



**信義玻璃控股有限公司**  
**XINYI GLASS HOLDINGS LIMITED**



# Contents



|                                                | Page |
|------------------------------------------------|------|
| Corporate Information                          | 2    |
| Chairman's Statement                           | 4    |
| Management's Discussion and Analysis           | 8    |
| Profile of Directors and Senior Management     | 14   |
| Corporate Governance Report                    | 19   |
| Report of the Directors                        | 22   |
| Independent Auditor's Report                   | 36   |
| Consolidated Balance Sheet                     | 38   |
| Balance Sheet                                  | 40   |
| Consolidated Income Statement                  | 41   |
| Consolidated Statement of Changes in Equity    | 42   |
| Consolidated Cash Flow Statement               | 43   |
| Notes to the Consolidated Financial Statements | 44   |
| Financial Summary                              | 116  |



## EXECUTIVE DIRECTORS

Mr. LEE Yin Yee, M.H. (Chairman) <sup>ø~<</sup>  
Mr. TUNG Ching Bor (Vice Chairman)  
Mr. TUNG Ching Sai (Chief Executive Officer) <sup><ø</sup>  
Mr. LEE Shing Kan  
Mr. LEE Yau Ching  
Mr. LI Man Yin

## NON-EXECUTIVE DIRECTORS

Mr. LI Ching Wai  
Mr. SZE Nang Sze  
Mr. LI Ching Leung  
Mr. NG Ngan Ho

## INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. LAM Kwong Siu, S.B.S. <sup>#\*+<ø</sup>  
Mr. WONG Chat Chor Samuel <sup>#<ø</sup>  
Mr. WONG Ying Wai, S.B.S., JP <sup>#<ø</sup>

- \* Chairman of audit committee
- # Members of audit committee
- + Chairman of remuneration committee
- ø Members of remuneration committee
- ~ Chairman of nomination committee
- < Members of nomination committee

## COMPANY SECRETARY & QUALIFIED ACCOUNTANT

Mr. LAU Sik Yuen, *HKICPA, AICPA*

## REGISTERED OFFICE

P.O. Box 1350 GT, Clifton House, 75 Fort Street  
George Town, Grand Cayman  
Cayman Islands

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

95-99 Fuk Hi Street, Yuen Long Industrial Estate  
Yuen Long, New Territories  
Hong Kong

## LEGAL ADVISERS AS TO HONG KONG LAW

Squire, Sanders & Dempsey  
24th Floor, Central Tower  
28 Queen's Road Central  
Central  
Hong Kong

## AUDITOR

PricewaterhouseCoopers, Certified Public Accountants  
22nd Floor, Prince's Building, Central, Hong Kong

## PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited  
Citibank, N.A., Hong Kong Branch  
Hang Seng Bank Limited  
KBC Bank N.V., Hong Kong Branch  
Sumitomo Mitsui Banking Corporation, Hong Kong Branch  
Bank of China, Shenzhen Branch  
Bank of Communications, Shenzhen Branch  
Bank of Communications, Dongguan Branch  
Bank of Communications, Wuhu Branch

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Appleby Corporate Services (Cayman) Limited  
P. O. Box 1350 GT, Clifton House, 75 Fort Street  
George Town, Grand Cayman  
Cayman Islands

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

## WEBSITE

<http://www.xinyiglass.com>

## SHARE INFORMATION

Place of listing: The Stock Exchange of Hong Kong Limited  
Stock code: 00868  
Listing date: 3 February 2005  
Board lot: 2,000 ordinary shares (the "Shares")  
Financial year end: 31 December  
Share price as at the date of this annual report: HK\$3.31  
Market capitalisation as at the date of this annual report: Approximately HK\$5,571 million

## KEY DATES

Closure of register of members: 19 May 2009 to 22 May 2009 (both days inclusive)  
Date of Annual General Meeting: 22 May 2009  
Proposed date of payment of final dividend: 1 June 2009



## DEAR SHAREHOLDERS

On behalf of the board (the “**Board**”) of directors (the “**Directors**”) of Xinyi Glass Holdings Limited (the “**Company**”), I am pleased to announce the full-year audited consolidated results of the Company and its subsidiaries (collectively the “**Group**”) for the financial year ended 31 December 2008.

In comparison with 2007, our Group's turnover grew significantly, up by approximately 40.4% to roughly HK\$3,894.3 million in 2008. Our net profit attributable to equity holders of the Company also grew by around 5.7%, to approximately HK\$709.2 million in 2008. Basic earnings per share were 41.9 HK cents, compared with 41.1 HK cents last year.

We are highly pleased with the results achieved by the Group and therefore propose payment of a final dividend of 9.0 HK cents per ordinary share upon approval at the forthcoming Annual General Meeting.

I present below an overview of the business of the Group during 2008 and key development highlights for the coming year.

## A YEAR OF COSTS FLUCTUATION AND FINANCIAL TSUNAMI

During the year, all our business segments reported strong growth. Turnover from the automobile glass business grew by approximately 14.4% to approximately HK\$1,964.3 million, which accounted for approximately 50.4% of the Group's total turnover. This was mainly attributable to the substantial increase in sales of automobile glass products to overseas markets, such as Australia and Europe. Construction glass turnover grew by approximately 15.0% to approximately HK\$650.8 million, which accounted for approximately 16.7% of the Group's total turnover. This was mainly attributable to (a) the strong demand for the low-emission coating (“LOW-E”) glass and double glazing insulated glass products and (b) our strategic focus on developing commercial buildings and public facilities-related construction glass market. The float glass and ultra clear photovoltaic glass business also grew significantly by approximately 160.1% to approximately HK\$1,279.2 million, which accounted for approximately 32.9% of the Group's total turnover. Such strong demand was largely driven by overseas and South China markets, as well as the Group expanded float glass capacity. Ultra clear photovoltaic glass, our newly launched product, has received high recognition from customers as a result of the strong demand for solar related photovoltaic market. The gross profit margin was approximately 31.1% (2007: 38.6%) while the net profit margin was approximately 18.2% (2007: 24.2%).

2008 was full of challenges. The industry faced difficulties as a result of the global financial tsunami, the Renminbi's appreciation, the reduction of the export tax rebate, the recession of the US economy and the escalating fuel and raw material costs. The Group nevertheless achieved satisfactory results by leveraging economies of scale, high product quality with diversified product lines and flexible global sales and operational management strategies.

## APPRECIATION OF RENMINBI — INCREASE IN THE PRC SALES RATIO

Although the Renminbi appreciated by approximately 5.6% in 2008, our sales in the PRC amounted to approximately 48.9% of the Group's total turnover that was used to settle Renminbi expenses. Other sales denominated in foreign currencies were mainly used to settle costs expenses incurred in the US dollar, Euro or Hong Kong dollar. By using the Hong Kong dollar as the reporting and functional currency in our consolidated financial statements, this “natural hedging” arrangement allowed us to mitigate any adverse impact as a result of foreign exchange rate fluctuations. It also mitigated the impact from the economic downturn in North America. All of these facilitated the Group to achieve solid sales growth in this year.

## **REDUCTION OF EXPORT TAX REBATE, WEAKENING OF US ECONOMY, EXPLORATION OF EXPORT SALES CHANNELS**

On 1 July 2007, the PRC government reduced the export tax rebate on automobile and construction glass products from 13.0% to 5.0% and that of float glass products from 11.0% to 5.0%. All sectors of the glass industry were affected by this new policy, and as a result, the Group's overall gross margin dropped from 38.6% in 2007 to 31.1% for the year of 2008.

The US economy is in recession, which has significantly impacted the housing and new car markets. However, as the automobile glass products sold by us in North America are aimed at the aftermarket sector serving replacement purposes, the weak US economy has no significant adverse impact on the demand for our automobile glass products. However, our construction glass business was hit by the slow housing market and sales to North America were down by approximately 8.2% to HK\$774.5 million for the year of 2008.

The Group continued to explore other overseas markets. In 2008, our revenue generated from the European market increased by approximately 93.7% to HK\$555.5 million. Revenue from other overseas markets also increased by approximately 51.7% to HK\$660.7 million.

## **IMPROVED PRODUCTIVITY AND ECONOMIES OF SCALE TO MITIGATE THE INCREASES IN ENERGY AND MATERIAL COSTS**

Since the fourth quarter of 2007, the selling prices of heavy oil, the fuel for float glass production, and soda ash, a principal raw material, have risen significantly and thus reduced our overall gross profit margin.

However, with our strong experience in operations management combined with the improvements in the production process, we enhanced our productivity and yield rate to combat the overall production and energy cost rises. The Group's daily production capacity of float glass increased from 1,200 daily melting tons in the middle of 2007 to 2,600 daily melting tons by end of 2007. The new ultra clear glass production line also provided the Group with additional daily production capacity of 300 melting tons from January 2008. The economies of scale enhanced the Group's purchasing power, reduced the average fuel consumption rate and the fixed unit cost, and thus the Group was able to mitigate the impact of increased costs on the gross profit margin.

Since the third quarter of 2008, the international crude oil price gradually decreased to the lowest price level towards the end of the year. The soda ash price also dropped in the fourth quarter. We therefore expect the production cost pressure will be gradually eliminated in 2009.



### IMPROVED OPERATIONS MANAGEMENT CAPABILITY REWARDED WITH MARKET RECOGNITION

Our dedication in providing high quality glass products and improving operational efficiency and management capability has been rewarded with market recognition. In December 2008, our subsidiary, Xinyi Automobile Glass (Shenzhen) Company Limited, was awarded the "2008 Shenzhen Mayer Quality Award" with a cash prize of RMB 3.0 million.

Starting on 29 October 2008, the shares of the Company were included as a constituent of the Hang Seng Composite Index, Hang Seng Mainland Composite Index, Hang Seng Composite Industry Index - Consumer Goods, Hang Seng Freefloat Composite Index and Hang Seng Mainland Freefloat Index. We were also named as Forbes Asia's Annual "Best 200 Under a Billion" for the second consecutive year in 2008. We ranked the 23rd by revenue, the 16th by net profit and the 40th by market capitalisation.

### OUTLOOK FOR 2009

In the coming year, we will continue to strengthen our operations management capabilities, thus becoming fully armed to tackle challenges resulting from the global financial tsunami. In view of the PRC Government's four trillion economic stimulus plan, its policies to support automobile industry, the VAT refund scheme for new fixed asset investment in the PRC and the new energy saving standard for building construction, we will look towards establishing new production complex in the Yangtze River Delta region. As well, we will focus on developing new energy, environmental friendly and energy efficient glass products to meet the anticipated strong market demand for LOW-E glass, double glazing insulated glass and solar photovoltaic glass.

The commercial production of ultra clear photovoltaic glass, which is mainly used for photovoltaic power systems, successfully commenced in January 2008, and gained strong support from the market. The development of this new energy related product and thin film coating Transparent Conductive Oxide glass ("TCO" glass) will be our main focus in the future.

Since 1 November 2008, export VAT rebate rates for automobile glass and construction glass increased to 11.0%. It will strengthen our competitiveness on the export businesses. Moreover, the decrease in costs of raw materials and fuel will fuel the growth momentum and enhance flexibility of our overall glass sales.

## CONCLUSION

The Group proactively and aggressively tackles challenges in different business environments and faces difficult times with our staff and customers, consequently reaping benefits from opportunities that arise. Remaining optimistic about our future development, we will continue to adhere to business strategies that have proven to be highly successful. Striving to maintain our lead position, our efforts will enable the Group to further expand its presence in the worldwide glass market.

I would like to take this opportunity to thank fellow Board members for their continuous and strong support in 2008. I would also like to thank our senior management team, staff, business partners and customers for their valuable contributions to our success during the year.

LEE Yin Yee, M.H.

*Chairman*

30 March 2009



## OPERATIONAL REVIEW

### SALES

Our sales increased by approximately 40.4% for the financial year ended 31 December 2008. The increase was principally due to the substantial growth of our float glass business and construction glass business in the PRC and the export business of automobile glass to Australia and European countries. In addition, the increased sales was also attributable to the launch of our new product, photovoltaic glass, and purchase orders from new customers as a result of our strengthened business development efforts.

The tables below illustrate our sales by products and by geographical regions:-

|                                               | Financial year ended 31 December |              |                  |              |
|-----------------------------------------------|----------------------------------|--------------|------------------|--------------|
|                                               | 2008                             |              | 2007             |              |
|                                               | HK\$'000                         | %            | HK\$'000         | %            |
| <b>Sales</b>                                  |                                  |              |                  |              |
| Automobile glass products ( <i>Note 1</i> )   | 1,964,294                        | 50.4         | 1,716,803        | 61.9         |
| Construction glass products ( <i>Note 2</i> ) | 650,829                          | 16.7         | 565,949          | 20.4         |
| Float glass products ( <i>Note 3</i> )        | 1,279,160                        | 32.9         | 491,872          | 17.7         |
|                                               | <u>3,894,283</u>                 | <u>100.0</u> | <u>2,774,624</u> | <u>100.0</u> |

Notes:

- (1) Included sales of automobile glass and complementary automobile rubber and plastic components on original equipment manufacturing ("OEM") and aftermarket basis.
- (2) Included sales of construction glass products, furniture glass products and construction fee income received from curtain wall construction projects.
- (3) Included sales of float glass and photovoltaic glass products.

# Management's Discussion and Analysis



|                          | Financial year ended 31 December |              |                  |              |
|--------------------------|----------------------------------|--------------|------------------|--------------|
|                          | 2008                             |              | 2007             |              |
|                          | HK\$'000                         | %            | HK\$'000         | %            |
| <b>Sales</b>             |                                  |              |                  |              |
| Greater China (Note (a)) | 1,903,575                        | 48.9         | 1,208,344        | 43.6         |
| North America            | 774,519                          | 19.9         | 844,129          | 30.4         |
| Europe                   | 555,533                          | 14.2         | 286,733          | 10.3         |
| Others (Note (b))        | 660,656                          | 17.0         | 435,418          | 15.7         |
|                          | <b>3,894,283</b>                 | <b>100.0</b> | <b>2,774,624</b> | <b>100.0</b> |

Notes:

(a) Greater China included the PRC and Hong Kong.

(b) Other countries included Australia, New Zealand, Africa, the Middle East and South America.

## COST OF SALES

Consistent with the growth in sales, our cost of sales for the financial year ended 31 December 2008 was approximately HK\$2,683.4 million, representing an increase of approximately 57.6%.

## GROSS PROFIT

Our gross profit for the financial year ended 31 December 2008 was approximately HK\$1,210.9 million, representing an increase of approximately 12.9%. However, the overall gross profit margin decreased from approximately 38.6% to 31.1% as a result of the reduction of the amount of rebate of the the PRC export tax on glass products to 5.0% from July 2007 and the significant increases in the production costs of float glass — heavy oil and soda ash.

## OTHER INCOME

Our other income was approximately HK\$38.1 million for the financial year ended 31 December 2008, as compared to approximately HK\$25.1 million for the financial year ended 31 December 2007. The increase was principally due to a refund of the United States anti-dumping duty paid during the period between 2002 and 2006.

## SELLING AND MARKETING COSTS

With effective cost control measures, our selling and marketing costs only increased by approximately 11.1% to approximately HK\$318.2 million for the financial year ended 31 December 2008. Such increase was mainly due to our growth in sales.

# Management's Discussion and Analysis



## ADMINISTRATIVE EXPENSES

Our administrative expenses slightly increased by approximately 25.8% to approximately HK\$209.2 million for the financial year ended 31 December 2008, principally attributable to the increase in staff welfare and donations of approximately HK\$24.6 million and HK\$5.3 million, respectively.

## FINANCE COSTS

Our finance cost decreased by approximately 28.8% to approximately HK\$24.0 million for the financial year ended 31 December 2008. The decrease was principally due to the lower interest rates for bank borrowings for working capital and capital expenditures. Some of the interest expenses were capitalised in relation to the acquisition of plant and machinery at our production complex in Dongguan and Wuhu, but they were charged as expenses when the new production lines commenced during the year. Interest expenses of HK\$32.1 million were capitalised under construction-in-progress for the financial year ended 31 December 2008.

## TAXATION

Our income tax expense amounted to approximately HK\$42.3 million for the financial year ended 31 December 2008. The effective tax rate slightly increased from approximately 4.3% to 5.6% for the financial year ended 31 December 2008, which was mainly due to the payment of PRC Corporate Income Tax instead of Foreign Enterprise Income Tax from 2008 by two members of the Group in the PRC.

## EBITDA AND NET PROFIT FOR THE YEAR

During the financial year ended 31 December 2008, the Company's EBITDA (i.e. earnings before interest, taxation, depreciation and amortisation) reached approximately HK\$1,001.5 million, representing an increase of approximately 14.6%, as compared to HK\$874.1 million for the financial year ended 31 December 2007. The Company's EBITDA margin, calculated based on turnover for the financial year, was approximately 25.7%, as compared to approximately 31.5% for the financial year ended 31 December 2007.

Net profit attributable to equity holders of the Company for the financial year ended 31 December 2008 was approximately HK\$709.2 million, representing an increase of approximately 5.7%, as compared to HK\$670.9 million for the financial year ended 31 December 2007. Net profit margin decreased to approximately 18.2% for the financial year ended 31 December 2008 as a result of the reduction of the amount of rebate of the PRC export tax on glass products to 5.0% from July 2007 and the increase of production costs of float glass — heavy oil and soda ash.

## DIVIDENDS

At a Board meeting held on 30 March 2009, the Directors proposed to declare a final dividend of 9.0 HK cents per Share for the financial year ended 31 December 2008. Together with the interim dividends of HK\$185.6 million for 2008, the total dividend paid and payable represent a dividend pay-out ratio of approximately 47.5%. The Directors believe that this dividend level is appropriate in reflecting the substantial growth of the business of the Group during the financial year ended 31 December 2008.



## CURRENT RATIO

Our current ratio for the financial year ended 31 December 2008 was approximately 1.1, as compared to 1.5 in the previous year. The slight decrease was due to an increase in trade and other payables and short-term bank borrowings as a result of the increased sales in 2008.

## NET CURRENT ASSETS

As at 31 December 2008, we had net current assets of approximately HK\$141.5 million, as compared to approximately HK\$494.4 million as at 31 December 2007. The decrease was a result of the increase in construction-in-progress of our new Wuhu production complex.

## FINANCIAL RESOURCES AND LIQUIDITY

During the financial year ended 31 December 2008, our primary sources of funding included cash generated from operating activities and the credit facilities provided by our principal banks in Hong Kong and the PRC. Net cash inflow from operating activities amounted to approximately HK\$1,167.7 million (2007: HK\$440.0 million) as a result of working capital management generating a net cash surplus from operations. As at 31 December 2008, we had cash and bank balances of approximately HK\$442.6 million (2007: HK\$316.2 million).

As at 31 December 2008, we had bank loans totaling approximately HK\$1,206.5 million, representing an increase of approximately 76.5% as compare with 31 December 2007. The increase was principally due to the increased capital expenditures for the year.

Our net debt gearing ratio as at 31 December 2008, calculated by dividing the net bank debt by the total equity of the Group as at 31 December 2008, was approximately 17.4%. The increase was principally due to the increased capital expenditures for the year.

## PLEDGE OF ASSETS

As at 31 December 2008, bank balance of approximately HK\$6.9 million was pledged as collateral mainly to the United States Customs as a security of import duties.

## TREASURY POLICIES AND EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

Our business transactions are mainly denominated in Renminbi, U.S. dollar, Euro and Hong Kong dollar with operations mainly in Hong Kong and the PRC. As at 31 December 2008, our bank borrowings were denominated in Renminbi, U.S. dollar and Hong Kong dollar with effective interest bearing rates at the balance date were 5.5%, 2.9% and 1.7% per annum respectively. Our exposure to foreign exchange fluctuations was minimal and we have not experienced any material difficulties resulting from exchange rate fluctuations that had affected our operations or liquidity. We may use financial instrument for hedging purpose when appropriate.

# Management's Discussion and Analysis



## EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2008, we had 7,338 full-time employees of whom 6,463 were based in Greater China and 42 were based in other countries and territories. We maintain good relationship with our employees. We provide our staff with sufficient training on business knowledge including information on the applications of our products and skills in maintaining good client relationship. Remuneration packages offered to our staff are consistent with the prevailing market terms and are reviewed on a regular basis. Discretionary bonuses may be awarded to employees taking into consideration the Group's performance and performance of the individual employee.

Pursuant to the applicable laws and regulations, we participated in relevant defined contribution retirement schemes administrated by the relevant PRC government authorities for our staff employed in the PRC. For our employees in Hong Kong, we have made all the arrangements pursuant to the mandatory provident fund requirements prescribed by the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong).

We also adopted a share option scheme on 18 January 2005. The Directors may at their discretion, invite any employees or Directors and other eligible persons as set out in the scheme, to participate in the scheme. For details of the scheme, please refer to the section "Report of the Directors - Share Option Scheme" of this report.

## BUSINESS OUTLOOK

Globalization is the predominant trend in the world market. We notice that there are many overseas customers outsourcing their production of different glass products to us. We also anticipate the continuous growth in demand for automobile glass, construction glass, float glass, photovoltaic glass and TCO glass in coming years. The demand for environmentally friendly, energy saving and renewal energy products will continue to grow, especially in the PRC.

With the PRC's "Eleventh Five Years Plan" advocating environmental protection and energy conservation, demand for our low emission coated glass products is expected to soar. Also, the Ministry of Housing and Urban-rural Development of the PRC has released its implementation outlines to promote solar energy facilities in buildings on 23 March 2009. The outlines include providing subsidies to model projects of new buildings with solar energy facilities which stimulate the demand of photovoltaic glass and TCO glass.

We will continue to expand our product mix, such as Solar X for automobile glass, low emission coated glass for construction glass, photovoltaic glass and TCO glass for solar energy module system and special high quality float glass to capture the

# Profile of Directors and Senior Management

## DIRECTORS

### EXECUTIVE DIRECTORS

LEE Yin Yee, M.H. ( 李賢義 ), aged 56, is our Chairman and founder, responsible for our Group's business strategy. Mr. LEE Yin Yee has 20 years' experience in the automobile glass industry. Prior to establishing our Group, Mr. LEE Yin Yee was involved in the trading of automobile parts. Mr. LEE Yin Yee is a committee member of The Chinese People's Political Consultative Conference and an honorary citizen of Shenzhen in the PRC. Mr. LEE Yin Yee was appointed in December 2003 as the first chairman of Shenzhen Fujian Corporate Association. Mr. LEE Yin Yee is also the Life Honorary Chairman of the Hong Kong Quanzhou Clans United Association and the Fukienese Association Limited in Hong Kong. Mr. LEE Yin Yee is the father of Mr. LEE Shing Kan, our executive Director. Mr. LEE Yin Yee is also the brother-in-law of Mr. TUNG Ching Bor, our vice-chairman and executive Director, and brother-in-law of Mr. TUNG Ching Sai, our chief executive officer and executive Director, and uncle of Mr. LEE Yau Ching, our executive Director. Mr. LEE Yin Yee was appointed as our executive Director on 25 June 2004. Save as disclosed above, Mr. LEE Yin Yee has no relationship with any Directors, senior management or substantial shareholders (as defined in the Listing Rules) or controlling shareholders (as defined in the Listing Rules) of the Company. Save as disclosed above, Mr. LEE Yin Yee has not held any directorship in other publicly listed companies in the last three years.

TUNG Ching Bor ( 董清波 ), aged 46, is our vice-chairman and chief purchasing officer, responsible for managing our daily operations and overseeing our purchasing functions. Prior to joining us in January 2000, Mr. TUNG Ching Bor had over 15 years' experience in automobile parts purchase. Mr. TUNG Ching Bor is a member of The Chinese People's Political Consultative Conference Nanping Committee of Fujian Province. Mr. TUNG Ching Bor is the brother-in-law of Mr. LEE Yin Yee, brother of Mr. TUNG Ching Sai, our chief executive officer and executive Director, and uncle of Mr. LEE Shing Kan, our executive Director. Mr. TUNG Ching Bor was appointed as our executive Director on 25 June 2004. Save as disclosed above, Mr. TUNG Ching Bor has no relationship with any Directors, senior management or substantial shareholders (as defined in the Listing Rules) or controlling shareholders (as defined in the Listing Rules) of the Company. Save as disclosed above, Mr. TUNG Ching Bor has not held any directorship in other publicly listed companies in the last three years.

TUNG Ching Sai( 董清世 ), aged 43, is our executive Director and chief executive officer. Mr. TUNG Ching Sai has been with us for 20 years since our inception in November 1988 and is responsible for overseeing our daily operations. Mr. TUNG Ching Sai is also a committee member of The Chinese People's Political Consultative Conference of Fujian Province, a committee member of The Chinese People's Political Consultative Conference Nanping Committee of Fujian Province, the Chairman of the Shenzhen Federation of Young Entrepreneurs, vice president of The Automobile Association of Shenzhen and the Third Shenzhen Municipal Ten Outstanding Young Entrepreneur. Mr. TUNG graduated from the Sun Yat-Sen University with a executive master degree of business administration. Mr. TUNG Ching Sai is the brother-in-law of Mr. LEE Yin Yee, brother of Mr. TUNG Ching Bor, and uncle of Mr. LEE Shing Kan, our executive Director. Mr. TUNG Ching Sai was appointed as our executive Director on 25 June 2004. Save as disclosed above, Mr. TUNG Ching Sai has no relationship with any Directors, senior management or substantial shareholders (as defined in the Listing Rules) or controlling shareholders (as defined in the Listing Rules) of the Company. Save as disclosed above, Mr. TUNG Ching Sai has not held any directorship in other publicly listed companies in the last three years.

## Profile of Directors and Senior Management



LEE Shing Kan ( 李聖根 ), aged 29, is our executive Director, the general manager of Xinyi Plastics Products (Shenzhen) Development Company Limited from 9 May 2008 and the deputy general manager of Xinyi Automobile Glass (Shenzhen) Company Limited from January 2007. Mr. LEE Shing Kan joined the Company in January 2005 as an assistant to Mr. TUNG Ching Sai, the chief executive officer of the Company. Mr. LEE Shing Kan holds a bachelor's degree in commerce from The University of Melbourne, Australia and a master's degree in applied finance from Monash University, Australia. Mr. LEE Shing Kan is the son of Mr. LEE Yin Yee, M.H., nephew of Mr. TUNG Ching Bor and Mr. TUNG Ching Sai and cousin of Mr. LEE Yau Ching, our executive Director. Mr. LEE Shing Kan was appointed as our executive Director on 15 October 2008. Save as disclosed above, Mr. LEE Shing Kan has no relationship with any Directors, senior management or substantial shareholders (as defined in the Listing Rules) or controlling shareholders (as defined in the Listing Rules) of the Company. Save as disclosed above, Mr. LEE Shing Kan has not held any directorship in other publicly listed companies in the last three years.

LEE Yau Ching ( 李友情 ), aged 33, is our executive Director and chief operations officer. Mr. LEE Yau Ching is responsible for planning our overall operations strategy and overseeing Group's operations. Mr. LEE Yau Ching is also the general manager of both YiDe Glass (Shenzhen) Company Limited and Xinyi Glass Technology (Shenzhen) Company Limited. Mr. LEE Yau Ching joined us in June 1999. Mr. LEE Yau Ching graduated from the Hong Kong University of Science and Technology in 1999 with a bachelor degree in business administration majoring in finance. Mr. LEE Yau Ching is the son of Mr. LEE Sing Din, one of the controlling Shareholders (as such term is defined under the Listing Rules) and a nephew of Mr. LEE Yin Yee and a cousin of Mr. LEE Shing Kan, our executive Director. Mr. LEE Yau Ching was appointed as our executive Director on 25 June 2004. Save as disclosed above, Mr. LEE Yau Ching has no relationship with any Directors, senior management or substantial shareholders (as defined in the Listing Rules) or controlling shareholders (as defined in the Listing Rules) of the Company. Save as disclosed above, Mr. LEE Yau Ching has not held any directorship in other publicly listed companies in the last three years.

LI Man Yin ( 李文演 ), aged 54, is our executive Director and has joined us since July 1999. Mr. LI Man Yin is the assistant general manager of Xinyi Glass Wuhu Production Complex. Prior to joining us, Mr. LI Man Yin has worked at a local transportation service company the PRC handling retail sales, and also in the trading of automobile parts industry. Mr. LI Man Yin was appointed as our executive Director on 25 June 2004. Save as disclosed above, Mr. LI Man Yin has no relationship with any Directors, senior management or substantial shareholders (as defined in the Listing Rules) or controlling shareholders (as defined in the Listing Rules) of the Company. Save as disclosed above, Mr. LI Man Yin has not held any directorship in other publicly listed companies in the last three years.

### NON-EXECUTIVE DIRECTORS

LI Ching Wai ( 李清懷 ), aged 51, is our non-executive Director and has been with us since April 2001. Prior to joining us, Mr. LI Ching Wai has worked in the trading of automobile parts industry. Mr. LI Ching Wai was appointed as our non-executive Director on 25 June 2004. Save as disclosed above, Mr. LI Ching Wai has no relationship with any Directors, senior management or substantial shareholders (as defined in the Listing Rules) or controlling shareholders (as defined in the Listing Rules) of the Company. Save as disclosed above, Mr. LI Ching Wai has not held any directorship in other publicly listed companies in the last three years.

## Profile of Directors and Senior Management

SZE Nang Sze (施能獅), aged 51, is our non-executive Director and has been with us since April 2001. Prior to joining us, Mr. SZE Nang Sze has worked in the trading of automobile parts industry. Mr. SZE Nang Sze was appointed as our non-executive Director on 25 June 2004. Save as disclosed above, Mr. SZE Nang Sze has no relationship with any Directors, senior management or substantial shareholders (as defined in the Listing Rules) or controlling shareholders (as defined in the Listing Rules) of the Company. Save as disclosed above, Mr. SZE Nang Sze has not held any directorship in other publicly listed companies in the last three years.

LI Ching Leung(李清涼), aged 53, is our non-executive Director and has joined us since August 2004. Mr. LI Ching Leung was the assistant general manager of our Wuhu production complex. Prior to joining us, Mr. LI Ching Leung has worked in the trading of automobile parts industry, manufacturing of plastic products and mould industry, and manufacturing of leather products industry. Mr. LI Ching Leung was appointed as our executive Director on 25 August 2004 and was re-designated as non-executive Director on 14 September 2005. Save as disclosed above, Mr. LI Ching Leung has no relationship with any Directors, senior management or substantial shareholders (as defined in the Listing Rules) or controlling shareholders (as defined in the Listing Rules) of the Company. Save as disclosed above, Mr. LI Ching Leung has not held any directorship in other publicly listed companies in the last three years.

NG Ngan Ho (吳銀河), aged 44, is our non-executive Director and has joined us since August 2003. Mr. NG Ngan Ho was responsible for overseeing the financial and purchasing matters of our Dongguan production complex. Mr. NG Ngan Ho was appointed as our executive Director on 25 June 2004 and was re-designated as non-executive Director on 1 July 2007. Save as disclosed above, Mr. NG Ngan Ho has no relationship with any Directors, senior management or substantial shareholders (as defined in the Listing Rules) or controlling shareholders (as defined in the Listing Rules) of the Company. Save as disclosed above, Mr. NG Ngan Ho has not held any directorship in other publicly listed companies in the last three years.

### INDEPENDENT NON-EXECUTIVE DIRECTORS

LAM Kwong Siu, S.B.S.(林廣兆), aged 75, is the vice chairman of BOC International Holdings Limited, the chairman of the board of Hong Kong Federation of Fujian Association, the Chief Supervisor of Hong Kong Fukien Chamber of Commerce, the vice chairman of Fujian Hong Kong Economic Co-operation, the Life Honorary Chairman of the Chinese General Chamber of Commerce and Adviser of the Hong Kong Chinese Enterprises Association, and thus has the appropriate professional expertise required under Rule 3.10(2) of the Listing Rules. Mr. LAM Kwong Siu has also been the non-executive director of CITIC International Financial Holdings Limited since September 1996, BOC International Holdings Limited since October 2001, CITIC Ka Wah Bank Limited since January 2002, Bank of China International Limited (formerly named “BOCI Capital Limited”) since July 2002, China Overseas Land & Investment Limited since September 2003 and Fujian Holdings Limited since December 2003. Mr. LAM Kwong Siu was awarded the HKSAR Silver Bauhinia Star in 2003. Mr. LAM Kwong Siu was appointed as our independent non-executive Director on 30 August 2004. CITIC International Financial Holdings Limited (withdrawal of listing on 5 November 2008), China Overseas Land & Investment Limited, Fujian Holdings Limited are companies whose shares are being listed on the Stock Exchange. Save as disclosed above, Mr. LAM Kwong Siu, S.B.S. has no relationship with any Directors, senior management or substantial shareholders (as defined in the Listing Rules) or controlling shareholders (as defined in the Listing Rules) of the Company. Save as disclosed above, Mr. LAM Kwong Siu, S.B.S. has not held any directorship in other publicly listed companies in the last three years.

## Profile of Directors and Senior Management



WONG Chat Chor Samuel (王則左), aged 59, is currently a Barrister-at-Law in Hong Kong and a Chartered Arbitrator. Mr. WONG Chat Chor Samuel, a member of several arbitration institutions, is a Fellow of the Chartered Institute of Arbitrators, a Fellow of the Hong Kong Institute of Arbitrators, Executive Council member of the Hong Kong Society for Rehabilitation and Crime Prevention, the president of the Hong Kong Institute of Arbitrators 2002 and 2003, a member of the International Chamber of Commerce ("ICC") and the ICC Arbitration Committee of Hong Kong. Mr. WONG Chat Chor Samuel is also on the panels of the China International Economic and Trade Arbitration Commission, the Hong Kong International Arbitration Center and on the panels of the Arbitration Commissions of Wuhan, Dalian, Tsingdao, Guangzhou, Suzhou and Huizhou of China. In addition, Mr. WONG Chat Chor Samuel is also a member of the Arbitration Commission of the Chinese People's Arbitration Association in Hong Kong.



# Profile of Directors and Senior Management

## SENIOR MANAGEMENT

William CHEN( 陳未遠 ), aged 78, is our senior float glass technology consultant and has joined our Group since March 2003. Prior to joining our Group, Mr. William CHEN had worked in the glass technology industry for over 39 years. Mr. William CHEN was granted a special subsidy by the State Council in 1991 for his contribution to glass engineering technology.

YANG Jian Jun( 楊建軍 ), aged 48, is our director of research and development centre. Prior to joining our Group in May 2006, Mr. YANG Jian Jun was the director of the China National Safety Glass and Quartz Glass Testing Centre which is under the Glass Research Institute of China Building Materials Academy. Mr. YANG Jian Jun has over eighteen years' experience in glass and building materials research, quality management and testing. Mr. YANG Jian Jun graduated from Eastern China University of Science and Technology in 1982 with a bachelor degree in glass science and graduated from Beijing Aeronautics and Aviation University in 2003 with a master degree in solid mechanics.

LAU Sik Yuen( 劉錫源 ), aged 42, is our company secretary, chief financial officer and qualified accountant. Prior to joining our Group in April 2003, Mr. LAU Sik Yuen had over nineteen years' experience in auditing and financial accounting. Mr. LAU Sik Yuen is responsible for the Group's financial, management and cost accounting, taxation, treasury and investor relations strategy and operation. Mr. LAU Sik Yuen had worked for PricewaterhouseCoopers for five years, and had been the financial controller of a subsidiary of a company listed on the Main Board for over three years. Mr. LAU Sik Yuen is a member of the Hong Kong Institute of Certified Public Accountants, a member of the American Institute of Certified Public Accountants and a certified public accountant in the state of Illinois, U.S.

ZHA Xuesong( 查雪松 ), aged 37, is group vice president and general manager of Xinyi Automobile Glass (Shenzhen) Company Limited and Shenzhen Benson Automobile Glass Company Limited and overseeing our automobile glass overseas markets. Prior to joining our Group in March 1996, Mr. ZHA Xuesong taught at the Hubei Chinese Medical School for two years, after graduation from Hubei University in 1994 with a bachelor degree in arts. Mr. ZHA Xuesong has completed the course of Postgraduate Certificate in International Laws at Shenzhen University in 2002. Mr. ZHA Xuesong was graduated with an executive master degree of business administration in Peking University in 2007.

Antonio P.K. TAM( 譚炳均 ), aged 57, is our head of international business development, president and a director of Xinyi Glass (North America) Inc., a director of Xinyi Auto Glass (North America) Corporation and a director of Xinyi Glass (America) Development Inc. Mr. Antonio P.K. TAM is responsible for planning our overseas automobile glass sales development strategy and overseeing our operation in North America. Prior to joining us in January 1997, Mr. Antonio P.K. TAM had more than seventeen years' experience in the trading of glass manufacturing machinery. Mr. Antonio P.K. TAM obtained a bachelor degree in science from The Chinese University of Hong Kong in 1974 and a master degree in science from the University of Rochester, U.S. in 1976.

CHEN Xi ( 陳曦 ), aged 51, is the general manager of Xinyi Glass Engineering (Dongguan) Company Limited and joined our Group in March 2003. Mr. CHEN Xi graduated from Sichuan Industrial Institute in 1983 and is qualified as a senior mechanical engineer.

ZHANG Ming( 張明 ), aged 48, is the general manager of Xinyi Glass Wuhu Production Complex and is responsible for overseeing and implementing photovoltaic glass operation and sales. Mr. ZHANG Ming has obtained qualification as a senior engineer. Prior to joining our Group in February 1998, Mr. ZHANG Ming worked at a float glass plant in the PRC. Mr. ZHANG Ming graduated from Wuhan Construction Materials Institute in 1982 with a bachelor degree in construction materials and mechanics.

The Board recognises the importance of good corporate governance in the management structure and internal control procedures of the Group for the purpose of ensuring that all business activities of the Group and the decision-making process are properly regulated and in full compliance with the applicable laws and regulations. During the financial year ended 31 December 2008, the Company was in full compliance with the applicable code provisions set forth in the Code on Corporate Governance Practices (the “**Code**”) as set out in Appendix 14 to The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”).

## BOARD OF DIRECTORS

One of the responsibilities of the Board is to prevent fraud and non-compliance issues, safeguard the assets of the Group and formulate the overall business strategies for the Group. The Board currently comprises six executive Directors, four non-executive Directors and three independent non-executive Directors. Details of the Directors are set forth on pages 14 to 17 of this report.

The six executive Directors are Mr. LEE Yin Yee, M.H., Mr. TUNG Ching Bor, Mr. TUNG Ching Sai, Mr. LEE Shing Kan, Mr. LEE Yau Ching and Mr. LI Man Yin. Mr. LEE Yin Yee, M.H., is the father of Mr. LEE Shing Kan, and also the brother-in-law of Mr. TUNG Ching Bor and Mr. TUNG Ching Sai, and an uncle of Mr. LEE Yau Ching. Mr. TUNG Ching Bor is an elder brother of Mr. TUNG Ching Sai. Hence, Mr. LEE Shing Kan is a son of Mr. LEE Yin Yee, M.H., cousin of Mr. LEE Yau Ching and nephew of Mr. TUNG Ching Bor and Mr. TUNG Ching Sai. Mr. LEE Yau Ching is the nephew of Mr. LEE Yin Yee, M.H., and cousin of Mr. LEE Shing Kan.

The four non-executive Directors are Mr. LI Ching Wai, Mr. SZE Nang Sze, Mr. LI Ching Leung and Mr. NG Ngan Ho.

The three independent non-executive Directors are Mr. LAM Kwong Siu, S.B.S., Mr. WONG Chat Chor Samuel and Mr. WONG Ying Wai, S.B.S., JP.

Where there is any casual vacancy in the Board, candidates will be proposed and put forward to the Board for consideration and approval, with a view to appointing to the Board individuals with appropriate capabilities at that time.

Mr. LEE Yin Yee, M.H. is the Chairman of the Group and Mr. TUNG Ching Sai is the Chief Executive Officer of the Group. The Chairman is responsible for managing and providing leadership to the Board. Mr. LEE ensures that the Group has maintained strong and effective corporate governance practices and procedures. The Chief Executive Officer is responsible for the day-to-day management of the business of the Group. With the assistance of other members of the Board and other senior management, Mr. TUNG Ching Sai closely monitors the operating and financial results of the Group, identifies any weakness in the operation and takes all necessary and appropriate steps to remedy such weakness. Mr. TUNG is also responsible for formulating the future business plans and strategies of the Group for the Board's approval.

All four non-executive Directors were appointed for a term of three years, commenced on 1 January 2008. Two of the independent non-executive Directors, Mr. LAM Kwong Siu, S.B.S. and Mr. WONG Chat Chor Samuel were appointed for a term of three years commenced on 3 February 2008. The independent non-executive Director, Mr. WONG Ying Wai, S.B.S., JP was appointed for a term of three years commenced on 1 November 2008. All of the independent non-executive Directors have satisfied the independence criteria and have made their confirmations on independence pursuant to Rule 3.13 of the Listing Rules. The Company is of the view that all independent non-executive Directors have fulfilled the independence guidelines set out in Rule 3.13 of the Listing Rules.



## NOMINATION COMMITTEE

The Nomination Committee of the Board consists of Mr. LEE Yin Yee, M.H., Mr. TUNG Ching Sai, Mr. LAM Kwong Siu, Mr. WONG Chat Chor Samuel and Mr. WONG Ying Wai, S.B.S., JP. The chairman of the Nomination Committee is Mr. LEE Yin Yee. The Nomination Committee selects and recommends appropriate candidates, based on his or her prior experience and qualifications, to the Board on the appointment of Directors. The Nomination Committee was established on 29 October 2007 and its terms of reference are available on request. The Nomination Committee held one meeting during the year of 2008 on 10 October 2008 and all the committee members, except Mr. LEE Yin Yee, M.H., and Mr. TUNG Ching Sai, attended this meeting.

## DIRECTOR'S RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Directors acknowledge that it is their responsibilities for (i) overseeing the preparation of the financial statements of the Group with a view to ensuring such financial statements give a true and fair view of the state of affairs of the Group, and (ii) selecting suitable accounting policies, applying the selected accounting policies consistently, and making prudent and reasonable judgments and estimates for the preparation of the financial statements of the Group.

The statement of the auditors of the Company about their reporting responsibilities on the financial statements of the Group is set out in the Independent Auditor's Report on page 36.

## AUDITORS' REMUNERATION

The professional fees charged by the auditors of group companies in respect of the auditing services is disclosed in the notes to the financial statements. The remuneration paid to the auditor of the Group is solely for audit of consolidated financial statements of the Group during the year and amounted to approximately HK\$2.5 million.

## INTERNAL CONTROL

The Board and the management of the Group maintain a sound and effective system of internal control of the Group so as to ensure the effectiveness and efficiency of operations of the Group in achieving the established corporate objectives, safeguarding assets of the Group, rendering reliable financial reporting and complying with applicable laws and regulations.

The Board is also responsible for making appropriate assertions on the adequacy of internal controls over financial reporting and the effectiveness of disclosure controls and procedures. Through the Audit Committee of the Board, the Board has regularly reviewed the effectiveness of risk management and control activities of the Group during the financial year of 2008. During 2008, the Board has conducted an annual review of the effectiveness of the system of internal control of the Group with satisfactory results.

The Directors are pleased to present their report and the audited financial statements of the Group for the financial year ended 31 December 2008.

## PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding whereas its subsidiaries are principally engaged in the production and sales of float glass products including photovoltaic glass, automobile glass products, construction and household glass products and a variety of related products in the PRC. Particulars of the subsidiaries of the Company are set forth in note 10 to the financial statements of the Group in this report.

The analysis of the Group's performance for the financial year by business and geographical segments is set out in note 5 to the financial statements in this report.

## RESULTS AND APPROPRIATIONS

The results of the Group for the financial year ended 31 December 2008 are set out in the consolidated income statement on page 41 in this report. During the financial year, an interim dividend of 11.0 HK cents per Share, amounting to a total of about HK\$185.6 million, was paid to shareholders on 25 September 2008.

The Board proposes the payment of a final dividend of 9.0 HK cents per Share to Shareholders whose names appear on the register of members of the Company at the close of business on Friday, 22 May 2009. Subject to approval of the Directors' recommendation by shareholders at the Annual General Meeting, the final dividend will be paid on 1 June 2009.

The register of members will be closed from Tuesday, 19 May 2009 to Friday, 22 May 2009, both days inclusive, during which period, no transfer of Shares will be registered. In order to qualify for the final dividend, all Share certificates with completed transfer forms either overleaf or separately, must be lodged with the Company's branch share registrars and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited, at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, no later than 4:00 p.m. on Monday, 18 May 2009.

## RESERVES

Details of movements in the reserves of the Group during the financial year are set out in note 18 to the financial statements in this report.

## FINANCIAL SUMMARY

A summary of the operating results and of the assets and liabilities of the Group for the last five financial years is set out in the section headed "Financial Summary" in this report.

## INVESTMENT PROPERTIES

Details of this movement in investment properties during the year are set out in note 8 to the consolidated financial statements.

## PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group are set out in note 7 to the financial statements.

## DONATIONS

Donations by the Group for charitable and other purposes during the financial year amounted to HK\$5.4 million (2007: HK\$73,000).

## SHARE CAPITAL

Details of the movements in share capital of the Company are set out in note 17 to the financial statements in this report.

## DISTRIBUTABLE RESERVES

Under the Companies Law of the Cayman Islands as at 31 December 2008, share premium amounting to approximately HK\$1,829.2 million (2007: HK\$2,073.3 million) is distributable to shareholders, subject to the condition that immediately following the date on which the distribution or dividend is proposed to be made, the Company is able to pay its debts as they fall due in the ordinary course of business.

As at 31 December 2008, the Company had distributable reserves available for distribution to shareholders amounting to approximately HK\$155.6 million (2007: HK\$175.8 million) other than mentioned above.

## PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands, which would oblige the Company to offer new Shares on a pro-rata basis to the existing shareholders.

## DIRECTORS

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

### EXECUTIVE DIRECTORS

Mr. LEE Yin Yee, M.H. (*Chairman*)

Mr. TUNG Ching Bor (*Vice chairman*)

Mr. TUNG Ching Sai (*Chief executive officer*)

Mr. LEE Shing Put (*resigned on 15 October 2008*)

Mr. LEE Shing Kan (*appointed on 15 October 2008*)

Mr. LEE Yau Ching

Mr. LI Man Yin

### NON-EXECUTIVE DIRECTORS

Mr. LI Ching Wai

Mr. SZE Nang Sze

Mr. LI Ching Leung

Mr. NG Ngan Ho

### INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. LAM Kwong Siu, S.B.S.

Mr. WONG Chat Chor Samuel

Mr. WONG Ying Wai, S.B.S., JP

In accordance with article 108 of the Company's articles of association, Mr. LI Ching Wai, Mr. SZE Nang Sze, Mr. LI Ching Leung and Mr. NG Ngan Ho will retire by rotation and being eligible, will offer themselves for re-election at the Annual General Meeting.

In accordance with article 112 of the Company's articles of association, Mr. LEE Shing Kan will retire and being eligible, will offer himself for re-election at the Annual General Meeting.

Two of the independent non-executive Directors, Mr. LAM Kwong Siu and Mr. WONG Chat Chor Samuel were appointed for a term of three years commencing from 15 October 2008. Mr. WONG Ying Wai, S.B.S., JP was appointed as an independent non-executive Director, 31 October 2008. LAE Shi2g Siu6.1(ais commMr)88.4n

## DIRECTORS' SERVICE CONTRACTS

None of the Directors who are proposed for re-election at the forthcoming Annual General Meeting has entered or has proposed





## SHARE OPTION SCHEME

Pursuant to a written resolution of the shareholders of the Company passed on 18 January 2005, a share option scheme (the “**Share Option Scheme**”) was approved and adopted.

The purpose of the Share Option Scheme is to provide the Company with a flexible means of giving incentive to, rewarding, remunerating, compensating and/or providing benefits to the participants (as defined below) and for such other purposes as the Directors may approve from time to time.

For the purpose of the Share Option Scheme, participants (the “Participants”) include (i) any employees (whether full-time or part-time) of the Company or any of its subsidiaries, associated companies, jointly controlled entities and related companies from time to time (collectively, the “**Extended Group**”); (ii) any directors (whether executive directors or non-executive directors or independent non-executive directors) of the Extended Group; (iii) customers of the Extended Group or any of the subsidiaries or associated companies of such customers; and (iv) any consultants, professionals and other advisers to each member of the Extended Group.

The total number of Shares which may be allotted and issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of the Company shall not in aggregate exceed 10% (the “**Scheme Mandate Limit**”) of the total number of Shares in issue on the Listing Date.

The Company may seek approval of the Shareholders in general meeting to refresh the Scheme Mandate Limit such that the total number of Shares in respect of which options may be granted under the Share Option Scheme and other share option schemes of the Company in issue shall not exceed 10% (the “**Refreshed Limit**”) of the issued share capital of the Company on the date the refreshment of such limit is approved.

Notwithstanding the above, the maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company shall not exceed 30% of the total number of Shares in issue from time to time. No option may be granted under the Share Option Scheme and any other share option schemes of the Company if this will result in the aforesaid 30% limit being exceeded.

Unless with the approval of the Shareholders in general meeting, the maximum number of Shares issued and to be issued upon the exercise of the options granted to each Participant (including both exercised and outstanding options) under the Share Option Scheme and any other share option schemes of the Company in any 12-month period shall not exceed 1% of the Shares in issue.

An option must be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be determined and notified by the Directors to each grantee, which period may commence from the date on which the offer for the grant of the option is made, but shall end in any event not later than 10 years from the date on which the offer for the grant of the option is made, subject to the provisions for early termination thereof. An option may be accepted by a Participant within 21 days from the date of the offer for the grant of the option and the amount payable on acceptance of the grant of an option is HK\$1.

# Report of the Directors



Unless otherwise determined by the Directors and stated in the offer for the grant of options to a grantee, there is neither any performance target that needs to be achieved by a grantee before an option can be exercised nor any minimum period for which an option must be held before it can be exercised.

The subscription price in respect of each Share issued under the Share Option Scheme shall be a price solely determined by the Directors but shall not be less than the highest of:

- (a) the closing price of the Shares as stated in the daily quotation sheet of the Stock Exchange for trade in one or more board lots of the Shares on the date of the offer for the grant, which must be a day on which licensed banks are open for business in Hong Kong and the Stock Exchange is open for the business of dealing in securities (the “Trading Day”);
- (b) the average closing price of the Shares as stated in the daily quotation sheets of the Stock Exchange for the five Trading Days immediately preceding the date of the offer for the grant; and
- (c) the nominal value of a Share.

The Share Option Scheme will remain in force for a period of 10 years commencing on the date on which the Share Option Scheme is adopted.

As at the date hereof, the first tranche of 8,520,000 options were granted to employees of the Group, of which 4,188,500 options had lapsed, 4,331,500 options had been exercised, and 600,000 options had been granted to connected persons of the Group, being directors of subsidiaries of the Company. The exercise price of such options was HK\$2.15 and all these options expired on 27 January 2009.

The second tranche of 13,552,000 options had been granted to employees of the Group, of which 1,464,000 had lapsed, and 600,000 options had been granted to connected persons of the Company and its subsidiaries, being directors of subsidiaries of the Company. The exercise price of such options is HK\$6.98 and the option holders may exercise the options between 1 July 2010 and 30 June 2011, provided that the holders are employees of the Group during the exercise period. If any of the options proposed to be granted hereby have not been exercised by the holders on or before 30 June 2011, the outstanding un-exercised options shall lapse and the holders shall not be entitled to exercise the outstanding options to subscribe for any Shares.

The third tranche of 24,258,600 options had been granted to employees of the Group, of which 760,000 had lapsed, and 600,000 options had been granted to connected persons of the Company and its subsidiaries, being directors of subsidiaries of the Company. The exercise price of such options is HK\$4.67 and the option holders may exercise the options between 20 April 2012 and 19 April 2013, provided that the holders are employees of the Group during the exercise period. If any of the options proposed to be granted hereby have not been exercised by the holders on or before 19 April 2013, the outstanding un-exercised options shall lapse and the holders shall not be entitled to exercise the outstanding options to subscribe for any Shares.

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of Directors and senior management are set out on pages 14 to 18 of this report.



## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 31 December 2008, the interests and short positions of the Directors and chief executive of the Company in the Shares, the underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO; or as otherwise notified to the Company and the Stock Exchange pursuant to the Divisions 7 and 8 of Part XV of the SFO (including interest or short positions which the Directors or the chief executive were taken or deemed to have under such provisions) and the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") contained in the Listing Rules, were as follows:

### THE COMPANY

#### Long position in the Shares

| Name of Directors  | Nature of interest                            | Number of Shares held | Approximate percentage of the Company's issued share capital |
|--------------------|-----------------------------------------------|-----------------------|--------------------------------------------------------------|
| Mr. LEE Yin Yee    | Interest of a controlled corporation (Note a) | 363,202,029           | 21.52%                                                       |
|                    | Interest of a controlled corporation (Note m) | 49,404,000            | 2.93%                                                        |
|                    | Personal interest (Note b)                    | 12,534,000            | 0.74%                                                        |
| Mr. TUNG Ching Bor | Interest of a controlled corporation (Note c) | 133,602,926           | 7.91%                                                        |
|                    | Interest of a controlled corporation (Note m) | 49,404,000            | 2.93%                                                        |
|                    | Personal interest (Note d)                    | 3,488,000             | 0.21%                                                        |
| Mr. TUNG Ching Sai | Interest of a controlled corporation (Note e) | 128,920,582           | 7.64%                                                        |
|                    | Interest of a controlled corporation (Note m) | 49,404,000            | 2.93%                                                        |
|                    | Personal interest (Note f)                    | 7,984,000             | 0.47%                                                        |
| Mr. LI Ching Wai   | Interest of a controlled corporation (Note g) | 59,379,078            | 3.52%                                                        |
|                    | Interest of a controlled corporation (Note m) | 49,404,000            | 2.93%                                                        |
| Mr. NG Ngan Ho     | Interest of a controlled corporation (Note h) | 39,586,052            | 2.35%                                                        |
|                    | Interest of a controlled corporation (Note m) | 49,404,000            | 2.93%                                                        |
|                    | Personal interest                             | 200,000               | 0.01%                                                        |
| Mr. LI Man Yin     | Interest of a controlled corporation (Note i) | 39,586,052            | 2.35%                                                        |
|                    | Interest of a controlled corporation (Note m) | 49,404,000            | 2.93%                                                        |
|                    | Personal interest (Note j)                    | 300,000               | 0.02%                                                        |
| Mr. SZE Nang Sze   | Interest of a controlled corporation (Note k) | 54,430,822            | 3.22%                                                        |
|                    | Interest of a controlled corporation (Note m) | 49,404,000            | 2.93%                                                        |
| Mr. LI Ching Leung | Interest of a controlled corporation (Note l) | 39,586,052            | 2.35%                                                        |
|                    | Interest of a controlled corporation (Note m) | 49,404,000            | 2.93%                                                        |
|                    | Personal interest                             | 1,000,000             | 0.06%                                                        |

# Report of the Directors



## Notes:

- (a) Mr. LEE Yin Yee's interests in the Shares are held through Realbest Investment Limited ("**Realbest**"), a company incorporated in the BVI with limited liability on 2 July 2004 and wholly-owned by Mr. LEE Yin Yee.
- (b) Mr. LEE Yin Yee's interests in the Shares are held through a joint account with his spouse, Madam TUNG Hai Chi.
- (c) Mr. TUNG Ching Bor's interests in the Shares are held through High Park Technology Limited ("**High Park**"), a company incorporated in the BVI with limited liability on 1 July 2004 and wholly-owned by Mr. TUNG Ching Bor.
- (d) Mr. TUNG Ching Bor's interests in the Shares are held through a joint account with his spouse, Madam KUNG Sau Wai.
- (e) Mr. TUNG Ching Sai's interests in the Shares are held through Copark Investment Limited ("**Copark**"), a company incorporated in the BVI with limited liability on 2 July 2004 and wholly-owned by Mr. TUNG Ching Sai.
- (f) Mr. TUNG Ching Sai's interests in the Shares are held through his spouse, Madam SZE Tang Hung.
- (g) Mr. LI Ching Wai's interests in the Shares are held through Goldbo International Limited ("**Goldbo**"), a company incorporated in the BVI with limited liability on 2 July 2004 and wholly-owned by Mr. LI Ching Wai.
- (h) Mr. NG Ngan Ho's interests in the Shares are held through Linkall Investment Limited ("**Linkall**"), a company incorporated in the BVI with limited liability on 2 July 2004 and wholly-owned by Mr. NG Ngan Ho.
- (i) Mr. LI Man Yin's interests in the Shares are held through Perfect All Investments Limited ("**Perfect All**"), a company incorporated in the BVI with limited liability on 28 June 2004 and wholly-owned by Mr. LI Man Yin.
- (j) Mr. LI Man Yin's interests in the Shares are held through a joint account with his spouse, Madam LI Sau Suet.
- (k) Mr. SZE Nang Sze's interests in the Shares are held through Goldpine Limited ("**Goldpine**"), a company incorporated in the BVI with limited liability on 2 July 2004 and wholly-owned by Mr. SZE Nang Sze.
- (l) Mr. LI Ching Leung's interests in the Shares are held through Herosmart Holdings Limited ("**Herosmart**"), a company incorporated in the BVI with limited liability on 1 July 2004 and wholly-owned by Mr. LI Ching Leung.
- (m) The interest in the Shares are held through Full Guang Holdings Limited ("**Full Guang**"), a company incorporated in the BVI with limited liability on 19 December 2005. Full Guang is owned by Mr. LEE Yin Yee as to 33.98%, Mr. TUNG Ching Bor as to 12.50%, Mr. TUNG Ching Sai as to 19.91%, Mr. LEE Sing Din (father of Mr. LEE Yau Ching) as to 11.85%, Mr. LI Ching Wai as to 5.56%, Mr. NG Ngan Ho as to 3.70%, Mr. LI Man Yin as to 3.70%, Mr. SZE Nang Sze as to 5.09% and Mr. LI Ching Leung as to 3.70%.



## ASSOCIATED CORPORATIONS

| Name of associated corporation | Name of Director   | Class and number of shares held in the associated corporation | Approximate shareholding percentage |
|--------------------------------|--------------------|---------------------------------------------------------------|-------------------------------------|
| Realbest (Note n)              | Mr. LEE Yin Yee    | 2 ordinary shares                                             | 100%                                |
| High Park (Note o)             | Mr. TUNG Ching Bor | 2 ordinary shares                                             | 100%                                |
| Copark (Note p)                | Mr. TUNG Ching Sai | 2 ordinary shares                                             | 100%                                |
| Telerich (Note q)              | Mr. LEE Yau Ching  | 2 ordinary shares                                             | 100%                                |
| Goldbo (Note r)                | Mr. LI Ching Wai   | 2 ordinary shares                                             | 100%                                |
| Linkall (Note s)               | Mr. NG Ngan Ho     | 2 ordinary shares                                             | 100%                                |
| Perfect All (Note t)           | Mr. LI Man Yin     | 2 ordinary shares                                             | 100%                                |
| Goldpine (Note u)              | Mr. SZE Nang Sze   | 2 ordinary shares                                             | 100%                                |
| Herosmart (Note v)             | Mr. LI Ching Leung | 2 ordinary shares                                             | 100%                                |
| Full Guang (Note w)            | Mr. LEE Yin Yee    | 734,000 ordinary shares                                       | 33.98%                              |
|                                | Mr. TUNG Ching Bor | 270,000 ordinary shares                                       | 12.50%                              |
|                                | Mr. TUNG Ching Sai | 430,000 ordinary shares                                       | 19.91%                              |
|                                | Mr. LEE Yau Ching  | 256,000 ordinary shares                                       | 11.85%                              |
|                                | Mr. LI Ching Wai   | 120,000 ordinary shares                                       | 5.56%                               |
|                                | Mr. NG Ngan Ho     | 80,000 ordinary shares                                        | 3.70%                               |
|                                | Mr. LI Man Yin     | 80,000 ordinary shares                                        | 3.70%                               |
|                                | Mr. SZE Nang Sze   | 110,000 ordinary shares                                       | 5.09%                               |
|                                | Mr. LI Ching Leung | 80,000 ordinary shares                                        | 3.70%                               |

### Notes:

- (n) Realbest is wholly-owned by Mr. LEE Yin Yee.
- (o) High Park is wholly-owned by Mr. TUNG Ching Bor.
- (p) Copark is wholly-owned by Mr. TUNG Ching Sai.
- (q) Telerich is wholly-owned by Mr. LEE Sing Din, the father of Mr. LEE Yau Ching.
- (r) Goldbo is wholly-owned by Mr. LI Ching Wai.
- (s) Linkall is wholly-owned by Mr. NG Ngan Ho.
- (t) Perfect All is wholly-owned by Mr. LI Man Yin.
- (u) Goldpine is wholly-owned by Mr. SZE Nang Sze.
- (v) Herosmart is wholly-owned by Mr. LI Ching Leung.
- (w) Full Guang is owned by Mr. LEE Yin Yee as to 33.98%, Mr. TUNG Ching Bor as to 12.50%, Mr. TUNG Ching Sai as to 19.91%, Mr. LEE Sing Din (father of Mr. LEE Yau Ching) as to 11.85%, Mr. LI Ching Wai as to 5.56%, Mr. NG Ngan Ho as to 3.70%, Mr. LI Man Yin as to 3.70%, Mr. SZE Nang Sze as to 5.09% and Mr. LI Ching Leung as to 3.70%.

# Report of the Directors



Save as disclosed above, as at 31 December 2008, to the knowledge of the Company, none of the Directors or chief executive of the Company had or was deemed under the SFO to have any interests or short positions in any of the Shares or the underlying share and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO) which was required to be recorded pursuant to section 352 of the SFO, or as otherwise required to be notified to the Company and the Stock Exchange pursuant to the Divisions 7 and 8 of Part XV of the SFO and the Model Code.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITION IN SHARES

As at 31 December 2008, the interests and short positions of the persons, other than Directors and chief executive of the Company, in the Shares and the underlying Shares of the Company, as notified to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO, were as follows:

### THE COMPANY

#### *Long position in the Shares*

| Name of Substantial Shareholders            | Number of Shares held | Nature of interest              | Approximate percentage of the Company's issued share capital |
|---------------------------------------------|-----------------------|---------------------------------|--------------------------------------------------------------|
| Realbest                                    | 363,202,029           | Registered and beneficial owner | 21.52%                                                       |
| High Park                                   | 133,602,926           | Registered and beneficial owner | 7.91%                                                        |
| Copark                                      | 128,920,582           | Registered and beneficial owner | 7.64%                                                        |
| Telerich Investment Limited ( <i>Note</i> ) | 126,675,367           | Registered and beneficial owner | 7.50%                                                        |

*Note:* These Shares are registered in the name of Telerich Investment Limited, the entire issued share capital of which is beneficially owned by Mr. LEE Sing Din, the father of Mr. LEE Yau Ching, who is an executive Director.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARE CAPITAL OF SUBSIDIARIES OF THE COMPANY

As at 31 December 2008, the persons who are, directly or indirectly, interested in 10% 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 (other than the Company) were as follows:

| Name of subsidiary of the Company            | Name of shareholder         | Class and number of shares held in the subsidiary of the Company | Approximate shareholding percentage |
|----------------------------------------------|-----------------------------|------------------------------------------------------------------|-------------------------------------|
| Xinyi Glass (North America) Inc.             | Polaron International Inc.  | 30,000 class A common shares                                     | 25.0%                               |
|                                              | Mr. CHAN Chung Shun Alex    | 20,000 class A common shares                                     | 16.7%                               |
| Xinyi Auto Glass (North America) Corporation | Polaron International Inc.  | 30,000 class A common shares                                     | 30.0%                               |
| Xinyi Glass (America) Development Inc.       | Mr. TAM Peng Kuan Antonio   | 30,000 common shares                                             | 25.0%                               |
|                                              | Mr. LAU Chee Wai Daniel     | 20,000 common shares                                             | 16.7%                               |
| Xinyi Glass (Germany) Limited                | Mr. Wolfgang Walter WILLNAT | 2,500 common shares                                              | 25.0%                               |
|                                              | Polaron International Inc.  | 1,250 common shares                                              | 12.5%                               |
| Xinyi Glass Japan Company Limited            | Polaron International Inc.  | 40 common shares                                                 | 10.0%                               |
|                                              | Mr. CHO Shotie              | 140 common shares                                                | 35.0%                               |
| Xinyi Glas Deutschland GmbH                  | Mr. Wolfgang Walter WILLNAT | not applicable                                                   | 25.0%                               |
|                                              | Polaron International Inc.  | not applicable                                                   | 12.5%                               |

Save as disclosed herein, the Directors are not aware of any persons who were directly or indirectly interested in 10% or more of the Shares then in issue, or equity interest in any member of the Group representing 10% or more of the equity interest in such company, or who had any interests or short positions in the Shares and underlying shares which were disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

## DIRECTORS' INTEREST IN COMPETING BUSINESS

As at 31 December 2008, none of the Directors and their respective associates (as defined in the Listing Rules) had any interest in a business, which competes or may compete with the business of the Group.

## ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

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 benefits by means of the acquisition of Shares in, or debentures of, the Company or any other body corporate and neither the Directors or the chief executive, nor any of their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right.

## MAJOR CUSTOMERS AND SUPPLIERS

The percentage of sales and purchases for the year attributable to the Group's major customers and suppliers are as follows:

### Sales

|                                       |       |
|---------------------------------------|-------|
| — the largest customer                | 5.2%  |
| — the largest five customers combined | 14.6% |

### Purchases

|                                       |       |
|---------------------------------------|-------|
| — the largest supplier                | 12.6% |
| — the largest five suppliers combined | 34.1% |

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

## BANK BORROWINGS

The total bank borrowings of the Group as at 31 December 2008 amounted to approximately HK\$1,206.5 million (2007: HK\$683.6 million). Particulars of the bank borrowings are set out in note 20 to the financial statements in this report.

## REWARD FOR EMPLOYEES

As at 31 December 2008, we employed over 7,338 employees in the PRC, Hong Kong, Canada, Germany and Japan. Our employees are remunerated with monthly salary, subject to annual review and discretionary bonuses. Our employees are also entitled, subject to eligibility, to retirement fund and provident fund and to participate in the Share Option Scheme. We place strong emphasis on nurturing a continuous learning culture amongst the employees and implement a variety of programs to promote training.



## CONNECTED TRANSACTIONS

No significant related party transaction has been entered into by the Group which constituted connected transactions for the financial year ended 31 December 2008.

## COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE PRACTICES

The Company has complied with the applicable code provisions in the Code on Corporate Governance Practices ("the Code") as set out in Appendix 14 to the Listing Rules during the financial year ended 31 December 2008.

## AUDIT COMMITTEE

The Company has established an audit committee, comprising three independent non-executive Directors, with written terms of reference set out in "A Guide For The Formation Of An Audit Committee" published by the Hong Kong Institute of Certified Public Accountants with the exception that the audit committee may have a minimum of two members. A new set of terms of reference of the audit committee in compliance with the requirements of the Listing Rules was adopted on 30 March 2009 by the Directors. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group and to provide comments and give advice to the Board. The audit committee has reviewed the audited financial statements of the Company and audited consolidated financial statements of the Group for the financial year ended 31 December 2008.

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

During the year ended 31 December 2008, the Company repurchased a total of 43,444,000 Shares at an aggregate consideration of HK\$251.1 million on the Stock Exchange. Details of the repurchases of such Shares are as follows:

| Month of repurchase | Number of Price Per<br>Shares Share |                   | Aggregate<br>Purchase |                     |
|---------------------|-------------------------------------|-------------------|-----------------------|---------------------|
|                     | Repurchased                         | Highest<br>(HK\$) | Lowest<br>(HK\$)      | Price<br>(HK\$'000) |
| January 2008        | 37,144,000                          | 7.00              | 5.93                  | 234,898             |
| July 2008           | 1,122,000                           | 4.70              | 4.55                  | 5,212               |
| December 2008       | 5,178,000                           | 2.22              | 1.96                  | 10,973              |
|                     | <u>43,444,000</u>                   |                   |                       | <u>251,083</u>      |

The repurchased Shares were cancelled and the issued share capital of the Company was reduced by the par value thereof. The above repurchases were effected by the Directors, pursuant to the mandate from shareholders, with a view to benefit shareholders as a whole in enhancing the net assets and earnings per share of the Company.

Save as disclosed herein, there was no repurchase by the Company, or any of its subsidiaries, of any listed securities of the Company during the year.

# Report of the Directors



## PUBLIC FLOAT

Based on information publicly available to the Company and to the knowledge of the Directors, as at the date of this report, there was sufficient public float or more than 25% of the Shares was held by the public as required under the Listing Rules.

## SUBSEQUENT EVENTS

No significant event has taken place subsequent to 31 December 2008.

## AUDITOR

The retiring auditor, PricewaterhouseCoopers, has signified their willingness to continue in office. A resolution will be proposed at the Annual General Meeting to re-appoint them and to authorise the Directors to fix their remuneration.

## ANNUAL GENERAL MEETING

The Annual General Meeting will be held on Friday, 22 May 2009, at Harbour Room, Level 56, Island Shangri-La, Two Pacific Place, Supreme Court Road, Central, Hong Kong, at 10:00 a.m. The notice convening the Annual General Meeting will be published on the website of the Stock Exchange at [www.hkex.com.hk](http://www.hkex.com.hk) and on the website of the Company at [www.xinyiglass.com](http://www.xinyiglass.com), and will be dispatched to the shareholders.

On Behalf of the Board

LEE Yin Yee, M.H.

*Chairman*

Hong Kong, 30 March 2009



羅兵咸永道會計

# Independent Auditor's Report



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 profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**PricewaterhouseCoopers**  
*Certified Public Accountants*

Hong Kong, 30 March 2009



# Consolidated Balance Sheet

As at 31 December 2008  
All amounts in Hong Kong dollar thousands unless otherwise stated

|                                                                          | Note | 2008                    | 2007                    |
|--------------------------------------------------------------------------|------|-------------------------|-------------------------|
| <b>ASSETS</b>                                                            |      |                         |                         |
| <b>Non-current assets</b>                                                |      |                         |                         |
| Leasehold land and land use rights                                       | 6    | 362,800                 | 146,892                 |
| Property, plant and equipment                                            | 7    | 3,972,031               | 3,268,901               |
| Investment property                                                      | 8    | 10,927                  | 9,460                   |
| Deposits for property, plant and equipment and land use rights           |      | 280,871                 | 292,854                 |
| Intangible assets                                                        | 9    | 90,048                  | 81,372                  |
| Available-for-sale financial assets                                      | 11   | 569                     | 532                     |
| Interest in an associate                                                 | 12   | 15,889                  | 11,374                  |
|                                                                          |      | <u>4,733,135</u>        | <u>3,811,385</u>        |
| <b>Current assets</b>                                                    |      |                         |                         |
| Inventories                                                              | 13   | 612,134                 | 510,690                 |
| Trade and other receivables                                              | 14   | 661,275                 | 674,722                 |
| Amounts due from customers for contract work                             | 15   | 48,828                  | 57,524                  |
| Pledged bank deposits                                                    | 16   | 6,854                   | 6,702                   |
| Cash and cash equivalents                                                | 16   | 435,712                 | 309,506                 |
|                                                                          |      | <u>1,764,803</u>        | <u>1,559,144</u>        |
| <b>Total assets</b>                                                      |      | <u><b>6,497,938</b></u> | <u><b>5,370,529</b></u> |
| <b>EQUITY</b>                                                            |      |                         |                         |
| <b>Capital and reserves attributable to the Company's equity holders</b> |      |                         |                         |
| Share capital                                                            | 17   | 168,808                 | 172,344                 |
| Share premium                                                            | 17   | 1,829,174               | 2,073,287               |
| Other reserves                                                           | 18   | 728,323                 | 454,085                 |
| Retained earnings                                                        |      |                         |                         |
| - Proposed final dividend                                                | 30   | 151,475                 | 168,683                 |
| - Others                                                                 |      | 1,491,552               | 1,176,680               |
|                                                                          |      | <u>4,369,332</u>        | <u>4,045,079</u>        |
| <b>Minority interest</b>                                                 |      | <u><b>20,204</b></u>    | <u><b>443</b></u>       |
| <b>Total equity</b>                                                      |      | <u><b>4,389,536</b></u> | <u><b>4,045,522</b></u> |

# Consolidated Balance Sheet

As at 31 December 2008

All amounts in Hong Kong dollar thousands unless otherwise stated



|                                              | Note | 2008             | 2007             |
|----------------------------------------------|------|------------------|------------------|
| <b>LIABILITIES</b>                           |      |                  |                  |
| <b>Non-current liabilities</b>               |      |                  |                  |
| Bank borrowings                              | 20   | 484,079          | 259,949          |
| Deferred income tax liabilities              | 21   | 1,044            | 331              |
|                                              |      | <u>485,123</u>   | <u>260,280</u>   |
| <b>Current liabilities</b>                   |      |                  |                  |
| Trade payables, accruals and other payables  | 19   | 879,291          | 626,339          |
| Amounts due to customers for contract work   | 15   | 71               | 609              |
| Bank borrowings                              | 20   | 722,391          | 423,608          |
| Current income tax liabilities               |      | 21,526           | 14,171           |
|                                              |      | <u>1,623,279</u> | <u>1,064,727</u> |
| <b>Total liabilities</b>                     |      | <u>2,108,402</u> | <u>1,325,007</u> |
| <b>Total equity and liabilities</b>          |      | <u>6,497,938</u> | <u>5,370,529</u> |
| <b>Net current assets</b>                    |      | <u>141,524</u>   | <u>494,417</u>   |
| <b>Total assets less current liabilities</b> |      | <u>4,874,659</u> | <u>4,305,802</u> |

On behalf of the Board

LEE Yin Yee  
Chairman

TUNG Ching Bor  
Vice Chairman

The accompanying notes are an integral part of these consolidated financial statements.



# Balance Sheet

As at 31 December 2008  
All amounts in Hong Kong dollar thousands unless otherwise stated

|                                                                          | Note | 2008             | 2007             |
|--------------------------------------------------------------------------|------|------------------|------------------|
| <b>ASSETS</b>                                                            |      |                  |                  |
| <b>Non-current assets</b>                                                |      |                  |                  |
| Interests in subsidiaries                                                | 10   | <u>1,636,223</u> | <u>2,220,010</u> |
| <b>Current assets</b>                                                    |      |                  |                  |
| Amounts due from subsidiaries                                            | 10   | 542,128          | 205,127          |
| Prepayments                                                              |      | 310              | 61               |
| Cash and cash equivalents                                                | 16   | <u>1,055</u>     | <u>5,463</u>     |
|                                                                          |      | <u>543,493</u>   | <u>210,651</u>   |
| <b>Total assets</b>                                                      |      | <u>2,179,716</u> | <u>2,430,661</u> |
| <b>EQUITY</b>                                                            |      |                  |                  |
| <b>Capital and reserves attributable to the Company's equity holders</b> |      |                  |                  |
| Share capital                                                            | 17   | 168,808          | 172,344          |
| Share premium                                                            | 17   | 1,829,174        | 2,073,287        |
| Other reserves                                                           | 18   | 23,552           | 7,675            |
| Retained earnings                                                        |      |                  |                  |
| - Proposed final dividend                                                | 30   | 151,475          | 168,683          |
| - Others                                                                 |      | <u>4,099</u>     | <u>7,164</u>     |
| <b>Total equity</b>                                                      |      | <u>2,177,108</u> | <u>2,429,153</u> |
| <b>LIABILITIES</b>                                                       |      |                  |                  |
| <b>Current liabilities</b>                                               |      |                  |                  |
| Accruals and other payables                                              | 19   | 1,295            | 1,331            |
| Amounts due to subsidiaries                                              | 10   | 1,128            | —                |
| Current income tax liabilities                                           |      | <u>185</u>       | <u>177</u>       |
| <b>Total liabilities</b>                                                 |      | <u>2,608</u>     | <u>1,508</u>     |
| <b>Total equity and liabilities</b>                                      |      | <u>2,179,716</u> | <u>2,430,661</u> |

On behalf of the Board

LEE Yin Yee  
Chairman

TUNG Ching Bor  
Vice Chairman

The accompanying notes are an integral part of these consolidated financial statements.

# Consolidated Income Statement

For the Year Ended 31 December 2008

All amounts in Hong Kong dollar thousands unless otherwise stated



|                                                                                                                                                    | Note | 2008             | 2007             |
|----------------------------------------------------------------------------------------------------------------------------------------------------|------|------------------|------------------|
| <b>Revenue</b>                                                                                                                                     | 5    | 3,894,283        | 2,774,624        |
| Cost of sales                                                                                                                                      | 22   | (2,683,403)      | (1,702,269)      |
| <b>Gross profit</b>                                                                                                                                |      | <b>1,210,880</b> | <b>1,072,355</b> |
| Other income                                                                                                                                       | 24   | 38,118           | 25,140           |
| Other gains - net                                                                                                                                  | 25   | 46,129           | 81,439           |
| Selling and marketing costs                                                                                                                        | 22   | (318,227)        | (286,451)        |
| Administrative expenses                                                                                                                            | 22   | (209,205)        | (166,275)        |
| <b>Operating profit</b>                                                                                                                            |      | <b>767,695</b>   | <b>726,208</b>   |
| Finance income                                                                                                                                     | 26   | 9,116            | 9,017            |
| Finance costs                                                                                                                                      | 26   | (24,029)         | (33,762)         |
| Share of profit of an associate                                                                                                                    | 12   | 272              | 1,703            |
| <b>Profit before income tax</b>                                                                                                                    |      | <b>753,054</b>   | <b>703,166</b>   |
| Income tax expense                                                                                                                                 | 27   | (42,256)         | (30,165)         |
| <b>Profit for the year</b>                                                                                                                         | 28   | <b>710,798</b>   | <b>673,001</b>   |
| <b>Attributable to:</b>                                                                                                                            |      |                  |                  |
| Equity holders of the Company                                                                                                                      |      | 709,232          | 670,860          |
| Minority interests                                                                                                                                 |      | 1,566            | 2,141            |
|                                                                                                                                                    |      | <b>710,798</b>   | <b>673,001</b>   |
| <b>Earnings per share for profit attributable to the equity holders of the Company during the year</b><br>(expressed in Hong Kong cents per share) |      |                  |                  |
| - Basic                                                                                                                                            | 29   | 41.9             | 41.1             |
| - Diluted                                                                                                                                          | 29   | 41.8             | 41.0             |
| <b>Dividends</b>                                                                                                                                   | 30   | <b>337,116</b>   | <b>313,103</b>   |

The accompanying notes are an integral part of these consolidated financial statements.

# Consolidated Statement of Changes in Equity

For the Year Ended 31 December 2008

All amounts in Hong Kong dollar thousands unless otherwise stated

|                                                          | Note | Attributable to equity holders of the Company |               |                |                   | Minority interest | Total     |
|----------------------------------------------------------|------|-----------------------------------------------|---------------|----------------|-------------------|-------------------|-----------|
|                                                          |      | Share capital                                 | Share premium | Other reserves | Retained earnings |                   |           |
| <b>Balance at 1 January 2007</b>                         |      | 160,466                                       | 850,804       | 238,433        | 998,327           | (1,707)           | 2,246,323 |
| Currency translation differences                         |      | —                                             | —             | 142,409        | —                 | (52)              | 142,357   |
| Profit for the year                                      |      | —                                             | —             | —              | 670,860           | 2,141             | 673,001   |
| Revaluation of investment property                       | 8    | —                                             | —             | 624            | —                 | —                 | 624       |
| <b>Total recognised income for 2007</b>                  |      | —                                             | —             | 143,033        | 670,860           | 2,089             | 815,982   |
| Transfer to reserve                                      |      | —                                             | —             | 66,119         | (66,119)          | —                 | —         |
| Proceeds from shares issued                              | 17   | 12,837                                        | 1,311,972     | —              | —                 | —                 | 1,324,809 |
| Share issuance costs                                     | 17   | —                                             | (15,078)      | —              | —                 | —                 | (15,078)  |
| Repurchase of the Company's shares                       |      |                                               |               |                |                   |                   |           |
| - Nominal value of shares repurchased and cancelled      | 17   | (959)                                         | —             | 959            | (959)             | —                 | (959)     |
| - Premium paid on repurchase                             | 17   | —                                             | (74,411)      | —              | —                 | —                 | (74,411)  |
| Additional interest acquired from minority shareholders  |      | —                                             | —             | —              | —                 | 61                | 61        |
| Employee share option scheme                             |      |                                               |               |                |                   |                   |           |
| - value of employee services                             | 17   | —                                             | —             | 5,541          | —                 | —                 | 5,541     |
| Dividend relating to 2006                                |      | —                                             | —             | —              | (112,326)         | —                 | (112,326) |
| Dividend relating to 2007                                | 30   | —                                             | —             | —              | (144,420)         | —                 | (144,420) |
|                                                          |      | 11,878                                        | 1,222,483     | 72,619         | (323,824)         | 61                | 983,217   |
| <b>Balance at 31 December 2007</b>                       |      | 172,344                                       | 2,073,287     | 454,085        | 1,345,363         | 443               | 4,045,522 |
| <b>Balance at 1 January 2008</b>                         |      | 172,344                                       | 2,073,287     | 454,085        | 1,345,363         | 443               | 4,045,522 |
| Currency translation differences                         |      | —                                             | —             | 201,227        | —                 | (56)              | 201,171   |
| Profit for the year                                      |      | —                                             | —             | —              | 709,232           | 1,566             | 710,798   |
| <b>Total recognised income for 2008</b>                  |      | —                                             | —             | 201,227        | 709,232           | 1,510             | 911,969   |
| Transfer to reserve                                      |      | —                                             | —             | 57,134         | (57,134)          | —                 | —         |
| Proceeds from issue of share under a share option scheme | 17   | 290                                           | 6,970         | (1,024)        | —                 | —                 | 6,236     |
| Repurchase of the Company's shares                       |      |                                               |               |                |                   |                   |           |
| - Nominal value of shares repurchased and cancelled      | 17   | (3,826)                                       | —             | 3,826          | —                 | —                 | —         |
| - Premium paid on repurchase                             | 17   | —                                             | (251,083)     | —              | —                 | —                 | (251,083) |
| Employee share option scheme                             |      |                                               |               |                |                   |                   |           |
| - value of employee services                             | 17   | —                                             | —             | 13,075         | —                 | —                 | 13,075    |
| Contribution from minority shareholders                  |      | —                                             | —             | —              | —                 | 18,475            | 18,475    |
| Dividend paid to minority shareholders                   |      | —                                             | —             | —              | —                 | (224)             | (224)     |
| Dividend relating to 2007                                | 30   | —                                             | —             | —              | (168,793)         | —                 | (168,793) |
| Dividend relating to 2008                                | 30   | —                                             | —             | —              | (185,641)         | —                 | (185,641) |
|                                                          |      | (3,536)                                       | (244,113)     | 73,011         | (411,568)         | 18,251            | (567,955) |
| <b>Balance at 31 December 2008</b>                       |      | 168,808                                       | 1,829,174     | 728,323        | 1,643,027         | 20,204            | 4,389,536 |

The accompanying notes are an integral part of these consolidated financial statements.

# Consolidated Cash Flow Statement

For the Year Ended 31 December 2008

All amounts in Hong Kong dollar thousands unless otherwise stated



|                                                                           | Note | 2008             | 2007               |
|---------------------------------------------------------------------------|------|------------------|--------------------|
| <b>Cash flows from operating activities</b>                               |      |                  |                    |
| Cash generated from operations                                            | 31   | 1,257,922        | 501,074            |
| Interest paid                                                             |      | (56,080)         | (36,839)           |
| Income tax paid                                                           |      | (34,188)         | (24,190)           |
| Net cash generated from operating activities                              |      | <u>1,167,654</u> | <u>440,045</u>     |
| <b>Cash flows from investing activities</b>                               |      |                  |                    |
| Payment for capital expenditure                                           |      | (856,683)        | (1,354,492)        |
| Proceeds from disposal of property, plant and equipment                   | 31   | 7,530            | 20,469             |
| Acquisition of intangible assets                                          |      | (10,066)         | —                  |
| Purchase of financial assets at fair value through profit or loss         |      | (19,799)         | (153,309)          |
| Disposal of financial assets at fair value through profit or loss         |      | 12,484           | 199,572            |
| Acquisition of a subsidiary                                               | 33   | —                | (153,777)          |
| Settlement of purchase consideration payable on acquisition of subsidiary | 33   | (90,341)         | —                  |
| Capital injected to an associate                                          | 12   | (6,242)          | —                  |
| Loans advanced to an associate                                            | 12   | (33,523)         | (20,448)           |
| Loan repaid from an associate                                             | 12   | 35,835           | 23,139             |
| Interest received                                                         |      | 9,116            | 9,017              |
| Net cash used in investing activities                                     |      | <u>(951,689)</u> | <u>(1,429,829)</u> |
| <b>Cash flows from financing activities</b>                               |      |                  |                    |
| Net proceeds from new shares issued                                       |      | 6,236            | 1,309,731          |
| Proceeds from bank borrowings                                             |      | 1,575,179        | 905,044            |
| Repayments of bank borrowings                                             |      | (1,066,980)      | (779,625)          |
| (Increase)/decrease in pledged bank deposits                              |      | (152)            | 3,747              |
| Contribution from minority shareholders                                   |      | 18,475           | —                  |
| Shares purchased from minority shareholders                               |      | —                | (2)                |
| Repurchase of shares of the Company                                       | 17   | (251,083)        | (75,370)           |
| Dividends paid to shareholders of the Company                             | 30   | (354,434)        | (256,746)          |
| Dividends paid to minority shareholders                                   |      | (224)            | —                  |
| Net cash (used in)/generated from financing activities                    |      | <u>(72,983)</u>  | <u>1,106,779</u>   |

# Notes to the consolidated financial statements

All amounts in Hong Kong dollar thousands unless otherwise stated



## 1 GENERAL INFORMATION

Xinyi Glass Holdings Limited (the “Company”) and its subsidiaries (collectively the “Group”) is principally engaged in the production and sale of automobile glass, construction glass and float glass products including photovoltaic glass, which are carried out internationally, through the production complexes located in Mainland China (the “PRC”).

The addresses of the registered office and principal place of business of the Company are disclosed in the “Corporate Information” section to the annual report.

The Company was incorporated in the Cayman Islands. The shares of the Company were listed on The Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

These consolidated financial statements are presented in thousands of units of Hong Kong dollars (HK\$’000), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 30 March 2009.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### 2.1 BASIS OF PREPARATION

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of investment property, available-for-sale financial assets, financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies. The areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

# Notes to the consolidated financial statements

All amounts in Hong Kong dollar thousands unless otherwise stated



## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.1 BASIS OF PREPARATION *(Continued)*

(a) *Amendments and interpretations effective in 2008*

s9 c00 0679 • HKAS 39, 'Financial Instruments: Recognition and Measurement' (2005), HKFRS 7, 9 110.52 608. Tf9435

# Notes to the consolidated financial statements

All amounts in Hong Kong dollar thousands unless otherwise stated



## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.1 BASIS OF PREPARATION *(Continued)*

(b) *Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group*

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2009 or later periods, but the Group has not early adopted them:

- HKAS 1 (Revised), 'Presentation of financial statements' (effective from 1 January 2009). The revised standard will prohibit the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All non-owner changes in equity will be required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the consolidated income statement and statement of comprehensive income). Where entities restate or reclassify comparative information, they will be required to present a restated balance sheet as at the beginning comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period. The Group will apply HKAS 1 (Revised) from 1 January 2009.
- HKFRS 8, 'Operating segments' (effective from 1 January 2009). HKFRS 8 replaces HKAS 14, 'Segment reporting', and aligns segment reporting with the requirements of the US standard SFAS 131, 'Disclosures about segments of an enterprise and related information'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The Group will apply HKFRS 8 from 1 January 2009. The expected impact is still being assessed in detail by management, but it appears likely that the number of reportable segments, as well as the manner in which the segments are reported, will change in a manner that is consistent with the internal reporting provided to the chief operating decision-maker.
- HKAS 23 (Revised), 'Borrowing costs' (effective from 1 January 2009). The amendment requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed.
- HKAS 27 (Revised), 'Consolidated and separate financial statements' (effective from 1 July 2009). The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value and a gain or loss is recognised in profit or loss. The Group will apply HKAS 27 (Revised) prospectively to transactions with non-controlling interests from 1 January 2010.

# Notes to the consolidated financial statements

All amounts in Hong Kong dollar thousands unless otherwise stated



## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.1 BASIS OF PREPARATION *(Continued)*

(b) *Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group (Continued)*

- HKAS 32 (Amendment), 'Financial instruments: Presentation', and HKAS 1 (Amendment), 'Presentation of financial statements' - 'Puttable financial instruments and obligations arising on liquidation' (effective from 1 January 2009). The amended standards require entities to classify puttable financial instruments and instruments, or components of instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation as equity, provided the financial instruments have particular features and meet specific conditions. The Group will apply the HKAS 32 (Amendment) and HKAS 1 (Amendment) from 1 January 2009, but it is not expected to have any impact on the Group's financial statements.
- HKFRS 1 (Amendment), 'First time adoption of HKFRS' and HKAS 27 'Consolidated and separate financial statements' (effective from 1 July 2009). The amended standard allows first-time adopters to use a deemed cost of either fair value or the carrying amount under previous accounting practice to measure the initial cost of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements. The amendment also removes the definition of the cost method from HKAS 27 and replaces it with a requirement to present dividends as income in the separate financial statements of the investor. The Company will apply HKAS 27 (Amendment) prospectively from 1 January 2010 in its separate financial statements. This amendment is not relevant to the Group.
- HKFRS 2 (Amendment), 'Share-based payment' (effective from 1 January 2009). The amended standard deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. As such these features would need to be included in the grant date fair value for transactions with employees and others providing similar services, that is, these features would not impact the number of awards expected to vest or valuation thereof subsequent to grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Group will apply HKFRS 2 (Amendment) from 1 January 2009, but it is not expected to have a material impact on the Group's financial statements.
- HKFRS 3 (Revised), 'Business combinations' (effective from 1 July 2009). The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the consolidated income statement. There is a choice on an acquisition by acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Group will apply HKFRS 3 (Revised) prospectively to all business combinations from 1 January 2010.

# Notes to the consolidated financial statements

All amounts in Hong Kong dollar thousands unless otherwise stated



## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.1 BASIS OF PREPARATION *(Continued)*

(b) *Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group (Continued)*

- HK(IFRIC) - Int 15, 'Agreements for construction of real estates' (effective from 1 January 2009). HK(IFRIC) - Int 15 clarifies whether HKAS 18, 'Revenue' or HKAS 11, 'Construction contracts' should be applied to particular transactions. It is likely to result in HKAS 18 being applied to a wider range of transactions. HK(IFRIC) - Int 15 is not significant to the Group's operations as all major revenue transactions are accounted for under HKAS 18 and not HKAS 11.
- HK(IFRIC) - Int 16, 'Hedges of a net investment in a foreign operation' (effective from 1 October 2008). HK(IFRIC) - Int 16 clarifies the accounting treatment in respect of net investment hedging. This includes the fact that net investment hedging relates to differences in functional currency not presentation currency, and hedging instruments may be held anywhere in the Group. The requirements of HKAS 21, 'The effects of changes in foreign exchange rates', do apply to the hedged item. The Group will apply HK(IFRIC) - Int 16 from 1 January 2009. It is not expected to have a material impact on the Group's financial statements.

(c) *Interpretations and amendments to existing standards that are not yet effective and not relevant for the Group's operations*

The following interpretations and amendments to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2009 or later periods but are not relevant for the Group's operations:

- HKAS 39 (amendment) 'Financial instruments: Recognition and measurement' - 'Eligible hedged items' (effective from 1 July 2009). This amendment is to clarify how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation shall be applied in particular situations.
- HK(IFRIC) - Int 13, 'Customer loyalty programmes' (effective from 1 July 2008). HK(IFRIC) - Int 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. HK(IFRIC) - Int 13 is not relevant to the Group's operations because none of the group companies operate any loyalty programmes.

# Notes to the consolidated financial statements

All amounts in Hong Kong dollar thousands unless otherwise stated



## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.1 BASIS OF PREPARATION *(Continued)*

(c) *Interpretations and amendments to existing standards that are not yet effective and not relevant for the Group's operations (Continued)*

- HK(IFRIC) - Int 17, 'Distributions of non-cash assets to owners' (effective from 1 July 2009). This interpretation applies to non-reciprocal distributions of non-cash assets (or with a cash alternative) except for common control transactions and clarifies that:
  - a dividend payable shall be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity.
  - the dividend payable shall be measured at the fair value of the assets to be distributed.
  - the difference between the dividend paid and the carrying amount of the assets distributed shall be recognised in profit or loss.
- HK(IFRIC) - Int 18, 'Transfers of assets from customers' (effective from 1 July 2009). This interpretation is particularly relevant for the utility sector. It clarifies the requirements of Hong Kong Financial Reporting Standards (HKFRS) for agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services.

Apart from the above, the Hong Kong Institute of Certified Public Accountants has also issued improvements to HKFRS primarily with a view to remove inconsistencies and clarify wording. These amendments are primarily effective for annual periods beginning on or after 1 January 2009, with earlier application permitted. The Group does not expect adoption of these amendments to have a significant effect on the consolidated financial statements.

# Notes to the consolidated financial statements

All amounts in Hong Kong dollar thousands unless otherwise stated



## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.2 CONSOLIDATION

The consolidated financial statements include the financial statements of the Company and all its subsidiaries made up to 31 December.

#### (a) *Subsidiaries*

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidated income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted by the Company on the basis of dividend received and receivable.

#### (b) *Transactions with minority interests*

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the consolidated income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

# Notes to the consolidated financial statements

All amounts in Hong Kong dollar thousands unless otherwise stated



## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.2 CONSOLIDATION *(Continued)*

#### *(c) Associates*

Associates are all entities over which the group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investments in associates includes goodwill identified on acquisition, net of any accumulated impairment loss.

The Group's share of its associates' post-acquisition profits or losses is recognised in the consolidated income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses in associates are recognised in the consolidated income statement.

In the Company's balance sheet, the investments in associated companies are stated at cost less provision for impairment losses. The results of associated companies are accounted for by the Company on the basis of dividend received and receivable.

### 2.3 SEGMENT REPORTING

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

# Notes to the consolidated financial statements

All amounts in Hong Kong dollar thousands unless otherwise stated



## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.4 FOREIGN CURRENCY TRANSLATION

#### *(a) Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Hong Kong dollars ("HKD"), which is the Company's functional and the Group's presentation currency.

#### *(b) Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated income statement within 'finance income or cost'. All other foreign exchange gains and losses are presented in the consolidated income statement within "other gains - net".

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security, and other changes in the carrying amount of the security. Translation differences are recognised in profit or loss, and other changes in carrying amount are recognised in equity.

Translation differences on non-monetary financial assets and liabilities are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale are included in the available-for-sale reserve in equity.

# Notes to the consolidated financial statements

All amounts in Hong Kong dollar thousands unless otherwise stated



## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.4 FOREIGN CURRENCY TRANSLATION *(Continued)*

#### *(c) Group companies*

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- (iii) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations and of borrowings are taken to shareholders' equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the consolidated income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

### 2.5 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged in the consolidated income statement during the financial period in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate cost to their residual values over their estimated useful lives, as follows:

|                       |             |
|-----------------------|-------------|
| - Buildings           | 20-30 years |
| - Plant and machinery | 5-15 years  |
| - Office equipment    | 3-7 years   |

# Notes to the consolidated financial statements

All amounts in Hong Kong dollar thousands unless otherwise stated



## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.5 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Construction in progress represents buildings, plant and machinery on which construction work has not been completed and which, upon completion, management intends to hold for production purposes. Construction in progress is carried at costs which include development and construction expenditure incurred and interest and other direct costs attributable to the development less any accumulated impairment losses. On completion, construction in progress is transferred to appropriate categories of property, plant and equipment.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. *(Note 2.9)*

Gains and losses on disposals are determined by comparing proceeds with carrying amount and recognised within other gains in the consolidated income statement.

### 2.6 INVESTMENT PROPERTY

Investment property, principally comprising leasehold land and office buildings, is held for long-term rental yields and is not occupied by the Group. Investment property is stated at fair value, representing open market value determined annually. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If the information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. These valuations are reviewed annually by external valuers or management, changes in fair values are recorded in the consolidated income statement as part of other gains.

Land held under operating leases are classified and accounted for as investment property when the rest of the definition of investment property is met. The operating lease is accounted for as if it were a finance lease.

Investment property is measured initially at its cost, including related transaction costs.

# Notes to the consolidated financial statements

All amounts in Hong Kong dollar thousands unless otherwise stated



## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.7 INTANGIBLE ASSETS

#### (a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

#### (b) Trademark and customers relationship

Acquired trademarks and customers relationships are shown at fair value on acquisition date. Trademarks and customers relationships have a finite useful life and are carried at fair value on acquisition date less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and customers relationship over their estimated useful lives of 20 years.

#### (c) Capitalised exploration and evaluation expenditure

Capitalised exploration and evaluation expenditures are accounted for using the 'successful efforts' method of accounting. Costs are accumulated on a field-by-field basis. Geological and geophysical costs are expensed as incurred. Costs directly associated with an exploration well, and exploration and property leasehold acquisition costs, are capitalised until the determination of reserves is evaluated. If it is determined that commercial discovery has not been achieved, these costs are charged to expense.

Once commercial reserves are found, exploration and evaluation assets are tested for impairment and transferred to development tangible and intangible assets. No amortisation is charged during the exploration and evaluation phase.

### 2.8 LEASEHOLD LAND AND LAND USE RIGHTS

Leasehold land in Hong Kong is government-owned and land in the PRC is state-owned or collectively-owned with no individual land ownership right exists. The Group acquired the right to use certain land. The premiums paid for such right are treated as prepayment for operating lease and recorded as land use rights, which are amortised over the lease periods using the straight-line method.

# Notes to the consolidated financial statements

All amounts in Hong Kong dollar thousands unless otherwise stated



## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.9 IMPAIRMENT OF INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND NON-FINANCIAL ASSETS

Assets that have an indefinite useful life or have not yet available for use are not subject to amortisation and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

### 2.10 FINANCIAL ASSETS

#### 2.10.1 Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

##### (a) *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Assets in this category are classified as current assets.

##### (b) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as trade and other receivables in the balance sheet.

##### (c) *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

# Notes to the consolidated financial statements

All amounts in Hong Kong dollar thousands unless otherwise stated



## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.10 FINANCIAL ASSETS *(Continued)*

#### 2.10.2 Recognition and measurement

Regular purchases and sales of financial assets are recognised on the trade-date - the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the consolidated income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the consolidated income statement within "other gains - net", in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the consolidated income statement as part of other income when the Group's right to receive payments is established.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences on monetary securities are recognised in the consolidated income statement, transaction difference on non-monetary securities are recognised in equity. Changes in the fair value of monetary securities and non-monetary securities classified as available-for-sale are recognised in equity.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the consolidated income statement as 'gains and losses from investment securities'.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the consolidated income statement as part of other income. Dividends on available-for-sale equity instruments are recognised in the consolidated income statement as part of other income when the Group's right to receive payments is established.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the consolidated income statement - is removed from equity and recognised in the consolidated income statement. Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the consolidated income statement.

# Notes to the consolidated financial statements

All amounts in Hong Kong dollar thousands unless otherwise stated



## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.11 DERIVATIVE FINANCIAL INSTRUMENTS

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designed as a hedging instrument, and if so, the nature of the item being hedged.

For derivative instruments do not qualify for hedge accounting, the changes in the fair value of these derivative instruments are recognised immediately in the consolidated income statement within 'other gains - net'.

### 2.12 INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

### 2.13 TRADE AND OTHER RECEIVABLES

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the consolidated income statement within administrative expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against administrative expenses in the consolidated income statement.

### 2.14 CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash in hand and deposits held at call with banks, less pledged bank deposits.

# Notes to the consolidated financial statements

All amounts in Hong Kong dollar thousands unless otherwise stated



## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.15 SHARE CAPITAL

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any group company purchases the Company's equity share capital, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled or issued. Where such shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

### 2.16 TRADE PAYABLES

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

### 2.17 BORROWINGS

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is required to complete and prepare the assets for its intended use. Other borrowing costs are expensed.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

### 2.18 FINANCIAL GUARANTEE

Financial guarantee is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the original or modified terms of a debt instrument. The group companies do not recognise liabilities for financial guarantees at inception, but perform liability adequacy tests at each reporting date by comparing respective net liabilities (if applicable) regarding the financial guarantees with the amounts that would be required if the financial guarantees would result in a present legal or constructive obligation. If the respective liability is less than its present legal or constructive obligation amount, the entire difference is recognised in the consolidated income statement immediately.

# Notes to the consolidated financial statements

All amounts in Hong Kong dollar thousands unless otherwise stated



## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.19 CURRENT AND DEFERRED INCOME TAX

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated income statement, except to the extent that it relates to items recognised directly in equity. In this case, the tax is also recognised in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

# Notes to the consolidated financial statements

All amounts in Hong Kong dollar thousands unless otherwise stated



## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.20 EMPLOYEE BENEFITS

#### *(a) Employee leave entitlements*

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

#### *(b) Pension obligations*

The Group participates in a number of defined contribution plans, the assets of which are generally held in separate trustee-administered funds. The pension plans are generally funded by payments from employees and by the relevant group companies. The Group has no legal or constructive obligations to pay further contribution if the fund does not hold sufficient assets to pay all employees the benefits relating to employee services in the current and prior periods.

The contributions are recognised as employee benefit expenses when they are due and prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payment is available.

#### *(c) Share-based compensation*

The Group operates a number of equity-settled, share-based compensation plans, under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted, excluding the impact of any non-market service and performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total amount expensed is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At each balance sheet date, the entity revises its estimates of the number of options that are expected to vest based on the non-marketing vesting conditions. It recognises the impact of the revision of original estimates, if any, in the consolidated income statement with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

#### *(d) Profit-sharing and bonus plans*

The Group recognises a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

# Notes to the consolidated financial statements

All amounts in Hong Kong dollar thousands unless otherwise stated



## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.21 PROVISIONS

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

### 2.22 GOVERNMENT GRANT

Grants from the government are recognised at their fair values where there is a reasonable assurance that the grants will be received and the Group will comply with all attached conditions.

Government grants relating to the purchase of property, plant and equipment are net off with the cost of acquisition and are recognised in the consolidated income statement on a straight line basis over the expected lives of the related assets.

### 2.23 REVENUE RECOGNITION

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement. Revenue is recognised as follows:

#### (a) Sales of goods

Sales of goods are recognised when a group entity has delivered products to the customer, the customer has accepted the products and collectibility of the related receivables is reasonably assured.

# Notes to the consolidated financial statements

All amounts in Hong Kong dollar thousands unless otherwise stated



## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.23 REVENUE RECOGNITION *(Continued)*

#### *(b) Interest income*

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

#### *(c) Rental income*

Rental income is recognised on a straight-line basis over the lease periods.

#### *(d) Dividend income*

Dividend income is recognised when the right to receive payment is established.

#### *(e) Royalty income*

Royalty income is recognised on an accrual basis in accordance with the substance of the relevant agreements.

### 2.24 CONSTRUCTION CONTRACTS

Contract costs are recognised as expenses in the period in which they are incurred. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable.

When the outcome of a construction contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognised over the period of the contract. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Variations in contract work, claims and incentive payments are included in contract revenue to the extent that may have been agreed with the customer and are capable of being reliably measured.

The Group uses the 'percentage of completion method' to determine the appropriate amount to recognise in a given period. The stage of completion is measured by reference to the contract costs incurred up to the balance sheet date as a percentage of total estimated costs for each contract. Costs incurred in the year in connection with future activity on a contract are excluded from contract costs in determining the stage of completion. They are presented as inventories, prepayments or other assets, depending on their nature.

The Group presents as an asset the gross amount due from customers for contract work for all contracts in progress for which costs incurred plus recognised profits (less recognised losses) exceeds progress billings. Progress billings not yet paid by customers and retention are included in trade and other receivables.

The Group presents as a liability the gross amount due to customers for contract work for all contracts in progress for which progress billings exceed costs incurred plus recognised profits (less recognised losses).

# Notes to the consolidated financial statements

All amounts in Hong Kong dollar thousands unless otherwise stated



## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.25 OPERATING LEASES

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged in the consolidated income statement on a straight-line basis over the period of the lease.

### 2.26 DIVIDEND DISTRIBUTION

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

## 3 FINANCIAL RISK MANAGEMENT

### 3.1 FINANCIAL RISK FACTORS

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, cash flow and fair value interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

#### (a) *Market risk*

##### (i) Foreign exchange risk

The Group mainly operates in the PRC and Hong Kong with most of the transactions denominated and settled in Chinese Renminbi ("RMB"), the United States Dollars and HKD. Foreign exchange risk arises from future commercial transactions, acquired assets and liabilities and net investments in foreign operations. The Group manages its foreign exchange risks by performing regular reviews and arranges hedges against foreign exchange exposures when considered necessary. Details of the the Group's trade receivables, restricted cash balance, cash and cash equivalents, trade payables and borrowings are disclosed in Notes 14, 16, 19 and 20 of this section respectively.

As at 31 December 2008, if RMB had strengthened/weakened by 1% (2007: 6%) against the HKD respectively with all other variables held constant, profit after income tax for the years would have been approximately HKD9,373,000 (2007: HKD10,107,000) higher/lower mainly as a result of foreign exchange gains/losses on translation of RMB-denominated cash and cash equivalents, trade and other receivables and foreign exchange losses/gains on translation of RMB-denominated borrowings. Profit is more sensitive to movement in HKD/RMB exchange rates in 2008 than 2007 because of the increased amount of RMB-denominated sales and related receivables plus decreased amount of RMB-denominated borrowings.

# Notes to the consolidated financial statements

All amounts in Hong Kong dollar thousands unless otherwise stated



## 3 FINANCIAL RISK MANAGEMENT *(Continued)*

### 3.1 FINANCIAL RISK FACTORS *(Continued)*

#### (a) *Market risk (Continued)*

##### (ii) Cash flow and fair value interest rate risk

The Group's exposure to changes in interest rates is mainly attributable to its cash and cash equivalents, restricted cash balances and borrowings. Financial assets and liabilities at variable rates expose the Group to cash flow interest rate risk. Financial assets and liabilities at fixed rates expose the Group to fair value interest-rate risk. Details of the Group's cash and cash equivalents, restricted cash balances and borrowings have been disclosed in Note 16 and 20 to the consolidated financial statements.

As at 31 December 2008, if the HKD interest rates on cash and cash equivalents, restricted cash balances and borrowings had been 25 (2007: 50) basis points higher/lower with all other variables held constant, profit after income tax for the years would have been approximately HK\$1,570,000 (2007: HK\$1,169,000) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

As at 31 December 2008, if the RMB interest rates on cash and cash equivalents, restricted cash balances and borrowings had been 50 (2007: 50) basis points higher/lower with all other variables held constant, profit after income tax for the years would have been approximately HK\$242,000 (2007: HK\$701,000) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

As at 31 December 2008, if the United States Dollars ("USD") interest rates on cash and cash equivalents, restricted cash balance and borrowings had been 50 (2007: 220) basis points higher/lower with all other variables held constant, profit after income tax for the years would have been approximately HK\$179,000 (2007: HK\$1,458,000) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

# Notes to the consolidated financial statements

All amounts in Hong Kong dollar thousands unless otherwise stated



## 3 FINANCIAL RISK MANAGEMENT (Continued)

### 3.1 FINANCIAL RISK FACTORS (Continued)

#### (b) Credit risk

The Group's credit risk arises from cash and cash equivalents, pledged bank deposits, trade and other receivables and amounts due from customers for contract work. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis. The carrying amounts of these balances represent the Group's maximum exposure to credit risk in relation to financial assets which are stated as follows:

|                                                        | 2008      | 2007      |
|--------------------------------------------------------|-----------|-----------|
| Trade and other receivables (Note 14)                  | 661,275   | 674,722   |
| Amounts due from customers for contract work (Note 15) | 48,828    | 57,524    |
| Pledged bank deposits (Note 16)                        | 6,854     | 6,702     |
| Cash and cash equivalents (Note 16)                    | 435,712   | 309,506   |
| Maximum exposure to credit risk                        | 1,152,669 | 1,048,454 |

As at 31 December 2007 and 2008, all the bank deposits are deposited with major banks in Hong Kong and state-owned banks in the PRC. The credit quality of cash and cash equivalents has been assessed by reference to external credit ratings or to historical information about the counterparty default rates. The existing counterparties do not have defaults in the past.

In respect of trade and other receivables and amounts due from customers for contract work, the Group has policies in place to ensure that the sales of products are made to customers with appropriate credit history and the Group performs credit evaluations of its customers.

The majority of the Group's trade receivables and amounts due from customers for contract work are due for maturity within 90 days and largely comprise amounts receivable from business customers.

The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers. In order to minimise the credit risks, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews regularly the recoverable amount of each individual trade receivable to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors consider that the Group's credit risk is significantly reduced.

# Notes to the consolidated financial statements

All amounts in Hong Kong dollar thousands unless otherwise stated



## 3 FINANCIAL RISK MANAGEMENT (Continued)

### 3.1 FINANCIAL RISK FACTORS (Continued)

#### (c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the Group aims to maintain flexibility in funding by keeping committed credit lines available.

The table below analyses the Group's significant financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

| At 31 December 2008                | Less than<br>1 year | Between<br>1 and 2 years | Between<br>2 and 5 years | Total            |
|------------------------------------|---------------------|--------------------------|--------------------------|------------------|
| Borrowings (Note 20)               | 722,391             | 291,717                  | 192,362                  | 1,206,470        |
| Interest payable                   | 19,389              | 8,663                    | 5,688                    | 33,740           |
| Trade and other payables (Note 19) | 879,291             | —                        | —                        | 879,291          |
|                                    | <u>1,621,071</u>    | <u>300,380</u>           | <u>198,050</u>           | <u>2,119,501</u> |

  

| At 31 December 2007                | Less than<br>1 year | Between<br>1 and 2 years | Between<br>2 and 5 years | Total            |
|------------------------------------|---------------------|--------------------------|--------------------------|------------------|
| Borrowings (Note 20)               | 423,608             | 150,000                  | 109,949                  | 683,557          |
| Interest payable                   | 16,101              | 7,777                    | 1,741                    | 25,619           |
| Trade and other payables (Note 19) | 626,339             | —                        | —                        | 626,339          |
|                                    | <u>1,066,048</u>    | <u>157,777</u>           | <u>111,690</u>           | <u>1,335,515</u> |

# Notes to the consolidated financial statements

All amounts in Hong Kong dollar thousands unless otherwise stated



## 3 FINANCIAL RISK MANAGEMENT (Continued)

### 3.2 CAPITAL RISK MANAGEMENT

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group will consider the macro economic conditions, prevailing borrowing rate in the market and adequacy of cash flows generating from operations and may raise funding through capital market or bank borrowings as necessary.

The Company may repurchase its own shares when the Company's shares are trading at a discount to the expected net assets value per share.

The directors monitor capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including current and non-current borrowings as shown in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as "equity", as shown in the consolidated balance sheet, plus net debt.

The gearing ratios at 31 December 2008 and 2007 were as follows:

|                                        | 2008      | 2007      |
|----------------------------------------|-----------|-----------|
| Total bank borrowings (Note 20)        | 1,206,470 | 683,557   |
| Less: cash and bank deposits (Note 16) | (442,566) | (316,208) |
| Net debt                               | 763,904   | 367,349   |
| Total equity                           | 4,389,536 | 4,045,522 |
| Total capital                          | 5,153,440 | 4,412,871 |
| Gearing ratio                          | 14.8%     | 8.3%      |

The increase in the gearing ratio during 2008 was mainly resulted from additional bank borrowings raised to finance capital expenditures.

# Notes to the consolidated financial statements

All amounts in Hong Kong dollar thousands unless otherwise stated



## 3 FINANCIAL RISK MANAGEMENT *(Continued)*

### 3.3 FAIR VALUE ESTIMATION

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price.

The fair value of financial instruments that are not traded in an active market (such as interest rate swap) is calculated at the present value of the estimated future cash flows.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

## 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENT

Estimates and judgement are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

### (a) ESTIMATED IMPAIRMENT OF GOODWILL

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 2.9. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates.

### (b) PROPERTY, PLANT AND EQUIPMENT, LEASEHOLD LAND AND LAND USE RIGHTS

#### (i) *Useful lives*

The Group's management determines the estimated useful lives and consequently the related depreciation charges for its property, plant and equipment, leasehold land and land use rights. This estimate is based on the historical experience of the actual useful lives of these assets of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to changes in market conditions. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

#### (ii) *Impairment assessment*

Property, plant and equipment, leasehold land and land use rights are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts have been determined based on value-in-use calculations, taking into account the latest market information and past experience.

# Notes to the consolidated financial statements

All amounts in Hong Kong dollar thousands unless otherwise stated



## 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENT *(Continued)*

### (c) IMPAIRMENT OF TRADE AND OTHER RECEIVABLES

The Group makes provision for impairment of trade and other receivables based on an estimate of the recoverability of these receivables. Provisions are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of impairment of trade and other receivables requires the use of estimates. Where the expectation is different from the original estimate, such difference will impact the carrying amount of receivables and the provision for impairment losses in the period in which such estimate has been changed.

### (d) REVENUE RECOGNITION

The Group's management estimates the percentage of completion of glass installation works if the value of works has not been certified by the customers at the balance sheet date. These estimates are based on proportion of the value of work previously certified for that related works in progress or based on documents prepared by the quantity surveyors which have been submitted to the customers before the balance sheet date for certification of the value of work done. Corresponding costs of the contract revenue are also estimated by the management. Because of the nature of the activity undertaken in construction contracts, the date at which the contract activity is entered into and the date when the activity is completed usually fall into different accounting periods. The Group reviews and revises the estimates of both contract revenue and contract costs in the budget prepared for each construction contract as the contract progresses. For costs attributable to work done that have not been billed to the Group but the corresponding revenue for the work done has been recognised, management estimates these costs by reference to the budget and the actual billings subsequently received.

Management regularly reviews the progress of the contracts and its assumptions regarding anticipated margins on the contract revenue.

### (e) WRITE-DOWNS OF INVENTORIES TO NET REALISABLE VALUE

The Group writes down inventories to net realisable value based on an estimate of the realisability of inventories. Write-downs of inventories are recorded where events or changes in circumstances indicate that the balances may not be realised. The identification of write-downs requires the use of estimates. Where the expectation is different from the original estimate, such difference will impact the carrying value of inventories and write-downs of inventories in the periods in which such estimate has been changed.

# Notes to the consolidated financial statements

All amounts in Hong Kong dollar thousands unless otherwise stated



## 5 SEGMENT INFORMATION

The Group is principally engaged in the production and sale of automobile glass, construction glass and float glass products. Revenues recognised by the Group are as follows:

|                               | 2008             | 2007             |
|-------------------------------|------------------|------------------|
| <b>Revenue</b>                |                  |                  |
| Sales of automobile glass     | 1,964,294        | 1,716,803        |
| Sales of float glass          | 1,279,160        | 491,872          |
| Sales of construction glass   | 622,732          | 453,830          |
| Construction contract revenue | 28,097           | 112,119          |
| Total                         | <u>3,894,283</u> | <u>2,774,624</u> |

### Primary reporting format - business segments

At 31 December 2008, the Group was organised into three main business segments:

- Automobile glass – Manufacturing and sales of automobile glass
- Construction glass – Manufacturing, sales and installation of construction glass
- Float glass – Manufacturing and sales of float glass and photovoltaic glass

# Notes to the consolidated financial statements

All amounts in Hong Kong dollar thousands unless otherwise stated



## 5 SEGMENT INFORMATION (Continued)

The segment results for the year ended 31 December 2008 are as follows:

|                                           | Automobile<br>glass | Construction<br>glass | Float glass | Group     |
|-------------------------------------------|---------------------|-----------------------|-------------|-----------|
| <b>Revenue</b>                            |                     |                       |             |           |
| Total gross segment revenue               | 1,964,294           | 650,829               | 1,793,760   | 4,408,883 |
| Inter-segment revenue                     | —                   | —                     | (514,600)   | (514,600) |
| External revenue                          | 1,964,294           | 650,829               | 1,279,160   | 3,894,283 |
| Segment results                           | 480,629             | 117,861               | 207,569     | 806,059   |
| Unallocated other income                  |                     |                       |             | 3,866     |
| Unallocated other gains - net             |                     |                       |             | 7,533     |
| Unallocated costs                         |                     |                       |             | (49,763)  |
| Operating profit                          |                     |                       |             | 767,695   |
| Finance income (Note 26)                  |                     |                       |             | 9,116     |
| Finance costs (Note 26)                   |                     |                       |             | (24,029)  |
| Share of profit of an associate (Note 12) | —                   | —                     | 272         | 272       |
| <b>Profit before income tax</b>           |                     |                       |             | 753,054   |
| Income tax expense (Note 27)              |                     |                       |             | (42,256)  |
| <b>Profit for the year</b>                |                     |                       |             | 710,798   |

# Notes to the consolidated financial statements

All amounts in Hong Kong dollar thousands unless otherwise stated



## 5 SEGMENT INFORMATION (Continued)

The segment results for the year ended 31 December 2007 are as follows:

|                                           | Automobile<br>glass | Construction<br>glass | Float glass | Group     |
|-------------------------------------------|---------------------|-----------------------|-------------|-----------|
| <b>Revenue</b>                            |                     |                       |             |           |
| Total gross segment revenue               | 1,716,803           | 565,949               | 1,020,468   | 3,303,220 |
| Inter-segment revenue                     | —                   | —                     | (528,596)   | (528,596) |
| External revenue                          | 1,716,803           | 565,949               | 491,872     | 2,774,624 |
| Segment results                           | 487,168             | 109,745               | 119,848     | 716,761   |
| Unallocated other income                  |                     |                       |             | 18,362    |
| Unallocated other gains - net             |                     |                       |             | 38,335    |
| Unallocated costs                         |                     |                       |             | (47,250)  |
| Operating profit                          |                     |                       |             | 726,208   |
| Finance income (Note 26)                  |                     |                       |             | 9,017     |
| Finance costs (Note 26)                   |                     |                       |             | (33,762)  |
| Share of profit of an associate (Note 12) | —                   | —                     | 1,703       | 1,703     |
| <b>Profit before income tax</b>           |                     |                       |             | 703,166   |
| Income tax expense (Note 27)              |                     |                       |             | (30,165)  |
| <b>Profit for the year</b>                |                     |                       |             | 673,001   |

# Notes to the consolidated financial statements

All amounts in Hong Kong dollar thousands unless otherwise stated

## 5 SEGMENT INFORMATION (Continued)

Other segment items included in the income statement are as follows:

|                                                             | Year ended 31 December 2008 |                       |             |             | Group   |
|-------------------------------------------------------------|-----------------------------|-----------------------|-------------|-------------|---------|
|                                                             | Automobile<br>glass         | Construction<br>glass | Float glass | Unallocated |         |
| Depreciation (Note 7)                                       | 83,200                      | 28,104                | 105,036     | 1,567       | 217,907 |
| Amortisation                                                |                             |                       |             |             |         |
| – land use rights (Note 6)                                  | 1,896                       | 470                   | 4,233       | 74          | 6,673   |
| – intangible assets (Note 9)                                | 1,390                       | —                     | —           | —           | 1,390   |
| Impairment of trade and other<br>receivables, net (Note 14) | 456                         | 559                   | —           | —           | 1,015   |

  

|                                                             | Year ended 31 December 2007 |                       |             |             | Group   |
|-------------------------------------------------------------|-----------------------------|-----------------------|-------------|-------------|---------|
|                                                             | Automobile<br>glass         | Construction<br>glass | Float glass | Unallocated |         |
| Depreciation (Note 7)                                       | 60,249                      | 18,894                | 56,896      | 47          | 136,086 |
| Amortisation                                                |                             |                       |             |             |         |
| – land use rights (Note 6)                                  | 1,403                       | 305                   | 875         | 424         | 3,007   |
| – intangible assets (Note 9)                                | 214                         | —                     | —           | —           | 214     |
| Impairment of trade and other<br>receivables, net (Note 14) | 8,948                       | 3,423                 | —           | —           | 12,371  |

# Notes to the consolidated financial statements

All amounts in Hong Kong dollar thousands unless otherwise stated



## 5 SEGMENT INFORMATION (Continued)

The segment assets and liabilities at 31 December 2008 and capital expenditure for the year are as follows:

|                                     | Automobile<br>glass | Construction<br>glass | Float glass | Unallocated    | Group               |
|-------------------------------------|---------------------|-----------------------|-------------|----------------|---------------------|
| Assets                              | 2,109,146           | 1,147,658             | 3,031,319   | 193,926        | 6,482,049           |
| Associate                           | —                   | —                     | 15,889      | —              | 15,889              |
| Total assets                        | 2,109,146           | 1,147,658             | 3,047,208   | 193,926        | 6,497,938           |
| Liabilities                         | 480,389             | 217,391               | 435,603     | 975,019        | 2,108,402           |
| Capital expenditure                 | 178,690             | 297,678               | 457,241     | 17             | 933,626             |
|                                     |                     |                       |             | Assets<br>2008 | Liabilities<br>2008 |
| Segment assets/liabilities          |                     |                       |             | 6,304,012      | 1,133,383           |
| Unallocated:                        |                     |                       |             |                |                     |
| Property, plant and equipment       |                     |                       |             | 35,682         | —                   |
| Prepayments                         |                     |                       |             | 641            | —                   |
| Available-for-sale financial assets |                     |                       |             | 569            | —                   |
| Bank balance and cash               |                     |                       |             | 157,034        | —                   |
| Other payables                      |                     |                       |             | —              | 19,852              |
| Current income tax liabilities      |                     |                       |             | —              | 1,688               |
| Current bank borrowings             |                     |                       |             | —              | 703,479             |
| Non-current bank borrowings         |                     |                       |             | —              | 250,000             |
| Total                               |                     |                       |             | 6,497,938      | 2,108,402           |

# Notes to the consolidated financial statements

All amounts in Hong Kong dollar thousands unless otherwise stated

## 5 SEGMENT INFORMATION (Continued)

The segment assets and liabilities at 31 December 2007 and capital expenditure for the year are as follows:

|                                     | Automobile<br>glass | Construction<br>glass | Float glass      | Unallocated    | Group               |
|-------------------------------------|---------------------|-----------------------|------------------|----------------|---------------------|
| Assets                              | 2,074,256           | 616,160               | 2,492,525        | 176,214        | 5,359,155           |
| Associate                           | —                   | —                     | 11,374           | —              | 11,374              |
| Total assets                        | <u>2,074,256</u>    | <u>616,160</u>        | <u>2,503,899</u> | <u>176,214</u> | <u>5,370,529</u>    |
| Liabilities                         | <u>526,571</u>      | <u>183,801</u>        | <u>302,334</u>   | <u>312,301</u> | <u>1,325,007</u>    |
| Capital expenditure                 | <u>397,376</u>      | <u>330,491</u>        | <u>985,458</u>   | <u>142</u>     | <u>1,713,467</u>    |
|                                     |                     |                       |                  | Assets<br>2007 | Liabilities<br>2007 |
| Segment assets/liabilities          |                     |                       | 5,194,315        |                | 1,012,706           |
| Unallocated:                        |                     |                       |                  |                |                     |
| Property, plant and equipment       |                     |                       | 35,824           |                | —                   |
| Available-for-sale financial assets |                     |                       | 532              |                | —                   |
| Bank balance and cash               |                     |                       | 139,858          |                | —                   |
| Other payables                      |                     |                       | —                |                | 7,728               |
| Current income tax liabilities      |                     |                       | —                |                | 7,124               |
| Current bank borrowings             |                     |                       | —                |                | 37,500              |
| Non-current bank borrowings         |                     |                       | —                |                | 259,949             |
| Total                               |                     |                       | <u>5,370,529</u> |                | <u>1,325,007</u>    |

Segment assets consist primarily of leasehold land and land use rights, property, plant and equipment, inventories, receivables and operating cash.

Segment liabilities consist primarily of trade payables, accruals and other payables and specific borrowings utilised in the identifiable segments but exclude general borrowings.

Capital expenditure comprises mainly additions to and deposits for property, plant and equipment and additions to leasehold land and land use rights.

# Notes to the consolidated financial statements

All amounts in Hong Kong dollar thousands unless otherwise stated



## 5 SEGMENT INFORMATION (Continued)

### Secondary reporting format - geographical segments

The Group's revenue is mainly derived from customers located in the Greater China (including Hong Kong and PRC), North America and Europe while the Group's business activities are conducted predominately in the Greater China. The following table provides an analysis of the Group's sales by geographical location of its customers.

#### Revenue

|                 | 2008             | 2007             |
|-----------------|------------------|------------------|
| Greater China   | 1,903,575        | 1,208,344        |
| North America   | 774,519          | 844,129          |
| Europe          | 555,533          | 286,733          |
| Other countries | 660,656          | 435,418          |
|                 | <u>3,894,283</u> | <u>2,774,624</u> |

The following is an analysis of the carrying amount of segment assets and capital expenditure by geographical area in which the assets are located.

#### Total assets

|                 | 2008             | 2007             |
|-----------------|------------------|------------------|
| Greater China   | 6,472,907        | 5,346,458        |
| North America   | 20,936           | 22,866           |
| Other countries | 4,095            | 1,205            |
|                 | <u>6,497,938</u> | <u>5,370,529</u> |

#### Capital expenditure

|                 | 2008           | 2007             |
|-----------------|----------------|------------------|
| Greater China   | 933,538        | 1,703,236        |
| North America   | 73             | 10,171           |
| Other countries | 15             | 60               |
|                 | <u>933,626</u> | <u>1,713,467</u> |

# Notes to the consolidated financial statements

All amounts in Hong Kong dollar thousands unless otherwise stated



## 6 LEASEHOLD LAND AND LAND USE RIGHTS

The Group's interests in leasehold land and land use rights represent prepaid operating lease payments and their net book value are analysed as follows:

|                                                  | 2008           | 2007           |
|--------------------------------------------------|----------------|----------------|
| In Hong Kong, held on:                           |                |                |
| Leases of between 10 to 50 years                 | 2,876          | 2,950          |
| In PRC, held on:                                 |                |                |
| Land use rights of between 10 to 50 years        | 359,924        | 143,942        |
|                                                  | <u>362,800</u> | <u>146,892</u> |
|                                                  |                |                |
|                                                  | 2008           | 2007           |
| Beginning balance                                | 146,892        | 128,539        |
| Exchange differences                             | 9,954          | 7,950          |
| Additions                                        | 212,627        | —              |
| Acquisition of a subsidiary (Note 33)            | —              | 14,362         |
| Amortisation of prepaid operating lease payments | (6,673)        | (3,007)        |
| Transfer to investment property (Note 8)         | —              | (952)          |
|                                                  | <u>362,800</u> | <u>146,892</u> |

# Notes to the consolidated financial statements

All amounts in Hong Kong dollar thousands unless otherwise stated



## 7 PROPERTY, PLANT AND EQUIPMENT

|                                          | Group                       |           |                        |                     |           |
|------------------------------------------|-----------------------------|-----------|------------------------|---------------------|-----------|
|                                          | Construction<br>in progress | Buildings | Plant and<br>machinery | Office<br>equipment | Total     |
| <b>At 1 January 2007</b>                 |                             |           |                        |                     |           |
| Cost                                     | 114,214                     | 528,637   | 1,404,611              | 18,225              | 2,065,687 |
| Accumulated depreciation                 | —                           | (44,274)  | (224,021)              | (7,375)             | (275,670) |
| Net book amount                          | 114,214                     | 484,363   | 1,180,590              | 10,850              | 1,790,017 |
| <b>Year ended 31 December 2007</b>       |                             |           |                        |                     |           |
| Opening net book amount                  | 114,214                     | 484,363   | 1,180,590              | 10,850              | 1,790,017 |
| Exchange differences                     | 7,322                       | 28,925    | 75,221                 | 709                 | 112,177   |
| Additions                                | 1,203,159                   | 9,475     | 33,656                 | 3,031               | 1,249,321 |
| Acquisition of subsidiary (Note 33)      | 942                         | —         | 265,317                | 432                 | 266,691   |
| Transfer upon completion                 | (816,213)                   | 43,642    | 772,434                | 137                 | —         |
| Disposals                                | —                           | (556)     | (1,232)                | (6)                 | (1,794)   |
| Depreciation                             | —                           | (20,435)  | (115,792)              | (3,807)             | (140,034) |
| Transfer to investment property (Note 8) | —                           | (7,477)   | —                      | —                   | (7,477)   |
| Closing net book amount                  | 509,424                     | 537,937   | 2,210,194              | 11,346              | 3,268,901 |
| <b>At 31 December 2007</b>               |                             |           |                        |                     |           |
| Cost                                     | 509,424                     | 602,039   | 2,556,693              | 23,007              | 3,691,163 |
| Accumulated depreciation                 | —                           | (64,102)  | (346,499)              | (11,661)            | (422,262) |
| Net book amount                          | 509,424                     | 537,937   | 2,210,194              | 11,346              | 3,268,901 |
| <b>Year ended 31 December 2008</b>       |                             |           |                        |                     |           |
| Opening net book amount                  | 509,424                     | 537,937   | 2,210,194              | 11,346              | 3,268,901 |
| Exchange differences                     | 35,229                      | 33,423    | 152,715                | 521                 | 221,888   |
| Additions                                | 561,970                     | 14,325    | 142,075                | 4,546               | 722,916   |
| Transfer upon completion                 | (383,326)                   | 174,008   | 209,289                | 29                  | —         |
| Disposals                                | —                           | —         | (7,790)                | (767)               | (8,557)   |
| Depreciation                             | —                           | (24,349)  | (204,499)              | (4,269)             | (233,117) |
| Closing net book amount                  | 723,297                     | 735,344   | 2,501,984              | 11,406              | 3,972,031 |
| <b>At 31 December 2008</b>               |                             |           |                        |                     |           |
| Cost                                     | 723,297                     | 829,144   | 3,065,305              | 27,467              | 4,645,213 |
| Accumulated depreciation                 | —                           | (93,800)  | (563,321)              | (16,061)            | (673,182) |
| Net book amount                          | 723,297                     | 735,344   | 2,501,984              | 11,406              | 3,972,031 |

Depreciation expense of approximately HK\$202,555,000 (2007: HK\$124,163,000) has been charged in cost of sales and HK\$15,352,000 (2007: HK\$11,923,000) in administrative expenses and HK\$15,210,000 (2007: HK\$3,948,000) has been capitalised in inventories.

Government grants of approximately HK\$153,486,000 relating to the purchase of property, plant and equipment are net off with the cost of the related assets.

# Notes to the consolidated financial statements

All amounts in Hong Kong dollar thousands unless otherwise stated



## 8 INVESTMENT PROPERTY

|                                                                                  | Group         |              |
|----------------------------------------------------------------------------------|---------------|--------------|
|                                                                                  | 2008          | 2007         |
| Beginning balance                                                                | 9,460         | —            |
| Transfer from land use rights (Note 6)                                           | —             | 952          |
| Transfer from building (Note 7)                                                  | —             | 7,477        |
| Fair value gain at 1 January 2007<br>(included in revaluation reserve) (Note 18) | —             | 624          |
| Fair value gain at 31 December (included in other gains)                         | 1,467         | 407          |
|                                                                                  | <u>10,927</u> | <u>9,460</u> |

The investment property was revalued by management based on current price in an active market for nearby properties.

The Group's interest in investment property at its net book values is analysed as follows:

|                                 | 2008          | 2007         |
|---------------------------------|---------------|--------------|
| In Hong Kong, held on:          |               |              |
| Lease of between 10 to 50 years | <u>10,927</u> | <u>9,460</u> |

The Group's future aggregate minimum rentals receivable under an non-cancellable operating lease are as follows:

|                                              | 2008          | 2007         |
|----------------------------------------------|---------------|--------------|
| Not later than 1 year                        | 3,952         | 2,737        |
| Later than 1 year and not later than 5 years | <u>7,812</u>  | <u>—</u>     |
|                                              | <u>11,764</u> | <u>2,737</u> |

The following amounts have been recognised in the consolidated income statement:

|                                                                                           | 2008         | 2007         |
|-------------------------------------------------------------------------------------------|--------------|--------------|
| Rental income (Note 24)                                                                   | 3,866        | 3,752        |
| Direct operating expenses arising from<br>investment property that generate rental income | <u>(961)</u> | <u>(974)</u> |
|                                                                                           | <u>2,905</u> | <u>2,778</u> |

# Notes to the consolidated financial statements

All amounts in Hong Kong dollar thousands unless otherwise stated



## 9 INTANGIBLE ASSETS

|                                    | Group         |               |                       |                                                    |               |
|------------------------------------|---------------|---------------|-----------------------|----------------------------------------------------|---------------|
|                                    | Goodwill      | Trademark     | Customer relationship | Capitalised exploration and evaluation expenditure | Total         |
| <b>Year ended 31 December 2007</b> |               |               |                       |                                                    |               |
| Acquisition of a subsidiary        | 55,876        | 20,306        | 5,404                 | —                                                  | 81,586        |
| Amortisation                       | —             | (169)         | (45)                  | —                                                  | (214)         |
|                                    | <u>55,876</u> | <u>20,137</u> | <u>5,359</u>          | <u>—</u>                                           | <u>81,372</u> |
| <b>At 31 December 2007</b>         |               |               |                       |                                                    |               |
| Valuation                          | 55,876        | 20,306        | 5,404                 | —                                                  | 81,586        |
| Accumulated amortisation           | —             | (169)         | (45)                  | —                                                  | (214)         |
| Net book amount                    | <u>55,876</u> | <u>20,137</u> | <u>5,359</u>          | <u>—</u>                                           | <u>81,372</u> |
| <b>Year ended 31 December 2008</b> |               |               |                       |                                                    |               |
| Opening                            | 55,876        | 20,137        | 5,359                 | —                                                  | 81,372        |
| Addition                           | —             | —             | —                     | 10,066                                             | 10,066        |
| Amortisation                       | —             | (1,098)       | (292)                 | —                                                  | (1,390)       |
|                                    | <u>55,876</u> | <u>19,039</u> | <u>5,067</u>          | <u>10,066</u>                                      | <u>90,048</u> |
| <b>At 31 December 2008</b>         |               |               |                       |                                                    |               |
| Valuation                          | 55,876        | 20,306        | 5,404                 | 10,066                                             | 91,652        |
| Accumulated amortisation           | —             | (1,267)       | (337)                 | —                                                  | (1,604)       |
| Net book amount                    | <u>55,876</u> | <u>19,039</u> | <u>5,067</u>          | <u>10,066</u>                                      | <u>90,048</u> |

# Notes to the consolidated financial statements

All amounts in Hong Kong dollar thousands unless otherwise stated



## 9 INTANGIBLE ASSETS (Continued)

### Impairment testing

The Group uses business segments as its primary segment for reporting segment information. For the purposes of impairment testing, goodwill has been allocated to the automobile glass cash generating unit ("CGU").

The recoverable amount of the automobile glass CGU is determined based on a value-in-use calculation which uses cash flow projections based on financial information approved by management with estimated compound annual growth of 20%. Management determined forecast profitability based on past performance and its expectation of future changes in costs and sales prices. Future cash flows are discounted at 7.8%. The discount rate used is pre-tax and reflect specific risks relating to this cash generating unit. There was no evidence of impairment arising from the impairment assessment.

## 10 INTERESTS IN SUBSIDIARIES

|                                                        | Company          |                  |
|--------------------------------------------------------|------------------|------------------|
|                                                        | 2008             | 2007             |
| Investments, at cost                                   | 10               | 10               |
| Amounts due from subsidiaries - non-current (note (a)) | 1,636,213        | 2,220,000        |
|                                                        | <u>1,636,223</u> | <u>2,220,010</u> |
| Amounts due from subsidiaries (note (b))               | 542,128          | 205,127          |
| Amounts due to subsidiaries (note (b))                 | <u>1,128</u>     | <u>—</u>         |

Notes:

- (a) The amounts due from subsidiaries are unsecured and interest free. The directors of the Company resolved not to request repayment for the next twelve months from the balance sheet date and considered them as quasi-equity contributions.
- (b) The amounts with subsidiaries are unsecured, interest free and repayable on demand.

# Notes to the consolidated financial statements

All amounts in Hong Kong dollar thousands unless otherwise stated



## 10 INTERESTS IN SUBSIDIARIES (Continued)

Notes: (Continued)

(c) The following is a list of the principal subsidiaries as at 31 December 2008:

| Name                                                                                                                       | Place of incorporation and kind of legal entity | Principal activities and place of operation  | Particulars of issued share capital                                            | Interest held |
|----------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------|----------------------------------------------|--------------------------------------------------------------------------------|---------------|
| Kangchen Plastic (Shenzhen) Company Limited                                                                                | The PRC, limited liability company              | Manufacturing of plastic products in the PRC | Registered and paid up capital of RMB3,280,000                                 | 100%          |
| Shenzhen Benson Automobile Glass Co., Limited (Formerly known as Shenzhen China Southern Automobile Glass Company Limited) | The PRC, limited liability company              | Manufacturing of automobile glass in the PRC | Registered and paid up capital of RMB140,000,000                               | 100%          |
| Shenzhen Yuan Sheng Long Trading Company Limited                                                                           | The PRC, limited liability company              | Trading of float glass in the PRC            | Registered and paid up capital of RMB1,800,000                                 | 100%          |
| Xinyi Automobile Glass (Dongguan) Company Limited                                                                          | The PRC, limited liability company              | Manufacturing of automobile glass in the PRC | Registered and paid up capital of US\$22,000,000                               | 100%          |
| Xinyi Automobile Glass (Shenzhen) Company Limited                                                                          | The PRC, limited liability company              | Manufacturing of automobile glass in the PRC | Registered and paid up capital of RMB300,000,000                               | 100%          |
| Xinyi Automobile Parts (Dongguan) Company Limited                                                                          | The PRC, limited liability company              | Manufacturing of automobile glass in the PRC | Registered and paid up capital of US\$23,980,000                               | 100%          |
| Xinyi Automobile Parts (Wuhu) Company Limited                                                                              | The PRC, limited liability company              | Manufacturing of automobile glass in the PRC | Registered capital of US\$29,800,000 with total paid up capital US\$11,588,041 | 100%          |

# Notes to the consolidated financial statements

All amounts in Hong Kong dollar thousands unless otherwise stated

## 10 INTERESTS IN SUBSIDIARIES (Continued)

| Name                                                            | Place of incorporation and kind of legal entity       | Principal activities and place of operation                                | Particulars of issued share capital                                            | Interest held |
|-----------------------------------------------------------------|-------------------------------------------------------|----------------------------------------------------------------------------|--------------------------------------------------------------------------------|---------------|
| Xinyi Glass (Tianjin) Company Limited                           | The PRC, limited liability company                    | Manufacturing of automobile glass in the PRC                               | Registered capital of US\$22,000,000 with total paid up capital US\$20,900,400 | 100%          |
| Xinyi Glass Technology (Shenzhen) Company Limited               | The PRC, limited liability company                    | Manufacturing of construction glass in the PRC                             | Registered and paid up capital of HK\$20,000,000                               | 100%          |
| Xinyi Ultra-thin Glass (Dongguan) Company Limited               | The PRC, limited liability company                    | Manufacturing of float glass in the PRC                                    | Registered and paid up capital of US\$50,000,000                               | 100%          |
| Xinyi Ultra-clear Photovoltaic Glass (Dongguan) Company Limited | The PRC, limited liability company                    | Manufacturing of float glass and ultra-clear photovoltaic glass in the PRC | Registered capital of US\$30,000,000 with total paid up capital US\$28,021,000 | 100%          |
| Xinyi Glass (America) Development Inc.                          | Canada, limited liability company                     | Sales agent in Canada                                                      | Authorised and paid up capital of 120,000 common shares of CAD1 each           | 58.3%         |
| Xinyi Glass (Germany) Limited                                   | The British Virgin Islands, limited liability company | Sales agent in Europe                                                      | Authorised and paid up capital of 10,000 common shares of US\$1 each           | 62.5%         |
| Xinyi Glass Japan Company Limited                               | Japan, limited liability company                      | Sales agent in Japan                                                       | Authorised and paid up capital of 400 common shares of JP¥50,000 each          | 55%           |
| Xinyi Glas Deutschland GmbH                                     | Germany, limited liability company                    | Sales agent in Germany                                                     | Authorised and paid up capital of 25,000 common shares of EUR1 each            | 62.6%         |

# Notes to the consolidated financial statements

All amounts in Hong Kong dollar thousands unless otherwise stated



## 10 INTERESTS IN SUBSIDIARIES (Continued)

| Name                                                          | Place of incorporation and kind of legal entity       | Principal activities and place of operation                  | Particulars of issued share capital                                            | Interest held |
|---------------------------------------------------------------|-------------------------------------------------------|--------------------------------------------------------------|--------------------------------------------------------------------------------|---------------|
| Xinyi Glass (North America) Inc.                              | Canada, limited liability company                     | Sales agent in Canada                                        | Authorised and paid up capital of 120,000 common shares of CAD1 each           | 58.3%         |
| Xinyi Plastic Products (Shenzhen) Development Company Limited | The PRC, limited liability company                    | Manufacturing of rubber trim for automobile glass in the PRC | Registered and paid up capital of HK\$11,000,000                               | 100%          |
| Xinyi Automobile Glass Company Limited                        | Hong Kong, limited liability company                  | Trading in Hong Kong                                         | Authorised and paid up 100,000 ordinary shares of HK\$1 each                   | 100%          |
| Xinyi Group (Glass) Company Limited                           | Hong Kong, limited liability company                  | Investment holding and trading in Hong Kong                  | Authorised and paid up 1,000 ordinary shares of HK\$1,000 each                 | 100%          |
| XYG (HK) Limited                                              | Hong Kong, limited liability company                  | Trading in Hong Kong                                         | Authorised and paid up 1,000 ordinary shares of HK\$10,000 each                | 100%          |
| Xinyi International Investments Limited                       | Hong Kong, limited liability company                  | Investment holding in Hong Kong                              | Authorised and paid up 10,000 ordinary shares of HK\$1 each                    | 100%          |
| Xinyi Automobile Glass (BVI) Company Limited <sup>1</sup>     | The British Virgin Islands, limited liability company | Investment holding in Hong Kong                              | Authorised and paid up 55,000 ordinary shares of US\$1 each                    | 100%          |
| Xinyi EnergySmart (Wuhu) Company Limited                      | The PRC, limited liability company                    | Manufacturing of construction glass in the PRC               | Registered capital of US\$29,000,000 with total paid up capital US\$11,026,500 | 100%          |

# Notes to the consolidated financial statements

All amounts in Hong Kong dollar thousands unless otherwise stated

## 10 INTERESTS IN SUBSIDIARIES (Continued)

| Name                                                                                          | Place of incorporation and kind of legal entity | Principal activities and place of operation    | Particulars of issued share capital              | Interest held |
|-----------------------------------------------------------------------------------------------|-------------------------------------------------|------------------------------------------------|--------------------------------------------------|---------------|
| Xinyi PV (Anhui) Holdings Limited<br>(Formerly known as "Xinyi Glass (Wuhu) Company Limited") | The PRC, limited liability company              | Manufacturing of photovoltaic glass in the PRC | Registered and paid up capital of US\$29,000,000 | 100%          |
| YiDe Glass (Shenzhen) Development Company Limited                                             | The PRC, limited liability company              | Manufacturing of construction glass in the PRC | Registered and paid up capital of HK\$30,000,000 | 100%          |

<sup>1</sup> Shares held directly by the Company.

## 11 AVAILABLE-FOR-SALE FINANCIAL ASSETS

|                       | Group |      |
|-----------------------|-------|------|
|                       | 2008  | 2007 |
| Beginning of the year | 532   | 500  |
| Exchange differences  | 37    | 32   |
| End of the year       | 569   | 532  |

At 31 December 2008, the carrying amounts for available-for-sale financial assets approximate to their fair values. Accordingly, there was no change in fair value recorded in equity. All available-for-sale financial assets are unlisted equity securities. There were no disposals or impairment made on available-for-sale financial assets in 2008 and 2007. Available-for-sale financial assets are denominated in RMB.

# Notes to the consolidated financial statements

All amounts in Hong Kong dollar thousands unless otherwise stated



## 12 INTEREST IN AN ASSOCIATE

|                                     | Group    |          |
|-------------------------------------|----------|----------|
|                                     | 2008     | 2007     |
| Beginning of the year               | 11,374   | 11,932   |
| Acquisition of additional interests | 6,242    | —        |
| Share of profit of an associate     | 272      | 1,703    |
| Exchange differences                | 313      | 430      |
| Loan advance to an associate        | 33,523   | 20,448   |
| Repayment from an associate         | (35,835) | (23,139) |
| End of the year                     | 15,889   | 11,374   |

The Group's share of the results of its principal associate which is unlisted, and its aggregated assets and liabilities are as follows:

| Name                                     | Particulars<br>of issued<br>shares held | Country of<br>incorporation | % Interest<br>held |
|------------------------------------------|-----------------------------------------|-----------------------------|--------------------|
| Beihai Yiyang Mineral<br>Company Limited | Register capital<br>of RMB25,454,500    | The PRC                     | 45%                |

|             | 2008   | 2007   |
|-------------|--------|--------|
| Assets      | 30,772 | 10,961 |
| Liabilities | 17,588 | 3,835  |
| Sales       | 15,568 | 6,206  |
| Profit      | 272    | 1,703  |

# Notes to the consolidated financial statements

All amounts in Hong Kong dollar thousands unless otherwise stated



## 13 INVENTORIES

|                  | Group          |                |
|------------------|----------------|----------------|
|                  | 2008           | 2007           |
| Raw materials    | 304,433        | 276,660        |
| Work in progress | 35,273         | 41,557         |
| Finished goods   | 272,428        | 192,473        |
|                  | <u>612,134</u> | <u>510,690</u> |

The cost of inventories recognised as expense and included in cost of sales amounted to approximately HK\$1,851,329,000 (2007: HK\$1,073,735,000).

## 14 TRADE AND OTHER RECEIVABLES

|                                               | Group           |                 |
|-----------------------------------------------|-----------------|-----------------|
|                                               | 2008            | 2007            |
| Trade receivables ( <i>note (a)</i> )         | 511,581         | 517,840         |
| Less: provision for impairment of receivables | <u>(12,474)</u> | <u>(15,455)</u> |
|                                               | 499,107         | 502,385         |
| Bills receivable ( <i>note (b)</i> )          | <u>76,383</u>   | <u>91,345</u>   |
| Trade and bills receivables - net             | 575,490         | 593,730         |
| Prepayments, deposits and other receivables   | <u>85,785</u>   | <u>80,992</u>   |
|                                               | <u>661,275</u>  | <u>674,722</u>  |

(a) The carrying amounts of trade and other receivables approximate their fair values.

(b) The maturities of the bills receivable are within 6 months.

# Notes to the consolidated financial statements

All amounts in Hong Kong dollar thousands unless otherwise stated



## 14 TRADE AND OTHER RECEIVABLES (Continued)

The credit period granted by the Group to its customers is generally from 30 to 90 days. At 31 December 2008 and 2007, the ageing analysis of the Group's trade receivables were as follows:

|                | 2008           | 2007           |
|----------------|----------------|----------------|
| 0 - 90 days    | 458,850        | 459,455        |
| 91 - 180 days  | 23,139         | 35,331         |
| 181 - 365 days | 14,274         | 8,668          |
| 1 - 2 years    | 10,049         | 9,961          |
| Over 2 years   | 5,269          | 4,425          |
|                | <u>511,581</u> | <u>517,840</u> |

The carrying amounts of the Group's trade receivables are denominated in the following currencies:

|                  | 2008           | 2007           |
|------------------|----------------|----------------|
| RMB              | 275,846        | 229,435        |
| HKD              | 2,956          | 5,654          |
| USD              | 210,538        | 282,409        |
| Other currencies | 22,241         | 342            |
|                  | <u>511,581</u> | <u>517,840</u> |

Movements on the Group's provision for impairment of trade receivables are as follows:

|                                                          | 2008          | 2007          |
|----------------------------------------------------------|---------------|---------------|
| At 1 January                                             | 15,455        | 4,207         |
| Exchange differences                                     | 1,015         | —             |
| Provision for impairment of receivables (Note 22)        | 1,015         | 12,371        |
| Receivables written off during the year as uncollectible | (5,011)       | (1,123)       |
|                                                          | <u>12,474</u> | <u>15,455</u> |

# Notes to the consolidated financial statements

All amounts in Hong Kong dollar thousands unless otherwise stated

## 14 TRADE AND OTHER RECEIVABLES (Continued)

As at 31 December 2008, trade receivables of approximately HK\$150,456,000 (2007: HK\$193,074,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

|              | 2008           | 2007           |
|--------------|----------------|----------------|
| 0 - 90 days  | 115,144        | 144,224        |
| 91-180 days  | 22,600         | 35,299         |
| 181-365 days | 11,395         | 8,182          |
| 1-2 years    | 316            | 5,027          |
| Over 2 years | 1,001          | 342            |
|              | <u>150,456</u> | <u>193,074</u> |

As at 31 December 2008, trade receivables of approximately HK\$21,815,000 (2007: HK\$20,460,000) were impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that only a portion of the receivables is expected to be recovered. Consequently, specific allowances for doubtful debts of HK\$12,474,000 (2007: HK\$15,455,000) were recognised. The Group does not hold any collateral over these balances.

The top five customers and the largest customer accounted for approximately 14% (2007: 23%) and 3% (2007: 7%) of the trade receivables balance as at 31 December 2008, respectively. Other than these major customers, there is no concentration of credit risk with respect to trade receivables as the Group has a large number of customers.

The other classes within trade and other receivables do not contain impaired assets.

# Notes to the consolidated financial statements

All amounts in Hong Kong dollar thousands unless otherwise stated



## 15 AMOUNTS DUE FROM/(TO) CUSTOMERS FOR CONTRACT WORK

|                                                                                  | Group         |               |
|----------------------------------------------------------------------------------|---------------|---------------|
|                                                                                  | 2008          | 2007          |
| Contract cost incurred plus attributable profits less foreseeable losses to date | 351,170       | 291,844       |
| Less: Progress billings to date                                                  | (302,413)     | (234,929)     |
| Net amounts due from customers for contract work                                 | <u>48,757</u> | <u>56,915</u> |

  

|                                                  | 2008          | 2007          |
|--------------------------------------------------|---------------|---------------|
| Amounts due from customers for contract work     | 48,828        | 57,524        |
| Amounts due to customers for contract work       | (71)          | (609)         |
| Net amounts due from customers for contract work | <u>48,757</u> | <u>56,915</u> |

## 16 CASH AND BANK DEPOSITS

|                          | Group          |                | Company      |              |
|--------------------------|----------------|----------------|--------------|--------------|
|                          | 2008           | 2007           | 2008         | 2007         |
| Cash at bank and in hand | 360,746        | 292,873        | 1,055        | 5,463        |
| Short-term bank deposits | <u>81,820</u>  | <u>23,335</u>  | <u>—</u>     | <u>—</u>     |
|                          | <u>442,566</u> | <u>316,208</u> | <u>1,055</u> | <u>5,463</u> |

The effective interest rate on short-term bank deposits was 0.07% (2007: 4.3%); these short-term bank deposits have an average maturity of 4 days.

Cash and cash equivalents included the following for the purposes of the cash flow statement:

|                                                  | Group          |                |
|--------------------------------------------------|----------------|----------------|
|                                                  | 2008           | 2007           |
| Total bank balances and cash ( <i>note (a)</i> ) | 442,566        | 316,208        |
| Less: pledged bank deposits ( <i>note (b)</i> )  | (6,854)        | (6,702)        |
|                                                  | <u>435,712</u> | <u>309,506</u> |

# Notes to the consolidated financial statements

All amounts in Hong Kong dollar thousands unless otherwise stated



## 16 CASH AND BANK DEPOSITS (Continued)

Notes:

- (a) The carrying amounts of the Group's cash and bank deposits are denominated in the following currencies:

|                  | 2008    | 2007    |
|------------------|---------|---------|
| RMB              | 177,602 | 135,492 |
| HKD              | 15,580  | 93,139  |
| USD              | 217,842 | 69,217  |
| Other currencies | 24,688  | 11,658  |
|                  | <hr/>   | <hr/>   |
|                  | 435,712 | 309,506 |
|                  | <hr/>   | <hr/>   |

RMB is currently not a freely convertible currency in the international market. The conversion of RMB into foreign currencies and remittance of RMB out of the PRC are subject to the rules and regulations of the foreign exchange control promulgated by the PRC government.

- (b) The pledged bank deposits represent deposits pledged to banks for securing banking facilities granted to the Group's subsidiaries.

# Notes to the consolidated financial statements

All amounts in Hong Kong dollar thousands unless otherwise stated



## 17 SHARE CAPITAL AND PREMIUM

|                                        | Note | Number of<br>shares | Ordinary<br>shares of<br>HK\$0.1 each | Share<br>premium | Total     |
|----------------------------------------|------|---------------------|---------------------------------------|------------------|-----------|
| <b>Authorised:</b>                     |      |                     |                                       |                  |           |
| At 1 January 2007,                     |      |                     |                                       |                  |           |
| 31 December 2007 and 2008              |      | 2,500,000,000       | 250,000                               | —                | 250,000   |
| <b>Issued and fully paid:</b>          |      |                     |                                       |                  |           |
| At 1 January 2007                      |      | 1,604,662,000       | 160,466                               | 850,804          | 1,011,270 |
| New issue of shares                    | (a)  | 128,372,960         | 12,837                                | 1,311,972        | 1,324,809 |
| Share issuance costs                   |      | —                   | —                                     | (15,078)         | (15,078)  |
| Repurchase of shares during the year   | (b)  | (9,594,000)         | (959)                                 | (74,411)         | (75,370)  |
| At 31 December 2007 and 1 January 2008 |      | 1,723,440,960       | 172,344                               | 2,073,287        | 2,245,631 |
| Issue of shares under                  |      |                     |                                       |                  |           |
| a share option scheme                  | (c)  | 2,900,500           | 290                                   | 6,970            | 7,260     |
| Repurchase of shares during the year   | (b)  | (38,266,000)        | (3,826)                               | (251,083)        | (254,909) |
| At 31 December 2008                    |      | 1,688,075,460       | 168,808                               | 1,829,174        | 1,997,982 |

# Notes to the consolidated financial statements

All amounts in Hong Kong dollar thousands unless otherwise stated

## 17 SHARE CAPITAL AND PREMIUM (Continued)

Notes:

- (a) In October 2007, 128,372,960 shares were allotted and issued by way of a placing at HK\$ 10.32 each, resulting in net cash proceed of HK\$1,309,731,000. These shares rank pari passu in all respects with the then existing shares in issued. The excess over the par value of the shares was credited to the share premium account.
- (b) During the year, the Company repurchased certain of its own shares. The repurchase plan was approved in the annual general meeting. The Directors considered that, as the Company's shares were trading at a discount to the expected net assets value per share, the repurchase would be beneficial to the Company.

These repurchased shares were cancelled upon repurchase. Accordingly, the issued share capital of the Company was reduced by the nominal value of these shares and the premiums paid on these shares upon the repurchase were charged against the share premium account. An amount equivalent to the par value of the shares cancelled was transferred from the Company's retained earnings to the capital redemption reserve.

| Month of repurchase | Number of shares<br>of HK\$0.10 each | Highest price<br>per share | Lowest price<br>per share | Aggregate<br>consideration<br>paid HK\$'000 |
|---------------------|--------------------------------------|----------------------------|---------------------------|---------------------------------------------|
| November 2007       | 9,594,000                            | 8.60                       | 7.27                      | 75,370                                      |
| January 2008        | 37,144,000                           | 7.00                       | 5.93                      | 234,898                                     |
| July 2008           | 1,122,000                            | 4.70                       | 4.55                      | 5,212                                       |
| December 2008       | 5,178,000*                           | 2.22                       | 1.96                      | 10,973                                      |

\* These shares were repurchased on 31 December 2008 and cancelled in January 2009.

- (c) Share options

In 2005, the Company has adopted a share option scheme ("Share Option Scheme"). Under the Share Option Scheme, the Company's directors may, at their sole discretion, grant to any employee of the Group to take up options to subscribe for shares of the Company at the highest of (i) the closing price of shares of the Company as stated in the daily quotation sheet of the Stock Exchange on the day of the offer of grant; (ii) the average closing price of the shares of the Company as stated in the Stock Exchange's daily quotation sheet for the five trading days immediately preceding the day of the offer of the grant; and (iii) the nominal value of shares. A nominal consideration of HK\$1 is payable on acceptance of the grant of an option. The maximum number of shares to be issued upon the exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme of the Group must not, in aggregate, exceed 30% of the relevant shares or securities of the Company in issue from time to time.

The total number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option scheme of the Group must not, in aggregate, exceed 10% of the shares in issue upon completion of the placing and the capitalisation issue of the shares of the Company, unless the Company obtains further approval from the shareholders.

In April 2008, 24,258,600 share options were granted to the Company's employees and connected persons of the Company and its subsidiaries at the then quoted market share price of HK\$4.67 per share. Options are conditional on the employee completing four year's service (the vesting period). The options are exercisable starting four years from the grant date. In relation to April 2008 batch, no option was exercised from the date of the grant to 31 December 2008 and a total of 760,000 options were lapsed during the year ended 31 December 2008.

# Notes to the consolidated financial statements

All amounts in Hong Kong dollar thousands unless otherwise stated



## 17 SHARE CAPITAL AND PREMIUM (Continued)

Notes: (Continued)

### (c) Share options (Continued)

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

|                | 2008                                                   |                        | 2007                                                   |                        |
|----------------|--------------------------------------------------------|------------------------|--------------------------------------------------------|------------------------|
|                | Average<br>exercise price<br>in HK dollar<br>per share | Options<br>(thousands) | Average<br>exercise price<br>in HK dollar<br>per share | Options<br>(thousands) |
| At 1 January   | 5.22                                                   | 21,354                 | 2.15                                                   | 7,950                  |
| Granted        | 4.67                                                   | 24,259                 | 6.98                                                   | 13,552                 |
| Exercised      | 2.15                                                   | (2,901)                | —                                                      | —                      |
| Lapsed         | 5.39                                                   | (2,776)                | 2.15                                                   | (148)                  |
| At 31 December | 5.09                                                   | 39,936                 | 5.22                                                   | 21,354                 |

4,349,500 options were exercisable as at 31 December 2008.

Share options outstanding as at the end of the year have the following expiry date and exercise price:

| Expiry date     | Exercise price<br>in HK dollar<br>per share | Options<br>(thousands) |
|-----------------|---------------------------------------------|------------------------|
| 26 January 2009 | 2.15                                        | 4,350                  |
| 30 June 2011    | 6.98                                        | 12,088                 |
| 19 April 2013   | 4.67                                        | 23,498                 |

The weighted average fair value of options granted during the period determined using the Black-Scholes valuation model, which was performed by an independent valuer, Greater China Appraisal Limited, was approximately HK\$1.63 per option (2007: HK\$2.27). The significant inputs into the model were weighted average share price of HK\$4.67 (2007: HK\$6.98) at the grant date, the exercise price shown above, annual volatility of 52.99% (2007: 45.65%), dividend yield of 3.43% (2007: 2.50%). The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of daily share prices over the last year.

Based on the above, the fair value of the above options granted during the year determined using the Black-Scholes valuation model was HK\$39,639,000 (2007: HK\$30,716,000). The attributable amounts charged to the consolidated income statements for the year ended 31 December 2008 was HK\$13,075,000 (2007: HK\$5,541,000).

# Notes to the consolidated financial statements

All amounts in Hong Kong dollar thousands unless otherwise stated

## 18 RESERVES

|                                                                            | Group                                    |                                             |                                               |                                |                             |                                         |                                       |         |                      |
|----------------------------------------------------------------------------|------------------------------------------|---------------------------------------------|-----------------------------------------------|--------------------------------|-----------------------------|-----------------------------------------|---------------------------------------|---------|----------------------|
|                                                                            | Other reserves                           |                                             |                                               |                                |                             |                                         |                                       |         |                      |
|                                                                            | Statutory<br>reserve<br>fund<br>(Note a) | Enterprise<br>expansion<br>fund<br>(Note a) | Foreign<br>currency<br>translation<br>reserve | Capital<br>reserve<br>(Note b) | Share<br>options<br>reserve | Property<br>revalua-<br>tion<br>reserve | Capital<br>redemp-<br>tion<br>reserve | Total   | Retained<br>earnings |
| Balance at 1 January 2007                                                  | 101,627                                  | 40,363                                      | 83,428                                        | 11,840                         | 1,175                       | —                                       | —                                     | 238,433 | 998,327              |
| Profit for the year                                                        | —                                        | —                                           | —                                             | —                              | —                           | —                                       | —                                     | —       | 670,860              |
| Transfer from retained earnings                                            | 66,119                                   | —                                           | —                                             | —                              | —                           | —                                       | —                                     | 66,119  | (66,119)             |
| Property revaluation                                                       | —                                        | —                                           | —                                             | —                              | —                           | 624                                     | —                                     | 624     | —                    |
| Employee share option scheme:<br>- value of employee services<br>(Note 17) | —                                        | —                                           | —                                             | —                              | 5,541                       | —                                       | —                                     | 5,541   | —                    |
| Currency translation differences                                           | 6,487                                    | 2,576                                       | 133,346                                       | —                              | —                           | —                                       | —                                     | 142,409 | —                    |
| Share repurchase (Note 17)                                                 | —                                        | —                                           | —                                             | —                              | —                           | —                                       | 959                                   | 959     | (959)                |
| Dividend relating to 2006                                                  | —                                        | —                                           | —                                             | —                              | —                           | —                                       | —                                     | —       | (112,326)            |
| Dividend relating to 2007                                                  | —                                        | —                                           | —                                             | —                              | —                           | —                                       | —                                     | —       | (144,420)            |
| Balance at 31 December 2007                                                | 174,233                                  | 42,939                                      | 216,774                                       | 11,840                         | 6,716                       | 624                                     | 959                                   | 454,085 | 1,345,363            |
| Representing:                                                              |                                          |                                             |                                               |                                |                             |                                         |                                       |         |                      |
| 2007 proposed final dividend                                               |                                          |                                             |                                               |                                |                             |                                         |                                       |         | 168,683              |
| Others                                                                     |                                          |                                             |                                               |                                |                             |                                         |                                       |         | 1,176,680            |
|                                                                            |                                          |                                             |                                               |                                |                             |                                         |                                       |         | 1,345,363            |

# Notes to the consolidated financial statements

All amounts in Hong Kong dollar thousands unless otherwise stated



## 18 RESERVES (Continued)

|                                                                            | Group                                    |                                             |                                               |                                |                             |                                         |                                       |         |                      |
|----------------------------------------------------------------------------|------------------------------------------|---------------------------------------------|-----------------------------------------------|--------------------------------|-----------------------------|-----------------------------------------|---------------------------------------|---------|----------------------|
|                                                                            | Other reserves                           |                                             |                                               |                                |                             |                                         |                                       |         |                      |
|                                                                            | Statutory<br>reserve<br>fund<br>(Note a) | Enterprise<br>expansion<br>fund<br>(Note a) | Foreign<br>currency<br>translation<br>reserve | Capital<br>reserve<br>(Note b) | Share<br>options<br>reserve | Property<br>revalua-<br>tion<br>reserve | Capital<br>redemp-<br>tion<br>reserve | Total   | Retained<br>earnings |
| Balance at 1 January 2008,<br>as per above                                 | 174,233                                  | 42,939                                      | 216,774                                       | 11,840                         | 6,716                       | 624                                     | 959                                   | 454,085 | 1,345,363            |
| Profit for the year                                                        | —                                        | —                                           | —                                             | —                              | —                           | —                                       | —                                     | —       | 709,232              |
| Transfer from retained earnings                                            | 57,134                                   | —                                           | —                                             | —                              | —                           | —                                       | —                                     | 57,134  | (57,134)             |
| Proceeds from issue of share<br>under a share option scheme                | —                                        | —                                           | —                                             | —                              | (1,024)                     | —                                       | —                                     | (1,024) | —                    |
| Employee share option scheme:<br>- value of employee services<br>(Note 17) | —                                        | —                                           | —                                             | —                              | 13,075                      | —                                       | —                                     | 13,075  | —                    |
| Currency translation differences                                           | 11,937                                   | 2,969                                       | 186,321                                       | —                              | —                           | —                                       | —                                     | 201,227 | —                    |
| Share repurchase (Note 17)                                                 | —                                        | —                                           | —                                             | —                              | —                           | —                                       | 3,826                                 | 3,826   | —                    |
| Dividend relating to 2007                                                  | —                                        | —                                           | —                                             | —                              | —                           | —                                       | —                                     | —       | (168,793)            |
| Dividend relating to 2008                                                  | —                                        | —                                           | —                                             | —                              | —                           | —                                       | —                                     | —       | (185,641)            |
| Balance at 31 December 2008                                                | 243,304                                  | 45,908                                      | 403,095                                       | 11,840                         | 18,767                      | 624                                     | 4,785                                 | 728,323 | 1,643,027            |
| Representing:                                                              |                                          |                                             |                                               |                                |                             |                                         |                                       |         |                      |
| 2008 proposed final dividend                                               |                                          |                                             |                                               |                                |                             |                                         |                                       |         | 151,475              |
| Others                                                                     |                                          |                                             |                                               |                                |                             |                                         |                                       |         | 1,491,552            |
|                                                                            |                                          |                                             |                                               |                                |                             |                                         |                                       |         | 1,643,027            |

### Notes:

- (a) The statutory reserve fund and enterprise expansion fund were provided for in accordance with laws in the PRC and regulations by certain subsidiaries which are the wholly owned foreign enterprises incorporated in the PRC. These funds are appropriated from net profit as recorded in the PRC statutory accounts of the respective group companies. The statutory reserve fund can only be used, upon approval by the relevant authority, to make good of previous years' losses or to increase the capital of these group companies. The enterprise expansion fund can only be used to increase capital of the group companies or to expand their production operations upon approval by the relevant authority.

During the year ended 31 December 2008, the boards of directors of the group companies resolved to appropriate approximately HK\$57,134,000 (2007: HK\$66,119,000) from retained earnings to statutory reserve fund. No enterprise expansion fund was appropriated during the year ended 31 December 2007 and 2008.

# Notes to the consolidated financial statements

All amounts in Hong Kong dollar thousands unless otherwise stated

## 18 RESERVES (Continued)

- (b) The capital reserve of the Group represents the difference between the nominal value of the share capital of the subsidiaries acquired pursuant to the Reorganisation occurred in 2004 and the nominal value of the share capital of the Company issued in exchange thereof.

|                                                          | Company               |                            |         |                   |
|----------------------------------------------------------|-----------------------|----------------------------|---------|-------------------|
|                                                          | Other reserves        |                            |         | Retained earnings |
|                                                          | Share options reserve | Capital redemption reserve | Total   |                   |
| Balance at 1 January 2007                                | 1,175                 | —                          | 1,175   | 112,536           |
| Profit for the year                                      | —                     | —                          | —       | 321,016           |
| Employee share option scheme:                            |                       |                            |         |                   |
| - value of employee services (Note 17)                   | 5,541                 | —                          | 5,541   | —                 |
| Share repurchase (Note 17)                               | —                     | 959                        | 959     | (959)             |
| Dividend relating to 2006                                | —                     | —                          | —       | (112,326)         |
| Dividend relating to 2007                                | —                     | —                          | —       | (144,420)         |
| Balance at 31 December 2007                              | 6,716                 | 959                        | 7,675   | 175,847           |
| Representing:                                            |                       |                            |         |                   |
| 2007 proposed final dividend                             |                       |                            |         | 168,683           |
| Others                                                   |                       |                            |         | 7,164             |
|                                                          |                       |                            |         | 175,847           |
| Balance at 1 January 2008, as per above                  | 6,716                 | 959                        | 7,675   | 175,847           |
| Profit for the year                                      | —                     | —                          | —       | 334,161           |
| Proceeds from issue of share under a share option scheme | (1,024)               | —                          | (1,024) | —                 |
| Employee share option scheme:                            |                       |                            |         |                   |
| - value of employee services (Note 17)                   | 13,075                | —                          | 13,075  | —                 |
| Share repurchase (Note 17)                               | —                     | 3,826                      | 3,826   | —                 |
| Dividend relating to 2007                                | —                     | —                          | —       | (168,793)         |
| Dividend relating to 2008                                | —                     | —                          | —       | (185,641)         |
| Balance at 31 December 2008                              | 18,767                | 4,785                      | 23,552  | 155,574           |
| Representing:                                            |                       |                            |         |                   |
| 2008 proposed final dividend                             |                       |                            |         | 151,475           |
| Others                                                   |                       |                            |         | 4,099             |
|                                                          |                       |                            |         | 155,574           |

# Notes to the consolidated financial statements

All amounts in Hong Kong dollar thousands unless otherwise stated



## 19 TRADE PAYABLES, ACCRUALS AND OTHER PAYABLES

|                                        | Group   |         | Company |       |
|----------------------------------------|---------|---------|---------|-------|
|                                        | 2008    | 2007    | 2008    | 2007  |
| Trade payables (note (a))              | 192,116 | 143,663 | —       | —     |
| Bills payable (note (b))               | 277,823 | 41,102  | —       | —     |
|                                        | <hr/>   | <hr/>   | <hr/>   | <hr/> |
|                                        | 469,939 | 184,765 | —       | —     |
| Accruals and other payables (note (c)) | 409,352 | 441,574 | 1,295   | 1,331 |
|                                        | <hr/>   | <hr/>   | <hr/>   | <hr/> |
|                                        | 879,291 | 626,339 | 1,295   | 1,331 |
|                                        | <hr/>   | <hr/>   | <hr/>   | <hr/> |

Notes:

(a) At 31 December 2008 and 2007, the ageing analysis of the trade payables were as follows:

|              | Group   |         |
|--------------|---------|---------|
|              | 2008    | 2007    |
| 0 - 90 days  | 177,044 | 137,520 |
| 91-180 days  | 8,754   | 1,235   |
| 181-365 days | 2,103   | 2,254   |
| 1-2 years    | 3,121   | 2,154   |
| Over 2 years | 1,094   | 500     |
|              | <hr/>   | <hr/>   |
|              | 192,116 | 143,663 |
|              | <hr/>   | <hr/>   |

The carrying amounts of the trade payables are denominated in the following currencies:

|       | Group   |         |
|-------|---------|---------|
|       | 2008    | 2007    |
| RMB   | 133,020 | 106,485 |
| HKD   | 153     | 373     |
| USD   | 58,802  | 35,063  |
| Other | 141     | 1,742   |
|       | <hr/>   | <hr/>   |
|       | 192,116 | 143,663 |
|       | <hr/>   | <hr/>   |

Trade payables have maturities within 3 months.

(b) The maturities of bills payable are within 6 months.

# Notes to the consolidated financial statements

All amounts in Hong Kong dollar thousands unless otherwise stated



## 19 TRADE PAYABLES, ACCRUALS AND OTHER PAYABLES (Continued)

Notes: (Continued)

(c) Nature of accruals and other payables is as follows:

|                                                   | Group          |                | Company      |              |
|---------------------------------------------------|----------------|----------------|--------------|--------------|
|                                                   | 2008           | 2007           | 2008         | 2007         |
| Payables for plant and equipment                  | 150,606        | 115,780        | —            | —            |
| Payable for acquisition of a subsidiary (Note 33) | —              | 90,341         | —            | —            |
| Accruals for employee benefits and welfare        | 63,352         | 57,688         | —            | —            |
| Payables for value-added tax                      | 50,687         | 44,912         | —            | —            |
| Utilities payables                                | 24,810         | 30,387         | —            | —            |
| Cross currency swap                               | 1,285          | —              | —            | —            |
| Others                                            | 118,612        | 102,466        | 1,295        | 1,331        |
|                                                   | <u>409,352</u> | <u>441,574</u> | <u>1,295</u> | <u>1,331</u> |

(d) The carrying amounts of trade payables, accruals and other payables approximate their fair values.

## 20 BANK BORROWINGS

|                                           | Group            |                |
|-------------------------------------------|------------------|----------------|
|                                           | 2008             | 2007           |
| <b>Non-current</b>                        |                  |                |
| Secured                                   | 734,079          | 297,449        |
| Less: Current portion                     | (250,000)        | (37,500)       |
| Shown as non-current liabilities          | <u>484,079</u>   | <u>259,949</u> |
| <b>Current</b>                            |                  |                |
| Secured                                   | 381,399          | 306,321        |
| Unsecured                                 | 90,992           | 79,787         |
| Current portion of non-current borrowings | <u>472,391</u>   | <u>386,108</u> |
|                                           | <u>250,000</u>   | <u>37,500</u>  |
| Shown as current liabilities              | <u>722,391</u>   | <u>423,608</u> |
| Total bank borrowings                     | <u>1,206,470</u> | <u>683,557</u> |

# Notes to the consolidated financial statements

All amounts in Hong Kong dollar thousands unless otherwise stated



## 20 BANK BORROWINGS (Continued)

At 31 December 2008, the Group's bank borrowings were repayable as follows:

|                       | 2008             | 2007           |
|-----------------------|------------------|----------------|
| Within 1 year         | 722,391          | 423,608        |
| Between 1 and 2 years | 291,717          | 150,000        |
| Between 2 and 5 years | 192,362          | 109,949        |
|                       | <u>1,206,470</u> | <u>683,557</u> |

The carrying amounts of the Group's bank borrowings are denominated in the following currencies:

|     | 2008             | 2007           |
|-----|------------------|----------------|
| HKD | 680,847          | 337,449        |
| RMB | 227,480          | 281,914        |
| USD | 298,143          | 64,194         |
|     | <u>1,206,470</u> | <u>683,557</u> |

Bank borrowings mature until 2012 and the carrying amounts of bank borrowings approximate their fair values as at 31 December 2008.

US\$38,400,000 was swapped into a fixed amount of HK\$298,143,000 under a cross currency swap at the same maturity dates.

The effective interest rates at the balance sheet date were as follows:

|                 | 2008 |      |      | 2007 |      |      |
|-----------------|------|------|------|------|------|------|
|                 | HK\$ | US\$ | RMB  | HK\$ | US\$ | RMB  |
| Bank borrowings | 1.7% | 2.9% | 5.5% | 4.2% | 7.2% | 5.5% |

# Notes to the consolidated financial statements

All amounts in Hong Kong dollar thousands unless otherwise stated



## 21 DEFERRED INCOME TAX

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts are as follows:

|                                                                    | Group        |            |
|--------------------------------------------------------------------|--------------|------------|
|                                                                    | 2008         | 2007       |
| Deferred tax assets:                                               |              |            |
| - Deferred tax assets to be recovered after more than 12 months    | (819)        | (1,189)    |
| Deferred tax liabilities:                                          |              |            |
| - Deferred tax liabilities to be settled after more than 12 months | 1,863        | 1,520      |
|                                                                    | <u>1,044</u> | <u>331</u> |

The gross movement on the deferred income tax account is as follows:

|                                                        | Group        |            |
|--------------------------------------------------------|--------------|------------|
|                                                        | 2008         | 2007       |
| Beginning of the year                                  | 331          | (3,676)    |
| Charged to the consolidated income statement (Note 27) | 713          | 4,007      |
| End of the year                                        | <u>1,044</u> | <u>331</u> |

# Notes to the consolidated financial statements

All amounts in Hong Kong dollar thousands unless otherwise stated



## 21 DEFERRED INCOME TAX (Continued)

The movement in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred tax liabilities:

|                                                         | Group                              |       |       |
|---------------------------------------------------------|------------------------------------|-------|-------|
|                                                         | Accelerated<br>tax<br>depreciation | Other | Total |
| At 1 January 2007                                       | 1,236                              | —     | 1,236 |
| Charged to the consolidated income statement            | 116                                | 168   | 284   |
| At 31 December 2007                                     | 1,352                              | 168   | 1,520 |
| Charged/(credited) to the consolidated income statement | 511                                | (168) | 343   |
| At 31 December 2008                                     | 1,863                              | —     | 1,863 |

Deferred tax assets:

|                                              | Group<br>Tax losses |
|----------------------------------------------|---------------------|
| At 1 January 2007                            | (4,912)             |
| Charged to the consolidated income statement | 3,723               |
| At 31 December 2007                          | (1,189)             |
| Charged to the consolidated income statement | 370                 |
| At 31 December 2008                          | (819)               |

Deferred income tax assets are recognised for tax losses carry-forwards to the extent that the realisation of the related tax benefits through the future taxable profits is probable. The Group did not recognise deferred income tax assets of approximately HK\$6,550,000 (2007: HK\$8,526,000) in respect of losses amounting to approximately HK\$28,479,000 (2007: HK\$44,874,000) that can be carried forward against future taxable income, approximately HK\$8,563,000 (2007: HK\$20,980,000) and approximately HK\$19,916,000 (2007: Nil) of such losses will expire in 2012 and 2013 respectively and the remaining will expire in 2010 and 2011.

Deferred income tax liabilities of approximately HK\$28,119,000 (2007: Nil) have not been recognised for the withholding tax and other taxes that would be payable on the unremitted earnings of certain subsidiaries in the PRC. Such temporary differences are not expected to be reversed in the foreseeable future. At 31 December 2008, total unremitted earnings accounted to approximately HK\$562,383,000 (2007: Nil).

# Notes to the consolidated financial statements

All amounts in Hong Kong dollar thousands unless otherwise stated



## 22 EXPENSES BY NATURE

Expenses included in cost of sales, selling and marketing costs and administrative expenses are analysed as follows:

|                                                                                 | 2008      | 2007      |
|---------------------------------------------------------------------------------|-----------|-----------|
| Depreciation and amortisation                                                   | 225,970   | 139,307   |
| Employee benefit expenses (Note 23)                                             | 300,112   | 217,907   |
| Cost of inventories (Note 13)                                                   | 1,851,329 | 1,073,735 |
| Other selling expenses (including transportation and advertising costs)         | 176,458   | 171,056   |
| Operating lease payments in respect of land and buildings                       | 4,048     | 3,722     |
| Impairment of trade and other receivables, net                                  | 1,015     | 12,371    |
| Auditors' remuneration                                                          | 3,243     | 3,005     |
| Other expenses, net                                                             | 648,660   | 533,892   |
| Total of cost of sales, selling and marketing costs and administrative expenses | 3,210,835 | 2,154,995 |

## 23 EMPLOYEE BENEFIT EXPENSES

|                                                       | 2008    | 2007    |
|-------------------------------------------------------|---------|---------|
| Wages and salaries                                    | 274,571 | 202,826 |
| Share-based payments                                  | 13,075  | 5,541   |
| Pension costs - defined contribution plans (note (a)) | 12,466  | 9,540   |
|                                                       | 300,112 | 217,907 |

Notes:

(a) Pension costs

The Group participates in a Mandatory Provident Fund scheme (the "MPF scheme") in accordance with the Mandatory Provident Fund Scheme Ordinance of Hong Kong (the "MPF Ordinance"). Under the rules of the MPF scheme, the employer and its employees in Hong Kong are each required to contribute 5% of their gross earnings with a ceiling of HK\$1,000 per month to the MPF scheme. The only obligation of the Group with respect to the MPF Scheme is to make the required contributions under the scheme. No forfeited contribution is available to reduce the contribution payable in future year.

The Group's subsidiaries in the PRC also participate in defined contribution retirement schemes covering its full time PRC employees. The schemes are administered by the relevant government authorities in the PRC. The Group and the PRC eligible employees are required to make contributions based on certain percentages of the applicable payroll costs as stipulated under the requirements in the PRC and the relevant government authorities undertake to assume the retirement benefit obligations of all existing and future retired employees of the Group's subsidiaries in the PRC. No forfeited contribution is available to reduce the contribution payable in future years.

# Notes to the consolidated financial statements

All amounts in Hong Kong dollar thousands unless otherwise stated



## 23 EMPLOYEE BENEFIT EXPENSES (Continued)

Notes: (Continued)

(b) Directors' and senior management's emoluments

The aggregate amounts of emoluments paid and payable to the directors of the Company by the Group are as follows:

The remuneration of every Director for the year ended 31 December 2007 is set out below:

| Name of Director      | Fees | Salary | Discretionary bonuses | Employer's contribution to pension scheme | Total |
|-----------------------|------|--------|-----------------------|-------------------------------------------|-------|
| LEE Yin Yee           | —    | 50     | 2,600                 | —                                         | 2,650 |
| TUNG Ching Bor        | —    | 742    | 650                   | 12                                        | 1,404 |
| TUNG Ching Sai        | —    | 2,427  | 1,300                 | 12                                        | 3,739 |
| LEE Shing Put         | —    | 207    | 195                   | 8                                         | 410   |
| LEE Yau Ching         | —    | 794    | 520                   | 12                                        | 1,326 |
| LI Man Yin            | —    | 512    | 390                   | 12                                        | 914   |
| NG Ngan Ho            | —    | 225    | —                     | 6                                         | 231   |
| LI Ching Wai          | —    | —      | —                     | —                                         | —     |
| SZE Nang Sze          | —    | —      | —                     | —                                         | —     |
| LI Ching Leung        | —    | —      | —                     | —                                         | —     |
| LAM Kwong Siu         | 250  | —      | —                     | —                                         | 250   |
| WONG Chat Chor Samuel | 250  | —      | —                     | —                                         | 250   |
| WONG Kong Hon         | 125  | —      | —                     | —                                         | 125   |
| WONG Ying Wai         | 42   | —      | —                     | —                                         | 42    |

The remuneration of every Director for the year ended 31 December 2008 is set out below:

| Name of Director      | Fees | Salary | Discretionary bonuses | Employer's contribution to pension scheme | Total |
|-----------------------|------|--------|-----------------------|-------------------------------------------|-------|
| LEE Yin Yee           | 125  | 50     | 1,925                 | 1                                         | 2,101 |
| TUNG Ching Bor        | 125  | 875    | 433                   | 12                                        | 1,445 |
| TUNG Ching Sai        | 125  | 2,990  | 963                   | 12                                        | 4,090 |
| LEE Shing Put         | —    | 10     | —                     | —                                         | 10    |
| LEE Yau Ching         | 125  | 928    | 385                   | 12                                        | 1,450 |
| LEE Shing Kan         | 125  | 704    | 289                   | 12                                        | 1,130 |
| LI Man Yin            | 125  | 555    | 289                   | 12                                        | 981   |
| NG Ngan Ho            | 125  | —      | —                     | —                                         | 125   |
| LI Ching Wai          | 125  | —      | —                     | —                                         | 125   |
| SZE Nang Sze          | 125  | —      | —                     | —                                         | 125   |
| LI Ching Leung        | 125  | —      | —                     | —                                         | 125   |
| LAM Kwong Siu         | 250  | —      | —                     | —                                         | 250   |
| WONG Chat Chor Samuel | 250  | —      | —                     | —                                         | 250   |
| WONG Ying Wai         | 292  | —      | —                     | —                                         | 292   |

# Notes to the consolidated financial statements

All amounts in Hong Kong dollar thousands unless otherwise stated



## 23 EMPLOYEE BENEFIT EXPENSES (Continued)

Notes: (Continued)

### (c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include four (2007: two) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining one (2007: three) individual during the year are as follows:

|                                             | 2008         | 2007         |
|---------------------------------------------|--------------|--------------|
| Basic salaries and allowances               | 3,140        | 4,244        |
| Discretionary and performance bonus         | 613          | 3,505        |
| Contributions to retirement benefit schemes | 13           | 39           |
| Employee share-based benefits (note)        | 231          | 257          |
|                                             | <u>3,997</u> | <u>8,045</u> |

Note

Employee share-based compensation benefits represent fair value of share options issued under Share Option Scheme amortised to the profit and loss account during the year disregarding whether the options have been vested / exercised or not.

The emoluments fell within the following bands:

|                               | Number of individuals |          |
|-------------------------------|-----------------------|----------|
|                               | 2008                  | 2007     |
| Emolument bands               |                       |          |
| HK\$1,500,001 - HK\$2,000,000 | —                     | 2        |
| HK\$3,500,001 - HK\$4,000,000 | 1                     | —        |
| HK\$4,500,001 - HK\$5,000,000 | —                     | 1        |
|                               | <u>1</u>              | <u>3</u> |

- (d) During the year, no emoluments were paid by the Group to any of the directors of the Company and the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office (2007: HK\$Nil).

# Notes to the consolidated financial statements

All amounts in Hong Kong dollar thousands unless otherwise stated



## 24 OTHER INCOME

|                                   | 2008          | 2007          |
|-----------------------------------|---------------|---------------|
| Government grants ( <i>note</i> ) | —             | 14,110        |
| Rental income                     | 3,866         | 3,752         |
| Royalty income                    | —             | 500           |
| Anti-dumping duties refund        | 19,116        | 88            |
| Others                            | 15,136        | 6,690         |
|                                   | <u>38,118</u> | <u>25,140</u> |

*Note:* These amounts represented government grants given to a subsidiary of the Group in the form of "tax refund on reinvestment" in relation to the Group's re-investment of dividends declared and received by certain subsidiaries in the PRC as additional capital contributions. Such grants were approved by the local tax bureau in accordance with relevant tax law of the PRC. All the approved grants were recognised in the year of receipt.

## 25 OTHER GAINS - NET

|                                                                                     | 2008          | 2007          |
|-------------------------------------------------------------------------------------|---------------|---------------|
| (Losses)/gains on disposal of property, plant and equipment                         | (1,027)       | 18,675        |
| (Losses)/gains on disposal of financial assets at fair value through profit or loss | (7,784)       | 31,148        |
| Fair value gain on investment property                                              | 1,467         | 407           |
| Fair value loss on cross currency swap                                              | (1,285)       | —             |
| Net foreign exchange difference                                                     | 54,758        | 31,209        |
|                                                                                     | <u>46,129</u> | <u>81,439</u> |

# Notes to the consolidated financial statements

All amounts in Hong Kong dollar thousands unless otherwise stated



## 26 FINANCE INCOME AND FINANCE COSTS

### FINANCE INCOME

|                                                  | 2008         | 2007         |
|--------------------------------------------------|--------------|--------------|
| Interest income on short-term bank deposits      | 7,695        | 8,212        |
| Interest income on loan advanced to an associate | 1,421        | 805          |
|                                                  | <u>9,116</u> | <u>9,017</u> |

### FINANCE COSTS

|                                                                   | 2008          | 2007          |
|-------------------------------------------------------------------|---------------|---------------|
| Interest on bank borrowings                                       | 56,080        | 36,839        |
| Less: interest expense capitalised under construction in progress | (32,051)      | (3,077)       |
|                                                                   | <u>24,029</u> | <u>33,762</u> |

## 27 INCOME TAX EXPENSE

|                                                | 2008          | 2007          |
|------------------------------------------------|---------------|---------------|
| Current income tax                             |               |               |
| - Hong Kong profits tax ( <i>note (a)</i> )    | 11,928        | 6,382         |
| - PRC corporate income tax ( <i>note (b)</i> ) | 28,962        | 19,765        |
| - Overseas taxation                            | 2,267         | 11            |
| Over-provision in prior years                  | (1,614)       | —             |
| Deferred income tax ( <i>Note 21</i> )         | 713           | 4,007         |
|                                                | <u>42,256</u> | <u>30,165</u> |

Notes:

(a) Hong Kong profits tax

Hong Kong profits tax has been provided at the rate of 16.5% (2007: 17.5%) on the estimated assessable profits for the year.

# Notes to the consolidated financial statements

All amounts in Hong Kong dollar thousands unless otherwise stated



## 27 INCOME TAX EXPENSE (Continued)

### (b) PRC corporate income tax

Effective from 1 January 2008, the PRC subsidiaries shall determine and pay the corporate income tax ("CIT") in accordance with the Corporate Income Tax Law of the PRC (hereinafter "the new CIT Law") as approved by the National People's Congress on 16 March 2007.

PRC CIT is provided on the estimated taxable profits of the subsidiaries established in the PRC for the year, calculated in accordance with the relevant tax rules and regulations. Certain PRC subsidiaries are entitled to tax holiday and the profits are fully exempted from CIT for two years starting from its first year of profitable operations after offsetting prior year tax losses, followed by 50% reduction in CIT in next three years.

Under the new CIT Law, entities currently enjoying tax holidays will continue to enjoy them until they expire. The CIT rate applicable to the PRC subsidiaries under tax holiday and applying reduced CIT rate will be gradually increase to 25% in a 5-year period from 2008 to 2012. The applicable CIT rate for subsidiaries located in Shenzhen and Dongguan is 18% (2007: 15%) and 25% (2007: 24%), respectively.

### (c) Overseas taxation

Taxation on overseas profits has been calculated on the estimated assessable profits for the years ended 31 December 2008 and 2007 at the rates of taxation prevailing in the countries in which the Group operates.

### (d) The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

|                                                                  | 2008      | 2007     |
|------------------------------------------------------------------|-----------|----------|
| Profit before tax                                                | 753,054   | 703,166  |
| Calculated at applicable tax rate of 22% (2007:19%)              | 165,672   | 133,602  |
| Preferential tax rates on income of certain PRC subsidiaries     | (112,474) | (99,049) |
| Over-provision in prior years                                    | (1,614)   | —        |
| Tax losses for which no deferred income tax asset was recognised | 4,434     | 3,465    |
| Utilisation of previously unrecognised tax losses                | (6,410)   | (3,621)  |
| Income not subject to tax                                        | (9,583)   | (6,644)  |
| Expenses not deductible for tax purposes                         | 2,231     | 2,412    |
| Income tax expense                                               | 42,256    | 30,165   |

## 28 PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of approximately HK\$334,161,000 (2007: HK\$321,016,000).

# Notes to the consolidated financial statements

All amounts in Hong Kong dollar thousands unless otherwise stated



## 29 EARNINGS PER SHARE

### BASIC

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

|                                                                 | 2008             | 2007             |
|-----------------------------------------------------------------|------------------|------------------|
| Profit attributable to equity holders of the Company (HK\$'000) | <u>709,232</u>   | <u>670,860</u>   |
| Weighted average number of shares in issue (thousands)          | <u>1,692,130</u> | <u>1,632,107</u> |
| Basic earnings per share (HK\$ per share)                       | <u>0.419</u>     | <u>0.411</u>     |

### DILUTED

Diluted earnings per share is calculated by adjusting the weighted average number of shares outstanding to assume conversion of all dilutive potential shares. The dilutive potential share of the Company is share options. The adjustments for share options is determined by the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to the outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

|                                                                               | 2008             | 2007             |
|-------------------------------------------------------------------------------|------------------|------------------|
| Profit attributable to equity holders of the Company (HK\$'000)               | <u>709,232</u>   | <u>670,860</u>   |
| Weighted average number of shares in issue (thousands)                        | <u>1,692,130</u> | <u>1,632,107</u> |
| Adjustments for share options (thousands)                                     | <u>2,985</u>     | <u>5,304</u>     |
| Weighted average number of shares for diluted earnings per shares (thousands) | <u>1,695,115</u> | <u>1,637,411</u> |
| Diluted earnings per share (HK\$ per share)                                   | <u>0.418</u>     | <u>0.410</u>     |

# Notes to the consolidated financial statements

All amounts in Hong Kong dollar thousands unless otherwise stated



## 30 DIVIDENDS

The dividends paid during each of the financial years ended 2008 and 2007 were HK\$354,434,000 (21.0 HK cents per share) and HK\$256,746,000 (16.0 HK cents per share), respectively. A final dividend in respect of the financial year ended 31 December 2008 of 9.0 HK cents per share (2007: 10.0 HK cents per share), amounting to a total dividend of HK\$151,475,000 (2007: HK\$168,683,000) for the financial year, is to be proposed at the Annual General Meeting to be held on 22 May 2009. These financial statements do not reflect this dividend payable.

|                                                                         | 2008           | 2007           |
|-------------------------------------------------------------------------|----------------|----------------|
| Interim dividend paid of 11.0 HK cents (2007: 9.0 HK cents) per share   | 185,641        | 144,420        |
| Proposed final dividend of 9.0 HK cents (2007: 10.0 HK cents) per share | 151,475        | 168,683        |
|                                                                         | <u>337,116</u> | <u>313,103</u> |

## 31 CASH GENERATED FROM OPERATIONS

|                                                                                       | 2008             | 2007           |
|---------------------------------------------------------------------------------------|------------------|----------------|
| Profit for the year                                                                   | 710,798          | 673,001        |
| Adjustments for:                                                                      |                  |                |
| - Income tax expense (Note 27)                                                        | 42,256           | 30,165         |
| - Depreciation and amortisation                                                       | 225,970          | 139,307        |
| - Losses/(gains) on disposal of property, plant and equipment                         | 1,027            | (18,675)       |
| - Interest income (Note 26)                                                           | (9,116)          | (9,017)        |
| - Interest expense (Note 26)                                                          | 24,029           | 33,762         |
| - Share-based payments                                                                | 13,075           | 5,541          |
| - Losses/(gains) on disposal of financial assets at fair value through profit or loss | 7,784            | (31,148)       |
| - Fair value loss on cross currency swap                                              | 1,285            | —              |
| - Fair value gain on investment property                                              | (1,467)          | (407)          |
| - Share of profit of an associate (Note 12)                                           | (272)            | (1,703)        |
| Changes in working capital:                                                           |                  |                |
| - Inventories                                                                         | (86,234)         | (102,939)      |
| - Net amounts due from customers for contract work                                    | 8,158            | 3,142          |
| - Trade and other receivables                                                         | 13,447           | (45,958)       |
| - Trade payables, accruals and other payables                                         | 307,182          | (173,997)      |
| Cash generated from operations                                                        | <u>1,257,922</u> | <u>501,074</u> |

# Notes to the consolidated financial statements

All amounts in Hong Kong dollar thousands unless otherwise stated



## 31 CASH GENERATED FROM OPERATIONS *(Continued)*

In the cash flow statement, proceeds from disposal of property, plant and equipment comprise:

|                                                                    | 2008    | 2007   |
|--------------------------------------------------------------------|---------|--------|
| Net book amount of property, plant and equipment ( <i>Note 7</i> ) | 8,557   | 1,794  |
| (Losses)/gains on disposal of property, plant and equipment        | (1,027) | 18,675 |
|                                                                    | <hr/>   | <hr/>  |
| Proceeds from disposals of property, plant and equipment           | 7,530   | 20,469 |
|                                                                    | <hr/>   | <hr/>  |

Non-cash transaction

As at 31 December 2008, the Group had payable for property, plant and equipment of HK\$150,606,000 (2007: HK\$115,780,000) which was included in trade payables, accruals and other payables.

## 32 COMMITMENTS - GROUP

### CAPITAL COMMITMENTS

Capital expenditure at the balance sheet date but not yet incurred is as follows:



# Notes to the consolidated financial statements

All amounts in Hong Kong dollar thousands unless otherwise stated



## 33 BUSINESS COMBINATIONS

In October 2007, the Group acquired 100% of the share capital of Shenzhen Benson Automobile Glass Company Limited, an automobile glass manufacturing company in the PRC. The acquired business contributed revenues of approximately HK\$45,377,000 and net profit of approximately HK\$4,772,000 to the Group for the period from 1 November 2007 to 31 December 2007. If the acquisition had occurred on 1 January 2007, contribution to revenue would have been approximately HK\$239,902,000, and contribution to the net profit would have been approximately HK\$2,327,000. These amounts have been calculated using the Group's accounting policies and by adjusting the results of the subsidiary to reflect the reduced depreciation and additional amortisation that would have been charged assuming the fair value adjustments to property, plant and equipment and intangible assets had applied from 1 January 2007, together with the consequential tax effects.

Details of net assets acquired and goodwill are as follows:

|                                                                            | 2007      |
|----------------------------------------------------------------------------|-----------|
| Purchase consideration                                                     |           |
| - Cash payment of RMB167 million                                           | 177,660   |
| - Assumption of debt of RMB58 million and dividend payable of RMB8 million | 70,891    |
| Fair value of net assets acquired - shown as below                         | (192,675) |
| Goodwill (Note 9)                                                          | 55,876    |

Goodwill is attributable to high profitability and synergies expect to arise from the acquired subsidiary and business.

# Notes to the consolidated financial statements

All amounts in Hong Kong dollar thousands unless otherwise stated



## 33 BUSINESS COMBINATIONS (Continued)

The assets and liabilities as at 1 November 2007 are as follows:

|                                                                                                         | Fair value<br>2007 | Acquiree's<br>carrying<br>amount<br>2007 |
|---------------------------------------------------------------------------------------------------------|--------------------|------------------------------------------|
| Cash and cash equivalents                                                                               | 4,433              | 4,433                                    |
| Property, plant and equipment (Note 7)                                                                  | 266,691            | 317,522                                  |
| Land use rights (Note 6)                                                                                | 14,362             | 12,707                                   |
| Trademark (Note 9)                                                                                      | 20,306             | —                                        |
| Customer relationship (Note 9)                                                                          | 5,404              | —                                        |
| Inventories                                                                                             | 32,722             | 32,722                                   |
| Trade and other receivables                                                                             | 59,826             | 59,826                                   |
| Trade payables, accruals and other payables                                                             | (75,812)           | (75,812)                                 |
| Bank borrowings                                                                                         | (135,257)          | (135,257)                                |
| Net assets acquired                                                                                     | <u>192,675</u>     | <u>216,141</u>                           |
| Purchase consideration settled in cash                                                                  |                    | 177,660                                  |
| Cash payments on debt and dividend payable assumed                                                      |                    | 70,891                                   |
| Cash and cash equivalents in subsidiary acquired                                                        |                    | (4,433)                                  |
| Purchase consideration payable included in accruals and<br>other payables and settled in 2008 (Note 19) |                    | <u>(90,341)</u>                          |
| Cash outflow on acquisition                                                                             |                    | <u>153,777</u>                           |

# Notes to the consolidated financial statements

All amounts in Hong Kong dollar thousands unless otherwise stated



## 34 RELATED-PARTY TRANSACTIONS - GROUP

The following transactions were carried out with related parties:

### (A) PURCHASES OF GOODS AND INTEREST FROM AN ASSOCIATE

|                                              | 2008          | 2007          |
|----------------------------------------------|---------------|---------------|
| Purchases of goods                           |               |               |
| - from Beihai Yiyang Mineral Company Limited | <u>35,835</u> | <u>19,952</u> |
| Loan interest income                         |               |               |
| - from Beihai Yiyang Mineral Company Limited | <u>1,421</u>  | <u>805</u>    |

### (B) YEAR-END BALANCES ARISING FROM SALES/PURCHASES OF GOODS/SERVICES

|                                                             | 2008         | 2007         |
|-------------------------------------------------------------|--------------|--------------|
| Receivables from Beihai Yiyang Mineral Company Limited, net | <u>4,516</u> | <u>4,468</u> |

Above net receivable includes a loan advance to an associate amounting to RMB6.7 (2007: RMB6) million which is interest bearing at 12% (2007: 13%) per annum and has fixed terms of repayment. The remaining balance is unsecured, repayable in two months and bears no interest.

### (C) KEY MANAGEMENT COMPENSATION

|                                             | 2008          | 2007          |
|---------------------------------------------|---------------|---------------|
| Basic salaries and allowances               | 10,249        | 7,466         |
| Discretionary and performance bonus         | 5,046         | 7,088         |
| Contributions to retirement benefit schemes | 61            | 60            |
| Employee share-based benefits               | <u>1,108</u>  | <u>529</u>    |
|                                             | <u>16,464</u> | <u>15,143</u> |

Selective financial summary, including selective income statement data and balance sheet data for the past five years is presented below.

|                                                             | Year ended 31 December |                  |                |                |                |
|-------------------------------------------------------------|------------------------|------------------|----------------|----------------|----------------|
|                                                             | 2008                   | 2007             | 2006           | 2005           | 2004           |
| Sales                                                       | 3,894,283              | 2,774,624        | 1,933,173      | 1,380,777      | 1,028,334      |
| Cost of sales                                               | (2,683,403)            | (1,702,269)      | (1,232,981)    | (901,749)      | (654,781)      |
| <b>Gross profit</b>                                         | <b>1,210,880</b>       | <b>1,072,355</b> | <b>700,192</b> | <b>479,028</b> | <b>373,553</b> |
| Other revenue                                               | 38,118                 | 25,140           | 21,912         | 16,254         | 24,547         |
| Other gains – net                                           | 46,129                 | 81,439           | 10,193         | 3,461          | 1,737          |
| Selling and marketing costs                                 | (318,227)              | (286,451)        | (211,205)      | (147,530)      | (90,751)       |
| Administrative expenses                                     | (209,205)              | (166,275)        | (110,687)      | (71,923)       | (56,532)       |
| <b>Operating profit</b>                                     | <b>767,695</b>         | <b>726,208</b>   | <b>410,405</b> | <b>279,290</b> | <b>252,554</b> |
| Finance income                                              | 9,116                  | 9,017            | 3,484          | 3,206          | 543            |
| Finance costs                                               | (24,029)               | (33,762)         | (11,533)       | (2,614)        | (1,456)        |
| Share of profit/(loss) of an associate                      | 272                    | 1,703            | (563)          | (2)            | —              |
| <b>Profit before income taxation</b>                        | <b>753,054</b>         | <b>703,166</b>   | <b>401,793</b> | <b>279,880</b> | <b>251,641</b> |
| Income tax expense                                          | (42,256)               | (30,165)         | (15,981)       | (19,486)       | (14,677)       |
| <b>Profit for the year</b>                                  | <b>710,798</b>         | <b>673,001</b>   | <b>385,812</b> | <b>260,394</b> | <b>236,964</b> |
| Minority interests                                          | (1,566)                | (2,141)          | 2,423          | (280)          | (1,129)        |
| <b>Profit attributable to equity holders of the Company</b> | <b>709,232</b>         | <b>670,860</b>   | <b>388,235</b> | <b>260,114</b> | <b>235,835</b> |
| <b>Dividends</b>                                            | <b>337,116</b>         | <b>313,103</b>   | <b>176,512</b> | <b>123,435</b> | <b>128,344</b> |

# Financial Summary

All amounts in Hong Kong dollar thousands unless otherwise stated



|                                                                | As at 31 December |                  |                  |                  |                    |
|----------------------------------------------------------------|-------------------|------------------|------------------|------------------|--------------------|
|                                                                | 2008              | 2007             | 2006             | 2005             | 2004<br>(Restated) |
| <b>ASSETS</b>                                                  |                   |                  |                  |                  |                    |
| <b>Non-current assets</b>                                      |                   |                  |                  |                  |                    |
| Leasehold land and land use rights                             | 362,800           | 146,892          | 128,539          | 120,785          | 120,616            |
| Property, plant and equipment                                  | 3,972,031         | 3,268,901        | 1,790,017        | 1,263,353        | 636,023            |
| Investment property                                            | 10,927            | 9,460            | —                | —                | —                  |
| Deposits for property, plant and equipment and land use rights | 280,871           | 292,854          | 121,109          | 232,385          | 158,067            |
| Intangible assets                                              | 90,048            | 81,372           | —                | —                | —                  |
| Available-for-sale financial assets                            | 569               | 532              | 500              | 481              | —                  |
| Investment securities                                          | —                 | —                | —                | —                | 472                |
| Interest in an associate                                       | 15,889            | 11,374           | 11,932           | 11,911           | —                  |
| Deferred income tax assets                                     | —                 | —                | 3,676            | 852              | 2,207              |
|                                                                | <u>4,733,135</u>  | <u>3,811,385</u> | <u>2,055,773</u> | <u>1,629,767</u> | <u>917,385</u>     |
| <b>Current assets</b>                                          |                   |                  |                  |                  |                    |
| Inventories                                                    | 612,134           | 510,690          | 371,081          | 235,215          | 164,177            |
| Trade and other receivables                                    | 661,275           | 674,722          | 568,938          | 375,955          | 276,252            |
| Amounts due from customers for contract work                   | 48,828            | 57,524           | 61,222           | 19,211           | 1,837              |
| Financial assets at fair value through profit or loss          | —                 | —                | 15,231           | —                | —                  |
| Pledged bank deposits                                          | 6,854             | 6,702            | 10,449           | 11,108           | 24,618             |
| Cash and cash equivalents                                      | 435,712           | 309,506          | 162,330          | 129,779          | 223,709            |
|                                                                | <u>1,764,803</u>  | <u>1,559,144</u> | <u>1,189,251</u> | <u>771,268</u>   | <u>690,593</u>     |
| <b>Total assets</b>                                            | <u>6,497,938</u>  | <u>5,370,529</u> | <u>3,245,024</u> | <u>2,401,035</u> | <u>1,607,978</u>   |

# Financial Summary

All amounts in Hong Kong dollar thousands unless otherwise stated

|                                                                   | As at 31 December |                  |                  |                  |                    |
|-------------------------------------------------------------------|-------------------|------------------|------------------|------------------|--------------------|
|                                                                   | 2008              | 2007             | 2006             | 2005             | 2004<br>(Restated) |
| <b>EQUITY</b>                                                     |                   |                  |                  |                  |                    |
| Capital and reserves attributable to the Company's equity holders |                   |                  |                  |                  |                    |
| Share capital                                                     | 168,808           | 172,344          | 160,466          | 154,294          | 30,010             |
| Share premium                                                     | 1,829,174         | 2,073,287        | 850,804          | 670,681          | —                  |
| Other reserves                                                    | 728,323           | 454,085          | 238,433          | 122,493          | 64,723             |
| Retained earnings                                                 |                   |                  |                  |                  |                    |
| - Proposed final dividend                                         | 151,475           | 168,683          | 112,326          | 77,147           | 77,147             |
| - Others                                                          | 1,491,552         | 1,176,680        | 886,001          | 722,947          | 625,106            |
|                                                                   | <u>4,369,332</u>  | <u>4,045,079</u> | <u>2,248,030</u> | <u>1,747,562</u> | <u>796,986</u>     |
| Minority interest                                                 | 20,204            | 443              | (1,707)          | 2,517            | 2,132              |
|                                                                   | <u>4,389,536</u>  | <u>4,045,522</u> | <u>2,246,323</u> | <u>1,750,079</u> | <u>799,118</u>     |
| <b>LIABILITIES</b>                                                |                   |                  |                  |                  |                    |
| Non-current liabilities                                           |                   |                  |                  |                  |                    |
| Bank borrowings                                                   | 484,079           | 259,949          | 79,917           | 125,583          | 160,303            |
| Deferred income tax liabilities                                   | 1,044             | 331              | —                | 110              | 461                |
|                                                                   | <u>485,123</u>    | <u>260,280</u>   | <u>79,917</u>    | <u>125,693</u>   | <u>160,764</u>     |
| Current liabilities                                               |                   |                  |                  |                  |                    |
| Trade payables, accruals and other payables                       | 879,291           | 626,339          | 570,749          | 306,916          | 202,336            |
| Amounts due to customers for contract work                        | 71                | 609              | 1,165            | —                | —                  |
| Bank borrowings                                                   | 722,391           | 423,608          | 334,667          | 208,340          | 441,805            |
| Current income tax liabilities                                    | 21,526            | 14,171           | 12,203           | 10,007           | 3,955              |
|                                                                   | <u>1,623,279</u>  | <u>1,064,727</u> | <u>918,784</u>   | <u>525,263</u>   | <u>648,096</u>     |
| Total liabilities                                                 | <u>2,108,402</u>  | <u>1,325,007</u> | <u>998,701</u>   | <u>650,956</u>   | <u>808,860</u>     |
| Total equity and liabilities                                      | <u>6,497,938</u>  | <u>5,370,529</u> | <u>3,245,024</u> | <u>2,401,035</u> | <u>1,607,978</u>   |
| Net current assets                                                | <u>141,524</u>    | <u>494,417</u>   | <u>270,467</u>   | <u>246,005</u>   | <u>42,497</u>      |
| Total assets less current liabilities                             | <u>4,874,659</u>  | <u>4,305,802</u> | <u>2,326,240</u> | <u>1,875,772</u> | <u>959,882</u>     |