

Report of the Directors

The directors (“Directors”) of the Company submit their report together with the audited financial statements for the year ended 31 December 2005

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The Group is principally engaged in the manufacturing and selling of glass and soda ash products. The activities of the subsidiaries are set out in note 20 to the accounts.

An analysis of the Group’s performance for the year by business and geographical segments is set out in note 6 to the accounts.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated income statement on page 31.

An interim dividend of RMB0.0361 was paid to the shareholders during the year. The directors do not recommend the declaration of a final dividend for the year.

RESERVES

Movements in the reserves of the Group and of the Company during the year are set out in the consolidated statement of changes in equity on page 36 and in note 30 to the accounts respectively.

PROPERTY, PLANT AND EQUIPMENT AND CONSTRUCTION-IN-PROGRESS

Details of the movements in property, plant and equipment and construction-in-progress of the Group are set out in note 17 to the accounts.

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in note 29 to the accounts.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company at 31 December 2005, calculated according to the provisions of the Company Law of the PRC, amounted to RMB314,726,000 (2004: RMB284,879,000).

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 (cont'd)

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 2005, 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 2005 are as follows:

Total number of shareholders (including nominee companies)	166
Holders of domestic shares	5
Holders of H shares	161

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 2005:

	HK\$/H share
Closing price per H share at 31 December 2005	1.88
From 1 January 2005 to 31 December 2005	
Highest traded price per H share	2.725
From 1 January 2005 to 31 December 2005	
Lowest traded price per H share	1.52
From 1 January 2005 to 31 December 2005	
Total number of H shares traded	104,975,000 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 (cont'd)

DIRECTORS

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

Executive Directors:

Mr. FENG Guangcheng (Chairman)
 Ms. FENG Luwen
 Ms. XU Yujuan
 Ms. HONG Yumei
 Mr. WANG Yanchun
 Mr. CHUNG Kwok Mo John (effective from 17 October 2005)
 Mr. FENG Liwen (resigned on 4 January 2005)
 Mr. XU Haichao (resigned on 4 January 2005)

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
 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 will end on the expiry of three years from the annual general meeting held on 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 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.

None of the Directors nor the supervisors of the Company has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

Report of the Directors (cont'd)

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Except for the contracts described in the section "CONNECTED TRANSACTIONS" on pages 25-26, 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 or 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 16-19.

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 2005, 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 (including interests and short positions, if any, which they are taken or deemed to have under such positions of the SFO), or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in 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 1)	Approximate percentage in the entire issued share capital of the Company/ associated corporation
Director				
Feng Guangcheng	The Company	Beneficial owner	384,000,000 domestic shares (L)	66.36%
Xu Yujuan	The Company	Interest of spouse (Note 2)	384,000,000 domestic shares (L)	66.36%

Notes:

- The letter "L" represents the interests in the share and underlying shares of the Company or its associated corporations.
- 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 Part XV of the SFO.

Report of the Directors (cont'd)

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

As at 31 December 2005, 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
The Capital Group Companies, Inc.	Investment manager (Note 2)	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. 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.

Report of the Directors (cont'd)

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	48%
Sales	
– the largest customer	4%
– five largest customers combined	19%

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

Significant related party transactions entered into by the Group during the year ended 31 December 2005 which did not constitute connected transactions under the Listing Rules are disclosed in note 35 to the accounts.

Other related party transactions, which also constituted connected transactions under the Listing Rules, and are required to be disclosed in accordance with Chapter 14A of the Listing Rules are as follows:

- On 17 September 2005, Zhejiang Shaoxing Tao Yan Glass Company Limited ("Tao Yan Glass"), a subsidiary of the Company, entered into an equity transfer agreement (the "Agreement") with Mr Shi Yu An (the "Vendor", a substantial shareholder and a director of Zhejiang Engineering Glass Company Limited ("Zhejiang Engineering Glass") immediately before the completion of the Acquisition) for the acquisition (the "Acquisition") of the Vendor's 10% interest in Zhejiang Engineering Glass.

Immediately before the completion of the Acquisition, Zhejiang Engineering Glass was owned as to 90% by the Company and as to 10% by the Vendor. Pursuant to the Agreement, the Vendor has agreed to transfer the 10% interest held by him in Zhejiang Engineering Glass to Tao Yan Glass at a consideration of RMB3,500,000 (approximately HK\$3,365,000). Zhejiang Engineering Glass became a wholly-owned subsidiary of the Company upon completion of the Acquisition.

- On 29 December 2004, the Company and Zhejiang Cement Co., Ltd. ("Zhejiang Cement", the majority interest of which were owned by Mr Feng Guangcheng, the chairman and a substantial shareholder of the Company) 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.

Report of the Directors (cont'd)

3. On 29 December 2004 (the "Contract Date"), the Company and Shaoxing County Hua Hong Cement Co., Ltd ("SHCC", a wholly-owned subsidiary of Zhejiang Cement) entered into an agreement (the "Land Use Right Agreement") pursuant to which the Company has agreed to acquire, and SHCC has agreed to transfer, the land use rights held by SHCC 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 "Land Use Rights"), comprising of five separate land use right certificates, at a consideration of RMB33,195,266 (equivalent to approximately HK\$31,316,000). The Company intended to acquire the SHCC Land Use Rights for the purpose of constructing two float flat glass production lines, each with a daily melting capacity of 600 tonnes.

According to the provisions of the Land Use Right Agreement, SHCC has undertaken to complete the relevant legal procedures to transfer the SHCC Land Use Rights to the Company within 120 days after the Contract Date, or on any other later date that is mutually agreed by both contract parties. As at 31 December 2005, the respective SHCC Land Use Rights had not been properly transferred by SHCC to the Company due to the fact that SHCC had pledged two and three certificates of the SHCC Land Use Rights with two financial institutions (the "Banks") for loan facilities granted to SHCC (the "Pledges") in April 2005 and January 2006, respectively.

Subsequent to 31 December 2005, one of the Pledges attached with three certificates had been released by the Bank and the related land use rights were transferred to the Group on 26 April 2006. In addition, pursuant to a supplemental agreement entered into between SHCC and the Company on 27 April 2006, SHCC undertakes to complete the necessary procedures in order to transfer the SHCC Land Use Rights attached with the remaining two certificates to the Group, on or before 30 September 2006 (the "Transfer Date"), by replacing the Pledge with other assets owned by SHCC and/or assets owned by Mr Feng. In addition, SHCC has also provided an indemnity to the Company to compensate the Company against any financial loss arising from the inability of SHCC to transfer the entire SHCC Land Use Rights to the Company by the Transfer Date. Mr Feng has also undertaken to provide financial support to SHCC in order to enable SHCC to effect the transfer or to compensate the Company against any financial loss, which may include a pledge of his dividend entitlement right in the Company in 2006 and subsequent years, as well as his equity interests in the Company. The Directors of the Company have also obtained a legal opinion from its legal counsel in the PRC that such undertakings are legally enforceable in the PRC.

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

All the above transactions fall under the definition of "connected transaction" or "continuing connected transaction" under Chapter 14A of the Listing Rules. The Directors confirm that the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES OF THE LISTING RULES

Throughout the year, the Company was in compliance with the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules.

INDEPENDENT NON-EXECUTIVE DIRECTORS AND AUDIT COMMITTEE

So far as the Directors are aware, during the year ended 31 December 2005, 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.

Report of the Directors (cont'd)

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 2005 are set out in note 36 to the accounts.

EMPLOYEES

As at 31 December 2005, the Group had 4,265 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 31 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.

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 note 27 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

27 April 2006