MARKET REVIEW

In 2005, the flat glass industry reached its cyclical trough with a substantial year-on-year fall in industry profit, primarily attributable to the joint effect of a considerable increase in production capacity, a price slip following a decelerating growth in glass demand, and a substantial increase of the cost of sales.

According to the statistics of China Architectural and Industrial Glass Association, the total output of the flat glass industry of China rose 17% year-on-year to 365 million weight cases in 2005. Twenty-four glass production lines commenced operation in 2005, representing an increase of 72 million weight cases in production capacity. Meanwhile, investments in fixed assets and real estate both felt the impact of the state's macroeconomic austerity measures and slowed down at various degrees. The sales/output ratio of the glass industry fell by 2% year-on-year. A surge in output and a decelerating growth of glass demand have pushed glass prices into the doldrums. In 2005, the national price of 5mm float glass dropped by 23% from RMB72.23 per weight case early in 2005 to RMB55.81 per weight case at the end of the year.

Meanwhile, 2005 witnessed a significant increase in the prices of major fuels. According to China Building Materials Information, the heavy oil procurement price of key associated enterprises in contact with the state increased from approximately RMB1,500 per ton in the first quarter of 2005 to approximately RMB2,400 per ton in the fourth quarter (a year-on-year rise of 49% in the fourth quarter). The cost of enterprises had risen significantly, which was driven by the continual escalation of fuel prices. In 2005, the cost of sales of the PRC glass industry was up 28% year-on-year, while sales revenue only rose 12% year-on-year.

Dropping selling prices and increasing costs have led to a substantial profit fall in the PRC flat glass industry. The total profit of the flat glass industry in 2005 significantly decreased comparing with 2004, signifying a rise of corporate losses and the cyclical trough reached by the industry.

BUSINESS REVIEW

The Group is currently operating three flat glass production lines, one of which was newly constructed during the year ended 31 December 2005. The construction was completed on 25 September 2005 and the production lit-up on 1 October 2005. The production capacity of the Group expanded by two-thirds, with the melting capacity increased from approximately 900 tons to 1,500 tons daily.

During 2005, the Group produced 6.29 million weight cases of flat glass, representing an increase of 6% as compared to that of last year. It recorded a sales volume of 6.07 million weight cases, representing a drop of 1% as compared to that of last year. Sales/production ratio during the year was 97%, representing a decrease of 7 percentage points as compared to that of last year. During 2005, domestic sales volume accounted for 67% of the total sales volume, representing a decrease of 13 percentage points as compared to that of last year. Export volume accounted for 33% of the total sales volume in 2005, representing an increase of 13 percentage points as compared to that of 2004.

Under the influence of oversupply in the market and fuel and raw material price hikes, the glass industry entered into a down cycle in 2005. Falling glass price and soaring cost all led to decrease in the operating profit of enterprises in the glass industry, some of which even recorded a loss. The Group had taken the following measures to weaken the impact of the down cycle.

Enhancing product quality and mix – In order to satisfy market demand for quality glass and product mix, and to enhance the competitiveness of the Group for a higher return, the Group completed during 2005 the construction of the third production line, which already commenced production and is now capable to deliver quality flat glass. Moreover, the production line can deliver thick flat glass in light of market situations.

Raising export volume – The export market price of glass has generally been more stable than the market price of glass for domestic sales. Facing oversupply in the domestic market, the Group decided to increase returns by developing more export markets and channels during 2005. This measure assisted our business to raise the proportion of export volume and maintain the stability of our price. During 2005, the proportion of export volume increased by 13 percentage points, from 20% in last year to 33%. The number of export countries increased from 27 in 2004 to 33 in 2005.

Cost reduction measures – The price of heavy oil, a fuel used in the production of glass, increased vigorously during 2005 due to the continuous rise of crude oil price during the same period. In order to reduce production cost, the Group replaced heavy oil with coal fuel product in one of its production lines at the end of last year and implemented the same measure on another production line at the end of June 2005. The Group's third production line also carries out its production by using coal fuel product. Therefore, the fuel cost of the Group increased by only 14%, from RMB91.23 million in 2004 to RMB103.88 million in 2005, far lower than the 50% increase in the average price of heavy fuel oil this year as compared to that of last year. According to China Building Materials Information, the average price of heavy oil increased from RMB1,605 per ton last year to RMB2,402 per ton in 2005.

OUTLOOK

Demand for glass will continue to grow with the continuous rapid development in the PRC economy in the future. Despite the glass industry being in a down cycle in 2005, the sales/production ratio of the flat glass market was still maintained at 96%. The Group believes that the flat glass business will be able to maintain a stable growth.

Over the last few years, the PRC has published a full set of laws, regulations and policies to encourage energy saving and improve the energy utilisation efficiency. According to China Building Materials Information, currently, over 90% of residential housing windows are single glazed glass. In developed countries, the replacement and upgrading of windows represents a large portion of glass demand and is, in some cases, mandated by law. As the PRC's energy efficiency efforts strengthen and household income increases, double-glazed, safety, coated, low-emissivity and other further processed glass products should begin to play a more significant role in the development of the PRC glass industry.

The growth in the construction industry is another important factor triggering the glass consumption. The construction industry is the main consumption sector of various glass products. With the reform in the PRC's residential housing sector, improved financing facilities for home buyers and a broad increase in living standards in the PRC, demand for residential housing is expected to grow in the coming years. In addition, the PRC's growing urban population has also been a key driver of growth in the construction industry. According to the National Bureau of Statistics of the PRC, between 1978 and 2004, the percentage of the PRC's population living in urban areas increased from 17.9% to 41.8%, creating substantial demand for residential housing in the cities in the PRC.

The rapid growth of glass supply in 2004 and 2005 led to current oversupply in the glass market, which resulted in the loss recorded by certain glass manufacturing enterprises. In 2006, the glass industry is still under the pressure of increasing production cost and the selling prices of the products still haunt at a low level. Certain glass manufacturing enterprises terminated their production and carried out cold maintenance in advance one after another due to the pressure on their operating capital. It is expected that the future glass production volume will be mitigated for this reason.

The main driver behind the excessive capacity growth of glass sector in the PRC is low industrial concentration. The sector's cyclical low presents opportunities for acquisitions and mergers. The Group has been practicing a strategy of both organic growth and inorganic growth through acquisitions and mergers, and restructurings. As at 14 February 2006, the Group announced acquisitions of controlling equity interests of seven companies. Upon completion of such acquisitions which is subject to the shareholders' approval at a special general meeting of the Company, the production line of the Company in operation will increase from 3 lines to 14 lines (including 2 sheet glass lines and 1 rolled glass line), and the melting capacity will increase from 1,500 ton/day to 4,780 ton/day. The acquisitions are the Company's efforts to strive to become one of the largest flat glass producers in the PRC.

The product mix of the Company currently only includes clear glass and tinted glass. Upon the acquisitions, the product mix of the Company will expand to coated glass and more value added glass like low-e glass.

The Company will not only acquire a number of leading technologies to produce glass with more features, but also a strong research and development team that has leading position in the PRC and can independently develop in this regard.

The Company will have more access to international market, exporting to over 20 countries through the existing distribution network of the companies.

The Company will have better sales coverage and production base in major domestic markets including East China, North West and North China.

FINANCIAL REVIEW

Turnover

The Group's turnover dropped by approximately 10% from RMB429.74 million for the year ended 31 December 2004 to RMB386.49 million for the year ended 31 December 2005, which was mainly attributable to the cyclical fluctuations in the glass industry. Oversupply in the glass market led to declines in the price and sales volume of glass.

Cost of sales

The Group's cost of sales increased by approximately 7% from RMB303.47 million for the year ended 31 December 2004 to RMB324.92 million for the year ended 31 December 2005. This was mainly attributable to the increase in cost per weight case as a result of the increase in the costs of fuel and soda ash, a raw material. The increase in fuel oil price reflected the global crude oil price hike in 2005. For this reason, the Group had replaced heavy oil with coal fuel product in one of its production lines at the end of last year, and implemented the same measure in another production line at the end of June this year.

Gross profit

The Group's gross profit dropped by approximately 51% from RMB126.27 million for the year ended 31 December 2004 to RMB61.57 million for the year ended 31 December 2005. This was mainly attributable to declines in the price and sales volume of glass and increase in the costs of fuel and raw materials. Gross profit margin dropped from 29% in 2004 to 16% in 2005.

Other revenue

The Group's other revenue increased by approximately 1,225% from RMB0.12 million for the year ended 31 December 2004 to RMB1.59 million for the year ended 31 December 2005, which was mainly attributable to the increase in the interest income from banks.

Other net income/(loss)

The Group's other net income/(loss) increased by approximately 366% from a net loss of RMB0.44 million for the year ended 31 December 2004 to a net income of RMB1.17 million for the year ended 31 December 2005, which was mainly attributable to the gain from the sales of heavy oil as the Group became using coal fuel product instead of heavy oil during the year.

Distribution costs

The Group's distribution costs increased by approximately 17% from RMB14.01 million for the year ended 31 December 2004 to RMB16.38 million for the year ended 31 December 2005, which was mainly attributable to the increase in the cost of exports due to the increase in export sales.

Administrative expenses

The Group's administrative expenses increased by approximately 14% from RMB20.40 million for the year ended 31 December 2004 to RMB23.29 million for the year ended 31 December 2005, which was mainly attributable to the increase in office expenses and professional fees after the listing of the Company (the "Listing").

Finance costs

The Group's finance costs increased by approximately 40% from RMB5.52 million for the year ended 31 December 2004 to RMB7.74 million for the year ended 31 December 2005, which was mainly attributable to the interest expenses for the purchase of land use rights.

Income tax

The Group's income tax decreased by approximately 91% from RMB9.31 million for the year ended 31 December 2004 to RMB0.83 million for the year ended 31 December 2005, which was mainly attributable to the tax benefits obtained by the Group's subsidiaries in the PRC. According to the PRC Income Tax Law for the Foreign Investment Enterprise and Foreign Enterprise (《中華人民共和國外商投資企業和外國企業所得稅法》), being as a foreign investment enterprise of a production nature with an operation period of not less than ten years, the Group's subsidiaries enjoy a complete exemption from enterprise income tax for the two years commencing from the first year they make a profit and a 50% exemption from enterprise income tax in the subsequent three years.

Non-current assets

The Group's non-current assets increased by approximately 109% from RMB270.91 million as at 31 December 2004 to RMB567.13 million as at 31 December 2005, which was mainly attributable to the establishment of the Group's newly-completed third production line and the purchase of land use rights during the year.

Current assets

The Group's current assets increased by approximately 19% from RMB165.95 million as at 31 December 2004 to RMB197.14 million as at 31 December 2005, which was mainly attributable to the cyclical fluctuations in the glass industry which led to decline in sales volume and increase in inventories. The increase in current assets was also attributable to the increase in export volume which led to increase in value added tax reimbursement and the increase in cash as a result of the proceeds from the Listing.

Current liabilities

The Group's current liabilities increased by approximately 88% from RMB168.08 million as at 31 December 2004 to RMB315.16 million as at 31 December 2005, which was mainly attributable to the reclassification of long-term bank loans to current liabilities as they approach their maturity and the increase in the construction costs payable in respect of the newly-completed third production line.

Non-current liabilities

The Group's non-current liabilities decreased by approximately 58% from RMB120.19 million as at 31 December 2004 to RMB51.05 million as at 31 December 2005, which was mainly attributable to the reclassification of long-term bank loans to current liabilities as they approach their maturity and the purchase of land use rights.

Capital structure, liquidity, financial resources and assets-liabilities ratio

As at 31 December 2005, the Group's cash and cash equivalents were RMB113.59 million of which 19% was denominated in RMB, 1% in United States dollars ("USD") and 80% in Hong Kong dollars ("HKD") (2004: RMB106.45 million), and the outstanding bank loans were RMB150 million of which all of them was denominated in RMB (2004: RMB166 million). As at 31 December 2005, the gearing ratio (total interest-bearing debts divided by total assets) was 27% (2004: 38%), the improvement of which was primarily attributable to the increase in assets as a result of the completion of the third production line. As at 31 December 2005, the Group's current ratio (current assets divided by current liabilities) was 0.63 (2004: 0.99), and the fall of which was mainly attributable to the reclassification of long-term bank loans to current liabilities as they approach their maturity. Assets-liabilities ratio (total liabilities divided by total assets) was 0.48 (2004: 0.66), the fall of which was primarily attributable to the increase in assets as a result of the completion of the third production line.

Details of the bank loans are set out in Note 22 to the financial statements.

Material investment, acquisition and disposal

Details of the construction of a third production line have been disclosed in the Prospectus under the section headed "Future Plans and Use of Proceeds". The construction was completed on 25 September 2005 and the production lit-up on 1 October 2005.

During the year ended 31 December 2005, the Company formed a company, namely JV Investments Limited ("JV Investments"), with Mei Long Developments Limited ("Mei Long") and Pilkington Italy Limited ("Pilkington Italy"). JV Investments has been established as a vehicle for the purpose of acquiring and consolidating a number of glass manafacturing facilities in the PRC. As at 31 December 2005, JV Investments was owned as to 65.05%, 25.05%, and 9.90% by the Company, Mei Long and Pilkington Italy respectively.

Other than disclosed above, the Group did not have any material investments or capital assets, or material acquisitions or disposals of subsidiaries and affiliated companies during the year ended 31 December 2005.

Human resources and employees' remuneration

As at 31 December 2005, the Group had employed a total of approximately 1,380 employees in the PRC and Hong Kong (31 December 2004: about 1,370 employees). According to the relevant market situation, the Group's employee's remuneration level had maintained in a competitive level, and it also corresponds with the employees' performance. The Group may offer performance-based bonus to staff by the discretion of the Board of Directors. Bonus has been paid during the year ended 31 December 2005 amounting to RMB0.75 million.

The employees of the companies in the Group which were established in the PRC and in Hong Kong participate in defined contribution retirement benefit scheme and Mandatory Provident Fund Scheme, respectively. No contribution to the above schemes were forfeited for the year ended 31 December 2005. Details of staff costs and pension schemes were set out in Note 7(b) to the financial statements.

Charge on assets

As at 31 December 2005, the Group had not charged any of its assets.

Capital commitments

As at 31 December 2005, details of the Group's capital commitments were set out in Note 29(a) to the financial statements.

Contingent liabilities

As at 31 December 2005, the Group did not have any significant contingent liabilities.

Exchange rate risk and related hedging

The Group's sales transactions and monetary assets were primarily denominated in HKD, RMB and USD. Operating expenses and domestic sales of the Group's PRC subsidiaries were primarily denominated in RMB except that overseas sales income was in USD. Although the People's Bank of China had announced on 21 July 2005 that the PRC adopted the new floating exchange rate system in RMB, the Group was of the opinion that it was a normal adjustment to the historical value of RMB and the future appreciation of RMB will closely associate with the development of the PRC economy. With the sustainable development of the PRC economy, the Group expects that RMB will continue to appreciate. Our net assets, profits and dividends may be affected by the fluctuation of the RMB exchange rate.

During the year ended 31 December 2005, the Group did not adopt any derivatives for hedging purposes.

Major customers and suppliers

The percentage of purchases and sales for the year ended 31 December 2005 attributable to the Group's major suppliers and customers are as follows:

Purchases	
– the largest supplier	27%
– five largest suppliers combined	57%
Sales	
– the largest customer	16%
– five largest customers combined	39%

During the year ended 31 December 2005, no director of the Company (the "Director(s)") or any associates of a Director or any shareholder (which to the knowledge of the Directors own more than 5% of the Company's share capital) of the Company has any interest in any of the Group's five largest customers and suppliers.