Report of the Directors

The Board of Directors hereby submits to the shareholders the report of the directors and the audited financial statements of the Company and the Group for the year ended 31 December 2003. All the directors of the Company discharged their duties as assigned under the PRC Company Law and the Company's Articles of Association in a serious manner and carried out their work in a proactive and efficient manner on the basis of the principle of honesty, good faith, diligence and initiative and in the greatest interests of the Company and its shareholders.

Day-to-day work of the Board of Directors

During the reporting period, 6 Board of Directors' meetings were held and the major resolutions passed were as follows:

I. On 28 March 2003, a Board of Directors' meeting of the Company was held, at which the following resolutions were passed:

1. The election of Mr. Liu Baoying as Chairman of the Company;
2. The election of Mr. Wang Yongxin as Vice-Chairman of the Company;
3. The election of Mr. Wang Yongxin as as the General Manager of the Company;
4. The election of Mr. Zhang Shaojie as the deputy general manager (general affairs) of the Company; the appointment of Mr. Zhu Liuxin, Mr. Jiang Hong, and Mr. Wang Heping as the deputy general managers of the Company; and the appointment of Mr. Gao Tianbao as the chief financial officer of the Company as nominated by Mr. Wang Yongxin, the deputy general manager of the Company;
5. The appointment of Mr. Wang Jie as secretary to the Board of Directors of the Company;
6. According to Management Standards for Listed Companies issued by China Securities Regulatory Commission, the Board of Directors established (1) the Strategic Committee of the Board of Directors, the Nomination Committee of the Board of Directors, the Audit Committee of the Board of Directors, the remuneration and Review Committee of the Board of Directors, and confirmed the members thereof;
7. The working procedures for the special committees of the Board of Directors were passed;
8. The work report of the general manager was approved. The announcements of the resolutions passed at this Board of Directors' meeting was published in China Securities Post, Shanghai Securities Post, Hong Kong Economic Times and The Standard (an English newspaper) on 29 March 2003.

II. On 29 April 2003, a Board of Directors' meeting of the Company was held, at which the audited financial report of the Company for the year ended 31 December 2002; the 2002 Annual Report of the Company and its summary and the 2002 profit appropriation proposal were considered and approved; the re-appointment of KPMG Huazhen and KPMG as the domestic and international auditors of the Company respectively for 2003 were approved, and the Board of Directors was authorised to fix their remunerations; the 2003 first quarterly report of the Company and the convening of the 2002 Annual General Meeting to be held on 17 June 2003 were considered and approved. The announcements of the resolutions passed at this Board of Directors' meeting was published in China Securities Post, Shanghai Securities Post, Hong Kong Economic Times and The Standard (an English newspaper) on 30 April 2003.

III. On 12 May 2003, a Board of Directors' meeting of the Company was held, at which the debt restructuring proposal and the eight-year plan for repayment principal put forward by Guangzhou International Trust & Investment Corporation ("GZITIC") were considered and approved; as to the connected transactions carried out by the Company during the year ended 31 December 2003 as reviewed by KPMG, the Board of Directors is of the opinion that the information in relation to the transactions was true and complete and an independent director Mr. Xi Sheng Yang was authorized to sign the relevant agreements.

IV. On 17 June 2003, a Board of Directors' meeting of the Company was held, at which the following resolutions were considered and approved:

1. The appointment of Mr. Ding Jianluo as General Manager of the Company;
2. The appointment of Mr. Xie Jun, Mr. Ma Shixin and Mr. Cao Mingchun as Deputy General Managers of the Company as recommended by the General Manager;
3. The dismissal of Mr. Wang Yongxin from the post of General Manager of the Company; Mr. Zhang Shaojie from the post of Deputy General Manager of the Company; Mr. Zhu Liuxin from the post of Deputy General Manager of the Company; and Mr. Jiang Hong from the post of Deputy General Manager of the Company.

The announcements of the resolutions passed at this Board of Directors' meeting was published in China Securities Post, Shanghai Securities Post, Hong Kong Economic Times and The Standard (an English newspaper) on 18 June 2003.

V. On 28 August 2003, a Board of Directors' meeting was held, at which the 2003 interim report of the Company and its summary were considered and approved. It was resolved not to distribute dividend for the interim period of 2003.

VI. On 29 October 2003, a Board of Directors' meeting was held, at which the third quarterly report for 2003 was considered and approved.

The Company's position in the industry and its major products

The Company is the place of origin for one of three great float glass production methods "Luoyang Float Glass". The Company has six production lines of float glass and is the largest producer and distributor of float glass in the PRC. The Company mainly engages in production and sale of float flat glass and reprocessed glass.

Principal operations by industries and products

By industries or products	Income from principal operations *Rmb'000*	Cost of principal operations *Rmb'000*	Gross margin ratio %	Increase of income from principal operations as compared to the preceding year %	Increase of cost of principal operations as compared to the preceding year %	Increase of gross margin ratio as compared to the preceding year %
Flat and float sheet glass	978,846	835,670	14.63	18.62	6	10
Of which:						
Related party transactions	34,948	29,835	14.63	187.57	156.98	10

Pricing policy for connected transactions

Based on market prices available to ordinary customers.

Explanation on necessity and continuity of related party transactions

These transactions are necessary and of continuity nature, since products sold by the Company are upstream products to related parties for the purpose of product chain.

Principal operations in different regions

Regions	Income from principal operations *Rmb'000*	Increase of income from principal operations as compared to the preceding year %
The PRC	849,727	13.67
Overseas	129,119	66.33

Information about suppliers and customers

Percentage of purchase attributable to the largest supplier	8%
Percentage of purchase attributable to the top five suppliers	29%
Percentage of sales attributable to the largest customer	3%
Percentage of sales attributable to the top five customers	11%

None of the directors, supervisors, senior management and their respective associates or any shareholders hold more than 5% of the Company's share capital has interests in the suppliers and customers mentioned above during the reporting period.

Explain the reason of material changes in the principal operations' earning power (gross profit ratio) as compared to the preceding year

In 2003, the gross profit margin from sales was 14.63%, representing an increase of 227.29% as compared with 4.47% in the previous year. It is principally due to the Company seized the opportunities arising from the prosperous glass market by optimizing sales strategy, enhanced adjustment in product structure and increased the sales volume of high value-added products like ultra-thin, plating and moulding glass which resulted in the average product price of Rmb71.88/weighted case for the year, up Rmb11.86/weighted case as compared with Rmb60.02/weighted case in the corresponding period last year, representing an increase of 19.76%.

Analysis of the reasons for material changes incurred in the operating results and contribution to profit as compared with that of last year

See the discussion and analysis of the overall operations during the year for details.

Analysis of the reasons for material changes incurred in the overall financial condition as compared with that of last year

See Chapter IX "Analysis of items of financial statements with movements more than 30%" for details.

The Board's explanation for non-standard opinion given by the auditors

KPMG Huazhen and KPMG presented their auditing reports with an explanatory statement but without qualification for the 2003 operating results of the Company. Particulars of the explanatory statement are as follows:

"Besides, we would draw the attention of the users of financial statements to the disclosures made in note 2 on the financial statements, that the Group had net loss amounted to Rmb342,513,000 for the year, accumulated losses amounted to Rmb1,018,682,000 and net current liabilities amounted to Rmb330,871,000 at 31 December 2003. Notwithstanding the steps taken by the management to address this situation as set out in Note 2 on the financial statements, there exists a fundamental uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. The expressed audit opinion is not affected thereby."

In accordance with the said audit statement and under the PRC accounting standards and regulations, the Company confirms the net currents liabilities of Rmb330,871,000 as at 31 December 2003. This is mainly attributable to operating loss and increased bank loans due to reduction in cash inflow and changes in receivables. (The Company recorded a loss of Rmb342,513,000 for the year, mainly attributable to a significant decrease in selling prices in the 1st half of 2003 resulting from intensified market competition, a number of necessary provisions and the increased non-operating expenses). The Group's operation was affected by the net current liabilities to a certain extent. However, in the opinion of the Board, cash inflow status will be improved with the gradual effect from optimisation of the Group's product mix, which will in turn significantly reduce the reliance on bank loans for its operation. Furthermore, the Company may obtain financial support, if necessary, from its controlling company and other financial institutions to cope with the potential financing difficulties. In addition, the Company will take economic and legal actions to recover receivables which will be used for repayment of bank loans. In such a case, a reduction in net current liabilities, even a balance of net current assets will be achieved.

Appendix: Note 2 to financial statements: Preparation basis for financial statements

Notwithstanding that the Company and the Group incurred loss for the year and had net current liabilities as at 31 December 2003, the directors of the Company are of the opinion that the Company and the Group are able to continue as a going concern and to meet their obligations as and when they fall due having regard to the following:

(i) agreements obtained from financial institutions for renewal of loan facilities totalling approximately Rmb444,000,000 to the Company upon their expiry in 2004; and

(ii) continuing financial support received from the ultimate holding company.

The directors believe that the Company and the Group will have sufficient cash resources to satisfy its future working capital and other operating requirements. Accordingly, it is appropriate that these financial statements should be prepared on a going concern basis and do not include any adjustments that would be required should the Company and the Group fail to continue as a going concern.

Financial status of the Company

Based on the Group's financial statements for the year 2003 prepared under PRC Accounting Rules and Regulations, the Group's total asset amounted to Rmb2,323,655,000, representing a decrease of 18.06% from the previous year, which was attributable to more efforts made in sales and decrease in inventories of commodities; shareholders' funds amounted to Rmb875,920,000, representing a drop of 28.09% as compared with the previous year, which was caused by the loss incurred for the year and the transfer to the surplus reserve; long-term liabilities amounted to Rmb96,849,000, representing a decline of 19.85% , which was mainly due to the decrease in the amount of loan advanced in the year; profit from principal operations amounted to Rmb140,146, 000, representing a surge of 306.55% over last year, which was mainly because of the adjustment in product mix and the rise in the sales of products with high-added value and a relatively significant increase in average selling prices as compared with the previous year, which led to a relatively significant increase in profit from principal operations; net loss amounted to Rmb342,513,000, which basically maintained at the same level of Rmb344,691,000 in the previous year; net decrease in cash and cash equivalents was Rmb95,791,000, representing a drop of 34.45% as compared with last year. See the discussion and analysis of the overall operations during the year and Chapter IX "Analysis of items of financial statements with movements of more than 30%" for details.

Liquidity and source of capital

At the end of 2003, the Group had cash and cash equivalents of Rmb182,279,000, decreased by Rmb95,791,000 from Rmb278,070,000 as at the end of 2002. Net cash generated from operating activities was used to finance borrowing and investment activities.

As at 31 December 2003, the total loans due from the Group were Rmb981,520,000, including a foreign currency loan Rmb8,842,000, (original amount: EURD855,000). All loans bear interest rates based on rates determined by OECD and China Statutory Current Assets Loan Interest from time to time. The Group did not entered into any financial instruments as hedging vehicle. As at 31 December 2003, the gearing ratio (the total loan / shareholders' funds) of the Group was 112%, up 30% compared to that of 2002.

Investment of the Company

(1) Use of proceeds

There had been no use of proceeds during the reporting period nor use of proceeds commenced before the period which has been extended to the period.

(2) Other investments (non-publicly raised fund)

The Company had no other material investment during the reporting period.

Operations and results of major controlling companies and investee companies

As at 31 December 2003, information on the Group's major subsidiaries is as follows:

Name of company	Registered capital Rmb'000	Direct attributable equity interest	Asset scale Rmb'000	Principal activities	Net (loss)/ profit Rmb'000
Luobo Group Longmen Glass Company ("Longbo")	20,000	79.06%	246,306	Manufacture of float sheet glass	(18,491)
Chenzhou Bada Glass Co. Ltd. ("Bada")	150,000	52.25%	259,662	Manufacture of float sheet glass	(5,206)
Luoyang Glass Group Yangshao Glass Co. Ltd. ("Yangshao")	74,080	54.00%	145,454	Manufacture of float sheet glass	2,180
洛神汽車玻璃有限責任公司	30,000	66.67%	30,687	Manufacture of glass for automobile	(1,425)
沂南華盛礦業有限責任公司	28,000	52.00%	53,075	Development of mineral products	(1,485)
深圳洛玻貿易有限責任公司	1,000	60.00%	1,428	Sale of float sheet glass	207

As at 31 December 2003, information on the associated companies of the Group and the Company is as follows:

Name of company	Registered capital Rmb'000	Direct attributable equity interest	Asset scale Rmb'000	Principal activities	Net (loss)/ profit Rmb'000
Luoyang Jingxin Ceramic Co. Ltd	41,945	49.00%	141,839	Manufacture of ceramic wall tiles	(13,319)
China Luoyang Float Glass Group Financial Company Limited	300,000	37.00%	675,181	Provision of financial services	1,076
China Luoyang Float Glass (Group) Processed Glass Company Limited	181,496	49.09%	439,553	Glass processing businesses	(23,628)

Results and profit appropriation

In accordance with the PRC Accounting Standards, the Company recorded net loss amounting to Rmb342,513,000 for the year of 2003. After transferring to surplus reserve of Rmb268,000 and adding net loss amounting to Rmb675,901,000 at the beginning of the year, the accumulated loss amounted to Rmb1,018,682,000. In accordance with IFRS, the Company recorded net loss amounting to Rmb340,021,000 for the year of 2003. After transferring to surplus reserve of Rmb268,000 and adding net loss amounting to Rmb657,348,000 at the beginning of the year, the accumulated loss amounted to Rmb997,637,000. Accordingly, the Company resolved not to make any profit appropriation for the year 2003 nor transfer any reserves to increase the share capital of the Company.

Fixed Assets

Movements in the fixed assets during the year are set out in note 12 to the financial statements prepared under IFRS.

Reserves

Movements in the reserves during the year are set out in note 29 to the financial statements prepared under IFRS.

Bank and Other Loans

The bank and other loans of the Group as at 31 December 2003 are stated in note 26 to the financial statements prepared under IFRS.

Five-year Financial Highlight

The results, assets and liabilities of the Group for the five years ended 31 December 2003 as prepared under IFRS are summarised below:

Operating Results

	2003 ***Rmb'000***	2002 *Rmb'000*	2001 *Rmb'000*	2000 *Rmb'000*	1999 *Rmb'000*
Turnover	**975,816**	822,804	813,385	896,169	818,000
(Loss)/profit before share of net loss of associated companies	**(308,788)**	(396,900)	11,486	93,392	46,460
Share of (loss)/profit of associated companies	**(28,817)**	9,030	(3,398)	(3,952)	(3,479)
(Loss)/profit before taxation	**(337,605)**	(387,870)	8,088	89,440	42,981
Taxation	**(2,172)**	(200)	—	—	—
(Loss)/profit after taxation	**(339,777)**	(388,070)	8,088	89,440	42,981
Loss/(profit) attributable to minority interests	**(244)**	45,621	1,780	(23,449)	13,180
(Loss)/profit attributable to shareholders	**(340,021)**	(342,449)	9,868	65,991	56,161

Assets & Liabilities

	2003 ***Rmb'000***	2002 *Rmb'000*	2001 *Rmb'000*	2000 *Rmb'000*	1999 *Rmb'000*
Fixed assets	**938,228**	927,674	1,123,181	1,051,381	1,091,244
Construction in progress	**4,535**	8,682	14,758	13,260	16,927
Interest in associated companies	**186,843**	254,232	167,391	111,031	79,373
Long-term investments	**35,739**	75,979	86,817	128,984	69,485
Non-current assets	**1,309,553**	1,745,750	1,902,195	406,060	460,585
Net current assets	**(349,055)**	(438,741)	(146,780)	(95,973)	(138,609)
Long-term liabilities	**(120,849)**	(146,328)	(206,664)	(17,522)	(71,224)
Shareholders' funds	**789,476**	1,129,497	1,471,946	1,597,221	1,486,725
Minority interests	**50,173**	31,184	76,805	44,505	21,056

Capitalisation of interests

During the year, there is no capitalisation of interests by the Group.

Charity and other donations

During the year, there is no charity and other donations made by the Group.

Transactions with related parties

The material related party transactions of the Company for the year ended 31 December 2003 are set out in the note 31 to the financial statements prepared under IFRS.

Retirement benefit plan

Particulars of the retirement benefit plan of the Group are set out in the note 34 to the financial statements prepared under IFRS.

Directors' and Supervisors' interests in subscription for shares or debentures

At no time during the year was the Company or its subsidiaries a party to any arrangement to enable the directors or supervisors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporation.

Five individuals with highest emoluments

During the year, the five individuals with highest emoluments were either the Company's directors, supervisors or senior management.

Service contracts of directors and supervisors

Each of the directors and supervisors has entered into a service agreement with the Company. These service agreements all commenced from 28 March 2003 with a term of office for three years. Same as aforementioned, the Company or any of its subsidiaries or fellow subsidiaries has not entered into or will enter into any service agreement with any director or supervisor.

Directors and supervisors' interest in contracts

Apart from the abovementioned service contracts, no contract of significance in relation to the business of the Company, to which the Company or any of its subsidiaries or fellow subsidiaries was a party and any of the directors and supervisors of the Company had a material interest, subsisting at the end of the year or at any time during the year.

Compliance of Code of Best Practice

The Directors and Supervisors of the Company have complied throughout the reporting period with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

Purchase, sale and redemption of shares of the Company

During the reporting period, the Company and its subsidiaries did not purchase, sell and redeem any securities of the Company.

Major subsidaries and associated companies

Details of the Company's subsidiaries and associated companies are set out in the notes 16 and 17 to the financial statements prepared under IFRS.

Pre-emptive rights

In accordance with the Articles of Association of the Company and the laws of the PRC, there is no provision of pre-emptive rights requiring the Company to offer shares to the existing shareholders in proportion to their respective shareholdings.

Structure of share capital and change in share capital of the Company during the reporting period: (Expressed in number of shares)

	Before change	Right issue	Bonus issue	Shares converted from surplus reserves	New issue	Others	Sub-total	After change
I Non-circulating shares								
1. Promoter shares comprising:								
Owned on behalf of the state								
Domestic legal person shares	400,000,000	—	—	—	—	—	—	400,000,000
Overseas legal person shares								
Others								
2. Legal person shares								
3. Employee shares								
4. Preference shares or others								
Sub-total of non-circulating shares	400,000,000	—	—	—	—	—	—	400,000,000
II. Circulating shares								
1. Renminbi ordinary shares								
2. Domestic listed foreign capital shares	50,000,000	—	—	—	—	—	—	50,000,000
3. Overseas listed foreign capital shares	250,000,000	—	—	—	—	—	—	250,000,000
4. Others								
Sub-total of circulating shares	300,000,000	—	—	—	—	—	—	300,000,000
III. Total number of shares	700,000,000	—	—	—	—	—	—	700,000,000

Number of shareholders

As at 31 December 2003, there were 30,496 shareholders, including 1 legal person shareholder, 30,412 holders of 'A' Shares and 86 holders of 'H' Shares.

Issue and listing of shares

The Company has not issued any shares during the three years ended 31 December 2003.

Shareholdings of substantial shareholders

Shareholdings of the top ten shareholders

Name of shareholders (full name)	Increase / (decrease) during the year	Number of shares held at the end of the year	Percentage to total share capital (%)	Type of shares (circulating/ non-circulating)	Number of shares pledged or frozen	Nature of shareholders (State-owned or foreign shareholders)
China Luoyang Float Glass (Group) Company Limited ("CLFG")	0	400,000,000	57.14	Non-circulating	None	State-owned shareholder
HKSCC (Nominees) Company Limited	166,000	247,224,998	35.32	Circulating	Unknown	Foreign shareholder
Zhu Dake	0	730,000	0.10	Circulating	Unknown	'A' Shareholders
HSBC Nominees (Hong Kong) Limited	30,000	550,000	0.079	Circulating	Unknown	Foreign shareholder
Yan Jianding	14,000	458,000	0.065	Circulating	Unknown	'A' Shareholders
Chuk Yee Men Liza	0	374,000	0.053	Circulating	Unknown	Foreign shareholder
Xinhe Jijin	0	225,221	0.032	Circulating	Unknown	'A' Shareholders
Tam Chow Hing	(30,000)	180,000	0.026	Circulating	Unknown	Foreign shareholder
Tam Tung Sun	150,000	150,000	0.021	Circulating	Unknown	Foreign shareholder
Wong Ming Shun	120,000	120,000	0.017	Circulating	Unknown	Foreign shareholder
Chen Man	120,000	120,000	0.017	Circulating	Unknown	'A' Shareholders

Remarks on connected relationship and activities in concert among the top ten major shareholders

There is no connected relationship or activities in concert as defined by Regulations for Disclosure of Changes in Shareholding of Listed Companies (上市公司股東持股變動信息披露管理辦法) among the top ten shareholders of the Company, including CLFG. To the knowledge of the Company, there are no parties acting in concert among other holders of the circulating shares of the Company and there are no connected relationship among them.

The top ten major shareholders of circulating shares of the Company as at 31 December 2003 were as follows:

Name of shareholders (full name)	Number of shares held at the end of the year	Class of shares (A, B, H or others)
HKSCC (Nominees) Company Limited	247,224,998	H
Zhu Dake	730,000	A
HSBC Nominees (Hong Kong) Limited	550,000	H
Yan Jianding	458,000	A
Chuk Yee Men Liza	374,000	H
Xinhe Jijin	225,221	A
Tam Chow Hing	180,000	H
Tam Tung Sun	150,000	H
Wong Ming Shun	120,000	H
Chen Man	120,000	A

Remarks on connected relationship among the top ten shareholders of circulating shares

The Company is not aware of any connected relationship among the top ten shareholders of circulating shares.

1. **Legal person shareholder holding more than 5% of shares**

   CLFG held 400,000,000 State-owned legal person shares, representing 57.14% of the total share capital. During the period, there was no change in the number of shares held by it, nor pledge or frozen of shares was undertaken.

   The number of H shares of the Company held by HKSCC Nominees Limited at the end of the period was 247,224,998, accounting for 35.32% of the total share capital of the Company. HKSCC Nominees Limited is a participant of Hong Kong Central Clearing and Settlement System providing securities registration and custody services for its customers.

2. **Introduction to the controlling shareholder of the Company**

   China Luoyang Float Glass (Group) Company Limited was incorporated in April 1991, and its legal representative is Mr Liu Baoying. Its registered capital is Rmb1,286,740,000 and its shareholders include Luoyang Assets Management Company, China Hua Rong Assets Management Company, China Changcheng Assets Management Company, China Dongfang Assets Management Company, China Xinda Assets Management Company and China Xinxing Construction Material (Group) Company holding 80.27%, 8.55%, 5.44%, 3.10%, 1.94% and 0.7% respectively. Its scope of business includes production of glass and related raw materials, manufacturing of assembly equipment, import and export of glass processing technology, domestic sales, engineering design and contracting, export of labour services, industrial production information (unless exclusively to be operated by the state) as well as technological and consulting services.

   There was no change in respect of the controlling shareholders during the year.

3. Save as disclosed above, as at 31 December 2003, the Board of Directors is not aware of any person had any interests or short position in any shares and underlying shares of the Company or any of its associated corporation which required to be recorded in the register kept under section 352 of the Securities and Futures Ordinance.

Directors, supervisors and senior management

Name	Position	Gender	Age	Term of office	Shareholding at the beginning of the year (shares)	Shareholding at the end of the period (shares)	Reasons for change
Liu Baoying	Chairman	M	50	2003.3.28 to 2006.3.28	2,000	2,000	No change
Wang Yongxin	Vice Chairman	M	45	2003.3.28 to 2006.3.28	1,800	1,800	No change
Zhu Leibo	Director	M	41	2003.3.28 to 2006.3.28	2,000	2,000	No change
Zhang Shaojie	Director	M	42	2003.3.28 to 2006.3.28	1,700	1,700	No change
Zhu Liuxin	Director	M	50	2003.3.28 to 2006.3.28	1,700	1,700	No change
Jiang Hong	Director	M	41	2003.3.28 to 2006.3.28	1,800	1,800	No change
Wang Jie	Director & Company Secretary	M	41	2003.3.28 to 2006.3.28	2,000	2,000	No change
Dai Zhiliang	Independent Director	M	63	2003.3.28 to 2006.3.28	0	0	No change
Zong Pengrong	Independent Director	M	49	2003.3.28 to 2006.3.28	0	0	No change
Xi Shengyang	Independent Director	M	49	2003.3.28 to 2006.3.28	0	0	No change
Dong Chao	Independent Director	M	37	2003.3.28 to 2006.3.28	0	0	No change
Tao Shanwu	Chairman of the Supervisory Committee	M	50	2003.3.28 to 2006.3.28	0	0	No change
Cheng Rongfa	Supervisor	M	54	2003.3.28 to 2006.3.28	0	0	No change
Song Feng	Supervisor	F	40	2003.3.28 to 2006.3.28	0	0	No change
Li Jingyi	Independent Supervisor	F	51	2003.3.28 to 2006.3.28	0	0	No change
Gu Meifeng	Independent Supervisor	F	39	2003.3.28 to 2006.3.28	0	0	No change
Ding Jianluo	General Manager	M	42	2003.6.17 to 2006.3.28	0	0	No change
Xie Jun	Deputy General Manager	M	37	2003.6.17 to 2006.3.28	0	0	No change
Cao Mingchun	Deputy General Manager	M	40	2003.6.17 to 2006.3.28	0	0	No change
Ma Shixin	Deputy General Manager	M	53	2003.6.17 to 2006.3.28	0	0	No change
Wang Heping	Deputy General Manager	M	52	2003.3.28 to 2006.3.28	1,700	1,700	No change
Gao Tianbao	Financial Controller	M	45	2000.3.28 to 2003.3.28	0	0	No change

Directors, supervisors and senior management *(continued)*

Note: Save as disclosed above, none of the directors, supervisors or senior management of the Company or any of their respective associated companies held any beneficial equity interest in shares of the Company or any of its respective associated companies defined in Securities (Disclosure of Interests) Ordinance of Hong Kong ("SDI Ordinance") as at 31 December 2003.

Information on directors and supervisors holding posts in corporate shareholders

Name	Name of the corporate shareholder	Position held in the corporate shareholder	Term of office	Whether they received remunerations and allowances from the corporate shareholder (Yes/No)
Liu Baoying	CLFG	Chairman & Secretary appointed by the Party	May 2002 – present	Yes
Wang Yongxin	CLFG	Director, Deputy General Manager & General Committee Member appointed by the Party	August 2001 – present	Yes
Zhu Leibo	CLFG	Director, General Manager and Duputy Secretary appointed by the Party	August 2001 – present	Yes
Zhang Shaojie	CLFG	Director & Deputy General Manager	August 2001 – present	Yes
Zhu Liuxin	CLFG	Director & Deputy General Manager	June 2003 – present	Yes
Jiang Hong	CLFG	Director & Deputy General Manager	June 2003 – present	Yes
Tao Shanwu	CLFG	Chairman of the Supervisory Committee & Secretary to the Commission for Disciplinary Inspection	August 2001 – present	Yes
Cheng Rongfa	CLFG	Supervisor	August 2001 – present	Yes
Song Fei	CLFG	Head of Financial Department	July 2003 – present	Yes

Remuneration of Directors, Supervisors and Senior Management

Total remuneration for the year	Rmb435,949
Total remuneration paid to the three highest paid directors	Rmb84,000
Total remuneration paid to the three highest paid senior management	Rmb98,000
Allowances paid to independent directors	Rmb20,000/person
Other benefits provided to independent directors	Nil
Name of the directors and supervisors whose remuneration were not paid by the Company	Nil

Remuneration in the following bands:	**Number**
Below Rmb10,000	Nil
Rmb10,000 to Rmb20,000	14
Rmb20,000 to Rmb30,000	5
Rmb30,000 to Rmb40,000	2
Rmb40,000 to Rmb50,000	1

Changes of directors, supervisors and senior management during the reporting period

1. An extraordinary general meeting of the Company was held on 28 March 2003 at which the 11 members of the 4th Board of Directors of the Company were elected, of which Messrs. Zhong Pengrong, Xi Shengyang and Dong Chao were newly elected directors and the remaining 8 directors were members of the third Board of Directors and a former director Mr. Wei Chenglong had not been nominated as a candidate for independent director at the extraordinary general meeting. The four members of the 4th Supervisory Committee were elected, of whom Ms. Song Fei and Ms. Li Jingyi were newly elected members of the Supervisory Committee and the remaining three supervisors were members the 3rd Supervisory Committee.

2. The Company refined its team of managers on 17 June 2003. See the section headed "Day-to-day work of the Board of Directors" in this chapter for details.

3. On 22 April 2004, a Board of Directors' meeting was held, at which the resignation of Mr. Wang Yongxin as Vice Chairman and Director of the Company; the dismissal of Mr. Gao Tianbo as the Chief Financial Officer and Mr. Cao Mingchun as Deputy General Manager of the Company; the election of Mr. Zhu Leibo as Vice Chairman of the Company; the appointment of Mr. Cao Mingchun as the Chief Financial Officer of the Company; and the nomination of Mr. Ding Jianluo as candidate for director of the Company were agreed.

Employees

As at 31 December 2003, the Company had 5,388 employees, of which 3,947 are production workers, 260 are sales personnel, 341 are technicians, 126 are financial personnel, 644 are administrative personnel and 70 are other staff members. Among them, 465 employees graduated from colleges or universities, representing 8.6% of the staff 1,229 employees graduated from professional training colleges, representing 22.8% of the staff. There were 392 employees retired for whom the Company has to pay pension.

Auditors

Approved by the Company's 2002 Annual General Meeting, the Company re-appointed KPMG Huazhen and KPMG as the Company's PRC and international auditors for the year 2003.

The resolution to re-appoint KPMG Huazhen and KPMG as the PRC and international auditors of the Company respectively for the year 2004, is to be proposed at the forthcoming Annual General Meeting. The Company paid the following audit expenses to KPMG Huazhen and KPMG. No other payment was made.

	KPMG Huazhen	KPMG
Audit fee for 2003	HK$1,100,000 (partially paid)	HK$1,100,000 (partially paid)
Audit fee for 2002	HK$1,100,000 (paid)	HK$1,100,000 (paid)
Travelling expenses	Borne by the firm	Borne by the firm

KPMG has been appointed as international auditors of the Company for provision of auditing services in accordance with IFRS for ten consecutive years.

KPMG Huazhen has been appointed as PRC auditors of the Company for provision of auditing services in accordance with the PRC Accounting Rules and Regulations for eight consecutive years and the registered accountant who signed for the Company was not subjected to alteration.

Material litigation and arbitration

1. The Group's material litigation during the reporting period

On 30 December 1998 the Company placed a deposit in the sum of Rmb23,000,000 with Yinji local branch of Zhengzhou branch of Guandong Development Bank (which had been upgraded to Yinji sub-branch of Zhengzhou branch of Guangdong Development Bank on 28 December 1999) for a fixed term of one year commencing from 30 December 1998 to 30 December 1999 at an annual interest rate of 3.78%. The Yinji local branch of Zhengzhou branch of Guangdong Development Bank issued an Account Opening Certificate of Fixed Deposit. Subsequently, a dispute occurring when the Company made withdrawal of such deposit upon its maturity. The Yinji sub-branch of Zhengzhou branch of Guangdong Development Bank rejected the Company's withdrawal on the ground of the defaulted repayment by Heuan Yinji Property Development Company limited of the outstanding loan in the sum of Rmb21,850,000 for which the Company provided a guarantee in favour of Shangcheng branch of Guangdong Development Bank in December 1998 and that the Company should perform its obligations as the guarantor. In 2001, the Company initiated legal proceedings in Henan High People's Court and lost its case, but the Company appealed to the People's Supreme Court. During the reporting period, the outstanding loan was fully provided. In February 2004, the Supreme People's Court finally ruled in favour of the Company that the above guarantee be voided. As the Company is in default in the provision of guarantee for the loan, the Company demanded the Yinji sub-branch of Zhengzhou branch of Guangdong Development Bank to make refund of the half amount of the loan and the interest thereon in April 2004 and demanded Henan Yinji Property Development Company Limited for the remaining half amount of the loan.

2. The Group was not involved in any material arbitration during the reporting period.

Existing difficulties in operations and solutions

Year 2003 is destined to be a year like no other. Thanks to the management and staff's efforts to cater for market demands and leverage market opportunities, the Company made progress despite the unfavourable impacts from SARS, increased prices of heavy oil, difficulties in supply of bulk materials and tightened railway transportation and power supply. As to the market front, the Company took initiatives to increase profit under its marketing strategy, namely, a market-oriented strategy with subdivided products, fast response and flexible following-up. As to corporate management, the Company speeded up the adjustment to its product mix and tapped internal potential to increase efficiency, aiming to a steady and high output of quality products. After continuous technological innovations in on-line plated glass and ultra-thin glass, the excellent-class ratio and A-class ratio recorded a significant increase. Production stability was greatly improved, while a breakthrough in market was achieved as well as the smooth production and sales of high value-added products. The Company witnessed an upward trend in the fields including steady production, increasing sales and selling prices and efficiency improvement in the 2nd half year. However, due to a large sum of provision for asset impairment, as an accounting treatment of the remaining problems arising from the previous years, the Company recorded a noticeable loss.

During 2003, the Company mainly carried out the following arrangements:

I. The Company improved basic management and strengthened specialized management to increase operating efficiency.

1. Focusing on external audit of its quality system, the Company improved regulatory system and strengthened specialized management. Firstly, the Company improved its quality management system in accordance with requirements of the Quality Assurance Centre of China Quality Association. In September, the Company passed the relevant monitoring inspection. Second, new regulatory system was established. Third, the Company laid out schemes for inspection and assessment, thus significantly increased the awareness of the management members and staff for participation in corporate management and supervision.

2. The Company took efforts to remedy the overscaled water content in heavy oil, and improved the standard management on finished product warehouse.

3. The Company hastened the collection of receivables. Firstly, taking advantage of the booming market, the Company speeded up the collection of debts due from old customers. Meanwhile, a noticeable effect was shown in collection of current trade receivables under strict credit control thereon. Second, the Company speeded up the collection of trade receivables including those with long ageing, material bad debt risks or difficulties in identifying debtors.

4. By adjusting payment method for procurement, the Company promoted credit procurement and risk procurement to maximize the utilization of limited capital and minimize procurement costs. Responding to market changes, the Company made three adjustments to payment methods for materials procurement in the 2nd half of 2003. With monthly specialization and assessment, the procurement department overcame difficulties by leveraging various market tools and introducing the risk procurement mode. As a result, the actual procurement costs for the 2nd half year decreased by Rmb11,103,700.

Existing difficulties in operations and solutions therefor *(continued)*

I. The Company improved basic management and strengthened specialized management to increase operating efficiency. *(continued)*

5. By exploring financial resources, the Company restructured its borrowings, thereby effectively cut down financial costs. Facing pressures from the diminishing scale of bank loans and maturity of certain loans, the Company made active financing arrangements for repayment of principals and interests of loans on a timely and full amount basis, thus maintaining a good corporate creditability. Furthermore, according to the difference in floating loan interest rates among banks, the Company restructured its bank loans to cut down financial costs. In addition, the Company also made adjustments to proportion of loans to discounted bills. By virtue of the above-mentioned initiatives, the Company ensured the working capital for its current production and operation, and achieved a reduction of Rmb188,920,000 in the closing balance of total liabilities as compared with its opening balance.

II. With a faster pace in restructuring product mix, the Company improved coordination between production and sales sectors to address the changing market demands with quality products.

1. With in-depth marketing reform based on a fast reaction marketing strategy, the Company increased production and sales volume of profitable products so as to maximize its profit. 1. The Company speeded up the restructure of its three major products. In order to facilitate the commercialisation of on-line plated glass, ultra-thin glass and remodelled-and-cut glass, the Company organised teams for key technology development and marketing, whereby various problems limiting product quality, output and sales were solved. A series of problems in key technologies of 1.1mm ultra-thin glass were solved, including fluctuated supply of quality silica sand, instability of production control, low A-class ratio as a percentage of gross ratio of finished products, quality fluctuations, inability of on-line packaging, overstock of obsolete products, etc. With improving production control, the product quality was acknowledged by market and customers. Domestic market share amounted to over 60%. As to key technologies of on-line plated glass, through wearing and acid/alkali-proof experiments, the Company solved such quality problems as pinhole, colour trail, plate peeling in toughening process and lower percentage of excellent class products, as well as various related problems including instability of production, short working hours for a single reactor and market barriers. The Company not only managed to establish a whole set of stable technological parameters and operational expertise, but also developed a number of colours and varieties, including grey, F Green "25 Series" and "20 series" plated glass with an increasing market share. As to remodelling and cutting of large and thick glass sheets, the Company upgraded remodelling and cutting equipment and streamlined its operation, thereby satisfied the requirements from bulk export of the products. During April to December of the year, 31,300 sq.m. of glass over 8mm was remodelled and cut.

2. The Company enhanced market awareness and proactively carried out the comprehensive coordination of production and sales sectors. Leveraging the favourable profitable opportunities arising from the booming glass market during the 2nd half of 2003, the Company introduced a comprehensive coordination of production and sales sectors as well as monthly production scheduling meetings, so as to arrange proper product types and specifications to address market demands to the best extent.

3. The Company actively promoted marketing reform to increase its capability of adapting to market changes. Starting from in-depth internal reform in marketing sector, the Company revised the performance assessment system and improved the culling system for marketing employees. By reorganising regional assignments, the Company included segment sales and promoting plans by specifications into the accountability assessment system. Meanwhile, weighting of selling price was increased as an incentive for higher selling price of products.

4. Capitalising on the upturn of market, the Company put more efforts in promotion to maximize profits. Firstly, with an improved fast reacting mechanism to market information, the Company introduced a daily feedback mode for price information, laying a foundation for fast response in prices. Secondly, according to market trend, the Company adopted a more active and flexible pricing method, namely, a pricing strategy based on regions and specifications, so as to keep product prices in line with market changes. During the 2nd half of 2003, the Company made 12 adjustments to prices. Third, with more efforts in promoting high value-added products, the Company achieved a significant monthly increase in sales volume of ultra-thin and on-line plated glass. Fourth, according to market changes and regional market characteristics, the Company made reasonable arrangements in optimisation of resources and segment sales by product types and regions, thereby controlled the decline in prices and decreased production and sales volume of low-margined products. Fifth, capitalising on the booming sales market, the Company promoted sales of stock and obsolete glass products. By virtue of classified and batch sales as well as marketing strategies based on regional pricing, the closing balance of inventory decreased by 770,000 heavy-load boxes, representing a reduction of Rmb32,510,000 in fund occupation.

5. Leveraging the favourable situation, the Company increased its efforts in of glass product export. Being the 2nd year following the China's accession to WTO, the reporting year saw a strong momentum in exporting domestic float glass all over the country. As such, the Company introduced a cost-and-salary package policy for export marketing employees to boost their enthusiasm. The Company exported 1,749,000 heavy-load boxes of glass for the year, with revenues denominated in foreign currencies totalling US$15,600,000.

6. Thanks to diligence in after-sales services, reputation of the Company's products was guaranteed, and customers satisfaction was enhanced.

III. The Company speeded up its internal reform, aiming at systematic improvements and a better vigour. By aligning management on branches, the Company adopted a strategy focusing on management, supervision, service as well as high effectiveness, so as to increase profits as a whole.

1. The Company speeded up the separation of its principal business and ancillary business on an active and prudent manner. Firstly, contractual operation comprising supply, production and sales was accomplished in Shaobo on a market basis. On 1 September 2003, the company commenced operation independently, which significantly increased its capability of adapting to market as well as its profitability. Secondly, a simulative market-based operation was experimented in the nitrogen-hydrogen factory, paving the way for a further reform.

Existing difficulties in operations and solutions therefor *(continued)*

III. The Company speeded up its internal reform, aiming at systematic improvements and a better vigour. By aligning management on branches, the Company adopted a strategy focusing on management, supervision, service as well as high effectiveness, so as to increase profits as a whole. *(continued)*

2. The Company speeded up three systematic reforms to acclimatize its internal mechanism to new environment. Firstly, the Company streamlined certain organisations at the end of the reporting period, aiming at optimisation of resource allocation, simplified and efficient operations and a reduction in operating costs. The former packaging factory and transportation department were cancelled due to their weakening functions. The Float Glass Factory was incorporated from integration of the former First Float Glass Factory and Second Float Glass Factory to streamline personnel and enhance efficiency. The former Third Glass Factory was renamed as Float and Plating Factory, which will focus on on-line plated product to increase its strength. Second, as to distribution system, the Company improved assessment and management on incentives and penalties, which will be immediately implemented upon the assessment of current performance. A prepaid salary system was introduced to positions with relatively lower income due to uncompleted assignment, which shall be repaid upon good performance of assignment. Therefore, working enthusiasm was effectively stimulated, and awareness of working pressure was enhanced.

3. As for subsidiaries, the Company put emphasis both on management and services thereto. With active guides for their production and operation, the Company offered timely assistances to solve their problems, and created a suitable operating niche for their operation. Firstly, giving priority to macro management, the Company tried to supervise major operations such as major investments through the board of directors of a subsidiary. 2. Second, the Company carried out regular financial auditing to find out and solve their problems in financial management on a timely basis, so as to remedy hidden defects in management. Third, the Company established and improved its monitoring system of production and operation indicators, where indications such as output, quality, cost, selling price, revenue and profit were included. Important indicators will be reporting for every ten days to monitor and reflect the progress of production and operation in time. The Company implemented in-progress control , which was beneficial to focus on major issues and adjust policies on a timely, reasonable and pertinent basis. Fourth, the Company took initiatives in sending work team to solve the subsidiaries' problems.

Analysis of reasons of loss in the reporting period

I. Reasons in production and operation

1. Given the underdevelopment in internal mechanism, systematic reform and innovations, a further regulation needs to be made on corporate management. Firstly, with few flexibility in personnel, position and distribution systems due to the lagged reforms, the stimulating and restricting mechanism for medium executives was yet to be matured. Further enhancement needs to be made for initiatives and creativity of the management and staff. Secondly, the reform encountered rather difficulties, mainly derived from confined minds, conservative ideas and dependent operating habits.

2. Construction market almost experienced a standstill for several months due to the impact from SARS in the 1st half of 2003, and glass market was even worse.

3. Apparent gaps still existed between outcome and expectation for restructure of product mix, and there was a timing lag for coming into effect of economic benefits. Firstly, due to the considerable loss incurred in production, fluctuated product quality, few market shares and limited sales volume in the preliminary stage of on-line plated glass, sales volume for the year only amounted to 166,200 heavy-load boxes, representing a shortfall of 133,800 heavy-load boxes as compared with its plan. Second, due to fluctuated product quality and limited sales volume, 1.1mm ultra-thin glass also only recorded a sales volume for the year of 2,304,200 sq.m., representing a shortfall of 695,800 sq.m. as compared with its plan. Third, due to packing and transportation difficulties in commercialisation of 15mm+ products, sales scale was far from being in shape.

4. Manufacture cost maintained on a high level due to high consuming benchmark in manufacture process. In particular, the pending problem of overscaled water content in heavy oil for a long period contributed a large part to the increase in costs. Meanwhile, overheads were maintaining relatively high due to redundant management personnel and low managerial efficiency.

5. Besides the production and operation factors, most investee companies were under loss-making due to unreasonable capital structure resulting from historical reasons. The Company's current income was directly affected due to sharing a large sum of losses of its subsidiaries. At the same time, in order to minimize operating risks and secure a beneficial cycle of development without overburden, the Company had to write off certain doubtful and bad debts, which in turn affected its current income.

6. Due to irrecoverable debts of its subsidiaries and large scale of loans, the Company assumed a heavy financial burden, resulting in difficulties in cutting down costs and a disadvantage for its products' competitive edge.

7. The Company's normal production and operation were affected to a certain extent due to brain drain from time to time, lagged training for the staff, and shortage of technological and operating talents as well as senior technicians.

Goals and major initiatives in 2004

Working principles for 2004: Based on the market-oriented principle with priority to profit and a goal of profit maximization, the Company will liberate and update its operating ideas. By improving management with in-depth reform, the Company will speed up optimisation and upgrade of product mix as well as system and mechanism innovations. Aiming to secure profit by management and market achievements, the Company will be committed to a turnover from loss-making to a beneficial cycle of development.

Working guideline for 2004: strengthen management and boost efficiency; advance reform and activate mechanism; improve production indicators with priority to profit; make marketing innovations and keep abreast of market changes.

Production and operation goals for 2004: output: 13,480,000 heavy-load boxes; quality: at least 75% of vehicle-class and mirror-class products; gross finished product ratio: over 80%; sales revenue: Rmb976,780,000; revenue denominated in foreign currencies: US$15,000,000; comparable cost: a reduction of 1.70%; procurement cost: a reduction of Rmb8,000,000.

As such, the Company will focus on the following fields:

I. The Company will liberate and upgrade its operating ideas, improve market and efficiency awareness, and foster an environment for its career and reform. Furthermore, with improvement in system and specialized management, the Company aims to increase its overall efficiency to cut down production and operation costs.

1. The Company will further study the latest situation, strengthen awareness of market and responsibility, and strive to create conditions for reform. 2. Principal operating indictors will be broken down for effective pass-through of operating pressure, so as to achieve a linkage between remuneration and performance. 3. Fundamental management will be specialized, strengthened and effected. 4. Giving play to function of professional management, the Company will further streamline its management architecture and framework. 5. Ordinary operating management will be regulated to protect the Company's interests to the best extent. 6. A procurement network will be established to take full use of advantages of scale procurement and improve efficiency of fund utilisation. 7. Pertinent management on subsidiaries will be strengthened to increase management efficiency.

II. The Company will speed up optimisation and upgrade of product mix and put more efforts in research of production technology, so as to secure a steady production of quality products. With a fast pace of reform in marketing mechanism and framework, the Company will improve marketing planning to accommodate to the latest situation.

1. The Company will try to achieve a steady production of quality ultra-thin glass, making it an important contributor to profits. 2. The Company will set its aim at a player with strong strength in on-line plated glass, a domestic first-class enterprise in terms of process control and product quality. 3. By virtue of effective arrangements, the Company will focus on scale production and commercialisation of 15mm+ large and thick glass sheets. 4. With comprehensive technical developments, the Company will try to cut down production cost by all means. In addition, the Company will guarantee safety and fire control, ensuring zero occurrence of material safety accident and protecting personal interests of the staff. 5. In light of the domestic sales guideline of "Giving priority to sales with interactive progress of both sales and production", the Company will properly arrange its inventory and polish sales schedule for its products, aiming at definite transaction intention for two-third of its products on schedule. As to export, the guideline of "Scheduling production under sales progress" will be adopted, with an aim at better selling prices. On the other hand, the Company will actively improve assessment of segment production and sales by product types, so as to secure cash inflow from current products.

III. With further reform in mechanism and framework as well as three major systems, the Company will put more efforts in personnel training, aiming at keen-witted, efficient and orderly operations. Furthermore, the Company will play an active role in corporate culture, targeting a turnover from loss-making by motivating the staff as a whole for sustainable development.

1. With a faster pace in framework and mechanism reforms, the Company will strive to realize a swift and steady separation of its principal business and ancillary business, aiming at a vigorous operation of principal business. 2. The Company will speed up three systematic reforms, aiming at an effective internal running. 3. More efforts will be put in position training and professional training for technical talents. 4. With active efforts in fostering corporate culture, the Company will put efforts in building an operating environment for sustainable development by motivating the staff as a whole.

By order of the Board
Liu Baoying
Chairman

22 April 2004