

Management Discussion and Analysis



MARKET REVIEW

The total production of flat glass in the People's Republic of China (the "PRC") has been growing at a compound annual growth rate of 9% since 1990. Approximately 15 new float flat glass production lines with an aggregate melting capacity of approximately 6,100 tonnes per day commenced operations during the year 2001. As at the end of December 2001, the directors estimated that there were 84 float flat glass production lines in the PRC with a combined melting capacity of 31,200 tonnes per day.

In April 2001, the State Economic and Trade Commission of the PRC ("SETC") issued 國家經貿委關於對平板玻璃建設項目進行清理的緊急通知 (The Emergency Notice Regarding the Regulation of the Construction of Flat Glass Production Projects) ("Emergency Notice"). Under the Emergency Notice, any construction and setting up of new flat glass production lines must be approved by the State Development Planning Commission and SETC. As a result, the construction of new production lines has been growing at a slower pace since then. The directors expect that only 6 new production lines will commence operations in 2002.

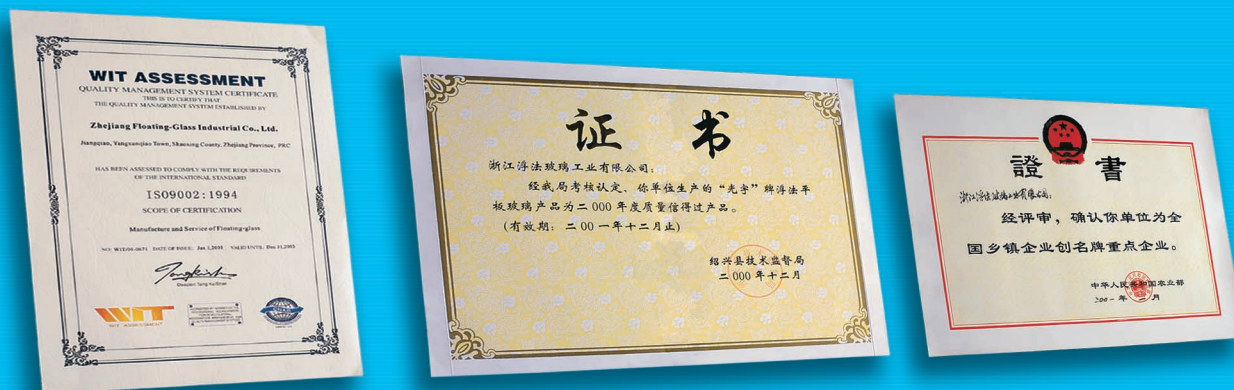
The directors believe that, as the flat glass industry in the PRC is currently undergoing consolidation whereby small and inefficient glass manufacturers will eventually be phased out, supply of flat glass is expected to stabilise in 2003.

FINANCIAL PERFORMANCE

The Company recorded a turnover of RMB696 million and a net profit of RMB212 million for 2001, representing an increase of 39% and 30% respectively as compared to 2000. Gross profit margin reduced slightly to 52% as compared to 56% in 2000.

The increase in turnover is mainly due to the full year operation in 2001 of the second flat glass production line which commenced operations in August 2000. For the year ended 31 December 2001, total flat glass production volume of the Company increased by 63% to 8.3 million weight cases or 415,000 tonnes, compared with 5.1 million weight cases or 255,000 tonnes in 2000. However, the average selling price of the Company's flat glass has experienced a decline of 14% to RMB84 per weight case, compared to RMB98 per weight case as achieved in 2000, due to the intensified competition in the flat glass market in the PRC.

During the year 2001, the Company's cost of sales increased by 51% to RMB335 million as compared to 2000. The depreciation cost increased by more than 40% due to a full year depreciation charge of the second production line. Distribution and selling expenses increased by 22% from approximately RMB2.6 million in 2000 to approximately RMB3.2 million in 2001. The increase was mainly attributable to more sales and marketing activities carried out by the Company's sales team. General, administrative and other operating expenses of the Company increased by 78% from approximately RMB15.7 million in 2000 to approximately RMB28 million in 2001. The increase was mainly due to the professional fees incurred in connection with the annual results announcement of the Company and accrual of a special staff bonus.



Financial expense of the Company has been reduced significantly by 50% since the Company repaid more than 59% of its outstanding bank loans in 2001.

As a combined results of the changes stated above, the gross profit margin and net profit margin of the Company dropped slightly to 52% and 30% respectively in 2001, compared with 56% and 33% respectively in 2000.

OPERATIONAL PERFORMANCE

During the year, both of the Company's production lines operated at full capacity and produced approximately 8.3 million weight cases or 415,000 tonnes of flat glass in 2001.

During the year, the Company has further enhanced its efficiency rate to 1.59 tonnes/day per employee, compared to that of 1.4 tonnes/day per employee recorded in the first 5 months of 2001, which also contributed to the healthy net profit margin of 30% of the Company in 2001 despite the decline of flat glass selling price in the PRC.

PRODUCTS

During the year, the Company's main product is clear float flat glass with the range from 4mm to 12mm in thickness. It also produces a small quantity of tinted flat glass. In 2001, approximately 92% of its total output was automotive grade glass according to the PRC national quality standards.

SALES & MARKETING

Most of the Company's customers are downstream glass product manufacturers and distributors who redistribute the Company's products to retailers and end users. During the year, the top five customers of the Company accounted for approximately 18% of its total turnover.

Due to the weight and brittleness of flat glass, the Company's sales are focusing on the adjacent areas, including Zhejiang Province, Jiangsu Province and Shanghai. The Company's sales to those areas have already accounted for 88% of its total sales in 2001. The Company has substantially increased its sales in Guangdong Province and Fujian Province to 884,000 weight cases or 44,200 tonnes, compared to 148,000 weight cases or 7,400 tonnes in 2000.

During the year, the Company continued its prudent sales strategy which requires all of its customers to make advanced payment before the delivery of any products. As a result, the Company has been able to maintain a healthy accounts receivable turnover day of only 2 days as at 31 December 2001.

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LIQUIDITY AND CAPITAL RESOURCES

As at 31 December 2001, the Company's cash and cash equivalents balance amounted to RMB593.5 million, compared with RMB89.4 million as at 31 December 2000. The increase was due to unutilised net listing proceeds deposited with financial institutions. Net cash inflow from operating activities amounted to RMB377.6 million, compared with RMB306.2 million for 2000.

Cash generated from the Company's operations and the unutilised net listing proceeds are expected to be adequate to cover all cash requirements, including working capital needs and planned capital expenditure.

The Company's gearing ratio reduced from 20% as at 31 December 2000 to 4% as at 31 December 2001. The calculation of the gearing ratio is based on total debts of RMB47.2 million (2000 — RMB131 million) over total assets of RMB1,240.4 million (2000 — RMB657.6 million).

FUTURE PROSPECTS

Looking into 2002, the Company will continue to face intense competition in the glass industry. The Company will continue to pay close attention to the market movement in order to have a proactive response to any market changes and will focus on the reduction of its production costs through the achievement of economies of scale.

To maintain our leadership in glass market in the PRC, we will explore new markets for flat glass products and develop high margin processed glass products. The directors anticipate that the prudent sales strategy and management flexibility will allow the Company to face the challenge of market changes in the future.