

Report of the Directors

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.

Report of the Directors

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 commence 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.

Report of the Directors

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 (<i>Note a</i>)	380,395,500	23.71%
Mr. TUNG Ching Bor	Interest of a controlled corporation (<i>Note b</i>)	139,927,500	8.72%
Mr. TUNG Ching Sai	Interest of a controlled corporation (<i>Note c</i>)	135,023,500	8.41%
Mr. LI Ching Wai	Interest of a controlled corporation (<i>Note d</i>)	62,190,000	3.88%
Mr. NG Ngan Ho	Interest of a controlled corporation (<i>Note e</i>)	41,460,000	2.58%
Mr. LI Man Yin	Interest of a controlled corporation (<i>Note f</i>)	41,460,000	2.58%
Mr. SZE Nang Sze	Interest of a controlled corporation (<i>Note g</i>)	57,007,500	3.55%
Mr. LI Ching Leung	Interest of a controlled corporation (<i>Note h</i>)	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.

Report of the Directors

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 (<i>Note</i>)	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	1,000 common shares	10%
	Alfred Ernst Rudi BEYE		
	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.

Report of the Directors

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