# TAI-I INTERNATIONAL HOLDINGS LIMITED
# 台 一 國 際 控 股 有 限 公 司

*(Incorporated in the Cayman Islands with limited liability)*

*(Stock code: 1808)*

ANNUAL REPORT 2008

# CONTENTS

# Financial Highlights

## Comparison of Key Financial Figures for Two Years

| Unit: RMB'000 | **2008** | 2007 | Increase/ (decrease) Percent |
|---|---|---|---|
| | **For the year ended 31 December** | | |
| Revenue | **6,491,053** | 6,488,376 | 0.04 |
| Gross Profit | **9,253** | 130,422 | (92.91) |
| (Loss)/Profit before taxation | **(226,756)** | 124,342 | (282.36) |
| (Loss)/Profit for the year | **(208,426)** | 111,505 | (286.92) |
| (Loss)/Profit attributable to equity holders of the Company | **(208,426)** | 111,505 | (286.92) |
| Basic and diluted (loss)/earnings per share (RMB) | **(0.35)** | 0.19 | (284.21) |

## Turnover by Products

| | **For the year ended 31 December** | | | | | |
|---|---|---|---|---|---|---|
| | **2008** | | 2007 | | Increase/(decrease) | |
| Unit: RMB'000 | **Amount** | **%** | Amount | % | Amount | % |
| Sales of bare copper wires | **4,438,671** | **68.38** | 4,161,131 | 64.13 | 277,540 | 6.67 |
| Sales of magnet wires | **2,034,475** | **31.34** | 2,305,638 | 35.54 | (271,163) | (11.76) |
| Processing services | **17,907** | **0.28** | 21,607 | 0.33 | (3,700) | (17.12) |
| Total | **6,491,053** | **100.00** | 6,488,376 | 100.00 | 2,677 | 0.04 |

## Turnover by Geographical Region

| | **For the year ended 31 December** | | | | | |
|---|---|---|---|---|---|---|
| | **2008** | | 2007 | | Increase/(decrease) | |
| Unit: RMB'000 | **Amount** | **%** | Amount | % | Amount | % |
| Sales within China | **1,940,859** | **29.90** | 2,367,033 | 36.48 | (426,174) | (18.00) |
| Sales outside China* | **4,550,194** | **70.10** | 4,121,343 | 63.52 | 428,851 | 10.41 |
| Total | **6,491,053** | **100.00** | 6,488,376 | 100.00 | 2,677 | 0.04 |

* including indirect and direct export sales

# Corporate Information

## Board of Directors

**Executive Directors**
Huang Cheng-Roang *(Chairman)*
Lin Chi-Ta *(Chief Executive Officer)*
Huang Kuo-Feng
Du Chi-Ting

**Independent Non-executive Directors**
Kang Jung-Pao
Cheng Yang-Yi
Tsay Yang-Tzong
Yan Minghe
Atsushi Kanayama

## Company Secretary

Chan Yuen Ying, Stella *ACIS, ACS, HKIoD*

## Qualified Accountant

Choi Kai Ming, Raymond *ICAEQ, HKICPA*

## Authorised Representatives

Lin Chi-Ta
Chan Yuen Ying, Stella *ACIS, ACS, HKIoD*

## Compliance Adviser

Polaris Capital (Asia) Limited

## Audit Committee

Tsay Yang-Tzong *(Chairman)*
Cheng Yang-Yi
Kang Jung-Pao
Atsushi Kanayama
Yan Minghe

## Remuneration Committee

Lin Chi-Ta *(Chairman)*
Cheng Yang-Yi
Tsay Yang-Tzong
Atsushi Kanayama
Kang Jung-Pao
Yan Minghe

## Nomination Committee

Lin Chi-Ta *(Chairman)*
Kang Jung-Pao
Atsushi Kanayama
Tsay Yang-Tzong
Cheng Yang-Yi
Yan Minghe

## Auditor

KPMG

## Registered Office

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

## Principal Place of Business in Hong Kong

Room 1502, 15th Floor
The Chinese Bank Building
61-65 Des Voeux Road Central
Hong Kong

## Principal Place of Business in the PRC

No. 77 Dongpeng Avenue
Eastern District of Guangzhou Economic
and Technological Development Zone
Guangzhou
Guangdong Province
The PRC

# Corporate Information

## Principal Share Registrar and Transfer Office

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

## Hong Kong Branch Share Registrar and Transfer Office

Computershare Hong Kong Investor
Services Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

## Principal Bankers

Shenzhen Development Bank Co., Ltd.,
Guangzhou Branch, Yuexiu Sub-branch

Industrial and Commercial Bank of China,
Huangpu Sub-branch

## Stock Code

1808

## Company Website Address

www.tai-i-int.com

# Company Information

Tai-I International Holdings Limited ("Tai-I International" or the "Company") was incorporated in Cayman Islands on 20 April 2006, and was successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited ("the Stock Exchange") on 11 January 2007. The principal activities of the Company is investment holding. The principal activities of its subsidiaries (collectively known as the "Group") are the manufacturing and sales of bare copper wires and magnet wires.

The businesses of the Group began in 1997, and we have two principal subsidiaries, namely Tai-I Jiang Corp (Guangzhou) Co., Ltd. ("Tai-I Jiang Corp") and Tai-I Copper (Guangzhou) Co., Ltd., ("Tai-I Copper"). The manufacturing base of the Group is located in the Eastern District of the Guangzhou Economic and Technological Development Zone, Guangdong Province, the PRC and comprises production plants of bare copper wire and magnet wire. Currently, the Group has the capacity to produce about 180,000 tonnes of bare copper wire and 50,000 tonnes of magnet wire annually. The Group's vertically integrated business structure allows the Group to secure a stable supply (in terms of both quality and quantity) of the requisite principal raw material (i.e. bare copper wire made from Grade A copper cathodes) for its magnet wire production and increases the Group's overall production efficiency.

Bare copper wire is the principal raw material for the production of different types of copper cable and wire to be used in various industries (industries that use copper wire and cable). These industries include construction works, water and electricity works, motor, compressors, electrical appliances and electronic devices manufacturing, electric and power and telecommunication industries. Magnet wire is a principal component for the manufacturing of motors, transformers and coils. Hence, the demand for copper wire products (including bare copper wire and magnet wire) generally increases in line with the economic and industrial growth.

# Chronological of Events in 2008

## March

In March 2008, Tai-I Copper was granted the 2007 Outstanding Supplier Award by Shenzhen Boulder Electronic Co., Ltd.

## April

In April 2008, Tai-I Jiang Corp began its SCR system modification and capacity expansion plan. After completion in March 2009, a production capacity of 180,000 tonnes annually is achieved.

## June

In June 2008, Tai-I Copper passed the ISO/TS16949 certification.

## September

In September 2008, Tai-I Jiang Corp was accredited by Guangzhou Development Zone, Guangzhou Luogang District National Tax Bureau and Local Tax Bureau jointly as a Grade A Enterprise in Tax Paying Creditworthiness for the year.

## October

In October 2008, Tai-I Copper successfully developed magnet wire with corona resistance, and the product has passed the test of Shanghai Science and Technology Institute with its properties satisfying national standards.

## November

In November 2008, Tai-I Copper was awarded as "Outstanding Supplier" by Matsushita Wanbao.

# Chairman's Statement

On behalf of the Board of Directors ("Board") of Tai-I International Holdings Limited, I wish to sincerely extend my appreciation to each shareholder for its support to the Company. I hereby present the annual report of the Company and its subsidiaries for the year ended 31 December 2008.

## Financial Performance

For the year ended 31 December 2008, the Group recorded a revenue of approximately RMB6,491,053,000, and the loss for the year attributable to equity holders of the Company was approximately RMB208,426,000.

## Final Dividend

The Board did not propose a final dividend for the year ended 31 December 2008 (2007: HK 6 cents per ordinary share).

## Business Review

In the fourth quarter of 2008, copper price fluctuated widely under the impact of global financial crisis. LME copper price fell 54.26% from US$6,930/tonne on 11 September to US$3,170/tonne on 11 December, while Shanghai Future Exchange copper price fell 55.49% from RMB54,550/tonne of 11 September to RMB24,280/tonne. The economic development of China was significantly affected by the global financial crisis, with the industrial sector under severe impact particularly and market demand slumped. The Group continued to develop Southern China as its major market. With the help of our economy of scale, the Group maintained good and stable business relationship with upstream and downstream suppliers and customers, and sustained its leading position in Southern China.

During January to December 2008, the Group's sales volume of bare copper wires was approximately 84,391 tonnes, increased 10,207 tonnes comparing with 2007, while its sales was RMB4,438,671,000, increased RMB277,540,000 from that of 2007. The Group's sales volume of magnet wires was approximately 33,555 tonnes, decreased 3,365 tonnes comparing with 2007, while its sales was RMB2,034,475,000, decreased RMB271,163,000 from that of 2007.

## Prospects and Appreciation

Looking forward to 2009, the Group will continue to improve its operation through adjusting its copper purchasing and sales strategies and optimize its product mix. It will also actively capitalise on the supporting policies imposed by the government for stabilizing the markets and assisting enterprises, to promote our effectiveness, layout optimization and proprietary innovation capability and enhance our competitiveness. The Group will continue to devote its best endeavours in the pursuit of fruitful returns to shareholders.

On behalf of the Board, I hereby wish to thank the Group's customers, suppliers, business partners and banks for their support. I would also like to thank the management as well as the staff for their efforts and contributions to the Group.

By order of the Board
**Tai-I International Holdings Limited**
**Huang Cheng-Roang**
*Chairman*

Hong Kong, 16 April 2009

# Chief Executive Officer's Review

Dear Shareholders,

I hereby report the Group's operational results for 2008.

The Group strictly focused on its long-term development objectives. In 2008, we formulated and implemented our operation strategies. However, the Group was not unscathed in the financial crisis and considerable impact was felt. Nevertheless, the Group will use its sustaining effort and resilience to overcome the difficulty and achieve returns for shareholders.

The global financial crisis in the fourth quarter of 2008 also affected the non-ferrous metal industry of China, leading to significant changes in the industry's development environment and creating unprecedented challenges. Following the intensification of global financial crisis, major non-ferrous metal prices in the international market fell sharply since the mid-September 2008. By 11 December 2008, copper price in international market fell to USD3,170/tonne whereas the cyclical peak of copper price had reached USD8,940/tonne on 2 July 2008. Under the circumstances, the Group has been doing everything possible to overcome the difficulty and maintain a stable growth momentum.

## Expand capacity

The Group has commenced a production system modification plan since April 2008 to increase its bare copper wire production capacity. The modification plan has been completed in March 2009 and our annual capacity is increased by approximately 30,000 tonnes to achieve the scale of 180,000 tonnes per annum.

## Development of New products

Following China government's policies on energy saving and emission reduction and the market access standards for the promotion of energy saving and emission reduction, the Group successfully developed magnet wire with "corona resistance", an energy saving product, in October 2008. The product has passed the test of Shanghai Science and Technology Institute (上海科技研究所) and its properties fully satisfy the requirements of national standards. These high value added products are in line with government's industry policies and at the same time strengthened our competitiveness. They will further ensure the Group's revenue and profit.

## Enhance product quality control systems

Apart from the implementation of ISO 9001 quality control system and ISO 14001 environment management system by the Group, in order to satisfy the requirements of automobile components on magnet wire products, the Group kept to implement ISO/TS 16949 quality control system during the year. The introduction of such quality control system will lift the Group's quality control standards to a higher level. It will also ensure and further enhance the competitive advantages of the Group's products.

## Formulation of various plans to cope with the impact of financial crisis proactively

In view of the impacts of the financial crisis, the Group adopted various proactive measures and achieved results.

## Customer Satisfaction Plans

The Group maintained close cooperation with the production team of reputable customers in the industry to enhance the Group's existing products, and expanded the research and development of products which better matched with the demand of customers and effectively enhanced customer retention.

# Chief Executive Officer’s Review

## Major plans for 2009

The effect of the current global financial crisis is still spreading and its impact was felt from nominal economy to the real economy. In view of the new challenges of domestic and overseas economic developments, the China government proposed a target of 8% growth in GDP for 2009 in its Central Economic Working Conference held in late 2008. Basing on this target, the domestic copper demand in 2009 is forecasted to grow by 8.8%, with a consumption volume of 5.20 million tonnes. Being the top copper consumption country in the world, China’s demand for copper is expected to maintain a considerable growth.

To cope with the challenges and opportunities further, and to strengthen our position in the copper wire industry, the Group proposed to implement the following future plans:

## Continue the R&D of energy saving and consumption reduction products, and develop the market of energy saving and consumption reduction products

Following policies imposed by the PRC government relating to energy saving and emission reduction, market access standards, mandatory efficiency standard and environmental standard regarding the promotion of energy saving and emission reduction were successively launched and implemented. The Group believes that energy saving and environmental protection products will be promoted with greater efforts. The Group will increase its effort in the development of energy saving products, such as magnet wires with features of “radio wave resistance”, “high frequency resistance” and “corona resistance”.

## Increase output and expand capacity

Under the influence of the financial crisis in the fourth quarter of 2008, the Group’s output has decreased. It is expected that the macro-economic conditions will become better in 2009 gradually, the Group will continue its effort in increasing output. The Group’s subsidiary Tai-I Jiang Corp has implemented a plan to expand its production capacity through modification of its existing facilities. After completing such modification, our capacity will increase by 30,000 tonnes per annum.

## Continue to implement customer satisfaction plans

The Group will maintain close cooperation with the production team of reputable customers in the industry, so as to enhance the Group’s existing products, expand the research and development of products better matching with the demand of customers and effectively enhance customer retention.

## Appreciation

On behalf of the management, I would like to express my sincere gratitude to the government authorities, clients, suppliers and business associates for their support, and to our management team and staff for their loyalty. Such support provides a sound foundation for our steady growth and outstanding results. I would also like to express my immense appreciation to our shareholders and friends from the financial sector for their unreserved support, which allowed us to become a new star in the investment market. The management hereby commit ourselves to maintaining our efforts to live up to the high expectations of our shareholders and business associates for even better results and returns.

By order of the Board
**Tai-I International Holdings Limited**
**Lin Chi-Ta**
*Chief Executive Officer*

Hong Kong, 16 April 2009

# Biographies of Directors and Senior Management

## Executive Directors

**Mr. Huang Cheng-Roang, alias Vincent Huang（黃正朗）**, aged 49, was appointed as the Chairman of the Company and an executive Director on 31 August 2006. Mr. Huang graduated from the Tunghai University and Jinan University with a bachelor's degree in law and a master degree in Business Administration respectively. He is also a research student of the Corporate Management Department of Jinan University. He worked in the legal field in the early years of his career. He worked in the internal legal department of Tai-I Electric Wire & Cable Co., Ltd.（台一國際股份有限公司）("Taiwan Tai-I") from 1995 to 1997. He joined the Group in 1997. Mr. Huang is a director and the head of the Strategic Planning Unit of both Tai-I Jiang Corp and Tai-I Copper. Mr. Huang did not hold any directorship in other listed public companies in the past three years.

Mr. Huang entered into a service contract with the Company for an initial term of three years commencing on 11 January 2007 which shall be terminated in accordance with the provisions of the service contract or by either party giving to the other not less than three months' prior notice in writing. He is subject to retirement by rotation at least once every three years and in accordance with the Articles of Association of the Company ("Articles"). Mr. Huang is entitled to an annual director's fee of RMB17,000. He is also entitled to a discretionary bonus provided that the total amount of bonus together with the total salary and benefits paid to all executive Directors in each year ending 31 December shall not exceed 2% of the audited consolidated net profit before non-recurring and extraordinary items of the Group for the relevant year (and before deducting such discretionary bonus, salary and benefits).

Mr. Huang does not have any relationship with any Director, senior management or substantial or controlling shareholders of the Company nor has any interests in the shares of the Company within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571, Laws of Hong Kong) ("SFO").

**Mr. Lin Chi-Ta（林其達）**, aged 52, was appointed as an executive Director and the Chief Executive Officer of the Company on 20 April 2006. He is also a member of each of the Remuneration Committee and the Nomination Committee of the Company. Mr. Lin graduated from the Southern Taiwan University of Technology specialising in Industrial Management. Mr. Lin had worked in ceramic products manufacturing factories before he joined Taiwan Tai-I in 1990. Mr. Lin was the head of the Yangmei Factory of Taiwan Tai-I, a factory principally engaged in the bare copper wire production, from 1990 to 1998. He joined the Group in 1999. Mr. Lin is currently the Chairman and General Manager of both Tai-I Jiang Corp and Tai-I Copper and is responsible for overseeing the production division of the Group. He is also the sole director of Tai-I Copper (BVI) Limited, a wholly-owned subsidiary of the Company. Mr. Lin did not hold any directorship in other listed public companies in the past three years.

Mr. Lin entered into a service contract with the Company for an initial term of three years commencing on 11 January 2007 which shall be terminated in accordance with the provisions of the service contract or by either party giving to the other not less than three months' prior notice in writing. He is subject to retirement by rotation at least once every three years and in accordance with the Articles. Mr. Lin is entitled to an annual director' fee of RMB17,000. He is also entitled to a discretionary bonus provided that the total amount of bonus together with the total salary and benefits paid to all executive Directors in each year ending 31 December shall not exceed 2% of the audited consolidated net profit before non-recurring and extraordinary items of the Group for the relevant year (and before deducting such discretionary bonus, salary and benefits).

Mr. Lin does not have any relationship with any Director, senior management or substantial or controlling shareholders of the Company nor has any interests in the shares of the Company within the meaning of Part XV of the SFO.

# Biographies of Directors and Senior Management

**Mr. Huang Kuo-Feng**（黃國峰）, aged 35, was appointed as an executive Director of the Company on 31 August 2006. Mr. Huang graduated from the Taipei College of Business specialising in Finance and Taxation. He worked in the Accounting Department of Taiwan Tai-I from 1997 to 1999. He then joined the Group in 1999 and worked in the Finance Department of Tai-I Jiang Corp. In 2003, Mr. Huang was promoted to the Manager of the Assets Management Team of the Finance Department of Tai-I Jiang Corp and Tai-I Copper He is also a director of each of Tai-I Jiang Corp and Tai-I Copper. Mr. Huang did not hold any directorship in other listed public companies in the past three years.

Mr. Huang entered into a service contract with the Company for an initial term of three years commencing on 11 January 2007 which shall be terminated in accordance with the provisions of the service contract or by either party giving to the other not less than three months' prior notice in writing. He is subject to retirement by rotation at least once every three years and in accordance with the Articles. Mr. Huang is entitled to an annual director's of RMB17,000. He is also entitled to a discretionary bonus provided that the total amount of bonus together with the total salary and benefits paid to all executive Directors in each year ending 31 December shall not exceed 2% of the audited consolidated net profit before non-recurring and extraordinary items of the Group for the relevant year (and before deducting such discretionary bonus, salary and benefits).

Mr. Huang does not have any relationship with any Director, senior management or substantial or controlling shareholders of the Company nor has any interests in the shares of the Company within the meaning of Part XV of the SFO.

**Mr. Du Chi-Ting**（杜季庭）, aged 56, was appointed as an executive Director of the Company on 31 August 2006. Mr. Du graduated from the Chungyu Institute of Technology specialising in Corporate Management. Before joining the Group in 2003, Mr. Du had worked in Taiwan Tai-I for over 26 years and gained extensive experience in production, domestic sales and marketing of cable and wire. Mr. Du is the Executive Deputy General Manager and the head of the Management Department of both Tai-I Jiang Corp and Tai-I Copper. Mr. Du did not hold any directorship in other listed public companies in the past three years.

Mr. Du entered into a service contract with the Company for an initial term of three years commencing on 11 January 2007 which shall be terminated in accordance with the provisions of the service contract or by either party giving to the other not less than three months' prior notice in writing. He is subject to retirement by rotation at least once every three years and in accordance with the Articles. Mr. Du is entitled to an annual director's fee of RMB7,000. He is also entitled to a discretionary bonus provided that the total amount of bonus together with the total salary and benefits paid to all executive Directors in each year ending 31 December shall not exceed 2% of the audited consolidated net profit before non-recurring and extraordinary items of the Group for the relevant year (and before deducting such discretionary bonus, salary and benefits).

Mr. Du does not have any relationship with any Director, senior management or substantial or controlling shareholders of the Company nor has any interests in the shares of the Company within the meaning of Part XV of the SFO.

# Biographies of Directors and Senior Management

## Independent Non-Executive Directors

**Mr. Kang Jung-Pao（康榮寶）**, aged 56, was appointed as an independent non-executive Director of the Company on 12 December 2006. He is also a member of each of the Audit Committee, the Remuneration Committee and the Nomination Committee of the Company. Mr. Kang graduated from Leonard N. Stern School of Business of the New York University with a degree of Doctor of Philosophy. He joined the Group in 2006. Mr. Kang is experienced in accounting and finance as he took up important positions in various financial organisations and listed companies in Taiwan before. He is an independent director of Shun On Electronic Co., Ltd., a GTSM (OTC) listed company in Taiwan and Go-In Engineering Co., Ltd., an emerging stock company in Taiwan. He is also an independent supervisor of Simplo Technology Co., Ltd., a GTSM (OTC) listed company in Taiwan and Monterey International Corp., a public company in Taiwan and a supervisor of Gintech Energy Corporation, a public company in Taiwan. Save as aforesaid, Mr. Kang did not hold any directorship in other listed public companies in the past three years.

Mr. Kang entered into a service contract with the Company for an initial term of two years commencing on 11 January 2007 which shall be terminated in accordance with the provisions of the appointment letter or by either party giving to the other not less than three months' prior notice in writing. He is subject to retirement by rotation at least once every three years and in accordance with the Articles. Mr. Kang is entitled to an annual director's fee of RMB212,000.

Mr. Kang does not have any relationship with any Director, senior management or substantial or controlling shareholders of the Company nor has any interests in the shares of the Company within the meaning of Part XV of the SFO.

**Mr. Cheng Yang-Yi（鄭洋一）**, aged 66, was appointed as an independent non-executive Director of the Company on 12 December 2006. He is also a member of each of the Audit Committee, the Remuneration Committee and the Nomination Committee of the Company. Mr. Cheng graduated from the Taiwan University and the Meijo University（名城大學）with a bachelor's degree and a doctorial degree in law respectively. He is a qualified lawyer in Taiwan and had been a professor in the law department of Fu Jen University and the Chinese Culture University. He joined the Group in 2006. Mr. Cheng is currently an independent director of each of Key Mouse Electronic Enterprise Co., Ltd, an emerging stock company, and Top High Image Corp., a GTSM (OTC) listed company in Taiwan. Save as aforesaid, Mr. Cheng did not hold any directorship in other listed public companies in the past three years.

Mr. Cheng entered into a service contract with the Company for an initial term of two years commencing on 11 January 2007 which shall be terminated in accordance with the provisions of the appointment letter or by either party giving to the other not less than three months' prior notice in writing. He is subject to retirement by rotation at least once every three years and in accordance with the Articles. Mr. Cheng is entitled to an annual director's fee of RMB212,000.

Mr. Cheng does not have any relationship with any Director, senior management or substantial or controlling shareholders of the Company nor has any interests in the shares of the Company within the meaning of Part XV of the SFO.

# Biographies of Directors and Senior Management

**Mr. Tsay Yang-Tzong**（蔡揚宗）, aged 55, was appointed as an independent non-executive Director of the Company on 12 December 2006. He is also a member of each of the Audit Committee, the Remuneration Committee and the Nomination Committee of the Company. Mr. Tsay graduated from the Taiwan University and the Cheng-Chi University with a bachelor's degree in Business Administration and a master degree in commerce respectively. He also obtained a degree of Doctor of Philosophy from the University of Maryland. He has been a professor of the department of accounting in the Taiwan University since 1993 and was the chairman of such department from 1997 to 2000. Mr. Tsay used to be a visiting scholar at the University of Toronto and the Tohoku University in Japan. He is a qualified government accountant and auditor in Taiwan, a Certified Public Accountant in Taiwan and a Certified Internal Auditor in the US. He joined the Group in 2006. Mr. Tsay is a supervisor of Chinese Television System Corp., being a public company in Taiwan, an independent supervisor of Cyberlink Co., being a listed company in Taiwan, an independent supervisor of Speed Tech Corp. and Shin Zu Shing Co., Ltd., all being GTSM (OTC) listed companies in Taiwan and an independent director of each of Kingpak Technology Inc., an emerging stock company in Taiwan, Alltek Technology Inc. and CastleNet Technology Inc., listed companies in Taiwan. Mr. Tsay has ever been a supervisor of each of Taiwan Tobacco and Liquor Corporation being public companies in Taiwan and Chang Hwa Commercial Bank Ltd. being a listed company in Taiwan. Mr. Tsay was an independent non-executive director of Asia Pacific Wire and Cable Corporation Limited, a company quoted on the Pink Sheets and engaged in the cable and wire industry, from March 2005 to June 2006. Save as aforesaid, Mr. Tsay did not hold any directorship in other listed public companies in the past three years.

Mr. Tsay entered into a service contract with the Company for an initial term of two years commencing on 11 January 2007 which shall be terminated in accordance with the provisions of the appointment letter or by either party giving to the other not less than three months' prior notice in writing. He is subject to retirement by rotation at least once every three years and in accordance with the Articles. Mr. Tsay is entitled to an annual director's fee of RMB212,000.

Mr. Tsay does not have any relationship with any Director, senior management or substantial or controlling shareholders of the Company nor has any interests in the shares of the Company within the meaning of Part XV of the SFO.

**Mr. Yan Minghe**（顏鳴鶴）, aged 81, was appointed as an independent non-executive Director of the Company on 12 December 2006. He is also a member of each of the Audit Committee, the Remuneration Committee and the Nomination Committee of the Company. Mr. Yan graduated from Wuhan University majoring in Electrical Engineering and has been a power production technology senior engineer in the PRC since 1990. He worked in the Guangdong Power Bureau from 1952 to 1994. He was the vice president of the Guangdong Power Bureau before his retirement. He is experienced in domestic and international power and cable technologies. He joined the Group in 2006. Currently, he is the Honourable Officer of the Gas Turbine Power Generation Special Committee in the PRC and the Guangdong Society for Electrical Engineering. He is also the consultant to China Huaneng Group which is a central-government-administered state-owned enterprise. The major businesses of China Huaneng Group include, but not limited to, the investment, construction, operation and management of power generation assets and the production and sale of power and heat; and the investment, construction and operation of business in information technology, transportation, renewable energy, environment protection, trade and fuel. Mr. Yan did not hold any directorship in other listed public companies in the past three years.

# Biographies of Directors and Senior Management

Mr. Yan entered into a service contract with the Company for an initial term of two years commencing on 11 January 2007 which shall be terminated in accordance with the provisions of the appointment letter or by either party giving to the other not less than three months' prior notice in writing. He is subject to retirement by rotation at least once every three years and in accordance with the Articles. Mr. Yan is entitled to an annual director's fee of RMB212,000.

Mr. Yan does not have any relationship with any Director, senior management or substantial or controlling shareholders of the Company nor has any interests in the shares of the Company within the meaning of Part XV of the SFO.

**Mr. Atsushi Kanayama**（金山敦）, aged 50, was appointed as an independent non-executive Director of the Company on 12 December 2006. He is also a member of each of the Audit Committee, the Remuneration Committee and the Nomination Committee of the Company. Mr. Kanayama obtained a bachelor's degree in Veterinary Medicine from Kitasato University in Japan and a Certificate in Chinese language from Zhengzhou University in the PRC. He worked in Mitsubishi Cable Industries, Ltd., a listed company in Japan principally engaged in the wire and cable and wiring system business and Dai 1 Denko Co., Ltd., both being companies in the cable and wire industry, from 1998 to 1998. Since 1999, he has been working in Akashi Seisen Co., Ltd., a Japanese company principally engaged in the manufacture of copper wire. He is currently the manager of the manufacturing department of Akashi Seisen Co., Ltd.. Mr. Kanayama has gained extensive experience in the management and production technology of bare copper wire and the business planning and sales management of magnet wire through his years working in the cable and wire industry. He joined the Group in 2006. Mr. Kanayama did not hold any directorship in other listed public companies in the past three years.

Mr. Kanayama entered into a service contract with the Company for an initial term of two years commencing on 11 January 2007 which shall be terminated in accordance with the provisions of the appointment letter or by either party giving to the other not less than three months' prior notice in writing. He is subject to retirement by rotation at least once every three years and in accordance with the Articles. Mr. Kanayama is entitled to an annual director's fee of RMB212,000.

Mr. Kanayama does not have any relationship with any Director, senior management or substantial or controlling shareholders of the Company nor has any interests in the shares of the Company within the meaning of Part XV of the SFO.

# Biographies of Directors and Senior Management

## Senior Management

**Mr. Chiu Sheng-Jung**（邱盛榮）, aged 48, graduated from the Nanya Institute of Technology specializing in Textile Engineering. During the period from 1980 to 2002, Mr. Chiu worked in Taiwan Tai-I and obtained experience in various different departments, including the Production Department, the Quality Control Department and the Sales Department. He joined the Group in 2002 and he is the Vice General Manager of the Sales and Marketing Department of Tai-I Jiang Corp.

**Ms. Wang Hsueh-Hua**（王雪花）, aged 59, graduated from the Taiwan University with a master degree in Accounting. She joined the Group in 2003 and she is the Vice General Manager of the Finance Department of both Tai-I Jiang Corp and Tai-I Copper. Ms. Wang is experienced in the field of finance and accounting.

**Mr. Tai Wen-Lu**（戴文錄）, aged 51, graduated from the Ta Hwa Institute of Technology specialising in Food Production Engineering. He joined the Group in 2004 and he is the Vice General Manager of the Sales and Marketing Department of Tai-I Copper. Mr. Tai has extensive experience in management.

**Mr. Lin Yu-Chau**（林于超）, aged 45, graduated from the Taitung Institute of Technology with a master degree in Materials Engineering. Before joining the Group in 1998, Mr. Lin was employed by Taiwan Tai-I as the supervisor of the Production Technology Department of Taiwan Tai-I. He is the Assistant Manager of the Production Department of Tai-I Jiang Corp. He had worked as an engineer for a number of years.

**Mr. Sadahiko Kawashima**（革島貞彥）, aged 64, graduated from the Kyoto University, Japan, in 1968, with a bachelor's degree in Jurisprudence. Mr. Kawashima had worked in the non-ferrous metal business field for more than 36 years. He was seconded to join the Group from Sumitomo Corporation in 2001 as a special adviser of the Group on the procurement of copper cathodes and copper-related matters. Since 2003, Mr. Kawashima became the Adviser of the Copper Committee and has taken charge of the procurement and hedging divisions of the Copper Committee.

**Mr. Choi Kai Ming, Raymond**（蔡繼明）, aged 60, the qualified accountant of the Company. He has more than 31 years of extensive professional and commercial experience, in PRC affairs in particular. He started his accounting profession as a Management Consultant at Pricewaterhouse. He was the Chief Auditor of CLP Holdings Limited, a listed company on the Main Board of the Stock Exchange. Mr. Choi began his own practice in 1993. He was a partner of Profectus & Co., an accounting firm established in Hong Kong.

**Ms. Chan Yuen Ying, Stella**（陳婉縈）, aged 37, was appointed as the company secretary of the Company on 11 April 2008. Ms. Chan is an associate member of the Institute of Chartered Secretaries and Administrators and an associate member of the Hong Kong Institute of Chatered Secretaries. She is also a member of the Hong Kong Institute of Directors. Ms. Chan has over 10 years experience in handling listed company secretarial matters.

# Business Review

## Overview

### Industry Overview

In 2008, factors such as energy shortage, escalating raw material prices and financial crisis led to a slow down in both global production and consumption of refined copper. In view of the impact of financial crisis in the fourth quarter of 2008, the GDP growth of China in 2009 is expected to be 8.0% or down to around 7.5%. In order to achieve the macro-economic control target of maintaining a 8% growth, the government of China has launched policies to expand domestic demand in November 2008, under which RMB4,000 billion will be invested by 2010 to stimulate domestic consumption power. The policies will be implemented through 10 driving initiatives along three main axes including taking people's livelihood as the core, focusing on rural construction and stressing on technology development. Besides increasing the said RMB4,000 billion investments to expand domestic demand, the government has set up an additional budget of RMB40 billion to stimulate consumption, of which RMB20 billion will be used to stimulate rural consumption under the subsidizing policy of "Home Appliances to Rural Area" for the expansion of domestic demand. According to the preliminary estimation of the Ministry of Commerce of China, the relevant consumption in rural area may exceed RMB150 billion under such policy. Relevant economic simulation policies of China will benefit the Group's sales of bare copper wire and increase the sales of magnet wire for upstream consumer products.

### Continuous Growth in Sales of Bare Copper Wire

Due to the growth in domestic demand of China and under the influence of the economic stimulation package launched by the government for the expansion of domestic demand, the sales volume of bare copper wire of the Group increased by 10,207 tonne from 74,184 tonnes in 2007 to 84,391 tonnes in 2008, representing a growth of 13.76% over 2007. Revenue also grew 6.67% year-on-year.

### Sales of Magnet Wire Decreased Due to Global Financial Turmoil

The Group's sales of magnet wire were affected by the global economic slowdown in 2008, with both sales volume and revenue of magnet wire lowered than 2007. Sales volume decreased from 36,920 tonnes in 2007 to 33,555 tonnes in 2008, representing a decrease of 9.11%. Revenue also decreased from RMB2,305,638,000 in 2007 to RMB2,034,475,000, representing a decrease of 11.76%.

### Gross Profit Declined Resulted from Drastic Fall in International Copper Price and Customers Delaying Shipment

Copper price fell drastically under the global financial crisis, with LME copper price falling 54.26% from US$6,930/tonne on 11 September to US$3,170/tonne on 11 December. Shanghai Future Exchange copper price also fell 55.49% form RMB54,550/tonne on 11 September to RMB24,280/tonne. The drastic fall of international copper price led to a decrease in the market value of our safety copper stock and the declining of negative gross profit due to the copper price base of our sales in November and December 2008 being lower than the cost of copper.

Customers who had placed advance order for bare copper wire and magnet wire at high unit prices delayed shipments due to the weakening of orders they received. However, the raw material of copper for such high unit priced orders was stocked in batches before 31 December 2008. Therefore our cost of copper was raised and processing revenue was pressurized, and a declined gross profit was incurred.

## Research and Improvement Results

### Obtained Certification on ISO/TS16949 Quality Control System for Automobile Series

Tai-I Copper, a subsidiary of the Company, obtained certification on ISO/TS16949 Quality Control System for Automobile Series during the period. As such, the Group's magnet wire products are eligible to tap into international automobile motor magnet wire market. The Group will actively seek representative customers of quality in that industry, so as to increase the sale volume to a significant extent.

### Ongoing Efforts Devoted to R&D For Innovation and Cost Reduction

The Group continuously developed high added value products as scheduled. Following China government's policies on energy saving and emission reduction and the market access standards for the promotion of energy saving and emission reduction, the Group successfully developed magnet wire with "corona resistance", an energy saving product, in October 2008. The product has passed the test of Shanghai Science and Technology Institute (上海科技研究所) and its properties fully satisfy the requirements of national standards. These high value added products are in line with government's industry policies and at the same time strengthened our competitive advantages. They will further ensure the Group's revenue and profit.

# Business Review

Following the energy saving and consumption reduction upgrade implemented by Tai-I Copper and Tai-I Jiang Corp in 2007, which saved approximately thirteen million units of electricity for the year, both companies continued to implement further measures in energy saving and consumption reduction to reduce costs during 2008. Electricity consumption costs of RMB4,092,000 were effectively saved in 2008.

### Enhance Efficiency and Effectiveness in Internal Management

Faced with the current stringent external business environment, directors of the Group plan to enhance efficiency and effectiveness in internal management as a response. On the one hand, upgrade in the production process flow technique will be conducted so as to reduce cost and energy consumption. On the other hand, human resources enhancement scheme, such as training and education will be implemented at the same time. By leveraging on sophisticated technologies and management skills, the Group's competitiveness as a whole will be enhanced.

## Outlook for 2009 and Improvement Strategies

### Adjustment of Copper Purchasing and Sales Strategies

Adjusting Copper Purchasing and Sales Strategies to Avoid Incurring Net Loss Due to Drastic Fall of International Copper Price and Customers Delaying Shipment as in 2008

**1. *Adjust Copper Purchasing Strategies***

(i) To adopt a strategy of making purchase from our suppliers with flexibility in quantity, enabling adjustment in accordance with temporary increase and decrease in customer orders.

(ii) To adjust the pricing month of purchases basing on customer behaviour. Currently, the proportion of current month (M) pricing of magnet wire customers is relatively high, therefore the portion of current month pricing for suppliers should be increased.

**2. *Restrict Customers' Price Determination***

(i) To increase the margin deposits required for price determination by customer and shorten the period effective for determined prices.

(ii) To adopt a floating margin call mechanism on customers to avoid their delaying shipment.

**3. *Mitigate Inventory Risk with Futures***

For the mitigation of risk associated with our safety stock arising from fluctuation of copper price, the Group will mitigate risk in our position of inventory through the future market when the fall in market copper price exceeds that of inventory by 3%.

### Adjust the Management Strategy for the Foreign Exchange Forward Contracts

The Group recorded an unrealised valuation loss on foreign exchange forward contracts in 2008 due to the appreciation of Renminbi did not meet expectation. Hence, we will not increase the total amount of the contracts for buying Renminbi/selling US dollar in 2009, as well as, we will take risk control and stop loss strategic actively to prevent the net loss as a result of the global economic turmoil in the fourth quarter of 2008.

### Modifying Facilities to Increase Capacity

The plan for the modification of facilities to increase production capacity of Tai-I Jiang Corp, a subsidiary of the Company, is completed in March 2009. As a result, we have a world patented SCR continuous casting and rolling production system with a capacity of 180,000 tonnes per annum, and enjoy the competitive advantages of having facilities with excellent functions and high capacity, sophisticated production techniques, prime quality products and low costs. This could also effectively increase the proportion of our domestic sales and processing, and in turn enhance our profitability and enable us to capture the opportunity of growth in domestic demand of China and achieve sale of all volume produced.

### Capturing the "Home Appliances, Computers and Automobiles to Rural Area" Opportunities

In the fourth quarter of 2008, the government of China has set up an additional budget of RMB40 billion to stimulate consumption, of which RMB20 billion will be used to stimulate rural consumption under the subsidizing policy of "Home Appliances to Rural Area" for the expansion of domestic demand. According to the preliminary estimation of the Ministry of Commerce of China, the relevant consumption in rural area may exceed RMB150 billion under such policy. To capture the "home appliances, computers and automobiles to rural area" opportunities, the Company will continuously increase the development of domestic sales customer in China for both of its bare copper wire products and magnet wire products in 2009.

# Financial Review

## Turnover

For the year ended 31 December 2008, the revenue of the Group amounted to approximately RMB6,491,053,000 (2007: RMB6,488,376,000), a slight increase of approximately 0.04% as compared to the previous year. The revenue of bare copper wires in 2008 was RMB4,438,671,000 (2007: RMB4,161,131,000), by increasing approximately RMB277,540,000, while the revenue of magnet wires in 2008 was RMB2,034,475,000 (2007: RMB2,305,638,000), by decreasing approximately RMB271,163,000. The revenue of processing services in 2008 was RMB17,907,000 (2007: RMB21,607,000), by decreasing approximately RMB3,700,000.

For the year ended 31 December 2008, the Group's revenue increased slightly. In respect of sales volume, the sales volume of bare copper wires for the year ended 31 December 2008 was 84,391 tonnes (2007: 74,184 tonnes), with an increase of 10,207 tonnes. The increase was mainly attributable to the steady growth of domestic demand in China. The impact of the Financial Crisis in 2008 on sales of bare copper wires was comparatively less.

The sales volume of magnet wires for the year ended 31 December 2008 was 33,555 tonnes (2007: 36,920 tonnes), with a decrease of 3,365 tonnes. The decrease in sales volume of magnet wires, which are mainly used as raw material in the upstream of 3C products and home appliances industry, was mainly attributable to the reduction of sales orders as a result of the Financial Crisis, while the impact of "Home Appliances to Rural Area" policy in the PRC was not brought out.

Meanwhile, the processing service volume of bare copper wires also decreased from 38,836 tonnes for the year ended 31 December 2007 to 28,233 tonnes for the year ended 31 December 2008.

## Gross Profit

For the year ended 31 December 2008, gross profit was approximately RMB9,253,000 (2007: RMB130,422,000). Gross profit decreased by approximately RMB121,169,000. The significant decrease of gross profit for the year ended 31 December 2008 was mainly attributable to the following three reasons: (i) due to the impact of the Financial Crisis, international and domestic copper price dropped down significantly, the copper price in London Metal Exchange was fell by about 54.26% from US$6,930 per tonne on 11 September 2008 to US$3,170 per tonne on 11 December 2008, meanwhile, the copper price in Shanghai Future Exchange was fell by about 55.49% from RMB54,550 per tonne on 11 September 2008 to RMB24,280 per tonne. The significant drop-down of international and domestic copper price resulted a decrease in the selling price of the Group's safety copper stock and a gross loss was recorded in November and December 2008 as the selling price was lower than the weighted average unit cost; (ii) Customers who had placed advance order for bare copper wire and magnet wire at high unit prices delayed shipments due to the weakening of orders they received. However, the raw material of copper for such high unit selling priced orders was stocked in batches before 31 December 2008. Therefore the cost of copper was raised and a negative gross profit was incurred; and (iii) the sales volume of magnet wires for the year ended 31 December 2008 was lower than that in 2007 by 3,365 tonnes, consequently gross profit in 2008 decreased as comparing to 2007.

## Other Revenue

For the year ended 31 December 2008, the Group recorded other revenue of approximately RMB42,786,000 (2007: RMB23,664,000), an increase of RMB19,122,000. Other revenue mainly represented interest income of RMB34,667,000 for the year ended 31 December 2008 (2007: RMB23,028,000), an increase of RMB11,639,000; and income tax refund of RMB7,109,000 for the year ended 31 December 2008 (2007: Nil).

## Other Net (Loss)/Income

For the year ended 31 December 2008, the Group recorded other net loss of approximately RMB69,924,000 (Other net income for 2007: RMB156,362,000). The main loss was attributable to (i) loss on copper futures contracts of RMB34,702,000; and (ii) loss on foreign exchange forward contracts of approximately RMB68,619,000, which was mainly from the realized loss of approximately RMB14,338,000 as at 31 December 2008 on contracts for buying RMB/selling USD and the unrealized valuation loss of RMB54,281,000 on contracts for buying RMB/selling USD. Net gain on exchange was RMB32,089,000 (2007: RMB10,117,000) and other incomes such as from selling scrap copper was RMB1,308,000 (2007: RMB5,695,000).

## Finance Costs

The finance costs of the Group for the year ended 31 December 2008 was approximately RMB101,566,000 (2007: RMB112,283,000), a decrease of RMB10,717,000, mainly due to the decrease in interest expenses of RMB11,006,000.

## (Loss)/Profit for the Year

The Group recorded a loss of approximately RMB208,426,000 for the year ended 31 December 2008 versus a profit of RMB111,505,000 in 2007. This loss was mainly affected by a decrease in gross margin, loss on copper futures and loss on foreign exchange forward contracts.

## Final Dividend

The Board did not propose a final dividend for the year ended 31 December 2008 (2007: HK 6 cents per ordinary share).

## Return on Equity Holders' Equity

For the year ended 31 December 2008, the Group recorded a loss for the year of RMB208,426,000 (2007: a profit of RMB111,505,000) and a return on equity of -29.97% (2007: 16.68%), equity holders' return on equity decreased by 46.65 point from last year.

# Financial Review

## Liquidity and Financial Resources

The Group's working capital is funded by the cash generated by internal operating activities or short term bank borrowings. As at 31 December 2008, the Group maintained cash and cash equivalent amounted to RMB291,016,000 (2007: RMB340,295,000). The short term bank borrowing as at 31 December 2008 amounted to RMB1,422,303,000 (2007: RMB1,395,899,000). As at 31 December 2008, the Group current ratio was 101.79% (2007: 110.48%), and the Group's net gearing ratio (balance of total borrowings less cash and cash equivalent, time deposits and pledged deposits divided by total assets and multiplied by 100%) was 1.74% (2007: -0.8%).

Pledged deposits placed for the issuance of letters of credit and commercial bills in relation to the purchases of copper plates amounted to RMB788,258,000 as at 31 December 2008 (2007: RMB875,178,000), decreased by 9.93%. During 2008, pledged deposits were required by the banks for the issuance of letters of credit and commercial bills.

## Foreign Exchange

The Group's revenue is mainly denominated in US dollar, Hong Kong dollar and Reminbi while it pays US dollar and Renminbi for raw materials purchase. For the year ended 31 December 2008, 65.51%, 3.98% and 30.51% of the Group's revenue were denominated in US dollar, Hong Kong dollar and Renminbi, while 61.81% and 38.19% of its payments were denominated in US dollar and Renminbi. Due to the appreciation of Renminbi, for the year ended 31 December 2008, the Group has a net foreign exchange gain (excluding foreign exchange forward contracts) of RMB32,089,000 (2007: RMB10,117,000).

## Pledge of Assets

In order to obtain bank loans for working capital, letters of credit and commercial bills would be transformed into short-term credit loan subsequently. The carrying amount of the Group's assets pledged is as follows:

| | As at 31 December | | |
|---|---|---|---|
| **Assets** | **2008** | 2007 | **Purpose** |
| | **RMB'000** | RMB'000 | |
| Buildings | **89,059** | 91,621 | Bank loans, letter of credit and commercial bills |
| Land use rights | **32,183** | 33,020 | Bank loans, letter of credit and commercial bills |
| Inventories | **100,000** | – | Bank loans |
| Bank Deposits | **788,258** | 875,178 | Letters of credit and commercial bills |
| Machinery and Equipment | **170,546** | 183,978 | Bank loans, letter of credit and commercial bills |
| Total | **1,180,046** | 1,183,797 | |

## Use of Proceeds

The proceeds from the issuance of new shares by the Company in January 2007, net of listing expenses, were approximately HK$220,762,000. As at 31 December 2008, the net proceeds were utilized in the following manner:

| | Per prospectus<br>HK$'000 | Amount Utilised<br>HK$'000 | Balance as at 31 December 2008<br>HK$'000 |
|---|---|---|---|
| Expansion of Production capacity of the Group, of which: | | | |
| – Upgrading of existing production facilities | 18,544 | 18,544 | – |
| – Acquisition of new production facilities or related business | 136,142 | 47,203 | 88,939 |
| Repayment of short-term borrowings | 44,000 | 44,000 | – |
| General working capital | 22,076 | 22,076 | – |
| **Total** | **220,762** | **131,823** | **88,939** |

The unutilized balance was placed in short-term deposits and time deposits with banks and financial institutions.

## Capital Structure

The Group adopts a prudent treasury policy, and its net debt-to-adjusted capital ratio (calculated as bank loans less pledged deposits and cash and cash equivalent plus unaccrued proposed dividend then divided by adjusted capital) as at 31 December 2008 was 61.54% (2007: 26.57%). The current ratio (calculated as current assets divided by current liabilities) as at 31 December 2008 was 101.79% (2007: 110.48%). The Group continued to monitor stringent debt collection policy so as to minimise the risks of sales on credit and to ensure that funds are timely collected.

## Capital Expenditure

The Group's capital expenditures were mainly for the acquisition of properties, plant and equipment. The following table shows the Group's capital expenditures for the year ended 31 December 2008 and 2007:

| | For the year ended 31 December | |
|---|---|---|
| | **2008**<br>**RMB'000** | 2007<br>RMB'000 |
| Building | **13** | 446 |
| Machinery, equipment and tools | **410** | 10,145 |
| Dies and moulds | **1,438** | 3,307 |
| Motor vehicles and other fixed assets | **346** | 2,161 |
| Construction in progress | **223** | 67 |
| | **2,430** | 16,126 |

# Financial Review

## Employees

As at 31 December 2008, the Group employed 986 full-time employees in the PRC (2007: 1,393). The Group's salaries and remuneration policies are to determine the remuneration package of employees by reference to their performance, experience and prevailing market conditions, and their positions, duties and responsibilities in the Group. The Group continued to provide retirement, medical, employment injury, unemployment and maternity benefits which are governed by the state-managed social welfare scheme operated by the local government of the PRC.

The executive Directors' remuneration package is determined by the Board by reference to their duties and responsibilities and market rate. The proposals made by the Remuneration Committee will be examined by the Board to ensure it conformed to the remuneration package of the executive Directors.

## Commitments

### (i) Capital commitments

Outstanding capital commitments at 31 December 2008 not provided for in the financial statements were as follows:

| | **As at 31.12.2008 RMB'000** | As at 31.12.2007 RMB'000 |
|---|---|---|
| Contracted | **16,582** | – |

### (ii) Lease commitments

At 31 December 2008, the total future minimum lease payments under non-cancellable operating leases in respect of properties are payable as follows:

| | **2008 RMB'000** | 2007 RMB'000 |
|---|---|---|
| Less than one year | **858** | 1,490 |
| Between one and two years | **128** | 47 |
| Between two and three years | **9** | 23 |
| | **995** | 1,560 |

The Group leased a number of properties under operating lease during the year. None of the leases includes contingent rentals.

## Contingent Liabilities

As at 31 December 2008, there was no significant contingent liability (2007: Nil).

# Five-Year Summary and Key Financial Ratios

## Summary of Consolidated Income Statement Data

| | For the year ended 31 December | | | | |
|---|---|---|---|---|---|
| | **2008** | 2007 | 2006 | 2005 | 2004 |
| | **RMB'000** | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Revenue | **6,491,053** | 6,488,376 | 7,077,910 | 3,979,619 | 2,754,139 |
| Costs | **(6,481,800)** | (6,357,954) | (6,856,339) | (3,837,052) | (2,627,269) |
| Gross Profit | **9,253** | 130,422 | 221,571 | 142,567 | 126,870 |
| (Loss)/Profit from Operation | **(103,955)** | 237,885 | 224,023 | 108,905 | 100,647 |
| Finance Costs | **(101,566)** | (112,283) | (96,969) | (41,448) | (37,807) |
| Impairment loss on associate | **(10,370)** | – | – | – | – |
| Share of loss of associate | **(10,865)** | (1,260) | – | – | – |
| (Loss)/profit before taxation | **(226,756)** | 124,342 | 127,054 | 67,457 | 62,840 |
| Income tax credit/(expenses) | **18,330** | (12,837) | (6,256) | – | – |
| (Loss)/profit for the year | **(208,426)** | 111,505 | 120,798 | 67,457 | 62,840 |
| Profit/(Loss) attribute to minority interests | **–** | – | 41,318 | 31,722 | 22,887 |
| (Loss)/profit for the year attributable to equity holders of the Company | **(208,426)** | 111,505 | 79,480 | 35,735 | 39,953 |
| Basic and diluted (loss)/earnings per share (RMB) | **(0.35)** | 0.19 | 0.18 | 0.08 | N/A (Note) |

Note: No earnings per share information is presented as its inclusion would be hypothetical due to the reorganization and the net assets of the merger of each company is accounted aggregately at the current carrying value of each company.

# Five-Year Summary and Key Financial Ratios

## Summary of Consolidated Balance Sheet Data

| | At 31 December | | | | |
|---|---|---|---|---|---|
| | **2008** | 2007 | 2006 | 2005 | 2004 |
| | **RMB'000** | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Non-current assets | **511,905** | 536,674 | 514,551 | 519,819 | 447,409 |
| Current assets | **2,592,768** | 3,197,723 | 3,110,353 | 1,945,251 | 1,370,661 |
| Current Liabilities | **(2,547,244)** | (2,894,454) | (3,081,348) | (2,042,312) | (1,525,115) |
| Net current asset (liabilities) | **45,524** | 303,269 | 29,005 | (97,061) | (154,454) |
| Total assets less current liabilities | **557,429** | 839,943 | 543,556 | 422,758 | 292,955 |
| Non-current liabilities | **–** | (6,598) | (40,000) | (40,000) | – |
| Net assets | **557,429** | 833,345 | 503,556 | 382,758 | 292,955 |
| Total equity attributable to equity holders of the Company | **557,429** | 833,345 | 503,556 | 195,263 | 158,285 |
| Minority interests | **–** | – | – | 187,495 | 134,670 |
| Total equity | **557,429** | 833,345 | 503,556 | 382,758 | 292,955 |

| | At 31 December | | | | |
|---|---|---|---|---|---|
| | **2008** | 2007 | 2006 | 2005 | 2004 |
| Profitibility ratios | | | | | |
| Return on equity (note 1) | **(29.97)%** | 16.68% | 27.26% | 19.97% | 31.70% |
| Return on assets (note 2) | **(6.09)%** | 3.05% | 3.97% | 3.15% | 4.08% |
| Liquidity ratios | | | | | |
| Current ratio (note 3) | **101.79%** | 110.48% | 100.94% | 95.25% | 89.87% |
| Receivables turnover days (note 4) | **44.56** | 64.15 | 45.61 | 43.86 | 35.41 |
| Inventory turnover days (note 5) | **16.22** | 19.28 | 12.01 | 11.18 | 12.30 |
| Payable turnover days (note 6) | **64.87** | 74.33 | 57.35 | 81.77 | 91.34 |
| Capital adequacy ratios | | | | | |
| Net gearing ratio (note 7) | **1.74%** | (0.8)% | 14.38% | 3.06% | (2.56)% |

(Note 1) Profit (loss) for the year divided by year end average total equity and multiplied by 100%.

(Note 2) Profit (loss) for the year divided by year end average total assets and multiplied by 100%.

(Note 3) Current assets divided by current liabilities and multiplied by 100%.

(Note 4) Balance of average trade receivables and bills divided by revenue of the current year and multiplied by 365 days

(Note 5) Average inventory balance divided by cost of goods sold of the year and multiplied by 365 days.

(Note 6) Balance of average trade payable and bills divided by merchandise sold of the year and multiplied by 365 days.

(Note 7) Balance of total borrowings less cash, time deposits and pledged deposits divided by total assets and multiplied by 100%.

# Corporate Governance Report

The Company is committed to maintain good corporate governance standard and procedures to ensure the integrity, transparency and quality of disclosure in order to enhance the shareholders' value. The Board emphases on maintaining a quality Board with balance of skill set of Directors, better transparency and effective accountability system in order to enhance shareholders' value.

## Corporate Governance Practice

The Company has adopted the code provisions set out in the Code on Corporate Governance Practices ("CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules").

In the opinion of the Directors, the Company has met the code provisions set out in the CG Code during the year ended 31 December 2008.

## Corporate Governance Framework

The Board is at the core of the Company's corporate governance framework, and there is a clear division of responsibilities between the Board and the management. The Board is responsible for providing high-level guidance and effective oversight of the management while the management is responsible for implementing strategies that have been approved. Generally, the Board is responsible for:

- formulating the Group's long term strategy and monitoring the implementation thereof;
- reviewing and approving business plans and financial budgets;
- approving the respective annual and interim results;
- reviewing and monitoring risk management and internal control;
- ensuring good corporate governance and compliance;
- monitoring the performance of the management.

The Board authorizes the management to carry out strategies that have been approved. The management reports to the Board and is responsible for the day-to-day operation of the Group. As such, the Board has formulated clear written guidelines, which stipulate the circumstances under which the management should report to and obtain approval from the Board.

## Directors' Securities Transactions

The Company has adopted the code of conduct regarding directors' securities transactions as set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") of the Listing Rules.

Having made specific enquiry of all Director, all the Directors have confirmed that they have complied with the required standards as set out in the Model Code throughout the year ended 31 December 2008.

# Corporate Governance Report

## Board Of Directors

The Board currently consists of nine Directors including four executive Directors and five independent non-executive Directors:

### Executive Directors

Mr. Huang Cheng-Roang, *(Chairman)*
Mr. Lin Chi-Ta *(Chief Executive Officer)*
Mr. Du Chi-Ting
Mr. Huang Kuo-Feng

### Independent Non-executive Directors

Mr. Kang Jung-Pao
Mr. Cheng Yang-Yi
Mr. Tsay Yang-Tzong
Mr. Yan Minghe
Mr. Atsushi Kanayama

The Board members have no financial, business, family or other material/relevant relationships with each other. Such balanced Board composition is formed to ensure strong independence exists across the Board and has met the recommended practice under the CG Code for the Board to have at least one-third of its members comprising independent non-executive Directors. The composition of the Board reflects the balanced skills and experience for effective leadership. The biographies of the Directors are set out on pages 10 to 15 under the section headed "Biographical Details of Directors and Senior Management" and relevant information has also been posted on the Company's website.

### Chairman and Chief Executive Officer

The posts of the Chairman and the Chief Executive Officer are separately held by two persons with a clear division of responsibilities.

Mr. Huang Cheng-Roang, the Chairman of the Company, is responsible for leading the Board and ensuring the Board's efficient operation and that all major and relevant issues are discussed by the Board in a prompt and constructive manner. Mr Lin Chi-Ta, the Chief Executive Officer of the Company, is authorized to oversee the Group's business operation and implement its strategies that have been approved to attain overall commercial goals.

### Non-executive Directors

The five independent non-executive Directors have obtained academic and professional qualifications in respective fields such as accounting, finance, magnet wires and electric cables. With their experience gained from various sectors, they provide strong support towards effective discharge of the duties and responsibilities of the Board. Each independent non-executive Director has given an annual confirmation of his independence to the Company, and the Company considers each of them to be independent under Rule 3.13 of the Listing Rules. The five independent non-executive Directors are appointed for a term of two years from 11 January 2007 and a further term of two years from 11 January 2009 and are subject to retirement by rotation in accordance with the Articles.

### Board Meetings

The Company planned in advance four scheduled Board meetings a year at approximately quarterly intervals in order to make sure all Directors could plan in advance their availability to attend the scheduled Board meetings. During the regular meetings of the Board, the Board reviewed the operation and financial performance and reviewed and approved the annual and interim results.

During the year ended 31 December 2008, the Board held four meetings. All Directors are given an opportunity to include any matters in the agenda for regular Board meetings, and are given sufficient time to review documents and information relating to matters to be discussed in Board meetings in advance.

| Name of Directors | Number of attendance |
|---|---|
| Mr. Huang Cheng-Roang *(Chairman)* | 4/4 |
| Mr. Lin Chi-Ta *(Chief Executive Officer)* | 4/4 |
| Mr. Du Chi-Ting | 4/4 |
| Mr. Huang Kuo-Feng | 4/4 |
| Mr. Kang Jung-Pao | 4/4 |
| Mr. Cheng Yang-Yi | 4/4 |
| Mr. Tsay Yang-Tzong | 4/4 |
| Mr. Yan Minghe | 4/4 |
| Mr. Atsushi Kanayama | 4/4 |

Board minutes are kept by the Company Secretary and are open for inspection by the Directors. Every member of the Board is entitled to have access to documents and related information of the Board and has unrestricted access to the advice and services of the Company Secretary, and has the liberty to seek external professional advice if so required.

Appropriate insurance cover has been arranged by the Company in respect of relevant actions against its Directors.

## Remuneration Committee

The Company has established a Remuneration Committee (the "Remuneration Committee") with written terms of reference on 18 December 2006. The Remuneration Committee currently consists of one executive Director, Mr. Lin Chi-Ta (as Chairman), and five independent non-executive Directors, namely Mr. Kang Jung-Pao, Mr. Cheng Yang-Yi, Mr. Tsay Yang-Tzong, Mr. Yan Minghe and Mr. Atsushi Kanayama.

The Remuneration Committee has been established mainly for the purpose of ensuring that the Company can recruit, retain and motivate high-caliber staff in order to reinforce the success of the Company and create value for the shareholders. The Remuneration Committee is responsible for overseeing the determination of Directors' remuneration and benefits and establishing formal and transparent procedures for developing policy on remuneration.

During the year ended 31 December 2008, the Remuneration Committee held one meeting for reviewing the remuneration packages of the Directors and senior management.

| Name of members | Number of attendance |
|---|---|
| Mr. Lin Chi-Ta *(Chairman)* | 1/1 |
| Mr. Kang Jung-Pao | 1/1 |
| Mr. Cheng Yang-Yi | 1/1 |
| Mr. Tsay Yang-Tzong | 1/1 |
| Mr. Yan Minghe | 1/1 |
| Mr. Atsushi Kanayama | 1/1 |

The emolument payable to Directors will depend on their respective contractual terms under the service agreements, if any, and as recommended by the Remuneration Committee. Details of the Directors' remuneration are set out in note 8 to the financial statements.

## Nomination Committee

The Company established a Nomination Committee (the "Nomination Committee") with written terms of reference on 18 December 2006. The Nomination Committee currently consists of one executive Director, Mr. Lin Chi-Ta (as Chairman), and five independent non-executive Directors, namely Mr. Kang Jung-Pao, Mr. Cheng Yang-Yi, Mr. Tsay Yang-Tzong, Mr. Yan Minghe and Mr. Atsushi Kanayama.

The Nomination Committee has been established mainly for reviewing and supervising the structure, size and composition of the Board, identifying qualified individuals to become members of the Board, assessing the independence of the independent non-executive Directors and making recommendations to the Board on the appointment or re-appointment of Directors.

During the year ended 31 December 2008, the Nomination Committee held one meeting to access the independence of the independent non-executive Directors and the Directors to be re-elected at the 2008 annual general meeting of the Company before put forth for discussion and approval by the Board, and also reviewed the composition of the Board.

| Name of members | Number of attendance |
|---|---|
| Mr. Lin Chi-Ta *(Chairman)* | 1/1 |
| Mr. Kang Jung-Pao | 1/1 |
| Mr. Cheng Yang-Yi | 1/1 |
| Mr. Tsay Yang-Tzong | 1/1 |
| Mr. Yan Minghe | 1/1 |
| Mr. Atsushi Kanayama | 1/1 |

## Audit Committee

The Company established an Audit Committee with written terms of reference on 18 December 2006. The Audit Committee currently consists of five independent non-executive Directors, namely Mr. Tsay Yang-Tzong (as Chairman), Mr. Kang Jung-Pao, Mr. Cheng Yang-Yi, Mr. Yan Minghe and Mr. Atsushi Kanayama.

The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group.

The Audit Committee meets the external auditor at least two times a year to discuss any area of concern during the audits or review. The Audit Committee reviews the interim and annual reports before submission to the Board. The Audit Committee focuses not only on the impact of the changes in accounting policies and practices but also on the compliance with accounting standards, the Listing Rules and the legal requirements in the review of the Company's interim and annual report.

During the year ended 31 December 2008, the Audit Committee held two meetings.

| Name of members | Number of attendance |
|---|---|
| Mr. Tsay Yang-Tzong *(Chairman)* | 2/2 |
| Mr. Kang Jung-Pao | 2/2 |
| Mr. Cheng Yang-Yi | 2/2 |
| Mr. Yan Minghe | 2/2 |
| Mr. Atsushi Kanayama | 2/2 |

During the year ended 31 December 2008, the Audit Committee reviewed the annual and interim results of the Group together with the auditor of the Company, which were in the opinion of the Audit Committee that the preparation of such results complied with the applicable accounting standards and the Listing Rules.

## Deed of Non-Competition

Each of Taiwan Tai-I and Tai-I International (BVI) Limited ("Tai-I (BVI)") has provided a non-competition certificate stating that the provisions of the deed of non-competition have been complied with during the year.

## Internal Control

The Board has conducted a review of the effectiveness of the Group's internal control system, covering its financial, operational, compliance control and risk management functions and has implemented all the procedures as recommended under such review during the year.

# Corporate Governance Report

## Auditors' Remuneration

During the year under review, the remuneration paid/payable to the auditors of the Group is set out below:-

| **Services rendered** | **Fee paid/payable**<br>RMB'000 |
|---|---|
| Audit services | 2,212 |
| Non-audit services | – |
| | 2,212 |

## Directors' Responsibilities for the Financial Statements

The Board acknowledges its responsibility to prepare the Company's financial statements for each financial period which give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. In preparing the financial statements for the year ended 31 December 2008, the Board has selected suitable accounting policies and applied them consistently; made judgments and estimates that are prudent, fair and reasonable and prepared the accounts on a going concern basis. The Directors are responsible for taking all reasonable and necessary steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Directors, having made appropriate enquiries, consider the Group has adopted appropriate basis in preparing the financial statements.

## Investors' Relations

The Company is committed to a policy of open and regular communication and reasonable disclosure of information to its shareholders. Information of the Company is disseminated to the shareholders in the following manner:

- delivery of the interim and annual reports to all shareholders;
- publication of announcements on the interim and annual results on the Stock Exchange website, and issue of other announcements and shareholders' circulars in accordance with the continuing disclosure obligations under the Listing Rules; and
- the general meeting of the Company is also an effective communication channel between the Board and shareholders.

Apart from the above, shareholders may also choose to log onto our website (www.tai-i-int.com) for access to more information.

## Voting By Poll

Pursuant to Rule 13.39(4) of the Listing Rules, any vote of shareholders at a general meeting must be taken by poll. As such, all the resolutions set out in the notice of the forthcoming annul general meeting of the Company ("AGM") will be voted by poll.

# Directors' Report

The Board is pleased to submit the Directors' report together with the audited consolidated financial statements of the Group for the year ended 31 December 2008.

## Principal Activities

The Company's principal business is investment holding. Its subsidiaries are principally engaged in the production and sale of bare copper wires and magnet wires and provision of processing services.

The Group's revenue is derived solely from the business activities of the subsidiaries in the PRC. An analysis of the Group's revenue for the year ended 31 December 2008 is set out in note 2 to the financial statements.

## Financial Statements

The result of the Group for the year ended 31 December 2008 and the state of the Company's and the Group's affairs as at that date are set out in the financial statements on pages 44 to 46.

## Dividends

The Board did not recommend the payment of a final dividend for the year ended 31 December 2008 (2007: HK 6 cents per ordinary share).

## Distributable Reserves

At 31 December 2008, the aggregate amount of reserves available for distribution to equity holders of the Company was RMB411,504,000 (2007: RMB392,807,000).

## Share Capital

Details of the movements in the share capital during the year are set out in note 25(c) to the financial statements.

## Pre-emptive Rights

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

# Directors' Report

## Purchase, Sale or Redemption of Listed Securities of the Company

During the year ended 31 December 2008, the Company repurchased 3,382,000 shares of HK$0.01 each in the capital of the Company at prices ranging from HK$0.60 to HK$0.29 per share on the Stock Exchange. Details of the repurchases are as follows:

| Month/Year | Number of shares repurchased | Purchase price per share Highest | Purchase price per share Lowest | Aggregate purchase consideration |
|---|---|---|---|---|
| | | HK$ | HK$ | HK$ |
| 9/2008 | 2,318,000 | 0.60 | 0.55 | 1,381,000 |
| 10/2008 | 1,042,000 | 0.59 | 0.33 | 557,000 |
| 11/2008 | 22,000 | 0.34 | 0.29 | 7,000 |
| Total | 3,382,000 | | | 1,945,000 |

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

## Group Financial Summary

A summary of the results and the assets and liabilities of the Group for the past five financial years is set out on pages 25 to 26 of this report.

## Charitable Donations

During the year, the Group made charitable donations totaling RMB120,000 (2007: RMB1,100,000).

## Fixed Assets

Details of movements in fixed assets are set out in note 13 to the financial statements.

## Directors

The list of Directors of the Company during the year and up to the date of this Annual Report is set out below:

**Executive Directors**
Mr. Huang Cheng-Roang *(Chairman)*
Mr. Lin Chi-Ta *(Chief Executive Officer)*
Mr. Huang Kuo-Feng
Mr. Du Chi-Ting

**Independent Non-Executive Directors**
Mr. Tsay Yang-Tzong
Mr. Kang Jung-Pao
Mr. Cheng Yang-Yi
Mr. Yan Minghe
Mr. Atsushi Kanayama

In accordance with the Article 87, Mr. Huang Cheng-Roang, Mr. Kang Jung-Pao and Mr. Cheng Yang-Yi shall retire from office as Directors by rotation and, being eligible, offer themselves for re-election at the AGM.

## Directors' Service Contracts

Each executive Director has entered into a service contract with the Company for an initial term of three years commencing from the 11 January 2007 which shall be terminated in accordance with provisions of the service contract or by either party giving to the other not less than three months' prior notice in writing or in accordance with the provisions set out in the respective service agreement.

Each independent non-executive Director has entered into a service contract with the Company for an initial term of two years commencing from 11 January 2007 which shall be terminated in accordance with provisions of the service contract or by either party giving to the other not less than three months' prior notice in writing or in accordance with the provisions set out in the respective service agreement. Each independent non-executive Director has entered into a new service contract with the Company for another term of two years commencing from 11 January 2009.

None of the Directors who are proposed for re-election at the AGM has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

# Directors' Report

## Confirmation of Independence

The Company has received from each of the independent non-executive Directors, an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive Directors are independent.

## Share Option Scheme

The Company has approved the adoption of the Share Option Scheme on 18 December 2006. Pursuant to the Scheme, the Board may, at its discretion, grant options to any directors or eligible parties (as defined in the Scheme) for subscription of the Company's shares as incentive to retain talents in the Group. The Company has not granted any option since adoption of the Scheme.

The principal terms of the Scheme are summarized as follows:

(1) The maximum number of shares in respect of which options may be granted under the Scheme and any other share option scheme of the Company shall not exceed 10% in the nominal value of the aggregate of shares in issue on 11 January 2007, i.e. the date of listing of the shares of the Stock Exchange, being 60,000,000 shares, unless the Company obtains a fresh approval from the shareholders, and which must not in aggregate exceed 30% of the shares in issue from time to time.

    As at the date of this report, the total number of shares available for issue under the Scheme is 60,000,000 shares, which represents 10.06% of the existing issued shares.

(2) The total number of shares which may fall to be issued upon exercise of the options granted under the Scheme and any other share option schemes of the Company to each grantee in any 12-month period shall not exceed 1% of the shares in issue for the time being.

(3) The subscription price shall be determined by the Board in its absolute discretion, but in any event shall not be less than the higher of (i) the closing price of the share as stated in the Stock Exchange's daily quotation sheets on the date of grant, which must be a business day; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of a share.

(4) An option may be exercised in accordance with the terms of the Scheme at any time after the date the option is deemed to be granted and accepted and prior to the expiry of 10 years from that date. The period during which an option may exercise will be determined by the Board in its absolute discretion, save that no option may be exercised more than 10 years after it has been granted.

(5) Upon acceptance of the option, the grantee shall pay HK$1.00 to the Company by way of consideration for the grant.

(6) Subject to earlier termination by the Company in general meeting or by the Board, the Scheme shall be valid and effective for a period of 10 years from the date of its adoption, i.e. 18 December 2006.

Details of the Scheme are set out in the Prospectus of the Company dated 28 December 2006. Apart from the Scheme mentioned above, there were no other arrangements to which the Company or its subsidiaries was a party to enable the Directors to acquire such right in any other body corporate.

## Directors' Rights to Acquire Shares or Debentures

Save as disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire such rights in any other body corporate.

## Directors' Interests in Contracts

No contracts 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 of the Company had a material interest, whether directly or indirectly subsisted at the year-end or at any time during the year.

## Directors' Interests in Shares

As at 31 December 2008, none of the Directors or chief executive of the Company had any interest in the shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provision of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code.

## Substantial Shareholders Interests in Shares

As at 31 December 2008, so far as is known to any Director or chief executive of the Company, the following persons (other than the Directors or chief executive of the Company) had an interest or short position in the shares or 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, or who is, directly or indirectly to be interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

### 1. Aggregate long position in the shares and underlying shares of the Company

| Name | Nature of interest | Number of ordinary shares of the Company held | Approximate percentage of issued ordinary shares of the Company |
|---|---|---|---|
| Tai-I (BVI) | Beneficial owner | 229,905,000 | 38.53% (Note1) |
| Taiwan Tai-I | Interest through controlled corporation | 229,905,000 | 38.53% (Note1) |
| First Sense International Limited | Beneficial owner | 102,015,000 | 17.10% (Note 2) |
| AIF Capital Asia III, L.P. | Interest through controlled corporation | 102,015,000 | 17.10% (Note 2) |
| Green Island Industries Limited ("Green Island") | Beneficial owner | 67,500,000 | 11.31% (Note 3) |
| Liu Tianni | Interest through controlled corporation | 67,500,000 | 11.31% (Note 3) |
| Citigroup Financial Products Inc. | Beneficial owner | 52,698,000 | 8.83% (Note 4) |
| Citigroup Global Markets Holdings Inc. | Interest through controlled corporation | 52,698,000 | 8.83% (Note 4) |
| Citigroup Inc. | Interest through controlled corporation | 52,698,000 | 8.83% (Note 4) |

Notes:

1. Taiwan Tai-I owns approximately 74% of the issued capital of Tai-I (BVI).

2. The entire issued share capital of First Sense International Limited is owned by AIF Capital Asia III, L.P..

3. The entire issued share capital of Green Island is owned by Liu Tianni.

4. The entire issued share capital of Citigroup Financial Products Inc. is owned by Citigroup Global Markets Holdings Inc., which is a wholly-owned subsidiary of Citigroup Inc..

### 2. Aggregate short position in the shares and underlying shares of the Company

As at 31 December 2008, the Company had not been notified of any short positions being held by any substantial shareholders in the shares or underlying shares of the Company.

Save as disclosed above, no other parties were recorded in the register of the Company required to be kept under section 336 of the SFO as having interests or short positions in the shares or underlying shares of the Company as at 31 December 2008.

## Model Code for Securities Transactions by Directors

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the Directors. Having made specific enquiry of all Directors, the Company confirmed that all Directors have complied with the required standard set out in the Model Code.

## Connected Transactions

For the year ended 31 December 2008, the Group has the following continuing connected transaction:

### Exempted Continuing Connected Transaction

The following continuing connected transaction (as defined in the Listing Rules) of the Company is exempt from the reporting, announcement and independent shareholders' approval requirements under Rule 14A.33(3)(b) of the Listing Rules:

On 27 December 2006, the Company, Tai-I Copper and Tai-I Jiang Corp. entered into a trademark licence agreement with Taiwan Tai-I whereby Taiwan Tai-I would continue to grant to the Group, the licence to use certain trademarks, being the trademarks the Group is using currently, at no consideration. The licence is exclusive (including as against Taiwan Tai-I) insofar as any use outside Taiwan in connection with bare copper wire and magnet wire is concerned. The term of the trademark licence agreement commenced from the date of it and would continue thereafter for so long as, among other terms set out in the trademark licence agreement, Taiwan Tai-I remains as the owner of such trademarks and a controlling shareholder.

# Directors' Report

## Subsidiaries and Associate

Particulars of the subsidiaries and associate of the Company as at 31 December 2008 are set out in note 15 and note 16 to the financial statements.

## Bank loans

Particulars of bank loans of the Group as at 31 December 2008 are set out in note 22 to the financial statements.

## Directors' Emoluments

Details of the remuneration of the Directors for year 2008 are set out in note 8 to the financial statements.

## Major Customers and Suppliers

Contracts with the Group's five largest suppliers combined by value, accounted for 74.55 per cent in value of total purchases during the year ended 31 December 2008, while contracts with the Group's largest supplier by value, accounted for 27.60 per cent in value of total purchases during the year ended 31 December 2008. Contracts with the Group's five largest customers combined by value accounted for 14.73 per cent in value of the turnover during the year ended 31 December 2008, while contracts with the Group's largest customer by value accounted for 3.66 per cent in value of the turnover during the year ended 31 December 2008.

Save as disclosed above, none of the Directors, their associates or any other shareholder (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had an interest in the major suppliers or customers noted above.

## Human Resources and Staff Remuneration

The Group has a dedicated management team with extensive experience and extensive service, and has a technological talent team with high technological standard and abundant practicable experience. They are the force for the rapid growth and expansion of the Group since its establishment.

For the year ended 31 December 2008, total staff cost for the year was approximately RMB50,868,000, of which contributions to defined contribution retirement schemes were approximately RMB3,952,000. The Group has been able to retain and motivate outstanding technological and management talents through remuneration at a competitive level, as well as training and development plans.

The Company's subsidiaries in the PRC provide retirement, medical, employment injury, unemployment and maternity benefits to its employees in accordance with a state-managed social welfare scheme operated by the local government of the PRC, and the relevant PRC rules and regulations. At the same time, the employees of the Company's subsidiaries in the PRC are members of a long-term dormitory provident fund scheme operated by the local government of the PRC. According to the scheme, the Group provides dormitory provident fund to the employees in the PRC in accordance with the relevant PRC rules and regulations.

The executive Directors and certain members of the senior management of the Group, being non-PRC citizens, may elect not to participate in the state-managed social welfare scheme operated by the local government of the PRC. If there is any change in the PRC rules and regulations with respect to the retirement scheme upon which the Group is required to contribute to the social welfare scheme for non-PRC citizens, the Group shall comply with such new rules and regulations within the time limit prescribed by the relevant authorities.

## Public Float

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

## Audit Committee

The Company established an Audit Committee on 18 December 2006 with written terms of reference in compliance with the CG Code. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of the Group. The Audit Committee comprises five independent non-executive Directors of the Company, Mr. Tsay Yang-Tzong (as Chairman), Mr. Cheng Yang-Yi, Mr. Kang Jung-Pao, Mr. Atsushi Kanayama and Mr. Yan Minghe.

The Audit Committee has reviewed the audited financial statements of the Group for the year ended 31 December 2008.

## Auditor

The financial statements for the year ended 31 December 2008 have been audited by the Group's auditor, KPMG and an unqualified opinion report was issued on 16 April 2009. A resolution will be submitted to the AGM to re-appoint KPMG as auditor of the Company.

On behalf of the Board
**Tai-I International Holdings Limited**
**Huang Cheng-Roang**
*Chairman*

Hong Kong, 16 April 2009

# Independent Auditor's Report

**Independent auditor's report to the shareholders of**
**Tai-I International Holdings Limited**
*(Incorporated in the Cayman Islands with limited liability)*

We have audited the consolidated financial statements of Tai-I International Holdings Limited ("the Company") set out on pages 44 to 104, which comprise the consolidated and company balance sheets 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 financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of 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 financial statements based on our audit. This report is made solely to you, as a body, 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 financial statements are free from material misstatement.

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

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

## Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2008 and of the Group's results of operations 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.

**KPMG**
*Certified Public Accountants*
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

16 April 2009

# Consolidated Income Statement

*For the year ended 31 December 2008*

*(Expressed in Renminbi Yuan)*

| | Note | **2008** **RMB'000** | 2007 RMB'000 |
|---|---|---|---|
| **Turnover** | 2 | **6,491,053** | 6,488,376 |
| Cost of sales | | **(6,481,800)** | (6,357,954) |
| **Gross profit** | | **9,253** | 130,422 |
| Other revenue | 3 | **42,786** | 23,664 |
| Other net (loss)/income | 4 | **(69,924)** | 156,362 |
| Distribution expenses | | **(21,023)** | (22,455) |
| General and administrative expenses | | **(60,402)** | (46,321) |
| Other operating expenses | 5 | **(15,015)** | (3,787) |
| **(Loss)/profit from operations** | | **(114,325)** | 237,885 |
| Finance costs | 6(i) | **(101,566)** | (112,283) |
| Share of loss of associate | 16 | **(10,865)** | (1,260) |
| **(Loss)/profit before taxation** | | **(226,756)** | 124,342 |
| Income tax credit/(expenses) | 7(i) | **18,330** | (12,837) |
| **(Loss)/profit for the year attributable to equity holders of the Company** | 10 | **(208,426)** | 111,505 |
| **Dividends payable to equity holder of the Company attributable to the year** | | | |
| Final dividend proposed after the balance sheet date | 11 | **–** | 32,400 |
| **Basic and diluted (loss)/earnings per share (RMB)** | 12 | **(0.35)** | 0.19 |

The notes on pages 50 to 104 form part of these financial statements.

# Consolidated Balance Sheet

*At 31 December 2008*

*(Expressed in Renminbi Yuan)*

| | Note | 2008<br>RMB'000 | 2007<br>RMB'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 13 | **437,767** | 464,875 |
| Lease prepayments | 14 | **32,183** | 33,020 |
| Interest in an associate | 16 | **17,544** | 38,779 |
| Deferred tax assets | 24 | **24,411** | – |
| | | **511,905** | 536,674 |
| **Current assets** | | | |
| Inventories | 17 | **230,525** | 345,551 |
| Trade and other receivables | 18 | **977,698** | 1,338,989 |
| Derivative financial instruments | 19 | **16,171** | 87,803 |
| Pledged deposits | 20 | **788,258** | 875,178 |
| Time deposits | 21 | **289,100** | 209,907 |
| Cash and cash equivalents | 21 | **291,016** | 340,295 |
| | | **2,592,768** | 3,197,723 |
| **Current liabilities** | | | |
| Bank loans | 22 | **1,422,303** | 1,395,899 |
| Trade and other payables | 23 | **1,019,727** | 1,457,997 |
| Derivative financial instruments | 19 | **107,971** | 38,844 |
| Income tax (recoverable)/payable | 7(iii) | **(2,757)** | 1,714 |
| | | **2,547,244** | 2,894,454 |
| **Net current assets** | | **45,524** | 303,269 |
| **Total assets less current liabilities** | | **557,429** | 839,943 |
| **Non-current liabilities** | | | |
| Deferred tax liabilities | 24 | **–** | 6,598 |
| | | **–** | 6,598 |
| **Net assets** | | **557,429** | 833,345 |
| **Capital and reserves** | | | |
| Share capital | 25(a) | **5,966** | 6,000 |
| Reserves | 25(a) | **551,463** | 827,345 |
| **Total equity** | | **557,429** | 833,345 |

Approved and authorised for issue by the Board of Directors on 16 April 2009.

On behalf of the Board of Directors

**LIN, Chi-Ta**
*Director*

**HUANG, Cheng-Roang**
*Director*

The notes on pages 50 to 104 form part of these financial statements.

# Balance Sheet

*At 31 December 2008*

*(Expressed in Renminbi Yuan)*

| | Note | 2008<br>RMB'000 | 2007<br>RMB'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 13 | **97** | 245 |
| Investments in subsidiaries | 15 | **659,630** | 618,751 |
| | | **659,727** | 618,996 |
| **Current assets** | | | |
| Trade and other receivables | 18 | **494** | 625 |
| Time deposits | 21 | **–** | 14,907 |
| Cash and cash equivalents | 21 | **438** | 1,130 |
| | | **932** | 16,662 |
| **Current liabilities** | | | |
| Trade and other payables | 23 | **256** | 192 |
| Derivative financial instruments | 19 | **–** | 21,897 |
| Amount due to a subsidiary | 15 | **29,856** | – |
| | | **30,112** | 22,089 |
| **Net current liabilities** | | **(29,180)** | (5,427) |
| **NET ASSETS** | | **630,547** | 613,569 |
| **Capital and reserves** | | | |
| Share capital | 25(b) | **5,966** | 6,000 |
| Reserves | 25(b) | **624,581** | 607,569 |
| **Total equity** | | **630,547** | 613,569 |

Approved and authorised for issue by the Board of Directors on 16 April 2009.

On behalf of the Board of Directors

**LIN, Chi-Ta**
*Director*

**HUANG, Cheng-Roang**
*Director*

The notes on pages 50 to 104 form part of these financial statements.

# Consolidated Statement of Changes in Equity

*For the year ended 31 December 2008*

*(Expressed in Renminbi Yuan)*

| | | 2008 | | 2007 | |
|---|---|---|---|---|---|
| | Note | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **Total equity at 1 January** | | | **833,345** | | 503,556 |
| **Net expense recognised directly in equity:** | | | | | |
| Foreign currency translation differences for foreign operations | 25(a) | **1,623** | | (2,478) | |
| Cash flow hedge: effective portion of changes in fair value, | 25(a) | | | | |
| – unrealised portion | | **(26,980)** | | – | |
| – realised portion | | **(35,992)** | | – | |
| – deferred tax credited | | **3,843** | | – | |
| | | | **(57,506)** | | (2,478) |
| **Transfer from equity:** | | | | | |
| Cash flow hedge: transfer from equity to profit or loss | 25(a) | **24,073** | | – | |
| | | | **24,073** | | – |
| **Net (loss)/profit for the year** | | | **(208,426)** | | 111,505 |
| **Total recognised income and expense for the year attributable to equity holders of the Company** | | | **(241,859)** | | 109,027 |
| Dividends declared and approved during the year | | | **(32,338)** | | – |
| **Movements in equity arising from capital transactions:** | | | | | |
| Shares issued under placing and public offer | 25(a) | | | | |
| – par value | | **–** | | 1,500 | |
| – premium received | | **–** | | 219,262 | |
| Shares repurchased | 25(a) | | | | |
| – par value | | **(34)** | | – | |
| – premium paid | | **(1,685)** | | – | |
| | | | **(1,719)** | | 220,762 |
| **Total equity at 31 December** | 25(a) | | **557,429** | | 833,345 |

The notes on pages 50 to 104 form part of these financial statements.

# Consolidated Cash Flow Statement

*For the year ended 31 December 2008*

*(Expressed in Renminbi Yuan)*

| | Note | **2008 RMB'000** | 2007 RMB'000 |
|---|---|---|---|
| **Operating activities** | | | |
| (Loss)/profit before tax | | **(226,756)** | 124,342 |
| Adjustments for: | | | |
| – Impairment losses for doubtful debts | | **22,769** | 14,485 |
| – Depreciation | | **29,426** | 30,717 |
| – Share of loss of associate | | **10,865** | 1,260 |
| – Impairment loss on interest in an associate | | **10,370** | – |
| – Amortisation of lease prepayments | | **837** | 838 |
| – Interest income | | **(34,667)** | (23,028) |
| – Loss on disposal of property, plant and equipment | | **106** | 1,160 |
| – Finance costs | | **101,566** | 112,283 |
| – Unrealised loss/(gain) on derivative financial instruments | | **91,800** | (48,959) |
| – Foreign exchange loss/(gain) | | **85,227** | (12,293) |
| **Operating profit before changes in working capital** | | **91,543** | 200,805 |
| Decrease/(increase) in inventories | | **115,027** | (19,506) |
| Decrease in trade and other receivables | | **339,904** | 108,064 |
| (Decrease)/increase in trade and other payables | | **(434,126)** | 199,970 |
| (Decrease)/increase in bank advances under discounted bills | | **(48,481)** | 80,566 |
| **Cash generated from operating activities** | | **63,867** | 569,899 |
| PRC income tax paid | | **(13,307)** | (5,868) |
| PRC income tax refund received | | **7,109** | – |
| **Net cash generated from operating activities** | | **57,669** | 564,031 |
| **Cash flow from investing activities** | | | |
| Acquisition of property, plant and equipment | | **(11,316)** | (19,472) |
| Proceeds from disposal of property, plant and equipment | | **6** | 67 |
| Acquisition of interest in an associate | | **–** | (40,039) |
| Proceeds from foreign exchange forward contracts | | **9,865** | 3,069 |
| Payments in respect of foreign exchange forward contracts | | **(77,881)** | (2,077) |
| Increase in time deposits | | **(79,193)** | (209,907) |
| Interest received | | **33,285** | 13,329 |
| **Net cash used in investing activities** | | **(125,234)** | (255,030) |

# Consolidated Cash Flow Statement (continued)

*For the year ended 31 December 2008*

*(Expressed in Renminbi Yuan)*

| | Note | 2008 RMB'000 | 2007 RMB'000 |
|---|---|---|---|
| **Cash flow from financing activities** | | | |
| Proceeds from issuance of shares for placing and public offering | | **–** | 251,983 |
| Proceeds from interest-bearing loans and borrowings | | **5,105,947** | 2,783,342 |
| Repayment of interest-bearing loans and borrowings | | **(5,031,062)** | (3,298,736) |
| Finance costs paid | | **(111,311)** | (117,700) |
| Decrease in pledged deposits | | **86,920** | 252,040 |
| Dividends paid | | **(32,338)** | – |
| Share issue expenses paid | | **–** | (20,570) |
| Payment for repurchase of shares | | **(1,719)** | – |
| **Net cash generated from/(used in) financing activities** | | **16,437** | (149,641) |
| **Effect of foreign exchange rate changes on cash** | | **1,849** | (1,464) |
| **Net (decrease)/increase in cash and cash equivalents** | | **(49,279)** | 157,896 |
| **Cash and cash equivalents at the beginning of year** | | **340,295** | 182,399 |
| **Cash and cash equivalents at the end of year** | 21 | **291,016** | 340,295 |

The notes on pages 50 to 104 form part of these financial statements.

# Notes to the Financial Statements

*(Expressed in Renminbi Yuan)*

## 1. Significant accounting policies

Tai-I International Holdings Limited ("the Company") is a company incorporated in the Cayman Islands as an exempted company with limited liability on 20 April 2006 under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The shares of the Company have been listed on the Main Board of the Stock Exchange of Hong Kong Limited since 11 January 2007.

### (a) Statement of compliance

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs") promulgated by the International Accounting Standards Board ("IASB"). IFRSs include all applicable individual International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations issued by the IASB. These financial statements also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Company and its subsidiaries (together referred to as "the Group") is set out below.

The IASB has issued a number of new Interpretations and an amendment to IFRSs that are first effective for the current accounting period of the Group and the Company. However, these developments have had no material impact on the Group's financial statements as either they were consistent with accounting policies already adopted by the Group or they were not relevant to the Group's or the Company's operations.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 33).

### (b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2008 comprise the Company and its subsidiaries and the Group's interest in an associate.

The measurement basis used in the preparation of the financial statements is the historical cost basis, except for the derivative financial instruments which are stated at their fair value as explained in the accounting policies set out below.

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. 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.

## 1. Significant accounting policies (continued)

### (b) Basis of preparation of the financial statements (continued)

Information about judgements made by management in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements and major sources of estimation uncertainty is included in note 31.

### (c) Subsidiaries

Subsidiaries are those entities controlled by the Group. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the financial statements from the date that control commences until the date that control ceases.

Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses arising from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

In the Company's balance sheet, investments in subsidiaries are stated at cost less impairment losses (see note 1(j)(ii)).

### (d) Associate

An associate is an entity in which the Group has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions. An interest in an associate is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the associate's net assets. The consolidated income statement includes the Group's share of the post-acquisition, post-tax results of the associate for the year.

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate.

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associate, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

## 1. Significant accounting policies (continued)

### (e) Goodwill

Goodwill represents the excess of the cost of an interest in an associate over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. The carrying amount of goodwill is included in the carrying amount of the interest in the associate.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is tested annually for impairment. The carrying amount of goodwill is included in the carrying amount of the interest in the associate and the investment as a whole is tested for impairment whenever there is objective evidence of impairment (see note 1(j)(ii)).

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of an investment in an associate is recognised immediately in profit or loss.

### (f) Derivative financial instruments and hedging

The Group uses derivative financial instruments such as copper futures contracts and foreign exchange forward contracts to hedge its risks associated with copper price and foreign currency fluctuations. The use of derivative financial instruments is governed by the Group's policies, which provide written principles on the use of derivative financial instruments consistent with the Group's risk management strategy. Such derivative instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives that do not qualify for hedge accounting are taken directly to profit or loss.

The fair value of copper futures and forward foreign currency contracts is calculated by reference to current commodity prices and forward foreign exchange rates for contracts with similar maturity profiles.

For the purpose of hedge accounting, hedges are classified as:

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability, or an unrecognised firm commitment (except for foreign currency risk); or

- cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction, or a foreign currency risk in an unrecognised firm commitment.

## 1. Significant accounting policies (continued)

### (f) Derivative financial instruments and hedging (continued)

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting, the risk management objective and its strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges which meet the criteria for hedge accounting are accounted for as follows:

#### *Fair value hedges*

The change in the fair value of a hedging derivative is recognised in profit or loss, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The change in the fair value of the hedged item attributable to the risk hedged is recorded as a part of the carrying amount of the hedged item and is also recognised in profit or loss.

#### *Cash flow hedges*

Where a derivative financial instrument is designated as a hedge of the variability in cash flow of a highly probable forecast transaction, the effective portion of any gain or loss on remeasurement of the derivative financial instrument to fair value is recognised directly in equity. The ineffective portion of any gain or loss is recognised immediately in profit or loss.

If a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, the associated gain or loss is removed from equity and included in the initial cost or other carrying amount of the non-financial asset or liability.

If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gain or loss is removed from equity and recognised in profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss.

For cash flow hedges, other than those covered by the preceding two policy statements, the associated gain or loss is removed from equity and recognised in profit or loss in the same period or periods during which the hedged forecast transaction affects profit or loss.

When a hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or the entity revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised immediately in profit or loss.

## 1. Significant accounting policies (continued)

### (g) Property, plant and equipment

The following items of property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 1(j)(ii)):

– buildings held for own use which are situated on leasehold land, where the fair value of the building could be measured separately from the fair value of the leasehold land at the inception of the lease (see note 1(h)); and

– other items of plant and equipment.

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of borrowing costs (see note 1(t)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

– Buildings situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 50 years after the date of completion. The estimated useful lives are 40 years.

| | |
|---|---|
| – Machinery, equipment and tools | 20 years |
| – Dies and moulds | 1-2 years |
| – Motor vehicles and other fixed assets | 5 years |

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

Construction in progress represents buildings, various plant and equipment under construction and pending installation, and is stated at cost less impairment losses (see note 1(j)(ii)). Cost comprises direct costs of construction as well as interest charges, and foreign exchange differences on related borrowed funds to the extent that they are regarded as an adjustment to interest charges during the construction period.

Construction in progress is transferred to property, plant and equipment when the asset is substantially ready for its intended use.

No depreciation is provided in respect of construction in progress.

## 1. Significant accounting policies (continued)

### (h) Lease prepayments

Leases of land under which the lessor has not transferred all the risks and benefits of ownership are classified as operating leases. Lease prepayments for land use rights are stated at cost less accumulated amortisation and impairment losses (see note 1(j)(ii)). Amortisation is charged to profit or loss on a straight-line basis over the terms of the respective leases.

### (i) Operating lease charges

Where the Group has the use of assets under operating leases, payments made under the leases are charged to profit or loss in equal installments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

### (j) Impairment of assets

#### *(i) Impairment of trade and other receivables*

Current receivables that are stated at cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

If any such evidence exists, impairment loss is determined and recognised as follows:

For current receivables carried at amortised cost, the impairment loss is measured as the difference between the carrying amount of the financial assets and the present value of estimated future cash flows, discounted at the current market rate of return for a similar financial asset, where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

## 1. Significant accounting policies (continued)

### (j) Impairment of assets (continued)

#### *(i) Impairment of trade and other receivables (continued)*

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the carrying amount of the financial assets exceeding that which would have been determined had no impairment loss been recognised in prior years.

#### *(ii) Impairment of other assets*

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- pre-paid interests in leasehold land classified as being held under an operating lease;
- investments in subsidiaries;
- interest in an associate; and
- goodwill

If any such indication exists, the asset's recoverable amount is estimated.

- Calculation of recoverable amount

  The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

- Recognition of impairment losses

  An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount.

# 1. Significant accounting policies (continued)

## (j) Impairment of assets (continued)

### *(ii) Impairment of other assets (continued)*

– Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

## (k) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and estimated cost necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

## (l) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts (see note 1(j)(i)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts (see note 1(j)(i)).

## 1. Significant accounting policies (continued)

### (m) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

### (n) Trade and other payables

Trade and other payables are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

### (o) Income tax

Income tax for the period comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

Current tax is the expected tax payable/recoverable on the taxable income/loss for the period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exception to recognition of deferred tax assets and liabilities is the temporary difference arising from goodwill not deductible for tax purposes.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

## 1. Significant accounting policies (continued)

### (o) Income tax (continued)

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if, and only if, the Group has the legally enforceable right to set off current tax assets against current tax liabilities.

### (p) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

### (q) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

#### *(i) Sale of goods*

Revenue is recognised in the consolidated income statement when the significant risks and rewards of ownership have been transferred to the buyer. Revenue excludes value added tax and is after deduction of any trade discounts.

#### *(ii) Service income*

Service income is recognised when the related service is rendered.

#### *(iii) Interest income*

Interest income is recognised as it accrues using the effective interest method.

## 1. Significant accounting policies (continued)

### (r) Employee benefits

(i) Salaries, annual bonuses and staff welfare are accrued in the period in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Contributions to appropriate local retirement schemes pursuant to the relevant labour rules and regulations in the PRC are recognised as an expense in the income statement as incurred, except to the extent that they are included in the cost of inventories not yet recognised as an expense.

### (s) Translation of foreign currencies

The functional currency of the Company and its subsidiaries in the PRC are Hong Kong dollars and Renminbi ("RMB") respectively. For the purposes of presenting the consolidated financial statements, the Group adopted RMB as its presentation currency.

Foreign currency transactions during the year are translated into functional currencies at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into functional currencies at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates.

The results of operations outside the PRC are translated into RMB at the exchange rates approximating to the foreign exchange rates ruling at the dates of the transactions. Balance sheet items are translated into RMB at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly in a separate component of equity.

### (t) Borrowing costs

Borrowing costs are expensed in profit or loss in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditures for the asset are being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

## 1. Significant accounting policies (continued)

### (u) Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group or a jointly controlled entity in which the Group is a venturer;

(iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in 1(u)(i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

### (v) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

The Group's operation is regarded as a single segment, being an enterprise engaged in the manufacturing and sale of bare copper wires and magnet wires and providing processing services. In addition, analysis of the Group's turnover and results as well as analysis of the Group's carrying amount of segment assets and additions to property, plant and equipment by geographical market has not been presented as over 90% of the sales are generated from the PRC market.

# Notes to the Financial Statements

*(Expressed in Renminbi Yuan)*

## 2. Turnover

The principal activities of the Group are the manufacturing and sale of bare copper wires and magnet wires and provision of processing services.

The amount of each significant category of revenue recognised during the year is as follows:

| | **2008** **RMB'000** | 2007 RMB'000 |
|---|---|---|
| Sales of bare copper wires | **4,438,671** | 4,161,131 |
| Sales of magnet wires | **2,034,475** | 2,305,638 |
| Processing services | **17,907** | 21,607 |
| | **6,491,053** | 6,488,376 |

The Group's operations are mostly located in the PRC. During the year, a substantial proportion of the Group's products were sold to its customers for further processing and eventual export to overseas countries.

## 3. Other revenue

| | **2008** **RMB'000** | 2007 RMB'000 |
|---|---|---|
| Interest income | **34,667** | 23,028 |
| Income tax refund | **7,109** | – |
| Others | **1,010** | 636 |
| | **42,786** | 23,664 |

## 4. Other net (loss)/income

| | **2008** **RMB'000** | 2007 RMB'000 |
|---|---|---|
| Net exchange gain | **32,089** | 10,117 |
| Gain on sales of scrap materials | **1,228** | 4,275 |
| Loss on disposal of property, plant and equipment | **(106)** | (1,160) |
| Net (loss)/gain on derivative financial instruments | | |
| – copper futures contracts | **(34,702)** | 87,563 |
| – foreign exchange forward contracts | **(68,619)** | 52,987 |
| Others | **186** | 2,580 |
| | **(69,924)** | 156,362 |

## 5. Other operating expenses

| | 2008 RMB'000 | 2007 RMB'000 |
|---|---|---|
| Impairment loss on interest in an associate (note 16) | **10,370** | – |
| Bank charges | **3,729** | 2,326 |
| Others | **916** | 1,461 |
| | **15,015** | 3,787 |

## 6. (Loss)/profit before taxation

(Loss)/profit before taxation is arrived at after charging:

### (i) Finance costs

| | 2008 RMB'000 | 2007 RMB'000 |
|---|---|---|
| Interest expenses | **93,177** | 104,183 |
| Letter of credit charges | **8,389** | 8,100 |
| | **101,566** | 112,283 |

### (ii) Staff costs

| | 2008 RMB'000 | 2007 RMB'000 |
|---|---|---|
| Salaries, wages and other benefits | **46,916** | 45,368 |
| Contributions to defined contribution retirement schemes (note 28(c)) | **3,952** | 3,290 |
| | **50,868** | 48,658 |

## 6. (Loss)/profit before taxation (continued)

### (iii) Other items

| | **2008 RMB'000** | 2007 RMB'000 |
|---|---|---|
| Cost of inventories # (note 17) | **6,481,800** | 6,357,954 |
| Auditors' remuneration – audit services | **2,212** | 1,551 |
| Depreciation # | **29,426** | 30,717 |
| Amortisation of lease prepayments # | **837** | 838 |
| Impairment losses for doubtful debts | **22,769** | 14,485 |
| Impairment loss on associate | **10,370** | – |
| Operating leases charges in respect of properties | **995** | 1,560 |

# Cost of inventories includes RMB 66,987,000 for the year ended 31 December 2008 (2007: RMB 68,741,000), relating to staff costs, depreciation and amortisation of lease prepayments, which are included in the respective total amounts disclosed separately above and in note 6(ii) for each of these types of expenses.

## 7. Income tax credit/(expenses)

(i) Income tax credit/(expenses) in the consolidated income statement represents:

| | **2008 RMB'000** | 2007 RMB'000 |
|---|---|---|
| **Current tax – PRC** | | |
| Provision for the year | **(8,836)** | (6,239) |
| **Deferred tax** | | |
| Origination and reversal of temporary differences (note 24) | **27,166** | (6,598) |
| | **18,330** | (12,837) |

No provision has been made for Hong Kong Profits Tax as the Group did not earn income subject to Hong Kong Profits Tax during the year.

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Group is not subject to any income tax in the Cayman Islands and the British Virgin Islands.

According to the new tax law and Circular Guoshuifa「2007」No. 39 "Notice on Corporate Income Tax Rate for the Transitional Period", the income tax rates applicable to Tai-I Jiang Corp (Guangzhou) Co., Ltd. ("Tai-I Jiang Corp") and Tai-I Copper (Guangzhou) Co., Ltd. ("Tai-I Copper") increase from 15% to 25% over a five year transitional period, being 18% for 2008, 20% for 2009, 22% for 2010, 24% for 2011 and 25% from 2012.

## 7. Income tax (credit)/expenses (continued)

(i) Income tax credit/(expenses) in the consolidated income statement represents: (continued)

Pursuant to the approvals obtained from the relevant PRC tax authorities, being production oriented enterprises established in an Economic and Technological Zone, Tai-I Jiang Corp and Tai-I Copper are entitled to a preferential income tax rate of 18% and are entitled to a tax concession period in which they are fully exempted from PRC income tax for two years commencing from their first profit-making year (after the offset of tax losses brought forward), followed by a 50% reduction in PRC income tax for the next three years. The tax holidays will expire in 2009.

As a result of the completion of a reassessment by the tax authorities during 2008 of the annual PRC income tax filings from 2002 to 2007, the first profit-making year of Tai-I Copper was changed from 2004 to 2005. The first profit-making year of Tai-I Jiang Corp is 2005. Consequently, these subsidiaries were exempted from PRC income tax for 2005 and 2006, and are entitled to a 50% income tax reduction from 2007 to 2009. Therefore the applicable PRC income tax rates in 2007, 2008 and 2009 are 7.5%, 9% and 10% respectively.

These tax rates were used to calculate the Group's deferred tax assets and liabilities as at 31 December 2008.

(ii) Reconciliation between income tax credit/(expenses) and accounting (loss)/profit at applicable tax rates:

| | **2008 RMB'000** | 2007 RMB'000 |
|---|---|---|
| (Loss)/profit before taxation | **(226,756)** | 124,342 |
| Notional tax on (loss)/profit before tax, calculated at the rate applicable to the Group's (loss)/profit in the tax jurisdiction concerned (2008: 18%; 2007: 15%) | **40,816** | (18,651) |
| Effect of tax losses in holding companies | **(5,244)** | (6,784) |
| Effect of share of loss of associate and impairment loss on interest in associate | **(3,822)** | (189) |
| Effect of non-deductible expenses | **(67)** | (185) |
| Effect of non-taxable income | **640** | – |
| Others | **104** | – |
| Effect of PRC tax holidays granted to subsidiaries | **(14,097)** | 12,972 |
| | **18,330** | (12,837) |

## 7. Income tax credit/(expenses) (continued)

(iii) Taxation in the consolidated balance sheet represents:

| | 2008<br>RMB'000 | 2007<br>RMB'000 |
|---|---|---|
| At 1 January | **1,714** | 1,343 |
| Provision for income tax for the year | **8,836** | 6,239 |
| Amounts paid | **(13,307)** | (5,868) |
| At 31 December | **(2,757)** | 1,714 |

## 8. Directors' remuneration

Details of directors' remuneration are as follows:

| | Year ended 31 December 2008 | | | |
|---|---|---|---|---|
| **Name of directors** | **Fee<br>RMB'000** | **Basic salaries, allowances and other benefits<br>RMB'000** | **Bonus<br>RMB'000** | **Total<br>RMB'000** |
| **Executive directors** | | | | |
| Mr. Huang Cheng Roang | **17** | **610** | **–** | **627** |
| Mr. Lin Chi Ta | **17** | **931** | **–** | **948** |
| Mr. Huang Kuo Feng | **17** | **472** | **–** | **489** |
| Mr. Du Chi Ting | **7** | **546** | **–** | **553** |
| **Independent non-executive directors** | | | | |
| Mr. Kang Jung Pao | **212** | **–** | **–** | **212** |
| Mr. Cheng Yang Yi | **212** | **–** | **–** | **212** |
| Mr. Tsay Yang Tzong | **212** | **–** | **–** | **212** |
| Mr. Yan Ming He | **212** | **–** | **–** | **212** |
| Mr. Atsushi Kanayama | **212** | **–** | **–** | **212** |
| Total | **1,118** | **2,559** | **–** | **3,677** |

## 8. Directors' remuneration (continued)

| | Year ended 31 December 2007 | | | |
|---|---|---|---|---|
| Name of directors | Fee<br>RMB'000 | Basic salaries, allowances and other benefits<br>RMB'000 | Bonus<br>RMB'000 | Total<br>RMB'000 |
| **Executive directors** | | | | |
| Mr. Huang Cheng Roang | 29 | 181 | 36 | 246 |
| Mr. Lin Chi Ta | 28 | 220 | 70 | 318 |
| Mr. Huang Kuo Feng | 29 | 130 | 34 | 193 |
| Mr. Du Chi Ting | – | 181 | 35 | 216 |
| **Independent non-executive directors** | | | | |
| Mr. Kang Jung Pao | 240 | – | – | 240 |
| Mr. Cheng Yang Yi | 240 | – | – | 240 |
| Mr. Tsay Yang Tzong | 240 | – | – | 240 |
| Mr. Yan Ming He | 240 | – | – | 240 |
| Mr. Atsushi Kanayama | 240 | – | – | 240 |
| Total | 1,286 | 712 | 175 | 2,173 |

An analysis of directors' remuneration by the number of directors and remuneration range is as follows:

| | **2008** | 2007 |
|---|---|---|
| Nil to RMB1,000,000 | **9** | 9 |

There were no amounts paid during the year (2007: Nil) to the directors in connection with their retirement from employment with the Group, or inducement to join. There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2007: Nil).

## 9. Individuals with highest emoluments

The five highest paid individuals of the Group include 2 directors of the Company during the year ended 31 December 2008 (2007: 3), whose remuneration are reflected in the analysis presented above. Details of remuneration paid to the remaining highest paid individuals of the Group are as follows:

| | **2008**<br>**RMB'000** | 2007<br>RMB'000 |
|---|---|---|
| Basic salaries, allowances and other benefits | **2,157** | 628 |
| Bonus | **–** | 94 |
| | **2,157** | 722 |
| Number of senior management | **3** | 2 |

The above individuals' emoluments are within the band of Nil to RMB 1,000,000.

There were no amounts paid during the year to the five highest paid employees in connection with their retirement from employment with the Group, or inducement to join (2007: Nil).

## 10. (Loss)/profit for the year attributable to equity holders of the Company

The consolidated loss for the year attributable to equity holders of the Company includes a loss of RMB 22,556,000 (2007: RMB 28,818,000) which has been dealt with in the financial statements of the Company.

Reconciliation of the above amount to the Company's profit/(loss) for the years:

| | **2008**<br>**RMB'000** | 2007<br>RMB'000 |
|---|---|---|
| Amount of consolidated loss attributable to equity holders dealt with in the Company's financial statements | **(22,556)** | (28,818) |
| Dividends from a subsidiary attributable to the profit of the previous financial year, approved and paid during the year | **32,338** | – |
| Company's profit/(loss) for the year (note 25(b)) | **9,782** | (28,818) |

## 11. Dividends

| | 2008 RMB'000 | 2007 RMB'000 |
|---|---|---|
| Final dividend proposed after the balance sheet date of HK$ 6 cents per share | – | 32,400 |
| Final dividend in respect of the previous financial year, approved and paid during the year, of HK$ 6 cents per share | 32,338 | – |

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

## 12. Basic and diluted (loss)/earnings per share

The calculation of basic and diluted loss per share for the year ended 31 December 2008 is based on the loss attributable to equity holders of the Company of RMB 208,426,000 (2007: the profit of RMB 111,505,000) and the weighted average of 598,963,167 (2007:587,671,233) shares in issue during the year, calculated as follows:

| | 2008 Number of shares | 2007 Number of shares |
|---|---|---|
| Ordinary shares issued at 1 January | 600,000,000 | 450,000,000 |
| Effect of issuance of shares for placing and public offering | – | 137,671,233 |
| Effect of shares repurchased (note 25(c) (iii)) | (1,036,833) | – |
| Weighted average number of shares at 31 December | 598,963,167 | 587,671,233 |

There were no dilutive potential ordinary shares in issue as at 31 December 2008 (2007: Nil).

## 13. Property, plant and equipment

### The Group

| | Buildings RMB'000 | Machinery, equipment and tools RMB'000 | Dies and moulds RMB'000 | Motor vehicles and other fixed assets RMB'000 | Construction in progress RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| **Cost:** | | | | | | |
| At 1 January 2007 | 186,162 | 435,765 | 11,877 | 13,770 | 237 | 647,811 |
| Additions | 446 | 10,145 | 3,307 | 2,161 | 67 | 16,126 |
| Transfer from construction in progress | – | 304 | – | – | (304) | – |
| Disposals | – | (1,868) | (8,239) | (314) | – | (10,421) |
| At 31 December 2007 | 186,608 | 444,346 | 6,945 | 15,617 | – | 653,516 |
| Additions | 13 | 410 | 1,438 | 346 | 223 | 2,430 |
| Disposals | – | (579) | (4,017) | (190) | – | (4,786) |
| **At 31 December 2008** | **186,621** | **444,177** | **4,366** | **15,773** | **223** | **651,160** |
| **Accumulated depreciation:** | | | | | | |
| At 1 January 2007 | (27,929) | (124,183) | (7,358) | (7,648) | – | (167,118) |
| Charge for the year | (4,207) | (19,998) | (4,630) | (1,882) | – | (30,717) |
| Written back on disposal | – | 673 | 8,239 | 282 | – | 9,194 |
| At 31 December 2007 | (32,136) | (143,508) | (3,749) | (9,248) | – | (188,641) |
| Charge for the year | (4,212) | (20,499) | (2,962) | (1,753) | – | (29,426) |
| Written back on disposal | – | 489 | 4,017 | 168 | – | 4,674 |
| **At 31 December 2008** | **(36,348)** | **(163,518)** | **(2,694)** | **(10,833)** | **–** | **(213,393)** |
| **Net book value:** | | | | | | |
| **At 31 December 2008** | **150,273** | **280,659** | **1,672** | **4,940** | **223** | **437,767** |
| At 31 December 2007 | 154,472 | 300,838 | 3,196 | 6,369 | – | 464,875 |

## 13. Property, plant and equipment (continued)

### The Company

| | **Motor vehicles and other fixed assets** RMB'000 |
|---|---|
| **Cost:** | |
| At 1 January 2007 | – |
| Additions | 358 |
| At 31 December 2007 | 358 |
| Additions | – |
| At 31 December 2008 | 358 |
| **Accumulated depreciation:** | |
| At 1 January 2007 | – |
| Charge for the year | (113) |
| At 31 December 2007 | (113) |
| Change for the year | (148) |
| At 31 December 2008 | (261) |
| **Net book value:** | |
| At 31 December 2008 | 97 |
| At 31 December 2007 | 245 |

(i) All of the Group's buildings are located in the PRC.

(ii) As at 31 December 2008, buildings with a carrying amount of RMB 89,059,000 (2007: RMB 91,621,000), were pledged to a bank for certain banking facilities and bank loans (see note 22).

(iii) As at 31 December 2008, machinery, equipment and tools with carrying amounts of RMB 170,546,000 (2007: RMB 183,978,000), were pledged to a bank for letters of credit and commercial bills issued which were subsequently converted to short-term bank loans (see note 22).

## 14. Lease prepayments

| | The Group | |
|---|---|---|
| | **2008** | 2007 |
| | **RMB'000** | RMB'000 |
| At 1 January | **33,020** | 33,858 |
| Less: Amortisation | **(837)** | (838) |
| At 31 December | **32,183** | 33,020 |

Lease prepayments represent payments for land use rights of two pieces of land situated in the PRC on which the Group's buildings are erected. The two leases run for an initial period of 50 years commencing on 23 May 1997.

As at 31 December 2008 land use rights with a carrying amount of RMB 32,183,000 (2007: RMB 33,020,000) were pledged to a bank for certain banking facilities and bank loans (see note 22).

## 15. Investments in subsidiaries

| | The Company | |
|---|---|---|
| | **2008** | 2007 |
| | **RMB'000** | RMB'000 |
| Unlisted shares, at cost | **659,630** | 618,751 |

Details of the principal subsidiaries at 31 December 2008 are as follows:

| **Name of subsidiary** | **Place of incorporation/ establishment and operation** | **Percentage of equity attributable to the Company** | | **Issued and fully paid up/ registered capital** | **Principal activities** |
|---|---|---|---|---|---|
| | | **Direct** | **Indirect** | | |
| | | % | % | (in thousands) | |
| Tai-I Copper (BVI) Limited | BVI | 100% | – | US$25,150 | Investment holding |
| Tai-I Jiang Corp | PRC | – | 100% | US$29,000 | Manufacture and sale of bare copper wires |
| Tai-I Copper | PRC | – | 100% | US$41,100 | Manufacture and sale of magnet wires |

Note:

(i) All the subsidiaries incorporated in the PRC are wholly foreign-owned enterprises.

The amount due to a subsidiary is unsecured, non-interest bearing and repayable on demand.

## 16. Interest in an associate

| | The Group 2008 RMB'000 | 2007 RMB'000 |
|---|---|---|
| Share of net assets | **17,544** | 28,409 |
| Goodwill arising on acquisition | **10,370** | 10,370 |
| | **27,914** | 38,779 |
| Less: Impairment on goodwill | **(10,370)** | – |
| | **17,544** | 38,779 |

Interest in an associate represents investment in the equity interest of JCC-Taiyi Special Electric Material Co., Ltd. ("JCC-Taiyi"), an entity established in the PRC. The principal activities of JCC-Taiyi are the manufacturing and sales of bare copper wires and magnet wires. The Group, through its wholly owned subsidiary, Tai-I Copper, held 30% equity interest in JCC-Taiyi as at 31 December 2008.

The summary of financial information based on the audited management accounts of the associate is shown as follows:

**2008**

| | Assets RMB'000 | Liabilities RMB'000 | Revenue RMB'000 | Loss after tax RMB'000 |
|---|---|---|---|---|
| 100 percent | **311,479** | **(253,000)** | **461,390** | **(36,217)** |
| The Group's effective interest | **93,444** | **(75,900)** | **138,417** | **(10,865)** |

2007

| | Assets RMB'000 | Liabilities RMB'000 | Post-acquisition revenue RMB'000 | Post-acquisition loss after tax RMB'000 |
|---|---|---|---|---|
| 100 percent | 367,084 | (272,386) | 164,008 | (4,200) |
| The Group's effective interest | 110,125 | (81,716) | 49,202 | (1,260) |

## 17. Inventories

Inventories comprise:

| | The Group 2008 RMB'000 | 2007 RMB'000 |
|---|---|---|
| Raw materials | **31,056** | 181,313 |
| Work in progress | **25,145** | 27,677 |
| Finished goods | **168,408** | 130,560 |
| Low value consumables | **5,916** | 6,001 |
| | **230,525** | 345,551 |

The net realisable value of the majority of the inventories is closely related to the commodity market price for copper. The commodity price risk in this regard is discussed in note 29(e).

The analysis of the amount of inventories recognised as an expense is as follows:

| | The Group 2008 RMB'000 | 2007 RMB'000 |
|---|---|---|
| Carrying amount of inventories sold | **6,457,618** | 6,383,999 |
| Realised loss/(gain) on derivative financial instruments | **24,182** | (26,045) |
| | **6,481,800** | 6,357,954 |

As at 31 December 2008, inventories with a carrying amount of RMB 100,000,000 (2007: Nil) were pledged to a bank for bank loans (see note 22).

## 18. Trade and other receivables

| | | The Group | | The Company | |
|---|---|---|---|---|---|
| | | **2008** | 2007 | **2008** | 2007 |
| | | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Trade receivables | (i) | **325,732** | 859,838 | **–** | – |
| Bills receivable (note 22 (ii)) | (i) | **151,384** | 247,915 | **–** | – |
| | | **477,116** | 1,107,753 | **–** | – |
| Deposits and prepayments made to suppliers | (ii) | **376,681** | 136,983 | **–** | – |
| Other receivables | | **61,343** | 65,376 | **494** | 625 |
| Deposits for derivative financial instruments | (iii) | **62,558** | 28,877 | **–** | – |
| | | **977,698** | 1,338,989 | **494** | 625 |

All of the trade and other receivables are expected to be recovered within one year.

(i) Included in trade and other receivables are trade receivables and bills receivable with the following ageing analysis as of the balance sheet date:

| | The Group | |
|---|---|---|
| **Invoice date:** | **2008** | 2007 |
| | **RMB'000** | RMB'000 |
| Within 1 month | **357,773** | 712,977 |
| Over 1 month but less than 3 months | **55,646** | 270,997 |
| Over 3 months but less than 1 year | **58,467** | 117,217 |
| Over 1 year but less than 2 years | **26,475** | 17,643 |
| Over 2 years | **16,009** | 3,404 |
| | **514,370** | 1,122,238 |
| Less: Impairment losses for doubtful debts | **(37,254)** | (14,485) |
| | **477,116** | 1,107,753 |

## 18. Trade and other receivables (continued)

(i) (continued)

The movement in the allowance for doubtful debts during the year is as follows:

| | The Group | |
|---|---|---|
| | **2008** | 2007 |
| | **RMB'000** | RMB'000 |
| At 1 January | **14,485** | – |
| Impairment loss recognised during the year | **27,024** | 14,485 |
| Reversed during the year | **(4,255)** | – |
| At 31 December | **37,254** | 14,485 |

During the year, credit terms granted to customers of bare copper wire were different from those granted to customers of magnet wire. Customers of bare copper wire were usually required to settle the payment in full prior to delivery or at each month end. For customers of magnet wire, credit terms granted ranged from 30 days to 60 days. The credit terms granted to each customer vary depending on the customers' relationship with the Group, its creditworthiness and settlement record.

(ii) According to the terms of purchase of copper plate entered into with the Group's suppliers, the Group is usually required to place certain deposits and/or make prepayment prior to delivery. Those deposits are generally refundable upon termination of the respective purchase contracts. The prepayments made are to offset with the invoiced amount of the copper plate delivered.

(iii) The Group has placed deposits with futures agents for copper futures contracts entered into in the normal course of business.

## 19. Derivative financial instruments

| | The Group | | | | The Company | | | |
|---|---|---|---|---|---|---|---|---|
| | **2008** | | 2007 | | **2008** | | 2007 | |
| | **Assets RMB'000** | **Liabilities RMB'000** | Assets RMB'000 | Liabilities RMB'000 | **Assets RMB'000** | **Liabilities RMB'000** | Assets RMB'000 | Liabilities RMB'000 |
| Unrealised copper futures contracts | | | | | | | | |
| – under cash flow hedge accounting | **–** | **(26,980)** | – | – | **–** | **–** | – | – |
| – under fair value hedge accounting | **–** | **(109)** | – | (361) | **–** | **–** | – | – |
| – not qualifying for hedge accounting | **–** | **(10,430)** | – | – | **–** | **–** | – | – |
| | **–** | **(37,519)** | – | (361) | **–** | **–** | – | – |
| Unrealised foreign exchange forward contracts | | | | | | | | |
| – under fair value hedge accounting | **–** | **–** | 10,992 | – | **–** | **–** | – | – |
| – not qualifying for hedge accounting | **16,171** | **(70,452)** | 76,811 | (38,483) | **–** | **–** | – | (21,897) |
| | **16,171** | **(70,452)** | 87,803 | (38,483) | **–** | **–** | – | (21,897) |
| | **16,171** | **(107,971)** | 87,803 | (38,844) | **–** | **–** | – | (21,897) |

## 19. Derivative financial instruments (continued)

### (a) Copper futures contracts

The Group enters into copper futures contracts traded on the Shanghai Futures Exchange and London Metals Exchange. For copper futures contracts that meet the requirements for hedge accounting (see note 1(f)), the Group's policy is to designate the related derivative as a fair value hedge or cash flow hedge. The notional contract value and the related terms are summarised as follows:

| | The Group | |
|---|---|---|
| | **2008** | 2007 |
| | **RMB'000** | RMB'000 |
| **Sales contracts** | | |
| Volume (tonne) | **75** | 1,525 |
| Notional contract value | **1,469** | 87,986 |
| Market value | **1,575** | 88,872 |
| Fair value | **(106)** | (886) |
| **Purchase contracts** | | |
| Volume (tonne) | **4,165** | 1,590 |
| Notional contract value | **133,939** | 91,113 |
| Market value | **96,526** | 91,638 |
| Fair value | **(37,413)** | 525 |
| | **(37,519)** | (361) |
| **Contract maturity months** | **January, February March, April, May, June July and November 2009** | January, February March, April and May 2008 |

The market value of futures contracts is based on quoted market prices at the balance sheet date. The commodity price risk related to the price of copper is discussed in note 29(e).

As at 31 December 2008, copper futures contracts designated as fair value hedges to inventories with unrealised losses of RMB 109,000 (2007: RMB 361,000) arising from the changes in fair value of these derivative instruments are recognised in the profit or loss account for the year.

As at 31 December 2008, certain copper futures contracts designated as cash flow hedges to highly probable forecast transactions were assessed to be highly effective and the unrealised losses of RMB 26,980,000 (2007: Nil) arising from the changes in fair value of these derivative instruments are included in equity. Such unrealised losses are expected to be transferred to profit or loss when the designated forecast transactions occur. The portion assessed as ineffective of RMB 10,430,000 (2007: Nil) is recognised in the profit or loss for the year.

## 19. Derivative financial instruments (continued)

### (b) Foreign exchange foreign contracts

For foreign exchange forward contracts that meet the requirements for hedge accounting (see note 1(f)), the Group's policy is to designate the related derivative as a fair value hedge or cash flow hedge. The notional contract value and the related terms are summarised as follows:

**At 31 December 2008**

| | The Group | | | | The Company | | | |
|---|---|---|---|---|---|---|---|---|
| | Weighted average contracted rate | Weighted average market rate | Notional amount US$'000 | Fair value RMB'000 | Weighted average contracted rate | Weighted average market rate | Notional amount US$'0000 | Fair value RMB'000 |
| **Buy RMB/Sell US$** | | | | | | | | |
| Less than 3 months | 6.6953 | 6.8343 | (188,800) | (26,234) | – | – | – | – |
| 3 to 6 months | 6.6675 | 6.8394 | (159,000) | (27,332) | – | – | – | – |
| 6 months to 1 year | 6.7805 | 6.8745 | (216,000) | (20,307) | – | – | | – |
| | | | (563,800) | (73,873) | | | – | – |
| **Sell RMB/Buy US$** | | | | | | | | |
| Less than 3 months | 6.5231 | 6.8460 | 9,000 | 2,906 | – | – | – | – |
| 3 to 6 months | 6.6031 | 6.8626 | 21,000 | 5,450 | – | – | – | – |
| 6 months to 1 year | 6.6780 | 6.8823 | 55,000 | 11,236 | – | – | – | – |
| | | | 85,000 | 19,592 | | | – | – |
| | | | (478,800) | (54,281) | | | – | – |

## 19. Derivative financial instruments (continued)

### (b) Foreign exchange foreign contracts (continued)

At 31 December 2007

| | The Group | | | | The Company | | | |
|---|---|---|---|---|---|---|---|---|
| | Weighted average contracted rate | Weighted average market rate | Notional amount US$'000 | Fair value RMB'000 | Weighted average contracted rate | Weighted average market rate | Notional amount US$'0000 | Fair value RMB'000 |
| **Buy RMB/Sell US$** | | | | | | | | |
| Less than 3 months | 7.4100 | 7.2003 | (76,690) | 16,083 | – | – | – | – |
| 3 to 6 months | 7.3938 | 7.0985 | (111,000) | 32,780 | – | – | – | – |
| 6 months to 1 year | 7.2052 | 6.9329 | (143,000) | 38,940 | – | – | – | – |
| | | | (330,690) | 87,803 | | | – | – |
| **Sell RMB/Buy US$** | | | | | | | | |
| Less than 3 months | 7.3140 | 7.2374 | 84,600 | (6,482) | – | – | – | – |
| 3 to 6 months | 7.2851 | 7.1115 | 93,000 | (16,143) | 7.3203 | 7.1349 | 40,000 | (7,415) |
| 6 months to 1 year | 7.0778 | 6.9109 | 95,000 | (15,858) | 7.0752 | 6.9161 | 91,000 | (14,482) |
| | | | 272,600 | (38,483) | | | 131,000 | (21,897) |
| | | | (58,090) | 49,320 | | | 131,000 | (21,897) |

The above derivatives are measured at fair value based on the valuation provided by banks at the balance sheet date. As none of the foreign exchange forward contacts met the requirements for cash flow hedge accounting (see note 1(f)), the net (losses)/gains arising from changes in the fair value were all recognised in the profit or loss account for the year. The foreign currency risk related to these contracts is discussed in note 29(d).

## 20. Pledged deposits

Pledged deposits can be analysed as follows:

| | The Group | |
|---|---|---|
| | **2008** | 2007 |
| | **RMB'000** | RMB'000 |
| Guarantee deposits for issuance of commercial bills and letters of credit (note 22) | **788,258** | 875,178 |

Pledged deposits earn interest at a rate ranging from 0.36% to 4.14% per annum (2007: 0.72% to 5.43%).

## 21. Cash and cash equivalents

An analysis of the balance of cash and cash equivalents is set out below:

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Cash on hand | **155** | 102 | **2** | 2 |
| Deposits on demand | **290,861** | 340,193 | **436** | 1,128 |
| Time deposits | **289,100** | 209,907 | **–** | 14,907 |
| | **580,116** | 550,202 | **438** | 16,037 |
| Less: Time deposits with original maturity more than 3 months | **289,100** | 209,907 | **–** | 14,907 |
| Cash and cash equivalents in the consolidated cash flow statement | **291,016** | 340,295 | **438** | 1,130 |

## 22. Bank loans

| | | The Group | |
|---|---|---|---|
| | | **2008** | 2007 |
| | | **RMB'000** | RMB'000 |
| **Current** | | | |
| Bank loans and borrowings | | | |
| – Secured | (i) | **1,281,205** | 876,712 |
| – Unsecured | | **–** | 329,608 |
| – Bank advances under discounted bills | (ii) | **141,098** | 189,579 |
| | | **1,422,303** | 1,395,899 |

All bank loans during the year are interest-bearing, with fixed rates that ranged from 1.96% to 8.96% during the year ended 31 December 2008 (2007: 5.47% to 10.13%).

(i) Current secured bank loans as at 31 December 2008 were secured by the Group's buildings with a carrying amount of RMB 89,059,000 (2007: RMB 91,621,000), land use rights with carrying amounts of RMB 32,183,000 (2007: RMB 33,020,000) and inventories with a carrying amount of RMB 100,000,000 (2007: Nil).

Certain letters of credit and commercial bills issued and subsequently converted to short-term trust receipt loans as at 31 December 2008 and 2007 were secured by the Group's pledged deposits (see note 20) and certain machinery, equipment and tools with carrying amounts of RMB 170,546,000 (2007: RMB183,978,000).

(ii) The Group's discounted bills with recourse have been accounted for as collateralised bank advances. The discounted bills receivable and the related proceeds of the same amount are included in the Group's "Bills receivable" and "Bank advances under discounted bills" as at the balance sheet date.

## 23. Trade and other payables

| | | The Group | | The Company | |
|---|---|---|---|---|---|
| | | **2008** | 2007 | **2008** | 2007 |
| | | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Trade creditors | (i) | **621,772** | 1,068,409 | **–** | – |
| Bills payable | (ii) | **302,956** | 310,966 | **–** | – |
| | | **924,728** | 1,379,375 | **–** | – |
| Non-trade payables and accrued expenses | | **93,593** | 73,521 | **256** | 192 |
| Other taxes payable | | **1,406** | 5,101 | **–** | – |
| | | **1,019,727** | 1,457,997 | **256** | 192 |

All of the trade and other payables are expected to be settled within one year.

Included in trade and other payables are trade creditors and bills payables with the following ageing analysis as of the balance sheet date:

| | The Group | |
|---|---|---|
| | **2008** | 2007 |
| | **RMB'000** | RMB'000 |
| Due within 3 months or on demand | **692,118** | 1,220,886 |
| Due after 3 months but within 6 months | **231,996** | 158,139 |
| Due after 6 months but within 1 year | **219** | 184 |
| Due after 1 year but within 2 years | **229** | 166 |
| Due after 2 years | **166** | – |
| | **924,728** | 1,379,375 |

(i) Certain letters of credit issued for the settlement of trade creditors were secured by pledged deposits (see note 20). As at 31 December 2008, outstanding letters of credit included in trade creditors amounted to RMB 614,196,000 (2007: RMB 759,475,000).

(ii) Certain bills payable outstanding as at 31 December 2008 were secured by the Group's machinery, equipment and tools with carrying amounts of RMB 170,546,000 (2007: RMB 183,978,000).

## 24. Deferred tax assets/(liabilities)

The components of deferred tax assets/(liabilities) recognised in the consolidated balance sheet and the movements during the year are shown as follows:

### The Group

| | Unrealised (gain)/loss on derivative financial instruments RMB'000 | Impairment losses for doubtful debt RMB'000 | Unutilised tax losses RMB'000 | Cash flow hedges RMB'000 | Others RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| At 1 January 2007 | – | – | – | – | – | – |
| Credited/(charged) to profit or loss | (7,902) | 1,304 | – | – | – | (6,598) |
| At 31 December 2007 | (7,902) | 1,304 | – | – | – | (6,598) |
| **At 1 January 2008** | **(7,902)** | **1,304** | **–** | **–** | **–** | **(6,598)** |
| Credited to profit or loss | **15,763** | **2,421** | **1,778** | **–** | **7,204** | **27,166** |
| Credited to reserves | **–** | **–** | **–** | **3,843** | **–** | **3,843** |
| **At 31 December 2008** | **7,861** | **3,725** | **1,778** | **3,843** | **7,204** | **24,411** |

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is considered probable.

| | The Group 2008 RMB'000 | 2007 RMB'000 |
|---|---|---|
| Net deferred tax assets recognised on the balance sheet | **24,411** | – |
| Net deferred tax liabilities recognised on the balance sheet | **–** | (6,598) |
| | **24,411** | (6,598) |

## 25. Share capital and reserves

### (a) The Group

| | Attributable to equity holders of the Company | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Share capital** RMB'000 | **Share premium** RMB'000 | **Merger reserve** RMB'000 | **PRC Statutory reserve** RMB'000 | **Exchange reserve** RMB'000 | **Hedging reserve** RMB'000 | **Retained earnings/ (accumulated losses)** RMB'000 | **Total** RMB'000 |
| At 1 January 2007 | – | – | 418,938 | 18,701 | – | – | 65,917 | 503,556 |
| Capitalisation issue | 4,500 | (4,500) | – | – | – | – | – | – |
| Issuance of shares for placing and public offer | 1,500 | 250,483 | – | – | – | – | – | 251,983 |
| Share issue costs | – | (31,221) | – | – | – | – | – | (31,221) |
| Profit for the year | – | – | – | – | – | – | 111,505 | 111,505 |
| Exchange differences on translation of financial statements of companies outside the PRC | – | – | – | – | (2,478) | – | – | (2,478) |
| Transfer to reserve | – | – | – | 7,558 | – | – | (7,558) | – |
| At 31 December 2007 | 6,000 | 214,762 | 418,938 | 26,259 | (2,478) | – | 169,864 | 833,345 |
| **At 1 January 2008** | **6,000** | **214,762** | **418,938** | **26,259** | **(2,478)** | **–** | **169,864** | **833,345** |
| Dividends declared and approved during the year | **–** | **–** | **(32,338)** | **–** | **–** | **–** | **–** | **(32,338)** |
| Loss for the year | **–** | **–** | **–** | **–** | **–** | **–** | **(208,426)** | **(208,426)** |
| Cash flow hedges: effective portion of changes in fair value | | | | | | | | |
| – realised portion | **–** | **–** | **–** | **–** | **–** | **(35,992)** | **–** | **(35,992)** |
| – unrealised portion (note 19(a)) | **–** | **–** | **–** | **–** | **–** | **(26,980)** | **–** | **(26,980)** |
| – deferred tax credited (note 24) | **–** | **–** | **–** | **–** | **–** | **3,843** | **–** | **3,843** |
| Cash flow hedges: transfer from equity to profit or loss | **–** | **–** | **–** | **–** | **–** | **24,073** | **–** | **24,073** |
| Exchange differences on translation of financial statements of companies outside the PRC | **–** | **–** | **–** | **–** | **1,623** | **–** | **–** | **1,623** |
| Shares repurchased | **(34)** | **(1,685)** | **–** | **–** | **–** | **–** | **–** | **(1,719)** |
| **At 31 December 2008** | **5,966** | **213,077** | **386,600** | **26,259** | **(855)** | **(35,056)** | **(38,562)** | **557,429** |

## 25. Share capital and reserves (continued)

### (b) The Company

| | Attributable to equity holders of the Company | | | | | |
|---|---|---|---|---|---|---|
| | **Share capital** RMB'000 | **Share premium** RMB'000 | **Contributed surplus** RMB'000 | **Exchange reserve** RMB'000 | **Accumulated losses** RMB'000 | **Total** RMB'000 |
| At 1 January 2007 | – | – | 464,996 | – | – | 464,996 |
| Capitalisation issue | 4,500 | (4,500) | – | – | – | – |
| Issuance of shares for placing and public offer | 1,500 | 250,483 | – | – | – | 251,983 |
| Share issue costs | – | (31,221) | – | – | – | (31,221) |
| Loss for the year (note 10) | – | – | – | – | (28,818) | (28,818) |
| Exchange difference on translation of financial statements of the Company | – | – | – | (43,371) | – | (43,371) |
| At 31 December 2007 | 6,000 | 214,762 | 464,996 | (43,371) | (28,818) | 613,569 |
| **At 1 January 2008** | **6,000** | **214,762** | **464,996** | **(43,371)** | **(28,818)** | **613,569** |
| Profit for the year (note 10) | **–** | **–** | **–** | **–** | **9,782** | **9,782** |
| Dividends declared and approved during the year | **–** | **–** | **(32,338)** | **–** | **–** | **(32,338)** |
| Exchange difference on translation of financial statements of the Company | **–** | **–** | **–** | **41,253** | **–** | **41,253** |
| Shares repurchased | **(34)** | **(1,685)** | **–** | **–** | **–** | **(1,719)** |
| **At 31 December 2008** | **5,966** | **213,077** | **432,658** | **(2,118)** | **(19,036)** | **630,547** |

*(Expressed in Renminbi Yuan)*

## 25. Share capital and reserves (continued)

### (c) Share capital

| | Note | 2008 Number of shares | 2008 Amount HK$ | 2007 Number of shares | 2007 Amount HK$ |
|---|---|---|---|---|---|
| **Authorised:** | | | | | |
| Ordinary shares of HK$0.01 each | | **1,000,000,000** | **10,000,000** | 1,000,000,000 | 10,000,000 |
| **Issued and fully paid:** | | | | | |
| At 1 January | | **600,000,000** | **6,000,000** | 10,000 | 100 |
| Capitalisation issue | (i) | **–** | **–** | 449,990,000 | 4,499,900 |
| Issuance of shares for placing and public offering | (ii) | **–** | **–** | 150,000,000 | 1,500,000 |
| Shares repurchased | (iii) | **(3,382,000)** | **(33,820)** | – | – |
| At 31 December | | **596,618,000** | **5,966,180** | 600,000,000 | 6,000,000 |
| | | | **RMB equivalent** | | RMB equivalent |
| | | | **5,966,180** | | 6,000,000 |

#### *(i) Capitalisation issue*

On 11 January 2007, an amount of HK$4,499,900 standing to the credit of the share premium account was applied in paying up in full 449,990,000 ordinary shares of HK$ 0.01 each which were allotted and distributed as fully paid to the holders of shares whose names appear on the register of members of the Company at close of business on 18 December 2006.

#### *(ii) Issuance of shares for placing and public offering*

On 11 January 2007, an aggregate of 150,000,000 ordinary shares of HK$0.01 each were issued and offered for subscription at a price of HK$1.66 per share upon the listing of the Company's shares on the Stock Exchange of Hong Kong Limited. The Group raised approximately HK$220,762,000 net of related expenses from the share offer.

## 25. Share capital and reserves (continued)

### (c) Share capital (continued)

#### *(iii) Shares repurchased*

During the year, the Company repurchased its own ordinary shares through the Stock Exchange as follows:

| Month/year of the repurchases | Number of shares repurchased | Highest price paid per share HKD | Lowest price paid per share HKD | Aggregate price paid HKD'000 |
|---|---|---|---|---|
| September 2008 | 2,318,000 | 0.60 | 0.55 | 1,381 |
| October 2008 | 1,042,000 | 0.59 | 0.33 | 557 |
| November 2008 | 22,000 | 0.34 | 0.29 | 7 |
| | 3,382,000 | | | 1,945 |
| | | | | RMB equivalent RMB'000 |
| | | | | 1,719 |

The repurchased shares were cancelled and accordingly the issued share capital of the Company was reduced by the nominal value of these shares. The premium paid on the repurchase of the shares was charged to share premium.

### (d) Nature and purpose of reserves

#### *(i) Share premium*

The application of the share premium account is governed by the Companies Law of the Cayman Islands.

#### *(ii) Merger reserve*

The merger reserve represents the difference between the nominal value of shares of the subsidiaries acquired over the nominal value of the shares used by the Company in exchange thereafter. This reserve is distributable.

## 25. Share capital and reserves (continued)

### (d) Nature and purpose of reserves (continued)

#### *(iii) PRC statutory reserve*

Transfers from retained earnings to general reserve fund were made in accordance with the relevant PRC rules and regulations and the articles of association of the Company's subsidiaries established in the PRC and were approved by the respective boards of directors.

The general reserve fund can be used to make good previous year's losses, if any, and may be converted into paid-up capital provided that the balance of the general reserve fund after such conversion is not less than 25% of the PRC subsidiary's registered capital.

Each PRC wholly-owned subsidiary is required to transfer a minimum of 10% of its net profit, as determined in accordance with the PRC accounting rules and regulations, to the general reserve fund until the reserve balance reaches 50% of its registered capital. The transfer to this fund must be made before distribution of dividends to equity holders.

#### *(iv) Exchange reserve*

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of companies outside of the PRC. The reserve is dealt with in accordance with the accounting policy set out in note 1(s).

#### *(v) Hedging reserve*

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges of forecast copper purchase transaction matched to confirmed sales orders pending subsequent recognition of the hedged cash flow in accordance with the accounting policy adopted for cash flow hedges in note 1(f).

### (e) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

Consistent with industry practice, the Group monitors its capital structure on the basis of a net debt-to-adjusted capital ratio. For this purpose, the Group defines net debt as bank loans (net of pledged deposits) plus unaccrued proposed dividends, less cash and cash equivalents. Adjusted capital comprises all components of total equity less unaccrued proposed dividends.

## 25. Share capital and reserves (continued)

### (e) Capital management (continued)

During 2008, the Group's strategy was to maintain the net debt-to-adjusted capital ratio at the lower end of the range 20% to 70%.

The net debt-to-adjusted capital ratio at 31 December 2008 and 2007 is as follows:

| | | The Group | | The Company | |
|---|---|---|---|---|---|
| | | **2008** | 2007 | **2008** | 2007 |
| | Note | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Current liabilities | | | | | |
| Bank loans | 22 | **1,422,303** | 1,395,899 | **–** | – |
| **Total debt** | | **1,422,303** | 1,395,899 | **–** | – |
| Add: Proposed dividends | | **–** | 32,400 | **–** | 32,400 |
| Less: Cash and cash equivalents | 21 | **(291,016)** | (340,295) | **(438)** | (1,130) |
| Pledged deposits | 20 | **(788,258)** | (875,178) | **–** | – |
| **Net debt** | | **343,029** | 212,826 | **(438)** | 31,270 |
| Total equity | 25 | **557,429** | 833,345 | **630,547** | 613,569 |
| Less: Proposed dividends | | **–** | (32,400) | **–** | (32,400) |
| **Adjusted capital** | | **557,429** | 800,945 | **630,547** | 581,169 |
| **Net debt-to-adjusted capital ratio** | | **62%** | 27% | **0%** | 5% |

Neither the Company nor any subsidiaries are subject to externally imposed capital requirements.

## 26. Commitments

### (i) Capital commitments

Outstanding capital commitments at 31 December 2008 not provided for in the financial statements were as follows:

| | The Group | |
|---|---|---|
| | **As at 31.12.2008 RMB'000** | As at 31.12.2007 RMB'000 |
| Contracted | **16,582** | – |

### (ii) Lease commitments

At 31 December 2008, the total future minimum lease payments under non-cancellable operating leases in respect of properties are payable as follows:

| | The Group | |
|---|---|---|
| | **2008 RMB'000** | 2007 RMB'000 |
| Less than one year | **858** | 1,490 |
| Between one and two years | **128** | 47 |
| Between two and three years | **9** | 23 |
| | **995** | 1,560 |

The Group leased a number of properties under operating lease during the year. None of the leases includes contingent rentals.

## 27. Retirement benefits

As stipulated by the regulations of the PRC, the Group's subsidiaries in the PRC participate in basic defined contribution retirement schemes organised by the respective municipal governments under which they are governed. Details of the schemes of the subsidiaries, Tai-I Jiang Corp and Tai-I Copper, are as follows:

| Administrator | Beneficiary | Contribution rate |
|---|---|---|
| Guangzhou Municipal Government, Guangdong Province | Employees of Tai-I Jiang Corp and Tai-I Copper | 12%-20% |

All employees are entitled to retirement benefits equal to a fixed proportion of their salaries and benefits in kind prevailing at their normal retirement ages.

The Group has no other material obligation for the payment of retirement benefits associated with this scheme beyond the contributions described above.

## 28. Related party transactions

**(a)** No related party transactions were identified during the two years ended 31 December 2008.

### (b) Remuneration to key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including directors and supervisors of the Group. The compensation of key management personnel is as follows:

| | The Group | |
|---|---|---|
| | **2008** | 2007 |
| | **RMB'000** | RMB'000 |
| Short-term employee benefits | **7,873** | 2,516 |

### (c) Contributions to defined contribution retirement plans

The Group participates in defined contribution retirement plans organised by municipal government for its employees. The details of the Group's employee benefits plan are disclosed in note 27. As at 31 December 2008, there was no material outstanding contribution to post-employment benefit plans (2007: Nil).

## 29. Financial risk management and fair values

Exposure to credit, liquidity, interest rate, currency and commodity price risks arises in the normal course of the Group's business.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

### (a) Credit risk

The Group's credit risk is primarily attributable to trade and bills receivables, deposits and prepayments made to suppliers, cash and cash equivalents, pledged and time deposits. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Customers of bare copper wire are usually required to settle the payment in full prior to delivery or at each month end. For customers of magnet wire, credit terms granted range from 30 days to 60 days. Customers with balances overdue are normally requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not collect collateral from its customers.

At the balance sheet dates, the Group has no significant concentrations of credit risk with any of its customers.

The Group's bills receivable are guaranteed by banks and the risk for default in payment is minimal.

In respect of deposits and prepayments made to suppliers, individual credit evaluations are performed on all suppliers requiring deposit and prepayments over a certain amount. These evaluations focus on the supplier's past history and take into account information specific to the supplier as well as pertaining to the economic environment in which the supplier operates.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each supplier. The default risk of the industry and country in which suppliers operate also has an influence on credit risk but to a lesser extent. At the balance sheet date, the Group has a certain concentrations of credit risk as 14% (2007: 5%) and 32% (2007: 9%) of the total deposits and prepayments made to suppliers (included in trade and other receivables) were due from the Group's largest supplier and the five largest suppliers respectively.

Further quantitive disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables is set out in note 18.

It is expected that there is no significant credit risk associated with the cash and cash equivalents, pledged and time deposits as they are placed with major banks which are located in the PRC and Hong Kong, which the management believes are of high credit quality.

The maximum exposure to credit risk without taking account of any collateral held is represented by the carrying amount of each financial asset in the balance sheet after deducting any impairment allowance. The Group does not provide any guarantees which would expose the Group to credit risk.

## 29. Financial risk management and fair values (continued)

### (b) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The individual subsidiaries within the Group are responsible for their own cash management, including raising loans to cover the expected cash demands, subject to approval by the board of directors of the respective subsidiaries. The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that the Group maintains sufficient reserves of cash and adequate committed lines of funding from authorised financial institutions to meet its liquidity requirements in the short and longer term.

***Contractual maturities of financial liabilities***

The following table details the remaining contractual maturities at the balance sheet date of the Group's financial liabilities including estimated interest payments:

**The Group**

| | 2008 | | | |
|---|---|---|---|---|
| | Carrying amount RMB'000 | Contractual undiscounted cash flow RMB'000 | 6 months or less or on demand RMB'000 | 6-12 months RMB'000 |
| **Non-derivative financial liabilities** | | | | |
| Secured loans and borrowings | 1,281,205 | (1,285,660) | (1,265,871) | (19,789) |
| Bank advances under discounted bills | 141,098 | (141,098) | (141,098) | – |
| Trade and other payables excluding advance from customers | 985,397 | (985,397) | (985,397) | – |
| **Derivative financial liabilities** | | | | |
| Foreign exchange forward contracts held as cash flow hedging instruments | | | | |
| – outflow | 70,663 | (2,871,156) | (1,980,993) | (890,163) |
| – inflow | (211) | 2,797,556 | 1,924,787 | 872,769 |
| Copper futures contracts (note 19(a)) | 37,519 | (37,519) | (36,445) | (1,074) |
| | 2,515,671 | (2,523,274) | (2,485,017) | (38,257) |

## 29. Financial risk management and fair values (continued)

### (b) Liquidity risk (continued)

***Contractual maturities of financial liabilities (continued)***

**The Group**

| | 2007 | | | |
|---|---|---|---|---|
| | Carrying amount RMB'000 | Contractual undiscounted cash flow RMB'000 | 6 months or less or on demand RMB'000 | 6-12 months RMB'000 |
| **Non-derivative financial liabilities** | | | | |
| Secured loans and borrowings | 876,712 | (885,522) | (773,174) | (112,348) |
| Unsecured loans and borrowings | 329,608 | (331,876) | (331,876) | – |
| Bank advances under discounted bills | 189,579 | (189,579) | (189,579) | – |
| Trade and other payables excluding advance from customers | 1,445,821 | (1,445,821) | (1,445,821) | – |
| **Derivative financial liabilities** | | | | |
| Foreign exchange forward contracts held as fair value hedging instruments | | | | |
| – outflow | (10,992) | (235,208) | (235,208) | – |
| – inflow | – | 241,385 | 241,385 | – |
| Foreign exchange forward contracts held as cash flow hedging instruments | | | | |
| – outflow | (76,811) | (2,180,350) | (1,208,838) | (971,512) |
| – inflow | – | 2,178,615 | 1,222,371 | 956,244 |
| Other foreign exchange forward contracts | 38,483 | (20,955) | (703) | (20,252) |
| Copper futures contracts (note 19(a)) | 361 | (361) | (361) | – |
| | 2,792,761 | (2,869,672) | (2,721,804) | (147,868) |

## 29. Financial risk management and fair values (continued)

### (b) Liquidity risk (continued)

**The Company**

| | 2008 | | | |
|---|---|---|---|---|
| | **Carrying amount RMB'000** | **Contractual undiscounted cash flow RMB'000** | **6 months or less or on demand RMB'000** | **6-12 months RMB'000** |
| **Non-derivative financial liabilities** | | | | |
| Amount due to subsidiaries | **29,856** | **(29,856)** | **(29,856)** | **–** |
| Trade and other payables excluding advance from customers | **256** | **(256)** | **(256)** | **–** |
| | **30,112** | **(30,112)** | **(30,112)** | **–** |

| | 2007 | | | |
|---|---|---|---|---|
| | Carrying amount RMB'000 | Contractual undiscounted cash flow RMB'000 | 6 months or less or on demand RMB'000 | 6-12 months RMB'000 |
| **Non-derivative financial liabilities** | | | | |
| Trade and other payables excluding advance from customers | 192 | (192) | (192) | – |
| **Derivative financial liabilities** | | | | |
| Other foreign exchange forward contracts | 21,897 | (19,556) | (1,188) | (18,368) |
| | 22,089 | (19,748) | (1,380) | (18,368) |

## 29. Financial risk management and fair values (continued)

### (b) Liquidity risk (continued)

***Forecast cash flow***

The following table indicates the periods in which the cash flows associated with derivatives that are cash flow hedges are expected to occur. The cash flows are expected to impact the profit or loss in the same periods.

**The Group**

| | 2008 | | | |
|---|---|---|---|---|
| | Carrying amount RMB'000 | Expected cash flow RMB'000 | 6 months or less RMB'000 | 6-12 months RMB'000 |
| Copper futures contracts | | | | |
| Liabilities | **26,980** | **(68,566)** | **(63,521)** | **(5,045)** |

In addition to copper futures contracts, the Group also utilise foreign exchange forward contracts to hedge forecast sales. These arrangements are entered into to hedge significant fluctuations in foreign currency. However, as these arrangements do not meet the criteria for hedge accounting described in the Group's accounting policies, the unrealised gains or losses arising from the change in fair value of these derivative instruments are recognised immediately in the profit or loss. As at the balance sheet date, the expected delivery period of the forecast sales is from January 2009 to October 2009.

In 2007, the Group did not hold copper futures contracts which were designated as cash flow hedging instruments.

### (c) Interest rate risk

The Group's interest rate risk arises primarily from cash and cash equivalents, time deposits, pledged deposits and bank loans, issued at variable rates and at fixed rates which expose the Group to cash flow interest rate risk and fair value interest rate risk respectively.

#### *(i) Interest rate profile*

The interest rate profile of the Group's interest-bearing financial instruments at the balance sheet date is as follows:

| | 2008 | | 2007 | |
|---|---|---|---|---|
| | Effective weighted average interest rates % (annual) | RMB'000 | Effective weighted average interest rates % (annual) | RMB'000 |
| **Fixed rate instruments** | | | | |
| Time deposits | **2.65** | **289,100** | 3.46 | 209,907 |
| Pledged deposits | **3.84** | **471,498** | 4.67 | 386,218 |
| Bank loans | **4.48** | **(1,422,303)** | 6.90 | (1,395,899) |
| | | **(661,705)** | | (799,774) |
| **Variable rate instruments** | | | | |
| Pledged deposits | **0.36** | **316,760** | 0.94 | 488,960 |
| Cash and cash equivalents | **0.36** | **291,016** | 0.72 | 340,295 |
| | | **607,776** | | 829,255 |

## 29. Financial risk management and fair values (continued)

### (c) Interest rate risk (continued)

#### *(i) Sensitivity analysis*

At the balance sheet date, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have decrease/increase the Group's loss after tax and accumulated losses by approximately RMB 5,531,000 (2007: RMB 7,671,000). Other components of consolidated equity would not be affected by changes in interest rates.

The sensitivity analysis above indicates the instantaneous change in the Group's profit after tax and retained profits that would arise assuming that the change in interest rates had occurred at the balance sheet date and had been applied to re-measure those financial instruments held by the Group which expose the Group to fair value interest rate risk at the balance sheet date. In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at the balance sheet date, the impact on the Group's loss after tax and accumulated losses is estimated as an annualised impact on interest expense or income of such a change in interest rates. The analysis is performed on the same basis for 2007.

### (d) Foreign currency risk

Renminbi is not freely convertible into foreign currencies. All foreign exchange transactions involving Renminbi must take place through the People's Bank of China or other institutions authorised to buy and sell foreign exchange. The exchange rate adopted for the foreign exchange transactions are the rates of exchange quoted by the People's Bank of China.

The Group is exposed to currency risk primarily through sales and purchases that are denominated in a currency other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily United States Dollars and Hong Kong Dollars. The Group manages this risk as follows:

#### *(i) Recognised assets and liabilities*

In respect of recognised assets and liabilities, including trade and other receivables, cash and cash equivalents, trade and other payables, bank loans and derivative financial instruments denominated in foreign currencies, the group ensures that the net exposure is kept to an acceptable level, by buying or selling foreign currencies at spot rates where necessary to address short-term imbalances.

#### *(ii) Forecast transactions*

The Group hedges part of its estimated foreign currency exposure in respect of highly probable forecast sales transactions. The Group uses foreign exchange forward contracts to hedge part of its currency risk and classifies these contracts as cash flow hedges. All of these foreign exchange forward contracts have maturities of less than one year after the balance sheet date.

At 31 December 2008, the Group had foreign exchange forward contracts hedging forecast transactions with a net loss on fair value change of RMB 54,281,000 (2007: a net gain on fair value change of RMB 38,328,000) recognised as derivative financial instruments.

## 29. Financial risk management and fair values (continued)

### (d) Foreign currency risk (continued)

#### *(iii) Exposure to currency risk*

The Group's exposure to foreign currency risk was as follows based on notional amounts:

| | At 31 December | | | |
|---|---|---|---|---|
| | **2008** | | 2007 | |
| | **USD'000** | **HKD'000** | USD'000 | HKD'000 |
| Trade and other receivables | **54,888** | **50,559** | 68,450 | 147,050 |
| Copper future contracts held as fair value hedging instruments | **(81)** | **–** | – | – |
| Other copper futures contracts | **(333)** | **–** | – | – |
| Pledged deposits | **–** | **–** | 37,215 | – |
| Time deposits | **–** | **–** | 2,041 | – |
| Cash and cash equivalents | **7,987** | **17,763** | 14,126 | 8,800 |
| Bank loans | **(76,651)** | **–** | (77,682) | (136,158) |
| Trade and other payables | **(91,747)** | **(290)** | (106,987) | (1,825) |
| Gross balance sheet exposure | **(105,937)** | **68,032** | (62,837) | 17,867 |
| Deliverable foreign exchange forward contracts (note 19(b)) | | | | |
| – Sell foreign currency | **(383,800)** | **–** | (330,690) | – |
| – Buy foreign currency | **36,000** | **–** | – | – |
| Non-deliverable foreign exchange forward contracts (note 19(b)) | | | | |
| – Sell foreign currency | **(180,000)** | **–** | – | – |
| – Buy foreign currency | **49,000** | **–** | 272,600 | – |
| Net exposure | **(584,737)** | **68,032** | (120,927) | 17,867 |

#### *(iv) Sensitivity analysis*

The following table indicates the approximate change in the Group's result after tax that would have arisen if foreign exchange rates to which the Group had significant exposure at the balance sheet date had changed at that date, assuming all other risk variables remained constant.

| | At 31 December | |
|---|---|---|
| | **2008** | 2007 |
| | **Increase/(decrease) in loss after tax and accumulated losses RMB'000** | Increase/(decrease) in profit after tax and retained profits RMB'000 |
| USD | | |
| – 6% strengthening of RMB (2007:6%) | **(223,403)** | 39,063 |
| – 6% weakening of RMB (2007:6%) | **223,403** | (39,063) |
| HKD | | |
| – 6% strengthening of RMB (2007:6%) | **3,178** | (1,083) |
| – 6% weakening of RMB (2007:6%) | **(3,178)** | 1,083 |

## 29. Financial risk management and fair values (continued)

### (d) Foreign currency risk (continued)

#### *(iv) Sensitivity analysis (continued)*

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' loss after tax and accumulated losses measured in the respective functional currencies, translated into RMB at the exchange rate ruling at the balance sheet date for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the balance sheet date. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency. The analysis for 2007 has been changed to conform with the requirements of the financial reporting standards adopted in the current year.

### (e) Commodity price risk

The Group's exposure to commodity price risk relates principally to the market price fluctuation in copper on copper futures contracts and inventories held without fixed sales orders and commitments to buy or sell amount of copper contracts at contracted future. To partially offset the risk of fluctuation in copper prices on copper inventories, the Group enters into sales orders with certain customers to deliver goods in future periods at fixed future prices. In addition, the Group enters into purchase orders with suppliers to purchase copper raw materials in future periods at corresponding fixed prices.

#### *(i) Exposure to commodity price risk*

The Group's exposure to copper commodity price risk (including copper inventories and open copper futures contracts) at balance sheet dates was as follows.

| | **2008** | 2007 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Copper inventory excluding inventory with sales orders at fixed contract prices | **34,746** | 339,550 |
| Notional amounts of copper futures contracts to: | | |
| – buy copper (note 19(a)) | **133,939** | 91,113 |
| – sell copper (note 19(a)) | **(1,469)** | (87,986) |
| Net exposure | **167,216** | 342,677 |

## 29. Financial risk management and fair values (continued)

### (e) Commodity price risk (continued)

#### *(ii) Sensitivity analysis*

The following table indicates the approximate change in the Group's loss after tax that would have arisen if commodity price to which the Group had significant exposure at the balance sheet date had changed at that date, assuming all other risk variables remained constant.

| | At 31 December | | | | | |
|---|---|---|---|---|---|---|
| | 2008 | | | 2007 | | |
| | **Increase/ (decrease) in commodity price** | **Effect on loss after tax and accumulated losses RMB'000** | **Effect on other components of equity RMB'000** | Increase/ (decrease) in commodity price | Effect on profit after tax and retained profits RMB'000 | Effect on other components of equity RMB'000 |
| Copper inventory excluding inventory with sales orders at fixed contract prices | **10%** | **–** | **–** | 10% | – | – |
| | **(10)%** | **(3,162)** | **–** | (10)% | (30,780) | – |
| Copper futures contracts | **10%** | **2,305** | **6,265** | 10% | 256 | – |
| | **(10)%** | **(2,305)** | **(6,265)** | (10)% | (256) | – |

The sensitivity analysis above indicates the instantaneous change in the Group's loss after tax and accumulated losses and other components of consolidated equity that would arise assuming that the change in copper price had occurred at the balance sheet date and had been applied to re-measure those inventories held as net realisable value and copper futures contracts held by the Group which expose the Group to commodity price risk at the balance sheet date.

### (f) Fair value

The carrying amounts of significant financial assets and liabilities approximate to their respective fair value as at 31 December 2008 and 2007. The following methods and assumptions were used to estimate the fair value for each class of financial instruments:

#### *(i) Cash and cash equivalents, pledged and time deposits, trade and other receivables, trade and other payables*

The carrying values approximate fair value because of the short maturities of these instruments.

#### *(ii) Bank loans and derivative financial instruments*

The carrying amounts of short-term bank loans approximate their fair value based on the nature or short-term maturity of these instruments.

The derivative financial instruments are stated at their fair value based on quoted market prices.

## 30. Immediate and ultimate holding company

As at 31 December 2008, the directors consider the immediate parent and ultimate controlling party of the Group to be Tai-I Electric Wire & Cable Co., Ltd., which is incorporated in Taiwan.

## 31. Accounting estimates and judgements

The Group believes the following critical accounting policies involve the most significant judgements and estimates used in the preparation of the financial statements.

### (a) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market conditions and the historical experience of distributing and selling products of similar nature. Net realisable value could change significantly as a result of market conditions. Management reassess the estimation on net realisable value at each balance sheet date.

### (b) Impairment of property, plant and equipment

In considering the impairment losses that may be required for certain of the Group's property, plant and equipment, the recoverable amount of the asset needs to be determined. The recoverable amount is the greater of the net selling price and the value in use. It is difficult to precisely estimate selling price because quoted market prices for these assets may not be readily available.

In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to items such as level of sale volume, selling price and amount of operating costs. The Group uses all readily available information in determining an amount that is reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of items such as sale volume, selling price and amount of operating costs.

Changes in these estimates could have a significant impact on the carrying value of the assets and could result in impairment charge in future periods.

### (c) Impairment losses on trade and other receivables

Impairment losses on trade and other receivables are assessed and provided based on the directors' regular review and evaluation of collectibility. A considerable level of judgment is exercised by the directors when assessing the credit worthiness and past collection history of each individual customer. Any increase or decrease in the impairment losses for bad and doubtful debts would have a significant impact in profit or loss.

### (d) Deferred tax assets

Deferred tax assets are recognised for all temporary deductible provisions to the extent that it is considered probable that taxable profit will be available in future against which the temporary deductible provisions can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that should be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

*(Expressed in Renminbi Yuan)*

## 32. Events subsequent to balance sheet date

In March 2009, the Company repurchased and cancelled 460,000 ordinary shares through the Stock Exchange of Hong Kong Limited. After taking the cancellation of the mentioned shares into account, the total number of ordinary shares was 596,158,000.

## 33. Possible impact of amendments, new standards and interpretations issued but not yet effective for the accounting period ended 31 December 2008

Up to the date of issue of these financial statements, the IASB has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2008 and which have not been adopted in these financial statements.

| | |
|---|---|
| Amendments to IAS 39, Financial instruments: Recognition and measurement and IFRS7, Financial instruments: Disclosures – Reclassification of financial assets | 1 July 2008 or the date of reclassification |
| IFRS 13, Customer Loyalty programmes | 1 July 2008 |
| IFRIC 16, Hedges of a net investment in a foreign operation | 1 October 2008 |
| IFRS 8, Operating segments | 1 January 2009 |
| Revised IAS 1, Presentation of Financial statements | 1 January 2009 |
| Revised IAS 23, Borrowing costs | 1 January 2009 |
| Amendment to IFRS 2, Share-based payment – Vesting conditions and cancellations | 1 January 2009 |
| Amendments to IAS 32, Financial instruments: Presentation and IAS 1, Presentation of financial statements-Puttable financial instruments and obligations arising on liquidation | 1 January 2009 |
| Amendments to IFRS 1, First-time adoption of International Financial Reporting Standards, and IAS 27, Consolidated and separate financial statements-cost of an investment in a subsidiary, jointly-controlled entity or associate | 1 January 2009 |
| Amendments to IFRS 7, Financial instruments: Disclosures-Improving disclosures about financial instruments | 1 January 2009 |
| Improvements to IFRS | 1 January 2009 or 1 July 2009 |

*(Expressed in Renminbi Yuan)*

## 33. Possible impact of amendments, new standards and interpretations issued but not yet effective for the accounting period ended 31 December 2008 (continued)

| | |
|---|---|
| IFRIC 15, Agreements for the construction of real estate | 1 January 2009 |
| Revised IFRS 1, First-time adoption of International Financial Reporting Standards | 1 July 2009 |
| Revised IFRS 3, Business combinations | Applied to 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 |
| Amendments to IAS 27, Consolidated and separate financial statements | 1 July 2009 |
| Amendment to IAS 39, Financial instruments: Recognition and measurement-Eligible hedged items | 1 July 2009 |
| IFRIC 17, Distributions of non-cash assets to owners | 1 July 2009 |
| IFRS 18, Transfer of assets from customers | Applies to transfer of assets from customers received on or after 1 July 2009 |

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. Up to the date of issuance of the consolidated financial statements, the Group believes that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.