(Expressed in RMB unless otherwise indicated)

1 CORPORATE REORGANISATION

China Glass Holdings Limited (the "Company") was incorporated in Bermuda on 27 October 2004 as an exempted company with limited liability under the Companies Act 1981 of Bermuda (as amended). Pursuant to a reorganisation (the "Reorganisation") of the Company and its subsidiaries (collectively referred to as the "Group") completed on 22 May 2005 to rationalise the group structure in preparation of the public listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the subsidiaries comprising the Group. The shares of the Company were listed on the Stock Exchange on 23 June 2005.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange. A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued a number of new and revised HKFRSs that are effective or available for early adoption for accounting periods beginning on or after 1 January 2005. Information on the changes in accounting policies resulting from initial application of these new and revised HKFRSs for the current and prior accounting periods reflected in these financial statements is provided in Note 3.

(b) Basis of preparation of the financial statements

The Group is regarded as a continuing entity resulting from the Reorganisation and has been accounted for on the basis of merger accounting. The consolidated financial statements have been prepared on the basis that the Company was the holding company of the Group throughout the years ended 31 December 2005 and 2004 ("the periods presented"), rather than from 22 May 2005. Accordingly, the consolidated financial statements of the Group for the periods presented include the financial statements of the Company and its subsidiaries with effect from 1 January 2004 or since their respective dates of incorporation, whichever is a shorter period, as if the current group structure had been in existence throughout the periods presented. In the opinion of the directors, the consolidated financial statements prepared on this basis present fairly the results of operations and the state of affairs of the Group as a whole.

The measurement basis used in the preparation of the financial statements is the historical cost basis.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Basis of preparation of the financial statements (Continued)

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

(c) Subsidiaries

A subsidiary is an enterprise controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of the enterprises so as to obtain benefits from their activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in consolidation. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Minority interests at the balance sheet date, being the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the Company, whether directly or indirectly through subsidiaries, are presented in the consolidated balance sheet within equity, separately from the equity attributable to the equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between the minority interests and equity shareholders of the Company.

Where losses attributable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses attributable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. All subsequent profits of the subsidiary are allocated to the Group until the minority's share of losses previously absorbed by the Group has been recovered.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses (see Note 2(i)), unless it is classified as held for sale.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Goodwill

All business combinations, other than combination under common control, are accounted for by applying the purchase method. Goodwill represents the excess of the cost of a business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (see Note 2(i)).

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination is recognised immediately in the consolidated income statement.

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(e) Property, plant and equipment

(i) Property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see Note 2(i)). The cost of an asset comprises its purchase price, any directly attributable costs of bringing the asset to working condition and location for its intended use, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and the cost of borrowed funds used during the period of construction.

(ii) Depreciation is calculated to write off the cost of property, plant and equipment on a straight-line basis over their estimated useful lives, to residual values, as follows:

	Estimated useful lives
Plant and buildings	8-45 years
Machinery and equipment	5-30 years
Motor vehicles	7-15 years

No depreciation is provided in respect of construction in progress until it is completed and ready for its intended use. Both the estimated useful lives and its residual value are reviewed annually.

(iii) Gains or losses arising from the retirement or disposal of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement on the date of retirement or disposal.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Lease prepayments

Lease prepayments represent land use right premiums paid and are stated at cost less accumulated amortisation and impairment losses (see Note 2(i)). Amortisation is charged to the income statement on a straight-line basis over the term of the rights of 46 years.

(g) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts (see Note 2(i)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts (see Note 2(i)).

(h) Convertible notes

Convertible notes that can be converted to share capital at the option of the holder, where the number of shares issued does not vary with changes in their fair value, are accounted for as compound financial instruments. At initial recognition the liability component of the convertible notes is calculated as the present value of the future interest and principal payments, discounted at the market rate of interest applicable at the time of initial recognition of similar liabilities that do not have a conversion option. Any excess of proceeds over the amount initial recognised as the liability component is recognised as the equity component. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds.

The liability component is subsequently carried at amortised cost. The interest expense recognised in the income statement on the liability component is calculated using the effective interest method. The equity component is recognised in the capital reserve until either the note is converted or redeemed.

If the note is converted, the capital reserve, together with the carrying value of the liability component at the time of conversion, is transferred to share capital and share premium as consideration for the shares issued. If the note is redeemed, the capital reserve is released directly to retained profits.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Impairment of assets

(i) Impairment of financial assets

Financial assets that are stated at cost or amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material or the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets).

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through the income statement. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

(ii) Impairment of other assets

The carrying amounts of the assets, other than financial assets (see Note 2(i)(i)), inventories (see Note 2(j)) and deferred tax assets (see Note 2(m)), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised in the income statement whenever the carrying amount of such an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units (group of units) and then, to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less cost to sell, or value in use, if determinable.

Goodwill is tested for impairment at each balance sheet date even though no indication of impairment existed.

(Expressed in RMB unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Impairment of assets (Continued)

(ii) Impairment of other assets (Continued)

– *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– *Reversals of impairment losses*

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss recognised for goodwill is not reversed in a subsequent period.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior periods. Reversals of impairment losses are credited to the income statement in the period in which the reversals are recognised.

(j) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

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

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

(l) Employee benefits

(i) Salaries, annual bonuses, paid annual leave and the cost of non-monetary benefits are accrued in the period in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) The Group's contributions to defined contribution retirement benefit schemes are charged to the income statement when incurred, except to the extent that they are included in the cost of inventories not yet recognised as an expense.

(iii) Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(m) Income tax

(i) Income tax for the period comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the income statement except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

(ii) Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous periods.

(iii) Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purpose and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Income tax (Continued)

(iii) (Continued)

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

(iv) Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if, and only if, the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Income tax (Continued)

(iv) (Continued)

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(n) Trade and other payables

Trade and other payables are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(o) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in income statement over the period of the borrowings using the effective interest method.

(p) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(q) Revenue recognition

(i) Sale of goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have been transferred to the customer. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, the possible return of goods, or continuing management involvement with the goods.

(ii) Interest income

Interest income is accrued on a time-apportioned basis by reference to the principal outstanding and the rate applicable.

(r) Operating lease charges

Leases of assets under which the lessor has not transferred all the risks and benefits of ownership are classified as operating leases.

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

(s) Translation of foreign currencies

Foreign currency transactions are translated into Renminbi at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Renminbi at the exchange rates ruling at the balance sheet date. Exchange gains and losses are dealt with in the income statement.

The results of group companies which have a functional currency other than Renminbi are translated into Renminbi at the average exchange rates for the year; balance sheet items are translated into Renminbi at the rates of exchange ruling at the balance sheet date. The resulting exchange differences are recognised directly in the exchange reserve.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(t) Borrowing costs

Borrowing costs are expensed in the income statement in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditures for the asset are being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or completed.

(u) Related parties

For the purpose of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

(v) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

The Group's turnover and operating results are principally generated from the manufacturing and sale of glass products. Accordingly, no business segment analysis is provided. In addition, the Group's assets and liabilities are principally situated in the People's Republic of China (the "PRC") and accordingly, no information on segment assets, liabilities and capital expenditure is presented.

The analysis of the geographical location of the operations of the Group during the year is set out in Note 27.

3 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of new and revised HKFRSs that are effective for accounting periods beginning on or after 1 January 2005.

The accounting policies of the Group after the adoption of these new and revised HKFRSs have been summarised in Note 2. The following sets out information on the significant changes in accounting policies for the current and prior accounting periods reflected in these financial statements.

(a) Employee share option scheme (HKFRS 2, Share-based payment)

With effect from 1 January 2005, in order to comply with HKFRS 2, the Group recognises the fair value of such share options as an expense with a corresponding increase recognised in a capital reserve within equity.

A share option scheme was passed by the shareholders of the Company at a special general meeting on 30 May 2005. At 31 December 2005, no employees of the Group were granted any share options. The change in policy relating to share-based payment has no effect on the financial statements.

(b) Amortisation of positive and negative goodwill (HKFRS 3, Business combinations and HKAS 36, Impairment of assets)

Amortisation of goodwill

In prior periods:

- positive goodwill was amortised on a straight line basis over its useful life and was subject to impairment testing when there were indications of impairment; and

- negative goodwill was amortised over the weighted average useful life of the depreciable/amortisable non-monetary assets acquired, except to the extent it related to identified expected future losses as at the date of acquisition. In such cases it was recognised in the consolidated income statement as those expected losses were incurred.

With effect from 1 January 2005, in order to comply with HKFRS 3 and HKAS 36, the Group no longer amortises positive goodwill but tests it at least annually for impairment. Also with effect from 1 January 2005 and in accordance with HKFRS 3, if the fair value of the net assets acquired in a business combination exceeds the consideration paid (i.e. an amount arises which would have been known as negative goodwill under the previous accounting policy), the excess is recognised immediately in the consolidated income statement as it arises. Further details of these new policies are set out in Note 2(d).

3 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(b) Amortisation of positive and negative goodwill (HKFRS 3, Business combinations and HKAS 36, Impairment of assets) (Continued)

Amortisation of goodwill (Continued)

The new policy in respect of the amortisation of positive goodwill has been applied prospectively in accordance with the transitional arrangements under HKFRS 3. As a result, comparative amounts have not been restated and no amortisation charge for goodwill has been recognised in the consolidated income statement for the year ended 31 December 2005. There was no cumulative amount of amortisation as at 1 January 2005.

The change in policy relating to negative goodwill had no effect on the financial statements as there was no negative goodwill deferred as at 31 December 2004.

(c) Minority interests (HKAS 1, Presentation of financial statements and HKAS 27, Consolidated and separate financial statements)

In prior years, minority interests at the balance sheet date were presented in the consolidated balance sheet separately from liabilities and as deduction from net assets. Minority interests in the results of the Group for the year were also separately presented in the consolidated income statement as a deduction before arriving at the profit attributable to shareholders (the equity shareholders of the Company).

With effect from 1 January 2005, in order to comply with HKAS 1 and HKAS 27, the Group has changed its accounting policy relating to presentation of minority interests. Under the new policy, minority interests are presented as part of equity, separately from interests attributable to the equity shareholders of the Company. Further details of the new policy are set out in Note 2(c). These changes in presentation have been applied retrospectively with comparatives restated.

(d) Definition of related parties (HKAS 24, Related party disclosures)

As a result of the adoption of HKAS 24, Related party disclosures, the definition of related parties as disclosed in Note 2(u) has been expanded to clarify that related parties include entities that are under the significant influence of a related party that is an individual (i.e. key management personnel, significant shareholders and/or their close family members) and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group. The clarification of the definition of related parties has not resulted in any material changes to the previously reported disclosures of related party transactions nor has it had any material effect on the disclosures made in the current period, as compared to those that would have been reported had SSAP 20, Related party disclosures, still been in effect.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of the financial statements in accordance with HKFRSs requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

Certain critical accounting estimates and judgements in applying the Group's accounting policies are described below.

(a) Impairment of receivables

The management maintains an allowance for doubtful accounts for estimated losses resulting from the inability of the customers to make the required payments. The management bases the estimates on the assessment of recoverability of individual trade and other receivables balance, customer credit-worthiness, and historical write-off experience. If the financial condition of the customers were to deteriorate, actual write-offs would be higher than estimated.

(b) Impairment of long-lived assets

If circumstances indicate that the net book value of a long-lived asset may not be recoverable, this asset may be considered "impaired", and an impairment loss may be recognised in accordance with HKAS 36 "Impairment of assets". The carrying amounts of long-lived assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount. The recoverable amount is the greater of the net selling price and the value in use. It is difficult to precisely estimate selling price because quoted market prices for the assets may not be readily available. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement in terms of projection of cash flow for future periods and the assumption on the pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

(c) Depreciation

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual value. The management reviews the estimated useful lives and residual values of the assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The estimated useful lives and residual values are based on the historical experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

5 TURNOVER

The principal activities of the Group are production, marketing and distribution of glass and glass products.

Turnover represents the sales value of goods supplied to customers, net of value added tax.

6 OTHER REVENUE AND NET INCOME/(LOSS)

	2005 RMB'000	2004 RMB'000
Other revenue		
Interest income	**1,007**	35
Others	**584**	80
	1,591	115
Other net income/(loss)		
Net foreign exchange loss	**(908)**	(85)
Net gain from sale of raw and scrap materials	**2,062**	178
Net gain/(loss) on disposal of property, plant and equipment	**17**	(533)
	1,171	(440)

7 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

(a) Finance costs:

	2005 RMB'000	2004 RMB'000
Interest on bank advances and other borrowings wholly repayable within five years	**12,176**	4,080
Bank charges and other finance costs	**1,033**	2,004
Total borrowing costs	**13,209**	6,084
Less: amounts capitalised*	**(5,470)**	(560)
	7,739	5,524

* The borrowing costs have been capitalised at a rate of 5.76% (2004: 6.32%) per annum for the year ended 31 December 2005.

(Expressed in RMB unless otherwise indicated)

7 PROFIT BEFORE TAXATION (CONTINUED)

(b) Staff costs:

	2005 RMB'000	2004 RMB'000
Salaries, wages and other benefits	**21,734**	21,004
Contributions to defined contribution retirement plans	**3,660**	3,248
	25,394	24,252

The employees of the companies in the Group which were established in the PRC participate in defined contribution retirement benefit schemes managed by the local government authorities, whereby these companies are required to contribute to the schemes at 20% of the employees' basic salaries. Employees in the PRC are entitled to retirement benefits equal to a fixed proportion of their salary at their normal retirement age.

The employees of the Company in Hong Kong were participated in Mandatory Provident Fund Scheme, whereby the Company is required to contribute to the scheme at 5% of the employee's basic salaries.

The Group has no further obligation for payment of other retirement benefits beyond the annual contributions.

(c) Other items:

	2005 RMB'000	2004 RMB'000
Cost of inventories #	**324,919**	303,469
Auditors' remuneration	**1,200**	153
Depreciation and amortisation #	**29,888**	29,978
Operating lease charges in respect of #		
– land	**45**	2,376
– office buildings	**307**	26
Net (gain)/loss on disposal of property, plant and equipment	**(17)**	533
Research and development costs	**58**	8

Cost of inventories includes RMB41.8 million (2004: RMB43.5 million) for the year ended 31 December 2005, relating to staff costs, depreciation and amortisation expenses and operating lease charges, which amount is also included in the respective total amounts disclosed separately above or in Note 7(b) for each of these types of expenses.

(Expressed in RMB unless otherwise indicated)

8 INCOME TAX

(a) Income tax in the consolidated income statement represents:

	2005 **RMB'000**	2004 RMB'000
Provision for income tax on the estimated taxable profits for the year	**882**	9,120
Deferred taxation *(Note 25)*	**(54)**	185
	828	9,305

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2005 **RMB'000**	2004 RMB'000
Profit before taxation	**16,930**	86,014
Expected tax on profit before tax, calculated at the rates applicable to profits in the tax jurisdiction concerned	**6,863**	28,385
Tax effect of non-deductible expenses	**1,095**	698
Tax credit *(Note (iii))*	**(7,130)**	(19,778)
Income tax	**828**	9,305

Note (i): No provision for Hong Kong Profits Tax has been made as the Group did not have assessable profits subject to Hong Kong Profits Tax during the year.

Note (ii): The Company, Success Castle Limited (a wholly–owned subsidiary of the Company) and JV Investments Limited (a 65.05% owned subsidiary of the Company), are not subject to any income tax pursuant to the rules and regulations of their respective countries of incorporation.

Note (iii): Taxation for subsidiaries of the Group established in the PRC (the "PRC subsidiaries") was subject to a statutory PRC Enterprise Income Tax rate at 33%. The PRC subsidiaries are registered as foreign investment enterprise, and according to the relevant income tax rules and regulations applicable to enterprises with foreign investment in the PRC, the PRC subsidiaries obtained approval from the state tax bureau that they are entitled to a 100% relief from PRC Enterprise Income Tax in the first and second years and 50% relief for the third to fifth years, commencing from the first profitable year after the offset of deductible losses incurred in prior years, if any.

9 DIRECTORS' EMOLUMENTS

Details of directors' emoluments are as follows:

	2005				
	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
Executive directors					
Mr. Zhou Cheng	–	119	–	–	119
Mr. Li Ping	–	139	–	7	146
Mr. Lu Guo	–	112	–	7	119
Non-executive directors					
Mr. Zhao John Huan	1	–	–	–	1
Mr. Liu Jinduo	1	–	–	–	1
Mr. Auyeung Koon Kwong	–	–	–	–	–
independent directors					
Mr. Song Jun	18	–	–	–	18
Mr. Wong Wai Ming	18	–	–	–	18
Mr. Zhang Baiheng	18	–	–	–	18
	56	370	–	14	440

(Expressed in RMB unless otherwise indicated)

9 DIRECTORS' EMOLUMENTS (CONTINUED)

	2004				
	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
Executive directors					
Mr. Zhou Cheng	–	–	–	–	–
Mr. Li Ping	–	300	–	6	306
Mr. Lu Guo	–	250	–	6	256
Non-executive directors					
Mr. Zhao John Huan	–	–	–	–	–
Mr. Liu Jinduo	–	–	–	–	–
independent directors					
Mr. Song Jun	–	–	–	–	–
Mr. Wong Wai Ming	–	–	–	–	–
Mr. Zhang Baiheng	–	–	–	–	–
	–	550	–	12	562

There were no amounts paid during the year to the directors in connection with their retirement from employment or compensation for loss of office with the Group, or inducement to join. There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

10 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, three (2004: two) are directors whose emoluments are disclosed in Note 9. The aggregate of the emoluments in respect of the other two (2004: three) individuals are as follows:

	2005 RMB'000	2004 RMB'000
Salaries, allowances and benefits in kind	**650**	600
Retirement scheme contributions	**20**	16
	670	616

(Expressed in RMB unless otherwise indicated)

10 INDIVIDUALS WITH HIGHEST EMOLUMENTS (CONTINUED)

The number of employees who were not directors and who were amongst the five highest paid employees of the Group fell within the following band, was set out below:

	2005	2004
HK$Nil – HK$1,000,000	**2**	3

No emoluments were paid or payable to these employees as an inducement to join or upon joining the Group or as compensation for loss of office during the year.

11 PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company includes a profit of RMB7.3 million (2004: loss of RMB0.06 million) which has been dealt with in the financial statements of the Company.

12 DIVIDENDS

Dividends payable to equity shareholders of the Company attributable to the year:

	2005 **RMB'000**	2004 RMB'000
Final dividend proposed after the balance sheet date of HK$0.013 per share (equivalent to RMB0.0134 per share) (2004: HK$Nil per share)	**4,824**	–

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

13 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share for the year ended 31 December 2005 is based on the profit attributable to equity shareholders of the Company of RMB16.103 million and the weighted average number of 317,342,000 ordinary shares, after taken into account the 270,000,000 ordinary shares of the Company in issue as at the date of the Company's prospectus dated 13 June 2005 (the "Prospectus"), as if the shares were outstanding throughout the year ended 31 December 2005 and the issuance of 90,000,000 ordinary shares by placing and public offer on 23 June 2005.

The calculation of basic earnings per share for the year ended 31 December 2004 was based on the profit attributable to equity shareholders of the Company of RMB64.816 million and the 270,000,000 ordinary shares of the Company in issue as at the date of the Prospectus, as if the shares were outstanding throughout the year ended 31 December 2004.

(b) Diluted earnings per share

There were no dilutive potential ordinary shares during 2004 and 2005 and, therefore, diluted earnings per share are not presented.

(Expressed in RMB unless otherwise indicated)

14 PROPERTY, PLANT AND EQUIPMENT

(a) The Group

	Plant and buildings RMB'000	Machinery and equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:					
At 1 January 2004	104,471	249,542	918	–	354,931
Additions	–	2,317	320	39,012	41,649
Adjustment to fair values in connection with the acquisition of additional interests in a then subsidiary	2,081	1,393	–	–	3,474
Transfer in/(out)	21,242	7,475	–	(28,717)	–
Disposals	(3,729)	(1,236)	(120)	–	(5,085)
At 31 December 2004	124,065	259,491	1,118	10,295	394,969
Accumulated depreciation:					
At 1 January 2004	(17,010)	(97,594)	(363)	–	(114,967)
Charge for the year	(3,050)	(26,888)	(40)	–	(29,978)
Adjustment to fair values in connection with the acquisition of additional interests in a then subsidiary	238	4,049	–	–	4,287
Written back on disposals	1,515	866	101	–	2,482
At 31 December 2004	(18,307)	(119,567)	(302)	–	(138,176)
Net book value:					
At 31 December 2004	105,758	139,924	816	10,295	256,793
At 31 December 2003	87,461	151,948	555	–	239,964
Cost:					
At 1 January 2005	124,065	259,491	1,118	10,295	394,969
Additions	1,737	3,727	770	260,299	266,533
Transfer in/(out)	53,885	215,990	–	(269,875)	–
Disposals	–	(22)	(129)	–	(151)
At 31 December 2005	**179,687**	**479,186**	**1,759**	**719**	**661,351**
Accumulated depreciation:					
At 1 January 2005	(18,307)	(119,567)	(302)	–	(138,176)
Charge for the year	(4,063)	(24,465)	(99)	–	(28,627)
Written back on disposals	–	9	123	–	132
At 31 December 2005	**(22,370)**	**(144,023)**	**(278)**	**–**	**(166,671)**
Net book value:					
At 31 December 2005	**157,317**	**335,163**	**1,481**	**719**	**494,680**
At 31 December 2004	105,758	139,924	816	10,295	256,793

14 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

(a) The Group (Continued)

The following property, plant and equipment were pledged to secure banking facilities (see Note 22) granted to the Group:

	2005 RMB'000	2004 RMB'000
Net book value of pledged assets:		
Plant and buildings	–	29,360
Machinery and equipment	–	33,420
	–	62,780

(b) The Company

	Office equipment RMB'000
Cost:	
At 1 January 2005	–
Additions	89
At 31 December 2005	**89**
Accumulated depreciation:	
At 1 January 2005	–
Charge for the year	(23)
At 31 December 2005	**(23)**
Net book value:	
At 31 December 2005	**66**
At 31 December 2004	–

15 INVESTMENTS IN SUBSIDIARIES

	The Company	
	2005	2004
	RMB'000	RMB'000
Unlisted shares, at cost	**5,261**	–

The following list contains the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. The shares held are all ordinary shares.

Name of company	Place of incorporation/ establishment	Registered/ issued capital	Attributable equity interest Direct	Attributable equity interest Indirect	Principal activities
JV Investments Limited	Cayman Islands	Registered capital of US$50,000 and issued capital of US$10,001	65.05%	–	Investment holding
Success Castle Limited	British Virgin Islands	Registered capital of US$50,000 and issued capital of US$100	100%	–	Investment holding
Jiangsu SHD New Materials Company Limited ("Jiangsu SHD")*	PRC	Registered and paid-up capital of RMB60,000,000	–	100%	Production, marketing and distribution of glass and glass products
Suqian Huayi Coated Glass Limited**	PRC	Registered and paid-up capital of RMB100,000,000	–	90.1%	Production, marketing and distribution of glass and glass products
Huada (HK) International Company Limited	Hong Kong	Registered and issued capital of HK$10,000	–	100%	Trading of glass and glass products

* A wholly foreign owned enterprise established in the PRC.

** A sino-foreign equity joint venture established in the PRC.

(Expressed in RMB unless otherwise indicated)

16 LEASE PREPAYMENTS

	RMB'000
Cost:	
At 1 January 2004, 31 December 2004 and 1 January 2005	–
Additions	58,319
At 31 December 2005	**58,319**
Accumulated amortisation:	
At 1 January 2004, 31 December 2004 and 1 January 2005	–
Charge for the year	(1,261)
At 31 December 2005	**(1,261)**
Net book value:	
At 31 December 2005	**57,058**
At 31 December 2004	–

17 GOODWILL

	RMB'000
Cost:	
At 1 January 2004	–
Additions through acquisition of additional interests in a then subsidiary	14,113
At 31 December 2004, 1 January 2005 and 31 December 2005	14,113
Accumulated amortisation and impairment losses:	
At 1 January 2004, 31 December 2004, 1 January 2005 and 31 December 2005	–
Carrying amount:	
At 31 December 2005	**14,113**
At 31 December 2004	14,113

(Expressed in RMB unless otherwise indicated)

18 INVENTORIES

	The Group	
	2005	2004
	RMB'000	RMB'000
Raw materials	**17,085**	19,737
Work in progress and finished goods	**26,035**	11,202
Racks, spare parts and consumables	**15,321**	12,006
	58,441	42,945
Less: Provision	**(1,255)**	–
	57,186	42,945

An analysis of the amount of inventories recognised as an expense is as follows:

	The Group	
	2005	2004
	RMB'000	RMB'000
Carrying amount of inventories sold	**323,664**	303,469
Write-down of inventories	**1,255**	–
	324,919	303,469

At 31 December 2004 and 2005, RMBNil and RMB12.7 million of finished goods were carried at estimated net realisable value.

19 TRADE AND OTHER RECEIVABLES

	The Group	
	2005	2004
	RMB'000	RMB'000
Trade receivable from third parties	**10,426**	1,996
Bills receivable	**1,242**	6,292
	11,668	8,288
Amount due from an equity shareholder of the Company	**–**	60
Prepayments, deposits and other receivables	**14,700**	8,199
	26,368	16,547

19 TRADE AND OTHER RECEIVABLES (CONTINUED)

	The Company	
	2005	2004
	RMB'000	RMB'000
Amount due from an equity shareholder of the Company	**–**	60
Amounts due from subsidiaries	**222,920**	–
Prepayments, deposits and other receivables	**288**	159
	223,208	219

The amount due from an equity shareholder of the Company, First Fortune Enterprises Limited, was unsecured, non-interest bearing and was repaid during the year ended 31 December 2005.

All of the trade and other receivables are expected to be recovered within one year. Cash before delivery is required for all customers in general. Credit terms up to one month from the date of billing may be granted to customers, depending on credit assessment carried out by management on an individual customer basis. An ageing analysis of trade and bills receivables is as follows:

	The Group	
	2005	2004
	RMB'000	RMB'000
Current	**10,657**	8,288
1 to 3 months overdue	**1,011**	–
	11,668	8,288

20 CASH AND CASH EQUIVALENTS

	The Group	
	2005	2004
	RMB'000	RMB'000
Cash at bank and on hand are denominated in:		
– RMB	**21,728**	103,187
– US$	**835**	2,979
– HK$	**91,022**	287
	113,585	106,453

	The Company	
	2005	2004
	RMB'000	RMB'000
Cash at bank and on hand are denominated in HK$	**79,953**	–

20 CASH AND CASH EQUIVALENTS (CONTINUED)

Included in cash and cash equivalents were RMBNil and RMB2 million as at 31 December 2004 and 2005, respectively, pledged to secure bills issued by the Group.

RMB is not a freely convertible currency and the remittance of funds out of the PRC is subject to the exchange restriction imposed by the PRC government.

21 TRADE AND OTHER PAYABLES

	The Group	
	2005	2004
	RMB'000	RMB'000
Trade payable to third parties	**48,685**	22,760
Bills payable	**10,000**	–
	58,685	22,760
Amounts due to related companies:		
– Companies under common significant influence *(Note (i))*	**4,448**	3,597
– Equity shareholders of the Company *(Note (ii))*	**–**	38,711
	4,448	42,308
Advances received from customers	**9,567**	18,260
Accrued charges and other payables	**91,536**	37,064
	164,236	120,392

	The Company	
	2005	2004
	RMB'000	RMB'000
Amount due to a company under common significant influence *(Note (i))*	**–**	159
Amounts due to subsidiaries	**4,700**	–
Accrued charges and other payables	**866**	15
	5,566	174

Note (i): The amount as at 31 December 2004 were unsecured, non-interest bearing and were settled during the year ended 31 December 2005. The amount as at 31 December 2005 is unsecured, bearing interest at a rate of 6.12% per annum and is repayable by monthly equal instalments in 2006.

Note (ii): The amounts as at 31 December 2004 were unsecured and non-interest bearing. These amounts were settled by the issuance of the Company's shares pursuant to the Reorganisation during the year ended 31 December 2005.

21 TRADE AND OTHER PAYABLES (CONTINUED)

All of the trade and other payables are expected to be settled within one year.

An ageing analysis of trade and bills payables is as follows:

	The Group	
	2005	2004
	RMB'000	RMB'000
Due within 1 month or on demand	**48,685**	22,760
Due after 1 month but within 6 months	**10,000**	–
	58,685	22,760

22 BANK LOANS

	The Group	
	2005	2004
	RMB'000	RMB'000
Bank loans	**150,000**	166,000
The bank loans are repayable as follows:		
Within 1 year or on demand	**150,000**	46,000
After 1 year but within 2 years	**–**	120,000
	150,000	166,000

Guarantee was jointly given by Legend Holdings Limited, which indirectly owns 33.36% of the Company's shares upon completion of the Reorganisation, and Easylead Management Limited, the ultimate holding company of the Company, against the long-term bank loans granted to the Group at 31 December 2004. Such guarantee was released upon the listing of the Company's shares on the Stock Exchange.

The banking facilities of the Group, amounting to RMB120 million (2004: RMB185.23 million), were utilised to the extent of RMB120 million (2004: RMB166 million) as at 31 December 2005. Bank loans of RMB46 million as at 31 December 2004 were secured by certain property, plant and equipment of the Group (see Note 14(a)) and the land use rights owned by Jiangsu Glass Group Company Limited, equity shareholder of Jiangsu SHD prior to the Reorganisation. The Group purchased these land use rights on 4 January 2005 for a consideration of RMB56.076 million (see Note 28(a)).

22 BANK LOANS (CONTINUED)

The weighted average interest rates per annum on bank loans were 5.84% (2004: 6.32%) as at 31 December 2005.

All of the Group's banking facilities are subject to the fulfilment of covenants relating to certain of the Group's balance sheet and income statement ratios, as are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants the drawn down facilities would become payable on demand. Further details of the Group's management of liquidity risk are set out in Note 31(b).

23 AMOUNT DUE TO A RELATED COMPANY

The amount as at 31 December 2005 is arising from the purchase of land use rights (see Note 28(a)). The amount is unsecured, bearing interest at a rate of 6.12% per annum and is repayable by monthly equal instalments till December 2014.

24 CONVERTIBLE NOTES

On 20 December 2005, JV Investments Limited issued convertible notes to Pilkington Italy Limited, an equity shareholder of the Company, for a principal amount of US$503,482 (equivalent to approximately RMB4.085 million) which is convertible into 5,052 shares of JV Investments Limited. All of the convertible notes shall be automatically converted into 5,052 shares of JV Investments Limited to be held by Pilkington Italy Limited if at any time up to 30 December 2012, Pilkington Italy Limited shall be interested in or have the ability to control 10% or more of the voting rights of the Company.

The principal amount of the convertible notes shall be repaid to Pilkington Italy Limited on 31 December 2012 or such later date as shall be agreed by Pilkington Italy Limited and JV Investments Limited in writing, subject to conversion.

Interest on the outstanding principal amount of the convertible notes shall be payable upon any declaration of dividends by JV Investments Limited in an amount equal to the aggregate amount of dividends or distribution declared on the shares of JV Investments Limited then in issue, multiplied by a fraction, the numerator of which is the number of the conversion shares and the denominator which is the total number of ordinary shares of JV Investments Limited then outstanding plus the conversion shares and the convertible notes are unsecured.

25 DEFERRED TAX ASSETS AND LIABILITIES

The components of deferred tax assets/(liabilities) recognised in the consolidated balance sheets and the movement during the year are as follows:

Deferred tax arising from:	**Property, plant and equipment**		
	Assets RMB'000	**Liabilities** RMB'000	**Net** RMB'000
At 1 January 2004	–	–	–
Charged to consolidated income statement *(Note 8(a))*	–	(185)	(185)
At 31 December 2004	–	(185)	(185)
Credited/(charged) to consolidated income statement *(Note 8(a))*	1,282	(1,228)	54
At 31 December 2005	**1,282**	**(1,413)**	**(131)**

There were no significant unrecognised deferred tax assets and liabilities as at 31 December 2004 and 2005.

(Expressed in RMB unless otherwise indicated)

26 CAPITAL AND RESERVES

(a) The Group

	Attributable to equity shareholders of the Company									
	Share capital RMB'000	**Share premium** RMB'000	**Capital reserve** RMB'000	**Statutory reserves** RMB'000 (Note (v))	**Other reserve** RMB'000	**Exchange reserve** RMB'000	**Retained profits** RMB'000	**Total** RMB'000	**Minority interests** RMB'000	**Total equity** RMB'000
At 1 January 2004	60,000	–	22,000	11,626	–	–	28,753	122,379	16,032	138,411
Issuance of shares	107	–	–	–	–		–	107	–	107
Buy-out of minority interests	–	–	–	–	–	–	–	–	(27,925)	(27,925)
Net profit for the year	–	–	–	–	–	–	64,816	64,816	11,893	76,709
Appropriations to reserves	–	–	–	16,851	–	–	(16,851)	–	–	–
Distributions to the then equity shareholders	–	–	–	–	–	–	(38,719)	(38,719)	–	(38,719)
At 31 December 2004	60,107	–	22,000	28,477	–	–	37,999	148,583	–	148,583
At 1 January 2005	60,107	–	22,000	28,477	–	–	37,999	148,583	–	148,583
Equity movements arising from the Reorganisation	(60,001)	–	–	–	(68,570)	–	38,719	(89,852)	–	(89,852)
Capitalisation issue *(Note (i))*	28,646	100,300	–	–	–	–	–	128,946	–	128,946
Issuance of shares by placing and public offer *(Note (ii))*	9,584	199,350	–	–	–	–	–	208,934	–	208,934
Share issue expenses	–	(25,210)	–	–	–	–	–	(25,210)	–	(25,210)
Contributions from minority interests	–	–	–	–	–	–	–	–	12,727	12,727
Issuance of convertible notes	–	–	1,233	–	–	–	–	1,233	663	1,896
Exchange differences on translation into presentation currency	–	–	–	–	–	(4,063)	–	(4,063)	–	(4,063)
Net profit/(loss) for the year	–	–	–	–	–	–	16,103	16,103	(1)	16,102
Appropriations to reserves	–	–	–	2,131	–	–	(2,131)	–	–	–
At 31 December 2005	**38,336**	**274,440**	**23,233**	**30,608**	**(68,570)**	**(4,063)**	**90,690**	**384,674**	**13,389**	**398,063**

26 CAPITAL AND RESERVES (CONTINUED)

(b) The Company

	Share capital RMB'000	Share premium RMB'000	Exchange reserve RMB'000	(Accumulated losses)/retained profits RMB'000	Total RMB'000
At 27 October 2004 (date of incorporation)	–	–	–	–	–
Issuance of shares	106	–	–	–	106
Net loss for the year	–	–	–	(61)	(61)
At 31 December 2004	106	–	–	(61)	45
At 1 January 2005	106	–	–	(61)	45
Capitalisation issue *(Note (i))*	28,646	100,300	–	–	128,946
Issuance of shares by placing and public offer *(Note (ii))*	9,584	199,350	–	–	208,934
Share issue expenses	–	(25,210)	–	–	(25,210)
Exchange differences on translation into presentation currency	–	–	(7,203)	–	(7,203)
Net profit for the year	–	–	–	7,293	7,293
At 31 December 2005	**38,336**	**274,440**	**(7,203)**	**7,232**	**312,805**

(c) Share capital

	2005		2004	
	No. of shares ('000)	**RMB'000**	No. of shares ('000)	RMB'000
Authorised:				
Ordinary shares of HK$0.1 each	**700,000**	**74,543**	1,000	106
Issued and fully paid:				
At 1 January	**1,000**	**106**	–	–
Capitalisation issue *(Note (i))*	**269,000**	**28,646**	–	–
Issuance of shares by placing and public offer *(Note (ii))*	**90,000**	**9,584**	–	–
Issuance of shares	**–**	**–**	1,000	106
At 31 December	**360,000**	**38,336**	1,000	106

26 CAPITAL AND RESERVES (CONTINUED)

Notes:

(i) Pursuant to the Reorganisation, as consideration for the acquisition of the entire issued share capital of Success Castle Limited, 7,341,000, 1,171,000 and 488,000 shares of HK$0.1 each were allotted and issued and credited as fully paid to First Fortune Enterprises Limited ("First Fortune"), Swift Glory Investments Limited ("Swift Glory") and Ample Best Holdings Limited ("Ample Best") respectively by way of capitalisation of the advances of approximately RMB108 million, RMB15 million and RMB6 million due to First Fortune, Swift Glory and Ample Best, respectively.

Pursuant to the resolutions passed by the shareholders of the Company at a special general meeting on 30 May 2005, 260,000,000 shares of HK$0.1 each were allotted and issued by way of capitalisation of RMB28 million standing to the credit of the share premium account of the Company.

(ii) On 23 June 2005, 90,000,000 additional ordinary shares of par value of HK$0.1 were issued and offered for subscription at a price of HK$2.18 per share upon the listing of the Company's shares on the Stock Exchange. The proceeds of HK$9,000,000 (equivalent to RMB9,584,000), representing the par value, were credited to the Company's share capital. The remaining proceeds of HK$187,200,000 (equivalent to RMB199,350,000) were credited to the share premium account.

(iii) Share premium

The application of the share premium account is governed by Section 40 of the Companies Act 1981 of Bermuda (as amended).

(iv) Capital reserve

This represents the value of the unexercised equity component of convertible notes issued by JV Investments Limited recognised in accordance with the accounting policy adopted for convertible notes in Note 2(h).

(v) In accordance with the articles of association of the PRC subsidiaries, the PRC subsidiaries of the Group were required to set up a general reserve fund and an enterprise expansion fund, which were non-distributable. The transfers of these reserves are at discretion of the directors of the PRC subsidiaries. The general reserve fund can only be used to make good of previous years' losses upon approval by the relevant authority. The enterprise expansion fund can only be used to increase their capital or to expand their production operations upon approval by the relevant authority.

27 SEGMENT REPORTING

The analysis of the geographical location of the operations of the Group during the year was as follows:

	PRC		Overseas		Consolidated	
	2005	2004	**2005**	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Turnover	**236,019**	338,205	**150,475**	91,533	**386,494**	429,738
Segment results	**21,614**	91,099	**30,130**	20,729	**51,744**	111,828
Unallocated operating income and expenses					**(27,075)**	(20,290)
Profit from operations					**24,669**	91,538
Finance costs					**(7,739)**	(5,524)
Income tax					**(828)**	(9,305)
Net profit for the year					**16,102**	76,709

28 RELATED PARTY TRANSACTIONS

In addition to the balances disclosed elsewhere in these financial statements, the Group entered into the following material related party transactions.

(a) Purchase of land use rights

On 4 January 2005, the Group purchased the buildings and the land use rights for the related land it had previously leased from Jiangsu Glass Group Company Limited under operating leases. The amount of operating lease charges the Group paid for the land for the year ended 31 December 2004 was RMB2.376 million.

The consideration for the land use rights is RMB56.076 million and is repayable by 120 equal instalments within ten years. During the repayment period, the outstanding amount is bearing interest at a rate of 6.12% per annum. For the year ended 31 December 2005, interest expenses of RMB3.316 million incurred had been paid to Jiangsu Glass Group Company Limited.

The consideration for the building is RMB1.764 million and has been paid to Jiangsu Glass Group Company Limited during the year ended 31 December 2005.

(Expressed in RMB unless otherwise indicated)

28 RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Key management personnel remuneration

Remuneration for key management personnel, including amounts paid to the Company's directors as disclosed in Note 9 and certain of the highest paid employees as disclosed in Note 10, is as follows:

	2005 RMB'000	2004 RMB'000
Short-term employee benefits	**1,284**	1,365
Retirement scheme contributions	**56**	33
	1,340	1,398

Total remuneration is included in "staff costs" (see Note 7(b)).

29 COMMITMENTS

(a) Capital commitments

At 31 December 2004 and 2005, the outstanding capital commitments of the Group not provided for in the financial statements are summarised as follows:

	2005 RMB'000	2004 RMB'000
Commitments in respect of land and buildings		
– authorised and contracted for	**507**	1,661
– authorised but not contracted for	**–**	94,673
	507	96,334
Commitments in respect of machinery and equipment		
– authorised and contracted for	**–**	38,821
– authorised but not contracted for	**–**	143,928
	–	182,749
Total commitments		
– authorised and contracted for	**507**	40,482
– authorised but not contracted for	**–**	238,601
	507	279,083

(Expressed in RMB unless otherwise indicated)

29 COMMITMENTS (CONTINUED)

(b) Operating lease commitments

At 31 December 2004 and 2005, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

(i) The Group

	2005 **RMB'000**	2004 RMB'000
Within 1 year	**45**	330
After 1 year but within 5 years	**180**	180
After 5 years	**409**	454
	634	964

The Group leases certain land and office buildings under operating leases. None of the leases includes contingent rentals.

(ii) The Company

	2005 **RMB'000**	2004 RMB'000
Within 1 year	**–**	285

The Company leases certain office buildings under operating leases. None of the leases includes contingent rentals.

30 DISTRIBUTABLE RESERVES

At 31 December 2005, the aggregate amount of reserves available for distribution to equity shareholders of the Company was RMB7.2 million (2004: RMBNil).

(Expressed in RMB unless otherwise indicated)

31 FINANCIAL INSTRUMENTS

Financial assets of the Group include cash and cash equivalents and trade and other receivables. Financial liabilities of the Group include bank loans and trade and other payables. The Group had no position in derivative contracts at 31 December 2004 and 2005.

(a) Credit risk

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated balance sheets.

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers. The Group does not require collateral in respect of financial assets.

The Group had no significant concentrations of credit risk which individual trade and other receivables balance exceeds 10% of the Group's net assets at the balance sheet date.

(b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to the approvals by the respective board of group companies. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

(c) Interest rate risk

The interest rates and terms of repayment of the bank loans and convertible notes of the Group are disclosed in Note 22 and Note 24 respectively.

The interest rates and terms of repayment of interest bearing advances from a related company of the Group are disclosed in Note 21 and Note 23.

(Expressed in RMB unless otherwise indicated)

31 FINANCIAL INSTRUMENTS (CONTINUED)

(d) Foreign currency risk

Renminbi is not freely convertible into foreign currencies. All foreign exchange transactions involving Renminbi must take place through the People's Bank of China or other institutions authorised to buy and sell foreign currencies. The Group is exposed to the following foreign currency risk at each balance sheet date:

	2005 RMB'000	2004 RMB'000
Cash at bank and on hand denominated in:		
– US$	**835**	2,979
– HK$	**91,022**	287
	91,857	3,266

(e) Fair value

The following table represents the carrying amount and fair value of the Group's long-term bank loans, amount due to a related company and convertible notes as at 31 December 2004 and 2005.

	2005 RMB'000	2004 RMB'000
Long-term bank loans:		
Carrying amount	**–**	120,000
Fair value	**–**	120,205
Amount due to a related company:		
Carrying amount	**47,443**	–
Fair value	**47,443**	–
Convertible notes:		
Carrying amount	**2,189**	–
Fair value	**2,189**	–

Except for the above, the fair values of all financial instruments approximated to their respective carrying amounts as at 31 December 2004 and 2005 due to the nature or short term maturity of these instruments.

(Expressed in RMB unless otherwise indicated)

32 POST BALANCE SHEET EVENTS

On 27 April 2006, the directors of the Company proposed a final dividend of HK$0.013 per share (equivalent to RMB0.0134 per share) (2004: HK$Nil per share), amounting to RMB4.824 million. This dividend has not been recognised as a liability at the balance sheet date.

On 14 February 2006, the Company entered into a series of transactions through its various subsidiaries to acquire a controlling interest of not less than 30% in a number of companies which are principally engaged in the production and sale of glass and glass products, and development of glass industry technology. Such transactions constitute a very substantial acquisition of the Company requiring the approval of the shareholders under the Rules Governing the Listing of Securities on the Stock Exchange.

33 COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current year's presentation.

34 PARENT AND ULTIMATE HOLDING COMPANY

The directors consider the parent and ultimate holding company of the Company at 31 December 2005 to be Easylead Management Limited, which is incorporated in British Virgin Islands.

35 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDED 31 DECEMBER 2005

Up to the date of issue of these financial statements, the HKICPA has issued the following amendments, new standards and interpretations which are not yet effective for the accounting period ending 31 December 2005 and which have not been adopted in these financial statements:

	Effective for accounting periods beginning on or after
HKFRS 6, Exploration for and evaluation of mineral resources	1 January 2006
HK(IFRIC) 4, Determining whether an arrangement contains a lease	1 January 2006
HK(IFRIC) 5, Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds	1 January 2006
HK(IFRIC) 6, Liabilities arising from participating in a specific market – Waste electrical and electronic equipment	1 December 2005
Amendments to HKAS 19, Employee benefits – Actuarial Gains and Losses, Group Plans and Disclosures	1 January 2006

(Expressed in RMB unless otherwise indicated)

35 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDED 31 DECEMBER 2005 (CONTINUED)

	Effective for accounting periods beginning on or after
Amendments to HKAS 39, Financial instruments: Recognition and measurement:	
– Cash flow hedge accounting of forecast intragroup transactions	1 January 2006
– The fair value option	1 January 2006
– Financial guarantee contracts	1 January 2006
Amendments, as a consequence of the Hong Kong Companies (Amendment) Ordinance 2005, to:	
– HKAS 1, Presentation of financial statements	1 January 2006
– HKAS 27, Consolidated and separate financial statements	1 January 2006
– HKFRS 3, Business combinations	1 January 2006
HKFRS 7, Financial instruments: disclosures	1 January 2007
Amendment to HKAS 1, Presentation of financial statements: capital disclosures	1 January 2007

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application.