

INTRODUCTION

The Group produces and sells a variety of glass products, ranging from automobile glass, construction glass, high quality float glass and other glass products for decorative and commercial applications. The Group has production facilities in Shenzhen, Dongguan, Wuhu and Tianjin in China. According to the "China Trade Information" report, a monthly research report issued by Goodwill China Business Information Ltd., the Group has been the largest Chinese exporter of automobile glass products since 2004 in terms of export volume. In addition to glass products, the Group also produces automobile rubber and plastic components that are sold together with our automobile glass products. The Group also undertakes construction projects in China that involve principally installation of glass curtain walls.

Founded in Hong Kong in 1989, the Group today sells its automobile glass products to customers in approximately 100 countries and territories, including China, Hong Kong, the United States, Canada, Australia, New Zealand, the Middle East, Europe, Africa and Central and South America. Its customers include companies in different businesses, including automobile glass manufacturing, glass wholesale and distribution, automobile repairing, motor vehicle manufacturing, construction and furniture and household appliances manufacturing.

BUSINESS REVIEW

The Group achieved significant business growth for the financial year ended 31 December 2006. Our sales and net profit attributable to equity holders of the Company reached approximately HK\$1,933.2 million and approximately HK\$388.2 million, respectively, representing a year-on-year increase of approximately 40.0% and approximately 49.3%, as compared to approximately HK\$1,380.8 million and approximately HK\$260.1 million for the financial year ended 31 December 2005. The compound annual growth rate of the Group's sales and net profit attributable to equity holders of the Company was approximately 34.2% and 26.4%, respectively, for the five years ended 31 December 2006.

Our major construction glass product "low emission coated glass" continued to be one of our most popular products in 2006. Its environmentally friendly and energy saving features are generally consistent with the policy objectives outlined in "Eleventh Five Years Plan" of China.

The new float glass plant in our Dongguan production complex has commenced production during the year. The first 700-tonne high quality float glass production line started commercial production in the second quarter of 2006, and the second one of 500-tonne started commercial run in the third quarter of 2006.

We launched our new high quality float glass products at the right time to capture the emerging opportunities in the industry rebound in mid-2006. Addition of the new production lines capable of high yields, the high quality float glass operation became a major growth driver of our business in the second half of the year.

OPERATIONAL REVIEW

SALES

Our sales increased by approximately 40.0% for the financial year ended 31 December 2006, as compared with that for the financial year ended 31 December 2005. The increase was principally due to the substantial growth of our float glass and construction glass sales in China, Hong Kong and Taiwan and automobile glass export sales to countries in North America and Europe. In addition, the improved sales performance was also attributable to the new products launched during the year and new customers and orders resulting from our business development efforts.

The tables below show the analysis of our sales by products and by geographical regions:—

| | Financial year ended 31 December | | | |
|--------------------------------------|----------------------------------|--------------|------------------|--------------|
| | 2006 | | 2005 | |
| | HK\$'000 | % | HK\$'000 | % |
| Sales | | | | |
| Automobile glass products (Note 1) | 1,229,330 | 63.6 | 990,933 | 71.8 |
| Construction glass products (Note 2) | 498,038 | 25.8 | 389,844 | 28.2 |
| High quality float glass products | 205,805 | 10.6 | — | — |
| | <u>1,933,173</u> | <u>100.0</u> | <u>1,380,777</u> | <u>100.0</u> |

Notes:

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

| | Financial year ended 31 December | | | |
|--------------------------|----------------------------------|--------------|------------------|--------------|
| | 2006 | | 2005 | |
| | HK\$'000 | % | HK\$'000 | % |
| Sales | | | | |
| Greater China (Note (a)) | 874,284 | 45.2 | 536,685 | 38.9 |
| North America | 659,043 | 34.1 | 455,327 | 33.0 |
| Europe | 123,558 | 6.4 | 84,197 | 6.1 |
| Others (Note (b)) | 276,288 | 14.3 | 304,568 | 22.0 |
| | <u>1,933,173</u> | <u>100.0</u> | <u>1,380,777</u> | <u>100.0</u> |

Notes:

- (a) Greater China included China, Hong Kong and Taiwan.
- (b) Others included countries in Australia, New Zealand, Africa, the Middle East and South America.

Management's Discussion & Analysis

COST OF SALES

Alongside growth in sales, our cost of sales for the financial year ended 31 December 2006 was approximately HK\$1,233.0 million, representing an increase of approximately 36.7% , as compared with that for the financial year ended 31 December 2005.

GROSS PROFIT

Our gross profit for the financial year ended 31 December 2006 was approximately HK\$700.2 million, representing an increase of approximately 46.2% as compared with that for the financial year ended 31 December 2005. Overall gross profit margin increased from approximately 34.7% to approximately 36.2%, attributable to enhanced cost control and better pricing of new products.

OTHER REVENUE

Our other revenue totalled approximately HK\$21.9 million for the financial year ended 31 December 2006, as compared to approximately HK\$16.3 million for the financial year ended 31 December 2005. The increase was mainly due to the receipt of the government grant of approximately HK\$3.6 million under the "tax refund on reinvestment" scheme in China which was deferred from last year to match the commencement of commercial operation of our high quality float glass production lines in 2006.

SELLING AND MARKETING COSTS

Our selling and marketing costs increased by approximately 43.2% to approximately HK\$211.2 million for the financial year ended 31 December 2006. The increase was principally due to the increase in other selling expenses from approximately HK\$88.4 million in 2005 to approximately HK\$122.9 million in 2006, as we were required by some of our new customers to bear transportation costs and the increase in international sea freight rates in relation to shipment. Advertising costs also increased as a result of the Group spending more on exploring new markets and promoting new products such as our low emission coated glass and high quality float glass products in Greater China and other countries and territories.

ADMINISTRATIVE AND GENERAL EXPENSES

Our administrative and general expenses increased by approximately 53.9% to approximately HK\$110.7 million for the financial year ended 31 December 2006, attributable principally to an increase in bad debt provision of approximately HK\$5.4 million and increase in administrative staff costs of approximately HK\$13.2 million for the financial year ended 31 December 2006.

FINANCE COSTS

Our finance cost increased by approximately 3.4 times to approximately HK\$11.5 million for the financial year ended 31 December 2006. The increase was principally due to an increase in short-term loans for use as working capital of new operations. Interest costs were incurred in relation to the acquisition of plant and machinery at our production complex in Dongguan, but they were expensed when the new production lines commenced commercial operation. Interest expenses of HK\$9.0 million were capitalised under construction-in-progress for the financial year ended 31 December 2006.

TAXATION

Our income tax expense amounted to approximately HK\$16.0 million for the financial year ended 31 December 2006. Our effective tax rate decreased from approximately 7.0% to approximately 4.0% for the financial year ended 31 December 2006, mainly due to the tax exemptions enjoyed by our operating subsidiaries in China.

EBITDA AND NET PROFIT FOR THE YEAR

During the financial year ended 31 December 2006, the Group's EBITDA (i.e. earnings before interest, taxation, depreciation and amortisation) reached approximately HK\$512.9 million, representing an increase of approximately 51.9%, as compared to approximately HK\$337.6 million for the financial year ended 31 December 2005. The Group's EBITDA margin, calculated based on turnover, for the financial year, was approximately 26.5%, as compared to approximately 24.5% for the financial year ended 31 December 2005.

Net profit attributable to equity holders of the Company for the financial year ended 31 December 2006 was approximately HK\$388.2 million, representing an increase of approximately 49.3%, as compared to approximately HK\$260.1 million for the financial year ended 31 December 2005. Net profit margin increased from approximately 18.8% for the financial year ended 31 December 2005 to approximately 20.1% for the financial year ended 31 December 2006 as a result of improved cost efficiency, better product mix and commencement of the new float glass operation.

DIVIDENDS

We proposed to declare a final dividend of 7.0 HK cents per Share for the financial year ended 31 December 2006. That together with the interim dividend of HK\$64.2 million for the year already distributed represented a dividend pay out ratio of approximately 44.7%. The Directors believe that this dividend level is appropriate in reflecting the substantial improvement in overall performance of the Group for the financial year ended 31 December 2006 as compared with the financial year ended 31 December 2005.

NON-CURRENT ASSETS

Our non-current assets increased by approximately 26.1% to approximately HK\$2,055.8 million. The increase was mainly due to the acquisition of additional plant and equipment and the down payments made to acquire plant and equipment for the production facilities in Dongguan.

TRADE AND OTHER PAYABLES

Our trade and other payables increased from approximately HK\$306.9 million as at 31 December 2005 to approximately HK\$570.7 million as at 31 December 2006. It was principally due to the increase in employee benefit and welfare payable.

Management's Discussion & Analysis

CAPITAL COMMITMENTS

As at 31 December 2006, the Group had capital commitments of approximately HK\$212.3 million, which are approximately HK\$50.6 million more than that as at 31 December 2005. The balance mainly represented the purchases of plant and equipment for the high quality float glass lines in our Dongguan production complex.

OPERATING LEASES COMMITMENTS

As at 31 December 2006, our operating leases commitments were approximately HK\$7.5 million, which were approximately HK\$2.1 million less than that as at 31 December 2005. The decrease was due to no new tenancy agreement signed in China and Canada by the Group, where the remaining tenancy agreement value amounted to approximately HK\$3.0 million and approximately HK\$2.1 million, respectively.

CONTINGENT LIABILITIES

As at 31 December 2006, the Group had no significant contingent liabilities.

CURRENT RATIO

Our current ratio for the financial year ended 31 December 2006 was approximately 1.3, as compared to approximately 1.5 in the year 2005. The slight decrease was because of an increase in trade and other payables and bank borrowings, corresponding to the addition of new production lines during the financial year.

TRADE AND BILLS RECEIVABLES TURNOVER DAYS

With offering longer credit terms to selected customers during the year, our trade and bills receivables turnover days for the financial year was approximately 77.5 days, slightly more than the approximately 74.5 days in the financial year 2005.

INVENTORY TURNOVER DAYS

Our inventory turnover days for the financial year increased from approximately 80.8 days to approximately 89.7 days in the financial year 2006, due to the need to keep a safe storage level for the new high quality float glass operation.

NET CURRENT ASSETS

As at 31 December 2006, we had net current assets of approximately HK\$270.5 million, as compared to approximately HK\$246.0 million as at 31 December 2005. The Group was in a better financial position and had more cash on hand for the financial year ended 31 December 2006 than that in the previous year.

FINANCIAL RESOURCES AND LIQUIDITY

During the financial year ended 31 December 2006, our primary sources of funding included cash generated from operating activities, credit facilities provided by our principal banks in Hong Kong and China and issuing of new Shares with gross proceeds in aggregate of approximately HK\$191.3 million on 6 June 2006. Net cash inflow from operating activities amounted to approximately HK\$365.6 million (2005: HK\$227.7 million), as a result of better working capital management which generating a net cash surplus from operations. As at 31 December 2006, we had bank balances and cash of approximately HK\$172.8 million (2005: HK\$140.9 million).

As at 31 December 2006, we had bank loans totalling approximately HK\$414.6 million, representing an increase of approximately 24.2% over that as at 31 December 2005. The rise was principally due to the increased capital expenditures for the year.

Our net debt gearing ratio as at 31 December 2006, calculated by dividing the net bank debt by the total equity of the Group as at 31 December 2006, was approximately 10.8%, slightly lower than the approximately 11.0% as at 31 December 2005.

PLEDGE OF ASSETS

As at 31 December 2006, bank balance of approximately HK\$10.4 million were pledged as collateral for banking facilities.

USE OF NET PROCEEDS FROM INITIAL PUBLIC OFFERING

As at the date of this report, the net proceeds of approximately HK\$835.9 million from the initial public offering had been fully used for purchase of machinery and equipment, factory construction and renovation of buildings for the Dongguan production complex and Shenzhen production complex, as described in the Company's prospectus dated 24 January 2005.

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 Hong Kong and China. As at 31 December 2006, our bank borrowings were denominated in Renminbi and Hong Kong dollar with effective interest bearing at the rates of 5.0% and 4.7% per annum respectively. Our exposure to foreign exchange fluctuations was minimal and we have not experienced any material difficulties resulting from exchange rate fluctuations that had affected our operations or liquidity. We may use financial instrument for hedging purpose when appropriate.

Management's Discussion & Analysis

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2006, we had 5,124 full-time employees of whom 5,080 were based in Greater China and 44 were based in other countries. We maintain good relationship with our employees. We provide staff training on business knowledge including information on the applications of our products and skills in maintaining good client relationship. Remuneration packages offered to our staff are in line with prevailing market terms and reviewed on a regular basis. Discretionary bonuses may be rewarded to employees taking into consideration the Group's performance and performance of the individual employee.

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

We also adopted a share option scheme on 18 January 2005 for the purpose of providing incentives and rewards to eligible participants who have contributed to the success of our operations. The Directors may at their discretion, invite any employees or Directors and other eligible persons as set out in the scheme, to participate in the scheme.

As at the date of this announcement, an aggregate of 8,520,000 options had been granted to employees of the Group of which 570,000 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 between 27 January 2008 and 26 January 2009, provided that the holders are employees of subsidiaries of the Company during the exercise period. If any of the options proposed to be granted hereby have not been exercised by the holders before 27 January 2009, the un-exercised options outstanding shall lapse.

BUSINESS OUTLOOK

2006 was a milestone year in the Company's history. We used the net proceeds from the initial public offering as described in the Company's prospectus dated 24 January 2005. We achieved vertical integration in our glass production operation by commencing the commercial production of two new float glass production lines of 700-tonne and 500-tonne during the year.

Globalization is the predominant trend in the world market. We notice that there are many overseas customers outsourcing their production of different glass products to us. We also anticipate the continuous growth in demand for automobile glass, construction glass and float glass in coming years. The demand for environmentally friendly and energy saving products will continue to grow, especially in China. With the country's "Eleventh Five Years Plan" advocating environmental protection and energy conservation, demand for our low emission coated glass products is expected to soar.

We will continue to expand our product mix, such as Solar X for automobile glass, low emission coated glass for construction glass, photovoltaic glass for solar energy system and special high quality float glass to capture the anticipated growth in demands. We will also invest in research and development to help us enhance cost efficiency and develop new products, such as second generation Solar X, special glass for high-speed train, water repellent glass, self-cleaning glass, etc.

In light of a promising market, we will closely monitor appropriate opportunities for mergers and acquisitions to expand our business, vertically or horizontally and enjoy synergistic benefits.