



浙江玻璃股份有限公司

ZHEJIANG GLASS COMPANY, LIMITED

Interim Report **2002**



The Board of Directors (“the Board”) is pleased to present the Interim Report and condensed accounts of Zhejiang Glass Company, Limited (“the Company”) for the six months ended 30 June 2002 (“the reported period”). The results, cash flow statement and statement of changes in equity of the Company for the reported period, and the balance sheet as at 30 June 2002 of the Company, all of which are unaudited and condensed, along with selected explanatory notes, are set out on pages 9 to 24 of this report.

MANAGEMENT DISCUSSION AND ANALYSIS

Market Review

The flat glass manufacturing industry of the PRC is undergoing consolidation following a surge in the production capacity in 2001. The effect of the over-expansion of the flat glass industry continued in the first half of 2002 and led to a further drop in market prices and an increase in inventory level of most of the glass manufacturers in the market.

According to the statistics published by the State Economic & Trade Commission (“SETC”), 15 float flat glass production lines with a combined daily melting capacity of 4,300 tonnes commenced production during 2001. Two of these production lines were located in the nearby Jiangsu Province. As at the end of 2001, there were 82 float flat glass production lines in the PRC with a combined daily melting capacity of 32,900 tonnes. The actual daily market production and demand of flat glass in 2001 amounted to 28,000 tonnes and 26,000 tonnes, respectively. According to the latest SETC statistics, the total production volume of flat glass for the first half of 2002 increased by 473,000 tonnes, or approximately 9.7%. Total sales volume for the same period increased by 536,000 tonnes, or approximately 11.9%. The market inventory level of flat glass as at 30 June 2002 accumulated by 185,000 tonnes, or at a rate of approximately 24.7%, to 935,000 tonnes. SETC estimates that the annual growth rate of flat glass production for the years 2002 and 2003 will be 10%, and that of flat glass demand between 7% and 11%.

The PRC Government’s strict control on new flat glass production projects was proved to be effective. For example, the number of construction projects of new flat glass production lines to be completed in 2002 and 2003 is expected to be reduced to 10 and 6, respectively. To the knowledge of the directors, none of these new production lines will be located in Zhejiang Province.

The increasing inventory level in the flat glass market has driven down the average market price of flat glass from RMB63 per weight case in the year 2001 to RMB56 per weight case in the period from January to April 2002, representing an 11% decline. At the current market price level, many glass manufacturers are operating at a loss while SETC reports that approximately one-third of the state-owned flat glass manufacturers were loss-making in 2001. The directors expect that some small and inefficient glass manufacturers may be driven out of market in the foreseeable future, thereby reducing the market supply in 2003 and 2004.

Business Review

During the first six months of 2002, the Company produced approximately 4.4 million weight cases or 220,000 tonnes of flat glass, compared with 4.2 million weight cases or 210,000 tonnes in the corresponding period of last year. Despite the difficult market condition, the Company managed to sell approximately 4.35 million weight cases or 99% of its total production volume.

The Company's turnover fell by 38% to RMB240.6 million for the first half of 2002, compared with RMB390.8 million for the corresponding period of last year. The main reason for the decrease was the decline in the average selling prices of flat glass. Due to over-supply of flat glass in the market, the Company's average selling price was RMB56 per weight case in the first half of 2002, representing a decrease of 41% from RMB95 per weight case in the corresponding period of last year; or a decrease of 11% from RMB63 per weight case in December 2001. Another factor leading to the decrease in the average selling price of the Company's products was a change of its product mix. In the first half of 2002, thin flat glass of 4mm to 6mm in thickness, which were usually sold at lower selling prices, accounted for 56% of the total sales; whereas in the corresponding period of 2001, thick flat glass of 8mm or above in thickness with higher selling prices accounted for 70% of the total sales.

The overhaul of the Company's first production line took place from June to August in 2002. The directors estimate the loss in revenue resulting from the overhaul to be RMB27 million. The turnover of the reported period has not been affected significantly by the overhaul.

During the six months ended 30 June 2002, approximately 83% of the sales was made in Zhejiang Province and 10% in aggregate for the provinces of Jiangsu, Guangdong and Fujian, compared with that of 58% and 35%, respectively, for the corresponding period of 2001. The Company focused more on its local market of Zhejiang Province to minimise transportation cost and to avoid intense market competition in the nearby provinces. The directors estimate that the Company captured a 75% market share in the flat glass market of Zhejiang Province.

In the first half of 2002, the Company diversified its product range by producing a small quantity of premium quality mirror grade flat glass and tinted flat glass products. The mirror grade flat glass with thickness of 4mm to 6mm were sold at RMB52 to RMB59 per weight case, which was 5% to 9% higher than the selling price of the construction grade glass. The average selling price of the tinted flat glass products, at RMB59 per weight case, was higher than that of the clear flat glass products. The revenue from the mirror grade flat glass and the tinted flat glass products represented respectively 11.3% and 8.5% of the turnover for the six months ended 30 June 2002. Since the competition of the tinted flat glass market is also intense, the Company plans to produce tinted flat glass as auxiliary products upon the request of the customers.

The Company's inventory has been kept at a consistently low level. The average inventory turnover of the Company for the six months ended 30 June 2002 was 25 days, compared with that of 20 days for the year ended 31 December 2001. The Company has maintained a production efficiency ratio of 1.54 tonnes/day per employee, as calculated by the weighted average number of employees during the reported period, compared with 1.59 tonnes/day per employee for the full year of 2001.

The gross profit margin for the first half of 2002 shrank to 26%, compared with 56% for the corresponding period of last year. The net profit for the six months ended 30 June 2002 amounted to RMB36.4 million, resulting in a net profit margin of 15%, compared with the net profit of RMB135.6 million and the net profit margin of 35% for the corresponding period of last year.

Future Prospects

The directors expect that the demand of flat glass will have a slight improvement in the second half of 2002 as the customers tend to defer their orders until later in the year to avoid storage of glass in the humid months from May to July in summer. However, the Company's business will continue to be affected by the intensified competition in the glass industry as a result of over-supply of flat glass products in the PRC market.

With the commencement of operation of the third production line scheduled in the second half of 2002, the Company's aggregate daily melting capacity will increase to about 1,600 tonnes. The Company plans to increase its production of high quality flat glass products of 8mm to 15mm in thickness as the market of the thick glass remains strong. Currently, the Company's average selling prices of such products range from RMB56 to RMB95 per weight case. The market selling price of high grade flat glass products has declined to a lesser extent than that of the low to medium grade products. At present, the market of high grade thick glass products in the PRC are dominated by expensive imported products. With continuous quality improvement in the production process, the Company endeavors to produce high quality flat glass products which are believed to be able to compete, not only on the price but also on the quality, with the imported products. In addition, the Company will primarily focus on the flat glass market in Zhejiang Province where its favourably located production facilities enjoy a cost advantage in transportation.

It is currently planned that the Company's five new processed glass production lines will commence production of tempered glass, laminated glass, insulating glass, coated glass and mirror glass in October to December 2002. Currently, most processed glass manufacturers in the PRC are only capable of manufacturing low grade processed glass with the imported products dominating the high grade processed glass market. The Company plans to utilise its five production lines for manufacturing medium to high grade processed glass products. Since a trial period is required for processed glass production, the directors expect that the revenue contribution from the processed glass products will be minimal in 2002.

The directors are confident that the Company is able to capture a fair share of the high grade flat glass market and the medium to high grade processed glass market with a price advantage over the imported products.

In preparation for the expected market rebound, the Company will continue to maintain low production costs, strengthen its sales and marketing effort, improve quality and diversify into processed glass products.

The directors believe that the Company's cost advantage, management flexibility and strategic location will enable itself to become one of the leading enterprises in the PRC's flat glass manufacturing industry.

Financial Review

The Company's cost of sales in the first half of 2002 was comparable to that in the corresponding period of 2001. During the six months ended 30 June 2002, the Company's general, administrative and other operating expenses decreased as its cost-cutting measures were effective. Distribution and selling expenses increased as a result of increased depreciation charge on the newly purchased delivery equipment. Finance costs decreased as the Company had access to bank loans, most of which were drawn down in the second quarter of 2002, at significantly lower interest rates than those of last year.

Capital expenditure

Total capital expenditure for the six months ended 30 June 2002 amounted to RMB206.9 million, of which RMB118.9 million was spent on the construction of plant and buildings and production machinery and equipment. Other capital expenditure included deposits of RMB81.1 million paid to the vendors for the construction projects of new production lines and the purchases of other fixed assets which amounted to RMB6.9 million.

Liquidity and capital resources

As at 30 June 2002, the Company's cash and cash equivalents balance amounted to RMB569.2 million, compared with RMB593.5 million as at 31 December 2001. Cash generated from the Company's operations and the cash and cash equivalents balance are expected to be adequate to cover all cash requirements, including working capital needs and planned capital expenditure.

The Company's gearing ratio as at 30 June 2002 was 13%, compared to 4% as at 31 December 2001. The calculation of the gearing ratio is based on total debts of RMB184.1 million (2001 — RMB47.2 million) over total assets of RMB1,422.2 million (2001 — RMB1,240.4 million).

CHANGE OF THE USE OF LISTING PROCEEDS AND DISSOLUTION OF A JOINT VENTURE ARRANGEMENT

On 17 May 2002, an announcement was made in respect of the Board's intention to change the use of proceeds from the H Share offer. At the Company's 2001 Annual General Meeting, a resolution was passed approving the change of use of proceeds from the original intended investment in patterned glass and wired glass production facilities through a joint venture ("Joint Venture") to a direct investment in a third production line for producing ultra-thick flat glass. On 20 April 2002, the parties to the Joint Venture entered into a termination agreement ("Termination Agreement") pursuant to which the Joint Venture was terminated with effect from the date of the Termination Agreement. Both parties agreed that their respective rights and obligations in respect of the Joint Venture were released, with no claim against nor compensation payable to each other.

SHARE CAPITAL STRUCTURE

As at 30 June 2002, the total number of shares issued by the Company was 578,713,000 shares. The Company's shareholders were Mr. Feng Guangcheng, Mr. Feng Liwen, Mr. Feng Guangji, Mr. Xu Haichao, Mr. Jin Jinlong and foreign holders of H shares, who held 384,000,000 domestic shares, 4,000,000 domestic shares, 4,000,000 domestic shares, 4,000,000 domestic shares, 4,000,000 domestic shares and 178,713,000 H shares, respectively, representing 66.36%, 0.69%, 0.69%, 0.69%, 0.69% and 30.88%, respectively, of the entire issued share capital of the Company.

APPOINTMENT OF SENIOR MANAGEMENT

The directors is pleased to announce the appointment of Dr Xie Ruxian as the Company's General Manager with effect from 1 August 2002. The directors are confident that Dr Xie's wealth of management experience would be invaluable to the operation and future development of the Company.

EMPLOYEES

As at 30 June 2002, the Company had 1,132 employees. The compensation levels of employees are commensurate with their responsibilities, performance and contribution.

DETAILS OF THE CHARGES ON ASSETS

As at 30 June 2002, certain land use rights, plant and buildings and machinery and equipment with aggregate carrying value of approximately RMB102 million were pledged as security for certain bank loans of the Company of the same amount.

CONTINGENT LIABILITIES

As at 30 June 2002, the Company had letters of credit of approximately US\$2.4 million (approximately RMB20.3 million) (2001 — Nil) in issue to certain vendors and the amount was not recorded as a liability of the Company.

PURCHASE, SALE AND REDEMPTION OF THE COMPANY'S LISTED SECURITIES

There were no purchases, sales or redemptions of the Company's listed securities by the Company during the six months ended 30 June 2002.

SHARES HELD BY SUBSTANTIAL SHAREHOLDERS

As at 30 June 2002, the most substantial shareholder of the Company was Mr. Feng Guangcheng, who held 384,000,000 domestic shares, representing 66.36% of the entire issued share capital of the Company.

Save as disclosed above, as at 30 June 2002, there were no shareholders who had a beneficial interest of 10% or more in the registered capital of the Company, which were required to be disclosed pursuant to the Securities (Disclosure of interests) Ordinance (the "SDI Ordinance").

INTERESTS OF DIRECTORS AND SUPERVISORS IN SHARE CAPITAL

Save as disclosed above, as at 30 June 2002, none of the directors, supervisors or their respective associates had any interests in the share capital of the Company or any of its associated corporations (as defined in the SDI Ordinance) which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) pursuant to Section 28 of the SDI Ordinance, including interests which they were deemed or taken to own under Section 31 or Part I of the Schedule to that Ordinance, or which were required, pursuant to Section 29 of the SDI Ordinance to be entered in the register referred to therein or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

None of the directors or supervisors (including their spouse and children under 18 years of age) have been granted, or have exercised, any rights to subscribe for shares of the Company or any other body corporate.

COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

None of the directors is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the six months ended 30 June 2002, in compliance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

AUDIT COMMITTEE

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Company and discussed internal controls and financial reporting matters including a review of the unaudited condensed accounts for the six months ended 30 June 2002 with the directors.

CONDENSED PROFIT AND LOSS ACCOUNT
FOR THE SIX MONTHS ENDED 30 JUNE 2002

		Unaudited six months ended 30 June	
		2002	2001
	Note	RMB'000	RMB'000
Turnover	2	240,618	390,838
Cost of sales		(177,125)	(172,612)
Gross profit		63,493	218,226
Other revenue		676	309
Distribution and selling expenses		(3,185)	(1,501)
General, administrative and other operating expenses	16	(6,356)	(7,416)
Profit from operating activities		54,628	209,618
Non-operating income		803	689
Non-operating expenses		—	(42)
Interest income		694	89
Finance costs		(1,831)	(4,854)
Profit before taxation	3	54,294	205,500
Income tax expense	4	(17,917)	(69,869)
Net profit for the period		36,377	135,631
Dividends	5	—	—
Earnings per share — Basic	6	RMB0.063	RMB0.339

CONDENSED BALANCE SHEET

AS AT 30 JUNE 2002 AND 31 DECEMBER 2001

	Note	Unaudited 30 June 2002 RMB'000	Audited 31 December 2001 RMB'000
ASSETS			
Non-current assets			
Fixed assets	7	647,086	400,790
Construction-in-progress	7	41,532	192,156
Deposits for fixed assets and construction-in-progress	7	104,031	22,888
Investment in a subsidiary	13	—	—
		792,649	615,834
Current assets			
Inventories		28,938	19,054
Prepayments, deposits and other current assets		12,727	9,307
Accounts receivable	8	18,676	1,488
Pledged deposits		—	1,258
Cash and cash equivalents		569,173	593,459
		629,514	624,566
TOTAL ASSETS		1,422,163	1,240,400

		Unaudited 30 June 2002 RMB'000	Audited 31 December 2001 RMB'000
	Note		
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	11	578,713	578,713
Reserves		454,653	418,276
2001 final dividend	5	—	28,415
		1,033,366	1,025,404
Non-current liabilities			
Long-term bank loans	10	—	40,180
Current liabilities			
Accounts payable	9	31,690	23,032
Accruals and other payables		127,245	82,856
Other borrowings	10	2,000	2,000
Deposits and advance from customers		21,095	56,823
Taxes payable		24,635	5,105
Current portion of long-term bank loans	10	—	5,000
Short-term bank loans	10	182,132	—
		388,797	174,816
TOTAL EQUITY AND LIABILITIES		1,422,163	1,240,400

CONDENSED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 JUNE 2002

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

	Unaudited					Total
	Share capital	Statutory surplus reserve	Statutory		Retained profits	
			public welfare fund	public welfare fund		
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January 2001		50,000	26,531	26,531	181,498	284,560
Net profit for the period		—	—	—	135,631	135,631
Appropriation to statutory reserves for the period from 1 January to 31 May 2001		—	11,544	11,544	(23,088)	—
Capitalisation of reserves and retained profits as at 31 May 2001 upon reorganisation into joint stock limited company		350,000	(38,075)	(38,075)	(273,850)	—
At 30 June 2001		400,000	—	—	20,191	420,191

No appropriations were made to the statutory surplus reserve and statutory public welfare fund by the Company for the six months ended 30 June 2002. Such appropriations will be made at the year end in accordance with the PRC Company Law and the Company's articles of association.

CONDENSED CASH FLOW STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2002

	Unaudited six months	
	ended 30 June	
	2002	2001
	<i>RMB'000</i>	<i>RMB'000</i>
Net cash inflow from operating activities	72,876	63,912
Net cash used in investing activities	(205,699)	(67,414)
Net cash inflow (outflow) in financing activities	108,537	(19,528)
Decrease in cash and cash equivalents	(24,286)	(23,030)
Cash and cash equivalents at 1 January	593,459	89,380
Cash and cash equivalents at 30 June	569,173	66,350

NOTES TO CONDENSED ACCOUNTS

1. Basis of preparation and accounting policies

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

These condensed accounts should be read in conjunction with the 2001 annual financial statements.

The accounting policies and methods of computation used in the preparation of these condensed accounts are consistent with those used in the annual accounts for the year ended 31 December 2001 except that the Company has changed certain of its accounting policies following its adoption of the following Statements of Standard Accounting Practice (SSAPs) issued by the Hong Kong Society of Accountants which are effective for accounting periods commencing on or after 1 January 2002:

SSAP 1 (revised):	Presentation of financial statements
SSAP 15 (revised):	Cash flow statements
SSAP 25 (revised):	Interim financial reporting
SSAP 34:	Employee benefits

The directors consider the adoption of these revised/new SSAPs do not have material impact on the condensed accounts.

2. Segment information

The Company has only one business segment, which is the manufacturing and selling of glass products using the floating glass technology. During the six months ended 30 June 2002, approximately all (2001 — same) of the Company’s sales were made to customers located in the PRC.

2. Segment information (Continued)

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

	Unaudited six months ended 30 June 2002					Total RMB'000
	Zhejiang Province RMB'000	Jiangsu Province RMB'000	Shanghai RMB'000	Guangdong and Fujian Provinces RMB'000	Other regions RMB'000	
Turnover	199,440	14,643	10,593	8,254	7,688	240,618
Cost of sales	(146,813)	(10,779)	(7,798)	(6,076)	(5,659)	(177,125)
Gross profit	52,627	3,864	2,795	2,178	2,029	63,493
Unallocated expenses, net						(9,199)
Profit before taxation						54,294
Income tax expense						(17,917)
Net profit for the period						36,377

	Unaudited six months ended 30 June 2001					Total RMB'000
	Zhejiang Province RMB'000	Jiangsu Province RMB'000	Shanghai RMB'000	Guangdong and Fujian Provinces RMB'000	Other regions RMB'000	
Turnover	228,033	85,595	21,291	50,765	5,154	390,838
Cost of sales	(100,710)	(37,803)	(9,403)	(22,420)	(2,276)	(172,612)
Gross profit	127,323	47,792	11,888	28,345	2,878	218,226
Unallocated expenses, net						(12,726)
Profit before taxation						205,500
Income tax expense						(69,869)
Net profit for the period						135,631

There are no separable segmental assets and liabilities because the management and the glass manufacturing activities are carried out in Zhejiang Province, the PRC, only.

3. Profit before taxation

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

	Unaudited six months ended	
	30 June	
	2002	2001
	RMB'000	RMB'000
Crediting:		
Interest income on bank deposits	694	89
Charging:		
Cost of inventories, excluding staff costs and depreciation of fixed assets	140,548	140,934
Staff costs (excluding directors' emoluments)		
— salaries and wages	6,509	6,290
— provision for employee welfare	439	960
— pension costs — State-sponsored retirement plan (Note 12)	1,471	1,033
— pension costs — defined contribution retirement scheme (Note 12)	16	—
	8,435	8,283
Bad debts written-off	—	3
Depreciation of fixed assets	28,142	23,395
Loss on disposal of fixed assets	2,000	—
Interest expense on bank loans and other borrowings wholly repayable within five years	1,831	4,854
Auditors' remuneration	380	—

4. Income tax expense

(a) Current profits tax

	Unaudited six months ended	
	30 June	
	2002	2001
	RMB'000	RMB'000
Hong Kong profits tax (i)	—	—
PRC Enterprise Income Tax (ii)	17,917	69,869
	17,917	69,869

(i) Hong Kong profits tax

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

(ii) PRC Enterprise Income Tax

The Company is subject to Enterprise Income Tax of the PRC at a rate of 33% on its assessable profit.

(b) Deferred taxation

There was no significant unprovided deferred taxation as at 30 June 2002 (2001 — Nil).

5. Dividends

At a Board meeting held on 15 April 2002, the directors proposed a final dividend of RMB0.0491 per ordinary share for the year ended 31 December 2001, which was paid on 21 June 2002.

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2002 (2001 — Nil).

6. Earnings per share

The calculation of the basic earnings per share is based on the net profit for the period of RMB36,377,000 (2001 — RMB135,631,000) divided by 578,713,000 shares, being the weighted average number of ordinary shares in issue during the reported period (2001 — 400,000,000 shares). In determining the weighted average number of shares in issue in 2001, a total of 400,000,000 shares issued and outstanding upon the legal reorganisation of the Company to a joint stock limited company on 19 September 2001 were deemed to have been outstanding since 1 January 2001.

Fully diluted earnings per share have not been presented as there were no dilutive potential ordinary shares outstanding.

7. Capital expenditure

Unaudited six months ended 30 June 2002

	Fixed assets	Construction- in-progress	Deposits for fixed assets and construction- in-progress
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Opening net book value	400,790	192,156	22,888
Additions	6,936	118,878	81,143
Transfers	269,502	(269,502)	—
Disposals	(2,000)	—	—
Depreciation charge	(28,142)	—	—
Closing net book value	647,086	41,532	104,031

8. Accounts receivable

The aging analysis of accounts receivable is set out below:

	Unaudited 30 June 2002 <i>RMB'000</i>	31 December 2001 <i>RMB'000</i>
Current to under 6 months	18,676	1,488
6 to under 12 months	—	—
1 to under 2 years	—	—
2 to under 3 years	—	—
3 years and over	—	—
Accounts receivable, gross and net	<u>18,676</u>	<u>1,488</u>

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

9. Accounts payable

The aging analysis of accounts payable is set out below:

	Unaudited 30 June 2002 <i>RMB'000</i>	31 December 2001 <i>RMB'000</i>
Current to under 6 months	31,690	11,294
6 to under 12 months	—	702
1 to under 2 years	—	10,602
2 to under 3 years	—	323
3 years and over	—	111
Accounts payable, gross and net	<u>31,690</u>	<u>23,032</u>

10. Borrowings

	Unaudited 30 June 2002 RMB'000	31 December 2001 RMB'000
i. Secured long-term bank loans		
— amounts wholly repayable within 1 year	—	5,000
— amounts wholly repayable between 1 to 2 years	—	40,180
— amounts wholly repayable between 2 to 5 years	—	—
— amounts wholly repayable beyond 5 years	—	—
	—	45,180
Less: amounts repayable within 1 year (included in current liabilities)	—	(5,000)
	—	40,180
ii. Certain of the short-term bank loans as at 30 June 2002 amounting to approximately RMB102,052,000 were secured by certain land use rights, plant and buildings and machinery and equipment of the same carrying value, and interest bearing at commercial rates; while the rest of the short-term bank loans were unsecured and interest bearing at commercial rates.		
iii. Other short-term borrowings		
— advance from an environmental protection authority	2,000	2,000

As at 30 June 2002, other short-term borrowings represented an advance from an environmental protection authority in the PRC, which is unsecured, non-interest bearing and repayable upon demand (2001 — same).

11. Share capital

	Unaudited 30 June 2002	31 December 2001	Unaudited 30 June 2002	31 December 2001
	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 period.

12. Employee retirement benefits

As stipulated by the rules and regulations in the PRC, the Company is required to contribute to a State-sponsored retirement plan for all of its PRC employees based on 17% of their basic salaries. The State-sponsored retirement plan is responsible for the entire pension obligations payable to retired employees and the Company has no further obligations for the actual pension payments or other post-retirement benefits beyond the annual contributions. During the period, the Company's retirement plan contributions amounted to approximately RMB1,471,000 (2001 — RMB1,033,000).

The Company also contributes to a defined contribution retirement scheme in Hong Kong which is available to all employees based in Hong Kong. Contributions to the scheme by the Company and employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme cost charged to the profit and loss account represents contributions payable by the Company to the fund.

12. Employee retirement benefits (Continued)

The Company'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. During the period, the Company's contributions to the defined contribution retirement scheme amounted to approximately HK\$15,000 (approximately RMB16,000) (2001 — Nil).

13. Investment in a subsidiary

Pursuant to a joint venture agreement dated 31 August 2001 and its supplementary agreement dated 8 October 2001 (the "JV Agreements") entered into between the Company and Dynamic Goal Worldwide Inc. ("Dynamic"), a third party company incorporated in the British Virgin Islands, both parties agreed to establish a Sino-foreign equity joint venture company ("EJV") for the construction of patterned and wired glass production facilities and the production and sale of the related glass products. The establishment of the EJV was approved by the Ministry of Foreign Trade and Economic Cooperation of Shaoxing County, the PRC, during 2001. Both parties had not contributed their respective capital to the EJV.

On 20 April 2002, the parties to the EJV entered into a termination agreement ("Termination Agreement") pursuant to which the JV Agreements were terminated with effect from the date of the Termination Agreement. Both parties agreed that their respective rights and obligations in respect of the EJV were released, with no claim against nor compensation payable to each other.

14. Contingent liabilities

	Unaudited	31 December
	30 June	2001
	2002	2001
	RMB'000	RMB'000
Letters of credit issued	20,303	—

15. Commitments

(a) *Capital commitments for land use rights, machinery and equipment*

	Unaudited	
	30 June	31 December
	2002	2001
	RMB'000	RMB'000
Contracted but not provided for	65,602	84,937
Authorised but not contracted for	100,000	313,000
	165,602	397,937

(b) *Commitments under operating leases*

At 30 June 2002, the Company had total future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Unaudited	
	30 June	31 December
	2002	2001
	RMB'000	RMB'000
		Land and buildings
Within one year	998	—
In the second to fifth year inclusive	518	—
After the fifth year	—	—
	1,516	—

16. Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

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

		Unaudited six months ended 30 June	
	<i>Note</i>	2002 <i>RMB'000</i>	2001 <i>RMB'000</i>
Rental charged by a related company	(a)	208	—

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

On behalf of the Board
Feng Guangcheng
Chairman

Zhejiang Province, PRC
29 August 2002