | 2/2 | 3/3 | N/A | N/A | N/A | N/A |
| Ms. XU Chunhua | 0/1 | 4/4 | 2/2 | N/A | 1/1 | 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 members of the Board or the Board committees at least fourteen days before the Board meeting or no later than seven working days before the date of the Board committee 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 members of the Board or the Board committees at least three days (or other agreed period) in advance, which ensures enough time is given to them 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 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.

During the year, a meeting was held between the Chairman, the non-executive Director and the Independent non-executive Directors. The purpose of the meeting was to discuss about the performance of the Board members and the management.

## APPOINTMENT AND RE-ELECTION

The non-executive Director 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. All independent non-executive Directors have served the Company for not more than 9 years and a separate shareholders' approval for further appointment of the independent non-executive Directors is not required accordingly.

Pursuant to Article 87 of the Articles of Association of the Company, Mr. Liu Jinlan, Mr. Liu Xiang and Ms. Xu Chunhua will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company.

## TRAINING AND CONTINUOUS PROFESSIONAL DEVELOPMENT

The Directors acknowledge the need to develop and refresh their knowledge and skills by participating in training and continuous professional development courses. During the year, the Company arranged and provided suitable in-house training courses for all Directors to update them about the amendments to the Listing Rules, the revised code provisions of the Corporate Governance Code and their role and functions. The training records kept and provided by the Directors in the year 2012 are as follows:–

| | **Participating in in-house training courses** |
|---|---|
| **Executive Directors** | |
| Mr. LIU Jinlan | Yes |
| Mr. LIU Xiang | Yes |
| Mr. TAO Jinxiang | Yes |
| Mr. ZHANG Yuxiao | Yes |
| **Non-executive Director** | |
| Ms. WU Xiaohui | Yes |
| **Independent non-executive Directors** | |
| Mr. KOO Fook Sun, Louis | Yes |
| Mr. William John SHARP | Yes |
| Ms. XU Chunhua | Yes |

With effect from 1 April 2012, the Company updates all Directors on the Company's monthly performance, position and prospects by providing them with financial data including monthly management accounts and production plan.

During the year, the Company provided all Directors with the latest version of "A Guide on Directors' Duties" issued by the Companies Registry of Hong Kong and "Guidelines for Directors" issued by the Hong Kong Institute of Directors. For the independent non-executive Directors, they have been provided with the "Guide for Independent Non-executive Directors" published by the Hong Kong Institute of Directors.

### INDEMNIFICATION OF DIRECTORS AND OFFICERS

The Company has arranged for appropriate Directors' and officers' liability insurance throughout the year ended 31 December 2012 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.

## 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 all consist of independent non-executive Directors only.

### AUDIT COMMITTEE

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

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

(a) to make recommendation to the Board on the appointment, 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;

(j) to report to the Board on the matters set out in the terms of reference for the Audit Committee; and

(k) to review the employees' concerns of any possible improprieties in financial reporting, internal control or other matters and to ensure appropriate follow-up actions were properly took up, and to establish a whistleblowing policy and system for employees and those who deal with the Company or its subsidiaries to raise concern about possible improprieties.

The Audit Committee had two meetings with the external auditors during the year ended 31 December 2012. During the meetings held, the Audit Committee had performed the following work:

- reviewing the audited financial statements for the year ended 31 December 2011 and the unaudited financial statements for the six months ended 30 June 2012;
- reviewing and discussing the management letter issued by the external auditor;
- recommending the Board on the remuneration and terms of engagement of the external auditor in respect of the auditing services for the year ended 31 December 2012; and
- recommending the Board of an external auditor to review and improve the Group's internal control system and approving the remuneration and terms of such engagement; and
- reviewing any improprieties raised by the employees under the whistleblowing system regularly and ensuring proper independent investigation was followed.

On 22 March 2013, 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 2012 as well as the management letter issued by the external auditors for the annual audit for the year ended 31 December 2012.

The terms of reference of the Audit Committee have been published on the websites of the Company and the Stock Exchange.

## 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 corporate goals, policy and structure for all remuneration of Directors and senior management, to make recommendations of remuneration packages of executive Directors and senior management, to make recommendations of remuneration for non-executive Directors to the Board, to ensure that no Director or any of his associates is involved in deciding his own remuneration and to monitor the operation of the share award scheme of the Company. 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 Company has adopted the model whereby the Remuneration Committee makes recommendations to the Board on the remuneration packages of individual executive Directors and senior management, which should include benefits in kind, pension rights and compensation payments, and any compensation payable for loss or termination of their office(s) or appointment(s).

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 2012. A summary of work performed by the Remuneration Committee during the year is set out below:

- recommending the Board on the remuneration packages of the Directors and senior management of the Group for the year ended 31 December 2011;

- evaluating and making recommendations to the Board on the remuneration policy of the Directors and senior management of the Group for the year ended 31 December 2012 with reference to the remuneration package of the Board in 2011 and the Group's estimated financial performance for the year ended 31 December 2012; and

- approving the vesting of share awards granted to the employees of the Group upon the achievement of financial performance target of the Group in the year 2011.

Subsequent to the year 2012, the Remuneration Committee held another meeting on 22 March 2013. At such meeting, the Remuneration Committee:

- considered the performance of the executive Directors and the Group and the total remuneration and compensation of the executive Directors for the year 2012;

- resolved that the total remuneration and compensation of the Directors and senior Management paid for the year ended 31 December 2012 was approved, ratified and recommended to the Board; and

- approved to recommend the Board about the vesting of share awards to the employees of the Group upon the achievement of financial performance target of the Group in the year 2012.

The terms of reference of the Remuneration Committee have been published on the websites of the Company and the Stock Exchange.

Details of annual remuneration paid to members of key management fell within the following bands:

| | **Number of individuals** |
|---|---|
| RMB1,000,000 or below | 7 |
| RMB1,000,001 – RMB2,000,000 | 5 |
| RMB5,000,001 – RMB6,000,000 | 2 |
| RMB8,000,001 – RMB9,000,000 | 2 |
| RMB12,000,001 – RMB13,000,000 | 1 |

## NOMINATION COMMITTEE

The Company established the Nomination Committee on 23 August 2005. The Nomination Committee consists of three Directors, namely Mr. Liu Jinlan, an executive Director, Mr. Koo Fook Sun, Louis and Ms. Xu Chunhua, both being independent non-executive Directors. The chairman of the Nomination Committee was Mr. Liu Jinlan. Mr. Koo Fook Sun, Louis was appointed as a member of the Nomination Committee on 23 March 2012.

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

(a) 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;

(b) to review the structure, size and composition (including the skills, knowledge and experience required) of the Board regularly;

(c) to carry 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;

(d) to make recommendations to the Board on the appointment or re-appointment of the Directors and succession planning for Directors, in particular the chairman of the Company;

(e) to assess the independence of independent non-executive Directors, having regards to the requirements under the Listing Rules; and

(f) to review its own performance, constitution and terms of reference on a regular basis.

During the year ended 31 December 2012, the Nomination Committee reviewed the structure, size and composition of the Board in the one meeting held. There was no nomination of Directors to fill Board vacancies in the year ended 31 December 2012.

The terms of reference of the Nomination Committee have been published on the websites of the Company and the Stock Exchange.

### 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 two Directors, namely Mr. Liu Jinlan and Mr. Zhang Yuxiao. The chairman of the Executive Committee is Mr. Zhang Yuxiao. The Executive Committee had one meeting during the year ended 31 December 2012.

### 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 three Directors, namely Mr. Liu Jinlan, Mr. Liu Xiang and Mr. Tao Jinxiang. 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 2012.

### 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 three Directors, namely Mr. Liu Jinlan, Mr. Zhang Yuxiao and Mr. Tao Jinxiang. The chairman of the Investment and International Development Committee is Mr. Zhang Yuxiao. The Investment and International Development Committee had one meeting during the year ended 31 December 2012.

## COMPANY SECRETARY

The Company Secretary, Mr. Cheng Kam Ho, took no less than 15 hours of relevant professional training for the year ended 31 December 2012. Mr. Cheng is a member of the Hong Kong Institute of Certified Public Accountants and his biography is set out in the section headed "Directors and Senior Management" on page 17 of this annual report. For the year under review, Mr. Cheng provided his working report to the chairman of the Board, Mr. Liu Jinlan, directly. Mr. Cheng also reported to the Board members on the amendments to the Listing Rules and corporate governance practices particularly relating to director's duties and responsibilities on a timely manner.

## CONSTITUTIONAL DOCUMENTS

There was no change to the Company's Memorandum of Association and Articles of Association in the year 2012. A copy of an up-to-date consolidated version of the Memorandum of Association and Articles of Association has been uploaded and maintained on the websites of the Company and the Stock Exchange.

## SHAREHOLDERS RIGHTS

### PROCEDURES FOR SHAREHOLDERS TO CONVENE AN EXTRAORDINARY GENERAL MEETING

Pursuant to the Company's articles of association, any one or more members holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the company secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

### PROCEDURES FOR SHAREHOLDERS TO PUT FORWARD PROPOSALS AT A GENERAL MEETING

Shareholders may suggest proposals relating to the Company to be discussed at a general meeting by sending written requisition to the Board or the company secretary of the Company and following the procedures set out in the paragraph headed "Procedures for shareholders to convene an extraordinary general meeting" above to convene an extraordinary general meeting for any business specified in such written requisition.

### PROCEDURES FOR SHAREHOLDERS TO PROPOSE A PERSON FOR ELECTION AS A DIRECTOR

Subject to applicable laws and regulations, including Companies Law, Cap.22 (as revised and amended) of the Cayman Islands and the Listing Rules, and the memorandum of association and articles of association of the Company as amended from time to time, the Company may by ordinary resolution in general meeting elect any person to be a director of the Company either to fill a casual vacancy on the board of directors or as an addition to the existing board of directors. A shareholder of the Company may propose a person for election as a director of the Company by lodging a written notice to that effect at the head office and principal place of business of the Company in Hong Kong for the attention of the Company Secretary or at the branch register of members of the Company.

In order for the Company to inform shareholders of the Company of that proposal, the written notice must state the full name of the person proposed for election as a director of the Company, include the person's biographical details as required by Rule 13.51(2) of the Listing Rules, and be signed by the shareholder concerned and that person indicating his/her willingness to be elected. The minimum length of the period during which such a written notice is given shall be at least seven days and the period for lodgement of such a written notice shall commence no earlier than the day after the despatch of the notice of the general meeting appointed for such election and end no later than seven days prior to the date of such general meeting.

## PROCEDURES FOR DIRECTING SHAREHOLDERS' ENQUIRIES TO THE BOARD

Shareholders may direct their queries to the Board and may at any time make a request for the Company's information to the extent such information is publicly available through the company secretary of the Company whose contact details are as follows:

Address: Room 3506, 35th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong
Fax: 852-2139 3286

## DIRECTORS' AND AUDITOR'S RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Board acknowledges the responsibilities of overseeing the preparation of the financial statements for the year ended 31 December 2012, 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 2012, 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 42 and 43 of this annual report.

## AUDITOR'S REMUNERATIONS

For the year ended 31 December 2012, the Group paid approximately RMB1,585,000 and RMB284,000 to the external auditor in respect of audit services and non-audit services, respectively. The non-audit services provided by the external auditor 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 2012.

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 and the manager of investment department 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 2012, the management conducted numerous 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.

The external auditor attended the annual general meeting held on 18 May 2012 in order to answer any questions from the shareholders about the conduct of the audit, the preparation and content of the auditors' report, the accounting policies and the auditor's independence.

In order to promote effective communication with the public including investors and shareholders, the Company also maintains a website to disclose comprehensive information including the company presentations, press releases, announcements, circulars and annual and interim reports. The address of this website is http://www.irasia.com/listco/hk/xingda/index.htm.

# 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 44 to 104, which comprise the consolidated statement of financial position as at 31 December 2012, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## 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 about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

# Independent Auditor's Report

## OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2012 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**Deloitte Touche Tohmatsu**
*Certified Public Accountants*
Hong Kong
26 March 2013

# Consolidated Statement of Comprehensive Income

For the year ended 31 December 2012

| | NOTES | 2012<br>RMB'000 | 2011<br>RMB'000 |
|---|---|---|---|
| Revenue | 8 | **5,246,909** | 5,551,400 |
| Cost of sales | | **(4,176,812)** | (4,252,930) |
| Gross profit | | **1,070,097** | 1,298,470 |
| Other income | 9 | **76,914** | 80,347 |
| Government grants | 10 | **17,945** | 63,954 |
| Selling and distribution expenses | | **(356,738)** | (341,047) |
| Administrative expenses | | **(223,333)** | (231,472) |
| Other expenses and losses, net | 11 | **(85,661)** | (81,755) |
| Finance costs | 12 | **(111,375)** | (95,065) |
| Share of profit (loss) of a jointly controlled entity | | **5,956** | (1,876) |
| Profit before tax | | **393,805** | 691,556 |
| Income tax expense | 13 | **(134,429)** | (128,901) |
| Profit and total comprehensive income for the year | 14 | **259,376** | 562,655 |
| Profit and total comprehensive income for the year attributable to: | | | |
| Owners of the Company | | **188,786** | 418,118 |
| Non-controlling interests | | **70,590** | 144,537 |
| | | **259,376** | 562,655 |
| Earnings per share | 17 | | |
| Basic (RMB fen) | | **12.38** | 27.42 |

# Consolidated Statement of Financial Position

At 31 December 2012

| | NOTES | 2012<br>RMB'000 | 2011<br>RMB'000 |
|---|---|---|---|
| ASSETS AND LIABILITIES | | | |
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 18 | **3,893,192** | 3,949,266 |
| Prepaid lease payments | 19 | **241,839** | 244,651 |
| Investment properties | 20 | **130,200** | 124,000 |
| Interest in a jointly controlled entity | 21 | **248,720** | 242,764 |
| Deferred tax assets | 22 | **26,637** | 17,064 |
| Prepayment | 23 | **16,000** | 4,000 |
| Deposits paid for purchase of property, plant and equipment | | **13,403** | 45,359 |
| | | **4,569,991** | 4,627,104 |
| CURRENT ASSETS | | | |
| Prepaid lease payments | 19 | **5,812** | 5,812 |
| Inventories | 24 | **433,303** | 671,540 |
| Trade and other receivables | 25 | **3,774,660** | 3,902,158 |
| Pledged bank deposits | 26 | **58,000** | 108,320 |
| Bank balances and cash | 26 | **521,441** | 730,856 |
| | | **4,793,216** | 5,418,686 |
| CURRENT LIABILITIES | | | |
| Trade and other payables | 27 | **1,734,564** | 1,833,569 |
| Amount due to a director | 28 | **–** | 48 |
| Amount due to a related company | 29 | **2,004** | 2,388 |
| Tax payable | | **56,984** | 58,644 |
| Bank borrowings – due within one year | 30 | **1,190,000** | 1,850,000 |
| Government grants | 31 | **10,000** | – |
| | | **2,993,552** | 3,744,649 |
| NET CURRENT ASSETS | | **1,799,664** | 1,674,037 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | **6,369,655** | 6,301,141 |
| NON-CURRENT LIABILITIES | | | |
| Government grants | 31 | **–** | 10,000 |
| Deferred tax liabilities | 22 | **59,136** | 1,175 |
| | | **59,136** | 11,175 |
| NET ASSETS | | **6,310,519** | 6,289,966 |

# Consolidated Statement of Financial Position

At 31 December 2012

| | NOTE | **2012** <br> ***RMB'000*** | 2011 <br> *RMB'000* |
|---|---|---|---|
| CAPITAL AND RESERVES | | | |
| Share capital | 32 | **150,999** | 150,999 |
| Reserves | | **4,647,985** | 4,698,022 |
| EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY | | **4,798,984** | 4,849,021 |
| NON-CONTROLLING INTERESTS | | **1,511,535** | 1,440,945 |
| TOTAL EQUITY | | **6,310,519** | 6,289,966 |

The consolidated financial statements on pages 44 to 104 were approved and authorised for issue by the Board of Directors on 26 March 2013 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 2012

| | 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)* | **Capital redemption reserve** *RMB'000* | **Retained earnings** *RMB'000* | **Shares held under share award scheme** *RMB'000* | **Awards shares compensation reserve** *RMB'000* | **Total** *RMB'000* | **Non-controlling interests** *RMB'000* | **Total** *RMB'000* |
| At 1 January 2011 | 150,999 | 1,622,088 | 283,352 | (130,150) | 404,127 | 2,062 | 2,310,681 | (10,942) | 1,438 | 4,633,655 | 1,296,408 | 5,930,063 |
| Profit and total comprehensive income for the year | – | – | – | – | – | – | 418,118 | – | – | 418,118 | 144,537 | 562,655 |
| Appropriations | – | – | – | – | 56,770 | – | (56,770) | – | – | – | – | – |
| Dividend recognised as distribution *(note 16)* | – | (194,180) | – | – | – | – | – | – | – | (194,180) | – | (194,180) |
| Purchase of shares for the purpose of share award scheme | – | – | – | – | – | – | – | (17,677) | – | (17,677) | – | (17,677) |
| Shares vested under the share award scheme | – | – | – | – | – | – | – | 5,335 | (5,335) | – | – | – |
| Recognition of equity-settled share based payments | – | – | – | – | – | – | – | – | 9,105 | 9,105 | – | 9,105 |
| At 31 December 2011 | 150,999 | 1,427,908 | 283,352 | (130,150) | 460,897 | 2,062 | 2,672,029 | (23,284) | 5,208 | 4,849,021 | 1,440,945 | 6,289,966 |
| Profit and total comprehensive income for the year | – | – | – | – | – | – | 188,786 | – | – | 188,786 | 70,590 | 259,376 |
| Appropriations | – | – | – | – | 33,673 | – | (33,673) | – | – | – | – | – |
| Dividend recognised as distribution *(note 16)* | – | (247,227) | – | – | – | – | – | – | – | (247,227) | – | (247,227) |
| Shares vested under the share award scheme | – | – | – | – | – | – | – | 5,336 | (5,336) | – | – | – |
| Recognition of equity-settled share based payments | – | – | – | – | – | – | – | – | 8,404 | 8,404 | – | 8,404 |
| **At 31 December 2012** | **150,999** | **1,180,681** | **283,352** | **(130,150)** | **494,570** | **2,062** | **2,827,142** | **(17,948)** | **8,276** | **4,798,984** | **1,511,535** | **6,310,519** |

*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.

(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 2012

| | 2012<br>*RMB'000* | 2011<br>*RMB'000* |
|---|---|---|
| OPERATING ACTIVITIES | | |
| Profit before tax | **393,805** | 691,556 |
| Adjustments for: | | |
| Depreciation and amortisation | **418,795** | 378,658 |
| Interest income | **(7,980)** | (6,087) |
| Gain on fair value change on investment properties | **(6,200)** | (2,000) |
| Share of (profit) loss of a jointly controlled entity | **(5,956)** | 1,876 |
| Total loss relating to disposal/write-off of property, plant and equipment | **2,672** | 2,890 |
| Impairment loss recognised on trade and other receivables | **47,503** | – |
| Write-off of trade receivables | **680** | 10,800 |
| Recognition of equity-settled share-based payment | **8,404** | 9,105 |
| Finance costs | **111,375** | 95,065 |
| Government grants | **–** | (4,040) |
| Operating cash flows before movements in working capital | **963,098** | 1,177,823 |
| Decrease (increase) in inventories | **238,237** | (221,735) |
| Decrease (increase) in trade and other receivables | **79,315** | (691,938) |
| Increase in prepayment | **(12,000)** | (4,000) |
| (Decrease) increase in trade and other payables | **(17,676)** | 359,097 |
| (Decrease) increase in amount due to a related company | **(384)** | 60 |
| Purchase of shares for the purpose of share award scheme | **–** | (17,677) |
| Cash generated from operations | **1,250,590** | 601,630 |
| Income tax paid | **(87,701)** | (142,383) |
| NET CASH GENERATED FROM OPERATING ACTIVITIES | **1,162,889** | 459,247 |
| INVESTING ACTIVITIES | | |
| Purchase of property, plant and equipment | **(401,882)** | (694,697) |
| Government grants received related to property, plant and equipment | **4,000** | – |
| Placement of pledged bank deposits | **(127,400)** | (108,320) |
| Deposits paid for purchase of property, plant and equipment | **(13,403)** | (45,359) |
| Additions of prepaid lease payments | **(3,000)** | (3,000) |
| Withdrawal of pledged bank deposits | **177,720** | 16,387 |
| Proceeds on disposal of property, plant and equipment | **6,289** | 12,672 |
| Interest received | **7,980** | 6,087 |
| Capital injection of investment in a jointly controlled entity | **–** | (244,640) |
| Compensation received from insurance company | **–** | 128,897 |
| NET CASH USED IN INVESTING ACTIVITIES | **(349,696)** | (931,973) |

# Consolidated Statement of Cash Flows

For the year ended 31 December 2012

| | 2012 | 2011 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| FINANCING ACTIVITIES | | |
| Repayment of bank loans | **(2,448,000)** | (1,815,259) |
| Dividend paid | **(247,227)** | (194,180) |
| Interest paid | **(115,333)** | (106,834) |
| Decrease in amount due to a director | **(48)** | – |
| New bank loans raised | **1,788,000** | 2,173,000 |
| NET CASH (USED IN) GENERATED FROM FINANCING ACTIVITIES | **(1,022,608)** | 56,727 |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | **(209,415)** | (415,999) |
| CASH AND CASH EQUIVALENTS AT 1 JANUARY | **730,856** | 1,146,855 |
| CASH AND CASH EQUIVALENTS AT 31 DECEMBER | **521,441** | 730,856 |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

## 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 "Group").

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

## 2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

In the current year, the Group has applied the following amendments to IFRSs issued by the International Accounting Standards Board ("IASB").

| | |
|---|---|
| Amendments to IAS 12 | Deferred Tax: Recovery of Underlying Asset; and |
| Amendments to IFRS 7 | Financial Instruments: Disclosures – Transfers of Financial Assets. |

Except as described below, the application of the amendments to IFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

## 2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") – *CONTINUED*

### AMENDMENTS TO IAS 12 DEFERRED TAX: RECOVERY OF UNDERLYING ASSETS

The Group has applied for the first time the amendments to IAS 12 *Deferred Tax: Recovery of Underlying Assets* in the current year. Under the amendments, investment properties that are measured using the fair value model in accordance with IAS 40 *Investment Property* are presumed to be recovered entirely through sale for the purposes of measuring deferred taxes, unless the presumption is rebutted in certain circumstances.

The Group measures its investment properties using the fair value model. As a result of the application of the amendments to IAS 12, the directors reviewed the Group's investment property portfolios and concluded that all of the Group's investment properties are held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale. Therefore, the directors have determined that the 'sale' presumption set out in the amendments to IAS 12 is rebutted. Since the Group recognised deferred taxes on changes in fair value of investment properties on the basis that the entire carrying amounts of the properties were recovered through use previously, the application of the amendments to IAS 12 has had no material impact on the results and the financial position of the Group.

### AMENDMENTS TO IFRS 7 DISCLOSURES – TRANSFERS OF FINANCIAL ASSETS

The Group has applied for the first time the amendments to IFRS 7 *Disclosures – Transfers of Financial Assets* in the current year. The amendments increase the disclosure requirements for transactions involving the transfer of financial assets in order to provide greater transparency around risk exposures when financial assets are transferred.

The Group has arrangements with various suppliers to transfer to the suppliers its contractual rights to receive cash flows from certain notes receivables. The arrangements are made through endorsing those receivables to suppliers on a full recourse basis. Specifically, if the notes receivables are not paid at maturity, the suppliers have the right to request the Group to pay the unsettled balance. As the Group has not transferred the significant risks and rewards relating to these notes receivables, it continues to recognise the full carrying amount of the receivables. The relevant disclosures have been made regarding the transfer of these trade receivables on application of the amendments to IFRS 7 (see note a in Note 25). In accordance with the transitional provisions set out in the amendments to IFRS 7, the Group has not provided comparative information for the disclosures required by the amendments.

## 2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") – *CONTINUED*

### NEW AND REVISED IFRSs ISSUED BUT NOT YET EFFECTIVE

The Group has not early applied the following new and revised IFRSs that have been issued but are not yet effective:

| | |
|---|---|
| Amendments to IFRSs | Annual Improvements to IFRSs 2009 – 2011 Cycle[1] |
| Amendments to IFRS 7 | Disclosures – Offsetting Financial Assets and Financial Liabilities[1] |
| Amendments to IFRS 9 and IFRS 7 | Mandatory Effective Date of IFRS 9 and Transition Disclosures[3] |
| Amendments to IFRS 10, IFRS 11 and IFRS 12 | Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance[1] |
| Amendments to IFRS 10, IFRS 12 and IAS 27 | Investment Entities[2] |
| IFRS 9 | Financial Instruments[3] |
| IFRS 10 | Consolidated Financial Statements[1] |
| IFRS 11 | Joint Arrangements[1] |
| IFRS 12 | Disclosure of Interests in Other Entities[1] |
| IFRS 13 | Fair Value Measurement[1] |
| IAS 19 (as revised in 2011) | Employee Benefits[1] |
| IAS 27 (as revised in 2011) | Separate Financial Statements[1] |
| IAS 28 (as revised in 2011) | Investments in Associates and Joint Ventures[1] |
| Amendments to IAS 1 | Presentation of Items of Other Comprehensive Income[4] |
| Amendments to IAS 32 | Offsetting Financial Assets and Financial Liabilities[2] |
| IFRIC – Int 20 | Stripping Costs in the Production Phase of a Surface Mine[1] |

1 Effective for annual periods beginning on or after 1 January 2013
2 Effective for annual periods beginning on or after 1 January 2014
3 Effective for annual periods beginning on or after 1 January 2015
4 Effective for annual periods beginning on or after 1 July 2012

### NEW AND REVISED STANDARDS ON CONSOLIDATION, JOINT ARRANGEMENTS, ASSOCIATES AND DISCLOSURES

In May 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including IFRS 10, IFRS 11, IFRS 12, IAS 27 (as revised in 2011) and IAS 28 (as revised in 2011).

Key requirements of these five standards are described below.

IFRS 10 replaces the parts of IAS 27 *Consolidated and Separate Financial Statements* that deal with consolidated financial statements. SIC-Int 12 *Consolidation – Special Purpose Entities* will be withdrawn upon the effective date of IFRS 10. Under IFRS 10, there is only one basis for consolidation, that is, control. In addition, IFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in IFRS 10 to deal with complex scenarios.

## 2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") – *CONTINUED*

### NEW AND REVISED STANDARDS ON CONSOLIDATION, JOINT ARRANGEMENTS, ASSOCIATES AND DISCLOSURES – *CONTINUED*

IFRS 11 replaces IAS 31 *Interests in Joint Ventures*. IFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. SIC – Int 13 *Jointly Controlled Entities – Non-monetary Contributions by Venturers* will be withdrawn upon the effective date of IFRS 11. Under IFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under IAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations. In addition, joint ventures under IFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under IAS 31 can be accounted for using the equity method of accounting or proportionate consolidation.

IFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in IFRS 12 are more extensive than those in the current standards.

In June 2012, the amendments to IFRS 10, IFRS 11 and IFRS 12 were issued to clarify certain transitional guidance on the application of these five IFRSs for the first time.

These five standards, together with the amendments relating to the transitional guidance, are effective for annual periods beginning on or after 1 January 2013. The directors of the Company ("Directors") anticipate that the application of these five standards will have no material impact on the results and the financial position of the Group. In relation to the application of IFRS 11, the jointly controlled entity will be classified as a joint venture in terms of IFRS 11 and be accounted for using equity method. As the jointly controlled entity is currently being accounted for using equity method of accounting, the application of IFRS 11 will have no impact on the results and the financial position of the Group.

### IFRS 13 FAIR VALUE MEASUREMENT

IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of IFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in IFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under IFRS 7 Financial Instruments: Disclosures will be extended by IFRS 13 to cover all assets and liabilities within its scope.

IFRS 13 is effective for annual periods beginning on or after 1 January 2013. The Directors anticipate that the application of the new standard will not affect amounts reported in the consolidated financial statements, but result in more extensive disclosures for investment properties, which are measured at their fair value, in the consolidated financial statements.

## 3. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared on the historical cost basis, except for certain properties which are measured at fair values, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

The principal accounting policies are set out below.

### 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 policies of an entity so as to obtain benefits from its activities.

Income and expenses 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 in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

*Allocation of total comprehensive income to non-controlling interests*

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

## 3. SIGNIFICANT ACCOUNTING POLICIES – *CONTINUED*

### JOINTLY CONTROLLED ENTITIES

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

The results and assets and liabilities of jointly controlled entities are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in jointly controlled entities are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the jointly controlled entities.

The financial statements of jointly controlled entity used for the equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of a jointly controlled entity recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

The requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in a jointly controlled entity. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

## 3. SIGNIFICANT ACCOUNTING POLICIES – *CONTINUED*

### REVENUE RECOGNITION

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

Revenue from the sale of goods is recognised when the goods are delivered and title has passed, at which all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. 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.

### 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 properties under construction as described below are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment other than properties under construction less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

## 3. SIGNIFICANT ACCOUNTING POLICIES – *CONTINUED*

### PROPERTY, PLANT AND EQUIPMENT – *CONTINUED*

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories 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 their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

### INVESTMENT PROPERTIES

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

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values. 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.

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 lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

## 3. SIGNIFICANT ACCOUNTING POLICIES – *CONTINUED*

### LEASING – *CONTINUED*

*Leasehold land and building*

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is 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. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

### 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 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.

## 3. SIGNIFICANT ACCOUNTING POLICIES – *CONTINUED*

### GOVERNMENT GRANTS

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

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. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current 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 on a systematic and rational basis over the useful lives of the related assets.

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 before tax' 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 base 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 those 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.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and interest in a jointly controlled entity, 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 and interest 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.

## 3. SIGNIFICANT ACCOUNTING POLICIES – *CONTINUED*

### TAXATION – *CONTINUED*

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.

For the purposes of measuring deferred tax liabilities or deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. If the presumption is rebutted, deferred tax liabilities and deferred tax assets for such investment properties are measured in accordance with the above general principles set out in IAS 12 (i.e. based on the expected manner as to how the properties will be recovered).

Current and deferred tax are 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 current and deferred tax are 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 activities (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.

## 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), on the same basis as intangible assets acquired separately.

### INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated cost of completion and cost necessary to make the sale.

### 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 mainly loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument 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 debt instrument, 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.

## 3. SIGNIFICANT ACCOUNTING POLICIES – *CONTINUED*

### FINANCIAL INSTRUMENTS – *CONTINUED*

*Financial assets – 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).

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be 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 all other financial assets, objective evidence of impairment could include:

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

For certain categories of financial asset, such as trade and other receivables that are assessed not to be impaired individually are, in addition, 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, the amount of impairment loss is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's 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.

## 3. SIGNIFICANT ACCOUNTING POLICIES – *CONTINUED*

### FINANCIAL INSTRUMENTS – *CONTINUED*

*Financial liabilities and equity instruments*

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Financial liabilities

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

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 and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

## 3. SIGNIFICANT ACCOUNTING POLICIES – *CONTINUED*

### FINANCIAL INSTRUMENTS – *CONTINUED*

*Derecognition*

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's are derecognised when the obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

### 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 equity (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 under share award 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 under share award 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.

## 3. SIGNIFICANT ACCOUNTING POLICIES – *CONTINUED*

### IMPAIRMENT LOSSES ON TANGIBLE ASSETS

At the end of the reporting period, the Group reviews the carrying amounts of its tangible 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, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current, market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flow have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profits or loss, 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 (or cash-generating unit) is increased to the revised estimated 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 (or a cash-generating unit) 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.

## 4. CRITICAL ACCOUNTING JUDGEMENTS AND 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 on going 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.

## 4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY – *CONTINUED*

### CRITICAL JUDGEMENT IN APPLYING ACCOUNTING POLICY

The following is the critical judgement, apart from those involving estimations (see below), that the Directors have made in the process of applying the Group's accounting policy and that has the most significant effect on the amounts recognised in the consolidated financial statements.

### DEFERRED TAXATION ON INVESTMENT PROPERTIES

For the purposes of measuring deferred tax liabilities or deferred tax assets arising from investment properties that are measured using the fair value model, the Directors have reviewed the Group's investment property portfolios which are all located in the PRC and concluded that the Group's investment properties are held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale. Therefore, in measuring the Group's deferred taxation on investment properties, the directors have determined that the presumption that the carrying amounts of investment properties measured using the fair value model are recovered entirely through sale is rebutted. As a result, the Group has not recognised deferred taxes relating to land appreciation tax on changes in fair value of investment properties as the Group is not subject to land appreciation tax on use of its investment properties.

### KEY SOURCES OF ESTIMATION UNCERTAINTY

The followings 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.

### INCOME TAXES

As at 31 December 2012, a deferred tax asset of RMB26,637,000 (2011: RMB17,064,000) in relation to temporary differences on depreciation of 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 RECEIVABLES

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 2012, the carrying amount of trade receivable is RMB1,591,700,000 net of allowance for doubtful debts of RMB81,060,000 (31 December 2011: carrying amount of RMB1,622,430,000, net of allowance for doubtful debts of RMB35,797,000).

## 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 and equity attributable to owners of the Company, 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

| | **2012** | 2011 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| **Financial assets** | | |
| Loans and receivables at amortised cost (including cash and cash equivalents) | **4,303,602** | 4,642,743 |
| **Financial liabilities** | | |
| Liabilities at amortised cost | **2,628,318** | 3,422,954 |

### 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, trade and other payables and bank borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

*Market risk*

(i) Currency risk

Certain subsidiaries of the Company have foreign currency sales and purchases, which expose the Group to foreign currency risk. Approximately 27.0% (2011: 22.2%) of the Group's sales are denominated in currencies other than the functional currency of the group entity making the sale, whilst almost 8.3% (2011: 13.4%) of costs are denominated in currencies other than the functional currency of the group entity.

Certain trade and other receivables, bank balances and trade and other payables 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.

## 6. FINANCIAL INSTRUMENTS – *CONTINUED*

### B. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – *CONTINUED*

*Market risk – CONTINUED*

(i) Currency risk – *CONTINUED*

Foreign currency sensitivity

The following details the Group's sensitivity to a 3% (2011: 3%) increase and decrease in RMB against the relevant foreign currencies. 3% (2011: 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% (2011: 3%) change in foreign currency rates.

At the end of the reporting period, if exchange rates of RMB against USD, HKD and EUR had appreciated by 3% (2011: 3%) and all other variables were held constant, the Group's post-tax profit for the year would decrease by approximately RMB2,699,000 (2011: RMB2,543,000), RMB10,217,000 (2011: RMB10,934,000) and RMB157,000 (2011: RMB4,972,000) respectively.

The Group's sensitivity to foreign currency has decreased during the current year mainly due to decrease in HKD denominated bank balances and USD denominated trade receivables, which is partially set off by the increase in EUR denominated trade receivables.

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.

(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 reduce 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.

## 6. FINANCIAL INSTRUMENTS – *CONTINUED*

### B. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – *CONTINUED*

*Market risk – CONTINUED*

(ii) Interest rate risk – *CONTINUED*

Interest rate sensitivity

The sensitivity analyses below have been determined based on the exposure to variable interest rates bank borrowings at the end of the reporting period. Bank balances are excluded from sensitivity analysis as it is subject to minimal interest rate fluctuation during the year ended 31 December 2012.

A 25 basis points (2011: 75 basis points) increase or decrease is used which represents management's assessment of the reasonably possible change in interest rates. The management adjusted the sensitivity rate from 75 basis points to 25 basis points for assessing interest rate risk after considering the impact of the financial market conditions in fourth quarter of 2012. If interest rate had been 25 basis points (2011: 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 RMB250,000 (2011: decrease/increase by approximately RMB5,273,000).

In management's opinion, the sensitivity analysis is unrepresentative of the inherent interest rate risk as the year end exposure does not reflect the exposure during the year.

*Credit risk*

As at 31 December 2012, 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 responsible 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's concentration of credit risk by geographical locations is mainly in the PRC, which accounted for 85% (31 December 2011: 86%) of the total trade receivable as at 31 December 2012. The Group does not have other significant concentration of credit risk as the trade and other receivables consist of a large number of debtors.

## 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 2012, the Group has available unutilised banking facilities of approximately RMB2,170,000,000 (2011: RMB1,950,000,000).

Liquidity risk tables

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. 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 maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates.

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 2012**

| | Weighted average interest rate | Less than 30 days | 31 – 60 days | 61 – 90 days | 91 – 360 days | Total undiscounted cash flow | Carrying amount |
|---|---|---|---|---|---|---|---|
| | % | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Trade and other payables | – | 1,167,051 | 40,000 | 110,000 | 119,263 | 1,436,314 | 1,436,314 |
| Amount due to a related company | – | 2,004 | – | – | – | 2,004 | 2,004 |
| Bank borrowings | 6.43 | – | 35,273 | 386,469 | 790,055 | 1,211,797 | 1,190,000 |
| | | 1,169,055 | 75,273 | 496,469 | 909,318 | 2,650,115 | 2,628,318 |

## 6. FINANCIAL INSTRUMENTS – *CONTINUED*

### B. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – *CONTINUED*

*Liquidity risk – CONTINUED*

Liquidity risk tables – *CONTINUED*

At 31 December 2011

| | Weighted average interest rate | Less than 30 days | 31 – 60 days | 61 – 90 days | 91 – 360 days | Total undiscounted cash flow | Carrying amount |
|---|---|---|---|---|---|---|---|
| | % | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Trade and other payables | – | 1,021,568 | 97,000 | 350 | 451,600 | 1,570,518 | 1,570,518 |
| Amount due to a director | – | 48 | – | – | – | 48 | 48 |
| Amount due to a related company | – | 2,388 | – | – | – | 2,388 | 2,388 |
| Bank borrowings | 5.65 | – | – | 295,416 | 1,593,572 | 1,888,988 | 1,850,000 |
| | | 1,024,004 | 97,000 | 295,766 | 2,045,172 | 3,461,942 | 3,422,954 |

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.

### C. FAIR VALUE

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

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.

## 7. SEGMENT INFORMATION

The Directors, being the chief operating decision maker of the Group, regularly review revenue analysis by types of products which are basically radial tire cords, bead wires and sawing 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 "Operating Segments" and accordingly no separate segment information is prepared. The Group's non-current assets (other than deferred tax assets) are located in the PRC.

## 7. SEGMENT INFORMATION – *CONTINUED*

### REVENUE FROM MAJOR PRODUCTS

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

| | Year ended **2012** *RMB'000* | 2011 *RMB'000* |
|---|---|---|
| Radial Tire Cords | | |
| – For Trucks | **3,214,005** | 3,408,996 |
| – For Passenger Cars | **1,499,794** | 1,509,426 |
| Bead Wires | **383,600** | 417,934 |
| Sawing Wires | **149,510** | 215,044 |
| | **5,246,909** | 5,551,400 |

### GEOGRAPHICAL INFORMATION

Information about the Group's revenue from operations from external customers is presented based on the location of the goods delivered.

| | **2012** *RMB'000* | 2011 *RMB'000* |
|---|---|---|
| The PRC (country of domicile) | **4,199,506** | 4,591,110 |
| Korea | **277,740** | 245,914 |
| United States of America | **174,913** | 213,119 |
| India | **113,312** | 79,067 |
| Germany | **90,316** | 117,539 |
| Others | **391,122** | 304,651 |
| | **5,246,909** | 5,551,400 |

"Others" included revenue from various countries which are individually immaterial to the Group's total revenue.

### INFORMATION ABOUT MAJOR CUSTOMERS

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

| | **2012** *RMB'000* | 2011 *RMB'000* |
|---|---|---|
| Customer 1 | **641,789** | 568,733 |

## 8. REVENUE

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

## 9. OTHER INCOME

| | **2012** | 2011 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Sales of scrap materials | **40,174** | 53,362 |
| Interest income earned on bank balances and bank deposits | **7,980** | 6,087 |
| Cash discounts received on early settlement of trade payables | **6,775** | 5,742 |
| Gain on fair value change of investment properties | **6,200** | 2,000 |
| Sundry income | **15,785** | 13,156 |
| | **76,914** | 80,347 |

## 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 on production skills and research on new products during the years ended 31 December 2012 and 2011.

For the year ended 31 December 2011, of the government grants received in prior years where there were specific conditions attached to the grants, an amount of RMB9,000,000 (2012: Nil) was deducted from the carrying amount of the Group's property, plant and equipment in consolidated statement of financial position and RMB4,040,000 (2012: Nil) was recognised by the Group in the consolidated statement of comprehensive income when it fulfilled all the conditions specified in the grant notice.

For the year ended 31 December 2012, for the government grants received in the year relating to acquisition of property, plant and equipment, an amount of RMB4,000,000 (2011: Nil) was deducted from the carrying amount of the Group's property, plant and equipment in consolidated statement of financial position. For government grants received in the current year where no specific conditions were attached, amounting to approximately RMB17,945,000 (2011: RMB59,914,000) was recognised in the consolidated statement of comprehensive income when the grants were received.

## 11. OTHER EXPENSES AND LOSSES, NET

| | 2012 | 2011 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Write-off of property, plant and equipment | – | 135,373 |
| Recovery from insurance claims | – | (128,897) |
| Proceeds on scrap sales of fire loss | – | (6,418) |
| Loss on disposal of property, plant and equipment | 2,672 | 2,832 |
| Total loss relating to disposal/write-off of property, plant and equipment | 2,672 | 2,890 |
| Research and development expenditure | 36,170 | 29,530 |
| Impairment loss recognised on trade and other receivables | 47,503 | – |
| Write-off of trade receivables | 680 | 10,800 |
| Exchange (gain) loss, net | (1,364) | 38,535 |
| | 85,661 | 81,755 |

## 12. FINANCE COSTS

| | 2012 | 2011 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Interest on: | | |
| Bank loans wholly repayable within five years | 115,333 | 106,834 |
| Less: amounts capitalised in property, plant and equipment | (3,958) | (11,769) |
| | 111,375 | 95,065 |

## 13. INCOME TAX EXPENSE

| | **2012** | 2011 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| The charge comprises: | | |
| Current tax | | |
| Current year | **84,225** | 130,689 |
| Underprovision in prior year | **1,816** | – |
| Deferred taxation *(note 22)* | **48,388** | (1,788) |
| | **134,429** | 128,901 |

The tax charge represents income tax in the PRC which is calculated at the prevailing tax rate of 25% for both years 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 except for the subsidiaries described below.

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. During the year ended 31 December 2012, Jiangsu Xingda has started the renewal process of its High-tech Enterprise status. As at 31 December 2012 and up to the date of these consolidated financial statements were authorised for issuance, such certificate is not yet obtained. Nevertheless, Jiangsu Xingda was included in the published list of approved High-tech Enterprises (關於公示江蘇省2012年第三批複審通過高新技術企業名單的通知(蘇高企協[2012]22號))on 5 November 2012, as an approved High-tech Enterprise. The management is of the opinion that the certificate will soon be obtained and accordingly this preferential tax rate is continued to be used. As a result, the tax rate of 15% is used to calculate the amount of current and 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.

## 13. 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:

| | **2012** | 2011 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Profit before tax | **393,805** | 691,556 |
| Tax at the PRC tax rate of 25% (2011: 25%) | **98,451** | 172,889 |
| Tax effect of expenses not deductible for tax purposes | **9,224** | 21,408 |
| Tax effect of income not taxable for tax purposes | **(727)** | (9,070) |
| Tax effect of preferential tax rate | **(26,792)** | (58,340) |
| Tax effect of deductible temporary differences not recognised | **–** | 16 |
| Tax effect of share of (profit) loss of a jointly controlled entity | **(1,489)** | 469 |
| Underprovision in prior year | **1,816** | – |
| Withholding tax *(Note (i))* | **56,411** | – |
| Others | **(2,465)** | 1,529 |
| Tax charge for the year | **134,429** | 128,901 |

*Note (i)*: Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards at a tax rate of 10%. In 2012, one of the PRC subsidiaries, Jiangsu Xingda Special Cord Co., Ltd. ("Xingda Special Cords") proposed to distribute dividends to its immediately holding company, Faith Maple International Ltd. ("Faith Maple") which was not accredited as a PRC tax resident as at 31 December 2012 and up to the date of these consolidated financial statements were authorised for issuance. As a result, a deferred tax related to the withholding tax provision of approximately RMB56,411,000 was provided in these consolidated financial statements on all the accumulated distributable profits of Xingda Special Cords starting from 1 January 2008. No deferred taxation has been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries other than Xingda Special Cords amounting to RMB1,650 million (2011: RMB1,978 million), as the Group is able to control the timing of the reversal of the temporary differences of these PRC subsidiaries and it is probable that the temporary differences will not reverse in the foreseeable future.

## 14. PROFIT FOR THE YEAR

| | **2012** | 2011 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Profit for the year has been arrived at after charging (crediting): | | |
| Staff cost, including directors' remuneration *(note 15)* | | |
| Salaries, wages and other benefits | **413,096** | 381,666 |
| Retirement benefits scheme contributions *(note 36)* | **26,837** | 25,810 |
| Share-based payments | **8,404** | 9,105 |
| Total staff costs | **448,337** | 416,581 |
| Amortisation of prepaid lease payments | **5,812** | 5,812 |
| Auditor's remuneration | **1,869** | 1,656 |
| Cost of inventories recognised as an expense | **4,176,812** | 4,252,930 |
| Depreciation for property, plant and equipment | **412,983** | 372,846 |
| Gross rental income from investment properties | **(4,320)** | (4,320) |
| Less: direct operating expenses incurred for investment properties that generated rental income during the year | **275** | 269 |
| | **(4,045)** | (4,051) |

## 15. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

### DIRECTORS

The emoluments paid or payable to the 8 (2011: 9) directors were as follows:

| | **2012** | 2011 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Fees | **1,256** | 1,404 |
| Salaries and other allowances | **12,255** | 3,144 |
| Bonus *(note)* | **18,380** | 28,342 |
| Retirement benefits scheme contributions | **77** | 16 |
| Share-based payments | **5,472** | 6,485 |
| | **37,440** | 39,391 |

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

## 15. DIRECTORS' AND EMPLOYEES' EMOLUMENTS – *CONTINUED*

### DIRECTORS – *CONTINUED*

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

**Year ended 31 December 2012**

| | Fee | Salary and other allowance | Bonus | Retirement benefits scheme contributions | Share-based payments | Total |
|---|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| *Executive Directors* | | | | | | |
| LIU Jinlan | – | 4,303 | 6,453 | 24 | 2,116 | 12,896 |
| LIU Xiang | – | 3,012 | 4,517 | 24 | 1,058 | 8,611 |
| TAO Jinxiang | – | 3,008 | 4,512 | 24 | 1,058 | 8,602 |
| ZHANG Yuxiao | – | 1,932 | 2,898 | 5 | 1,051 | 5,886 |
| *Non-executive Director* | | | | | | |
| WU Xiaohui | 314 | – | – | – | – | 314 |
| *Independent Non-executive Directors* | | | | | | |
| William John SHARP | 314 | – | – | – | 88 | 402 |
| KOO Fook Sun, Louis | 314 | – | – | – | 88 | 402 |
| XU Chunhua | 314 | – | – | – | 13 | 327 |
| | 1,256 | 12,255 | 18,380 | 77 | 5,472 | 37,440 |

## 15. DIRECTORS' AND EMPLOYEES' EMOLUMENTS – *CONTINUED*

### DIRECTORS – *CONTINUED*

Year ended 31 December 2011

| | Fee | Salary and other allowance | Bonus | Retirement benefits scheme contributions | Share–based payments | Total |
|---|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| *Executive Directors* | | | | | | |
| LIU Jinlan | – | 1,140 | 10,148 | 4 | 2,461 | 13,753 |
| LIU Xiang | – | 900 | 6,810 | 4 | 1,230 | 8,944 |
| TAO Jinxiang | – | 900 | 6,800 | 4 | 1,230 | 8,934 |
| ZHANG Yuxiao | – | 204 | 4,584 | 4 | 1,205 | 5,997 |
| *Non-executive Directors* | | | | | | |
| WU Xiaohui | 319 | – | – | – | – | 319 |
| ZHOU Mingchen *(note)* | 128 | – | – | – | – | 128 |
| *Independent Non-executive Directors* | | | | | | |
| William John SHARP | 319 | – | – | – | 154 | 473 |
| KOO Fook Sun, Louis | 319 | – | – | – | 154 | 473 |
| XU Chunhua | 319 | – | – | – | 51 | 370 |
| | 1,404 | 3,144 | 28,342 | 16 | 6,485 | 39,391 |

*Note:* The Director retired from his position on 27 May 2011.

## 15. DIRECTORS' AND EMPLOYEES' EMOLUMENTS – *CONTINUED*

### EMPLOYEES

Of the five individuals with the highest emoluments in the Group, there were four (2011: four) Directors whose emoluments are included in the disclosures above. The emoluments of the remaining one (2011: one) individual was as follows:

| | **2012** | 2011 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Salaries and other allowances | **1,808** | 359 |
| Bonus | **2,712** | 5,000 |
| Retirement benefit scheme contributions | **24** | 4 |
| Share based payments | **931** | 1,230 |
| | **5,475** | 6,593 |

None of the Directors waived any emoluments for both years.

No compensation was paid to Mr. ZHOU for his loss of office in 2011.

## 16. DIVIDEND

| | **2012** | 2011 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Dividend recognised as distribution during the year: | | |
| Final dividend paid in respect of the year ended 31 December 2011 – 20.0 HK cents per share (2011: final dividend paid in respect of the year ended 31 December 2010 – 15.0 HK cents per share) | **247,227** | 194,180 |
| Final dividend proposed, 15.0 HK cents (financial year ended 31 December 2011: 20.0 HK cents) per share | **185,455** | 247,227 |

A final dividend for the year ended 31 December 2012 of 15.0 HK cents (2011: 20.0 HK cents) per share has been proposed by the Directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

The dividend proposed for the year ended 31 December 2012 and the dividend paid for financial year ended 31 December 2011 will be or were paid out of share premium. 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 of Association 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.

## 17. EARNINGS PER SHARE

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

| | **2012** | 2011 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| **Earnings** | | |
| Earnings for the purpose of basic earnings per share (profit for the year attributable to owners of the Company) | **188,786** | 418,118 |
| | ***'000*** | *'000* |
| **Number of shares** | | |
| Number of ordinary shares for the purpose of basic earnings per share | **1,524,777** | 1,524,777 |

There was no potential ordinary share outstanding during the years ended 31 December 2012 and 2011.

## 18. PROPERTY, PLANT AND EQUIPMENT

| | Buildings | Leasehold improvement | Plant, machinery and equipment | Furniture and fixtures | Motor vehicles | Construction in progress | Total |
|---|---|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| COST | | | | | | | |
| At 1 January 2011 | 1,038,415 | 3,203 | 3,378,465 | 39,851 | 37,996 | 620,718 | 5,118,648 |
| Additions | 158 | – | 125,658 | 7,834 | 4,377 | 618,862 | 756,889 |
| Reclassifications | 9,580 | – | 362,709 | 239 | – | (372,528) | – |
| Disposals | – | – | (24,752) | (1,086) | (298) | – | (26,136) |
| Write-off | (13,458) | – | (179,411) | – | – | – | (192,869) |
| At 31 December 2011 | 1,034,695 | 3,203 | 3,662,669 | 46,838 | 42,075 | 867,052 | 5,656,532 |
| Additions | 6,289 | – | 28,681 | 4,962 | 1,421 | 324,517 | 365,870 |
| Reclassifications | 317,033 | – | 391,348 | 5,542 | – | (713,923) | – |
| Disposals | – | – | (33,486) | (1,958) | (2,561) | – | (38,005) |
| **At 31 December 2012** | **1,358,017** | **3,203** | **4,049,212** | **55,384** | **40,935** | **477,646** | **5,984,397** |
| DEPRECIATION | | | | | | | |
| At 1 January 2011 | 209,260 | 237 | 1,155,656 | 18,841 | 24,972 | – | 1,408,966 |
| Provided for the year | 50,834 | 102 | 311,094 | 6,702 | 4,114 | – | 372,846 |
| Eliminated on disposals | – | – | (15,890) | (1,062) | (98) | – | (17,050) |
| Eliminated on write-off | (2,087) | – | (55,409) | – | – | – | (57,496) |
| At 31 December 2011 | 258,007 | 339 | 1,395,451 | 24,481 | 28,988 | – | 1,707,266 |
| Provided for the year | 58,456 | 101 | 342,193 | 8,305 | 3,928 | – | 412,983 |
| Eliminated on disposals | – | – | (25,635) | (1,860) | (1,549) | – | (29,044) |
| **At 31 December 2012** | **316,463** | **440** | **1,712,009** | **30,926** | **31,367** | **–** | **2,091,205** |
| CARRYING VALUES | | | | | | | |
| **At 31 December 2012** | **1,041,554** | **2,763** | **2,337,203** | **24,458** | **9,568** | **477,646** | **3,893,192** |
| At 31 December 2011 | 776,688 | 2,864 | 2,267,218 | 22,357 | 13,087 | 867,052 | 3,949,266 |

Construction in progress as at 31 December 2012 represents factories and plant, machinery and equipment constructed for the Group's own use.

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

The buildings are situated on land in the PRC with lease terms ranging from 40-70 years.

During the year ended 31 December 2011, property, plant and equipment of approximately RMB135,373,000 (2012: Nil) was written-off in respect of damages which arose from a fire which broke out in one of the Group's factories. The amount of write-off was estimated based on the carrying amount of items of property, plant and equipment to be replaced or restored as a result of the damages. The management had submitted the claim to the insurance company and RMB128,897,000 (2012: Nil) had been received by the Group as compensation for the impairment loss for the year ended 31 December 2011.

## 19. PREPAID LEASE PAYMENTS

| | *RMB'000* |
|---|---|
| At 1 January 2011 | 253,275 |
| Additions | 3,000 |
| Charge to profit or loss | (5,812) |
| At 31 December 2011 | 250,463 |
| Additions | 3,000 |
| Charge to profit or loss | (5,812) |
| **At 31 December 2012** | **247,651** |

## 19. PREPAID LEASE PAYMENTS – *CONTINUED*

| | **2012** | 2011 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Analysed for reporting purposes as: | | |
| Non-current assets | **241,839** | 244,651 |
| Current assets | **5,812** | 5,812 |
| | **247,651** | 250,463 |
| The Group's prepaid lease payments comprise: | | |
| Leasehold land outside Hong Kong: | | |
| Long lease | **11,629** | 11,820 |
| Medium-term lease | **236,022** | 238,643 |
| | **247,651** | 250,463 |

Prepaid lease payments are located in the PRC and are amortised on a straight-line basis over the lease terms from 40 to 70 years as stated in the land use rights certificates.

## 20. INVESTMENT PROPERTIES

| | **Completed investment properties** |
|---|---|
| | *RMB'000* |
| FAIR VALUE | |
| At 1 January 2011 | 122,000 |
| Increase in fair value recognised in profit or loss | 2,000 |
| At 31 December 2011 | 124,000 |
| Increase in fair value recognised in profit or loss | 6,200 |
| **At 31 December 2012** | **130,200** |

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

The fair values of the Group's investment property at 31 December 2012 and 2011 have been arrived at on the basis of a valuation carried out on that day 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.

## 21. INTEREST IN A JOINTLY CONTROLLED ENTITY

| | **2012** | 2011 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Cost of unlisted investment | **244,640** | 244,640 |
| Share of post-acquisition profit (loss) | **4,080** | (1,876) |
| | **248,720** | 242,764 |

As at 31 December 2012, the Group had interests in a jointly controlled entity incorporated and operated in the PRC as follows:

| **Name of entity** | **Country of registration** | **Principal place of operation** | **Proportion of nominal value of registered capital held by the Group** | **Proportion of voting power held** | **Principal activity** |
|---|---|---|---|---|---|
| Shandong Xingda Steel Tyre Cord Co., Ltd. ("Shandong Xingda") 山東興達鋼簾線有限公司 | PRC | PRC | 51% *(Note)* | 51% *(Note)* | Manufacture and distribution of radial tire cords and bead wires |

*Note:* Pursuant to the shareholders' agreement entered into between the Group and the other two shareholders of Shandong Xingda, Faith Maple, a subsidiary of the Company holding Shandong Xingda, is entitled to nominate 3 out of 5 directors to the Board of Shandong Xingda and the other 2 shareholders are entitled to nominate one director each. However, the agreement also stipulates that annual budgets and agreement entered into with any parties as well as the related parties of the shareholders with an amount equal to or more than RMB5,000,000 shall be approved by all Directors. Accordingly, Shandong Xingda is classified as a jointly controlled entity of the Group.

## 21. INTEREST IN A JOINTLY CONTROLLED ENTITY – *CONTINUED*

The summarised financial information in respect of the Group's interest in the jointly controlled entity which is accounted for using the equity method is set out below:

| | **2012** | 2011 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Current assets | **159,278** | 238,763 |
| Non-current assets | **89,505** | 5,303 |
| Current liabilities | **63** | 1,302 |
| Non-current liabilities | – | – |
| Income recognised in profit or loss | **6,553** | 114 |
| Expenses recognised in profit or loss | **(597)** | (1,990) |
| Other comprehensive income or expense | **–** | – |

## 22. DEFERRED TAXATION

The following is the analysis of the deferred tax balances for financial reporting purposes:

| | **2012** | 2011 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Deferred tax assets | **26,637** | 17,064 |
| Deferred tax liabilities | **(59,136)** | (1,175) |
| | **(32,499)** | 15,889 |

## 22. DEFERRED TAXATION – *CONTINUED*

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

| | Excess of accounting depreciation over tax depreciation | Allowance for doubtful debts | Fair value gain on investment properties | Undistributed profits of a subsidiary | Total |
|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| At 1 January 2011 | (9,103) | (5,673) | 675 | – | (14,101) |
| (Credit) Charge to profit or loss | (2,591) | 303 | 500 | – | (1,788) |
| At 31 December 2011 | (11,694) | (5,370) | 1,175 | – | (15,889) |
| (Credit) Charge to profit or loss | (2,681) | (6,892) | 1,550 | 56,411 | 48,388 |
| **At 31 December 2012** | **(14,375)** | **(12,262)** | **2,725** | **56,411** | **32,499** |

At the end of the reporting period, the Group has deductible temporary difference of approximately RMB179,796,000 (2011: RMB116,004,000) 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 RMB177,574,000 (2011: RMB113,778,000) of such deductible temporary difference. At the end of the reporting period, the Group has deductible temporary differences of RMB2,222,000 (2011: RMB2,226,000) for which no deferred tax asset has been recognised as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

## 23. PREPAYMENT

The amount represents prepayment of road maintenance and management fee to the Local Government in Xinghua Municipality, for a period of 6.33 (2011: 2.33) years. An amount of RMB3,000,000 (2011: RMB3,000,000) was included in trade and other receivables as current asset as that portion will be recognised as an expense within 12 months after the reporting date.

## 24. INVENTORIES

| | 2012 RMB'000 | 2011 RMB'000 |
|---|---|---|
| Raw materials | **206,946** | 408,571 |
| Work in progress | **60,198** | 64,490 |
| Finished goods | **166,159** | 198,479 |
| | **433,303** | 671,540 |

## 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 net of allowance for doubtful debts presented based on the invoice date at the end of the reporting period which approximated the respective revenue recognition dates.

The Group accepts notes from various local customers as settlement when the trade receivables fall due. Before accepting the notes, the Group would confirm with the relevant banks on the validity of the notes. It is the Group's practice to utilise notes received to settle certain of its debts. The aged analysis of note receivables is presented based on the number of days to maturity as at the end of the reporting period.

| | 2012 RMB'000 | 2011 RMB'000 |
|---|---|---|
| Trade receivables | | |
| 0 – 90 days | **1,297,894** | 1,337,084 |
| 91 – 180 days | **208,349** | 188,887 |
| 181 – 360 days | **76,610** | 71,514 |
| Over 360 days | **8,847** | 24,945 |
| | **1,591,700** | 1,622,430 |
| Note receivables (see Note (a)) | | |
| 0 – 90 days | **1,092,465** | 1,216,209 |
| 91 – 180 days | **847,268** | 728,652 |
| 181 – 360 days | **192,728** | 236,276 |
| | **2,132,461** | 2,181,137 |
| Advances to raw material suppliers | **18,461** | 63,867 |
| Prepayment for spools | **14,534** | 21,731 |
| Other receivables and prepayments | **17,624** | 13,113 |
| Less: Allowance for doubtful debts on other receivables | **(120)** | (120) |
| | **50,499** | 98,591 |
| | **3,774,660** | 3,902,158 |

## 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:

| | **2012** | **Equivalent to RMB** | 2011 | Equivalent to RMB |
|---|---|---|---|---|
| | ***'000*** | ***'000*** | *'000* | *'000* |
| USD | **29,551** | **185,743** | 37,479 | 236,118 |
| EUR | **7,767** | **64,603** | 6,857 | 55,953 |

Before accepting any new customer, the Group would assess the credit quality of each potential customer and define 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:

| | **2012** | 2011 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Balance at 1 January | **35,917** | 37,936 |
| Impairment loss recognised on receivables | **47,503** | – |
| Amounts written off as uncollectible | **(2,240)** | (2,000) |
| Exchange realignment | **–** | (19) |
| Balance at 31 December | **81,180** | 35,917 |

The Group reviews all trade receivables overdue more than 1 year for allowance for doubtful debt, amounting to approximately RMB78,763,000 as at 31 December 2012 (2011: RMB60,742,000) before provision of allowance for doubtful debts of RMB69,916,000 (2011: RMB35,797,000) because historical experience showed that receivables that are past due beyond 1 year generally have recoverability problems. The Group reviews 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. More notes were used to settle the accounts receivables and the notes were guaranteed by banks. Credit risk on notes receivables is limited because the notes are guaranteed by reputable banks in the PRC. Accordingly, the Directors believe that adequate allowance for doubtful debts has been made during the year.

## 25. TRADE AND OTHER RECEIVABLES – *CONTINUED*

At 31 December 2011, the carrying amount of the short-term trade receivables and notes receivable, which had been pledged as security for the bank borrowings, were RMB50,719,000 and RMB250,000,000 respectively (2012: Nil). The carrying amounts of the associated bank borrowings were RMB40,000,000 and RMB200,000,000 respectively (2012: Nil). All the pledge has been released in the current year as all the related bank borrowings have been repaid.

Included in the Group's trade receivables are debtors with a carrying amount of RMB85,457,000 at 31 December 2012 (2011: RMB96,459,000) 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 301 days (2011: 345 days) at 31 December 2012. No other receivables are past due as at the reporting date.

Aging of trade receivables which are past due but not impaired:

| | **2012** | 2011 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| 181-360 days | **76,610** | 71,514 |
| Over 360 days | **8,847** | 24,945 |
| | **85,457** | 96,459 |

Out of the balance of RMB85,457,000 (2011: RMB96,459,000) which are past due but not impaired as at 31 December 2012, an amount of approximately RMB30,115,000 (2011: RMB14,249,000) was settled by the trade debtors subsequent to the end of the reporting period and up to the date these consolidated financial statements were authorised for issue.

*Note (a):* TRANSFERS OF FINANCIAL ASSETS

The following were the Group's financial assets as at 31 December 2012 that were transferred to suppliers by endorsing notes receivables on a full recourse basis. There is no restriction on the use of the notes. As the Group has not transferred the significant risks and rewards relating to these receivables, it continues to recognise the full carrying amount of the receivables. The related liabilities are shown under trade and other payables. These financial assets are carried at amortised cost in the Group's consolidated statement of financial position.

As at 31 December 2012

| | **Notes Receivables endorsed to suppliers with full recourse** |
|---|---|
| | ***RMB'000*** |
| Carrying amount of transferred assets | **744,872** |
| Carrying amount of associated liabilities | |
| – Trade payables | **(687,826)** |
| – Payables for purchase of property, plant and equipment | **(34,679)** |
| – Other payables | **(22,367)** |
| Net position | **–** |

## 26. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH

Bank balances and cash comprise cash held by the Group. The bank balances carries interest rates ranging from 0.01% to 3.30% (2011: 0.01% to 3.30%) per annum.

Pledged deposits represent deposits pledged to banks to secure banking facilities granted to the Group. Deposits amounting to approximately RMB58,000,000 (2011: RMB108,320,000) had been pledged to a bank to secure notes payables of the Group and are therefore classified as current assets.

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

| | **2012** | **Equivalent to RMB** | 2011 | Equivalent to RMB |
|---|---|---|---|---|
| | ***'000*** | ***'000*** | *'000* | *'000* |
| HKD | **8,274** | **6,669** | 205,967 | 166,382 |
| USD | **24,760** | **155,628** | 21,110 | 133,014 |
| EUR | **3,049** | **25,363** | 3,526 | 28,778 |

## 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. The aged analysis of note payables is presented based on the number of days to maturity as at the end of the reporting period.

| | **2012** | 2011 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Trade payables | | |
| 0 – 90 days | **636,920** | 356,951 |
| 91 – 180 days | **178,804** | 207,265 |
| 181 – 360 days | **109,544** | 113,867 |
| Over 360 days | **11,287** | 3,265 |
| | **936,555** | 681,348 |
| Note payables | | |
| 0 – 90 days | **150,000** | 98,560 |
| 91 – 180 days | **119,263** | 451,600 |
| | **269,263** | 550,160 |
| Value-added tax payables and other tax payables | **34,176** | 27,185 |
| Accrued staff costs and pension | **173,606** | 165,964 |
| Payables for purchase of property, plant and equipment | **230,496** | 311,825 |
| Accrued interest expense | **2,326** | 5,031 |
| Accrued electricity charges | **44,510** | 48,583 |
| Others | **43,632** | 43,473 |
| | **528,746** | 602,061 |
| | **1,734,564** | 1,833,569 |

## 27. TRADE AND OTHER PAYABLES – *CONTINUED*

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

| | **2012** | **Equivalent to RMB** | 2011 | Equivalent to RMB |
|---|---|---|---|---|
| | ***'000*** | ***'000*** | *'000* | *'000* |
| USD | – | – | 550 | 3,464 |

The average credit period on purchase of goods is 90 days. The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

## 28. AMOUNT DUE TO A DIRECTOR

As at 31 December 2011, advance from a director Mr. Zhang Yuxiao was non-trading in nature. It was unsecured and non-interest bearing.

## 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. 興化市興達繡園酒店有限公司 ("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 37.

## 30. BANK BORROWINGS

| | 2012 | 2011 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Bank loans | **1,190,000** | 1,850,000 |
| Secured | **–** | 240,000 |
| Unsecured | **1,190,000** | 1,610,000 |
| | **1,190,000** | 1,850,000 |

Carrying amount of the bank loans repayable within one year at end of the reporting period and are shown under current liabilities.

| | 2012 | 2011 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Bank borrowings comprise: | | |
| Fixed-rate borrowings | **1,090,000** | 1,147,000 |
| Variable-rate borrowings | **100,000** | 703,000 |
| | **1,190,000** | 1,850,000 |

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

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

| | 2012 | 2011 |
|---|---|---|
| Effective interest rates: | | |
| Fixed-rate borrowings | **5.70% to 6.56%** | 5.45% to 6.31% |
| Variable-rate borrowings | **6.00%** | 5.19% to 6.56% |

## 30. BANK BORROWINGS – *CONTINUED*

During the year, the Group obtained new loans amounting to approximately RMB1,788,000,000 (2011: RMB2,173,000,000). The loans bear interest at market rates. The proceeds were used to finance daily working capital.

As at 31 December 2011, bank borrowings of RMB240,000,000 (2012: Nil) were secured by the Group's short-term trade receivables and notes receivable.

As at the end of the reporting period, the Group has the following undrawn borrowing facilities:

| | **2012** | 2011 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Floating rate | | |
| – expiring within one year | **1,360,000** | 1,765,000 |
| Fixed rate | | |
| – expiring within one year | **810,000** | 185,000 |
| | **2,170,000** | 1,950,000 |

## 31. GOVERNMENT GRANTS

| | *RMB'000* |
|---|---|
| At 1 January 2011 | 23,040 |
| Transferred to and deducted from property, plant and equipment | (9,000) |
| Recognised in other income for the year | (4,040) |
| At 31 December 2011, 1 January 2012 and 31 December 2012 | 10,000 |

Analysed as:

| | **2012** | 2011 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Current liabilities | **10,000** | – |
| Non-current liabilities | **–** | 10,000 |
| | **10,000** | 10,000 |

The amounts represent government grants received to be used mainly for a technological advancement project which is expected to be completed in 2013. 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.

## 32. SHARE CAPITAL

| | Number of shares | Amount | Equivalent to |
|---|---|---|---|
| | | *HKD* | *RMB'000* |
| Authorised: | | | |
| Ordinary shares of HKD0.10 each | | | |
| at 1 January 2011, 31 December 2011 | | | |
| and 31 December 2012 | 3,000,000,000 | 300,000,000 | 301,410 |
| Issued and fully paid: | | | |
| At 1 January 2011, 31 December 2011 | | | |
| and 31 December 2012 | 1,524,776,693 | 152,477,669 | 150,999 |

## 33. 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.

## 33. SHARE-AWARD SCHEME – *CONTINUED*

No (2011: 5,000,000) shares have been purchased from the open market pursuant to the Share Award Scheme during the year. 1,649,999 (2011: 1,649,999) awarded shares were vested during the year. Movements in the number of awarded shares outstanding during the year are as follows:

| | | | Number of awarded shares | | | |
|---|---|---|---|---|---|---|
| **Categories of awardees** | **Date of grant** *(Note 1)* | **Fair value per share** *(Note 2)* | **Balance as at 1 January 2012** | **Vested during the year** | **Balance as at 31 December 2012** | **Vesting period** |
| Directors of the Group | 5 September 2011 | 4.220 | 1,033,334 | – | 1,033,334 | 5 September 2011 to 31 March 2013 |
| Directors of the Group | 5 September 2011 | 4.220 | 1,033,333 | – | 1,033,333 | 5 September 2011 to 31 March 2014 |
| Directors of the Group | 5 September 2011 | 4.220 | 1,033,333 | – | 1,033,333 | 5 September 2011 to 31 March 2015 |
| Directors of the Group | 17 August 2010 | 5.120 | 1,041,666 | (1,041,666) | – | 17 August 2010 to 26 March 2012[1] |
| Employees | 5 September 2011 | 4.220 | 633,334 | – | 633,334 | 5 September 2011 to 31 March 2013 |
| Employees | 5 September 2011 | 4.220 | 633,333 | – | 633,333 | 5 September 2011 to 31 March 2014 |
| Employees | 5 September 2011 | 4.220 | 633,333 | – | 633,333 | 5 September 2011 to 31 March 2015 |
| Employees | 17 August 2010 | 4.831 | 608,333 | (608,333) | – | 17 August 2010 to 26 March 2012[1] |
| | | | **6,649,999** | **(1,649,999)** | **5,000,000** | |

[1] The vesting period was amended in 2012 from 16 August 2013 to 26 March 2012 with proper approval from the Board of Directors.

## 33. SHARE-AWARD SCHEME – *CONTINUED*

| | | | Number of awarded shares | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Categories of awardees** | **Date of grant** *(Note 1)* | **Fair value per share** *(Note 2)* | **Balance as at 1 January 2011** | **Awarded during the year** | **Vested during the year** | **Lapsed during the year** | **Balance as at 31 December 2011** | **Vesting period** |
| Directors of the Group | 5 September 2011 | 4.220 | – | 1,033,334 | – | – | 1,033,334 | 5 September 2011 to 31 March 2013 |
| Directors of the Group | 5 September 2011 | 4.220 | – | 1,033,333 | – | – | 1,033,333 | 5 September 2011 to 31 March 2014 |
| Directors of the Group | 5 September 2011 | 4.220 | – | 1,033,333 | – | – | 1,033,333 | 5 September 2011 to 31 March 2015 |
| Directors of the Group | 17 August 2010 | 5.120 | 1,058,333 | – | (1,041,666) | (16,667) | – | 17 August 2010 to 30 November 2011[1] |
| Directors of the Group | 17 August 2010 | 5.120 | 1,058,333 | – | – | (16,667) | 1,041,666 | 17 August 2010 to 16 August 2013 |
| Employees | 5 September 2011 | 4.220 | – | 633,334 | – | – | 633,334 | 5 September 2011 to 31 March 2013 |
| Employees | 5 September 2011 | 4.220 | – | 633,333 | – | – | 633,333 | 5 September 2011 to 31 March 2014 |
| Employees | 5 September 2011 | 4.220 | – | 633,333 | – | – | 633,333 | 5 September 2011 to 31 March 2015 |
| Employees | 17 August 2010 | 4.883 | 608,333 | – | (608,333) | – | – | 17 August 2010 to 30 November 2011[1] |
| Employees | 17 August 2010 | 4.831 | 608,333 | – | – | – | 608,333 | 17 August 2010 to 16 August 2013 |
| | | | 3,333,332 | 5,000,000 | (1,649,999) | (33,334) | 6,649,999 | |

[1] The vesting period was amended in 2011 from 16 August 2012 to 30 November 2011 with proper approval from the Board of Directors.

*Notes:*

1. The date of award refers to the date on which the selected employees agree to undertake to hold the awarded shares on the terms on which they are granted and agree to be bound by the rules of the Share Award Scheme.

2. The fair value of the awarded shares are based on the fair value at grant date.

## 33. SHARE-AWARD SCHEME – *CONTINUED*

The awarded shares would be vested by approximately 1,666,666 shares annually over a period of 3 years.

The Group recognised the total expenses of approximately RMB8,404,000 for the year ended 31 December 2012 (2011: RMB9,105,000) in relation to shares granted under the Share Award Scheme by the Company.

These fair value were calculated using the Binomial model. The inputs into the model were as follows:

| | 2011 |
|---|---|
| Share price at grant date | HK$4.22 |
| Expected volatility | 51% – 59% |
| Risk-free rate | 0.163% – 0.378% |

Expected volatility was determined by using the historical volatility of the Company's share price with similar duration in the life of the awarded shares.

The participants of the Share Award Scheme, other than the directors of the group entities, are not allowed to trade the shares granted to them by the Company in the event that the total number of shares granted multiplied by the closing market price of the Company per share for the last trading day of the Stock Exchange is less than 20% of the total amount of remuneration payable to such participant in the year of grant ("Threshold").

Such participants shall be allowed to trade in the granted shares after such shares are vested in him on the relevant vesting date when the product of (i) the total number of shares granted or to be granted in respect of such year to such participants multiplied by (ii) the market price per share is equal to or more than the Threshold, or until such other time as determined by the Remuneration Committee and approved by the Directors from time to time.

## 34. OPERATING LEASES

### THE GROUP AS LESSEE

| | **2012** | 2011 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Minimum lease payments paid under operating leases for premises during the year | **901** | 700 |

At 31 December 2012 and 2011, the Group had no commitments under non-cancellable operating leases.

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

## 34. OPERATING LEASES – *CONTINUED*

### THE GROUP AS LESSOR

Property rental income earned during the year was RMB4,320,000 (2011: RMB4,320,000). The properties are expected to generate rental yields of 3.32% (2011: 3.50%) on an on going basis. All of the properties held have committed tenants for the next two years.

At 31 December 2012, the Group had contracted with tenants for the following future minimum lease payments:

| | **2012** | 2011 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Within one year | **4,769** | 4,769 |
| In the second to fifth year inclusive | **270** | 5,039 |
| | **5,039** | 9,808 |

## 35. CAPITAL COMMITMENTS

| | **2012** | 2011 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements | **26,765** | 61,411 |

In addition to the above, the Group's share of the capital commitments of its joint ventures are as follows:

| | **2012** | 2011 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements | **86,290** | – |

## 36. RETIREMENT BENEFIT SCHEME CONTRIBUTIONS

The Group's full-time employees are covered by a government-sponsored defined contribution pension scheme, and are entitled to a monthly pension from their retirement dates. The PRC government is responsible for the pension liability to these retired employees. The Group is required to make annual contributions to the retirement plan at a rate of 20.5% (2011: 21%) 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 RMB26,837,000 (2011: RMB25,810,000) for the year ended 31 December 2012.

## 37. RELATED PARTY TRANSACTIONS

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

| Name of related party | Nature of transaction | Note | 2012 RMB'000 | 2011 RMB'000 |
|---|---|---|---|---|
| Xingda Xiu Yuan | Income from the provision of electricity | (a) | **273** | 339 |
| | Provision of hotel and catering services | | **2,875** | 3,552 |

*Note:*

(a) Xingda Xiu Yuan is a limited company whose legal representative is a close family member of the chairman of the Group.

Details of the balances with related parties are set out in the consolidated statement of financial position on page 45 and notes 28 and 29 to the consolidated financial statements.

### COMPENSATION OF KEY MANAGEMENT PERSONNEL

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

| | 2012 RMB'000 | 2011 RMB'000 |
|---|---|---|
| Short-term benefits | **43,644** | 57,053 |
| Post-employment benefits | **130** | 27 |
| Share based payments | **7,299** | 8,383 |
| | **51,073** | 65,463 |

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

## 38. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Details of the Company's subsidiaries as at 31 December 2012 and 2011 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 |
|---|---|---|---|---|
| **Directly held by the Company** | | | | |
| Faith Maple International Ltd. | The British Virgin Islands | USD14,083 | 100% | Investment holding |
| **Indirectly held by the Company** | | | | |
| Jiangsu Xingda Steel Tyre Cord Co., Ltd. 江蘇興達鋼簾線股份有限公司 *(note a)* | PRC | RMB134,600,000 | 69.54% | Manufacture and distribution of radial tire cords, bead wires and sawing wires |
| Shanghai Xingda Steel Tyre Cord Co., Ltd. 上海興達鋼簾線有限公司 *(note b)* | PRC | RMB2,000,000 | 70.23% | Trading of radial tire cords and bead wires |
| Xingda International (Shanghai) Special Cord Co., Ltd. 興達國際(上海)特種簾線有限公司 *(note c)* | PRC | USD12,000,000 | 100% | Investment holding |
| Jiangsu Xingda Special Cord Co., Ltd. 江蘇興達特種金屬複合線有限公司 *(note 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

None of the subsidiaries had any loan capital and issued any debt securities subsisting at the end of the year or at any time during the year.

## 39. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period includes:

| | **2012** | 2011 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| ASSETS AND LIABILITIES | | |
| NON-CURRENT ASSETS | | |
| Investment in a subsidiary | **334,098** | 333,729 |
| Amount due from a subsidiary | **627,704** | 807,139 |
| | **961,802** | 1,140,868 |
| CURRENT ASSETS | | |
| Other receivables | **175** | 94 |
| Bank balances and cash | **90,454** | 166,266 |
| | **90,629** | 166,360 |
| CURRENT LIABILITY | | |
| Other payables | **2,946** | 3,194 |
| NET CURRENT ASSETS | **87,683** | 163,166 |
| NET ASSETS | **1,049,485** | 1,304,034 |
| CAPITAL AND RESERVES | | |
| Share capital *(note 32)* | **150,999** | 150,999 |
| Reserves | **898,486** | 1,153,035 |
| TOTAL EQUITY | **1,049,485** | 1,304,034 |

## 39. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY – *CONTINUED*

### MOVEMENT IN RESERVES

| | Share capital | Share premium | Contributed surplus | Capital redemption reserve | Accumulated losses | Shares held under share award scheme | Awarded shares compensation reserve | Total |
|---|---|---|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| At 1 January 2011 | 150,999 | 1,622,088 | 266,960 | 2,062 | (459,454) | (10,942) | 1,438 | 1,573,151 |
| Loss and total comprehensive expense for the year | – | – | – | – | (66,365) | – | – | (66,365) |
| Dividend recognised as distribution *(note 16)* | – | (194,180) | – | – | – | – | – | (194,180) |
| Purchase of shares for the purpose of share award scheme | – | – | – | – | – | (17,677) | – | (17,677) |
| Shares vested under the share award scheme | – | – | – | – | – | 5,335 | (5,335) | – |
| Recognition of equity-settled share based payments | – | – | – | – | – | – | 9,105 | 9,105 |
| At 31 December 2011 | 150,999 | 1,427,908 | 266,960 | 2,062 | (525,819) | (23,284) | 5,208 | 1,304,034 |
| Loss and total comprehensive expense for the year | – | – | – | – | (15,726) | – | – | (15,726) |
| Dividend recognised as distribution *(note 16)* | – | (247,227) | – | – | – | – | – | (247,227) |
| Shares vested under the share award scheme | – | – | – | – | – | 5,336 | (5,336) | – |
| Recognition of equity-settled share based payments | – | – | – | – | – | – | 8,404 | 8,404 |
| **At 31 December 2012** | **150,999** | **1,180,681** | **266,960** | **2,062** | **(541,545)** | **(17,948)** | **8,276** | **1,049,485** |

## 40. RECLASSIFICATION OF COMPARATIVE INFORMATION

Certain comparative information in respect of notes receivables have been re-presented to present these on a gross basis and conform to current year presentation in the consolidated statement of financial position.

The effects of the re-presentation on a gross basis on the financial positions of the Group as at 31 December 2011 is as follows:

| | As at 31.12.2011 (originally stated) | Adjustments | As at 31.12.2011 (restated) |
|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Notes receivable | 1,528,824 | 652,313 | 2,181,137 |
| Advance to raw material suppliers | 267,586 | (203,719) | 63,867 |
| Other receivables and prepayments | 26,044 | (12,931) | 13,113 |
| Trade payables | (390,034) | (291,314) | (681,348) |
| Payables for purchase of property, plant and equipment | (190,757) | (121,068) | (311,825) |
| Other payables | (20,192) | (23,281) | (43,473) |
| Total effects on net assets | 1,221,471 | – | 1,221,471 |

# Financial Summary

| | Year ended 31 December | | | | |
|---|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2011 | **2012** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | ***RMB'000*** |
| Revenue | 3,488,518 | 3,864,409 | 5,430,156 | 5,551,400 | **5,246,909** |
| Cost of sales | (2,567,757) | (2,682,026) | (3,794,566) | (4,252,930) | **(4,176,812)** |
| Gross profit | 920,761 | 1,182,383 | 1,635,590 | 1,298,470 | **1,070,097** |
| Other income | 68,920 | 95,771 | 74,235 | 80,347 | **76,914** |
| Government grants | 65,840 | 53,102 | 32,451 | 63,954 | **17,945** |
| Selling and distribution expenses | (139,488) | (178,575) | (271,670) | (341,047) | **(356,738)** |
| Administrative expenses | (173,990) | (179,581) | (240,728) | (231,472) | **(223,333)** |
| Other expenses and losses, net | (38,185) | (52,102) | (76,851) | (81,755) | **(85,661)** |
| Finance costs | (103,808) | (54,176) | (58,762) | (95,065) | **(111,375)** |
| Gain on disposal of available-for-sale investments | – | 1,942 | 186,340 | – | **–** |
| Share of (loss) profit of a jointly controlled entity | – | – | – | (1,876) | **5,956** |
| Gain (loss) on fair value adjustment on the convertible bonds | 24,903 | (1,033) | – | – | **–** |
| Gain on deregistration of a subsidiary | 3,398 | – | – | – | **–** |
| Profit before tax | 628,351 | 867,731 | 1,280,605 | 691,556 | **393,805** |
| Income tax expense | (85,953) | (142,588) | (225,152) | (128,901) | **(134,429)** |
| Profit for the year | 542,398 | 725,143 | 1,055,453 | 562,655 | **259,376** |
| Profit attributable to: | | | | | |
| Owners of the Company | 418,219 | 547,504 | 791,959 | 418,118 | **188,786** |
| Non-controlling interests | 124,179 | 177,639 | 263,494 | 144,537 | **70,590** |
| | 542,398 | 725,143 | 1,055,453 | 562,655 | **259,376** |
| Dividend attributable to: | | | | | |
| Owners of the Company | 74,043 | 97,754 | 122,122 | 194,180 | **247,227** |
| Earnings per share | | | | | |
| Basic (RMB fen) | 30.17 | 39.50 | 55.49 | 27.42 | **12.38** |
| Diluted (RMB fen) | 25.39 | 39.36 | N/A | N/A | **N/A** |

# Financial Summary

| | As at 31 December | | | | |
|---|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2011 | **2012** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | ***RMB'000*** |
| **ASSETS AND LIABILITIES** | | | | | |
| Total assets | 5,438,419 | 7,369,756 | 8,520,008 | 10,045,790 | **9,363,207** |
| Total liabilities | (1,681,145) | (2,815,443) | (2,589,945) | (3,755,824) | **(3,052,688)** |
| | 3,757,274 | 4,554,313 | 5,930,063 | 6,289,966 | **6,310,519** |
| Equity attributable to owners of the Company | 2,885,599 | 3,459,026 | 4,633,655 | 4,849,021 | **4,798,984** |
| Non-controlling interests | 871,675 | 1,095,287 | 1,296,408 | 1,440,945 | **1,511,535** |
| | 3,757,274 | 4,554,313 | 5,930,063 | 6,289,966 | **6,310,519** |