

Management's Discussion & Analysis

INTRODUCTION

The Group is principally engaged in the production and sales of a variety of glass products, ranging from automobile glass products, construction and other glass products for decorative and commercial applications. The Group has established production facilities in Sheznhen, Dongguan and Wuhu, China. According to the "China Trade Information" report, a monthly research report issued by Goodwill China Business Information Ltd., we were the largest Chinese exporter of automobile glass products in 2005 in terms of export volume. In addition to glass products, we also produce automobile rubber and plastic components that are sold together with our automobile glass products. We also undertake construction projects that principally involve installation of glass curtain walls in China.

Founded in Hong Kong in 1989, our automobile glass products are sold to customers in approximately 80 countries and territories, including China, Hong Kong, the United States, Canada, Australia, New Zealand, countries in the Middle East, Europe, Africa and Central and South America. Our customers include companies engaged in different businesses, including 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 during the year 2004, the Group continued a remarkable business growth during the financial year ended 31 December 2005. Our turnover and net profit attributable to equity holders of the Company reached approximately HK\$1,380.8 million and approximately HK\$260.1 million, respectively, representing a year-on-year increase of approximately 34.3% and approximately 10.3%, as compared with approximately HK\$1,028.3 million and approximately HK\$235.8 million, respectively, for the financial year ended 31 December 2004. The compound annual growth rate of the Group's turnover and net profit is approximately 31.2% and 21.0%, respectively, for the five consecutive years ended 31 December 2005.

Our new construction glass product "low-emission coated glass" has become one of our most popular products in 2005. Its environmentally friendly and energy saving features should capture the emerging demand as a result of the "Eleventh Five Years Plan" of China.

During the year, we established a subsidiary in Germany for sales expansion to countries in Europe as a part of our worldwide marketing strategy.

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 productions in the first quarter of 2005. The first 700 tonnes high quality float glass production line has started its trial run in the first quarter of 2006 and the second one of 500 tonnes is expected to start trial run in the second quarter of 2006.

OPERATIONAL REVIEW

TURNOVER

Our turnover increased by approximately 34.3% for the financial year ended 31 December 2005, as compared with the financial year ended 31 December 2004. The increase was principally due to the substantial growth of our automobile glass export sales to Australia, New Zealand, countries in North America and the Middle East. The increase was principally due to our additional efforts on business development which brought us with new customers and new purchase orders.

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

	2005		2004	
	HK\$'000	%	HK\$'000	%
Turnover				
Automobile glass products (Note 1)	990,933	71.8	725,288	70.5
Construction glass products (Note 2)	318,229	23.0	252,860	24.6
Construction contract revenue (Note 3)	71,615	5.2	50,186	4.9
	<u>1,380,777</u>	<u>100.0</u>	<u>1,028,334</u>	<u>100.0</u>

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.

	2005		2004	
	HK\$'000	%	HK\$'000	%
TURNOVER				
Greater China (Note (a))	536,685	38.9	463,145	45.0
North America	455,327	33.0	278,247	27.1
Middle East	81,456	5.9	61,092	5.9
Australia and New Zealand	97,236	7.0	56,319	5.5
Europe	84,197	6.1	57,224	5.6
Others (Note (b))	125,876	9.1	112,307	10.9
	<u>1,380,777</u>	<u>100.0</u>	<u>1,028,334</u>	<u>100.0</u>

Notes:

- (a) Greater China included China, Hong Kong and Taiwan.
- (b) Other countries included countries in Africa and South America.

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COST OF SALES

Our cost of sales for the financial year ended 31 December 2005 increased by approximately 37.7% to approximately HK\$901.7 million, as compared with the financial year ended 31 December 2004. Such increase was mainly due to our growth in sales.

GROSS PROFIT

Our gross profit for the financial year ended 31 December 2005 was approximately HK\$479.0 million, representing an increase of approximately 28.2%, as compared with the financial year ended 31 December 2004. The overall gross profit margin slightly reduced from approximately 36.3% to approximately 34.7%, which was mainly due to the unexpected time required for the installation and testing of our new construction glass production lines at our Dongguan production complex. The longer time required resulted in slight delay in the timetable for the commencement of the operation of the production facilities and incurred certain wastage of materials and production time. Nonetheless, the Directors consider that the overall installation and trial operation process was smoothly implemented with no material difficulty. The aggregate depreciation charge attributed to the new equipment and buildings at our Dongguan and Wuhu production complexes slightly increased, as part of our direct production costs which affected our overall gross profit margin.

Compared to the financial year ended 31 December 2004, gross profit margin of sale of our automobile glass products for the financial year ended 31 December 2005 slightly increased from approximately 39.5% to approximately 40.2% which was principally due to the improvement of production efficiency at our Shenzhen, Dongguan and Wuhu production complexes. During the financial year ended 31 December 2005, our gross profit margin of sales of our construction glass products decreased from approximately 28.9% to 21.2% which was principally due to the increase in the depreciation charge and the additional costs incurred on installation and trial operations of the newly installed plant and equipment for the production of our new product, "low-emission coated" glass, at our Dongguan production complex.

OTHER REVENUES

Our other revenues were approximately HK\$22.9 million for the financial year ended 31 December 2005, as compared to approximately HK\$26.8 million in the financial year ended 31 December 2004. Such decrease was principally due to a deferred receipt of the government grant in China under the "tax refund on reinvestment" scheme amounted to approximately HK\$3.6 million until the commencement of commercial operation of our float glass production lines. The government grant received for the financial year ended 31 December 2005 was only approximately HK\$13.0 million due to lesser reinvestment amount for the financial year ended 31 December 2004, whereas we received approximately HK\$20.4 million government grant in the financial year ended 31 December 2004. In addition, interest income soared by approximately HK\$2.7 million due to the deposit of the listing proceeds derived from our initial public offering in February 2005.

SELLING AND MARKETING COSTS

Our selling and marketing costs increased by approximately 62.6% to approximately HK\$147.5 million for the financial year ended 31 December 2005. Such increase was principally due to the increase in our other selling expenses from approximately HK\$45.2 million to approximately HK\$88.4 million, as some of our new customers required us to bear the transportation costs and the increase in international sea freight rates. Advertising costs also increased for the principal purpose of exploring new market and promoting new products, such as our low-emission coated glass products, in the Greater China and other countries and territories.

ADMINISTRATIVE AND GENERAL EXPENSES

Our administrative and general expenses increased by approximately 27.2% to approximately HK\$71.9 million for the financial year ended 31 December 2005 which was principally due to an increase in donations of approximately HK\$5.0 million, increase in the bad debt provision of approximately HK\$2.5 million and increase in administrative staff costs by our production complexes in Dongguan and Wuhu of HK\$6.0 million incurred for the financial year ended 31 December 2005.

FINANCE COSTS

Our finance costs increased by approximately 79.5% to approximately HK\$2.6 million in the financial year ended 31 December 2005. The increase was principally due to the increase in short-term loans for our working capital before the initial public offering in February 2005. Interests costs incurred for the acquisition of plant and machinery at our production complexes in Dongguan and Wuhu have been capitalized as part of our capital expenditure of the Group.

TAXATION

Our taxation was approximately HK\$19.5 million in the financial year ended 31 December 2005. Our effective tax rate slightly increased from approximately 5.8% to approximately 7.0% for the financial year ended 31 December 2005 was principally due to the change in the tax exemption status of one our major operating subsidiaries in China from 100% to 50%.

EBITDA AND NET PROFIT FOR THE YEAR

During the financial year ended 31 December 2005, the Company's EBITDA (i.e. earnings before interest, taxation, depreciation and amortization) reached approximately HK\$337.9 million, representing an increase of approximately 17.2%, as compared with approximately HK\$288.4 million for the financial year ended 31 December 2004. The Company's EBITDA margin, calculated based on turnover, for the financial year was approximately 24.5%, as compared to approximately 28.1% for the financial year ended 31 December 2004.

The net profit attributable to equity holders of the Company for the financial year ended 31 December 2005 was approximately HK\$260.1 million, representing an increase of approximately 10.3%, as compared to the net profit attributable to equity holders of the Company of approximately HK\$235.8 million for the financial year ended 31 December 2004. The net profit margin decreased from approximately 22.9% for the financial year ended 31 December 2004 to approximately 18.8% for the financial year ended 31 December 2005, principally due to the start up costs and depreciation charges attributed to the new equipment and buildings in our Dongguan and Wuhu production complexes, and the increase of overseas transportation costs.

DIVIDENDS

We declared interim dividends of HK\$46.3 million in 2005 and propose to declare a final dividend of 5.0 HK cent per Share for the financial year ended 31 December 2005, representing a dividend-pay out ratio of approximately 47.5%. The Directors believe that this dividend level is appropriate as the overall performance of the Group improved substantially as compared with the financial year ended 31 December 2004.

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NON-CURRENT ASSETS

Our non-current assets increased by approximately 77.7% to approximately HK\$1,629.8 million. Such increase was mainly due to the acquisition of additional plant and equipment and the down-payments made for the acquisition of plant and equipment at the production facilities in Dongguan and Wuhu.

TRADE AND OTHER PAYABLES

Our trade and other payables increased from approximately HK\$202.3 million as at 31 December 2004 to approximately HK\$306.9 million as at 31 December 2005. It was principally due to the increase in capital expenditure payable, representing the amounts payable to construction contractors and suppliers of equipment for construction and building of float glass production lines.

CAPITAL COMMITMENT

As at 31 December 2005, the Group had capital commitments of approximately HK\$161.7 million, which was approximately HK\$11.8 million higher than that as at 31 December 2004. The balance mainly represented the purchases of plant and equipment for the float glass lines in our Dongguan production complex.

OPERATING LEASES COMMITMENT

As at 31 December 2005, our operating leases commitment was approximately HK\$9.6 million, which was approximately HK\$3.5 million higher than that as at 31 December 2004. Such increase was due to the new tenancy agreements made in China and Canada by the Group, of which the unutilised tenancy value amounted to approximately HK\$3.8 million and approximately HK\$2.7 million, respectively.

CONTINGENT LIABILITIES

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

CURRENT RATIO

Our current ratio for the financial year ended 31 December 2005 was approximately 1.47, as compared to that of approximately 1.07 in the year 2004. Our current ratio increased because of the increase in trade and bills receivables and inventories which were consistent with increment in the sales volume during the financial year.

TRADE AND BILLS RECEIVABLES TURNOVER DAYS

Our trade and bills receivables turnover days for the financial year was approximately 74.5 days, which slightly increased from approximately 67.4 days in the financial year 2004 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 84.8 days to approximately 80.8 days in the financial year 2005 as a result of better control on inventory level to improve cash flow.

NET CURRENT ASSETS

As at 31 December 2005, we had net current assets of approximately HK\$246.0 million, as compared with approximately HK\$42.5 million as at 31 December 2004. The increase was principally due to repayment of short term bank borrowings as the Group had a better financial position for the financial year ended 31 December 2005.

FINANCIAL RESOURCES AND LIQUITY

During the financial year ended 31 December 2005, our primary source of funding included cash generated from operating activities and credit facilities provided by our principal banks in Hong Kong and China. Net cash inflow from operating activities amounted to approximately HK\$227.7 million (2004: HK\$206.8 million) as a result of our working capital management which generated a net cash surplus from operations. As at 31 December 2005, we had a bank balances and cash of HK\$140.9 million (2004: HK\$248.3 million).

As at 31 December 2005, we had a total bank loan of approximately HK\$333.9 million, representing a decrease of approximately 44.5 per cent. as compared with the same as at 31 December 2004. Such decrease was principally due to our successful initial public offering completed in February 2005 which provided us additional funding to mitigate our needs to arrange for short-term loans with banks.

Our gearing ratio as at 31 December 2005, calculated by dividing the total liabilities by the total assets of our Group as at 31 December 2005, was approximately 27.1%. which reduced from approximately 50.3%. as at 31 December 2004.

PLEDGE OF ASSETS

As at 31 December 2005, bank balance of approximately HK\$11.1 million were pledged as collateral for banking facilities of the Group.

USE OF NET PROCEEDS FROM INITIAL PUBLIC OFFERING

As at the date of this report, a total of approximately HK\$700.1 million has been used for the purchase of machinery and equipment, factory construction and building renovation in our Dongguan production complex and our Shenzhen production complex. The proposed usage is consistent with the disclosure in the Company's prospectus dated 24 January 2005.

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TREASURY POLICIES AND EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

Our business transactions are mainly denominated in Renminbi, U.S. dollar and Hong Kong dollar with operations mainly in China. As at 31 December 2005, our bank borrowings were denominated in Renminbi and Hong Kong dollar with interest bearing at rates ranging from 4.7 per cent. to 4.9 per cent. per annum. Our exposure to the foreign exchange fluctuations was minimal and we have not experienced any material difficulties which affect our 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 2005, we had 4,660 full-time employees of which 4,556 were based in China, 72 in Hong Kong and 30 in Canada and 2 were based in Germany. We maintain a good relationship with our employees. We provide staff training 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 performance of individual employee.

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

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.

As at the date hereof, an aggregate of 8,520,000 options have been granted to employees of the Group of which 600,000 options have 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 subsidiary of the Company during the exercising period. If any of the option proposed to be granted hereby shall not have been exercised by the holders before 26 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.

BUSINESS OUTLOOK

We enter into a new era following the successful initial public offering completed in February 2005. The initial public offering has strengthened our shareholders base, enhanced our corporate governance system and increased the financial resources available for our future business development. We raised from the initial public offering gross proceeds of an aggregate of approximately HK\$835.9 million, following the exercise of the over-allotment option as part of the offering.

Looking ahead, we will leverage our strengths to capture new business opportunities, develop new products and improve the efficiency of our production activities. We are confident that we will be able to capitalise the surging market demand for both aftermarket automobile glass and construction glass in China and overseas. In particular, we believe that China 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 China. In order to capture this market trend, we will establish a business presence in Japan to strengthen our customer base there and build an aftermarket automobile glass plant in Tianjin to service the northern China market. Upstream vertical integration by way of installing float glass production lines, OEM of automobile glass and business diversification will continue to be our overall directions in business development.

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.