(Amounts expressed in Chinese Renminbi unless otherwise stated)

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

a. Basis of presentation

The financial statements of the Company are prepared under the historical cost convention and in accordance with Statements of Standard Accounting Practice issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong, and the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Stock Exchange.

b. Adoption of Statements of Standard Accounting Practice

In the current year, the Company has adopted, for the first time, the following Statements of Standard Accounting Practice ("SSAPs") issued by the Hong Kong Society of Accountants:

SSAP 9 (revised)	Events after the balance sheet date
SSAP 14 (revised)	Leases
SSAP 26	Segment reporting
SSAP 28	Provisions, contingent liabilities and contingent assets
SSAP 29	Intangible assets
SSAP 30	Business combinations
SSAP 31	Impairment of assets
SSAP 32	Consolidated financial statements and accounting for investments in subsidiaries

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

b. Adoption of Statements of Standard Accounting Practice (Continued)

Details of the requirements under the new SSAPs which affect the preparation of the financial statements of the Company are as follows:

SSAP 9 (revised) prescribes when an enterprise should adjust its financial statements for events after the balance sheet date and the disclosures that an enterprise should give about the date when the financial statements were authorised for issue and about events after the balance sheet date. In particular, if dividends to holders of equity instruments are proposed or declared after the balance sheet date, an enterprise should not recognise those dividends as a liability at the balance sheet date. SSAP 9 (revised) also requires that an enterprise should not prepare its financial statements on a going concern basis if events after the balance sheet date indicate that the going concern assumption is not appropriate. This change in accounting policy has been applied retrospectively.

SSAP 14 (revised) is in principle similar to the old SSAP 14 "Accounting for leases and hire purchase contracts". The two main changes from the old SSAP, other than the changes in the disclosure requirements, are changes in the rules determining whether a lease is a finance lease towards an approach based on substance over form, and the change in the basis of allocating finance income of the lessor with regard to a finance lease over the lease term from net cash investment basis to net investment basis. This change in accounting policy has been applied retrospectively.

SSAP 26 establishes principles for reporting financial information by segment to help users of financial statements to better understand an enterprise and make more informed judgements about an enterprise as a whole. This change in accounting policy has been applied retrospectively.

The objective of SSAP 28 is to ensure that appropriate recognition criteria and measurement bases are applied to provisions, contingent liabilities and contingent assets and that sufficient information is disclosed in the notes to the financial statements to enable users to understand their nature, timing and amount. This change in accounting policy has been accounted for in accordance with the transitional provisions in the standard where the effect of the change is reported as an adjustment to the opening balance of retained profits for the current year without restating the respective comparative information.

SSAP 31 prescribes the accounting for and disclosure of impairment of assets. It requires that the recoverable amount of an asset should be estimated whenever there is an indication that the asset may be impaired or previous impairment may no longer exist or may have decreased. It also requires that an impairment loss be recognised whenever the carrying amount of an asset exceeds its recoverable amount. This change in accounting policy has been applied prospectively.

In addition to the adoption of the above standards, the Company has adopted the consequential changes made to SSAP 17 "Property, plant and equipment" and SSAP 18 "Revenue". Other than those disclosed in the respective notes to the financial statements, the Company considers that the consequential changes made to the above SSAPs will not have a material impact on the financial statements of the Company.

c. Subsidiary

A company is a subsidiary company if it is controlled by the Company. Control is normally evidenced when the Company has the power to govern the financial and operating policies of a company so as to benefit from its activities.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

d. Turnover and revenue recognition

Turnover represents the net invoiced value of merchandise sold (excluding value-added tax), after allowances for returns and discounts, sales taxes and surcharges.

Provided it is probable that the economic benefits associated with a transaction will flow to the Company and the revenue and costs, if applicable, can be measured reliably, revenue is recognised on the following bases:

(i) *Sale of goods*

Sale of goods is recognised when the significant risks and rewards of ownership of goods have been transferred to the buyer.

(ii) *Interest income*

Interest income from bank deposits is recognised on a time proportion basis that takes into account the effective yield on the assets.

e. Taxation

The Company provides for profits tax on the basis of their profit for financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for profits tax purposes.

Deferred taxation is provided under the liability method in respect of timing differences between profit as computed for taxation purposes and profit as stated in the financial statements to the extent that it is probable that a liability or an asset will crystallise.

f. Borrowing costs

Borrowing costs include interest charges and other costs incurred in connection with the borrowing of funds, including amortisation of discounts or premiums relating to borrowings, amortisation of ancillary costs incurred in connection with arranging borrowings.

Borrowings costs are expensed as incurred, except when they are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to prepare for its intended use or sale in which case they are capitalised as part of the cost of that asset.

g. Employee retirement benefits

Pursuant to 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.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

h. Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of a fixed asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the fixed assets have been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed assets beyond its originally assessed standard of performance, the expenditure is capitalised as an additional cost of the fixed asset.

Depreciation is calculated on the straight-line basis at annual rates estimated to write off the cost of each asset over its expected useful life with no expected residual values. Land use rights are depreciated over the remaining period of the respective lease. The annual rates are as follows:

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

The useful lives of assets and depreciation method are reviewed periodically.

When the fixed assets are sold or retired, their cost and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is included in the income statement.

i. 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 as the assets are completed and ready for their intended use.

j. Impairment of assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised in income for items of assets carried at cost. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of the asset in an arm's length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of the asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

j. Impairment of assets (Continued)

Reversal of impairment losses recognised in prior years is recorded when the impairment losses recognised for the asset no longer exist or have decreased. The reversal is recorded in the income statement.

k. Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, calculated on the weighted average basis, comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

l. Provisions

A provision is recognised when an enterprise has a present obligation, legal or constructive, as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

m. Contingencies

Contingent liabilities are not recognised in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

n. Operating leases

Leases of assets under which substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases. Rental payments under operating leases are recognised as an expense on a straight-line basis over the lease term.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

o. Foreign currency transactions

The Company maintains its books and records in Chinese Renminbi ("RMB"). Transactions in other currencies are translated into RMB at the applicable exchange rates in effect at the time of the transactions. Monetary assets and liabilities denominated in other currencies at the balance sheet date are translated into RMB at exchange rates prevailing at that date. All exchange differences are recognised in the income statement in the period in which they arise.

p. Accounts receivable and other receivables

Accounts receivable and other receivables are stated at their costs, net of provision for doubtful debts.

q. Cash and cash equivalents

Cash represents cash on hand and deposits with banks which are repayable on demand.

Cash equivalents represent short-term, highly liquid investments which are readily convertible into known amounts of cash with original maturities of three months or less and that are subject to an insignificant risk of change in value.

r. Subsequent events

Post-year-end events that provide additional information about the Company's position at the balance sheet date or those that indicate the going concern assumption is not appropriate (adjusting events) are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

s. Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in Hong Kong requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

t. Segments

The Company has only one business segment. Financial information on geographical segments is presented in Note 4.

3. 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.

a. Significant transactions with related parties are as follows:

I.

	2001 RMB'000	2000 RMB'000
Administrative expenses charged by Guangyu Group Co. Ltd. ("Guangyu") (光宇集團有限公司)* (Note i)	6,101	11,908
Disposal of fixed assets to Guangyu (Note ii)	7,245	—

Note i: The administrative expenses charged by Guangyu to the Company mainly consist of the following items:

- Salaries and welfare expenses of administrative personnel employed by Guangyu who worked for the Company
- Depreciation expense of fixed assets of Guangyu used by the Company
- Expenses related to a fleet of motor vehicles and their drivers for transportation purposes
- Advertising and business development expenses incurred on the Company's behalf

These expenses were charged by Guangyu to the Company on a cost reimbursement basis. 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.

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.

II. During the year, the Company occupied the office premise owned by Guangyu at no consideration.

III. The majority of the infrastructure and construction works of the Company's plant and buildings were performed by Number Five Construction Company of Shaoxing County ("NFCC") (紹興縣第五建築工程有限公司)**. The construction costs were determined based on various official construction work price standards set by the provincial government in Zhejiang Province, the PRC. Related construction contracts dated 5 November 1998 and 5 November 2000 were entered into between the two parties and the contract values were RMB50,000,000 and RMB65,000,000, respectively. On 20 September 2001, a supplementary agreement to the second contract was also entered into between the Company and NFCC stating that the final consideration of this construction contract should not be more than 115 per cent of the original consideration ("CAP"). All the construction costs for these two contracts were fully paid to NFCC during the year without exceeding the CAP.

3. RELATED PARTY TRANSACTIONS (Continued)

a. (Continued)

IV. Certain of the Company's bank loans amounting to RMB42,500,000 as at 31 December 2000 were guaranteed by Guangyu. In October 2001, the guarantees on the then outstanding balances amounting to RMB32,500,000 were released by the lenders and the corresponding amounts of these loans were secured by land use rights, plant and buildings and machinery and equipment of the Company (see Note 26).

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.

b. Receivables from/Payables to related parties are as follows:

	2001 RMB'000	2000 RMB'000
Receivables from:		
— Zhejiang Hua Qiang Qiang Di Zhuan Co. Ltd. ("Hua Qiang") (浙江華強牆地磚有限公司)***	—	95,210
— Mr. Feng, the major shareholder and director of the Company	—	809
Payables to:		
— Guangyu	—	29,632
— NFCC	—	27,648
	—	57,280

	Maximum balance of receivables from related parties during the years ended	
	2001 RMB'000	2000 RMB'000
— Hua Qiang	104,603	95,210
— NFCC	480	50,836
— Mr. Feng	809	21,559
— Guangyu	50,005	—

3. RELATED PARTY TRANSACTIONS (Continued)

b. (Continued)

All balances with related parties were non-trade in nature and they were unsecured, non-interest bearing and had no fixed repayment dates. On 17 August 2001, the Company entered into an agreement with all related parties to transfer all of their outstanding current account balances with the Company to Guangyu. The net outstanding balance due from the related parties was fully settled in cash by Guangyu in the same month.

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

** NFCC is 93% owned by Mr. Feng.

*** Hua Qiang is a Sino-foreign equity joint venture and is 75% indirectly owned by NFCC.

4. 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 year, approximately all (2000 — 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 2001					
	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	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	233,446	66,942	16,442	38,557	5,931	361,318
Unallocated expenses, net						(35,267)
Profit before tax						326,051
Income tax expense						(113,986)
Net profit for the year						212,065

4. SEGMENT INFORMATION (Continued)

	Year ended 31 December 2000					
	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	365,739	104,859	13,437	14,562	2,072	500,669
Cost of sales	(161,981)	(46,441)	(5,951)	(6,449)	(918)	(221,740)
Gross profit	203,758	58,418	7,486	8,113	1,154	278,929
Unallocated expenses, net						(31,102)
Profit before tax						247,827
Income tax expense						(84,442)
Net profit for the year						163,385

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

5. TURNOVER AND OTHER REVENUE

Turnover and other revenue consist of:

	2001 RMB'000	2000 RMB'000
Turnover — Sale of glass products	703,614	506,649
Less: Sales taxes and surcharges	(7,525)	(5,980)
Turnover, net	696,089	500,669
Sale of by-products	562	233
Total turnover and other revenue	696,651	500,902

6. PROFIT BEFORE TAX

Profit before tax was determined after charging and crediting the following:

	2001 RMB'000	2000 RMB'000
Charging —		
Cost of inventories, excluding staff costs and depreciation of fixed assets	275,319	177,522
Staff costs (excluding directors' emoluments)		
— salaries and wages	21,957	8,187
— provision for employee welfare	2,320	1,199
— contributions to a State-sponsored retirement plan (Note 8)	2,083	1,228
	26,360	10,614
Bad debts written-off	3	118
Depreciation of fixed assets	46,954	33,604
Loss on disposal of fixed assets	219	—
Write-off of obsolete packaging materials	1,553	—
Interest expense on bank loans and other borrowings wholly repayable within five years	6,863	13,629
Auditors' remuneration	1,900	—
Crediting —		
Interest income on bank deposits	1,674	276

7. DIRECTORS', SUPERVISORS' AND FIVE HIGHEST PAID INDIVIDUALS' EMOLUMENTS

a. Details of directors' emoluments pursuant to Section 161 of the Companies Ordinance are set out below:

	2001 RMB'000	2000 RMB'000
Non-executive directors		
— Fees	—	—
— Other emoluments	—	—
Executive directors		
— Fees	—	—
— Salaries and allowances	813	503
— Pension scheme contributions	92	85
— Bonuses	—	—
	905	588

The emoluments of the directors analysed by the number of directors and emolument ranges were as follows:

	2001	2000
Up to RMB1,060,000 (equivalent to HK$1,000,000)	5	5

No directors waived any emoluments during the year (2000 — Nil). No incentive payment for joining the Company nor compensation for loss of office was paid or payable to any directors during the year (2000 — Nil).

b. Details of supervisors' emoluments are as follows:

	2001 RMB'000	2000 RMB'000
Salaries and allowances	313	—
Pension scheme contributions	34	—
Bonuses	—	—
Others	—	—
	347	—

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, no emoluments were paid to the supervisors as inducement to join or upon joining the Company or as compensation for loss of office (2000 — Nil).

7. DIRECTORS', SUPERVISORS' AND FIVE HIGHEST PAID INDIVIDUALS' EMOLUMENTS (Continued)

c. Details of five highest paid individuals' emoluments (including directors, supervisors and employees) are as follows:

The five highest paid individuals consisted of:

	2001	2000
Number of directors	3	3
Number of supervisors	—	—
Number of employees	2	2
	5	5

The details of emoluments paid to the five highest paid individuals who were directors of the Company during the year have been included in Note 7(a) above. Details of emoluments paid/payable to the highest paid non-director individuals are:

	2001 RMB'000	2000 RMB'000
Salaries and allowances	276	174
Pension scheme contributions	33	30
Bonuses	—	—
Others	—	—
	309	204

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 (2000 — Nil).

8. 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 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 year, the Company's retirement plan contributions amounted to approximately RMB2,175,000 (2000 — RMB1,313,000).

9. INCOME TAX EXPENSE

a. Current profits tax

	2001 RMB'000	2000 RMB'000
Hong Kong profits tax (i)	—	—
PRC Enterprise Income Tax (ii)	113,986	84,633
Reversal of deferred tax liabilities	—	(191)
	113,986	84,442

(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 2001 (2000 — Nil).

10. DIVIDENDS

	2001 RMB'000	2000 RMB'000
Dividends paid:		
— Final dividends for the year 2000 (no per share data)	—	30,750
Dividends proposed:		
— Final dividends for the year 2001 of RMB0.0491 per ordinary share (2000 — Nil)	28,415	—

The final dividends for fiscal year 2000 were declared and paid to the then shareholder of the Company prior to 31 December 2000. RMB20,750,000 of the dividends declared was utilised to offset against the advances made by the Company to the major shareholder/director of the Company up to 31 December 2000 and the remaining RMB10,000,000 was paid in cash.

Pursuant to a resolution of the Board of Directors on 15 April 2002, a final dividend of RMB0.0491 per share for the year ended 31 December 2001 will be paid to the shareholders who appear in the share register on 30 April 2002.

The 2001 final dividends proposed after balance sheet date but before the financial statements approval date were not recognised as a liability as at the balance sheet date.

11. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the net profit for the year of approximately RMB212,065,000 (2000 — RMB163,385,000) divided by the weighted average number of ordinary shares in issue during the year of 412,300,559 shares (2000 — 400,000,000 shares). In determining the weighted average number of shares in issue in 2001 and 2000, 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 2000.

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

12. FIXED ASSETS AND CONSTRUCTION-IN-PROGRESS

Movements in fixed assets during the year are:

	2001					2000
	Land use rights	Plant and buildings	Machinery and equipment	Furnaces	Total	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost						
Beginning of year	—	174,596	237,521	114,015	526,132	283,683
Additions	14,172	—	11,546	—	25,718	7,679
Transfer from deposits for fixed assets and construction-in-progress ("CIP")	12,064	—	—	—	12,064	—
Transfer from CIP	—	1,107	—	—	1,107	234,770
Disposal	(661)	(8,965)	—	—	(9,626)	—
End of year	25,575	166,738	249,067	114,015	555,395	526,132
Accumulated depreciation						
Beginning of year	—	19,218	58,029	32,566	109,813	76,209
Charge for the year	171	7,026	23,796	15,961	46,954	33,604
Disposal	—	(2,162)	—	—	(2,162)	—
End of year	171	24,082	81,825	48,527	154,605	109,813
Net book value						
End of year	25,404	142,656	167,242	65,488	400,790	416,319
Beginning of year	—	155,378	179,492	81,449	416,319	207,474

12. FIXED ASSETS AND CONSTRUCTION-IN-PROGRESS (Continued)

As at 31 December 2001, certain land use rights, plant and buildings and machinery and equipment with aggregate value of approximately RMB56,020,000 (2000 — RMB10,260,000) were pledged as security for certain bank loans of the Company (see Note 26).

All the land, plant and buildings of the Company are located in the PRC. In August 2001, the Company obtained the related real estate ownership certificates. The Company paid (through NFCC prior to its incorporation) certain compensation of approximately RMB8,263,000 to the local government for the use of certain agricultural land on which the Company's properties are located. Additional payments of approximately RMB3,801,000 were made by the Company up to the year ended 31 December 2000 for the same purpose. These payments were a partial settlement of the consideration for the formal land use rights and they were recorded as deposits for fixed assets and construction-in-progress on the balance sheet as at 31 December 2000. In August 2001, the Company successfully obtained the 50-year land use right certificates of the land from the relevant authority and an additional consideration amounting to approximately RMB14 million was paid by the Company. The aggregate amount of the deposits and additional consideration paid were recorded as fixed asset additions and transfer from deposits for fixed assets and construction-in-progress in 2001.

Movements in CIP during the year are:

	2001 RMB'000	2000 RMB'000
Beginning of year	361	42,200
Additions	185,439	192,931
Transfer from deposits for fixed assets and construction-in-progress	7,463	—
Transfer to fixed assets	(1,107)	(234,770)
End of year	192,156	361

The CIP as at 31 December 2001 mainly represents construction expenditures incurred on plant and buildings located in the PRC and production machinery and equipment for a new special glass production line (the "Production Line"). As further explained in Note 27, the Production Line will be acquired by a subsidiary company jointly formed by the Company with a third party company pursuant to the terms of a joint venture agreement and its supplementary agreement.

There was no capitalisation of borrowing costs during the year (2000 — Nil).

13. DEPOSITS FOR FIXED ASSETS AND CONSTRUCTION-IN-PROGRESS

During the year, the Company paid compensation of approximately RMB561,000 to the local government for the use of certain additional agricultural land for the construction of several new glass production lines. This payment was a partial settlement of the consideration for the formal land use rights and it was recorded as deposits for fixed assets and construction-in-progress on the balance sheet before the land use right certificates are obtained. Please refer to Note 12 for details of the prepayments for land use rights as at 31 December 2000.

14. INVENTORIES

	2001 RMB'000	2000 RMB'000
Raw materials	16,287	12,546
Finished goods	1,380	3,715
Packaging materials	838	1,700
Others	549	464
	19,054	18,425

As at 31 December 2001, none of the above inventories were carried at net realisable value (2000 — Nil).

Because of the short duration of the production cycle, no work-in-progress was recognised as at 31 December 2001 (2000 — same).

15. PREPAYMENTS, DEPOSITS AND OTHER CURRENT ASSETS

	2001 RMB'000	2000 RMB'000
Prepayment for raw material purchases	2,771	4,423
Others	6,536	2,369
	9,307	6,792

16. ACCOUNTS RECEIVABLE

The aging analysis of accounts receivable is set out below:

	2001 RMB'000	2000 RMB'000
Current to under 6 months	1,488	6,459
6 to under 12 months	—	83
1 to under 2 years	—	127
2 to under 3 years	—	111
3 years and over	—	4
Accounts receivable, gross and net	1,488	6,784

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.

17. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

As at 31 December 2001, cash and cash equivalents of the Company denominated in RMB amounting to approximately RMB223,457,000 (2000 — RMB89,380,000). 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 a bank as security against the issuance of certain letters of credit by that bank on behalf of the Company (see Note 26).

18. SHARE CAPITAL

	2001 Number of shares	2000 Number of shares (Note (i))	2001 Nominal value RMB'000	2000 Nominal value RMB'000 (Note (i))
Authorised:				
Ordinary shares of RMB1 each	578,713,000	Not applicable	578,713	50,000
Issued and fully paid:				
Domestic shares of RMB1 each	400,000,000	Not applicable	400,000	50,000
H shares of RMB1 each	178,713,000	Not applicable	178,713	—
	578,713,000	Not applicable	578,713	50,000

18. SHARE CAPITAL (Continued)

The following changes in the Company's share capital took place during the year:

(i) The share capital as at 31 December 2000 represented the registered capital of the Company of RMB50 million which was fully paid-up. As a result of the reorganisation of the Company into a joint stock limited company on 19 September 2001, the authorised share capital of the Company became RMB400,000,000, divided into 400,000,000 domestic shares of RMB1 each. At the same time, all the 400,000,000 domestic shares were issued to the promoters of the Company at RMB1 each by capitalising the retained profits and reserves of the Company at RMB350 million as at 31 May 2001 and the conversion of the original registered capital of RMB50 million.

(ii) On 26 November 2001, the Board of Directors further resolved to increase the authorised share capital from RMB400,000,000 to RMB570,000,000 by the creation of 170,000,000 H shares with par value of RMB1 each, with an over-allotment option for an additional issuance of shares up to 25,500,000 H shares (the "Option"). On 10 December and 20 December 2001, 170,000,000 and 8,713,000 (through exercising the Option) H shares were issued, respectively, to the public including certain institutional investors at a price of HK$2.96 (equivalent to RMB3.136) per share. The two issuances raised aggregate net proceeds of approximately HK$499,084,000 (equivalent to approximately RMB528,779,000) after deducting related share issue expenses of approximately HK$29,907,000 (equivalent to approximately RMB31,686,000).

Movements in share capital during the year are as follows:

	2001	2000	2001	2000
	Number of shares		Nominal value	
			RMB'000	RMB'000
Balance, beginning of year	50,000,000	50,000,000	50,000	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 19)	350,000,000	—	350,000	—
— H shares issued to the public including institutional investors	178,713,000	—	178,713	—
Balance, end of year	578,713,000	50,000,000	578,713	50,000

19. 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
As at 1 January 2000	—	10,193	10,192	81,540	101,925	—
Net profit for the year	—	—	—	163,385	163,385	—
Appropriation to statutory reserves	—	16,338	16,339	(32,677)	—	—
Dividends paid (Note 10)	—	—	—	(30,750)	(30,750)	—
As at 31 December 2000	—	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 18(i))	—	(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)	—	—
Issuance of H shares	381,752	—	—	—	381,752	—
Share issue expenses	(31,686)	—	—	—	(31,686)	—
Proposed dividends (Note 10)	—	—	—	(28,415)	(28,415)	28,415
As at 31 December 2001	350,066	9,662	9,663	48,885	418,276	28,415

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. In current year, the appropriation to reserves were made pursuant to the requirements stated above.

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

19. RESERVES AND PROPOSED DIVIDENDS (Continued)

(iii) distribution of dividends.

During the years ended 31 December 2001 and 31 December 2000, 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.

The unappropriated profit available for distribution to shareholders as at 31 December 2001 was approximately RMB48,885,000 (2000 — RMB181,498,000).

20. ACCOUNTS PAYABLE

The aging analysis of accounts payable is set out below:

	2001 RMB'000	2000 RMB'000
Current to under 6 months	11,294	61,528
6 to under 12 months	702	3,784
1 to under 2 years	10,602	1,372
2 to under 3 years	323	635
3 years and over	111	16,029
	23,032	83,348

21. ACCRUALS AND OTHER PAYABLES

	2001 RMB'000	2000 RMB'000
Accrued operating expenses	8,553	4,629
Accrued staff costs and bonuses	18,576	14,050
PRC individual income tax payable and other surcharges	5,186	4,463
Deposits received from customers for delivery equipment	19,188	10,823
Accrued costs for construction-in-progress	27,739	—
Others	3,614	4,186
	82,856	38,151

22. BORROWINGS

	2001 RMB'000	2000 RMB'000
i. Secured bank loans		
— amounts wholly repayable within 1 year	5,000	24,907
— amounts wholly repayable between 1 to 2 years	40,180	5,000
— amounts wholly repayable between 2 to 5 years	—	69,680
— amounts wholly repayable beyond 5 years	—	—
	45,180	99,587
Less: amounts repayable within 1 year (included in current liabilities)	(5,000)	(24,907)
Long-term portion	40,180	74,680

ii. The short-term bank loans as at 31 December 2000 were secured and interest bearing at commercial rates, and were fully repaid in 2001.

	2001 RMB'000	2000 RMB'000
iii. Other short-term borrowings		
— advance from a non-financial institution	—	19,500
— advance from an environmental protection authority	2,000	2,000
	2,000	21,500

As at 31 December 2001, other short-term borrowings represented an advance from an environmental protection authority in the PRC, which was unsecured, non-interest bearing and repayable upon demand.

Please refer to Note 26 for details of guarantees and security for the Company's banking facilities.

23. TAXES PAYABLE

Taxes payable consists of:

	2001 RMB'000	2000 RMB'000
PRC Enterprise Income Tax	4,991	11,706
PRC value-added tax (Note a)	(536)	4,867
Other taxes payable	650	3,013
	5,105	19,586

23. TAXES PAYABLE (Continued)

(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.

24. NOTES TO THE CASH FLOW STATEMENT

a. Reconciliation of profit before tax to cash generated from operations:

	2001 RMB'000	2000 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	326,051	247,827
Adjustments for:		
Interest income	(1,674)	(276)
Interest expense	6,863	13,629
Depreciation of fixed assets	46,954	33,604
Loss on disposal of fixed assets	219	—
Operating profit before working capital changes	378,413	294,784
Increase in inventories	(629)	(2,572)
Increase in prepayments, deposits and other current assets	(2,515)	(2,903)
Decrease (Increase) in accounts receivable	5,296	(3,156)
Decrease in accounts payable	(26,690)	(7,372)
Increase in accruals and other payables	18,304	9,713
Increase in deposits and advance from customers	13,228	12,292
(Decrease) Increase in taxes payable	(7,766)	5,477
Net cash inflow from operating activities	377,641	306,263

24. NOTES TO THE CASH FLOW STATEMENT (Continued)

b. Analysis of changes in financing:

	Share capital and share premium RMB'000	Short-term bank loans RMB'000	Long-term bank loans RMB'000 (Note 22)	Advance from a non-financial institution RMB'000 (Note 22)	Advance to a shareholder/ director RMB'000 (Note 3)	Balances with related parties RMB'000 (Note 3)
Balance as at 1 January 2000	50,000	700	62,000	19,500	(21,559)	(17,236)
New proceeds	—	15,820	40,180	—	—	267,593
Repayments	—	(6,520)	(2,593)	—	—	(284,565)
Settlement of other receivable balance by offsetting amount payable to a related company	—	—	—	—	—	(3,722)
Settlement of advance to a shareholder by offsetting dividends declared (Note c)	—	—	—	—	20,750	—
Balance as at 31 December 2000	50,000	10,000	99,587	19,500	(809)	(37,930)
Repayments received	—	—	—	—	809	37,930
Repayments made	—	(10,000)	(54,407)	(19,500)	—	—
Capitalisation of reserves and retained profits as at 31 May 2001 (Note18(i))	350,000	—	—	—	—	—
Proceeds from issue of H shares	560,465	—	—	—	—	—
Share issue expenses	(31,686)	—	—	—	—	—
Balance as at 31 December 2001	928,779	—	45,180	—	—	—

c. **Non-cash transactions**

During 2000, the Company declared final dividends amounting to RMB30,750,000, of which RMB10,000,000 was paid in cash. The remaining amount of RMB20,750,000 was offset against the advance to a shareholder/director.

25. 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:

	2001 RMB'000	2000 RMB'000
Authorised and contracted for:		
Acquisition of machinery and equipment	69,937	136,440
Construction of factory premises by:		
— NFCC	—	65,000
— Other third party companies	15,000	5,412
	84,937	206,852
Authorised but not contracted for:		
Additional consideration for land use rights	—	14,172
Construction and acquisition of fixed assets of proposed new processed glass production lines	313,000	—
	313,000	14,172
Total commitments	397,937	221,024

(ii) Please refer to Note 27 regarding the Company's investment in a subsidiary company.

26. BANKING FACILITIES

The Company has aggregate banking facilities as follows:

	2001 RMB'000	2000 RMB'000
Loan facilities	56,020	109,587
Letters of credit	1,258	4,000
	57,278	113,587

Unutilised facilities as at 31 December 2001 were approximately RMB10,840,000 (2000 — Nil).

The loan facilities as at 31 December 2000 were guaranteed by Guangyu and a third party enterprise (the "Guarantees") and secured by certain machinery and equipment of the Company with an aggregate value of approximately RMB10,260,000 as at 31 December 2000. The Guarantees were released by the lenders in October 2001 and the loan facilities were in turn secured by certain land use rights, plant and buildings and machinery and equipment of the Company with an aggregate value of approximately RMB56,020,000 as at 31 December 2001 (see Note 12).

Letters of credit issued by a bank on behalf of the Company were secured by the pledged deposits amounting to RMB1,258,000 as at 31 December 2001 (2000 — RMB4,000,000) (see Note 17).

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 the Production Line (mentioned in Note 12) 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 the year.

The details of the capital contributions to be fulfilled by the two joint venture partners are as follows:

Joint venture partner	Proportion of contribution	Amount of contribution USD'000	Form of contribution
The Company	75%	22,463	Cash
Dynamic	25%	7,487	Cash
		29,950	

Both joint venture partners agreed that the EJV would acquire from the Company all the relevant CIP and fixed assets relating to the Production Line owned by the Company upon the formal establishment of the EJV. The consideration will be determined at the lower of cost and net book value of the relevant assets as at the date of the transfer. As at 31 December 2001, both parties had not contributed their respective capital into the EJV.

Subsequent to year end, the Board of Directors of the Company began to reconsider the mode of the EJV and the Production Line as well as the relevant approval to be obtained from the respective PRC authorities to effectuate such changes. Up to the date of the financial statements, no decision has been made by the Board of Directors consider that such changes will not lead to any adverse impact on the operations and financial position of the Company.

28. CONTINGENT LIABILITIES

There were no contingent liabilities of the Company as at 31 December 2001. As at 31 December 2000, the Company had issued letters of credit of RMB4,000,000 to certain vendors and the amount was not recorded as a liability of the Company.

29. SUBSEQUENT EVENTS

Save as disclosed in the above notes, apart from the Company obtained a Sino-foreign Joint Stock Company business license on 26 February 2002, no other significant transactions took place subsequent to 31 December 2001 and up to the date of approval of the financial statements.

30. APPROVAL OF FINANCIAL STATEMENTS

The financial statements (set out on pages 20 to 48) were approved and authorised for issue by the Board of Directors on 15 April 2002.