信義玻璃控股有限公司

XINYI GLASS HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

(Stock Code : 0868)

2006

Annual Report

Contents

EXECUTIVE DIRECTORS

Mr. LEE Yin Yee *(Chairman)* ø
Mr. TUNG Ching Bor *(Vice Chairman)*
Mr. TUNG Ching Sai *(Chief Executive Officer)* ø
Mr. LEE Shing Put
Mr. LEE Yau Ching
Mr. LI Man Yin
Mr. NG Ngan Ho

NON-EXECUTIVE DIRECTORS

Mr. LI Ching Wai
Mr. SZE Nang Sze
Mr. LI Ching Leung

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. LAM Kwong Siu # * ø +
Mr. WONG Kong Hon # ø
Mr. WONG Chat Chor Samuel # ø

* Chairman of audit committee
\# Members of audit committee
\+ Chairman of remuneration committee
ø Members of remuneration committee

COMPANY SECRETARY & QUALIFIED ACCOUNTANT

Mr. LAU Sik Yuen, *HKICPA, AICPA*

REGISTERED OFFICE

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

COMPLIANCE ADVISER

Kingsway Capital Limited
5th Floor, Hutchison House, 10 Harcourt Road
Central
Hong Kong

LEGAL ADVISERS AS TO HONG KONG LAW

Squire, Sanders & Dempsey
Room 4008 Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

AUDITORS

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

PRINCIPAL BANKERS

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Rooms 1806-1807, 18th Floor, Hopewell Centre
183 Queen's Road East
Hong Kong

WEBSITE

http://www.xinyiglass.com

SHARE INFORMATION

Place of listing: The Stock Exchange of Hong Kong Limited
Stock code: 0868
Listing date: 3 February 2005
Board lot: 2,000 Shares
Financial year end: 31 December
Share price as at the date of this annual report: HK$3.85
Market capitalisation as at the date of this annual report: Approximately HK$6,178 million

KEY DATES

Closure of register of members: 8 May 2007 to 11 May 2007 *(both days inclusive)*
Date of Annual General Meeting: 11 May 2007
Proposed date of payment of final dividend: 21 May 2007

DEAR SHAREHOLDERS

On behalf of the board (the "**Board**") of directors (the "**Directors**") of Xinyi Glass Holdings Limited (the "**Company**"), I am pleased to announce the full-year audited consolidated results of the Company and its subsidiaries (collectively the "Group") for the financial year ended 31 December 2006.

Compared with 2005, our turnover grew significantly by approximately 40.0% to approximately HK$1,933.2 million in 2006. Our net profit attributable to equity holders of the Company also had remarkable growth, by approximately 49.3%, to approximately HK$388.2 million in 2006. Basic earnings per share were 24.6 HK cents, compared with 17.3 HK cents last year.

We are very pleased with the results of the Group. We therefore intend to propose payment of a final dividend of 7.0 HK cents per ordinary share of the Company (the "**Share**") at the forthcoming annual general meeting (the "**Annual General Meeting**") for your approval.

I present below an overview of the business of the Group during 2006 and key development highlights for the coming year.

A MILESTONE ACHIEVED

After a very successful initial public offering on the main board (the "**Main Board**") of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 3 February 2005, the Company mounted another fundraising exercise. It issued 4.0% of new Shares with gross proceeds in aggregate of approximately HK$191.3 million on 6 June 2006 to further broaden its shareholder base. This additional fund raised was principally used for building our photovoltaic glass capacity of phase II of our Dongguan Production Complex.

During the year, all our different business segments reported growth, with automobile glass business in the lead. Accounting for 63.6% of the Group's total turnover, the segment's turnover grew remarkably by approximately 24.1% to approximately HK$1,229.3 million thanks to the substantial increase in sales of automobile glass products to overseas markets, such as North America and Europe.

Our construction glass business also continued to experience significant growth, with turnover increased by approximately 27.8% to approximately HK$498.0 million. This was the result of our efforts to promote environmentally friendly and energy saving low emission coated glass products advocated in the "Eleventh Five Years Plan" of China. We believe low emission coated glass will find more applications and gain popularity in the foreseeable future. The Company is well prepared to expand the production capacity for the products and claim leadership in this segment.

The Group has completed the business plans outlined in its prospectus dated 24 January 2005. They included a 700-tonne high quality float glass production line and another 500-tonne high quality float glass production line that commenced commercial production in the second quarter and third quarter of 2006 respectively.

With the new high quality float glass production lines launched during the year, we have completed vertical integration of our glass manufacturing operation. Apart from having an improved cost structure, supply chain and product mix, the Company now has the ability and techniques to develop new products and markets. Capturing business in the re-bouncing market, the new high quality float glass business was an important growth driver of the Group during the year.

OUR FUTURE: ENVIRONMENTALLY FRIENDLY AND ENERGY SAVING MATERIAL

With the living standard in China improving and conventional energy resources dwindling, people have become more aware of the need to protect the environment and conserve energy. Governments of many countries including China are stepping up education on environmental protection or even subsidizing their nationals on related pursuits.

Low emission coated glass manufactured by high quality float glass are materials that are environmentally friendly and can help to save energy. We expect the markets to grow rapidly as demand continues to surge. The Company plans to expand its high quality float glass and low emission operations in strategic locations in China, such as the Pearl River Delta and Yangtze River Delta regions.

We will build a new research and development ("R&D") centre to accelerate deployment of new products. Our strong R&D team has provided and will continue to provide us with innovative ideas on applications of our high quality float glass and low emission coated glass with market leading potential.

OPTIMISING PRODUCTION EFFICIENCY AND PRODUCT QUALITY

We are able to enhance production efficiency now that we have achieved vertical integration of our production process. The high quality float glass production lines which commenced operation during the year have given us direct control over the quality of our principal raw materials and associated production costs, and a stable supply chain. With these advantages, we can maintain optimum production efficiency and improve our profit margin.

Apart from developing new products and new product applications, our R&D team is also entrusted with the responsibility of exploring ways to help the Group to maximise production efficiency and improve product quality. Its strong expertise will help the Group to maintain its competitive strengths in product development and production.

STRONG INDUSTRY DEMAND TO FUEL GROWTH

China is one of the largest economies and fastest growing markets in the world. The staging of the Olympic Games in Beijing in 2008 and the World Expo in Shanghai in 2010, continuous urbanization and the rising living standards of the Chinese people are all factors conducive to the fast growth of China's automobile industry and construction industry, both are main consumers of glass products. In the light of these developments, the Group expects to see growing demand for our high quality environmentally friendly and energy saving glass products in the future.

To lower cost without compromising production quality, more and more overseas enterprises including glass manufacturers are closing down their local production facilities and turning to outsourcing production to manufacturers in China – the World's Factory. The Group will take advantage of its leadership in the China market to ride on the growing outsourcing trend as well as the high growth glass industry to maximize gains.

CONCLUSION

We have every reason to be optimistic about our development in the future. We will continue to adhere to our proven business strategies and strive to maintain our leadership in the glass industry. These efforts will enable us to expand our market share.

I would like to take this opportunity to thank all fellow Board members for their continuous, strong support to the Group in 2006. I would also like to thank our senior management team, our staff, business partners and customers for their valuable contributions to our success during the year.

LEE Yin Yee
Chairman
30 March 2007

INTRODUCTION

The Group produces and sells a variety of glass products, ranging from automobile glass, construction glass, high quality float glass and other glass products for decorative and commercial applications. The Group has production facilities in Shenzhen, Dongguan, Wuhu and Tianjin in China. According to the "China Trade Information" report, a monthly research report issued by Goodwill China Business Information Ltd., the Group has been the largest Chinese exporter of automobile glass products since 2004 in terms of export volume. In addition to glass products, the Group also produces automobile rubber and plastic components that are sold together with our automobile glass products. The Group also undertakes construction projects in China that involve principally installation of glass curtain walls.

Founded in Hong Kong in 1989, the Group today sells its automobile glass products to customers in approximately 100 countries and territories, including China, Hong Kong, the United States, Canada, Australia, New Zealand, the Middle East, Europe, Africa and Central and South America. Its customers include companies in different businesses, including automobile glass manufacturing, glass wholesale and distribution, automobile repairing, motor vehicle manufacturing, construction and furniture and household appliances manufacturing.

BUSINESS REVIEW

The Group achieved significant business growth for the financial year ended 31 December 2006. Our sales and net profit attributable to equity holders of the Company reached approximately HK$1,933.2 million and approximately HK$388.2 million, respectively, representing a year-on-year increase of approximately 40.0% and approximately 49.3%, as compared to approximately HK$1,380.8 million and approximately HK$260.1 million for the financial year ended 31 December 2005. The compound annual growth rate of the Group's sales and net profit attributable to equity holders of the Company was approximately 34.2% and 26.4%, respectively, for the five years ended 31 December 2006.

Our major construction glass product "low emission coated glass" continued to be one of our most popular products in 2006. Its environmentally friendly and energy saving features are generally consistent with the policy objectives outlined in "Eleventh Five Years Plan" of China.

The new float glass plant in our Dongguan production complex has commenced production during the year. The first 700-tonne high quality float glass production line started commercial production in the second quarter of 2006, and the second one of 500-tonne started commercial run in the third quarter of 2006.

We launched our new high quality float glass products at the right time to capture the emerging opportunities in the industry rebound in mid-2006. Addition of the new production lines capable of high yields, the high quality float glass operation became a major growth driver of our business in the second half of the year.

OPERATIONAL REVIEW

SALES

Our sales increased by approximately 40.0% for the financial year ended 31 December 2006, as compared with that for the financial year ended 31 December 2005. The increase was principally due to the substantial growth of our float glass and construction glass sales in China, Hong Kong and Taiwan and automobile glass export sales to countries in North America and Europe. In addition, the improved sales performance was also attributable to the new products launched during the year and new customers and orders resulting from our business development efforts.

The tables below show the analysis of our sales by products and by geographical regions:—

	Financial year ended 31 December			
	2006		2005	
	HK$'000	**%**	*HK$'000*	%
Sales				
Automobile glass products *(Note 1)*	**1,229,330**	**63.6**	990,933	71.8
Construction glass products *(Note 2)*	**498,038**	**25.8**	389,844	28.2
High quality float glass products	**205,805**	**10.6**	—	—
	1,933,173	**100.0**	1,380,777	100.0

Notes:

(1) Included sales derived from the sales of automobile glass and complementary automobile rubber and plastic components on original equipment manufacturing ("**OEM**") and aftermarket basis.

(2) Included sales derived from the sales of architectural glass products, furniture glass products and construction fee income received from curtain wall construction projects.

	Financial year ended 31 December			
	2006		2005	
	HK$'000	**%**	*HK$'000*	%
Sales				
Greater China *(Note (a))*	874,284	45.2	536,685	38.9
North America	659,043	34.1	455,327	33.0
Europe	123,558	6.4	84,197	6.1
Others *(Note (b))*	276,288	14.3	304,568	22.0
	1,933,173	100.0	1,380,777	100.0

Notes:

(a) Greater China included China, Hong Kong and Taiwan.

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

COST OF SALES

Alongside growth in sales, our cost of sales for the financial year ended 31 December 2006 was approximately HK$1,233.0 million, representing an increase of approximately 36.7% , as compared with that for the financial year ended 31 December 2005.

GROSS PROFIT

Our gross profit for the financial year ended 31 December 2006 was approximately HK$700.2 million, representing an increase of approximately 46.2% as compared with that for the financial year ended 31 December 2005. Overall gross profit margin increased from approximately 34.7% to approximately 36.2%, attributable to enhanced cost control and better pricing of new products.

OTHER REVENUE

Our other revenue totalled approximately HK$21.9 million for the financial year ended 31 December 2006, as compared to approximately HK$16.3 million for the financial year ended 31 December 2005. The increase was mainly due to the receipt of the government grant of approximately HK$3.6 million under the "tax refund on reinvestment" scheme in China which was deferred from last year to match the commencement of commercial operation of our high quality float glass production lines in 2006.

SELLING AND MARKETING COSTS

Our selling and marketing costs increased by approximately 43.2% to approximately HK$211.2 million for the financial year ended 31 December 2006. The increase was principally due to the increase in other selling expenses from approximately HK$88.4 million in 2005 to approximately HK$122.9 million in 2006, as we were required by some of our new customers to bear transportation costs and the increase in international sea freight rates in relation to shipment. Advertising costs also increased as a result of the Group spending more on exploring new markets and promoting new products such as our low emission coated glass and high quality float glass products in Greater China and other countries and territories.

ADMINISTRATIVE AND GENERAL EXPENSES

Our administrative and general expenses increased by approximately 53.9% to approximately HK$110.7 million for the financial year ended 31 December 2006, attributable principally to an increase in bad debt provision of approximately HK$5.4 million and increase in administrative staff costs of approximately HK$13.2 million for the financial year ended 31 December 2006.

FINANCE COSTS

Our finance cost increased by approximately 3.4 times to approximately HK$11.5 million for the financial year ended 31 December 2006. The increase was principally due to an increase in short-term loans for use as working capital of new operations. Interest costs were incurred in relation to the acquisition of plant and machinery at our production complex in Dongguan, but they were expensed when the new production lines commenced commercial operation. Interest expenses of HK$9.0 million were capitalised under construction-in-progress for the financial year ended 31 December 2006.

TAXATION

Our income tax expense amounted to approximately HK$16.0 million for the financial year ended 31 December 2006. Our effective tax rate decreased from approximately 7.0% to approximately 4.0% for the financial year ended 31 December 2006, mainly due to the tax exemptions enjoyed by our operating subsidiaries in China.

EBITDA AND NET PROFIT FOR THE YEAR

During the financial year ended 31 December 2006, the Group's EBITDA (i.e. earnings before interest, taxation, depreciation and amortisation) reached approximately HK$512.9 million, representing an increase of approximately 51.9%, as compared to approximately HK$337.6 million for the financial year ended 31 December 2005. The Group's EBITDA margin, calculated based on turnover, for the financial year, was approximately 26.5%, as compared to approximately 24.5% for the financial year ended 31 December 2005.

Net profit attributable to equity holders of the Company for the financial year ended 31 December 2006 was approximately HK$388.2 million, representing an increase of approximately 49.3%, as compared to approximately HK$260.1 million for the financial year ended 31 December 2005. Net profit margin increased from approximately 18.8% for the financial year ended 31 December 2005 to approximately 20.1% for the financial year ended 31 December 2006 as a result of improved cost efficiency, better product mix and commencement of the new float glass operation.

DIVIDENDS

We proposed to declare a final dividend of 7.0 HK cents per Share for the financial year ended 31 December 2006. That together with the interim dividend of HK$64.2 million for the year already distributed represented a dividend pay out ratio of approximately 44.7%. The Directors believe that this dividend level is appropriate in reflecting the substantial improvement in overall performance of the Group for the financial year ended 31 December 2006 as compared with the financial year ended 31 December 2005.

NON-CURRENT ASSETS

Our non-current assets increased by approximately 26.1% to approximately HK$2,055.8 million. The increase was mainly due to the acquisition of additional plant and equipment and the down payments made to acquire plant and equipment for the production facilities in Dongguan.

TRADE AND OTHER PAYABLES

Our trade and other payables increased from approximately HK$306.9 million as at 31 December 2005 to approximately HK$570.7 million as at 31 December 2006. It was principally due to the increase in employee benefit and welfare payable.

CAPITAL COMMITMENTS

As at 31 December 2006, the Group had capital commitments of approximately HK$212.3 million, which are approximately HK$50.6 million more than that as at 31 December 2005. The balance mainly represented the purchases of plant and equipment for the high quality float glass lines in our Dongguan production complex.

OPERATING LEASES COMMITMENTS

As at 31 December 2006, our operating leases commitments were approximately HK$7.5 million, which were approximately HK$2.1 million less than that as at 31 December 2005. The decrease was due to no new tenancy agreement signed in China and Canada by the Group, where the remaining tenancy agreement value amounted to approximately HK$3.0 million and approximately HK$2.1 million, respectively.

CONTINGENT LIABILITIES

As at 31 December 2006, the Group had no significant contingent liabilities.

CURRENT RATIO

Our current ratio for the financial year ended 31 December 2006 was approximately 1.3, as compared to approximately 1.5 in the year 2005. The slight decrease was because of an increase in trade and other payables and bank borrowings, corresponding to the addition of new production lines during the financial year.

TRADE AND BILLS RECEIVABLES TURNOVER DAYS

With offering longer credit terms to selected customers during the year, our trade and bills receivables turnover days for the financial year was approximately 77.5 days, slightly more than the approximately 74.5 days in the financial year 2005.

INVENTORY TURNOVER DAYS

Our inventory turnover days for the financial year increased from approximately 80.8 days to approximately 89.7 days in the financial year 2006, due to the need to keep a safe storage level for the new high quality float glass operation.

NET CURRENT ASSETS

As at 31 December 2006, we had net current assets of approximately HK$270.5 million, as compared to approximately HK$246.0 million as at 31 December 2005. The Group was in a better financial position and had more cash on hand for the financial year ended 31 December 2006 than that in the previous year.

FINANCIAL RESOURCES AND LIQUIDITY

During the financial year ended 31 December 2006, our primary sources of funding included cash generated from operating activities, credit facilities provided by our principal banks in Hong Kong and China and issuing of new Shares with gross proceeds in aggregate of approximately HK$191.3 million on 6 June 2006. Net cash inflow from operating activities amounted to approximately HK$365.6 million (2005: HK$227.7 million), as a result of better working capital management which generating a net cash surplus from operations. As at 31 December 2006, we had bank balances and cash of approximately HK$172.8 million (2005: HK$140.9 million).

As at 31 December 2006, we had bank loans totalling approximately HK$414.6 million, representing an increase of approximately 24.2% over that as at 31 December 2005. The rise was principally due to the increased capital expenditures for the year.

Our net debt gearing ratio as at 31 December 2006, calculated by dividing the net bank debt by the total equity of the Group as at 31 December 2006, was approximately 10.8%, slightly lower than the approximately 11.0% as at 31 December 2005.

PLEDGE OF ASSETS

As at 31 December 2006, bank balance of approximately HK$10.4 million were pledged as collateral for banking facilities.

USE OF NET PROCEEDS FROM INITIAL PUBLIC OFFERING

As at the date of this report, the net proceeds of approximately HK$835.9 million from the initial public offering had been fully used for purchase of machinery and equipment, factory construction and renovation of buildings for the Dongguan production complex and Shenzhen production complex, as described in the Company's prospectus dated 24 January 2005.

TREASURY POLICIES AND EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

Our business transactions are mainly denominated in Renminbi, U.S. dollar and Hong Kong dollar with operations mainly in Hong Kong and China. As at 31 December 2006, our bank borrowings were denominated in Renminbi and Hong Kong dollar with effective interest bearing at the rates of 5.0% and 4.7% per annum respectively. Our exposure to foreign exchange fluctuations was minimal and we have not experienced any material difficulties resulting from exchange rate fluctuations that had affected our operations or liquidity. We may use financial instrument for hedging purpose when appropriate.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2006, we had 5,124 full-time employees of whom 5,080 were based in Greater China and 44 were based in other countries. We maintain good relationship with our employees. We provide staff training on business knowledge including information on the applications of our products and skills in maintaining good client relationship. Remuneration packages offered to our staff are in line with prevailing market terms and reviewed on a regular basis. Discretionary bonuses may be rewarded to employees taking into consideration the Group's performance and performance of the individual employee.

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

We also adopted a share option scheme on 18 January 2005 for the purpose of providing incentives and rewards to eligible participants who have contributed to the success of our operations. The Directors may at their discretion, invite any employees or Directors and other eligible persons as set out in the scheme, to participate in the scheme.

As at the date of this announcement, an aggregate of 8,520,000 options had been granted to employees of the Group of which 570,000 were lapsed, and 600,000 options had been granted to connected persons of the Company and its subsidiaries, being directors of subsidiaries of the Company. The exercise price of such options is HK$2.15 and the option holders may exercise the options between 27 January 2008 and 26 January 2009, provided that the holders are employees of subsidiaries of the Company during the exercise period. If any of the options proposed to be granted hereby have not been exercised by the holders before 27 January 2009, the un-exercised options outstanding shall lapse.

BUSINESS OUTLOOK

2006 was a milestone year in the Company's history. We used the net proceeds from the initial public offering as described in the Company's prospectus dated 24 January 2005. We achieved vertical integration in our glass production operation by commencing the commercial production of two new float glass production lines of 700-tonne and 500-tonne during the year.

Globalization is the predominant trend in the world market. We notice that there are many overseas customers outsourcing their production of different glass products to us. We also anticipate the continuous growth in demand for automobile glass, construction glass and float glass in coming years. The demand for environmentally friendly and energy saving products will continue to grow, especially in China. With the country's "Eleventh Five Years Plan" advocating environmental protection and energy conservation, demand for our low emission coated glass products is expected to soar.

We will continue to expand our product mix, such as Solar X for automobile glass, low emission coated glass for construction glass, photovoltaic glass for solar energy system and special high quality float glass to capture the anticipated growth in demands. We will also invest in research and development to help us enhance cost efficiency and develop new products, such as second generation Solar X, special glass for high-speed train, water repellent glass, self-cleaning glass, etc.

In light of a promising market, we will closely monitor appropriate opportunities for mergers and acquisitions to expand our business, vertically or horizontally and enjoy synergistic benefits.

DIRECTORS

EXECUTIVE DIRECTORS

LEE Yin Yee（李賢義）, aged 54, is our Chairman and founder. Mr. LEE Yin Yee has 18 years' experience in the automobile glass industry. Prior to establishing our Group, Mr. LEE Yin Yee was involved in the trading of automobile parts. Mr. LEE Yin Yee is a committee member of The Chinese People's Political Consultative Conference and an honorary citizen of Shenzhen in the PRC. Mr. LEE Yin Yee was appointed in December 2003 as the first chairman of Shenzhen Fujian Corporate Association. Mr. LEE Yin Yee is also the Life Honorary Chairman of the Hong Kong Quanzhou Clans United Association and the Fukienese Association Limited in Hong Kong. Mr. LEE Yin Yee is the father of Mr. LEE Shing Put, our executive Director. Mr. LEE Yin Yee is also the brother-in-law of Mr. TUNG Ching Bor, our vice-chairman and executive Director, and brother-in-law of Mr. TUNG Ching Sai, our chief executive officer and executive Director, and uncle of Mr. LEE Yau Ching, our executive Director. Mr. LEE Yin Yee was appointed as our executive Director on 25 June 2004.

TUNG Ching Bor（董清波）, aged 44, is our vice-chairman and chief purchasing officer, responsible for managing our daily operations and overseeing our purchasing functions. Prior to joining us in January 2000, Mr. TUNG Ching Bor had over 11 years' experience in automobile parts purchase. Mr. TUNG Ching Bor is a member of The Chinese People's Political Consultative Conference Nanping Committee of Fujian Province. Mr. TUNG Ching Bor is the brother-in-law of Mr. LEE Yin Yee, brother of Mr. TUNG Ching Sai, our chief executive officer and executive Director, and uncle of Mr. LEE Shing Put, our executive director. Mr. TUNG Ching Bor was appointed as our executive Director on 25 June 2004.

TUNG Ching Sai（董清世）, aged 41, is our executive Director and chief executive officer. Mr. TUNG Ching Sai has been with us for 18 years since our inception in November 1988 and is responsible for overseeing our daily operations. Mr. TUNG Ching Sai is also a committee member of The Chinese People's Political Consultative Conference of Fujian Province, a committee member of The Chinese People's Political Consultative Conference Nanping Committee of Fujian Province, the Chairman of the Shenzhen Federation of Young Entrepreneurs, vice president of The Automobile Association of Shenzhen and the Third Shenzhen Municipal Ten Outstanding Young Entrepreneur. Mr. TUNG Ching Sai is the brother-in-law of Mr. LEE Yin Yee, brother of Mr. TUNG Ching Bor, and uncle of Mr. LEE Shing Put, our executive director. Mr. TUNG Ching Sai was appointed as our executive Director on 25 June 2004.

LEE Shing Put（李聖潑）, aged 30, is our executive Director. Mr. LEE Shing Put is the general manager of Xinyi Plastics Products (Shenzhen) Development Co., Ltd.. Prior to joining us in June 2004, Mr. LEE Shing Put had been engaged in information technology and investment businesses in Hong Kong and China since 1999. Mr. LEE Shing Put graduated from the Hong Kong University of Science and Technology in 2000 with a bachelor degree in business administration majoring in finance and economics. Mr. LEE Shing Put is the son of Mr. LEE Yin Yee, cousin of Mr. LEE Yau Ching, and nephew of Mr. TUNG Ching Sai and Mr. TUNG Ching Bor. Mr. LEE Shing Put was appointed as our executive Director on 25 June 2004.

LEE Yau Ching（李友情）, aged 31, is our executive Director and chief operations officer. Mr. LEE Yau Ching is responsible for planning our overall operations strategy and overseeing Group's operations in China. Mr. LEE Yau Ching is also the general manager of both YiDe Glass (Shenzhen) Co., Ltd. and Xinyi Glass Technology (Shenzhen) Co., Ltd. Mr. LEE Yau Ching joined us in June 1999. Mr. LEE Yau Ching graduated from the Hong Kong University of Science and Technology in 1999 with a bachelor degree in business administration majoring in finance. Mr. LEE Yau Ching is the son of Mr. LEE Sing Din, one of the controlling Shareholders (as such term is defined under the Listing Rules) and a nephew of Mr. LEE Yin Yee and a cousin of Mr. LEE Shing Put. Mr. LEE Yau Ching was appointed as our executive Director on 25 June 2004.

LI Man Yin（李文演）, aged 52, is our executive Director and has joined us since July 1999. Mr. LI Man Yin is the assistant general manager of Xinyi Automobile Glass (Shenzhen) Co., Ltd. Prior to joining us, Mr. LI Man Yin has worked at a local transportation service company in China handling retail sales, and also in the trading of automobile parts industry. Mr. LI Man Yin was appointed as our executive Director on 25 June 2004.

NG Ngan Ho（吳銀河）, aged 42, is our executive Director and has joined us since August 2003. Mr. NG Ngan Ho is responsible for overseeing the financial and purchasing matters in relation to the construction of our Dongguan production complex. Mr. NG Ngan Ho was appointed as our executive Director on 25 June 2004.

NON-EXECUTIVE DIRECTORS

LI Ching Wai（李清懷）, aged 49, is our non-executive Director and has been with us since April 2001. Prior to joining us, Mr. LI Ching Wai has worked in the trading of automobile parts industry. Mr. LI Ching Wai was appointed as our non-executive Director on 25 June 2004.

SZE Nang Sze（施能獅）, aged 49, is our non-executive Director and has been with us since April 2001. Prior to joining us, Mr. SZE Nang Sze has worked in the trading of automobile parts industry. Mr. SZE Nang Sze was appointed as our non-executive Director on 25 June 2004.

LI Ching Leung（李清涼）, aged 51, is our non-executive Director and has joined us since August 2004. Mr. LI Ching Leung was the assistant general manager of our Wuhu production complex. Prior to joining us, Mr. LI Ching Leung has worked in the trading of automobile parts industry, manufacturing of plastic products and mould industry, and manufacturing of leather products industry. Mr. LI Ching Leung was appointed as our executive Director on 25 August 2004 and was re-designated as non-executive Director on 14 September 2005.

INDEPENDENT NON-EXECUTIVE DIRECTORS

LAM Kwong Siu（林廣兆）, aged 73, is the vice chairman of BOC International Holdings Limited, the Delegate of the National People's Congress, the chairman of Hong Kong Fukien Chamber of Commerce, the vice chairman of Fujian Hong Kong Economic Co-operation, the treasurer of the Chinese General Chamber of Commerce and the Hong Kong Chinese Enterprises Association and thus has the appropriate professional expertise required under Rule 3.10(2) of the Listing Rules. Mr. LAM Kwong Siu has also been the non-executive director of CITIC International Financial Holdings Limited since November 1996, BOC International Holdings Limited since October 2001, CITIC Ka Wah Bank Limited since January 2002, BOCI Capital Limited since July 2002, China Overseas Land & Investment Limited since September 2003 and Fujian Holdings Limited since December 2003. Mr. LAM Kwong Siu was awarded the HKSAR Silver Bauhinia Star in 2003. Mr. LAM Kwong Siu was the non-executive director of Amanda Wing On Travel Holdings Limited (now known as Wing On Travel (Holdings) Limited), Henderson China Holdings Limited and Lai Fung Holdings Limited. Mr. LAM Kwong Siu was appointed as our independent non-executive Director on 30 August 2004.

WONG Kong Hon（黃光漢）, aged 64, is a justice of peace in Hong Kong, recipient of Silver Bauhinia Star in year 2002 and an honorary citizen of Xiamen in China. Mr. WONG Kong Hon is currently a director of a number of companies listed on the Main Board including Titan Holdings Limited, U-RIGHT International Holdings Ltd. and Tongda Group Holdings Limited. Mr. WONG Kong Hon is a member of Standing Committee of the 10th Chinese People's Political Consultative Conference and vice chairman of the Chinese General Chamber of Commerce. Mr. WONG Kong Hon was appointed as our independent non-executive Director on 30 August 2004.

WONG Chat Chor Samuel（王則左）, aged 57, is currently a Barrister-at-Law in Hong Kong and a Chartered Arbitrator. Mr. WONG Chat Chor Samuel, a member of several arbitration institutions, is a Fellow of the Chartered Institute of Arbitrators, a Fellow of the Hong Kong Institute of Arbitrators, a member of the Consultative Committee of the Hong Kong International Arbitration Center and has been the president of the Hong Kong Institute of Arbitrators since 2002. Mr. WONG Chat Chor Samuel is also on the panels of the Arbitration Commissions of Guangzhou, Suzhou and Huizhou of China. In addition, Mr. WONG Chat Chor Samuel is also a director of Nan Fung (Singapore) Pte Limited and the chairman of the BPC Group of Companies, Malaysia and Bei Hai LC Technology Limited. Mr. WONG Chat Chor Samuel is also a member of the Peoples' Political Consultative Committee of Wenzhou, Zhejiang, China. Mr. WONG Chat Chor Samuel was appointed as our independent non-executive Director on 30 August 2004.

SENIOR MANAGEMENT

William CHEN（陳未遠）, aged 76, is our senior float glass technology consultant and has joined our Group since March 2003. Prior to joining our Group, Mr. William CHEN had worked in the glass technology industry for over 35 years. Mr. William CHEN was granted a special subsidy by the State Council in 1991 for his contribution to glass engineering technology.

CHEN Shao Yi（陳紹義）, aged 50, is our vice president and has joined our Group since April 2001. Prior to joining our Group, Mr. CHEN Shao Yi worked at an automobile rubber and plastic components manufacturing company in the PRC. Mr. CHEN Shao Yi graduated from Qingdao Institute of Chemical Technology in 1987 with a bachelor degree in rubber and plastic engineering, and is also qualified as a senior engineer.

YANG Jian Jun（楊建軍）, aged 46, is our director of research and development centre. Prior to joining our Group in May 2006, Mr. YANG Jian Jun was the director of the China National Safety Glass and Quartz Glass Testing Centre which is under the Glass Research Institute of China Building Materials Academy. Mr. YANG Jian Jun has over eighteen years' experience in glass and building materials research, quality management and testing. Mr. YANG Jian Jun graduated from Eastern China University of Science and Technology in 1982 with a bachelor degree in glass science and graduated from Beijing Aeronautics and Aviation University in 2003 with a master dregee in solid mechanics.

Antonio P.K. TAM（譚炳均）, aged 55, is our head of international business development, president and a director of Xinyi Glass (North America) Inc. and a director of Xinyi Glass (America) Development Inc. Mr. Antonio P.K. TAM is responsible for planning our development strategy and overseeing our operation in North America. Prior to joining us in January 1997, Mr. Antonio P.K. TAM had more than thirteen years' experience in the trading of glass manufacturing machinery. Mr. Antonio P.K. TAM obtained a bachelor degree in science from The Chinese University of Hong Kong in 1974 and a master degree in science from the University of Rochester, U.S. in 1976.

LAU Sik Yuen（劉錫源）, aged 40, is our company secretary, chief financial officer and qualified accountant. Prior to joining our Group in April 2003, Mr. LAU Sik Yuen had over fourteen years' experience in auditing and financial accounting. Mr. LAU Sik Yuen is responsible for the Group's financial, management and cost accounting, taxation, treasury and investor relations strategy and operation. Mr. LAU Sik Yuen had worked for PricewaterhouseCoopers for five years, and had been the financial controller of a subsidiary of a company listed on the Main Board for over three years. Mr. LAU Sik Yuen is a member of the Hong Kong Institute of Certified Public Accountants, a member of the American Institute of Certified Public Accountants and a certified public accountant in the state of Illinois, U.S.

CHEN Xi（陳曦）, aged 49, is the general manager of Xinyi Glass Engineering (Dongguan) Co., Ltd. and joined our Group in March 2003. Mr. CHEN Xi is responsible for the production and administrative activities of Xinyi Glass Engineering (Dongguan) Co., Ltd. Mr. CHEN Xi graduated from Sichuan Industrial Institute in 1983 and is qualified as a senior mechanical engineer.

ZHANG Ming（張明）, aged 46, is the general manager of Xinyi Ultra-thin Glass (Dongguan) Co., Ltd. and is responsible for overseeing and implementing float glass technology and has obtained qualification as a senior engineer. Prior to joining our Group in February 1998, Mr. ZHANG Ming worked at a float glass plant. Mr. ZHANG Ming graduated from Wuhan Construction Materials Institute in 1982 with a bachelor degree in construction materials and mechanics.

ZHA Xuesong（查雪松）, aged 35, is the general manager of Xinyi Automobile Glass (Shenzhen) Co., Ltd., overseeing our automobile glass overseas markets and patterned glass domestic and overseas markets. Prior to joining our Group in March 1996, Mr. ZHA Xuesong taught at the Hubei Chinese Medical School for two years, after graduation from Hubei University in 1994 with a bachelor degree in arts. Mr. ZHA Xuesong has also completed the course of Postgraduate Certificate in International Laws at Shenzhen University in 2002.

The Company recognizes the importance of incorporating elements of good corporate governance in the management structures and internal control procedures, to ensure that all business activities and decision-making are properly regulated. During the financial year ended 31 December 2006, the Company complied with the applicable Code Provisions set forth in the Code on Corporate Governance Practices (the "**Code**") as set out in Appendix 14 to The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

BOARD OF DIRECTORS

The board of Directors of the Company (the "**Board**") is responsible for preventing fraud and irregularities, safeguarding the assets of the Group and formulating business strategies for the Group. The Board currently comprises seven executive Directors, three non-executive Directors and three independent non-executive Directors. Details of the Directors are set forth on pages 14 to 16 of this report.

Seven executive Directors comprise Mr. LEE Yin Yee, Mr. TUNG Ching Bor, Mr. TUNG Ching Sai, Mr. LEE Shing Put, Mr. LEE Yau Ching, Mr. LI Man Yin and Mr. NG Ngan Ho. Mr. LEE Yin Yee is the father of Mr. LEE Shing Put, and also the brother-in-law of Mr. TUNG Ching Bor and Mr. TUNG Ching Sai, and the uncle of Mr. LEE Yau Ching. Mr. TUNG Ching Bor is the brother of Mr. TUNG Ching Sai. Mr. LEE Shing Put is the son of Mr. LEE Yin Yee, cousin of Mr. LEE Yau Ching and nephew of Mr. TUNG Ching Bor and Mr. TUNG Ching Sai. Mr. LEE Yau Ching is the nephew of Mr. LEE Yin Yee and cousin of Mr. LEE Shing Put. Three non-executive Directors comprise Mr. LI Ching Wai, Mr. SZE Nang Sze and Mr. LI Ching Leung. Three independent non-executive Directors comprise Mr. LAM Kwong Siu, Mr. WONG Kong Hon and Mr. WONG Chat Chor Samuel. Where vacancies exist at the Board, candidates will be proposed and put forward to the Board for consideration and approval, with a view to appointing to the Board individuals with appropriate capabilities at that time.

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

All three non-executive Directors were appointed for a term of three years, commenced on 1 January 2005. All three independent non-executive Directors were appointed for a term of three years, commenced on 3 February 2005. All of the independent non-executive Directors have satisfied the independence criteria and have made annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company is of the view that all independent non-executive Directors have fulfilled the independence guidelines set out in Rule 3.13 of the Listing Rules.

During the financial year 2006, the Board held four meetings on 3 April 2006, 21 April 2006, 31 August 2006 and 24 October 2006, respectively, and all Directors had attended these meetings except Mr. WONG Chat Chor Samuel and Mr. LEE Shing Put were absent on 3 April 2006 and Mr. WONG Kong Hon was absent on 31 August 2006. At least four Board meetings are scheduled for the financial year 2007.

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

MODEL CODES FOR SECURITIES TRANSACTIONS

The Group has adopted the Model Code for Securities Transactions by Directors of Listed Issuers **(the "Model Code")** as set out in Appendix 10 of the Listing Rules as the code of conduct regarding securities transactions by the Directors. The Company have made specific enquires with the Directors and all Directors have confirmed that they complied with the Model Code throughout the year ended 31 December 2006.

REMUNERATION COMMITTEE

The Remuneration Committee of the Company has five members, namely Mr. LAM Kwong Siu, Mr. WONG Kong Hon, Mr. WONG Chat Chor Samuel, Mr. LEE Yin Yee and Mr. TUNG Ching Sai. The chairman of the Remuneration Committee is Mr. LAM Kwong Siu. The primary duties of the Remuneration Committee include reviewing the terms of remuneration packages and determining the award of bonuses. Its terms of reference are available on request. During the year, a meeting of the Remuneration Committee was held on 31 August 2006 and all the committee members attended this meeting.

AUDIT COMMITTEE

The Audit Committee of the Company comprises three independent non-executive Directors, Mr. LAM Kwong Siu, Mr. WONG Kong Hon and Mr. WONG Chat Chor Samuel. Mr. LAM Kwong Siu is the chairman of the Audit Committee. The Audit Committee assists the Board to review the financial reporting process, to evaluate the effectiveness of internal control systems, and to oversee the auditing processes. Its terms of reference are available on request. The audit committee meetings were held on 3 April 2006 and 31 August 2006 and all the committee members attended these meetings except Mr. WONG Chat Chor Samuel was absent on 3 April 2006 and Mr. WONG Kong Hon was absent on 31 August 2006.

DIRECTOR'S RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

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

The statement of the auditors of the Company about their reporting responsibilities on the financial statements of the Group is set out in the Independent Auditor's Report on page 33.

AUDITORS' REMUNERATION

The professional fees charged by the Group's auditors in respect of the auditing services is disclosed in the notes to the financial statements. The remuneration paid to the auditors of the Group is solely for auditing services rendered during the year and amounts to approximately HK$2.2 million.

INTERNAL CONTROL

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

The Board is also responsible for making appropriate assertions on the adequacy of internal controls over financial reporting and the effectiveness of disclosure controls and procedures. Through the audit committee of the Board, the Board has regularly reviewed the effectiveness of risk management and control activities of the Group during the financial year 2006.

The Directors are pleased to present their report and the audited financial statements of the Group for the year ended 31 December 2006.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding whereas its subsidiaries are principally engaged in the production and sales of float glass products, automobile glass products, construction and household glass products and a variety of related products in China. Particulars of the subsidiaries of the Company are set forth in note 8 to the financial statements of the Group in this report.

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

RESULTS AND APPROPRIATIONS

The results of the Group for the financial year ended 31 December 2006 are set out in the consolidated income statement on page 38 in this report. During the financial year, an interim dividend of 4.0 HK cents per Share, amounting to a total of about HK$64.2 million, was paid to shareholders on 28 September 2006.

The Board proposes the payment of a final dividend of 7.0 HK cents per Share to shareholders whose names appear on the register of members of the Company on 11 May 2007. Subject to approval of the Directors' recommendation by shareholders at the Annual General Meeting, the final dividend will be paid on 21 May 2007.

The register of members will be closed from Tuesday, 8 May 2007 to Friday, 11 May 2007, both days inclusive, during which period, no transfer of Shares will be registered. In order to qualify for the final dividend, all Share certificates with completed transfer forms either overleaf or separately, must be lodged with the Company's branch share registrars and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited, at Rooms 1806-1807, 18th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on Monday, 7 May 2007.

RESERVES

Details of movements in the reserves of the Group and the Company during the financial year are set out in note 17 to the financial statements in this report.

FINANCIAL SUMMARY

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

PROPERTY, PLANT AND EQUIPMENT

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

DONATIONS

Donations by the Group for charitable and other purposes during the financial year amounted to HK$127,000 (2005: HK$5,306,972).

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in note 16 to the financial statements in this report.

DISTRIBUTABLE RESERVES

Under the Companies Law of the Cayman Islands, share premium amounting to approximately HK$850.8 million is distributable to shareholders, subject to the condition that immediately following the date on which the distribution or dividend is proposed to be made, the Company is able to pay its debts as they fall due in the ordinary course of business.

As at 31 December 2006, the Company had distributable reserves available for distribution to shareholders amounting to approximately HK$113.7 million.

PRE-EMPTIVE RIGHTS

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

DIRECTORS

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

EXECUTIVE DIRECTORS

Mr. LEE Yin Yee *(Chairman)*
Mr. TUNG Ching Bor *(Vice chairman)*
Mr. TUNG Ching Sai *(Chief executive officer)*
Mr. LEE Shing Put
Mr. LEE Yau Ching
Mr. LI Man Yin
Mr. NG Ngan Ho

NON-EXECUTIVE DIRECTORS

Mr. LI Ching Wai
Mr. SZE Nang Sze
Mr. LI Ching Leung

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. LAM Kwong Siu
Mr. WONG Kong Hon
Mr. WONG Chat Chor Samuel

In accordance with article 108 of the Company's articles of association, Mr. LEE Shing Put, Mr. LEE Yau Ching, Mr. LI Man Yin and Mr. WONG Chat Chor Samuel will retire by rotation and being eligible, offer themselves for re-election at the Annual General Meeting.

The independent non-executive Directors were appointed for an initial term of three years commencing on 3 February 2005 and shall continue thereafter until terminated by not less than three month's notice in writing served by either party on the other.

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

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' REMUNERATION

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

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

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

(iii) the executive Directors may be granted, at the discretion of the board of Directors, options pursuant to the Share Option Scheme, as part of their remuneration package.

Each of the non-executive Directors was appointed by the Company for a term of three years, commenced on 1 January 2005. None of the non-executive Directors is expected to receive any other remuneration for holding their office as a non-executive Director.

Each of the independent non-executive Directors was appointed by the Company for a term of three years, commenced on 3 February 2005. Save for the annual remuneration of HK$200,000 for each independent non-executive Director, none of the independent non-executive Directors is expected to receive any other remuneration for holding their office as an independent non-executive Director.

DIRECTORS' INTERESTS IN CONTRACTS

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

MANAGEMENT CONTRACTS

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

SHARE OPTION SCHEME

Pursuant to a written resolution of the Shareholders passed on 18 January 2005, a share option scheme (the "Share Option Scheme") was approved and adopted.

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

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

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

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

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

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

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

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

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

(a) the closing price of the Shares as stated in the daily quotation sheet of the Stock Exchange for trade in one or more broad lots of the Shares on the date of the offer for the grant, which must be a day on which licensed banks are open for business in Hong Kong and the Stock Exchange is open for the business of dealing in securities (the "Trading Day");

(b) the average closing price of the Shares as stated in the daily quotation sheets of the Stock Exchange for the five Trading Days immediately preceding the date of the offer for the grant; and

(c) the nominal value of a Share.

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

As at the date hereof, an aggregate of 8,520,000 options had been granted to employees of the Group, of which 570,000 options were lapsed, and 600,000 options had been granted to connected persons of the Company and its subsidiaries, being directors of subsidiaries of the Company. The exercise price of such options is HK$2.15 and the option holders may exercise the options during the period between 27 January 2008 and 26 January 2009, provided that the holders are employee of the Group of during the exercising period. If any of the options proposed to be granted hereby shall not have been exercised by the holders before 27 January 2009, the un-exercised Option shall lapse, and the holders shall not be entitled to exercise the outstanding Option to subscribe for any Shares.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of Directors and senior management are set out on pages 14 to 17 of this report.

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

As at 31 December 2006, the interests and short positions of the Directors and chief executive of the Company in the Shares, the underlying share and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO; or as otherwise notified to the Company and the Stock Exchange pursuant to the Divisions 7 and 8 of Part XV of the SFO (including interest or short positions which the Directors or the chief executives were taken or deemed to have under such provisions) and the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") contained in the Listing Rules, were as follows:

THE COMPANY

Long position in the Shares

Name of Directors	Nature of interest	Number of Shares held	Approximate percentage of the Company's issued share capital
Mr. LEE Yin Yee	Interest of a controlled corporation *(Note a)*	380,395,500	23.71%
Mr. TUNG Ching Bor	Interest of a controlled corporation *(Note b)*	139,927,500	8.72%
Mr. TUNG Ching Sai	Interest of a controlled corporation *(Note c)*	135,023,500	8.41%
Mr. LI Ching Wai	Interest of a controlled corporation *(Note d)*	62,190,000	3.88%
Mr. NG Ngan Ho	Interest of a controlled corporation *(Note e)*	41,460,000	2.58%
Mr. LI Man Yin	Interest of a controlled corporation *(Note f)*	41,460,000	2.58%
Mr. SZE Nang Sze	Interest of a controlled corporation *(Note g)*	57,007,500	3.55%
Mr. LI Ching Leung	Interest of a controlled corporation *(Note h)*	41,460,000	2.58%

Notes:

(a) Mr. LEE Yin Yee's interests in the Shares are held through Realbest Investment Limited ("Realbest"), a company incorporated in the BVI with limited liability on 2 July 2004 and wholly-owned by Mr. LEE Yin Yee.

(b) Mr. TUNG Ching Bor's interests in the Shares are held through High Park Technology Limited ("High Park"), a company incorporated in the BVI with limited liability on 1 July 2004 and wholly-owned by Mr. TUNG Ching Bor.

(c) Mr. TUNG Ching Sai's interests in the Shares are held through Copark Investment Limited ("Copark"), a company incorporated in the BVI with limited liability on 2 July 2004 and wholly-owned by Mr. TUNG Ching Sai.

(d) Mr. LI Ching Wai's interests in the Shares are held through Goldbo International Limited ("Goldbo"), a company incorporated in the BVI with limited liability on 2 July 2004 and wholly-owned by Mr. LI Ching Wai.

(e) Mr. NG Ngan Ho's interests in the Shares are held through Linkall Investment Limited ("Linkall"), a company incorporated in the BVI with limited liability on 2 July 2004 and wholly-owned by Mr. NG Ngan Ho.

(f) Mr. LI Man Yin's interests in the Shares are held through Perfect All Investments Limited ("Perfect All"), a company incorporated in the BVI with limited liability on 28 June 2004 and wholly-owned by Mr. LI Man Yin.

(g) Mr. SZE Nang Sze's interests in the Shares are held through Goldpine Limited ("Goldpine"), a company incorporated in the BVI with limited liability on 2 July 2004 and wholly-owned by Mr. SZE Nang Sze.

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

ASSOCIATED CORPORATIONS

Name of associated corporation	Name of Director	Class and number of shares held in the associated corporation	Approximate shareholding percentage
Realbest *(Note i)*	Mr. LEE Yin Yee	2 ordinary shares	100%
High Park *(Note j)*	Mr. TUNG Ching Bor	2 ordinary shares	100%
Copark *(Note k)*	Mr. TUNG Ching Sai	2 ordinary shares	100%
Telerich *(Note l)*	Mr. LEE Yau Ching	2 ordinary shares	100%
Goldbo *(Note m)*	Mr. LI Ching Wai	2 ordinary shares	100%
Linkall *(Note n)*	Mr. NG Ngan Ho	2 ordinary shares	100%
Perfect All *(Note o)*	Mr. LI Man Yin	2 ordinary shares	100%
Goldpine *(Note p)*	Mr. SZE Nang Sze	2 ordinary shares	100%
Herosmart *(Note q)*	Mr. LI Ching Leung	2 ordinary shares	100%

Notes:

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

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

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

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

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

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

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

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

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

Save as disclosed above, as at 31 December 2006, to the knowledge of the Company, none of the Directors or chief executive of the Company had or was deemed under the SFO to have, any interests or short positions in any of the Shares or the underlying share and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO) which was required to be recorded pursuant to section 352 of the SFO, or as otherwise required to be notified to the Company and the Stock Exchange pursuant to the Divisions 7 and 8 of Part XV of the SFO and the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITION IN SHARES

As at 31 December 2006, the interests and short positions of the persons, other than Directors and chief executive of the Company, in the Shares and the underlying Shares of the Company, as notified to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO; or as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO, were as follows:

THE COMPANY

Long position in the Shares

Name of Substantial Shareholders	Number of Shares held	Nature of interest	Approximate percentage of the Company's issued share capital
Realbest	380,395,500	Registered and beneficial owner	23.71%
High Park	139,927,500	Registered and beneficial owner	8.72%
Copark	135,023,500	Registered and beneficial owner	8.41%
Telerich Investment Limited *(Note)*	132,672,000	Registered and beneficial owner	8.27%

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

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

As at 31 December 2006, the persons who are, directly or indirectly, interested in 10%. or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group (other than the Company) were as follows:

Name of subsidiary of the Company	Name of shareholder	Class and number of shares held in the subsidiary of the Company	Approximate shareholding percentage
Xinyi Glass (North America) Inc.	Polaron International Inc.	30,000 class A common shares	25%
	Mr. CHAN Chung Shun Alex	20,000 class A common shares	16.7%
Xinyi Glass (America) Development Inc.	Mr. TAM Peng Kuan Antonio	30,000 common shares	25%
	Mr. LAU Chee Wai Daniel	20,000 common shares	16.7%
Xinyi Glass (Germany) Limited	Mr. Wolfgang Walter WILLNAT	2,000 common shares	20%
	Mr. Friedel Wilhelm Alfred Ernst Rudi BEYE	1,000 common shares	10%
	Polaron International Inc.	1,000 common shares	10%
Xinyi Glass Japan Company Limited	Polaron International Inc.	40 common shares	10%
	Mr. CHO Shotie	140 common shares	35%

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

DIRECTORS' INTEREST IN COMPETING BUSINESS

As at 31 December 2006, none of the Directors and their respective associates (as defined in the Listing Rules) had any interest in a business, which competes or may compete with the business of the Group.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time during the year was the Company, or any of its subsidiaries, a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of Shares in, or debentures of, the Company or any other body corporate and neither the Directors or the chief executive, nor any of their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right.

MAJOR CUSTOMERS AND SUPPLIERS

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

Sales	
– the largest customer	7.5%
– the largest five customers combined	21.7%
Purchases	
– the largest supplier	5.8%
– the largest five suppliers combined	18.4%

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

BANK BORROWINGS

The total bank borrowings of the Group as at 31 December 2006 amounted to approximately HK$414.6 million (2005: HK$333.9 million). Particulars of the bank borrowings are set out in note 19 to the financial statements in this report.

REWARD FOR EMPLOYEES

As at 31 December 2006, we employed over 5,124 employees in China, Hong Kong, Canada and Germany. Our employees are remunerated with monthly salary, subject to annual review and discretionary bonuses. Our employees are also entitled, subject to eligibility, to retirement fund and provident fund and to participate in the Share Option Scheme. We place strong emphasis on nurturing a continuous learning culture amongst the employees and implement a variety of programmes to promote training.

CONNECTED TRANSACTIONS

No significant related party transactions has been entered into by the Group which constituted connected transactions for the financial year ended 31 December 2006.

COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE PRACTICES

In the opinion of the Directors, the Company has complied with the applicable Code Provisions in the Code of Corporate Governance Practices ('the Code") as set out in the Appendix 14 to the Listing Rules during the financial year ended 31 December 2006.

AUDIT COMMITTEE

The Company has established an audit committee, comprising three independent non-executive Directors, with written terms of reference set out in "A Guide For The Formation Of An Audit Committee" published by the Hong Kong Institute of Certified Public Accountants adopted as the terms of reference of audit committee with the exception that the audit committee may have a minimum of two members. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group and to provide comments and give advice to the Board. The audit committee has reviewed the audited financial statements of the Company and audited consolidated financial statements of the Group for the financial year ended 31 December 2006.

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

There were no purchases, sales or redemptions of the Company's listed securities by the Company or any of its subsidiaries during the financial year ended 31 December 2006.

PUBLIC FLOAT

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

SUBSEQUENT EVENTS

Details of the significant subsequent events of the Group are set out in note 34 to the financial statements in this report.

AUDITORS

The retiring auditors, PricewaterhouseCoopers, have signified their willingness to continue in office. A resolution will be proposed at the annual general meeting to re-appoint them and to authorise the Directors to fix their remuneration.

ANNUAL GENERAL MEETING

The Annual General Meeting will be held on Friday, 11 May 2007, at Aberdeen Room of Ballroom, Level 3, JW Marriott Hong Kong, Pacific Place, 88 Queensway, Hong Kong, at 10:00 a.m. The notice convening the Annual General Meeting has been published on the newspaper and has been dispatched to the shareholders together with this report.

On Behalf of the Board

LEE Yin Yee
Chairman

Hong Kong, 30 March 2007

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

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

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF XINYI GLASS HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Xinyi Glass Holdings Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 35 to 89, which comprise the consolidated and Company balance sheets as at 31 December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2006 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 30 March 2007

Consolidated balance sheet

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

	Note	2006	2005
ASSETS			
Non-current assets			
Leasehold land and land use rights	6	128,539	120,785
Property, plant and equipment	7	1,790,017	1,263,353
Deposits for property, plant and equipment		121,109	232,385
Available-for-sale financial assets	9	500	481
Interest in an associate	10	11,932	11,911
Deferred income tax assets	20	3,676	852
		2,055,773	1,629,767
Current assets			
Inventories	11	371,081	235,215
Trade and other receivables	12	568,938	375,955
Amounts due from customers for contract work	13	61,222	19,211
Financial assets at fair value through profit or loss	14	15,231	—
Cash and cash equivalents			
Pledged	15	10,449	11,108
Unpledged	15	162,330	129,779
		1,189,251	771,268
Total assets		3,245,024	2,401,035
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	16	1,011,270	824,975
Other reserves	17	238,433	122,493
Retained earnings			
- Proposed final dividend	27	112,326	77,147
- Others		886,001	722,947
		2,248,030	1,747,562
Minority interest		(1,707)	2,517
Total equity		2,246,323	1,750,079

The notes on pages 41 to 89 are an integral part of these consolidated financial statements.

All amounts in Hong Kong dollar thousands unless otherwise stated

	Note	2006	2005
LIABILITIES			
Non-current liabilities			
Bank borrowings	19	79,917	125,583
Deferred income tax liabilities	20	—	110
		79,917	125,693
Current liabilities			
Trade and other payables	18	570,749	306,916
Amounts due to customers for contract work	13	1,165	—
Bank borrowings	19	334,667	208,340
Current income tax liabilities		12,203	10,007
		918,784	525,263
Total liabilities		998,701	650,956
Total equity and liabilities		3,245,024	2,401,035
Net current assets		270,467	246,005
Total assets less current liabilities		2,326,240	1,875,772

The notes on pages 41 to 89 are an integral part of these consolidated financial statements.

Balance sheet

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

	Note	2006	2005
ASSETS			
Non-current assets			
Interests in subsidiaries	8	820,010	820,010
Deferred income tax assets	20	461	127
		820,471	820,137
Current assets			
Due from subsidiaries	8	305,304	82,335
Prepayments		224	—
Cash and cash equivalents	15	12	11
		305,540	82,346
Total assets		1,126,011	902,483
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	16	1,011,270	824,975
Other reserves	17	1,175	—
Retained earnings			
- Proposed final dividend	27	112,326	77,147
- Others		210	298
Total equity		1,124,981	902,420
LIABILITIES			
Current liabilities			
Accruals and other payables		1,030	63
Total liabilities		1,030	63
Total equity and liabilities		1,126,011	902,483

The notes on pages 41 to 89 are an integral part of this financial statement.

Consolidated income statement

All amounts in Hong Kong dollar thousands unless otherwise stated
Year ended 31 December

	Note	2006	2005
Sales	5	**1,933,173**	1,380,777
Cost of sales	21	**(1,232,981)**	(901,749)
Gross profit		**700,192**	479,028
Other revenue	5	**21,912**	16,254
Other gains	5	**10,193**	3,461
Selling and marketing costs	21	**(211,205)**	(147,530)
Administrative expenses	21	**(110,687)**	(71,923)
Operating profit		**410,405**	279,290
Finance income	23	**3,484**	3,206
Finance costs	23	**(11,533)**	(2,614)
Share of loss of associate	10	**(563)**	(2)
Profit before income tax		**401,793**	279,880
Income tax expense	24	**(15,981)**	(19,486)
Profit for the year		**385,812**	260,394
Attributable to:			
Equity holders of the Company	25	**388,235**	260,114
Minority interests		**(2,423)**	280
		385,812	260,394
Earnings per Share for profit attributable to the equity holders of the Company during the year (expressed in Hong Kong cents per Share)			
- Basic	26	**24.6**	17.3
- Diluted	26	**24.6**	17.3
Dividends	27	**176,512**	123,435

The notes on pages 41 to 89 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

All amounts in Hong Kong dollar thousands unless otherwise stated

	Note	Attributable to equity holders of the Company				
	Note	Share capital	Other reserves	Retained earnings	Minority interest	Total
Balance at 1 January 2005		30,010	64,723	702,253	2,132	799,118
Currency translation differences		—	19,255	—	277	19,532
Reserve utilised	17	—	(323)	—	—	(323)
Net income recognised directly in equity		—	18,932	—	277	19,209
Profit for the year		—	—	260,114	280	260,394
Total recognised income for 2005		—	18,932	260,114	557	279,603
Transfer to reserve		—	38,838	(38,838)	—	—
Proceeds from shares issued	16	835,888	—	—	—	835,888
Share issuance costs	16	(40,923)	—	—	—	(40,923)
Contribution from minority shareholders		—	—	—	31	31
Dividend paid to minority shareholders		—	—	—	(203)	(203)
Dividend relating to 2004	27	—	—	(77,147)	—	(77,147)
Dividend relating to 2005	27	—	—	(46,288)	—	(46,288)
		794,965	38,838	(162,273)	(172)	671,358
Balance at 31 December 2005 and 1 January 2006		824,975	122,493	800,094	2,517	1,750,079
Currency translation differences		—	66,096	—	—	66,096
Profit for the year		—	—	388,235	(2,423)	385,812
Total recognised income for 2006		—	66,096	388,235	(2,423)	451,908
Transfer to reserve		—	48,669	(48,669)	—	—
Proceeds from shares issued	16	191,326	—	—	—	191,326
Share issuance costs	16	(5,031)	—	—	—	(5,031)
Contribution from minority shareholders		—	—	—	611	611
Dividend paid to minority shareholders		—	—	—	(2,412)	(2,412)
Employee share option scheme:						
– value of employee services	16	—	1,175	—	—	1,175
Dividend relating to 2005	27	—	—	(77,147)	—	(77,147)
Dividend relating to 2006	27	—	—	(64,186)	—	(64,186)
		186,295	49,844	(190,002)	(1,801)	44,336
Balance at 31 December 2006		1,011,270	238,433	998,327	(1,707)	2,246,323

The notes on pages 41 to 89 are an integral part of these consolidated financial statements.

All amounts in Hong Kong dollar thousands unless otherwise stated

	Note	2006	2005
Cash flows from operating activities			
Cash generated from operations	28	402,856	251,648
Interest paid		(20,514)	(11,480)
Income tax paid		(16,719)	(12,430)
Net cash generated from operating activities		365,623	227,738
Cash flows from investing activities			
Payment for capital expenditure		(455,689)	(735,760)
Proceeds from disposal of property, plant and equipment	28	1,665	369
Purchase of financial assets at fair value through profit or loss		(39,642)	—
Disposal of financial assets at fair value through profit or loss		23,875	—
Acquisition of subsidiaries	32	(2,826)	—
Loans advanced to an associate	10	(5,806)	(6,144)
Capital contribution to an associate	10	—	(5,769)
Loan repayments from an associate	10	5,467	—
Interest received		3,484	3,206
Net cash used in investing activities		(469,472)	(744,098)
Cash flows from financing activities			
Net proceeds from new shares issued	16	186,295	794,965
Proceeds from bank borrowings		109,000	286,153
Repayments of bank borrowings		(28,339)	(554,338)
Decrease in pledged bank deposits		659	13,510
Contribution from minority shareholders		611	31
Dividends paid to shareholders of the Company	27	(141,333)	(123,435)
Dividends paid to minority shareholders		(2,412)	(203)
Net cash generated from financing activities		124,481	416,683
Net increase/(decrease) in cash and cash equivalents		20,632	(99,677)
Cash and cash equivalents at beginning of the year		129,779	223,709
Effect of foreign exchange rate changes		11,919	5,747
Cash and cash equivalents at end of the year	15	162,330	129,779

The notes on pages 41 to 89 are an integral part of these consolidated financial statements.

1 GENERAL INFORMATION

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

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

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

These consolidated financial statements are presented in thousands of units of Hong Kong dollars (HK$'000), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 30 March 2007.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 BASIS OF PREPARATION

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 BASIS OF PREPARATION *(Continued)*

(a) *Standards not yet effective and not early adopted by the Group*

HKFRS 7, Financial Instruments: Disclosures, and the complementary Amendment to HKAS 1, Presentation of Financial Statements - Capital Disclosures (effective for annual period beginning on or after 1 June 2007). HKFRS 7 introduces new disclosures relating to financial instruments. The Group is assessing the impact of this new accounting standard; and

HKFRS 8, Operating Segments (effective for annual periods on or after 1 January 2009). HKFRS 8 requires an entity to report separate information about each operating segments. The Group is assessing the impact of this new accounting standard.

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

The following interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 May 2006 or later periods that the Group has not early adopted:

- HK(IFRIC)-Int 8, Scope of HKFRS 2 (effective for annual periods beginning on or after 1 May 2006). HK(IFRIC)-Int 8 requires consideration of transactions involving the issuance of equity instruments - where the identifiable consideration received is less than the fair value of the equity instruments issued - to establish whether or not they fall within the scope of HKFRS 2. The Group will apply HK(IFRIC)-Int 8 from 1 January 2007, but it is not expected to have any material impact on the Group's consolidated financial statements;

- HK(IFRIC)-Int 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006). HK(IFRIC)-Int 10 prohibits the impairment losses recognised in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date. The Group will apply HK(IFRIC)-Int 10 from 1 January 2007, but it is not expected to have any impact on the Group's consolidated financial statements; and

- HK(IFRIC)-Int 11, HKFRS 2 - Group and Treasury Share Transactions (effective for annual accounting periods beginning on or after 1 March 2007). HK(IFRIC)-Int 11 requires a subsidiary to measure the services received from its employees in accordance with the requirements applicable to equity-settled share-based payment transactions, with a corresponding increase recognised in equity as a contribution from the parent, provided that the share-based arrangement is accounted for as equity-settled in the consolidated financial statements of the parent. The Group will apply HK(IFRIC)-Int 11 from 1 January 2008, but it is not expected to have a material impact on the Group's consolidated financial statements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 BASIS OF PREPARATION *(Continued)*

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

The following interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 March 2006 or later periods but are not relevant for the Group's operations:

- HK(IFRIC)-Int 7, Applying the Restatement Approach under HKAS 29, Financial Reporting in Hyperinflationary Economies (effective for annual periods beginning on or after 1 March 2006). HK(IFRIC)-Int 7 provides guidance on how to apply requirements of HKAS 29 in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, when the economy was not hyperinflationary in the prior period. As none of the group entities have a currency of a hyperinflationary economy as its functional currency, HK(IFRIC)-Int 7 is not relevant to the Group's operations;

- HK(IFRIC)-Int 9, Reassessment of Embedded Derivatives (effective for annual periods beginning on or after 1 June 2006). HK(IFRIC)-Int 9 requires an entity to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment if required. As none of the group entities have contracts with embedded derivative element, HK(IFRIC)-Int 9 is not relevant to the Group's operations; and

- HK(IFRIC)-Int 12, Service Concession Arrangements (effective for annual periods beginning on or after 1 January 2008). Management does not expect the interpretation to be relevant to the Group.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 CONSOLIDATION

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

(a) Subsidiaries

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

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

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

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

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

(b) Transactions with minority interests

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 CONSOLIDATION *(Continued)*

(c) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost.

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

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

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

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

(d) Goodwill

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

2.3 SEGMENT REPORTING

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.4 FOREIGN CURRENCY TRANSLATION

(a) Functional and presentation currency

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

(b) Transactions and balances

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

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

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

(c) Group companies

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

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.5 PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

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

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

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. These are included in the income statement.

2.6 LEASEHOLD LAND AND LAND USE RIGHTS

Leasehold land in Hong Kong is government-owned and land in the PRC is state-owned or collectively-owned with no individual land ownership right exists. The Group acquired the right to use certain land. The premiums paid for such right are treated as prepayment for operating lease and recorded as land use tights, which are amortised over the lease periods of 50 years using the straight-line method.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

Assets that have an indefinite useful life or have not yet available for use are not subject to amortisation and are at least tested annually for impairment. 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 (cash-generating units). Assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.8 FINANCIAL ASSETS

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

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

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

(b) Loans and receivables

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.8 FINANCIAL ASSETS *(Continued)*

(c) Available-for-sale financial assets

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

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.9 INVENTORIES

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

2.10 TRADE AND OTHER RECEIVABLES

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

2.11 CASH AND CASH EQUIVALENTS

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

2.12 SHARE CAPITAL

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

2.13 TRADE PAYABLES

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

2.14 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 income statement over the period of the borrowings using the effective interest method.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.15 FINANCIAL GUARANTEE

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

2.16 DEFERRED INCOME TAX

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.17 EMPLOYEE BENEFITS

(a) Employee leave entitlements

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

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

(b) Pension obligations

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

The contributions are recognised as employee benefit expenses when they are due and are not reduced by contributions forfeited by those employees leave the schemes prior to vesting fully in the contributions.

(c) Share-based compensation

The Group operate an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each balance sheet date, the entity revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision of original estimates, if any, in the income statement, with a corresponding adjustment to equity.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.18 PROVISIONS

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

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

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

2.19 GOVERNMENT GRANT

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

2.20 REVENUE RECOGNITION

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

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

(a) Sales of goods

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

(b) Interest income

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.20 REVENUE RECOGNITION *(Continued)*

(c) Royalty income

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

(d) Rental income

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

Accounting policy for recognition of construction contract revenue is set out in Note 2.21.

Accounting policy for recognition of government grants is set out in Note 2.19.

2.21 CONSTRUCTION CONTRACTS

Contract costs are recognised when incurred. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable.

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

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

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

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

2.22 OPERATING LEASES

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.23 BORROWING COSTS

Borrowing costs incurred for the 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. Other borrowing costs are expensed.

2.24 DIVIDEND DISTRIBUTION

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

3 FINANCIAL RISK MANAGEMENT

3.1 FINANCIAL RISK FACTORS

The Group's major financial instruments include trade and other receivables, trade and other payables and borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(a) Foreign exchange risk

The Group mainly operates in Mainland China and Hong Kong and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Chinese Renminbi and United States dollars. Foreign exchange risk also arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations. The Group manages its foreign exchange risks by performing regular reviews.

(b) Credit risk

The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

In order to minimise the credit risks, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews regularly the recoverable amount of each individual trade receivable to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

(c) Liquidity risk

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 FINANCIAL RISK FACTORS *(Continued)*

(d) Cashflow and fair value interest rate risk

The Group' s income and operating cash flows are substantially independent of the changes in market interest rates as the Group has no significant interest-bearing assets. The Group's exposure to changes in interest rates is mainly attributable to its borrowings. Borrowings at variable rates expose the Group to cash flow interest rate risk. Borrowings at fixed rates expose the Group to fair value interest-rate risk. Details of the Group's borrowings have been disclosed in Note 19 to the consolidated financial statements.

The Group currently does not use any interest rate swaps to hedge its exposure to interest rate risk.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENT

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

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

(a) Depreciation and amortisation

The Group's net book value of leasehold land and land use right, and property, plant and equipment as at 31 December 2006 was approximately HK$129 million and HK$1,790 million, respectively. The Group amortises the leasehold land and land use right over fifty years, and depreciates the property, plant and equipment on a straight line basis over the estimated useful lives of three to thirty years, commencing from the date the asset is available for intended use. Management will revise the depreciation or amortisation charges where useful lives are different to previously estimated, 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

Non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset exceeds its recoverable amount in accordance with accounting policy stated above. The recoverable amount of an asset or a cash-generating unit is determined based on value-in-use calculations. The value-in-use calculation requires the entity to estimate the future cash flows expected to arise from the asset or cash-generating unit and a suitable discount rate in order to calculate the present value, which has been prepared on the basis of management's assumptions and estimates.

All amounts in Hong Kong dollar thousands unless otherwise stated

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENT *(Continued)*

(c) *Revenue recognition*

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

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

5 SEGMENT INFORMATION

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

	2006	2005
Sales		
Sales of goods	1,817,332	1,309,162
Construction contract revenue	115,841	71,615
	1,933,173	1,380,777
Other revenue		
Government grants (note)	17,321	13,032
Rental income	2,461	984
Royalty income	2,130	2,238
	21,912	16,254
Total revenue	1,955,085	1,397,031

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

All amounts in Hong Kong dollar thousands unless otherwise stated

5 SEGMENT INFORMATION *(Continued)*

Other gains

Other gains represent mainly net gain on disposal of other financial assets at fair value through profit or loss.

Primary reporting format – business segments

At 31 December 2006, the Group was organised into three main business segments:

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

The segment results for the year ended 31 December 2006 are as follows:

	Automobile glass	Construction glass	Float glass	Group
Sales				
Total gross segment sales	1,229,330	498,038	341,027	2,068,395
Inter-segment sales	—	—	(135,222)	(135,222)
External sales	1,229,330	498,038	205,805	1,933,173
Segment results	278,482	89,870	34,894	403,246
Unallocated other revenue				21,912
Unallocated other gains				10,193
Unallocated costs				(24,946)
Operating profit				410,405
Finance income *(Note 23)*				3,484
Finance costs *(Note 23)*				(11,533)
Share of loss of associate *(Note 10)*	—	—	(563)	(563)
Profit before income tax				401,793
Income tax expense *(Note 24)*				(15,981)
Profit for the year				385,812

All amounts in Hong Kong dollar thousands unless otherwise stated

5 SEGMENT INFORMATION *(Continued)*

The segment results for the year ended 31 December 2005 are as follows:

	Automobile glass	Construction glass	Float glass	Group
Sales	990,933	389,844	—	1,380,777
Segment results	246,785	41,463	(2,903)	285,345
Unallocated other revenue				16,254
Unallocated other gains				3,461
Unallocated costs				(25,770)
Operating profit				279,290
Finance income *(Note 23)*				3,206
Finance costs *(Note 23)*				(2,614)
Share of loss of associate *(Note 10)*	—	—	(2)	(2)
Profit before income tax				279,880
Income tax expense *(Note 24)*				(19,486)
Profit for the year				260,394

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

	Year ended 31 December 2006				
	Automobile glass	Construction glass	Float glass	Unallocated	Group
Depreciation *(Note 7)*	47,163	18,694	28,511	50	94,418
Amortisation *(Note 6)*	1,186	287	615	606	2,694
Impairment of trade and other receivables, net	2,047	6,327	—	—	8,374

	Year ended 31 December 2005				
	Automobile glass	Construction glass	Float glass	Unallocated	Group
Depreciation *(Note 7)*	36,644	15,335	392	836	53,207
Amortisation *(Note 6)*	704	149	—	1,373	2,226
Impairment of trade and other receivables, net	1,840	1,113	—	—	2,953

All amounts in Hong Kong dollar thousands unless otherwise stated

5 SEGMENT INFORMATION *(Continued)*

The segment assets and liabilities at 31 December 2006 and capital expenditure for the year then ended are as follows:

	Automobile glass	Construction glass	Float glass	Unallocated	Group
Assets	1,267,619	551,157	1,319,645	94,671	3,233,092
Associate	—	—	11,932	—	11,932
Total assets	1,267,619	551,157	1,331,577	94,671	3,245,024
Liabilities	438,156	154,128	109,132	297,285	998,701
Capital expenditure	92,119	11,222	361,293	36	464,670

The segment assets and liabilities at 31 December 2005 and capital expenditure for the year then ended are as follows:

	Automobile glass	Construction glass	Float glass	Unallocated	Group
Assets	1,047,305	515,886	799,487	26,446	2,389,124
Associate	—	—	11,911	—	11,911
Total assets	1,047,305	515,886	811,398	26,446	2,401,035
Liabilities	273,086	41,033	216,454	120,383	650,956
Capital expenditure	169,470	43,901	522,341	48	735,760

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

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

Secondary reporting format – geographical segments

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

All amounts in Hong Kong dollar thousands unless otherwise stated

5 SEGMENT INFORMATION *(Continued)*

Sales

	2006	2005
Greater China	874,284	536,685
North America	659,043	455,327
Europe	123,558	84,197
Other countries	276,288	304,568
	1,933,173	1,380,777

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

Total assets

	2006	2005
Hong Kong	392,734	284,513
PRC	2,837,241	2,102,103
Canada	14,454	14,419
Others	595	—
	3,245,024	2,401,035

Capital expenditures

	2006	2005
Hong Kong	413	970
PRC	464,044	734,392
Canada	213	398
	464,670	735,760

All amounts in Hong Kong dollar thousands unless otherwise stated

6 LEASEHOLD LAND AND LAND USE RIGHTS – GROUP

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

	2006	2005
In Hong Kong, held on:		
Leases of between 10 to 50 years	3,977	4,074
In PRC, held on:		
Land use rights of between 10 to 50 years	124,562	116,711
	128,539	120,785

	2006	2005
Opening	120,785	120,616
Exchange differences	4,669	2,239
Additions	5,779	156
Amortisation of prepaid operating lease payment	(2,694)	(2,226)
	128,539	120,785

Amortisation of prepaid operating lease payment of HK$2,694,000 (2005: HK$2,226,000) has been charged in administrative expenses.

All amounts in Hong Kong dollar thousands unless otherwise stated

7 PROPERTY, PLANT AND EQUIPMENT – GROUP

	Construction in progress	Buildings	Plant and machinery	Office equipment	Total
At 1 January 2005					
Cost	323,068	145,027	281,320	7,220	756,635
Accumulated depreciation	—	(19,526)	(98,790)	(2,296)	(120,612)
Net book amount	323,068	125,501	182,530	4,924	636,023
Year ended 31 December 2005					
Opening net book amount	323,068	125,501	182,530	4,924	636,023
Exchange differences	6,338	1,749	3,339	111	11,537
Additions	611,674	1,910	53,590	2,655	669,829
Transfer upon completion	(433,495)	125,420	306,545	1,530	—
Disposals	—	—	(823)	(6)	(829)
Depreciation	—	(8,972)	(42,218)	(2,017)	(53,207)
Closing net book amount	507,585	245,608	502,963	7,197	1,263,353
At 31 December 2005					
Cost	507,585	274,435	645,202	11,544	1,438,766
Accumulated depreciation	—	(28,827)	(142,239)	(4,347)	(175,413)
Net book amount	507,585	245,608	502,963	7,197	1,263,353
Year ended 31 December 2006					
Opening net book amount	507,585	245,608	502,963	7,197	1,263,353
Exchange differences	20,627	8,522	19,819	275	49,243
Additions	483,900	4,587	78,921	2,759	570,167
Acquisition of subsidiaries *(Note 32)*	1,056	—	2,221	17	3,294
Transfer upon completion	(898,954)	240,197	655,249	3,508	—
Disposals	—	(96)	(1,517)	(9)	(1,622)
Depreciation	—	(14,455)	(77,066)	(2,897)	(94,418)
Closing net book amount	114,214	484,363	1,180,590	10,850	1,790,017
At 31 December 2006					
Cost	114,214	528,637	1,404,611	18,225	2,065,687
Accumulated depreciation	—	(44,274)	(224,021)	(7,375)	(275,670)
Net book amount	114,214	484,363	1,180,590	10,850	1,790,017

Depreciation expense of HK$86,830,000 (2005: HK$48,473,000) has been charged in cost of goods sold and HK$7,588,000 (2005: HK$4,734,000) in administrative expenses.

All amounts in Hong Kong dollar thousands unless otherwise stated

8 INTERESTS IN SUBSIDIARIES

	Company	
	2006	2005
Investments, at cost	**10**	10
Amounts due from subsidiaries *(note (a))*	**820,000**	820,000
	820,010	820,010
Amounts due from subsidiaries *(note (b))*	**305,304**	82,335

Notes:

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

(b) The amounts due are unsecured, interest free and repayable on demand.

(c) The following is a list of the principal subsidiaries at 31 December 2006:

Name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital and debt securities	Interest held
Xinyi Automobile Glass (Dongguan) Co., Limited	The PRC, limited liability company	Manufacturing of automobile glass in the PRC	Register capital of US$15,000,000	100%
Xinyi Automobile Glass (Shenzhen) Co., Limited	The PRC, limited liability company	Manufacturing of automobile glass in the PRC	Register capital of RMB300,000,000	100%
Xinyi Automobile Parts (Dongguan) Co., Limited	The PRC, limited liability company	Manufacturing of automobile glass in the PRC	Register capital of US$3,980,000 with total paid-in capital of US$2,360,000	100%
Xinyi Automobile Parts (Wuhu) Co., Limited	The PRC, limited liability company	Manufacturing of automobile glass in the PRC	Register capital of US$7,000,000	100%
Xinyi Glass (Tianjin) Co., Limited	The PRC, limited liability company	Manufacturing of automobile glass in the PRC	Register capital of US$3,000,000 with total paid-in capital US$1,200,000	100%

All amounts in Hong Kong dollar thousands unless otherwise stated

8 INTERESTS IN SUBSIDIARIES *(Continued)*

Name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital and debt securities	Interest held
Xinyi Curtain Wall Decorative Engineering (Shenzhen) Co., Limited	The PRC, limited liability company	Installation of construction glass in the PRC	Register capital of RMB60,000,000	100%
Xinyi Glass Engineering (Dongguan) Co., Limited	The PRC, limited liability company	Manufacturing of construction glass in the PRC	Register capital of US$22,800,000	100%
Xinyi Glass Technology (Shenzhen) Co., Limited	The PRC, limited liability company	Manufacturing of construction glass in the PRC	Register capital of HK$20,000,000	100%
YiDe Glass (Shenzhen) Development Co., Limited	The PRC, limited liability company	Manufacturing of construction glass in the PRC	Register capital of HK$30,000,000	100%
Shenzhen Yuan Sheng Long Trading Co., Limited	The PRC, limited liability company	Trading of float glass in the PRC	Register capital of RMB1,800,000	100%
Xinyi Ultra-thin Glass (Dongguan) Co., Limited	The PRC, limited liability company	Manufacturing of float glass in the PRC	Register capital of US$50,000,000	100%
Xinyi Ultra-clear Photovoltaic Glass (Dongguan) Company Limited	The PRC, limited liability company	Manufacturing of ultra-clear photovoltaic glass in the PRC	Register capital of US$18,000,000 with total paid-in capital US$200,000	100%
Xinyi Glass (America) Development Inc.	Canada, limited liability company	Sale agent in Canada	120,000 common shares of CAD1 each	58.3%
Xinyi Glass (Germany) Limited	The British Virgin Islands, limited liability company	Sale agent in Europe	10,000 common shares of US$1 each	60%
Xinyi Glass Japan Co Limited	Japan, limited liability company	Sale agent in Japan	400 common shares of JP¥50,000 each	55%
Xinyi Glass (North America) Inc.	Canada, limited liability company	Sale agent in Canada	120,000 common shares of CAD1 each	58.3%

All amounts in Hong Kong dollar thousands unless otherwise stated

8 INTERESTS IN SUBSIDIARIES *(Continued)*

Name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital and debt securities	Interest held
Kangchen Plastic (Shenzhen) Company Limited	The PRC, limited liability company	Manufacturing of plastic product in the PRC	Register capital of RMB3,280,000	100%
Xinyi Plastic Products (Shenzhen) Development Co., Limited	The PRC, limited liability company	Manufacturing of rubber trim for automobile glass in the PRC	Register capital of HK$11,000,000	100%
Xinyi Automobile Glass Company Limited	Hong Kong, limited liability company	Trading in Hong Kong	100,000 ordinary shares of HK$1 each	100%
Xinyi Group (Glass) Company Limited	Hong Kong, limited liability company	Investment holding and trading in Hong Kong	1,000 Ordinary shares of HK$1,000 each	100%
XYG (HK) Limited	Hong Kong, limited liability company	Trading in Hong Kong	1,000 Ordinary shares of HK$10,000 each	100%
Xinyi International Investments Limited	Hong Kong, limited liability company	Investment holding in Hong Kong	10,000 Ordinary shares of HK$1 each	100%
Xinyi Automobile Glass (BVI) Company Limited *	The British Virgin Islands, limited liability company	Investment holding in Hong Kong	Authorised 100,000 ordinary shares of US$1 each. 55,000 ordinary shares of US$1 each were issued	100%

* Shares held directly by the Company.

All amounts in Hong Kong dollar thousands unless otherwise stated

9 AVAILABLE-FOR-SALE FINANCIAL ASSETS – GROUP

	2006	2005
Beginning of the year	481	472
Exchange differences	19	9
End of the year	500	481

At 31 December 2006, the carrying amount for available-for-sale financial assets approximate to its fair value, accordingly, there was no change in fair value recorded in equity. All available-for-sale financial assets are unlisted equity securities. There were no disposals or impairment provisions on available-for-sale financial assets in 2006 and 2005.

10 INTEREST IN AN ASSOCIATE – GROUP

	2006	2005
Beginning of year	11,911	—
Capital contribution	—	5,769
Exchange differences	245	—
Loan advance to associate	5,806	6,144
Repayment from associate	(5,467)	—
	12,495	11,913
Share of associate's results		
- loss before taxation	(563)	(2)
- taxation	—	—
	(563)	(2)
End of the year	11,932	11,911

Details of the Group's interest in the associate, which is unlisted, are as follows:

Name	Particulars of issued shares held	Country of incorporation	% Interest held
Beihai Yiyang Mineral Co., Limited	Register capital of RMB20,000,000	The PRC	30%

All amounts in Hong Kong dollar thousands unless otherwise stated

10 INTERESTS IN AN ASSOCIATE – GROUP *(Continued)*

	2006	2005
Assets	28,992	25,375
Liabilities	11,358	6,144
Sale	3,265	—
Loss	(1,887)	(9)

11 INVENTORIES – GROUP

	2006	2005
Raw materials	199,047	134,487
Work in progress	23,760	11,901
Finished goods	148,749	89,275
Less: provision for impairment of obsolete inventories	(475)	(448)
	371,081	235,215

The Group has written off HK$3,110,000 of finished goods (2005: reversal of inventory impairment of HK$2,217,000 of a previous inventory write down).

At 31 December 2006, the carrying amounts of inventories that were carried at net realisable value amounted to HK$Nil (2005: HK$Nil).

12 TRADE AND OTHER RECEIVABLES – GROUP

	2006	2005
Trade receivables *(note (a))*	445,586	303,009
Bills receivables *(note (b))*	45,363	32,010
	490,949	335,019
Less: provision for impairment of receivables	(4,207)	(407)
Trade and bills receivables – net	486,742	334,612
Prepayment, deposits and other receivables	82,196	41,343
	568,938	375,955

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

All amounts in Hong Kong dollar thousands unless otherwise stated

12 TRADE AND OTHER RECEIVABLES – GROUP *(Continued)*

Notes:

(a) Majority of the Group's sales is on open account terms and in accordance with terms specified in the contracts governing the relevant transactions.

At 31 December 2006 and 2005, the ageing analysis of the Group's trade receivables were as follow:

	2006	2005
0 - 90 days	**366,374**	252,738
91-180 days	**46,138**	32,091
181-365 days	**15,808**	13,103
1-2 years	**16,208**	4,498
Over 2 years	**1,058**	579
	445,586	303,009

There is no concentration of credit risk with respect to trade receivables, as the Group has a large number of customers internationally dispersed.

The carrying amount of the Group's trade and other receivables are denominated in the following currencies:

	2006	2005
Renminbi	**201,547**	128,022
Hong Kong dollars	**13,484**	18,638
US dollars	**229,143**	151,778
Other currencies	**1,412**	4,571
	445,586	303,009

At 31 December 2006, the Group recorded impairment of trade and other receivables of HK$3,800,000 (2005: reversal of impairment of trade and other receivables of HK$1,850,000). During the year, the Group wrote off HK$4,574,000 as uncollectible (2005: HK$4,803,000). Such impairment and written off of trade receivables have been included in administrative expenses in the income statement.

(b) Bills receivables have maturities ranging within 6 months.

All amounts in Hong Kong dollar thousands unless otherwise stated

13 AMOUNTS DUE FROM CUSTOMERS FOR CONTRACT WORK – GROUP

	2006	2005
Contract cost incurred plus attributable profits less foreseeable losses to date	208,392	88,502
Less: Progress billings to date	(148,335)	(69,291)
Net amounts due from customers for contract work	60,057	19,211

	2006	2005
Amounts due from customers for contract work	61,222	19,211
Amounts due to customers for contract work	(1,165)	—
Net amounts due from customers for contract work	60,057	19,211

14 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS – GROUP

	2006	2005
Listed securities		
- Equity securities - PRC	15,231	—
Market value of listed securities	15,231	—

At 31 December 2006, all financial assets at fair value through profit or loss were stated at fair value and denominated in Renminbi. The fair value of equity securities is based on their current bid prices in an active market.

Changes in fair values of other financial assets at fair value through profit or loss are recorded in other revenue in the income statement.

All amounts in Hong Kong dollar thousands unless otherwise stated

15 CASH AND CASH EQUIVALENTS

	Group		Company	
	2006	2005	**2006**	2005
Cash at bank and in hand	**122,037**	92,364	**12**	11
Short-term bank deposits	**50,742**	48,523	**—**	—
	172,779	140,887	**12**	11

The effective interest rate on short-term bank deposits was 4.6% (2005: 2.5%); these short-term bank deposits have an average maturity of 7 days.

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

	Group	
	2006	2005
Total bank balances and cash *(note (a))*	**172,779**	140,887
Less: pledged bank deposits *(note (b))*	**(10,449)**	(11,108)
	162,330	129,779

Notes:

(a) The carrying amount of the Group's cash and cash equivalents are denominated in the following currencies:

	2006	2005
Renminbi	**74,225**	72,721
Hong Kong dollars	**19,932**	8,276
US dollars	**58,756**	48,426
Other currencies	**9,417**	356
	162,330	129,779

The remittance of Renminbi funds out of the PRC is subject to the foreign exchange control restriction imposed by the government of the PRC.

(b) The pledged bank deposits represent deposits pledged to banks for securing banking facilities granted to the Group's subsidiaries (Note 30).

All amounts in Hong Kong dollar thousands unless otherwise stated

16 SHARE CAPITAL

	Note	Number of shares	Ordinary shares of HK$0.1 each	Share premium	Total
Authorised:					
At 31 December 2005 and 2006		2,500,000,000	250,000	—	250,000
Issued and fully paid:					
At 1 January 2005		100,000	10	30,000	30,010
Allotted and issued, nil paid					
- on 18 January 2005	(a)	1,124,900,000	—	—	—
New issue of shares	(b)	417,944,000	41,794	794,094	835,888
Share issuance costs	(b)	—	—	(40,923)	(40,923)
Capitalisation of share premium account	(a)	—	112,490	(112,490)	—
At 31 December 2005		1,542,944,000	154,294	670,681	824,975
New issue of shares	(c)	61,718,000	6,172	185,154	191,326
Share issuance costs		—	—	(5,031)	(5,031)
At 31 December 2006		1,604,662,000	160,466	850,804	1,011,270

Notes:

(a) Pursuant to a resolution of the shareholders passed on 18 January 2005, the authorised share capital of the Company was increased from HK$380,000 to HK$250,000,000 by creation of additional 2,496,200,000 shares of HK$0.1 each. Pursuant to the resolution, 1,124,900,000 shares of the Company were allotted and issued, credited as fully paid at par value of HK$0.1 each to the then existing shareholders of the Company in proportion to their respective shareholding by capitalisation of HK$112,490,000 from the share premium account. Such allotment and capitalisation were conditional on the share premium account being credited as a result of the new shares issued in connection with the listing of the Company's shares on the Stock Exchange.

(b) On 3 February 2005, 375,000,000 shares were issued to the public at a premium of HK$1.9 for cash totalling HK$750,000,000.

On 3 February 2005, 42,944,000 shares were issued to the public at a premium of HK$1.9 for cash totalling HK$85,888,000 pursuant to the exercise of over-allotment option under the listing of the Company's Share on the Stock Exchange.

The excess of the issued price over the par value of the shares, net of share issue expenses, was credited to the share premium account of the Company.

(c) On 25 May 2006, the Company entered into an agreement to placing shares to the public. On 6 June 2006, 61,718,000 Shares were allotted and issued to the public at a premium of HK$3.0 for cash totalling HK$191,326,000. These shares rank pari passu in all respects with the then existing shares in issued.

16 SHARE CAPITAL *(Continued)*

(d) Share options

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

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

In January 2006, 8,520,000 share options were granted to the Company's employees and connected persons of the Company and its subsidiaries at the then quoted market share price of HK$2.15 per share. No option was exercised from the date of the grant to 31 December 2006. A total of 570,000 options were lapsed during the year ended 31 December 2006.

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

	Average exercise price in HK dollar per share	Options (thousands)
At 1 January	—	—
Granted	2.15	8,520
Lapsed	2.15	(570)
At 31 December	2.15	7,950
Exercisable as at 31 December	2.15	—

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

Expiry date	Exercise price in HK dollar per share	Options (thousands)
26 January 2009	2.15	7,950

The weighted average fair value of options granted during the period determined using the Black-Scholes valuation model, which was performed by an independent valuer, Greater China Appraisal Limited, was approximately HK$0.37 per option. The significant inputs into the model were weighted average share price of HK$2.15 at the grant date, the exercise price shown above, volatility of 31.81%, dividend yield of 4.49%, an expected option life of two and a half years and on annual risk-free interest rate of 3.86%. The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of daily share prices over the last year.

Based on the above, the fair value of the above options granted during the year determined using the Black-Scholes valuation model was HK$3,148,000 (2005: Nil). Of which the attributable amounts charged to the consolidated income statements for the year ended 31 December 2006 was HK$1,175,000 (2005: Nil).

All amounts in Hong Kong dollar thousands unless otherwise stated

17 OTHER RESERVES - GROUP

	Statutory reserve fund (Note a)	Enterprise expansion fund (Note a)	Translation	Capital reserve (Note b)	Share options reserve	Total
Balance at 1 January 2005	33,764	16,274	2,845	11,840	—	64,723
Reserve utilised	—	(323)	—	—	—	(323)
Transfer from retained earnings	25,892	12,946	—	—	—	38,838
Currency translation differences	381	798	18,076	—	—	19,255
Balance at 31 December 2005	60,037	29,695	20,921	11,840	—	122,493
Balance at 1 January 2006, as per above	60,037	29,695	20,921	11,840	—	122,493
Transfer from retained earnings	39,189	9,480	—	—	—	48,669
Employee share option scheme:						
- value of employee services	—	—	—	—	1,175	1,175
Currency translation differences	2,401	1,188	62,507	—	—	66,096
Balance at 31 December 2006	101,627	40,363	83,428	11,840	1,175	238,433

The Company's other reserves represent share option reserve.

Notes:

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

During the year ended 31 December 2006, the boards of directors of the group companies resolved to appropriate approximately HK$39,189,000 (2005: HK$25,892,000) and HK$9,480,000 (2005: HK$12,946,000) from retained earnings to the statutory reserve fund and enterprise expansion fund respectively. No enterprise expansion fund was utilised during the year ended 31 December 2006 (2005: HK$323,000).

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

All amounts in Hong Kong dollar thousands unless otherwise stated

18 TRADE AND OTHER PAYABLES – GROUP

	2006	2005
Trade payables *(note (a))*	103,405	71,378
Bills payables *(note (b))*	238,710	84,673
	342,115	156,051
Accruals and other payable *(note (c))*	228,634	150,865
	570,749	306,916

Notes:

(a) At 31 December 2006 and 2005, the ageing analysis of the trade payables were as follows:

	2006	2005
0 - 90 days	92,808	68,408
91-180 days	3,105	2,898
181-365 days	3,065	6
1-2 years	4,361	9
Over 2 years	66	57
	103,405	71,378

(b) Bills payables have maturities ranging within 6 months.

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

	2006	2005
Payables for plant and equipment	52,283	75,437
Payables for employee benefits and welfare	39,978	17,199
Utilities payables	14,052	7,244
Others	122,321	50,985
	228,634	150,865

All amounts in Hong Kong dollar thousands unless otherwise stated

19 BANK BORROWINGS – GROUP

	2006	2005
Non-current		
Secured	125,584	137,000
Less: Current portion	(45,667)	(11,417)
Shown as non-current liabilities	79,917	125,583
Current		
Secured	159,000	120,000
Unsecured	130,000	76,923
	289,000	196,923
Current portion of non-current borrowings	45,667	11,417
Shown as current liabilities	334,667	208,340
Total bank borrowings	414,584	333,923

Details of the Group's banking facilities are set out in Note 30.

At 31 December 2006, the Group's bank borrowings were repayable as follows:

	2006	2005
Within 1 year	334,667	208,340
Between 1 and 2 years	79,917	45,668
Between 2 and 5 years	—	79,915
	414,584	333,923

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

	2006	2005
Hong Kong dollars	284,584	257,000
Renminbi	130,000	76,923
	414,584	333,923

Bank borrowings mature until 2008 and the carrying amounts of bank borrowings approximate their fair values as at 31 December 2006.

All amounts in Hong Kong dollar thousands unless otherwise stated

19 BANK BORROWINGS — GROUP *(Continued)*

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

	2006		2005	
	HK$	RMB	HK$	RMB
Bank borrowings	4.7%	5.0%	4.9%	4.7%

20 DEFERRED INCOME TAX

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

	Group		Company	
	2006	2005	2006	2005
Deferred tax assets:				
- Deferred tax assets to be recovered after more than 12 months	(4,912)	(852)	(461)	(127)
- Deferred tax assets to be recovered within 12 months	—	—	—	—
	(4,912)	(852)	(461)	(127)
Deferred tax liabilities:				
- Deferred tax liabilities to be settled after more than 12 months	1,236	110	—	—
- Deferred tax liabilities to be settled within 12 months	—	—	—	—
	1,236	110	—	—
	(3,676)	(742)	(461)	(127)

All amounts in Hong Kong dollar thousands unless otherwise stated

20 DEFERRED INCOME TAX *(Continued)*

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

	Group		Company	
	2006	2005	**2006**	2005
Beginning of the year	**(742)**	(1,746)	**(127)**	—
Recognised in the income statement *(Note 24)*	**(2,934)**	1,004	**(334)**	(127)
End of the year	**(3,676)**	(742)	**(461)**	(127)

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

Deferred tax liabilities:

	Accelerated tax depreciation Group	Accelerated tax depreciation Company
At 1 January 2005	873	—
Recognised in the income statement	273	—
At 31 December 2005	1,146	—
Recognised in the income statement	90	—
At 31 December 2006	1,236	—

Deferred tax assets:

	Tax losses Group	Tax losses Company
At 1 January 2005	(2,619)	(127)
Recognised in the income statement	731	—
At 31 December 2005	(1,888)	(127)
Recognised in the income statement	(3,024)	(334)
At 31 December 2006	(4,912)	(461)

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through the future taxable profits is probable. The Group did not recognised deferred income tax assets of HK$8,682,000 (2005: HK$4,634,000) in respect of losses amounting to HK$45,696,000 (2005: HK$30,891,000) that can be carried forward against future taxable income, HK$755,000 (2005: HK$755,000) and HK$5,140,000 (2005: HK$Nil) of such losses expire in 2012 and 2013 respectively and other losses can be carried forward indefinitely.

All amounts in Hong Kong dollar thousands unless otherwise stated

21 EXPENSES BY NATURE

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

	2006	2005
Depreciation and amortisation	97,112	55,433
Employee benefit expense (Note 22)	131,125	101,473
Cost of inventories	1,139,548	841,678
Other selling expenses (including transportation and advertising costs)	122,901	88,399
Operating lease payments in respect of land and buildings	3,642	2,454
Foreign exchange gain, net	(20,497)	(2,239)
Impairment of trade and other receivables, net	8,374	2,953
Impairment/(impairment reversal) of inventory, net	3,110	(2,217)
Auditors' remuneration	2,211	2,044
Other expenses, net	67,347	31,224
Total of cost of sales, selling and marketing costs and administrative expenses	1,554,873	1,121,202

22 EMPLOYEE BENEFIT EXPENSE

	2006	2005
Wages and salaries	125,171	97,797
Share-based payments	1,175	—
Pension costs – defined contribution plans *(note (a))*	4,779	3,676
	131,125	101,473

Note:

(a) Pension costs

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

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

All amounts in Hong Kong dollar thousands unless otherwise stated

22 EMPLOYEE BENEFIT EXPENSE *(Continued)*

(b) Directors' and senior management's emoluments

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

The remuneration of every director for the year ended 31 December 2006 is set out below:

Name of Director	Fees	Salary	Discretionary bonuses	Inducement fees	Employer's contribution to pension scheme	Compensation for loss of office as director	Total
LEE Yin Yee	—	49	2,000	—	—	—	2,049
TUNG Ching Bor	—	624	500	—	12	—	1,136
TUNG Ching Sai	—	1,630	1,000	—	12	—	2,642
LEE Shing Put	—	211	300	—	9	—	520
LEE Yau Ching	—	644	400	—	12	—	1,056
LI Man Yin	—	391	300	—	12	—	703
NG Ngan Ho	—	372	300	—	12	—	684
LI Ching Wai	—	—	—	—	—	—	—
SZE Nang Sze	—	—	—	—	—	—	—
LI Ching Leung	—	—	—	—	—	—	—
LAM Kwong Siu	200	—	—	—	—	—	200
WONG Kong Hon	200	—	—	—	—	—	200
WONG Chat Chor Samuel	200	—	—	—	—	—	200

The remuneration of every Director for the year ended 31 December 2005 is set out below:

Name of Director	Fees	Salary	Discretionary bonuses	Inducement fees	Employer's contribution to pension scheme	Compensation for loss of office as director	Total
Lee Yin Yee	—	49	—	—	—	—	49
TUNG Ching Bor	—	441	—	—	12	—	453
TUNG Ching Sai	—	1,337	—	—	12	—	1,349
LEE Shing Put	—	165	—	—	6	—	171
LEE Yau Ching	—	499	—	—	12	—	511
LI Man Yin	—	305	—	—	12	—	317
NG Ngan Ho	—	259	—	—	12	—	271
LI Ching Wai	—	—	—	—	—	—	—
SZE Nang Sze	—	—	—	—	—	—	—
LI Ching Leung	—	213	—	—	9	—	222
LAM Kwong Siu	183	—	—	—	—	—	183
WONG Kong Hon	183	—	—	—	—	—	183
WONG Chat Chor Samuel	183	—	—	—	—	—	183

All amounts in Hong Kong dollar thousands unless otherwise stated

22 EMPLOYEE BENEFIT EXPENSE *(Continued)*

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include three (2005: one) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two (2005: four) individuals during the year are as follows:

	2006	2005
Basic salaries, allowances and share options	2,434	4,124
Discretionary and performance bonus	385	659
Contributions to retirement benefit schemes	24	53
	2,843	4,836

The emoluments fell within the following bands:

	Number of individuals	
	2006	2005
Emolument bands		
Nil – HK$1,000,000	—	1
HK$1,000,001 – HK$1,500,000	1	2
HK$1,500,001 – HK$2,000,000	1	1
	2	4

(d) During the year, no emoluments were paid by the Group to any of the directors of the Company and the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loan of office (2005: HK$Nil).

All amounts in Hong Kong dollar thousands unless otherwise stated

23 FINANCE INCOME AND FINANCE COSTS

Finance income

Finance income represents interest income from bank deposits and loan advanced to associate.

Finance costs

	2006	2005
Interest on bank borrowings	20,514	11,480
Less: interest expenses capitalised under construction in progress	(8,981)	(8,866)
	11,533	2,614

24 INCOME TAX EXPENSE

	2006	2005
Current income tax		
- Hong Kong profits tax *(note (a))*	360	219
- PRC foreign enterprise income tax *(note (b))*	18,454	18,369
- Overseas taxation paid /(refund) *(note (c))*	101	(106)
Deferred income tax *(Note 20)*	(2,934)	1,004
	15,981	19,486

Notes:

(a) Hong Kong profits tax

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profits for the year.

(b) PRC foreign enterprise income tax

PRC foreign enterprise income tax ("FEIT") is provided on the estimated taxable profits of the subsidiaries established in the PRC for the year, calculated in accordance with the relevant tax rules and regulations. The applicable FEIT rate for subsidiaries located in Shenzhen and Dongguan is 15% and 24%, respectively. During the year ended 31 December 2003, the Group increased its capital contribution in Xinyi Automobile Glass (Shenzhen) Co., Ltd. ("Xinyi Automobile Shenzhen") by way of reinvestment of dividends declared by certain subsidiaries in the PRC into Xinyi Automobile Shenzhen. As a result, certain portion of the taxable profits of Xinyi Automobile Shenzhen (calculated based on the ratio of additional capital contribution to the total registered capital after the additional capital contribution) is entitled to two years exemption from FEIT starting from the year ended 31 December 2003, to be followed by a 50% reduction of the FEIT rate for the following three consecutive years. The balance of the taxable profits is subject to FEIT at a rate of 10%, as Xinyi Automobile Shenzhen is qualified as an export entity, and is calculated based on the ratio of the paid-up capital before additional capital contributions to the enlarged paid-up capital. Other subsidiaries established in the PRC which had taxable profits for the years ended 31 December 2006 and 2005 were entitled to tax holiday/concession whereby the taxable profits for the years ended 31 December 2006 and 2005 of the relevant subsidiaries were either exempt from FEIT or subject to a reduced FEIT rate of 7.5%.

All amounts in Hong Kong dollar thousands unless otherwise stated

24 INCOME TAX EXPENSE *(Continued)*

(c) Overseas taxation

Taxation on overseas profits has been calculated on the estimated assessable profits for the years ended 31 December 2006 and 2005 at the rates of taxation prevailing in the countries in which the Group operates.

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

	2006	2005
Profit before tax	401,793	279,880
Calculated at applicable tax rate of 19%	76,341	41,982
Effect of different tax rates in other countries	276	3,842
Preferential tax rates on the income of PRC subsidiaries	(61,440)	(27,953)
Tax losses for which no deferred income tax asset was recognised	4,048	4,299
Income not subject to tax	(3,435)	(3,263)
Expenses not deductible for tax purposes	191	579
Income tax expense	15,981	19,486

The weighted average applicable tax rate was 19% (2005: 15%).

25 PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company is dealt with in the separate financial statements of the Company to the extent of approximately HK$176,424,000 (2005: HK$200,880,000).

26 EARNINGS PER SHARE

Basic

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

	2006	2005
Profit attributable to equity holders of the Company (HK$'000)	388,235	260,114
Weighted average number of Shares in issue (thousands)	1,578,115	1,503,008
Basic earnings per Share (HK$ per Share)	0.246	0.173

Diluted

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

	2006	2005
Profit attributable to equity holders of the Company (HK$'000)	388,235	260,114
Weighted average number of Shares in issue (thousands)	1,578,115	1,503,008
Adjustments for share options (thousands)	1,552	—
Weighted average number of Shares for diluted earnings per Shares (thousands)	1,579,667	1,503,008
Diluted earnings per Share (HK$ per Share)	0.246	0.173

All amounts in Hong Kong dollar thousands unless otherwise stated

27 DIVIDENDS

The dividends paid during each of the financial years ended 2006 and 2005 were HK$141,333,000 (9.0 HK cents per Share) and HK$123,435,000 (8.0 HK cents per Share), respectively. A final dividend in respect of the financial year ended 31 December 2006 of 7.0 HK cents per Share, amounting to a total dividend of HK$112,326,000 for the financial year, is to be proposed at the Annual General Meeting to be held on 11 May 2007. These financial statements do not reflect this dividend payable.

	2006	2005
Interim dividend paid of 4.0 HK cents (2005: 3.0 HK cents) per Share	64,186	46,288
Proposed final dividend of 7.0 HK cents (2005: 5.0 HK cents) per Share	112,326	77,147
	176,512	123,435

28 CASH GENERATED FROM OPERATIONS

	2006	2005
Profit for the year	385,812	260,394
Adjustments for:		
- Income tax expense (Note 24)	15,981	19,486
- Depreciation and amortisation	97,112	55,433
- (Profits)/loss on disposal of property, plant and equipment	(43)	460
- Impairment of goodwill	255	—
- Interest income *(Note 23)*	(3,484)	(3,206)
- Interest expense *(Note 23)*	11,533	2,614
- Share-based payments	1,175	—
- Fair value loss on other financial assets at fair value through profit or loss	536	—
- Share of loss from associate *(Note 10)*	563	2
Changes in working capital:		
- Inventories	(134,511)	(71,038)
- Net amounts due from customers for contract work	(40,846)	(17,374)
- Trade and other receivables	(191,746)	(99,703)
- Trade and other payables	260,519	104,580
Cash generated from operations	402,856	251,648

All amounts in Hong Kong dollar thousands unless otherwise stated

28 CASH GENERATED FROM OPERATIONS *(Continued)*

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

	2006	2005
Net book amount of property, plant and equipment *(Note 7)*	1,622	829
Profits/(loss) on disposal of property, plant and equipment	43	(460)
Proceeds from disposal of property, plant and equipment	1,665	369

29 CONTINGENCIES

At 31 December 2006, the Group had no significant contingent liabilities.

The Company has provided corporate guarantees for banking facilities made available to its subsidiaries amounting to approximately HK$285 million (2005: HK$257 million). At 31 December 2006, the borrowings outstanding by the subsidiaries against such facilities amounted to HK$285 million (2005: HK$257 million).

30 BANKING FACILITIES

At 31 December 2006, the Group's banking facilities totalling approximately HK$1,850 million were secured by the following:

(a) pledged deposits (Note 15);

(b) corporate guarantees provided by the Company (Note 29); and

(c) cross guarantees provided by certain subsidiaries of the Group.

All amounts in Hong Kong dollar thousands unless otherwise stated

31 COMMITMENTS – GROUP

Capital commitments

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

	2006	2005
Property, plant and equipment		
Contracted but not provided for	212,347	161,746

Operating lease commitments

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

	2006	2005
Not later than 1 year	2,327	2,466
Later than 1 year and not later than 5 years	4,452	5,922
Later than 5 years	735	1,240
	7,514	9,628

32 BUSINESS COMBINATIONS

In June 2006, the Group acquired 100% of the share capital of Conson Investment Limited, a BVI investment holding company which hold 100% interest in 康臣塑膠製品(深圳)有限公司 ("Kangchen Plastic (Shenzhen) Company Limited"), a rubber and plastic product manufacturing company in PRC.

Details of net assets acquired and goodwill are as follows.

	2006
Purchase consideration – Cash paid	5,000
Fair value of net assets acquired – shown as below	(4,745)
Goodwill	255

The fair value of the shares issued was based on the net book value.

Goodwill is attributable to high profitability of the acquired business determined at the inception of acquisition which was subsequently written off due to change of market condition.

All amounts in Hong Kong dollar thousands unless otherwise stated

32 BUSINESS COMBINATIONS *(Continued)*

The assets and liabilities at the date of acquisition are as follows:

	2006
Cash and cash equivalents	2,174
Property, plant and equipment *(Note 7)*	3,294
Inventories	1,354
Trade receivables	1,237
Trade payables	(3,314)
Net assets acquired	4,745
Purchase consideration settled in cash	5,000
Cash and cash equivalents in subsidiary acquired	(2,174)
Cash outflow on acquisition	2,826

There were no acquisitions in the year ended 31 December 2005.

33 RELATED-PARTY TRANSACTIONS – GROUP

The following transactions were carried out with related parties:

(a) Purchases of goods and services from an associate

	2006	2005
Purchases of goods		
– from Beihai Yiyang Mineral Co., Limited	5,467	—
Loan interest income		
– from Beihai Yiyang Mineral Co., Limited	780	375
	6,247	375

All amounts in Hong Kong dollar thousands unless otherwise stated

33 RELATED-PARTY TRANSACTIONS – GROUP *(Continued)*

(b) Year-end balances arising from sales/purchases of goods/services

	2006	2005
Receivables from Beihai Yiyang Mineral Co., Limited	6,728	6,144

Included in trade and other receivables is a balance with above associate which arise mainly from advance payment for goods and are due two months after the date of payments. The trade receivables are unsecured and bear no interest. The loan advance to associate amounting to RMB6 million is interest bearing at 13% per annum and has fixed terms of repayment.

(c) Key management compensation

	2006	2005
Basic salaries and allowances	7,707	5,695
Discretionary and performance bonus	5,185	250
Contributions to retirement benefit schemes	93	97
Share-based payments	81	—
	13,066	6,042

34 EVENT AFTER THE BALANCE SHEET DATE

On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of the PRC (the new "CIT Law"). The new CIT Law increases the corporate income tax rate for foreign invested enterprises from 15% or 24% to 25% with effect from 1 January 2008. The new CIT Law also provides for preferential tax rates, tax incentives for prescribed industries and activities, grandfathering provisions (which include but not limited to entities currently enjoying and have started such tax holidays will continue to enjoy them until they expire within the 5 years period starting from 1 January 2008) as well as determination of taxable profit. As at the date that these financial statements are approved for issue, detailed measures concerning these items has yet to be issued by the State Council. Consequently, the Group is not in a position to assess the impact, if any, to the subsequent consolidated financial statement. The Group will continue to evaluate the impact as more detailed regulations are announced.

All amount in Hong Kong dollar thousands unless otherwise stated

Selective financial summary, including selective income statement data and balance sheet data from the results for relevant years presented below were prepared in accordance with HKFRS.

	Year ended 31 December				
	2006	2005	2004	2003	2002
Sales	**1,933,173**	1,380,777	1,028,334	800,835	596,558
Cost of sales	**(1,232,981)**	(901,749)	(654,781)	(528,951)	(341,581)
Gross profit	**700,192**	479,028	373,553	271,884	254,977
Other revenue	**21,912**	16,254	24,547	8,899	6,601
Other gains	**10,193**	3,461	1,737	354	555
Selling and marketing costs	**(211,205)**	(147,530)	(90,751)	(41,861)	(35,749)
Administrative expenses	**(110,687)**	(71,923)	(56,532)	(44,613)	(53,100)
Operating profit	**410,405**	279,290	252,554	194,663	173,284
Finance income	**3,484**	3,206	543	986	308
Finance costs	**(11,533)**	(2,614)	(1,456)	(979)	(1,163)
Share of loss of associates	**(563)**	(2)	—	—	—
Profit before income taxation	**401,793**	279,880	251,641	194,670	172,429
Income tax expense	**(15,981)**	(19,486)	(14,677)	(8,856)	(20,345)
Profit for the year	**385,812**	260,394	236,964	185,814	152,084
Minority interests	**2,423**	(280)	(1,129)	(393)	66
Profit attributable to equity holders of the Company	**388,235**	260,114	235,835	185,421	152,150
Dividends	**176,512**	123,435	128,344	12,000	—

All amount in Hong Kong dollar thousands unless otherwise stated

	As at 31 December				
	2006	2005	2004 (Restated)	2003 (Restated)	2002 (Restated)
ASSETS					
Non-current assets					
Leasehold land and land use rights	**128,539**	120,785	120,616	46,309	47,214
Property, plant and equipment	**1,790,017**	1,263,353	636,023	326,795	277,447
Deposits for property, plant and equipment	**121,109**	232,385	158,067	41,368	53,316
Available-for-sale financial assets	**500**	481	—	—	—
Investment securities	**—**	—	472	—	—
Interest in an associate	**11,932**	11,911	—	—	—
Deferred income tax assets	**3,676**	852	2,207	2,863	—
	2,055,773	1,629,767	917,385	417,335	377,977
Current assets					
Inventories	**371,081**	235,215	164,177	140,028	120,624
Trade and other receivables	**568,938**	375,955	276,252	220,626	119,209
Amounts due from customers for contract work	**61,222**	19,211	1,837	18,064	3,687
Financial assets at fair value through profit or loss	**15,231**	—	—	—	—
Cash and cash equivalents					
Pledged	**10,449**	11,108	24,618	77,501	22,971
Unpledged	**162,330**	129,779	223,709	155,905	48,497
	1,189,251	771,268	690,593	612,124	314,988
Total assets	**3,245,024**	2,401,035	1,607,978	1,029,459	692,965
EQUITY					
Capital and reserves attributable to the Company's equity holders					
Share capital	**1,011,270**	824,975	30,010	10	10
Other reserves	**238,433**	122,493	64,723	31,430	11,863
Retained earnings					
- Proposed final dividend	**112,326**	77,147	77,147	—	—
- Others	**886,001**	722,947	625,106	545,121	394,232
	2,248,030	1,747,562	796,986	576,561	406,105
Minority interest	**(1,707)**	2,517	2,132	1,549	2,024
Total equity	**2,246,323**	1,750,079	799,118	578,110	408,129

All amount in Hong Kong dollar thousands unless otherwise stated

	As at 31 December				
	2006	2005	2004 (Restated)	2003 (Restated)	2002 (Restated)
LIABILITIES					
Non-current liabilities					
Bank borrowings	**79,917**	125,583	160,303	—	—
Deferred income tax liabilities	**—**	110	461	461	—
	79,917	125,693	160,764	461	—
Current liabilities					
Trade and other payables	**570,749**	306,916	202,336	336,862	265,186
Amounts due to customers on construction contracts	**1,165**	—	—	1,052	469
Bank borrowings	**334,667**	208,340	441,805	101,955	473
Current income tax liabilities	**12,203**	10,007	3,955	11,019	18,708
	918,784	525,263	648,096	450,888	284,836
Total liabilities	**998,701**	650,956	808,860	451,349	284,836
Total equity and liabilities	**3,245,024**	2,401,035	1,607,978	1,029,459	692,965
Net current assets	**270,467**	246,005	42,497	161,236	30,152
Total assets less current liabilities	**2,326,240**	1,875,772	959,882	578,571	408,129