

## INTRODUCTION

The Company and its subsidiaries (collectively the "Group") are principally engaged in the production of automobile glass products, construction and household glass products and a variety of related products in the PRC. According to the CTI Report, we are the largest Chinese exporter of automobile glass products in 2004 in terms of export volume. In addition to automobile glass products, we also produce automobile rubber and plastic components that are sold together with our automobile glass products, as well as glass for use in the construction industry and undertake construction projects that mainly involve the installation of glass curtain walls.

Founded in Hong Kong, we began the production of automobile glass products in 1989 and construction glass products in 1998. Our automobile glass products are sold to customers in approximately 80 countries and territories, including the PRC, the U.S., Canada, Hong Kong, Australia, New Zealand, and countries and territories in the Middle East, Africa, Central and South America and Europe. Our customers include companies engaged in different businesses, ranging from automobile glass distributors and manufacturers, wholesalers, automobile repair service providers, motor vehicle manufacturers, construction companies and furniture and household appliances manufacturers.

## BUSINESS REVIEW

Following the impressive performance of the year 2003, we continued to record a remarkable business growth during the financial year ended 31 December 2004. Turnover and net profit reached approximately HK\$1,028.3 million and approximately HK\$235.8 million, respectively, representing a year-on-year increase of approximately 28.4 per cent. and approximately 27.2 per cent., as compared to approximately HK\$800.8 million and approximately HK\$185.4 million, respectively, for the financial year ended 31 December 2003. For the four years ended 31 December 2004, the compound annual growth rates for the Group's turnover and net profit amounted to approximately 30.1 per cent. and 24.8 per cent., respectively.

## OPERATIONAL REVIEW

### TURNOVER

The increase in turnover during the financial year was principally due to the fast growth of automobile glass sales in countries in Europe, South America, Central and South Africa, Australia and the U.S. Our sales in the European countries increased because of the increase in the number of customers in Europe and currency appreciation of Euro. Our sales in Africa, Central and South America and the U.S. increased principally due to the addition of new customers in these countries, while our sales in Australia and New Zealand increase as a result of increasing number of orders placed by our customers.

The tables below set forth an analysis of our turnover by products and by geographical regions:—

	2004		2003	
	HK\$'000	%	HK\$'000	%
Turnover				
Automobile glass products (Note 1)	725,288	70.5	536,035	66.9
Construction glass products (Note 2)	252,860	24.6	235,403	29.4
Construction contract revenue (Note 3)	50,186	4.9	29,397	3.7
	<u>1,028,334</u>	<u>100.0</u>	<u>800,835</u>	<u>100.0</u>

# Management's Discussion & Analysis

## Notes:

- (1) Includes turnover derived from the sales of automobile glass and complementary automobile rubber and plastic components on original equipment manufacturing ("OEM") and aftermarket basis.
- (2) Includes turnover derived from the sales of architectural glass products and furniture glass products.
- (3) Includes construction fee income received from curtain wall construction projects.

	2004		2003	
	HK\$'000	%	HK\$'000	%
TURNOVER				
PRC	430,314	41.8	361,606	45.1
U.S.	231,380	22.5	156,493	19.5
Middle East	61,092	5.9	43,548	5.4
Europe	57,224	5.6	18,137	2.3
Australia and New Zealand	56,319	5.5	31,789	4.0
Canada	46,867	4.6	45,426	5.7
Africa	40,309	3.9	27,227	3.4
Hong Kong	32,831	3.2	36,718	4.6
Central and South America	26,010	2.5	18,443	2.3
Others	45,988	4.5	61,448	7.7
	<u>1,028,334</u>	<u>100.0</u>	<u>800,835</u>	<u>100.0</u>

## COST OF SALES

Our cost of sales for the financial year ended 31 December 2004 increased by approximately 23.8 per cent. to approximately HK\$654.8 million. Such increase was principally driven by the increase in our business volume and our turnover.

## GROSS PROFIT

Our gross profit was approximately HK\$373.6 million, representing an increase of approximately 37.4 per cent., as compared with the year 2003. Our overall gross profit margin was improved from approximately 34.0 per cent. to approximately 36.3 per cent., which was principally due to the improvement in the enhanced control of utilisation of raw materials and the improvement in the production efficiency of our construction glass products.

Compared to 2003, our gross profit margin from automobile glass products decreased from approximately 40.9 per cent. to approximately 39.5 per cent. because of the slight decrease in the selling prices as a result of market competition, especially in the U.S. Our gross profit margin from construction glass products increased from approximately 19.8 per cent. to 28.9 per cent. in the financial year. In the year 2003, we adopted an aggressive marketing strategy with an aim to increase our market share in the construction glass market. Since the beginning of the financial year, we have successfully expanded our market share and hence, we were able to sell our construction glass products with a higher gross profit margin.

## OTHER REVENUES

Our other revenues were approximately HK\$26.8 million for the financial year ended 31 December 2004, as compared to approximately HK\$10.2 million in the year 2003. Such increase was principally attributable to the receipt of government grant in the PRC under the "tax refund on reinvestment" scheme. The government grant received in the financial year 2004 amounted to approximately HK\$20.4 million due to a large amount of reinvestment in the year 2003, whereas we received approximately HK\$7.7 million of government grant in the year 2003. In addition, we began to receive royalty income of approximately HK\$3.0 million in the financial year. Besides, sundry income increased by approximately HK\$1.4 million due to the sale of scrapped PVB.

## SELLING AND DISTRIBUTION EXPENSES

Our selling and distribution expenses increased by approximately 116.8 per cent. to approximately HK\$90.8 million in the financial year. Such increase was principally due to the increase in our transportation costs from approximately HK\$21.2 million to approximately HK\$42.4 million, as certain of our new customers required us to absorb the shipping cost, and that international sea freight rate increased. Other selling and distribution expenses generally increased with the increase in our turnover.

## ADMINISTRATIVE AND GENERAL EXPENSES

Our administrative and general expenses increased by approximately 26.7 per cent. to approximately HK\$56.5 million in the financial year which was principally due to the pre-operating expenses of HK\$7.2 million incurred in the financial year by our Dongguan Production Complex and our Wuhu Production Complex.

## FINANCE COSTS

Our finance costs increased by approximately 48.7 per cent. to approximately HK\$1.5 million in the financial year. The increase was principally due to the increase in short term loans for our working capital in the financial year. The interest costs incurred for machinery purchased for our Dongguan Production Complex were capitalised.

## TAXATION

Our taxation was approximately HK\$14.7 million in 2004. Our effective tax rate slightly increased from approximately 4.5 per cent. to approximately 5.8 per cent. in the financial year due to the effect of deferred tax credit of HK\$2.4 million recognised in 2003.

## EBITDA AND NET PROFIT FOR THE YEAR

During the financial year, our Company's EBITDA (i.e. earnings before interest, taxation, depreciation and amortization) reached approximately HK\$288.4 million, representing an increase of approximately 26.2 per cent., as compared with approximately HK\$228.6 million in the year 2003. Our Company's EBITDA margin, calculated based on turnover, for the financial year was approximately 28.1 per cent., as compared to approximately 28.5 per cent. in the year 2003.

Our net profit for the financial year was approximately HK\$235.8 million, representing an increase of approximately 27.2 per cent., as compared to the net profit of approximately HK\$185.4 million in the year 2003. Our net profit margin was approximately 22.9 per cent., which was very close to 23.2 per cent. in the year 2003.

## DIVIDENDS

We declared interim dividends of HK\$51.2 million in 2004 and propose to declare a final dividend of 5.0 HK cent per Share for the financial year. Our Directors believe that the dividend levels are appropriate since we recorded significant improvement in our financial records for the financial year. The proposed dividend is consistent with the dividend policy of our Company stated in the Prospectus.

## NON-CURRENT ASSETS

Our non-current assets increased by approximately 119.8 per cent. to approximately HK\$917.4 million. Such increase was primarily due to additions of construction in progress, land use rights, plant and machinery, land and buildings and office equipment in our Dongguan Production Complex and our Wuhu Production Complex, respectively.

## ACCRUALS AND OTHER PAYABLES

Our accruals and other payables increased from approximately HK\$47.3 million in the year 2003 to approximately HK\$88.9 million in the financial year. It was principally due to the increase in capital expenditure payable, representing the amounts payable to construction contractors and suppliers of machinery for construction and expansion of production complexes.

## CAPITAL COMMITMENT

As at 31 December 2004, the Group had capital commitments of approximately HK\$150.0 million, which was approximately HK\$85.0 million lower than that as at 31 December 2003. The balance mainly represented the purchases of plant and machinery for the float glass lines in our Dongguan Production Complex.

## OPERATING LEASES COMMITMENT

As at 31 December 2004, our operating leases commitment was approximately HK\$6.1 million, which was approximately HK\$4.3 million higher than that as at 31 December 2003. Such increase was due to the new tenancy agreements made in the PRC and Canada by the Group, of which the unutilised tenancy value amounted to approximately HK\$2.6 million and approximately HK\$0.7 million, respectively.

## CONTINGENT LIABILITIES

As at 31 December 2004, the Group had no significant contingent liabilities.

## CURRENT RATIO

Our current ratio for the financial year was approximately 1.1, as compared to that of approximately 1.4 in the year 2003. Our current ratio reduced because we used cash to purchase equipment and machinery for our Dongguan Production Complex.

## TRADE AND BILLS RECEIVABLES TURNOVER DAYS

Our trade and bill receivable turnover days for the financial year was approximately 67.4 days, which increased from approximately 55.4 days in the year 2003 since we offered longer credit terms to some of our selected customers.

## INVENTORY TURNOVER DAYS

Our inventory turnover days for the financial year slightly decreased from approximately 89.9 days to approximately 84.8 days in the year 2003 as a result of better control on inventory level to improve cashflow.

## NET CURRENT ASSETS

As at 31 December 2004, we had net current assets of approximately HK\$42.5 million, as compared with approximately HK\$161.2 million as at 31 December 2003. The decrease was principally due to more deposit payments for the machinery and equipment, construction in progress and land use rights incurred for the Dongguan Production Complex at the end of 2004.

## FINANCIAL RESOURCES AND LIQUITY

In the financial year, our primary source of funding included cash generated from operating activities and credit facilities provided by its principal banks in Hong Kong and the PRC. Net cash inflow from operating activities amounted to approximately HK\$237.6 million (2003: HK\$135.6 million) which was resulted from our working capital management which generated a net cash surplus from operations. As at 31 December 2004, the Group had a bank balances and cash of HK\$248.3 million (2003: HK\$233.4 million).

As at 31 December 2004, we have the total bank loans of HK\$602.1 million. The net increase in bank loans by HK\$500.2 million in the financial year was raised for our capital expenditure financing, as well as for our treasury operations to manage our working capital.

Our gearing ratio for the financial year, calculated by dividing the total liabilities at the end of the year by total assets at the end of the year, was approximately 50.3 per cent. which increased from approximately 43.8 per cent. in the year 2003. It was principally due to more short term bank loans utilised to finance our capital expenditures in our Dongguan Production Complex.

## PLEDGE OF ASSETS

As at 31 December 2004, certain of the Group's land and buildings with an aggregate net book value of approximately HK\$71.8 million were pledged as collateral for short term bank borrowings and other banking facilities of the Group.

## USE OF PROCEEDS FROM LISTING

As at the date of this report, a total of approximately HK\$48.0 million has been used for the purchases of the machinery and equipment, factory construction and building renovation in our Dongguan Production Complex and our Shenzhen Production Complex.

## TREASURY POLICIES AND EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

Our business transactions are mainly denominated in Renminbi, U.S. dollars and Hong Kong dollars with operations mainly in the PRC. As at 31 December 2004, our bank borrowings were denominated in Renminbi, U.S. dollars and Hong Kong dollars with interest bearing at rates ranging from 1.68 per cent. to 4.78 per cent. per annum. Our exposure to the foreign exchange fluctuations was minimal and have not experienced any material difficulties which affect the operations or liquidity as a result of fluctuations in currency exchange risk. We may use financial instrument for hedging purpose when considered appropriate.

## EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2004, we had 3,414 full-time employees of which 3,316 were based in the PRC, 74 in Hong Kong and 24 in Canada. We always maintain a good relationship with our employees, and that training is provided on business knowledge including information on the application of our products and to maintain client's relationship. Remuneration packages offered to our staff are in line with the prevailing market terms and reviewed on a regular basis. Discretionary bonuses may be rewarded to employees after assessment of our performance and the individual's performance.

We participate in state-sponsored defined contribution retirement schemes which are administrated by the relevant government authorities in the the PRC for our PRC based employees. We have also set up retirement schemes in accordance with the mandatory provident fund requirements prescribed by the Mandatory Fund Schemes Ordinance for all its Hong Kong based employees.

We have also adopted a share option scheme on 18 January 2005 for the purpose of providing incentives and rewards to eligible participants who contribute to the success of our operations. The Directors may at their discretion, invite any employees or Directors and other selected participants as set out in the scheme, to participate in the scheme. For the period up to the date of this report, no share options had been granted under the share option scheme.

## BUSINESS OUTLOOK

We have entered a new era following the successful listing on the Main Board on 3 February 2005. The listing has strengthened our financial position for future development. We raised from the initial public offering gross proceeds of an aggregate of approximately HK\$835.9 million, following the exercise of an over-allotment option granted to the underwriters as part of the initial public offering.

Looking ahead, we will capitalise on the surging market demand for both aftermarket automobile glass and construction glass in the PRC and overseas. In particular, we believe that the PRC automobile glass market will continue to grow because of the continuous economic development and the increasing number of international automobile manufacturers establishing their production facilities in the PRC. Upstream vertical integration, OEM automobile glass and business diversification will continue to be the goals of our long-term development.

Our new automobile glass and construction glass plants at our Dongguan Production Complex and our automobile glass plant at our Wuhu Production Complex have commenced their productions in the first quarter of 2005. The construction progress of the float glass production lines at Dongguan Production Complex are targeted to commence the trial production in the fourth quarter of the year 2005.

The three new automobile glass production lines at Shenzhen Production Complex have already commenced their commercial production.

In order to secure the supply of silica sand, one of the major raw materials of float glass production, we have entered a joint venture agreement with an independent PRC silica sand supplier in Guangxi. The proposed joint venture will supply the demand of premium silica sand of the float glass production lines at our Dongguan Production Complex.

Amidst the backdrop of the promising market, we will continue to seek for appropriate opportunities to acquire companies in similar business for our business expansion, vertical or horizontal integration, or achieving synergy effects. From time to time, we approach potential companies, or are approached by potential companies, for the purpose of forming strategic collaboration.