



# REPORT OF THE DIRECTORS

The directors submit their report together with the audited accounts for the year ended 31 December 2003.

## PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The Company is principally engaged in the manufacturing and selling of glass products. The activities of the subsidiaries are set out in note 16 to the accounts.

An analysis of the Group's performance for the year by business and geographical segments is set out in note 3 to the accounts.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated profit and loss account on page 28.

The directors recommend the declaration and payment of a final dividend of RMB0.0948 per share to be payable to shareholders whose names appear on the register of members of the Company on 18 June 2004. Subject to the passing of the necessary resolution at the forthcoming Annual General Meeting, such dividend will be payable on or about 16 July 2004.

## RESERVES

Movements in the reserves of the Group and of the Company during the year are set out in note 26 to the accounts.

## FIXED ASSETS AND CONSTRUCTION-IN-PROGRESS

Details of the movements in fixed assets and construction-in-progress of the Group are set out in note 14 to the accounts.

## SHARE CAPITAL

Details of the movements in share capital of the Company are set out in note 25 to the accounts.

## DISTRIBUTABLE RESERVES

Distributable reserves of the Company at 31 December 2003, calculated according to the provisions of the Company Law of the People's Republic of China (the "PRC"), amounted to RMB184,907,000 (2002: RMB93,300,000).



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## PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association and there was no restriction against such rights under the laws of the PRC.

## FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 3.

## PURCHASE, SALE OR REDEMPTION OF SECURITIES

The Company has not purchased, sold or redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the year.

## SHARE CAPITAL STRUCTURE

As at 31 December 2003, the total number of shares issued by the Company was 578,713,000. The Company's shareholders were Mr. Feng Guangcheng, Mr. Feng Liwen, Mr. Feng Guangji, Mr. Xu Haichao, Mr. Jin Jinlong and holders of overseas listed foreign shares ("H shares"), who held 384,000,000 domestic shares, 4,000,000 domestic shares, 4,000,000 domestic shares, 4,000,000 domestic shares, 4,000,000 domestic shares and 178,713,000 H shares, respectively, representing 66.36%, 0.69%, 0.69%, 0.69%, 0.69% and 30.88% respectively, of the entire issued share capital of the Company.

## NUMBER OF SHAREHOLDERS

Details of the shareholders as recorded in the register of members of the Company at 31 December 2003 are as follows:

Total number of shareholders (including nominee companies)	272
Holders of domestic shares	5
Holders of H shares	267

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## LISTING OF H SHARES

The Company's H shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 10 December 2001. The Company did not issue any new shares during the year.

Performance of the Company's H shares in 2003:

	HK\$/H share
Closing price per H share at 31 December 2003	2.75
From 1 January 2003 to 31 December 2003 Highest traded price per H share	2.95
From 1 January 2003 to 31 December 2003 Lowest traded price per H share	0.83
From 1 January 2003 to 31 December 2003 Total number of H shares traded	492,727,000 shares

## MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.



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## DIRECTORS

The directors of the Company during the year were:

### **Executive Directors**

Mr. FENG Guangcheng  
Mr. FENG Liwen  
Mr. HUANG Bingzhi  
Mr. XU Haichao  
Mr. ZHANG Jiachao

### **Non-executive Directors**

Mr. DI Xiaofeng  
Mr. LIU Jianguo  
Mr. SHI Guodong  
Mr. ZHANG Yingsheng

### **Independent Non-executive Directors**

Dr. LI Jun  
Mr. WANG Yanmou

All the above directors were appointed on 26 September 2001 for a term of three years who shall be eligible for re-election upon the expiry of their terms.



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## DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

Each of the executive directors and internal supervisors has entered into a service agreement with the Company for a term of 3 years commencing 26 September 2001 and up to the date of the annual general meeting of the Company to be held in the year 2004.

Each of the non-executive and independent non-executive directors has entered into a letter of appointment with the Company for a term of 3 years commencing 26 September 2001 and up to the date of the annual general meeting of the Company to be held in the year 2004.

None of the directors and supervisors of the Company who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

## DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contracts of significance in relation to the Group's business to which the Company or its subsidiaries was a party and in which any of the directors and supervisors of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Brief biographical details of the directors, supervisors and senior management are set out on pages 12 to 15.

# REPORT OF THE DIRECTORS

## DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 31 December 2003, the interests and short positions of each Director, supervisor and chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (“SFO”)), which would have to be notified to the Company and The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) pursuant to Divisions 7 and 8 of Part XV of the SFO, or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Appendix 10 of the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”), to be notified to the Company and the Stock Exchange were as follows:

Name	The Company/ name of associated corporation	Capacity	Number and class of securities (Note)	Approximate percentage in the entire issued share capital of the Company/ associated corporation
<b>Director</b>				
Feng Guangcheng	The Company	Beneficial owner	384,000,000 domestic shares (L)	66.36%
Feng Liwen	The Company	Beneficial owner	4,000,000 domestic shares (L)	0.69%
Xu Haichao	The Company	Beneficial owner	4,000,000 domestic shares (L)	0.69%

Note: The letter “L” represents the interests in the share and underlying shares of the Company or its associated corporations.



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## SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES OF THE COMPANY

As at 31 December 2003, the following persons and entities, other than a director, supervisor or chief executive of the Company, had an interest or a short position in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Name of shareholder	Capacity	Number and class of securities (Note 1)	Approximate percentage in the relevant class of securities	Approximate percentage in the entire issued share capital of the Company
Xu Yujuan	Interest of spouse (Note 2)	384,000,000 domestic shares (L)	96%	66.36%
Cheah Cheng Hye	Interest of a controlled corporation (Note 3)	25,050,000 H shares (L)	14.02%	4.33%
Value Partners Limited	Investment manager	25,050,000 H shares (L)	14.02%	4.33%
The Capital Group Companies, Inc.	Investment manager (Note 4)	12,800,000 H shares (L)	7.16%	2.21%
Capital Research and Management Company	Investment manager	12,800,000 H shares (L)	7.16%	2.21%

Notes:

1. The letter "L" represents the entity's interest in the shares of the Company.
2. Ms Xu Yujuan is the wife of Mr Feng Guangcheng, an executive director of the Company, and is deemed to be interested in the shares in which Mr Feng Guangcheng is interested under the provision of Divisions 2 and 3 of Part XV of the SFO.
3. The interest in the H shares were held through Value Partners Limited, which was owned as to 32.53% by Mr Cheah Cheng Hye.
4. The interest in the H shares were held through Capital Research and Management Company, the share capital of which was wholly owned by The Capital Group Companies, Inc.

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## MAJOR CUSTOMERS AND SUPPLIERS

The percentages of purchases and sales for the year attributable to the Group's major suppliers and customers are as follows:

### Purchases

– the largest supplier	21%
– five largest suppliers combined	57%

### Sales

– the largest customer	10%
– five largest customers combined	29%

None of the directors, supervisors, their associates or any shareholder (which to the knowledge of the directors owns more than 5% of the Company's share capital) had an interest in the major suppliers or customers noted above.

## CONNECTED TRANSACTIONS

Connected transactions entered into by the Company during the year under review which are required to be disclosed in accordance with Chapter 14 of the Listing Rules are as follows:

On 1 July 2003, the Company entered into a service agreement with Zhejiang Technology Company Limited ("**Zhejiang Technology**"), which is indirectly owned as to 65.1% by Mr Feng Guangcheng, a director and substantial shareholder of the Company. Pursuant to the service agreement, the Company agreed to provide certain repair and maintenance services in relation to the office premises and production equipment of Zhejiang Technology located in its factory area, staff recruitment and training services, management and administration services, advisory services and technical support to Zhejiang Technology for the period from 1 July 2003 to 31 December 2003. The total consideration for the provision of the relevant services received by the Company for the year ended 31 December 2003 amounted to RMB7,334,000. Further details of the transaction are set out in the Company's press announcement dated 21 November 2003.





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In the opinion of the independent non-executive directors of the Company, the above transactions were on normal commercial terms and were fair and reasonable as far as the shareholders of the Company are concerned.

## COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

Throughout the year, the Company was in compliance with the Code of Best Practice as set out in the Listing Rules.

## AUDIT COMMITTEE

The written terms of reference which describe the authority and duties of the Audit Committee were prepared and adopted with reference to “A Guide for The Formation of An Audit Committee” published by the Hong Kong Society of Accountants.

The Audit Committee serves as an important link between the Board and the Company’s auditors in matters coming within the scope of the group audit. It also monitors the effectiveness of both the external and internal audit and is responsible for reviewing the mechanism of internal controls and risk evaluation. The Committee comprises two independent non-executive directors, namely Dr. Li Jun and Mr. Wang Yanmou. Two meetings were held during the financial year of 2003.

## DIRECTORS’ AND SUPERVISORS’ INTEREST IN COMPETING BUSINESS

None of the directors and supervisors is interested in any business which competes or is likely to compete, either directly or indirectly, with the Group’s business.

## SUBSEQUENT EVENTS

Details of significant events subsequent to the balance sheet date as at 31 December 2003 are set out in note 34 to the accounts.

## EMPLOYEES

As at 31 December 2003, the Group had 2,387 employees. The pay levels of the employees are commensurate with their responsibilities, performance and contribution.



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## MATERIAL LITIGATION

The Group was not involved in any material litigation during the year.

## EMPLOYEE RETIREMENT BENEFITS

All full time employees of the Group are covered by either a State-sponsored retirement plan in the PRC or a defined contribution retirement scheme in Hong Kong. Details of the employee retirement benefits are set out in note 27 to the accounts.

## EMPLOYEE BASIC MEDICAL INSURANCE

The employee basic medical insurance scheme currently implemented in Shaoxing County, Zhejiang Province where the Company is located is only applicable to large county enterprises and state enterprises in the County. As the Company does not belong to these types of enterprises, it is not yet subject to such medical insurance scheme at present. The Company will provide medical insurance to its employees by complying with the local regulations when it becomes applicable to the Company.

## BANK LOANS AND OTHER BORROWINGS

Details of bank loans, other borrowings and bank facilities of the Group are set out in notes 23 and 31 to the accounts.

## AUDITORS

The accounts have been audited by PricewaterhouseCoopers who will retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-appointment.

On behalf of the Board

**Feng Guangcheng**

*Chairman*

26 April 2004