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

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 00868)

## 2011
## ANNUAL REPORT

# Contents

# Corporate Information

## EXECUTIVE DIRECTORS

Mr. LEE Yin Yee, M.H. (Chairman) ø~<
Mr. TUNG Ching Bor (Vice Chairman)
Mr. TUNG Ching Sai (Chief Executive Officer) <ø
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. # *+ < ø
Mr. WONG Chat Chor Samuel # <ø
Mr. WONG Ying Wai, S.B.S., JP # <ø

| | |
|---|---|
| * | 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, *FCPA, 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

3rd Floor, Harbour View 2, 16 Science Park East Avenue
HK Science Park Phase 2, Pak Shek Kok
Tai Po, 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

Australia and New Zealand Bank
Bank of China (Hong Kong)
Citibank, N.A., Hong Kong Branch
Deutsche Bank
Hang Seng Bank
HSBC
Standard Chartered Bank
Sumitomo Mitsui Banking Corporation, Hong Kong Branch
Agricultural Bank of China
Bank of China
Bank of Communications
Shenzhen Development Bank

## 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

# Corporate Information

## 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: Main Board of 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$4.52
Market capitalisation as at the date of this annual report: Approximately HK$16,650.4 million

## KEY DATES

Closure of register of members for the purpose of entitlements to attend and vote at the Annual General Meeting: 25 May 2012 to 29 May 2012 (both days inclusive)
Date of Annual General Meeting: Tuesday, 29 May 2012
Closure of register of members for the purpose of entitlements to the final dividend: 4 June 2012 to 6 June 2012
Proposed final dividend payable date: On or before 9 July 2012

# Chairman's Statement

## 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 2011.

In comparison with 2010, our Group's turnover rose by about 29.3% to approximately HK$8,226.7 million in 2011. Our net profit attributable to equity holders of the Company decreased by around 19.5%, to approximately HK$1,264.9 million in 2011. Basic earnings per Share were 35.15 HK cents, compared with 44.43 HK cents last year.

We are highly pleased with the results achieved by the Group and therefore propose payment of a final dividend of 5.0 HK cents per Share upon approval at the forthcoming Annual General Meeting.

I present below an overview of the business of the Group during 2011 and key development highlights for the coming year.

## A COMBINATION OF OPPORTUNITES AND CHALLENGES IN 2011

In 2011, the business segments of the Group grew at different pace and overseas sales as well as PRC domestic sales of the Group recorded satisfactory growth. The high quality float glass and the solar glass businesses enjoyed a satisfactory increase in sales bolstered by the newly added production capacity in the Jiangmen, Wuhu and Tianjin production complexes. The Group's sales of aftermarket automobile glass to overseas markets increased significantly with the new production capacity added in its Shenzhen production complex, which increase the market share of the Group in selected countries. With the increased demand for energy saving Low-E glass in the PRC, the Group's construction glass business also recorded satisfactory growth with the additional production capacity of its Wuhu production complex. All of these factors to enable the Group to achieve a remarkable increase in its sales by 29.3% to HK$8,226.7 million in 2011.

In 2011, even though the economy in the PRC continued to grow rapidly, the float glass market was volatile with price competition intensified. The inflation in the PRC, along with additional float glass production capacity launched by other glass manufacturers in the PRC, presented escalating cost pressure in raw materials and production. Moreover, the tightening monetary policies in the PRC have slowed down the demand for float glass while increasing gross margin pressures by varying magnitudes and resulted in the fluctuations in the selling price of float glass.

Nevertheless, the Group managed to be a leader in the global glass industry by boosting its economies of scale. This was accomplished through strategic planning to expand the production capacity and accelerating the strategic construction of production complexes with improving production technique and workflow. The Group also implemented better controls on raw materials consumption and the inventory levels. On increasing the sales, the Group has developed a wide range of high value-added glass products and adopted flexible pricing strategies to take advantage of the industry supportive measures implemented by the PRC government.

## FLEXIBLE SALES STRATEGIES TO INCREASE MARKET SHARE IN THE GLOBAL ECONOMY

By the conclusion of the second round of quantitative easing policy, the US is facing the risk of heavy national debt level. The European financial and debt crisis and the unstable geopolitical environment in the Middle East have led to a totally different global economic landscape. The Group proactively implements flexible sales and production strategies to explore new overseas markets and expands its market share. As a result, the Group's overseas sales increased by 34.0%, as compared with the same in 2010, to approximately HK$2,859.1 million.

## ENHANCED PRODUCTIVITY AND ECONOMIES OF SCALE TO MITIGATE THE COST PRESSURE

By the end of 2011, all of the Group's high quality float glass and solar glass production lines were using cleaner and more cost effective natural gas as fuel.

The Group's strong experience in operations management combined with the improvements in production procedures enhance its productivity and yield rates to reduce the overall production and energy costs. The Group's daily production capacity of high quality float glass increased from 4,700 daily melting tonnes at the end of 2010 to 8,100 daily melting tonnes by the end of 2011. The economies of scale have enhanced the Group's purchasing power, and reduced the average fuel consumption rate and the fixed cost, thus reducing the impact of any potential cost pressure on the gross profit margin in the future.

Furthermore, the Group has installed an environmentally friendly low temperature recycling residual heat power co-generation system at its Dongguan, Jiangmen and Wuhu production complexes. The Group is also installing this system at the new production complexes to reduce carbon emissions and production cost structure.

## SUSPENSION OF THE PROPOSED SPIN-OFF OF THE SOLAR GLASS BUSINESS

Due to the volatility in the global capital markets and the prolonged adverse impact of the financial debt crisis in Europe on the global solar energy industry, including the global solar glass segment, uncertainties remained in the fourth quarter of 2011. The Group therefore decided to postpone the proposed spin-off to a later date. The Board believes that this decision was in the interest of the shareholders.

The commercial operation of a solar glass production line in Dongguan and another solar glass production line in Wuhu with an aggregate 800 daily melting tonnes has ceased operations for maintenance purpose pending improvement in the market condition.

## DIVERSIFIED AND HIGH VALUE-ADDED PRODUCT MIX ENHANCED THE OVERALL COMPETITIVENESS

In 2011, the revenue generated from the Group's automobile glass, construction glass, high quality float glass and solar glass businesses achieved satisfactory growth. This performance demonstrates that the Group's diversified business and high value-added product mix can mitigate the impact of myriad risks on revenue and profit. Also, the Group's strategic plan for its production complexes in the three major advanced economic zones in China - the Pearl River Delta, the Yangtze River Delta and the Bohai Economic Rim, is in progress. This strategy is expected to further enhance the Group's overall competitiveness in response to the challenges ahead.

# Chairman's Statement

## OPERATIONAL OUTLOOK FOR 2012

The Group will continue to strengthen its operational efficiency in order to remain competitive agmonst the world's leading glass manufacturers in light of the unfavourable global economic condition.

Demand and price volatility is expected to continue in the float glass market in the near future. Nevertheless, the PRC's national affordable housing scheme and the increased application of energy saving Low-E glass may increase the demand for float glass in the near future. Besides, the management is more optimistic about the automobile glass export business this coming year.

Under the Twelfth Five-year Plan, the PRC government encourages the use of renewal energy. Thus more solar energy panels are expected to be installed in China in the future. The decreasing cost of installing and production of solar panels will also spur the demand for solar related products.

The Group will continue its efforts to strengthen the research and development capability aimed at developing new products, enhancing product quality and boosting production efficiency and profit margin.

The Group is constructing an ultra-thin electronic glass production line in Wuhu to capture the demand from the growing market for high technology electronic products. These new high technology glass products are expected to become another future growth driver for the Group.

## CONCLUSION

The Group has proactively and aggressively tackled challenges in a variety of business environments and has optimised our performance with the support of our staff and customers, consequently reaping benefits from opportunities that have arisen as the global economy revives. We remain optimistic about our future development and will continue to adhere to business strategies that have proven to be highly successful. Striving to maintain our leading position, we will continue our efforts to 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 during the review year. I would also like to thank our senior management team and our staff, as well as business partners and customers for their valuable contributions to our success during the year under review.

LEE Yin Yee, M.H.
*Chairman*

27 February 2012

# Management's Discussion and Analysis

## INTRODUCTION

The Group manufactures and sells a wide range of glass products, including automobile glass, energy-saving construction glass, high quality float glass, solar glass and other glass products for different commercial applications. These products are manufactured at production facilities strategically located in Shenzhen, Dongguan and Jiangmen in Guangdong Province, Wuhu in Anhui Province and Tianjin, all in China. In addition to the glass products, the Group also manufactures automobile rubber and plastic components.

The Group's glass products are sold to customers in more than 120 countries and territories, including China, Hong Kong, the United States, Canada, Australia and New Zealand, as well as the Middle East, Europe, Africa and Central and South America. The Group's customers include companies in the businesses of automobile glass manufacturing, automobile glass wholesale and distribution, automobile repair, motor vehicle manufacturing, construction and furniture glass manufacturing, float glass wholesale and distribution and solar module manufacturing.

## BUSINESS REVIEW

Since the middle of 2011, under the challenging and volatile market condition, the Group used its efforts to continue to be one of the market leaders in glass industry, with the demand for energy saving construction glass in China and aftermarket automobile glass in overseas markets acting as growth drivers. In 2011, the sales and the net profit attributable to equity holders of the Company reached HK$8,226.7 million and HK$1,264.9 million, respectively, representing a year-on-year increase of 29.3% and decrease of 19.5%, compared to HK$6,364.3 million and HK$1,571.2 million, respectively, in 2010. The compound annual growth rate of the Group's sales and net profit attributable to equity holders of the Company was 31.2% and 17.2%, respectively, for the five-year period including 2011.

The automobile glass and energy saving construction glass products were the Group's most popular product lines with significant growth in 2011. The rapid expansion of the automobile glass business in the overseas market was due to the strong demand in the aftermarket sector and our successful market exploration resulting in a wider market segments across different countries during the year. The Group also captured the business opportunities presented by the priority placed on energy saving in PRC's Twelfth Five Year Plan by producing higher performance Low-E construction glass and increased our market share.

# Management's Discussion and Analysis

## OPERATIONAL REVIEW

### SALES

The sales of the Group increased by 29.3% in 2011. The increase was principally due to the high growth of the Group's different glass businesses in global markets, especially the sales of the float glass and energy saving construction glass in China and the automobile glass in overseas markets.

The tables below illustrate the Group's sales by products and by geographical regions:-

| | Financial Year Ended 31 December | | | |
|---|---|---|---|---|
| | 2011 | | 2010 | |
| | *HK$'000* | % | *HK$'000* | % |
| **Sales** | | | | |
| Automobile glass products *(Note (a))* | **2,902,780** | **35.2** | 2,378,772 | 37.4 |
| Construction glass products | **1,132,918** | **13.8** | 926,016 | 14.6 |
| Float glass products | **2,957,802** | **36.0** | 1,981,759 | 31.1 |
| Solar glass products | **1,233,151** | **15.0** | 1,077,767 | 16.9 |
| | **8,226,651** | **100.0** | 6,364,314 | 100.0 |

*Note:*

(a) Included sales of automobile glass and complementary automobile rubber and plastic components on original equipment manufacturing ("OEM") and aftermarket basis.

| | Financial Year Ended 31 December | | | |
|---|---|---|---|---|
| | 2011 | | 2010 | |
| | *HK$'000* | % | *HK$'000* | % |
| **Sales** | | | | |
| Greater China *(Note (a))* | **5,367,526** | **65.2** | 4,230,085 | 66.5 |
| North America | **1,000,195** | **12.2** | 747,489 | 11.7 |
| Europe | **533,647** | **6.5** | 451,816 | 7.1 |
| Others *(Note (b))* | **1,325,283** | **16.1** | 934,924 | 14.7 |
| | **8,226,651** | **100.0** | 6,364,314 | 100.0 |

*Notes:*

(a) China and Hong Kong.

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

## COST OF SALES

There was a substantial increase in the material costs, especially on soda ash during the year. With the cost impact mitigated by improved production efficiency and better cost control, the cost of sales in 2011 was HK$5,873.0 million, representing an increase of 54.2%, exceeding the percentage of the increase in sales.

## GROSS PROFIT

The Group's gross profit in 2011 was HK$2,353.7 million, representing a decrease of 7.9%. The overall gross profit margin declined from 40.1% to 28.6% was a result of the severe price competition in float glass and solar glass products, higher cost of sales and the slow growth in the demand for float glass and solar glass products.

## NET OTHER GAINS

The Group's net other gains were HK$60.4 million in 2011, compared to the net other losses of approximately HK$9.5 million in 2010. The significant increase was principally due to the net exchange gains received by the Group in the year.

## SELLING AND MARKETING COSTS

In line with the increase of sales and resulting higher customs and import duties, commissions and freight costs, the Group's selling and marketing costs increased by 15.8% to HK$423.0 million in 2011.

## ADMINISTRATIVE EXPENSES

The Group's administrative expenses rose by 33.6% to HK$542.3 million in 2011, was principally attributable to the increase in staff and welfare costs.

## FINANCE COSTS

The Group's finance costs increased by 374.7% to HK$32.5 million in 2011. The increase was mainly due to new loans made by the Group in the year including the third syndicated loan in the amount of HK$1.0 billion and the increase in the effective interest rate due to the tight money market. A portion of interest expense was capitalised in relation to the construction in progress and acquisition of plant and machinery at the production complexes in Jiangmen, Tianjin and Wuhu, but it will be depreciated together with the related property, plant and equipment when the new production lines commenced commercial operation. Interest expense of approximately HK$32.6 million was capitalised under construction-in-progress for the financial year ended 31 December 2011, representing an increase of 25.1%, compared to the HK$26.1 million in 2010.

# Management's Discussion and Analysis

## INCOME TAX EXPENSE

The Group's income tax expense amounted to HK$262.6 million in 2011. The effective tax rate slightly increased by 0.3% to 17.2% in 2011. which was mainly because most of our PRC subsidiaries were enjoying a tax holiday with a half exemption of the PRC's unified tax rate and there was a withholding tax amounting to approximately HK$52.3 million on the distributable profit of the Group's PRC subsidiaries and associates in 2011.

## EBITDA AND NET PROFIT FOR THE YEAR

In 2011, the Company's EBITDA (earnings before interest, taxation, depreciation and amortisation) reached HK$2,004.1 million, a decrease of 10.5% compared to HK$2,238.7 million in 2010. The Company's EBITDA margin, calculated based on turnover in 2011, was 24.4% compared to 35.2% in 2010.

Net profit attributable to equity holders of the Company in 2011 was HK$1,264.9 million, a decrease of 19.5%, compared to HK$1,571.2 million in 2010. Net profit margin dropped to approximately 15.4% in 2011 as a result of price competition in float glass and solar glass products under severe market condition and an increase in material costs.

## CURRENT RATIO

The Group's current ratio in 2011 was 1.18, compared to 1.41 in 2010. The drop was due to an increase in short-term bank borrowings for the year.

## NET CURRENT ASSETS

As of 31 December 2011, the Group had net current assets of HK$617.3 million, compared to HK$871.3 million as of 31 December 2010. The decrease was a result of increase in short-term of bank borrowings for the year.

## FINANCIAL RESOURCES AND LIQUIDITY

In 2011, the Group's primary sources of funding included cash generated from operating activities and the credit facilities provided by the Group's principal banks in Hong Kong and China. Net cash inflow from operating activities amounted to HK$1,303.4 million (2010: HK$1,345.6 million) as a result of efficient working capital management generating a net cash surplus from operations. As of 31 December 2011, the Group had cash and bank balances (including pledged bank deposits) of HK$713.7 million (2010: HK$642.0 million).

As of 31 December 2011, the Group had bank loans totaling HK$4,318.8 million, representing an increase of 58.5% from the balance of HK$2,724.5 million as of 31 December 2010. The increase was principally due to the addition of the Group's third syndicated term loan with amount of HK$1.0 billion and other bilateral term loans.

The Group's net debt gearing ratio as of 31 December 2011 was 42.3% (31 December 2010: 31.8%). This ratio is calculated by dividing the net bank debt, which is calculated as total borrowings less cash, bank balances and pledged bank deposits, by the total equity of the Group as of 31 December 2011. The increase was principally due to new long-term bank debts obtained for capital expenditures in Jiangmen, Tianjin and Wuhu during the year.

## PLEDGE OF ASSETS

As of 31 December 2011, bank balance of HK$0.8 million was pledged as collateral mainly to United States Customs as security for import duties.

## EMPLOYEES AND REMUNERATION POLICY

As of 31 December 2011, the Group had 12,353 full-time employees of whom 12,236 were based in Greater China and 117 were based in other countries and territories. The Group maintains good relationships with all the employees. The Group provides the employees with sufficient training on business and professional knowledge including information on the applications of the Group's products and skills in maintaining good client relationships. Remuneration packages offered to the Group's employees are consistent with the prevailing market terms and reviewed on a regular basis. Discretionary bonuses may be rewarded to employees taking into consideration the Group's performance and the performance of the individual employee.

Pursuant to the applicable laws and regulations, the Group has participated in relevant defined contribution retirement schemes administrated by the responsible Chinese government authorities for the Group's employees in China. For the Group's employees in Hong Kong, 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) are duly implemented.

The Company 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 2006, the 1st tranche of 17,040,000 options was granted to employees of the Group. The exercise price of these options was HK$1.08 per Share and all unexercised options under this tranche were expired on 27 January 2009.

In June 2007, the 2nd tranche of 24,230,000 options was granted to employees of the Group, of which 13,827,000 options have been exercised, 10,403,000 options were lapsed or expired and 1,200,000 options have been granted to connected persons of the Company, being directors of certain subsidiaries of the Company. The exercise price of these options is HK$3.49 per Share 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. Options which have not been exercised by the holders were expired on 30 June 2011.

In April 2008, the 3rd tranche of 48,517,000 options was granted to employees of the Group of which 18,757,000 options have lapsed and 1,620,000 options have been granted to connected persons of the Company, being directors of certain subsidiaries of the Company. The exercise price of these options is HK$2.34 per Share 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. Options which have not been exercised by the holders on or before 19 April 2013 shall lapse.

# Management's Discussion and Analysis

In March 2009, the 4th tranche of 22,288,000 options was granted to employees of the Group, of which 14,612,000 options have been exercised, 4,208,000 options have lapsed and 888,000 options have been granted to connected persons of the Company, being directors of certain subsidiaries of the Company. The exercise price of these options is HK$1.72 per Share and the option holders may exercise the options between 1 April 2011 and 31 March 2012, provided that the holders are employees of the Group during the exercise period. Options which have not been exercised by the holders on or before 31 March 2012 shall lapse.

In March 2010, the 5th tranche of 36,898,000 options was granted to employees of the Group of which 2,571,000 options have lapsed and 888,000 options have been granted to connected persons of the Company, being directors of certain subsidiaries of the Company. The exercise price of these options is HK$3.55 per Share and the option holders may exercise the options between 1 April 2013 and 31 March 2014, provided that the holders are employees of the Group during the exercise period. Options which have not been exercised by the holders on or before 31 March 2014 shall lapse.

In March 2011, the 6th tranche of 23,718,000 options was granted to employees of the Group of which 1,340,000 options have lapsed and 736,000 options have been granted to connected persons of the Company, being directors of certain subsidiaries of the Company. The exercise price of these options is HK$6.44 per Share and the option holders may exercise the options between 1 April 2014 and 31 March 2015, provided that the holders are employees of the Group during the exercise period. Options which have not been exercised by the holders on or before 31 March 2015 shall lapse.

## FINAL DIVIDEND

At the meeting of the Board held on 27 February 2012, the Directors proposed to declare a 2011 final cash dividend of 5.0 HK cents for each Share. Shareholder will be given an option to receive the final dividend in cash or in lieu of cash by scrip dividend (the "**Scrip Dividend Arrangement**"). The Scrip Dividend Arrangement is subject to The Stock Exchange of Hong Kong Limited granting the listing of and permission to deal in the Shares to be allotted and issued under the Scrip Dividend Arrangement.

Together with the interim cash dividend of HK$400.0 million for 2011, the total dividend paid and payable represent a dividend pay-out ratio of 46.2%. The Directors believe that this dividend level is appropriate in reflecting the operating results of Group in 2011.

## TREASURY POLICIES AND EXPOSURE TO FLUCTUATION IN EXCHANGE RATES

The Group's transactions are mainly denominated in Renminbi, United States dollars, Euro, Australian dollars, Japanese Yen and Hong Kong dollars with principal production activities situated at China. As of 31 December 2011, the Group's bank borrowings were denominated in US dollars and Hong Kong dollars bearing interest rates ranging from 1.27% to 1.48% per annum. As the currencies of the Group's borrowings are generally the same as the Group's transactional currencies, the Directors consider that the Group's exposure to foreign exchange fluctuations was minimal. The Group did not experience any material difficulties and liquidity problems resulting from currency exchange fluctuations. The Group may use financial instruments for hedging purposes as and when required.

# Profile of Directors and Senior Management

## EXECUTIVE DIRECTORS

LEE Yin Yee, M.H. (李賢義) aged 59, is our Chairman and founder, responsible for our Group's business strategy. Mr. LEE Yin Yee has 23 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 49, 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 11 years' experience in automobile parts purchase. Mr. TUNG Ching Bor is a member of The Tenth Chinese People's Political Consultative Conference of Anhui Province since 1 January 2011 and also a member of 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 46, is our executive Director and chief executive officer. Mr. TUNG Ching Sai has been with us for 23 years since our inception in November 1988 and is responsible for overseeing our daily operations. Mr. TUNG Ching Sai is a committee member of The Chinese People's Political Consultative Conference of Fujian Province, vice chairman of the China Architectural and Industrial Glass Association, the chairman of the Shenzhen Federation of Young Entrepreneurs, the Third Shenzhen Municipal Ten Outstanding Young Entrepreneur and was awarded the "Young Industrialist Awards of Hong Kong 2006". 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 32, 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 member of the Fourth Longguan Committee of Chinese People's Political Consultative Conference. 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 36, is our executive Director. Mr. LEE Yau Ching is responsible for the daily operation of our solar glass group. 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 a committee member of the Eleventh Chinese People's Political Consultative Conference of Dongguan, Guangdong Province. 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 57, 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 in 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.

# Profile of Directors and Senior Management

## NON-EXECUTIVE DIRECTORS

LI Ching Wai (李清懷), aged 54, 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.

SZE Nang Sze (施能獅) aged 54, 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 55, 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 47, 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.

# Profile of Directors and Senior Management

## INDEPENDENT NON-EXECUTIVE DIRECTORS

LAM Kwong Siu, S.B.S. (林廣兆) aged 78, is the vice chairman of BOC International Holdings Limited, the honorary chairman of Hong Kong Federation of Fujian Associations, the Life Honorary Chairman 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, the honorary president of the Chinese Bankers Club of Hong Kong 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 director of Bank of China International Limited (formerly named "BOCI Capital Limited") since July 2002, the non-executive director of CITIC International Financial Holdings Limited since September 1996 which was withdrawal of listing on 5 November 2008, CITIC Bank International Limited (Formerly known as 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 and Yuzhou Properties Company Limited since October 2009 and Far East Consortium International Limited since September 2011. 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, Yuzhou Properties Company Limited and Far East Consortium International 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 of the Company.

Save as disclosed above, Mr. LAM Kwong Siu, S.B.S. has not held any directorship in the last three years in public companies, the securities of which are listed on any securities market in Hong Kong or overseas.

WONG Chat Chor Samuel ( 王則左 ), aged 62, 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 director of Nan Fung (Singapore) Pte Limited and was the chairman of the BPC Group of Companies, Malaysia. Mr. WONG Chat Chor Samuel is also a standing committee member of the Peoples' Political Consultative Committee of Wenzhou, Zhejiang, the PRC. Mr. WONG Chat Chor Samuel received a master degree in business administration from Harvard University and a master and a bachelor degree in Arts from Tufts University, Massachusetts. Mr. WONG Chat Chor Samuel was appointed as our independent non-executive Director on 30 August 2004.

Save as disclosed above, Mr. WONG Chat Chor Samuel has no relationship with any Directors, senior management or substantial shareholders (as defined in the Listing Rules) or Controlling Shareholders of the Company.

# Profile of Directors and Senior Management

Save as disclosed above, Mr. WONG Chat Chor Samuel has not held any directorship in the last three years in public companies, the securities of which are listed on any securities market in Hong Kong or overseas.

Mr. WONG, Ying Wai, Wilfred, S.B.S., JP (王英偉), aged 59, is the executive deputy chairman of Hsin Chong Construction Group Limited and Synergis Holdings Limited, two main board Hong Kong listed companies in construction and property management businesses respectively; He is also the non-executive Chairman of Yangtze China Investment Company Limited, a company whose shares are listed on the London AIM and which makes direct investments in growth businesses in the mainland China.

Mr. WONG joined the Administrative Officer grade of the Hong Kong Government in 1975 and served in a number of key positions responsible for the planning, organizing and formulation of government services and policies until 1992. Since then, Mr. WONG Ying Wai, Wilfred, S.B.S., JP has held senior management positions in a number of Hong Kong listed companies in the property development and construction business sectors including K. Wah International Holdings Limited, Henderson China Holdings Limited and the Shui On Group.

Mr. WONG started his public service career on the national level when he was appointed by the Central People's Government as a member of The Basic Law Consultative Committee (1985-1990). He was subsequently appointed by the National People's Congress as a member of the Preliminary Working Committee in 1993 and a member of the Hong Kong SAR Preparatory Committee in 1995, responsible for the policies and arrangements relating to the establishment of the HKSAR Government in 1997.

Currently, Mr. WONG is a Deputy to the Eleventh National People's Congress of the PRC, after having been elected three times in the last fourteen years. His public service continues through his participation in a number of councils and committees in Hong Kong. He is the chairman of the Court and Council of the Hong Kong Baptist University; chairman of Hong Kong International Film Festival Society Limited; chairman of the Arts Development Council; chairman of Pacific Basin Economic Council, a member of the Hong Kong Film Development Council and the Commission on Strategic Development. For his distinguished public service, Mr. WONG was awarded the Silver Bauhinia Star Medal by the Hong Kong SAR Government in 2007. He was educated at Harvard University (MPA), Oxford University, University of Hong Kong (BSoc.Sc.) and the Chinese University of Hong Kong.

Mr. WONG 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. WONG Ying Wai, Wilfred, S.B.S., JP has acted as an Independent non-executive director of Cosway Corporation Limited (2010-2011), a public company which are listed on the Hong Kong Stock Exchange.

Save as disclosed above, Mr. WONG Ying Wai, Wilfred, S.B.S., JP has not held any directorship in the last three years in public companies the securities of which are listed on any securities market in Hong Kong or overseas.

# Profile of Directors and Senior Management

## SENIOR MANAGEMENT

LAU Sik Yuen (劉錫源), aged 45, is our Group company secretary, chief financial officer and qualified accountant. Prior to joining our Group in April 2003, Mr. LAU Sik Yuen had over thirteen 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 over 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 fellow member of the Hong Kong Institute of Certified Public Accountants and a member of the American Institute of Certified Public Accountants.

YANG Jian Jun (楊建軍), aged 51, is our Group 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 nineteen 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.

ZHA Xue Song (查雪松), aged 40, is Group vice president of ultra-thin electronics glass division since November 2010. Mr. ZHA had been working for Xinyi Automobile Glass Overseas Market Division for more than fourteen years. Prior to joining our Group in March 1996, Mr. ZHA Xue Song 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 Xue Song has completed the course of Postgraduate Certificate in Inter national Laws at Shenzhen University in 2002. Mr. ZHA Xue Song was graduated with an executive master degree of business administration in Peking University in 2007.

ZHANG Ming (張明) aged 51, is the Group vice president of solar glass division and is responsible for overseeing and implementing solar 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. Mr. ZHANG obtained a master's degree in business administration from Peking University in 2010.

XU Bi Zhong (許必忠), aged 43, is the Group vice president of float glass division and is responsible for overseeing and implementing float glass operation and sales. Mr. XU Bi Zhong obtained a diploma of administrative management from Shenzhen University. Prior to joining our Group in May 2004, Mr. XU Bi Zhong worked for a float glass trading company and a float glass plant in PRC for over twelve years.

CHEN Xi (陳曦), aged 54, is the Group vice president of transparent conductive oxide ("TCO") glass division. Mr. CHEN Xi graduated from Sichuan Industrial Institute in 1983 and is qualified as a senior mechanical engineer. Prior to joining our Group in March 2003, Mr. CHEN Xi worked for a construction glass company in the PRC for more than nine years and worked for machinery industry for more than six years.

# Profile of Directors and Senior Management

XIAO Wen Fan (肖文范), aged 49, is the Group vice president of automobile glass domestic division and is responsible for overseeing and implementing automobile glass domestic operation and sales. Mr. XIAO Wen Fan has obtained qualification as a senior engineer. Mr. XIAO Wen Fan graduated from Wuhan University of Technology in June 1989 with a master degree in ship mechanics engineering. Prior to joining our Group in September 2007, Mr. XIAO had worked in Asahi Glass Group for two years and worked for China Southern Glass Group for over fourteen years.

YANG Yi (楊逸), aged 39, is the Group vice president of construction glass division and is responsible for overseeing and implementing construction glass operation and sales. Mr. YANG Yi obtained a diploma of applied material from South China University of Technology. Prior to joining our Group in July 2001, Mr. YANG Yi worked for a float glass plant in PRC for eight years.

HUANG Ding Xuan (黃定軒), aged 41, is appointed as the Group chief operations officer on 28 February 2011. Dr. HUANG Ding Xuan joined the Group in April 2007 and was appointed as the Head of the Group Administration Office in October 2007. In September 2009, Dr. HUANG left the Group and became the head of the management science department of Guilin University of Technology. Dr. HUANG rejoined the Group in November 2010. Dr. HUANG obtained a doctor's degree in management science and engineering from Tongji University in April 2007.

# Corporate Governance Report

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 are in full compliance with the applicable laws and regulations. During the financial year ended 31 December 2011, the Company was in full compliance with the applicable code provisions set forth under the Code on Corporate Governance Practices (the "**Code**") as detailed 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 13 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 the uncle of Mr. LEE Yau Ching. Mr. TUNG Ching Bor is the elder brother of Mr. TUNG Ching Sai. Hence, Mr. LEE Shing Kan is the 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 the 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 the appropriate capabilities to fill the casual vacancy.

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 is responsible for ensuring 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 of the four non-executive Directors were appointed for a term of three years, commencing from 1 January 2011. 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 commencing from 3 February 2011. The independent non-executive Director, Mr. WONG Ying Wai, S.B.S., JP, was appointed for a term of three years commencing from 1 November 2011. 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 forth under Rule 3.13 of the Listing Rules.

During the financial year ended 31 December 2011, the Board has held four meetings, which were held on 28 February 2011, 25 March 2011, 1 August 2011, and 17 October 2011, respectively and all Directors had attended these meetings. At least four Board meetings are scheduled to be held during the financial year ending 31 December 2012.

The Board is responsible for the formulation of the overall strategies and objectives of the Group, monitoring and evaluating the operating and financial performance, the review of the corporate governance measures and supervision of the overall management of the Group. The senior management of the Group is responsible for the implementation of the business strategies and the day-to-day operations of the Group under the leadership of the Chief Executive Officer. The Directors have full access to all the information of the Group in regard to the business operation and financial performance of the Group. Senior management of the Group also provides the Directors from time to time with information on business operation of the Group.

## MODEL CODE FOR SECURITIES TRANSACTIONS

The Group has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the Directors. Directors are reminded of their obligations under the Model Code on a regular basis. Following specific enquiries by the Group, all Directors have confirmed that they have complied with the required standard set out in the Model Code throughout the year ended 31 December 2011 and up to the date of this report.

## REMUNERATION COMMITTEE

The Remuneration Committee of the Board comprises five members, namely Mr. LAM Kwong Siu, S.B.S., Mr. WONG Chat Chor Samuel, Mr. WONG Ying Wai, S.B.S., JP, Mr. LEE Yin Yee, M.H., and Mr. TUNG Ching Sai. The chairman of the Remuneration Committee is Mr. LAM Kwong Siu, S.B.S. The primary duties of the Remuneration Committee include reviewing the terms of the remuneration packages of and determining the award of bonuses to Directors and senior management. Its terms of reference are available on request. During the year ended 31 December 2011, a meeting of the Remuneration Committee was held on 28 February 2011 and all the committee members attended this meeting.

## AUDIT COMMITTEE

The Audit Committee of the Board comprises three independent non-executive Directors, Mr. LAM Kwong Siu, S.B.S., Mr. WONG Chat Chor Samuel and Mr. WONG Ying Wai, S.B.S., JP. Mr. LAM Kwong Siu is the chairman of the Audit Committee. The Audit Committee assists the Board to review the financial reporting process, evaluate the effectiveness of internal control systems and oversee the auditing processes of the Group. Its terms of reference are available on request. The Audit Committee held 3 meetings during the year of 2011 on 28 February 2011, 1 August 2011 and 13 December 2011, respectively and all the committee members attended these meetings.

# Corporate Governance Report

## NOMINATION COMMITTEE

The Nomination Committee of the Board consists of Mr. LEE Yin Yee, M.H., Mr. TUNG Ching Sai, Mr. LAM Kwong Siu, S.B.S., 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, M.H. The Nomination Committee selects and recommends appropriate candidates, based on his or her prior experience and qualifications, to the Board for the appointment of Directors. The Nomination Committee was established on 29 October 2007 and its terms of reference are available on request. No Nomination Committee meeting was held during the year of 2011 as there was no need for the Company to consider the appointment of Directors during this period.

## DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Directors acknowledge that it is their responsibilities in (i) overseeing the preparation of the financial statements of the Group with a view to ensure that 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 regarding their reporting responsibilities on the financial statements of the Group is set out in the Independent Auditor's Report on page 37 of this report.

## AUDITORS' REMUNERATION

The professional fees charged by the auditors of the 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, which 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 the operations of the Group in achieving the established corporate objectives, safeguarding assets of the Group, rendering reliable financial reporting and complying with the 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 internal control activities of the Group during the financial year of 2011. During 2011, the Board has conducted an annual review of the effectiveness of the system of internal control of the Group and the results of which were found to be satisfactory.

# Report of The Directors

The Directors are pleased to present their report and the audited financial statements of the Group for the financial year ended 31 December 2011.

## 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, solar glass products, automobile glass products, construction 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 consolidated financial statements of the Group in this report.

The analysis of the Group's performance for the financial year ended 31 December 2011 by operating segments is set out in Note 5 to the consolidated financial statements in this report.

## RESULTS AND APPROPRIATIONS

The results of the Group for the financial year ended 31 December 2011 are set out in the consolidated income statement on page 43 in this report. During the financial year, an interim dividend of 11.0 HK cents per Share, amounting to a total of cash dividend of approximately HK$400 million, was paid to shareholders on 11 October 2011.

The Board proposes the payment of a final dividend of 5.0 HK cents per Share to Shareholders whose names appear on the register of members of the Company at the close of business on Tuesday, 29 May 2012. Subject to approval by Shareholders at the Annual General Meeting, the final dividend will be paid on or before 9 July 2012.

Shareholder will be given the option to receive the final dividend in cash or in lieu of cash by scrip dividend. The Scrip Dividend Arrangement is subject to The Stock Exchange of Hong Kong Limited granting the listing of and permission to deal in the new Shares to be issued.

The register of members of the Company will be closed for the purpose of entitlements to attend and vote at the Annual General Meeting from Friday, 25 May 2012 to Tuesday, 29 May 2012, 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 4:30 p.m. on Friday, 1 June 2012.

## RESERVES

Details of movements in the reserves of the Group and of the Company during the financial year are set out in Note 17 to the consolidated 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.

# Report of The Directors

## INVESTMENT PROPERTY

Details of this movement in investment property of the Group 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 during the year under review are set out in Note 7 to the consolidated financial statements.

## DONATIONS

Donations by the Group for charitable and other purposes during the financial year amounted to HK$66,222 (2010: HK$4,122,000).

## SHARE CAPITAL

Details of the movements in share capital of the Company during the year under review are set out in Note 16 to the consolidated financial statements in this report.

## DISTRIBUTABLE RESERVES

Under the Companies Law of the Cayman Islands, as at 31 December 2011, share premium amounting to approximately HK$3,088.4 million (2010: HK$2,016.8 million) was 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 2011, the Company had distributable reserves available for distribution to Shareholders amounting to approximately HK$208.6 million (2010: HK$480.0 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 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.
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. SZE Nang Sze, M.H., Mr. LI Ching Leung, Mr. NG Ngan Ho, Mr. LAM Kwong Siu and Mr. WONG Chat Chor Samuel will retire by rotation and being eligible, will offer themselves for re-election at the Annual General Meeting.

## INDEPENDENCE OF THE INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from the independent non-executive Directors the confirmations of their independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"). The Company considers all the independent non-executive Directors to be independent.

## DIRECTORS' SERVICE CONTRACTS

None of the Directors who are proposed for re-election at the forthcoming Annual General Meeting has entered or has proposed to enter into any service agreements with the Company or any other member of the Group which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

## DIRECTORS' REMUNERATION

The Company's policies concerning remuneration of the executive Directors are:-

(i) the amount of remuneration is determined on the basis of the relevant executive Director's experience, responsibility, workload and the time devoted to the Group;

(ii) non-cash benefits may be provided to the executive Directors under their remuneration package;

(iii) the executive Directors may be granted, at the discretion of the board of Directors, options pursuant to the share option scheme, as part of their remuneration package; and

(iv) annual remuneration of HK$250,000 for the year ended 31 December 2011, and HK$250,000 for the year ending 31December 2012.

Save for the annual remuneration of HK$250,000 for each non-executive Director in 2011, none of the non-executive Directors receives any other emoluments (including bonus payments, whether fixed or discretionary in nature) from the Group.

Save for the annual remuneration of HK$250,000 for each independent non-executive Director in 2011, none of the independent non-executive Directors receives any other emoluments (including bonus payments, whether fixed or discretionary in nature) from the Group. Such emoluments were determined with reference to the duties and responsibilities of Mr. LAM Kwong Siu, S.B.S., Mr. WONG Chat Chor Samuel and Mr. WONG Ying Wai, S.B.S., JP, and their mutual agreement with the Company.

## DIRECTORS' INTERESTS IN CONTRACTS

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

## MANAGEMENT CONTRACTS

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

## 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 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 options 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.

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.

In 2006, the 1st tranche of 17,040,000 options was granted to employees of the Group. The exercise price of these options was HK$1.08 per Share and all unexercised options under this tranche were expired on 27 January 2009.

# Report of The Directors

In June 2007, the 2nd tranche of 24,230,000 options was granted to employees of the Group, of which 13,827,000 options have been exercised, 10,403,000 options were lapsed or expired and 1,200,000 options have been granted to connected persons of the Company, being directors of certain subsidiaries of the Company. The exercise price of these options is HK$3.49 per Share 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. Options which have not been exercised by the holders were expired on 30 June 2011.

In April 2008, the 3rd tranche of 48,517,000 options was granted to employees of the Group of which 18,757,000 options have lapsed and 1,620,000 options have been granted to connected persons of the Company, being directors of certain subsidiaries of the Company. The exercise price of these options is HK$2.34 per Share 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. Options which have not been exercised by the holders on or before 19 April 2013 shall lapse.

In March 2009, the 4th tranche of 22,288,000 options was granted to employees of the Group, of which 14,612,000 options have been exercised, 4,208,000 options have lapsed and 888,000 options have been granted to connected persons of the Company, being directors of certain subsidiaries of the Company. The exercise price of these options is HK$1.72 per Share and the option holders may exercise the options between 1 April 2011 and 31 March 2012, provided that the holders are employees of the Group during the exercise period. Options which have not been exercised by the holders on or before 31 March 2012 shall lapse.

In March 2010, the 5th tranche of 36,898,000 options was granted to employees of the Group of which 2,571,000 options have lapsed and 888,000 options have been granted to connected persons of the Company, being directors of certain subsidiaries of the Company. The exercise price of these options is HK$3.55 per Share and the option holders may exercise the options between 1 April 2013 and 31 March 2014, provided that the holders are employees of the Group during the exercise period. Options which have not been exercised by the holders on or before 31 March 2014 shall lapse.

In March 2011, the 6th tranche of 23,718,000 options was granted to employees of the Group of which 1,340,000 options have lapsed and 736,000 options have been granted to connected persons of the Company, being directors of certain subsidiaries of the Company. The exercise price of these options is HK$6.44 per Share and the option holders may exercise the options between 1 April 2014 and 31 March 2015, provided that the holders are employees of the Group during the exercise period. Options which have not been exercised by the holders on or before 31 March 2015 shall lapse.

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of Directors and senior management are set out on pages 13 to 19 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 2011, 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:

### INTERESTS IN 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, M. H. | Interest of a controlled corporation *(Note a)* | 725,209,552 | 19.69% |
| | Interest of a controlled corporation *(Note n)* | 39,478,000 | 1.07% |
| | Personal interest *(Note b)* | 28,552,000 | 0.78% |
| Mr. TUNG Ching Bor | Interest of a controlled corporation *(Note c)* | 266,766,456 | 7.24% |
| | Interest of a controlled corporation *(Note n)* | 39,478,000 | 1.07% |
| | Personal interest *(Note d)* | 18,900,000 | 0.51% |
| Mr. TUNG Ching Sai | Interest of a controlled corporation *(Note e)* | 246,932,579 | 6.70% |
| | Interest of a controlled corporation *(Note n)* | 39,478,000 | 1.07% |
| | Personal interest *(Note f)* | 51,788,000 | 1.41% |
| Mr. LI Ching Wai | Interest of a controlled corporation *(Note g)* | 118,562,868 | 3.22% |
| | Interest of a controlled corporation *(Note n)* | 39,478,000 | 1.07% |
| Mr. SZE Nang Sze | Interest of a controlled corporation *(Note h)* | 108,800,781 | 2.95% |
| | Interest of a controlled corporation *(Note n)* | 39,478,000 | 1.07% |
| Mr. NG Ngan Ho | Interest of a controlled corporation *(Note i)* | 79,041,912 | 2.15% |
| | Interest of a controlled corporation *(Note n)* | 39,478,000 | 1.07% |
| | Personal interest | 2,200,000 | 0.06% |
| Mr. LI Man Yin | Interest of a controlled corporation *(Note j)* | 79,041,911 | 2.15% |
| | Interest of a controlled corporation *(Note n)* | 39,478,000 | 1.07% |
| | Personal interest *(Note k)* | 1,540,000 | 0.04% |
| Mr. LI Ching Leung | Interest of a controlled corporation *(Note l)* | 79,041,911 | 2.15% |
| | Interest of a controlled corporation *(Note n)* | 39,478,000 | 1.07% |
| | Personal interest | 2,000,000 | 0.05% |
| | Personal interest *(Note m)* | 400,000 | 0.01% |
| Mr. WONG Chat Chor Samuel | Personal interest | 1,280,000 | 0.03% |

# 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 BVIwith 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. 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.

(i) 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.

(j) 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.

(k) Mr. LI Man Yin's interests in the Shares are held through a joint account with his spouse, Madam LI Sau Suet.

(l) Mr. LI Ching Leung's interests in the Shares are held through Herosmart Holdings ("**Herosmart**"), a company incorporated in the BVI with limited liability on 1 July 2004 and wholly-owned by Mr. LI Ching Leung.

(m) Mr. LI Ching Leung's interests in the Shares are held through his spouse, Madam DY Maria Lumin.

(n) The interest in the Shares are held through Full Guang Holdings Limted ("**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%.

## INTERESTS IN ASSOCIATED CORPORATIONS

| Name of associated corporation | Name of Director | Class and number of shares held in the associated corporation | Approximate shareholding percentage |
|---|---|---|---|
| Realbest *(Note o)* | Mr. LEE Yin Yee | 2 ordinary shares | 100% |
| High Park *(Note p)* | Mr. TUNG Ching Bor | 2 ordinary shares | 100% |
| Copark *(Note q)* | Mr. TUNG Ching Sai | 2 ordinary shares | 100% |
| Telerich *(Note r)* | Mr. LEE Yau Ching | 2 ordinary shares | 100% |
| Goldbo *(Note s)* | Mr. LI Ching Wai | 2 ordinary shares | 100% |
| Linkall *(Note t)* | Mr. NG Ngan Ho | 2 ordinary shares | 100% |
| Perfect All *(Note u)* | Mr. LI Man Yin | 2 ordinary shares | 100% |
| Goldpine *(Note v)* | Mr. SZE Nang Sze | 2 ordinary shares | 100% |
| Herosmart *(Note w)* | Mr. LI Ching Leung | 2 ordinary shares | 100% |
| Full Guang *(Note x)* | 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:*

(o) Realbest is wholly-owned by Mr. LEE Yin Yee.

(p) High Park is wholly-owned by Mr. TUNG Ching Bor.

(q) Copark is wholly-owned by Mr. TUNG Ching Sai.

(r) Telerich is wholly-owned by Mr. LEE Sing Din, the father of Mr. LEE Yau Ching.

(s) Goldbo is wholly-owned by Mr. LI Ching Wai.

(t) Linkall is wholly-owned by Mr. NG Ngan Ho.

(u) Perfect All is wholly-owned by Mr. LI Man Yin.

(v) Goldpine is wholly-owned by Mr. SZE Nang Sze.

(w) Herosmart is wholly-owned by Mr. LI Ching Leung.

# Report of The Directors

(x) 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%.

Save as disclosed above, as at 31 December 2011, 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 in the register required to be kept by the Company 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 or to be notified to the Company and the Stock Exchange pursuant to the Model Code.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITION IN THE SHARE CAPITAL OF THE COMPANY

As at 31 December 2011, 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 | 725,209,552 | Registered and beneficial owner | 19.67% |
| High Park | 266,766,456 | Registered and beneficial owner | 7.24% |
| Copark | 246,932,579 | Registered and beneficial owner | 6.70% |
| Telerich Investment Limited *(Note)* | 251,595,089 | Registered and beneficial owner | 6.83% |

*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 2011, 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. *(Note a)* | 30,000 class A common shares | 30.0% |
| Xinyi Auto Glass (North America) Corporation | Polaron International Inc. *(Note a)* | 30,000 class A common shares | 30.0% |
| Xinyi Glass (America) Development Inc. | Mr. TAM Peng Kuan Antonio *(Note b)* | 30,000 common shares | 25.0% |
| | Mr. LAU Chee Wai Daniel *(Note c)* | 20,000 common shares | 16.7% |
| Xinyi Glass (Germany) Limited | Mr. Wolfgang Walter WILLNAT *(Note d)* | 2,500 common shares | 25.0% |
| | Polaron International Inc. *(Note a)* | 1,250 common shares | 12.5% |
| Xinyi Glass Japan Company Limited | Polaron International Inc. *(Note a)* | 40 common shares | 10.0% |
| | Mr. CHO Shotie | 140 common shares | 35.0% |
| Xinyi Glas Deutschland GmbH | Mr. Wolfgang Walter WILLNAT *(Note d)* | not applicable | 25.0% |
| | Polaron International Inc. *(Note a)* | not applicable | 12.5% |

*Note:*

(a) Polaron International Inc. is 100% owned by Mr. TAM Peng Kuan Antonio.

(b) Mr. TAM Peng Kuan Antonio is a director of Xinyi Glass (North America) Inc., Xinyi Auto Glass (North America) Corporation, Xinyi Glass (America) Development Inc. and Xinyi Glass Japan Company Limited.

(c) Mr. LAU Chee Wai Daniel is a director of Xinyi Glass (Amercia) Development Inc.

(d) Mr. Wolfgang Walter WILLNAT is director of Xinyi Glass (Germany) Limited and Xinyi Glas Deutschland GmbH.

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 would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

# Report of The Directors

## DIRECTORS' INTEREST IN COMPETING BUSINESS

As at 31 December 2011, 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 | 3.0% |
| — five largest customers in aggregate | 8.9% |
| Purchases | |
| — the largest supplier | 9.8% |
| — five largest suppliers in aggregate | 33.0% |

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 2011 amounted to approximately HK$4,318.8 million (2010: HK$2,724.5 million). Particulars of the bank borrowings are set out in Note 19 to the consolidated financial statements in this report.

## REWARD FOR EMPLOYEES

As at 31 December 2011, we employed over 12,353 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 had been entered into by the Group which constituted connected transactions for the financial year ended 31 December 2011.

## 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 forth in Appendix 14 to the Listing Rules during the financial year ended 31 December 2011.

## AUDIT COMMITTEE

The Company has established an audit committee, comprising three independent non-executive Directors, with written terms of reference in compliance with the requirements of the Listing Rules. 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 2011.

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

The Company allotted and issued 100,000,000 Shares in June 2011 by way of placement, and raised gross proceeds of approximately HK$835.0 million to provide the Group with additional funds for its business expansion and general working capital purposes.

In August 2011, the Company allotted and issued 47,359,724 shares by way of scrip dividend in which shareholders will be given the option to receive the interim dividend of HK$0.11 in cash or in lieu of cash. The excess over the par value of the shares were credited to the share premium account.

Save as disclosed herein, there was no purchase, sale or redemption by the Company, or any of its subsidiaries, of any listed securities of the Company during the year ended 31 December 2011.

## SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this report, the Company has maintained sufficient public float with at least 25% of the Shares held by the public as required under the Listing Rules.

## AUDITOR

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

# Report of The Directors

## ANNUAL GENERAL MEETING

The Annual General Meeting will be held on Tuesday, 29 May 2012, at 3/F, Harbour View 2, 16 Science Park East Avenue, Phase 2, Hong Kong Science Park, Pak Shek Kok, Tai Po, N.T., 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 and on the website of the Company at www.xinyiglass.com, and will be dispatched to the shareholders in due course.

On Behalf of the Board
**LEE Yin Yee, M.H.**
*Chairman*

Hong Kong, 27 February 2012

# Independent Auditor's Report

pwc

羅兵咸永道

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF XINYI GLASS HOLDINGS LIMITED
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Xinyi Glass Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 39 to 127, which comprise the consolidated and company balance sheets as at 31 December 2011, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

## AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

*PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong*
*T: +852 2289 8888, F: +852 2810 9888,* www.pwchk.com

# Independent Auditor's Report

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 2011, 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, 27 February 2012

# Consolidated Balance Sheet

As at 31 December 2011
(All amounts in Hong Kong dollar thousands unless otherwise stated)

| | *Note* | 2011 | 2010 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Leasehold land and land use rights | 6 | 1,330,825 | 894,157 |
| Property, plant and equipment | 7 | 9,621,579 | 6,485,962 |
| Investment property | 8 | 35,223 | 32,086 |
| Prepayments for property, plant and equipment and land use rights | | 129,970 | 449,227 |
| Intangible assets | 9 | 99,806 | 98,796 |
| Available-for-sale financial assets | 11 | 617 | 588 |
| Investments in associates | 12 | 51,948 | 16,212 |
| Loans to an associate | 12 | 35,679 | 36,353 |
| Deferred income tax assets | 20 | 5,397 | 3,819 |
| | | 11,311,044 | 8,017,200 |
| **Current assets** | | | |
| Inventories | 13 | 1,246,127 | 820,345 |
| Loans to associates | 12 | 2,469 | 3,129 |
| Trade and other receivables | 14 | 2,073,100 | 1,533,840 |
| Pledged bank deposits | 15 | 784 | 1,725 |
| Cash and bank balances | 15 | 712,964 | 640,259 |
| | | 4,035,444 | 2,999,298 |
| **Total assets** | | 15,346,488 | 11,016,498 |
| **EQUITY** | | | |
| **Equity attributable to the equity holders of the Company** | | | |
| Share capital | 16 | 368,332 | 351,709 |
| Share premium | 16 | 3,088,388 | 2,016,842 |
| Other reserves | 17 | 1,787,208 | 1,198,142 |
| Retained earnings | | | |
| – Proposed final dividend | 31 | 184,166 | 457,222 |
| – Others | | 3,079,455 | 2,512,352 |
| | | 8,507,549 | 6,536,267 |
| **Non-controlling interests** | | 17,708 | 19,627 |
| **Total equity** | | 8,525,257 | 6,555,894 |

# Consolidated Balance Sheet

As at 31 December 2011
(All amounts in Hong Kong dollar thousands unless otherwise stated)

| | *Note* | 2011 | 2010 |
|---|---|---|---|
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Bank borrowings | 19 | 3,214,096 | 2,253,975 |
| Deferred income tax liabilities | 20 | 105,754 | 78,637 |
| Deferred government grants | 21 | 83,259 | — |
| | | 3,403,109 | 2,332,612 |
| **Current liabilities** | | | |
| Amount due to an associate | 12 | 33 | 2,910 |
| Trade payables, accruals and other payables | 18 | 2,166,281 | 1,507,658 |
| Current income tax liabilities | | 147,094 | 146,901 |
| Bank borrowings | 19 | 1,104,714 | 470,523 |
| | | 3,418,122 | 2,127,992 |
| **Total liabilities** | | 6,821,231 | 4,460,604 |
| **Total equity and liabilities** | | 15,346,488 | 11,016,498 |
| **Net current assets** | | 617,322 | 871,306 |
| **Total assets less current liabilities** | | 11,928,366 | 8,888,506 |

The financial statements on pages 39 to 127 were approved by the Board of Directors on 27 February 2012 and were signed on its behalf.

| | |
|---|---|
| LEE Yin Yee, M.H. | TUNG Ching Bor |
| *Chairman* | *Vice-chairman* |

The notes on pages 49 to 127 are an integral part of these consolidated financial statements.

# Balance Sheet

As at 31 December 2011
(All amounts in Hong Kong dollar thousands unless otherwise stated)

| | *Note* | 2011 | 2010 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Interests in subsidiaries | 10 | **2,260,220** | 2,154,660 |
| **Current assets** | | | |
| Amounts due from subsidiaries | 10 | **1,482,653** | 738,238 |
| Prepayments and other receivables | 14 | **46** | 356 |
| Cash and bank balances | 15 | **260** | 3,686 |
| Current income tax assets | | **555** | — |
| | | **1,483,514** | 742,280 |
| **Total assets** | | **3,743,734** | 2,896,940 |
| **EQUITY** | | | |
| **Equity attributable to the equity holders of the Company** | | | |
| Share capital | 16 | **368,332** | 351,709 |
| Share premium | 16 | **3,088,388** | 2,016,842 |
| Other reserves | 17 | **60,121** | 43,443 |
| Retained earnings | | | |
| – Proposed final dividend | 31 | **184,166** | 457,222 |
| – Others | | **24,426** | 22,803 |
| **Total equity** | | **3,725,433** | 2,892,019 |

# Balance Sheet

As at 31 December 2011

(All amounts in Hong Kong dollar thousands unless otherwise stated)

| | *Note* | 2011 | 2010 |
|---|---|---|---|
| LIABILITIES | | | |
| Current liabilities | | | |
| Accruals and other payables | 18 | 690 | 871 |
| Current income tax liabilities | | — | 110 |
| Amounts due to subsidiaries | 10 | 17,611 | 3,940 |
| Total liabilities | | 18,301 | 4,921 |
| Total equity and liabilities | | 3,743,734 | 2,896,940 |
| Net current assets | | 1,465,213 | 737,359 |
| Total assets less current liabilities | | 3,725,433 | 2,892,019 |

The financial statements on pages 39 to 127 were approved by the Board of Directors on 27 February 2012 and were signed on its behalf.

LEE Yin Yee, M.H.
*Chairman*

TUNG Ching Bor
*Vice-chairman*

The notes on pages 49 to 127 are an integral part of these financial statements.

# Consolidated Income Statement

For the Year Ended 31 December 2011
(All amounts in Hong Kong dollar thousands unless otherwise stated)

| | *Note* | 2011 | 2010 |
|---|---|---|---|
| **Revenue** | 5 | 8,226,651 | 6,364,314 |
| Cost of sales | 23 | (5,873,001) | (3,809,267) |
| **Gross profit** | | 2,353,650 | 2,555,047 |
| Other income | 25 | 99,345 | 85,048 |
| Other gains/(losses) - net | 26 | 60,399 | (9,476) |
| Selling and marketing costs | 23 | (422,985) | (365,186) |
| Administrative expenses | 23 | (542,275) | (405,897) |
| Reversal of provision for legal claim | 22 | — | 36,816 |
| **Operating profit** | | 1,548,134 | 1,896,352 |
| Finance income | 27 | 7,344 | 3,111 |
| Finance costs | 27 | (32,468) | (6,839) |
| Share of profits of associates | 12 | 3,489 | 514 |
| **Profit before income tax** | | 1,526,499 | 1,893,138 |
| Income tax expense | 28 | (262,621) | (320,726) |
| **Profit for the year** | | 1,263,878 | 1,572,412 |
| **Profit attributable to:** | | | |
| Equity holders of the Company | | 1,264,853 | 1,571,198 |
| Non-controlling interests | | (975) | 1,214 |
| | | 1,263,878 | 1,572,412 |
| **Earnings per share for profit attributable to the equity holders of the Company during the year** (expressed in Hong Kong cents per share) | | | |
| – Basic | 30 | 35.15 | 44.43 |
| – Diluted | 30 | 34.75 | 44.01 |
| **Dividends** | 31 | 584,069 | 740,560 |

The notes on pages 49 to 127 are an integral part of these consolidated financial statements.

# Consolidated Statement of Comprehensive Income

For the Year Ended 31 December 2011
(All amounts in Hong Kong dollar thousands unless otherwise stated)

| | *Note* | 2011 | 2010 |
|---|---|---|---|
| Profit for the year | | 1,263,878 | 1,572,412 |
| Other comprehensive income, net of tax: | | | |
| Currency translation differences | | 460,081 | 240,533 |
| Total comprehensive income for the year | | 1,723,959 | 1,812,945 |
| Total comprehensive income attributable to: | | | |
| Equity holders of the Company | | 1,723,939 | 1,810,915 |
| Non-controlling interests | | 20 | 2,030 |
| Total comprehensive income for the year | | 1,723,959 | 1,812,945 |

The notes on pages 49 to 127 are an integral part of these consolidated financial statements.

# Consolidated Statement of Changes in Equity

For the Year Ended 31 December 2011

(All amounts in Hong Kong dollar thousands unless otherwise stated)

| | | Attributable to the equity holders of the Company | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | *Note* | Share capital | Share premium | Other reserves | Retained earnings | Total | Non-controlling interests | Total equity |
| Balance at 1 January 2010 | | 177,305 | 2,334,321 | 810,561 | 2,088,327 | 5,410,514 | 20,072 | 5,430,586 |
| **Comprehensive income** | | | | | | | | |
| Profit for the year | | — | — | — | 1,571,198 | 1,571,198 | 1,214 | 1,572,412 |
| **Other comprehensive income** | | | | | | | | |
| Currency translation differences - group | | — | — | 239,717 | — | 239,717 | 816 | 240,533 |
| **Total comprehensive income** | | — | — | 239,717 | 1,571,198 | 1,810,915 | 2,030 | 1,812,945 |
| **Transactions with owners** | | | | | | | | |
| Repurchase and cancellation of the Company's shares | 16 | (3,639) | (183,671) | 3,639 | (3,639) | (187,310) | — | (187,310) |
| Employees share option scheme: | | | | | | | | |
| – proceeds from shares issued | 16 | 957 | 43,278 | (10,843) | — | 33,392 | — | 33,392 |
| – value of employee services | 24 | — | — | 17,723 | — | 17,723 | — | 17,723 |
| – release on forfeiture of share options | | — | — | (9,123) | 9,123 | — | — | — |
| Bonus issue of shares | 16 | 177,086 | (177,086) | — | — | — | — | — |
| Disposal of a subsidiary | | — | — | (3,274) | 3,274 | — | — | — |
| Transfer to reserve | | — | — | 149,742 | (149,742) | — | — | — |
| Dividends paid to non-controlling interests | | — | — | — | — | — | (2,475) | (2,475) |
| Dividends relating to 2009 | | — | — | — | (265,629) | (265,629) | — | (265,629) |
| Dividends relating to 2010 | 31 | — | — | — | (283,338) | (283,338) | — | (283,338) |
| **Total transactions with owners** | | 174,404 | (317,479) | 147,864 | (689,951) | (685,162) | (2,475) | (687,637) |
| Balance at 31 December 2010 | | 351,709 | 2,016,842 | 1,198,142 | 2,969,574 | 6,536,267 | 19,627 | 6,555,894 |

The notes on pages 49 to 127 are an integral part of these consolidated financial statements.

# Consolidated Statement of Changes in Equity

For the Year Ended 31 December 2011

(All amounts in Hong Kong dollar thousands unless otherwise stated)

| | | Attributable to the equity holders of the Company | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | *Note* | Share capital | Share premium | Other reserves | Retained earnings | Total | Non-controlling interests | Total equity |
| Balance at 1 January 2011 | | 351,709 | 2,016,842 | 1,198,142 | 2,969,574 | 6,536,267 | 19,627 | 6,555,894 |
| **Comprehensive income** | | | | | | | | |
| Profit for the year | | — | — | — | 1,264,853 | 1,264,853 | (975) | 1,263,878 |
| **Other comprehensive income** | | | | | | | | |
| Currency translation differences - group | | — | — | 459,086 | — | 459,086 | 995 | 460,081 |
| **Total comprehensive income** | | — | — | 459,086 | 1,264,853 | 1,723,939 | 20 | 1,723,959 |
| **Transactions with owners** | | | | | | | | |
| Capital deduction | | — | — | — | — | — | (259) | (259) |
| Employees share option scheme: | | | | | | | | |
| – proceeds from shares issued | 16 | 1,887 | 50,502 | (12,737) | — | 39,652 | — | 39,652 |
| – value of employee services | 24 | — | — | 30,460 | — | 30,460 | — | 30,460 |
| – release on forfeiture of share options | | — | — | (1,045) | 1,045 | — | — | — |
| Issue of new shares by way of placing | 16 | 10,000 | 810,767 | — | — | 820,767 | — | 820,767 |
| Issue of new shares by way of scrip dividend | 16 | 4,736 | 210,277 | — | — | 215,013 | — | 215,013 |
| Transfer to reserve | | — | — | 113,302 | (113,302) | — | — | — |
| Dividends paid to non-controlling interests | | — | — | — | — | — | (1,680) | (1,680) |
| Dividends relating to 2010 | 31 | — | — | — | (458,646) | (458,646) | — | (458,646) |
| Dividends relating to 2011 | 31 | — | — | — | (399,903) | (399,903) | — | (399,903) |
| **Total transactions with owners** | | 16,623 | 1,071,546 | 129,980 | (970,806) | 247,343 | (1,939) | 245,404 |
| Balance at 31 December 2011 | | 368,332 | 3,088,388 | 1,787,208 | 3,263,621 | 8,507,549 | 17,708 | 8,525,257 |

The notes on pages 49 to 127 are an integral part of these consolidated financial statements.

# Consolidated Statement of Cash Flows

For the Year Ended 31 December 2011
(All amounts in Hong Kong dollar thousands unless otherwise stated)

| | Note | 2011 | 2010 |
|---|---|---|---|
| Cash flows from operating activities | | | |
| Cash generated from operations | 32 | 1,563,458 | 1,498,467 |
| Interest paid | | (65,105) | (32,933) |
| Income tax paid | | (194,956) | (119,950) |
| Net cash generated from operating activities | | 1,303,397 | 1,345,584 |
| Cash flows from investing activities | | | |
| Purchase of land use rights | | (420,659) | (225,819) |
| Purchase of property, plant and equipment | | (2,646,207) | (1,967,298) |
| Proceeds from disposal of property, plant and equipment | 32 | 1,864 | 7,010 |
| Proceeds from disposal of a subsidiary | | — | 6,250 |
| Purchase of intangible assets | 9 | (5,866) | (7,983) |
| Capital injected to associates | 12 | (35,953) | (6,824) |
| Loan advanced to an associate | | — | (38,706) |
| Loan repayment from an associate | | 1,334 | 1,066 |
| Dividend received from an associate | | 1,789 | 2,873 |
| Purchase of financial assets at fair value through profit or loss | | — | (11,427) |
| Disposal of financial assets at fair value through profit or loss | | — | 25,218 |
| Decrease in pledged bank deposits | | 941 | 9,721 |
| Increase in bank deposits with maturity over three months | | (4,533) | (75,639) |
| Interest received | | 7,344 | 3,111 |
| Net cash used in investing activities | | (3,099,946) | (2,278,447) |

# Consolidated Statement of Cash Flows

For the Year Ended 31 December 2011
(All amounts in Hong Kong dollar thousands unless otherwise stated)

| | *Note* | 2011 | 2010 |
|---|---|---|---|
| **Cash flows from financing activities** | | | |
| Proceeds from bank borrowings | | 2,373,298 | 2,315,323 |
| Repayments of bank borrowings | | (778,986) | (693,065) |
| Shares repurchased and cancelled from non-controlling interests | | (259) | — |
| Proceeds from issuance of ordinary shares | | 860,419 | 33,392 |
| Repurchase of shares of the Company | 16 | — | (187,310) |
| Dividends paid to shareholders of the Company | | (643,536) | (548,967) |
| Dividends paid to non-controlling interests | | (1,680) | (2,475) |
| **Net cash generated from financing activities** | | 1,809,256 | 916,898 |
| Net increase/(decrease) in cash and cash equivalents | | 12,707 | (15,965) |
| Cash and cash equivalents at beginning of the year | | 564,620 | 531,895 |
| Effect of foreign exchange rate changes | | 55,465 | 48,690 |
| **Cash and cash equivalents at end of the year** | 15 | 632,792 | 564,620 |

The notes on pages 49 to 127 are an integral part of these consolidated financial statements.

# 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, float glass and solar glass products, 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 is a limited liability company incorporated in the Cayman Islands. The shares of the Company are 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 financial statements have been approved for issue by the Board of Directors on 27 February 2012.

## 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") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). 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 and financial liabilities through profit and 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 involving a higher degree of judgement or complexity, or 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)*

*Changes in accounting policy and disclosures*

(a) *New and amended standards and interpretations adopted by the Group*

(i) The following amendments to standards are mandatory for accounting periods beginning on 1 January 2011. The adoption of these amendments to standards does not have any significant impact to the results and financial position of the Group:

| | | Effective for accounting periods beginning on or after |
|---|---|---|
| HKAS 1 (Amendment) | Presentation of financial statements | 1 January 2011 |
| HKAS 24 (Revised) | Related party disclosures | 1 January 2011 |
| HKAS 27 (Amendment) | Consolidated and separate financial statements | 1 July 2010 |
| HKAS 34 (Amendment) | Interim financial reporting | 1 January 2011 |
| HKFRS 3 (Amendment) | Business combinations | 1 July 2010 |

(ii) The following amendments to standards and interpretations are mandatory for accounting periods beginning on 1 January 2011 but are not relevant to the Group's operations:

| | | Effective for accounting periods beginning on or after |
|---|---|---|
| HKFRS 1 (Amendment) | First time adoption of Hong Kong Financial Reporting Standards | 1 January 2011 |
| HKFRS 1 (Amendment) | Limited exemption from comparative HKFRS 7 disclosures for first-time adopters | 1 July 2010 |
| HKFRS 1 (Amendment) | Severe hyperinflation and removal of fixed dates for first-time adopters | 1 July 2011 |
| HKFRS 7 (Amendment) | Financial instruments: Disclosures | 1 January 2011 |
| HKAS 32 (Amendment) | Classification of rights issues | 1 February 2010 |
| HK (IFRIC) - Int 13 (Amendment) | Customer loyalty programmes | 1 January 2011 |
| HK(IFRIC) - Int 14 (Amendment) | Prepayments of a minimum funding requirement | 1 January 2011 |
| HK(IFRIC) - Int 19 (Amendment) | Extinguishing financial liabilities with equity instruments | 1 July 2010 |

(All amounts in Hong Kong dollar thousands unless otherwise stated)

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

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

*Changes in accounting policy and disclosures* (Continued)

*(b) New standards and amendments to standards have been issued but are not effective for the financial year beginning on 1 January 2011 and have not been early adopted:*

| | | Effective for accounting periods beginning on or after |
|---|---|---|
| HKAS 1 (Amendment) | Presentation of financial statements | 1 July 2012 |
| HKAS 12 (Amendment) | Deferred tax: Recovery of underlying assets | 1 January 2012 |
| HKAS 19 (Amendment) | Employee benefits | 1 January 2013 |
| HKAS 27 (revised 2011) | Separate financial statements | 1 January 2013 |
| HKAS 28 (revised 2011) | Associates and joint ventures | 1 January 2013 |
| HKAS 32 (Amendment) | Offsetting financial assets and financial liabilities | 1 January 2014 |
| HKFRS 7 and HKFRS 9 (Amendment) | Mandatory effective date and transition disclosures | 1 January 2015 |
| HKFRS 9 | Financial instruments | 1 January 2015 |
| HKFRS 10 | Consolidated financial statements | 1 January 2013 |
| HKFRS 11 | Joint arrangements | 1 January 2013 |
| HKFRS 12 | Disclosures of interests in other entities | 1 January 2013 |
| HKFRS 13 | Fair value measurements | 1 January 2013 |

Management is in the process of making an assessment of the impact of these new standards and amendments to standards and is not yet in a position to state whether they will have a significant impact on the Group's results of operations and financial position.

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

### 2.2 SUBSIDIARIES

#### *2.2.1 Consolidation*

Subsidiaries are all entities (including special purpose 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. The Group also assesses existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control. De-facto control may arise from circumstances such as enhanced minority rights or contractual terms between shareholders, etc.

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.

Inter-company transactions, balances, income and expenses on transactions between group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

*(a) Business combinations*

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

*(b) Changes in ownership interests in subsidiaries without change of control*

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions - that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

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

### 2.2 SUBSIDIARIES *(Continued)*

#### *2.2.1 Consolidation* (Continued)

*(c) Disposal of subsidiaries*

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

#### *2.2.2 Separate financial statements*

Investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

### 2.3 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. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investment in associates includes goodwill identified on acquisition.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

The Group's share of post-acquisition profit or loss is recognised in the income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to 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 legal or constructive obligations or made payments on behalf of the associate.

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

### 2.3 ASSOCIATES *(Continued)*

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to "share of profits of associates" in the consolidated income statement.

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognised in the Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are 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 arising in investments in associates are recognised in the consolidated income statement.

### 2.4 SEGMENT REPORTING

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Executive Directors that makes strategic decisions.

### 2.5 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 or valuation where items are re-measured. 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 are presented in the consolidated income statement within "other gains/(losses) - net".

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

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

(b) *Transactions and balances* (Continued)

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 related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss 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 other comprehensive income.

(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 rate on the dates of the transactions); and

(iii) all resulting exchange differences are recognised in other comprehensive income.

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. Exchange differences arising are recognised in equity.

### 2.6 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 and leasehold land and land use rights, which are amortised over the lease period using the straight-line method.

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

### 2.7 PROPERTY, PLANT AND EQUIPMENT

Buildings comprise mainly factories and offices. Property, plant and equipment is 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 to the consolidated income statement during the financial period in which they are incurred.

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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

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 2.10).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within "other gains/(losses) - net" in the consolidated income statement.

### 2.8 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. Land held under operating leases are accounted for as investment properties when the rest of the definition of an investment property is met. In such cases, the operating leases concerned are accounted for as if they were finance leases. Investment property is initially measured at cost, including related transaction costs. After initial recognition at cost investment properties are carried at fair value, representing open market value determined at each reporting date by external valuers. 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. Changes in fair values are recorded in the consolidated income statement as part of a valuation gain or loss in "other gains/(losses) - net".

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

### 2.9 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'. 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 identified according to operating segment.

*(b) Trademark, customer relationship and patent*

Trademark, customer relationship and patent acquired in a business combination are recognised at fair value at the acquisition date. Trademark, customer relationship and patent have a finite useful life and are carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of trademark, customer relationship and patent over their estimated useful lives of 10 - 20 years.

*(c) Capitalised exploration, evaluation and mining right expenditure*

Costs directly associated with an exploration well and exploration (researching and analysing existing exploration data; exploratory drilling, trenching and sampling, examining and testing extraction and treatment methods; obtaining legal exploration or mining rights) 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 the costs are amortised using the units of production method according to the proved reserves. No depreciation and/or amortisation is charged during the exploration and evaluation phrase.

Capitalised exploration, evaluation and mining right expenditure are tested for impairment whenever facts and circumstances indicate impairment. An impairment loss is recognised for the amount by which the exploration, evaluation and mining right expenditure's carrying amount exceeds their recoverable amount. The recoverable amount is the higher of their fair value less costs to sell and their value in use.

# 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 IMPAIRMENT OF NON-FINANCIAL ASSETS

Assets that have an indefinite useful life, for example goodwill, 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 an impairment are reviewed for possible reversal of the impairment at each reporting date.

### 2.11 FINANCIAL ASSETS

#### 2.11.1 *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 if expected to be settled within 12 months, otherwise, they are classified as non-current.

*(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 end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise 'loans to associates', 'trade and other receivables', 'pledged bank deposits' and 'cash and cash equivalents' in the consolidated balance sheet (Notes 2.16 and 2.17).

*(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 the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

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

### 2.11 FINANCIAL ASSETS *(Continued)*

#### 2.11.2 *Recognition and measurement*

Regular way of 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 subsequently 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/(losses) - 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, translation differences on non-monetary securities are recognised in other comprehensive income. Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in other comprehensive income.

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 "other gains/(losses) – net".

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.

### 2.12 OFFSETTING FINANCIAL INSTRUMENTS

Financial assets and liabilities are offset and the net amount are reported in the consolidated balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

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

### 2.13 IMPAIRMENT OF FINANCIAL ASSETS

#### (a) *Assets carried at amortised cost*

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

#### (b) *Assets classified as available-for-sale*

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the Group uses the criteria referred to in (a) above. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets 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 profit or loss - is removed from equity and recognised in profit or loss. Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the consolidated income statement. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the consolidated income statement.

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

### 2.14 DERIVATIVE FINANCIAL INSTRUMENTS

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured 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, these trading derivatives are classified as current assets or liabilities and the changes in the fair value of these derivative instruments are recognised immediately in the consolidated income statement within "other gains/(losses) - net".

### 2.15 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.

### 2.16 TRADE AND OTHER RECEIVABLES

Trade receivables are amounts due from customers for goods sold in the ordinary course of business. If collection of trade and other receivables is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

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.

### 2.17 CASH AND CASH EQUIVALENTS

In the consolidated statement of cash flows, cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less, less pledged bank deposits.

### 2.18 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 (treasury shares), 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 reissued. Where such ordinary 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.

# 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 BORROWINGS

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried 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 pre-payment for liquidity services and amortised over the period of the facility to which it relates.

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 end of the reporting period.

### 2.20 BORROWINGS COSTS

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

### 2.21 CURRENT AND DEFERRED INCOME TAX

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

*(a) Current income tax*

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's 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. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

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

### 2.21 CURRENT AND DEFERRED INCOME TAX *(Continued)*

(b) *Deferred income tax*

*Inside basis differences*

Deferred income tax is recognised, 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, deferred income tax liabilities are not recognised if they arise from the initial recognition of goodwill, 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 substantively 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 only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

*Outside basis differences*

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except for deferred income tax liability 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.

(c) *Offsetting*

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 assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

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

### 2.22 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.

### 2.23 EMPLOYEE BENEFITS

*(a) 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. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. 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 Group has no further payment obligations once the contributions have been paid.

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

*(b) 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 end of the reporting period.

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

*(c) 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.

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

### 2.24 SHARE-BASED PAYMENTS

(a) *Equity-settled share-based payment transactions*

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:

- including any market performance conditions (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save).

Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, 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 to original estimates, if any, in the consolidated income statement, with a corresponding adjustment to equity.

When the options are exercised, the Company issues new shares. 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.

(b) *Share-based payment transactions among group entities*

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity.

### 2.25 TRADE PAYABLES

Trade payables are obligations to pay for goods that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

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

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

### 2.26 FINANCIAL GUARANTEE

Financial guarantee contracts are contracts that require 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 terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of subsidiaries or associates to secure loans, overdrafts and other banking facilities.

Financial guarantees are initially recognised in the consolidated financial statements at fair value on the date the guarantee was given. The fair value of a financial guarantee at the time of signature is zero because all guarantees are agreed on arm's length terms and the value of the premium agreed corresponds to the value of the guarantee obligation. No receivable for the future premiums is recognised. Subsequent to initial recognition, the Company's liabilities under such guarantees are measured at the higher of the initial amount, less amortisation of fees recognised in accordance with HKAS 18, and the best estimate of the amount required to settle the guarantee. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgement of management. The fee income earned is recognised on a straight-line basis over the life of the guarantee. Any increase in the liability relating to guarantees is reported in the consolidated income statement within "other gains/(losses) – net".

Where guarantees in relation to loans or other payables of subsidiaries or associates are provided for no compensation, the fair values are accounted for as contributions and recognised as part of the cost of the investment in the financial statements of the Company.

### 2.27 GOVERNMENT GRANTS

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

Government grants relating to costs are deferred and recognised in the consolidated income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in liabilities as deferred government grants. They are netted off with the cost of acquisition when the attached conditions are met and are recognised in the consolidated income statement on a straight-line basis over the expected lives of the related assets.

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

### 2.28 REVENUE RECOGNITION

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts, returns and value added taxes. The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below. The Group bases its estimates of return 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.

*(b) Interest income*

Interest income is recognised on a time-proportion basis using the effective interest method. When a loan and 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 loan and receivables are recognised using the original effective interest rate.

*(c) Rental income*

Rental income is recognised in the consolidated income statement on a straight-line basis over the term of the lease.

### 2.29 OPERATING LEASES (AS THE LESSEE FOR 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 to the consolidated income statement on a straight-line basis over the period of the lease.

### 2.30 DIVIDEND DISTRIBUTION

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

# Notes To The Consolidated Financial Statements

(All amounts in Hong Kong dollar thousands unless otherwise stated)

## 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, and 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") 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 Group's trade receivables, pledged bank deposits, cash and bank balances, trade payables and bank borrowings are disclosed in Notes 14, 15, 18 and 19 to the consolidated financial statements.

As at 31 December 2011, if RMB had strengthened/weakened by 1% (2010: 1%) against the HKD with all other variables held constant, profit after income tax for the year would have been approximately HKD2,771,000 (2010: HKD4,394,000) higher/lower mainly as a result of foreign exchange gains/losses on translation of RMB-denominated cash and bank balances, trade receivables less foreign exchange losses/gains on translation of RMB-denominated trade payables and bank borrowings. Profit is less sensitive to movement in HKD/RMB exchange rates in 2011 than 2010 because the increased amount of RMB-denominated sales and related receivables was less than the increased amount of RMB-denominated trade payables and bank borrowings.

## 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 interest rate risk is mainly attributable to its cash and bank balances, pledged bank deposits and bank 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 bank balances, pledged bank deposits and bank borrowings have been disclosed in Notes 15 and 19 to the consolidated financial statements.

As at 31 December 2011, if the HKD interest rates on cash and bank balances, pledged bank deposits and bank borrowings had been 25 (2010: 25) basis points higher/lower with all other variables held constant, profit after income tax for the year would have been approximately HKD3,699,000 (2010: HKD1,041,000) lower/higher, mainly as a result of higher/lower interest expense on floating rate bank borrowings.

As at 31 December 2011, if the RMB interest rates on cash and bank balances, pledged bank deposits and bank borrowings had been 25 (2010: 25) basis points higher/lower with all other variables held constant, profit after income tax for the year would have been approximately HKD758,000 (2010: HK$859,000), higher/lower, mainly as a result of higher/lower interest income on bank deposits.

As at 31 December 2011, if the United States Dollars ("USD") interest rates on cash and bank balances, pledged bank deposits and bank borrowings had been 25 (2010: 25) basis points higher/lower with all other variables held constant, profit after income tax for the year would have been approximately HKD237,000 higher/lower, mainly as a result of higher/lower interest income on cash and bank balances (2010: HK$377,000) lower/higher, mainly as a result of higher/lower interest expense on floating interest bank borrowings.

(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 bank balances, pledged bank deposits, trade and other receivables, and loans to associates. 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:

| | 2011 | 2010 |
|---|---|---|
| Loans to associates *(Note 12)* | **38,148** | 39,482 |
| Trade and other receivables *(Note 14)* | **2,073,100** | 1,533,840 |
| Pledged bank deposits *(Note 15)* | **784** | 1,725 |
| Cash and bank balances *(Note 15)* | **712,964** | 640,259 |
| Maximum exposure to credit risk | **2,824,996** | 2,215,306 |

As at 31 December 2011 and 2010, most of the bank deposits are deposited with reputable banks in Hong Kong and state-owned banks in the PRC. The credit quality of cash and bank balances 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 loans to associates, the Group has policies in place to ensure that the loans or sales of products are made to counterparties or customers with appropriate credit history and the Group performs credit evaluations of these counterparties and its customers.

The credit period of the majority of the Group's trade receivables is within 90 days and largely comprises 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 actions are taken to recover overdue debts. In addition, the Group reviews regularly the recoverable amount of each individual trade receivable to ensure that adequate provision for impairment losses are made for irrecoverable amounts. In this regard, the directors consider that the Group's credit risk is significantly reduced.

(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 and the Company's non-derivative 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.

Group

| | Less than 1 year | Between 1 and 2 years | Between 2 and 5 years | Total |
|---|---|---|---|---|
| At 31 December 2011 | | | | |
| Bank borrowings *(Note 19)* | 1,104,714 | 1,647,795 | 1,566,301 | 4,318,810 |
| Interest payable | 57,372 | 35,957 | 14,153 | 107,482 |
| Trade payables, accruals and other payables *(Note 18)* | 2,166,281 | — | — | 2,166,281 |
| Amount due to an associate *(Note 12)* | 33 | — | — | 33 |
| Total | 3,328,400 | 1,683,752 | 1,580,454 | 6,592,606 |

| | Less than 1 year | Between 1 and 2 years | Between 2 and 5 years | Total |
|---|---|---|---|---|
| At 31 December 2010 | | | | |
| Bank borrowings *(Note 19)* | 470,523 | 832,806 | 1,421,169 | 2,724,498 |
| Interest payable | 37,550 | 28,587 | 16,440 | 82,577 |
| Trade payables, accruals and other payables *(Note 18)* | 1,507,658 | — | — | 1,507,658 |
| Amount due to an associate *(Note 12)* | 2,910 | — | — | 2,910 |
| Total | 2,018,641 | 861,393 | 1,437,609 | 4,317,643 |

(All amounts in Hong Kong dollar thousands unless otherwise stated)

## 3 FINANCIAL RISK MANAGEMENT *(Continued)*

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

(c) *Liquidity risk* (Continued)

Company

| | Less than 1 year | Between 1 and 2 years | Between 2 and 5 years | Total |
|---|---|---|---|---|
| At 31 December 2011 | | | | |
| Accruals and other payables | 690 | — | — | 690 |
| Amounts due to subsidiaries | 17,611 | — | — | 17,611 |
| Financial guarantee *(Note (a))* | 989,332 | 1,710,664 | 1,540,453 | 4,240,449 |
| | 1,007,633 | 1,710,664 | 1,540,453 | 4,258,750 |

| | Less than 1 year | Between 1 and 2 years | Between 2 and 5 years | Total |
|---|---|---|---|---|
| At 31 December 2010 | | | | |
| Accruals and other payables | 871 | — | — | 871 |
| Amounts due to subsidiaries | 3,940 | — | — | 3,940 |
| Financial guarantee *(Note (a))* | 441,173 | 861,393 | 1,437,609 | 2,740,175 |
| | 445,984 | 861,393 | 1,437,609 | 2,744,986 |

*Note (a):* These amounts are financial guarantees from the Company to its subsidiaries representing the hypothetical payment should the guarantees be crystalised. However based on the operating results, the Company does not expect them to be crystalised.

(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.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total equity. Net debt is calculated as total borrowings (including "current and non-current borrowings" as shown in the consolidated balance sheet) less cash and bank balances and pledged bank deposits.

The gearing ratios at 31 December 2011 and 2010 were as follows:

| | Group | |
|---|---|---|
| | 2011 | 2010 |
| Total bank borrowings *(Note 19)* | 4,318,810 | 2,724,498 |
| Less: cash and bank balances and pledged bank deposits *(Note 15)* | (713,748) | (641,984) |
| Net debt | 3,605,062 | 2,082,514 |
| Total equity | 8,525,257 | 6,555,894 |
| Gearing ratio | 42.3% | 31.8% |

The increase in the gearing ratio during 2011 was mainly resulted from the increase in bank borrowings for the expansion of the Group.

(All amounts in Hong Kong dollar thousands unless otherwise stated)

## 3 FINANCIAL RISK MANAGEMENT *(Continued)*

### 3.3 FAIR VALUE ESTIMATION

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2011 and 2010.

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **At 31 December 2011** | | | | |
| **Assets** | | | | |
| Available-for-sale financial assets | | | | |
| – Equity securities | — | — | 617 | 617 |
| **Liabilities** | | | | |
| Financial liabilities at fair value through profit and loss | | | | |
| – Cross currency swap | — | 24 | — | 24 |

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **At 31 December 2010** | | | | |
| **Assets** | | | | |
| Available-for-sale financial assets | | | | |
| – Equity securities | — | — | 588 | 588 |
| **Liabilities** | | | | |
| Financial liabilities at fair value through profit and loss | | | | |
| – Forward contracts | — | 3,550 | — | 3,550 |
| – Cross currency swap | — | 226 | — | 226 |
| | — | 3,776 | — | 3,776 |

(All amounts in Hong Kong dollar thousands unless otherwise stated)

## 3 FINANCIAL RISK MANAGEMENT *(Continued)*

### 3.3 FAIR VALUE ESTIMATION *(Continued)*

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. Instruments included in level 2 at 31 December 2011 comprise cross currency swap and at 31 December 2010 comprised forward contracts and cross currency swap.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

The following table presents the changes in level 3 instruments for the year ended 31 December 2011 and 2010.

Available-for-sale financial assets

| | |
|---|---|
| At 1 January and 31 December 2010 | 588 |
| Exchange differences | 29 |
| At 31 December 2011 | 617 |

# Notes To The Consolidated Financial Statements

(All amounts in Hong Kong dollar thousands unless otherwise stated)

## 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements 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 2.10. 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

*(i) Useful lives*

The Group's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. 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 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.

### (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.

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

### (D) 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.

### (E) CURRENT AND DEFERRED INCOME TAX

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes and the timing of the related payments. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

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. Deferred income tax liabilities of the Group mainly arise from the unremitted earnings of the PRC subsidiaries and deferred income tax assets of the Group mainly arise from tax losses carry-forwards. The realisability of the deferred income tax liabilities and assets mainly depend on its subsidiaries' dividend pay-out ratio and whether sufficient future profits or taxable temporary differences will be available in the future, whichever is applicable. In cases where the actual dividend pay-out ratio is more than expected or future profits generated are less than expected, such difference will impact the income taxes in the periods in which such estimates has been changed.

### (F) FAIR VALUE OF INVESTMENT PROPERTIES

The best evidence of fair value is current prices in an active market for similar lease and other contracts. In the absence of such information, the Group determines the amount within a range of reasonable fair value estimates. In making its judgement, the Group considers information from a variety of sources including:

(i) current prices in an active market for properties of different nature, condition or location (or subject to different lease or other contracts), with adjustments to reflect those differences.

(ii) recent prices of similar properties in less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and

(iii) discounted cash flow projections based on reliable estimates of future cash flows derived from the terms of any existing lease and other contracts and (where possible) from external evidence such as current market rents for similar properties in the same location and condition, using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

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

### (F) FAIR VALUE OF INVESTMENT PROPERTIES *(Continued)*

If information on current or recent price of investment properties is not available, the fair values of investment properties are determined using discounted cash flow valuation techniques. The Group uses assumptions that are mainly based on market conditions existing at each balance sheet date.

The principal assumptions underlying management's estimate of fair value are those relating to: the receipt of contractual rentals; expected future market rentals; void periods; maintenance requirements; and appropriate discount rates. These valuations are regularly compared to actual market yield, and actual transactions of the Group and those reported by the market.

The expected future market rentals are determined on the basis of current market rentals for similar properties in the same location and condition.

## 5 SEGMENT INFORMATION

Management has determined the operating segments based on the reports reviewed by the Executive Directors that are used to make strategic decisions.

The Executive Directors consider the business from an operational entity perspective. Generally, the Executive Directors consider the performance of business of each entity within the Group separately. Thus, each entity within the Group is an individual operating segment.

Among these operating segments, they are aggregated into four segments based on the products sold: (1) automobile glass; (2) construction glass; (3) float glass; and (4) solar glass.

The Executive Directors assess the performance of the operating segments based on a measure of gross profit. The Group does not allocate operating costs to its segments as this information is not reviewed by the Executive Directors.

Sales between segments are carried out at terms mutually agreed by both parties. The revenue from external parties reported to the Executive Directors is measured in a manner consistent with that in the consolidated income statement.

(All amounts in Hong Kong dollar thousands unless otherwise stated)

## 5 SEGMENT INFORMATION *(Continued)*

The segment information provided to the Executive Directors for the reportable segments as at and for the year ended 31 December 2011 is as follows:

| | Automobile glass | Construction glass | Float glass | Solar glass | Unallocated | Total |
|---|---|---|---|---|---|---|
| Segment revenue | 2,902,780 | 1,132,918 | 3,695,948 | 1,233,151 | — | 8,964,797 |
| Inter-segment revenue | — | — | (738,146) | — | — | (738,146) |
| Revenue from external customers | 2,902,780 | 1,132,918 | 2,957,802 | 1,233,151 | — | 8,226,651 |
| Cost of sales | (1,734,760) | (719,059) | (2,626,240) | (792,942) | — | (5,873,001) |
| Gross profit | 1,168,020 | 413,859 | 331,562 | 440,209 | — | 2,353,650 |
| Depreciation charge of property, plant and equipment *(Note 23)* | 97,202 | 78,099 | 203,868 | 44,125 | 2,230 | 425,524 |
| Amortisation charge | | | | | | |
| - leasehold land and land use rights *(Note 23)* | 3,326 | 2,000 | 8,006 | 1,563 | 1,831 | 16,726 |
| - intangible assets *(Note 9)* | 2,211 | — | 622 | — | — | 2,833 |
| Impairment charge of goodwill *(Note 9)* | 2,943 | — | — | — | — | 2,943 |
| Provision/(reversal of provision) for impairment of trade receivables, net *(Note 14)* | 1,172 | 921 | — | (2,836) | — | (743) |
| Share of profits of associates *(Note 12)* | — | — | — | — | 3,489 | 3,489 |
| Total assets | 2,575,013 | 1,382,484 | 7,615,849 | 3,115,125 | 658,017 | 15,346,488 |
| Total assets included: | | | | | | |
| Investments in associates | — | — | — | — | 51,948 | 51,948 |
| Loans to associates | — | — | — | — | 38,148 | 38,148 |
| Additions to non-current assets (other than available-for-sale financial assets and deferred income tax assets) | 171,589 | 130,183 | 1,800,881 | 986,509 | 302,483 | 3,391,645 |
| Total liabilities | 572,469 | 250,111 | 1,004,450 | 518,374 | 4,475,827 | 6,821,231 |

(All amounts in Hong Kong dollar thousands unless otherwise stated)

## 5 SEGMENT INFORMATION *(Continued)*

The segment information provided to the Executive Directors for the reportable segments as at and for the year ended 31 December 2010 is as follows:

| | Automobile glass | Construction glass | Float glass | Solar glass | Unallocated | Total |
|---|---|---|---|---|---|---|
| Segment revenue | 2,378,772 | 926,016 | 2,820,584 | 1,077,767 | — | 7,203,139 |
| Inter-segment revenue | — | — | (838,825) | — | — | (838,825) |
| Revenue from external customers | 2,378,772 | 926,016 | 1,981,759 | 1,077,767 | — | 6,364,314 |
| Cost of sales | (1,440,561) | (574,378) | (1,275,842) | (518,486) | — | (3,809,267) |
| Gross profit | 938,211 | 351,638 | 705,917 | 559,281 | — | 2,555,047 |
| Depreciation charge of property, plant and equipment *(Note 23)* | 87,934 | 61,766 | 138,240 | 32,233 | 4,381 | 324,554 |
| Amortisation charge | | | | | | |
| - leasehold land and land use rights *(Note 23)* | 2,977 | 761 | 7,631 | 852 | 74 | 12,295 |
| - intangible assets *(Note 9)* | 1,706 | — | 406 | — | — | 2,112 |
| Impairment charge of goodwill *(Note 9)* | 2,943 | — | — | — | — | 2,943 |
| (Reversal of provision)/ provision for impairment of trade receivables, net *(Note 14)* | (121) | (37) | — | 4,004 | — | 3,846 |
| Reversal of provision for legal claim *(Note 22)* | (36,816) | — | — | — | — | (36,816) |
| Share of profits of associates *(Note 12)* | — | — | — | — | 514 | 514 |
| Total assets | 2,531,211 | 1,567,418 | 5,051,788 | 1,649,398 | 216,683 | 11,016,498 |
| Total assets included: | | | | | | |
| Investments in associates | — | — | — | — | 16,212 | 16,212 |
| Loans to associates | — | — | — | — | 39,482 | 39,482 |
| Additions to non-current assets (other than available-for-sale financial assets and deferred income tax assets) | 114,815 | 179,822 | 1,451,973 | 506,475 | 16,984 | 2,270,069 |
| Total liabilities | 469,942 | 154,911 | 919,706 | 161,245 | 2,754,800 | 4,460,604 |

(All amounts in Hong Kong dollar thousands unless otherwise stated)

## 5 SEGMENT INFORMATION *(Continued)*

A reconciliation of segment gross profit to profit before income tax is provided as follows:

| | 2011 | 2010 |
|---|---|---|
| Segment gross profit | 2,353,650 | 2,555,047 |
| Unallocated: | | |
| Other income | 99,345 | 85,048 |
| Other gains/(losses) - net | 60,399 | (9,476) |
| Selling and marketing costs | (422,985) | (365,186) |
| Administrative expenses | (542,275) | (405,897) |
| Reversal of provision for legal claim | — | 36,816 |
| Finance income | 7,344 | 3,111 |
| Finance costs | (32,468) | (6,839) |
| Share of profits of associates | 3,489 | 514 |
| Profit before income tax | 1,526,499 | 1,893,138 |

Reportable segments assets/(liabilities) are reconciled to total assets/(liabilities) as follows:

| | Assets | | Liabilities | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| Segment assets/(liabilities) | 14,688,471 | 10,799,815 | (2,345,404) | (1,705,804) |
| Unallocated: | | | | |
| Leasehold land and land use rights | 230,834 | — | — | — |
| Property, plant and equipment | 108,546 | 76,141 | — | — |
| Prepayments for property, plant and equipment and land use rights | 33,903 | — | — | — |
| Investments in associates | 51,948 | 16,212 | — | — |
| Balances with associates | 38,148 | 39,482 | (33) | (2,910) |
| Available-for-sale financial assets | 617 | 588 | — | — |
| Deferred income tax assets | 5,397 | 3,819 | — | — |
| Prepayments, deposits and other receivables | 11,907 | 4,664 | — | — |
| Cash and bank balances | 176,717 | 75,777 | — | — |
| Accruals and other payables | — | — | (120,238) | (15,409) |
| Current income tax liabilities | — | — | (10,291) | (111) |
| Deferred income tax liabilities | — | — | (105,754) | (78,637) |
| Current bank borrowings | — | — | (1,025,415) | (403,758) |
| Non-current bank borrowings | — | — | (3,214,096) | (2,253,975) |
| Total assets/(liabilities) | 15,346,488 | 11,016,498 | (6,821,231) | (4,460,604) |

# Notes To The Consolidated Financial Statements

(All amounts in Hong Kong dollar thousands unless otherwise stated)

## 5 SEGMENT INFORMATION *(Continued)*

The amounts provided to the Executive Directors with respect to total assets are measured in a manner consistent with that of the financial statements. These assets are allocated based on the operations of the segment and the physical location of the asset.

Breakdown of the revenue from the sales of products is as follows:

| | 2011 | 2010 |
|---|---|---|
| Sales of automobile glass | 2,902,780 | 2,378,772 |
| Sales of construction glass | 1,132,918 | 926,016 |
| Sales of float glass | 2,957,802 | 1,981,759 |
| Sales of solar glass | 1,233,151 | 1,077,767 |
| Total | 8,226,651 | 6,364,314 |

The Group's revenue is mainly derived from customers located in Greater China (including Hong Kong and PRC), North America and Europe while the Group's business activities are conducted predominately in Greater China. An analysis of the Group's sales by geographical area of its customers is as follows:

| | 2011 | 2010 |
|---|---|---|
| Greater China | 5,367,526 | 4,230,085 |
| North America | 1,000,195 | 747,489 |
| Europe | 533,647 | 451,816 |
| Other countries | 1,325,283 | 934,924 |
| | 8,226,651 | 6,364,314 |

An analysis of the Group's non-current assets other than available-for-sale financial assets, loan to an associate and deferred income tax assets (there are no employment benefit assets and rights arising under insurance contracts) by geographical area in which the assets are located is as follows:

| | 2011 | 2010 |
|---|---|---|
| Greater China | 11,259,032 | 7,965,216 |
| North America | 9,849 | 10,774 |
| Other countries | 470 | 450 |
| | 11,269,351 | 7,976,440 |

None of a single customer accounted for 10% or more of the Group's revenue for the year ended 31 December 2011 (2010: None).

(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 amounts are analysed as follows:

| | 2011 | 2010 |
|---|---|---|
| In Hong Kong, held on: | | |
| Leases of between 10 to 50 years | 2,653 | 2,727 |
| In PRC, held on: | | |
| Land use rights of between 10 to 50 years | 1,328,172 | 891,430 |
| | 1,330,825 | 894,157 |
| At 1 January | 894,157 | 664,367 |
| Exchange differences | 44,021 | 23,350 |
| Additions | 418,197 | 223,146 |
| Amortisation of prepaid operating lease payments | (25,550) | (16,706) |
| At 31 December | 1,330,825 | 894,157 |

Amortisation charge of HK$8,824,000 (2010: HK$4,411,000) were capitalised as direct cost of construction in progress during the year ended 31 December 2011 when the buildings thereon were not yet ready for production purposes. For the year ended 31 December 2011, amortisation of the Group's land use rights amounted to HK$16,726,000 (2010: HK$12,295,000) were charged to the consolidated income statement *(Note 23)*.

# Notes To The Consolidated Financial Statements

(All amounts in Hong Kong dollar thousands unless otherwise stated)

## 7 PROPERTY, PLANT AND EQUIPMENT

| | Group | | | | |
|---|---|---|---|---|---|
| | Construction in progress | Buildings | Plant and machinery | Office equipment | Total |
| **At 1 January 2010** | | | | | |
| Cost | 573,878 | 1,132,134 | 3,968,141 | 35,377 | 5,709,530 |
| Accumulated depreciation | — | (125,086) | (777,988) | (18,607) | (921,681) |
| Net book amount | 573,878 | 1,007,048 | 3,190,153 | 16,770 | 4,787,849 |
| **Year ended 31 December 2010** | | | | | |
| Opening net book amount | 573,878 | 1,007,048 | 3,190,153 | 16,770 | 4,787,849 |
| Exchange differences | 19,830 | 34,888 | 113,363 | 512 | 168,593 |
| Additions | 1,778,567 | 8,397 | 96,068 | 226 | 1,883,258 |
| Transfers | (972,548) | 172,560 | 799,988 | — | — |
| Disposals | — | — | (7,969) | (426) | (8,395) |
| Disposal of a subsidiary | — | — | (506) | (3) | (509) |
| Depreciation charge | — | (42,281) | (298,945) | (3,608) | (344,834) |
| Closing net book amount | 1,399,727 | 1,180,612 | 3,892,152 | 13,471 | 6,485,962 |
| **At 31 December 2010** | | | | | |
| Cost | 1,399,727 | 1,370,595 | 5,087,583 | 35,675 | 7,893,580 |
| Accumulated depreciation | — | (189,983) | (1,195,431) | (22,204) | (1,407,618) |
| Net book amount | 1,399,727 | 1,180,612 | 3,892,152 | 13,471 | 6,485,962 |

(All amounts in Hong Kong dollar thousands unless otherwise stated)

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

| | Group | | | | |
|---|---|---|---|---|---|
| | Construction in progress | Buildings | Plant and machinery | Office equipment | Total |
| **Year ended 31 December 2011** | | | | | |
| Opening net book amount | 1,399,727 | 1,180,612 | 3,892,152 | 13,471 | 6,485,962 |
| Exchange differences | 68,683 | 56,275 | 191,857 | 620 | 317,435 |
| Additions | 2,883,455 | 19,526 | 380,056 | 3,802 | 3,286,839 |
| Transfers | (2,809,766) | 660,528 | 2,148,841 | 397 | — |
| Disposals | (631) | (284) | (2,173) | (11) | (3,099) |
| Depreciation charge | — | (48,647) | (413,922) | (2,989) | (465,558) |
| Closing net book amount | 1,541,468 | 1,868,010 | 6,196,811 | 15,290 | 9,621,579 |
| **At 31 December 2011** | | | | | |
| Cost | 1,541,468 | 2,111,022 | 7,855,988 | 41,081 | 11,549,559 |
| Accumulated depreciation | — | (243,012) | (1,659,177) | (25,791) | (1,927,980) |
| Net book amount | 1,541,468 | 1,868,010 | 6,196,811 | 15,290 | 9,621,579 |

Depreciation expense of approximately HK$400,721,000 (2010: HK$309,463,000) has been charged in cost of sales and HK$24,803,000 (2010: HK$15,091,000) in administrative expenses and HK$80,893,000 (2010: HK$40,859,000) has been capitalised in inventories.

During the year, the Group capitalised borrowing costs amounted to HK$32,637,000 (2010: HK$26,094,000) on qualifying assets (Note 27). Borrowing costs were capitalized at the weighted average rate of its general borrowings of 1.48% (2010: 1.45%).

# Notes To The Consolidated Financial Statements

(All amounts in Hong Kong dollar thousands unless otherwise stated)

## 8 INVESTMENT PROPERTY

| | Group | |
|---|---|---|
| | **2011** | 2010 |
| At 1 January | **32,086** | 32,229 |
| Fair value gains/(losses) *(Note 26)* | **3,137** | (143) |
| As 31 December | **35,223** | 32,086 |

The Group obtains independent valuations from Vigers Appraisal and Consulting Limited for its investment property at least annually. The basis of the valuation of the investment property is fair value which is being the amount for which the property could be exchanged between willing parties in an arm's length transaction, based on current prices in an active market for similar properties in the same location and condition and subject to similar leases.

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

| | **2011** | 2010 |
|---|---|---|
| In Hong Kong, held on: | | |
| Lease of between 10 and 50 years | **35,223** | 32,086 |

(All amounts in Hong Kong dollar thousands unless otherwise stated)

## 9 INTANGIBLE ASSETS

| | Group | | | | | |
|---|---|---|---|---|---|---|
| | Goodwill | Trademark | Customer relationship | Patent | Capitalised exploration, evaluation and mining right expenditure | Total |
| **At 1 January 2010** | | | | | | |
| Cost | 61,763 | 20,306 | 5,404 | — | 11,377 | 98,850 |
| Accumulated amortisation | — | (2,351) | (626) | — | (393) | (3,370) |
| Net book amount | 61,763 | 17,955 | 4,778 | — | 10,984 | 95,480 |
| **Year ended 31 December 2010** | | | | | | |
| Opening net book amount | 61,763 | 17,955 | 4,778 | — | 10,984 | 95,480 |
| Exchange differences | — | — | — | — | 388 | 388 |
| Additions | — | — | — | 7,983 | — | 7,983 |
| Amortisation charge *(Note 23)* | — | (1,084) | (289) | (333) | (406) | (2,112) |
| Impairment charge *(Note 26)* | (2,943) | — | — | — | — | (2,943) |
| Closing net book amount | 58,820 | 16,871 | 4,489 | 7,650 | 10,966 | 98,796 |
| **At 31 December 2010** | | | | | | |
| Cost | 61,763 | 20,306 | 5,404 | 7,983 | 11,779 | 107,235 |
| Accumulated amortisation and impairment | (2,943) | (3,435) | (915) | (333) | (813) | (8,439) |
| Net book amount | 58,820 | 16,871 | 4,489 | 7,650 | 10,966 | 98,796 |
| **Year ended 31 December 2011** | | | | | | |
| Opening net book amount | 58,820 | 16,871 | 4,489 | 7,650 | 10,966 | 98,796 |
| Exchange differences | — | — | — | 378 | 542 | 920 |
| Additions | — | — | — | — | 5,866 | 5,866 |
| Amortisation charge *(Note 23)* | — | (1,085) | (288) | (838) | (622) | (2,833) |
| Impairment charge *(Note 26)* | (2,943) | — | — | — | — | (2,943) |
| Closing net book amount | 55,877 | 15,786 | 4,201 | 7,190 | 16,752 | 99,806 |
| **At 31 December 2011** | | | | | | |
| Cost | 61,763 | 20,306 | 5,404 | 8,378 | 18,227 | 114,078 |
| Accumulated amortisation and impairment | (5,886) | (4,520) | (1,203) | (1,188) | (1,475) | (14,272) |
| Net book amount | 55,877 | 15,786 | 4,201 | 7,190 | 16,752 | 99,806 |

(All amounts in Hong Kong dollar thousands unless otherwise stated)

## 9 INTANGIBLE ASSETS *(Continued)*

Amortisation charge of HK$2,833,000 (2010: HK$2,112,000) has been included in administrative expenses in the consolidated income statement.

### IMPAIRMENT TESTS FOR GOODWILL

Goodwill is allocated to the Group's cash-generating units (CGUs) identified according to operating segment. For the purposes of impairment testing, goodwill has been allocated to the automobile glass operating segment.

The recoverable amount of the automobile glass CGU is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period with estimated compound annual growth rate of 11% (2010: 14%). 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 4.1% (2010: 3.1%). The discount rate used is pre-tax and reflect specific risks relating to this cash generating unit. From the impairment testing, impairment charge of approximately HK$ 2,943,000 (2010: HK$2,943,000) was identified.

## 10 INTERESTS IN AND AMOUNTS DUE FROM/TO SUBSIDIARIES

| | Company | |
|---|---|---|
| | 2011 | 2010 |
| Investments, at cost | 105,570 | 10 |
| Amounts due from subsidiaries - non-current *(Note (a))* | 2,154,650 | 2,154,650 |
| | 2,260,220 | 2,154,660 |
| Amounts due from subsidiaries *(Note (b))* | 1,482,653 | 738,238 |
| Amounts due to subsidiaries *(Note (b))* | 17,611 | 3,940 |

*Notes:*

(a) The amounts due from subsidiaries are unsecured, interest free and denominated in HKD. The directors of the Company have resolved not to request repayment for the next twelve months from the end of reporting date and considered them as quasi-equity contributions.

(b) The amounts with subsidiaries are unsecured, interest free, denominated in HKD and repayable on demand. The carrying amounts of amounts due from/(to) subsidiaries approximate their fair values.

(All amounts in Hong Kong dollar thousands unless otherwise stated)

## 10 INTERESTS IN AND AMOUNTS DUE FROM/TO SUBSIDIARIES *(Continued)*

*Notes: (Continued)*

(c) The following is a list of the principal subsidiaries at 31 December 2011:

| Name | Place of incorporation/ establishment and kind of legal entity | Principal activities and place of operation | Particulars of issued/registered 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 Company Limited | The PRC, limited liability company | Manufacturing of automobile glass in the PRC | Registered and paid up capital of RMB140,403,049 | 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 RMB353,807,000 | 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 and paid up capital of US$29,800,000 | 100% |
| Xinyi Glass (Tianjin) Company Limited | The PRC, limited liability company | Manufacturing of automobile glass and construction glass in the PRC | Registered capital of US$ 126,000,000 with paid up capital of US$121,795,877 | 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$80,000,000 | 100% |
| Xinyi Ultra-clear Photovoltaic Glass (Dongguan) Company Limited | The PRC, limited liability company | Manufacturing of float glass in the PRC | Registered and paid up capital of US$60,000,000 | 100% |

# Notes To The Consolidated Financial Statements

(All amounts in Hong Kong dollar thousands unless otherwise stated)

## 10 INTERESTS IN AND AMOUNTS DUE FROM/TO SUBSIDIARIES *(Continued)*

*Notes: (Continued)*

(c) The following is a list of the principal subsidiaries at 31 December 2011:*(Continued)*

| Name | Place of incorporation/ establishment and kind of legal entity | Principal activities and place of operation | Particulars of issued/registered share capital | Interest held |
|---|---|---|---|---|
| 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 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 10,000 common shares of EUR1 each | 62.6% |
| Xinyi Glass (North America) Inc. | Canada, limited liability company | Sales agent in Canada | Authorised and paid up capital of 100,000 common shares of CAD1 each | 70% |
| Xinyi Auto Glass (North America) Corporation | Canada, limited liability company | Sales agent in Canada | Authorised and paid up capital of 100,000 common shares of CAD0.1 each | 70% |
| 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 Solar Holdings Limited | Cayman Islands, limited liability company | Investment holdings in Hong Kong | Authorised capital of HK$8,000,000,000 with total paid up capital of 200 ordinary shares of HK$0.1 each | 100% |

(All amounts in Hong Kong dollar thousands unless otherwise stated)

## 10 INTERESTS IN AND AMOUNTS DUE FROM/TO SUBSIDIARIES *(Continued)*

*Notes: (Continued)*

(c) The following is a list of the principal subsidiaries at 31 December 2011:*(Continued)*

| Name | Place of incorporation/ establishment and kind of legal entity | Principal activities and place of operation | Particulars of issued/registered share capital | Interest held |
|---|---|---|---|---|
| Xinyi Solar (BVI) Limited | The British Virgin Islands, limited liability company | Investment holding in Hong Kong | Authorised capital of US$50,000 with total paid up 200 ordinary shares of US$ 1 each | 100% |
| Xinyi Solar (Hong Kong) Limited | Hong Kong, limited liability company | Trading in Hong Kong | Authorised capital of HK$10,000 with total paid up capital of 200 ordinary shares of HK$1 each | 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 and trading in Hong Kong | Authorised and paid up 10,000 ordinary shares of HK$1 each | 100% |
| Xinyi Automobile Glass (BVI) Company Limited[1] | 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% |

# Notes To The Consolidated Financial Statements

(All amounts in Hong Kong dollar thousands unless otherwise stated)

## 10 INTERESTS IN AND AMOUNTS DUE FROM/TO SUBSIDIARIES *(Continued)*

*Notes: (Continued)*

(c) The following is a list of the principal subsidiaries at 31 December 2011:*(Continued)*

| Name | Place of incorporation/ establishment and kind of legal entity | Principal activities and place of operation | Particulars of issued/registered share capital | Interest held |
|---|---|---|---|---|
| Xinyi EnergySmart (Wuhu) Company Limited | The PRC, limited liability company | Manufacturing of float glass and construction glass in the PRC | Registered and paid up capital of US$58,500,000 | 100% |
| Xinyi PV (Anhui) Products Holdings Limited | The PRC, limited liability company | Manufacturing of solar glass in the PRC | Registered and paid up capital of US$154,200,000 | 100% |
| Xinyi Glass (Jiangmen) Company Limited | The PRC, limited liability company | Manufacturing of float glass in the PRC | Registered capital of US$110,800,000 with total paid up capital of US$107,860,087 | 100% |
| Xinyi Glass Engineering (Dongguan) Company Limited | The PRC, limited liability company | Manufacturing of construction glass in the PRC | Registered and paid up capital of US$43,800,000 | 100% |
| Xinyi Wenchang Mining Company Limited | The PRC, limited liability company | Mining and sale of silica in the PRC | Registered and paid up capital of RMB39,000,000 | 55% |
| Xinyi Glass (YingKou) Limited | The PRC, limited liability company | Manufacturing of float glass in the PRC | Registered capital of US$99,000,000 with total paid up capital of US$10,934,065 | 100% |

1 Shares held directly by the Company.

(All amounts in Hong Kong dollar thousands unless otherwise stated)

## 11 AVAILABLE-FOR-SALE FINANCIAL ASSETS

| | Group | |
|---|---|---|
| | 2011 | 2010 |
| At 1 January | 588 | 569 |
| Exchange differences | 29 | 19 |
| At 31 December | 617 | 588 |

At 31 December 2011, the carrying amounts of available-for-sale financial assets approximate their fair values. All available-for-sale financial assets are unlisted equity securities. There were no disposals or impairment made on available-for-sale financial assets in 2011 and 2010. These financial assets are denominated in RMB.

## 12 INTERESTS IN AND BALANCES WITH ASSOCIATES

| | Group | |
|---|---|---|
| | 2011 | 2010 |
| Investments in associates | | |
| At 1 January | 16,212 | 11,747 |
| Exchange differences | 278 | — |
| Capital injection | 35,953 | 6,824 |
| Disposal | (2,195) | — |
| Share of profits of associates | 3,489 | 514 |
| Dividend received | (1,789) | (2,873) |
| At 31 December | 51,948 | 16,212 |

| | Group | |
|---|---|---|
| | 2011 | 2010 |
| Loans to associates *(Note (a))* | | |
| – Current portion | 2,469 | 3,129 |
| – Non-current portion | 35,679 | 36,353 |
| | 38,148 | 39,482 |
| Amount due to an associate *(Note (b))* | (33) | (2,910) |

(All amounts in Hong Kong dollar thousands unless otherwise stated)

## 12 INTERESTS IN AND BALANCES WITH ASSOCIATES *(Continued)*

*Notes:*

(a) As at 31 December 2011, the loans to associates are unsecured, interest-free and are repayable by installments up to 2020. As at 31 December 2010, out of the total balance of HK$39,482,000, an amount of HK$776,000 was unsecured, bore interest at 12% per annum and the remaining balance of HK$38,706,000 was unsecured, interest-free and repayable by installments up to 2020.

(b) The amount due to an associate is unsecured, interest-free and repayable on demand.

(c) The carrying amounts of balances with associates approximate their fair values.

(d) The following is a list of the principal associates at 31 December 2011:

| Name | Particulars of registered share capital | Principal activities and place of operation | Interest held |
|---|---|---|---|
| Beihai Yiyang Mineral Company Limited | Registered and paid up capital of RMB25,454,500 | Exploration, mining and trading of silica in the PRC | 45% |
| Maoming City Yindi Construction Material Company Limited | Registered and paid up capital of RMB3,000,000 | Exploration, mining and trading of silica in the PRC | 30% |
| Dongyuan County Xinhuali Quartz Sand Company Limited | Registered and paid up capital of RMB500,000 | Exploration, mining and trading of silica in the PRC | 20% |
| Tianjin Wuqing District Xinke Natural Gas Investment Company Limited | Registered capital of RMB10,000,000 and total paid up capital of RMB2,000,000 | Provision of natural gas in the PRC | 25% |
| Yu Sheng Investments Limited | Registered and paid up capital of USD 10,000 | Investment holding in British Virgin Islands | 20% |

The Group's share of the results of its associates, all of which are unlisted, and their aggregated assets and liabilities are as follows:

| | 2011 | 2010 |
|---|---|---|
| Assets | 80,602 | 57,832 |
| Liabilities | 37,192 | 39,202 |
| Sales | 68,524 | 37,633 |
| Profits | 3,489 | 514 |

(All amounts in Hong Kong dollar thousands unless otherwise stated)

## 13 INVENTORIES

| | Group | |
|---|---|---|
| | **2011** | 2010 |
| Raw materials | **466,282** | 403,222 |
| Work in progress | **81,014** | 60,958 |
| Finished goods | **698,831** | 356,165 |
| | **1,246,127** | 820,345 |

The cost of inventories recognised as expense and included in cost of sales amounted to approximately HK$4,420,272,000 (2010: HK$2,741,936,000) (Note 23).

## 14 TRADE AND OTHER RECEIVABLES

| | Group | | Company | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| Trade receivables *(Note (a))* | **752,234** | 714,827 | **—** | — |
| Less: provision for impairment of trade receivables *(Note (b))* | **(14,109)** | (16,145) | **—** | — |
| | **738,125** | 698,682 | **—** | — |
| Bills receivables *(Note (d))* | **596,417** | 321,655 | **—** | — |
| Trade and bills receivables - net | **1,334,542** | 1,020,337 | **—** | — |
| Prepayments, deposits and other receivables | **738,558** | 513,503 | **46** | 356 |
| | **2,073,100** | 1,533,840 | **46** | 356 |

# Notes To The Consolidated Financial Statements

(All amounts in Hong Kong dollar thousands unless otherwise stated)

## 14 TRADE AND OTHER RECEIVABLES *(Continued)*

*Notes:*

(a) The credit period granted by the Group to its customers is generally from 30 to 90 days. At 31 December 2011 and 2010, the ageing analysis of the Group's trade receivables based on invoice date was as follows:

| | 2011 | 2010 |
|---|---|---|
| 0 - 90 days | 619,524 | 594,318 |
| 91 - 180 days | 85,919 | 68,729 |
| 181 - 365 days | 28,960 | 32,150 |
| 1 - 2 years | 10,699 | 12,321 |
| Over 2 years | 7,132 | 7,309 |
| | 752,234 | 714,827 |

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

| | 2011 | 2010 |
|---|---|---|
| RMB | 468,295 | 357,967 |
| HKD | 5,070 | 1,684 |
| USD | 264,508 | 320,923 |
| Other currencies | 14,361 | 34,253 |
| | 752,234 | 714,827 |

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

| | 2011 | 2010 |
|---|---|---|
| At 1 January | 16,145 | 12,392 |
| Exchange differences | 683 | 507 |
| (Reversal of provision)/provision for impairment of trade receivables *(Note 23)* | (743) | 3,846 |
| Receivables written off during the year as uncollectible | (1,976) | (600) |
| At 31 December | 14,109 | 16,145 |

The creation and release of provision for impaired receivables have been included in "administrative expenses" in the consolidated income statement. The amounts charged to the allowance account are generally written off, when there is no expectation of recovering additional cash.

(All amounts in Hong Kong dollar thousands unless otherwise stated)

## 14 TRADE AND OTHER RECEIVABLES *(Continued)*

(c) As at 31 December 2011, trade receivables of approximately HK$225,647,000 (2010: HK$157,946,000) 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 based on due date was as follows:

| | 2011 | 2010 |
|---|---|---|
| 0 - 90 days | 119,638 | 99,641 |
| 91-180 days | 70,730 | 17,787 |
| 181-365 days | 19,195 | 24,387 |
| 1-2 years | 9,226 | 9,762 |
| Over 2 years | 6,858 | 6,369 |
| | 225,647 | 157,946 |

As at 31 December 2011, trade receivables of approximately HK$41,531,000 (2010: HK$38,061,000) were impaired and partially provided for. The individually impaired receivables are related to customers in unexpected financial difficulties and management assessed that only a portion of the receivables is expected to be recovered. Consequently, a total provision for doubtful debts of approximately HK$14,109,000 (2010: HK$16,145,000) was recognised. The Group does not hold any collateral over these balances.

The aging analysis of these receivables based on invoice date is as follows:

| | 2011 | 2010 |
|---|---|---|
| 0 - 90 days | 25,663 | 26,753 |
| 91-180 days | 8,636 | 548 |
| 181-365 days | 132 | 2,377 |
| 1-2 years | 1,583 | 4,837 |
| Over 2 years | 5,517 | 3,546 |
| | 41,531 | 38,061 |

The top five customers and the largest customer accounted for approximately 18.0% (2010: 28.5%) and 9.8% (2010: 19.0%) of the trade receivables balance as at 31 December 2011, 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)

## 14 TRADE AND OTHER RECEIVABLES *(Continued)*

(d) The maturities of the bills receivables are within 6 months (2010: 6 months).

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

(f) The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The Group does not hold any collateral as security.

## 15 CASH AND BANK BALANCES

| | Group | | Company | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| Cash at bank and on hand | 460,491 | 564,502 | 260 | 3,686 |
| Bank deposits with maturity less than three months | 172,301 | 118 | — | — |
| Cash and cash equivalents | 632,792 | 564,620 | 260 | 3,686 |
| Bank deposits with maturity more than three months | 80,172 | 75,639 | — | — |
| | 712,964 | 640,259 | 260 | 3,686 |
| Pledged bank deposits *(Note (a))* | 784 | 1,725 | — | — |
| Total cash and bank balances | 713,748 | 641,984 | 260 | 3,686 |

The effective interest rate on short-term bank deposits was 2.67% in 2011 (2010: 2.42%). These short-term bank deposits have an average maturity of 212 days (2010: 290 days).

(All amounts in Hong Kong dollar thousands unless otherwise stated)

## 15 CASH AND BANK BALANCES *(Continued)*

The carrying amounts of the Group's cash and bank balances and bank deposits are denominated in the following currencies:

| | 2011 | 2010 |
|---|---|---|
| RMB | 388,640 | 420,909 |
| HKD | 43,932 | 93,103 |
| USD | 234,644 | 97,511 |
| Other currencies | 46,532 | 30,461 |
| | 713,748 | 641,984 |

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.

*Note (a):* The pledged bank deposits represent deposits pledged to banks as required by different regulatory bodies for securing the relevant tax duties.

Cash and cash equivalents include the following for the purposes of the consolidated statement of cash flows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| Cash and bank balances | 713,748 | 641,984 | 260 | 3,686 |
| Less: | | | | |
| – Pledged bank deposits | (784) | (1,725) | — | — |
| – Bank deposits with maturity more than three months | (80,172) | (75,639) | — | — |
| | 632,792 | 564,620 | 260 | 3,686 |

# Notes To The Consolidated Financial Statements

(All amounts in Hong Kong dollar thousands unless otherwise stated)

## 16 SHARE CAPITAL AND PREMIUM

| | Note | Number of shares | Ordinary shares of HK$0.1 each | Share premium | Total |
|---|---|---|---|---|---|
| **Authorised:** | | | | | |
| At 1 January 2010, 31 December 2010 and 2011 | | 20,000,000,000 | 2,000,000 | — | 2,000,000 |
| **Issued and fully paid:** | | | | | |
| **At 1 January 2010** | | 1,773,050,460 | 177,305 | 2,334,321 | 2,511,626 |
| Issue of shares under an employees share option scheme | (a) | 9,568,000 | 957 | 43,278 | 44,235 |
| Repurchase and cancellation of shares | (b) | (36,386,000) | (3,639) | (183,671) | (187,310) |
| Bonus issue of shares | (c) | 1,770,860,460 | 177,086 | (177,086) | — |
| At 31 December 2010 and 1 January 2011 | | 3,517,092,920 | 351,709 | 2,016,842 | 2,368,551 |
| Issue of shares under an employees share option scheme | (a) | 18,871,400 | 1,887 | 50,502 | 52,389 |
| Issue of new shares | (d) | 100,000,000 | 10,000 | 810,767 | 820,767 |
| Scrip dividend | (e) | 47,359,724 | 4,736 | 210,277 | 215,013 |
| At 31 December 2011 | | 3,683,324,044 | 368,332 | 3,088,388 | 3,456,720 |

## 16 SHARE CAPITAL AND PREMIUM *(Continued)*

### (A) 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 options to any employee of the Group 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 June 2007, 24,230,000 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$3.49 per share. Options are conditional on the employee completing three year's service (the vesting period). The options are exercisable starting three years from the grant date. In relation to the batch granted in June 2007, 13,827,000 options (2010: 9,568,000) were exercised from the date of the grant to 31 December 2011 and a total of 208,000 options were expired during the year ended 31 December 2011.

In April 2008, 48,517,000 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$2.34 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 the batch granted in April 2008, no option (2010: Nil) was exercised from the date of the grant to 31 December 2011 and a total of 699,000 (2010: 10,223,000) options were lapsed during the year ended 31 December 2011.

In March 2009, 22,288,000 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$1.72 per share. Options are conditional on the employee completing two year's service (the vesting period). The options are exercisable starting two years from the grant date. In relation to the batch granted in March 2009, 14,612,000 options (2010: Nil) were exercised from the date of the grant to 31 December 2011 and 863,000 (2010: 2,314,000) options were lapsed during the year ended 31 December 2011.

## 16 SHARE CAPITAL AND PREMIUM *(Continued)*

### (A) SHARE OPTIONS *(Continued)*

In March 2010, 36,898,000 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$3.55 per share. Options are conditional on the employee completing three year's service (the vesting period). The options are exercisable starting three years from the grant date. In relation to the batch granted in March 2010, no option was exercised from the date of the grant to 31 December 2011 and a total of 1,084,000 (2010: 1,487,000) options were lapsed during the year ended 31 December 2011.

In March 2011, 23,718,000 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$6.44 per share. Options are conditional on the employee completing three years and one month's service (the vesting period). The options are exercisable starting three years and one month from the grant date. In relation to the batch granted in March 2011, no option was exercised from the date of the grant to 31 December 2011 and a total of 1,340,000 options were lapsed during the year ended 31 December 2011.

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

| | 2011 | | 2010 | |
|---|---|---|---|---|
| | Average exercise price in HK dollar per share | Options (thousands) | Average exercise price in HK dollar per share | Options (thousands) |
| At 1 January | 2.75 | 89,279 | 2.48 | 83,294 |
| Granted | 6.44 | 23,718 | 3.55 | 36,898 |
| Exercised | 2.12 | (18,871) | 3.49 | (9,568) |
| Lapsed | 3.91 | (3,985) | 2.71 | (21,345) |
| Expired | 3.49 | (208) | — | — |
| At 31 December | 3.80 | 89,933 | 2.75 | 89,279 |

Out of the 89,933,000 (2010: 89,279,000) outstanding options, 3,468,000 (2010: 4,467,000) options were exercisable as at 31 December 2011. Options exercised in 2011 resulted in 18,871,000 shares (2010: 9,568,000 shares) being issued at a weighted average price at the time of exercise of HK$2.12 each (2010: HK$3.49 each).

## 16 SHARE CAPITAL AND PREMIUM *(Continued)*

### (A) SHARE OPTIONS *(Continued)*

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

| Expiry date | Exercise price in HK dollar per share | Options (thousands) 2011 | 2010 |
|---|---|---|---|
| 30 June 2011 | 3.49 | — | 4,467 |
| 31 March 2012 | 1.72 | **3,468** | 18,942 |
| 19 April 2013 | 2.34 | **29,760** | 30,459 |
| 31 March 2014 | 3.55 | **34,327** | 35,411 |
| 31 March 2015 | 6.44 | **22,378** | — |
| | | **89,933** | 89,279 |

(a) The weighted average fair value of options granted during the year determined using the Black-Scholes valuation model, which was performed by an independent valuer, Greater China Appraisal Limited, was approximately HK$2.37 (2010: HK$1.38) per option. The significant inputs into the model were weighted average share price of HK$6.44 (2010: HK$3.55) at the grant date, the exercise price shown above, volatility of 60.40% (2010: 63.19%), dividend yield of 3.26% (2010: 2.96%), an expected option life of 3.58 years (2010: 3.5 years), and an annual risk-free interest rate of 1.33% (2010: 1.42%). 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. See Note 24 for the total expense recognised in the consolidated income statement for share options granted to employees.

Based on the above, the fair value of the above options granted during the year determined using the Black-Scholes valuation model was HK$56,112,000 (2010: HK$50,772,000). The attributable amounts charged to the consolidated income statement for the year ended 31 December 2011 was HK$30,460,000 (2010: HK$17,723,000).

(b) During the year ended 31 December 2010, 36,386,000 shares repurchased by the Company were cancelled in 2010. 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.

(c) In June 2010, the Company allotted and issued 1,770,860,460 shares by way of bonus issue (the "Bonus Issue") on the basis of one new bonus share for every existing share held by the shareholders. The number of share options and their exercise prices (as stated in Note (a) above) and the earnings per share (Note 30) for the year ended 31 December 2010 were restated accordingly as a result of the Bonus Issue.

# Notes To The Consolidated Financial Statements

(All amounts in Hong Kong dollar thousands unless otherwise stated)

## 16 SHARE CAPITAL AND PREMIUM *(Continued)*

(d) In June 2011, the Company allotted and issued 100,000,000 shares by way of placing at HK$8.35 each, totaling HK$835,000,000 and the related transaction costs amounting to HK$14,233,000 have been netting off with the deemed proceeds. These shares rank pari passu in all respects with the then existing shares in issue. The excess over the par value of the shares were credited to the share premium account.

(e) In August 2011, the Company allotted and issued 47,359,724 shares by way of scrip dividend ("Scrip Dividend Scheme") in which shareholders will be given the option to receive the interim dividend of HK$0.11 in cash or in lieu of cash. The excess over the par value of the shares were credited to the share premium account.

## 17 RESERVES

### GROUP

| | 2010 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Other reserves | | | | | | | | | |
| | Statutory reserve fund *(Note (a))* | Enterprise expansion fund *(Note (a))* | Foreign currency translations reserve | Capital reserve *(Note (b))* | Share option reserve | Property revaluation reserve | Capital redemption reserve | Sub-total | Retained earnings | Total |
| At 1 January 2010 | 314,071 | 45,866 | 396,113 | 11,840 | 36,744 | 624 | 5,303 | 810,561 | 2,088,327 | 2,898,888 |
| Profit for the year | — | — | — | — | — | — | — | — | 1,571,198 | 1,571,198 |
| Currency translation differences - group | 11,085 | 1,618 | 227,014 | — | — | — | — | 239,717 | — | 239,717 |
| Repurchase and cancellation of the Company's shares, - nominal value of shares *(Note 16)* | — | — | — | — | — | — | 3,639 | 3,639 | (3,639) | — |
| Employee share option schemes: | | | | | | | | | | |
| – proceeds from shares issued | — | — | — | — | (10,843) | — | — | (10,843) | — | (10,843) |
| – value of employee services *(Note 24)* | — | — | — | — | 17,723 | — | — | 17,723 | — | 17,723 |
| – release on forfeiture of share options | — | — | — | — | (9,123) | — | — | (9,123) | 9,123 | — |
| Disposal of a subsidiary | (2,695) | (579) | — | — | — | — | — | (3,274) | 3,274 | — |
| Transfer to reserve | 149,742 | — | — | — | — | — | — | 149,742 | (149,742) | — |
| Dividend relating to 2009 | — | — | — | — | — | — | — | — | (265,629) | (265,629) |
| Dividend relating to 2010 | — | — | — | — | — | — | — | — | (283,338) | (283,338) |
| At 31 December 2010 | 472,203 | 46,905 | 623,127 | 11,840 | 34,501 | 624 | 8,942 | 1,198,142 | 2,969,574 | 4,167,716 |

(All amounts in Hong Kong dollar thousands unless otherwise stated)

## 17 RESERVES *(Continued)*

### GROUP *(Continued)*

| | 2011 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Other reserves | | | | | | | | | |
| | Statutory reserve fund *(Note (a))* | Enterprise expansion fund *(Note (a))* | Foreign currency translations reserve | Capital reserve *(Note (b))* | Share option reserve | Property revaluation reserve | Capital redemption reserve | Sub-total | Retained earnings | Total |
| At 1 January 2011 | 472,203 | 46,905 | 623,127 | 11,840 | 34,501 | 624 | 8,942 | 1,198,142 | 2,969,574 | 4,167,716 |
| Profit for the year | — | — | — | — | — | — | — | — | 1,264,853 | 1,264,853 |
| Currency translation differences | | | | | | | | | | |
| - group | 23,202 | 2,316 | 433,568 | — | — | — | — | 459,086 | — | 459,086 |
| Employee share option schemes: | | | | | | | | | | |
| – proceeds from shares issued | — | — | — | — | (12,737) | — | — | (12,737) | — | (12,737) |
| – value of employee services *(Note 24)* | — | — | — | — | 30,460 | — | — | 30,460 | — | 30,460 |
| – release on forfeiture of share options | — | — | — | — | (1,045) | — | — | (1,045) | 1,045 | — |
| Transfer to reserve | 113,302 | — | — | — | — | — | — | 113,302 | (113,302) | — |
| Dividend relating to 2010 | — | — | — | — | — | — | — | — | (458,646) | (458,646) |
| Dividend relating to 2011 | — | — | — | — | — | — | — | — | (399,903) | (399,903) |
| At 31 December 2011 | 608,707 | 49,221 | 1,056,695 | 11,840 | 51,179 | 624 | 8,942 | 1,787,208 | 3,263,621 | 5,050,829 |

*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 respective subsidiaries. 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 2011, the boards of directors of the subsidiaries resolved to appropriate approximately HK$113,302,000 (2010: HK$149,742,000) from retained earnings to statutory reserve fund. No enterprise expansion fund was appropriated during the years ended 31 December 2011 and 2010.

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

(All amounts in Hong Kong dollar thousands unless otherwise stated)

## 17 RESERVES *(Continued)*

### COMPANY

| | Share option reserve | Capital redemption reserve | Sub-total | Retained earnings | Total |
|---|---|---|---|---|---|
| At 1 January 2010 | 36,744 | 5,303 | 42,047 | 310,456 | 352,503 |
| Profit for the year | — | — | — | 713,052 | 713,052 |
| Repurchase and cancellation of the Company's shares *(Note 16)* | — | 3,639 | 3,639 | (3,639) | — |
| Employees share option scheme: | | | | | |
| – proceeds from shares issued | (10,843) | — | (10,843) | — | (10,843) |
| – value of employee services *(Note 24)* | 17,723 | — | 17,723 | — | 17,723 |
| – release on forfeiture of share options | (9,123) | — | (9,123) | 9,123 | — |
| Dividends relating to 2009 | — | — | — | (265,629) | (265,629) |
| Dividends relating to 2010 | — | — | — | (283,338) | (283,338) |
| At 31 December 2010 | 34,501 | 8,942 | 43,443 | 480,025 | 523,468 |
| At 1 January 2011 | 34,501 | 8,942 | 43,443 | 480,025 | 523,468 |
| Profit for the year | — | — | — | 586,071 | 586,071 |
| Employees share option scheme: | | | | | |
| – proceeds from shares issued | (12,737) | — | (12,737) | — | (12,737) |
| – value of employee services *(Note 24)* | 30,460 | — | 30,460 | — | 30,460 |
| – release on forfeiture of share options | (1,045) | — | (1,045) | 1,045 | — |
| Dividends relating to 2010 | — | — | — | (458,646) | (458,646) |
| Dividends relating to 2011 | — | — | — | (399,903) | (399,903) |
| **At 31 December 2011** | **51,179** | **8,942** | **60,121** | **208,592** | **268,713** |

(All amounts in Hong Kong dollar thousands unless otherwise stated)

## 18 TRADE PAYABLES, ACCRUALS AND OTHER PAYABLES

| | Group | | Company | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| Trade payables *(Note (a))* | **557,023** | 377,043 | **—** | — |
| Bills payable *(Note (b))* | **341,106** | 200,342 | **—** | — |
| | **898,129** | 577,385 | **—** | — |
| Accruals and other payables *(Note (c))* | **1,268,152** | 930,273 | **690** | 871 |
| | **2,166,281** | 1,507,658 | **690** | 871 |

*Notes:*

(a) At 31 December 2011 and 2010, the ageing analysis of the Group's trade payables based on invoice date was as follows:

| | Group | |
|---|---|---|
| | **2011** | 2010 |
| 0 - 90 days | **522,970** | 350,273 |
| 91-180 days | **21,237** | 11,955 |
| 181-365 days | **7,487** | 4,617 |
| 1-2 years | **4,182** | 8,517 |
| Over 2 years | **1,147** | 1,681 |
| | **557,023** | 377,043 |

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

| | Group | |
|---|---|---|
| | **2011** | 2010 |
| RMB | **503,005** | 327,735 |
| HKD | **20** | 40 |
| USD | **53,853** | 49,026 |
| Other currencies | **145** | 242 |
| | **557,023** | 377,043 |

# Notes To The Consolidated Financial Statements

(All amounts in Hong Kong dollar thousands unless otherwise stated)

## 18 TRADE PAYABLES, ACCRUALS AND OTHER PAYABLES *(Continued)*

*Notes: (Continued)*

(b) Bills payable have maturities ranging within 6 months (2010: 6 months).

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

| | Group | | Company | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| Payables for property, plant and equipment | **562,889** | 232,838 | **—** | — |
| Accruals for employee benefits and welfare | **163,672** | 115,927 | **—** | — |
| Payables for value-added tax | **109,767** | 62,409 | **—** | — |
| Payables for utilities | **52,978** | 73,638 | **—** | — |
| Receipt in advance from customers | **184,366** | 166,710 | **—** | — |
| Trading derivatives – cross currency swap and foreign exchange forward contracts | **24** | 3,776 | **—** | — |
| Deferred government grants *(Note 21)* | **55,434** | 130,588 | **—** | — |
| Others | **139,022** | 144,387 | **690** | 871 |
| | **1,268,152** | 930,273 | **690** | 871 |

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

(All amounts in Hong Kong dollar thousands unless otherwise stated)

## 19 BANK BORROWINGS

| | Group | |
|---|---|---|
| | **2011** | 2010 |
| **Non-current** | | |
| Secured *(Note (a))* | **4,239,511** | 2,537,616 |
| Less: Current portion | **(1,025,415)** | (283,641) |
| | **3,214,096** | 2,253,975 |
| **Current** | | |
| Secured *(Note (a))* | **79,299** | 120,118 |
| Unsecured | **—** | 66,764 |
| | **79,299** | 186,882 |
| Current portion of non-current borrowings, secured | **1,025,415** | 283,641 |
| | **1,104,714** | 470,523 |
| Total bank borrowings | **4,318,810** | 2,724,498 |

*Note:*

(a) The bank borrowings were secured by corporate guarantees provided by the Company and cross guarantees provided by certain subsidiaries of the Group.

(All amounts in Hong Kong dollar thousands unless otherwise stated)

## 19 BANK BORROWINGS *(Continued)*

At 31 December 2011 and 2010, the Group's bank borrowings were repayable as follows:

| | 2011 | 2010 |
|---|---|---|
| Within 1 year | 1,104,714 | 470,523 |
| Between 1 and 2 years | 1,647,795 | 832,806 |
| Between 2 and 5 years | 1,566,301 | 1,421,169 |
| | 4,318,810 | 2,724,498 |

Bank loans of approximately HK$4,318,810,000 (2010: HK$2,657,733,000) bear floating interest rates and none (2010: HK$66,765,000) of the balance bear fixed interest rates. These bank borrowings are repayable by instalments up to 2015 and the carrying amounts of bank borrowings approximate their fair values as at 31 December 2011 and 2010.

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

| | 2011 | 2010 |
|---|---|---|
| HKD | 4,119,616 | 2,435,826 |
| RMB | — | 11,764 |
| USD | 199,194 | 276,908 |
| | 4,318,810 | 2,724,498 |

Out of the total USD denominated bank borrowings of HK$199,194,000 (2010: HK$276,908,000), US$11,200,000 (2010: US$24,800,000) has been arranged to be swapped into HK$87,113,600 (2010: HK$192,894,000) under a cross currency swap at repayment dates.

The effective interest rates at the end of reporting date were as follows:

| | 2011 | | | 2010 | | |
|---|---|---|---|---|---|---|
| | HKD | USD | RMB | HKD | USD | RMB |
| Bank borrowings | 1.48% | 1.27% | Nil | 1.45% | 1.55% | 5.31% |

(All amounts in Hong Kong dollar thousands unless otherwise stated)

## 20 DEFERRED INCOME TAX

The analysis of deferred income tax assets and deferred income tax liabilities is as follows:

| | Group | |
|---|---|---|
| | 2011 | 2010 |
| Deferred income tax assets: | | |
| – Deferred income tax assets to be recovered after more than 12 months | (5,397) | (3,819) |
| Deferred income tax liabilities: | | |
| – Deferred income tax liabilities to be settled after more than 12 months | 105,754 | 78,637 |
| Deferred income tax liabilities, net | 100,357 | 74,818 |

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

| | Group | |
|---|---|---|
| | 2011 | 2010 |
| Beginning of the year | 74,818 | (3,706) |
| Charged to the consolidated income statement (Note 28) | 25,539 | 78,524 |
| End of the year | 100,357 | 74,818 |

(All amounts in Hong Kong dollar thousands unless otherwise stated)

## 20 DEFERRED INCOME TAX *(Continued)*

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

Deferred income tax liabilities:

| | Group | | | |
|---|---|---|---|---|
| | Accelerated tax depreciation | Fair value gains | Undistributed profits of subsidiaries | Total |
| At 1 January 2010 | 1,264 | 4,553 | — | 5,817 |
| (Credited)/charged to the consolidated income statement | (47) | (23) | 73,188 | 73,118 |
| At 31 December 2010 | 1,217 | 4,530 | 73,188 | 78,935 |
| Charged to the consolidated income statement | 444 | 518 | 25,857 | 26,819 |
| **At 31 December 2011** | **1,661** | **5,048** | **99,045** | **105,754** |

Deferred income tax assets:

| | Group<br>Tax losses |
|---|---|
| At 1 January 2010 | (9,523) |
| Charged to the consolidated income statement | 5,406 |
| At 31 December 2010 | (4,117) |
| Credited to the consolidated income statement | (1,280) |
| At 31 December 2011 | (5,397) |

(All amounts in Hong Kong dollar thousands unless otherwise stated)

## 20 DEFERRED INCOME TAX *(Continued)*

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$9,052,000 (2010: HK$720,000) in respect of losses amounting to approximately HK$36,214,000 (2010: HK$3,942,000) that can be carried forward against future taxable income, approximately HK$1,141,000 (2010: HK$1,087,000), HK$1,076,000 (2010: HK$1,025,000), Nil (2010: Nil), HK$141,000 (2010: HK$134,000) and HK$33,837,000 of such losses will expire in 2012, 2013, 2014, 2015 and 2016 respectively. The remaining balance of HK$19,000 (2010: HK$1,696,000) does not have expiry date.

Deferred income tax liabilities of approximately HK$57,094,000 (2010: HK$57,638,000) have not been recognised for withholding tax and other taxes that would be payable on the unremitted earnings of certain subsidiaries and associates in the PRC. Such temporary differences are not expected to be reversed in the foreseeable future. At 31 December 2011, total unremitted earnings for which deferred withholding tax liability has not been recognised amounted to approximately HK$1,141,880,000 (2010: HK$1,152,760,000).

## 21 DEFERRED GOVERNMENT GRANTS

| | Group | |
|---|---|---|
| | 2011 | 2010 |
| Non-current portion | 83,259 | — |
| Current portion (Note 18(c)) | 55,434 | 130,588 |
| | 138,693 | 130,588 |

The government grants were received from the PRC government in subsidising the Group's purchase of property, plant and equipment in the PRC. They will be netting off with the cost of acquisition when property, plant and equipment are acquired and are recognised in the consolidated income statement on a straight-line basis over the expected lives of the related assets.

For the deferred government grants that are under non-current portion, they will be netting off the cost of acquisition beyond 12 months.

# Notes To The Consolidated Financial Statements

(All amounts in Hong Kong dollar thousands unless otherwise stated)

## 22 PROVISION FOR LEGAL CLAIM

The movements of provision for legal claim are shown as follows:

| | Group | |
|---|---|---|
| | **2011** | 2010 |
| At beginning of the year | — | 85,332 |
| Transferred to other payables upon agreement of settlement amount | — | (48,516) |
| Reversal of provision for legal claim | — | (36,816) |
| At end of the year | — | — |

Xinyi Automobile Glass (Shenzhen) Company Limited and Saint-Gobain (as defined in the announcement dated 10 August 2010) reached a settlement agreement on proceedings in the United States and in China between different subsidiaries of both groups in August 2010. Under the settlement agreement, all proceedings were terminated in 2010 without admission of any infringement liability on either side. As a result of the settlement agreement, there is a reversal of provision with amount of approximately HK$36,816,000 during the year ended 31 December 2010.

## 23 EXPENSES BY NATURE

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

| | **2011** | 2010 |
|---|---|---|
| Amortisation charge of leasehold land and land use rights *(Note 6)* | **16,726** | 12,295 |
| Depreciation charge of property, plant and equipment | **425,524** | 324,554 |
| Amortisation charge of intangible assets *(Note 9)* | **2,833** | 2,112 |
| Employee benefit expenses *(Note 24)* | **618,710** | 453,719 |
| Cost of inventories *(Note 13)* | **4,420,272** | 2,741,936 |
| Other selling expenses (including transportation and advertising costs) | **233,213** | 210,779 |
| Operating lease payments in respect of land and buildings | **5,582** | 4,974 |
| (Reversal of provision)/provision for impairment of trade receivables, net *(Note 14)* | **(743)** | 3,846 |
| Auditor's remuneration | **3,652** | 4,269 |
| Direct operating expenses arising from investment property that generate rental income | **844** | 913 |
| Research and development costs | **141,258** | 75,574 |
| Other expenses, net | **970,390** | 745,379 |
| Total cost of sales, selling and marketing costs and administrative expenses | **6,838,261** | 4,580,350 |

(All amounts in Hong Kong dollar thousands unless otherwise stated)

## 24 EMPLOYEE BENEFIT EXPENSES

| | 2011 | 2010 |
|---|---|---|
| Wages and salaries | 557,106 | 410,429 |
| Share options granted to employees | 30,460 | 17,723 |
| Pension costs - defined contribution plans (Note (a)) | 31,144 | 25,567 |
| | 618,710 | 453,719 |

*Note (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. 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.

(All amounts in Hong Kong dollar thousands unless otherwise stated)

## 24 EMPLOYEE BENEFIT EXPENSES *(Continued)*

### (A) DIRECTORS' AND SENIOR MANAGEMENT's EMOLUMENTS

The remuneration of every Director for the year ended 31 December 2011 is set out below:

| Name of Director | Fees | Salary | Discretionary bonuses | Employer's contribution to pension scheme | Total |
|---|---|---|---|---|---|
| LEE Yin Yee | 250 | 49 | 2,971 | 1 | 3,271 |
| TUNG Ching Bor | 250 | 1,523 | 900 | 12 | 2,685 |
| TUNG Ching Sai | 250 | 5,355 | 3,462 | 12 | 9,079 |
| LEE Yau Ching | 250 | 2,430 | 1,154 | 12 | 3,846 |
| LEE Shing Kan | 250 | 1,296 | 589 | 12 | 2,147 |
| LI Man Yin | 250 | 1,075 | 589 | 12 | 1,926 |
| NG Ngan Ho | 250 | — | — | — | 250 |
| LI Ching Wai | 250 | — | — | — | 250 |
| SZE Nang Sze | 250 | — | — | — | 250 |
| LI Ching Leung | 250 | — | — | — | 250 |
| LAM Kwong Siu | 250 | — | — | — | 250 |
| WONG Chat Chor Samuel | 250 | — | — | — | 250 |
| WONG Ying Wai | 250 | — | — | — | 250 |

(All amounts in Hong Kong dollar thousands unless otherwise stated)

## 24 EMPLOYEE BENEFIT EXPENSES *(Continued)*

### (A) DIRECTORS' AND SENIOR MANAGEMENT's EMOLUMENTS *(Continued)*

The remuneration of every Director for the year ended 31 December 2010 is set out below:

| Name of Director | Fees | Salary | Discretionary bonuses | Employer's contribution to pension scheme | Total |
|---|---|---|---|---|---|
| LEE Yin Yee | 250 | 49 | 4,680 | 2 | 4,981 |
| TUNG Ching Bor | 250 | 1,452 | 1,100 | 12 | 2,814 |
| TUNG Ching Sai | 250 | 5,046 | 2,200 | 12 | 7,508 |
| LEE Yau Ching | 250 | 1,387 | 880 | 12 | 2,529 |
| LEE Shing Kan | 250 | 1,150 | 680 | 12 | 2,092 |
| LI Man Yin | 250 | 980 | 680 | 12 | 1,922 |
| NG Ngan Ho | 250 | — | — | — | 250 |
| LI Ching Wai | 250 | — | — | — | 250 |
| SZE Nang Sze | 250 | — | — | — | 250 |
| LI Ching Leung | 250 | — | — | — | 250 |
| LAM Kwong Siu | 250 | — | — | — | 250 |
| WONG Chat Chor Samuel | 250 | — | — | — | 250 |
| WONG Ying Wai | 250 | — | — | — | 250 |

# Notes To The Consolidated Financial Statements

(All amounts in Hong Kong dollar thousands unless otherwise stated)

## 24 EMPLOYEE BENEFIT EXPENSES *(Continued)*

### (B) FIVE HIGHEST PAID INDIVIDUALS

The five individuals whose emoluments were the highest in the Group for the year include three (2010: four) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two (2010: one) individual during the year are as follows:

| | 2011 | 2010 |
|---|---|---|
| Basic salaries and allowances | 4,503 | 3,744 |
| Discretionary and performance bonus | 4,409 | — |
| Employer's contribution to pension scheme | 34 | 25 |
| Share options granted *(Note (a))* | 310 | 473 |
| | 9,256 | 4,242 |

*Note (a):*

Share options granted represent fair value of share options issued under Share Option Scheme recognised in the consolidated income statement during the year disregarding whether the options have been vested/exercised.

(C) 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 (2010: Nil).

## 25 OTHER INCOME

| | 2011 | 2010 |
|---|---|---|
| Rental income | 5,721 | 5,054 |
| Anti-dumping duties refund | — | 1,203 |
| Government grants *(Note (a))* | 85,695 | 67,172 |
| Others | 7,929 | 11,619 |
| | 99,345 | 85,048 |

*Note (a):*

Government grants mainly represent grants obtained from the PRC government in relation to value-added tax, income tax and land use tax and other operating costs of certain PRC subsidiaries.

# Notes To The Consolidated Financial Statements

(All amounts in Hong Kong dollar thousands unless otherwise stated)

## 26 OTHER GAINS/(LOSSES) - NET

| | 2011 | 2010 |
|---|---|---|
| Losses on disposal of property, plant and equipment | (1,235) | (1,385) |
| Impairment charge of goodwill (Note 9) | (2,943) | (2,943) |
| Loss on disposal of a subsidiary | — | (12,163) |
| Loss on disposal of an associate | (2,195) | — |
| Losses on disposal of financial assets at fair value through profit or loss | — | (539) |
| Fair value gains/(losses) on investment property (Note 8) | 3,137 | (143) |
| Fair value losses on trading derivatives | (202) | (2,638) |
| Losses on disposal of trading derivatives | — | (497) |
| Other foreign exchange gains, net | 63,837 | 10,832 |
| | 60,399 | (9,476) |

## 27 FINANCE INCOME AND COSTS

| | 2011 | 2010 |
|---|---|---|
| Finance income: | | |
| Interest income on short-term bank deposits | 7,344 | 2,797 |
| Interest income on loan advanced to an associate (Note 34) | — | 314 |
| | 7,344 | 3,111 |
| Finance costs: | | |
| Interest expense on bank borrowings | 65,105 | 32,933 |
| Less: interest expense capitalised on qualifying assets | (32,637) | (26,094) |
| | 32,468 | 6,839 |

(All amounts in Hong Kong dollar thousands unless otherwise stated)

## 28 INCOME TAX EXPENSE

| | 2011 | 2010 |
|---|---|---|
| Current income tax | | |
| – Hong Kong profits tax *(Note (a))* | 31,260 | 14,462 |
| – PRC corporate income tax *(Note (b))* | 204,915 | 213,768 |
| – Overseas income tax *(Note (c))* | 907 | 1,172 |
| – Under-provision in prior years | — | 12,800 |
| Deferred income tax *(Note 20)* | | |
| – Origination and reversal of temporary differences | 25,539 | 78,524 |
| | 262,621 | 320,726 |

*Notes:*

(a) Hong Kong profits tax

Hong Kong profits tax has been provided at the rate of 16.5% (2010: 16.5%) on the estimated assessable profit for the year.

(b) PRC corporate income tax ("CIT")

Effective from 1 January 2008, the PRC subsidiaries shall determine and pay 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.

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 gradually increase to 25% in 5-year period from 2008 to 2012. The applicable CIT rates for major subsidiaries located in Shenzhen, Wuhu, Dongguan, Tianjin and Jiangmen are 24% (2010: 22%), 12% (2010: 11%), 12.5% to 25% (2010: 12.5% to 25%), 12.5% (2010: 12.5%) and 12.5% (2010: 12.5%) respectively.

Two major subsidiaries in Shenzhen and Dongguan enjoy high-tech enterprise income tax benefit and the tax rate is 15%.

(c) Overseas income tax

Taxation on overseas profits has been calculated on the estimated assessable profits for the year at the rates of taxation prevailing in the countries in which the Group operates.

## 28 INCOME TAX EXPENSE *(Continued)*

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

| | 2011 | 2010 |
|---|---|---|
| Profit before income tax | **1,526,499** | 1,893,138 |
| Calculated at weighted average tax rate of 24% (2010:24%) | **366,360** | 454,353 |
| Preferential tax rates on income of certain PRC subsidiaries | **(138,303)** | (213,051) |
| Effect of different tax rates in other countries | **(16,621)** | (10,926) |
| Under-provision in prior years | **—** | 12,800 |
| Tax losses for which no deferred income tax asset was recognised | **3,731** | 6,429 |
| Utilisation of previously unrecognised tax losses | **—** | (2,059) |
| Income not subject to tax | **(6,139)** | (10,285) |
| Expenses not deductible for tax purposes | **1,306** | 103 |
| Effect of withholding tax on the distributable profit of the Group's PRC subsidiaries and associates | **52,287** | 83,362 |
| Income tax expense | **262,621** | 320,726 |

## 29 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$586,071,000 (2010: HK$713,052,000).

## 30 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 (after taking into account the effect of the Scrip Dividend Scheme and Bonus Issue as stated in Note 16 (e) and (c)) during 2011 and 2010 excluding ordinary shares purchased by the Company.

| | 2011 | 2010 |
|---|---|---|
| Profit attributable to equity holders of the Company (HK$'000) | **1,264,853** | 1,571,198 |
| Weighted average number of ordinary shares in issue (thousands) | **3,598,422** | 3,535,864 |
| Basic earnings per share (HK cents per share) | **35.15** | 44.43 |

# Notes To The Consolidated Financial Statements

(All amounts in Hong Kong dollar thousands unless otherwise stated)

## 30 EARNINGS PER SHARE *(Continued)*

### DILUTED:

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares and adjusting for the Scrip Dividend Scheme and Bonus Issue (as stated in Note 16(e) and (c)). The dilutive potential ordinary share of the Company is share options. The calculation 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.

| | 2011 | 2010 |
|---|---|---|
| Profit attributable to equity holders of the Company (HK$'000) | 1,264,853 | 1,571,198 |
| Weighted average number of ordinary shares in issue (thousands) | 3,598,422 | 3,535,864 |
| Adjustments for share options (thousands) | 41,401 | 34,328 |
| Weighted average number of ordinary shares for diluted earnings per share (thousands) | 3,639,823 | 3,570,192 |
| Diluted earnings per share (HK cents per share) | 34.75 | 44.01 |

## 31 DIVIDENDS

The dividends paid in 2011 and 2010 were HK$858,549,000 (HK$0.24 per share) and HK$548,967,000 (HK$0.16 per share), respectively. The directors have recommended an interim dividend of HK$0.11 per share (2010: HK$0.08 per share) to be payable to shareholders whose names appear on the Register of Members of the Company on 1 August 2011, in cash in HKD, with a scrip dividend alternative.

A final dividend in respect of the financial year ended 31 December 2011 of HK$0.05 per share (2010: HK$0.13 per share), amounting to a total dividend of HK$184,166,000 (2010: HK$457,222,000), is to be proposed at the forthcoming Annual General Meeting. The amount of 2011 proposed final dividend is based on 3,683,324,044 shares in issue as at 31 December 2011 (2010: 3,517,092,920 shares in issue as at 31 December 2010). These financial statements do not reflect this dividend payable.

| | 2011 | 2010 |
|---|---|---|
| Interim dividend paid of HK$0.11 (2010: HK$0.08) per share | 399,903 | 283,338 |
| Proposed final dividend of HK$0.05 (2010: HK$0.13) per share | 184,166 | 457,222 |
| | 584,069 | 740,560 |

(All amounts in Hong Kong dollar thousands unless otherwise stated)

## 32 CASH GENERATED FROM OPERATIONS

| | 2011 | 2010 |
|---|---|---|
| Profit before income tax | 1,526,499 | 1,893,138 |
| Adjustments for: | | |
| – Loss on disposal of a subsidiary | — | 12,163 |
| – Depreciation of property, plant and equipment | 425,524 | 324,554 |
| – Losses on disposal of property, plant and equipment | 1,235 | 1,385 |
| – Loss on disposal of an associate | 2,195 | — |
| – Impairment charge of goodwill | 2,943 | 2,943 |
| – Amortisation charge of leasehold land and land use rights | 16,726 | 12,295 |
| – Amortisation charge of intangible assets | 2,833 | 2,112 |
| – Interest income | (7,344) | (3,111) |
| – Interest expense | 32,468 | 6,839 |
| – Reversal of provision for legal claim | — | (36,816) |
| – Share options granted to employees | 30,460 | 17,723 |
| – Losses on disposal of financial assets at fair value through profit or loss | — | 539 |
| – Fair value losses on trading derivatives | 202 | 2,638 |
| – Fair value (gains)/losses on investment property | (3,137) | 143 |
| – Share of profits of associates | (3,489) | (514) |
| – (Reversal of provision)/provision for impairment of trade receivables, net | (743) | 3,846 |
| Changes in working capital: | | |
| – Inventories | (385,748) | (121,893) |
| – Trade and other receivables | (485,917) | (712,569) |
| – Amounts due from customers for contract work | — | 27,057 |
| – Amount due to an associate | (2,877) | 2,910 |
| – Trade payables, accruals and other payables | 411,628 | 63,085 |
| Cash generated from operations | 1,563,458 | 1,498,467 |

# Notes To The Consolidated Financial Statements

(All amounts in Hong Kong dollar thousands unless otherwise stated)

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

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

| | 2011 | 2010 |
|---|---|---|
| Net book amount of property, plant and equipment *(Note 7)* | 3,099 | 8,395 |
| Loss on disposal of property, plant and equipment *(Note 26)* | (1,235) | (1,385) |
| Proceeds from disposal of property, plant and equipment | 1,864 | 7,010 |

### NON-CASH TRANSACTION

As at 31 December 2011, the Group had payable for property, plant and equipment of HK$562,889,000 (2010: HK$232,838,000) which was included in trade payables, accruals and other payables.

## 33 COMMITMENTS

### CAPITAL COMMITMENTS

Capital expenditure at the end of reporting date but not yet incurred is as follows:

| | 2011 | 2010 |
|---|---|---|
| Property, plant and equipment | | |
| Authorised but not contracted for | 2,796,086 | 658,383 |
| Contracted but not provided for | 191,962 | 1,241,584 |
| | 2,988,048 | 1,899,967 |

(All amounts in Hong Kong dollar thousands unless otherwise stated)

## 33 COMMITMENTS *(Continued)*

### OPERATING LEASE COMMITMENTS

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

| | 2011 | 2010 |
|---|---|---|
| Not later than 1 year | 4,474 | 3,302 |
| Later than 1 year and not later than 5 years | 1,679 | 2,849 |
| | 6,153 | 6,151 |

The investment property is leased to a tenant under a long-term operating lease with rentals payable monthly. Minimum lease payments receivable under non-cancellable operating lease of investment property not recognised in the consolidated financial statements are receivable as follows:

| | 2011 | 2010 |
|---|---|---|
| Not later than 1 year | 6,076 | 3,558 |
| Later than 1 year and not later than 5 years | 8,347 | — |
| | 14,423 | 3,558 |

(All amounts in Hong Kong dollar thousands unless otherwise stated)

## 34 RELATED PARTY TRANSACTIONS

The following transactions were carried out with related parties:

### (A) PURCHASES OF GOODS AND LOAN INTEREST INCOME FROM ASSOCIATES

| | 2011 | 2010 |
|---|---|---|
| Purchases of goods | | |
| – Beihai Yiyang Mineral Company Limited | 113,738 | 37,850 |
| – Dongyuan County Xinhuali Quartz Sand Company Limited | 28,978 | 13,470 |
| – Maoming City Yindi Construction Material Company Limited | 11,864 | — |
| Loan interest income *(Note 27)* | | |
| – Beihai Yiyang Mineral Company Limited | — | 314 |

### (B) YEAR-END BALANCES WITH RELATED PARTIES

| | 2011 | 2010 |
|---|---|---|
| Loans advance to associates | | |
| – Beihai Yiyang Mineral Company Limited | — | 776 |
| – Dongyuan County Xinhuali Quartz Sand Company Limited | 38,148 | 38,706 |
| | 38,148 | 39,482 |
| Amount due to an associate | | |
| – Beihai Yiyang Mineral Company Limited | (33) | (2,910) |

(All amounts in Hong Kong dollar thousands unless otherwise stated)

## 34 RELATED PARTY TRANSACTIONS *(Continued)*

### (C) KEY MANAGEMENT COMPENSATION

| | 2011 | 2010 |
|---|---|---|
| Basic salaries and allowances | 17,697 | 15,150 |
| Discretionary and performance bonus | 12,536 | 15,222 |
| Employer's contributions to pension scheme | 138 | 138 |
| Share options granted | 2,848 | 3,951 |
| | 33,219 | 34,461 |

# Financial Summary

All amounts in Hong Kong dollar thousands unless otherwise stated

A summary of the results and of the assets and liabilities of the Group for the last five financial years is presented below.

| | Year ended 31 December | | | | |
|---|---|---|---|---|---|
| | 2011 | 2010 | 2009 | 2008 | 2007 |
| **Result** | | | | | |
| **Revenue** | 8,226,651 | 6,364,314 | 3,957,957 | 3,894,283 | 2,774,624 |
| Cost of sales | (5,873,001) | (3,809,267) | (2,496,047) | (2,683,403) | (1,702,269) |
| Gross profit | 2,353,650 | 2,555,047 | 1,461,910 | 1,210,880 | 1,072,355 |
| **Profit before income tax** | 1,526,499 | 1,893,138 | 823,997 | 753,054 | 703,166 |
| Income tax expense | (262,621) | (320,726) | (47,392) | (42,256) | (30,165) |
| **Profit for the year** | 1,263,878 | 1,572,412 | 776,605 | 710,798 | 673,001 |
| **Profit attributable to** | | | | | |
| – Equity holders of the Company | 1,264,853 | 1,571,198 | 773,526 | 709,232 | 670,860 |
| – Non-controlling interests | (975) | 1,214 | 3,079 | 1,566 | 2,141 |
| | 1,263,878 | 1,572,412 | 776,605 | 710,798 | 673,001 |
| **Dividends** | 584,069 | 740,560 | 372,012 | 337,116 | 313,103 |
| **Asset and Liabilities** | | | | | |
| Total assets | 15,346,488 | 11,016,498 | 8,009,699 | 6,497,938 | 5,370,529 |
| Total liabilities | 6,821,231 | 4,460,604 | 2,579,113 | 2,108,402 | 1,325,007 |
| | 8,525,257 | 6,555,894 | 5,430,586 | 4,389,536 | 4,045,522 |
| Equity attributable to equity holders of the Company | 8,507,549 | 6,536,267 | 5,410,514 | 4,369,332 | 4,045,079 |
| Non-controlling interests | 17,708 | 19,627 | 20,072 | 20,204 | 443 |
| | 8,525,257 | 6,555,894 | 5,430,586 | 4,389,536 | 4,045,522 |