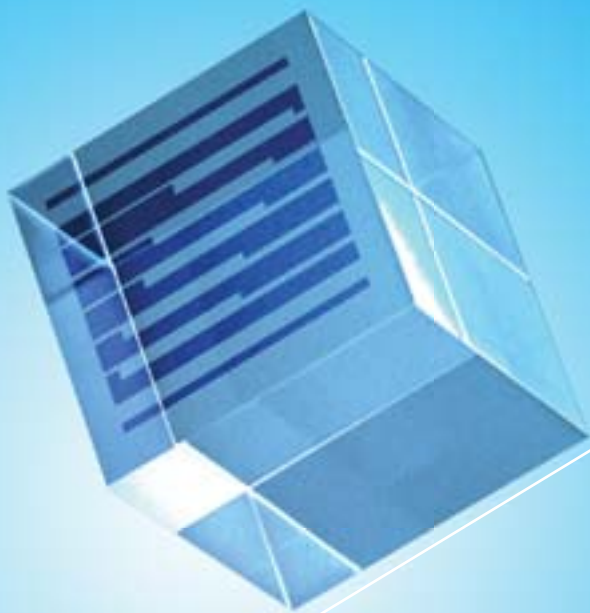




浙 江 玻 璃 股 份 有 限 公 司

ZHEJIANG GLASS COMPANY, LIMITED



INTERIM REPORT 2003

The directors (the "Directors") of Zhejiang Glass Company, Limited (the "Company") are pleased to present the Interim Report and condensed accounts of the Company and its subsidiaries (together, the "Group") for the six months ended 30 June 2003. The consolidated results, consolidated cash flow statement and consolidated statement of changes in equity of the Group for the six months ended 30 June 2003, and the consolidated balance sheet as at 30 June 2003 of the Group, all of which are unaudited and condensed, along with selected explanatory notes, are set out on pages 11 to 30 of this report.

MANAGEMENT DISCUSSION AND ANALYSIS

Market Review

According to the latest estimation of the Ministry of Commerce of the People's Republic of China (the "PRC" or "China"), approximately 230 million weight cases (or 11.5 million tonnes) of flat glass are to be produced in China in 2003. According to the China Building Materials Industrial Association ("CBMIA"), the actual production of flat glass in the PRC in the first half of 2003 amounted to 118.7 million weight cases, representing an increase of 8.3% year-on-year. CBMIA's latest statistics shows that as at the end of 2002, there were 94 float flat glass production lines in operation. Two flat glass production lines commenced production during the first half of 2003 and ten new flat glass production lines are planned to commence construction in the second half of 2003. The outbreak of the Severe Acute Respiratory Syndrome in early 2003 has not significantly affected the building materials industry. The average sales/production ratio of the major players of the flat glass industry in China was approximately 95% during the six months ended 30 June 2003. The market price of flat glass was generally stable during the first half of 2003. For example, the market price of 5mm flat glass was in the range of RMB55 to RMB60 per weight case during the period.

Business Review

The Group's performance improved in the six months ended 30 June 2003. While increasing the total output of the existing flat glass, the Group has also begun the process of diversifying its product range by producing processed glass (insulating glass, tempered glass, mirror glass and laminated glass) since the second quarter of 2003.

Products

Flat Glass

In the first half of 2003, all of the Group's three flat glass production lines with an aggregate daily melting capacity of 1,650 tonnes were in operation for the whole period. During the six months ended 30 June 2003, the Group produced 5.4 million weight cases (or 271,000 tonnes) of flat glass and it consistently achieved a sales/production ratio of nearly 100%. The sales of flat glass for the six months ended 30 June 2003 amounted to RMB308.6 million, compared with RMB241 million in the corresponding period of last year. The sales of flat glass accounted for 99% of the total sales for the first half of 2003. The average selling price of flat glass for the six months ended 30 June 2003 was RMB57 per weight case, as compared with RMB56 per weight case for the corresponding period of last year. The average selling price rebounded to nearly RMB60 per weight case in June 2003.

Approximately 89% and 11% of the Group's flat glass output in the first half of 2003 were automotive grade glass and construction grade glass, respectively.

Processed Glass

The Group's processed glass production facilities were imported from Germany, Austria and Italy. The production of insulating glass, tempered glass, mirror glass and laminated glass commenced in the second quarter of 2003. Approximately 84,000 sq. m. of processed glass products were sold at an average selling price of RMB34 per sq. m. in the second quarter of 2003, achieving a turnover of RMB2.9 million. The processed glass products are mainly for industrial use in the construction industry.

Sales and marketing

During the six months ended 30 June 2003, the Group made more sales of flat glass to Shanghai, as the city continues its fast-paced development. The Shanghai market accounted for 13% of the Group's turnover in the first half of 2003, compared with only 4% of the Group's turnover in the corresponding period of last year. The Group's flat glass sales in its local Zhejiang market, as a result, decreased to 73% of its turnover in the first half of 2003 from 83% in the corresponding period of last year. During the first half of 2003, the Group maintained similar proportion of sales to Guangdong, Fujian and other provinces as that in the prior year.

Supply of fuel and raw materials

During the first half of 2003, the price of heavy oil continued to rise. The average price of heavy oil purchased by the Group for the six months ended 30 June 2003 was over RMB1,700 per tonne, representing an increase of 49% and 26% over the average price of the corresponding period of last year and the full year of 2002, respectively. There were no material fluctuations in the costs of other major raw materials.



Financial Review

During the first half of 2003, the gross profit margin of the Group was 26%, which was the same as that in the corresponding period of last year. Although the average selling price of the flat glass has increased, the increase was offset, to some extent, by the higher unit cost of sales of RMB42 in the first half of 2003 as compared with that of RMB41 in the corresponding period of last year.

Overall, the Group achieved a net profit of RMB56.1 million and a net profit margin of 18% for the first half of 2003, compared with a net profit of RMB36.4 million and a net profit margin of 15% for the corresponding period of last year.

Subsidy income of RMB10 million receivable from the Ministry of Finance of Yangxunqiao Township, Shaoxing County for the compensation of staff costs and manufacturing overheads incurred in the first half of 2003 was recorded for the six months ended 30 June 2003. The Group also recognised a subsidy income of similar nature amounting to RMB19.3 million for the year ended 31 December 2002, which was received in 2003. The Directors are of the opinion that there is certainty in receiving this subsidy income.

The Group's average inventory turnover for the six months ended 30 June 2003 was 31 days, compared with 21 days for the year ended 31 December 2002. The increase was mainly due to the purchase of more fuel and raw materials for the increase in production volume of flat glass during the first half of 2003 and to prepare for the ultra-thin flat glass production line which commenced trial production in August 2003 (see the section headed "Outlook" below).


Outlook

The Directors believe that the demand for the Group's flat glass will remain strong as the rapid property development in the Group's major markets in Zhejiang, Shanghai and Jiangsu is expected to continue as a result of the exceptional economic growth of the Yangtze Delta. The Directors expect that the demand-driven growth of the PRC property market will be sustainable.

The market price of flat glass has been stable and rising slightly in the first half of 2003. For example, the average market price of the Group's most popular 5mm flat glass was RMB60 per weight case in June 2003 and it reached RMB62 in early July. However, the Directors consider that the average price of flat glass is unlikely to rebound to its peak level in 2000 and 2001 in the near future. The Directors expect that heavy oil price will continue to fluctuate but the flat glass industry should be able to transfer part of the increased costs of production to the selling price of flat glass.

The Directors note that the major PRC flat glass manufacturers have shifted their competition strategy from focusing on price only in the past to product diversification, with an aim to develop more locally-made, value-added and high technology glass products to compete with the imported products. The Group has successfully diversified its products to other types of glass products. The Group's processed glass production lines commenced commercial production in the second quarter of 2003. The Group's special glass production lines are currently under construction.

The Group's planned RMB235 million investment in Zhejiang Engineering Glass Company Limited for the production of special glass products (low-E coated glass (低輻射鍍膜玻璃), ITO glass (導電玻璃) and curved toughened glass (彎鋼化玻璃)) will lead the Group into the high technology special glass market. The construction of the production lines for special glass products is on schedule and the commercial production of special glass products is scheduled to commence in April 2004.



The Directors expect that the Group's processed glass and special glass products will benefit from the unsurpassed construction growth in the Yangtze Delta. Shanghai Municipal Government has announced that from 2003 onwards, the use of single-layer glass for exterior windows in the construction of new buildings would be prohibited and the use of insulating glass and low-E coated glass (低辐射镀膜玻璃) as substitutes would be encouraged. The Directors expect other major PRC cities will follow suit as a result of the mounting awareness of safety and environmental protection. The Group's processed glass and special glass products will be able to compete with the imported products in the medium to high grade processed glass and special glass market.

The Group's ultra-thin flat glass production line with a daily melting capacity of 400 tonnes commenced trial production by the end of August 2003. The ultra-thin flat glass of less than 3mm in thickness is used mainly by the fast growing car manufacturing industry. Currently, the ultra-thin glass market is dominated by imported products. With a more favourable price and quality comparable to imported products, the Directors are confident that the Group will be able to capture a fair share of the market.

In July 2003, the Company established Qinghai Soda Ash Company Limited with a view to investing in the construction of a soda ash production facility in Qinghai Province. Such project will secure a stable and low cost supply of soda ash, a major raw material for flat glass production. The commercial production of soda ash with an annual capacity of 600,000 tonnes is scheduled to commence in 2005.

CAPITAL EXPENDITURES AND COMMITMENTS

Total capital expenditures for the six months ended 30 June 2003 amounted to RMB360.9 million, of which RMB66.6 million was spent on the construction of plant and buildings, production machinery and equipment of the processed and special glass production lines and RMB255 million was paid to the contractors as deposits for the construction of the ultra-thin flat glass production line, purchases of other fixed assets and the land use rights associated with this production line.

As at 30 June 2003, the Group had total capital commitments in respect of plant and machinery, land use rights, other fixed assets and investment in a subsidiary amounting to RMB1,035 million, compared with RMB261 million as at 31 December 2002. The amount was not recorded as a liability of the Group.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2003, the Group's cash and cash equivalents balance amounted to RMB149.7 million, compared with RMB423.8 million as at 31 December 2002. As at 30 June 2003, the shareholders' funds of the Group amounted to RMB1,114.8 million, representing an increase of RMB31.5 million from RMB1,083.3 million as at 31 December 2002.

As at 30 June 2003, the Group had outstanding bank loans amounting to RMB317.5 million, representing an increase of RMB134.3 million from RMB183.2 million as at 31 December 2002. Out of the outstanding bank loans, RMB120 million was repayable within one year and RMB197.5 million was repayable beyond one but within two years.

The Group's debt ratio as at 30 June 2003 was 18%, compared to 12% as at 31 December 2002. The calculation of the debt ratio is based on total debts of RMB319.5 million (2002 – RMB185.2 million) over total assets of RMB1,783.4 million (2002 – RMB1,547.9 million).

DETAILS OF THE CHARGES ON GROUP ASSETS

As at 30 June 2003, certain land use rights, plant and buildings and machinery and equipment with an aggregate carrying value of approximately RMB120 million (31 December 2002 – RMB133.6 million) were pledged as security for bank loans of the Group of the same amount. Certain bank deposits of RMB77.5 million (31 December 2002 – nil) were pledged as security for bank loans of the Group of the same amount.

CONTINGENT LIABILITIES

As at 30 June 2003, the Group had letters of credit of approximately RMB122,984,000 (31 December 2002 – RMB91,807,000) issued to certain vendors and the amount had not been recorded as a liability of the Group.

FOREIGN EXCHANGE EXPOSURE

The Group's liabilities are mainly denominated in Renminbi. Its sales and operations are principally conducted in the PRC. Dividends for H shares payable by the Company are settled in Hong Kong Dollars ("HK Dollars"). As the exchange rate between Renminbi and HK Dollars remains stable, the Directors do not foresee any material foreign exchange exposure for the Group. However, foreign exchange exposure in the future may adversely affect the operating results of the Group.

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its shares during the six months ended 30 June 2003. Neither the Company nor any of its subsidiaries had purchased or sold any of the Company's shares during the six months ended 30 June 2003.

NUMBER AND REMUNERATION OF EMPLOYEES

Including the Directors of the Group, as at 30 June 2003, the Group employed a total of 1,214 full-time employees. The pay levels of the employees are commensurate with their responsibilities, performance and contribution.

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

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

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



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

As at 30 June 2003, the register of substantial shareholders maintained under Section 336 of the SFO shows that the Company had not been notified of any substantial shareholders' interests and short positions, being 5% or more of the Company's issued share capital, other than those of the Directors, supervisors and chief executives as disclosed above.

COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

None of the Directors is aware of any information which would indicate that the Group is not, or was not, in compliance with the Code of Best Practice as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited at any time during the six months ended 30 June 2003.

AUDIT COMMITTEE

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the unaudited condensed accounts for the six months ended 30 June 2003 with the Directors.

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended 30 June 2003

	Note	Unaudited	
		Six months ended 30 June	
		2003	2002
		RMB'000	RMB'000
Turnover	2	311,491	240,618
Cost of sales		(230,931)	(177,125)
Gross profit		80,560	63,493
Other revenues		2,338	676
Subsidy income	7	10,000	–
Interest income		4,254	694
Distribution and selling expenses		(5,001)	(3,185)
General, administrative and other operating expenses	17	(6,076)	(6,356)
Operating profit		86,075	55,322
Non-operating income		278	803
Finance costs		(7,522)	(1,831)
Profit before taxation	3	78,831	54,294
Taxation	4	(22,726)	(17,917)
Profit after taxation		56,105	36,377
Minority interests		–	–
Profit attributable to shareholders		56,105	36,377
Dividends	5	24,653	28,415
Basic earnings per share	6	RMB0.097	RMB0.063

CONDENSED CONSOLIDATED BALANCE SHEET

AS AT 30 JUNE 2003 AND 31 DECEMBER 2002

		Unaudited	Audited
		30 June 2003	31 December 2002
	Note	RMB'000	RMB'000
			(Note 1)
Non-current assets			
Fixed assets	8	786,087	722,950
Construction-in-progress	8	381,536	201,522
Deposits for fixed assets, construction-in-progress and land use rights	8	133,239	56,197
Goodwill	14	6,500	–
Deferred tax assets	13	–	–
		1,307,362	980,669
Current assets			
Inventories		53,581	24,587
Prepayments, deposits and other current assets		32,059	26,073
Bills receivable		40,100	6,186
Accounts receivable	9	11,175	3,151
Pledged deposits		189,407	83,358
Cash and cash equivalents		149,747	423,831
		476,069	567,186

CONDENSED CONSOLIDATED BALANCE SHEET (continued)

AS AT 30 JUNE 2003 AND 31 DECEMBER 2002

	Note	Unaudited 30 June 2003 RMB'000	Audited 31 December 2002 RMB'000
(Note 1)			
Current liabilities			
Accounts payable	10	31,904	21,362
Bills payable		100,677	73,178
Accruals and other payables		154,689	129,720
Other borrowings	11	2,000	2,000
Payable to a related company		531	332
Deposits and advance from customers		16,008	21,806
Taxes payable		37,846	32,951
Short-term bank loans	11	120,000	183,182
		463,655	464,531
Net current assets		12,414	102,655
Total assets less current liabilities		1,319,776	1,083,324
Financed by:			
Capital and reserves			
Share capital	12	578,713	578,713
Reserves		536,063	479,958
Proposed dividends	5	–	24,653
Shareholders' funds		1,114,776	1,083,324
Minority interests		7,500	–
Non-current liabilities			
Long-term bank loans	11	197,500	–
Deferred tax liabilities	13	–	–
		1,319,776	1,083,324

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2003

	Share capital RMB'000	Share premium RMB'000	Unaudited Statutory		Retained profits RMB'000	Proposed dividends RMB'000	Total RMB'000
			Statutory surplus reserve RMB'000	public welfare fund RMB'000			
At 1 January 2003	578,713	350,066	18,296	18,296	93,300	24,653	1,083,324
Net profit for the period	-	-	-	-	56,105	-	56,105
Dividends paid	-	-	-	-	-	(24,653)	(24,653)
At 30 June 2003	578,713	350,066	18,296	18,296	149,405	-	1,114,776

FOR THE SIX MONTHS ENDED 30 JUNE 2002

	Share capital RMB'000	Share premium RMB'000	Unaudited Statutory		Retained profits RMB'000	Proposed dividends RMB'000	Total RMB'000
			Statutory surplus reserve RMB'000	public welfare fund RMB'000			
At 1 January 2002	578,713	350,066	9,662	9,663	48,885	28,415	1,025,404
Net profit for the period	-	-	-	-	36,377	-	36,377
Dividends paid	-	-	-	-	-	(28,415)	(28,415)
At 30 June 2002	578,713	350,066	9,662	9,663	85,262	-	1,033,366

No appropriations were made to the statutory surplus reserve and statutory public welfare fund by the Group for the six months ended 30 June 2003. Such appropriations will be made at the year end in accordance with the PRC Company Law and the Company's articles of association.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2003

	Unaudited	
	Six months ended 30 June	
	2003	2002
	RMB'000	RMB'000
Net cash inflow from operating activities	50,494	72,876
Net cash used in investing activities	(363,193)	(205,699)
Net cash inflow from financing activities	38,615	108,537
Decrease in cash and cash equivalents	(274,084)	(24,286)
Cash and cash equivalents at 1 January	423,831	593,459
Cash and cash equivalents at 30 June	149,747	569,173

NOTES TO CONDENSED ACCOUNTS

1. Basis of preparation and accounting policies

These unaudited condensed consolidated accounts are prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") 25, "Interim Financial Reporting" issued by the Hong Kong Society of Accountants.

These condensed accounts should be read in conjunction with the 2002 annual accounts.

The accounting policies and methods of computation used in the preparation of these condensed accounts are consistent with those used in the annual accounts for the year ended 31 December 2002 except that the Group has changed its accounting policy following its adoption of SSAP 12 "Income Taxes" issued by the Hong Kong Society of Accountants which is effective for accounting periods commencing on or after 1 January 2003.

The changes to the Group's accounting policy and the effect of adopting this new policy are set out below:

Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

1. Basis of preparation and accounting policies (continued)

Deferred taxation (continued)

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

In prior year, deferred taxation was accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future. The adoption of the new SSAP 12 represents a change in accounting policy, which has been applied retrospectively.

The Group considers that the change in the accounting policy does not have material impact on the comparatives and the unaudited condensed accounts. Therefore, the opening retained profits at 1 January 2002 and 2003 have not been restated.

2. Segment information

The Group has one major business segment, accounting for over 99% of the total turnover of the Group, which is the manufacturing and selling of glass products using the floating glass technology. During the six months ended 30 June 2003, substantially all (2002 – same) of the Group's sales were made to customers located in the PRC.

Geographical segment analysis on turnover and operating results of the Group is as follows:

	Unaudited					Total
	Six months ended 30 June 2003					
	Zhejiang	Jiangsu	Guangdong		Other	
	Province	Province	Shanghai	Provinces	regions	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Turnover	225,950	17,059	41,446	17,605	9,431	311,491
Cost of sales	(167,514)	(12,647)	(30,727)	(13,052)	(6,991)	(230,931)
Gross profit	58,436	4,412	10,719	4,553	2,440	80,560
Subsidy income						10,000
Interest income						4,254
Unallocated expenses, net						(15,983)
Profit before taxation						78,831
Taxation						(22,726)
Profit after taxation						56,105
Minority interests						-
Profit attributable to shareholders						56,105

2. Segment information (continued)

	Unaudited					Total
	Six months ended 30 June 2002					
	Zhejiang Province	Jiangsu Province	Guangdong and Fujian		Other regions	
			Shanghai	Provinces		
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
Turnover	199,440	14,643	10,593	8,254	7,688	240,618
Cost of sales	(146,813)	(10,779)	(7,798)	(6,076)	(5,659)	(177,125)
Gross profit	52,627	3,864	2,795	2,178	2,029	63,493
Subsidy income						-
Interest income						694
Unallocated expenses, net						(9,893)
Profit before taxation						54,294
Taxation						(17,917)
Profit after taxation						36,377
Minority interests						-
Profit attributable to shareholders						36,377

There are no sales or other inter-segment transactions between the geographical segments.

3. Profit Before Taxation

Profit before taxation is stated after charging and crediting the following:

	Unaudited	
	Six months ended 30 June	
	2003	2002
	RMB'000	RMB'000
Charging –		
Cost of inventories, excluding staff costs and depreciation of fixed assets	185,624	140,548
Staff costs (including directors' emoluments)		
– salaries, wages and related employee welfare expenses	11,323	6,948
– pension costs – State-sponsored retirement plan	495	1,471
– pension costs – defined contribution retirement scheme	23	16
	11,841	8,435
Depreciation of fixed assets	40,754	28,142
Loss on disposal of fixed assets	–	2,000
Operating lease rental of office premises	449	458
Interest expense on bank loans and other borrowings wholly repayable within five years	7,522	1,831
Auditors' remuneration	470	380
Crediting –		
Interest income on bank deposits	4,254	694

4. Taxation

No Hong Kong profits tax was provided as the Group had no assessable profit arising in or derived from Hong Kong. The Group is subject to Enterprise Income Tax of the PRC at a rate of 33% on its assessable profit.

The amount of taxation charged to the condensed consolidated profit and loss account represents:

	Unaudited	
	Six months ended 30 June	
	2003	2002
	RMB'000	RMB'000
Current taxation:		
– Hong Kong profits tax	–	–
– PRC Enterprise Income Tax	22,726	17,917
Deferred taxation relating to the origination and reversal of temporary differences	–	–
Taxation charge	22,726	17,917

4. Taxation (continued)

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate of the home country of the Group as follows:

	Unaudited	
	Six months ended 30 June	
	2003	2002
	RMB'000	RMB'000
Profit before taxation	78,831	54,294
Calculated at statutory tax rate of 33% (2002: 33%)	26,014	17,917
Income not subject to taxation	(3,288)	–
Taxation charge	22,726	17,917

5. Dividends

At a meeting of the Board held on 15 April 2003, the Directors proposed a final dividend of RMB0.0426 per ordinary share for the year ended 31 December 2002, which was paid on 27 June 2003.

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2003 (2002 – nil).

6. Earnings per share

The calculation of the basic earnings per share is based on the Group's profit attributable to shareholders for the six months ended 30 June 2003 of RMB56,105,000 (six months ended 30 June 2002 – RMB36,377,000) divided by 578,713,000 shares, being the weighted average number of ordinary shares in issue during the reported period (six months ended 30 June 2002 – 578,713,000 shares). Fully diluted earnings per share have not been presented as there were no dilutive potential ordinary shares outstanding (2002 – same).

7. Subsidy income

Subsidy income of RMB10 million receivable from the Ministry of Finance of Yangxunqiao Township, Shaoxing County for the compensation of staff costs and manufacturing overheads incurred in the first half of 2003 was recorded for the six months ended 30 June 2003. The Group also recognised a subsidy income of similar nature amounting to RMB19.3 million for the year ended 31 December 2002, which was received in 2003. The Directors are of the opinion that there is certainty in receiving this subsidy income.

8. Capital expenditures

	Unaudited		
	Fixed assets	Construction- in-progress	Deposits for fixed assets, construction- in-progress and land use rights
	RMB'000	RMB'000	RMB'000
Opening net book amount as at 1 January 2003	722,950	201,522	56,197
Additions	39,302	66,645	255,000
Transfers	64,589	113,369	(177,958)
Depreciation charge (Note 3)	(40,754)	–	–
Closing net book amount as at 30 June 2003	786,087	381,536	133,239

9. Accounts receivable

The aging analysis of accounts receivable is set out below:

	Unaudited	
	30 June 2003	31 December 2002
	RMB'000	RMB'000
Current to under 6 months	11,175	2,318
6 to under 12 months	–	744
1 to under 2 years	–	89
2 to under 3 years	–	–
3 years and over	–	–
Accounts receivable, gross and net	11,175	3,151

Cash on delivery is required for most customers of the Group. Credit is granted for a period of up to twelve months for certain customers after an assessment is made on their financial ability and their past payment history and with the approval of top management.

10. Accounts payable

The aging analysis of accounts payable is set out below:

	Unaudited	
	30 June 2003	31 December 2002
	RMB'000	RMB'000
Current to under 6 months	27,249	15,625
6 to under 12 months	–	377
1 to under 2 years	–	5,360
2 to under 3 years	4,655	–
3 years and over	–	–
Accounts payable, gross and net	31,904	21,362

11. Borrowings

	Unaudited	
	30 June 2003	31 December 2002
	RMB'000	RMB'000
i. Bank loans		
– amounts wholly repayable within 1 year	120,000	183,182
– amounts wholly repayable between 1 to 2 years	197,500	–
– amounts wholly repayable between 2 to 5 years	–	–
– amounts wholly repayable beyond 5 years	–	–
	<u>317,500</u>	<u>183,182</u>
Less: amounts repayable within 1 year (included in current liabilities)	(120,000)	(183,182)
Long-term portion	<u>197,500</u>	<u>–</u>

- ii. Certain bank loans as at 30 June 2003 amounting to approximately RMB120,000,000 (31 December 2002 – RMB133,630,000) were secured by land use rights, plant and buildings and machinery and equipment of the Group of the same carrying value. Certain bank loans amounting to RMB77,500,000 (31 December 2002 – nil) were secured by bank deposits of the Group of the same amount. They are interest-bearing at commercial rates. The rest of the bank loans are unsecured and interest-bearing at commercial rates.

11. Borrowings (continued)

iii. Other short-term borrowings

	Unaudited	
	30 June 2003	31 December 2002
	RMB'000	RMB'000
– advance from an environmental protection authority	2,000	2,000

The advance from an environmental protection authority in the PRC is unsecured, non-interest bearing and repayable on demand.

12. Share capital

	Unaudited		Unaudited	
	30 June 2003	31 December 2002	30 June 2003	31 December 2002
	Number of shares		Nominal value	
			RMB'000	RMB'000
Authorised:				
Ordinary shares of RMB1 each	578,713,000	578,713,000	578,713	578,713
Issued and fully paid:				
Domestic shares of RMB1 each	400,000,000	400,000,000	400,000	400,000
H shares of RMB1 each	178,713,000	178,713,000	178,713	178,713
	578,713,000	578,713,000	578,713	578,713

There was no movement of the Company's share capital during the six months ended 30 June 2003.

13. Deferred taxation

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 33% (2002 : 33%).

For the six months ended 30 June 2003, no deferred tax assets nor liabilities were recognised (2002: nil).

14. Subsidiaries

- (i) On 9 January 2003, the Company obtained an approval (外經貿合函 [2002]891 號《關於同意設立浙江玻璃(香港)有限公司的覆函》) from the Ministry of Foreign Trade and Economic Cooperation (now known as the "Ministry of Commerce") of the PRC for the establishment of a wholly-owned subsidiary, Zhejiang Glass (Hong Kong) Company Limited (浙江玻璃(香港)有限公司)("ZGHK"), in Hong Kong. The principal activities of ZGHK are the sales of glass products and the procurement of raw materials. The authorised share capital of ZGHK is HK\$7,800,000 (equivalent to RMB8,264,000). ZGHK became a wholly-owned subsidiary of the Company on 18 January 2003. As at 30 June 2003, ZGHK had not commenced operation.
- (ii) In early 2003, the Company entered into an investment agreement (the "Agreement") with an independent third party (the "Third Party Shareholder") to establish a joint venture, Zhejiang Engineering Glass Company Limited (浙江工程玻璃有限公司)("ZEGC") with a registered capital of RMB50,000,000. Pursuant to the Agreement, the Company acquired 85% equity interest in ZEGC by a cash consideration of RMB42,500,000. The Third Party Shareholder acquired the remaining 15% equity interest by a cash consideration of RMB1,000,000 and contribution of a non-patented technical know-how valued at RMB6,500,000. This non-patented technical know-how was recorded as goodwill as at 30 June 2003 and is amortised over its estimated useful life of 10 years using the straight-line method. The principal activities of ZEGC are the manufacturing, development and sales of engineering glass products and the provision of related technical services. The registration of ZEGC in the PRC was completed on 6 March 2003.

15. Contingent liabilities

As at 30 June 2003, the Group had issued letters of credit of approximately RMB122,984,000 (31 December 2002: RMB91,807,000) to certain vendors and the amount had not been recorded as a liability of the Group.

16. Capital commitments for fixed assets, construction-in-progress and investment in a subsidiary

	Unaudited	
	30 June 2003	31 December 2002
	RMB'000	RMB'000
Contracted but not provided for	206,327	261,451
Authorised but not contracted for	828,673	–
	1,035,000	261,451

On 25 April 2003, the Company entered into a cooperation agreement with the People's Government of Haixi Mongolian Nationality and Tibetan Nationality Autonomous Prefecture of Qinghai Province under which it undertakes to establish a wholly-owned subsidiary, Qinghai Soda Ash Company Limited ("QSAC"), in Qinghai Province with an initial registered capital of RMB250 million. QSAC will engage in the production of soda ash which is one of the essential raw materials used for the production of the Group's glass products. Pursuant to a supplementary agreement entered into between the same parties on 8 July 2003, the registered capital of QSAC was reduced to RMB50 million and two additional individual investors were introduced to acquire 10% of the equity interest in QSAC. The Company's interest in QSAC was then reduced to 90% accordingly. The registration of QSAC was completed on 11 July 2003.

17. Related party transactions

Significant related party transactions, which were carried out in the normal course of the Group's business, are as follows:

		Unaudited	
		Six months ended 30 June	
		2003	2002
	Note	RMB'000	RMB'000
Rental charged			
by a related company	(a)	199	208

- (a) The Group has entered into a lease agreement with Guangyu Group Co. Ltd ("Guangyu") to lease office space for a period of 2 years commencing 13 December 2001 at RMB41,500 per month. The rental was determined by reference to the prevailing open market rentals at the time when the lease agreement was entered into. Guangyu is 93% owned by Mr. Feng Guangcheng, the major shareholder and director of the Company.

On behalf of the Board
Feng Guangcheng
Chairman

Zhejiang Province, PRC
29 August 2003