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 and construction glass products, which are carried out internationally, through production complexes located in the Mainland China (the "PRC").

The Company was incorporated in the Cayman Islands on 25 June 2004 as an exempted company with limited liability under the Company Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Island (the "Cayman Companies Law"). The shares of the Company were listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 3 February 2005.

The financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Company.

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.

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 3 April 2006.

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, which are carried at fair value.

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 Company'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)*

The adoption of new / revised HKFRS

In 2005, the Group adopted the new / revised standards and interpretations of HKFRS below, which are relevant to its operations. The 2004 comparatives have been amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 Amendment	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKAS-Int 12 Amendment	Scope of HKAS-Int 12 Consolidation – Special Purpose Entities
HKAS Int 15	Operating Leases – Incentives
HKFRS 3	Business Combinations

The adoption of new / revised HKASs 1, 2, 7, 8, 10, 16, 21, 23, 24, 27, 28, 33, 36 and HKAS-Ints 12 and 15 and HKFRS 3 did not result in substantial changes to the Group's accounting policies. In summary:

— HKAS 1 has affected the presentation of minority interest, share of net after-tax results of associate and other disclosures.

— HKASs 2, 7, 8, 10, 16, 23, 24, 27, 28, 33, 36 and HKAS-Ints 12 and 15 and HKFRS 3 had no material effect on the Group's policies.

— HKAS 21 had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard. All the group entities have the same functional currency as the presentation currency for respective entity financial statements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 BASIS OF PREPARATION *(Continued)*

The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of leasehold land and land use rights from property, plant and equipment to operating leases. The up-front prepayments made for the leasehold land and land use rights are expensed in the income statement on a straight-line basis over the period of the lease or when there is impairment, the impairment is expensed in the income statement. In prior years, the leasehold land and land use rights were accounted for at cost less accumulated depreciation and accumulated impairment.

The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy relating to the classification of available-for-sale financial assets.

All changes in the accounting policies have bee made in accordance with the transition provision in the respective standards, wherever applicable. All standards adopted by the Group require retrospective application other than:

— HKAS 39 – does not permit to recognize, derecognize and measure financial assets and liabilities in accordance with this standard on a retrospective basis. The Group applied the previous SSAP 24 "Accounting for investments in securities" to investments in securities for the 2004 comparative information. The adjustments required for the accounting differences between SSAP 24 and HKAS 39 are determined and recognized at 1 January 2005;

— HKAS-Int 15 – does not required the recognition of incentive for leases beginning before 1 January 2005; and

— HKFRS 3 – prospectively after 1 January 2005

The adoption of HKAS 17 resulted in:

	2005 HK$'000	2004 HK$'000
Decrease in property, plant and equipment	**(120,785)**	(120,616)
Increase in leasehold land and land use rights	**120,785**	120,616

The adoption of HKAS 39 resulted in:

	2005 HK$'000	2004 HK$'000
Increase in available-for-sale financial assets	**481**	—
Decrease in investment securities	**(472)**	—

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 BASIS OF PREPARATION *(Continued)*

Standards, interpretations and amendments to published standards that are not yet effective

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2006 or later periods but which the Group has not early adopted, as follows:

- **HKAS 19 (Amendment), Employee Benefits (effective from 1 January 2006).** This amendment introduces the option of an alternative recognition approach for actuarial gains and losses. It may impose additional recognition requirements for multi-employer plans where insufficient information is available to apply defined benefit accounting. It also adds new disclosure requirements. This amendment is not relevant to the Group's operations as the Group does not operate any defined benefit plans.

- **HKAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transactions (effective from 1 January 2006).** The amendment allows the foreign currency risk of a highly probable forecast intragroup transaction to qualify as a hedged item in the consolidated financial statements, provided that: (a) the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction; and (b) the foreign currency risk will affect consolidated profit or loss. This amendment is not relevant to the Group's operations, as the Group does not have any intragroup transactions that would qualify as a hedged item in the consolidated financial statements as of 31 December 2005 and 2004.

- **HKAS 39 (Amendment), The Fair Value Option (effective from 1 January 2006).** This amendment changes the definition of financial instruments classified at fair value through profit or loss and restricts the ability to designate financial instruments as part of this category. The Group believes that this amendment should not have a significant impact on the classification of financial instruments. The Group will apply this amendment from annual periods beginning 1 January 2006.

- **HKAS 39 and HKFRS 4 (Amendment), Financial Guarantee Contracts (effective from 1 January 2006).** This amendment requires issued financial guarantees, other than those previously asserted by the entity to be insurance contracts, to be initially recognised at their fair value, and subsequently measured at the higher of (a) the unamortised balance of the related fees received and deferred, and (b) the expenditure required to settle the commitment at the balance sheet date. The Group will apply HKFRS 4 and amendment to HKAS 39 from annual periods beginning 1 January 2006.

- **HKFRS 1 (Amendment), First-time Adoption of Hong Kong Financial Reporting Standards and HKFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources (effective from 1 January 2006).** These amendments are not relevant to the Group's operations, as the Group is not a first-time adopter and does not carry out exploration for and evaluation of mineral resources.

- **HKFRS 6, Exploration for and Evaluation of Mineral Resources (effective from 1 January 2006).** IFRS 6 is not relevant to the Group's operations.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 BASIS OF PREPARATION *(Continued)*

Standards, interpretations and amendments to published standards that are not yet effective *(Continued)*

- **HKFRS 7, Financial Instruments: Disclosures, and a complementary Amendment to HKAS 1, Presentation of Financial Statements – Capital Disclosures (effective from 1 January 2007).** HKFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces HKAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and disclosure requirements in HKAS 32, Financial Instruments: Disclosure and Presentation. It is applicable to all entities that report under HKFRS. The amendment to HKAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The Group assessed the impact of HKFRS 7 and the amendment to HKAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and the capital disclosures required by the amendment of HKAS 1. The Group will apply HKFRS 7 and the amendment to HKAS 1 from annual periods beginning 1 January 2007.

- **HKFRS-Int 4, Determining whether an Arrangement contains a Lease (effective from 1 January 2006).** HKFRS-Int 4 requires the determination of whether an arrangement is or contains a lease to be based on the substance of the arrangement. It requires an assessment of whether: (a) fulfillment of the arrangement is dependent on the use of a specific asset or assets (the asset); and (b) the arrangement conveys a right to use the asset. Management is currently assessing the impact of HKFRS-Int 4 on the Group's operations.

- **HKFRS-Int 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds (effective from 1 January 2006).** HKFRS-Int 5 is not relevant to the Group's operations.

- **HK(IFRIC)-Int 6, Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment (effective from 1 December 2005).** HK(IFRIC)-Int 6 is not relevant to the Group's operations.

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.

Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized 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.

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 recognized at cost.

The Group's share of its associates' post-acquisition profits or losses is recognized in the income statement, and its share of post-acquisition movements in reserves is recognized 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 recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealized 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.

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 recognized in the income statement.

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

On consolidation, exchange differences arising from the translation of the net investment in foreign operations and borrowings are taken to shareholders' equity. When a foreign operation is sold, exchange differences that were recorded in equity are recognized 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 recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed 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 (Note 2.6).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

2.6 IMPAIRMENT OF NON-FINANCIAL ASSETS

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.7 FINANCIAL ASSETS

From 1 January 2004 to 31 December 2004:

The Group classified investment held on a continuing basis with an identified long term purpose as investment securities, which are stated at cost less any provision for impairment losses.

The carrying amounts of individual investment securities are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such investments will be reduced to its fair value. The impairment loss is recognised as an expense in the consolidated income statement. This impairment loss is written back to the consolidated income statement when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

From 1 January 2005 onwards:

The Group classifies its financial assets in the following categories: 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 and re-evaluates this designation at every reporting date.

(a) 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 (Note 2.9).

(b) 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 recognized on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognized 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.7 FINANCIAL ASSETS *(Continued)*

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

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognized in equity are included in the income statement as 'gains and losses from investment securities'. Interest on available-for-sale securities calculated using the effective interest method is recognized in the consolidated income statement. Dividends on available-for-sale equity instruments are recognized in the consolidated income statement when the Group's right to receive payments is established.

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

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered 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 recognized in the consolidated income statement – is removed from equity and recognized in the consolidated income statement. Impairment losses recognized in the consolidated income statement on equity instruments are not reversed through the consolidated income statement. Impairment testing of trade receivables is described in Note 2.9.

2.8 INVENTORIES

Inventories are stated at the lower of cost and net realizable 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 realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.9 TRADE AND OTHER RECEIVABLES

Trade and other receivables are recognized 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 reorganization, 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 effective interest rate. The amount of the provision is recognized in the income statement within 'administrative expenses'.

2.10 CASH AND CASH EQUIVALENTS

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

2.11 SHARE CAPITAL

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

2.12 BORROWINGS

Borrowings are recognized initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized 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)*

2.13 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 realized or the deferred income tax liability is settled.

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

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.

2.14 EMPLOYEE BENEFITS

(a) Employee leave entitlements

Employee entitlements to annual leave are recognized 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 recognized 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 recognized 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) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.15 PROVISIONS

Provisions are recognized 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 recognized 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 recognized 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 recognized as interest expense.

2.16 GOVERNMENT GRANT

Grants from the government are recognized 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 recognized in the income statement on a straight line basis over the expected lives of the related assets.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.17 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. Revenue is recognized as follows:

(a) Sales of goods

Sales of goods are recognized 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 recognized 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 recognized using the original effective interest rate.

(c) Royalty income

Royalty income is recognized on an accruals basis in accordance with the substance of the relevant agreements.

(d) Rental income

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

Accounting policy for recognition of construction contract revenue is set out in note 2.18.

Accounting policy for recognition of government grants is set out in note 2.16.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.18 CONSTRUCTION CONTRACTS

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

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

The Group uses the 'percentage of completion method' to determine the appropriate amount to recognize 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 recognized profits (less recognized losses) exceeds progress billings. Progress billings not yet paid by customers and retention are included within '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 recognized profits (less recognized losses).

2.19 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.

2.20 DIVIDEND DISTRIBUTION

Dividend distribution to the Company's shareholders is recognized 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 bills receivables, other receivables, trade and bills payables, 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 currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

(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 minimize 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 for 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.

(d) Interest rate risk

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

3.2 FAIR VALUE ESTIMATION

The fair value of available-for-sale financial assets is based on the Directors' estimated discounted future cash-flow contributed by the financial assets.

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

4 CRITICAL ACCOUNTING ESTIMATES

Estimates 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 amortization

The Group's net book value of property, plant and equipment as at 31 December 2005 was HK$1,263 million. The Group 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 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 in Note 2.6. 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.

(c) Revenue recognition

The Group recognises revenue of glass installation contracts that were in progress at year end amounting to HK$45,040,000, based on the percentage of completion of each contract.

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 and construction glass products. Revenues recognized by the Group are as follows:

	2005 HK$'000	2004 HK$'000
Turnover		
Sales of goods	**1,309,162**	978,148
Construction contract revenue	**71,615**	50,186
	1,380,777	1,028,334
Other revenue		
Interest income	**3,206**	543
Government grants *(note)*	**13,032**	20,421
Rental income	**984**	1,107
Royalty income	**2,238**	3,019
Sundry income	**3,461**	1,737
	22,921	26,827
Total revenue	**1,403,698**	1,055,161

Note:

These amounts represent 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 certain subsidiaries in the PRC in one of these subsidiaries as additional capital contributions. Such grants were approved by the local tax bureau in accordance with relevant tax law of the PRC. All of the approved grants were recognized in the year of receipt.

5 SEGMENT INFORMATION *(Continued)*

Primary reporting format – business segments

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

	Automobile glass HK$'000	Construction glass HK$'000	Float glass HK$'000	Group HK$'000
Sales	990,933	389,844	—	1,380,777
Segment results	246,785	41,463	(2,528)	285,720
Unallocated other revenue				22,546
Unallocated costs				(25,770)
Operating profits				282,496
Finance costs *(Note 23)*				(2,614)
Share of associate's result	—	—	(2)	(2)
Profit before income tax				279,880
Income tax *(Note 24)*				(19,486)
Net profit for the year				260,394

The segment results for the year ended 31 December 2004 are as follows:

	Automobile glass HK$'000	Construction glass HK$'000	Float glass HK$'000	Group HK$'000
Total gross segment sales	725,288	303,046	—	1,028,334
Segment results	195,444	55,602	(1,355)	249,691
Unallocated other revenues				26,827
Unallocated costs				(23,421)
Operating profit				253,097
Finance costs *(Note 23)*				(1,456)
Profit before income tax				251,641
Income tax *(Note 24)*				(14,677)
Net profit for the year				236,964

5 SEGMENT INFORMATION *(Continued)*

Other segment terms included in the income statements are as follows:

	Year ended 31 December 2005				
	Automobile glass HK$'000	Construction glass HK$'000	Float glass HK$'000	Unallocated HK$'000	Group HK$'000
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	3,690	1,113	—	—	4,803
Reversal of trade and other receivables impairment	1,850	—	—	—	1,850
Reversal of inventory impairment	2,217	—	—	—	2,217

	Year ended 31 December 2004				
	Automobile Glass HK$'000	Construction glass HK$'000	Float glass HK$'000	Unallocated HK$'000	Group HK$'000
Depreciation *(Note 7)*	25,880	7,357	212	212	33,661
Amortisation *(Note 6)*	1,544	146	—	—	1,690
Impairment of trade and other receivables	408	62	—	—	470
Impairment of inventory	1,573	—	—	—	1,573
Reversal of inventory impairment	—	1,242	—	—	1,242

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

	Automobile glass HK$'000	Construction glass HK$'000	Float glass HK$'000	Unallocated HK$'000	Group HK$'000
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

5 SEGMENT INFORMATION *(Continued)*

The segment assets and liabilities at 31 December 2004 and capital expenditure for the year then ended are as follows:

	Automobile glass HK$'000	Construction glass HK$'000	Float glass HK$'000	Unallocated HK$'000	Group HK$'000
Assets	757,011	422,649	284,319	143,999	1,607,978
Liabilities	395,962	264,130	5,708	143,060	808,860
Capital expenditure	122,147	182,055	225,101	45	529,348

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 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 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.

Sales

	2005 HK$'000	2004 HK$'000
Greater China *(note (a))*	**536,685**	463,145
North America	**455,327**	278,247
Middle East	**81,456**	61,092
Australia and New Zealand	**97,236**	56,319
Europe	**84,197**	57,224
Other countries *(note (b))*	**125,876**	112,307
	1,380,777	1,028,334

Notes:

(a) Greater China includes the PRC, Hong Kong and Taiwan.

(b) Other countries included countries in Africa and South America.

5 SEGMENT INFORMATION *(Continued)*

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

Total assets

	2005 HK$'000	2004 HK$'000
Hong Kong	**284,513**	209,219
the PRC	**2,102,103**	1,380,839
Canada	**14,419**	17,920
	2,401,035	1,607,978

Capital expenditure

	2005 HK$'000	2004 HK$'000
Hong Kong	**970**	255
the PRC	**734,392**	528,903
Canada	**398**	190
	735,760	529,348

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 analyzed as follows:

	2005 HK$'000	2004 HK$'000
In Hong Kong, held on:		
Leases of between 10 to 50 years	**4,074**	4,172
Outside Hong Kong, held on:		
Land use rights of between 10 to 50 years	**116,711**	116,444
	120,785	120,616

	2005 HK$'000	2004 HK$'000
Opening	**120,616**	46,309
Exchange difference	**2,239**	365
Additions	**156**	79,064
Amortisation	**(2,226)**	(1,690)
Disposal	**—**	(3,432)
	120,785	120,616

7 PROPERTY, PLANT AND EQUIPMENT – GROUP

	Construction in progress HK$'000	Buildings HK$'000	Plant and machinery HK$'000	Office equipment HK$'000	Total HK$'000
At 1 January 2004					
Cost	2,546	141,080	265,072	4,889	413,587
Accumulated depreciation	—	(14,647)	(70,820)	(1,325)	(86,792)
Net book amount	2,546	126,433	194,252	3,564	326,795
Year ended 31 December 2004					
Opening net book amount	2,546	126,433	194,252	3,564	326,795
Exchange differences	24	858	1,710	42	2,634
Additions	322,988	2,965	13,533	2,361	341,847
Transfer upon completion	(2,490)	—	2,420	70	—
Disposals	—	—	(1,458)	(134)	(1,592)
Depreciation	—	(4,755)	(27,927)	(979)	(33,661)
Closing net book amount	323,068	125,501	182,530	4,924	636,023
At 31 December 2004					
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

8 INTEREST IN SUBSIDIARIES

	Company 2005 HK$'000	Company 2004 HK$'000
Investments, at cost:	10	10
Amounts due from subsidiaries *(note (a))*	820,000	29,985
	820,010	29,995
Amounts due from subsidiaries *(note (b))*	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 2005:

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 Company	Hong Kong, limited liability company	Trading in Hong Kong	100,000 Ordinary shares of HK$1 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 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	10,000 Ordinary shares of HK$1,000 each	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%

8 INTEREST 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 Automobile Glass (Dongguan) Co., Limited	the PRC, limited liability company	Manufacturing of automobile glass in the PRC	Register capital of US$12,000,000 with total paid-in capital US$10,000,000	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$600,000	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 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%
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$450,000	100%

8 INTEREST 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 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 Ultra-thin Glass (Dongguan) Co., Limited	the PRC, limited liability company	Manufacturing of float glass in the PRC	Register capital of US$29,800,000 with total paid-in capital US$20,981,800	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%
Xinyi Glass (America) Development Inc.	Canada, limited liability company	Sale agent in Canada	120,000 common shares of CAD1 each	58.3%
Xinyi Glass (North America) Inc.	Canada, limited liability company	Sale agent in Canada	120,000 common shares of CAD1 each	58.3%
Xinyi Automobile Glass (BVI) Company Limited *	The British Virgin Islands, limited liability company	Investment holding in Hong Kong	Authorized 100,000 ordinary shares of US$1 each. 55,000 ordinary shares of US$1 each were issued.	100%
Xinyi Glass (Germany) Limited	The British Virgin Islands, limited liability company	Sale agent in Europe	10,000 common shares of US$1 each	60%

* Shares held directly by the Company.

9 AVAILABLE-FOR-SALE FINANCIAL ASSETS – GROUP

	2005 HK$'000
Beginning of the year	472
Exchange differences	9
End of the year	481

As at 31 December 2005, the carrying amount for available-for-sale financial assets was 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 2005.

10 INVESTMENT SECURITIES – GROUP

All investment securities as at 31 December 2004 were unlisted equity securities carried at cost. The investment securities were subsequently accounted for as available-for-sale financial assets (see note 9) in year ended 31 December 2005.

11 INTEREST IN AN ASSOCIATE – GROUP

	2005 HK$'000
Beginning of year	—
Capital contribution	5,769
Loan advanced to associate	6,144
	11,913
Share of associate's results	
- loss before taxation	(2)
- taxation	—
	(2)
End of the year	11,911

Details of the Group's interest in the associate are as follows:

Name	Particulars of issued shares held	Country of incorporation	Assets	Liabilities	Revenues	Profit/(loss)	% Interest held
			HK$'000	HK$'000	HK$'000	HK$'000	
Beihai Yiyang Mineral Co., Ltd	Register capital of RMB20,000,000	the PRC	25,375	6,144	Nil	(9)	30%

12 INVENTORIES – GROUP

	2005 HK$'000	2004 HK$'000
Raw materials	**134,487**	84,798
Work in progress	**11,901**	9,499
Finished goods	**89,275**	72,545
Less: provision for impairment of obsolete inventories	**(448)**	(2,665)
	235,215	164,177

The Group reversed HK$ 2,217,000 (2004: provision of impairment of HK$331,000) of a previous inventory write down, such reversal has been included in administrative expense in the income statement.

As at 31 December 2005, the carrying amounts of inventories that were carried at net realizable value amounted to nil (2004: HK$1,166,000).

13 TRADE AND OTHER RECEIVABLES – GROUP

	2005 HK$'000	2004 HK$'000
Trade receivables *(note (a))*	**303,009**	227,759
Bills receivables *(note (b))*	**32,010**	5,043
	335,019	232,802
Less: provision for impairment of receivables *(note (c))*	**(407)**	(4,006)
Trade and bills receivables – net	**334,612**	228,796
Prepayment, deposits and other receivables	**41,343**	47,368
Due from related companies	**—**	88
	375,955	276,252

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

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

The ageing analysis of the Group's trade receivable is as follow:

	2005 HK$'000	2004 HK$'000
0 – 90 days	**252,738**	190,538
91 – 180 days	**32,091**	24,242
181 – 365 days	**13,103**	7,391
1 – 2 years	**4,498**	3,780
Over 2 years	**579**	1,808
	303,009	227,759

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

The Group recorded impairment of trade receivable of HK$2,953,000 by directly wrote off the receivable balances (2004: provision of HK$470,000) and wrote off provision of HK$3,599,000 (2004: HK$341,000). Such impairment has been included in administrative expenses in the income statement.

(b) Bills receivables have maturities ranging from 3 to 6 months.

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

14 AMOUNTS DUE FROM CUSTOMERS FOR CONTRACT WORK

	2005 HK$'000	2004 HK$'000
Contract cost incurred plus attributable profits less foreseeable losses to date	**45,040**	54,033
Less: Progress billings to date	**(25,829)**	(52,196)
Amounts due from customers for contract work	**19,211**	1,837

15 CASH AND CASH EQUIVALENTS

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash at bank and in hand	**92,364**	223,113	**11**	10
Short-term bank deposits	**48,523**	25,214	**—**	—
	140,887	248,327	**11**	10

The effective interest rate on short-term bank deposits was 2.5% (2004: 0.7%); these short-term bank deposits have an average maturity of 7 days.

Cash and cash equivalents included in the cash flow statement represent:

	Group	
	2005	2004
	HK$'000	HK$'000
Total bank balances and cash *(note (a))*	**140,887**	248,327
Less: Pledged bank deposits *(note (b))*	**(11,108)**	(24,618)
	129,779	223,709

Notes:

(a) As at 31 December 2005, bank balances and cash of approximately RMB56,018,000 (equivalent to HK$53,863,000) (2004: RMB148,154,000 (equivalent to HK$139,767,925)) was denominated in Renminbi and kept in the PRC. The remittance of these funds out 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)

16 SHARE CAPITAL

	Note	Number of shares	Ordinary shares of HK$0.1 each HK$'000	Share premium HK$'000	Total HK$'000
Authorised:					
Upon incorporation on 25 June 2004					
and as at 31 December 2004	(a)	3,800,000	380	—	380
Increase in authorized share capital	(e)	2,496,200,000	249,620	—	249,620
At 31 December 2005		2,500,000,000	250,000	—	250,000
Issued and fully paid:					
Allotted and issued, nil paid					
- on 25 June 2004	(a)	1	—	—	—
- on 22 July 2004	(b)	999	—	—	—
On acquisition of Xinyi Automobile Glass (BVI) Co., Ltd. ("Xinyi BVI")					
- consideration shares issued	(c)	97,000	10	—	10
New issue of shares converted					
for convertible note	(d)	2,000	—	30,000	30,000
At 31 December 2004		100,000	10	30,000	30,010
Allotted and issued, nil paid					
- on 18 January 2005	(e)	1,124,900,000	—	—	—
New issue of shares	(f)	417,944,000	41,794	794,094	835,888
Share issuance costs	(f)	—	—	(40,923)	(40,923)
Capitalisation of share					
premium account	(e)	—	112,490	(112,490)	—
At 31 December 2005		1,542,944,000	154,294	670,681	824,975

16 SHARE CAPITAL *(Continued)*

Notes:

(a) The Company was incorporated in the Cayman Islands on 25 June 2004 with authorised share capital of HK$380,000 divided into 3,800,000 ordinary shares of HK$0.1 each. Upon incorporation, one subscriber share was issued at par.

(b) On 22 July 2004, a total number of 999 ordinary shares of HK$0.1 each of the Company were allotted and issued.

(c) Under a reorganisation which took place on 30 December 2004 for the preparation for the listing of the Company's shares on the Stock Exchange, 97,000 ordinary shares of HK$0.1 each were allotted and issued in consideration of the acquisition by the Company of the entire issued share capital of Xinyi (BVI) as fully paid to the then shareholders of Xinyi (BVI).

(d) Pursuant to a resolution of the shareholders passed on 13 December 2004, the Company issued a convertible note to Kingsway SBF Investment Company Limited ("Kingsway SBF") for a consideration of HK$30 million. The convertible note was non-interest bearing and due for repayment on 12 December 2006. On 31 December 2004, Kingsway SBF exercised its rights to convert the entire note into 2,000 ordinary shares of HK$0.1 each and credited as fully paid. The HK$30 million face value of convertible note net of HK$200 par value of the converted shares were credited to share premium account of the Company.

(e) 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 the 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 the 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.

(f) On the Listing Date, 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 March 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.

17 OTHER RESERVES – GROUP

	Statutory reserve fund *(note a)* HK$'000	Enterprise expansion fund *(note a)* HK$'000	Translation HK$'000	Capital reserve *(note b)* HK$'000	Total HK$'000
Balance at 1 January 2004	15,427	7,105	(2,942)	11,840	31,430
Transfer from retained earnings	18,337	9,169	—	—	27,506
Currency translation differences	—	—	5,787	—	5,787
Balance at 31 December 2004	33,764	16,274	2,845	11,840	64,723
Balance at 1 January 2005, as per above	33,764	16,274	2,845	11,840	64,723
Reserve utilized	—	(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

Notes:

(a) The statutory reserve fund and enterprise expansion fund were provided for in accordance with laws in China and regulations by certain subsidiaries which are the wholly owned foreign enterprises incorporated in China. These funds are appropriated from net profit as recorded in China 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.

Prior to 2003, the boards of directors of the respective group companies did not resolve to appropriate any of the companies' profit to the statutory reserve fund and enterprise expansion fund as there was a re-investment of dividends declared by the respective subsidiaries in China as additional capital contributions in one of these subsidiaries. During the year ended 31 December 2005, the boards of directors of the group companies resolved to appropriate approximately HK$25,892,000 (2004: HK$18,337,000) and HK$12,946,000 (2004: HK$9,169,000) from retained earnings to the statutory reserve fund and enterprise expansion fund respectively. Approximately HK$323,000 (2004: Nil) enterprise expansion fund was utilised for building of staff facilities during the year ended 31 December 2005.

(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 a group reorganisation in 2004.

18 TRADE AND OTHER PAYABLES – GROUP

	2005 HK$'000	2004 HK$'000
Trade payables *(note (a))*	71,378	63,298
Bills payables *(note (b))*	84,673	50,094
	156,051	113,392
Accruals and other payable	150,865	88,944
	306,916	202,336

Notes:

(a) The ageing analysis of the trade payables were as follows:

	2005 HK$'000	2004 HK$'000
0 – 90 days	68,408	56,906
91 – 180 days	2,898	6,236
181 – 365 days	15	96
1 – 2 years	—	60
Over 2 years	57	—
	71,378	63,298

(b) Bills payables have maturities ranging from 3 to 6 months.

19 BANK BORROWINGS

	Group	
	2005	2004
	HK$'000	HK$'000
Non-current		
Secured	137,000	92,000
Unsecured	—	68,303
	137,000	160,303
Less: Current portion	(11,417)	—
Shown as non-current liabilities	125,583	160,303
Current		
Secured	120,000	115,676
Unsecured	76,923	326,129
	196,923	441,805
Current portion of non-current borrowings	11,417	—
Shown as current liabilities	208,340	441,805
Total bank borrowings	333,923	602,108

Details off the Group's banking facilities are set out in note 30.

The maturity of bank borrowings is as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
Within 1 year	208,340	441,805
Between 1 and 2 years	45,668	75,970
Between 2 and 5 years	79,915	84,333
	333,923	602,108

19 BANK BORROWINGS *(Continued)*

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

	Group	
	2005	2004
	HK$'000	HK$'000
Hong Kong dollar	**257,000**	204,771
Renminbi	**76,923**	342,737
US dollar	**—**	54,600
	333,923	602,108

The carrying amounts of bank borrowings approximate their fair values.

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

	2005			2004		
	HK$	**RMB**	**USD**	HK$	RMB	USD
Bank borrowings	**4.9%**	**4.7%**	**—**	1.8%	5.0%	2.7%

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	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Deferred tax assets:				
- Deferred tax asset to be recovered after more than 12 months	**(852)**	(2,207)	**(127)**	—
- Deferred tax asset to be recovered within 12 months	**—**	—	**—**	—
	(852)	(2,207)	**(127)**	—
Deferred tax liabilities:				
- Deferred tax liabilities to be settled after more than 12 months	**—**	—	**—**	—
- Deferred tax liabilities to be settled within 12 months	**110**	461	**—**	—
	110	461	**—**	—
	(742)	(1,746)	**(127)**	—

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

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Beginning of the year	**(1,746)**	(2,402)	**—**	—
Recognized in the income statement *(note 24)*	**1,004**	656	**(127)**	—
End of the year	**(742)**	(1,746)	**(127)**	—

20 DEFERRED INCOME TAX *(Continued)*

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

Deferred tax liabilities:

	Accelerated tax depreciation Group HK$'000	Accelerated tax depreciation Company HK$'000
At 1 January 2004	2,424	—
Recognized in the income statement	(1,551)	—
At 31 December 2004	873	—
Recognized in the income statement	273	—
At 31 December 2005	1,146	—

Deferred tax assets:

	Tax losses Group HK$'000	Tax losses Company HK$'000
At 1 January 2004	(4,826)	—
Recognized in the income statement	2,207	—
At 31 December 2004	(2,619)	—
Recognized in the income statement	731	(127)
At 31 December 2005	(1,888)	(127)

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

21 EXPENSES BY NATURE

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

	2005 HK$'000	2004 HK$'000
Depreciation and amortisation	55,433	35,351
Employee benefit expense *(Note 22)*	101,473	78,542
Cost of inventories	841,678	619,671
Other selling expenses (including transportation and advertising)	88,399	45,196
Operating lease charges in respect of land and buildings	2,454	1,691
Exchange (gain)/losses, net	(2,239)	1,171
Impairment of trade and other receivables, net	2,953	470
(Impairment reversal)/impairment of inventory, net	(2,217)	331
Auditors' remuneration	2,044	1,134
Others	31,224	18,507
Total of cost of sales, selling and marketing costs and administrative expenses	1,121,202	802,064

22 EMPLOYEE BENEFIT EXPENSE

	2005 HK$'000	2004 HK$'000
Wages and salaries	97,797	77,800
Pension costs – defined contribution plans *(note (a))*	3,676	742
	101,473	78,542

Notes:

(a) Pension costs

The Group operates a Mandatory Provident Fund scheme (the "MPF scheme") in accordance with the Mandatory Provident Fund Scheme Ordinace of Hong Kong (the "MPF Ordinace"). 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.

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 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
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
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

The remuneration of every director for the year ended 31 December 2004 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
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
LEE Yin Yee	—	23	—	—	—	—	23
TUNG Ching Bor	—	333	—	—	12	—	345
TUNG Ching Sai	—	925	—	—	12	—	937
LEE Shing Put	—	86	—	—	4	—	90
LEE Yau Ching	—	338	—	—	11	—	349
LI Man Yin	—	252	—	—	11	—	263
NG Ngan Ho	—	215	—	—	11	—	226
LI Ching Wai	—	—	—	—	—	—	—
SZE Nang Sze	—	—	—	—	—	—	—
LI Ching Leung	—	87	—	—	4	—	91
LAM Kwong Siu	—	—	—	—	—	—	—
WONG Kong Hon	—	—	—	—	—	—	—
WONG Chat Chor Samuel	—	—	—	—	—	—	—

None of the directors of the Company waived any emoluments during the year (2004: Nil).

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 one (2004: one) director whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining four (2004: four) individuals during the year are as follows:

	2005 HK$'000	2004 HK$'000
- basic salaries and allowances	4,124	9,078
- discretionary and performance bonus	659	—
- contributions to retirement benefit schemes	53	42
	4,836	9,120

The emoluments fell within the following bands:

	Number of individuals	
	2005	2004
Emolument bands		
Nil – HK$1,000,000	1	1
HK$1,000,001 – HK$1,500,000	2	1
HK$1,000,001 – HK$1,500,000	1	—
HK$3,000,000 – HK$3,500,000	—	2
	4	4

23 FINANCE COSTS

	2005 HK$'000	2004 HK$'000
Interest on bank borrowings	11,480	9,718
Less: interest expenses capitalized under construction in progress	(8,866)	(8,262)
	2,614	1,456

24 INCOME TAX EXPENSE

	2005 HK$'000	2004 HK$'000
Current income tax		
- Hong Kong Profits Tax *(note (a))*	**219**	362
- PRC foreign enterprise income tax *(note (b))*	**18,369**	12,878
- Overseas taxation (refund)/paid *(note (c))*	**(106)**	1,049
- Over provision in prior year	**—**	(268)
Deferred income tax *(note 20)*	**1,004**	656
	19,486	14,677

Notes:

(a) Hong Kong Profits Tax

Hong Kong Profits Tax has been provided at the rate of 17.5% (2004: 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. 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 15% 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 2005 and 2004 were entitled to tax holiday/concession whereby the taxable profits for the years ended 31 December 2005 and 2004 of the relevant subsidiaries were either exempt from FEIT or subject to a reduced FEIT rate of 7.5%.

(c) Overseas taxation

Taxation on overseas profits has been calculated on the estimated assessable profits for the years ended 31 December 2005 and 2004 at the rates of taxation prevailing in the countries in which the Group operates.

24 INCOME TAX EXPENSE *(Continued)*

(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 companies as follows:

	2005 HK$'000	2004 HK$'000
Profit before tax	**279,880**	251,641
Calculated at a taxation rate of 15%	**41,982**	37,746
Effect of different taxation rates in other countries	**6,996**	1,462
Preferential tax rates on the income of PRC subsidiaries	**(26,808)**	(20,276)
Income not subject to taxation	**(3,263)**	(4,772)
Expenses not deductible for taxation purposes	**579**	785
Over provision in prior years	**—**	(268)
Tax expense	**19,486**	14,677

The weighted average applicable tax rate was 7.0 % (2004: 5.8%). The increase is caused by a change in the profitability of the Group's subsidiaries in the respective countries.

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 HK$200,880,000 (2004: Nil).

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.

	2005 HK$'000	2004 HK$'000
Profit attributable to equity holders of the Company	260,114	235,835
Weighted average number of ordinary shares in issue (thousands)	1,503,008	1,102,562
Basic earnings per share (HK$ per share)	0.173	0.214

DILUTED

No diluted earnings per share for the year ended 31 December 2005 is presented as there were no dilutive potential ordinary shares outstanding during the year (2004: Nil).

27 DIVIDENDS

The dividends paid during the year ended 2005 and 2004 were HK$123,435,000 (HK$0.08 per share) and HK$51,197,000 (note (a)) respectively. A dividend in respect of 2005 of HK$0.05 per share, amounting to a total dividend of HK$77,147,000 is to be proposed at the Annual General Meeting on 12 May 2006. These financial statements do not reflect this dividend payable.

	2005 HK$'000	2004 HK$'000
Interim dividend paid of HK$0.03 (2004: N/A *(note a)*) per ordinary share	46,288	51,197
Proposed final dividend of HK$0.05 (2004: HK$0.05) per ordinary share	77,147	77,147
	123,435	128,344

Note:

(a) The dividend rates and the number of shares ranking for the dividend in respect of the dividend paid by the subsidiaries to its then shareholders before the reorganisation are not presented as such information is not considered meaningful for the purpose of these accounts.

28 CASH GENERATED FROM OPERATIONS

	2005 HK$'000	2004 HK$'000
Profit for the year	**260,394**	236,964
Adjustments for:		
- Income tax expense *(Note 24)*	**19,486**	14,677
- Depreciation and amortisation	**55,433**	35,351
- Loss on disposal of property, plant and equipment and land use rights	**460**	1,511
- Interest income *(Note 5)*	**(3,206)**	(543)
- Interest expense *(Note 23)*	**2,614**	1,456
- Share of associate's result *(Note 11)*	**2**	—
Changes in working capital:		
- Inventories	**(71,038)**	(24,149)
- Amounts due from customers for contract work	**(17,374)**	16,227
- Trade and other receivables	**(99,703)**	(55,626)
- Trade and other payables	**104,580**	17,428
- Amounts due to customers for contract work	**—**	(1,052)
- Due to a related party	**—**	(4,673)
Cash generated from operations	**251,648**	237,571

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

	2005 HK$'000	2004 HK$'000
Net book amount of land use rights *(Note 6)*	**—**	3,432
Net book amount of property, plant and equipment *(Note 7)*	**829**	1,592
Loss on disposal of property, plant and equipment and land use rights	**(460)**	(1,511)
Proceeds from disposal of property, plant and equipment and land use rights	**369**	3,513

29 CONTINGENCIES

As at 31 December 2005, the Group had no significant contingent liabilities.

The Company has executed guarantees amounting to approximately HK$670 million (2004: Nil) with respect to banking facilities made available to its subsidiaries. As at 31 December 2005, the borrowings outstanding against the facilities amounted to HK$257 million (2004: Nil).

30 BANKING FACILITIES

As at 31 December 2005, the Group's banking facilites totaling approximately HK$959 million were secured by the following:

(a) pledged bank deposits of the Group amounted to approximately HK$11,108,000 (2004: HK$24,618,000) (Note 15);

(b) corporate guarantees provided by the Company;

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

31 COMMITMENTS – GROUP

CAPITAL COMMITMENTS

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

	2005 HK$'000	2004 HK$'000
Property, plant and equipment		
Contracted but not provided for	**161,746**	149,975

OPERATING LEASE COMMITMENTS

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

	2005 HK$'000	2004 HK$'000
Not later than 1 year	**2,466**	1,729
Later than 1 year and not later than 5 years	**5,922**	3,199
Later than 5 years	**1,240**	1,221
	9,628	6,149

32 RELATED-PARTY TRANSACTIONS

During the year, the Group had the following significant transactions with related companies which were carried out in the normal course of the Group's business:

		2005 HK$'000	2004 HK$'000
i)	Sale to		
	- Shenzhen Xinyi Real Estate Developing Co., Ltd	—	1,738
	- Shenzhen Yuan Sheng Long Glass Limited ("YSL Glass")	—	23,628
	- Shenzhen Zhan Bao Development Industrial Co., Ltd	—	106
ii)	Sale to of a property to a related party	—	3,434
iii)	Purchases from YSL Glass	—	1,145
iv)	Services fee paid to		
	- Hui Ke System (Shenzhen) Limited	—	378