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)

2008
Annual Report

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

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

Non-executive Directors

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

Independent Non-executive Directors

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

AUDIT COMMITTEE

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

REMUNERATION AND MANAGEMENT DEVELOPMENT COMMITTEE

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

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Mr. CHENG Kam Ho, CPA

AUTHORISED REPRESENTATIVES

Mr. ZHANG Yuxiao
Mr. CHENG Kam Ho

LEGAL ADVISORS

As to Hong Kong Law:
Deacons

As to PRC Law:
Jingtian & Gongcheng

AUDITOR

Deloitte Touche Tohmatsu

REGISTERED OFFICE

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

HEAD OFFICE

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

PRINCIPAL BANKERS

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

SHARE REGISTRARS AND TRANSFER OFFICES

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

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

INVESTOR RELATIONS

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

STOCK CODE

1899

WEBSITE

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

Financial Highlights

	2008 RMB in million	2007 RMB in million	Change
OPERATING RESULTS			
Revenue	**3,489**	2,778	+25.6%
Gross profit	**921**	702	+31.2%
EBITDA [(1)]	**931**	707	+31.7%
Profit for the year	**542**	449	+20.7%
Profit attributable to equity holders of the Company	**418**	345	+21.2%
Earnings per share – basic (RMB cent)	**30.17**	25.97	+16.2%
– diluted (RMB cent)	**25.39**	16.05	+58.2%

	2008 RMB in million	2007 RMB in million	Change
FINANCIAL POSITION			
Total assets	**5,438**	5,304	+2.5%
Total liabilities	**1,681**	2,015	-16.6%
Net assets	**3,757**	3,289	+14.2%
Shareholders' equity	**2,886**	2,541	+13.6%

	2008	2007
KEY RATIOS		
Gross profit margin [(2)]	**26.4%**	25.3%
EBITDA margin [(3)]	**26.7%**	25.5%
Return on equity [(4)]	**14.5%**	13.6%
Current ratio [(5)]	**1.52**	1.47
Gearing ratio [(6)]	**21.3%**	27.1%
Net debts to equity ratio [(7)]	**24.7%**	19.3%

Notes:

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

(2) Gross profit divided by revenue.

(3) EBITDA divided by revenue.

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

(5) Current assets divided by current liabilities.

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

(7) Total debts (bank borrowings and convertible bonds) less cash and bank balances divided by shareholders' equity.

Chairman's Statement

I am pleased to present the 2008 annual results of Xingda International Holdings Limited (the "Company") and its subsidiaries (together, the "Group" or "Xingda").

In 2008, the adjustments of product prices along with market trend, coupled with the effective cost control, have led the Group achieving encouraging results. Despite the economic downturn, Xingda managed to maintain growth and continued to lead the market in the People's Republic of China ("China" or the "PRC"), offering quality radial tire cords to leading international and domestic tire manufacturers. For the year ended 31 December 2008, the Group's turnover increased by 25.6% year-on-year to RMB3,489 million. Gross profit increased by 31.2% year-on-year to RMB921 million. Net profit rose by 20.7% year-on-year to RMB542 million. Profit attributable to equity holders of the Company was RMB418 million, up by 21.2% against 2007. In the absence of fair value adjustment on the convertible bonds, profit attributable to equity holders of the Company in 2008 increased by 46.5%, or RMB125 million, year-on-year to RMB393 million.

The Board of Directors ("Directors") of the Company proposed to distribute a final dividend of 8.00 HK cents per share or approximately RMB7.05 cents per share (2007: 6.00 HK cents per share or approximately RMB5.39 cents per share).

Admitted to enhance Xingda's long-term interests, the Group acquired 19,500,000 non-public offer shares of Aeolus Tyre Co., Ltd ("Aeolus") on 23 December 2008, representing approximately 5.20% of the enlarged issued share capital of Aeolus. Listed on the Shanghai Stock Exchange, Aeolus (stock code: 600469) is principally engaged in design, research and development, manufacture and sale of tires. Aeolus has over five years of solid customer relationship with the Group. The Group believes the investment will bring synergies to its operations and strong contribution to its results in the long run.

During the year, the controlling shareholder of the Group acquired 1,559,000 ordinary shares of the Company for an average cost of HKD0.723 per share on the Stock Exchange of Hong Kong Limited. The continuous increment of equity interests by Xingda's controlling shareholder demonstrated their confidence to the Group's future development. Xingda will consider to launch share buyback program at a proper timing to enhance shareholders' value, while maintaining the working capital and the gearing levels of the Company.

We believe that the negative impacts brought by the global recession in the near term will, to the large extent, offset by the RMB4 trillion Infrastructure Project launched by the PRC Government which will stimulate the domestic demand for automobiles as well as the growing demand for auto in the rural area in the PRC. The Group, thus, is optimistic about the radial tire cord industry.

Xingda will enhance its research and development capabilities and adopt innovative technologies to optimize products in terms of quality and variety. On the other hand, we will also focus on improving its competitiveness and operational efficiency by implementing strict control on production and raw material costs.

In the future, the Group will continue to develop the domestic market and will strive to expand its overseas business by securing more overseas tire manufacturers as its long-term customers. It will also review and adjust product prices heeding market condition regularly with the aim of keeping the profit margins of products stable.

Xingda will place its first priority to maintain the utilization rate at a high level, while cautiously adjust and execute its capacity expansion plan backed by foreseeable demand. Apart from consolidating leadership in China, Xingda will also forge ahead toward the goal of becoming a world-leading radial tire cord manufacturer.

On behalf of Xingda, I would like to express my gratitude to all employees for their diligence and contribution in the past year, which had made our positive results possible. With the support and contribution from our staff, customers, suppliers and shareholders, we will continue to adhere to our core principles and focus on achieving our goals and delivering better returns to our shareholders.

Liu Jinlan
Chairman

Shanghai, the PRC, 8 April 2009

INDUSTRY OVERVIEW

Although the global economic upheaval led to the slowdown of growth of China's automobile industry in the fourth quarter of 2008, the country's automobile market still had a growth for the entire year. According to the statistics of the China Association of Automobile Manufacturers, the country produced approximately 9,340,000 vehicles in 2008, representing a year-on-year growth of 5.2%.

During the year, the overall strong demand for automobiles in China boosted the tire industry of the country. According to the China Rubber Industry Association, the country's total tire output in 2008 rose by 6.1% year-on-year to 350 million units, of which 250 million were radial tire, 8.7% more against the previous year. Radialization rate of tires in China has reached around 71% by the end of 2008.

BUSINESS REVIEW

Despite the global financial turmoil which surfaced in the last quarter of 2008, the Group's sales volume for the year increased by 7.6% to 252,300 tonnes. Sales volumes of radial tire cords grew by 7.6% to 213,300 tonnes, accounting for 84.5% of the total sales volume (2007: 84.6%), and the sales volume of bead wires also rose by 7.7% to 39,000 tonnes and accounted for 15.5% of the total sales volume (2007:15.4%) of the Group.

During the year, radial tire cords for truck with higher profit margin remained the Group's major source of revenue. Sales volume of this product type increased by 12.0% to 181,700 tonnes, whereas sales volume of radial tire cords for passenger cars amounted to 31,600 tonnes, down by 12.0%. Sales volumes of the two product types accounted for 85.2% and 14.8% of the Group's total sales volume of radial tire cords respectively (2007: 81.9% and 18.1%).

Sales Volume	**2008 Tonnes**	2007 Tonnes	Change
Radial Tire Cord	**213,300**	198,200	+7.6%
– For Truck	***181,700***	*162,300*	*+12.0%*
– For Passenger Car	***31,600***	*35,900*	*-12.0%*
Bead Wire	**39,000**	36,200	+7.7%
Total	**252,300**	234,400	+7.6%

During the year, bolstered by steady development of the China's transportation industry and persistent demand for replacement tires for trucks in the country, the Group remained its focus on the radial tire cords for truck in China market. Domestic sales volume of radial tire cords increased by 6.1% to 208,000 tonnes, accounting for 97.5% of the Group's total volume of radial tire cords sold (2007: 98.9%). As a result of the Group's relentless effort to develop overseas market, the Group secured 10 new overseas customers during the year and expects to attract even more customers in the future.

During the year, the Group continued to boost its overall production capacity for radial tire cords to 283,900 tonnes, 19.7% higher than in the previous year while the production capacity for bead wires increased by 49.2% to 58,200 tonnes. The utilization rates of capacity for radial tire cords and bead wires were 84% and 77% (2007: 84% and 93%) respectively.

	2008 Production Capacity (Tonnes)	**2008 Utilization Rate**	2007 Production Capacity (Tonnes)	2007 Utilization Rate
Radial Tire Cord	**283,900**	**84%**	237,100	84%
Bead Wire	**58,200**	**77%**	39,000	93%

To solidify its leadership in the market, the Group developed 31 new types of radial tire cords and 12 new types of bead wires during the year. As at the end of 2008, the Group offered a diverse range of products including 114 types of radial tire cord and 42 types of bead wire to customers.

FINANCIAL REVIEW

Revenue

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

RMB in million	**2008**	**Proportion**	2007	Proportion	Change
Radial Tire Cord	**3,197**	**92%**	2,589	93%	+608
– For Truck	***2,797***	***80%***	*2,183*	*78%*	*+614*
– For Passenger Car	***400***	***12%***	*406*	*15%*	*-6*
Bead Wire	**292**	**8%**	189	7%	+103
Total	**3,489**	**100%**	2,778	100%	+711

Benefited from the strong demand in the domestic market for radial tire cords for truck, the total sales volume of the Group reached 252,300 tonnes for the year ended 31 December 2008, representing a growth of 7.6% compared with last year. Moreover, the Group adopted a new pricing strategy to match the movement of the steel wire rods with the average selling price of the products. Hence, the total revenue increased by 25.6% or RMB710.4 million to RMB3,488.5 million in 2008.

Gross profit and gross profit margin

During the year, the cost of the major raw material steel wire rods accounted for 54.8% of the Group's cost of sales (2007: 53.1%). Although the price of domestic steel wire rods climbed during the year, it remained competitive compared with those from overseas, thus, the Group continued to rely mostly on domestic sourcing. Moreover, the Group's strive to improve output ratio, coupled with the ability to increase product average selling price heeding market condition, gross profit margin achieved an expansion of 1.1 percentage point to 26.4%. The increase in sales and margin expansion boosted the Group's gross profit by 31.2% or RMB218.9 million to RMB920.8 million in 2008 (2007: RMB701.9 million).

Management Discussion and Analysis

Other income and government grant

Other income was declined by RMB33.7 million or 32.8% from RMB102.6 million in 2007 to RMB68.9 million in 2008. The decrease was caused by a decrease in bank interest income, which partially offset the increase in sales of scrap materials. With the national policy which encourages development of the radial tire industry, the government grant for the year increased significantly by RMB54.5 million or 482.3% from RMB11.3 million in 2007 to RMB65.8 million in 2008. The increase was mainly contributed by the subsidy from the local government of Xinghua City in China for the Group's technological achievement.

Operating expenses

Selling and distribution expenses of the Group increased by RMB37.4 million or 36.6% from RMB102.1 million in 2007 to RMB139.5 million in 2008. The increase was mainly caused by the increase in transportation cost and the performance based compensation payable to sales team as a result of the revenue growth of the Group. Meanwhile, administrative expenses increased by RMB24.7 million in 2008 as compared with last year, which was mainly attributable to the increase in staff cost for senior management and impairment on trade and other receivables.

Finance costs

Finance costs increased by RMB14.1 million or 15.7% from RMB89.7 million in 2007 to RMB103.8 million in 2008. The increase was mainly caused by a higher average bank borrowings payable within one year as well as the increase in effective interest rate.

Fair value adjustment on convertible bonds

The Company issued convertible bonds with principal amounts of USD30.4 million, USD19.7 million and USD3.9 million (the "Convertible Bonds") on 7 May 2005, 29 December 2005 and 18 January 2006 respectively, at a coupon rate of 1.0% per annum and the maturity date is the banking day immediately preceding the third anniversary of the relevant date of issue (subject to extension in accordance with the terms and conditions of the Convertible Bonds). Under International Accounting Standard 32 and 39, the Convertible Bonds have to be stated at fair value which is determined by an independent expert valuer as at each period end. The fair value of the Convertible Bonds is arrived at after using the Black-Scholes option pricing model with the input of various variables including the closing share price of the Company's shares, the volatility of the market for the Company's shares and the time to maturity of the Convertible Bonds.

The gain on fair value adjustment on the Convertible Bonds was RMB24.9 million in 2008, representing a decrease of RMB52.0 million when compared to the gain of RMB76.9 million in 2007. The gain in 2008 was mainly contributed by the drop in market price of the Company's shares from HKD1.91 per share as at 31 December 2007 (the last trading day of 2007) to HKD0.74 per share as at 31 December 2008.

Income tax

The Group had an income tax charge of RMB86.0 million with an effective tax rate of 13.7% in 2008, representing an increase of 1.1 percentage points from 12.6% in 2007. The increase in effective tax rate was mainly due to the expiration of tax holiday of a major subsidiary on 1 January 2008.

Net profit

Taking all the above factors into account, the Group's net profit for the year ended 31 December 2008 amounted to RMB542.4 million, representing an increase of 20.9% or RMB93.6 million from RMB448.8 million in 2007. Should the gain or loss on fair value adjustment on the convertible bonds be excluded, the adjusted net profit for the year ended 31 December 2008 would be RMB517.5 million, representing an increase of 39.2% or RMB145.6 million when compared with last year.

Reconciliation of report profit and underlying profit

	2008	2007
	RMB'000	RMB'000
Profit for the year	**542,398**	448,821
Gain on fair value adjustment on the convertible bonds (note)	**(24,903)**	(76,915)
Underlying profit for the year	**517,495**	371,906
Underlying profit for the year attributable to:		
Equity holders of the Company	**393,316**	268,497
Minority shareholders	**124,179**	103,409
	517,495	371,906

Note: Gain on fair value adjustment on the convertible bonds represented the increase in the fair value of the convertible bonds as calculated by an independent and recognized international business valuer. The gain on fair value of the convertible bonds was subtracted from the profit for the year as it was not arose from the ordinary course of operation of the Group.

LIQUIDITY, CAPITAL RESOURCES AND CAPITAL STRUCTURE

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

Bank balances and cash including bank deposits of the Group decreased by RMB501.4 million from RMB947.4 million as at 31 December 2007 to RMB446.0 million as at 31 December 2008. The decrease was the result of net cash of RMB707.4 million used in investing activities which was mainly for expanding production capacity and the net cash used in financing activities of RMB417.3 million which was mainly for the repayment of bank borrowings and payment of interest and dividend as well as redemption of convertible bonds, partially offset by the net cash inflow of RMB623.3 million from operating activities.

Bank borrowings decreased by RMB84.0 million or 7.0% to RMB1,117.7 million as at 31 December 2008 from RMB1,201.7 million as at 31 December 2007. The bank borrowings carry interest at market rates from 4.54% to 9.20% and are repayable within one year from the balance sheet date.

The Group's current assets decreased by RMB363.5 million or 12.4% from RMB2,923.8 million as at 31 December 2007 to RMB2,560.3 million as at 31 December 2008 and its current liabilities decreased by 15.5% from RMB1,990.3 million as at 31 December 2007 to RMB1,681.1 million as at 31 December 2008. The Group's current ratio (being defined as current assets over current liabilities) was up from 1.47 times as at 31 December 2007 to 1.52 times as at 31 December 2008. The increase was mainly caused by the decrease in fair value of convertible bonds. Gearing ratio, which is measured by total debts (bank borrowings and Convertible Bonds) to total assets, was down from 27.1% as at 31 December 2007 to 21.3% as at 31 December 2008 because of decrease in bank borrowings and convertible bonds.

Management Discussion and Analysis

CONVERTIBLE BONDS

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

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

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

In July 2007 and December 2007, Henda elected to convert a principal amount of USD4.5 million (approximately RMB32.9 million), being part of the First Tranche Bonds, and a principal amount of USD4.5 million, being the total outstanding principal amount of the First Tranche Bonds and the Second Tranche Bonds held by Henda, respectively, into shares at a conversion price of HKD1.853 per Share. Immediately following such conversions, Henda held 37,876,222 Shares, representing approximately 2.73% of the Company's issued share capital as at the date of this annual report, and the First Tranche Bonds and the Second Tranche Bonds held by Henda were fully converted.

In April 2008, the Company received a notice given by GSSIA to extend the First Tranche Maturity Date for a period of one year to 6 May 2009. As at 31 December 2008, GSSIA has not exercised its conversion rights under the Convertible Bonds and the outstanding principal amount of the Convertible Bond it held was USD5,257,058 (approximately RMB38.4 million).

In May 2008, the Company received a notice given by Tetrad requiring the Company to redeem on the First Tranche Maturity Date an aggregate principal amount of USD204,804 (approximately RMB1.42 million) of the First Tranche Bonds, being all the outstanding principal amount of the First Tranche Bonds held by Tetrad, at the redemption amount of USD230,942. The Company also paid Tetrad an amount of USD34,169 (approximately RMB240,000), being all the outstanding and unpaid interests accrued on the First Tranche Bonds held by Tetrad up to and including the First Tranche Maturity Date. Upon the redemption becoming effective, Tetrad held 83,628,471 Shares, and the principal amount of USD204,804 of the First Tranche Bonds so redeemed was forthwith cancelled whereas the outstanding principal amount of the Second Tranche Bonds held by Tetrad remained unchanged at USD19,666,667 (approximately RMB134.9 million).

On 22 December 2008, the Company received a notice given by Tetrad to require the Company to redeem on 24 December 2008 ("Second Tranche Maturity Date") an aggregate principal amount of USD19,666,667 of the Second Tranche Bonds, being all the outstanding principal amount of the Second Tranche Bonds held by Tetrad, at the redemption amount of USD22,178,781. The Company shall also paid Tetrad an amount of USD194,511, being all the outstanding and unpaid interests accrued on the Second Tranche Bonds held by Tetrad up to and including the Second Tranche Maturity Date. Upon the said redemption becoming effective, Tetrad held 83,628,471 Shares, representing approximately 6.03% of the issued share capital of the Company as at the date of this annual report, and the Second Tranche Bonds so redeemed were forthwith cancelled whereupon Tetrad ceased to hold any convertible bond issued by the Company.

As at 31 December 2008, the total outstanding principal of the Convertible Bonds has been reduced to USD5,257,058.

FOREIGN EXCHANGE RISK

The Group's sales and purchases were principally denominated in Renminbi and US dollars. As proceeds from sales in US dollars were used entirely in payment, appreciation of the Renminbi had little impact on the operation of the Group. As apart from certain bank balances in HK dollars and convertible bonds in US dollars, almost all of the assets and liabilities of the Group were denominated in Renminbi, the Group was not exposed to significant foreign exchange risk. Thus, during the year under review, exchange rate fluctuation had not caused any major adverse impact on the operation or liquidity of the Group. Accordingly, the Group did not engage in any instrument to hedge against foreign exchange risks 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 to use, if required.

CAPITAL EXPENDITURE

As at 31 December 2008, capital expenditure of the Group for property, plant and equipment amounted to RMB738.6 million (2007: RMB374.5 million).

CAPITAL COMMITMENTS

As at 31 December 2008, the Group had made capital commitment of approximately RMB53.8 million (31 December 2007: RMB307.8 million) for acquisition of property, plant and equipment contracted for but not provided in the financial statements. The Group did not make any capital commitment for acquisition of property, plant and equipment authorized but not contracted for as at 31 December 2008.

CONTINGENT LIABILITIES

The Group did not have any material contingent liabilities as at 31 December 2008 and 31 December 2007.

PLEDGE OF ASSETS

As at 31 December 2008, the Group pledged bank deposits of RMB33.9 million to secure its bank borrowings (2007: land use right and property, plant and equipment with an aggregate carrying value of approximately RMB42.7 million).

SIGNIFICANT INVESTMENTS

On 23 December 2008, Jiangsu Xingda Steel Tyre Cord Co., Ltd. ("Jiangsu Xingda"), an indirectly owned subsidiary of the Company, entered into a subscription agreement to subscribe for 19,500,000 non-public offer shares of Aeolus Tyre Co., Ltd ("Aeolus") with a consideration of RMB98,085,000. The subscribed shares represent 5.20% of the enlarged issued share capital of Aeolus as at 31 December 2008. Aeolus, listed on the Shanghai Stock Exchange, is principally engaged in design, research and development, manufacture and sale of tires. The Group believed that an investment in Aeolus will benefit the Group's financial results on a long term basis.

Save as disclosed herein, the Group had no significant external investments for the year ended 31 December 2008.

SIGNIFICANT ACQUISITIONS AND DISPOSALS

On 26 December 2008, a subsidiary of the Company, Xinghua Municipality Lianxing Machinery Manufacturing Co., Ltd ("Xinghua Municipality Lianxing") was deregistered. The gain on deregistration was approximately RMB3.4 million. The principal activities of Xinghua Municipality were mainly assembly of plant, machinery and equipment. There were no change and impact on the Group's major business upon deregistration of Xinghua Municipality.

Save as disclosed herein, the Group had no significant acquisitions and disposals for the year ended 31 December 2008.

HUMAN RESOURCES

As at 31 December 2008, the Group had approximately 4,500 (2007: approximately 6,500) full time employees and all of them were based in the PRC. Total staff costs including directors' remuneration for the year ended 31 December 2008 was approximately RMB257.7 million (2007: approximately RMB224.3 million). The remuneration packages which consist of salaries and bonuses are based on the employees' merit, qualifications and competence and are generally reviewed annually. The Group continues to provide training programs for staff to enhance their technical and product knowledge as well as knowledge of industry quality standards.

In addition to salary payments, the Group also provides various benefits to employees through the Labor Union of Jiangsu Xingda ("Xingda Labor Union"). Each year, Jiangsu Xingda contributes 2% of the total salary of staff to support operation of the Xingda Labor Union ("Union Fee"). The Union Fee, together with other funds obtained by the Xingda Labor Union from other sources are used to provide different welfare benefits and services to the employees of the Group, including provision of staff quarters which are available for sale to employees. For the year ended 31 December 2008, the amount of Union Fee contributed by Jiangsu Xingda to the Xingda Labor Union amounted to RMB4.6 million (2007: RMB3.7 million).

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

PROSPECTS

The sales performance in China in the beginning of 2009 would inevitably be affected by the global economic downturn which slowdown the tire demand. Nevertheless, the negative impact brought forth is believed to be offset by the increasing migration of overseas tire production base to China, the outsourcing of production process from global tire manufacturers to Chinese tire makers, the continuous tire radialization in China, as well as the RMB4 trillion stimulus package launched by the PRC Government. As one of the leading manufacturers of radial tire cords in China, the Group is well-positioned to benefit directly from the anticipated growth and huge untapped potential of the radial tire cords market.

With the Group's scale advantage to purchase bulk volume of steel wire rods at an even more competitive price, together with the Group's solid relationships with suppliers, it is expected to enjoy more favorable raw material cost as well as credit terms. Along with a flexible cost-plus pricing strategy, the Group is confident to maintain a sustainable and stable profit margin in the coming years. Furthermore, adhering to the Group's optimistic and pragmatic approach, the Group will continuously monitor its capacity expansion plan and ensure its development roadmap to be in line with the foreseeable market demand.

Looking ahead, the Group is committed to consolidating its leadership in China while expanding its market coverage globally. With more global tire giants using China-made radial tire cords to attain cost advantage, the Group is ready to tap the growing overseas markets, and revenue contribution from overseas is expected to play a more significant role in the coming years. Aiming at enhancing the Group's global foothold, the Group will seek every opportunity in expanding its presence in the rapidly consolidating industry world-wide.

Directors' and Senior Management's Biographies

EXECUTIVE DIRECTORS

Mr. LIU Jinlan (劉錦蘭), aged 59, has been a Director and the chairman of the Board since April 2005 and was in August 2005 designated as an executive Director. He is also a director of Faith Maple International Ltd. ("Faith Maple") since 16 June 2004, a director of 興達國際（上海）特種簾線有限公司 (Xingda International (Shanghai) Special Cord Co., Ltd.*) ("Xingda International (Shanghai)") since 18 September 2006 and a director of 江蘇興達特種金屬複合線有限公司 (Jiangsu Xingda Special Cord Co., Ltd.*) ("Xingda Special Cord") since 13 June 2007. Both Faith Maple and Xingda International (Shanghai) are wholly-owned subsidiaries of the Company whereas Xingda Special Cord is a non-wholly owned subsidiary of the Company. He joined Xingda Steel Tyre Cord Group, the predecessor of 江蘇興達鋼簾線股份有限公司 (Jiangsu Xingda Steel Tyre Cord Co., Ltd.*) ("Jiangsu Xingda"), since May 1994 and has been a director of Jiangsu Xingda since its establishment in 1998. He is also the sole director of Great Trade Limited, a company which has an interest in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance ("SFO"). Mr. Liu was awarded 國家科學技術進步獎二等獎 (the State Science and Technology Improvement Award (Second Class)*) in respect of development of production technology for high-performance (new structures) radial tire cords for use in radial tires by the State Council in 2005. He was recognized as 中國橡膠工業科學發展帶頭人 (Leader in Technology Development in China Rubber Industry*) by the China Rubber Industry Association in April 2005 and was awarded 科技進步獎一等獎 (the Technology Improvement Award (First Class)*) in respect of development of production technology for high-performance (new structures) radial tire cords for use in radial tires by 中國石油和化學工業協會 (China Petroleum and Chemical Industry Association*) in December 2003 and 全國五一勞動節獎章 (the National 1 May Labor medal*) by 中華全國總工會 (All China Federation of Trade Unions*) in April 2003. He is a senior engineer. Mr. Liu has more than 13 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 32, has been an executive Director since August 2005. He is also a director of Xingda International (Shanghai) since 18 September 2006 and a director of Xingda Special Cord since 13 June 2007. He has been the general manager and a director of Jiangsu Xingda since January 2003 and is responsible for the overall operation of Jiangsu Xingda with a particular focus on production. He joined Xingda Steel Tyre Cord Group, the predecessor of Jiangsu Xingda, in late 1995 and served in the supply and marketing department. He is also the sole director of In-Plus Limited, a company which has an interest in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO. Mr. Liu Xiang obtained a bachelor degree in computer science and technology from 西安通信學院 (Xi'an Tongxin Xueyuan*) of 中國人民解放軍 (the People's Liberation Army*) in 2004. He is studying for a master's degree in business administration in Fudan University. Mr. Liu has approximately 13 years of experience in the radial tire cord manufacturing industry. He is the son of Mr. Liu Jinlan who is an executive Director of the Company.

Directors' and Senior Management's Biographies

Mr. TAO Jinxiang (陶進祥), aged 46, has been an executive Director since August 2005. He is also a director of Xingda International (Shanghai) since 18 September 2006 and a director of Xingda Special Cord since 13 June 2007. He joined Xingda Steel Tyre Cord Group, the predecessor of Jiangsu Xingda, in May 1994, and since the establishment of Jiangsu Xingda in 1998, he has been a vice president and a director of the sales and marketing department of Jiangsu Xingda with the overall responsibility of formulating sales and marketing plans. He is also the sole director of Perfect Sino Limited, a company which has an interest in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO. He attended senior sales and marketing executives training classes organized by 職業經理訓練中心 (Executives Training Centre*) of Tsinghua University and obtained a certificate in May 2004. Mr. Tao has more than 13 years of experience in the radial tire cord manufacturing industry.

Mr. WU Xinghua (吳興華), aged 45, has been an executive Director since August 2005. He is also a director of Xingda International (Shanghai) since 18 September 2006. He joined Jiangsu Xingda in July 2005 and is currently a vice president, responsible for investment and capital market activities. Between October 1997 and June 2005, he had served in various positions in China International Capital Corporation Limited in Beijing and was responsible for development of mutual fund and asset management business and execution of merger and acquisition transactions. Before that, Mr. Wu had worked for China Construction Bank ("CCB"). He obtained a licence to practise in the general securities business in the PRC from 中國證券業協會 (The Securities Association of China*) in December 2001. Mr. Wu was awarded a British Chevening Scholarship to study for a master's in business administration at Imperial College of Science and Technology from 1995 to 1996. He graduated from Imperial College of Science, Technology and Medicine, University of London, with a master of business administration degree in November 1996. Mr. Wu graduated from 中國科學院地理研究所 (the Geography Institute of the Chinese Academy of Sciences*) with a master's degree in sciences in September 1987. Mr. Wu has more than 8 years of experience in investment banking and capital markets activities.

Mr. CAO Junyong (曹俊勇), aged 46, has been an executive Director since August 2005. He is also a director of Xingda International (Shanghai) since 18 September 2006 and a director of Xingda Special Cord since 13 June 2007. He joined Jiangsu Xingda in July 2005 and is currently a vice president. He is responsible for procurement. Mr. Cao joined CCB in July 1987 and had served in various positions in different branches. Mr. Cao was the branch manager of a branch of CCB in Nanjing between December 2004 and July 2005 and the deputy general manager of the Business Division of the Jiangsu branch of CCB between January 2001 and December 2004. He was also the deputy branch manager and then branch manager of the Taizhou branch of CCB from December 1997 to September 1998, and then from September 1998 to January 2001, respectively. Mr. Cao graduated from 中國人民大學 (Renmin University of China*) with a bachelor's degree in economics in 1987. He obtained a doctor's degree in agricultural economics management from 南京農業大學 (Nanjing Agricultural University*) in December 2006. Mr. Cao is a registered accountant (non-practicing member of The Chinese Institute of Certified Public Accountants). Mr. Cao has more than 18 years of experience in the banking industry.

Directors' and Senior Management's Biographies

Mr. ZHANG Yuxiao (張宇曉), aged 39, has been an executive Director and Chief Financial Officer of the Company since August 2005. He is also a director of Jiangsu Xingda since 25 January 2003, a director of Xingda International (Shanghai) since 18 September 2006 and a director of Xingda Special Cord since 13 June 2007. He joined Jiangsu Xingda in January 2000 and has been a vice president of Jiangsu Xingda since then. He is responsible for accounting and finance and international market development. From 1995 to 2000, he was the vice president of Clemente Capital (Asia) Limited and was responsible for investment management. Mr. Zhang obtained a bachelor's degree in sciences from Fudan University in July 1991. Mr. Zhang has more than 8 years of experience in the radial tire cord manufacturing industry.

NON-EXECUTIVE DIRECTORS

Mr. LU Guangming George (魯光明), aged 44, is a non-executive Director and the non-executive Vice Chairman of the Board. He is also a director of Faith Maple since 16 June 2004 and a director of Jiangsu Xingda since 20 May 2005. Mr. Lu was first appointed as a Director and the non-executive Vice Chairman of the Company in April 2005 and was in August 2005 designated as a non-executive Director. He founded Surfmax Corporation, a private investment firm incorporated in the United States, in 1997 and has been principally involved in private equity investments in the United States and the PRC. Surfmax Corporation is the member manager of Surfmax-Estar Fund A, LLC. Surfmax - Estar Fund A, LLC has an interest in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO. For the purpose of the SFO, Surfmax Corporation was deemed to be interested in the shares held by Surfmax - Estar Fund A, LLC. Mr. Lu has more than 10 years of experience in private equity investments.

Ms. WU Xiaohui (鄔小蕙), aged 48, has been a non-executive Director since August 2005. Ms. Wu has been the Chief Financial Officer of China National Cereals, Oils and Foodstuffs Import and Export Corporation ("COFCO") since February 2002 and has also been the general manager of the COFCO Financial Business Centre since October 2004. She joined COFCO in August 1986 and had served in various positions. She was the director of the Finance Department of COFCO from July 2000 to February 2002. She has been a director of 中信證券有限公司 (CITIC Securities Brokerage Limited*) (a company listed on the Shanghai Stock Exchange) since 29 December 1999. She graduated from 首都經貿大學 (the Capital University of Economics and Business*) with a master's degree in economics in July 2002 and from 中國人民大學一分校 (The First Branch Campus of Renmin University of China*) with a bachelor's degree in economics in July 1986. Ms. Wu has over 21 years of experience in finance. She has been nominated to serve on the Board to represent Surfmax-Estar Fund A, LLC.

Mr. ZHOU Mingchen (周明臣), aged 68, has been a non-executive Director since August 2005. Mr. Zhou was the chairman of COFCO and COFCO (Hong Kong) Limited, and a director of COFCO International Limited (a company listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange")) and Top Glory International Holdings Limited (a company previously listed on the Main Board of the Stock Exchange). Mr. Zhou graduated from the University of International Business and Economics in Beijing and has more than 31 years of experience in international trade and management. He was also a vice-president of China National Metals & Minerals Import & Export Corporation and president of China National Instruments Import & Export Corporation.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. KOO Fook Sun, Louis (顧福身), aged 52, has been an independent non-executive Director since August 2005. He is a founder and the managing director of Hercules Capital Limited, a corporate finance advisory firm. He has many years of experience in investment banking and professional accounting. Prior to founding Hercules Capital Limited, he was the managing director and head of the corporate finance department of a major international bank, and a director and chief executive officer of SilverNet Group Limited (now known as Enerchina Holdings Limited), a company listed on the Main Board of the Stock Exchange. Mr. Koo is also currently the vice chairman and chief financial officer of 2020 ChinaCap Acquirco, Inc., a company listed on the New York Stock Exchange Amex. He currently also serves as an independent non-executive director of Weichai Power Co. Ltd., Li Ning Company Limited, China Communications Construction Company Limited, Good Friend International Holdings Inc. and Midland Holdings Limited, which are companies listed on the Main Board of the Stock Exchange, and Richfield Group Holdings Limited, which is listed on the Growth Enterprise Market of the Stock Exchange. From June 2005 to June 2008, he was the independent non-executive director of Midland IC&I Limited, a company listed on the Growth Enterprise Market of the Stock Exchange. He graduated with a bachelor's degree in business administration from the University of California at Berkeley and is a certified public accountant.

Mr. William John SHARP, aged 67, has been an independent non-executive Director since August 2005. He is a director of Ferro Corporation, a manufacturer of performance materials listed on the New York Stock Exchange. He joined The Goodyear Tire & Rubber Company in 1964 and was the President of its North American Tire group between 1999 and 2000. Prior to that, he was the President of its Global Support Operations between 1996 and 1999, and the President of Goodyear Europe and head of Goodyear's World-wide operations. Mr. Sharp graduated with a bachelor's degree of science, majoring in industrial engineering, from The Ohio State University in 1963 and has more than 41 years of experience in the tire manufacturing industry.

Ms. XU Chunhua (許春華), aged 65, has been an independent non-executive Director since August 2005. She has served in various positions in Beijing Research and Design Institute of Rubber Industry since 1965. She was the deputy dean in charge of technology research and development between 1995 and 2003. She was also the person in charge of the "高速、低滾動阻力子午線輪胎系列產品生產技術開發" (Development of Production Techniques for Radial Tyre Products of High Speed and Low Rolling Resistance*) project, one of the "九五"國家重點科技攻關項目 (Key Technologies Research and Development Program for the Ninth "Five-Year Plan"*) in 1995. Ms. Xu has been the deputy chairman of the China Rubber Industry Association since 2004. She is a director of 青島高校軟控股份有限公司 (Qingdao Mesnac Co., Ltd.*), a company listed on the Small & Medium Enterprise Board of the Shenzhen Stock Exchange. She has been the head of 骨架材料專業委員會 (the skeleton materials committee*) and 橡膠助劑專業委員會 (the rubber chemicals committee*) since 2002 and 2001, respectively. She completed her studies in the macromolecular curriculum of the chemistry faculty of Fudan University in 1965 and has more than 41 years of experience in technology research relating to rubber chemicals.

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Mr. CHENG Kam Ho (鄭錦豪), aged 33, is the qualified accountant and company secretary of the Company. Mr. Cheng joined the Company as a member of its senior management in July 2008. He has more than 10 years of experience in finance, accounting and auditing. Mr. Cheng worked in the accounting firms in Hong Kong from July 1998 to June 2008, before joining the Company. He has been a member of the Hong Kong Institute of Certified Public Accountants since 19 July 2005. Mr. Cheng graduated from The Hong Kong Polytechnic University with the degree of Bachelor of Arts in Accountancy in 1998.

* *denotes an English translation of a Chinese name*

The directors of the Company ("Directors") present their annual report and the audited financial statements of the Group for the year ended 31 December 2008.

PRINCIPAL ACTIVITIES

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

RESULTS AND APPROPRIATIONS

Details of the Group's results for the year ended 31 December 2008 are set out in the consolidated income statement on page 37 of the annual report.

A final dividend of 6.00 HK cents per share for the year ended 31 December 2007 was paid to the shareholders of the Company during the year ended 31 December 2008.

The Board has recommended the payment of a final dividend of 8.00 HK cents (approximately RMB 7.05 cents) per share for the financial year ended 31 December 2008 to the shareholders whose names appear on the register of members of the Company on Friday, 22 May 2009. The final dividend will be payable on Monday, 15 June 2009.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 20 May 2009 to Friday, 22 May 2009, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend to be approved at the forthcoming annual general meeting to be held on Friday, 22 May 2009, all transfers of shares accompanied by the relevant share certificates and properly completed transfer forms must be lodged with the Hong Kong branch share registrar and transfer office of the Company, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30p.m. on Tuesday, 19 May 2009.

DONATION

During the year, the Group made charitable donations amounting to RMB5,800,000.

FINANCIAL SUMMARY

A summary of the published results and assets and liabilities of the Group for the past five financial years, as extracted from the audited financial statements and the prospectus of the Company dated 8 December 2006 (the "Prospectus"), is set out on pages 87 and 88 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;
- the remaining balance of approximately HKD37 million is intended to be used as general working capital.

Up to 31 December 2008, the Group has utilised approximately HKD648 million of the net proceeds and the details are as follows:

	Proposed uses of fund as stated in the Prospectus	Actual uses of funds during the year ended 31 December 2008	Balance of net proceeds as at 31 December 2008
	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	1,770	68,230
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	678,128	408,872

The remaining amount of approximately HKD409 million was placed in short term deposits with licensed banks in Hong Kong and the People's Republic of China. The Group intends to apply the use of proceeds in accordance with that as disclosed in the Prospectus.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 33 to the financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution represent the share premium and contributed surplus net of retained losses which in aggregate amounted to approximately RMB1,080.2 million as at 31 December 2008 (2007: RMB1,202.1 million). Under the Companies Law (Revised) Chapter 22 of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its memorandum and articles of association and provided that immediately following the distribution or dividend the Company is able to pay its debts as they fall due in the ordinary course of business. In accordance with the Company's articles of association (the "Articles of Association"), dividends shall be distributed out of the retained profits or other reserves, including share premium and contributed surplus, of the Company.

BANK BORROWINGS AND CONVERTIBLE BONDS

Particulars of bank borrowings and convertible bonds of the Group as at 31 December 2008 are set out in the notes 30 and 31 to the financial statements and the Management Discussion and Analysis Section of this annual report.

DIRECTORS

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

Executive Directors:

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

Non-executive Directors:

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

Independent Non-executive Directors:

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

Pursuant to Article 87 of the Articles of Association, Mr. Tao Jinxiang, Mr. Zhang Yuxiao, Ms. Wu Xiaohui, and Mr. William John Sharp will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company. The biographical details of the Directors and senior management of the Group are set out on pages 14 to 17 of this annual report.

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

DIRECTORS' SERVICE CONTRACTS

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

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

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

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

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

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

MANAGEMENT CONTRACTS

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

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

As at 31 December 2008, 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 2008
Liu Jinlan	Interest of a controlled corporation and interests of parties to an agreement required to be disclosed under section 317 of the SFO *(notes 1 and 5)*	722,336,693	52.11%
Liu Xiang	Interest of a controlled corporation and interests of parties to an agreement required to be disclosed under section 317 of the SFO *(notes 2 and 5)*	722,336,693	52.11%
Tao Jinxiang	Interest of a controlled corporation and interests of parties to an agreement required to be disclosed under section 317 of the SFO *(notes 3 and 5)*	722,336,693	52.11%
Zhang Yuxiao	Interest of a controlled corporation and interests of parties to an agreement required to be disclosed under section 317 of the SFO *(notes 4 and 5)*	722,336,693	52.11%
Lu Guangming George	Interests of controlled corporations *(note 6)*	215,549,000	15.55%

Notes:

1. Mr. Liu Jinlan owned 100% of the issued share capital of Great Trade Limited for and on behalf of the 98 Owners (as defined in the prospectus of the Company dated 8 December 2006 ("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 2008, Great Trade Limited held 253,480,000 shares in the Company. For the purpose of Part XV of the SFO, Mr. Liu Jinlan was deemed to be interested in the shares held by Great Trade Limited. Mr. Liu Jinlan was also a party to the Five Parties' Agreement, and was deemed to be interested in the shares in which the other parties to the Five Parties' Agreement (being Mr. Liu Xiang, Mr. Tao Jinxiang, Mr. Zhang Yuxiao and Mr. Hang Youming) were interested for the purpose of Part XV of the SFO.

2. Mr. Liu Xiang owned 100% of the issued share capital of In-Plus Limited for and on behalf of the 98 Owners (including himself) and Mr. Wu Xinghua subject to the terms of the Five Parties' Agreement. As at 31 December 2008, In-Plus Limited held 143,814,000 shares in the Company. For the purpose of Part XV of the SFO, Mr. Liu Xiang was deemed to be interested in the shares held by In-Plus Limited. Mr. Liu Xiang was also a party to the Five Parties' Agreement, and was deemed to be interested in shares in which the other parties to the Five Parties' Agreement (being Mr. Liu Jinlan, Mr. Tao Jinxiang, Mr. Zhang Yuxiao and Mr. Hang Youming) were interested for the purpose of Part XV of the SFO.

3. Mr. Tao Jinxiang owned 100% of the issued share capital of Perfect Sino Limited for and on behalf of the 98 Owners (including himself) and Mr. Wu Xinghua subject to the terms of the Five Parties' Agreement. As at 31 December 2008, Perfect Sino Limited held 117,529,000 shares in the Company. For the purpose of Part XV of the SFO, Mr. Tao Jinxiang was deemed to be interested in the shares held by Perfect Sino Limited. Mr. Tao Jinxiang was also a party to the Five Parties' Agreement, and was deemed to be interested in the shares in which the other parties to the Five Parties' Agreement (being Mr. Liu Jinlan, Mr. Liu Xiang, Mr. Zhang Yuxiao and Mr. Hang Youming) were interested for the purpose of Part XV of the SFO.

4. Mr. Zhang Yuxiao owned 100% of the issued share capital of Power Aim Limited for and on behalf of the 98 Owners (including himself) and Mr. Wu Xinghua subject to the terms of the Five Parties' Agreement. As at 31 December 2008, Power Aim Limited held 43,534,000 shares in the Company. For the purpose of Part XV of the SFO, Mr. Zhang Yuxiao was deemed to be interested in the shares held by Power Aim Limited. Mr. Zhang Yuxiao was also a party to the Five Parties' Agreement, and was deemed to be interested in the shares in which the other parties to the Five Parties' Agreement (being Mr. Liu Jinlan, Mr. Liu Xiang, Mr. Tao Jinxiang and Mr. Hang Youming) were interested for the purpose of Part XV of the SFO.

5. Mr. Liu Jinlan, Mr. Liu Xiang, Mr. Tao Jinxiang and Mr. Zhang Yuxiao, being parties to each of the Tetrad Bond Agreement (as defined in the Prospectus) and the Henda Bond Agreement (as defined in the Prospectus), were deemed to be interested in the shares in which the other parties to such agreements (being Mr. Hang Youming, Tetrad Ventures Pte Ltd and Henda Limited) were interested for the purpose of Part XV of the SFO. As at 31 December 2008, Tetrad Ventures Pte Ltd held 83,628,471 shares in the Company which were issued upon conversion of part of the Tetrad Bond (as defined in the Prospectus), and Henda Limited held 37,876,222 shares in the Company which were issued upon full conversion of the Henda Bond (as defined in the Prospectus).

6. Mr. Lu Guangming George legally owned 100% of the issued share capital of Surfmax Corporation, which was the member manager of Surfmax-Estar Fund A, LLC. As at 31 December 2008, Surfmax-Estar Fund A, LLC held 207,269,000 shares in the Company. Mr. Lu Guangming George also legally owned approximately 45.48% of the issued share capital of Win Wide International Ltd., which held 8,280,000 shares in the Company as at 31 December 2008. For the purpose of Part XV of the SFO, Mr. Lu Guangming George was deemed to be interested in the shares held by Surfmax-Estar Fund A, LLC and Win Wide International Ltd. respectively.

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

Name of Director	Capacity	Associated corporation	Number of ordinary shares in associated corporation	Approximate percentage of registered capital of the associated corporation as at 31 December 2008
Zhang Yuxiao	Beneficial Owner	Jiangsu Xingda Steel Tyre Cord Co., Ltd.	100	0.000074%

Save as disclosed above, as at 31 December 2008, none of the Directors, the chief executives of the Company and their associates had any interests or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register maintained by the Company in accordance with section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

DEED OF NON-COMPETITION

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

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

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

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

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

As at 31 December 2008, 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 2008**
Great Trade Limited	Beneficial owner	251,848,000	18.17%
In-Plus Limited	Beneficial owner	142,714,000	10.30%
Perfect Sino Limited	Beneficial owner	117,529,000	8.48%
Hang Youming	Interest of a controlled corporation and interests of parties to an agreement required to be disclosed under section 317 of the SFO *(note 1)*	722,336,693	52.11%
Surfmax-Estar Fund A, LLC	Beneficial owner	207,269,000	14.95%
Surfmax Corporation	Interest of a controlled corporation *(note 2)*	207,269,000	14.95%
Tetrad Ventures Pte Ltd	Beneficial owner *(note 3)*	83,628,471	6.03%
GIC Special Investments Pte. Ltd.	Interest of a controlled corporation *(notes 3 & 4)*	83,628,471	6.03%
Government of Singapore Investment Corp. Pte. Ltd.	Interest of a controlled corporation *(notes 3 & 4)*	83,628,471	6.03%
Government of Singapore Investment Corporation (Ventures) Pte. Ltd.	Interest of a controlled corporation *(notes 3 & 4)*	83,628,471	6.03%
Minister for Finance (Incorporated)	Interest of a controlled corporation *(notes 3 & 4)*	83,628,471	6.03%

Notes:

1. Mr. Hang Youming owned 100% of the issued share capital of Wise Creative Limited for and on behalf of the 98 Owners (as defined in the Prospectus) (including himself) and Mr. Wu Xinghua subject to the terms of the Five Parties' Agreement (as defined in the Prospectus). As at 31 December 2008, Wise Creative Limited held 42,475,000 shares in the Company. For the purpose of Part XV of the SFO, Mr. Hang Youming was deemed to be interested in the shares held by Wise Creative Limited. Mr. Hang Youming is also a party to the Five Parties' Agreement, and was deemed to be interested in the shares in which the other parties to the Five Parties' Agreement (being Mr. Liu Jinlan, Mr. Liu Xiang, Mr. Tao Jinxiang and Mr. Zhang Yuxiao) were interested for the purpose of Part XV of the SFO. Mr. Hang Youming, being a party to each of the Tetrad Bond Agreement (as defined in the Prospectus) and the Henda Bond Agreement (as defined in the Prospectus), was also deemed to be interested in the shares in which the other parties to such agreements (being Mr. Liu Jinlan, Mr. Liu Xiang, Mr. Tao Jinxiang, Mr. Zhang Yuxiao, Tetrad Ventures Pte Ltd and Henda Limited) were interested for the purpose of Part XV of the SFO. As at 31 December 2008, Tetrad Ventures Pte Ltd held 83,628,471 shares in the Company which were issued upon conversion of part of the Tetrad Bond (as defined in the Prospectus), and Henda Limited held 37,876,222 shares in the Company which were issued upon full conversion of the Henda Bond (as defined in the Prospectus).

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

3. As at 31 December 2008, Tetrad Ventures Pte Ltd held 83,628,471 shares in the Company which were issued upon conversion of part of the Tetrad Bond (as defined in the Prospectus).

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

Save as aforesaid and as disclosed in the section "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures" above, the Company has not been notified of any interest or short position in the shares or underlying shares of the Company as at 31 December 2008 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 2008.

EMOLUMENT POLICY

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

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

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

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

HIGHEST PAID INDIVIDUALS

The relevant information of the five individuals with the highest remuneration in the Group for the year ended 31 December 2008 is disclosed in note 15 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The five largest customers of the Group contributed approximately 56% of the Group's total revenue for the year and the largest customer contributed approximately 16% of the Group's total revenue. The five largest suppliers represented approximately 79% of the Group's total purchases for the year and the largest supplier represented approximately 17% 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

8 April 2009

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

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

The Company has applied the principles in and complied with the code provisions of the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules throughout the year ended 31 December 2008, except for the deviation from code provision A.2.1 which provides that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

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

THE BOARD

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

The Board currently comprises twelve members, including six executive Directors, three non-executive Directors and three independent non-executive Directors. The biographical details of the Directors are set out on pages 14 to 17 of the annual report. Mr. Liu Jinlan, being the chairman of the Board and an executive Director, is the father of Mr. Liu Xiang, an executive Director. Save for the aforesaid, there is no financial, business, family or other material or relevant relationships among the members of the Board.

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

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

The Board will meet regularly at least four times a year at approximately quarterly intervals. For the year ended 31 December 2008, the Board held four meetings to discuss and approve various important matters. The table below sets out the attendance of each Director at the meetings of the Board and other Board committees held during the year ended 31 December 2008:

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

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

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

Corporate Governance Report

The Company has arranged for appropriate Directors' and officers' liability insurance throughout the year ended 31 December 2008 to indemnify the Directors and officers for their liabilities arising out of corporate activities. The insurance coverage and premium is reviewed on an annual basis.

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

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

Pursuant to Article 87 of the Articles of Association of the Company, one-third of the Directors shall retire from office by rotation, and shall be eligible for re-election, at each annual general meeting. Mr. Tao Jinxiang, Mr. Zhang Yuxiao, Ms. Wu Xiaohui and Mr. William John Sharp will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company.

BOARD COMMITTEES

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

Audit Committee

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

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

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

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

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

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

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

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

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

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

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

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

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

The Audit Committee had two meetings during the year ended 31 December 2008. During the meetings held, the Audit Committee had performed the following work:

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

On 7 April 2009, the Audit Committee met with the external auditor to discuss the general scope of their audit work and reviewed the financial statements for the year ended 31 December 2008 as well as the management letter issued by the external auditor for the annual audit for the year ended 31 December 2008.

Remuneration and Management Development Committee

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

Corporate Governance Report

The Remuneration Committee met four times during the year ended 31 December 2008. A summary of work performed by the Remuneration Committee during the year is set out below:

- consultation with the chairman of the Board in respect of its recommendations in determining the remuneration of the executive Directors and senior management of the Group for the year ended 31 December 2008;
- evaluating and making recommendations to the Board on the remuneration of the Directors and senior management of the Group for the year ended 31 December 2008 with reference to the findings of the review performed by the external consultants on the Group's remuneration policy and the remuneration package of the Board in 2007 and other relevant information; and
- evaluating and making recommendations to the Board on the proposed adoption of a share award scheme for the directors and senior management of the Group.

Nomination Committee

The Company established the Nomination Committee on 23 August 2005. The major roles and functions of the Nomination Committee are to evaluate the credentials of the candidates for directorship, to make recommendations to the Board regarding candidates to fill vacancies on the Board and to ensure that no Director or any of his associates is involved in approving his/her or any of his/her associates' nomination. The Nomination Committee consists of three Directors with a majority of non-executive directors, namely Mr. Liu Jinlan, Mr. Lu Guangming George and Mr. Zhou Mingchen. The chairman of the nomination committee is Mr. Zhou Mingchen. The Nomination Committee did not hold any meeting during the year ended 31 December 2008.

The Nomination Committee carries out the process of selecting and recommending candidates for directorship with reference to the selection guidelines which include appropriate professional knowledge and industry experience, personal ethics, integrity and personal skills. The Nomination Committee also considers referrals and engagement of external recruitment professionals when necessary and makes recommendations to the Board for selection and approval. There was no nomination of directors to fill Board vacancies in the year ended 31 December 2008.

Executive Committee

The Company established the Executive Committee on 30 September 2005. The principal functions and responsibilities of the Executive Committee are to determine, approve and oversee the day-to-day control over the allocation of the resources of the Group. The Executive Committee consists of four Directors, namely Mr. Liu Jinlan, Mr. Zhang Yuxiao, Mr. Lu Guangming George and Mr. Cao Junyong. The chairman of the Executive Committee is Mr. Zhang Yuxiao. The Executive Committee had one meeting during the year ended 31 December 2008.

Manufacturing and Operations Committee

The Company established the Manufacturing and Operations Committee (with the Manufacturing Sub-committee and the Operations Sub-committee) on 30 September 2005. The principal functions and responsibilities of the Manufacturing and Operations Committee and the respective sub-committees are to consider, approve and oversee the Group's day-to-day manufacturing and operations related strategic development and allocations of resources and make recommendations on new initiatives to the Board for approval. The Manufacturing and Operations Committee consists of five Directors, namely Mr. Liu Jinlan, Mr. Liu Xiang, Mr. Lu Guangming George, Mr. Tao Jinxiang and Mr. Cao Junyong. The chairman of the Manufacturing and Operations Committee is Mr. Liu Jinlan. The Manufacturing and Operations Committee had one meeting during the year ended 31 December 2008.

Investment and International Development Committee

The Company established the Investment and International Development Committee on 30 September 2005. The principal functions and responsibilities of the Investment and International Development Committee are to consider, approve and oversee the Group's international market development and investment related initiatives and allocations of resources, and make recommendations on new development initiatives to the Board for approval. The Investment and International Development Committee consists of five Directors, namely Mr. Liu Jinlan, Mr. Lu Guangming George, Mr. Zhang Yuxiao, Mr. Wu Xinghua and Mr. Tao Jinxiang. The chairman of the Investment and International Development Committee is Mr. Lu Guangming George. The Investment and International Development Committee had one meeting during the year ended 31 December 2008.

DIRECTORS' AND AUDITORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Board acknowledges the responsibilities of overseeing the preparation of the financial statements for the year ended 31 December 2008, 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 2008, 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 auditors about their reporting responsibilities is set out in the Independent Auditor's Report on pages 35 and 36 of this annual report.

AUDITOR'S REMUNERATIONS

For the year ended 31 December 2008, the Group paid approximately RMB1,527,000 and RMB291,000 to the external auditor in respect of audit services and non-audit services, respectively. The non-audit service 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, 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.

During the year ended 31 December 2008, based on the findings on the entity-level control review and initial risk assessment conducted by Ernst & Young in 2007 in respect of the Group's internal control systems, the Board has conducted a follow up assessment on the internal control systems of the Group for the purposes of ensuring the smooth implementation of the systems. The Board will continue to conduct annual reviews on the internal control system either through the Audit Committee or professional firms in the future and will take all necessary measures to safeguard the Group's assets and shareholders' interests.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuer ("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 confirmation from all Directors that they have complied with the required standards set out in the Model Code during the year ended 31 December 2008.

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 has assigned its chief financial officer and the company secretary to be the spokespersons of the Company and be responsible for meeting with financial analysts and institutional investors.

In addition to the annual general meeting which is opened to all shareholders and members of the press, the Company holds analysts briefings and press conferences through various channels to maintain communications between the shareholders and the management of the Company. During the year ended 31 December 2008, the management conducted over 40 one-on-one meetings with and company visits for various institutional investors and shareholders to assist them to have a better understanding of the Group as well as the global steel cords industry through publicly disclosed information. Comments and advices from the investors were communicated to the management for providing responses in a timely manner. In order to strengthen the communication and interaction with the investors, the Company will focus on enhancing communications with investors through various weans such as organizing non-deal roadshows, company visits and meetings in the future.

Deloitte.
德勤

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

We have audited the consolidated financial statements of Xingda International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 37 to 86, which comprise the consolidated balance sheet as at 31 December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

Independent Auditor's Report

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2008 and of its profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

8 April 2009

Consolidated Income Statement

For the year ended 31 December 2008

	NOTES	2008	2007
		RMB'000	RMB'000
Revenue	8	**3,488,518**	2,778,061
Cost of sales		**(2,567,757)**	(2,076,112)
Gross profit		**920,761**	701,949
Other income	9	**68,920**	102,628
Government grants	10	**65,840**	11,282
Selling and distribution expenses		**(139,488)**	(102,128)
Administrative expenses		**(212,175)**	(187,489)
Finance costs	11	**(103,808)**	(89,743)
Gain on fair value adjustment on the convertible bonds		**24,903**	76,915
Gain on deregistration of a subsidiary	12	**3,398**	—
Profit before tax		**628,351**	513,414
Income tax expense	13	**(85,953)**	(64,593)
Profit for the year	14	**542,398**	448,821
Profit attributable to:			
Equity holders of the Company		**418,219**	345,412
Minority shareholders		**124,179**	103,409
		542,398	448,821
Dividend			
Dividend recognised as distribution	16	**74,043**	50,305
Dividends proposed		**97,754**	74,043
Earnings per share	17		
Basic (RMB cent)		**30.17**	25.97
Diluted (RMB cent)		**25.39**	16.05

Consolidated Balance Sheet

At 31 December 2008

	NOTES	2008 RMB'000	2007 RMB'000
ASSETS AND LIABILITIES			
NON-CURRENT ASSETS			
Property, plant and equipment	18	**2,575,489**	2,074,219
Prepaid lease payments	19	**179,524**	115,298
Available-for-sale investments	20	**98,585**	500
Deferred tax assets	21	**12,605**	—
Deposits paid for purchase of property, plant and equipment	22	**11,870**	190,294
		2,878,073	2,380,311
CURRENT ASSETS			
Prepaid lease payments	19	**3,858**	2,487
Inventories	23	**510,985**	288,724
Trade and other receivables	24	**1,565,652**	1,642,559
Pledged bank deposits	25	**33,880**	42,676
Bank balances and cash	25	**445,971**	947,356
		2,560,346	2,923,802
CURRENT LIABILITIES			
Trade and other payables	26	**472,614**	500,142
Amounts due to directors	27	**48**	335
Amount due to a related company	28	**827**	2,844
Amount due to a minority shareholder	29	**1,718**	—
Government grants	32	**900**	—
Tax payable		**45,738**	48,128
Bank borrowings - due within one year	30	**1,117,739**	1,201,720
Convertible bonds	31	**41,561**	237,083
		1,681,145	1,990,252
NET CURRENT ASSETS		**879,201**	933,550
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,757,274**	3,313,861

Consolidated Balance Sheet

At 31 December 2008

	NOTES	2008 RMB'000	2007 RMB'000
NON-CURRENT LIABILITY			
Government grants	32	**—**	24,900
NET ASSETS		**3,757,274**	3,288,961
CAPITAL AND RESERVES			
Share capital	33	**139,091**	139,091
Reserves		**2,746,508**	2,402,332
		2,885,599	2,541,423
MINORITY INTERESTS		**871,675**	747,538
TOTAL EQUITY		**3,757,274**	3,288,961

The consolidated financial statements on pages 37 to 86 were approved and authorised for issue by the Board of Directors on 8 April 2009 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 2008

	Attributable to equity holders 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	Total RMB'000	Attributable to minority interests RMB'000	Total RMB'000
At 1 January 2007	129,405	958,738	283,352	(126,702)	139,640	–	521,382	1,905,815	652,329	2,558,144
Profit for the year, representing total recognised income for the year	–	–	–	–	–	–	345,412	345,412	103,409	448,821
Appropriations	–	–	–	–	44,178	–	(44,178)	–	–	–
Dividend (note 16)	–	(50,305)	–	–	–	–	–	(50,305)	(8,200)	(58,505)
Repurchase of ordinary shares	(2,062)	–	–	–	–	2,062	(52,756)	(52,756)	–	(52,756)
Issue of new shares upon conversion of convertible bonds	11,748	381,509	–	–	–	–	–	393,257	–	393,257
At 31 December 2007	139,091	1,289,942	283,352	(126,702)	183,818	2,062	769,860	2,541,423	747,538	3,288,961
Profit for the year, representing total recognised income for the year	–	–	–	–	–	–	418,219	418,219	124,179	542,398
Release upon deregistration of a subsidiary	–	–	–	(3,448)	–	–	3,448	–	(42)	(42)
Appropriations	–	–	–	–	46,185	–	(46,185)	–	–	–
Dividend (note 16)	–	(74,043)	–	–	–	–	–	(74,043)	–	(74,043)
At 31 December 2008	**139,091**	**1,215,899**	**283,352**	**(130,150)**	**230,003**	**2,062**	**1,145,342**	**2,885,599**	**871,675**	**3,757,274**

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. ("Jangsu Xingda") at date of acquisition.

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

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

Consolidated Cash Flow Statement

For the year ended 31 December 2008

	2008 RMB'000	2007 RMB'000
OPERATING ACTIVITIES		
Profit before tax	**628,351**	513,414
Adjustments for:		
Depreciation and amortisation	**227,534**	181,097
Interest income	**(19,705)**	(51,941)
Loss (gain) on disposal of property, plant and equipment	**10,135**	(119)
Impairment loss recognised on trade and other receivables	**21,826**	4,328
Gain on deregistration of a subsidiary	**(3,398)**	—
Finance costs	**103,808**	89,743
Government grant	**(24,000)**	—
Gain on fair value adjustment on the convertible bonds	**(24,903)**	(76,915)
Exchange gain arising on the convertible bonds	**(15,145)**	(38,083)
Operating cash flows before movements in working capital	**904,503**	621,524
Increase in inventories	**(222,261)**	(62,679)
Decrease (increase) in trade and other receivables	**55,081**	(71,502)
(Decrease) increase in trade and other payables	**(12,450)**	42,838
(Decrease) increase in amounts due to directors	**(287)**	16
(Decrease) increase in amount due to a related company	**(2,017)**	2,237
Increase in government grants	**—**	9,900
Increase (decrease) in amount due to a minority shareholder	**1,718**	(2,996)
Cash generated from operations	**724,287**	539,338
Income tax paid	**(100,948)**	(41,006)
NET CASH GENERATED FROM OPERATING ACTIVITIES	**623,339**	498,332
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**(640,391)**	(560,605)
Purchase of available-for-sale investments	**(98,085)**	—
Advance to a minority shareholder	**—**	(1,490)
Interest received	**19,705**	51,941
Decrease (increase) in pledged bank deposits	**8,796**	(42,676)
Proceeds on disposal of property, plant and equipment	**2,557**	802
NET CASH USED IN INVESTING ACTIVITIES	**(707,418)**	(552,028)

Consolidated Cash Flow Statement

For the year ended 31 December 2008

	2008 RMB'000	2007 RMB'000
FINANCING ACTIVITIES		
Repayment of bank loans	**(3,381,979)**	(2,175,000)
Payment for redemption of convertible bonds	**(153,188)**	—
Interest paid	**(103,808)**	(89,743)
Dividend paid	**(74,043)**	(50,305)
Interest paid on the convertible bonds	**(2,286)**	(3,946)
New bank loans raised	**3,297,998**	2,016,760
Payment for share repurchase	**—**	(52,756)
Dividends paid to minority shareholders	**—**	(14,200)
NET CASH USED IN FINANCING ACTIVITIES	**(417,306)**	(369,190)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(501,385)**	(422,886)
CASH AND CASH EQUIVALENTS AT 1 JANUARY	**947,356**	1,370,242
CASH AND CASH EQUIVALENTS AT 31 DECEMBER, represented by bank balances and cash	**445,971**	947,356

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

1. GENERAL

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

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

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

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied the following amendments and interpretations ("new IFRSs") issued by the International Accounting Standards Board ("IASB"), which are or have become effective.

IAS 39 & IFRS 7 (Amendments)	Reclassification of Financial Assets
IFRIC 11	IFRS 2: Group and Treasury Share Transactions
IFRIC 12	Service Concession Arrangements
IFRIC 14	IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

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

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

IFRSs (Amendments)	Improvements to IFRSs[1]
IAS 1 (Revised)	Presentation of Financial Statements[2]
IAS 23 (Revised)	Borrowing Costs[2]
IAS 27 (Revised)	Consolidated and Separate Financial Statements[3]
IAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[2]
IAS 39 (Amendment)	Eligible hedged items[3]
IFRS 1 & IAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate[2]
IFRS 2 (Amendment)	Vesting Conditions and Cancellations[2]
IFRS 3 (Revised)	Business Combinations[3]
IFRS 7 (Amendment)	Improving Disclosures about Financial Instruments[2]
IFRS 8	Operating Segments[2]
IFRIC 9 & IAS 39 (Amendments)	Embedded Derivatives[4]
IFRIC 13	Customer Loyalty Programmes[5]
IFRIC 15	Agreements for the Construction of Real Estate[2]
IFRIC 16	Hedges of a Net Investment in a Foreign Operation[6]
IFRIC 17	Distributions of Non-cash Assets to Owners[3]
IFRIC 18	Transfers of Assets from Customers[7]

[1] Effective for annual periods beginning on or after 1 January 2009 except the amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009
[2] Effective for annual periods beginning on or after 1 January 2009
[3] Effective for annual periods beginning on or after 1 July 2009
[4] Effective for annual periods ending on or after 30 June 2009
[5] Effective for annual periods beginning on or after 1 July 2008
[6] Effective for annual periods beginning on or after 1 October 2008
[7] Effective for transfers on or after 1 July 2009

The application of IFRS 3 (Revised) may affect the accounting for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. IAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary. The directors of the Company (the "Directors") anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the results and financial position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

Basis of consolidation

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Business combinations

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

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

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

Goodwill

Goodwill arising on acquisitions prior to 1 January 2005

Goodwill arising on acquisitions of its subsidiaries prior to 1 January 2005 continues to be held in reserves, and will be charged to the retained earnings at the time when the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired.

Revenue recognition

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or service, or for administrative purposes other than construction in progress are stated at cost less subsequent accumulated depreciation and accumulated impairment loss.

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

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

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

Leasing

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

The Group as lessee

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

Leasehold land and building

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

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Foreign currencies

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

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

Borrowing costs

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

Governmnt grants

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Taxation

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

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

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

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

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

Research and development expenditure

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Inventories

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

Financial instruments

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

Financial assets

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

Effective interest method

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

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and other receivables, 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).

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments – continued

Financial assets – continued

Available-for-sale financial assets

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

Impairment of financial assets

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

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

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments – continued

Financial assets – continued

Impairment of financial assets – continued

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 receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

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

Impairment losses on available-for-sale equity investments will not be reversed in profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in equity.

Financial liabilities and equity

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

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

Effective interest method

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

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

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments – continued

Financial liabilities and equity – continued

Financial liabilities at fair value through profit or loss

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

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

Other financial liabilities

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

Equity instruments

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

Repurchase of Company's own equity instruments is recognised directly in equity. No gain or loss is recognised in profit or loss on the purchase of the Company's own entity instruments.

These repurchased shares were cancelled upon repurchase and, accordingly, the issued share capital of the Company was reduced by the nominal value of these shares with corresponding increase in capital redemption reserve. The aggregate consideration paid on repurchase was charged to retained earnings.

Derecognition

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Impairment losses

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

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

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

Key sources of estimation uncertainty

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

Valuation of the convertible bonds

The fair value for the convertible bonds is established by using valuation techniques. Assumptions are made based on various inputs adjusted for specific features of the convertible bonds. The Group has a process to ensure that valuation techniques are properly employed and the outputs reflect actual market conditions. However, it should be noted that some inputs, such as credit and counterparty risk and risk correlations, volatility of share price and dividend yield of the Company, require management estimates. Management estimates and assumptions are reviewed periodically and are adjusted if necessary. Should any of the estimates and assumptions changed, it may lead to a change in the fair value of the convertible bonds. Carrying amount of the convertible bonds is approximately RMB41,561,000 (2007: RMB237,083,000) as at 31 December 2008.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY – continued

Income taxes

As at 31 December 2008, a deferred tax asset of RMB12,605,000 (2007: nil) in relation to temporary differences on property, plant and equipment and allowances for doubtful debts has been recognised in the Group's balance sheet. 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 the consolidated income statement for the period in which such a reversal takes place.

5. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of debt, which includes bank borrowings disclosed in note 30, convertible bonds disclosed in note 31 and equity, comprising share capital and reserves.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

6. FINANCIAL INSTRUMENTS

a. Categories of financial instruments

	2008 RMB'000	2007 RMB'000
Financial assets		
Available-for-sale investments	**98,585**	500
Loans and receivables at amortised cost (including cash and cash equivalents)	**1,917,121**	2,473,830
Financial liabilities		
Liabilities at amortised cost	**1,490,150**	1,651,756
Liabilities designated as at fair value through profit and loss	**41,561**	237,083

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

Market risk

(i) Currency risk

Certain subsidiaries of the Company have foreign currency sales and purchases, which expose the Group to foreign currency risk. Approximately 26.6% (2007: 13.3%) of the Group's sales are denominated in currencies other than the functional currency of the group entity making the sale, whilst almost 20.7% (2007: 18.4%) of costs are denominated in currencies other than the functional currency of the group.

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

As a result of the volatile financial market in 2008, the management adjusted the sensitivity rate from 7% to 3%, which represent management's assessment of the reasonably possible change in exchange rates, for the purpose of assessing foreign currency risk. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 3% change in foreign currency rates.

At the balance sheet date, if exchange rates of RMB against USD and HKD had appreciated by 3% (2007: 7%) and all other variables were held constant, the Group's profit for the year would decrease by approximately RMB3,689,000 (2007: RMB21,506,000). 3% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates.

(ii) Interest rate risk

The Group is exposed to fair value interest rate risk in relation primarily to fixed rate bank borrowings (see note 30 for details of these borrowings) and convertible bonds (see note 31 for details of the convertible bonds). The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need 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), convertible bonds (see note 31 for details of the convertible bonds), pledged bank deposits and bank balances (see note 25 for details of these pledged bank deposits and bank balances). It is the Group's policy to keep certain of its borrowings at floating rate of interests so as to minimise the fair value interest rate risk.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

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 pledged bank deposits, bank balances and cash, variable interest rates bank borrowings and convertible bonds at the balance sheet date.

A 75 basis point increase or decrease is used which represents management's assessment of the reasonably possible change in interest rates. If interest rate had been 75 basis points higher/lower and all other variables were held constant, the Group's post-tax profit for the year would increase/decrease by approximately RMB1,352,000 (2007: RMB5,631,000). This is mainly attributable to the Group's exposure to interest rates on its variable rate borrowings, convertible bonds, pledged bank deposits and bank balances.

6. FINANCIAL INSTRUMENTS – continued

b. Financial risk management objectives and policies – continued

Market risk – continued

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

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

Equity price sensitivity

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

Convertible bonds

	Increase (decrease) in profit for the year	
	2008	2007
	RMB'000	RMB'000
Change in underlying share price of the Company inputted to the valuation model and all other variables held constant		
Increased by 30%	**(67)**	(38,476)
Decreased by 30%	**21**	26,116

Available-for-sale investment

	Increase (decrease) in equity for the year	
	2008	2007
	RMB'000	RMB'000
Change in underlying share price of available-for-sale investments		
Increased by 30%	**29,575**	—
Decreased by 30%	**(29,575)**	—

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

6. FINANCIAL INSTRUMENTS – continued

b. Financial risk management objectives and policies – continued

Credit risk

As at 31 December 2008, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge obligations by the counterparties or debtors is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated balance sheet.

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

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

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

6. FINANCIAL INSTRUMENTS – continued

b. Financial risk management objectives and policies – continued

Liquidity risk

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

The Group relies on bank borrowings as a significant source of liquidity. As at 31 December 2008, the Group has available unutilised banking facilities of approximately RMB715,000,000 (2007: RMB310,000,000).

Liquidity risk tables

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities as at 31 December 2008 and 2007. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest dates on which the Group can be required to pay. The tables include both interest and principal cash flows.

At 31 December 2008

	Weighted average interest rate %	Less than 30 days RMB'000	31-60 days RMB'000	61-90 days RMB'000	91-360 days RMB'000	Total undis-counted cash flow RMB'000	Carrying amount RMB'000
Trade and other payables	—	241,375	21,452	47,377	59,614	369,818	369,818
Amounts due to directors	—	48	—	—	—	48	48
Amount due to a related company	—	827	—	—	—	827	827
Amount due to a minority shareholder	—	1,718	—	—	—	1,718	1,718
Bank borrowings	6.46	—	4,951	28,284	1,124,554	1,157,789	1,117,739
Convertible bonds	1.00	—	—	—	36,057	36,057	41,561
		243,968	26,403	75,661	1,220,225	1,566,257	1,531,711

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

6. FINANCIAL INSTRUMENTS – continued

b. Financial risk management objectives and policies – continued

At 31 December 2007

	Weighted average interest rate	Less than 30 days	31-60 days	61-90 days	91-360 days	Total undis-counted cash flow	Carrying amount
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade and other payables	—	223,093	101,165	26,538	96,061	446,857	446,857
Amounts due to directors	—	335	—	—	—	335	335
Amount due to a related company	—	2,844	—	—	—	2,844	2,844
Bank borrowings	6.09	130,660	149,886	109,019	841,056	1,230,621	1,201,720
Convertible bonds	1.00	—	—	—	185,128	185,128	237,083
		356,932	251,051	135,557	1,122,245	1,865,785	1,888,839

c. Fair value

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

- the fair value of financial assets with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices;
- the fair value of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as input; and
- fair value of convertible bonds is determined by using the binomial model as disclosed in note 31.

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

7. SEGMENT INFORMATION

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

8. REVENUE

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

9. OTHER INCOME

	2008	2007
	RMB'000	RMB'000
Interest income earned on bank balances and bank deposits	**19,705**	51,941
Sales of scrap materials	**45,510**	34,403
Sundry income	**3,705**	4,241
Cash discounts received from suppliers	**—**	11,924
Gain on disposal of property, plant and equipment	**—**	119
	68,920	102,628

10. GOVERNMENT GRANTS

Government grants represent incentive subsidies received by the Group from The People's Government of Xinghua Municipality 興化市人民政府 for technology improvement and environmental protection during the years ended 31 December 2008 and 2007. For the government grants where there were specific conditions attached to the grants, the Group recognised the grants of RMB24,000,000 (2007: RMB8,934,000) in the consolidated income statement when it fulfills all the conditions specified in the grant notice. For the government grants that do not have any specific conditions attached, an amount of RMB41,840,000 (2007: RMB2,348,000) was recognised in the consolidated income statement when the grants were received.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

11. FINANCE COSTS

	2008	2007
	RMB'000	RMB'000
Interest on:		
Bank loans wholly repayable within five years	**89,986**	69,043
Note receivables discounted	**13,822**	20,700
	103,808	89,743

12. GAIN ON DEREGISTRATION OF A SUBSIDIARY

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

	2008
	RMB'000
Net liabilities	
Accounts payables	**3,042**
Other payables	**314**
Minority interests	**42**
Gain on deregistration	**3,398**

13. INCOME TAX EXPENSE

	2008	2007
	RMB'000	RMB'000
The charge comprises:		
Current tax		
Current year	**98,558**	64,593
Deferred taxation (note 21)	**(12,605)**	—
	85,953	64,593

13. INCOME TAX EXPENSE – continued

The tax charge in respect of the current year represents income tax in the PRC which is calculated at the prevailing tax rate of 25% (2007: 33%) on the taxable income of the group entities in the PRC.

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

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

On 16 March 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations changed the tax rate from 33% to 25% for certain subsidiaries of the Company from 1 January 2008.

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

	2008	2007
	RMB'000	RMB'000
Profit before tax	**628,351**	513,414
Tax at the PRC tax rate of 25% (2007: 33%)	**157,088**	169,427
Tax effect of fair value adjustment on the convertible bonds not taxable for tax purposes	**(6,226)**	(25,382)
Tax effect of expenses not deductible for tax purposes	**22,654**	15,422
Tax effect of income not taxable for tax purposes	**(24,225)**	(11,859)
Tax effect of tax relief/tax exemption	**(58,051)**	(88,263)
Recognition of deferred tax assets previously not recognised	**(8,237)**	—
Tax effect of deductible temporary differences not recognised	**—**	4,041
Others	**2,950**	1,207
Tax charge for the year	**85,953**	64,593

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For the year ended 31 December 2008

14. PROFIT FOR THE YEAR

	2008	2007
	RMB'000	RMB'000
Profit for the year has been arrived at after charging:		
Staff cost, including directors' remuneration (note 15)		
Salaries, wages and other benefits	**250,477**	222,092
Retirement benefits scheme contributions (note 36)		
Current year	**7,195**	3,515
Overprovision in prior year	**—**	(1,331)
Total staff costs	**257,672**	224,276
Impairment loss recognised on trade and other receivables	**21,826**	4,328
Amortisation of prepaid lease payments	**2,942**	2,485
Auditor's remuneration	**1,818**	1,941
Cost of inventories recognised as an expense	**2,567,757**	2,076,112
Depreciation for property, plant and equipment	**224,592**	178,612
Loss on disposal of property, plant and equipment	**10,135**	—
Research and development expenditure	**16,539**	20,914
Net foreign exchange loss	**9,289**	31,189

15. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Directors

The emoluments paid or payable to each of 12 (2007: 12) directors are as follows:

	2008	2007
	RMB'000	RMB'000
Fees	**3,507**	3,842
Salaries and other allowances	**7,907**	8,411
Bonus (note)	**22,925**	17,038
Retirement benefits scheme contributions	**4**	12
	34,343	29,303

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 2008

	Fee RMB'000	Salary and other allowance RMB'000	Bonus RMB'000	Retirement benefits scheme contributions RMB'000	Total RMB'000
Executive Directors					
LIU Jinlan	—	3,165	7,475	1	10,641
LIU Xiang	—	1,404	6,000	1	7,405
TAO Jinxiang	—	1,396	6,000	1	7,397
WU Xinghua	—	610	—	—	610
CAO Junyong	—	628	150	—	778
ZHANG Yuxiao	—	704	3,300	1	4,005
Non-executive Directors					
LU Guangming George	1,777	—	—	—	1,777
WU Xiaohui	346	—	—	—	346
ZHOU Mingchen	346	—	—	—	346
Independent Non-executive Directors					
William John SHARP	346	—	—	—	346
KOO Fook Sun, Louis	346	—	—	—	346
XU Chunhua	346	—	—	—	346
	3,507	7,907	22,925	4	34,343

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15. DIRECTORS' AND EMPLOYEES' EMOLUMENTS – continued

Directors – continued

Year ended 31 December 2007

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

15. DIRECTORS' AND EMPLOYEES' EMOLUMENTS – continued

Employees

Of the five individuals with the highest emoluments in the Group, there were four (2007: three) directors of the Company whose emoluments are included in the disclosures above. The emoluments of the remaining one (2007: two) individuals were as follows:

	2008	2007
	RMB'000	RMB'000
Salaries and other allowances	**298**	316
Bonus	**3,890**	6,320
Retirement benefits scheme contributions	**1**	4
	4,189	6,640

Their emoluments are within the following bands:

	2008	2007
	(Number of employees)	
HKD3,000,001 to HKD3,500,000	—	1
HKD3,500,001 to HKD4,000,000	—	1
HKD4,000,001 to HKD5,000,000	**1**	—
	1	2

None of the directors waived any emoluments for both years.

16. DIVIDEND

	2008	2007
	RMB'000	RMB'000
Dividend recognised as distribution during the year:		
Final dividend paid for 2007 - 6.0 HK cents per share (2007: final dividend paid for 2006 - 4.0 HK cents per share)	**74,043**	50,305
Final dividend proposed, 8.0 HK cents (2007: 6.0 HK cents) per share	**97,754**	74,043

A final dividend for the year ended 31 December 2008 of 8.0 HK cents (2007: 6.0 HK cents) per share has been proposed by the Directors and is subject to approval by its shareholders in the forthcoming annual general meeting.

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17. EARNINGS PER SHARE

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

	2008	2007
	RMB'000	RMB'000
Earnings		
Earnings for the purpose of basic earnings per share	**418,219**	345,412
Effect of dilutive potential ordinary shares:		
Fair value adjustment on the convertible bonds	**(24,903)**	(76,915)
Exchange realignment on the convertible bonds	**(15,145)**	(38,083)
Earnings for the purposes of diluted earnings per share	**378,171**	230,414
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,386,177**	1,329,949
Effect of dilutive potential ordinary shares on convertible bonds	**103,147**	105,753
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,489,324**	1,435,702

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 2007	409,521	1,600	1,505,593	10,617	22,184	454,252	2,403,767
Additions	—	—	34,248	5,849	6,142	328,254	374,493
Reclassifications	138,205	—	369,385	—	—	(507,590)	—
Disposals	—	—	(922)	(89)	—	—	(1,011)
At 31 December 2007	547,726	1,600	1,908,304	16,377	28,326	274,916	2,777,249
Additions	21,163	—	18,389	4,549	1,961	692,492	738,554
Reclassifications	144,878	—	197,933	1,557	—	(344,368)	—
Disposals/write-off	—	(1,600)	(38,850)	—	(1,048)	—	(41,498)
At 31 December 2008	**713,767**	**—**	**2,085,776**	**22,483**	**29,239**	**623,040**	**3,474,305**
DEPRECIATION							
At 1 January 2007	71,735	400	436,066	6,435	10,110	—	524,746
Provided for the year	23,349	800	147,917	2,228	4,318	—	178,612
Eliminated on disposals	—	—	(292)	(36)	—	—	(328)
At 31 December 2007	95,084	1,200	583,691	8,627	14,428	—	703,030
Provided for the year	32,807	400	184,463	3,077	3,845	—	224,592
Eliminated on disposals/write-off	—	(1,600)	(26,713)	—	(493)	—	(28,806)
At 31 December 2008	**127,891**	**—**	**741,441**	**11,704**	**17,780**	**—**	**898,816**
CARRYING VALUES							
At 31 December 2008	**585,876**	**—**	**1,344,335**	**10,779**	**11,459**	**623,040**	**2,575,489**
At 31 December 2007	452,642	400	1,324,613	7,750	13,898	274,916	2,074,219

The property certificate for the building of the office in Shanghai, PRC with carrying amount of approximately RMB20,600,000 has not been obtained as at 31 December 2008.

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	20 to 30 years
Leasehold improvement	Over the term of the lease
Plant, machinery and equipment	2 to 10 years
Furniture and fixtures	5 years
Motor vehicles	5 years

19. PREPAID LEASE PAYMENTS

	RMB'000
At 1 January 2007	120,270
Charge to consolidated income statement	(2,485)
At 31 December 2007	117,785
Transfer from deposits paid for purchase of property, plant and equipment	68,539
Charge to consolidated income statement	(2,942)
At 31 December 2008	**183,382**

Analysed as:

	2008	2007
	RMB'000	RMB'000
Non-current assets	**179,524**	115,298
Current assets	**3,858**	2,487
	183,382	117,785

Prepaid lease payments are amortised on a straight-line basis over the lease terms from 50 to 70 years as stated in the land use rights certificates, except for the land use rights certificate of the office in Shanghai, PRC with carrying amount of approximately RMB68,082,000 which have not been obtained as at 31 December 2008.

20. AVAILABLE FOR SALE INVESTMENTS

	2008 RMB'000	2007 RMB'000
Listed investments	**98,585**	500

The above investments represent investment in listed equity securities in the PRC. The investments provide the Group with an opportunity for return through dividend income and gain on disposal.

At 31 December 2008 and 2007, the investment is stated at its approximate fair value with reference to the bid price quoted in the active market.

21. DEFERRED TAX ASSETS

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

	Excess of accounting depreciation over tax depreciation RMB'000	**Allowance for doubtful debts** RMB'000	**Total** RMB'000
At 1 January 2007 and 31 December 2007	—	—	—
Credit to consolidated income statement for the year	8,576	4,029	12,605
At 31 December 2008	**8,576**	**4,029**	**12,605**

At the balance sheet date, the Group has deductible temporary difference of approximately RMB67,394,000 (2007: RMB34,127,000) in relation to excess of accounting depreciation over tax depreciation and allowance for doubtful debts for offset against future taxable profits. A deferred tax asset has been recognised in respect of approximately RMB66,538,000 (2007: Nil) of such deductible temporary difference. No deferred tax asset has been recognised in respect of the remaining RMB856,000 (2007: RMB34,127,000) as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilized.

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

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22. DEPOSITS PAID FOR ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT

	2008	2007
	RMB'000	RMB'000
Deposit paid for the acquisition of buildings	**—**	94,433
Deposit paid for the acquisition of other property, plant and equipment	**11,870**	95,861
	11,870	190,294

23. INVENTORIES

	2008	2007
	RMB'000	RMB'000
Raw materials	**333,874**	170,064
Work in progress	**25,745**	30,849
Finished goods	**151,366**	87,811
	510,985	288,724

24. TRADE AND OTHER RECEIVABLES

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

	2008	2007
	RMB'000	RMB'000
Trade receivables		
0 - 90 days	**415,486**	706,665
91 - 180 days	**217,723**	115,024
181 - 360 days	**183,528**	98,824
Over 360 days	**21,768**	38,827
	838,505	959,340
Note receivables		
0 - 90 days	**298,682**	241,199
91 - 180 days	**247,009**	228,733
	545,691	469,932
Advances to raw material suppliers	**125,555**	137,581
Spools	**2,479**	20,381
Excess payment for purchase of properties	—	29,166
Value-added tax receivables	**10,846**	—
Other receivables and prepayments	**42,696**	26,279
Less: Allowance for doubtful debts	**(120)**	(120)
	181,456	213,287
	1,565,652	1,642,559

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:

	2008	**Equivalent to**	2007	Equivalent to
	'000	**RMB'000**	'000	RMB'000
USD	**8,626**	**58,955**	8,195	59,861
HKD	—	—	356	333

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24. TRADE AND OTHER RECEIVABLES – continued

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

Movement in the allowance for doubtful debts are as follows:

	2008	2007
	RMB'000	RMB'000
Balance at 1 January	**10,531**	6,203
Impairment loss recognised during the year	**21,826**	4,328
Balance at 31 December	**32,357**	10,531

The Group reviews all receivables overdue more than 1 year for allowance for doubtful debt, amounting to approximately RMB54,005,000 as at 31 December 2008 (2007: RMB49,238,000) because historical experience showed that receivables that are past due beyond 1 year generally have recoverability problems. And the Group will review the recoverability of long aged receivables on a case by case basis. Trade receivables are provided for based on estimated irrecoverable amounts of discounted cash flow, determined by reference to past default experience. Other receivables are provided for based on estimated irrecoverable amount of discounted cash flow.

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

Included in the Group's trade receivables are debtors with a carrying amount of RMB205,296,000 at 31 December 2008 (2007: RMB137,651,000) which are past due at the balance sheet 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 270 days at 31 December 2008. No other receivables are past due at the balance sheet date.

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

	2008	2007
	RMB'000	RMB'000
181-360 days	**183,528**	98,824
Over 360 days	**21,768**	38,827
	205,296	137,651

25. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH

Bank balances and cash comprise cash held by the Group and short-term bank deposits, with an original maturity of three months or less. The bank balances carry interest rates ranging from 0.02% to 4.72% (2007: 0.72% to 3.68%) for the year. The pledged bank deposits carry variable interest rate ranging from 3.33% to 4.14% (2007: 3.33% to 4.14%). The pledged bank deposits will be released upon the settlement of the relevant bank borrowings.

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

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

	2008	**Equivalent to**	2007	Equivalent to
	'000	**RMB'000**	'000	RMB'000
HKD	**56,079**	**49,138**	557,006	521,629
USD	**13,677**	**93,477**	2,145	15,668

26. TRADE AND OTHER PAYABLES

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

	2008	2007
	RMB'000	RMB'000
Trade payables		
0 - 90 days	**169,379**	139,113
91 - 180 days	**51,311**	30,476
181 - 360 days	**6,971**	9,220
Over 360 days	**1,333**	5,686
	228,994	184,495
Value-added tax payables and other tax payables	**9,555**	28,046
Accrued staff costs	**90,324**	100,077
Payables for purchase of property, plant and equipment	**98,997**	110,719
Advance from customers	**631**	25,239
Accrued pension	**13,629**	13,629
Accrued interest expense	**2,288**	2,105
Accrued electricity charges	**17,581**	25,777
Others	**10,615**	10,055
	243,620	315,647
	472,614	500,142

26. TRADE AND OTHER PAYABLES – continued

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

	2008 '000	**Equivalent to RMB'000**	2007 '000	Equivalent to RMB'000
HKD	**1,420**	**1,244**	4,030	3,774
USD	**210**	**1,435**	1,142	8,342

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

27. AMOUNTS DUE TO DIRECTORS

	2008 RMB'000	2007 RMB'000
WU Xinghua	**—**	208
TAO Jinxiang	**—**	56
ZHANG Yuxiao	**48**	71
	48	335

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

28. AMOUNT DUE TO A RELATED COMPANY

The amount represents hotel and catering service fee payable to Xinghua Municipality Xingda Xiu Yuan Hotel Co., Ltd. 興化市興達綉園酒店有限公司 ("Xingda Xiu Yuan"), which is trading in nature. It is unsecured, non-interest bearing and repayable on demand.

29. AMOUNT DUE TO A MINORITY SHAREHOLDER

The amount represents union fees payable to Labour Union of Jiangsu Xingda Steel Tyre Cord Co., Ltd. ("Xingda Labour Union") which is non-trading in nature.

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

30 BANK BORROWINGS

	2008 RMB'000	2007 RMB'000
Bank loans	**1,117,739**	1,201,720
Secured	**32,739**	41,720
Unsecured	**1,085,000**	1,160,000
	1,117,739	1,201,720

The borrowings are repayable within 12 months and are shown under current liabilities.

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:

	2008 RMB'000	2007 RMB'000
Bank borrowings comprise:		
Fixed-rate borrowings	**852,739**	1,101,720
Variable-rate borrowings	**265,000**	100,000
	1,117,739	1,201,720

	2008	2007
Effective interest rate:		
Fixed-rate borrowings	**4.54% to 9.20%**	5.43% to 8.69%
Variable-rate borrowings	**6.24% to 6.72%**	5.84%

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30 BANK BORROWINGS – continued

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

	2008 '000	**Equivalent to RMB'000**	2007 '000	Equivalent to RMB'000
USD	**4,790**	**32,738**	5,711	41,717

During the year, the Group obtained new loans amounting to approximately of RMB3,297,998,000 (2007: RMB2,016,760,000). The loans bear interest at market rates. The proceeds were used to finance daily working capital.

Bank borrowings were secured by the Group's bank deposits with a carrying value of approximately RMB33,880,000 (2007: RMB42,676,000).

31. CONVERTIBLE BONDS

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

	2008		2007	
	USD'000	**RMB'000**	USD'000	RMB'000
At 1 January	**32,457**	**237,083**	95,955	749,284
Exchange realignment	**—**	**(15,145)**	—	(38,083)
Interest payment	**(332)**	**(2,286)**	(540)	(3,946)
Changes of fair value	**(3,634)**	**(24,903)**	(10,893)	(76,915)
Conversion of the bonds	**—**	**—**	(52,065)	(393,257)
Redemption of the bonds	**(22,410)**	**(153,188)**	—	—
At 31 December	**6,081**	**41,561**	32,457	237,083

On 7 May 2005, 29 December 2005 and 18 January 2007, the Company issued convertible bonds (referred to as the "Convertible Bonds" in this note) for an aggregate principal amount of approximately USD30,400,000 ("First Tranche"), USD19,667,000 and USD3,933,000 (together known as "Second Tranche"), respectively, to two independent third parties who are entitled to interest payable at 1% per annum.

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

31. CONVERTIBLE BONDS – continued

The terms of conversion are as follows:

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

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

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

The effective interest rate of the Convertible Bonds is ranging from 4.30% to 4.42% (2007: 5.10% to 5.51%) per annum.

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

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

On 18 April 2008, the Company received a notice given by one of the Transferred First Tranche bondholders to extend the maturity date for a period of one year to 6 May 2009. The outstanding principal amount of this Transferred First Tranche bond is USD5,257,058.

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31. CONVERTIBLE BONDS – continued

On 6 May 2008 and 22 December 2008, the Company received notices given by Tetrad Ventures Pte. Ltd. ("Tetrad"), a First and Second Tranche bondholder, to redeem on the maturity date an aggregate principal amount of USD204,804 of the First Tranche Bond and USD19,667,000 of the Second Tranche Bond respectively, being all the outstanding principal amount of the First Tranche and Second Tranche, at the redemption amount of USD230,942 and USD22,178,780, respectively. The Company shall also pay Tetrad an amount of USD34,169 and USD194,511, being all the outstanding and unpaid interest accrued on the First Tranche Bond and Second Tranche Bond up to and including the maturity date.

Upon the said redemption becoming effective, the outstanding principal of the convertible bonds has been reduced from USD25,128,529 to USD5,257,058.

The outstanding Convertible Bonds were fair valued by the directors using the binomial model with reference to a valuation report carried out by an independent valuer, Vigers Appraisal & Consulting Limited, on 31 December 2008 at approximately RMB41,561,000 (2007: RMB237,083,000). The outstanding principal balance of the Convertible Bonds as at 31 December 2008 are USD5,257,058 (2007: USD25,128,529). The gain on fair value adjustment on the Convertible Bonds amounting to approximately RMB24,903,000 (2007: RMB76,915,000) has been recognised in the consolidated income statement.

As at 31 December 2008, the assumptions adopted for the valuation of the Convertible Bonds are as follows:

(1) The estimation of risk free rate of 0.08% was made with reference to the yield of Exchange Fund Notes ("EFN") with same duration (i.e. 90 days and 182 days EFN) as the convertible notes.

(2) The estimation of volatility for the underlying share price has considered the historical price movement of the Company. A constant annual standard deviation on the price moment of 85% was applied throughout the Convertible Bond's life.

(3) No dividend yield was assumed throughout the life of the Convertible Bonds.

32. GOVERNMENT GRANTS

	RMB'000
At 31 December 2007	24,900
Credited to consolidated income statement	(24,000)
At 31 December 2008	**900**

The amounts represent government grants received to be used mainly for a technological advancement project which is expected to be completed in 2009. 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.

33. SHARE CAPITAL

	Number of shares	Amount HKD	Equivalent to RMB'000
Authorised:			
Ordinary shares of HKD0.10 each at 1 January 2007, 31 December 2007 and 31 December 2008	**3,000,000,000**	**300,000,000**	**301,410**
Issued and fully paid:			
At 1 January 2007	1,286,000,000	128,600,000	129,405
Issue of shares upon conversion of convertible bonds	121,504,693	12,150,469	11,748
Repurchase of shares (note)	(21,328,000)	(2,132,800)	(2,062)
At 31 December 2007, 1 January 2008 and 31 December 2008	**1,386,176,693**	**138,617,669**	**139,091**

Note:

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

34. OPERATING LEASE COMMITMENTS

The Group as lessee	**2008** **RMB'000**	2007 RMB'000
Minimum lease payments under operating leases during the year	**1,801**	2,200

As at 31 December 2008, the Group had no commitments (2007: RMB949,000 within one year) for future minimum lease payments under non-cancellable operating leases in respect of office premises and staff quarters.

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

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35. CAPITAL COMMITMENTS

	2008	2007
	RMB'000	RMB'000
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**53,753**	307,756

36. RETIREMENT BENEFIT SCHEME CONTRIBUTIONS

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

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

	2008	2007
	RMB'000	RMB'000
Retirement benefit scheme contributions		
Current year	**7,195**	3,515
Overprovision for prior year	**—**	(1,331)
	7,195	2,184

37. RELATED PARTY TRANSACTIONS

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

Name of related party	Nature of transaction	Notes	2008 RMB'000	2007 RMB'000
Xingda Xiu Yuan	Income from the provision of electricity	(a)	**365**	—
	Provision of hotel and catering services		**1,947**	3,075
Xingda Labour Union	Union fees	(b)	**4,613**	3,733

Notes:

(a) Xingda Xiu Yuan is a limited company whose equity interest is held as to 15% (2007: 49%) by Xingda Labour Union.

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

Details of the balances with related parties are set out in the consolidated balance sheet on pages 38 and 39 and notes 27, 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:

	2008 RMB'000	2007 RMB'000
Short-term benefits	**45,587**	33,091
Post-employment benefits	**11**	19
	45,598	33,110

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 2008 and 2007 are disclosed as follows:

Name of subsidiary	Place incorporation/ registration and operations	Issued and fully paid up share capital/ registered capital	Attributable equity interest held by the Group	Principal activities
Faith Maple International Ltd.	The British Virgin Islands	USD14,083	100%	Investment holding
Jiangsu Xingda Steel Tyre Cord Co., Ltd. 江蘇興達鋼簾綫股份有限公司 (note a)	PRC	RMB134,600,000	69.54%	Manufacture and distribution of radial tire cords and bead wires
Xinghua Municipality Lianxing Machinery Manufacturing Co., Ltd. 興化市聯興機械製造有限公司 (note b) (The Company was deregistered on 26 December 2008)	PRC	RMB3,000,000	66.06%	Assembly of plant, machinery and equipment
Shanghai Xingda Steel Tyre Cord Co., Ltd. 上海興達鋼簾綫有限公司 (note b, d)	PRC	RMB500,000	72.28%	Trading of radial tire cords and bead wires
Xingda International (Shanghai) Special Cord Co., Ltd. 興達國際（上海）特種簾綫有限公司 (note c)	PRC	USD12,000,000	100%	Investment holding
Jiangsu Xingda Special Cord Co., Ltd. 江蘇興達特種金屬複合綫有限公司 (note a)	PRC	USD60,000,000	96.95%	Manufacture of radial tire cords and bead wires

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

(a) sino-foreign equity joint venture
(b) domestic invested company
(c) wholly foreign owned enterprise
(d) upon deregistration of Xinghua Municipality Lianxing Machinery Manufacturing Co., Ltd. ("Xinghua Municipality Lianxing") on 26 December 2008, 10% of shares of Shanghai Xingda Steel Tyre Cord Co., Ltd. originally held by Xinghua Municipality Lianxing was transferred to Jiangsu Xingda Special Cord Co., Ltd at 26 December 2008. As a result, the effective interest held by the Group has been changed from 69.19% to 72.28% since that date.

Financial Summary

	Year ended 31 December				
	2004	2005	2006	2007	**2008**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Revenue	1,683,179	2,357,420	2,516,189	2,778,061	**3,488,518**
Cost of sales	(1,020,143)	(1,648,118)	(1,784,329)	(2,076,112)	**(2,567,757)**
Gross profit	663,036	709,302	731,860	701,949	**920,761**
Other income	29,703	57,676	73,555	102,628	**68,920**
Government grants	57,010	46,649	10,062	11,282	**65,840**
Selling and distribution expenses	(50,412)	(84,324)	(90,047)	(102,128)	**(139,488)**
Administrative expenses	(112,608)	(143,478)	(132,872)	(187,489)	**(212,175)**
Finance costs	(70,974)	(84,806)	(88,614)	(89,743)	**(103,808)**
(Loss) gain on fair value adjustment on the convertible bonds	—	(179,599)	(158,597)	76,915	**24,903**
Gain on deregistration of subsidiary	—	—	—	—	**3,398**
Loss on dilution of interest in a subsidiary	—	(824)	—	—	**—**
Profit before tax	515,755	320,596	345,347	513,414	**628,351**
Income tax (charge) credit	(117,671)	1,526	(478)	(64,593)	**(85,953)**
Profit for the year	398,084	322,122	344,869	448,821	**542,398**
Profit attributable to:					
Equity holders of the Company	185,911	116,171	194,235	345,412	**418,219**
Minority shareholders	212,173	205,951	150,634	103,409	**124,179**
	398,084	322,122	344,869	448,821	**542,398**
Dividend attributable to:					
Equity holders of the Company	12,219	15,721	18,627	50,305	**74,043**
Earnings per share					
Basic (RMB cent)	28.52	12.91	21.31	25.97	**30.17**
Diluted (RMB cent)	N/A	12.91	21.31	16.05	**25.39**

Financial Summary

	As at 31 December				
	2004	2005	2006	2007	**2008**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
ASSETS AND LIABILITIES					
Total assets	2,445,431	3,384,282	5,170,990	5,304,113	**5,438,419**
Total liabilities	(1,703,967)	(2,232,240)	(2,612,846)	(2,015,152)	**(1,681,145)**
	741,464	1,152,042	2,558,144	3,288,961	**3,757,274**
Equity attributable to equity holders of the Company	337,163	642,147	1,905,815	2,541,423	**2,885,599**
Minority interests	404,301	509,895	652,329	747,538	**871,675**
	741,464	1,152,042	2,558,144	3,288,961	**3,757,274**