



浙 江 玻 璃 股 份 有 限 公 司

ZHEJIANG GLASS COMPANY, LIMITED





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 2004. The consolidated results, consolidated cash flow statement and consolidated statement of changes in equity of the Group for the six months ended 30 June 2004, and the consolidated balance sheet as at 30 June 2004 of the Group, all of which are unaudited and condensed, along with selected explanatory notes, are set out on pages 17 to 38 of this report.

MANAGEMENT DISCUSSION AND ANALYSIS

Market Review

According to the China Building Materials Industrial Association ("CBMIA"), the actual production of flat glass in the People's Republic of China (the "PRC" or "China") in the first half of 2004 amounted to approximately 144 million weight cases, representing an increase of 22.2% year-on-year. Just in the Zhejiang Province, the actual production of flat glass in the first half of 2004 amounted to approximately 9.6 million weight cases, representing an increase of 25.2% year-on-year. CBMIA's statistics show that the actual sales of flat glass in China in the first half of 2004 amounted to approximately 137 million weight cases, with a closing inventory of approximately 25 million weight cases at the end of June 2004. The average sales/production ratio of the flat glass industry in China was approximately 95.1% during the six months ended 30 June 2004, just about 0.5% slightly lower than that of the corresponding period in 2003.

All the figures show that the demand of flat glass during the first half of 2004 has not been affected by the austerity measures implemented by the PRC government. After falling 10% to 15% on average from the high season at the beginning of the year, the market price of flat glass stabilised in May-June, the low season for the flat glass industry in the PRC.



Business Review

During the six months ended 30 June 2004, both the production volume and the average selling price of the Group's flat glass grew by more than 30%, as compared with the corresponding period in 2003.

The Group's operating result in the first half of 2004 was not materially affected by the austerity measures implemented by the government of the PRC. The prices of heavy oil and soda ash, being major fuel and raw materials for the manufacturing of the Group's flat glass, remained high during the first half of 2004 and led to an increase in the unit cost of sale of the Group by over 15% as compared with the corresponding period in 2003. However, with the increase in the production volume and average selling price of the Group's flat glass exceeded the increase in the unit cost of sale of the Group, profitability improved.

Products

The Group's float glass for the building and automotive markets is sold without further processing (i.e. flat glass) or it is processed into products with additional properties (i.e. processed glass or special glass).

Flat Glass

In the first half of 2004, all of the Group's five (2003: three) flat glass production lines with an aggregate daily melting capacity of 2,350 tonnes (2003: 1,650 tonnes) were in operation for the whole period. During the six months ended 30 June 2004, the Group produced 7.4 million weight cases (2003: 5.4 million weight cases), or 370,000 tonnes (2003: 271,000 tonnes) of flat glass and it consistently achieved a sales/production ratio of over 95%. The sales of flat glass for the six months ended 30 June 2004 amounted to RMB531.3 million, compared with RMB308.6 million in the corresponding period of last year. The sales of flat glass accounted for 94% (2003: 99%) of the total sales of the Group in the first half of 2004. The average selling price of the Group's flat glass for the six months ended 30 June 2004 was RMB75 per weight case, as compared with



RMB57 per weight case for the corresponding period of last year. Improvement in average selling price is partly attributable to the increased proportion of more expensive ultra-thin glass in the product mix. The ultra-thin glass production only commenced in the fourth quarter of 2003.

Consistent with the corresponding period in 2003, over 80% and less than 20% of the Group's flat glass output in the first half of 2004 were automotive grade glass (higher quality, higher average selling price) and construction grade glass (lower quality, lower average selling price), respectively.

Processed Glass

The Group started the production of processed glass such as insulating glass, tempered glass, mirror glass and laminated glass in the second quarter of 2003. During the first half of 2004, approximately 1,255,000 sq. m. (2003: 84,000 sq. m.) of processed glass products were sold at an average selling price of RMB27 per sq. m. (2003: RMB34 per sq. m.), achieving a turnover of RMB33.9 million (2003: RMB2.9 million). The sales of processed glass accounted for 6% (2003: 1%) of the total sales of the Group in the first half of 2004.

Sales and marketing

During the first half of 2004, the Group continued to focus its sales and marketing efforts in its local Zhejiang market, and also its neighbouring cities/provinces like Shanghai, Jiangsu, Guangdong and Fujian.

Supply of fuel and raw materials

During the first half of 2004, the price of heavy oil and soda ash remained high. The Group spent approximately RMB1,830 per tonne and RMB1,340 per tonne on them respectively, representing an increase of 8% and 6% respectively over their average prices in the corresponding period last year. There were no material fluctuations in the costs of other major raw materials.



Supply of electricity

The Group's business relies to a significant extent on the smooth and non-stop operations of the Group's float glass production lines. During the first half of 2004, there had been no interruption to the operations of the Group's five float glass production lines.

Zhejiang province has been suffering from severe power shortages in recent years. The provincial government recently demanded manufacturing companies in Zhejiang to take turns in shutting production to help ease the electricity shortage. The Group however has not been affected by this problem, as the local government has committed to providing adequate electricity supply to the Company as float glass production requires non-stop electricity supply.

Financial Review

During the first half of 2004, the gross profit margin of the Group was 35%, which was much higher than 26% in the corresponding period of last year. The higher prices of heavy oil and soda ash pushed the unit cost of sale higher to almost RMB49 per weight case in the first half of 2004 as compared with that of RMB42 per weight case in the corresponding period of last year. However, the increase in the average selling price of the Group's flat glass exceeded the increase in the unit cost of sale, thus the Group's gross profit margin improved.

Overall, the Group achieved a net profit of RMB109.9 million and a net profit margin of 19% for the first half of 2004, compared with the net profit of RMB56.1 million and net profit margin of 18% for the corresponding period of last year.

The Group's average inventory turnover for the six months ended 30 June 2004 was 28 days, compared with 25 days for the year ended 31 December 2003. The increase was mainly due to the purchase of more fuel and raw materials to support the increase in production volume of flat glass during the first half of 2004.



Outlook

In early July 2004, the Company was awarded a RMB50 million automotive glass sales contract from a leading automotive glass processor in Eastern China. The Directors believe this single largest automotive glass sales contract, won since the Group's ultra-thin glass production line commenced operation in the fourth quarter of 2003, marks a beginning of the full speed entry of the Group's ultra-thin glass business into the automotive industry.

In fact, the selling price of ultra-thin glass ranging from 2 mm to 3 mm in thickness is on average 20% higher than that of regular flat glass of 4mm to 6 mm thick, and because its price is relatively stable, it helps mitigate the effect of price fluctuation of regular flat glass for the construction market. Besides enjoying cost advantage over imported glass products, the Group is among the few domestic glass manufacturers in China which can offer a stable supply of ultra-thin glass products of good quality and at reasonable price.

Growing robustly at the rate of 15% to 20% a year, the automotive industry in China presents immense opportunities to the Group's ultra-thin glass business. With the ultra-thin glass production line operating the full year in 2004, the Directors are confident that the ultra-thin glass business will contribute more impressive revenue and profit for the Group.

The latest and most important development of the Group is the successful development of ultra-thin glass of 1.1 mm in thickness for the electronics industry in July/August 2004. Currently only one or two other glass manufacturers in China are able to produce similar product in China. Current market price of these ultra-thin glass for the electronics industry is on average over 4 times the selling price of ultra-thin glass for the automotive industry.

While the Group needs to obtain end-user certification on product quality before starting large-scale commercial production of the ultra-thin glass for the electronics industry, the Directors believe this will be another major step forward for the Group



in implementing its high value-added product development program. Following the construction and automotive industries, the electronic industry will be the next target market for the Group. The new market will serve to mitigate the effect of glass product price fluctuations in the construction and automotive sectors.

The Group's largest revenue generator was flat glass, accounting for 94% of the total sales of the Group in the first half of 2004. However, the Directors expect that such proportion will continue to decline as sales of value-added products increase. Products with high growth potential are laminated glass and low-emissivity (low-E) coated glass (低辐射镀膜玻璃). Low-E coated glass with increased functionality helps to insulate heat and to reduce noise penetration.

Commercial trial production of low-E coated glass at Zhejiang Engineering Glass Company Limited, an operating subsidiary of the Company, is scheduled for the end of August 2004 and commercial production in September/October 2004.

Given the growth in demand of energy and rising power tariff in China, the Directors believe local government will urge the construction sector to adopt energy-saving low-E coated glass for new commercial and residential buildings in the future. Certain major cities like Beijing and Shanghai are already encouraging the use of low-E coated glass for new commercial and residential buildings.

The prices of heavy oil and soda ash still remained high in July/August 2004, with the price of soda ash rose further by 5% to 10% in August 2004. The Directors expect the average unit cost of sale for the full financial year of 2004 to increase to RMB49 per weight case or even higher, as compared with RMB43 per weight case in 2003.

The Group's soda ash project in Qinghai is still in good progress. The National Development and Reform Commission ("NDRC") granted formal approval to the Group for the construction of a soda ash production line with an annual production capacity of 900,000 tonnes in August 2004. The commercial production of soda ash is scheduled to commence in the second half of 2005. Apart from securing a stable supply of soda ash, a major raw material for flat glass production, the Directors believe the project can help lower the Group's average unit cost of sale significantly, and also facilitates the Group's vertical integration.



The average selling price of the Group's flat glass remained at above RMB75 per weight case in July/August 2004. The Directors do not foresee any factors which may materially affect the average selling price of the Group's flat glass for the second half of 2004. Accordingly, the Directors are confident that the Group will achieve a further improvement in profitability in 2004.

To expand its scale of operations, the Company is examining the possibility of acquiring certain assets or interests of another glass manufacturing company. No legally binding agreement has yet been signed in this regard as at the date of this report. If the circumstances so justify, the Company will make such announcement and take such steps to ensure compliance with the applicable rules.

INTERIM DIVIDEND

At a meeting of the board of Directors held on 24 August 2004, the Directors have declared an interim dividend for the year ending 31 December 2004 of RMB0.056 (2003: nil) per ordinary share, payable on or above 21 October 2004 to shareholders on record as at 14 October 2004.

BOOK CLOSURE

The register of members of the Company will be closed from 8 October 2004 to 14 October 2004, both days inclusive, during which period no transfer of shares of the Company can be registered. In order to qualify for the abovementioned interim dividend, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's share registrar and transfer office for H shares, Hong Kong Registrars Limited at 1712-6, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, by 4:30 p.m. on 7 October 2004.

CAPITAL EXPENDITURES AND COMMITMENTS

Total capital expenditures of the Group for the six months ended 30 June 2004 amounted to RMB375 million, of which RMB73 million was spent on the construction of the low-E coated glass production line, RMB180 million was spent on the construction of the soda ash plant in Qinghai, and RMB122 million was spent on the purchases of other fixed assets.



As at 30 June 2004, the Group had the following significant capital commitments:

(i) Investment in subsidiaries in relation to construction of the low-E coated glass production line and the soda ash plant

Name of subsidiary and planned production facilities	Estimated total investment (RMB)	Capital	Outstanding	Planned start and Completion date
		expenditures incurred upto 30 June 2004 (RMB)	capital commitments as at 30 June 2004 (RMB)	
Zhejiang Engineering Glass Company Limited (浙江工程玻璃有限公司)				
One low-E coated glass production line with annual production capacity of 2 million sq. m.	300 million	270 million	30 million	Started in 2003. Expect to complete by the end of August 2004.
Qinghai Soda Ash Company Limited (青海鹼業有限公司)				
One soda ash production line with annual production capacity of 900,000 tonnes.	1.6 billion	0.25 billion	1.35 billion	Started in 2003. Expect to complete by the end of June 2005.

Pursuant to the revised cooperation agreement dated 25 December 2003 with the Haixi and Tibetan People's Government, two soda ash production lines with an annual production capacity of 900,000 each will be constructed in two phases within five years. The total investment amount is estimated to be approximately RMB3 billion and will be injected in two phases. The investment amount for the first phase is estimated to be approximately RMB1.6 billion. The commencement of the second phase would depend on the progress of construction and the utilisation rate of the first phase production line.



(ii) Investment in subsidiaries in relation to construction of glass products production lines

As disclosed in the 2003 annual accounts, the Company entered into cooperation agreements with three local government authorities in the Zhejiang Province pursuant to which the Company committed to invest in aggregate RMB6 billion for the construction of a number of glass products production lines, upon the obtaining of all necessary approvals and licenses from the relevant authorities in the PRC.

In relation to these proposed investment projects, the Company established several subsidiaries in the Zhejiang Province during the first half of 2004 (please refer to Note 14 to the Condensed Accounts). Approximately RMB100 million in aggregate had been incurred for the acquisition of certain land use rights and deposits for these investment projects.

The Company is currently conducting feasibility studies, and all other necessary preparation work, including but not limited to the seeking for all necessary approvals and licences from the relevant government authorities for these proposed investment projects. According to the latest progress, the Directors do not expect substantial amount of construction work for these investment projects to start within the next 12 months. In addition, the Company has the rights to adjust the schedule as well as the amounts of these proposed investment projects, taking into account of its financial position, the market situation and other relevant factors at its own discretion. Accordingly, the Directors do not foresee any significant contingent liabilities or loss to be incurred for these proposed investment projects.

The Group is planning to finance all these capital expenditures by its own internal cashflows and new bank loans financing.



LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2004, the Group's cash and cash equivalents balance amounted to RMB589 million, compared with RMB380 million as at 31 December 2003. As at 30 June 2004, the shareholders' funds of the Group amounted to RMB1,296 million, representing an increase of RMB55 million from RMB1,241 million as at 31 December 2003.

As at 30 June 2004, the Group had outstanding bank loans amounting to RMB1,138 million, representing an increase of RMB449 million from RMB689 million as at 31 December 2003. Out of the outstanding bank loans, RMB1,041 million was repayable within one year and RMB97 million was repayable beyond one but within two years.

Similar to the situation as at 31 December 2003, most of the bank financing of the Group was in the form of short-term bank loans. As a result, the Group again recorded a net current liability position as at 30 June 2004.

Nevertheless, the Group did not experience any major problem in renewing its short-term bank loans upon their expiry. In addition, the Group has obtained additional revolving loan facilities of RMB525 million from one single financial institution subsequent to 30 June 2004 to finance its general working capital requirement.

Upon receipt of the official approval from NDRC in early August 2004, State Development Bank will, as agreed, grant a long-term loan facility amounting to RMB1.2 billion to finance the Group's soda ash project in Qinghai.

The Group's debt ratio as at 30 June 2004 was 36%, compared to 30% as at 31 December 2003. The calculation of the debt ratio is based on total debts of RMB1,140 million (2003 – RMB691 million) over total assets of RMB3,133 million (2003 – RMB2,312 million).



DETAILS OF THE CHARGES ON GROUP ASSETS

As at 30 June 2004, certain land use rights, plant and buildings and machinery and equipment with an aggregate carrying value of approximately RMB598.8 million (31 December 2003 – RMB218.8 million) were pledged as security for bank loans of the Group of approximately RMB365 million (31 December 2003 – RMB150 million). Certain bank deposits of RMB122 million (31 December 2003 – RMB53 million) were pledged as security for bank loans of the Group of approximately RMB107.5 million (31 December 2003 – RMB47.5 million).

CONTINGENT LIABILITIES

Details of contingent liabilities of the Group are set out in Note 15 to the Condensed Accounts.

FOREIGN EXCHANGE EXPOSURE

The Group's liabilities are mainly denominated in Renminbi, with certain borrowings in United State Dollars ("US Dollars"). 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 rates between Renminbi, US Dollars and HK Dollars remain 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 did not redeem any of its shares during the six months ended 30 June 2004. Neither the Company nor any of its subsidiaries purchased or sold any of the Company's shares during the six months ended 30 June 2004.

NUMBER AND REMUNERATION OF EMPLOYEES

Including the Directors of the Group, as at 30 June 2004, the Group employed a total of 2,510 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 2004, 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 1)	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%
Xu Yujuan	The Company	Interest of spouse (Note 2)	384,000,000 domestic shares (L)	66.36%



DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

(continued)

Name	The Company/ name of associated corporation	Capacity	Number and class of securities (Note 1)	Approximate percentage in the issued share capital of the Company/ associated corporation
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:

1. The letter "L" represents the interests in the shares of the Company.
2. Ms Xu Yujuan is the wife of Mr Feng Guangcheng, an executive director of the Company, and is deemed to be interested in the shares in which Mr Feng Guangcheng is interested under the provision 2 and 3 of XV of the SFO.



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

As at 30 June 2004, the following persons and entities, other than a Director, supervisor or chief executive of the Company, had an interest or a short position in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of SFO:

Name of shareholder	Capacity	Number and class of securities of securities (Note 1)	Approximate percentage in the relevant class of securities	Approximate percentage in the entire issued share capital of the Company
Pacific Dragon Fund L.L.C.	Beneficial owner	16,452,000 H shares (L)	9.21%	2.84%
The Capital Group Companies, Inc.	Investment manager (Note 2)	12,800,000 H shares (L)	7.16%	2.21%
Capital Research and Management Company	Investment manager	12,800,000 H shares (L)	7.16%	2.21%
GE Asset Management Incorporated	Investment manager	12,482,900 H shares (L)	6.98%	2.16%

Notes:

1. The letter "L" represents the entity's interest in the shares of the Company.
2. The interest in the H shares were held through Capital Research and Management Company, the share capital of which was wholly owned by The Capital Group Companies, Inc.



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 ("Listing Rules") at any time during the six months ended 30 June 2004.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

At a meeting of the board of Directors held on 24 August 2004, the Directors passed a resolution to adopt a new code of conduct regarding directors' securities transactions on terms no less exacting than the required standard set out in the Model Code as set out in Appendix 10 to the Listing Rules. Having made specific enquiry of all Directors, there were not any non-compliance with the standard set out in the Model Code and the Company's code of conduct regarding Directors' securities transactions during the six months ended 30 June 2004.



INDEPENDENT NON-EXECUTIVE DIRECTORS AND AUDIT COMMITTEE

So far as the Directors are aware, during the six months ended 30 June 2004, there were not any non-compliance with rules 3.10(1), 3.10(2) and 3.21 of the Listing Rules relating to the appointment of independent non-executive directors and the establishment of an audit committee.

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 2004 with the Directors.



CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended 30 June 2004

	Note	Unaudited	
		Six months ended 30 June	
		2004	2003
		RMB'000	RMB'000
Turnover, net	2	565,198	311,491
Cost of sales		(366,212)	(230,931)
Gross profit		198,986	80,560
Other revenue	17	1,841	2,338
Subsidy income	7	–	10,000
Interest income		2,253	4,254
Distribution and selling expenses		(8,588)	(5,001)
General, administrative and other operating expenses	17	(7,883)	(6,076)
Operating profit	3	186,609	86,075
Non-operating income, net		164	278
Finance costs		(22,704)	(7,522)
Profit before taxation		164,069	78,831
Taxation	4	(54,184)	(22,726)
Profit after taxation		109,885	56,105
Minority interests	8	–	–
Profit attributable to shareholders		109,885	56,105
Proposed interim dividends	5	32,408	–
Basic earnings per share	6	RMB0.190	RMB0.097



CONDENSED CONSOLIDATED BALANCE SHEETS

As at 30 June 2004 and 31 December 2003

		Unaudited 30 June 2004	Audited 31 December 2003
	Note	RMB'000	RMB'000
Non-current assets			
Fixed assets	9	1,320,350	1,126,028
Construction-in-progress	9	393,778	262,714
Deposits for fixed assets, construction-in-progress and land use rights	9	314,405	325,978
Goodwill		5,633	5,958
		2,034,166	1,720,678
Current assets			
Inventories		63,090	49,464
Due from related companies	17	19,191	180
Due from a shareholder		–	482
Prepayments, deposits and other current assets		5,830	46,471
Bills receivable		31,544	7,728
Accounts receivable	10	51,500	6,006
Pledged deposits		339,663	101,141
Cash and cash equivalents		588,575	380,074
		1,099,393	591,546



CONDENSED CONSOLIDATED BALANCE SHEETS (continued)

As at 30 June 2004 and 31 December 2003

	Note	Unaudited 30 June 2004 RMB'000	Audited 31 December 2003 RMB'000
Current liabilities			
Accounts payable	11	98,043	35,711
Bills payable		286,700	69,870
Accruals and other payables		199,939	164,740
Other borrowings	12	2,000	2,000
Due to a related company	17	447	830
Deposits and advance from customers		28,211	33,280
Taxes payable		64,249	62,992
Advance from a minority shareholder		500	500
Current portion of long-term bank loans	12	160,000	45,000
Short-term bank loans	12	880,578	401,932
		1,720,667	816,855
Net current liabilities		621,274	225,309
Total assets less current liabilities		1,412,892	1,495,369
Financed by:			
Capital and reserves			
Share capital	13	578,713	578,713
Reserves		684,748	607,271
Proposed dividends	5	32,408	54,862
Shareholders' funds		1,295,869	1,240,846
Minority interests		19,861	12,361
Non-current liabilities			
Long-term bank loans	12	97,162	242,162
		1,412,892	1,495,369



CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2004

	Unaudited						
	Share capital RMB'000	Share premium RMB'000	Statutory surplus reserve RMB'000	Statutory public welfare fund RMB'000	Retained profits RMB'000	Proposed dividends RMB'000	Total RMB'000
At 1 January 2004	578,713	350,066	36,600	36,600	184,005	54,862	1,240,846
Net profit for the period	-	-	-	-	109,885	-	109,885
Dividends paid	-	-	-	-	-	(54,862)	(54,862)
Interim dividends	-	-	-	-	(32,408)	32,408	-
At 30 June 2004	578,713	350,066	36,600	36,600	261,482	32,408	1,295,869

For the six months ended 30 June 2003

	Unaudited						
	Share capital RMB'000	Share premium RMB'000	Statutory surplus reserve RMB'000	Statutory public welfare fund RMB'000	Retained profits RMB'000	Proposed dividends RMB'000	Total 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)
Interim dividends	-	-	-	-	-	-	-
At 30 June 2003	578,713	350,066	18,296	18,296	149,405	-	1,114,776

No appropriations were made to the statutory surplus reserve and statutory public welfare fund by the Group for the six months ended 30 June 2004. Such appropriations will be made at 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 2004

	Unaudited	
	Six months ended 30 June	
	2004	2003
	RMB'000	RMB'000
Net cash inflow from operating activities	201,654	50,494
Net cash used in investing activities	(372,745)	(363,193)
Net cash inflow from financing activities	379,592	38,615
Increase (decrease) in cash and cash equivalents	208,501	(274,084)
Cash and cash equivalents at 1 January	380,074	423,831
Cash and cash equivalents at 30 June	588,575	149,747

Analysis of balances of cash and cash equivalents:

Bank balances and cash	588,575	149,747
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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 2003 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 2003.



2. Segment information

The Group is principally engaged in the manufacturing and selling of glass products. 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, substantially all of the Group's sales were made to customers located in the PRC during the six months ended 30 June 2004 (2003 – same).

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

	Unaudited					Total
	Six months ended 30 June 2004					
	Zhejiang	Jiangsu	Guangdong		Other	
	Province	Province	Shanghai	Provinces	regions	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Turnover, net	391,706	56,456	84,893	24,001	8,142	565,198
Cost of sales	(253,800)	(36,580)	(55,005)	(15,551)	(5,276)	(366,212)
Gross profit	137,906	19,876	29,888	8,450	2,866	198,986
Subsidy income						–
Interest income						2,253
Unallocated corporate expenses, net						(37,170)
Profit before taxation						164,069
Taxation						(54,184)
Profit after taxation						109,885
Minority interests						–
Profit attributable to shareholders						109,885



2. Segment information (continued)

	Unaudited					
	Six months ended 30 June 2003					
	Zhejiang Province RMB'000	Jiangsu Province RMB'000	Guangdong and Fujian		Other regions RMB'000	Total RMB'000
			Shanghai RMB'000	Provinces RMB'000		
Turnover, net	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 corporate 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

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 of the PRC.



3. Operating Profit

Operating profit is stated after charging and crediting the following:

	Unaudited	
	Six months ended 30 June	
	2004	2003
	RMB'000	RMB'000
Charging –		
Cost of inventories, excluding staff costs and depreciation of fixed assets	298,000	185,624
Staff costs (including directors' emoluments)		
– salaries, wages and related employee welfare expenses	16,023	11,323
– pension costs – State-sponsored retirement plan	700	495
– pension costs – defined contribution retirement scheme	30	23
	16,753	11,841
Depreciation of fixed assets	61,185	40,754
Operating lease rental of office premises	499	449
Auditors' remuneration	1,200	470
Crediting –		
Interest income on bank deposits	2,253	4,254



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% (2003 – 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	
	2004	2003
	RMB'000	RMB'000
Current taxation:		
– Hong Kong profits tax	–	–
– PRC Enterprise Income Tax	54,184	22,726
Taxation charge	54,184	22,726



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 PRC as follows:

	Unaudited	
	Six months ended 30 June	
	2004	2003
	RMB'000	RMB'000
Profit before taxation	164,069	78,831
Calculated at statutory tax rate of 33% (2003: 33%)	54,143	26,014
Income not subject to taxation	–	(3,288)
Non-deductible expenses	41	–
Taxation charge	54,184	22,726



5. Dividends

	Unaudited	
	Six months ended 30 June	
	2004	2003
	RMB'000	RMB'000
Dividends paid:		
– Final dividends for the year 2002 of RMB0.0426 per ordinary share	–	24,653
– Final dividends for the year 2003 of RMB0.0948 per ordinary share (Note 1)	54,862	–
	54,862	24,653
Dividends proposed:		
– Interim dividends for the year 2004 of RMB0.056 per ordinary share (2003 – nil) (Note 2)	32,408	–

Notes:

1. At a meeting of the Board held on 26 April 2004, the Directors proposed a final dividend of RMB0.0948 per ordinary share for the year ended 31 December 2003, which was paid on 16 July 2004.
2. At a meeting of the Board held on 24 August 2004, the Directors declared an interim dividend of RMB0.056 per ordinary share for the year ending 31 December 2004. This proposed dividend is not reflected as a dividend payable in these condensed accounts, but is reflected as an appropriation of retained profits for the six months ended 30 June 2004.



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 2004 of RMB109,885,000 (six months ended 30 June 2003 – RMB56,105,000) 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 2003 – 578,713,000 shares). Fully diluted earnings per share have not been presented as there were no dilutive potential ordinary shares outstanding (2003 – same).

7. Subsidy income

The Ministry of Finance ("MOF") of Yangxunqiao Township, Shaoxing County has granted cash subsidy to the Company since 2002 to support the expansion of the Company and to finance the Company's staff costs and manufacturing overheads incurred in each financial year.

Total subsidy income of approximately RMB19.3 million and RMB24.1 million were granted by the MOF to the Company for each of the financial year ended 31 December 2002 and 2003 respectively. The Company has received the full amount of these subsidy income in cash subsequent to each financial year end.

During the first half of 2004, the Company has started initial discussion with the MOF on the level of subsidy income for the current financial year, but no concrete conclusion has been reached yet. Accordingly, no subsidy income was recognised for the first half of 2004. Such subsidy income, if any, will be recognised in the Company's profit and loss account for the year ending 31 December 2004.

Please also refer to note 33(b) to the 2003 annual accounts for contingent tax liabilities associated with the receipt of such subsidy income.



8. Minority interests

No minority interest share of results of non-wholly owned subsidiaries were shown as those subsidiaries had not commenced any revenue generating activities and did not report any operating profits/losses during the six months ended 30 June 2004.

9. 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 2004	1,126,028	262,714	325,978
Additions	13,704	286,069	75,225
Transfers	241,803	(155,005)	(86,798)
Depreciation charge	(61,185)	-	-
Closing net book amount as at			
30 June 2004	1,320,350	393,778	314,405



10. Accounts receivable

The aging analysis of accounts receivable is set out below:

	Unaudited 30 June 2004 RMB'000	Audited 31 December 2003 RMB'000
Current to under 6 months	49,656	5,824
6 to under 12 months	1,844	135
1 to under 2 years	–	47
2 to under 3 years	–	–
3 years and over	–	–
Accounts receivable, gross and net	51,500	6,006

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

11. Accounts payable

The aging analysis of accounts payable is set out below:

	Unaudited 30 June 2004 RMB'000	Audited 31 December 2003 RMB'000
Current to under 6 months	92,974	29,697
6 to under 12 months	261	242
1 to under 2 years	186	612
2 to under 3 years	4,622	5,160
3 years and over	–	–
Accounts payable, gross and net	98,043	35,711



12. Borrowings

i. Bank loans

	Unaudited 30 June 2004 RMB'000	Audited 31 December 2003 RMB'000
– amounts wholly repayable within 1 year	1,040,578	446,932
– amounts wholly repayable between 1 to 2 years	97,162	242,162
– amounts wholly repayable between 2 to 5 years	–	–
– amounts wholly repayable beyond 5 years	–	–
	<u>1,137,740</u>	<u>689,084</u>
Less: amounts repayable within 1 year (included in current liabilities)		
– short-term bank loans	(880,578)	(401,932)
– current portion of long-term bank loans	(160,000)	(45,000)
Long-term portion	<u>97,162</u>	<u>242,162</u>



12. Borrowings (continued)

- ii. Certain bank loans as at 30 June 2004 amounting to approximately RMB365,000,000 (31 December 2003 – RMB150,000,000) were secured by land use rights, plant and buildings and machinery and equipment of the Group with carrying value of approximately RMB598,800,000 (31 December 2003 – RMB218,800,000). Certain bank loans amounting to RMB107,500,000 (31 December 2003 – RMB47,500,000) were secured by bank deposits of the Group of RMB121,842,000 (31 December 2003 – RMB52,975,000). Certain bank loans of a subsidiary amounting to RMB118,500,000 (31 December 2003 – RMB65,000,000) were guaranteed by the Company. They are interest-bearing at commercial rates. The rest of the bank loans are unsecured and interest-bearing at commercial rates.
- iii. Other short-term borrowings

	Unaudited 30 June 2004 RMB'000	Audited 31 December 2003 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.



13. Share capital

	Unaudited 30 June 2004 Number of shares	Audited 31 December 2003	Unaudited 30 June 2004 Nominal value RMB'000	Audited 31 December 2003 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 2004.



14. Investment in subsidiaries

The Company had established the following subsidiaries during the first half of 2004 in preparation for several proposed investment projects. Please also refer to the section "CAPITAL EXPENDITURES AND COMMITMENTS" for further details.

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 Changxing Glass Company Limited (浙江長興玻璃有限公司)	The PRC, 19 February 2004, limited liability company	Manufacturing and selling of related glass products in the PRC	Registered capital of RMB50,000,000	100%##
Zhejiang Jiaojiao Glass Company Limited (浙江椒江玻璃有限公司)	The PRC, 18 March 2004, limited liability company	Manufacturing and selling of related glass products in the PRC	Registered capital of RMB50,000,000	100%##
Zhejiang Pinghu Glass Company Limited (浙江平湖玻璃有限公司)	The PRC, 26 March 2004, limited liability company	Manufacturing and selling of related glass products in the PRC	Registered capital of RMB20,000,000	100%##

Approximately 10% interests are registered in the name of three related parties as trustee for the benefit of the Company.



14. Investment in subsidiaries (continued)

In addition, the registered capital of each of Zhejiang Engineering Glass Company Limited (浙江工程玻璃有限公司) and Qinghai Soda Ash Company Limited (青海鹼業有限公司) were increased from RMB50,000,000 as at 31 December 2003 to RMB100,000,000 as at 30 June 2004. The Company's equity interests in Zhejiang Engineering Glass Company Limited was increased from 85% as at 31 December 2003 to 90% as at 30 June 2004. The Company's 90% equity interests in Qinghai Soda Ash Company Limited remains unchanged.

15. Contingent liabilities

As at 30 June 2004, the Group had issued letters of credit of approximately RMB27,590,000 (31 December 2003: RMB39,006,000) to certain vendors and the amount had not been recorded as a liability of the Group.

Please also refer to note 33(b) to the 2003 annual accounts for contingent tax liabilities associated with the receipt of subsidy income.

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

	Unaudited 30 June 2004 RMB'000	Audited 31 December 2003 RMB'000
Contracted but not provided for	8,680,000	8,864,572



17. Related party transactions

Significant related party transactions carried out by the Group for the six months ended 30 June 2004 are as follows:

	Note	Unaudited	
		Six months ended 30 June	
		2004	2003
		RMB'000	RMB'000
Rental charged			
by Guangyu Group			
Co. Ltd. ("Guangyu")			
(光宇集團有限公司) *	(a)	249	199
Service fee earned from			
Zhejiang Technology			
Company Limited			
("Zhejiang Technology")			
(浙江科技有限公司) **			
and Zhejiang Cement Co., Ltd.			
("Zhejiang Cement")			
(浙江水泥有限公司) ***			
in relation to the provision			
of electricity voltage			
transforming services	(b)	239	–

- (a) The Group has 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. 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. The rental was determined by reference to the prevailing open market rentals at the time when the lease agreement was entered into.



17. Related party transactions (continued)

- (b) The Company entered into service agreements with Zhejiang Technology and Zhejiang Cement individually for a period of 2 years commencing 1 July 2003. Pursuant to the service agreements, the Company agreed to provide electricity voltage transforming services to Zhejiang Technology and Zhejiang Cement through an electricity transformer owned by the Company. It also settled on behalf of Zhejiang Technology and Zhejiang Cement the related electricity charges to the local electricity bureau which the Company had been fully reimbursed subsequent to 30 June 2004. The service fee charged to Zhejiang Technology and Zhejiang Cement was determined at 1% on the amount of electricity charges settled on behalf of Zhejiang Technology and Zhejiang Cement during the period.

The balances with related companies are unsecured, interest free and have no fixed terms of repayment.

* Guangyu is 93% owned by Mr. Feng Guangcheng, the major shareholder and director of the Company.

** Zhejiang Technology is 70% owned by Guangyu.

*** Zhejiang Cement is 61.11% owned by Mr. Feng Guangcheng.

On behalf of the Board

Feng Guangcheng

Chairman

Zhejiang Province, PRC
24 August 2004