

## REPORT OF THE DIRECTORS

The directors submit their report together with the audited accounts for the year ended 31 December 2004.

### 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 29.

An interim dividend of RMB0.056 was paid to the shareholders during the year. The directors recommend the declaration and payment of a final dividend of RMB0.0503 per share to be payable to shareholders whose names appear on the register of members of the Company on 19 May 2005. Subject to the passing of the necessary resolution at the forthcoming annual general meeting, such dividend will be payable on or about 17 June 2005.

### 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 2004, calculated according to the provisions of the Company Law of the People's Republic of China (the "PRC"), amounted to RMB284,879,000 (2003: RMB184,907,000).

### 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.

## REPORT OF THE DIRECTORS

### PURCHASE, SALE OR REDEMPTION OF SECURITIES

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 2004, 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 2004 are as follows:

Total number of shareholders (including nominee companies)	178
Holders of domestic shares	5
Holders of H shares	173

### 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 2004:

	HK\$/H share
Closing price per H share at 31 December 2004	2.475
From 1 January 2004 to 31 December 2004 Highest traded price per H share	3.625
From 1 January 2004 to 31 December 2004 Lowest traded price per H share	0.55
From 1 January 2004 to 31 December 2004 Total number of H shares traded	395,079,000 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.

## REPORT OF THE DIRECTORS

### DIRECTORS

The directors of the Company during the year and up to the date of this report were:

#### Executive Directors:

Mr. FENG Guangcheng ( <i>Chairman</i> )	
Mr. FENG Luwen	(effective from 18 June 2004)
Ms. XU Yujuan	(effective from 18 June 2004)
Ms. HONG Yumei	(effective from 8 November 2004)
Mr. WANG Yanchun	(effective from 8 November 2004)
Mr. FENG Liwen	(resigned on 4 January 2005)
Mr. XU Haichao	(resigned on 4 January 2005)
Mr. HUANG Bingzhi	(retired on 18 June 2004)
Mr. ZHANG Jiachao	(retired on 18 June 2004)

#### Non-executive Directors:

Mr. LIU Jianguo	
Mr. SHI Guodong	
Mr. DI Xiaofeng	(resigned on 4 January 2005)
Mr. ZHANG Yingsheng	(resigned on 4 January 2005)

#### Independent Non-executive Directors:

Dr. LI Jun	
Mr. WANG Yanmou	
Mr. WANG Herong	(effective from 6 August 2004)
Mr. SU Gongmei	(effective from 12 March 2005)

The Company considers that Dr. Li Jun, Mr. Wang Yanmou, Mr. Wang Herong and Mr. Su Gongmei are independent pursuant to the criteria set out in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and that confirmations of independence have been received from each of them.

The term of office of all the above directors (including Ms. Hong Yumei, Mr. Wang Yanchun, Mr. Wang Herong and Mr. Su Gongmei) will end on the expiry of three years from the last annual general meeting dated 18 June 2004.

All the above directors shall be eligible for re-election upon the expiry of their terms.

### 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 18 June 2004 and up to the date of the annual general meeting of the Company to be held in the year 2007.

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 18 June 2004 and up to the date of the annual general meeting of the Company to be held in the year 2007.

## REPORT OF THE DIRECTORS

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

Except for the contracts described in the section "CONNECTED TRANSACTIONS" on pages 23 to 24, 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 14 to 17.

### 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 2004, 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 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 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 2004, 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 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%
The Capital Group Companies, Inc.	Investment manager (Note 3)	12,800,000 H shares (L)	7.16%	2.21%
Capital Research and Management Company	Beneficial owner	12,800,000 H shares (L)	7.16%	2.21%
Pacific Dragon Fund L.L.C.	Beneficial owner	12,053,000 H shares (L)	6.74%	2.08%

#### 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 Capital Research and Management Company, the share capital of which was wholly owned by The Capital Group Companies, Inc..

### PUBLIC FLOAT

As at the date of this report, the Company has maintained the prescribed public float under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"), based on the information that is publicly available to the Company and within the knowledge of the directors.

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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	20%
– five largest suppliers combined	70%

#### Sales

– the largest customer	8%
– five largest customers combined	23%

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 14A of the Listing Rules are as follows:

1. On 29 December 2004, the Company and Shaoxing Hua Hong Cement Co., Ltd. ("Hua Hong") entered into an agreement pursuant to which the Company has agreed to acquire, and Hua Hong has agreed to transfer, the land use rights held by Hua Hong in relation to certain parcels of land with an aggregate area of 164,333 sq.m. and located at Tao Yan, Shaoxing County, Zhejiang Province, the PRC at a consideration of RMB33,195,266 (equivalent to approximately HK\$31,316,000) for the purpose of constructing two float flat glass production lines, each with a daily melting capacity of 600 tonnes.

The consideration was paid in cash by the Company to Hua Hong in one lump sum within 10 days after the date on which the agreement was signed by both parties. The acquisition was financed by the Group's internal resources in cash.

2. On 29 December 2004, the Company and Zhejiang Cement Co., Ltd. ("Zhejiang Cement") entered into a master supply agreement pursuant to which Zhejiang Cement has agreed to supply such quantity of cement manufactured by it as the Group may order from time to time for the purpose of carrying out certain construction work as contemplated by the Group in line with the expansion of its business.

Under the master supply agreement, the prices payable by the Group to Zhejiang Cement for the purchase of the cement will basically be determined by reference to the prevailing market price. Zhejiang Cement covenanted that it would sell its cement to the Group at prices and on terms not less favourable than those offered by it to other independent customers from time to time.

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Hua Hong is a wholly owned subsidiary of Zhejiang Cement, the registered capital of which is in turn owned as to 61.11% by Mr. Feng Guangcheng, the chairman and a substantial shareholder of the Company who is interested in approximately 66.36% in the issued share capital of the Company. Accordingly, the transactions with Hua Hong and Zhejiang Cement constitute connected transactions for the Company under the Listing Rules. Further details of the transactions are set out in the Company's press announcement dated 7 January 2005.

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.

All the above transactions and those other transactions as set out in note 32 to the accounts fall under the definition of "connected transaction" or "continuing connected transaction" in Chapter 14A (or Chapter 14 prior to the coming into force of Chapter 14A) of the Listing Rules. The directors confirm that the Company has complied with the disclosure requirements in accordance with Chapter 14A (or Chapter 14 prior to the coming into force of Chapter 14A) of the Listing Rules.

### **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.

### **MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

At a meeting of the board of directors held on 24 August 2004, the directors passed a resolution to adopt a new code of conduct regarding directors' securities transactions on terms no less exacting than the required standard set out in the Model Code as set out in Appendix 10 to the Listing Rules. Having made specific enquiry of all directors, there were not any non-compliance with the standard set out in the Model Code and the Company's code of conduct regarding directors' securities transactions during the year ended 31 December 2004.

### **INDEPENDENT NON-EXECUTIVE DIRECTORS AND AUDIT COMMITTEE**

So far as the directors are aware, during the year ended 31 December 2004, there were not any non-compliance with rules 3.10(1), 3.10(2) and 3.21 of the Listing Rules relating to the appointment of independent non-executive directors and the establishment of an audit committee.



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### 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 Institute of Certified Public 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 three independent non-executive directors, namely Dr. Li Jun, Mr. Wang Yanmou and Mr. Wang Herong (with effect from 6 August 2004). Two meetings were held during the financial year of 2004.

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the audited accounts for the year ended 31 December 2004.

### 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 2004 are set out in note 33 to the accounts.

### EMPLOYEES

As at 31 December 2004, the Group had 3,460 employees. The pay levels of the employees are commensurate with their responsibilities, performance and contribution.

### EMOLUMENT POLICY

The emolument policy of the employees of the Group is set up by the board of directors on the basis of their merit, qualification and competence.

The emoluments of the directors of the Company are decided by the board of directors, as authorised by shareholders at the annual general meeting, having regard to the Group's operating results, individual performance and comparable market statistics.

### 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.



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### **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.

### **MATERIAL LITIGATION**

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

### **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*

18 March 2005