

Report of the Directors

The Directors submit their report together with the audited financial statements for the Year.

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 30.

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 35 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 as at 31 December 2006, calculated according to the provisions of the Company Law of the PRC, amounted to RMB335,200,000 (2005: RMB314,726,000).

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.

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.

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SHARE CAPITAL STRUCTURE

As at 31 December 2006, the total number of shares issued by the Company was 720,833,000. 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 320,833,000 H shares, respectively, representing 53.27%, 0.555%, 0.555%, 0.555%, 0.555% and 44.51% 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 2006 are as follows:

Total number of shareholders (including nominee companies)	200
Holders of domestic shares	5
Holders of H shares	145

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. On 29 August 2006, the Company allotted and issued to certain institutional investors an aggregate of 142,120,000 new H shares with nominal value of RMB1.00 each, which were listed on the Stock Exchange on the same date.

Performance of the Company's H shares in 2006:

	HK\$/H share
Closing price per H share at 31 December 2006	1.51
From 1 January 2006 to 31 December 2006	
Highest traded price per H share	2.35
From 1 January 2006 to 31 December 2006	
Lowest traded price per H share	1.35
From 1 January 2006 to 31 December 2006	
Total number of H shares traded	115,007,100 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.

DIRECTORS

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

Executive Directors:

Mr. FENG Guangcheng (Chairman)

Ms. HONG Yumei

Mr. CHUNG Kwok Mo John

Mr. GAO Huojin (effective from 25 October 2006)

Mr. SHEN Guangjun (effective from 25 October 2006)

Ms. FENG Luwen (resigned with effect from 29 August 2006)

Ms. XU Yujuan (resigned with effect from 29 August 2006)

Mr. WANG Yanchun (resigned with effect from 29 August 2006)

Non-executive Directors:

Mr. LIU Jianguo

Mr. SHI Guodong

Independent non-executive Directors:

Dr. LI Jun

Mr. WANG Yanmou

Mr. WANG Herong

Mr. SU Gongmei

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

The term of office of all the Directors (including the non-executive 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 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 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.

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DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Except for the contracts described in the section "CONNECTED TRANSACTIONS" on pages 24 and 25, 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 to 18.

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 2006, 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, 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) (Note 2)	53.27%

Notes:

- The letter "L" represents the interests in the shares and underlying shares of the Company or its associated corporations.
- A total of 240,000,000 of these shares of the Company held by Mr. Feng Guangcheng were pledged to IFC. Pursuant to the loan agreement dated 26 June 2006 entered into between the Company as borrower and IFC as lender, IFC granted a loan to the Company which was secured by, among others, the pledge of 120,000,000 shares of the Company held by Mr. Feng Guangcheng to IFC. Details of the said loan agreement has been disclosed in the announcement of the Company dated 27 June 2006. On 28 September 2006, Mr. Feng Guangcheng, the Company and IFC entered into a share pledge agreement pursuant to which Mr. Feng Guangcheng agreed to pledge an additional 120,000,000 shares held by him in the Company to IFC. Details of the said share pledge agreement has been disclosed in the announcement of the Company dated 3 October 2006.

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

As at 31 December 2006, 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 SFO:

Name of shareholder	Number of shares of the Company (Note 1)	Capacity	Approximate percentage of interest in the entire issued share capital of the Company	Approximate percentage in H shares of the Company
IFC (Note 2)	107,672,000 H shares (L) 240,000,000 domestic shares	Beneficial owner	14.94%	33.56%
Mr. Michael James Burry (Note 3)	34,448,000 H shares (L)	Beneficial owner	4.78%	10.73%
Scion Capital LLC	34,448,000 H shares (L)	Investment manager	4.78%	10.73%
Scion Qualified Funds LLC	17,922,000 H shares (L)	Beneficial owner	2.49%	5.58%

Notes:

- The letter "L" represents the person's or the entity's interests in the shares of the Company.
- According to the placee record as at 7 December 2006 kept by the Company and up to the latest practicable date before the publication of this annual report, so far as is known to the Directors, the number of H shares which is held by IFC is 107,672,000 (long position and as beneficial owner), representing approximately 33.56% of the H shares of the Company in issue as at 31 December 2006 and approximately 14.94% of the total number of issued shares of the Company as at 31 December 2006. In the corporate substantial shareholder notice filed by IFC on 20 September 2006, it was set out that a total of 227,672,000 shares were then held by IFC. Of the said 227,672,000 shares, 120,000,000 shares are believed to be domestic shares pledged in favour of IFC by Mr. Feng Guangcheng at such time. As disclosed in note 2 on page 22 of this annual report, as at 31 December 2006, a total of 240,000,000 domestic shares of the Company have been pledged to IFC by Mr. Feng Guangcheng, which represents 60% of the domestic shares of the Company as at 31 December 2006.
- Mr. Michael James Burry was reported to be the direct controlling shareholder of Scion Capital LLC with a long position of 34,448,000 H shares of the Company. Scion Capital LLC was reported to be the direct controlling shareholder of (a) Scion Funds LLC which had a long position of 3,608,000 H shares of the Company, (b) Scion Qualified Funds LLC which had a long position of 17,922,000 H shares of the Company, (c) Scion Asian Opportunity Fund LLC which had a long position of 11,979,000 H shares of the Company, and (d) Scion Asian Opportunity Fund II LLC which had a long position of 939,000 H shares of the Company.
- As set out in the corporate substantial shareholder notice filed by Pacific Dragon Fund LLC on 22 September 2004, it has interests in 12,053,000 H shares of the Company (long position), representing 6.74% (as set out in the notice) of the then total number of H shares in the Company (the number of H shares in issue as disclosed in the notice is 178,713,000). 12,053,000 H shares represent 3.76% of the H shares of the Company in issue as at 31 December 2006, and represent 1.67% of the total issued shares of the Company as at 31 December 2006.

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PUBLIC FLOAT

As at the date of this report, the Company has maintained the prescribed public float under the Listing Rules, based on the information that is publicly available to the Company and within the knowledge of the Directors.

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	10%
– five largest suppliers combined	35%
Sales	
– the largest customer	4%
– five largest customers combined	12%

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 are disclosed in note 35 to the accounts.

Related party transactions, which also constitute connected transactions that are not exempt under the Listing Rules, and are required to be disclosed in accordance with Chapter 14A of the Listing Rules, are as follows:

1. Certain land use rights (the "SHCC Land Use Rights"), comprising of five separate land use right certificates, acquired from the related party, Shaoxing County Huahong Cement Co., Ltd. ("SHCC"), a PRC enterprise under the common control of Mr. Feng Guangcheng, the substantial shareholder and chairman of the Company, were acquired pursuant to a land use right transfer agreement (the "Land Use Right Agreement") entered into between the Company and SHCC on 29 December 2004 (the "Contract Date"). 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. Due to the fact that SHCC had pledged two and three certificates of the SHCC Land Use Rights with two financial institutions (the "Banks"), and only one of the pledges attached with three certificates has been released by one of the Banks and the related land use rights were transferred to the Group on 26 April 2006, a supplementary agreement was entered into between SHCC, Mr. Feng and the Company on 27 April 2006 that SHCC undertakes to complete the necessary procedures in order to transfer the SHCC Land Use Rights attached with the remaining two certificates to the Company, on or before 30 September 2006. The two certificates were transferred to the Group on 25 August 2006.

2. On 29 December 2004, the Company and Zhejiang Cement Company Limited (“ZCC”, the majority interest of which is owned by Mr. Feng Guangcheng, the chairman and a substantial shareholder of the Company) entered into a master supply agreement for a term of 3 years commencing from 1 January 2005 to 31 December 2007 pursuant to which ZCC 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 which is in line with the expansion of its business. The price payable by the Group to ZCC for the purchases will be determined by reference to the prevailing market price at the time of the transactions.

In the opinion of the independent non-executive Directors, 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 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.

INDEPENDENT NON-EXECUTIVE DIRECTORS AND AUDIT COMMITTEE

So far as the Directors are aware, during the Year, 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.

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 2006 are set out in note 36 to the accounts.

EMPLOYEES

As at 31 December 2006, the Group had 3,920 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 on the basis of their merit, qualification and competence.

The emoluments of the Directors are decided by the Board, as authorised by shareholders of the Company 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.

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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 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 2007