

Notes to the Accounts

For the year ended 31 December 2002

(Amounts expressed in Chinese Renminbi)

1. ORGANISATION AND OPERATIONS

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

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

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

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

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

The Company is principally engaged in the manufacturing and selling of glass products.

2. PRINCIPAL ACCOUNTING POLICIES

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

(a) Basis of preparation

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

Notes to the Accounts

For the year ended 31 December 2002
(Amounts expressed in Chinese Renminbi)

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(a) Basis of preparation (continued)

In the current year, the Company adopted the following Statements of Standard Accounting Practice ("SSAPs") issued by the HKSA which are effective for accounting periods commencing on or after 1 January 2002:

SSAP1 (revised):	Presentation of financial statements
SSAP11 (revised):	Foreign currency translation
SSAP15 (revised):	Cash flow statements
SSAP34 (revised):	Employee benefits

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

(b) Fixed assets

(i) Fixed assets

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

(ii) Depreciation

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

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

(iii) Impairment and gain or loss on sale

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

Notes to the Accounts

For the year ended 31 December 2002

(Amounts expressed in Chinese Renminbi)

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(b) Fixed assets (continued)

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

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account. Any revaluation reserve balance remaining attributable to the relevant asset is transferred to retained earnings and is shown as a movement in reserves.

(c) Construction-in-progress

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

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

(d) Inventories

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

(e) Translation of foreign currencies

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

(f) Accounts receivable

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

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(g) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, cash investments with a maturity of three months or less from date of investment and bank overdrafts.

(h) Provisions

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

(i) Employee benefits

(i) Employee leave entitlements

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

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

(ii) Pension obligations

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

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

Notes to the Accounts

For the year ended 31 December 2002

(Amounts expressed in Chinese Renminbi)

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(i) **Employee benefits** (continued)

(ii) Pension obligations (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.

(j) **Deferred taxation**

Deferred taxation is accounted for at the current tax rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or assets expected to be payable or recoverable in the foreseeable future.

(k) **Contingent liabilities and contingent assets**

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

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

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

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

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(l) Revenue recognition

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

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

(m) Subsidy income

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

(n) Borrowing costs

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

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

(o) Operating leases

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

(p) Segment reporting

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

The Company has only one business segment. Financial information on geographical segments is presented in note 3.

Notes to the Accounts

For the year ended 31 December 2002

(Amounts expressed in Chinese Renminbi)

3. TURNOVER, REVENUE AND SEGMENT INFORMATION

The Company is principally engaged in the manufacturing and selling of glass products. Revenue recognised during the year is as follows:

	2002	2001
	RMB'000	RMB'000
Turnover – Sale of glass products	510,452	703,614
Less: Sales taxes and surcharges	(4,040)	(7,525)
Turnover, net	506,412	696,089
Sale of by-products	959	562
Total turnover and other revenue	507,371	696,651

Sales made to the top five customers during the year ended 31 December 2002 represent 29% (2001 – 30%) of the total turnover during the year.

The Company has only one business segment, which is the manufacturing and selling of glass products using the floating glass technology. During the year, substantially all (2001 – same) of the Company's sales were made to customers located in the PRC.

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

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

Notes to the Accounts

For the year ended 31 December 2002
(Amounts expressed in Chinese Renminbi)

3. TURNOVER, REVENUE AND SEGMENT INFORMATION (continued)

	Year ended 31 December 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, net	449,741	128,966	31,675	74,282	11,425	696,089
Cost of sales	(216,295)	(62,024)	(15,233)	(35,725)	(5,494)	(334,771)
Gross profit	<u>233,446</u>	<u>66,942</u>	<u>16,442</u>	<u>38,557</u>	<u>5,931</u>	361,318
Interest income						1,674
Unallocated expenses, net						<u>(36,941)</u>
Profit before taxation						326,051
Taxation						<u>(113,986)</u>
Net profit for the year						<u>212,065</u>

Notes to the Accounts

For the year ended 31 December 2002

(Amounts expressed in Chinese Renminbi)

4. PROFIT BEFORE TAXATION

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

	2002	2001
	RMB'000	RMB'000
Charging –		
Cost of inventories, excluding staff costs and depreciation of fixed assets	313,126	275,319
Staff costs (excluding directors' emoluments (note 8))		
– salaries, wages and related employee welfare expenses		
– current year charge	18,314	24,277
– less: reversal of provision for staff discretionary bonuses and welfare expenses of prior year	(8,110)	–
– pension costs – State-sponsored retirement plan (note 22)	141	2,083
– pension costs – defined contribution retirement scheme (note 22)	42	–
	10,387	26,360
Depreciation of fixed assets	62,140	46,954
Loss on disposal of fixed assets	1,491	219
Write-off of obsolete packaging materials	–	1,553
Operating lease rental of office premises	770	–
Interest expense on bank loans and other borrowings wholly repayable within five years	6,267	6,863
Auditors' remuneration	1,682	1,900
Crediting –		
Interest income on bank deposits	3,468	1,674

Notes to the Accounts

For the year ended 31 December 2002
(Amounts expressed in Chinese Renminbi)

5. TAXATION

a. Current profits tax

	2002 RMB'000	2001 RMB'000
Hong Kong profits tax (i)	–	–
PRC Enterprise Income Tax (ii)	<u>42,073</u>	<u>113,986</u>
	<u><u>42,073</u></u>	<u><u>113,986</u></u>

(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 31 December 2002 (2001 – Nil).

6. DIVIDENDS

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

At a meeting held on 15 April 2003, the directors proposed a final dividend of RMB0.0426 per share. This proposed dividend is not reflected as a dividend payable in the accounts.

Notes to the Accounts

For the year ended 31 December 2002

(Amounts expressed in Chinese Renminbi)

7. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the net profit for the year of approximately RMB86,335,000 (2001 – RMB212,065,000) divided by the weighted average number of ordinary shares in issue during the year of 578,713,000 shares (2001 – 412,300,559 shares).

Fully diluted earnings per share have not been presented as there were no dilutive potential ordinary shares outstanding (2001 – same).

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

a. Directors

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

	2002 RMB'000	2001 RMB'000
Executive directors		
– Fees	–	–
– Salaries and allowances	1,112	813
– Pension scheme contributions	189	92
– Bonuses	–	–
Non-executive directors		
– Fees	–	–
– Other emoluments	–	–
Independent non-executive directors		
– Fees	106	–
– Other emoluments	–	–
	<u>1,407</u>	<u>905</u>

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

Notes to the Accounts

For the year ended 31 December 2002
(Amounts expressed in Chinese Renminbi)

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

a. Directors (continued)

During the year, five (2001 – five) directors waived emoluments of approximately RMB1,888,000 (2001 – RMB250,000). No incentive payment for joining the Company nor compensation for loss of office was paid or payable to any directors during the year (2001 – Nil).

b. Supervisors

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

	2002 RMB'000	2001 RMB'000
Salaries and allowances	139	313
Pension scheme contributions	23	34
Bonuses	–	–
Others	–	–
	<u>162</u>	<u>347</u>

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

During the year, two (2001 – two) supervisors waived emoluments of approximately RMB861,000 (2001 – RMB83,000). No emoluments were paid to the supervisors as inducement to join or upon joining the Company or as compensation for loss of office (2001 – Nil).

c. Five highest paid individuals

The five highest paid individuals consisted of:

	2002	2001
Number of directors	1	3
Number of supervisors	–	–
Number of employees	4	2
	<u>5</u>	<u>5</u>

Notes to the Accounts

For the year ended 31 December 2002

(Amounts expressed in Chinese Renminbi)

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

(continued)

c. Five highest paid individuals (continued)

The details of emoluments paid to the five highest paid individuals who were directors of the Company during the year have been included in Note 8(a) above. Details of emoluments paid or payable to the highest paid non-director individuals are:

	2002 RMB'000	2001 RMB'000
Salaries and allowances	1,137	276
Pension scheme contributions	101	33
Bonuses	–	–
Others	–	–
	<u>1,238</u>	<u>309</u>

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

During the year, no emoluments were paid to the highest paid non-director individuals as inducement to join or upon joining the Company or as compensation for loss of office (2001 – Nil).

9. SUBSIDY INCOME

Cash subsidy income was granted by the Ministry of Finance of Yangxunqiao Township, Shaoxing County ("MOF") to support the expansion of the Company (2001 – Nil) and was designated to finance the Company's staff costs and manufacturing overheads incurred for the year of 2002. The full amount was received in cash subsequent to 31 December 2002 and the MOF has stipulated that the said subsidy shall not be repaid by the Company in any form (note 13).

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

Notes to the Accounts

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10. FIXED ASSETS AND CONSTRUCTION-IN-PROGRESS

Movement of fixed assets during the year is as follows:

	2002						2001	
	Land use rights	Plant and buildings	Machinery and equipment	Furnaces	Motor vehicles	Office equipment	Total	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost								
At 1 January	25,575	166,738	249,067	114,015	–	–	555,395	526,132
Additions	–	2,136	13,884	2,386	202	831	19,439	25,718
Transfer from deposits for fixed assets and construction-in-progress ("CIP")	–	–	–	–	1,945	–	1,945	12,064
Transfer from CIP	19,105	87,221	143,110	116,119	–	–	365,555	1,107
Disposals	–	–	(188)	(41,009)	–	–	(41,197)	(9,626)
At 31 December	44,680	256,095	405,873	191,511	2,147	831	901,137	555,395
Accumulated depreciation								
At 1 January	171	24,082	81,825	48,527	–	–	154,605	109,813
Charge for the year	607	8,714	33,404	19,153	197	65	62,140	46,954
Disposals	–	–	(112)	(38,446)	–	–	(38,558)	(2,162)
At 31 December	778	32,796	115,117	29,234	197	65	178,187	154,605
Net book value								
At 31 December 2002	43,902	223,299	290,756	162,277	1,950	766	722,950	400,790
At 31 December 2001	25,404	142,656	167,242	65,488	–	–	400,790	416,319

Notes to the Accounts

For the year ended 31 December 2002

(Amounts expressed in Chinese Renminbi)

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

As at 31 December 2002, certain land use rights, plant and buildings and machinery and equipment with aggregate carrying value of approximately RMB133,630,000 (2001 – RMB56,020,000) were pledged as security for certain bank loans of the Company (see note 18).

Movement of CIP during the year is as follows:

	2002	2001
	RMB'000	RMB'000
At 1 January	192,156	361
Additions	354,539	185,439
Transfer from deposits for fixed assets and construction-in-progress	20,382	7,463
Transfer to fixed assets	(365,555)	(1,107)
	<hr/>	<hr/>
At 31 December	<u>201,522</u>	<u>192,156</u>

The CIP as at 31 December 2002 mainly represents construction expenditures incurred on plant and buildings located in the PRC and production machinery and equipment for several new glass products production lines.

The construction expenditure, production machinery and equipment and other direct costs of the third production line were transferred from CIP to fixed assets upon the commencement of commercial production during the year (see note 27).

There was no capitalisation of borrowing costs during the year (2001 – Nil).

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

The balance as at 31 December 2002 represents deposits paid by the Company for certain construction materials and production machinery of certain new glass products production lines under construction and land use rights of the related premises where these new production lines are located. The land use right certificates were obtained in January 2003.

Notes to the Accounts

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12. INVENTORIES

	2002 RMB'000	2001 RMB'000
Raw materials	21,317	16,287
Finished goods	1,218	1,380
Packaging materials	1,186	838
Others	866	549
	<u>24,587</u>	<u>19,054</u>

As at 31 December 2002, none of the above inventories were carried at net realisable value (2001 – Nil).

Because of the short duration of the production cycle, no work-in-progress was recognised as at 31 December 2002 (2001 – same).

13. PREPAYMENTS, DEPOSITS AND OTHER CURRENT ASSETS

	2002 RMB'000	2001 RMB'000
Prepayment for raw materials purchases	1,446	2,771
Subsidy income receivable (note 9)	19,312	–
Others	5,315	6,536
	<u>26,073</u>	<u>9,307</u>

14. ACCOUNTS RECEIVABLE

The aging analysis of accounts receivable is set out below:

	2002 RMB'000	2001 RMB'000
Current to under 6 months	2,318	1,488
6 to under 12 months	744	–
1 to under 2 years	89	–
	<u>3,151</u>	<u>1,488</u>

Notes to the Accounts

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14. ACCOUNTS RECEIVABLE (continued)

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 made on their financial abilities and past payment history, and with the approval of top management.

15. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

As at 31 December 2002, cash and cash equivalents of the Company denominated in RMB amounted to approximately RMB237,575,000 (2001 – RMB223,457,000). RMB is not freely convertible into foreign currencies and its exchange rate is determined by the government of the PRC.

Pledged deposits represent deposits placed with certain banks as security against the issue of certain trade finance facilities granted by these banks (see note 25).

16. ACCOUNTS PAYABLE

The aging analysis of accounts payable is set out below:

	2002 RMB'000	2001 RMB'000
Current to under 6 months	15,625	11,294
6 to under 12 months	377	702
1 to under 2 years	5,360	10,602
2 to under 3 years	–	323
3 years and over	–	111
	<u>21,362</u>	<u>23,032</u>

17. ACCRUALS AND OTHER PAYABLES

	2002 RMB'000	2001 RMB'000
Accrued operating expenses	1,224	8,553
Accrued staff costs and bonuses	14,091	18,576
PRC individual income tax payable and other surcharges	2,210	5,186
Deposits received from customers for delivery equipment	40,757	19,188
Accrued expenditure on construction-in-progress	61,285	27,739
Guarantee deposits received from a fixed assets vendor	4,000	–
Property tax payable	1,844	–
Others	4,309	3,614
	<u>129,720</u>	<u>82,856</u>

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18. BORROWINGS

	2002 RMB'000	2001 RMB'000
i. Bank loans		
– amounts wholly repayable within 1 year	183,182	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	–	–
	<u>183,182</u>	<u>45,180</u>
Less: amounts repayable within 1 year (included in current liabilities)	<u>(183,182)</u>	<u>(5,000)</u>
Long-term portion	<u>–</u>	<u>40,180</u>
ii. Certain of the short-term bank loans as at 31 December 2002 amounting to approximately RMB133,630,000 (2001 – RMB56,020,000) were secured by certain land use rights, plant and buildings and machinery and equipment of the same carrying value (see note 10). They are interest-bearing at commercial rates. The rest of the short-term bank loans are unsecured and interest-bearing at commercial rates.		
iii. Other short-term borrowings		
	2002 RMB'000	2001 RMB'000
– advance from an environmental protection authority	<u>2,000</u>	<u>2,000</u>

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

Please refer to note 25 for details of guarantees and security for the Company's banking facilities.

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19. TAXES PAYABLE

Taxes payable consists of:

	2002 RMB'000	2001 RMB'000
PRC Enterprise Income Tax	23,718	4,991
PRC value-added tax (note a)	7,842	(536)
Other taxes payable	1,391	650
	<u>32,951</u>	<u>5,105</u>

(a) **PRC value-added tax**

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

20. SHARE CAPITAL

	2002 Number of shares	2001	2002 Nominal value RMB'000	2001 Nominal value RMB'000
Authorised:				
Ordinary shares of RMB1 each	<u>578,713,000</u>	578,713,000	<u>578,713</u>	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	<u>178,713,000</u>	178,713,000	<u>178,713</u>	178,713
	<u>578,713,000</u>	578,713,000	<u>578,713</u>	578,713

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20. SHARE CAPITAL (continued)

Movements in share capital during the year are as follows:

	2002	2001	2002	2001
	Number of shares		Nominal value	
			RMB'000	RMB'000
At 1 January	578,713,000	50,000,000	578,713	50,000
Share capital issued during the year				
– Capitalisation of retained profits and reserves resulting from reorganisation into joint stock limited company (See also note 21)	–	350,000,000	–	350,000
– H shares issued to the public including institutional investors	–	178,713,000	–	178,713
At 31 December	578,713,000	578,713,000	578,713	578,713

Notes to the Accounts

For the year ended 31 December 2002

(Amounts expressed in Chinese Renminbi)

21. RESERVES AND PROPOSED DIVIDENDS

	Share premium RMB'000	Statutory surplus reserve RMB'000	Statutory public welfare fund RMB'000	Retained profits RMB'000	Total RMB'000	Proposed dividends RMB'000
At 1 January 2001	-	26,531	26,531	181,498	234,560	-
Net profit for the year	-	-	-	212,065	212,065	-
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 (note 20)	-	(38,075)	(38,075)	(273,850)	(350,000)	-
Appropriation to statutory reserves for the period from 1 June to 31 December 2001	-	9,662	9,663	(19,325)	-	-
Issue of H shares	381,752	-	-	-	381,752	-
Share issue expenses	(31,686)	-	-	-	(31,686)	-
Proposed dividends (note 6)	-	-	-	(28,415)	(28,415)	28,415
At 31 December 2001	350,066	9,662	9,663	48,885	418,276	28,415
Net profit for the year	-	-	-	86,335	86,335	-
Appropriation to statutory reserves	-	8,634	8,633	(17,267)	-	-
Dividends paid	-	-	-	-	-	(28,415)
Proposed dividends (note 6)	-	-	-	(24,653)	(24,653)	24,653
At 31 December 2002	350,066	18,296	18,296	93,300	479,958	24,653

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

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

21. RESERVES AND PROPOSED DIVIDENDS (continued)

Net profit of the Company is appropriated in the following sequence:

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

During the years ended 31 December 2002 and 2001, 10% of net profit was appropriated to each of the two statutory reserves as approved in resolutions passed by the Board of Directors of the Company according to the requirements stated above.

The unappropriated profit available for distribution to shareholders as at 31 December 2002 was approximately RMB93,300,000 (2001 – RMB48,885,000).

22. 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 at 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 year, the Company's contributions paid to the retirement plan amounted to approximately RMB790,000 (2001 – RMB184,000).

The Company also contributes to a defined contribution retirement scheme in Hong Kong for all its employees based in Hong Kong. Contributions to the scheme by the Company and the employees are calculated on a percentage of the employees' basic salaries. The cost of the retirement benefit scheme charged to the profit and loss account represents contributions payable by the Company to the fund. The Company's contributions to the defined contribution retirement scheme are recorded as expenses incurred and are not reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. During the year, the Company's contributions to the defined contribution retirement scheme in Hong Kong amounted to approximately HK\$40,000 (approximately RMB42,000) (2001 – Nil).

Notes to the Accounts

For the year ended 31 December 2002

(Amounts expressed in Chinese Renminbi)

23. CASH FLOW STATEMENT

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

	2002	2001
	RMB'000	RMB'000
Profit before taxation	128,408	326,051
Interest income	(3,468)	(1,674)
Interest expense	6,267	6,863
Depreciation of fixed assets	62,140	46,954
Loss on disposal of fixed assets	1,491	219
	<hr/>	<hr/>
Operating profit before working capital changes	194,838	378,413
Increase in inventories	(5,533)	(629)
Increase in prepayments, deposits and other current assets	(15,606)	(2,515)
Increase in bills receivable	(6,186)	–
(Increase)/decrease in accounts receivable	(1,663)	5,296
Increase/(decrease) in accounts payable	2,921	(26,690)
Increase in payable to a related company	332	–
Increase in accruals and other payables	14,738	18,304
(Decrease)/increase in deposits and advance from customers	(35,017)	13,228
Increase/(decrease) in taxes payable	9,119	(7,766)
	<hr/>	<hr/>
Net cash inflow from operations	<u>157,943</u>	<u>377,641</u>

Notes to the Accounts

For the year ended 31 December 2002
(Amounts expressed in Chinese Renminbi)

23. CASH FLOW STATEMENT (continued)

b. Analysis of changes in financing:

	Share capital		Short-term bank loans	Long-term bank loans	Advance		Balances with related companies	Pledged deposits	Bills payable
	Dividends payable	and share premium			from a non- financial institution	Advance to a shareholder/ director			
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(note 6)		(note 18)	(note 18)					
At 1 January 2001	-	50,000	10,000	99,587	19,500	(809)	(37,930)	4,000	-
Repayments received	-	-	-	-	-	809	37,930	-	-
Repayments made	-	-	(10,000)	(54,407)	(19,500)	-	-	-	-
Pledged deposits released	-	-	-	-	-	-	-	(2,742)	-
Capitalisation of reserves and retained profits as at 31 May 2001 (note 21)	-	350,000	-	-	-	-	-	-	-
Proceeds from issue of H shares	-	560,465	-	-	-	-	-	-	-
Share issue expenses	-	(31,686)	-	-	-	-	-	-	-
At 31 December 2001	-	928,779	-	45,180	-	-	-	1,258	-
Dividends	28,415	-	-	-	-	-	-	-	-
Net draw-down	-	-	183,182	-	-	-	-	82,100	73,178
Payment/repayment made	(28,415)	-	-	(45,180)	-	-	-	-	-
At 31 December 2002	-	928,779	183,182	-	-	-	-	83,358	73,178

Notes to the Accounts

For the year ended 31 December 2002

(Amounts expressed in Chinese Renminbi)

24. CAPITAL COMMITMENTS

- (i) The Company had the following significant capital commitments in relation to acquisition of fixed assets which were not provided for in the accounts as at year end:

	2002	2001
	RMB'000	RMB'000
Authorised and contracted for:		
Acquisition of machinery and equipment	172,600	69,937
Construction of factory premises	88,851	15,000
	<u>261,451</u>	<u>84,937</u>
Authorised but not contracted for:		
Construction and acquisition of fixed assets of proposed new processed glass production lines	–	313,000
	–	313,000
Total commitments	<u>261,451</u>	<u>397,937</u>

- (ii) Commitments under operating leases

At 31 December 2002, the Company had total future aggregate minimum lease payments under non-cancellable operating leases entered into with third party companies and a related company (note 26(iii)) in respect of land and buildings as follows:

	2002	2001
	Land and buildings	
	RMB'000	RMB'000
Within one year	1,150	–
In the second to fifth year inclusive	117	–
	<u>1,267</u>	<u>–</u>

Notes to the Accounts

For the year ended 31 December 2002
(Amounts expressed in Chinese Renminbi)

25. BANKING FACILITIES

The Company has aggregate banking facilities as follows:

	2002	2001
	RMB'000	RMB'000
Short-term loans	222,822	56,020
Trade financing	164,985	1,258
	<u>387,807</u>	<u>57,278</u>

Unutilised facilities as at 31 December 2002 were approximately RMB39,640,000 (2001 – RMB10,840,000).

Certain of the short-term bank loans as at 31 December 2002 amounting to approximately RMB133,630,000 (2001 – RMB56,020,000) were secured by certain land use rights, plant and buildings and machinery and equipment of the Company (see note 10).

The trade finance facilities were secured by pledged deposits amounting to RMB83,358,000 placed by the Company with the banks as at 31 December 2002 (2001 – RMB1,258,000) (see note 15).

26. RELATED PARTY TRANSACTIONS

Significant transactions with related parties are as follows:

	2002	2001
	RMB'000	RMB'000
Administrative expenses charged by Guangyu Group Co. Ltd. ("Guangyu") (光宇集團有限公司)* (Note i)	–	6,101
Disposal of fixed assets to Guangyu (Note ii)	–	7,245
Rental charged by Guangyu (Note iii)	332	–

Note i: The administrative expenses charged by Guangyu to the Company mainly consist of cost reimbursements of certain administrative and distribution and marketing functions carried out by Guangyu for the Company. The amount was determined by management of Guangyu based on the time and effort they perceived to have been incurred on behalf of the Company. Such arrangements were discontinued after the listing of the H shares of the Company on the Stock Exchange.

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

Notes to the Accounts

For the year ended 31 December 2002

(Amounts expressed in Chinese Renminbi)

26. RELATED PARTY TRANSACTIONS (continued)

Note ii: The Company and Guangyu entered into an asset transfer agreement on 31 July 2001 for the disposal of certain land use rights and buildings to Guangyu at their net book value as at 31 May 2001 of approximately RMB7,245,000.

Note iii: The Company 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. During the year, rental expense of RMB332,000 (2001 – Nil) was incurred.

In the opinion of the directors of the Company, the above related party transactions were carried out in the usual course of business and on terms mutually agreed with related parties.

Balance with the related company is unsecured, non-interest bearing and has no fixed repayment date.

Notes to the Accounts

For the year ended 31 December 2002
(Amounts expressed in Chinese Renminbi)

27. 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 (the "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.

In the Company's 2001 annual general meeting, a resolution was passed to approve the Company to change the intended investment in the Facilities to a direct investment in the production of ultra-thick glass by the Company itself. Therefore, 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 made against nor compensation be payable to each other.

28. CONTINGENT LIABILITIES

As at 31 December 2002, the Company had issued letters of credit of RMB91,807,000 (2001 – Nil) to certain vendors and the amount was not recorded as a liability of the Company.

Notes to the Accounts

For the year ended 31 December 2002

(Amounts expressed in Chinese Renminbi)

29. SUBSEQUENT EVENTS

- (i) On 9 January 2003, the Company obtained an approval (外經貿合函 [2002]891號《關於同意設立浙江玻璃(香港)有限公司的覆函》) from the Ministry of Foreign Trade and Economic Cooperation of the PRC for the establishment of a wholly-owned subsidiary, Zhejiang Glass (Hong Kong) Company Limited (浙江玻璃(香港)有限公司) ("ZGHK") in Hong Kong. The principal activities of ZGHK will be the sales of glass products and the procurement of raw materials. The authorised share capital of ZGHK is HK\$7,800,000 (equivalent to RMB8,264,000). ZGHK became a wholly-owned subsidiary of the Company on 18 January 2003.
- (ii) On 12 February 2003, the Company entered into an investment agreement (the "Agreement") with an independent third party to establish a joint venture, Zhejiang Engineering Glass Company Limited (浙江工程玻璃有限公司) ("ZEGC"). Pursuant to the Agreement, the Company agreed to invest in 85% equity interest in ZEGC by a cash consideration of RMB42,500,000. The principal activities of ZEGC will be manufacturing, development and sales of engineering glass products and the provision of related technical services. ZEGC's registered capital is RMB50,000,000. The registration of ZEGC in the PRC was completed on 6 March 2003.
- (iii) On 17 March 2003, the Company entered into a memorandum of understanding ("MOU") with an independent third party for the establishment of a limited liability company ("New Venture") in Qinghai Province, the PRC, with a registered capital of RMB250 million which will be contributed solely by the Company from its internal resources. The New Venture will mainly engage in the production of soda ash which is one of the essential raw materials used for the production of the Company's glass products. However, the establishment of the New Venture will be conditional upon the obtaining of all the necessary approvals and licences from the relevant authorities in the PRC.

30. APPROVAL OF FINANCIAL STATEMENTS

The financial statements (set out on pages 25 to 58) were approved and authorised for issue by the Board of Directors on 15 April 2003.