NOTES TO THE ACCOUNTS

For the year ended 31 December 2004
(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 restructured 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 2004
(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

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 Institute of Certified Public Accountants ("HKICPA"). They have been prepared under the historical cost convention.

As most of the bank financing of the Company and the Group was in the form of short-term bank loans, the current liabilities of the Company and the Group had exceeded the current assets by approximately RMB693 million and RMB1,104 million as at 31 December 2004 (2003 - the Company, RMB119 million; the Group, RMB225 million), respectively. Up to the date of approval of these accounts, the Group had secured long-term bank loan facilities of approximately RMB900 million from two banks (which had not been drawn down as at 31 December 2004) and it also obtained commitments from several other banks for renewal/extension of the existing facilities which either expired or will expire in 2005. The board of directors are confident that these available banking facilities (see note 31) and its net operating cash flow will enable the Group to meet the financing needs and to meet all its commitments and obligations which are due in 2005. As a result, the accounts of the Company and the Group for the year ended 31 December 2004 have been prepared under the going concern basis.

(b) Recently issued accounting standards

HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the accounts for the year ended 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

NOTES TO THE ACCOUNTS

For the year ended 31 December 2004
(Amounts expressed in Chinese Renminbi)

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(c) 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.

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 subsidiary expressed in foreign currencies is 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.

NOTES TO THE ACCOUNTS

For the year ended 31 December 2004
(Amounts expressed in Chinese Renminbi)

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(d) Intangible asset

Intangible asset represents the capital contribution of a non-patented technical know-how from an independent third party to a subsidiary. It 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 the intangible asset is assessed and written down immediately to its recoverable amount.

(e) 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.

(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.

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.

NOTES TO THE ACCOUNTS

For the year ended 31 December 2004
(Amounts expressed in Chinese Renminbi)

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(f) 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.

(g) Inventories

Inventories comprise raw materials, work-in-progress 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.

(h) 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.

(i) 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.

(j) 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.

(k) 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.

NOTES TO THE ACCOUNTS

For the year ended 31 December 2004
(Amounts expressed in Chinese Renminbi)

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(k) Employee benefits (continued)

(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.

(l) 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.

(m) 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.

NOTES TO THE ACCOUNTS

For the year ended 31 December 2004
(Amounts expressed in Chinese Renminbi)

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(m) Contingent liabilities and contingent assets (continued)

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.

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.

(n) 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.

(o) Subsidy income

Subsidy income that becomes receivable as compensation for or 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.

(p) 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 2004
(Amounts expressed in Chinese Renminbi)

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(q) 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.

(r) 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.

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

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:

	2004	2003
	RMB'000	RMB'000
Turnover – Sales of glass products	**1,209,337**	816,398
Less: Sales taxes and surcharges	**(11,591)**	(7,375)
Turnover, net	**1,197,746**	809,023
Other revenue		
Service income	**536**	9,338
Sales of by-products	**3,015**	1,224
	3,551	10,562
Total revenues	**1,201,297**	819,585

Sales made to the top five customers during the year ended 31 December 2004 represent 23% (2003: 29%) of the total turnover during the year.

NOTES TO THE ACCOUNTS

For the year ended 31 December 2004
(Amounts expressed in Chinese Renminbi)

3. TURNOVER, REVENUE AND SEGMENT INFORMATION (continued)

Business segment analysis of the Group is as follows:

	2004			2003		
	Glass manufacturing	**Soda ash manufacturing**	**Total**	Glass manufacturing	Soda ash manufacturing	Total
	RMB'000	**RMB'000**	**RMB'000**	RMB'000	RMB'000	RMB'000
Turnover	**1,197,746**	**–**	**1,197,746**	809,023	–	809,023
Segment results	**419,271**	**–**	**419,271**	257,471	–	257,471
Segment assets	**2,994,589**	**885,344**	**3,879,933**	2,191,538	120,686	2,312,224
Segment liabilities	**1,978,697**	**522,052**	**2,500,749**	988,081	70,936	1,059,017
Capital expenditure	**487,755**	**730,048**	**1,217,803**	720,574	109,093	829,667
Depreciation	**135,428**	**–**	**135,428**	89,116	–	89,116
Amortisation charge	**704**	**–**	**704**	542	–	542

As at 31 December 2004, all the Group's turnover and operating results are substantially generated from the manufacturing and selling of glass products. As mentioned in note 30, a soda ash manufacturing plant was under construction and had not yet commenced its commercial operation in 2004.

NOTES TO THE ACCOUNTS

For the year ended 31 December 2004
(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 2004					
	Zhejiang Province RMB'000	Shanghai RMB'000	Guangdong and Fujian Provinces RMB'000	Jiangsu Province RMB'000	Other Regions RMB'000	Total RMB'000
Turnover, net	833,832	166,735	61,170	116,196	19,813	1,197,746
Cost of sales	(541,949)	(108,369)	(39,758)	(75,522)	(12,877)	(778,475)
Gross profit	291,883	58,366	21,412	40,674	6,936	419,271
Interest income						7,918
Unallocated expenses less other revenue, net						(92,796)
Profit before taxation						334,393
Taxation						(129,647)
Profit after taxation						204,746
Minority interests						298
Profit attributable to shareholders						205,044

NOTES TO THE ACCOUNTS

For the year ended 31 December 2004
(Amounts expressed in Chinese Renminbi)

3. TURNOVER, REVENUE AND SEGMENT INFORMATION (continued)

	Year ended 31 December 2003					
	Zhejiang Province RMB'000	Shanghai RMB'000	Guangdong and Fujian Provinces RMB'000	Jiangsu Province RMB'000	Other Regions RMB'000	Total 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	179,789	41,593	16,652	13,073	6,364	257,471
Subsidy income						24,090
Interest income						5,524
Unallocated expenses less other revenue, net						(41,872)
Profit before taxation						245,213
Taxation						(63,177)
Profit after taxation						182,036
Minority interests						139
Profit attributable to shareholders						182,175

No segment assets or capital expenditures by geographical location of assets is presented as almost all the Group's assets relating to the manufacturing and selling of glass products are principally located in the Zhejiang Province. The assets located in Qinghai are the same as those disclosed in the business segment of soda ash manufacturing.

NOTES TO THE ACCOUNTS

For the year ended 31 December 2004
(Amounts expressed in Chinese Renminbi)

4. OPERATING PROFIT

Operating profit is stated after charging and crediting the following:

	2004	2003
	RMB'000	RMB'000
Charging –		
Cost of inventories, excluding staff costs and depreciation of fixed assets	**629,093**	443,798
Staff costs (excluding directors' emoluments) (note 10)	**35,279**	29,648
Depreciation of fixed assets (note 14)	**135,428**	89,116
Amortisation of intangible asset (note 13)	**704**	542
Loss on disposal of fixed assets	**3,010**	–
Operating lease rental of office premises	**895**	1,045
Auditors' remuneration	**2,300**	2,119
Exchange loss, net	**286**	165
Crediting –		
Subsidy income	**–**	24,090
Interest income on bank deposits	**7,918**	5,524

5. FINANCE COSTS

	2004	2003
	RMB'000	RMB'000
Interest expenses on:		
Bank loans wholly repayable within five years	**67,723**	20,919
Less: interest expenses capitalised under construction-in-progress (note 14)	**(11,474)**	(1,807)
	56,249	19,112
Charges on discounting of bills	**–**	854
	56,249	19,966

NOTES TO THE ACCOUNTS

For the year ended 31 December 2004
(Amounts expressed in Chinese Renminbi)

6. TAXATION

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

	2004	2003
	RMB'000	RMB'000
Hong Kong profits tax (i)	**–**	–
PRC Enterprise Income Tax (ii)	**110,016**	63,177
Deferred taxation relating to the origination of temporary differences (note 28)	**19,631**	–
Taxation charge	**129,647**	63,177

(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 ("PRC EIT")*
The Group is subject to Enterprise Income Tax of the PRC at a rate of 33% (2003: 33%) on its assessable profit.

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:

	2004	2003
	RMB'000	RMB'000
Profit before taxation	**334,393**	245,213
Calculated at a taxation rate of 33% (2003: 33%)	**110,349**	80,920
Income not subject to taxation	**–**	(7,950)
Expenses not deductible for taxation purposes	**1,424**	–
Tax on deemed income arising from intragroup transactions	**2,374**	–
Unrecognised tax losses of subsidiaries	**1,008**	344
Provision for/(reversal of) PRC EIT on subsidy income recognized in 2002 and 2003	**14,323**	(9,103)
Others	**169**	(1,034)
Taxation charge	**129,647**	63,177

NOTES TO THE ACCOUNTS

For the year ended 31 December 2004
(Amounts expressed in Chinese Renminbi)

7. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of approximately RMB207,801,000 (2003: RMB183,077,000).

8. DIVIDENDS

	2004 **RMB'000**	2003 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	**54,862**	–
– Interim dividends for the year 2004 of RMB0.056 per ordinary share (2003: nil)	**32,408**	–
	87,270	24,653
Dividends proposed:		
– Final dividends for the year 2004 of RMB0.0503 per ordinary share (2003: RMB0.0948 per ordinary share) (note (i))	**29,105**	54,862

(i) At a board of directors' meeting held on 18 March 2005, the directors proposed a final dividend of RMB0.0503 per ordinary share for the year 2004. This proposed dividend has not been reflected as a dividend payable in the accounts and will be reflected as an appropriation for the year ending 31 December 2005.

9. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the Group's profit attributable to shareholders of approximately RMB205,044,000 (2003: RMB182,175,000) divided by the weighted average number of 578,713,000 ordinary shares in issue during the year (2003: same).

Fully diluted earnings per share has not been presented as there were no dilutive potential ordinary shares outstanding (2003: same).

NOTES TO THE ACCOUNTS

For the year ended 31 December 2004
(Amounts expressed in Chinese Renminbi)

10. STAFF COSTS (EXCLUDING DIRECTORS' EMOLUMENTS)

	2004	2003
	RMB'000	RMB'000
Salaries, wages and related employee welfare expenses:		
– current year charges	**34,096**	28,681
Pension costs:		
– state-sponsored retirement plan (note 27)	**1,170**	918
– defined contribution retirement scheme (note 27)	**13**	49
	35,279	29,648

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:

	2004	2003
	RMB'000	RMB'000
Executive directors		
– Fees	**–**	–
– Salaries and allowances	**1,380**	890
– Pension scheme contributions	**234**	151
– Bonuses	**–**	–
Non-executive directors		
– Fees	**–**	–
– Other emoluments	**–**	–
Independent non-executive directors		
– Fees	**256**	106
– Other emoluments	**–**	–
	1,720	1,147

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, four (2003: five) directors waived emoluments of approximately RMB1,621,000 (2003: RMB2,110,000). Neither incentive payment for joining the Company nor compensation for loss of office was paid or payable to any directors during the year (2003: nil).

NOTES TO THE ACCOUNTS

For the year ended 31 December 2004
(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:

	2004	2003
	RMB'000	RMB'000
Salaries and allowance	**830**	263
Pension scheme contributions	**141**	45
Bonuses	**–**	–
Others	**–**	–
	971	308

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, four (2003: two) supervisors waived emoluments of approximately RMB1,263,000 (2003: RMB808,000). No emoluments were paid to the supervisors as inducement to join or upon joining the Company or as compensation for loss of office (2003: nil).

NOTES TO THE ACCOUNTS

For the year ended 31 December 2004
(Amounts expressed in Chinese Renminbi)

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

c. The emoluments of every Director and Supervisor for the years ended 31 December 2004 and 2003, are set out below:

					As restated
	2004				2003
Name	**Fees**	**Salary**	**Pension scheme contributions**	**Total**	Total
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**	RMB'000
Director					
Feng Guangcheng	–	601	102	703	703
Xu Yujuan (note i)	–	398	67	465	–
Wang Yanchun (note ii)	–	229	39	268	–
Hong Yumei (note ii)	–	152	26	178	–
Huang Bingzhi (note iii)	–	–	–	–	187
Zhang Jiacao (note iii)	–	–	–	–	151
Wang Yanmou	100	–	–	100	53
Li Jun	106	–	–	106	53
Wang Herong (note i)	50	–	–	50	–
Feng Luwen (note i)	–	–	–	–	–
Supervisor					
Xu Yuxiang	–	228	39	267	168
Zhang Guoqing	–	230	39	269	82
Shen Guangjun (note i)	–	178	30	208	–
Ni Daoxin (note i)	–	29	5	34	–
Yang Kuang (note i)	–	84	14	98	–
Mao Junchun (note i)	–	81	14	95	–
Chen Baijin	–	–	–	–	58

Notes:

i. Appointed on 18 June 2004

ii. Appointed on 8 November 2004

iii. Retired on 18 June 2004

NOTES TO THE ACCOUNTS

For the year ended 31 December 2004
(Amounts expressed in Chinese Renminbi)

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

d. Five highest paid individuals

The five highest paid individuals consisted of:

	2004	2003
Number of directors	**2**	1
Number of supervisors	**–**	–
Number of employees	**3**	4
	5	5

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:

	2004 **RMB'000**	2003 RMB'000
Salaries and allowances	**1,097**	1,422
Pension scheme contributions	**112**	125
Bonuses	**–**	–
Others	**–**	–
	1,209	1,547

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 related to grants made by the Ministry of Finance ("MOF") of Yangxunqiao Township, Shaoxing County to the Company to support the expansion of the Company and to finance the Company's staff costs and manufacturing overheads incurred during 2003. No such income was granted in 2004.

NOTES TO THE ACCOUNTS

For the year ended 31 December 2004
(Amounts expressed in Chinese Renminbi)

13. INTANGIBLE ASSET

	Group
Year ended 31 December 2003	RMB'000
Non-patented technical know-how	6,500
Amortisation charge	(542)
Closing net book amount	5,958
At 31 December 2003	
Cost	6,500
Accumulated amortisation	(542)
	5,958
Year ended 31 December 2004	
Opening net book amount	**5,958**
Amortisation charge	**(704)**
Closing net book amount	**5,254**
At 31 December 2004	
Cost	**6,500**
Accumulated amortisation	**(1,246)**
Net book amount	**5,254**

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 invested RMB42,500,000 in cash in return for 85% of the equity interest in ZEGC, while the Third Party Shareholder invested for the remaining 15% equity interest by a cash consideration of RMB1,000,000 and the contribution of a non-patented technical know-how valued at RMB6,500,000. This non-patented technical know-how has been recorded as intangible asset and is amortised over its estimated useful life of 10 years using the straight-line method.

NOTES TO THE ACCOUNTS

For the year ended 31 December 2004
(Amounts expressed in Chinese Renminbi)

14. FIXED ASSETS AND CONSTRUCTION-IN-PROGRESS

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

	Group							
	2004							2003
	Land use rights RMB'000	**Plant and buildings RMB'000**	**Machinery and equipment RMB'000**	**Furnaces RMB'000**	**Motor vehicles RMB'000**	**Office equipment RMB'000**	**Total RMB'000**	Total RMB'000
Cost:								
At 1 January 2004	88,528	382,078	671,268	245,647	4,618	1,192	1,393,331	901,137
Additions	–	6,824	21,763	–	6,185	462	35,234	49,642
Transfer from construction-in-progress ("CIP")	–	52,802	149,992	43,461	–	–	246,255	442,552
Disposals	–	(4,559)	–	–	–	–	(4,559)	–
At 31 December 2004	**88,528**	**437,145**	**843,023**	**289,108**	**10,803**	**1,654**	**1,670,261**	1,393,331
Accumulated depreciation and impairment:								
At 1 January 2004	2,068	44,695	163,486	56,248	559	247	267,303	178,187
Charge for the year	1,926	16,626	78,174	37,378	1,032	292	135,428	89,116
Disposals	–	(1,549)	–	–	–	–	(1,549)	–
At 31 December 2004	3,994	59,772	241,660	93,626	1,591	539	401,182	267,303
Net book value:								
At 31 December 2004	**84,534**	**377,373**	**601,363**	**195,482**	**9,212**	**1,115**	**1,269,079**	1,126,028
At 31 December 2003	86,460	337,383	507,782	189,399	4,059	945	1,126,028	722,950

NOTES TO THE ACCOUNTS

For the year ended 31 December 2004
(Amounts expressed in Chinese Renminbi)

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

	Company							
	2004							2003
	Land use rights RMB'000	Plant and buildings RMB'000	Machinery and equipment RMB'000	Furnaces RMB'000	Motor vehicles RMB'000	Office equipment RMB'000	Total RMB'000	Total RMB'000
Cost:								
At 1 January 2004	62,997	382,078	671,268	245,647	3,094	921	1,366,005	901,137
Additions	–	6,824	20,905	–	5,637	128	33,494	22,316
Transfer from CIP	–	52,802	149,992	43,461	–	–	246,255	442,552
Disposals	–	(4,559)	–	–	–	–	(4,559)	–
At 31 December 2004	**62,997**	**437,145**	**842,165**	**289,108**	**8,731**	**1,049**	**1,641,195**	1,366,005
Accumulated depreciation and impairment:								
At 1 January 2004	2,043	44,695	163,486	56,248	475	238	267,185	178,187
Charge for the year	1,260	16,626	78,114	37,380	872	199	134,451	88,998
Disposals	–	(1,549)	–	–	–	–	(1,549)	–
At 31 December 2004	**3,303**	**59,772**	**241,600**	**93,628**	**1,347**	**437**	**400,087**	267,185
Net book value:								
At 31 December 2004	**59,694**	**377,373**	**600,565**	**195,480**	**7,384**	**612**	**1,241,108**	1,098,820
At 31 December 2003	60,954	337,383	507,782	189,399	2,619	683	1,098,820	722,950

As at 31 December 2004, certain land use rights, plant and buildings and machinery and equipment with an aggregate carrying value of approximately RMB502,455,000 (2003: RMB219,195,000) were pledged as security for certain bank loans of the Company (see note 23 and 31).

NOTES TO THE ACCOUNTS

For the year ended 31 December 2004
(Amounts expressed in Chinese Renminbi)

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

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

	Group		Company	
	2004	2003	**2004**	2003
	RMB'000	RMB'000	**RMB'000**	RMB'000
		(Note 34)		(Note 34)
At 1 January 2004	**542,351**	201,522	**287,150**	201,522
Additions	**1,129,200**	783,381	**53,918**	528,180
Transfer to fixed assets (note (i))	**(246,255)**	(442,552)	**(246,255)**	(442,552)
At 31 December 2004 (note (ii))	**1,425,296**	542,351	**94,813**	287,150

(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.

(ii) The CIP of the Group and the Company as at 31 December 2004 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 RMB11,474,000 (2003: RMB1,807,000) and the capitalisation rate is approximately 6.12% (2003: 5.74%) (note 5).

15. DEPOSITS FOR LAND USE RIGHTS

The balance as at 31 December 2004 and 2003 represents deposits paid by the Group and the Company for acquiring land use rights of premises, where certain new production lines are located, from local land bureaux and a related company (note 32).

The relevant local land bureaux have committed to finalise the transfer procedures by the end of 2005. The directors of the Company have also obtained an advice from its PRC legal counsel that there are no legal restrictions which prohibit these bureaux to fulfil their obligations. Accordingly, the directors consider that there should not be any realisable problems or potential impairment loss associated with such assets.

NOTES TO THE ACCOUNTS

For the year ended 31 December 2004
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16. INTERESTS IN SUBSIDIARIES

As at 31 December 2004, interests in subsidiaries comprised the following:

	Company	
	2004	2003
	RMB'000	RMB'000
Unlisted shares, at cost	**568,852**	87,712
Amounts due from subsidiaries	**106,933**	100,537
	675,785	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 2004.

The following is a list of the subsidiaries of the Group as at 31 December 2004:

Name	Place and date of incorporation/ establishment and legal status	Principal activities and place of operation	Particulars of issued/ registered share capital	Interest directly held
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 RMB90,000,000	90%
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 RMB364,640,000 (note 30)	97.12%#
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	Business liaison and administration	2,000 ordinary shares* of HK$100 each	100%**
Zhejiang Changxing Glass Company Limited (浙江長興玻璃有限公司) ("ZCGC")	The PRC, 19 February 2004, limited liability company	Manufacturing and sales of related glass products in the PRC	Registered capital RMB50,000,000	100%##

NOTES TO THE ACCOUNTS

For the year ended 31 December 2004
(Amounts expressed in Chinese Renminbi)

16. INTERESTS IN SUBSIDIARIES (continued)

Name	Place and date of incorporation/ establishment and legal status	Principal activities and place of operation	Particulars of issued/ registered share capital	Interest directly held
Zhejiang Jiaojiang Glass Company Limited (浙江椒江玻璃有限公司) ("ZJGC")	The PRC, 18 March 2004, limited liability company	Manufacturing and sales of related glass products in the PRC	Registered capital RMB50,000,000	100%##
Zhejiang Pinghu Glass Company Limited (浙江平湖玻璃有限公司) ("ZPGC")	The PRC, 26 March 2004, limited liability company	Manufacturing and sales of related glass products in the PRC	Registered capital RMB20,000,000	100%##
Zhejiang Anji Guangyin Quartz Sand Products Company Limited (浙江安吉光吟石英砂製品有限公司)	The PRC, 7 December 2004, limited liability company	Manufacturing and sales of related quartz sand products in the PRC	Registered capital RMB5,000,000	90%

\# Upon the time of establishment of QSAC, its equity interests were held by the Company and two minority shareholders (in aggregate) in the ratio of 90% to 10%. During the current year, the registered capital of QSAC was increased (please refer to note 30 for details) and the Company invested additional capital of approximately RMB309 million into QSAC. The other two minority shareholders had not made their corresponding matching contributions ("Matching Capital Contributions") but one of them had paid a deposit of RMB20 million to QSAC which would form part of the Matching Capital Contributions. It was recorded as an advance from a minority shareholder in the consolidated accounts of the Group as at 31 December 2004 (see also note 32). As a result, the equity interest of QSAC held by the Company in QSAC had been increased to approximately 97% as at 31 December 2004.

Subsequent to year end in March 2005, these two minority shareholders made their Matching Capital Contributions in QSAC and completed the necessary approval procedures in the PRC, the equity ratio between the Company and two minority shareholders was then restored to the original 90:10 ratio.

\## Approximately 10% of the equity interests of these subsidiaries were registered under the names of three related parties as trustees for the benefit of the Company. Pursuant to a board resolution passed by the Company subsequent to 31 December 2004, all these interests held by the trustees will be transferred to both the Company and ZEGC in equal share.

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

** One share of HK$100 is registered under 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 2004
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17. INVENTORIES

	Group		Company	
	2004	2003	**2004**	2003
	RMB'000	RMB'000	**RMB'000**	RMB'000
Raw materials	**57,114**	34,237	**54,779**	34,237
Work-in-progress	**176**	–	**176**	–
Finished goods	**13,832**	12,180	**13,832**	12,180
Packaging materials	**6,025**	1,984	**5,995**	1,984
Others	**1,493**	1,063	**1,087**	995
	78,640	49,464	**75,869**	49,396

As at 31 December 2004, none of the above inventories were carried at net realisable value (2003: nil).

18. PREPAYMENTS, DEPOSITS AND OTHER CURRENT ASSETS

	Group		Company	
	2004	2003	**2004**	2003
	RMB'000	RMB'000	**RMB'000**	RMB'000
Prepayment for raw materials purchases	**2,498**	16,924	**2,188**	16,924
Subsidy income receivable (note 12)	**–**	24,090	**–**	24,090
Others	**5,194**	5,457	**3,632**	4,579
	7,692	46,471	**5,820**	45,593

NOTES TO THE ACCOUNTS

For the year ended 31 December 2004
(Amounts expressed in Chinese Renminbi)

19. ACCOUNTS RECEIVABLE

As at 31 December 2004 and 2003, the aging analysis of accounts receivable is set out below:

	Group		Company	
	2004	2003	**2004**	2003
	RMB'000	RMB'000	**RMB'000**	RMB'000
Current to under 6 months	**26,140**	5,824	**26,137**	5,729
6 to under 12 months	**–**	135	**–**	135
1 to under 2 years	**1,014**	47	**1,014**	47
Provision made	**(155)**	–	**(155)**	–
Accounts receivable, net	**26,999**	6,006	**26,996**	5,911

Cash on delivery is required for majority of the customers. Credit is only granted for a period of up to a maximum of twelve months for certain customers with good credit worthiness, as ascertained by an assessment performed 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 2004, cash and cash equivalents of the Group and the Company denominated in RMB amounted to approximately RMB699,837,000 (2003: RMB277,069,000) and RMB551,701,000 (2003: RMB273,571,000), respectively.

In addition, pledged deposits of the Group and the Company denominated in RMB amounted to approximately RMB135,023,000 (2003: 48,166,000) and RMB102,578,000 (2003: 21,330,000), respectively. Pledged deposits represent deposits placed with certain banks as security for the grant of certain bank loans and trade finance facilities made by the banks (note 31).

RMB is not freely convertible into foreign currencies and its exchange rate is determined by the government of the PRC.

21. ACCOUNTS PAYABLE

As at 31 December 2004 and 2003, the aging analysis of accounts payable is set out below:

	Group		Company	
	2004	2003	**2004**	2003
	RMB'000	RMB'000	**RMB'000**	RMB'000
Current to under 6 months	**114,076**	29,697	**110,379**	29,685
6 to under 12 months	**48,881**	242	**48,881**	242
1 to under 2 years	**426**	612	**426**	612
2 to under 3 years	**–**	5,160	**–**	5,160
3 years or over	**5,160**	–	**5,160**	–
	168,543	35,711	**164,846**	35,699

NOTES TO THE ACCOUNTS

For the year ended 31 December 2004
(Amounts expressed in Chinese Renminbi)

22. ACCRUALS AND OTHER PAYABLES

	Group		Company	
	2004	2003	**2004**	2003
	RMB'000	RMB'000	**RMB'000**	RMB'000
Accrued operating expenses	**3,865**	1,800	**3,865**	1,800
Accrued staff costs and bonuses	**10,017**	19,737	**9,225**	19,613
PRC individual income tax payable and other surcharges	**2,261**	1,715	**2,261**	1,715
Deposits received from customers for delivery equipment	**49,474**	53,908	**49,474**	53,908
Accrued expenditure on CIP	**131,130**	76,244	**15,000**	72,699
Guarantee deposits received from suppliers	**850**	1,850	**850**	1,850
Guarantee deposits received from fixed assets vendors	**6,743**	2,199	**2,364**	1,569
Others	**9,758**	7,287	**8,589**	7,262
	214,098	164,740	**91,628**	160,416

NOTES TO THE ACCOUNTS

For the year ended 31 December 2004
(Amounts expressed in Chinese Renminbi)

23. BORROWINGS

i. Bank loans

As of 31 December 2004, the bank loans were repayable as follows:

	Group		Company	
	2004	2003	**2004**	2003
	RMB'000	RMB'000	**RMB'000**	RMB'000
– amounts wholly repayable within 1 year	**1,347,500**	446,932	**1,022,500**	331,870
– amounts wholly repayable between 1 to 2 years	**–**	242,162	**–**	242,162
– amounts wholly repayable between 2 to 5 years	**300,000**	–	**–**	–
	1,647,500	689,094	**1,022,500**	574,032
Less: amounts repayable within 1 year (included in current liabilities)				
– short-term bank loans	**(1,277,500)**	(401,932)	**(952,500)**	(316,870)
– current portion of long-term bank loans	**(70,000)**	(45,000)	**(70,000)**	(15,000)
Long-term portion	**300,000**	242,162	**–**	242,162

NOTES TO THE ACCOUNTS

For the year ended 31 December 2004
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23. BORROWINGS (continued)

i. Bank loans (continued)

As at 31 December 2004, certain of the short-term bank loans were:

	Group		**Company**	
	2004	2003	**2004**	2003
	RMB'000	RMB'000	**RMB'000**	RMB'000
Secured by:				
Certain land use rights, plant and buildings and machinery and equipment of the Group with carrying value of approximately RMB437,140,000	**350,000**	80,000	**350,000**	80,000
Pledged bank deposits of approximately RMB95,460,000 (2003: nil)	**82,500**	–	**82,500**	–
	432,500	80,000	**432,500**	80,000
Guaranteed by:				
The Company, a major shareholder and a senior management personnel of the Company (note 32)	**–**	41,562	**–**	–
A major shareholder of the Company (note 32)	**30,000**	–	**30,000**	–
The Company (note 32)	**325,000**	65,000	**–**	–
	355,000	106,562	**30,000**	–

NOTES TO THE ACCOUNTS

For the year ended 31 December 2004
(Amounts expressed in Chinese Renminbi)

23. BORROWINGS (continued)

i. Bank loans (continued)

As at 31 December 2004, certain of the long-term bank loans were:

	Group		Company	
	2004	2003	**2004**	2003
	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 RMB65,316,000	**70,000**	70,000	**70,000**	70,000
Pledged bank deposits of approximately RMB52,975,000 (for 2003 only)	**–**	47,500	**–**	47,500
	70,000	117,500	**70,000**	117,500
Guaranteed by:				
The Company (note 32)	**300,000**	–	**–**	–
	300,000	–	**–**	–

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

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

ii. Other short-term borrowings

	Group		Company	
	2004	2003	**2004**	2003
	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.

NOTES TO THE ACCOUNTS

For the year ended 31 December 2004
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24. TAXES PAYABLE

Taxes payable consists of:

	Group		Company	
	2004	2003	**2004**	2003
	RMB'000	RMB'000	**RMB'000**	RMB'000
PRC EIT	**59,103**	53,040	**59,103**	53,040
PRC value-added tax (note (a))	**6,717**	9,456	**7,108**	9,456
Other taxes payable	**1,927**	496	**1,728**	496
	67,747	62,992	**67,939**	62,992

(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.

25. SHARE CAPITAL

	Company			
	2004	2003	**2004**	2003
	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.

NOTES TO THE ACCOUNTS

For the year ended 31 December 2004
(Amounts expressed in Chinese Renminbi)

26. RESERVES AND PROPOSED DIVIDENDS

Group

	Share premium RMB'000	Statutory surplus reserve RMB'000	Statutory public welfare fund RMB'000	Retained earnings RMB'000	Total RMB'000	Proposed dividends RMB'000
At 1 January 2003	350,066	18,296	18,296	93,300	479,958	24,653
Profit attributable to shareholders	–	–	–	182,175	182,175	–
Appropriations to statutory reserves	–	18,304	18,304	(36,608)	–	–
Dividends paid	–	–	–	–	–	(24,653)
Proposed dividends	–	–	–	(54,862)	(54,862)	54,862
At 31 December 2003	350,066	36,600	36,600	184,005	607,271	54,862
Profit attributable to shareholders	–	–	–	205,044	205,044	–
Appropriations to statutory reserves	–	23,158	23,158	(46,316)	–	–
Dividends paid	–	–	–	(32,408)	(32,408)	(54,862)
Proposed dividends	–	–	–	(29,105)	(29,105)	29,105
At 31 December 2004	**350,066**	**59,758**	**59,758**	**281,220**	**750,802**	**29,105**

Company

	Share premium RMB'000	Statutory surplus reserve RMB'000	Statutory public welfare fund RMB'000	Retained profits RMB'000	Total RMB'000	Proposed dividends RMB'000
At 1 January 2003	350,066	18,296	18,296	93,300	479,958	24,653
Profit attributable to shareholders	–	–	–	183,077	183,077	–
Appropriations to statutory reserves	–	18,304	18,304	(36,608)	–	–
Dividends paid	–	–	–	–	–	(24,653)
Proposed dividends	–	–	–	(54,862)	(54,862)	54,862
At 31 December 2003	350,066	36,600	36,600	184,907	608,173	54,862
Profit attributable to shareholders	–	–	–	207,801	207,801	–
Appropriations to statutory reserves	–	23,158	23,158	(46,316)	–	–
Dividends paid	–	–	–	(32,408)	(32,408)	(54,862)
Proposed dividends	–	–	–	(29,105)	(29,105)	29,105
At 31 December 2004	**350,066**	**59,758**	**59,758**	**284,879**	**754,461**	**29,105**

NOTES TO THE ACCOUNTS

For the year ended 31 December 2004
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26. RESERVES AND PROPOSED DIVIDENDS (continued)

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.

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 2004 and 2003, 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 un-appropriated profit attributable to shareholders of the Company as at 31 December 2004 was approximately RMB284,879,000 (2003: RMB184,907,000).

NOTES TO THE ACCOUNTS

For the year ended 31 December 2004
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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's contributions paid to the retirement plan amounted to approximately RMB1,170,000 (2003: RMB1,069,000).

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$12,000 (approximately RMB13,000) (2003: RMB49,000).

28. DEFERRED TAXATION

Deferred taxation are calculated in full on temporary differences under the liability method using a principal taxation rate of 33% (2003: 33%).

The movement on the deferred tax liabilities account is as follows:

	Group and Company	
	2004	2003
	RMB'000	RMB'000
Deferred taxation charged to profit and loss account arising from accelerated tax depreciation of fixed assets (note 6)	**19,631**	–
At 31 December 2004	**19,631**	–

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29. CONSOLIDATED CASH FLOW STATEMENT

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

	2004	2003
	RMB'000	RMB'000
Profit before taxation	**334,393**	245,213
Interest income	**(7,918)**	(5,524)
Interest expense	**56,249**	19,966
Depreciation of fixed assets	**135,428**	89,116
Amortisation of intangible asset	**704**	542
Loss on disposal of fixed assets	**3,010**	–
Operating profit before working capital changes	**521,866**	349,313
Increase in inventories	**(29,176)**	(24,877)
Increase in due from related companies	**(6,983)**	(180)
Decrease/(increase) in due from a shareholder	**482**	(482)
Decrease/(increase) in prepayments, deposits and other current assets	**40,904**	(21,558)
Increase in bills receivable	**(11,730)**	(1,542)
Increase in accounts receivable	**(20,993)**	(2,855)
Increase in accounts payable	**86,551**	13,513
(Decrease)/increase in accruals and other payables	**(5,527)**	20,105
(Decrease)/increase in payable to a related company	**(459)**	498
(Decrease)/increase in deposits and advance from customers	**(12,421)**	11,474
(Decrease)/increase in other taxes payable	**(1,308)**	719
Net cash inflow from operations	**561,206**	344,128

NOTES TO THE ACCOUNTS

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29. CONSOLIDATED CASH FLOW STATEMENT (continued)

b. Analysis of changes in financing:

	Share capital and share premium RMB'000	Short-term bank loans RMB'000 (note 23)	Long-term bank loans RMB'000 (note 23)	Advance from a minority shareholder RMB'000	Minority interests RMB'000	Pledged deposits RMB'000	Bills payable RMB'000	Dividends payable RMB'000 (note 8)
At 1 January 2003	928,779	183,182	–	–	–	83,358	73,178	–
Declaration of dividends	–	–	–	–	–	–	–	24,653
Capital contributions	–	–	–	–	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	–
Declaration of dividends	–	–	–	–	–	–	–	87,270
Capital contributions made to subsidiaries	–	–	–	(500)	8,500	–	–	–
Share of loss of subsidiaries	–	–	–	–	(297)	–	–	–
Net draw-down	–	875,568	82,838	20,000	–	129,342	270,130	–
Payment/repayment made	–	–	–	–	–	–	–	(87,270)
At 31 December 2004	**928,779**	**1,277,500**	**370,000**	**20,000**	**20,564**	**230,483**	**340,000**	**–**

NOTES TO THE ACCOUNTS

For the year ended 31 December 2004
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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 financial statements as at year end:

	Group		Company	
	2004	2003	**2004**	2003
	RMB'000	RMB'000	**RMB'000**	RMB'000
Authorised and contracted for:				
Acquisition of machinery and equipment for new glass production lines	**6,341**	67,700	**–**	18,986
Construction of factory premises for new glass production lines	**21,844**	33,540	**–**	4,682
Construction of a soda ash plant (note a)	**2,160,859**	2,847,262	**–**	2,847,262
Proposed investment projects (note b)	**5,948,559**	5,916,070	**2,907,822**	5,916,070
	8,137,603	8,864,572	**2,907,822**	8,787,000
Authorised but not contracted for (notes a and b):	**652,933**	–	**652,933**	–
Total commitments	**8,790,536**	8,864,572	**3,560,755**	8,787,000

(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 are to be injected in two phases. The first phase is scheduled to be completed within two years after signing of the Soda Ash Agreement in 2005. The commencement of the second phase would depend on the progress of construction and the utilisation rate of the first phase.

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 is increased from RMB1.6 billion to RMB3 billion and will be injected by two phases. The estimated investment amount for the first phase remains at approximately RMB1.6 billion.

NOTES TO THE ACCOUNTS

For the year ended 31 December 2004
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30. COMMITMENTS (continued)

(i) Capital commitments (continued)

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

According to the Revised Soda Ash Agreement, the registered capital of QSAC has been increased to RMB450 million, which has to be injected within three years. Up to 31 December 2004, RMB354 million had been injected into QSAC by the Company (note 16).

Up to the date of approval of these accounts, QSAC had obtained the grant of two long-term bank loan facilities from two banks in an aggregate amount of RMB1,200 million in order to support the construction of the first phase of the project. The facilities had been drawn down by RMB300 million (see note 23) as at 31 December 2004 and the remaining portion was/could be utilised subsequent to 2004.

(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.

On 16 April 2004, a supplementary agreement was executed between the two contract parties that the company is entitled to adjust the schedule as well as the amount of the investment. In addition, the Company has the right 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.

For the year ended 31 December 2004, the Group had invested approximately RMB92 million into this project. According to the plan of the Company, no substantial investment will be made in this project in 2005.

(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. According to the agreement, a subsidiary was established in Changxing by the Company in 2004 with a registered capital of RMB50,000,000 in order to operate the project (see note 16).

For the year ended 31 December 2004, the Group had invested approximately RMB108 million into this project, no substantial investment will be made in this project in 2005.

(iii) On 21 September 2003, the Company entered into a cooperation agreement with an industrial development council of Pinghu city of the Zhejiang Province (平湖市濱海地區城鄉統籌管理委員會), 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.

On 16 April 2004, a supplementary agreement was executed between the two contract parties that the Company is entitled to adjust the schedule as well as the amount of the investment. In addition, the company has the right 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.

For the year ended 31 December 2004, the Group had invested approximately RMB70 million into this project.

NOTES TO THE ACCOUNTS

For the year ended 31 December 2004
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30. COMMITMENTS (continued)

(ii) Commitments under operating leases

At 31 December 2004, 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	
	2004	2003	**2004**	2003
	Land and buildings		**Land and buildings**	
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within one year	**1,001**	981	**1,001**	981
In the second to fifth year inclusive	**708**	1,020	**708**	1,020
	1,709	2,001	**1,709**	2,001

31. BANKING FACILITIES

The Group and the Company has aggregate banking facilities as follows:

	Group		Company	
	2004	2003	**2004**	2003
	RMB'000	RMB'000	**RMB'000**	RMB'000
Bank loans	**1,647,500**	689,094	**1,022,500**	574,032
Trade financing	**365,383**	108,876	**215,023**	51,324
	2,012,883	797,970	**1,237,523**	625,356

As at 31 December 2004, all facilities of the Group and the Company were fully utilised except for long term loan facilities of RMB900 million granted by two banks in the PRC relating to the construction of a soda ash plant mentioned in note 30(i)(a).

Certain of the Group's and the Company's bank loans as at 31 December 2004 were secured by certain land use rights, plants and buildings and machinery and equipment of the Group or guaranteed by the Company and related parties (note 14 and 23).

NOTES TO THE ACCOUNTS

For the year ended 31 December 2004
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31. BANKING FACILITIES (continued)

Certain of the bank loans and trade finance facilities as at 31 December 2004 of the Group were secured by pledged deposits amounting to RMB95,460,000 and RMB135,023,000, respectively.

In addition, certain of the bank loans and trade finance facilities as at 31 December 2004 of the Company were secured by pledged bank deposits amounting to RMB95,460,000 (2003: RMB52,975,000) and RMB102,578,000 (2003: RMB21,330,000), respectively.

As mentioned in note 30, the Group had obtained long-term loan facilities from banks to finance its ongoing commitment in an investment project in Qinghai. In addition, the Company and the Group also secured commitments from certain banks to renew or extend short-term loan facilities of approximately RMB1,000 million which fell due or will fall due in 2005.

32. RELATED PARTY TRANSACTIONS

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

	Note	**2004 RMB'000**	2003 RMB'000
Rental charged by Guangyu Group Co. Ltd. ("Guangyu", 光宇集團有限公司)*	(a)	**498**	498
Service fee earned from Zhejiang Technology Company Limited ("ZTC", 浙江科技有限公司)**		**–**	7,334
Service fee earned from ZTC and Zhejiang Cement Co., Ltd. ("ZCC", 浙江水泥有限公司)*** in relation to the provision of electricity voltage transforming services	(b)	**563**	180
Purchase of land use right from Shaoxing Huahong Cement Co., Ltd. ("SHCC", 紹興縣華宏水泥有限公司)****	(c)	**33,195**	–

(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 agreement was renewed with Guangyu for another 2 years commencing on 1 January 2004 at RMB41,500 per month. On 18 March 2005, the board of directors approved the Company to renew the agreement for another 3 years commencing on 1 January 2006 at RMB41,500 per month.

NOTES TO THE ACCOUNTS

For the year ended 31 December 2004
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32. RELATED PARTY TRANSACTIONS (continued)

(i) (continued)

(b) The Company entered into service agreements with ZTC 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 ZTC and ZCC the related electricity charges to the local electricity bureau which the Company had been fully reimbursed. During the year, the Company paid on behalf of ZTC and ZCC electricity charges of approximately RMB31,000 and RMB56,264,000, respectively (2003: ZTC – RMB75,000; ZCC – RMB23,836,000). The service fee charged to ZTC and ZCC was determined at 1% on the amount of electricity charges settled on behalf of ZTC and ZCC during the year.

(c) The Company entered into a land use right acquisition agreement with SHCC on 29 December 2004. Pursuant to the agreement, SHCC agreed to transfer the land use rights to the Company at a consideration of approximately RMB33,195,000, which was determined by reference to a valuation report as at 9 December 2004 issued by a PRC valuer. As at 31 December 2004, the consideration had been fully paid by the Company. According to the agreement, the consideration paid shall be refunded in full to the Company in the event that the Company fails to obtain the related land use right certificates within 120 days (or such longer period as the parties may agree) after the date on which the agreement was signed by both parties.

(d) A bank loan of the Company amounting to RMB30,000,000 as at 31 December 2004 was guaranteed by Mr. Feng. Certain bank loans of ZEGC amounting to RMB41,562,000 as at 31 December 2003 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 RMB625,000,000 (2003: RMB65,000,000) of its subsidiaries (note 23).

(e) The Company entered into a Master Supply Agreement with ZCC for a term of 3 years commencing from 1 January 2005 to 31 December 2007. Pursuant to the agreement, ZCC has agreed to supply cement manufactured by it to the Group from time to time. The price payable by the Group to ZCC for the purchases will be determined by reference to the prevailing market price at the time of the transactions. As at 31 December 2004, there had been no transaction made according to this agreement.

* Guangyu is 93% owned by Mr. Feng, the major shareholder and director of the Company
** ZTC is 70% owned by Guangyu
*** ZCC is 61.11% owned by Mr. Feng
**** SHCC is wholly owned by ZCC

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 2004
(Amounts expressed in Chinese Renminbi)

32. RELATED PARTY TRANSACTIONS (continued)

(ii) Balances with related parties are as follows:

	Group		**Company**	
	2004	2003	**2004**	2003
	RMB'000	RMB'000	**RMB'000**	RMB'000
Receivables from:				
Related companies				
ZTC	**1**	1	**1**	1
ZCC	**7,162**	179	**7,162**	179
	7,163	180	**7,163**	180
Major shareholder				
Mr. Feng	**–**	482	**–**	482
Payables to Related company:				
Guangyu	**371**	830	**371**	830
Deposit for capital contribution from a minority shareholder of a subsidiary:				
Mr. Xia Yinzhang	**–**	500	**–**	–
Mr. Wang Yongquan (note 16)	**20,000**	–	**–**	–

	Maximum balance of receivables from related parities during the year ended 31 December			
	Group		**Company**	
	2004	2003	**2004**	2003
	RMB'000	RMB'000	**RMB'000**	RMB'000
ZTC	**15**	33	**15**	33
ZCC	**25,663**	13,361	**25,663**	13,361
Mr. Feng	**785**	482	**785**	482
Guangyu	**–**	26,488	**–**	–

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. SUBSEQUENT EVENTS

Saved as disclosed in other notes to the accounts, the Group had the following significant subsequent events:

On 12 March 2005, the shareholders approved in two class meetings and in an extraordinary general meeting the proposed allotment and issue of domestic shares to investors in the PRC by the Company and the listing of such shares on the Shanghai Stock Exchange ("A Share Issue"). The A Share Issue is subject to, amongst others, the approval of the China Security Regulatory Commission.

34. COMPARATIVE FIGURES

Balances of deposits for construction-in-progress in 2003 were aggregated with construction-in-progress balances in the balance sheets for conformity with current year presentation.

35. APPROVAL OF ACCOUNTS

The accounts set out on pages 29 to 78 were approved and authorised for issue by the board of directors on 18 March 2005.