

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003
(Amounts expressed in Chinese Renminbi)

1. ORGANISATION AND OPERATIONS

Zhejiang Glass Company, Limited (the “Company”) was incorporated in the People’s Republic of China (the “PRC”) on 3 May 1994 as a collectively-owned company under the name of Zhejiang Glass Factory (“ZGF”), which was solely and beneficially owned by Mr. Feng Guangcheng (“Mr. Feng”), the major shareholder and an executive director of the Company. Its registered capital was RMB50,000,000.

In October 1998, ZGF underwent a reorganisation and became a limited liability company. The registered capital remained at RMB50,000,000 and its contribution was fulfilled by the transfer of the net assets of ZGF. The name of ZGF was also changed to Zhejiang Float Glass Industry Company Limited (“ZFGICL”).

On 6 March 2001, the Economic System Restructuring Commission of Shaoxing County of the PRC approved ZFGICL to be retrospectively recognised as a privately-owned enterprise with Mr. Feng as the sole beneficial owner from the date of its establishment.

On 19 September 2001, ZFGICL was reorganised and registered as a joint stock limited company, and its name was changed to Zhejiang Glass Company, Limited. The Company was further converted into a public subscription company on 26 September 2001 pursuant to an approval issued by the State Economic and Trade Commission.

The H shares of the Company have been listed on The Stock Exchange of Hong Kong Limited since 10 December 2001.

The Company is principally engaged in the manufacturing and selling of glass products. The activities of the subsidiaries are set out in note 16.

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003
(Amounts expressed in Chinese Renminbi)

2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these accounts are set out below:

(a) Basis of preparation and presentation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants (“HKSA”). They have been prepared under the historical cost convention.

In the current year, the Company and its subsidiaries (together with the Company, collectively referred to as the “Group”) adopted Statements of Standard Accounting Practice (“SSAP”) 35 “Government Grants and Disclosure of Government Assistance” and SSAP 12 “Income Taxes” issued by the HKSA which are effective for accounting periods commencing on or after 1 July 2002 and 1 January 2003, respectively.

Other than those disclosed in the respective notes to the accounts, management considers that the consequential changes made to the above SSAPs will not have material impact on the accounts of the Group.

(b) Group accounting

(i) Consolidation

The consolidated accounts of the Group include the accounts of the Company and its subsidiaries made up to 31 December.

Subsidiaries are those entities in which the Company, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003
(Amounts expressed in Chinese Renminbi)

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(b) Group accounting (continued)

(i) Consolidation (continued)

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(ii) Translation of foreign currencies

The Company maintains its books and records in Chinese Renminbi ("RMB"). Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The balance sheet of subsidiaries expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss account is translated at an average rate. Exchange differences are dealt with as a movement in reserves.

(c) Goodwill

Goodwill represents the capital contribution of a non-patented technical know-how from an independent third party to a subsidiary.

Goodwill is amortised using the straight-line method over its estimated useful life of 10 years.

Where an indication of impairment exists, the carrying amount of goodwill is assessed and written down immediately to its recoverable amount.

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003
(Amounts expressed in Chinese Renminbi)

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(d) Fixed assets

(i) Fixed assets

Fixed assets, comprising land use rights, plant and buildings, machinery and equipment, furnaces, motor vehicles and office equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

(ii) Depreciation

Fixed assets are depreciated at rates sufficient to write off their costs less accumulated impairment losses over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Land use rights	Over the remaining period of the rights
Plant and Buildings	4%
Machinery and Equipment	10%
Furnaces	12.5% – 16.67%
Motor Vehicles	10%
Office Equipment	20%

(iii) Impairment and gain or loss on sale

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that same asset, in which case it is treated as a revaluation decrease.

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003
(Amounts expressed in Chinese Renminbi)

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(d) Fixed assets (continued)

(iii) Impairment and gain or loss on sale (continued)

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

(e) Construction-in-progress

Construction-in-progress represents plant and buildings and production lines under construction. It is stated at cost, which includes cost of construction, machinery and equipment and other direct costs capitalised during the construction and installation period, less accumulated impairment losses.

Construction-in-progress is not depreciated until such time the assets are completed and ready for their intended use.

(f) Inventories

Inventories comprise raw materials and finished goods and are stated at the lower of cost and net realisable value. Cost, calculated on the weighted average basis, comprises materials, direct labour costs and an appropriate proportion of all production overhead expenditure. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(g) Accounts receivable

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

(h) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purpose of the cash flow statement, cash and cash equivalents comprise cash on hand and deposits held at call with banks.



NOTES TO THE ACCOUNTS

For the year ended 31 December 2003
(Amounts expressed in Chinese Renminbi)

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(i) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(j) Employee benefits

(i) *Employee leave entitlements*

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees.

Employee entitlements to sick leave and maternity or paternity leave are not recognised until the time of leave.

(ii) *Pension obligations*

Pursuant to the PRC laws and regulations, contributions to the basic old age insurance for the Group's employees in the PRC are made monthly to a government agency based on 17% of the basic salary of these employees, of which the entire portion is borne by the Group. The government agency is responsible for the pension liabilities relating to these employees upon their retirement. The Group accounts for these contributions on an accrual basis and the costs of the benefits are recognised as an expense in the period in which they are incurred.

The Group contributes to a defined contribution plan in Hong Kong which is available to all employees based in Hong Kong, the assets of which are held in separate trustee – administered funds. The pension plan is generally funded by payments from the employees and the Group.

The Group's contributions to the defined contribution retirement scheme are expensed as incurred and are not reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions.

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003
(Amounts expressed in Chinese Renminbi)

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(k) 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.

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 depreciation on fixed assets and tax losses carried forward, 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 SSAP12 represents a change in accounting policy, which has been applied retrospectively.

Management considers that the change in the accounting policy does not have material impact on the comparatives and the accounts. Therefore, the beginning retained profits as at 1 January 2002 and 2003 have not been restated.

(l) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.



NOTES TO THE ACCOUNTS

For the year ended 31 December 2003
(Amounts expressed in Chinese Renminbi)

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(l) **Contingent liabilities and contingent assets (continued)**

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

(m) **Revenue recognition**

Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

Service income is recognised when the relevant services are rendered.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

(n) **Subsidy income**

Subsidy income that becomes receivable as compensation for/financing of expenses or losses already incurred is recognised as income of the period in which it becomes receivable. It is separately presented in the profit and loss account.

(o) **Borrowing costs**

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset.

All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003
(Amounts expressed in Chinese Renminbi)

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(p) Operating leases

Leases where substantially all the risks or rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to profit and loss account on a straight-line basis over the lease periods.

(q) Segment reporting

In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format and geographical segments as the secondary reporting format.

No business segment information is presented as the Group's turnover and operating results are almost entirely generated from the manufacturing and selling of glass products.

In respect of geographical segment reporting, turnover is based on the provinces/cities in which the customers are located and the total assets and capital expenditures are where the assets are located.

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003
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3. TURNOVER, REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in the manufacturing and selling of glass products. Revenues recognised during the year are as follows:

	2003	2002
	RMB'000	RMB'000
Turnover – Sales of glass products	816,398	510,452
Less: Sales taxes and surcharges	(7,375)	(4,040)
Turnover, net	809,023	506,412
Other revenue		
Service income	9,338	–
Sales of by-products	1,224	959
	10,562	959
Total revenues	819,585	507,371

Sales made to the top five customers during the year ended 31 December 2003 represent 29% (2002 – 29%) of the total turnover during the year.

No business segment information is presented as the Group's turnover and operating results are substantially generated from the manufacturing and selling of glass products. In addition, almost all of the Group's sales were made to customers located in the PRC during the year (2002 – same).

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003
(Amounts expressed in Chinese Renminbi)

3. TURNOVER, REVENUE AND SEGMENT INFORMATION (continued)

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

	Year ended 31 December 2003					Total RMB'000
	Zhejiang Province RMB'000	Shanghai RMB'000	Guangdong and Fujian Provinces RMB'000	Jiangsu Province RMB'000	Other regions RMB'000	
Turnover, net	564,932	130,694	52,325	41,077	19,995	809,023
Cost of sales	(385,143)	(89,101)	(35,673)	(28,004)	(13,631)	(551,552)
Gross profit	<u>179,789</u>	<u>41,593</u>	<u>16,652</u>	<u>13,073</u>	<u>6,364</u>	257,471
Subsidy income						24,090
Interest income						5,524
Unallocated expenses, net						(41,872)
Profit before taxation						245,213
Taxation						(63,177)
Profit after taxation						182,036
Minority interests						139
Profit attributable to shareholders						<u>182,175</u>

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003
(Amounts expressed in Chinese Renminbi)

3. TURNOVER, REVENUE AND SEGMENT INFORMATION (continued)

	Year ended 31 December 2002					Total RMB'000
	Zhejiang Province RMB'000	Shanghai RMB'000	Guangdong	Jiangsu	Other	
			and Fujian Provinces RMB'000	Province RMB'000	regions RMB'000	
Turnover, net	411,983	32,468	19,438	26,870	15,653	506,412
Cost of sales	(310,033)	(24,433)	(14,628)	(20,220)	(11,780)	(381,094)
Gross profit	<u>101,950</u>	<u>8,035</u>	<u>4,810</u>	<u>6,650</u>	<u>3,873</u>	125,318
Subsidy income						19,312
Interest income						3,468
Unallocated expenses, net						<u>(19,690)</u>
Profit before taxation						128,408
Taxation						<u>(42,073)</u>
Profit after taxation						86,335
Minority interests						<u>-</u>
Profit attributable to shareholders						<u>86,335</u>

No segment assets or capital expenditures by geographical location of assets is presented as over 90% of the Group's assets are located in the Zhejiang Province.

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003
(Amounts expressed in Chinese Renminbi)

4. OPERATING PROFIT

Operating profit is stated after charging and crediting the following:

	2003	2002
	RMB'000	RMB'000
Charging –		
Cost of inventories, excluding staff costs and depreciation of fixed assets	443,798	313,126
Staff costs (excluding directors' emoluments) (note 10)	29,648	10,387
Depreciation of fixed assets	89,116	62,140
Amortisation of goodwill (note 13)	542	–
Loss on disposal of fixed assets	–	1,491
Operating lease rental of office premises	1,045	770
Auditors' remuneration	2,119	1,682
Exchange loss, net	165	16
	5,524	3,468
Crediting –		
Interest income on bank deposits	5,524	3,468

5. FINANCE COSTS

	2003	2002
	RMB'000	RMB'000
Interest expense on:		
Bank loans wholly repayable within five years	20,919	6,267
Less: interest expenses capitalised under construction-in-progress (note 14)	(1,807)	–
	19,112	6,267
Charges on discounting of bills	854	–
	19,966	6,267

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003
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6. TAXATION

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

	2003 RMB'000	2002 RMB'000
Hong Kong profits tax (i)	–	–
PRC Enterprise Income Tax (ii)		
– current taxation	72,280	42,073
– over provision in prior years	(9,103)	–
Deferred taxation (note 28)	–	–
	<hr/>	<hr/>
Taxation charge	63,177	42,073

(i) *Hong Kong profits tax*

No Hong Kong profits tax was provided as the Group had no assessable profit arising in or derived from Hong Kong.

(ii) *PRC Enterprise Income Tax*

The Group is subject to Enterprise Income Tax of the PRC at a rate of 33% (2002 – 33%) on its assessable profit.

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003
(Amounts expressed in Chinese Renminbi)

6. 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 Company as follows:

	2003	2002
	RMB'000	RMB'000
Profit before taxation	<u>245,213</u>	<u>128,408</u>
Calculated at a taxation rate of 33%		
(2002 – 33%)	80,920	42,375
Income not subject to taxation	(7,950)	–
Unrecognised tax losses of subsidiaries	344	–
Over provision of PRC		
Enterprise Income Tax in prior years (note (i))	(9,103)	–
Others	(1,034)	(302)
Taxation charge	<u>63,177</u>	<u>42,073</u>

(i) Included in the amount is the reversal of PRC Enterprise Income Tax provision for subsidy income recorded in 2002 of RMB6,373,000 (see note 33(b)).

7. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of approximately RMB183,077,000 (2002 – RMB86,335,000).

NOTES TO THE ACCOUNTS

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8. DIVIDENDS

	2003 RMB'000	2002 RMB'000
Dividends paid:		
– Final dividends for the year 2001 of RMB0.0491 per ordinary share	–	28,415
– Final dividends for the year 2002 of RMB0.0426 per ordinary share	<u>24,653</u>	<u>–</u>
	<u><u>24,653</u></u>	<u><u>28,415</u></u>
Dividends proposed:		
– Final dividends for the year 2003 of RMB0.0948 per ordinary share (2002 – RMB0.0426 per ordinary share)	<u><u>54,862</u></u>	<u><u>24,653</u></u>

At a board of directors' meeting held on 26 April 2004, the directors proposed a final dividend of RMB0.0948 per share. This proposed dividend has not been reflected as a dividend payable in the accounts.

9. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the Group's profit attributable to shareholders of approximately RMB182,175,000 (2002 – RMB86,335,000) divided by the weighted average number of 578,713,000 ordinary shares in issue during the year (2002 – same).

Fully diluted earnings per share has not been presented as there were no dilutive potential ordinary shares outstanding (2002 – same).

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003
(Amounts expressed in Chinese Renminbi)

10. STAFF COSTS (EXCLUDING DIRECTORS' EMOLUMENTS)

	2003	2002
	RMB'000	RMB'000
<hr/>		
Salaries, wages and related employee welfare expenses:		
– current year charges	28,681	18,314
– less: reversal of provision for staff discretionary bonuses and welfare expenses of prior year	<u>–</u>	<u>(8,110)</u>
	28,681	10,204
Pension costs:		
– state-sponsored retirement plan (note 27)	918	141
– defined contribution retirement scheme (note 27)	49	42
	<u>29,648</u>	<u>10,387</u>

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003
(Amounts expressed in Chinese Renminbi)

11. DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

a. Directors

The aggregate amounts of emoluments payable to directors of the Company during the year are as follows:

	2003 RMB'000	2002 RMB'000
Executive directors		
– Fees	–	–
– Salaries and allowances	890	1,112
– Pension scheme contributions	151	189
– Bonuses	–	–
Non-executive directors		
– Fees	–	–
– Other emoluments	–	–
Independent non-executive directors		
– Fees	106	106
– Other emoluments	–	–
	<u>1,147</u>	<u>1,407</u>

The emoluments of each of the directors during the year fell within the band of Nil to RMB1,060,000 (equivalent to HK\$1,000,000).

During the year, five (2002 – five) directors waived emoluments of approximately RMB2,110,000 (2002 – RMB1,888,000). No incentive payment for joining the Company nor compensation for loss of office was paid or payable to any directors during the year (2002 – nil).

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003
(Amounts expressed in Chinese Renminbi)

11. DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (continued)

b. Supervisors

The aggregate amounts of emoluments payable to supervisors of the Company during the year are as follows:

	2003 RMB'000	2002 RMB'000
Salaries and allowances	263	139
Pension scheme contributions	45	23
Bonuses	–	–
Others	–	–
	<u>308</u>	<u>162</u>

The remuneration of each of the supervisors during the year fell within the band of Nil to RMB1,060,000 (equivalent to HK\$1,000,000).

During the year, two (2002 – two) supervisors waived emoluments of approximately RMB808,000 (2002 – RMB861,000). No emoluments were paid to the supervisors as inducement to join or upon joining the Company or as compensation for loss of office (2002 – nil).

c. Five highest paid individuals

The five highest paid individuals consisted of:

	2003	2002
Number of directors	1	1
Number of supervisors	–	–
Number of employees	4	4
	<u>5</u>	<u>5</u>

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003
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11. DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (continued)

c. Five highest paid individuals (continued)

The details of emoluments paid to the five highest paid individuals who were directors of the Company during the year have been included in note 11(a) above. Details of emoluments paid or payable to the highest paid non-director individuals are:

	2003 RMB'000	2002 RMB'000
Salaries and allowances	1,422	1,137
Pension scheme contributions	125	101
Bonuses	—	—
Others	—	—
	<u>1,547</u>	<u>1,238</u>

The remuneration of each of the highest paid non-director individuals during the year fell within the band of Nil to RMB1,060,000 (equivalent to HK\$1,000,000).

During the year, no emoluments were paid to the highest paid non-director individuals as inducement to join or upon joining the Company or as compensation for loss of office (2002 – nil).

12. SUBSIDY INCOME

Cash subsidy income of approximately RMB24,090,000 (2002 – RMB19,312,000) was granted by the Ministry of Finance of Yangxunqiao Township, Shaoxing County ("MOF") to support the expansion of the Company and was designated to finance the Company's staff costs and manufacturing overheads incurred for the year of 2003. The full amount was received in cash subsequent to 31 December 2003. The Company also recognised a subsidy income of similar nature of approximately RMB19,312,000 in 2002, which was received in 2003. The MOF has stipulated that the said subsidy shall not be repaid by the Company in any form (note 18 and note 33(b)).

Since this subsidy income was designated to finance the Company's expenses incurred for the current year, the directors of the Company consider this kind of income may not recur in the future (2002 – same).

Please also refer to note 33(b) for contingent tax liabilities associated with the receipt of such subsidy income.

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13. GOODWILL

	Group Goodwill RMB'000
Year ended 31 December 2003	
Opening net book amount	–
Non-patented technical know-how	6,500
Amortisation charge (note 4)	(542)
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Closing net book amount	5,958
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At 31 December 2003	
Cost	6,500
Accumulated amortisation	(542)
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Net book amount	5,958
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In February 2003, the Company entered into an investment agreement (the “Agreement”) with a 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 had invested in and held 85% equity interest in ZEGC by a cash consideration of RMB42,500,000, while the Third Party Shareholder had invested in and held 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 and is amortised over its estimated useful life of 10 years using the straight-line method.

NOTES TO THE ACCOUNTS

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14. FIXED ASSETS AND CONSTRUCTION-IN-PROGRESS

a. Movement of fixed assets during the year is as follows:

	Group						2002	2002
	2003							
	Land use	Plant and	Machinery		Motor	Office	Total	Total
	rights	buildings	and	Furnaces	vehicles	equipment		
	RMB'000	RMB'000	equipment	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost								
At 1 January	44,680	256,095	405,873	191,511	2,147	831	901,137	555,395
Additions	25,531	125	21,154	-	2,471	361	49,642	19,439
Transfer from deposits for fixed assets, construction- in-progress ("CIP") and land use rights	-	-	-	-	-	-	-	1,945
Transfer from CIP	18,317	125,858	244,241	54,136	-	-	442,552	365,555
Disposals	-	-	-	-	-	-	-	(41,197)
At 31 December	88,528	382,078	671,268	245,647	4,618	1,192	1,393,331	901,137
Accumulated depreciation								
At 1 January	778	32,796	115,117	29,234	197	65	178,187	154,605
Charge for the year	1,290	11,899	48,369	27,014	362	182	89,116	62,140
Disposals	-	-	-	-	-	-	-	(38,558)
At 31 December	2,068	44,695	163,486	56,248	559	247	267,303	178,187
Net book value								
At 31 December 2003	86,460	337,383	507,782	189,399	4,059	945	1,126,028	722,950
At 31 December 2002	43,902	223,299	290,756	162,277	1,950	766	722,950	400,790

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14. FIXED ASSETS AND CONSTRUCTION-IN-PROGRESS (continued)

	Company						2003	2002
	Land use	Plant and	Machinery		Motor	Office	Total	Total
	rights	buildings	and	Furnaces	vehicles	equipment		
	RMB'000	RMB'000	equipment	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost								
At 1 January	44,680	256,095	405,873	191,511	2,147	831	901,137	555,395
Additions	-	125	21,154	-	947	90	22,316	19,439
Transfer from deposits for fixed assets, CIP and land use rights	-	-	-	-	-	-	-	1,945
Transfer from CIP	18,317	125,858	244,241	54,136	-	-	442,552	365,555
Disposals	-	-	-	-	-	-	-	(41,197)
At 31 December	62,997	382,078	671,268	245,647	3,094	921	1,366,005	901,137
Accumulated depreciation								
At 1 January	778	32,796	115,117	29,234	197	65	178,187	154,605
Charge for the year	1,265	11,899	48,369	27,014	278	173	88,998	62,140
Disposals	-	-	-	-	-	-	-	(38,558)
At 31 December	2,043	44,695	163,486	56,248	475	238	267,185	178,187
Net book value								
At 31 December 2003	60,954	337,383	507,782	189,399	2,619	683	1,098,820	722,950
At 31 December 2002	43,902	223,299	290,756	162,277	1,950	766	722,950	400,790

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For the year ended 31 December 2003
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14. FIXED ASSETS AND CONSTRUCTION-IN-PROGRESS (continued)

As at 31 December 2003, certain land use rights, plant and buildings and machinery and equipment with aggregate carrying value of approximately RMB218,800,000 (2002 – RMB133,630,000) were pledged as security for certain bank loans of the Company (see note 23).

Included in the fixed assets balance of the Group and the Company as at 31 December 2003 were certain glass production lines which were constructed since 2002 and were completed and put into operation in 2003. The net book value of the plant and buildings and the furnace of these glass production lines as at 31 December 2003 was approximately RMB176,722,000. As at 31 December 2003, the application for the property certificates for these glass production lines from relevant authorities are still in progress. Management believed that the Group would obtain the property certificates from relevant authorities in 2004, no provision for impairment in value of the relevant assets of these glass production lines is required.

b. Movement of CIP during the year is as follows:

	Group		Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
At 1 January	201,522	192,156	201,522	192,156
Additions	447,547	354,539	391,573	354,539
Transfer from deposits for fixed assets, CIP and land use rights	56,197	20,382	56,197	20,382
Transfer to fixed assets (note (i))	(442,552)	(365,555)	(442,552)	(365,555)
At 31 December (note (ii))	<u>262,714</u>	<u>201,522</u>	<u>206,740</u>	<u>201,522</u>

(i) The construction expenditure, production machinery and equipment and other direct costs of several glass production lines were transferred from CIP to fixed assets upon the commencement of commercial production during the year.

NOTES TO THE ACCOUNTS

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14. FIXED ASSETS AND CONSTRUCTION-IN-PROGRESS (continued)

- (ii) The CIP of the Group and the Company as at 31 December 2003 mainly represents construction expenditures incurred on plant and buildings located in the PRC and production machinery and equipment for several new glass products production lines and a soda ash factory.

During the year, the amount of borrowing costs capitalised was approximately RMB1,807,000 (2002 – Nil) (note 5).

15. DEPOSITS FOR FIXED ASSETS, CONSTRUCTION-IN-PROGRESS AND LAND USE RIGHTS

The balance as at 31 December 2003 represents deposits paid by the Group and the Company for certain construction materials and production machinery of several new glass products production lines and the soda ash factory under construction, as well as for acquiring land use rights of the related premises where these new production lines are located.

16. INTERESTS IN SUBSIDIARIES

As at 31 December 2003, interests in subsidiaries comprised the following:

	Company	
	2003 RMB'000	2002 RMB'000
Unlisted shares, at cost	87,712	–
Amounts due from subsidiaries	100,537	–
	188,249	–

The directors of the Company are of the opinion that the underlying value of the subsidiaries is not less than the carrying value at 31 December 2003.

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003
(Amounts expressed in Chinese Renminbi)

16. INTERESTS IN SUBSIDIARIES (continued)

The following is a list of the subsidiaries at 31 December 2003:

Name	Place and date of incorporation and legal status	Principal activities and place of operation	Particulars of issued/registered share capital	Interest directly held
Zhejiang Engineering Glass Company Limited (浙江工程玻璃有限公司) ("ZEGC")	The PRC, 6 March 2003, limited liability company	Manufacturing, development and sales of engineering glass products and the provision of related services in the PRC	Registered capital of RMB50,000,000	85%
Qinghai Soda Ash Company Limited (青海鹼業有限公司) ("QSAC")	The PRC, 11 July 2003, limited liability company	Manufacturing and sales of soda ash in the PRC	Registered capital of RMB50,000,000 (note 30 and note 34)	90% [#]
Zhejiang Glass (Hong Kong) Company Limited (浙江玻璃(香港)有限公司) ("ZGHKC")	Hong Kong, 18 January 2003, limited liability company	Dormant	2,000 ordinary shares* of HK\$100 each	100%**

The remaining 10% interests are held by two related parties under trust arrangements made with two third parties.

* Authorised share capital is HK\$7,800,000.

** One share of HK\$100 is registered in the name of Mr. Feng as trustee for the benefit of the Company.

Amounts due from subsidiaries are unsecured, non-interest bearing and have no fixed repayment terms.

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003
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17. INVENTORIES

	Group		Company	
	2003	2002	2003	2002
	RMB'000	RMB'000	RMB'000	RMB'000
Raw materials	34,237	21,317	34,237	21,317
Finished goods	12,180	1,218	12,180	1,218
Packaging materials	1,984	1,186	1,984	1,186
Others	1,063	866	995	866
	49,464	24,587	49,396	24,587

As at 31 December 2003, none of the above inventories were carried at net realisable value (2002 – nil).

Because of the short duration of the production cycle, no work-in-progress was recognised as at 31 December 2003 (2002 – same).

18. PREPAYMENTS, DEPOSITS AND OTHER CURRENT ASSETS

	Group		Company	
	2003	2002	2003	2002
	RMB'000	RMB'000	RMB'000	RMB'000
Prepayment for raw materials purchases	16,924	1,446	16,924	1,446
Subsidy income receivable (note 12)	24,090	19,312	24,090	19,312
Others	5,457	5,315	4,579	5,315
	46,471	26,073	45,593	26,073

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003
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19. ACCOUNTS RECEIVABLE

The aging analysis of accounts receivable is set out below:

	Group		Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Current to under 6 months	5,824	2,318	5,729	2,318
6 to under 12 months	135	744	135	744
1 to under 2 years	47	89	47	89
Accounts receivable, gross and net	<u>6,006</u>	<u>3,151</u>	<u>5,911</u>	<u>3,151</u>

Cash on delivery is required for all customers in general. Credit is only granted on an exceptional basis for a period of up to a maximum of twelve months for certain customers following an assessment made on their financial abilities and past payment history, and with the approval of top management.

20. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

As at 31 December 2003, cash and cash equivalents of the Group and the Company denominated in RMB amounted to approximately RMB277,069,000 (2002 – RMB237,575,000) and RMB273,571,000 (2002 – RMB237,575,000), respectively. RMB is not freely convertible into foreign currencies and its exchange rate is determined by the government of the PRC.

Pledged deposits represent deposits were placed with certain banks as security against the issue of certain bank loans and trade finance facilities granted by these banks (note 31).

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003
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21. ACCOUNTS PAYABLE

The aging analysis of accounts payable is set out below:

	Group		Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Current to under 6 months	29,697	15,625	29,685	15,625
6 to under 12 months	242	377	242	377
1 to under 2 years	612	5,360	612	5,360
2 to under 3 years	5,160	–	5,160	–
	35,711	21,362	35,699	21,362

22. ACCRUALS AND OTHER PAYABLES

	Group		Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Accrued operating expenses	1,800	1,224	1,800	1,224
Accrued staff costs and bonuses	19,737	14,091	19,613	14,091
PRC individual income tax payable and other surcharges	1,715	2,210	1,715	2,210
Deposits received from customers for delivery equipment	53,908	40,757	53,908	40,757
Accrued expenditure on construction-in-progress	76,244	61,285	72,699	61,285
Guarantee deposits received from suppliers	1,850	–	1,850	–
Guarantee deposits received from fixed assets vendors	2,199	4,000	1,569	4,000
Property tax payable	2,744	1,844	2,744	1,844
Others	4,543	4,309	4,518	4,309
	164,740	129,720	160,416	129,720

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003
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23. BORROWINGS

i. Bank loans

	Group		Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
– amounts wholly repayable within 1 year	446,932	183,182	331,870	183,182
– amounts wholly repayable between 1 to 2 years	242,162	–	242,162	–
– amounts wholly repayable between 2 to 5 years	–	–	–	–
– amounts wholly repayable beyond 5 years	–	–	–	–
	689,094	183,182	574,032	183,182
Less: amounts repayable within 1 year (included in current liabilities)				
– short-term bank loans	(401,932)	(183,182)	(316,870)	(183,182)
– current portion of long-term bank loans	(45,000)	–	(15,000)	–
Long-term portion	242,162	–	242,162	–

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003
(Amounts expressed in Chinese Renminbi)

23. BORROWINGS (continued)

i. Bank loans (continued)

As at 31 December 2003, certain of the short-term bank loans were:

	Group		Company	
	2003	2002	2003	2002
	RMB'000	RMB'000	RMB'000	RMB'000
Secured by:				
Certain land use rights, plant and buildings and machinery and equipment of the Company with carrying value of approximately RMB75,000,000 (2002 – RMB133,630,000) (note 14)	80,000	133,630	80,000	133,630
Guaranteed by:				
The Company, a major shareholder and a senior management personnel of the Company (note 32)	41,562	–	–	–
The Company (note 32)	65,000	–	–	–
	106,562	–	–	–

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003
(Amounts expressed in Chinese Renminbi)

23. BORROWINGS (continued)

i. Bank loans (continued)

As at 31 December 2003, certain of the long-term bank loans were:

	Group		Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Secured by:				
Certain land use rights, plant and buildings and machinery and equipment of the Company with carrying value of approximately RMB143,800,000 (2002 – nil) (note 14)	70,000	–	70,000	–
Pledged deposits of approximately RMB52,975,000 (2002 – nil)	47,500	–	47,500	–
	117,500	–	117,500	–

Save as disclosed, the rest of the bank loans are unsecured. All bank loans are interest-bearing at commercial rates.

Most of the bank financing of the Company and the Group was in the form of short-term bank loans. As a result, the Company and the Group had net current liabilities of approximately RMB119 million and RMB225 million, respectively, as at 31 December 2003.

Nevertheless, the Group has obtained agreements from several financial institutions subsequent to 31 December 2003 for renewal of loan facilities totalling approximately RMB259 million for a year upon their expiry in 2004; and it has secured commitments from several financial institutions for granting aggregate additional loan facilities of approximately RMB2.3 billion in December 2003 and April 2004 to finance its investment projects stated in note 30.

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003
(Amounts expressed in Chinese Renminbi)

23. BORROWINGS (continued)

ii. Other short-term borrowings

	Group		Company	
	2003	2002	2003	2002
	RMB'000	RMB'000	RMB'000	RMB'000
– advance from an environmental protection authority	2,000	2,000	2,000	2,000

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

Please also refer to note 31 for more details of guarantees and security given/granted for the Group's banking facilities.

24. TAXES PAYABLE

Taxes payable consists of:

	Group		Company	
	2003	2002	2003	2002
	RMB'000	RMB'000	RMB'000	RMB'000
PRC Enterprise Income Tax	53,040	23,718	53,040	23,718
PRC value-added tax (note a)	9,456	7,842	9,456	7,842
Other taxes payable	496	1,391	496	1,391
	62,992	32,951	62,992	32,951

(a) PRC value-added tax

The Group is subject to value-added tax ("VAT") which is the principal indirect tax on the sales of tangible goods ("output VAT"). Output VAT is calculated at 17% of the invoiced value of sales and is payable by the customer in addition to the invoiced value of sales. The Group pays VAT on its purchases ("input VAT") which is deducted against output VAT in arriving at the net VAT amount payable. All VAT paid and collected are recorded through the VAT payable account included in taxes payable on the balance sheet.

NOTES TO THE ACCOUNTS

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25. SHARE CAPITAL

	Company			
	2003	2002	2003	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 year.

26. RESERVES AND PROPOSED DIVIDENDS

	Group					
	Share premium	Statutory surplus reserve	Statutory public welfare fund	Retained profits	Total	Proposed dividends
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2002	350,066	9,662	9,663	48,885	418,276	28,415
Profit attributable to shareholders	-	-	-	86,335	86,335	-
Appropriation to statutory reserves	-	8,634	8,633	(17,267)	-	-
Dividends paid	-	-	-	-	-	(28,415)
Proposed dividends (note 8)	-	-	-	(24,653)	(24,653)	24,653
At 31 December 2002	350,066	18,296	18,296	93,300	479,958	24,653
Profit attributable to shareholders	-	-	-	182,175	182,175	-
Appropriation to statutory reserves	-	18,304	18,304	(36,608)	-	-
Dividends paid	-	-	-	-	-	(24,653)
Proposed dividends (note 8)	-	-	-	(54,862)	(54,862)	54,862
At 31 December 2003	350,066	36,600	36,600	184,005	607,271	54,862

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003
(Amounts expressed in Chinese Renminbi)

26. RESERVES AND PROPOSED DIVIDENDS (continued)

	Company					Proposed dividends RMB'000
	Share premium RMB'000	Statutory surplus reserve RMB'000	Statutory public welfare fund RMB'000	Retained profits RMB'000	Total RMB'000	
At 1 January 2002	350,066	9,662	9,663	48,885	418,276	28,415
Profit attributable to shareholders	-	-	-	86,335	86,335	-
Appropriation to statutory reserves	-	8,634	8,633	(17,267)	-	-
Dividends paid	-	-	-	-	-	(28,415)
Proposed dividends (note 8)	-	-	-	(24,653)	(24,653)	24,653
At 31 December 2002	350,066	18,296	18,296	93,300	479,958	24,653
Profit attributable to shareholders	-	-	-	183,077	183,077	-
Appropriation to statutory reserves	-	18,304	18,304	(36,608)	-	-
Dividends paid	-	-	-	-	-	(24,653)
Proposed dividends (note 8)	-	-	-	(54,862)	(54,862)	54,862
At 31 December 2003	350,066	36,600	36,600	184,907	608,173	54,862

According to the Company Law of the PRC, before distributing the profit attributable to shareholders of each year, the Company shall set aside 10% of its profit attributable to shareholders for the statutory surplus reserve (except where the reserve balance has reached 50% of the Company's registered capital), and 5-10% of its profit attributable to shareholders for the statutory public welfare fund. These reserves cannot be used for purposes other than those for which they are created and are not distributable as cash dividends.

Appropriation to statutory surplus reserve and statutory public welfare fund should be made based on the amount of profits reflected in the accounts prepared in accordance with the PRC accounting standards and regulations. In accordance with the Company's Articles of Association, the Company declares dividends based on the lower of distributable profits as reported in accordance with the PRC accounting standards and regulations and that reported in accordance with the accounting principles generally accepted in Hong Kong, after deduction of current year's appropriations to the statutory reserves.

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003
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26. RESERVES AND PROPOSED DIVIDENDS (continued)

Profit attributable to shareholders of the Company is appropriated in the following sequence:

- (i) set off against prior years' losses;
- (ii) appropriation to statutory public welfare fund and statutory surplus reserve; and
- (iii) distribution of dividends.

During the years ended 31 December 2003 and 2002, 10% of profit attributable to shareholders was appropriated to each of the two statutory reserves as approved in resolutions passed by the board of directors of the Company according to the requirements stated above.

The unappropriated profit attributable to shareholders of the Company as at 31 December 2003 was approximately RMB184,907,000 (2002 – RMB93,300,000).

27. EMPLOYEE RETIREMENT BENEFITS

As stipulated by the rules and regulations in the PRC, the Group is required to contribute to a State-sponsored retirement plan for all of its PRC employees at 17% of their basic salaries. The State-sponsored retirement plan is responsible for the entire pension obligations payable to retired employees and the Group has no further obligations for the actual pension payments or other post-retirement benefits beyond the annual contributions. During the year, the Group contributions paid to the retirement plan amounted to approximately RMB1,069,000 (2002 – RMB790,000).

The Group also contributes to a defined contribution retirement scheme in Hong Kong for all its employees based in Hong Kong. Contributions to the scheme by the Group and the employees are calculated on a percentage of the employees' basic salaries. The cost of the retirement benefit scheme charged to the profit and loss account represents contributions payable by the Group to the fund. The Group's contributions to the defined contribution retirement scheme are recorded as expenses incurred and are not reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. During the year, the Group's contributions to the defined contribution retirement scheme in Hong Kong amounted to approximately HK\$46,000 (approximately RMB49,000) (2002 – RMB42,000).

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003
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28. DEFERRED TAXATION

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

For the year ended 31 December 2003, no deferred tax assets nor liabilities were recognised as there were no significant temporary differences (2002 – nil).

29. CONSOLIDATED CASH FLOW STATEMENT

a. Reconciliation of profit before taxation to net cash inflow from operations:

	2003 RMB'000	2002 RMB'000
Profit before taxation	245,213	128,408
Interest income	(5,524)	(3,468)
Interest expense	19,966	6,267
Depreciation of fixed assets	89,116	62,140
Amortisation of goodwill	542	–
Loss on disposal of fixed assets	–	1,491
Operating profit before working capital changes	349,313	194,838
Increase in inventories	(24,877)	(5,533)
Increase in due from related companies	(180)	–
Increase in due from a shareholder	(482)	–
Increase in prepayments, deposits and other current assets	(21,558)	(15,606)
Increase in bills receivable	(1,542)	(6,186)
Increase in accounts receivable	(2,855)	(1,663)
Increase in accounts payable	13,513	2,921
Increase in accruals and other payables	20,105	14,738
Increase in payable to a related company	498	332
Increase/(decrease) in deposits and advance from customers	11,474	(35,017)
Increase in taxes payable	719	9,119
Net cash inflow from operations	<u>344,128</u>	<u>157,943</u>

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003
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29. CONSOLIDATED CASH FLOW STATEMENT (continued)

b. Analysis of changes in financing:

	Share capital and share premium	Short-term bank loans	Long-term bank loans	Advance from a minority shareholder	Minority interests	Pledged deposits	Bills payable	Dividends payable
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
		(note 23)	(note 23)					(note 8)
At 1 January 2002	928,779	-	45,180	-	-	1,258	-	-
Declaration of dividends	-	-	-	-	-	-	-	28,415
Net draw-down	-	183,182	-	-	-	82,100	73,178	-
Payment/repayment made	-	-	(45,180)	-	-	-	-	(28,415)
At 31 December 2002	928,779	183,182	-	-	-	83,358	73,178	-
Declaration of dividends	-	-	-	-	-	-	-	24,653
Capital contribution made (i)	-	-	-	-	12,500	-	-	-
Share of loss of subsidiaries	-	-	-	-	(139)	-	-	-
Net draw-down	-	401,932	287,162	500	-	17,783	-	-
Payment/repayment made	-	(183,182)	-	-	-	-	(3,308)	(24,653)
At 31 December 2003	928,779	401,932	287,162	500	12,361	101,141	69,870	-

- (i) The capital contribution from minority shareholders include a non-patented technical know-how amounting to RMB6,500,000, which is non-cash in nature (note 13).

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003
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30. COMMITMENTS

(i) Capital commitments

The Group had the following significant capital commitments in relation to construction of production lines and the investment projects which were not provided for in the accounts as at year end:

	Group		Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Authorised and contracted for:				
Acquisition of machinery and equipment for new glass production lines	67,700	172,600	18,986	172,600
Construction of factory premises for new glass production lines	33,540	88,851	4,682	88,851
Construction of soda ash plant (note a)	2,847,262	–	2,847,262	–
Proposed investment projects (note b)	5,916,070	–	5,916,070	–
	<u>8,864,572</u>	<u>261,451</u>	<u>8,787,000</u>	<u>261,451</u>
Authorised but not contracted for:	–	–	–	–
Total commitments	<u>8,864,572</u>	<u>261,451</u>	<u>8,787,000</u>	<u>261,451</u>

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003
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30. COMMITMENTS (continued)

(i) Capital commitments (continued)

(a) *Construction of a soda ash plant*

On 25 April 2003, the Company entered into a cooperation agreement (the “Soda Ash Agreement”) with the People’s Government of Haixi Mongolian Nationality and Tibetan Nationality Autonomous Prefecture of Qinghai Province (the “Haixi and Tibetan People’s Government”) under which the Company is committed, through its 90% owned subsidiary, QSAC, to construct a factory with two soda ash production lines in five years with an annual production capacity of 600,000 tonnes each. The committed total investment amount for this project as prescribed in the Soda Ash Agreement is RMB1.6 billion, which has to be injected in two phases. The first phase is scheduled to be completed within two years after signing of the Soda Ash Agreement. The commencement of the second phase would depend on the progress of construction and the utilisation rate of the first phase production line.

On 25 December 2003, the Company entered into a revised cooperation agreement (the “Revised Soda Ash Agreement”) with the Haixi and Tibetan People’s Government. Pursuant to the Revised Soda Ash Agreement, two soda ash production lines with an annual production capacity of 900,000 tonnes each will be constructed in two phases within five years. The total investment amount will be increased from RMB1.6 billion to RMB3 billion and will be injected in two phases. The investment amount for the first phase is estimated to be approximately RMB1.6 billion.

According to the Revised Soda Ash Agreement, the registered capital of QSAC will be increased to RMB450 million, which has to be injected within three years. RMB45 million had been injected to QSAC by the Company as at 31 December 2003 (note 16).

The respective increases in the total investment amount, production capacity and registered capital of QSAC are subject to the obtaining of all necessary approvals from the relevant authorities in the PRC.

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003
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30. COMMITMENTS (continued)

(i) Capital commitments (continued)

(a) Construction of a soda ash plant (continued)

In December 2003, QSAC obtained commitments from various financial institutions for loan facilities amounting to RMB1.8 billion in order to support the construction of the first phase of the project on the condition that QSAC has to obtain all necessary approvals and licenses, for the construction of such project from the relevant government authorities. The facilities had not been drawn down as at 31 December 2003.

(b) Proposed investment projects

- (i) On 29 April 2003, the Company entered into a cooperation agreement with an industrial development council of Shaoxing county of the Zhejiang Province (浙江省紹興縣濱海工業區管委會), pursuant to which the Company had committed to invest an aggregate amount of RMB3 billion for the construction of several glass products production lines upon the obtaining of all necessary approvals and licenses from the relevant authorities in the PRC.

On 16 April 2004, a supplementary agreement was executed between the two contract parties that the Company was entitled to adjust the schedule as well as the amount of the investment. It was also agreed that the total amount of investment to be made by the Company in the project in 2004 would not exceed RMB10 million. In addition, the Company has the rights to terminate the execution of the project, taking into account of its financial position, the market situation and other relevant factors at its sole discretion.

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003
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30. COMMITMENTS (continued)

(i) Capital commitments (continued)

(b) Proposed investment projects (continued)

- (ii) On 6 August 2003, the Company entered into a cooperation agreement with the People's Government of Changxing county of the Zhejiang Province (浙江省長興縣人民政府) that the Company had committed to invest an aggregate amount of RMB1 billion for the construction of two special glass production lines with a daily melting capacity of 600 tonnes each and five processed glass production lines upon the obtaining of all necessary approvals and licenses from the relevant authorities in the PRC. According to the agreement, the Company undertook to establish a subsidiary in Changxing, the PRC, with a registered capital of RMB80,000,000 to operate the project (see note 34).

In April 2004, the Company had obtained commitments from various financial institutions for banking facility lines amounting to approximately RMB477 million in order to finance the investment and construction on the condition that the Company has to obtain all necessary approvals and licenses from the relevant authorities in the PRC in connection with such an investment.

- (iii) On 21 September 2003, the Company entered into a cooperation agreement with an industrial development council of Pinghu city of the Zhejiang Province (平湖杭州灣濱海開發區管委會), pursuant to which the Company had committed to invest an aggregate amount of RMB2 billion for the construction of four float flat glass production lines with a daily melting capacity of 600 tonnes each upon obtaining all necessary approvals and licenses from the relevant authorities in the PRC.

On 16 April 2004, a supplementary agreement was executed between the two contract parties that the Company was entitled to adjust the schedule as well as the amount of the investment. It was also agreed that the total investment to be made by the Company in 2004 in the project would not exceed RMB300 million. In addition, the Company has the rights to terminate the execution of the project, taking into account of its financial position, the market situation and other relevant factors at its own discretion.

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003
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30. COMMITMENTS (continued)

(ii) Commitments under operating leases

At 31 December 2003, the Group and the Company had total future aggregate minimum lease payments under non-cancellable operating leases entered into with third party companies in respect of land and buildings as follows:

	Group		Company	
	2003	2002	2003	2002
	Land and buildings		Land and buildings	
	RMB'000	RMB'000	RMB'000	RMB'000
Within one year	981	1,150	981	1,150
In the second to fifth year inclusive	1,020	117	1,020	117
	2,001	1,267	2,001	1,267

31. BANKING FACILITIES

The Group has aggregate banking facilities as follows:

	Group		Company	
	2003	2002	2003	2002
	RMB'000	RMB'000	RMB'000	RMB'000
Bank loans	689,094	222,822	574,032	222,822
Trade financing	108,876	164,985	51,324	164,985
	797,970	387,807	625,356	387,807

As at 31 December 2003, all facilities of the Group and the Company were fully utilised. Unutilised facilities as at 31 December 2002 of the Group and the Company were approximately RMB39,640,000.

NOTES TO THE ACCOUNTS

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31. BANKING FACILITIES (continued)

As mentioned in note 23, certain of the Group's and the Company's bank loans as at 31 December 2003 were secured by certain land use rights, plants and buildings and machinery and equipments of the Company or guaranteed by the Company and related parties.

Certain of the bank loans and trade finance facilities as at 31 December 2003 of the Group were secured by pledged deposits amounting to RMB52,975,000 (2002 – nil) and RMB48,166,000 (2002 – RMB83,358,000), respectively (note 20).

In addition, certain of the bank loans and trade finance facilities as at 31 December 2003 of the Company were secured by pledged deposits amounting to RMB52,975,000 (2002 – nil) and RMB21,330,000 (2002 – RMB83,358,000), respectively (note 20).

As mentioned in note 30, the Company and the Group had obtained commitments from various financial institutions for additional banking facilities in order to finance its ongoing investment projects up to the date of approval of the accounts.

32. RELATED PARTY TRANSACTIONS

- (i) Significant related party transactions carried out in the normal course of business by the Group are as follows:

	Note	2003 RMB'000	2002 RMB'000
Rental charged			
by Guangyu Group Co. Ltd. ("Guangyu") (光宇集團有限公司)*	(a)	(498)	(332)
Service fee earned from			
Zhejiang Technology Company Limited ("ZSTC") (浙江科技有限公司)**	(b)	7,334	–
Service fee earned from ZSTC and Zhejiang Cement Co., Ltd. ("ZCC") (浙江水泥有限公司)***			
in relation to the provision of electricity voltage transforming services	(c)	180	–

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003
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32. RELATED PARTY TRANSACTIONS (continued)

- (a) The Company entered into a lease agreement with 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.

On 28 September 2003, the Company entered into a lease renewal agreement with Guangyu for the extension of the lease period of 2 years commencing 1 January 2004 at RMB41,500 per month.

- (b) The Company entered into a service agreement with ZSTC on 1 July 2003. Pursuant to which the Company agreed to provide services, including certain repair and maintenance services in relation to the office premises and production equipment of ZSTC, staff recruitment and training services, advisory services and technical support for a period from 1 July 2003 to 31 December 2003 at a consideration determined by making reference to (i) commodity prices stipulated by the State; or (ii) market price of comparable services provided in the region; or (iii) on a cost-plus basis.
- (c) The Company entered into service agreements with ZSTC and ZCC, respectively for a period of 2 years commencing 1 July 2003. Pursuant to the service agreements, the Company agreed to provide electricity voltage transforming services by an electricity transformer owned by the Company. It also settled on behalf of ZSTC and ZCC the related electricity charges to the local electricity bureau which the Company had been fully reimbursed. The service fee charged to ZSTC and ZCC was determined at 1% on the amount of electricity charges settled on behalf of ZSTC and ZCC during the year.
- (d) Certain bank loans of a subsidiary amounting to approximately RMB41,562,000 (equivalent to EURO4,000,000) as at 31 December 2003 (2002 – nil) were guaranteed by the Company, Mr. Feng and Ms Xu Yujuan, wife of Mr. Feng and the deputy general manager of the Company. In addition, the Company also guarantees other bank loans of RMB65,000,000 of that subsidiary (note 23).
- * Guangyu is 93% owned by Mr. Feng, the major shareholder and director of the Company
** ZSTC is 70% owned by Guangyu
*** ZCC is 61.11% owned by Mr. Feng

Save as disclosed, no other material related party transactions have been entered into by the Group.

NOTES TO THE ACCOUNTS

For the year ended 31 December 2003
(Amounts expressed in Chinese Renminbi)

32. RELATED PARTY TRANSACTIONS (continued)

(ii) Balances with related parties are as follows:

	Group		Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Receivables from:				
Related companies				
ZSTC	1	–	1	–
ZCC	179	–	179	–
	<u>180</u>	<u>–</u>	<u>180</u>	<u>–</u>
Major shareholder				
Mr. Feng	<u>482</u>	<u>–</u>	<u>482</u>	<u>–</u>
Payables to:				
Related company				
Guangyu	<u>830</u>	<u>332</u>	<u>830</u>	<u>332</u>
A minority shareholder of a subsidiary, Mr. Xia Yinzhang	<u>500</u>	<u>–</u>	<u>–</u>	<u>–</u>
Maximum balance of receivables from related parties during the year ended 31 December				
	Group		Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
ZSTC	<u>33</u>	<u>–</u>	<u>33</u>	<u>–</u>
ZCC	<u>13,361</u>	<u>–</u>	<u>13,361</u>	<u>–</u>
Mr. Feng	<u>482</u>	<u>–</u>	<u>482</u>	<u>–</u>
Guangyu (note a)	<u>26,488</u>	<u>–</u>	<u>–</u>	<u>–</u>

(a) Receivable balance due from Guangyu to a subsidiary during the year was unsecured, non-interest bearing and had no fixed repayment dates. The balance had been fully settled as at 31 December 2003.

All balances with related parties are unsecured, non-interest bearing and have no fixed repayment dates.

NOTES TO THE ACCOUNTS

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33. CONTINGENT LIABILITIES

- (a) As at 31 December 2003, the Group and the Company had issued letters of credit of RMB39,006,000 (2002 – RMB91,807,000) and RMB1,324,000 (2002 – RMB91,807,000), respectively to certain vendors. The amount had not been recorded as a liability of the Group and the Company as at that date.
- (b) As mentioned in note 12, the Company had been granted subsidy by the local MOF of approximately RMB24,090,000 and RMB19,312,000, respectively in 2003 and 2002 in order to support the expansion of the Company. During the year ended 31 December 2003, the Company obtained a written confirmation from the local tax bureau that the amounts of subsidy so received in both years are not subject to any PRC Enterprise Income Tax. Accordingly, no tax provision has been made for the subsidy income granted in 2003 and the related provision made in 2002 of approximately RMB6,373,000 has also been reversed in arriving at current year's operating results of the Group. The board of directors consider that it is remote that the income so recognised would be taxed by any other tax authorities of the PRC.

34. SUBSEQUENT EVENTS

Save as disclosed in the notes to the accounts, the Group and the Company have the following significant subsequent events:

- (a) Pursuant to the board resolution dated 13 October 2003, the registered capital of QSAC was approved to be increased from RMB50,000,000 to RMB100,000,000. Additional capital contribution amounting to RMB50,000,000 had been injected to QSAC on 14 January 2004 by both the Company and the minority shareholders of QSAC according to their respective equity interests in QSAC.

As mentioned in Note 30(i)(a), the registered capital of QSAC will be further increased to RMB450,000,000 which would be injected within three years subject to obtaining the necessary approvals from the relevant authorities.



NOTES TO THE ACCOUNTS

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34. SUBSEQUENT EVENTS (continued)

- (b) As mentioned in note 30(i)(b)(ii), the Company entered into a cooperation agreement with the People's Government of Changxing county of the Zhejiang Province on 6 August 2003, under which the Company undertook to establish a wholly-owned subsidiary, Zhejiang Changxing Glass Company Limited (浙江長興玻璃有限公司) ("ZCGC"), in Zhejiang Province, the PRC, with a registered capital of RMB80,000,000. ZCGC will engage in the construction of several glass production lines and manufacturing and selling of the related glass products. The registration of ZCGC in the PRC with an initial registered capital of RMB50,000,000 was completed on 19 February 2004.

35. APPROVAL OF ACCOUNTS

The accounts (set out on pages 28 to 82) were approved and authorised for issue by the board of directors on 26 April 2004.