Notes to the Consolidated Financial Statements

For the year ended 31 December 2005
(Amounts expressed in Chinese Renminbi)

1. GENERAL INFORMATION, ORGANISATION AND OPERATIONS

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

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

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

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

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

The address of the registered office is Yangxunqiao Township, Shaoxing County, Zhejiang Province, the PRC.

The Company is principally engaged in the manufacturing and selling of glass products. The activities of the subsidiaries are set out in note 20.

These consolidated financial statements are presented in Chinese Renminbi, unless otherwise stated. These consolidated financial statements have been approved by the Board of Directors on 27 April 2006.

2. BASIS OF PREPARATION – GOING CONCERN ASSUMPTION

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). One underlying assumption under HKFRS is that the financial statements are prepared on the assumption that an entity is a going concern and will continue in operation for the foreseeable future.

As of 31 December 2005, the Group had net current liabilities of approximately RMB1,940 million. This condition indicates the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

Notes to the Consolidated Financial Statements (cont'd)

For the year ended 31 December 2005
(Amounts expressed in Chinese Renminbi)

2. BASIS OF PREPARATION – GOING CONCERN ASSUMPTION (continued)

Nevertheless, the Directors had adopted the going concern basis in the preparation of the financial statements of the Company and the Group based on the following assumptions and conditions:

1. The Group will succeed in negotiating with its bankers to roll over the outstanding bank loans and/or to extend their repayment terms to meet its future working capital and financial requirements. As disclosed in Note 27, certain bank loans, with which the Group largely finances its capital expenditures, are due for repayment in 2006. Subsequent to 31 December 2005, approximately RMB120 million of these loans had been rolled over for twelve months further and none of these banks has withdrawn their facilities granted to the Group. In addition, certain other banks have advised their intention in writing, though not legally binding, to further extend the loans for another period of twelve months when they fall due in 2006 after the date of approval of these financial statements.

2. The Group has been actively exploring the availability of alternative sources of long term financing in order to re-finance its existing short term bank loans (the "Loan Refinancing"). As at the date of approval of the financial statements, the Group had under negotiation with two foreign financial institutions for long term loan facilities amounting to an aggregate amount of approximately US$68 million (equivalent to approximately RMB544 million) for the Loan Refinancing and the directors are confident that definite agreements would be reached within 2006 with the relevant funding obtained from these two institutions.

3. The Group is expected to derive sufficient operating cash flow in 2006 from its existing flat glass products, its newly launched soda ash products after the commercial operations of its soda ash plant located in Qinghai in late 2005, as well as from the sales of ultra thin glass products which are manufactured from a new production line expected to be put into operation around the end of the second quarter of 2006.

In addition, the directors would take relevant measures in 2006 in order to control the cash flow of the Group, such as closely monitoring the expected cash outlays on the existing production line construction projects, and the capital expenditure to be incurred on repair and maintenance; and reducing the dividend pay-out ratio for 2005 and 2006.

In light of the measures undertaken and the assumptions and conditions adopted in the preparation of cash flow projection of the Group of 2006, the directors are confident that the Group will have sufficient working capital to finance its operations in order to maintain its operating scale in the next twelve months from the balance sheet date. Accordingly, the Directors are satisfied that it is appropriate to prepare the financial statements of the Company and the Group on a going concern basis. The financial statements do not include any adjustments relating to the carrying amount and reclassification of assets and liabilities that might be necessary should the Group be unable to continue as a going concern.

Notes to the Consolidated Financial Statements (cont'd)

For the year ended 31 December 2005
(Amounts expressed in Chinese Renminbi)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise related.

The consolidated financial statements of the Group have been prepared under the historical cost convention.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 5.

The adoption of new/revised HKFRS

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

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

Notes to the Consolidated Financial Statements (cont'd)

For the year ended 31 December 2005
(Amounts expressed in Chinese Renminbi)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Basis of preparation

The adoption of new/revised HKASs 1, 2, 7, 8, 10, 16, 21, 23, 24, 27, 33 and 36 did not result in substantial changes to the Group's accounting policies. In summary:

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

– HKASs 2, 7, 8, 10, 16, 23, 24, 27, 33 and 36 had no material effect on the Group's policies.

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

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

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

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

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards. All standards adopted by the Group require retrospective application other than HKAS 39, which does not permit to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on a retrospective basis.

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2006 or later periods as follows.

HKAS 19 (Amendment)	Employee Benefits
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKAS 39 and HKFRS 4 (Amendment)	Financial Guarantee Contracts

Notes to the Consolidated Financial Statements (cont'd)

For the year ended 31 December 2005
(Amounts expressed in Chinese Renminbi)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Basis of preparation (continued)

HKFRS 1 (Amendment)	First-time Adoption of Hong Kong Financial Reporting Standards
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS 7	Financial Instruments: Disclosures
A complementary Amendment to HKAS 1	Presentation of Financial Statements – Capital Disclosures
HKFRS-Int 4	Determining whether an Arrangement contains a Lease
HKFRS-Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment

The Group has not early adopted such standards, amendments and interpretations. The Group has already commenced an assessment of the impact of these new standards, amendments and interpretations but is not yet in a position to state whether they would have a significant impact on its results of operations and financial position.

(b) Consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries made up to 31 December.

(i) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted by the Company on the basis of dividend received and receivable.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

(d) Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

Translation difference on non-monetary financial assets, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

(iii) Group companies

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

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

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

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

Notes to the Consolidated Financial Statements (cont'd)

For the year ended 31 December 2005
(Amounts expressed in Chinese Renminbi)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Foreign currency translation (continued)

(iii) Group companies (continued)

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, exchange differences that were recorded in equity are recognized in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(e) Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the income statement during the financial period in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate costs to their residual values over their estimated useful lives. The principal annual rates are as follows:

Plant and Buildings	4%
Machinery and Equipment	10%
Furnaces	12.5% – 16.67%
Motor Vehicles	10%
Office Equipment	20%

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

Notes to the Consolidated Financial Statements (cont'd)

For the year ended 31 December 2005
(Amounts expressed in Chinese Renminbi)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Construction-in-progress

Construction-in-progress is stated at cost, which includes cost of constructions, machinery and equipment and other direct costs (including borrowing costs) capitalised during the construction and installation period, less accumulated impairment losses.

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

(g) Intangible assets

Technical know-how

Technical know-how is carried at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost of technical know-how over its estimated useful lives of 10 years.

Exploration rights

Exploration rights are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost over their contractual or legal terms.

(h) Impairment of assets

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

(i) Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Costs of inventories include the transfer from equity of any gains/losses on qualifying cash flow hedges relating to purchases of raw materials.

Notes to the Consolidated Financial Statements (cont'd)

For the year ended 31 December 2005
(Amounts expressed in Chinese Renminbi)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Trade and other receivables

Trade and other receivables are recognized initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognized in the income statement.

(k) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

(l) Borrowings

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

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

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

(m) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and jointly controlled entities, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Notes to the Consolidated Financial Statements (cont'd)

For the year ended 31 December 2005
(Amounts expressed in Chinese Renminbi)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) 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 government-sponsored pension plans for the Group's employees in the PRC are made monthly to these pension plans based on 17% of the basic salary of these employees, of which the entire portion is borne by the Group. The government agency is responsible for the pension liabilities relating to these employees upon their retirement. The Group accounts for these contributions on an accrual basis and the costs of the benefits are recognised as an expense in the period in which they are incurred.

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

The Group's contributions to the defined contribution retirement scheme are expensed as incurred and are not reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions.

(o) Provisions

Provisions for environmental restoration, restructuring costs and legal claims are recognized when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

Notes to the Consolidated Financial Statements (cont'd)

For the year ended 31 December 2005
(Amounts expressed in Chinese Renminbi)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group. Sales of goods are recognized when a Group entity has delivered products to the customer, the customer has accepted the products and collectibility of the related receivables is reasonably assured.

Interest income is recognized on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognized using the original effective interest rate.

(q) Government grants

Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognized in the income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred government grants and are recognized in the income statement on a straight line basis over the expected lives of the related assets.

(r) Leases (as the lessee)

(i) Operating lease

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged in the income statement on a straight-line basis over the period of the lease.

(ii) Finance lease

Leases of assets where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in current and non-current borrowings. The interest element of the finance costs is recognized in the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Notes to the Consolidated Financial Statements (cont'd)

For the year ended 31 December 2005
(Amounts expressed in Chinese Renminbi)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Dividend distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

4. FINANCIAL RISK MANAGEMENT

(a) Foreign exchange risk

The Group's principal sales and operations are transacted in the PRC and recorded in Renminbi. The Group's assets and liabilities are mainly denominated in Renminbi. Non-Renminbi denominated assets and liabilities are not material relative to the Group's total assets and liabilities. Accordingly, the directors consider that the foreign exchange risk is low and Group had neither engaged in any derivative activities nor committed to any financial instruments to hedge its balance sheet exposures.

(b) Credit risk

The Group currently sells substantially all its glass products in the Mainland China domestic market. Cash on delivery is required for most customers buying the Group's normal flat glass products. Credit is granted for a period of up to twelve months to most customers buying the Group's processed glass products and to a limited range of customers buying the Group's flat glass products. An assessment is made based on the financial conditions and past payment history of these customers with the approval of top management. As at 31 December 2005, the five largest debtors accounted for 52% of total accounts receivable balances of the Group.

The directors are of the view that the customers with outstanding balances outstanding as at 31 December 2005 amounting to approximately RMB129 million were all existing customers of the Group and/or reputable companies in the industry, the risk of credit default is considered to be low and accordingly, the provision for doubtful debts as at 31 December 2005 amounting to approximately RMB683,000 is considered adequate to hedge against potential credit risk.

(c) Liquidity risk

The Group has been investing in the construction of its soda ash production line and certain processed glass production lines and a major portion of the financing was obtained from short-term bank loans. As a result, the Group recorded a net current liability position as at 31 December 2005 in the amount of approximately RMB1,940 million. Nevertheless, the Group has not experienced any problems in renewing its short-term bank loans upon their maturity.

As described in Note 2, the directors of the Company have undertaken the following actions and procedures to reduce the liquidity risks of the Group and the Company, including:

– obtaining written indication from various banks on renewing or extending the existing short term loans as and when they fall due;

– active identification of new source of long term bank financing in order to re-finance its existing short-term loans;

Notes to the Consolidated Financial Statements (cont'd)

For the year ended 31 December 2005
(Amounts expressed in Chinese Renminbi)

4. FINANCIAL RISK MANAGEMENT (continued)

(c) Liquidity risk (continued)

– close monitoring process undertaken to control the magnitude and timing of the expected cash outlays associated with the ongoing production line construction projects and the dividend pay-out ratio.

The directors are of the view that these control measures would be adequate to contain the liquidity risk to an acceptable level.

(d) Cash flow and fair value interest rate risk

The Group's interest-rate risk arises from interest-bearing borrowings, which include both long-term and short-term bank loans. Borrowings issued at variable rates expose the Group to cash flow interest-rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. As at 31 December 2005, substantially all borrowings of the Group were at variable rates. The Group had neither engaged in any derivative activities nor committed to any financial instruments to hedge its interest rate risk exposure.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Going concern assumption in the preparation of the financial statements

Please refer to Note 2 for details of assumptions adopted by the directors of the Company for adopting the going concern basis in preparing the 2005 financial statements.

(ii) Indemnity from a related company and a substantial shareholder in compensating the Company against potential assets impairment loss

Please refer to Note 19 for details of undertaking and indemnity from a related company and the substantial shareholder, Mr. Feng, in compensating the Company against potential impairment loss associated with capital expenditures incurred on land use right deposits and production line construction amounting to approximately RMB193,000,000 as at 31 December 2005 in aggregate. The directors consider that the related company will have adequate financial resources, backed up by the substantial shareholder of the Company, to honour its obligations as and when required. Accordingly, no provision for impairment loss had been made in the financial statements of the Company and the Group as at and for the year ended 31 December 2005.

Notes to the Consolidated Financial Statements (cont'd)

For the year ended 31 December 2005
(Amounts expressed in Chinese Renminbi)

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(a) Critical accounting estimates and assumptions (continued)

(iii) Impairment loss assessment of construction projects put on hold

As described in Note 17, the directors performed impairment loss assessment on four glass production lines whose construction had been temporarily put on hold based on the results of valuation performed by a PRC valuer on these projects. The valuation basis was determined according to the estimated replacement costs and prevailing market prices of the facilities, machineries and equipment, and land use rights associated with these projects. As a result of such an assessment, the recoverable amounts of the assets relating to these projects were estimated to be higher than their respective carrying values as at 31 December 2005 of approximately RMB298 million. Accordingly, the directors conclude that no impairment loss had to be recognised for the year ended 31 December 2005.

6. TURNOVER, REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in the manufacturing and selling of glass and soda ash products. Revenues recognised during the year are as follows:

	2005 **RMB'000**	2004 RMB'000
Turnover – Sales of glass and soda ash products	**1,192,472**	1,209,337
Less: Sales taxes and surcharges	**(10,240)**	(11,591)
Turnover, net	**1,182,232**	1,197,746
Other revenue		
Service income	**498**	536
Sales of by-products	**2,666**	3,015
	3,164	3,551
Total revenues	**1,185,396**	1,201,297

Sales made to the top five customers during the year ended 31 December 2005 represent 19% (2004: 23%) of the total turnover during the year.

An analysis of the Group's segment information is as follows:

(a) Primary reporting format – business segments

The Group's business are conducted through two business segments

(1) Manufacturing and selling of glass products which has contributed substantially all of the revenue for the year; and

(2) Manufacturing and selling of soda ash which started in mid December 2005.

Notes to the Consolidated Financial Statements (cont'd)

For the year ended 31 December 2005
(Amounts expressed in Chinese Renminbi)

6. TURNOVER, REVENUE AND SEGMENT INFORMATION (continued)

(a) Primary reporting format – business segments (continued)

The segment results for the year ended 31 December 2005 are as follows:

	Glass Manufacturing RMB'000	Soda Ash Manufacturing RMB'000	Inter-segment elimination RMB'000	Group RMB'000
Sales – external	1,178,176	4,056	–	1,182,232
Segment result	209,418	(10,532)	7,251	206,137
Interest income				12,310
Unallocated expenses net				(4,499)
Operating profit				213,948
Finance costs				(89,288)
Profit before income tax				124,660
Income tax expense				(50,108)
Profit for the year				74,552
Assets	3,318,327	2,466,316	(3,159)	5,781,484
Liabilities				
Segment liabilities	209,448	885,725	(11,192)	1,083,981
Unallocated liabilities				3,267,958
				4,351,939
Other information				
Capital expenditure	475,313	1,429,082	–	1,904,395
Depreciation	164,435	6,000	–	170,435
Amortisation of land use rights and intangible assets	2,377	159	–	2,536

Notes to the Consolidated Financial Statements (cont'd)

For the year ended 31 December 2005
(Amounts expressed in Chinese Renminbi)

6. TURNOVER, REVENUE AND SEGMENT INFORMATION (continued)

(a) Primary reporting format – business segments (continued)

The segment results for the year ended 31 December 2004 are as follows:

	Glass Manufacturing RMB'000	Soda Ash Manufacturing RMB'000	Inter-segment elimination RMB'000	Group RMB'000
Sales – external	1,197,746	–	–	1,197,746
Segment result	386,663	(1,098)	–	385,565
Interest income				7,918
Unallocated expenses net				(2,841)
Operating profit				390,642
Finance costs				(56,249)
Profit before income tax				334,393
Income tax expense				(129,647)
Profit for the year				204,746
Assets	2,998,289	885,344	(3,700)	3,879,933
Liabilities				
Segment liabilities	384,939	444,979	3,700	833,618
Unallocated liabilities				1,667,131
				2,500,749
Other information				
Capital expenditure	487,755	730,048	–	1,217,803
Depreciation	133,502	–	–	133,502
Amortisation of land use rights and intangible assets	2,630	–	–	2,630

Notes to the Consolidated Financial Statements (cont'd)

For the year ended 31 December 2005
(Amounts expressed in Chinese Renminbi)

6. TURNOVER, REVENUE AND SEGMENT INFORMATION (continued)

(b) Secondary reporting format – geographical segments

Turnover, net	**2005**	2004
	RMB'000	RMB'000
Zhejiang province	**874,661**	833,832
Jiangsu province	**152,970**	116,196
Shanghai	**98,593**	166,735
Guangdong and Fujian provinces	**32,945**	61,170
Other regions	**23,063**	19,813
	1,182,232	1,197,746

Sales are based on the provinces and regions in which the customers are located.

Total assets	**2005**	2004
	RMB'000	RMB'000
Zhejiang	**3,318,327**	2,998,289
Qinghai	**2,466,316**	885,344
Inter-segment elimination	**(3,159)**	(3,700)
	5,781,484	3,879,933

Total assets are allocated based on where the assets are located.

Capital expenditure	**2005**	2004
	RMB'000	RMB'000
Zhejiang	**475,313**	487,755
Qinghai	**1,429,082**	730,048
	1,904,395	1,217,803

Capital expenditure is allocated based on where the assets are located.

Notes to the Consolidated Financial Statements (cont'd)

For the year ended 31 December 2005
(Amounts expressed in Chinese Renminbi)

7. OTHER GAINS – NET

	2005 **RMB'000**	2004 RMB'000
Interest income	**12,310**	7,918
Government grants (a)	**8,851**	–
Others	**66**	4,680
	21,227	12,598

(a) Cash subsidy income related to grants made by the Finance Bureau of Yanxunqiao Township, Shaoxing County to the Company in order to support the expansion of the Company and to finance the Company's staff costs and manufacturing overheads incurred during the year.

8. EXPENSES BY NATURE

Expenses included in cost of goods sold, distribution and selling expenses and administrative expenses are analysed as follows:

	2005 **RMB'000**	2004 RMB'000
Changes in inventories of finished goods and work in progress	**(15,294)**	(1,828)
Raw materials and consumables used	**755,757**	626,853
Staff costs (including directors' emoluments)		
– salaries, wages and related employee welfare expenses	**46,119**	36,898
– pension costs-state-sponsored retirement plan	**2,311**	1,404
– pension costs-defined contribution retirement scheme	**44**	13
	48,474	38,315
Depreciation of property, plant and equipment	**170,435**	133,502
Amortisation of land use rights and intangible assets	**2,536**	2,630
Loss on disposal of property, plant and equipment	**–**	3,010
Operating lease rental of office premises	**818**	895
Auditors' remuneration (statutory audit in the PRC and Hong Kong)	**2,996**	2,300
Exchange loss, net	**882**	286

Notes to the Consolidated Financial Statements (cont'd)

For the year ended 31 December 2005
(Amounts expressed in Chinese Renminbi)

9. FINANCE COSTS

	2005 **RMB'000**	2004 RMB'000
Interest expenses on:		
Bank loans wholly repayable within five years	**184,305**	67,723
Less: interest expenses capitalised under construction-in-progress (note 17)	**(96,243)**	(11,474)
	88,062	56,249
Charges on discounting of bills	**1,226**	–
	89,288	56,249

10. TAXATION

The amount of taxation charged to the consolidated income statement represents:

	2005 **RMB'000**	2004 RMB'000
Hong Kong profits tax (i)	**–**	–
PRC Enterprise Income Tax (ii)	**30,069**	110,016
Deferred taxation relating to the origination of temporary differences (note 32)	**20,039**	19,631
Taxation charge	**50,108**	129,647

(i) Hong Kong profits tax

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

(ii) PRC Enterprise Income Tax ("PRC EIT")

The Group is subject to Enterprise Income Tax of the PRC at a rate of 33% (2004: 33%) on its assessable profit.

Notes to the Consolidated Financial Statements (cont'd)

For the year ended 31 December 2005
(Amounts expressed in Chinese Renminbi)

10. TAXATION (continued)

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate of the home country of the Company as follows:

	2005 RMB'000	2004 RMB'000
Profit before taxation	**124,660**	334,393
Calculated at a taxation rate of 33% (2004: 33%)	**41,138**	110,349
Expenses not deductible for taxation purposes	**1,751**	1,424
Tax on deemed income arising from intragroup transactions	**3,479**	2,374
Unrecognised tax losses of subsidiaries	**3,740**	1,008
Provision for PRC EIT on subsidy income recognized in 2002 and 2003	**–**	14,323
Others	**–**	169
Taxation charge	**50,108**	129,647

11. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of approximately RMB62,397,000 (2004: RMB207,801,000).

12. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the Group's profit attributable to shareholders of approximately RMB74,072,000 (2004: RMB205,044,000) divided by the weighted average number of 578,713,000 ordinary shares in issue during the year (2004: same).

Fully diluted earnings per share has not been presented as there were no dilutive potential ordinary shares outstanding (2004: same).

Notes to the Consolidated Financial Statements (cont'd)

For the year ended 31 December 2005
(Amounts expressed in Chinese Renminbi)

13. DIVIDENDS

		2005 RMB'000	2004 RMB'000
Dividends paid:			
– Final dividends for the year 2003 of RMB0.0948 per ordinary share		**–**	54,862
– Interim dividends for the year 2004 of RMB0.056 per ordinary share		**–**	32,408
– Final dividends for the year 2004 of RMB0.0503 per ordinary share		**29,105**	–
– Interim dividends for the year 2005 of RMB0.0361 per ordinary share		**20,892**	–
		49,997	87,270
Dividends proposed:			
– No final dividends proposed for the year 2005 (2004: RMB0.0503 per ordinary share)	(note (i))	**–**	29,105

(i) At a board of directors' meeting held on 27 April 2006, the directors proposed not to declare any final dividend for the year of 2005.

14. STAFF COSTS (EXCLUDING DIRECTORS' EMOLUMENTS)

	2005 RMB'000	2004 RMB'000
Salaries, wages and related employee welfare expenses:		
– current year charges	**42,899**	34,096
Pension costs:		
– state-sponsored retirement plan	**2,091**	1,170
– defined contribution retirement scheme	**–**	13
	44,990	35,279

Notes to the Consolidated Financial Statements (cont'd)

For the year ended 31 December 2005
(Amounts expressed in Chinese Renminbi)

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

a. The emoluments of every Director and Supervisor for the years ended 31 December 2005 and 2004, are set out below:

		2005			As restated 2004
Name	**Fees RMB'000**	**Salary RMB'000**	**Pension scheme contributions RMB'000**	**Total RMB'000**	Total RMB'000
Director					
Feng Guangcheng	**–**	**501**	**85**	**586**	703
Xu Yujuan	**–**	**401**	**68**	**469**	465
Feng Luwen	**–**	**–**	**–**	**–**	–
Wang Yanchun	**–**	**217**	**37**	**254**	268
Hong Yumei	**–**	**175**	**30**	**205**	178
Chung Kwok Mo John (note i)	**–**	**1,500**	**44**	**1,544**	1,166
Wang Yanmou	**100**	**–**	**–**	**100**	100
Li Jun	**106**	**–**	**–**	**106**	106
Wang Herong	**100**	**–**	**–**	**100**	50
Su Gongmei (note ii)	**100**	**–**	**–**	**100**	–
Liu Jianguo	**10**	**–**	**–**	**10**	–
Shi Guodong	**10**	**–**	**–**	**10**	–
Supervisor					
Xu Yuxiang	**–**	**224**	**38**	**262**	267
Zhang Guoqing	**–**	**230**	**39**	**269**	269
Shen Guangjun	**–**	**194**	**33**	**227**	208
Ni Daoxin	**–**	**88**	**15**	**103**	34
Yang Kuang	**–**	**89**	**15**	**104**	98
Mao Junchun	**–**	**80**	**14**	**94**	95
Chen Baijin	**–**	**–**	**–**	**–**	–

Notes:

i. Appointed on 17 October 2005, include emoluments before the appointment

ii. Appointed on 12 March 2005

Notes to the Consolidated Financial Statements (cont'd)

For the year ended 31 December 2005
(Amounts expressed in Chinese Renminbi)

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

a. (continued)

During the year, five (2004: four) directors waived emoluments of approximately RMB1,306,000 (2004: RMB1,621,000). Neither incentive payment for joining the Company nor compensation for loss of office was paid or payable to any directors during the year (2004: nil).

During the year, four (2004: four) supervisors waived emoluments of approximately RMB1,252,000 (2004: RMB1,263,000). No emoluments were paid to the supervisors as inducement to join or upon joining the Company or as compensation for loss of office (2004: nil).

b. Five highest paid individuals

The five highest paid individuals consisted of:

	2005	2004
Number of directors	**3**	2
Number of supervisors	**–**	–
Number of employees	**2**	3
	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 a above. Details of emoluments paid or payable to the remaining two (2004: three) highest paid non-director individuals are:

	2005 **RMB'000**	2004 RMB'000
Salaries and allowances	**468**	1,097
Pension scheme contributions	**79**	112
Bonuses	**–**	–
Others	**–**	–
	547	1,209

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 (2004: nil).

Notes to the Consolidated Financial Statements (cont'd)

For the year ended 31 December 2005
(Amounts expressed in Chinese Renminbi)

16. INTANGIBLE ASSETS

Group	Technology know-how (note a)	Exploration rights (note b)	Total
Year ended 31 December 2004	RMB'000	RMB'000	RMB'000
Opening net book amount	5,958	–	5,958
Amortisation charge	(704)	–	(704)
Closing net book amount	5,254	–	5,254
At 31 December 2004			
Cost	6,500	–	6,500
Accumulated amortisation	(1,246)	–	(1,246)
Net book amount	5,254	–	5,254
Year ended 31 December 2005			
Opening net book amount	**5,254**	**–**	**5,254**
Addition	**–**	**6,020**	**6,020**
Amortisation charge	**(650)**	**(159)**	**(809)**
Closing net book amount	**4,604**	**5,861**	**10,465**
At 31 December 2005			
Cost	**6,500**	**6,020**	**12,520**
Accumulated amortisation	**(1,896)**	**(159)**	**(2,055)**
Net book amount	**4,604**	**5,861**	**10,465**

(a) The technical know-how was non-patented and contributed by a minority equity owner of a subsidiary at valuation of RMB6,500,000 as part of its capital contribution made upon the incorporation of such subsidiary, the amount is amortised over its estimated useful life of 10 years using the straight-line method.

(b) The amount included approximately RMB5,020,000 which was paid by Qinghai Soda Ash Company Limited ("QSAC"), a subsidiary of the Company, to a government authority in Qinghai, the PRC for the grant of a temporary mineral resources exploitation licence in order to facilitate QSAC in exploring chemical salt in Qinghai for its production needs. QSAC is currently under negotiation with the authority for the grant of a formal 50-year licence with the payment of additional consideration payable in cash ("Additional Consideration"). However, the formal grant of the licence and the amount of Additional Consideration had not been finalised as at the date of approval of the financial statements and the amount of the Additional Consideration could not be reasonably ascertained by the directors of the Company. Accordingly, no accrual had been made in the financial statements as at 31 December 2005.

Notes to the Consolidated Financial Statements (cont'd)

For the year ended 31 December 2005
(Amounts expressed in Chinese Renminbi)

17. PROPERTY, PLANT AND EQUIPMENT AND CONSTRUCTION-IN-PROGRESS

a. Movement of property, plant and equipment during the year is as follows:

	Group 2004 (restated)					
	Plant and buildings RMB'000	Machinery and equipment RMB'000	Furnaces RMB'000	Motor vehicles RMB'000	Office equipment RMB'000	Total RMB'000
Cost:						
At 1 January 2004	382,078	671,268	245,647	4,618	1,192	1,304,803
Additions	6,824	21,763	–	6,185	462	35,234
Transfer from construction-in-progress ("CIP")	52,802	149,992	43,461	–	–	246,255
Disposals	(4,559)	–	–	–	–	(4,559)
At 31 December 2004	437,145	843,023	289,108	10,803	1,654	1,581,733
Accumulated depreciation and impairment:						
At 1 January 2004	44,695	163,486	56,248	559	247	265,235
Charge for the year	16,626	78,174	37,378	1,032	292	133,502
Disposals	(1,549)	–	–	–	–	(1,549)
At 31 December 2004	59,772	241,660	93,626	1,591	539	397,188
Net book value:						
At 31 December 2004	377,373	601,363	195,482	9,212	1,115	1,184,545

Notes to the Consolidated Financial Statements (cont'd)

For the year ended 31 December 2005
(Amounts expressed in Chinese Renminbi)

17. PROPERTY, PLANT AND EQUIPMENT AND CONSTRUCTION-IN-PROGRESS (continued)

	Group 2005					
	Plant and buildings RMB'000	Machinery and equipment RMB'000	Furnaces RMB'000	Motor vehicles RMB'000	Office equipment RMB'000	Total RMB'000
Cost:						
At 1 January 2005	437,145	843,023	289,108	10,803	1,654	1,581,733
Additions (note a)	7,808	35,731	178	3,701	381	47,799
Transfer from CIP	738,207	1,370,844	561	23	76	2,109,711
At 31 December 2005	1,183,160	2,249,598	289,847	14,527	2,111	3,739,243
Accumulated depreciation and impairment:						
At 1 January 2005	59,772	241,660	93,626	1,591	539	397,188
Charge for the year	22,636	106,555	39,884	967	393	170,435
At 31 December 2005	82,408	348,215	133,510	2,558	932	567,623
Net book value:						
At 31 December 2005	1,100,752	1,901,383	156,337	11,969	1,179	3,171,620

Note a: Pursuant to a service and supplies agreement entered into by QSAC, a subsidiary of the Company engaged in soda ash production (mentioned in notes 16 and 20), with a PRC corporation (the "Chemical Salt Provider"), the Chemical Salt Provider undertakes to provide to QSAC chemical salt mining/exploration and related delivery services to the production site of QSAC over a period of ten years (the "Chemical Salt Supplies"), commencing from 4 April 2005. According to the terms of the agreement, QSAC paid to the Chemical Salt Provider RMB30,000,000 for its purchase of the related machinery and equipment and construction of related facilities to be solely used in connection with the provision of the Chemical Salt Supplies. In return, the Chemical Salt Provider also undertakes to supply the chemical salt at fixed prices to QSAC over the whole term of the agreement unless changes are mutually agreed by two parties. As a result, the fixed assets purchased by the Chemical Salt Provider under such an arrangement were recorded as property, plant and equipment of QSAC and included as the current year additions of property, plant and equipment of the Group.

Notes to the Consolidated Financial Statements (cont'd)

For the year ended 31 December 2005
(Amounts expressed in Chinese Renminbi)

17. PROPERTY, PLANT AND EQUIPMENT AND CONSTRUCTION-IN-PROGRESS (continued)

	Company 2004 (restated)					
	Plant and buildings RMB'000	Machinery and equipment RMB'000	Furnaces RMB'000	Motor vehicles RMB'000	Office equipment RMB'000	Total RMB'000
Cost:						
At 1 January 2004	382,078	671,268	245,647	3,094	921	1,303,008
Additions	6,824	20,905	–	5,637	128	33,494
Transfer from CIP	52,802	149,992	43,461	–	–	246,255
Disposals	(4,559)	–	–	–	–	(4,559)
At 31 December 2004	437,145	842,165	289,108	8,731	1,049	1,578,198
Accumulated depreciation and impairment:						
At 1 January 2004	44,695	163,486	56,248	475	238	265,142
Charge for the year	16,626	78,114	37,380	872	199	133,191
Disposals	(1,549)	–	–	–	–	(1,549)
At 31 December 2004	59,772	241,600	93,628	1,347	437	396,784
Net book value:						
At 31 December 2004	377,373	600,565	195,480	7,384	612	1,181,414

Notes to the Consolidated Financial Statements (cont'd)

For the year ended 31 December 2005
(Amounts expressed in Chinese Renminbi)

17. PROPERTY, PLANT AND EQUIPMENT AND CONSTRUCTION-IN-PROGRESS (continued)

	Company 2005					
	Plant and buildings RMB'000	Machinery and equipment RMB'000	Furnaces RMB'000	Motor vehicles RMB'000	Office equipment RMB'000	Total RMB'000
Cost:						
At 1 January 2005	437,145	842,165	289,108	8,731	1,049	1,578,198
Additions	1,550	10,810	178	–	139	12,677
Transfer from CIP	7,981	1,887	561	–	–	10,429
At 31 December 2005	446,676	854,862	289,847	8,731	1,188	1,601,304
Accumulated depreciation and impairment:						
At 1 January 2005	59,772	241,600	93,628	1,347	437	396,784
Charge for the year	17,573	84,646	39,884	873	226	143,202
At 31 December 2005	77,345	326,246	133,512	2,220	663	539,986
Net book value:						
At 31 December 2005	369,331	528,616	156,335	6,511	525	1,061,318

As at 31 December 2005, certain plant and buildings and machinery and equipment with an aggregate carrying value of approximately RMB651,011,000 (2004: RMB442,762,000) had been pledged as security for certain bank loans of the Group (see note 27).

As at 31 December 2005, the Group was in the process of applying for the ownership certificates of certain buildings of the Group with an aggregate carrying amount of approximately RMB522 million (2004: Nil). The directors believe that there are no restrictions to obtain such certificates and there is no significant adverse impact on the financial position of the Group.

Notes to the Consolidated Financial Statements (cont'd)

For the year ended 31 December 2005
(Amounts expressed in Chinese Renminbi)

17. PROPERTY, PLANT AND EQUIPMENT AND CONSTRUCTION-IN-PROGRESS (continued)

b. Movement of construction-in-progress ("CIP") during the year is as follows:

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
At 1 January 2005	**1,425,296**	542,351	**94,813**	287,150
Additions	**1,813,604**	1,129,200	**113,753**	53,918
Transfer to fixed assets (note (i))	**(2,109,711)**	(246,255)	**(10,429)**	(246,255)
At 31 December 2005 (note (ii))	**1,129,189**	1,425,296	**198,137**	94,813

(i) The construction expenditure, production machinery and equipment and other direct costs of several glass production lines were transferred from CIP to fixed assets upon the commencement of commercial production during the year.

(ii) The CIP of the Group and the Company as at 31 December 2005 mainly represents construction expenditures incurred on plant and buildings located in the PRC and production machinery and equipment acquired for several new glass products production lines and a soda ash factory not yet put into use.

(iii) As of 31 December 2005, the construction of four new glass production lines had been temporarily put on hold due to unsatisfactory conditions of the glass industry. The carrying amount of capital expenditures incurred on these projects amounted to approximately RMB298 million in aggregate, which comprises of approximately RMB211 million recorded in CIP, approximately RMB21 million recorded in land use rights, and approximately RMB66 million in deposits for land use rights (see also Note 19, the Production Line Land Use Rights) on the balance sheet. The directors of the Company have assessed the recoverable amounts of these projects based on valuation performed by a PRC independent valuer on their respective estimated fair values less selling costs. The fair values are determined based on the estimated replacement costs or current market values of similar assets. As a result of such an assessment, no impairment loss had been recognised in the 2005 financial statements of the Group.

The directors of the Company currently intend to resume these projects after 2006 upon recovery of the market conditions of the glass industry.

During the year, the amount of borrowing costs capitalised in CIP was approximately RMB96,243,000 (2004: RMB11,474,000) and the capitalisation rate is approximately 6.62% (2004: 6.12%).

Notes to the Consolidated Financial Statements (cont'd)

For the year ended 31 December 2005
(Amounts expressed in Chinese Renminbi)

18. LAND USE RIGHTS

	Group		Company	
	2005	2004	**2005**	2004
As at 1 January	**84,534**	86,460	**59,694**	60,954
Additions	**300**	–	**300**	–
Transfer from deposits for land use rights	**21,330**	–	**–**	–
Amortisation of prepaid operating lease payments	**(1,727)**	(1,926)	**(1,264)**	(1,260)
As at 31 December	**104,437**	84,534	**58,730**	59,694

At 31 December 2005, approximately RMB98,043,000 land use rights (2004: RMB59,694,000) had been pledged as security for the bank borrowings of the Group (note 27).

19. DEPOSITS FOR LAND USE RIGHTS

The balances as at 31 December 2005 and 2004 represent deposits paid by the Group and the Company for acquiring land use rights of premises in the PRC, where certain new production lines are located, from local land bureaux amounting to approximately RMB85 million (the "Production Line Land Use Rights") (2004: RMB69 million) and from a related party amounting to approximately RMB33 million (the "SHCC Land Use Right") (2004: same), respectively.

The relevant local land bureaux have committed to finalise the title transfer procedures of the Production Line Land Use Rights and the directors of the Company have also obtained an advice from its PRC legal counsel that there are no legal restrictions which prohibit these bureaux to fulfil their obligations.

SHCC Land Use Rights, comprising five separate land use right certificates, were acquired from a related party, Shaoxing Huahong Cement Co Ltd ("SHCC"), a PRC enterprise under the common control of Mr Feng, the substantial shareholder and chairman of the Company, pursuant to a land use right transfer agreement (the "Land Use Right Agreement") entered into between the Company and SHCC on 29 December 2004 (the "Contract Date"). A public announcement in connection with this transaction was made on 7 January 2005. According to the provisions of the Land Use Right Agreement, SHCC has undertaken to complete the relevant legal procedures to transfer the SHCC Land Use Rights to the Company within 120 days after the Contract Date, or on any other later date that is mutually agreed by both contract parties. As at 31 December 2005, the respective SHCC Land Use Right had not been properly transferred by SHCC to the Company due to the fact that SHCC had pledged two and three certificates of the SHCC Land Use Rights with two financial institutions (the "Bank") for borrowing facilities granted to SHCC (the "Pledges") in April 2005 and January 2006, respectively. In addition to the payment of RMB33,000,000 made by the Group to SHCC in 2004 for the consideration of the transfer of the SHCC Land Use Rights, the Group had also incurred additional capital expenditures of approximately RMB160,000,000 on the related construction activities undertaken on the land (collectively defined as the "Capital Expenditures").

Notes to the Consolidated Financial Statements (cont'd)

For the year ended 31 December 2005
(Amounts expressed in Chinese Renminbi)

19. DEPOSITS FOR LAND USE RIGHTS (continued)

Subsequent to 31 December 2005, one of the Pledges attached with three certificates had been released by the Bank and the related land use rights were transferred to the Group on 26 April 2006. In addition, pursuant to a supplemental agreement entered into between SHCC and the Group dated 27 April 2006, SHCC undertakes to complete the necessary procedures in order to transfer the SHCC Land Use Rights attached with the remaining two certificates to the Group, on or before 30 September 2006 (the "Transfer Date"), by replacing the Pledge with other assets owned by SHCC and/or assets owned by Mr. Feng, as agreed by Mr. Feng. In addition, SHCC has also provided an indemnity to the Group to compensate the Group against any financial loss arising from the inability of SHCC to transfer the remaining SHCC Land Use Rights to the Group by the Transfer date. Mr Feng has also undertaken to provide financial support to SHCC in order to enable SHCC to effect the transfer or to compensate the Group against any financial loss, which may include a pledge of his dividend entitlement right in the Group in 2006 and subsequent years, as well as his equity interests in the Company. Accordingly, the directors of the Company have concluded that there is no impairment loss associated with the Capital Expenditures incurred amounting to approximately RMB193,000,000 and no provision for such loss had been made in the financial statements of the Group as at and for the year ended 31 December 2005. The directors of the Company have also obtained a legal opinion from its legal counsel in the PRC that such undertakings are legally enforceable in the PRC.

20. INTERESTS IN SUBSIDIARIES

As at 31 December 2005, interests in subsidiaries comprised the following:

	Company	
	2005	2004
	RMB'000	RMB'000
Unlisted shares, at cost	**757,466**	568,852
Amounts due from subsidiaries (d)	**551,303**	106,933
	1,308,769	675,785

The directors of the Company are of the opinion that the underlying value of the subsidiaries was not less than the carrying value at 31 December 2005.

Notes to the Consolidated Financial Statements (cont'd)

For the year ended 31 December 2005
(Amounts expressed in Chinese Renminbi)

20. INTERESTS IN SUBSIDIARIES (continued)

The following is a list of the principal subsidiaries of the Group as at 31 December 2005:

Name	Place and date of incorporation/ establishment and legal status	Principal activities and place of operations	Particulars of issued/ registered capital	Interest directly held	Interest indirectly held
ZEGC (a)	The PRC, 6 March 2003, limited liability company	Manufacturing, development and sales of engineering glass products and the provision of related services in the PRC	Registered capital of RMB90,000,000	90%	10%
Qinghai Soda Ash Company Limited (青海鹼業有限公司) ("QSAC") (b)	The PRC, 11 July 2003, limited liability company	Manufacturing and sales of soda ash in the PRC	Registered capital of RMB548,060,000 (note 30)	92.74%	–
Zhejiang Glass (Hong Kong) Company Limited (浙江玻璃(香港)有限公司) ("ZGHKC")	Hong Kong, 18 January 2003, limited liability company	Business liaison and administration	2,000 ordinary shares* of HK$100 each	100%**	–
Zhejiang Changxing Glass Company Limited (浙江長興玻璃有限公司) ("ZCGC") (c)	The PRC, 19 February 2004, limited liability company	Manufacturing and sales of related glass products in the PRC	Registered capital RMB50,000,000	95%	5%
Zhejiang Jiaojiang Glass Company Limited (浙江椒江玻璃有限公司) ("ZJGC") (c)	The PRC, 18 March 2004, limited liability company	Manufacturing and sales of related glass products in the PRC	Registered capital RMB50,000,000	95%	5%
Zhejiang Pinghu Glass Company Limited (浙江平湖玻璃有限公司) ("ZPGC") (c)	The PRC, 26 March 2004, limited liability company	Manufacturing and sales of related glass products in the PRC	Registered capital RMB20,000,000	95%	5%
Zhejiang Shaoxing Taoyan Glass Company Limited ("ZTYG") (浙江紹興陶堰玻璃有限公司)	The PRC, 12 April 2005, limited liability company	Manufacturing and sales of related glass products	Registered capital RMB40,000,000	90%	10%

Notes to the Consolidated Financial Statements (cont'd)

For the year ended 31 December 2005
(Amounts expressed in Chinese Renminbi)

20. INTERESTS IN SUBSIDIARIES (continued)

Name	Place and date of incorporation/ establishment and legal status	Principal activities and place of operations	Particulars of issued/ registered capital	Interest directly held	Interest indirectly held
Zhejiang Anji Guangyin Quartz Sand Products Company Limited (浙江安吉光吟石英砂製品有限公司)	The PRC, 7 December 2004, limited liability company	Manufacturing and sales of related quartz sand products in the PRC	Registered capital RMB5,000,000	90%	–

(a) In prior year, ZEGC was a 90% subsidiary of the Company. On 17 September 2005, the Group purchased the remaining 10% equity interests from a minority shareholder through its wholly owned subsidiary, ZTYG, at a cash consideration of RMB3,500,000 and share of net assets to acquired was approximately RMB11,249,000. The excess of the share of net assets over the consideration paid RMB7,749,000 was dealt with in the reserve.

(b) Upon the time of establishment of QSAC, its equity interests were held by the Company and two minority shareholders (in aggregate) in the ratio of 90% to 10%. During the current year, the registered capital of QSAC was increased to RMB548,060,000 and the Company invested additional capital of approximately RMB154 million into QSAC while the other two minority shareholders contributed RMB29 million. Consequently the equity interest held by the Company changed to 92.74%.

(c) Approximately 10% of the equity interests of these subsidiaries were originally registered under the names of three related parties as trustees for the benefit of the Company. Pursuant to a board resolution passed by the Company in 2005, all these legal interests held by the trustees were transferred to both the Company and ZEGC in equal share.

(d) Amounts due from subsidiaries are unsecured, non-interest bearing and have no fixed repayment terms. These advances were regarded as quasi capital contributed by the Company.

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

** One share of HK$100 is registered under the name of Mr. Feng as trustee for the benefit of the Company.

21. LONG TERM PREPAYMENTS

Pursuant to two service and supplies agreements entered into by QSAC with two companies incorporated in the PRC (collectively the "Limestone Providers"), the Limestone Providers undertake to provide to QSAC certain lime stone mining/exploration and related delivery services to the production site of QSAC over a period of 10 years, commencing from August 2005 and December 2005, respectively. According to the terms of these agreements, these Limestone Providers also undertake to supply the lime stone at fixed prices to QSAC over the whole terms of the agreements unless changes are mutually agreed by the parties. In return, QSAC prepaid RMB36 million to these Limestone Providers in aggregate, which will be deducted from the purchase prices consideration of lime stones supplied by them to QSAC throughout the contract terms.

Notes to the Consolidated Financial Statements (cont'd)

For the year ended 31 December 2005
(Amounts expressed in Chinese Renminbi)

22. INVENTORIES

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
Raw materials	**103,983**	57,114	**39,780**	54,779
Work-in-progress	**216**	176	**7**	176
Finished goods	**29,086**	13,832	**8,735**	13,832
Packaging materials	**7,339**	6,025	**5,934**	5,995
Low value consumables	**2,531**	1,493	**1,104**	1,087
	143,155	78,640	**55,560**	75,869

As at 31 December 2005, none of the above inventories were carried at net realisable value (2004: nil).

23. ACCOUNTS RECEIVABLE

As at 31 December 2005, the aging analysis of accounts receivable is set out below:

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
Current to under 6 months	**91,416**	26,140	**34,853**	26,137
6 to under 12 months	**36,143**	–	**2,981**	–
1 to under 2 years	**2,057**	1,014	**2,057**	1,014
Provision made	**(683)**	(155)	**(248)**	(155)
Accounts receivable, net	**128,933**	26,999	**39,643**	26,996

Cash on delivery is required for majority of the customers. Credit is only granted for a period of up to a maximum of twelve months for certain customers with good credit worthiness, as ascertained by an assessment performed on their financial abilities and past payment history, and with the approval obtained from top management.

24. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

As at 31 December 2005, substantially all cash and cash equivalents of the Group and the Company were denominated in renminbi.

In addition, pledged deposits of the Group and the Company denominated in RMB amounted to approximately RMB229,181,000 (2004: RMB135,023,000) and RMB180,492,000 (2004: RMB102,578,000), respectively. Pledged deposits represent deposits placed with certain banks as security for the grant of certain bank loans and trade finance facilities from banks of RMB205,842,000 (Note 27).

Notes to the Consolidated Financial Statements (cont'd)

For the year ended 31 December 2005
(Amounts expressed in Chinese Renminbi)

25. ACCOUNTS PAYABLE

As at 31 December 2005 and 2004, the aging analysis of accounts payable is set out below:

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
Current to under 6 months	**422,960**	114,076	**105,714**	110,379
6 to under 12 months	**55,868**	48,881	**26,727**	48,881
1 to under 2 years	**15,700**	426	**15,467**	426
2 to under 3 years	**427**	–	**427**	–
3 years or over	**4,209**	5,160	**4,208**	5,160
	499,164	168,543	**152,543**	164,846

26. ACCRUALS AND OTHER PAYABLES

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
Accrued operating expenses	**18,704**	3,865	**5,630**	3,865
Accrued staff costs and bonuses	**10,326**	10,017	**6,150**	9,225
PRC individual income tax payable and other surcharges	**1,758**	2,261	**1,604**	2,261
Deposits received from customers for delivery equipment loaned for their use	**55,141**	49,474	**54,863**	49,474
Accrued expenditure on CIP	**28,600**	131,130	**17,000**	15,000
Advance from an environmental protection authority	**2,000**	2,000	**2,000**	2,000
Guarantee deposits received from suppliers	**1,479**	850	**700**	850
Guarantee deposits received from fixed assets vendors	**9,626**	6,743	**1,406**	2,364
Others	**3,361**	9,758	**5,897**	8,589
	130,995	216,098	**95,250**	93,628

Notes to the Consolidated Financial Statements (cont'd)

For the year ended 31 December 2005
(Amounts expressed in Chinese Renminbi)

27. BORROWINGS

i. Bank loans

As of 31 December 2005, the bank loans were repayable as follows:

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
– amounts wholly repayable within 1 year	**2,068,288**	1,347,500	**1,538,288**	1,022,500
– amounts wholly repayable between 1 to 2 years	**100,000**	–	**–**	–
– amounts wholly repayable between 2 to 5 years	**540,000**	300,000	**–**	–
– amounts wholly repayable beyond 5 years	**520,000**	–	**–**	–
	3,228,288	1,647,500	**1,538,288**	1,022,500
Less: amounts repayable within 1 year (included in current liabilities)				
– short-term bank loans	**(1,958,288)**	(1,277,500)	**(1,468,288)**	(952,500)
– current portion of long-term bank loans	**(110,000)**	(70,000)	**(70,000)**	(70,000)
Long-term portion	**1,160,000**	300,000	**–**	–

Notes to the Consolidated Financial Statements (cont'd)

For the year ended 31 December 2005
(Amounts expressed in Chinese Renminbi)

27. BORROWINGS (continued)

i. Bank loans (continued)

As at 31 December 2005, certain of the short-term bank loans were:

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
Secured by:				
Certain land use rights, property, plant and equipment of the Group with a carrying value of approximately RMB640,392,000 (2004: RMB437,140,000)*	**579,000**	350,000	**477,000**	350,000
Pledged bank deposits of approximately RMB67,664,000 (2004: RMB95,460,000) (note 35)	**68,320**	82,500	**68,320**	82,500
	647,320	432,500	**545,320**	432,500
Guaranteed by:				
Independent third parties	**188,000**	–	**170,000**	–
Mr. Feng	**50,000**	30,000	**50,000**	30,000
Jointly and severally guaranteed by:				
Mr. Feng and his related company	**178,968**	–	**178,968**	–
Mr. Feng, his related company and independent third parties	**80,000**	–	**60,000**	–
	496,968	30,000	**458,968**	30,000

* RMB20,000,000 and RMB(30,000,000) of loans were guaranteed, in addition to the pledged assets of the Group, by Mr. Feng and an independent third party, respectively.

Notes to the Consolidated Financial Statements (cont'd)

For the year ended 31 December 2005
(Amounts expressed in Chinese Renminbi)

27. BORROWINGS (continued)

i. Bank loans (continued)

As at 31 December 2005, details of security and guarantees of the long-term bank loans were as follows:

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
Secured by: Certain land use rights, plant and buildings and machinery and equipment of the Group with carrying value of approximately RMB108,662,000 (2004: RMB65,316,000)	**120,000**	70,000	**70,000**	70,000
	120,000	70,000	**70,000**	70,000

In addition, approximately RMB340,000,000 and RMB1,200,000,000 of short-term and long-term loans of a non-wholly owned subsidiary, were guaranteed by the Company as at 31 December 2005, respectively.

Save as disclosed above, the rest of the outstanding bank loan balances are unsecured. All bank loans are interest-bearing at commercial rates and subject to market changes. The effective interest rate as at 31 December 2005 was 6.36% p.a. (2004: 5.82% p.a.). All loans are dominated in RMB.

The Group and the Company were granted aggregate banking facilities as follows:

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
Bank loans	**3,228,288**	1,647,500	**1,538,288**	1,022,500
Trade financing	**407,590**	365,383	**287,590**	215,023
	3,635,878	2,012,883	**1,825,878**	1,237,523

As at 31 December 2005, all facilities of the Group and the Company had been fully utilised.

Subsequent to 31 December 2005 and up to the date of approval of the financial statements, approximately 120 million of the short-term banks loans which reached maturity had been renewed or extended for another twelve months' period.

In addition the Company and the Group have obtained non legally binding indication from certain banks to renew or extend short-term loan facilities of approximately RMB1,004 million which will fall due in 2006.

Notes to the Consolidated Financial Statements (cont'd)

For the year ended 31 December 2005
(Amounts expressed in Chinese Renminbi)

28. TAXES PAYABLE

Taxes payable consists of:

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
PRC EIT (note (a))	**21,517**	59,103	**17,736**	59,103
Hong Kong profits tax (note (b))	**–**	–	**–**	–
PRC value-added tax (note (c))	**5,864**	6,717	**6,727**	7,108
Other taxes payable	**1,583**	1,927	**1,389**	1,728
	28,964	67,747	**25,852**	67,939

(a) PRC EIT

The Company and all it subsidiaries incorporated in the PRC are subject to enterprise income tax at a rate of 33% on their assessable profits except QSAC.

QSAC is entitled to EIT tax holiday that there is full exemption of EIT for the first five profitable years, after offsetting losses brought forward; and followed by another five years of EIT concession at a reduced rate of 50% of the then enacted tax rate. Due to the fact that QSAC reported losses in 2005, the tax holiday had not started.

(b) Hong Kong profit tax

ZGHKC is a Hong Kong corporation and is assessable under Hong Kong profits tax at 17.5% on its assessable profits. ZGHKC did not have any assessable profits in 2005 (2004 – Nil) and no provision for Hong Kong profits tax is required.

(c) PRC value-added tax

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

Notes to the Consolidated Financial Statements (cont'd)

For the year ended 31 December 2005
(Amounts expressed in Chinese Renminbi)

29. SHARE CAPITAL

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

There was no movement of the Company's share capital during the year.

30. RESERVES

The movement of reserves of the Group has been shown in the consolidated statement of changes in equity.

The movement of reserves of the Company is shown as below:

	Share Premium	**Statutory surplus reserves**	**Statutory public welfare fund**	**Retained profits**	**Proposed dividends**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2004	350,066	36,600	36,600	184,907	54,862	663,035
Profit attributable to shareholders	–	–	–	207,801	–	207,801
Appropriations to reserves	–	23,158	23,158	(46,316)	–	–
Dividends paid	–	–	–	(32,408)	(54,862)	(87,270)
Proposed dividends	–	–	–	(29,105)	29,105	–
Balance at 31 December 2004	350,066	59,758	59,758	284,879	29,105	783,566
Profit attributable to shareholders	–	–	–	62,399	–	62,399
Appropriations to reserves	–	5,830	5,830	(11,660)	–	–
Dividends paid	–	–	–	(20,892)	(29,105)	(49,997)
Proposed dividends	–	–	–	–	–	–
Balance at 31 December 2005	350,066	65,588	65,588	314,726	–	795,968

Notes to the Consolidated Financial Statements (cont'd)

For the year ended 31 December 2005
(Amounts expressed in Chinese Renminbi)

30. RESERVES (continued)

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

Appropriation to statutory surplus reserve and statutory public welfare fund should be made based on the amount of profits reflected in the 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.

Profit attributable to shareholders of the Company is appropriated in the following sequence:

(i) set off against prior years' losses;

(ii) appropriation to statutory public welfare fund and statutory surplus reserve; and

(iii) distribution of dividends.

During the year ended 31 December 2005, 10% (2004: 10%) of profit attributable to the shareholders was appropriated to each of the two statutory reserves as approved in resolutions passed by the board of directors of the Company according to the requirements stated above.

The unappropriated profit attributable to shareholders of the Company as at 31 December 2005 was approximately RMB314,726,000 (2004: RMB284,879,000).

31. EMPLOYEE RETIREMENT BENEFITS

As stipulated by the rules and regulations in the PRC, the Group is required to contribute to a State-sponsored retirement plan for all of its PRC employees at 17% of their basic salaries. The State-sponsored retirement plan is responsible for the entire pension obligations payable to retired employees and the Group has no further obligations for the actual pension payments or other post-retirement benefits beyond the annual contributions. During the year, the Group's contributions made to the retirement plan amounted to approximately RMB2,091,000 (2004: RMB1,170,000).

The Group also contributes to a defined contribution retirement scheme in Hong Kong for all its employees based in Hong Kong. Contributions to the scheme made by the Group and the employees are calculated on a percentage of the employees' basic salaries. The cost of the retirement benefit scheme charged to the income statement represents contributions payable by the Group to the fund. The Group's contributions to the defined contribution retirement scheme are recorded as expenses incurred and are not reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. During the year, the Group's contributions to the defined contribution retirement scheme in Hong Kong amounted to approximately HK$42,000 (approximately RMB44,000) (2004: RMB13,000).

Notes to the Consolidated Financial Statements (cont'd)

For the year ended 31 December 2005
(Amounts expressed in Chinese Renminbi)

32. DEFERRED TAXATION

Deferred taxation are calculated in full on temporary differences under the liability method using a principal taxation rate of 33% (2004: 33%).

The movement in deferred tax liabilities during the year is as follows:

	Group				Company
	Accelerated tax RMB'000	Unrealized intragroup profits arising from intra-group sales RMB'000	Temporary difference on capitalisation of borrowing costs RMB'000	Total RMB'000	Accelerated tax RMB'000
At 1 January 2004	–	–	–	–	–
Recognized in the income statement	19,631	–	–	19,631	19,631
At 31 December 2004	19,631	–	–	19,631	19,631
Recognized in the income statement	9,592	2,337	8,110	20,039	9,592
At 31 December 2005	29,223	2,337	8,110	39,670	29,223

The Group did not have material unrecognised deferred income tax assets (2004: RMB906,630) in respect of losses (2004: RMB2,747,000) that can be carried forward to offset against future taxable profits of certain subsidiaries as at 31 December 2005.

All deferred tax liabilities are expected to be settled after 12 months except approximately RMB2,337,000 in relation to unrealized intragroup profits.

Notes to the Consolidated Financial Statements (cont'd)

For the year ended 31 December 2005
(Amounts expressed in Chinese Renminbi)

33. CONSOLIDATED CASH FLOW STATEMENT

Reconciliation of profit before income tax net cash inflow from operations:

	2005 RMB'000	2004 RMB'000 Restated
Profit before income tax	**124,660**	334,393
Interest income	**(12,310)**	(7,918)
Interest expense	**89,288**	56,249
Depreciation of fixed assets	**170,435**	133,502
Amortisation of land use rights	**1,727**	1,926
Amortisation of intangible assets	**809**	704
Loss on disposal of fixed assets	**–**	3,010
Operating profit before working capital changes	**374,609**	521,866
Increase in inventories	**(64,515)**	(29,176)
Increase in due from related companies	**(5,151)**	(6,983)
Decrease in due from a shareholder	**–**	482
(Increase)/decrease in prepayments, deposits and other current assets	**(21,771)**	40,904
Decrease/(increase) in bills receivable	**9,776**	(11,730)
Increase in accounts receivable	**(101,934)**	(20,993)
Increase in accounts payable	**50,516**	86,551
Increase/(decrease) in accruals and other payables	**5,475**	(5,527)
Decrease in payable to a related company	**(260)**	(459)
Increase/(decrease) in deposits and advance from customers	**23,888**	(12,421)
Decrease in other taxes payable	**(1,197)**	(1,308)
Increase in long term prepayments	**(35,698)**	–
Net cash inflow from operations	**233,738**	561,206

Notes to the Consolidated Financial Statements (cont'd)

For the year ended 31 December 2005
(Amounts expressed in Chinese Renminbi)

34. COMMITMENTS

(i) Capital commitments

The Group had the following significant capital commitments in relation to construction of production lines and the investment projects which were not provided for in the financial statements as at year end:

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
Authorised and contracted for:				
Construction of new glass production lines	**457,728**	28,185	**182,544**	–
Construction of a soda ash plant (note a)	**1,231,950**	2,160,859	**–**	–
Glass production investment projects (note b)	**5,857,199**	5,948,559	**2,872,878**	2,907,822
	7,546,877	8,137,603	**3,055,422**	2,907,822
Authorised but not contracted for:	**–**	652,933	**–**	652,933
Total commitments	**7,546,877**	8,790,536	**3,055,422**	3,560,755

(a) Construction of a soda ash plant

On 25 April 2004, the Company entered into a cooperation agreement (the "Soda Ash Agreement") with the People's Government of Haixi Mongolian Nationality and Tibetan Nationality Autonomous Prefecture of Qinghai Province (the "Haixi and Tibetan People's Government") under which the Company is committed, through its then 90% owned subsidiary, QSAC, to construct a factory with two soda ash production lines in five years with an annual production capacity of 600,000 tonnes each. The committed total investment amount for this project as prescribed in the Soda Ash Agreement is RMB1.6 billion, which are to be injected in two phases. The first phase is scheduled to be completed within two years after signing of the Soda Ash Agreement. The commencement of the second phase would depend on the progress of construction and the utilisation rate of the first phase.

Notes to the Consolidated Financial Statements (cont'd)

For the year ended 31 December 2005
(Amounts expressed in Chinese Renminbi)

34. COMMITMENTS (continued)

(i) Capital commitments (continued)

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

On 25 December 2004, the Company entered into a revised cooperation agreement (the "Revised Soda Ash Agreement") with the Haixi and Tibetan People's Government. Pursuant to the Revised Soda Ash Agreement, two soda ash production lines with an annual production capacity of 900,000 tonnes each are to be constructed in two phases within five years. The total investment amount was increased from RMB1.6 billion to RMB3 billion and will be injected by two phases, of which, RMB1.4 billion is for the second phase. As of 31 December 2005, approximately RMB168 million had been incurred and the outstanding commitment amounted to approximately RMB1,232 million.

(b) Glass production investment projects

(i) On 29 April 2003, the Company entered into a cooperation agreement with an industrial development council of Shaoxing county of the Zhejiang Province (浙江省紹興縣濱海工業區管委會), pursuant to which the Company had committed to invest an aggregate amount of RMB3 billion for the construction of several glass products production lines.

On 16 April 2004, a supplementary agreement was executed between the two contract parties that the Company is entitled to adjust the schedule as well as the amount of the investment. In addition, the Company has the right to terminate the execution of the project, taking into account of its financial position, the market situation and other relevant factors at its sole discretion.

Up to the year ended 31 December 2005, the Group had invested approximately RMB127 million into this project. According to the plan of the Company, no substantial investment is planned to be made in this project in 2006. (See Note 17(b))

(ii) On 6 August 2003, the Company entered into a cooperation agreement with the People's Government of Changxing county of the Zhejiang Province (浙江省長興縣人民政府) that the Company had committed to invest an aggregate amount of RMB1 billion for the construction of two special glass production lines with a daily melting capacity of 600 tonnes each and five processed glass production lines. According to the agreement, a subsidiary was established in Changxing by the Company in 2004 with a registered capital of RMB50,000,000 in order to operate the project (see note 20).

Up to the year ended 31 December 2005, the Group had invested approximately RMB78 million into this project, no substantial investment is planned to be made in this project in 2006. (See Note 17(b))

Notes to the Consolidated Financial Statements (cont'd)

For the year ended 31 December 2005
(Amounts expressed in Chinese Renminbi)

34. COMMITMENTS (continued)

(i) Capital commitments (continued)

(b) Proposed investment projects (continued)

(iii) On 21 September 2003, the Company entered into a cooperation agreement with an industrial development council of Pinghu city of the Zhejiang Province (平湖市濱海地區城鄉統籌管理委員會), pursuant to which the Company had committed to invest an aggregate amount of RMB2 billion for the construction of four float flat glass production lines with a daily melting capacity of 600 tonnes each.

On 16 April 2004, a supplementary agreement was executed between the two contract parties that the Company is entitled to adjust the schedule as well as the amount of the investment. In addition, the Company has the right to terminate the execution of the project, taking into account of its financial position, the market situation and other relevant factors at its own discretion.

Up to the year ended 31 December 2005, the Group had invested approximately RMB77 million into this project. No substantial investment is planned to be made in this project in 2006. (See Note 17(b))

(ii) Commitments under operating leases

At 31 December 2005, the Group and the Company had total future aggregate minimum lease payments under non-cancellable operating leases entered into with third party companies in respect of land and buildings as follows:

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within one year	**562**	1,001	**543**	1,001
In the second to fifth year inclusive	**–**	708	**–**	708
	562	1,709	**543**	1,709

Notes to the Consolidated Financial Statements (cont'd)

For the year ended 31 December 2005
(Amounts expressed in Chinese Renminbi)

35. RELATED PARTY TRANSACTIONS

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

	Note	**2005 RMB'000**	2004 RMB'000
Rental charged by Guangyu Group Co. Ltd. ("Guangyu", 光宇集團有限公司)*	(a)	**498**	498
Sales to Guangyu		**323**	–
Service fees earned from ZTC** and ZCC*** in relation to the provision of electricity voltage transforming services	(b)	**498**	563
Purchase of land use right from Shaoxing Huahong Cement Co., Ltd. SHCC****	(c)	**–**	33,195
Purchase of cement from ZCC	(d)	**9,390**	–

(a) The Company entered into a lease agreement with Guangyu to lease office space for a period of 2 years commencing 13 December 2001 at RMB41,500 per month. The rental was determined by reference to the prevailing open market rentals at the time when the lease agreement was entered into. On 28 September 2003, the agreement was renewed with Guangyu for another 2 years commencing on 1 January 2004 at RMB41,500 per month. On 18 March 2005, the board of directors approved the Company to renew the agreement for another 3 years commencing on 1 January 2006 at RMB41,500 per month.

(b) The Company entered into service agreements with ZTC and ZCC, respectively for a period of 2 years commencing 1 July 2003. Pursuant to the service agreements, the Company agreed to provide electricity voltage transforming services by an electricity transformer owned by the Company. It also settled on behalf of ZTC and ZCC the related electricity charges to the local electricity bureau which the Company had been fully reimbursed. During the year, the Company paid on behalf of ZCC and ZTC electricity charges of approximately RMB49,776,000 and Nil, respectively (2004: ZCC – RMB56,264,000; ZTC – RMB31,800). The service fee charged to ZTC and ZCC was determined at 1% on the amount of electricity charges settled on behalf of ZTC and ZCC during the year. As of 31 December 2005, approximately RMB12.3 million of electricity charges paid by the Company on behalf of ZCC had not been settled and were recorded as a receivable balance due from a related company. The balance had been fully settled up to the date of approval of the financial statements.

The service agreement with ZCC was renewed for another year commencing on 1 July 2005 while the agreement with ZTC expired without being renewed.

(c) As described in Note 19, the amount represents the consideration paid by the Company to SHCC for the purchase of the SHCC Land Use Rights in 2004. Please refer to Note 19 for the details of undertakings and indemnities provided by SHCC and Mr. Feng in relation to the transfer.

Notes to the Consolidated Financial Statements (cont'd)

For the year ended 31 December 2005
(Amounts expressed in Chinese Renminbi)

35. RELATED PARTY TRANSACTIONS (continued)

(i) (continued)

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

(e) Mr. Feng, Guangyu and one of Guangyu's subsidiary have provided guarantees or other form of security in relation to the bank loans of the Group at approximately RMB317,288,000 (2004: 30,000,000) and of the Company at approximately RMB297,288,000 (2004: 30,000,000). In addition, as at 31 December 2004, certain bank loans of ZEGC amounting to RMB41,562,000 were guaranteed by the Company, Mr. Feng and Ms. Xu Yujuan, wife of Mr. Feng and director of the Company.

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

Save as disclosed, no other material related party transactions have been entered into by the Group.

(ii) Balances with related parties are as follows:

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
Receivables from:				
Related companies				
ZTC	**–**	1	**–**	1
ZCC (note (i)(b))	**12,314**	7,162	**12,314**	7,162
	12,314	7,163	**12,314**	7,163
Payables to Related company:				
Guangyu	**111**	371	**111**	371
Deposit for capital contribution from a minority shareholder of a subsidiary:				
Mr. Wang Yongquan	**–**	20,000	**–**	–
Amounts due to wholly-owned subsidiaries	**–**	–	**38,718**	–

Notes to the Consolidated Financial Statements (cont'd)

For the year ended 31 December 2005
(Amounts expressed in Chinese Renminbi)

35. RELATED PARTY TRANSACTIONS (continued)

(ii) Balances with related parties are as follows: (continued)

	Maximum receivable balance of receivables from related parties during the year ended 31 December			
	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
ZTC	**3**	15	**3**	15
ZCC	**28,272**	25,663	**28,272**	25,663
Mr. Feng	**–**	785	**–**	785
Guangyu	**178**	–	**178**	–

All balances with related parties and subsidiaries are unsecured, non-interest bearing and are repayable on demand.

36. SUBSEQUENT EVENTS

Saved as disclosed in other notes to the financial statements, the Group had no other significant subsequent events.

37. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with current year presentation according to HKFRS.