NOTES TO THE FINANCIAL STATEMENTS

1 GENERAL INFORMATION

Meadville Holdings Limited and its subsidiaries are principally engaged in the manufacturing and distribution of the PCB, prepreg and laminate business.

The Company was incorporated in the Cayman Islands on 28 August 2006 as an exempted company with limited liability under the Companies Law (2004 Revision) of the Cayman Islands. The address of its registered office is Clifton House, 75 Fort Street, P.O. Box 1350 GT, George Town, Grand Cayman, Cayman Islands.

The Company's shares were listed on the main board of the Stock Exchange on 2 February 2007.

These consolidated financial statements are presented in thousands of units of HK$, unless otherwise stated. These consolidated financial statements have been approved for issue by the Board on 25 February 2009.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with HKFRSs issued by the HKICPA. They have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial asset and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

The preparation of consolidated financial statements in conformity with HKFRSs 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(a) Basis of preparation *(Continued)*

The following amendments and interpretations are mandatory for accounting periods beginning on or after 1 January 2008 but are not currently relevant for the Group:

HKAS 39 (Amendment), 'Financial instruments: Recognition and measurement', amendment on reclassification of financial assets permits reclassification of certain financial assets out of the held-for-trading and available-for-sale categories if specified conditions are met. The related amendment to HKFRS 7, 'Financial instruments: Disclosures', introduces disclosure requirements with respect to financial assets reclassified out of the held-for-trading and available-for-sale categories. The amendment is effective prospectively from 1 July 2008. This amendment does not have any impact on the Group's financial statements, as the Group has not reclassified any financial assets.

HK(IFRIC)-Int 11, "HKFRS 2 – Group and treasury share transactions", effective for annual periods beginning on or after 1 March 2007. It provides guidance on whether share-based transactions involving treasury shares or involving group entities (for example, options over a parent's shares) should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and group companies. This interpretation is currently not applicable to the Group as there are no such share-based transactions.

HK(IFRIC)-Int 12, "Service concession arrangements", effective for annual periods beginning on or after 1 January 2008. It applies to contractual arrangements whereby a private sector operator participates in the development, financing, operation and maintenance of infrastructure for public sector services. This interpretation is not relevant to the Group's operations because none of the Group's companies provide for public sector services.

HK(IFRIC)-Int 14, "HKAS 19 The limit on a defined benefit asset, minimum funding requirements and their interaction", effective for annual periods beginning on or after 1 January 2008. It provides guidance on assessing the limit in HKAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. This interpretation is currently not relevant to the Group as none of the Group's companies operate a defined benefit plan.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(a) Basis of preparation *(Continued)*

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

HKAS 1 (Revised), 'Presentation of financial statements' (effective from 1 January 2009). The revised standard will prohibit the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All non-owner changes in equity will be required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the consolidated income statement and statement of comprehensive income). Where entities restate or reclassify comparative information, they will be required to present a restated balance sheet as at the beginning comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period. The Group will apply HKAS 1 (Revised) from 1 January 2009. It is likely that both the consolidated income statement and statement of comprehensive income will be presented as performance statements.

HKAS 23 (Revised), 'Borrowing costs', effective for annual periods beginning on or after 1 January 2009. It requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The Group will apply HKAS 23 (Revised) from 1 January 2009 but management believes that this standard should not have a significant impact to the Group as the Group's existing accounting policies over borrowing costs complies with the revised Standard.

HKAS 27 (Revised), 'Consolidated and separate financial statements' (effective from 1 July 2009).The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value and a gain or loss is recognised in profit or loss. The Group will apply HKAS 27 (Revised) prospectively to transactions with non-controlling interests from 1 January 2010.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(a) Basis of preparation *(Continued)*

HKAS 32 (Amendment), 'Financial instruments: Presentation', and HKAS 1 (Amendment), 'Presentation of financial statements' 'Puttable financial instruments and obligations arising on liquidation' (effective from 1 January 2009). The amended standards require entities to classify puttable financial instruments and instruments, or components of instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation as equity, provided the financial instruments have particular features and meet specific conditions. The Group will apply the HKAS 32 (Amendment) and HKAS 1 (Amendment) from 1 January 2009, but it is not expected to have any impact on the Group's financial statements.

HKFRS 1 (Amendment), 'First time adoption of HKFRS' and HKAS 27 'Consolidated and separate financial statements' (effective from 1 July 2009). The amended standard allows first-time adopters to use a deemed cost of either fair value or the carrying amount under previous accounting practice to measure the initial cost of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements. The amendment also removes the definition of the cost method from HKAS 27 and replaces it with a requirement to present dividends as income in the separate financial statements of the investor. The Group will apply HKAS 27 (Amendment) prospectively from 1 January 2010 in its separate financial statements. This amendment is not currently relevant to the Group.

HKFRS 2 (Amendment), 'Share-based payment' (effective from 1 January 2009). The amended standard deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. As such these features would need to be included in the grant date fair value for transactions with employees and others providing similar services, that is, these features would not impact the number of awards expected to vest or valuation thereof subsequent to grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Group will apply HKFRS 2 (Amendment) from 1 January 2009, but it is not expected to have a material impact on the Group's financial statements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(a) Basis of preparation *(Continued)*

HKFRS 3 (Revised), 'Business combinations' (effective from 1 July 2009). The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the consolidated income statement. There is a choice on an acquisition by acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Group will apply HKFRS 3 (Revised) prospectively to all business combinations from 1 January 2010.

HKFRS 8, 'Operating segments' (effective from 1 January 2009). HKFRS 8 replaces HKAS 14, 'Segment reporting', and aligns segment reporting with the requirements of the US standard SFAS 131, 'Disclosures about segments of an enterprise and related information'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. This has resulted in an increase in the number of reportable segments presented. In addition, the segments are reported in a manner that is more consistent with the internal reporting provided to the chief operating decision-maker. As goodwill is allocated by management to groups of CGUs on a segment level, the change will also require management to reallocate goodwill to the newly identified operating segments. Management does not anticipate that this will result in any material impairment to the goodwill balance.

HK(IFRIC)-Int 13, 'Customer loyalty programmes' (effective from 1 July 2008). HK(IFRIC)-Int 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. HK(IFRIC)-Int 13 is not relevant to the Group's operations because none of the Group's companies operate any loyalty programmes.

HK(IFRIC)-Int 15, 'Agreements for construction of real estates' (effective from 1 January 2009) supercedes HK Int-3, 'Revenue – Pre-completion contracts for the sale of development properties'. HK(IFRIC)-Int 15 clarifies whether HKAS 18, 'Revenue' or HKAS 11, 'Construction contracts' should be applied to particular transactions. It is likely to result in HKAS 18 being applied to a wider range of transactions. HK(IFRIC)-Int 15 is not relevant to the Group's operations as all revenue transactions are accounted for under HKAS 18 and not HKAS 11.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(a) Basis of preparation *(Continued)*

HK(IFRIC)-Int 16, 'Hedges of a net investment in a foreign operation' (effective from 1 October 2008). HK(IFRIC)-Int 16 clarifies the accounting treatment in respect of net investment hedging. This includes the fact that net investment hedging relates to differences in functional currency not presentation currency, and hedging instruments may be held anywhere in the Group. The requirements of HKAS 21, 'The effects of changes in foreign exchange rates', do apply to the hedged item. The Group will apply HK(IFRIC)-Int 16 from 1 January 2009. It is not expected to have a material impact on the Group's financial statements.

HK(IFRIC)-Int 17, 'Distributions of non-cash assets to owners' (effective from 1 July 2009). This interpretation applies to non-reciprocal distributions of non-cash assets (or with a cash alternative) except for common control transactions and clarifies that: a dividend payable shall be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity; the dividend payable shall be measured at the fair value of the assets to be distributed; and the difference between the dividend paid and the carrying amount of the assets distributed shall be recognised in profit or loss. This interpretation is currently not applicable to the Group as the Group does not distribute any non-cash assets to its owners.

HK(IFRIC)-Int 18, 'Transfer of assets from customers' (effective from 1 July 2009). This interpretation applies to the accounting for transfers of items of property, plant and equipment by entities that receive transfers from their customers. It also applies to agreements in which an entity receives cash from a customer when that amount of cash must be used only to construct or acquire an item of property, plant and equipment and the entity must then use the item of property, plant and equipment either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services, or to do both. This interpretation is currently not applicable to the Group as the Group does not transfer any of its assets to its customers.

The following HKICPA's improvements to HKFRSs published in October 2008:

HKAS 1 (Amendment), 'Presentation of financial statements' (effective from 1 January 2009). The amendment clarifies that some rather than all financial assets and liabilities classified as held for trading in accordance with HKAS 39, 'Financial instruments: Recognition and measurement' are examples of current assets and liabilities respectively. The Group will apply the HKAS 1 (Amendment) from 1 January 2009. It is not expected to have an impact on the Group's financial statements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(a) Basis of preparation *(Continued)*

HKAS 16 (Amendment), 'Property, plant and equipment' (and consequential amendment to HKAS 7, 'Statement of cash flows') (effective from 1 January 2009). Entities whose ordinary activities comprise renting and subsequently selling assets present proceeds from the sale of those assets as revenue and should transfer the carrying amount of the asset to inventories when the asset becomes held for sale. A consequential amendment to HKAS 7 states that cash flows arising from purchase, rental and sale of those assets are classified as cash flows from operating activities. The amendment will not have an impact on the Group's operations because none of the Group companies' ordinary activities comprise renting and subsequently selling assets.

HKAS 19 (Amendment), 'Employee benefits' (effective from 1 January 2009). The amendment clarifies that a plan amendment that results in a change in the extent to which benefit promises are affected by future salary increases is a curtailment, while an amendment that changes benefits attributable to past service gives rise to a negative past service cost if it results in a reduction in the present value of the defined benefit obligation.

The definition of return on plan assets has been amended to state that plan administration costs are deducted in the calculation of return on plan assets only to the extent that such costs have been excluded from measurement of the defined benefit obligation. The distinction between short term and long term employee benefits will be based on whether benefits are due to be settled within or after 12 months of employee service being rendered. HKAS 37, 'Provisions, contingent liabilities and contingent assets' requires contingent liabilities to be disclosed, not recognised. HKAS 19 has been amended to be consistent. The Group will apply the HKAS 19 (Amendment) from 1 January 2009.

HKAS 20 (Amendment), 'Accounting for government grants and disclosure of government assistance' (effective from 1 January 2009). The benefit of a below-market rate government loan is measured as the difference between the carrying amount in accordance with HKAS 39, 'Financial instruments: Recognition and measurement' and the proceeds received with the benefit accounted for in accordance with HKAS 20. The amendment will not have an impact on the Group's operations as there are no loans received or other grants from the government.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(a) Basis of preparation *(Continued)*

HKAS 23 (Amendment), 'Borrowing costs' (effective from 1 January 2009). The definition of borrowing costs has been amended so that interest expense is calculated using the effective interest method defined in HKAS 39 'Financial instruments: Recognition and measurement'. This eliminates the inconsistency of terms between HKAS 39 and HKAS 23. The Group will apply the HKAS 23 (Amendment) prospectively to the capitalisation of borrowing costs on qualifying assets from 1 January 2009.

HKAS 27 (Amendment), 'Consolidated and separate financial statements' (effective from 1 January 2009). Where an investment in a subsidiary that is accounted for under HKAS 39, Financial instruments: recognition and measurement, is classified as held for sale under HKFRS 5, 'Non-current assets held for sale and discontinued operations', HKAS 39 would continue to be applied. The amendment will not have an impact on the Group's operations because it is the Group's policy for an investment in subsidiary to be recorded at cost in the standalone accounts of each entity.

HKAS 28 (Amendment), 'Investments in associates' (and consequential amendments to HKAS 32, 'Financial Instruments: Presentation' and HKFRS 7, 'Financial instruments: Disclosures') (effective from 1 January 2009). An investment in associate is treated as a single asset for the purposes of impairment testing and any impairment loss is not allocated to specific assets included within the investment, for example, goodwill. Reversals of impairment are recorded as an adjustment to the investment balance to the extent that the recoverable amount of the associate increases. The Group will apply the HKAS 28 (Amendment) to impairment tests related to investment in associates and any related impairment losses from 1 January 2009.

HKAS 29 (Amendment), 'Financial reporting in hyperinflationary economies' (effective from 1 January 2009). The guidance has been amended to reflect the fact that a number of assets and liabilities are measured at fair value rather than historical cost. The amendment will not have an impact on the Group's operations, as none of the Group's subsidiaries or associates operate in hyperinflationary economies.

HKAS 31 (Amendment), 'Interests in joint ventures' (and consequential amendments to HKAS 32 and HKFRS 7) (effective from 1 January 2009). Where an investment in joint venture is accounted for in accordance with HKAS 39, only certain rather than all disclosure requirements in HKAS 31 need to be made in addition to disclosures required by HKAS 32, 'Financial Instruments: Presentation' and HKFRS 7 'Financial Instruments: Disclosures'. The amendment will not have an impact on the Group's operations as there are no interests held in joint ventures.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(a) Basis of preparation *(Continued)*

HKAS 36 (Amendment), 'Impairment of assets' (effective from 1 January 2009). Where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made. The Group will apply the HKAS 36 (Amendment) and provide the required disclosure where applicable for impairment tests from 1 January 2009.

HKAS 38 (Amendment), 'Intangible assets' (effective from 1 January 2009). A prepayment may only be recognised in the event that payment has been made in advance of obtaining right of access to goods or receipt of services. These amendments will not have an impact on the Group's operations. The amendment also deletes the wording that states that there is 'rarely, if ever' support for use of a method that results in a lower rate of amortization than the straight line method. The amendment will not currently have an impact on the Group's operations as all intangible assets are amortised using the straight line method.

HKAS 39 (Amendment), 'Financial instruments: Recognition and measurement' (effective from 1 January 2009). This amendment clarifies that it is possible for there to be movements into and out of the fair value through profit or loss category where a derivative commences or ceases to qualify as a hedging instrument in cash flow or net investment hedge. The definition of financial asset or financial liability at fair value through profit or loss as it relates to items that are held for trading is also amended. This clarifies that a financial asset or liability that is part of a portfolio of financial instruments managed together with evidence of an actual recent pattern of short-term profit-taking is included in such a portfolio on initial recognition. The current guidance on designating and documenting hedges states that a hedging instrument needs to involve a party external to the reporting entity and cites a segment as an example of a reporting entity. This means that in order for hedge accounting to be applied at segment level, the requirements for hedge accounting are currently required to be met by the applicable segment. The amendment removes this requirement so that HKAS 39 is consistent with HKFRS 8, 'Operating segments' which requires disclosure for segments to be based on information reported to the chief operating decision maker. Currently, for segment reporting purposes, each subsidiary designates and documents (including effectiveness testing) contracts with group treasury as fair value or cash flow hedges so that the hedges are reflected in the segment to which the hedged items relate. This is consistent with the information viewed by the chief operating decision maker. After the amendment is effective, the hedge will continue to be reflected in the segment to which the hedged items relate (and information provided to the chief operating decision maker) but the Group will not formally document and test this hedging relationship.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(a) Basis of preparation *(Continued)*

When remeasuring the carrying amount of a debt instrument on cessation of fair value hedge accounting, the amendment clarifies that a revised effective interest rate (calculated at the date fair value hedge accounting ceases) are used. The Group will apply the HKAS 39 (Amendment) from 1 January 2009. It is not expected to have an impact on the Group's consolidated income statement.

HKAS 40 (Amendment), 'Investment property' (and consequential amendments to HKAS 16) (effective from 1 January 2009). Property that is under construction or development for future use as investment property is within the scope of HKAS 40. Where the fair value model is applied, such property is, therefore, measured at fair value. However, where fair value of investment property under construction is not reliably measurable, the property is measured at cost until the earlier of the date construction is completed and the date at which fair value becomes reliably measurable. The amendment is currently not relevant to the Group, as no investment properties are held by the Group.

HKAS 41 (Amendment), 'Agriculture' (effective from 1 January 2009). It requires the use of a market-based discount rate where fair value calculations are based on discounted cash flows and the removal of the prohibition on taking into account biological transformation when calculating fair value. The amendment is currently not relevant to the Group's operations as no agricultural activities are undertaken.

HKFRS 5 (Amendment), 'Non-current assets held for sale and discontinued operations' (and consequential amendment to HKFRS 1, 'First-time adoption') (effective from 1 July 2009). The amendment clarifies that all of a subsidiary's assets and liabilities are classified as held for sale if a partial disposal sale plan results in loss of control, and relevant disclosure should be made for this subsidiary if the definition of a discontinued operation is met. A consequential amendment to HKFRS 1 states that these amendments are applied prospectively from the date of transition to HKFRSs. The Group will apply the HKFRS 5 (Amendment) prospectively to all partial disposals of subsidiaries from 1 January 2010.

The Group will apply these new standards, amendments and interpretations to existing standards were applicable. It is not expected to have a significant impact on the Group's financial statements.

There are a number of minor amendments to HKFRS 7, 'Financial instruments: Disclosures', HKAS 8, 'Accounting policies, changes in accounting estimates and errors', HKAS 10, 'Events after the balance sheet date', HKAS 18, 'Revenue' and HKAS 34, 'Interim financial reporting' which are not addressed above. These amendments are unlikely to have an impact on the Group's financial statements and therefore they have not been analysed in detail.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Consolidation

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

(i) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

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

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary in the consolidated financial statements to ensure consistency with the policies adopted by the Group.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Consolidation *(Continued)*

(ii) Transactions with minority interests

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

(iii) Associated companies

Associated companies 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. Interests in associated companies are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in associated companies includes goodwill identified on acquisition, net of any accumulated impairment loss.

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Segment reporting

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

(d) Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated 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. All other repairs and maintenance are charged in the consolidated profit and loss account during the financial period in which they are incurred.

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

Buildings	22 – 25 years
Leasehold improvements	22 – 25 years
Furniture and equipment	5 – 6 years
Plant, machinery and equipment	10 – 12 years
Motor vehicles	5 – 6 years

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

Construction in progress represents buildings or leasehold improvements on which construction work has not been completed and plant, machinery and equipment pending installation. It is carried at cost which includes construction expenditures and other direct costs less any impairment losses. On completion, construction in progress is transferred to the appropriate categories of property, plant and equipment at cost less accumulated impairment losses. No depreciation is provided for construction in progress until they are completed and available for use.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Property, plant and equipment *(Continued)*

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.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are charged to the consolidated profit and loss account.

(e) Intangible assets

(i) 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 and associated company at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associated companies is included in interests in associated companies. Goodwill is tested for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Impairment losses on goodwill are not reversed.

Goodwill is allocated to CGUs for the purpose of impairment testing. The allocation is made to those CGUs or groups of CGUs that are expected to benefit from the business combination in which the goodwill arosed.

(ii) Technologies fee

The technologies fee is shown at historical cost. The technologies fee has a definite useful life and is carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of technologies fee over its estimated useful life of 10 years.

(iii) Customer relationship

Customer relationship represents the fair value attributable to customer base or existing contractual bids with customers taken over as a result of business combination. Amortisation is calculated using the straight-line method over the estismated useful life of 10 years.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Trade and other receivables

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

(g) Impairment of non-financial assets

Non-financial assets that have an indefinite useful life or have not yet available for use are not subject to amortisation, which are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation 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 (CGUs).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets. They are included in non-current assets unless management intends to dispose of the investment within twelve months of the balance sheet date. Available-for-sale financial assets are subsequently carried at fair value.

Changes in 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 costs of the security and other changes in the carrying amount of the security. Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in equity.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the consolidated profit and loss account. Dividends on available-for-sale equity instruments are recognised in the consolidated profit and loss account when the Group's right to receive payments is established.

If the market for a financial asset is not active (and for unlisted securities), the Group established fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, calculated on the weighted average basis, comprises materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

(j) 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 expensed in the consolidated profit and loss account on a straight line basis over the period of the lease.

(k) Borrowings

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

Borrowing costs directly attributable to the acquisition and construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Borrowing costs capitalised are either the actual costs incurred on a specific borrowing or an amount calculated using the weighted average method, considering all borrowing costs incurred on general borrowings outstanding. Other borrowing costs are expensed.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(l) Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designed as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge).

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of derivative instruments used for hedging purposes are disclosed in Note 29. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than twelve months, and as a current asset or liability when the remaining maturity of the hedged item is less than twelve months.

Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the consolidated income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The Group applies only fair value hedge accounting for hedging variable interest risk on borrowings. The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in the consolidated profit and loss within finance costs. The gain or loss relating to the ineffective portion is recognised in the consolidated profit and loss within general and administrative expenses. Changes in the fair value of the hedge variable rate borrowings attributable to interest rate risk are recognised in the consolidated profit and loss within finance costs.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedge item for which the effective interest method is used is amortised to profit or loss over the period to maturity.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) Current and deferred income tax

The tax expense for the year comprises current and deferred tax. Tax is recognised in the consolidated profit and loss account.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries and associated companies 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.

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, 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 and 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.

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

(n) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o) Trade payables

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

(p) 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.

Restructuring provisions comprise lease termination penalties and employee termination payments. 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.

(q) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual and long service leaves are recognised when they accrue to employees. Provisions are made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the balance sheet date.

(ii) Retirement benefits

The Group pays contributions to separate trustee-administered funds on a mandatory basis. The Group has no further payment obligation once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due and are not reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contribution.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(q) Employee benefits *(Continued)*

(ii) Retirement benefits (Continued)

The Group's employees in mainland China are covered by various government sponsored pension plans. These government agencies are responsible for the pension liabilities to these employees. The relevant group companies pay monthly contributions to these pension plans based on certain percentages of the salaries, subject to a certain ceiling. Under these plans, the Group has no legal or constructive obligation to make further payments once the required contributions have been paid. Contributions to these plans are expensed as incurred.

The Group's overseas employees are entitled to participate in a number of defined contribution pension schemes, the assets of which are generally held in separate trustee-administered funds. The pension schemes are generally funded by payments from employees and by the relevant group companies.

(iii) Bonus plans

Provisions for bonus plan due wholly within twelve months after balance sheet date are recognised where contractually obliged or where there is a past practice that has created a constructive obligation.

(iv) Share-based compensation

For shares granted to the employees, the fair value of the employee services received in exchange for the grant of the shares is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the shares granted. At each balance sheet date, the Group revises its estimates of the number of shares that are expected to vest. It recognises the impact of the revision of original estimates, if any, in the consolidated profit and loss account, with a corresponding adjustment to equity.

(v) Other benefits

The Group's employees in mainland China are also entitled to participate in various government sponsored medical insurance plan and housing funds. The relevant group companies pay monthly contributions to these funds based on certain percentages of the salaries. The Group's liability in respect of these funds is limited to the contributions paid. Contributions to these plans are expensed as incurred.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(r) Government grants

Grants from government are recognised at their fair value 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 profit and loss account 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 non-current liabilities as deferred government grants and are credited to the consolidated profit and loss account on a straight line basis over the expected lives of the related assets.

(s) Share capital

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

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

(t) Financial liabilities – put option

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(u) Revenue recognition

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

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

(v) Interest income

Interest income is recognised on a time proportion basis, using the effective interest method.

(w) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the functional currency. The consolidated financial statements are presented in HK$ which is the Company's functional and presentation currency.

(ii) 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 remeasured. 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 profit and loss account.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(w) Foreign currency translation *(Continued)*

(iii) 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 consolidated profit and loss account are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to owners' equity. When a foreign operation is partially disposed of or sold, such exchange differences that were recorded in equity are recognised in the consolidated profit and loss account as part of the gain or loss on sale.

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

(x) Dividend distribution

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

3 FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks: foreign exchange risk, credit risk, liquidity risk and cash flow and fair value interest-rate 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. The Group uses derivative financial instruments to hedge certain risk exposures.

(i) Foreign exchange risk

The Group operates principally in Hong Kong and mainland China and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to US$ and RMB. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations. The Group attempts to minimise its foreign exchange risk exposure through payment of operating costs and maintenance of borrowings at a balanced mix of major currencies.

In addition, the conversion of RMB into foreign currencies is subject to the rules and regulations of the foreign exchange controls promulgated by the Chinese government.

The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. Currency exposure arising from the net assets of the Group's foreign operations is managed primarily through borrowings denominated in the relevant foreign currencies.

If RMB had weakened/strengthened by 4% (2007: 5%) against HK$ with all other variables held constant, post-tax profit for the year would have been HK$22,631,000 (2007: HK$25,734,000) higher/lower respectively for the year ended 31 December 2008, mainly as a result of foreign exchange losses/gains on translation of RMB-denominated trade receivables and foreign exchange gains/losses on translation of RMB-denominated trade payables and borrowings. Equity would have been HK$187,144,000 (2007: HK$193,775,000) lower/higher respectively.

If US$ had weakened/strengthened by 0.7% (2007: 0.4%) against the HK$ with all other variable held constant, post-tax profit for the year would have been HK$13,460,000 (2007: HK$2,653,000) higher/lower respectively for the year ended 31 December 2008, mainly as a result of foreign exchange losses/gains on translation of US$-denominated trade receivables and foreign exchange gains/losses on translation of US$-denominated borrowings.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

(a) Financial risk factors *(Continued)*

(ii) Credit risk

The credit risk of the Group mainly arises from bank balances and debtors. The carrying amounts of these balances represent the Group's maximum exposure to credit risk in relation to financial assets. As at 31 December 2007 and 2008, all the bank deposits are deposited in high quality financial institutions without significant credit risk.

The table below shows the bank deposit balances of the five major banks as at 31 December 2007 and 2008. Management does not expect any losses from non-performance by these banks. The Group has no policy to limit the amount of credit exposure to any financial institution.

Counterparty	Rating (i)	**2008 HK$'000**	2007 HK$'000
Bank 1	Aa1	**268,348**	147,178
Bank 2	Aa3	**169,273**	8,756
Bank 3	A1	**162,303**	61,034
Bank 4	A1	**144,979**	106,732
Bank 5	A1	**104,461**	76,187
		849,364	399,887

Note (i): The source of current credit rating is from Moody's Investors Service.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

(a) Financial risk factors *(Continued)*

(ii) Credit risk (Continued)

The table below shows major debtor balances as at 31 December 2007 and 2008.

Counterparty	Rating	2008 HK$'000	2007 HK$'000
Debtors A (ii)	5A3	**213,849**	297,354
Debtors B (ii)	4A3	**27,985**	28,475
Debtors C (ii)	3A3	**180,920**	229,850
Debtors D (iii)	AAA	**4,287**	–
Debtors E (iii)	A+	**6,808**	41,770
Debtors F (iii)	A-	**19,337**	6,685
Debtors G (iii)	BBB	**10,418**	1,266
Debtors H (iii)	BB+	**77,148**	117,629
Debtors I (iii)	B+	**11,021**	46,736
Debtors J (iii)	BB-	**26,518**	30,386
		578,291	800,151

Note (ii): The source of current credit rating is from Dun & Bradstreet.

Note (iii): The source of current credit rating is from Standard & Poor's.

These debtors have no default in the past.

In order to minimise the credit risk to debtors, the Group has delegated a credit control team to be responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate provision for impairment is made for irrecoverable amounts.

(iii) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, 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 financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

(a) Financial risk factors *(Continued)*

(iii) Liquidity risk (Continued)

	Within 1 year HK$'000	Between 1 and 2 years HK$'000	Between 2 and 5 years HK$'000	Over 5 years HK$'000	Total HK$'000
As at 31 December 2008					
Creditors and accruals	**1,467,106**	**–**	**–**	**–**	**1,467,106**
Derivative financial instruments	**8,015**	**–**	**17,350**	**–**	**25,365**
Amount due to a subsidiary of minority shareholder of a subsidiary	**16,828**	**–**	**–**	**–**	**16,828**
Amounts due to associated companies	**121,595**	**–**	**–**	**–**	**121,595**
Borrowings	**858,525**	**530,265**	**2,246,845**	**–**	**3,635,635**
Interest payments on borrowings (Note)	**145,764**	**109,149**	**101,547**	**–**	**356,460**
Taxation payable	**10,443**	**–**	**–**	**–**	**10,443**
Amount due to a minority shareholder	**60,466**	**–**	**–**	**–**	**60,466**
Financial liabilities	**–**	**–**	**151,270**	**–**	**151,270**
Long-term other payables	**–**	**14,738**	**59,826**	**–**	**74,564**
Interest payments on long-term other payables (Note)	**810**	**1,079**	**1,238**	**–**	**3,127**
	2,689,552	**655,231**	**2,578,076**	**–**	**5,922,859**
As at 31 December 2007					
Creditors and accruals	1,428,268	–	–	–	1,428,268
Amount due to a subsidiary of minority shareholder of a subsidiary	29,367	–	–	–	29,367
Amounts due to associated companies	150,669	–	–	–	150,669
Borrowings	961,107	466,225	1,271,842	–	2,699,174
Interest payments on borrowings (Note)	117,924	72,916	77,029	–	267,869
Taxation payable	25,652	–	–	–	25,652
Amount due to a minority shareholder	343	–	–	–	343
Financial liabilities	–	–	–	264,394	264,394
Long-term other payables	–	209	115,449	–	115,658
Interest payments on long-term other payables (Note)	2,482	5,872	8,571	–	16,925
	2,715,812	545,222	1,472,891	264,394	4,998,319

3 FINANCIAL RISK MANAGEMENT *(Continued)*

(a) Financial risk factors *(Continued)*

(iii) Liquidity risk (Continued)

Note:

The interest payments on borrowings and long-term other payables are calculated based on the amounts of borrowings and long-term other payables held as at 31 December 2007 and 2008 without taking into account of future issues. Floating-rate interest is estimated using applicable interest rate at 31 December 2007 and 2008 respectively.

(iv) Cash flow and fair value interest-rate risk

The Group's interest-rate risk arises from borrowings. Borrowings issued at variable rates expose the Group to cash flow interest-rate risk. Other than borrowings, the Group has no significant interest-bearing assets and liabilities. Accordingly, the Group's income and operating cash flows, other than finance costs, are substantially independent of changes in market interest rates.

The Group aims to maintain a suitable mixture of fixed rate and floating rate borrowings in order to stabilise interest costs despite rate movements. Interest rate hedging ratio is determined after taking into consideration of general market trend, the Group's cash flow patterns and interest coverage ratio. The Group uses interest rate swaps to hedge exposures or to modify the interest rate characteristics of its borrowings. As at 31 December 2008, the Group has interest rate swap contracts to hedge certain of the Group's borrowings amounting to US$100 million with fixed interest rates.

The Group analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions and alternative financing. Based on these scenarios, the Group calculates the impact on profit and loss of a defined interest rate shift. For each simulation, the same interest rate shift is used for all currencies. The scenarios are run only for liabilities that represent the major interest-bearing positions.

Based on the simulations performed, the impact on profit or loss of a 10 basis-point shift would be a maximum increase of HK$2,895,000 (2007: HK$2,699,000) or decrease of HK$2,895,000 (2007: HK$2,699,000), respectively. The simulation is done on a quarterly basis to verify that the maximum loss potential is within the limit given by the management.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

(b) 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 monitor the operating cash flow generated from operations and available banking facilities to match its capital expenditures and dividend outflow payments.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and bank balances. Total capital is calculated as "equity", as shown in the consolidated balance sheet.

The Group's strategy was to maintain a solid capital base to support the operations and development of its business in the long term. Management considers a gearing ratio of not more than 100% as solid and reasonable. The table below analyses the Group's capital structure at 31 December 2007 and 2008:

	2008 **HK$'000**	2007 HK$'000
Total borrowings	**3,635,635**	2,699,174
Less: Cash and bank balances (Note 25)	**(889,773)**	(418,192)
Net debt	**2,745,862**	2,280,982
Total capital	**3,203,939**	2,822,806
Gearing ratio	**86%**	81%

The increase in net debt during 2008 resulted primarily from financing the purchases of property, plant and equipment for the ongoing expansion and upgrading of the production facilities of the Group.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

(c) Fair value estimation

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Enterprise value calculation method is used to determine the fair value for the available-for-sale financial asset while estimated discounted cash flows are used to determine fair value for other financial instruments.

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

4 CRITICAL ACCOUNTING ESTIMATES AND 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) Useful lives of property, plant and equipment

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 property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. 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.

(b) Impairment of non-financial assets

Property, plant and equipment, leasehold land and land use rights, and intangible assets (other than goodwill) are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, and goodwill is tested annually for impairment in accordance with accounting policy stated in Note 2(g). The recoverable amounts are determined based on value-in-use calculations or market valuations. These calculations require the use of judgements and estimates.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

(b) Impairment of non-financial assets *(Continued)*

Management judgement is required in the area of asset impairment particularly in assessing: (i) whether an event has occurred that may indicate that the related asset value may not be recoverable; (ii) whether the carrying value of an asset can be supported by the recoverable amount, being the higher of fair value less costs to sell or net present value of future cash flows which are estimated based upon the continued use of the asset in the business; and (iii) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management in assessing impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test and as a result affect the Group's financial position and results of operations. If there is a significant adverse change in the projected performance and resulting future cash flow projections, it may be necessary to take an impairment charge to the consolidated profit and loss account.

(c) Provision for impairment of trade and other receivables

The Group makes provision for impairment of trade and other receivables based on an assessment 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 judgement and estimates. Where the expectation is different from the original estimate, such difference will impact carrying value of receivables and provision for impairment losses in the period in which such estimate has been changed.

(d) Net realisable values of inventories

Inventories are carried at the lower of cost and net realisable value. The cost of inventories is written down to net realisable value when there is an objective evidence that the cost of inventories may not be recoverable. The cost of inventories may not be recoverable if those inventories are damaged, if they have become wholly or partially obsolete, or if their selling prices have declined. The cost of inventories may also not be recoverable if the estimated costs to be incurred to make the sale have increased. The amount written off to the consolidated profit and loss account is the difference between the carrying value and net realisable value of the inventories. In determining whether the cost of inventories can be recoverable, significant judgement is required. In making this judgement, the Group evaluates, among other factors, the duration and extent by all means to which the amount will be recovered.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

(e) Present value of financial liabilities

The Group's management determines the estimated redemption value of the financial liabilities by using a predetermined formula based on the Option Deed. This formula requires the use of estimates and assumptions which are stated in Note 31.

5 SEGMENT INFORMATION

(a) Analysis of sales by category

Sales for the years ended 31 December 2007 and 2008 represent principally sales of PCB, prepreg and laminate.

(b) Primary reporting format – business segments

The Group is organised into two main business segments: (i) manufacturing and distribution of PCB including but not limited to provision of circuit design, quick-turn-around services and drilling and routing services; (ii) manufacturing and distribution of prepreg and laminate.

Segment assets consist primarily of property, plant and equipment, leasehold land and land use rights, intangible assets, available-for-sale financial asset, inventories, debtors and prepayments and cash and bank balances. They exclude items such as deferred tax assets, taxation recoverable and amount due from a related party.

Segment liabilities comprise operating liabilities. They exclude items such as taxation payable and deferred tax liabilities.

Capital expenditures comprise mainly additions to property, plant and equipment, leasehold land and land use rights and intangible assets as set out in Notes 16, 17 and 18 respectively, including additions resulting from acquisition through business combination.

Unallocated assets and liabilities represent assets and liabilities not dedicated to a particular segment, consist primarily of taxation and amounts due from/to related parties.

Inter-segment sales were conducted with terms mutually agreed among the Group companies.

5 SEGMENT INFORMATION *(Continued)*

(b) Primary reporting format – business segments *(Continued)*

The segment results for the years are as follows:

	2008 HK$'000	2007 HK$'000
Revenue		
PCB	5,212,437	4,108,638
Inter-segment revenue	–	–
Subtotal for PCB	5,212,437	4,108,638
Prepreg and laminate	871,991	663,943
Inter-segment revenue	(457,977)	(282,319)
Subtotal for prepreg and laminate	414,014	381,624
Total revenue	5,626,451	4,490,262
Segment results		
PCB	693,667	448,462
Prepreg and laminate	(14,396)	48,792
Interest income	5,095	27,300
Finance costs	(132,011)	(109,737)
Share of net profit of associated companies	33,577	107,858
Income tax expense	(77,387)	(72,116)
Profit for the year	508,545	450,559
Segment assets		
PCB	7,529,187	6,416,918
Prepreg and laminate	660,030	563,084
Associated companies	620,573	579,543
Unallocated assets	54,502	58,269
Total assets	8,864,292	7,617,814
Segment liabilities		
PCB	5,293,837	4,268,289
Prepreg and laminate	137,397	268,915
Associated companies	121,595	150,669
Unallocated liabilities	107,524	107,135
Total liabilities	5,660,353	4,795,008
Capital expenditures		
PCB	1,357,112	2,119,814
Prepreg and laminate	52,069	170,288
Total capital expenditures	1,409,181	2,290,102

5 SEGMENT INFORMATION *(Continued)*

(b) Primary reporting format – business segments *(Continued)*

Other segment items included in the consolidated profit and loss account are as follows:

	2008 HK$'000	2007 HK$'000
Depreciation of property, plant and equipment		
PCB	**421,325**	278,663
Prepreg and laminate	**20,380**	13,097
Total depreciation of property, plant and equipment	**441,705**	291,760
Amortisation of leasehold land and land use rights		
PCB	**3,600**	2,167
Prepreg and laminate	**753**	737
Total amortisation of leasehold land and land use rights	**4,353**	2,904
Amortisation of intangible assets		
PCB	**2,991**	1,337
Prepreg and laminate	**–**	–
Total amortisation of intangible assets	**2,991**	1,337
Impairment of property, plant and equipment		
PCB	**–**	10,612
Prepreg and laminate	**–**	–
Total impairment of property, plant and equipment	**–**	10,612
Impairment of intangible assets		
PCB	**19,860**	–
Prepreg and laminate	**–**	–
Total impairment of intangible assets	**19,860**	–

5 SEGMENT INFORMATION *(Continued)*

(b) Primary reporting format – business segments *(Continued)*

Other segment items included in the consolidated profit and loss account are as follows *(Continued)*:

	2008 **HK$'000**	2007 HK$'000
(Written-back)/provision for bad and doubtful debts		
PCB	**(1,638)**	6,587
Prepreg and laminate	**27**	149
Total (written-back)/provision for bad and doubtful debts	**(1,611)**	6,736
Provision for inventories		
PCB	**6,646**	12,572
Prepreg and laminate	**997**	1,026
Total provision for inventories	**7,643**	13,598

(c) Secondary reporting format – geographical segments

The Group primarily operates in Hong Kong and mainland China. Sales are made to overseas customers as well as customers in Hong Kong and mainland China.

The Group's revenue by geographical location is determined by the final destination to where the products are delivered:

	2008 **HK$'000**	2007 HK$'000
Mainland China	**3,599,620**	3,038,429
Hong Kong	**481,912**	411,155
North Asia	**270,265**	278,155
North America	**402,344**	223,689
Europe	**467,434**	308,387
Southeast Asia	**404,876**	230,447
Total revenue	**5,626,451**	4,490,262

5 SEGMENT INFORMATION *(Continued)*

(c) Secondary reporting format – geographical segments *(Continued)*

The Group's assets are located in the following geographical areas:

	2008 HK$'000	2007 HK$'000
Mainland China	**6,645,042**	5,262,440
Hong Kong	**1,439,261**	1,346,397
Finland	**44,738**	301,489
India	**60,176**	69,676
Associated companies	**620,573**	579,543
Unallocated assets	**54,502**	58,269
Total assets	**8,864,292**	7,617,814

The Group's capital expenditures, based on where the assets are located, are allocated as follows:

	2008 HK$'000	2007 HK$'000
Mainland China	**1,360,860**	1,902,618
Hong Kong	**48,321**	43,106
Finland	**–**	280,400
India	**–**	63,978
Total capital expenditures	**1,409,181**	2,290,102

6 OTHER INCOME

	2008 HK$'000	2007 HK$'000
Sales of scrap	**167,961**	129,767
Investment tax credits	**–**	34,414
Tooling charges	**–**	5,757
Sundries	**4,534**	7,071
Gain on partial disposal of a subsidiary (Note 38(a))	**–**	41
	172,495	177,050

Investment tax credits represent incentives receivable as a result of the re-investment of the dividend incomes from subsidiaries and associated companies in mainland China.

7 SHARE AWARD EXPENSES

As previously disclosed in the prospectus issued by the Company dated 22 January 2007 for the purpose of the Company's initial public offering in February 2007, SuSih had granted 134,800,000 shares from its own shareholding to the employees (including the Chief Executive Officer) and a consultant to SuSih through Total Glory (a special vehicle established by SuSih for this purpose at that time) so as to allow them to share in the Group's success and to incentivise and reward them.

The shares granted as aforesaid represent approximately 6.74% of the Company's total issued share capital immediately after the listing of the Company's shares on the main board of the Stock Exchange on 2 February 2007.

Out of the total 134,800,000 shares, 105,448,000 shares are not subject to the return condition whereas 29,352,000 shares are subject to return condition. Out of the 29,352,000 shares which are subject to return condition, 4,752,000 shares were returned to Total Glory during 2008. Based on the offer price of HK$2.25 per share, share award expenses of approximately HK$5.5 million were credited to the consolidated profit and loss account for the year. As a result, those granted shares which are subject to the return condition and based on the offer price of HK$2.25 per share, net share award expenses of HK$11.7 million were charged to the consolidated profit and loss account in 2008 (2007: HK$17.2 million) whereas HK$14.5 million, HK$8.3 million and HK$3.7 million will be charged for each of the financial years ending 31 December 2009, 2010, and 2011 respectively.

In respect of those granted shares which are not subject to the return condition, as all of them were vested in 2007 and therefore no share award expense was charged to the consolidated profit and loss account for the year ended 31 December 2008 (2007: HK$237.3 million).

For the share award expenses charged for the years ended 31 December 2007 and 2008, corresponding amounts were credited as an employee share-based compensation reserve under equity in the financial statements of the Company.

8 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS)

	2008	2007
	HK$'000	HK$'000
Wages and salaries	**753,804**	590,904
Share award expenses (Note 7)	**11,661**	254,502
Retirement benefit costs	**33,292**	22,927
	798,757	868,333

The Group participates in employee social security plans, including pension, medical and other welfare benefits organised by the municipal government in mainland China in accordance with relevant regulations. Contributions are calculated based on certain percentages of the total salary costs of employees, subject to certain ceilings. The assets of the plans are held separately by the municipal government, which is responsible for the entire pension obligations payable to the retired employees. The Group has no other obligations except for making these specific contributions to the plans.

The Group also operates a defined contribution scheme in accordance with the requirements of the Mandatory Provident Fund Ordinance for all eligible employees in Hong Kong. Contributions to the scheme are calculated based on certain percentage of the applicable salary costs or pre-determined fixed sums. The assets of the scheme are held under separate independent trust funds.

(a) Directors' emoluments

	2008	2007
	HK$'000	HK$'000
Fees	**1,200**	1,314
Other emoluments	**26,966**	173,268
	28,166	174,582

8 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS) *(Continued)*

(a) Directors' emoluments *(Continued)*

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

Name of director	Share award expenses (Note 7) HK$'000	Fees HK$'000	Salary HK$'000	Discretionary bonuses HK$'000	Other benefits HK$'000	Employer's contribution to pension scheme HK$'000	Total HK$'000
Tang Hsiang Chien	–	75	4,200	300	–	180	4,755
Tang Chung Yen, Tom	–	38	6,300	–	–	270	6,608
Tang Ying Ming, Mai	–	38	5,320	–	–	228	5,586
Chung Tai Keung, Canice	149,400	–	3,920	1,230	1,680	240	156,470
Leung Kwan Yuen, Andrew	–	349	–	–	–	–	349
Lee, Eugene	–	465	–	–	–	–	465
Li Ka Cheung, Eric	–	349	–	–	–	–	349
	149,400	1,314	19,740	1,530	1,680	918	174,582

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

Name of director	Share award expenses (Note 7) HK$'000	Fees HK$'000	Salary HK$'000	Discretionary bonuses HK$'000	Other benefits HK$'000	Employer's contribution to pension scheme HK$'000	Total HK$'000
Tang Hsiang Chien	–	–	4,130	1,000	–	177	5,307
Tang Chung Yen, Tom	–	–	6,195	1,000	–	266	7,461
Tang Ying Ming, Mai	–	–	5,231	1,000	–	224	6,455
Chung Tai Keung, Canice	–	–	3,647	2,000	1,860	236	7,743
Leung Kwan Yuen, Andrew	–	360	–	–	–	–	360
Lee, Eugene	–	480	–	–	–	–	480
Li Ka Cheung, Eric	–	360	–	–	–	–	360
	–	1,200	19,203	5,000	1,860	903	28,166

No directors waived or agreed to waive any emoluments during the years ended 31 December 2007 and 2008. No incentive payment for joining the Group or compensation for loss of office was paid or payable to any directors during the years ended 31 December 2007 and 2008.

8 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS) *(Continued)*

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group include four (2007: four) directors for the year ended 31 December 2008, whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining one (2007: one) individual for the year ended 31 December 2008 are as follows:

	2008 **HK$'000**	2007 HK$'000
Basic salaries, bonuses, allowances and benefits in kind	**3,686**	2,380
Share award expenses (Note 7)	**560**	14,500
Retirement benefit – defined contribution scheme	**94**	43
	4,340	16,923

The emoluments fell within the following bands:

	No. of individuals	
	2008	2007
Emolument bands		
Under HK$1,000,000	**–**	–
HK$1,000,001 – HK$1,500,000	**–**	–
HK$1,500,001 – HK$2,000,000	**–**	–
HK$2,000,001 – HK$2,500,000	**–**	–
HK$2,500,001 – HK$3,000,000	**–**	–
HK$3,000,001 – HK$3,500,000	**–**	–
Over HK$3,500,001	**1**	1
	1	1

9 EXPENSES BY NATURE

	2008 HK$'000	2007 HK$'000
Raw materials and consumables used	**2,825,665**	2,254,881
Employee benefit expenses (Note 8)	**798,757**	868,333
Amortisation of intangible assets	**2,991**	1,337
Amortisation of leasehold land and land use rights	**4,353**	2,904
Depreciation of property, plant and equipment	**441,705**	291,760
Impairment of property, plant and equipment	**–**	10,612
Impairment of intangible assets	**19,860**	–
Loss on disposal of property, plant and equipment	**22,383**	2,599
(Written-back)/provision for bad and doubtful debts	**(1,611)**	6,736
Provision for inventories	**7,643**	13,598
Sales commission	**37,910**	27,430
Subcontracting expenses	**98,987**	90,283
Auditors' remuneration	**6,432**	4,661
Operating lease rental expense		
– Land and buildings	**5,964**	5,010
Others	**848,636**	589,914
Total cost of sales, selling and distribution, general and administrative and share award expenses	**5,119,675**	4,170,058

10 INTEREST INCOME

	2008 HK$'000	2007 HK$'000
Interest income from deposits relating to share subscription under the global offering	**–**	13,983
Interest income from banks	**5,095**	13,317
	5,095	27,300

11 FINANCE COSTS

	2008 HK$'000	2007 HK$'000
Interest expenses on bank loans, overdrafts and other short-term loans wholly repayable within five years	**141,014**	109,737
Less: amount capitalised in property, plant and equipment (Note)	**(24,879)**	–
	116,135	109,737
Fair value losses on financial instrument – interest rate swaps: fair value hedges	**25,365**	–
Fair value adjustment of bank borrowings attributable to interest rate risk	**(25,365)**	–
	116,135	109,737
Interest on accretion of discount of financial liabilities	**15,876**	–
	132,011	109,737

Note:

Interest expense of approximately HK$24,879,000 (2007: Nil) arising on borrowings for the construction and acquisition of qualifying assets were capitalised during the year and are included in 'Additions' under property, plant and equipment. A capitalisation rate of approximately 3.9% per annum (2007: Nil) was used, representing the interest rate of the loans used to finance the projects.

12 INCOME TAX EXPENSE

The amounts of taxation charged to the consolidated profit and loss account represent:

	2008 HK$'000	2007 HK$'000
Current income tax		
– Hong Kong profits tax	**3,532**	5,859
– Overseas taxation	**78,675**	73,472
Deferred tax (Note 30)	**(4,820)**	(7,215)
	77,387	72,116

Taxation has been provided at the appropriate tax rates prevailing in the countries in which the Group operates. Hong Kong profits tax has been provided at the rate of 16.5% (2007: 17.5%) on the estimated assessable profit for the year ended 31 December 2008. The rates applicable for income tax in mainland China is 25% (2007: 33%) for the year ended 31 December 2008.

12 INCOME TAX EXPENSE *(Continued)*

The new Corporate Income Tax Law increases the corporate income tax rate for foreign investment enterprises from previous preferential rates to 25% with effect from 1 January 2008. Companies established in mainland China before 16 March 2007 and previously taxed at the rate lower than 25% may be offered a gradual increase of tax rate to 25% within 5 years. Certain subsidiaries of the Company established in mainland China will enjoy preferential income tax rate from 2008 to 2011 and be taxed at the rate of 25% from 2012 or when the preferential treatment expires. Certain subsidiaries established in mainland China are entitled to exemption and concessions from income tax under tax holidays. Income tax was calculated at rates given under the concessions.

The taxation of the Group's profit before income tax and share of net profit of associated companies differs from the theoretical amount that would arise using the applicable tax rate, being the weighted average of tax rates prevailing in the territories in which the Group operates, as follows:

	2008 HK$'000	2007 HK$'000
Profit before income tax and share of net profit of associated companies	**552,355**	414,817
Tax calculated at domestic applicable tax rate	**130,468**	164,723
Effect of change in tax rate	**(15,296)**	(10,940)
Effect of relief on income tax	**(40,090)**	(133,516)
Expenses not deductible for taxation purposes	**43,970**	73,134
Income not subject to taxation	**(54,475)**	(31,042)
Unrecognised tax loss utilised during the year	**(1,086)**	(15,900)
Tax losses for which no deferred tax recognised	**13,896**	25,657
Income tax expense	**77,387**	72,116
Weighted average domestic applicable tax rate	**23.6%**	39.7%

The change in weighted average domestic applicable tax rates above is mainly caused by a change in mix of profit earned in different tax jurisdictions and changes in respective tax rates as mentioned above.

13 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$798,336,000 (2007: HK$39,559,000).

14 EARNINGS PER SHARE

(a) Basic

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

	2008	2007
Profit attributable to equity holders of the Company (HK$'000)	**402,468**	341,648
Weighted average number of shares in issue (shares in thousands)	**1,987,360**	1,956,164
Basic earnings per share (HK$ per share)	**0.20**	0.17

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of shares outstanding to assume conversion of all dilutive potential shares.

During the years ended 31 December 2007 and 2008, there were no potential dilutive shares outstanding.

15 DIVIDENDS

The interim dividend paid in 2008 was HK$0.028 per share, amounting to approximately HK$55 million (an aggregate of 2007 interim and final dividend was HK$0.06 per share, amounting to approximately HK$120 million). A final dividend in respect of the year ended 31 December 2008 of HK$0.014 per share, amounting to approximately HK$27 million, is proposed by the Board on 25 February 2009 for the shareholders' approval at the annual general meeting of the Company on 2 June 2009. These financial statements do not reflect this dividend payable.

	2008 **HK$'000**	2007 HK$'000
Interim dividend paid of HK$0.028 (2007: HK$0.02) per share	**54,992**	40,000
Proposed final dividend of HK$0.014 (2007: HK$0.04) per share	**27,496**	80,000
	82,488	120,000

16 PROPERTY, PLANT AND EQUIPMENT – GROUP

	Buildings HK$'000	Leasehold improve-ments HK$'000	Furniture and equipment HK$'000	Plant, machinery and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
Year ended 31 December 2007							
Opening net book amount	446,262	7,742	54,573	1,401,284	7,969	112,970	2,030,800
Exchange differences	30,449	–	4,454	106,326	401	43,760	185,390
Additions	8,950	864	22,055	298,404	5,372	1,051,685	1,387,330
Acquisition through business combination (Note 38(b))	160,233	–	4,998	298,651	127	362,241	826,250
Reclassification	28,338	562	49,845	156,857	–	(235,602)	–
Disposals	(173)	(19)	(191)	(5,034)	–	(613)	(6,030)
Depreciation	(31,820)	(451)	(28,835)	(227,377)	(3,277)	–	(291,760)
Impairment	–	–	(579)	(10,033)	–	–	(10,612)
Closing net book amount	642,239	8,698	106,320	2,019,078	10,592	1,334,441	4,121,368
At 31 December 2007							
Cost	801,977	15,234	226,252	3,028,310	24,564	1,334,441	5,430,778
Accumulated depreciation and accumulated impairment	(159,738)	(6,536)	(119,932)	(1,009,232)	(13,972)	–	(1,309,410)
Net book amount	642,239	8,698	106,320	2,019,078	10,592	1,334,441	4,121,368
Year ended 31 December 2008							
Opening net book amount	**642,239**	**8,698**	**106,320**	**2,019,078**	**10,592**	**1,334,441**	**4,121,368**
Exchange differences	**41,748**	**–**	**5,327**	**124,262**	**375**	**54,766**	**226,478**
Additions	**6,581**	**588**	**19,000**	**75,471**	**4,091**	**1,303,450**	**1,409,181**
Reclassification	**489,972**	**–**	**19,993**	**888,628**	**–**	**(1,398,593)**	**–**
Disposals	**(19,073)**	**(1,238)**	**(158)**	**(2,970)**	**(118)**	**(1,470)**	**(25,027)**
Depreciation	**(44,178)**	**(452)**	**(36,807)**	**(356,431)**	**(3,837)**	**–**	**(441,705)**
Closing net book amount	**1,117,289**	**7,596**	**113,675**	**2,748,038**	**11,103**	**1,292,594**	**5,290,295**
At 31 December 2008							
Cost	**1,322,248**	**12,545**	**271,217**	**4,101,005**	**29,108**	**1,292,594**	**7,028,717**
Accumulated depreciation and accumulated impairment	**(204,959)**	**(4,949)**	**(157,542)**	**(1,352,967)**	**(18,005)**	**–**	**(1,738,422)**
Net book amount	**1,117,289**	**7,596**	**113,675**	**2,748,038**	**11,103**	**1,292,594**	**5,290,295**

16 PROPERTY, PLANT AND EQUIPMENT – GROUP *(Continued)*

Depreciation expenses for years ended 31 December 2007 and 2008 have been charged to the consolidated profit and loss account as below:

	2008 **HK$'000**	2007 HK$'000
Cost of sales	**414,521**	271,912
Selling and distribution expenses	**3,716**	3,580
General and administrative expenses	**23,468**	16,268
	441,705	291,760

No impairment loss (2007: HK$10,612,000) has been charged to general and administrative expenses for the year ended 31 December 2008.

17 LEASEHOLD LAND AND LAND USE RIGHTS – GROUP

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

	2008 **HK$'000**	2007 HK$'000
Opening net book amount	**174,420**	114,549
Exchange differences	**8,363**	6,882
Acquisition through business combination (Note 38(b))	**–**	55,893
Amortisation	**(4,353)**	(2,904)
Closing net book amount	**178,430**	174,420
End of the year		
Cost	**196,641**	187,691
Accumulated amortisation	**(18,211)**	(13,271)
Net book amount	**178,430**	174,420

Amortisation of prepaid operating lease payments of approximately HK$4,196,000 (2007: HK$2,747,000) and HK$157,000 (2007: HK$157,000) has been included in general and administrative expenses and cost of sales in the consolidated profit and loss account respectively.

17 LEASEHOLD LAND AND LAND USE RIGHTS – GROUP *(Continued)*

	2008 **HK$'000**	2007 HK$'000
In Hong Kong held on:		
Leases of leasehold land between 10 to 50 years	**27,951**	28,669
In mainland China held on:		
Leases of land use rights between 10 to 50 years	**144,604**	139,595
In India held on:		
Leases of land use rights between 10 to 50 years	**5,875**	6,156
	178,430	174,420

In regards with the leasehold land and land use rights owned and occupied by the Group, the Group holds all of the relevant certificates of state-owned land use rights except for a piece of land in mainland China for which the net book value as at 31 December 2008 amounted to approximately HK$10,010,000 (2007: HK$9,637,000).

18 INTANGIBLE ASSETS – GROUP

	Goodwill (Note (a)) HK$'000	Technologies fee HK$'000	Customer relationship HK$'000	Others HK$'000	Total HK$'000
Year ended 31 December 2007					
Opening net book amount	14,477	7,605	–	479	22,561
Exchange differences	1,014	–	294	–	1,308
Acquisition through business combination (Note 38(b))	106,738	–	20,629	–	127,367
Amortisation	–	(1,170)	(167)	–	(1,337)
Closing net book amount	122,229	6,435	20,756	479	149,899
At 31 December 2007					
Cost	141,953	11,700	20,931	800	175,384
Accumulated amortisation	(19,724)	(5,265)	(175)	(321)	(25,485)
Net book amount	122,229	6,435	20,756	479	149,899
Year ended 31 December 2008					
Opening net book amount	**122,229**	**6,435**	**20,756**	**479**	**149,899**
Exchange differences	**9,253**	**–**	**925**	**–**	**10,178**
Impairment	**–**	**–**	**(19,860)**	**–**	**(19,860)**
Adjustment for change in estimate of contingent consideration (Note (b))	**(115,067)**	**–**	**–**	**–**	**(115,067)**
Amortisation	**–**	**(1,170)**	**(1,821)**	**–**	**(2,991)**
Closing net book amount	**16,415**	**5,265**	**–**	**479**	**22,159**
At 31 December 2008					
Cost	**36,139**	**11,700**	**22,260**	**800**	**70,899**
Accumulated amortisation and accumulated impairment	**(19,724)**	**(6,435)**	**(22,260)**	**(321)**	**(48,740)**
Net book amount	**16,415**	**5,265**	**–**	**479**	**22,159**

Amortisation of approximately HK$2,991,000 (2007: HK$1,337,000) has been included in general and administrative expenses in the consolidated profit and loss account.

Impairment charge of approximately HK$19,860,000 (2007: Nil) has been included in general and administrative expenses in the consolidated profit and loss account.

18 INTANGIBLE ASSETS – GROUP *(Continued)*

Notes:

(a) Impairment test for goodwill

Goodwill is allocated to the Group's CGUs identified according to the country of operation. The allocation by country of operation is presented below:

	2008	2007
	HK$'000	HK$'000
Mainland China	**16,415**	122,229

For the purposes of impairment reviews, the recoverable amount of goodwill is determined based on value-in-use calculations. The value-in-use calculations use cash flow projections based on the extrapolation of the latest unaudited financial results of each CGU to a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. There are a number of assumptions and estimates involved for the preparation of cash flow projections for the year.

Key assumptions used for value-in-use calculations for goodwill for each of the years ended 31 December 2008, 2009, 2010, 2011 and 2012 are gross margin, growth rate and discount rate of 19.2%, 10.0% and 6.1% respectively.

These assumptions have been used for the analysis of each CGU within the business segment. The directors prepared the financial budgets reflecting actual and prior year performance and market development expectations. The growth rates used are consistent with the industry growth estimates. The directors estimate discount rate using pre-tax rates that reflect market assessments of the time value of money of the Group for the year ended 31 December 2008. Judgement is required to determine key assumptions adopted in the cash flow projections and changes to key assumptions can significantly affect these cash flow projections.

(b) Adjustment for change in estimate of contingent consideration

As at 31 December 2008, the present value of the put option which represents a contingent consideration due in 2013 in relation to the acquisition of MAH (Note 38(b)), has been adjusted by approximately HK$129,000,000 (2007: Nil). In connection with this adjustment, the relevant goodwill has been reduced by approximately HK$115,067,000 (2007: Nil) and the excess credit of approximately HK$13,933,000 (2007: Nil) has been recognised in the consolidated profit and loss account.

19 INTERESTS IN ASSOCIATED COMPANIES – GROUP

	2008 **HK$'000**	2007 HK$'000
Share of net assets	**619,859**	578,871
Goodwill	**714**	672
	620,573	579,543

The movements of share of net assets and goodwill of associated companies are as follows:

	2008 **HK$'000**	2007 HK$'000
Beginning of the year	**579,543**	441,409
Exchange differences	**35,202**	36,037
Additional investments in an associated company	**–**	20,750
Share of associated companies' results		
– net profit after income tax	**33,577**	107,858
– dividend received	**(27,749)**	(26,511)
End of the year	**620,573**	579,543

19 INTERESTS IN ASSOCIATED COMPANIES – GROUP *(Continued)*

The aggregate amounts of each of current assets, non-current assets, current liabilities, non-current liabilities, income and expenses related to the Group's interests in associated companies are as follows:

	2008 **HK$'000**	2007 HK$'000
Assets		
Non-current assets	**636,153**	578,155
Current assets	**675,439**	788,048
	1,311,592	1,366,203
Liabilities		
Non-current liabilities	**127,470**	128,369
Current liabilities	**564,263**	658,963
	691,733	787,332
Net assets	**619,859**	578,871
Share of net assets of:		
A listed associated company	**509,056**	458,911
An unlisted associated company	**110,803**	119,960
	619,859	578,871
Income	**1,294,194**	1,197,411
Expenses	**(1,260,617)**	(1,089,553)
Profit after income tax	**33,577**	107,858

19 INTERESTS IN ASSOCIATED COMPANIES – GROUP *(Continued)*

The Group's interests in its associated companies are as follows:

Name	Country of establishment	Principal activities	Percentage of equity held 2008	2007
GSST	Mainland China	Manufacturing of prepreg and laminate	**22.18**	22.18
SSST	Mainland China	Manufacturing of prepreg and laminate	**41.64**	41.64

Based on the market price of the un-restricted shares of GSST, the market value of the Group's shares as at 31 December 2008 was approximately HK$1,114,503,000 (2007: HK$3,604,569,000).

20 INVESTMENTS IN SUBSIDIARIES – COMPANY

	2008 HK$'000	2007 HK$'000
Unlisted investment, at cost	**777,000**	777,000

20 INVESTMENTS IN SUBSIDIARIES – COMPANY *(Continued)*

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

Name	Place of incorporation/ establishment	Principal activities and place of operation	Issued and fully paid up share capital/ registered capital	Proportion of issued and fully paid share capital/registered capital held by the Company directly/indirectly 2008	2007
ACP Electronics Co., Ltd.[2]	Mainland China	Manufacturing and sales of high precision PCB/ Mainland China	US$51,400,000	**80.00**	80.00
Aspocomp Chin-Poon Holdings Limited	BVI	Investment holding/ BVI	US$54,300,000	**80.00**	80.00
Aspocomp Electronics India Private Limited	India	Manufacturing of PCB/ India	INR100,000	**80.00**	80.00
Dongguan Meadville Circuits Limited[2]	Mainland China	Manufacturing of PCB/ Mainland China	US$78,000,000	**80.00**	80.00
Dongguan Shengyi Electronics Ltd.[2]	Mainland China	Manufacturing, sales and distribution of PCB/ Mainland China	US$89,420,000	**70.20**	70.20
Guangzhou Meadville Electronics Co., Ltd.[2]	Mainland China	Manufacturing of PCB/ Mainland China	US$60,000,000	**100.00**	100.00
OPC Manufacturing Limited	Hong Kong	Manufacturing of PCB/ Hong Kong	HK$8,000,000	**100.00**	100.00
Meadville Innovations (Shanghai) Co., Ltd.[2]	Mainland China	Provision of PCB design services/Mainland China	US$1,000,000	**100.00**	100.00

20 INVESTMENTS IN SUBSIDIARIES – COMPANY *(Continued)*

Name	Place of incorporation/ establishment	Principal activities and place of operation	Issued and fully paid up share capital/ registered capital	Proportion of issued and fully paid share capital/registered capital held by the Company directly/indirectly 2008	2007
Meadville International Trading (Shanghai) Co., Ltd.[2]	Mainland China	Trading of PCB and liaison office/Mainland China	US$500,000	**100.00**	100.00
Meadville Enterprises (HK) Limited	Hong Kong	Administration and treasury/Hong Kong	HK$1	**100.00**	100.00
Mica-Ava (No.3) Limited	BVI	Investment holding/BVI	US$50,000	**93.71**	93.71
Mica-Ava China Limited	Hong Kong	Investment holding/ Hong Kong	HK$2,200,000,000	**100.00**	100.00
Mica-AVA (Guangzhou) Material Company Ltd.[2]	Mainland China	Manufacturing of prepreg and laminate/Mainland China	US$42,000,000	**93.71**	93.71
Mica-Ava (Far East) Industrial Limited	Hong Kong	Manufacturing of prepreg and laminate/Hong Kong	HK$13,088	**93.71**	93.71
Meadville Aspocomp (BVI) Holdings Limited	BVI	Investment holding/BVI	US$50,000	**80.00**	80.00
MTG Investment (BVI) Limited[1]	BVI	Investment holding/BVI	US$1	**100.00**	100.00
MTG (PCB) No.2 (BVI) Limited	BVI	Investment holding/BVI	HK$600,000,000	**100.00**	100.00
Oriental Printed Circuits Limited	Hong Kong	Sales and distribution of PCB/Hong Kong	HK$90,000,000	**100.00**	100.00

20 INVESTMENTS IN SUBSIDIARIES – COMPANY *(Continued)*

Name	Place of incorporation/ establishment	Principal activities and place of operation	Issued and fully paid up share capital/ registered capital	Proportion of issued and fully paid share capital/registered capital held by the Company directly/indirectly 2008	2007
Shanghai Kaiser Electronics Co., Ltd.[2]	Mainland China	Provision of PCB drilling service/Mainland China	US$16,420,000	**100.00**	100.00
Shanghai Meadville Electronics Co., Ltd.[2]	Mainland China	Manufacturing of PCB/ Mainland China	US$67,500,000	**100.00**	100.00
Shanghai Meadville Science and Technology Co., Ltd.[2]	Mainland China	Research and development of high-end multi-layer PCB/Mainland China	US$48,000,000	**100.00**	100.00

1 Direct subsidiary
2 Foreign investment enterprise

21 AVAILABLE-FOR-SALE FINANCIAL ASSET – GROUP

	2008 HK$'000	2007 HK$'000
Unlisted equity security		
Beginning of the year	**21,089**	–
Addition	**–**	21,089
Less: fair value loss recognised directly in available-for-sale financial asset reserve	**(454)**	–
End of the year	**20,635**	21,089

The fair value of unlisted equity security is based on enterprise value calculation which uses an average of the latest two years' EBITDA extracted from the unaudited financial results of this security and an enterprise value multiplier of 5.5 times (2007: 5.5 times).

22 INVENTORIES – GROUP

	2008 HK$'000	2007 HK$'000
Raw materials	**201,606**	162,314
Work in progress	**124,109**	133,448
Finished goods	**216,812**	201,203
Consumable stocks	**2,377**	1,035
	544,904	498,000

For the year ended 31 December 2008, the cost of inventories recognised as expenses and included in cost of sales amounted approximately to HK$4,546,027,000 (2007: HK$3,430,222,000).

Provision for inventories amounted to approximately to HK$7,643,000 (2007: HK$13,598,000) which have been included in cost of sales in the consolidated profit and loss account.

23 DEBTORS AND PREPAYMENTS

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Debtors	**1,058,029**	1,471,542	**–**	–
Prepayments and other receivables	**184,992**	125,492	**582**	312
	1,243,021	1,597,034	**582**	312

The carrying amounts of debtors and prepayments approximate their fair values.

During the year, the Group normally granted credit terms of 60-90 days. The ageing analysis of the debtors, based on the invoice date and net of provision, is as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
Within credit period	**768,021**	977,641
0 – 30 days	**190,703**	235,108
31 – 60 days	**37,824**	138,175
61 – 90 days	**41,262**	72,902
Over 90 days	**20,219**	47,716
	1,058,029	1,471,542

As at 31 December 2008, debtors of approximately HK$40,854,000 (2007: HK$32,284,000) were impaired. The amount of the provision was HK$15,160,000 as at 31 December 2008 (2007: HK$24,936,000). The individually impaired receivables mainly relate to customers, which are in unexpected difficult economic situations. It was assessed that a portion of the receivables is expected to be recovered.

23 DEBTORS AND PREPAYMENTS *(Continued)*

As at 31 December 2008, debtors of approximately HK$264,314,000 (2007: HK$486,553,000) were past due but not considered impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these debtors is as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
0 – 30 days	**190,703**	235,108
31 – 60 days	**37,824**	138,175
61 – 90 days	**21,794**	67,748
Over 90 days	**13,993**	45,522
	264,314	486,553

The carrying amounts of the Group's and Company's debtors and prepayments are denominated in the following currencies:

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
HK$	**19,597**	24,440	**517**	251
US$	**628,890**	783,160	**65**	61
RMB	**572,953**	785,117	**–**	–
EUR	**21,540**	2,257	**–**	–
Other currencies	**41**	2,060	**–**	–
	1,243,021	1,597,034	**582**	312

23 DEBTORS AND PREPAYMENTS *(Continued)*

Movements on the provision for impairment of debtors are as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
Beginning of the year	**24,936**	35,049
Exchange differences	**484**	999
Provision for impairment of receivables	**7,685**	12,240
Receivables written off during the year as uncollectible	**(8,629)**	(17,848)
Unused amounts reversed	**(9,316)**	(5,504)
End of the year	**15,160**	24,936

The creation and release of provision for impaired receivables have been included in selling and distribution expenses in the consolidated profit and loss account. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

The other classes within debtors and prepayments do not contain impaired assets.

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

24 AMOUNT DUE FROM A RELATED PARTY

The amount due from a related party is unsecured, interest-free and repayable on demand.

25 CASH AND BANK BALANCES

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash in hand	**536**	404	**–**	–
Bank balances	**889,237**	417,788	**542**	339
	889,773	418,192	**542**	339

Cash and bank balances are denominated in the following currencies:

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
HK$	**25,468**	20,941	**542**	339
RMB	**394,097**	203,620	**–**	–
US$	**427,032**	139,293	**–**	–
Other currencies	**43,176**	54,338	**–**	–
	889,773	418,192	**542**	339

Cash and bank balances include the following:

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Restricted bank balances	**5,873**	3,901	**–**	–

Some of the Group's bank balances denominated in RMB are deposited with banks in mainland China. The remittance of funds out of these bank accounts is subject to the rules and regulations of foreign exchange control by Chinese government.

26 SHARE CAPITAL

	Authorised		Issued and fully paid			
	Number of shares	Total HK$'000	Number of shares	Nominal value of shares HK$'000	Share premium HK$'000	Total HK$'000
At 1 January 2007	20,000,000,000	200,000	1,500,000,000	15,000	762,000	777,000
Shares issued by global offering as fully paid of HK$0.01 each (Note i)	–	–	500,000,000	5,000	1,040,612	1,045,612
At 31 December 2007	20,000,000,000	200,000	2,000,000,000	20,000	1,802,612	1,822,612
Cancellation upon repurchase of own shares (Note ii)	(36,000,000)	(360)	(36,000,000)	(360)	–	(360)
At 31 December 2008	19,964,000,000	199,640	1,964,000,000	19,640	1,802,612	1,822,252

Notes:

(i) On 2 February 2007, the Company completed a global offering of 500,000,000 shares with a par value of HK$0.01 each at a price of HK$2.25 per share and raised HK$1,125,000,000 share proceeds. All these shares rank pari passu in respect with the then existing shares. The Company's shares commenced trading on the Stock Exchange on 2 February 2007. The listing proceeds of the aforementioned shares, net of direct listing expenses of amount approximately HK$79,388,000, amounted to approximately HK$1,045,612,000. The resulting share premium amounted to approximately HK$1,040,612,000.

(ii) The Company repurchased 36,000,000 of its own shares through purchases on the Stock Exchange during the year ended 31 December 2008. The total amount paid to repurchase the shares, including relevant direct costs of HK$431,000, was HK$69,855,000 and has been deducted from retained earnings (Note 27).

27 RESERVES

(a) Group

	Merger reserve HK$'000	Available-for-sale financial asset reserve HK$'000	Capital redemption reserve HK$'000	Employee share-based compensation reserve HK$'000 Note (i)	General reserve HK$'000 Note (ii)	Exchange reserve HK$'000	Retained earnings HK$'000	Total HK$'000
At 1 January 2007	(1,246,835)	–	–	–	81,395	64,318	1,057,933	(43,189)
Exchange differences	–	–	–	–	713	126,627	600	127,940
Profit for the year	–	–	–	–	–	–	341,648	341,648
Shares granted per share award scheme (Note 7)	–	–	–	254,502	–	–	–	254,502
Interim dividend (Note 15)	–	–	–	(40,000)	–	–	–	(40,000)
Proposed final dividend (Note 15)	–	–	–	(80,000)	–	–	–	(80,000)
Transfer	–	–	–	–	48,461	–	(48,461)	–
At 31 December 2007	(1,246,835)	–	–	134,502	130,569	190,945	1,351,720	560,901
Exchange differences	–	–	–	–	649	105,782	–	106,431
Profit for the year	–	–	–	–	–	–	402,468	402,468
Shares granted per share award scheme (Note 7)	–	–	–	11,661	–	–	–	11,661
Interim dividend (Note 15)	–	–	–	(54,992)	–	–	–	(54,992)
Proposed final dividend (Note 15)	–	–	–	(27,496)	–	–	–	(27,496)
Cancellation upon repurchase of own shares (Note 26)	–	–	360	–	–	–	(69,855)	(69,495)
Change in fair value of available-for-sale financial asset	–	(454)	–	–	–	–	–	(454)
Transfer	–	–	–	–	35,388	–	(35,388)	–
At 31 December 2008	(1,246,835)	(454)	360	63,675	166,606	296,727	1,648,945	929,024

27 RESERVES *(Continued)*

(a) Group *(Continued)*

Notes:

(i) The employee share-based compensation reserve relates to the share award expenses, details of which are described in Note 7.

(ii) As stipulated by regulations in mainland China, the Company's subsidiaries established and operated in mainland China are required to appropriate a portion of their after-tax profit (after offsetting prior year losses) to the general reserve, at rates determined by their respective boards of directors. The general reserve can be utilised to offset prior year losses or be utilised for the issuance of bonus shares. During the year ended 31 December 2008, the boards of directors of certain of the Company's subsidiaries established in mainland China appropriated an aggregate amount of approximately HK$35,388,000 (2007: HK$48,461,000) to the general reserve.

(b) Company

	Capital redemption reserve	Employee share-based compensation reserve	Retained earnings/ (accumulated loss)	Total
	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2007	–	–	(597)	(597)
Profit for the year	–	–	39,559	39,559
Shares granted per share award scheme (Note 7)	–	254,502	–	254,502
Interim dividend (Note 15)	–	(40,000)	–	(40,000)
Final dividend (Note 15)	–	(80,000)	–	(80,000)
At 31 December 2007	–	134,502	38,962	173,464
Profit for the year	–	–	798,336	798,336
Shares granted per share award scheme (Note 7)	–	11,661	–	11,661
Cancellation upon repurchase of own shares	360	–	(69,855)	(69,495)
Interim dividend (Note 15)	–	(54,992)	–	(54,992)
Proposed final dividend (Note 15)	–	(27,496)	–	(27,496)
At 31 December 2008	360	63,675	767,443	831,478

28 BORROWINGS – GROUP

	2008 HK$'000	2007 HK$'000
Non-current		
Long-term bank loans (Note (a))	**2,777,110**	1,738,067
Current		
Current portion of long-term bank loans (Note (a))	**364,022**	394,334
Short-term bank loans (Note (b))	**468,877**	566,773
Bank overdrafts (Note (b))	**25,626**	–
	858,525	961,107

(a)

	2008 HK$'000	2007 HK$'000
Long-term bank loans	**3,141,132**	2,132,401
Less: current portion included under current liabilities	**(364,022)**	(394,334)
Long-term portion under non-current liabilities	**2,777,110**	1,738,067

All long-term bank loans are unsecured, carry interest ranging from 0.65% to 1.50% (2007: 0.67% to 1.20%) per annum above Hong Kong Interbank Offered Rate or London Interbank Offered Rate or Singapore Interbank Offered Rate and are repayable in quarterly or semi-annual instalments up to 2013.

The carrying amounts and fair values of the long-term bank loans are as follows:

	2008 HK$'000	2007 HK$'000
Long-term bank loans		
Carrying amounts	**3,141,132**	2,132,401
Fair values	**3,439,069**	2,192,181

The fair values of non-current borrowings are estimated based on discounted cash flow approach using the prevailing market rates of interest available to the Group of 0.5% (2007: 4.08%) per annum for financial instruments with substantially the same terms and characteristics for the year ended 31 December 2008, depending on the types and currencies of borrowings.

28 BORROWINGS – GROUP *(Continued)*

(b) The carrying amounts of the short-term bank loans and bank overdrafts approximate their fair values. All short-term bank loans are unsecured.

(c) The carrying amounts of bank borrowings are denominated in the following currencies:

	2008 **HK$'000**	2007 HK$'000
RMB	**493,893**	570,494
HK$	**728,564**	1,093,492
US$	**2,413,178**	966,217
JPY	**–**	23,253
EUR	**–**	45,718
	3,635,635	2,699,174

(d) The effective interest rates (per annum) at the balance sheet dates are as follows:

	As at 31 December 2007				
	RMB	HK$	US$	JPY	EUR
Long-term loans	5.73%	4.20%	6.23%	–	–
Short-term loans	6.34%	4.35%	6.14%	3.03%	5.43%

	As at 31 December 2008				
	RMB	**HK$**	**US$**	**JPY**	**EUR**
Long-term loans	**6.36%**	**4.10%**	**4.33%**	**–**	**–**
Short-term loans	**5.79%**	**–**	**3.71%**	**–**	**–**
Bank overdrafts	**5.10%**	**–**	**–**	**–**	**–**

28 BORROWINGS – GROUP *(Continued)*

(e) All short-term bank loans and bank overdrafts will mature within one year. The maturity of long-term bank loans is as follows:

	2008 **HK$'000**	2007 HK$'000
Within one year	**364,022**	394,334
Between one and two years	**530,265**	466,225
Between two and five years	**2,246,845**	1,271,842
	3,141,132	2,132,401

(f) The Group has the following undrawn borrowing facilities:

	2008 **HK$'000**	2007 HK$'000
Fixed rate		
– expiring within one year	**631,289**	408,472
Floating rate		
– expiring within one year	**1,646,924**	2,026,269
	2,278,213	2,434,741

As at 31 December 2008, the facilities were subject to annual review at various dates.

28 BORROWINGS – GROUP *(Continued)*

(g) The exposure of the Group's borrowings to interest rate changes and the contractual repricing dates at the balance sheet dates are as follows:

	2008	2007
	HK$'000	HK$'000
Changes in interest rates		
– 6 months or less	**1,378,821**	674,061
– over 6 months and up to 12 months	**2,256,814**	2,025,113
	3,635,635	2,699,174

29 DERIVATIVE FINANCIAL INSTRUMENTS – GROUP

	2008	2007
	HK$'000	HK$'000
Interest rates swap contracts – fair value hedges	**25,365**	–
Less: current portion included under current liabilities	**(8,015)**	–
Long-term portion under non-current liabilities	**17,350**	–

The aggregate notional principal amounts of the outstanding swap contracts at 31 December 2008 were US$100 million (2007: Nil). These interest rates swap contacts were entered into hedge against interest rate risk in relation to the bank borrowings and will mature between 19 November 2009 and 30 July 2012.

30 DEFERRED INCOME TAX – GROUP

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

	2008 HK$'000	2007 HK$'000
Deferred tax assets:		
– Deferred tax assets to be recovered after more than 12 months	**(32,682)**	(13,124)
Deferred tax liabilities:		
– Deferred tax liabilities to be settled after more than 12 months	**97,081**	81,483
Deferred tax liabilities – net	**64,399**	68,359

The gross movement of deferred income tax account is as follows:

	2008 HK$'000	2007 HK$'000
Beginning of the year	**68,359**	14,219
Exchange differences	**860**	(57)
Credited to the consolidated profit and loss account (Note 12)	**(4,820)**	(7,215)
Acquisition through business combination (Note 38(b))	**–**	61,412
End of the year	**64,399**	68,359
Representing:		
Accelerated tax depreciation	**33,378**	28,774
Tax losses	**(11,034)**	(9,726)
Valuation adjustment resulting from acquisition of subsidiaries	**67,633**	78,203
Decelerated tax depreciation	**(38,206)**	(27,210)
Others	**12,628**	(1,682)
	64,399	68,359

30 DEFERRED INCOME TAX – GROUP *(Continued)*

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

Deferred tax assets:

	Decelerated tax depreciation HK$'000	Tax losses HK$'000	Others HK$'000	Total HK$'000
At 1 January 2007	–	(10,110)	–	(10,110)
Exchange differences	(754)	–	(3)	(757)
Recognised in the consolidated profit and loss account	(12,360)	384	699	(11,277)
Acquisition through business combination (Note 38(b))	(14,096)	–	(2,378)	(16,474)
At 31 December 2007	(27,210)	(9,726)	(1,682)	(38,618)
Exchange differences	(1,806)	–	(134)	(1,940)
Recognised in the consolidated profit and loss account	(9,190)	(1,308)	(4,050)	(14,548)
At 31 December 2008	(38,206)	(11,034)	(5,866)	(55,106)

Deferred tax liabilities:

	Valuation adjustment resulting from acquisition of subsidiaries HK$'000	Accelerated tax depreciation HK$'000	Others HK$'000	Total HK$'000
At 1 January 2007	–	24,329	–	24,329
Exchange differences	700	–	–	700
Recognised in the consolidated profit and loss account	(383)	4,445	–	4,062
Acquisition through business combination (Note 38(b))	77,886	–	–	77,886
At 31 December 2007	78,203	28,774	–	106,977
Exchange differences	2,801	–	(1)	2,800
Recognised in the consolidated profit and loss account	(13,371)	4,604	18,495	9,728
At 31 December 2008	67,633	33,378	18,494	119,505

30 DEFERRED INCOME TAX – GROUP *(Continued)*

Deferred income tax assets are recognised for tax losses carry forwards to the extent that the realisation of the related benefit through the future taxable profits is probable. The Group did not recognise deferred income tax assets of HK$83,230,000 (2007: HK$60,766,000) in respect of accumulated tax losses amounting to HK$357,907,000 (2007: HK$262,536,000) as at 31 December 2008, that can be carried forward against future taxable income. As at 31 December 2008, these accumulated tax losses amounting to HK$283,094,000 (2007: HK$194,777,000) will be expired in five years. There is no expiry period for the other tax losses.

31 FINANCIAL LIABILITIES – GROUP

	2008 **HK$'000**	2007 HK$'000
Fair value of put option	**151,270**	264,394

In November 2007, the Company entered into a contract with Aspocomp, an independent third party, to acquire 80% of the equity interest in MAH. The Company and Aspocomp also entered into an Option Deed as part and parcel of the MAH acquisition. Under the Option Deed, the Company was granted a call, to buy the remaining 20% equity interest in MAH and Aspocomp was granted a put option to sell its remaining 20% equity interest in MAH in the period from 2013 to 2023.

The put option granted under the Option Deed was recognised as financial liabilities in the consolidated financial statements of the Group at the present value of the redemption amount.

For the purposes of determining the present value of the put option, the put option is determined based on the greater of (i) enterprise value calculation which uses a EBITDA projections based on the extrapolation of the latest unaudited consolidated financial results of MAH to a four-year period and an enterprise value multiplier of 5.5 times or (ii) net asset value based on the extrapolation of the latest unaudited consolidated financial results of MAH as at end of the financial year 2012; or (iii) the minimum price of approximately EUR15.38 million plus interest which will accrue at the rate of 2.5% per annum, compounding annually for a five-year period up to financial year ending 31 December 2012.

There are a number of assumptions and estimates involved for the preparation of EBITDA projections for the year. Key assumptions used for enterprise value calculation for put option for each of the years ended 31 December 2009, 2010, 2011 and 2012 are gross profit margin, growth rate and discount rate of 19.2%, 10.0% and 6.1% respectively.

The directors prepared the financial budgets reflecting actual and prior year performance and market development expectations. The growth rates used are consistent with the industry growth estimates. The directors estimate discount rate using pre-tax rates that reflect market assessments of the time value of money of the Group for the year ended 31 December 2008. Judgement is required to determine key assumptions adopted in the EBITDA projections and changes to key assumptions can significantly affect these EBITDA projections.

The fair value of put option as at 31 December 2008 represents the present value of the minimum price which was the highest possible value under the put option (Note 18(b)).

32 LONG-TERM OTHER PAYABLES – GROUP

The balances represent payable for purchase of property, plant and equipment and will be settled after twelve months.

The balances are denominated in the following currencies:

	2008 HK$'000	2007 HK$'000
US$	**44,349**	87,862
JPY	**13,039**	26,272
EUR	**17,176**	1,524
	74,564	115,658

33 CREDITORS AND ACCRUALS

	Group		Company	
	2008 HK$'000	2007 HK$'000	**2008 HK$'000**	2007 HK$'000
Creditors	**711,895**	675,853	**–**	–
Accruals	**755,211**	752,415	**7,509**	17,324
	1,467,106	1,428,268	**7,509**	17,324

The carrying amounts of creditors and accruals approximate their fair values.

During the year, the Group normally received credit terms of 60-90 days. The ageing analysis of the creditors, based on the invoice date, is as follows:

	Group	
	2008 HK$'000	2007 HK$'000
Within credit period	**431,516**	435,324
0 – 30 days	**193,084**	136,473
31 – 60 days	**62,425**	60,111
61 – 90 days	**10,600**	25,042
Over 90 days	**14,270**	18,903
	711,895	675,853

33 CREDITORS AND ACCRUALS *(Continued)*

The carrying amounts of the Group's and Company's creditors and accruals are denominated in the following currencies:

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
HK$	**182,414**	244,018	**7,165**	16,651
RMB	**789,154**	659,374	**283**	267
US$	**443,314**	366,513	**60**	392
EUR	**39,963**	91,365	**1**	4
JPY	**12,020**	46,480	**–**	10
Other currencies	**241**	20,518	**–**	–
	1,467,106	1,428,268	**7,509**	17,324

34 AMOUNTS DUE TO A SUBSIDIARY OF A MINORITY SHAREHOLDER OF A SUBSIDIARY/ASSOCIATED COMPANIES

The amounts due to a subsidiary of a minority shareholder of a subsidiary/associated companies are unsecured, interest-free and payable within normal trade credit terms. The carrying amounts of the amounts due to a subsidiary of a minority shareholder of a subsidiary/associated companies approximate their fair values.

35 AMOUNT DUE TO A MINORITY SHAREHOLDER

The amount due to a minority shareholder is unsecured, interest-free and payable on demand. The carrying amount of the amount due to a minority shareholder approximates its fair value.

36 AMOUNTS DUE FROM SUBSIDIARIES

The amounts due from subsidiaries are unsecured, interest-free and payable on demand. The carrying amounts of the amounts due from subsidiaries approximate their fair values.

37 COMMITMENTS

(a) Capital commitments

Capital commitments in respect of property, plant and equipment at the balance sheet dates are as follows:

	2008	2007
	HK$'000	HK$'000
Contracted but not provided for	**347,543**	658,567
Authorised but not contracted for	**10,880**	123,153
	358,423	781,720

At 31 December 2008, the Group had commitment in respect of the injection of additional capital into certain subsidiaries established in mainland China totalling approximately HK$654,574,000 (2007: HK$808,565,000).

(b) Operating lease commitments

The future aggregate minimum lease expense under non-cancellable operating leases in respect of land and buildings is payable as follows:

	2008	2007
	HK$'000	HK$'000
Within one year	**2,391**	3,055
One to five years	**2,992**	3,908
More than five years	**18,695**	18,956
	24,078	25,919

38 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Partial disposal of a subsidiary

In April 2007, the Group disposed of 6.29% interest in a subsidiary, Mica-Ava (No.3) Limited, at a consideration of US$1,887,000 (approximately HK$14,718,600), to a minority shareholder of a subsidiary.

Details of the net assets disposed of are as follows:

	Acquiree's carrying amount 2007 HK$'000
Net assets disposed of	
Property, plant and equipment	3,579
Land use right	8,596
Debtors and prepayments	29,039
Cash and bank balances	200,651
Creditors and accruals	(248)
Balances with group companies	(8,267)
Net assets value	233,350
Disposal of share of net assets value (6.29%)	14,678
Gain on partial disposal of a subsidiary (Note 6)	41
Total consideration	14,719

(b) Acquisition of a subsidiary through business combination

On 30 November 2007, the Group acquired 80% of the share capital of MAH from a third party, Aspocomp for a consideration of approximately HK$724,166,000.

Details of the net assets acquired and goodwill are as follows:

	HK$'000
Purchase consideration:	
– Cash paid	707,666
– Financial liabilities – put option (Note 31)	264,394
– Direct costs relating to the acquisition	16,500
Total purchase consideration	988,560
Fair value of net assets acquired – shown as below	(881,822)
Goodwill (Note 18)	106,738

The goodwill is attributable to the workforce of the acquired business and the significant synergies expected to arise after the Group's acquisition of MAH.

38 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

(b) Acquisition of a subsidiary through business combination *(Continued)*

The assets and liabilities as at 30 November 2007 arising from the acquisition are as follows:

	Acquiree's carrying amount before acquisition HK$'000	Fair value adjustment HK$'000	Acquiree's carrying amount HK$'000
Net assets acquired:			
Property, plant and equipment	568,776	257,474	826,250
Leasehold land and land use rights	21,099	34,794	55,893
Intangible assets	–	20,629	20,629
Inventories	27,782	–	27,782
Debtors and prepayments	216,121	–	216,121
Deferred tax assets	16,474	–	16,474
Cash and bank balances	29,451	–	29,451
Creditors and accruals	(171,772)	–	(171,772)
Tax payable	(3,905)	–	(3,905)
Borrowings	(57,215)	–	(57,215)
Deferred tax liabilities	–	(77,886)	(77,886)
	646,811	235,011	881,822
Goodwill (Note 18)			106,738
			988,560
Satisfied by:			
Cash consideration			724,166
Financial liabilities (Note 31)			264,394
			988,560
Net cash outflow arising on acquisition			
Cash consideration			724,166
Bank balances and cash acquired			(29,451)
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries			694,715

38 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

(c) Partial consideration pursuant to the reorganisation

The balance represents the partial consideration paid pursuant to an agreement dated 30 December 2006 entered into between MTG Investment (BVI) Limited and PHKL, the former holding company, for the purpose of preparation of the listing of shares of the Company on the Stock Exchange to PHKL, to acquire the equity interest in the subsidiaries of PHKL which are engaged in the PCB, prepreg and laminate business.

(d) Analysis of cash and cash equivalents

	2008	2007
	HK$'000	HK$'000
Cash and bank balances (Note 25)	**889,773**	418,192
Bank overdrafts (Note 28)	**(25,626)**	–
	864,147	418,192
Less: restricted bank balances (Note 25)	**(5,873)**	(3,901)
Cash and cash equivalents	**858,274**	414,291

39 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control.

39 RELATED PARTY TRANSACTIONS *(Continued)*

The Group regularly conducts transactions in the normal course of business with the associated companies and related parties, details of which during the year are:

(a) Purchases of raw materials (Note i)

	2008 HK$'000	2007 HK$'000
Associated companies		
GSST	**406,840**	421,549
SSST	**30,047**	37,272
A subsidiary of a minority shareholder of a subsidiary		
Hitachi Chemical Co. (Hong Kong) Limited	**225,838**	156,910

(b) Purchases of finished goods (Note i)

	2008 HK$'000	2007 HK$'000
A subsidiary of a minority shareholder of a subsidiary		
Hitachi Chemical Co. (Hong Kong) Limited	**3,221**	1,869

(c) Sales of finished goods (Note ii)

	2008 HK$'000	2007 HK$'000
A subsidiary of a minority shareholder of a subsidiary		
Hitachi Chemical Co. (Hong Kong) Limited	**136,031**	75,471

39 RELATED PARTY TRANSACTIONS *(Continued)*

(d) Amounts due from/(to) related parties

	Note	**2008 HK$'000**	2007 HK$'000
A related company			
Non-trade balance			
Aspocomp Group OYJ	24	**–**	39,055
A subsidiary of a minority shareholder of a subsidiary			
Trade balance			
Hitachi Chemical Co. (Hong Kong) Limited	34	**(16,828)**	(29,367)
Associated companies			
Trade balance			
GSST		**(109,257)**	(146,062)
SSST		**(12,338)**	(4,607)
	34	**(121,595)**	(150,669)
A minority shareholder			
Dividend payable			
GSST	35	**(60,466)**	(343)

(e) Key management compensation

	2008 HK$'000	2007 HK$'000
Basic salaries, allowances and benefits in kind	**51,826**	39,956
Share award expenses (Note 7)	**4,367**	171,831
Bonuses	**14,417**	11,559
	70,610	223,346

Notes:

(i) Purchases of raw materials/finished goods from associated companies and a subsidiary of a minority shareholder of a subsidiary are made at prices and terms comparable to those charged by and contracted with other third party suppliers of the Group.

(ii) Sales of finished goods are made at prices and terms comparable to those sold by and contracted with other third party customers of the Group which are due within normal credit terms.