浙 江 玻 璃 股 份 有 限 公 司

ZHEJIANG GLASS COMPANY, LIMITED

Interim Report 2005

CONTENTS

CORPORATE INFORMATION

DIRECTORS

Executive Directors
Mr. FENG Guangcheng *(Chairman)*
Ms. FENG Luwen
Ms. XU Yujuan
Ms. HONG Yumei
Mr. WANG Yanchun
Mr. FENG Liwen
(resigned on 4 January 2005)
Mr. XU Haichao
(resigned on 4 January 2005)

Non-executive Directors
Mr. LIU Jianguo
Mr. SHI Guodong
Mr. DI Xiaofeng
(resigned on 4 January 2005)
Mr. ZHANG Yingsheng
(resigned on 4 January 2005)

Independent Non-executive Directors
Dr. LI Jun
Mr. WANG Yanmou
Mr. WANG Herong
Mr. SU Gongmei
(effective from 12 March 2005)

SUPERVISORS

Mr. CHEN Baijin
Mr. LOU Zhenrong
Mr. XU Yuxiang
Mr. ZHANG Guoqing
Mr. FU Guohua
Mr. NI Daoxin
Mr. SHEN Guangjun
Mr. MAO Junchun
(effective from 12 March 2005)
Mr. YANG Kuang
(effective from 12 March 2005)

SHARE LISTING

Main Board of The Stock Exchange of Hong Kong Limited

Stock Code: 739

AUDITORS

PricewaterhouseCoopers
PricewaterhouseCoopers Zhong Tian CPAs Ltd.

LEGAL ADVISORS

as to Hong Kong law:
Chiu & Partners

as to PRC law:
Commerce & Finance Law Offices

LEGAL ADDRESS

Yangxunqiao Township
Shaoxing County
Zhejiang Province
The People's Republic of China

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COMPANY SECRETARIES

Ms. TAO Haiping
Ms. HUNG Wing Yan Winnei

AUTHORISED REPRESENTATIVES

Mr. FENG Guangcheng
Ms. TAO Haiping

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

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INVESTOR RELATIONS CONSULTANT

Strategic Financial Relations (China) Limited

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The directors (the "Directors") of Zhejiang Glass Company, Limited (the "Company") are pleased to present the Interim Report and condensed financial information of the Company and its subsidiaries (together, the "Group") for the six months ended 30 June 2005. The consolidated income statement, consolidated cash flow statement and consolidated statement of changes in equity of the Group for the six months ended 30 June 2005, and the consolidated balance sheet as at 30 June 2005 of the Group, all of which are unaudited and condensed, along with selected explanatory notes, are set out on pages 3 to 26 of this report.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2005

		Unaudited Six months ended 30 June	
		2005	2004
	Note	***RMB'000***	*RMB'000*
Turnover, net	*4*	**568,773**	565,198
Cost of sales		**(418,354)**	(366,212)
Gross profit		**150,419**	198,986
Other revenue		**1,428**	1,841
Subsidy income	*9*	**8,801**	–
Interest income		**11,238**	2,253
Distribution and selling expenses		**(9,897)**	(8,588)
General, administrative and other operating expenses		**(14,747)**	(7,883)
Operating profit	*5*	**147,242**	186,609
Non-operating income, net		**63**	164
Finance costs		**(40,840)**	(22,704)
Profit before income tax		**106,465**	164,069
Income tax expense	*6*	**(36,099)**	(54,184)
Profit for the period		**70,366**	109,885
Attributable to:			
Equity holders of the Company	*8*	**69,739**	109,885
Minority interests	*10*	**627**	–
		70,366	109,885
Proposed interim dividends	*7*	**20,892**	32,408
Basic earnings per share for profit attributable to the equity holders of the Company	*8*	**RMB0.121**	RMB0.190

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2005 and 31 December 2004

	Note	**30 June 2005 Unaudited** ***RMB'000***	31 December 2004 Restated *RMB'000*
ASSETS			
Non-current assets			
Property, plant and equipment	*11*	**1,461,087**	1,184,545
Land use rights	*11*	**83,985**	84,534
Construction-in-progress	*11*	**2,216,411**	1,425,296
Deposits for land use rights	*11*	**85,734**	102,720
Intangible assets	*11*	**10,949**	5,254
		3,858,166	2,802,349
Current assets			
Inventories		**67,635**	78,640
Due from related companies	*18*	**20,153**	7,163
Prepayments, deposits and other current assets		**63,821**	7,692
Bills receivable		**9,797**	19,458
Accounts receivable	*12*	**67,102**	26,999
Pledged deposits		**204,870**	230,483
Cash and cash equivalents		**803,486**	707,149
		1,236,864	1,077,584
Total assets		**5,095,030**	3,879,933
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	*15*	**578,713**	578,713
Reserves		**799,649**	750,802
Proposed dividends	*7*	**20,892**	29,105
		1,399,254	1,358,620
Minority interests		**50,497**	20,564
Total equity		**1,449,751**	1,379,184

CONDENSED CONSOLIDATED BALANCE SHEET (continued)

As at 30 June 2005 and 31 December 2004

	Note	30 June 2005 Unaudited *RMB'000*	31 December 2004 Restated *RMB'000*
LIABILITIES			
Non-current liabilities			
Long-term bank loans	*14*	**1,170,000**	300,000
Deferred tax liabilities		**25,686**	19,631
		1,195,686	319,631
Current liabilities			
Accounts payable	*13*	**178,863**	168,543
Bills payable		**314,998**	340,000
Accruals and other payables		**255,933**	216,098
Due to a related company	*18*	**620**	371
Deposits and advance from customers		**29,807**	20,859
Taxes payable		**48,372**	67,747
Deposit for capital contribution from a minority shareholder		**–**	20,000
Current portion of long-term bank loans	*14*	**–**	70,000
Short-term bank loans	*14*	**1,621,000**	1,277,500
		2,449,593	2,181,118
Total liabilities		**3,645,279**	2,500,749
Total equity and liabilities		**5,095,030**	3,879,933
Net current liabilities		**1,212,729**	1,103,534
Total assets less current liabilities		**2,645,437**	1,698,815

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Unaudited							
	Attributable to equity holders of the Company							
	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	Minority interest RMB'000	Total RMB'000
Balance at 1 January 2004, as previously reported as equity	578,713	350,066	36,600	36,600	184,005	54,862	–	1,240,846
Balance at 1 January 2004, as previously separately reported as minority interest	–	–	–	–	–	–	12,361	12,361
Balance at 1 January 2004, as restated	578,713	350,066	36,600	36,600	184,005	54,862	12,361	1,253,207
Net profit for the period	–	–	–	–	109,885	–	–	109,885
Dividends paid	–	–	–	–	–	(54,862)	–	(54,862)
Interim dividends	–	–	–	–	(32,408)	32,408	–	–
Capital contribution to a subsidiary of the Company	–	–	–	–	–	–	7,500	7,500
Balance at 30 June 2004	578,713	350,066	36,600	36,600	261,482	32,408	19,861	1,315,730
Balance at 1 January 2005, as previously reported as equity	**578,713**	**350,066**	**59,758**	**59,758**	**281,220**	**29,105**	**–**	**1,358,620**
Balance at 1 January 2005, as previously separately reported as minority interest	**–**	**–**	**–**	**–**	**–**	**–**	**20,564**	**20,564**
Balance at 1 January 2005, as restated	**578,713**	**350,066**	**59,758**	**59,758**	**281,220**	**29,105**	**20,564**	**1,379,184**
Net profit for the period	**–**	**–**	**–**	**–**	**69,739**	**–**	**627**	**70,366**
Dividends paid	**–**	**–**	**–**	**–**	**–**	**(29,105)**	**–**	**(29,105)**
Interim dividends	**–**	**–**	**–**	**–**	**(20,892)**	**20,892**	**–**	**–**
Capital contribution to a subsidiary of the Company	**–**	**–**	**–**	**–**	**–**	**–**	**29,306**	**29,306**
Balance at 30 June 2005	**578,713**	**350,066**	**59,758**	**59,758**	**330,067**	**20,892**	**50,497**	**1,449,751**

No appropriations were made to the statutory surplus reserve and statutory public welfare fund by the Group for the six months ended 30 June 2005. 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 2005

	Unaudited	
	Six months ended 30 June	
	2005	2004
	RMB'000	*RMB'000*
Net cash inflow from operating activities	**35,281**	201,654
Net cash used in investing activities	**(1,072,243)**	(372,745)
Net cash inflow from financing activities	**1,133,299**	379,592
Increase in cash and cash equivalents	**96,337**	208,501
Cash and cash equivalents at 1 January	**707,149**	380,074
Cash and cash equivalents at 30 June	**803,486**	588,575
Analysis of balances of cash and cash equivalents:		
Bank balances and cash	**803,486**	588,575

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1. Basis of preparation and accounting policies

The unaudited condensed consolidated financial information ("interim financial information") has been prepared based on the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants.

The condensed consolidated financial information should be read in conjunction with the 2004 annual financial statements.

The accounting policies and methods of computation used in the preparation of this interim financial information are consistent with those used in the annual financial statements for the year ended 31 December 2004 except that the Group has changed certain of its accounting policies following its adoption of new/revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRS") which are effective for accounting periods commencing on or after 1 January 2005.

This interim financial information has been prepared in accordance with those HKFRS standards and interpretations issued and effective as at the time of preparing this information. The HKFRS standards and interpretations that will be applicable at 31 December 2005, including those that will be applicable on an optional basis, are not known with certainty at the time of preparing this interim financial information.

The changes to the Group's accounting policies and the effect of adopting these new policies are set out in note 2 below.

2. Changes in accounting policies

(a) Effect of adopting new HKFRS

In 2005, the Group adopted the new/revised standards of HKFRS below, which are relevant to its operations. The 2004 comparatives have been amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement

The adoption of new/revised HKASs 1, 2, 7, 8, 10, 16, 21, 23, 24, 27 and 33 did not result in substantial changes to the Group's accounting policies. In summary:

– HKAS 1 has affected the presentation of minority interest and other disclosures.

– HKASs 2, 7, 8, 10, 16, 23, 24, 27 and 33 had no material effect on the Group's policies.

– HKAS 21 had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard. All the Group entities have the same functional currency as the presentation currency for respective entity financial statements.

2. Changes in accounting policies (continued)

(a) Effect of adopting new HKFRS (continued)

The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of land use rights from property, plant and equipment to operating leases. The up-front prepayments made for land use rights are expensed in the income statement on a straight-line basis over the period of the lease or where there is impairment, the impairment is expensed in the income statement. In prior years, land use rights was accounted for at cost less accumulated depreciation and accumulated impairment.

The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy relating to the classification of financial assets at fair value through profit or loss and available-for-sale financial assets. It has also resulted in the recognition of derivative financial instruments at fair value and the change in the recognition and measurement of hedging activities.

The Group has reassessed the useful lives of its intangible assets in accordance with the provisions of HKAS 38. No adjustment resulted from this reassessment.

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards. All standards adopted by the Group require retrospective application other than:

HKAS 39 does not permit to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on a retrospective basis. The Group applied the previous SSAP 24 "Accounting for investments in securities" to investments in securities and also to hedge relationships for the 2004 comparative information. The adjustments required for the accounting differences between SSAP 24 and HKAS 39 are determined and recognised at 1 January 2005.

(b) New accounting policies

The accounting policies used for the condensed consolidated financial information for the six months ended 30 June 2005 are the same as those set out in note 2 to the 2004 annual financial statements except for the following:

2.1 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Renminbi, which is the Company's functional and presentation currency.

2. Changes in accounting policies (continued)

(b) New accounting policies (continued)

2.1 Foreign currency translation (continued)

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Translation differences on non-monetary items, such as equity instruments held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognized as a separate component of equity.

2. Changes in accounting policies (continued)

(b) New accounting policies (continued)

2.2 Property, plant and equipment

Cost may include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

2.3 Impairment of assets

Assets that have an indefinite useful life are not subject to amortization, which are at least tested annually for impairment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

2.4 Inventories

Costs of inventories include the transfer from equity of any gains/losses on qualifying cash flow hedges relating to purchases of raw materials.

2.5 Trade and other receivables

Trade and other receivables are recognized initially at fair value and subsequently measured at amortised cost using the effective interest method, loss provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognized in the income statement.

2. Changes in accounting policies (continued)

(b) New accounting policies (continued)

2.6 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

3. Financial risk management

(a) Foreign exchange risk

The Group's sales and operations are principally conducted in the PRC. The Group's principal operations are transacted and recorded in Renmibi. The Group's assets and liabilities are mainly denominated in Renmibi. Non-Renmibi denominated assets and liabilities are not material relative to the Group's total assets and liabilities. Accordingly, the Group had neither engaged in any derivative activities nor committed to any financial instruments to hedge its balance sheet exposures.

(b) Credit risk

The Group currently sells substantially all its glass products in the Mainland China domestic market. Cash on delivery is required for most customers buying the Group's flat glass products. Credit is granted for a period of up to twelve months to most customers buying the Group's processed glass products and to a limited range of customers buying the Group's flat glass products after an assessment is made on their financial conditions and their past payment history and with the approval of top management.

3. Financial risk management (continued)

(c) Liquidity risk

Since 2003, the Group started to invest in the construction of a soda ash production line and certain processed glass production lines and a major portion of the financing is from short-term bank loans. As a result the Group recorded a net current liability position as at 31 December 2003 and 2004 and also as at 30 June 2005. Nevertheless, the Group has not experienced any problems in renewing its short-term bank loans upon their expiry.

The Directors are confident that the Group will be able to renew its short-term bank loans upon their maturity, as it did in the past. In addition, following the completion of construction of the new processed glass production facilities and the new soda ash production facilities and their commencement of commercial production in 2005, the Directors consider that these new business segments and the additional production capacity will further strengthen the Group's ability to generate cash inflow from operations and to raise additional fundings, if necessary. Therefore, the Directors consider that the Group has sufficient financial resources to meet all its financial commitments and obligations when they fall due. Accordingly, the interim financial information was prepared based on the going concern assumption.

(d) Cash flow and fair value interest rate risk

The Group's interest-rate risk arises from interest-bearing borrowings, which include both long-term and short-term bank loans. Borrowings issued at variable rates expose the Group to cash flow interest-rate risk. Borrowings issued at fixed rates expose the Group to fair value interest-rate risk. As at 30 June 2005, substantially all borrowings of the Group were at variable rates. The Group had neither engaged in any derivative activities nor committed to any financial instruments to hedge its interest rate risk exposure.

4. Segment information

(a) Primary reporting format – business segments

Segment information of the Group's two operating segments are as follows:

	Six months ended 30 June					
	2005			2004		
	Glass manufacturing *RMB'000*	**Soda ash manufacturing** *RMB'000* *(Note)*	**Total** *RMB'000*	Glass manufacturing *RMB'000*	Soda ash manufacturing *RMB'000*	Total *RMB'000*
Segment revenue						
External sales	**568,773**	**–**	**568,773**	565,198	–	565,198
Inter-segment sales	**–**	**–**	**–**	–	–	–
Total	**568,773**	**–**	**568,773**	565,198	–	565,198
Segment results	**150,419**	**–**	**150,419**	198,986	–	198,986
Capital expenditure	**370,753**	**764,702**	**1,135,455**	198,085	176,913	374,998
Depreciation	**78,345**	**119**	**78,464**	60,987	65	61,052
Amortisation charge	**1,174**	**–**	**1,174**	344	114	458

	30 June 2005			31 December 2004		
	Glass manufacturing *RMB'000*	**Soda ash manufacturing** *RMB'000*	**Total** *RMB'000*	Glass manufacturing *RMB'000*	Soda ash manufacturing *RMB'000*	Total *RMB'000*
Segment assets	**3,290,382**	**1,804,648**	**5,095,030**	2,994,589	885,344	3,879,933
Segment liabilities	**2,234,128**	**1,411,151**	**3,645,279**	1,978,697	522,052	2,500,749

Note: As at 30 June 2005, the soda ash manufacturing segment had not commenced commercial production.

4. Segment information (continued)

(b) Secondary reporting format-geographical segments

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

	Six months ended 30 June 2005					
	Zhejiang Province *RMB'000*	Jiangsu Province *RMB'000*	Shanghai *RMB'000*	Guangdong and Fujian Provinces *RMB'000*	Other regions *RMB'000*	Total *RMB'000*
Turnover, net	404,022	79,140	55,369	19,608	10,634	568,773
Cost of sales	(297,173)	(58,210)	(40,726)	(14,422)	(7,823)	(418,354)
Gross profit	106,849	20,930	14,643	5,186	2,811	150,419
Subsidy income						8,801
Interest income						11,238
Unallocated corporate expenses, net						(63,993)
Profit before income tax						106,465
Income tax expense						(36,099)
Profit for the period						70,366

4. Segment information (continued)

(b) Secondary reporting format-geographical segments (continued)

	Six months ended 30 June 2004					
	Zhejiang Province *RMB'000*	Jiangsu Province *RMB'000*	Shanghai *RMB'000*	Guangdong and Fujian Provinces *RMB'000*	Other regions *RMB'000*	Total *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 income tax						164,069
Income tax expense						(54,184)
Profit for the period						109,885

5. Operating profit

Operating profit is stated after charging and crediting the following:

	Six months ended 30 June	
	2005	2004
	RMB'000	*RMB'000*
Charging –		
Changes in inventories of finished goods and work in progress	**(6,582)**	(1,733)
Raw materials and consumable used	**335,004**	299,733
Staff costs (including directors' emoluments)		
– salaries, wages and related employee welfare expenses	**19,926**	16,023
– pension costs – State-sponsored retirement plan	**1,596**	700
– pension costs – defined contribution retirement scheme	**29**	30
	21,551	16,753
Depreciation	**78,464**	61,052
Amortisation charge	**1,174**	458
Operating lease rental of office premises	**416**	499
Auditors' remuneration	**1,218**	1,200
Crediting –		
Interest income on bank deposits	**11,238**	2,253

6. Income tax expense

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% (2004 – 33%) on its assessable profit.

The amount of income tax charged to the condensed consolidated income statement represents:

	Six months ended 30 June	
	2005	2004
	RMB'000	*RMB'000*
Current income tax:		
– PRC Enterprise Income Tax	**30,044**	54,184
Deferred income tax relating to the origination and reversal of temporary differences	**6,055**	–
	36,099	54,184

7. Dividends

	Six months ended 30 June	
	2005	2004
	RMB'000	*RMB'000*
Dividends paid:		
– Final dividends for the year 2003 of RMB0.0948 per ordinary share	**–**	54,862
– Final dividends for the year 2004 of RMB0.0503 per ordinary share *(Note 1)*	**29,105**	–
	29,105	54,862
Dividends proposed:		
– Interim dividends for the year 2005 of RMB0.0361 per ordinary share (2004 – 0.056) *(Note 2)*	**20,892**	32,408

7. Dividends (continued)

Notes:

1. At a meeting of the Board held on 18 March 2005, the Directors proposed a final dividend of RMB0.0503 per ordinary share for the year ended 31 December 2004, which was paid on 17 June 2005 and has been reflected as an appropriation of retained earnings for the six months ended 30 June 2005.

2. At a meeting of the Board held on 30 August 2005, the Directors declared an interim dividend of RMB0.0361 per ordinary share for the year ending 31 December 2005. This proposed dividend is not reflected as a dividend payable in this condensed financial information, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2005.

8. Earnings per share

The calculation of the basic earnings per share for profit attributable to the equity holders of the Company is based on the profit attributable to equity holders of the Company for the six months ended 30 June 2005 of RMB69,739,000 (six months ended 30 June 2004 – RMB109,885,000) 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 2004 – 578,713,000 shares).

Diluted earnings per share have not been presented as there were no dilutive potential ordinary shares outstanding (2004 – same).

9. 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 2005. No such income was granted in the first half of 2004.

10. Minority interests

No minority interest share of results of non-wholly owned subsidiaries were shown for the six months ended 30 June 2004 as those subsidiaries had not commenced any revenue generating activities and did not report any operating profits/losses until the first half of 2005.

11. Capital expenditures

	Property, plant and equipment *RMB'000*	Construction-in-progress *RMB'000*	Land use rights *RMB'000*	Deposits for land use rights *RMB'000*	Intangible assets *RMB'000*
Opening net book amount as at 1 January 2005	1,184,545	1,425,296	84,534	102,720	5,254
Additions	9,780	1,119,355	300	–	6,020
Transfers	345,226	(328,240)	–	(16,986)	–
Depreciation/amortisation charge	(78,464)	–	(849)	–	(325)
Closing net book amount as at 30 June 2005	1,461,087	2,216,411	83,985	85,734	10,949
Opening net book amount as at 1 January 2004	1,039,568	542,351	86,460	46,341	5,958
Additions	13,704	338,343	–	22,951	–
Transfers	241,803	(241,803)	–	–	–
Depreciation/amortisation charge	(61,052)	–	(133)	–	(325)
Closing net book amount as at 30 June 2004	1,234,023	638,891	86,327	69,292	5,633
Additions	18,520	790,857	–	33,428	–
Transfers	4,452	(4,452)	–	–	–
Depreciation/amortisation charge	(72,450)	–	(1,793)	–	(379)
Closing net book amount as at 31 December 2004	1,184,545	1,425,296	84,534	102,720	5,254

12. Accounts receivable

The aging analysis of accounts receivable is set out below:

	30 June 2005	31 December 2004
	RMB'000	*RMB'000*
Current to under 6 months	**63,094**	26,140
6 to under 12 months	**3,509**	–
1 to under 2 years	**654**	1,014
Provision for doubtful debts	**(155)**	(155)
Accounts receivable, net	**67,102**	26,999

13. Accounts payable

The aging analysis of accounts payable is set out below:

	30 June 2005	31 December 2004
	RMB'000	*RMB'000*
Current to under 6 months	**91,376**	114,076
6 to under 12 months	**39,611**	48,881
1 to under 2 years	**42,852**	426
2 to under 3 years	**293**	–
3 years and over	**4,731**	5,160
Accounts payable, net	**178,863**	168,543

14. Borrowings

i. Bank loans

	30 June 2005 *RMB'000*	31 December 2004 *RMB'000*
– amounts wholly repayable within 1 year	**1,621,000**	1,347,500
– amounts wholly repayable between 1 to 2 years	**70,000**	–
– amounts wholly repayable between 2 to 5 years	**160,000**	120,000
– amounts wholly repayable beyond 5 years	**940,000**	180,000
	2,791,000	1,647,500
Less: amounts repayable within 1 year (included in current liabilities)		
– short-term bank loans	**(1,621,000)**	(1,277,500)
– current portion of long-term bank loans	**–**	(70,000)
Long-term portion	**1,170,000**	300,000

ii. Certain bank loans as at 30 June 2005 amounting to approximately RMB396,000,000 (31 December 2004 – RMB350,000,000) were secured by land use rights, plant and buildings and machinery and equipment of the Group with carrying value of approximately RMB597,390,000 (31 December 2004 – RMB502,456,000). Certain bank loans amounting to RMB60,000,000 (31 December 2004 – RMB82,500,000) were secured by bank deposits of the Group of RMB68,916,000 (31 December 2004 – RMB95,460,000). Certain bank loans of non-wholly owned subsidiaries amounting to RMB1,350,000,000 (31 December 2004 – RMB625,000,000) were guaranteed by the Company. None of the bank loans was guaranteed by a major shareholder of the Company (31 December 2004: RMB30,000,000). They are interest-bearing at commercial rates. The rest of the bank loans are unsecured and interest-bearing at commercial rates.

The carrying amounts of bank borrowings are all denominated in Renmibi. The carrying amounts of bank borrowings approximate their fair value.

The effective interest rate of bank borrowings as at 30 June 2005 was 6.23% per annum (31 December 2004: 5.82%).

15. Share capital

	30 June 2005	31 December 2004	30 June 2005	31 December 2004
	Number of shares		Nominal value	
			RMB'000	*RMB'000*
Authorised:				
Ordinary shares of RMB1 each	**578,713,000**	578,713,000	**578,713**	578,713
Issued and fully paid:				
Domestic shares of RMB1 each	**400,000,000**	400,000,000	**400,000**	400,000
H shares of RMB1 each	**178,713,000**	178,713,000	**178,713**	178,713
	578,713,000	578,713,000	**578,713**	578,713

There was no movement of the Company's share capital during the six months ended 30 June 2005.

16. Contingent liabilities

There were no material contingent liabilities of the Group at the end of the period under review.

17. Capital commitments for properties, plant and equipment

	30 June 2005	31 December 2004
	RMB'000	*RMB'000*
Contracted but not provided for	**7,729,281**	8,137,603
Authorised but not contracted for	**–**	652,933
	7,729,281	8,790,536

18. Related party transactions

Significant related party transactions carried out by the Group for the six months ended 30 June 2005 are as follows:

		Six months ended 30 June	
		2005	2004
	Note	***RMB'000***	*RMB'000*
Rental charged by Guangyu Group Co. Ltd. ("Guangyu") (光宇集團有限公司)*	*(a)*	**249**	249
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)*	**223**	239
Purchase of cement from Zhejiang Cement	*(c)*	**1,863**	–

(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. The rental was determined by reference to the prevailing open market rentals at the time when the lease agreement was entered into. On 28 September 2003, the Company entered into a lease renewal agreement with Guangyu for the extension of the lease period of 2 years commencing 1 January 2004 at RMB41,500 per month. 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.

18. Related party transactions (continued)

(b) The Company entered into service agreements with Zhejiang Technology and Zhejiang Cement respectively for a period of 2 years commencing from 1 July 2003, with an option to extend for one more year at the end of the 2-year contract period if there is no objection from both parties. 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 2005. 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. On 30 August 2005, the board of Directors approved and ratified the extension of the service agreement with Zhejiang Cement for another one year commencing from 1 July 2005 on the same terms and conditions. Zhejiang Technology had already ceased to engage the Company in providing such service during the first half of 2005. Therefore, the service agreement with Zhejiang Technology was not renewed.

(c) The Company entered into a Master Supply Agreement with Zhejiang Cement for a term of 3 years commencing from 1 January 2005 to 31 December 2007. Pursuant to the agreement, Zhejiang Cement has agreed to supply cement manufactured by it to the Group from time to time. The price payable by the Group to Zhejiang Cement for the purchases will be determined by reference to the prevailing market price at the time of the transactions.

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.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group is mainly engaged in the production of high quality float glass, which are sold to the construction, automotive and electronics markets without further processing (i.e. as flat glass). The Group also adds value to the flat glass by processing them into products with additional properties (i.e. as processed glass or special glass). Venturing upstream, the Group set up a soda ash production line in Qinghai; and the project was completed in June 2005.

Business Review

Glass business

Flat glass

According to the statistics published by the National Bureau of Statistics of China ("NBSC"), the actual output of flat glass in the People's Republic of China (the "PRC" or "China") in the first half of 2005 amounted to approximately 173.1 million weight cases, representing a year-on-year increase of 14.5%. According to the China Building Materials Industrial Association, the average sales/production ratio of 42 major flat glass manufacturers in China was approximately 95% during the six months ended 30 June 2005, basically at the same level as in the corresponding period in 2004.

In the first half of 2005, all of the Group's five (2004: five) flat glass production lines with an aggregate daily melting capacity of 2,350 tonnes (2004: 2,350 tonnes) were in operation for the whole period. During the six months ended 30 June 2005, the Group produced 7.6 million weight cases (2004: 7.4 million weight cases), or 380,000 tonnes (2004: 370,000 tonnes), of flat glass and consistently achieved a sales/production ratio of over 95%. Sales of flat glass for the six months ended 30 June 2005 amounted to RMB499 million (2004: RMB531 million), and accounted for 88% (2004: 94%) of the Group's total sales.

During the period, automotive grade glass (higher quality with higher average selling price) and construction grade glass (lower quality with lower average selling price) made up approximately 90% (2004: 88%) and 10% (2004: 12%) respectively of the Group's flat glass output.

Increased market supply of flat glass dragged down the average selling price in the first half of 2005. The selling price of the 4mm to 8mm thick regular flat glass commonly used in the construction industry, in particular, fell by more than 15% during the period. Nevertheless, the stronger revenue contribution from ultra-thin flat glass of 0.6mm to 3mm in thickness commonly used in the automotive and electronics industries, which have higher and more stable selling prices, enabled the Group to mitigate the unfavourable impact of the decrease in the selling price of the Group's flat glass products. The overall average selling price of the Group's flat glass products, as a result, only dropped by about 7% to RMB70 per weight cases, when compared with the corresponding period in 2004.

Following the successful development of ultra-thin flat glass of 1.1 mm in thickness for the electronics industry in July 2004, the Group proceeded to develop 0.6 mm ultra-thin flat glass in January 2005. Small scale production of these two products started in the first quarter of 2005, and their revenue contribution to the Group's total sales is expected to increase. The current market price of ultra-thin flat glass for the electronics industry is on average over 4 times higher than that for the construction industry and over 2 times higher than that for the automotive industry. The relatively high and stable price of ultra-thin flat glass helps the Group mitigate the effect of price fluctuation of regular flat glass for the construction market. The Group is among a handful of domestic glass manufacturers in China capable of offering a stable supply of high quality ultra-thin flat glass products at competitive prices.

During the first half of 2005, the price of heavy oil, the major fuel for flat glass production, remained high as crude oil price in the international market kept surging. The Group spent 7% more on average on heavy oil, at approximately RMB1,960 per tonne (tax inclusive), as compared to the corresponding period in 2004.

The market price of soda ash, the key raw materials for manufacturing flat glass, was relatively stable during the first half of 2004, but has been rapidly increasing since August 2004. As the market price of soda ash remained high in the first half of 2005, the Group spent 40% more on soda ash at an average price of approximately RMB1,880 per tonne (tax inclusive) during the first half of 2005, as compared to the corresponding period in 2004. There were no material fluctuations in the costs of other major raw materials.

The increased cost of heavy oil and soda ash led to a year-on-year increase in unit cost of sale by over 10% to RMB55 per weight case for the Group's flat glass products in the first half of 2005.

Processed glass

In the first half of 2005, the Group's six (2004: six) production lines manufacturing mirror glass, tempered glass, insulating glass and laminated glass were in commercial production. In addition, a new processed glass production line for energy efficient glass - low-E glass, with an annual capacity of 2 million sq.m., commenced commercial production at the beginning of 2005.

Driven by the new contribution of the higher value low-E glass, the Group recorded significant growth in both the volume and average selling price of its processed glass. During the period, the Group sold approximately 1.74 million sq.m. (2004: 1.25 million sq.m.) of processed glass products at an average selling price of RMB40 per sq.m. (2004: RMB27 per sq.m.), achieving a turnover of RMB70 million (2004: RMB34 million). Sales of processed glass accounted for 12% (2004: 6%) of the Group's total sales in the first half of 2005.

Soda ash business

According to NBSC statistics, the actual output of soda ash in China is approximately 6.96 million tonnes in the first half of 2005, representing a 13.8% increase as compared with the corresponding period in 2004.

The market price of soda ash dropped substantially to around RMB1,550 per tonne (tax inclusive) in the second quarter of 2005 after hitting record high of almost RMB2,000 per tonne in the first quarter of 2005. According to the China Soda Ash Industry Association, it would be difficult for most of the domestic soda ash manufacturers to make any profit at this price level. Nevertheless, with the related downstream businesses approaching their peak production season from the third quarter onwards, the soda ash market is expected to see supply shortage and the price of soda ash to rebound to above RMB1,550 per tonne.

Aiming for vertical integration, the Group established Qinghai Soda Ash Company Limited in July 2003 to construct two soda ash production lines, each with annual production capacity of 900,000 tonnes, in five years time. The project was approved by the National Development & Reform Commission and State Environmental Protection Administration of China in 2004. On 30 June 2005, the Group inaugurated its soda ash plant in Qinghai, and the first production line is expected to commence commercial production in mid September 2005.

Financial Review

During the first half of 2005, the gross profit margin of the Group was 26%, as compared with 35% in the corresponding period last year. The decrease in the Group's gross profit margin was mainly attributable to the drop in average selling price of flat glass products and the increase in prices of heavy oil and soda ash.

Overall, the Group achieved a net profit of RMB70.4 million and a net profit margin of 12% for the first half of 2005, compared with the net profit of RMB109.9 million and net profit margin of 19% for the corresponding period last year. Apart from the squeeze on gross profit margin, the decline in the Group's net profit margin was partially attributable to the significant increase in finance costs as a result of additional bank borrowings drawn down, from approximately RMB1,648 million as at 31 December 2004 to approximately RMB2,791 million as at 30 June 2005, for financing the Group's business and the expansion of the Group's production capacity, coupled with the increase in interest rate for bank borrowings since the second half of 2004.

The Group's average inventory turnover for the six months ended 30 June 2005 was 32 days, compared with 30 days for the year ended 31 December 2004. The increase was mainly due to the purchase of more fuel and raw materials to support the increase in production volume of flat glass and processed glass during the first half of 2005.

Outlook

Glass business

Flat glass

The demand for glass products in a particular year depends very much on the economic growth and development of related industries, particularly the construction industry. Since economic growth was strong in the PRC in 2004, the demand for glass is expected to remain strong in 2005. In addition, improved living standards in the country have broadened the applications of glass, fostering a structural change in the supply and demand of different glass products.

Driven by the positive outlook of the glass industry, a new wave of investments has emerged since 2003. In 2004, 25 new flat glass production lines commenced production nationwide, with many under construction. It is estimated that by the end of 2005, there will be around 150 flat glass production lines in the PRC, leading to a 20% increase in production capacity against the average increase of 10% in annual demand. The glass industry will hence be facing the problem of excessive supply in the coming year.

The costs of soda ash, heavy oil and transportation have been increasing since 2004 and have remained high in 2005, exerting pressure on the profitability of glass enterprises. The continuous implementation of economic austerity measures by the PRC government may also slow down capital investments and impede growth of the glass industry. The profit margins of the flat glass industry are expected to drop significantly when compared with 2004.

With the new ultra-thin flat glass production line (the Group's sixth flat glass production line) expected to commence commercial production in the fourth quarter of 2005, the Group will be able to increase the proportion of ultra-thin flat glass in its sales mix, thus mitigating the negative impact on the Group's profitability resulting from the market condition of the general glass industry.

Processed glass

Low-E glass is characterised by its ability to insulate heat and reduce noise penetration, and is thus widely used as glass panels on the outer wall of buildings. Given the growth in demand for electricity supply and rising power tariff in China, certain major cities like Beijing and Shanghai had introduced rules to regulate new commercial and residential buildings requiring them to use energy efficient glass. The Directors believe other cities will soon follow suit, thus providing the Group with a tremendous market for low-E glass and other processed glass of higher energy saving capability such as insulating glass (two layers of flat glass with inert gas in between). In addition, the selling price of low-E glass is relatively high, with gross profit margin on average 10 percentage points more than that of flat glass. With the Group being one of the key suppliers of quality low-E glass in China, the Directors are confident that the Group's processed glass business will continue to grow and play a more important role in the Group's sales mix.

Soda ash business

The upstream integration of soda ash manufacturing will be a major growth driver of the Group in the years ahead, as a new income source as well as helping the Group save costs. After the soda ash production line to commence commercial production in mid September 2005, the Group targets to produce 200,000 tonnes of soda ash in 2005, of which 30% can be consumed internally and 70% can be sold to other glass manufacturers and also other downstream businesses such as chemicals, detergents, and alumina manufacturers, etc.. The target markets of the Group's soda ash will be in central, northwest, southwest and eastern China.

The market price of soda ash has been on the high side of RMB1,550 to RMB1,950 per tonne since the end of 2004, and is expected to remain high in 2005. Being able to produce this key raw material internally will enable the Group to lower production cost for flat glass by at least 10% and at the same time expand its income source.

Depending on the utilisation rate of the first soda ash production line, the Group currently expects to start the construction of a second soda ash production line in 2006. When both production lines operate at full capacity, the Group will account for over 10% of China's output, and become the second largest soda ash manufacturer in China and one of the top 10 soda ash manufacturers in the world.

Conclusion

The Directors expect market conditions for the general flat glass products in China to remain difficult due to the anticipated surplus supply and high production costs. Nevertheless, they are highly confident of the prospects of ultra-thin flat glass and processed glass products and, in particular, low-E glass.

The commencement of operation of the new soda ash production line will enable the Group to further its vertical integration, and also add a new business segment to its portfolio. The additional revenue to be generated by the sale of soda ash will help to compensate for the potential decrease in revenue and profit of the flat glass segment in 2005.

OTHER INFORMATION

INTERIM DIVIDEND

At a meeting of the board of Directors held on 30 August 2005, the Directors have resolved to declare an interim dividend for the year ending 31 December 2005 of RMB0.0361 (2004: RMB0.056) per ordinary share, payable on or about 31 October 2005 to shareholders whose names appear on the register of members of the Company as at 17 October 2005.

BOOK CLOSURE

The register of members of the Company will be closed from 17 September 2005 to 17 October 2005, 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 4:00 p.m. on 16 September 2005.

CAPITAL EXPENDITURES AND COMMITMENTS

Total capital expenditures of the Group for the six months ended 30 June 2005 amounted to RMB1,135 million, of which RMB765 million was spent on the construction of the soda ash plant in Qinghai, RMB295 million on the construction of a new ultra-thin glass production line and two new float flat glass production lines and RMB75 million on the purchases of other fixed assets.

As at 30 June 2005, the Group had the following significant capital commitments:

(i) Investment (with definitive timetable) in relation to construction of two soda ash production lines and three flat glass production lines

Planned production facilities	Estimated total investment *(RMB)*	Capital expenditures incurred up to 30 June 2005 *(RMB)*	Outstanding capital commitments as at 30 June 2005 *(RMB)*	Planned start and completion date
One ultra-thin glass production line with a daily melting capacity of 150 tonnes and annual production capacity of 10.12 million sq.m.	314 million	151 million	163 million	Started in 2004. Expect to complete in the first quarter of 2006.
Two float flat glass production lines, each with daily melting capacity of 600 tonnes	500 million	262 million	238 million	Started in January 2005. Expect to complete in 2006.
Two soda ash production lines with annual production capacity of 900,000 tonnes each	3.00 billion	1.55 billion	1.45 billion	See details below.

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. The investment amount for the first production line, which was completed on 30 June 2005, was approximately RMB1.6 billion. The construction of the second production line, estimated at approximately RMB1.4 billion investment cost, is expected to start in 2006 but would depend on the utilisation rate of the first production line.

(ii) Investment (with no definitive timetable) in relation to construction of various glass products production lines

As disclosed in the 2003 annual report, the Company has 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 in the construction of a number of glass products production lines, upon obtaining all necessary approvals and licenses from the relevant authorities in the PRC.

In relation to these proposed investment projects, the Company has established several subsidiaries in the Zhejiang Province in 2004 as disclosed in the 2004 annual report. Approximately RMB122 million in aggregate was 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 obtaining of 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 2005, the Group's cash and cash equivalents balance amounted to RMB803 million, compared with RMB707 million as at 31 December 2004. In addition, the Group had pledged deposits of RMB205 million as at 30 June 2005 (31 December 2004: RMB230 million). As at 30 June 2005, capital and reserves attributable to the Company's equity holders amounted to RMB1,399 million, representing an increase of RMB40 million from RMB1,359 million as at 31 December 2004.

As at 30 June 2005, the Group had outstanding bank loans amounting to RMB2,791 million, representing an increase of RMB1,143 million from RMB1,648 million as at 31 December 2004. Out of the outstanding bank loans, RMB1,621 million was repayable within one year and RMB1,170 million was repayable beyond one year.

Similar to prior years, the Group recorded a net current liability position as at 30 June 2005 as a major portion of the bank financing consisted of short-term bank loans. Nevertheless, the Group did not experience any major problem in renewing its short-term bank loans upon their expiry.

The Group's gearing ratio based on total liabilities divided by total assets has increased from 64.5% as at 31 December 2004 to 71.5% as at 30 June 2005. The Group's net gearing ratio based on net debts (interest-bearing debts, net of cash and bank deposits, including pledged deposits) to equity (capital and reserves attributable to the Company's equity holders) has increased from 51.5% as at 31 December 2004 to 123.0% as at 30 June 2005. This increase is mainly due to an increase in bank borrowings to finance the Group's business and capacity expansion, in particular, the investment in relation to construction of a soda ash production line and three flat glass production lines as described under the section "CAPITAL EXPENDITURES AND COMMITMENTS".

However, following the completion of construction of these new production facilities and their expected commencement of commercial production in the second half of 2005, the Directors consider that the new business segment and the additional production capacity will further strengthen the Group's ability to generate cash from operations and to raise additional fundings, if necessary. Therefore, the Directors consider that the Group has sufficient financial resources to finance future capital expenditure plans.

PROPOSED A SHARE ISSUE

In January 2005, the Company announced its plan to apply to the China Securities Regulatory Commission ("CSRC") for the allotment and issuance of not more than 280 million A shares to institutional and public investors in China and propose to list such shares on the Shanghai Stock Exchange. The proposed A share issue was approved by shareholders at class meetings for holders of domestic shares and H shares respectively and at an Extraordinary General Meeting held on 12 March 2005, and is subject to approval from relevant PRC authorities, including the CSRC.

However, CSRC has temporarily suspended the processing of new A shares issuance applications until further notice is given. It is unlikely that the proposed issue will be completed in 2005. The Group has thus re-prioritised its investment plans by continuing to proceed with the construction of the first soda ash production line and the ultra-thin glass production line. The construction of a quality ultra-thick glass production line and the second low-E production line will be postponed. The Group will evaluate the proposed A share issue again when CSRC resume vetting applications.

DETAILS OF THE CHARGES ON GROUP ASSETS

As at 30 June 2005, certain land use rights, plant and buildings and machinery and equipment with an aggregate carrying value of approximately RMB597 million (31 December 2004 – RMB502 million) were pledged as security for bank loans of the Group of approximately RMB396 million (31 December 2004 – RMB350 million). Certain bank deposits of RMB69 million (31 December 2004 – RMB95 million) were pledged as security for bank loans of the Group of approximately RMB60 million (31 December 2004 – RMB83 million).

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company did not redeem any of its shares during the six months ended 30 June 2005. Neither the Company nor any of its subsidiaries purchased or sold any of the Company's shares during the six months ended 30 June 2005.

NUMBER AND REMUNERATION OF EMPLOYEES

Including the Directors of the Group, as at 30 June 2005, the Group employed a total of approximately 3,350 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 2005, 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%

Notes:

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 2005, 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 *(Note 1)*	Approximate percentage in the relevant class of securities	Approximate percentage in the entire issued share capital of the Company
The Capital Group Companies, Inc.	Investment manager *(Note 2)*	12,800,000 H shares (L)	7.16%	2.21%
Capital Research and Management Company	Beneficial owner	12,800,000 H shares (L)	7.16%	2.21%
Pacific Dragon Fund L.L.C.	Beneficial owner	12,053,000 H shares (L)	6.74%	2.08%

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 CORPORATE GOVERNANCE PRACTICES

In the opinion of the Directors, save as disclosed below, the Company has complied with the Code of Corporate Governance Practices, as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") throughout the period of six months ended 30 June 2005.

Under the Code Provision B.1.1 in Appendix 14 to the Listing Rules, issuers should establish a remuneration committee with specific written terms of reference which deal clearly with its authorities and duties. The Company did not establish the remuneration committee during the six months ended 30 June 2005. On 30 August 2005, the board of Directors of the Company passed a resolution for the establishment of a remuneration committee with specific written terms of reference in accordance with the Code Provision B.1.3 in Appendix 14 to the Listing Rules which deal with the authorities and duties of the remuneration committee. The remuneration committee consists of three members, two of whom are independent non-executive directors.

Under the Code Provision A.2.1, the roles of chairman and chief executive officer ("CEO") should be separate and should not be performed by the same individual. The Company does not at present have any officer with the title "chief executive officer". However, the duties assumed by the general manager of the Company who is responsible for the day-to-day management of the Company's business are comparable to those assumed by a CEO. In addition, the division of responsibilities between the chairman and general manager has been clearly established and set out in writing under the Company's articles of association. Mr. Feng Guangcheng is the chairman and an executive director of the Company responsible for the management of the board. Ms. Xu Yujuan, the wife of Mr. Feng Guangchen, is the general manager and an executive director of the Company and is responsible for the day-to-day management of the Group's business in Mainland China. The board of Directors of the Company will periodically review the merits and demerits of this management structure and will adopt such appropriate measures as may be necessary in the future taking into consideration of the nature and extent of the Group's operations.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the Directors of the Company (the "Code"). Having made specific enquiry of all Directors, there were not any non-compliance with the required standards as set out in the Code during the six months ended 30 June 2005.

INDEPENDENT NON-EXECUTIVE DIRECTORS AND AUDIT COMMITTEE

So far as the Directors are aware, during the six months ended 30 June 2005, 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.

REVIEW BY AUDIT COMMITTEE

The 2005 interim financial information have been reviewed by the Company's Audit Committee which comprises three independent non-executive directors.

On behalf of the Board
Feng Guangcheng
Chairman

Zhejiang Province, PRC
30 August 2005