浙江玻璃股份有限公司
ZHEJIANG GLASS COMPANY, LIMITED

Stock Code: 739

Interim Report 2006

Contents

CORPORATE INFORMATION

DIRECTORS

Executive Directors
Mr. FENG Guangcheng *(Chairman)*
Ms. FENG Luwen
(resigned with effect from 29 August 2006)
Ms. XU Yujuan
(resigned with effect from 29 August 2006)
Ms. HONG Yumei
Mr. WANG Yanchun
(resigned with effect from 29 August 2006)
Mr. CHUNG Kwok Mo John

Non-executive Directors
Mr. LIU Jianguo
Mr. SHI Guodong

Independent Non-executive Directors
Dr. LI Jun
Mr. WANG Yanmou
Mr. WANG Herong
Mr. SU Gongmei

SUPERVISORS

Mr. CHEN Baijin
(resigned with effect from 29 August 2006)
Mr. LOU Zhenrong
Mr. XU Yuxiang
Mr. ZHANG Guoqing
Mr. FU Guohua
Mr. NI Daoxin
Mr. SHEN Guangjun
(resigned with effect from 29 August 2006)
Mr. MAO Junchun
Mr. YANG Kuang

SHARE LISTING

Main Board of The Stock Exchange of Hong Kong Limited

Stock Code: 739

AUDITORS

PricewaterhouseCoopers
PricewaterhouseCoopers Zhong Tian CPAs Ltd.

LEGAL ADVISORS

as to Hong Kong law:
Chiu & Partners

as to PRC law:
Commerce & Finance Law Offices

LEGAL ADDRESS

Yangxunqiao Township
Shaoxing County
Zhejiang Province
The People's Republic of China

PLACE OF BUSINESS IN HONG KONG

1301 Ruttonjee House
Ruttonjee Centre
11 Duddell Street
Central
Hong Kong

COMPANY SECRETARIES

Ms. TAO Haiping
Ms. HUNG Wing Yan Winnei

AUTHORISED REPRESENTATIVES

Mr. FENG Guangcheng
Ms. TAO Haiping

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

Hong Kong Registrars Limited
Rooms 1712-1716, 17/F
Hopewell Centre
183 Queen's Road East
Hong Kong

INVESTOR RELATIONS CONSULTANT

Strategic Financial Relations (China) Limited

INTERNET WEBSITE

www.zjglass.cn

The directors (the "Directors") of Zhejiang Glass Company, Limited (the "Company") are pleased to present the Interim Report and condensed financial information of the Company and its subsidiaries (together, the "Group") for the six months ended 30 June 2006. The consolidated income statement, consolidated cash flow statement and consolidated statement of changes in equity of the Group for the six months ended 30 June 2006, and the consolidated balance sheet as at 30 June 2006 of the Group, all of which are unaudited and condensed, along with selected explanatory notes, are set out on pages 8 to 27 of this report.

CONDENSED INTERIM CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2006

		Unaudited	
		Six months ended 30 June	
	Note	**2006** **RMB'000**	2005 RMB'000
Turnover, net	3	**583,356**	568,773
Cost of sales		**(559,174)**	(418,354)
Gross profit		**24,182**	150,419
Other revenue		**1,518**	1,428
Other gains	8	**16,911**	20,102
Distribution and selling expenses		**(24,213)**	(9,897)
General, administrative and other operating expenses		**(21,694)**	(14,747)
Operating (loss)/profit	4	**(3,296)**	147,305
Finance costs		**(76,506)**	(40,840)
(Loss)/profit before income tax		**(79,802)**	106,465
Income tax expense	5	**1,416**	(36,099)
(Loss)/profit for the period		**(78,386)**	70,366
Attributable to:			
Equity holders of the Company	7	**(75,774)**	69,739
Minority interests		**(2,612)**	627
		(78,386)	70,366
Proposed interim dividends	6	**–**	20,892
Basic (loss)/earnings per share for (loss)/profit attributable to the equity holders of the Company	7	**RMB(0.131)**	RMB0.121

CONDENSED INTERIM CONSOLIDATED BALANCE SHEET

As at 30 June 2006 and 31 December 2005

	Note	30 June 2006 Unaudited RMB'000	31 December 2005 Audited RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	9	**2,993,394**	3,171,620
Construction-in-progress	9	**1,245,382**	1,129,189
Land use rights	9	**154,370**	104,437
Deposits for land use rights	9	**66,458**	118,062
Intangible assets	9	**10,268**	10,465
Long-term prepayments		**38,254**	35,698
Deferred tax assets		**9,417**	–
		4,517,543	4,569,471
Current assets			
Inventories		**225,128**	143,155
Due from related companies	16	**12,499**	12,314
Prepayments, deposits and other current assets		**63,636**	27,339
Bills receivable		**5,408**	9,682
Accounts receivable	10	**94,858**	128,933
Pledged deposits		**175,857**	329,133
Cash and cash equivalents		**756,436**	561,457
		1,333,822	1,212,013
Total assets		**5,851,365**	5,781,484
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	13	**578,713**	578,713
Retained earnings		**246,966**	322,740
Other reserves		**488,991**	488,991
		1,314,670	1,390,444
Minority interests		**36,489**	39,101
Total equity		**1,351,159**	1,429,545

CONDENSED INTERIM CONSOLIDATED BALANCE SHEET

(continued)

As at 30 June 2006 and 31 December 2005

	Note	30 June 2006 Unaudited RMB'000	31 December 2005 Audited RMB'000
LIABILITIES			
Non-current liabilities			
Long-term bank loans	12	**1,110,000**	1,160,000
Deferred tax liabilities		**45,167**	39,670
		1,155,167	1,199,670
Current liabilities			
Accounts payable	11	**525,820**	499,164
Bills payable		**289,930**	380,000
Accruals and other payables		**118,107**	130,995
Due to a related company	16	**360**	111
Deposits and advance from customers		**148,645**	44,747
Taxes payable		**19,489**	28,964
Current portion of long-term bank loans	12	**140,000**	110,000
Short-term bank loans	12	**2,102,688**	1,958,288
		3,345,039	3,152,269
Total liabilities		**4,500,206**	4,351,939
Total equity and liabilities		**5,851,365**	5,781,484
Net current liabilities		**2,011,217**	1,940,256
Total assets less current liabilities		**2,506,326**	2,629,215

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2006

	Unaudited								
	Attributable to equity holders of the Company								
	Share capital RMB'000	Share premium RMB'000	Statutory surplus reserve RMB'000	Statutory public welfare fund RMB'000	Acquisition surplus RMB'000	Retained profits RMB'000	Proposed dividends RMB'000	Minority interest RMB'000	Total RMB'000
Balance at 1 January 2005	578,713	350,066	59,758	59,758	–	281,220	29,105	20,564	1,379,184
Net profit for the period	–	–	–	–	–	69,739	–	627	70,366
Dividends paid	–	–	–	–	–	–	(29,105)	–	(29,105)
Interim dividends proposed	–	–	–	–	–	(20,892)	20,892	–	–
Capital contribution to a subsidiary of the Company	–	–	–	–	–	–	–	29,306	29,306
Balance at 30 June 2005	578,713	350,066	59,758	59,758	–	330,067	20,892	50,497	1,449,751
Balance at 1 January 2006	**578,713**	**350,066**	**65,588**	**65,588**	**7,749**	**322,740**	**–**	**39,101**	**1,429,545**
Net loss for the period	**–**	**–**	**–**	**–**	**–**	**(75,774)**	**–**	**(2,612)**	**(78,386)**
Dividends paid	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Interim dividends	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Balance at 30 June 2006	**578,713**	**350,066**	**65,588**	**65,588**	**7,749**	**246,966**	**–**	**36,489**	**1,351,159**

No appropriations were made to the statutory surplus reserve and statutory public welfare fund by the Group for the six months ended 30 June 2006. Such appropriations will be made at year end in accordance with the provisions of the PRC Company Law and the Company's articles of association.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2006

	Unaudited Six months ended 30 June	
	2006	2005
	RMB'000	RMB'000
Net cash inflow from operating activities	**64,850**	35,281
Net cash used in investing activities	**(57,477)**	(1,072,243)
Net cash inflow from financing activities	**187,606**	1,133,299
Increase in cash and cash equivalents	**194,979**	96,337
Cash and cash equivalents at 1 January	**561,457**	707,149
Cash and cash equivalents at 30 June	**756,436**	803,486
Analysis of balances of cash and cash equivalents:		
Bank balances and cash	**756,436**	803,486

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1. Basis of preparation and accounting policies

The unaudited condensed consolidated financial information ("interim financial information") has been prepared based on the Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants.

The accounting policies and methods of computation used in the preparation of this interim financial information are consistent with those used in the annual financial statements for the year ended 31 December 2005.

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 30 June 2006, the Group had net current liabilities of approximately RMB2,011 million (31 December 2005: 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.

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

1. On 26 June 2006, the Company entered into a subscription agreement, pursuant to which the Company agreed, subject to certain conditions being fulfilled, to issue 142.12 million new H shares at a subscription price of HK$1.8 each to certain institutional investors, including International Finance Corporation ("IFC"). Such capital increase was completed on 29 August 2006. The Company intends to use the proceeds from this issuance of new H shares of approximately HK$255.8 million (equivalent to approximately RMB263.5 million) to repay part of the Company's outstanding short-term bank loans.

2. On 26 June 2006, the Company entered into a loan agreement to secure a long-term loan of US$68 million (equivalent to approximately RMB544 million) from IFC, repayable by 11 instalments commencing from 15 July 2008 and with final maturity falling due in 2013. This loan will be used to replace part of the Company's existing short-term loans with long-term loans during the second half of 2006.

1. **Basis of preparation and accounting policies** (continued)

3. The Group is expected to derive positive 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 will be manufactured from a new production line expected to be put into operation towards the end 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 activities; and reducing the dividend pay-out ratio for 2006 and 2007.

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 meet its obligations 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 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.

The condensed consolidated financial information should be read in conjunction with the 2005 annual financial statements.

The following new standards, amendments to standards and interpretations are mandatory for financial year ending 31 December 2006.

- Amendment to HKAS 19, 'Actuarial gains and losses, group plans and disclosures', effective for annual periods beginning on or after 1 January 2006. This amendment is not relevant for the Group;

- Amendment to IAS/HKAS 39, Amendment to 'The fair value option', effective for annual periods beginning on or after 1 January 2006. This amendment is not relevant for the Group;

1. **Basis of preparation and accounting policies** (continued)

- Amendment to IAS/HKAS 21, Amendment 'Net investment in a foreign operation', effective for annual periods beginning on or after 1 January 2006. This amendment does not have material impact on the Group's consolidated equity.

- Amendment to HKAS 39, Amendment 'Cash flow hedge accounting of forecast intragroup transactions', effective for annual periods beginning on or after 1 January 2006. This amendment is not relevant for the Group;

- Amendment to HKAS 39 and IFRS/HKFRS 4, Amendment 'Financial guarantee contracts', effective for annual periods beginning on or after 1 January 2006. This amendment was assessed to have no significant effect to the Group;

- HKFRS 6, 'Exploration for and evaluation of mineral resources', effective for annual periods beginning on or after 1 January 2006. This standard was assessed to have no significant effect to the Group;

- HK(IFRIC)-Int 4, 'Determining whether an arrangement contains a lease', effective for annual periods beginning on or after 1 January 2006. The Group has performed a review on all its contracts, and has not identified any additional contract to be required to be accounted for as leases in accordance with HKAS17;

- HK(IFRIC)-Int 5, 'Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds', effective for annual periods beginning on or after 1 January 2006. This interpretation is not relevant for the Group; and

- HK(IFRIC)-Int 6, 'Liabilities arising from participating in a specific market – waste electrical and electronic equipment', effective for annual periods beginning on or after 1 December 2005. This interpretation is not relevant for the group.

1. **Basis of preparation and accounting policies** (continued)

The following new standards, amendments to standards and interpretations have been issued but are not effective for 2006 and have not been early adopted:

- IFRIC/HK(IFRIC)-Int 7, 'Applying the Restatement Approach under IFRS/HKFRS 29', effective for annual periods beginning on or after 1 March 2006. Management do not expect the interpretation to be relevant for the Group;

- IFRIC/HK(IFRIC)-Int 8, 'Scope of IFRS/HKFRS 2', effective for annual periods beginning on or after 1 May 2006. Management do not expect this interpretation to be relevant for the Group;

- IFRIC/HK(IFRIC)-Int 9, 'Reassessment of Embedded Derivatives', effective for annual periods beginning on or after 1 June 2006. Management believes that this interpretation should not have a significant impact on the reassessment of embedded derivatives as the Group already assess if embedded derivative should be separated using principles consistent with IFRIC/HK(IFRIC)-Int 9; and

- IFRS/HKFRS 7, 'Financial instruments: Disclosures', effective for annual periods beginning on or after 1 January 2007. IAS/HKAS 1, 'Amendments to capital disclosures', effective for annual periods beginning on or after 1 January 2007. The Group assessed the impact of IFRS/HKFRS 7 and the amendment to IAS/HKAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and capital disclosures required by the amendment of IAS/HKAS 1. The Group will apply IFRS/HKFRS 7 and the amendment to IAS/HKAS 1 from annual periods beginning 1 January 2007.

2. **Financial risk management**

(a) Foreign exchange risk

The Group's sales and operations are principally conducted in the PRC. The Group's principal operations are transacted and recorded in Renmibi. The Group's assets and liabilities are mainly denominated in Renmibi. Non-Renmibi denominated assets and liabilities are not material relative to the Group's total assets and liabilities. Accordingly, the Group had neither engaged in any derivative activities nor committed to any financial instruments to hedge its balance sheet exposures.

2. Financial risk management (continued)

(b) Credit risk

The Group currently sells substantially all its glass and soda ash products in the PRC market. Cash on delivery is required for most customers buying the Group's flat glass and soda ash products. Credit is granted for a period of up to twelve months to most customers buying the Group's processed glass products, as well as to a limited number of customers buying the Group's flat glass and soda ash products after an assessment is made on their financial conditions and their past payment history and with the approval of the top management of the Group. As at 30 June 2006, the five largest debtors accounted for 28% of total accounts receivable balances of the Group.

As the customers with outstanding balances outstanding as at 30 June 2006 amounting to approximately RMB96 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. Accordingly, the provision for doubtful debts as at 30 June 2006 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 30 June 2006 in the amount of approximately RMB2,011 million. Nevertheless, the Group has not experienced any problems in renewing its short-term bank loans upon their maturity.

The Directors have undertaken certain actions and procedures to reduce the liquidity risks of the Group, as discussed in Note 1 above. 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 at variable rates expose the Group to cash flow interest-rate risk. Borrowings at fixed rates expose the Group to fair value interest-rate risk. As at 30 June 2006, 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.

3. Segment information

(a) Primary reporting format – business segments

Segment information of the Group's two operating segments are as follows:

	Six months ended 30 June							
	2006				2005			
	Glass manufacturing RMB'000	Soda ash manufacturing RMB'000 (Note)	Inter-segment elimination RMB'000	Total RMB'000	Glass manufacturing RMB'000	Soda ash manufacturing RMB'000 (Note)	Inter-segment elimination RMB'000	Total RMB'000
Total segment revenue	476,260	170,522	(63,426)	583,356	568,773	–	–	568,773
Segment Result	(3,317)	(12,501)	1,501	(14,317)	139,282	(3,215)	–	136,067
Interest income				13,221				11,238
Unallocated expenses, net				(2,200)				–
Operating (loss)/profit				(3,296)				147,305
Finance costs				(76,506)				(40,840)
(Loss)/profit before income tax				(79,802)				106,465
Income tax expense				1,416				(36,099)
(Loss)/profit for the year				(78,386)				70,366
Assets								
Segment assets	3,338,575	2,624,763	(121,390)	5,841,948	3,290,382	1,804,648	–	5,095,030
Unallocated assets				9,417				–
				5,851,365				5,095,030
Liabilities								
Segment liabilities	355,614	876,879	(130,142)	1,102,351	2,234,128	1,411,151	–	3,645,279
Unallocated liabilities				3,397,855				–
				4,500,206				3,645,279
Other information								
Capital expenditure	63,454	64,961	–	128,415	370,753	764,702	–	1,135,455
Depreciation	80,314	69,538	–	149,852	78,345	–	–	78,345
Amortisation of land use rights and intangible assets	2,127	137	–	2,264	1,174	–	–	1,174

Note: The soda ash manufacturing segment commenced its commercial production in mid December 2005.

3. Segment information (continued)

(b) Secondary reporting format – geographical segments

Geographical segment analysis on turnover of the Group is as follows:

	Six months ended 30 June	
	2006	2005
	RMB'000	RMB'000
Sales		
Zhejiang	**364,127**	404,022
Jiangsu	**52,325**	79,140
Shanghai	**31,374**	55,369
Shanxi, Henan and Hebei	**29,429**	288
Anhui and Hubei	**19,198**	–
Guangdong and Fujian	**14,836**	19,608
Inner Mongolia	**10,915**	1,413
Liaoning, Jilin and Heilongjiang	**8,017**	–
Beijing and Tianjin	**5,790**	–
Other regions	**47,345**	8,933
	583,356	568,773

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

Segment assets and liabilities and other disclosures such as segment capital expenditures and expenses are classified by where they are located. The classification and the respective amounts are the same as the business segment information.

4. Operating (loss)/profit

Operating (loss)/profit is stated after charging and crediting the following:

	Six months ended 30 June	
	2006	2005
	RMB'000	RMB'000
Charging –		
Changes in inventories of finished goods and work in progress	**(77,963)**	(6,582)
Raw materials and consumable used	**454,682**	335,004
Staff costs (including directors' emoluments)		
– salaries, wages and related employee welfare expenses	**28,073**	19,926
– pension costs – State-sponsored retirement plan	**1,177**	1,596
– pension costs – defined contribution retirement scheme	**22**	29
	29,272	21,551
Depreciation	**149,852**	78,464
Amortisation charge	**2,264**	1,174
Operating lease rental of office premises	**409**	416
Crediting –		
Interest income on bank deposits	**13,221**	11,238

5. Income tax expense

The amount of income tax (credited)/charged to the condensed consolidated income statement represents:

	Six months ended 30 June	
	2006	2005
	RMB'000	RMB'000
Current income tax:		
– PRC Enterprise Income Tax	**2,504**	30,044
Deferred income tax relating to the origination and reversal of temporary differences	**(3,920)**	6,055
	(1,416)	36,099

6. Dividends

	Six months ended 30 June	
	2006	2005
	RMB'000	RMB'000
Dividends paid:		
– Final dividends for the year 2004 of RMB0.0503 per ordinary share (no final dividends declared for the year 2005) (Note)	**–**	29,105
Dividends proposed:		
– Interim dividends for the year 2005 of RMB0.0361 per ordinary share (no interim dividends proposed for the year 2006) (Note)	**–**	20,892

Note: At meetings of the board of Directors held on 27 April 2006 and 29 August 2006, the Directors proposed not to declare any final dividend for the year ended 31 December 2005 and for the six months ended 30 June 2006 respectively.

7. (Loss)/Earnings per share

The calculation of the basic (loss)/earnings per share for profit attributable to the equity holders of the Company is based on the loss attributable to equity holders of the Company for the six months ended 30 June 2006 of approximately RMB75,774,000 (six months ended 30 June 2005 – a profit of RMB69,739,000) divided by 578,713,000 shares, being the weighted average number of ordinary shares in issue during the reported period (six months ended 30 June 2005 – 578,713,000 shares).

Diluted earnings per share have not been presented as there were no dilutive potential ordinary shares outstanding (2005 – same).

8. Other gains

	Six months ended 30 June	
	2006	2005
	RMB'000	RMB'000
Interest income	**13,221**	11,238
Government grants (a)	**590**	8,801
Others	**3,100**	63
	16,911	20,102

(a) Cash subsidy income related to grants made by the Ministry of Finance ("MOF") of Yangxunqiao Township, Shaoxing County to the Company to support the expansion of the Company and to finance the Company's staff costs and manufacturing overheads incurred during the period.

9. Capital expenditures

	Property, plant and equipment RMB'000	Construction-in-progress RMB'000	Land use rights RMB'000	Deposits for land use rights RMB'000	Intangible assets RMB'000
Opening net book amount as at 1 January 2006	3,171,620	1,129,189	104,437	118,062	10,465
Additions (disposal)	(30,200)	118,019	167	–	229
Transfers	1,826	(1,826)	51,604	(51,604)	–
Depreciation/amortisation charge	(149,852)	–	(1,838)	–	(426)
Closing net book amount as at 30 June 2006	2,993,394	1,245,382	154,370	66,458	10,268
Opening net book amount as at 1 January 2005	1,184,545	1,425,296	84,534	102,720	5,254
Additions	9,780	1,119,355	300	–	6,020
Transfers	345,226	(328,240)	–	(16,986)	–
Depreciation/amortisation charge	(78,464)	–	(849)	–	(325)
Closing net book amount as at 30 June 2005	1,461,087	2,216,411	83,985	85,734	10,949

On 27 July 2006, a subsidiary of the Group formally terminated the supply contract between it and a contractor, Zhejiang Hua Sheng Engineering Co Ltd ("Hua Sheng"). Certain fixed assets recognized under that contract by the Group were physically recovered by the Group. The remaining fixed assets were compensated by Hua Sheng by cash.

10. Accounts receivable

The aging analysis of accounts receivable is set out below:

	30 June 2006 RMB'000	31 December 2005 RMB'000
Current to under 6 months	**41,074**	91,416
6 to under 12 months	**37,908**	36,143
1 to under 2 years	**16,559**	2,057
Provision for doubtful debts	**(683)**	(683)
Accounts receivable, net	**94,858**	128,933

11. Accounts payable

The aging analysis of accounts payable is set out below:

	30 June 2006 RMB'000	31 December 2005 RMB'000
Current to under 6 months	**418,803**	422,960
6 to under 12 months	**29,830**	55,868
1 to under 2 years	**72,194**	15,700
2 to under 3 years	**784**	427
3 years and over	**4,209**	4,209
Accounts payable, net	**525,820**	499,164

12. Borrowings

(a) Bank loans

	30 June 2006 RMB'000	31 December 2005 RMB'000
– amounts wholly repayable within 1 year	**2,242,688**	2,068,288
– amounts wholly repayable between 1 to 2 years	**130,000**	100,000
– amounts wholly repayable between 2 to 5 years	**560,000**	540,000
– amounts wholly repayable beyond 5 years	**420,000**	520,000
	3,352,688	3,228,288
Less: amounts repayable within 1 year (included in current liabilities)		
– short-term bank loans	**(2,102,688)**	(1,958,288)
– current portion of long-term bank loans	**(140,000)**	(110,000)
Long-term portion	**1,110,000**	1,160,000

12. Borrowings (continued)

(b) As at 30 June 2006, bank loans amounting to approximately RMB486,250,000 (31 December 2005 – RMB699,000,000) are secured by land use rights, plant and buildings and machinery and equipment of the Group with carrying value of approximately RMB1,078,311,000 (31 December 2005 – RMB749,054,000). Bank loans amounting to approximately RMB68,320,000 (31 December 2005 – RMB68,320,000) are secured by bank deposits of the Group of RMB68,916,000 (31 December 2005 – approximately RMB67,664,000). Bank loans of non-wholly owned subsidiaries at approximately RMB1,530,000,000 (31 December 2005 – RMB1,540,000,000) are guaranteed by the Company. Certain bank loans amounting to approximately RMB594,967,750 are guaranteed by a major shareholder of the Company (31 December 2005: RMB308,967,750). All these loans are interest-bearing at commercial rates. The rest of the bank loans are unsecured and interest-bearing at commercial rates.

The bank borrowings are all denominated in Renmibi. The carrying amounts of bank borrowings as at 30 June 2006 approximate their fair value.

The effective interest rate of bank borrowings as at 30 June 2006 was 6.61% per annum (31 December 2005: 6.36%).

13. Share capital

	30 June 2006	31 December 2005	**30 June 2006**	31 December 2005
	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 six months ended 30 June 2006.

13. Share capital (continued)

On 26 June 2006, the Company and certain subscribers ("Subscribers") entered into a subscription agreement, pursuant to which the Company agreed to allot and issue to the Subscribers an aggregate of 142,120,000 new H shares with nominal value of RMB1.00 each, subject to certain conditions, including the China Securities Regulatory Commission ("CSRC") approval. On 21 August 2006, CSRC granted its approval, and new shares are alloted and issued to the Subscribers on 29 August 2006. The share capital of the Company after this issurance is 720,833,000, all pari passu.

14. Contingent liabilities

There were no material contingent liabilities of the Group as at 30 June 2006.

15. Capital commitments for properties, plant and equipment

	30 June 2006 RMB'000	31 December 2005 RMB'000
Authorised and contracted for		
Construction of new glass production lines	**416,176**	457,728
Construction of a soda ash plant (note a)	**1,014,882**	1,231,950
Glass production investment projects (note b)	**5,850,274**	5,857,199
Authorised but not contracted for	**–**	–
	7,281,332	7,546,877

(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, Qinhai Soda Ash Company Limited ("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 were to be injected in two phases.

15. Capital commitments for properties, plant and equipment (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 30 June 2006, approximately RMB385 million had been incurred and the outstanding commitment amounted to approximately RMB1,015 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 30 June 2006, the Group had invested approximately RMB128 million into this project. According to the plan of the Company, no substantial investment is planned to be made in this project in the next twelve months.

15. Capital commitments for properties, plant and equipment (continued)

(b) Glass production investment projects (continued)

(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.

Up to 30 June 2006, the Group had invested approximately RMB82 million into this project, no substantial investment is planned to be made in this project in the next twelve months.

(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 30 June 2006, the Group had invested approximately RMB83 million into this project. No substantial investment is planned to be made in this project in the next twelve months.

16. Related party transactions

(i) Significant related party transactions carried out by the Group for the six months ended 30 June 2006 are as follows:

	Note	**Six months ended 30 June** **2006** **RMB'000**	2005 RMB'000
Rental charged by Guangyu Group Co. Ltd. ("Guangyu") (光宇集團有限公司)*	(a)	**249**	249
Service fee earned from Zhejiang Technology Company Limited ("Zhejiang Technology") (浙江科技有限公司)** and Zhejiang Cement Co., Ltd. ("Zhejiang Cement") (浙江水泥有限公司)*** in relation to the provision of electricity voltage transforming services	(b)	**189**	223
Purchase of cement from Zhejiang Cement	(c)	**3,779**	1,863

(a) The Group has entered into a lease agreement with Guangyu to lease office space for a period of 2 years commencing 13 December 2001 at RMB41,500 per month. The rental was determined by reference to the prevailing open market rentals at the time when the lease agreement was entered into. On 28 September 2003, the Company entered into a lease renewal agreement with Guangyu for the extension of the lease period of 2 years commencing from 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 from 1 January 2006 at RMB41,500 per month.

16. Related party transactions (continued)

(b) The Company entered into service agreements with Zhejiang Technology and Zhejiang Cement respectively for a period of 2 years commencing from 1 July 2003, with an option to extend for an additional one year after the expiry of the 2-year initial period if there was no objection from both parties. Pursuant to the service agreements, the Company agreed to provide electricity voltage transforming services to Zhejiang Technology and Zhejiang Cement through an electricity transformer owned by the Company. It also settled on behalf of Zhejiang Technology and Zhejiang Cement the related electricity charges to the local electricity bureau. The service fee charged to Zhejiang Technology and Zhejiang Cement was determined at 1% on the amount of electricity charges settled on behalf of Zhejiang Technology and Zhejiang Cement during the period. On 30 August 2005, the board of Directors approved and ratified the extension of the service agreement with Zhejiang Cement for another one year commencing from 1 July 2005 on the same terms and conditions. Zhejiang Technology had ceased to engage the Company in providing such service during the first half of 2005, and the service agreement with Zhejiang Technology was not renewed upon expiry. On 29 August 2006, the board of Directors approved the signing of a new agreement by the Company with Zhejiang Cement for a term of 3 years commencing from 1 July 2006 on the same terms and conditions (except for the option to renew the agreement upon the expiry for another 3-year period).

(c) The Company entered into a master supply agreement with Zhejiang Cement on 29 December 2004 for a term of 3 years commencing from 1 January 2005 to 31 December 2007. Pursuant to the agreement, Zhejiang Cement has agreed to supply cement manufactured by it to the Group from time to time during the term of the agreement. The price payable by the Group to Zhejiang Cement for the purchases will be determined by reference to the prevailing market price at the time of the transactions.

16. Related party transactions (continued)

(d) Certain land use rights (the "SHCC Land Use Rights"), comprise of five separate land use right certificates, acquired from the related party, Shaoxing Huahong Cement Co Ltd ("SHCC"), a PRC enterprise under the common control of Mr Feng Guangcheng ("Mr Feng", the substantial shareholder and chairman of the Company), were acquired 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"). 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. Due to the fact that SHCC had pledged two and three certificates of the SHCC Land Use Rights with two financial instructions (the "Bank"), and only one of the Pledges attached with three certificates has been released by the Bank and the related land use rights were transferred to the Group on 26 April 2006, a supplementary agreement was entered into between SHCC, Mr Feng and the Company on 27 April 2006 that SHCC undertakes to complete the necessary procedures in order the transfer the SHCC Land Use Rights attached with the remaining two certificates to the Company, on or before 30 September 2006 (the "Transfer Date"). Subsequent to the balance sheet date, the two certificates were transferred to the Group on 25 August 2006.

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

** Zhejiang Technology is 70% owned by Guangyu.

*** Zhejiang Cement is 90.47% owned by Mr. Feng Guangcheng.

16. Related party transactions (continued)

(ii) Balances with related parties are as follows:

	30 June 2006 RMB'000	31 December 2005 RMB'000
Receivables from related company:		
Zhejiang Cement (note (i)(b))	**12,499**	12,314
Payables to related company:		
Guangyu	**360**	111
Maximum receivable balance of receivables from related parties during the period		
Zhejiang Cement	**16,027**	28,272
Zhejiang Technology	**–**	3
Maximum payable balance of payables to related parties during the period		
Guangyu	**360**	178

The balances with related companies are unsecured, interest free and have no fixed terms of repayment.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group mainly produces and sells high quality float flat glass to the construction sector and automotive and electronics industries. It also produces processed glass by processing flat glass into valued-added products with additional properties and sells them mainly to the construction sector. To implement vertical integration, the Group established Qinghai Soda Ash Company Limited ("Qinghai Soda Ash") in July 2003 to produce and sell soda ash to other glass makers and manufacturers of detergents, alumina and monosodium glutamate, as well as for the Group's internal consumption for the manufacturing of glass products.

Business Review

Glass business

Flat glass

The growth in the national flat glass output slowed down in the first six months of 2006. According to the statistics published by the National Bureau of Statistics of China, China's flat glass output rose by 11.6% year on year from the corresponding period of 2005 to about 191.9 million weight cases in the first half of 2006. In the first half of 2005, the country's flat glass output increased by 14.5% year on year from the corresponding period of 2004 to about 173.1 million weight cases. According to the statistics of the China Building Materials Industry Association (CBMIA), the average sales/production ratio of 42 major flat glass manufacturers in China was approximately 93% during the six months ended 30 June 2006, compared with 95% in the same period of 2005.

The rapid expansion of the industry's production capacity in 2004 and 2005 resulted in the oversupply in the glass market that persisted in the first half of 2006. During the first quarter of the year, the selling prices of the mainstream products, namely 4mm to 8mm regular flat glass commonly used in construction industry, hit the range of low prices of between RMB50 and RMB52 per weight case. The selling price of flat glass was below the unit production cost by a wide margin and, as a result, the overall flat glass industry posted a loss. The industry was hit so hard that, in the second quarter of 2006, a few flat glass manufacturers reduced output or stopped production. The association of the glass industry convened meetings to consider measures to assuage the industry difficulty, and agreed on a price rise of flat glass products. The reduction in output and the association's consensus on a price rise made the flat glass price rebound and stabilized at about RMB70 per weight case in the second quarter of this year.

In the first half of 2006, all of the Group's five (2005: five) flat glass production lines with an aggregate daily melting capacity of 2,350 tonnes (2005: 2,350 tonnes) were in full operation. The Group produced approximately 7.5 million weight cases (first half of 2005: 7.6 million weight cases), or approximately 375,000 tonnes (first half of 2005: 380,000 tonnes), of flat glass and achieved a sales/production ratio of approximately 94% (first half of 2005: about 95%). Sales of flat glass amounted to RMB434 million (first half of 2005: RMB499 million), and accounted for 75% (2005: 88%) of the Group's turnover.

Automotive grade glass (higher quality with higher average selling price) accounted for approximately 90% of the Group's flat glass output in the first half of 2006 (first half of 2005: 90%), and construction grade glass (lower quality with lower average selling price) accounted for the remaining 10% (first half of 2005: 10%).

With an aim to lift the margin and fill the niche markets, the Group has diversified into ultra-thin glass for automotive and electronic industry since 2003. The ultra thin glass has a higher and more stable selling price. In the middle of 2005, the Group began to mass-produce ultra-thin glass of 1.1mm for electronic industry. The increased revenue contribution from this product in the first half of 2006 helped mitigate the unfavourable impact of the decrease in the selling price of the Group's flat glass products.

The ultra-thin glass (products which are 3mm and below in thickness) production volume, which accounted for about 10% of the Group's total flat glass output in the first half of 2006, has yet to grow significant enough to offset the impact of the falling prices of the Group's principal line of flat glass products. The average selling price of the Group's flat glass decreased by about 6% year on year from the corresponding period of 2005 to RMB66 per weight case (first half of 2005: RMB70 per weight case).

The price of heavy oil, the major fuel for flat glass production, has been rapidly increasing during the second half of 2005, and remained high in the first half of 2006. The average cost of heavy oil rose by about 73% year on year from the corresponding period of 2005 to approximately RMB3,400 per tonne (inclusive of tax).

The average market price of soda ash, a key raw material for manufacturing flat glass, dropped by 28% year on year from the corresponding period of 2005 to approximately RMB1,350 per tonne (inclusive of tax and transportation cost). There were no significant fluctuations in the costs of other major raw materials.

The price hikes of heavy oil boosted the unit cost of flat glass sales by more than 16% year on year from the corresponding period of 2005 to RMB64 per weight case in the first half of 2006 (first half of 2005: RMB55 per weight case).

Processed glass

The Group processed about 4% of its flat glass output into processed glass products which are associated with higher margin in the first half of 2006 (first half of 2005: about 6%).

In the first half of 2006, the Group had six (first half of 2005: six) processed glass production lines for mirror glass, tempered glass, insulating glass and laminated glass, and one production line for low-E glass.

The Group sold approximately 1.32 million sq.m. (first half of 2005: 1.74 million sq.m.) of processed glass products at an average selling price of RMB32 per sq.m. (first half of 2005: RMB40 per sq.m.), recording a turnover of RMB42 million (2005: RMB70 million). Sales of processed glass accounted for 7% of the Group's turnover (first half of 2005: 12%). The sales volume of the higher-margin low-E glass in the first half of 2006 was just about 140,000 sq.m. (first half of 2005: 385,000 sq.m.) because of the personnel change in the division's management and the Group's tightened credit policy to its customers.

Soda ash business

According to the statistics of China Soda Industry Association ("CSIA"), China produced about 7.68 million tonnes of soda ash in the first half of 2006, representing an increase of approximately 10.6% from that in the same period of 2005. The market price of soda ash dropped by 28% year on year from the corresponding period of 2005 to approximately RMB1,350 per tonne (inclusive of tax) during the period under review.

Qinghai Soda Ash, with designed soda ash production capacity of 900,000 tonnes a year, began commercial production in mid-December 2005. In the period under review, the quality of Qinghai Soda Ash's products already reached national standard. The soda ash plant produced about 223,000 tonnes of output for the six months ended 30 June 2006. Revenue (exclusive of tax and transportation cost) from the soda ash business was RMB107 million in the first half of 2006 (the first half of 2005: nil), and accounted for 18% of the Group's turnover. Average selling price of the Group's soda ash (exclusive of tax and transportation cost) was approximately RMB840 per tonne (Note: the Group's soda ash products sold for between RMB1,300 and RMB1,350 per tonne after tax and transportation cost were included).

In the first half of 2006, light soda ash (the kind of lower density), which is widely used in production of detergent, alumina and monosodium glutamate, accounted for 70% of Qinghai Soda Ash's sales volume, while dense soda ash (the kind of higher density), which is used in glass production, accounted for the remaining 30%.

During the period under review, the Group's soda ash sales were affected because the railway that connects Xining, Qinghai's provincial capital, and Geermu was closed in May and June for a trial run of the railway, which had been extended from Geermu to Lhasa to form Qinghai-Tibet railway. The Qinghai-Tibet railway was officially opened to use on 1 July 2006.

Qinghai Soda Ash is located in Delingha, which is somewhere between Xining and Geermu on the rail path. The trial run affected transportation of the soda ash and made Qinghai Soda Ash rely more on the highway for shipping its products. This restricted the soda ash sales and boosted the transportation cost.

Financial Review

The Group recorded a loss of RMB78.4 million in the first half of 2006, against the net profit of RMB70.4 million in the same period of 2005. This was because the flat glass business was affected by the oversupply in the market and the high material and fuel costs. The soda ash business, as a greenfield project, has not yet reached its full capacity during the period under review to make its revenue contribution significant enough to offset the loss in the glass business. The initial and under-capacity operation of the soda ash plant also weighed down the gross and net profit margins of both Qinghai Soda Ash and the Group.

Turnover increased by 2.6% year on year to RMB583.36 million (first half of 2005: RMB568.77 million).

During the first half of 2006, the gross profit margin was 4%, compared with 26% in the corresponding period last year.

The Group's average inventory turnover increased to 60 days for the six months ended 30 June 2006 from 43 days for the year ended 31 December 2005 because the soda ash plant's production volume was increasing during the period under review.

Outlook

Glass business

Flat glass

In 2006, the flat glass industry is expected to remain in the low tide of the industry cycle as the oversupply is expected to be exacerbated by the production capacity expansion. Nevertheless, the net growth in national production capacity will slow down. In the short term, the austerity measures to rein in overheated sectors such as property will add uncertainty to the glass industry. However, in the long term, the glass industry will be boosted by China's rapid industrialization and urbanization in the next five years under the "Eleventh Five Year Plan". The property and construction sectors, automotive and information technology industries are expected to experience fast growth in the next two decades, and generated huge demand for glass products, ranging from ordinary to ultra-thin models.

Processed glass

The PRC government has set a target of cutting energy consumption per unit of gross domestic product by about 20% as part of its macroeconomic control measures. This should generate demand for energy-saving glass. According to the statistics of CBMIA, over 90% of residential buildings are not energy-efficient. Replacement of ordinary glass with energy efficient type for windows is expected to generate significant demand for energy-saving processed glass in the future. As one of the key suppliers of quality low-E glass in China, the Group expects that its processed glass business will play an increasingly important role in revenue contribution.

Soda ash business

According to the industry experts, China's soda ash output is estimated to increase by about 1.4 million tonnes to 15.5 million tonnes this year, as a number of domestic soda ash producers, including Qinghai Soda Ash, have put their new or revamped production facilities in operation. The country is also forecasted to import 100,000 tonnes of soda ash and export about 1.9 million tonnes of soda ash this year. National soda ash consumption is estimated to be about 13 million tonnes.

In the short term, growth in the downstream industries' demand for soda ash may slow down due to the austerity measures. The industry experts predict that soda ash price will stabilize after the decline in the first half of this year.

The Directors believe soda ash transportation will still be affected in the short term because an additional track is being laid on the Qinghai-Tibet railway. The Group will work closely with the relevant authorities to resolve the transportation problem.

In 2006, Qinghai Soda Ash is expected to produce about 600,000 tonnes of soda ash. The Directors believe that the operating profit margin of the soda ash business will improve when its production reaches full capacity, which will reduce the unit production cost.

Qinghai Soda Ash plans to raise the proportion of dense soda ash in sales volume to 70% ultimately. This will help boost the average selling price of the soda ash products and thus raise the Group's gross profit margin since the price of dense soda ash is generally 10% to 15% higher than that of light soda ash.

OTHER INFORMATION

INTERIM DIVIDEND

At a meeting of the board of Directors held on 29 August 2006, the Directors have resolved not to declare any interim dividend for the year ending 31 December 2006 (2005: RMB0.0361 per ordinary share).

CAPITAL COMMITMENT AND CONTINGENT LIABILITIES

Capital expenditure of the Group amounted to approximately RMB118 million for the six months ended 30 June 2006. Capital expenditure was mainly for the construction of a flat glass production line in Zhejiang Province and the foundation work for the second soda ash production line in Qinghai Province. As at 30 June 2006, the Group had total capital commitment of approximately RMB7.28 billion, which was mainly related to the proposed investment in the construction of the second soda ash production line in Qinghal Province (approximately RMB1.01 billion) and the proposed investment in the construction of several glass production lines in Zhejiang Province (approximately RMB6.27 billion). However, the Group is entitled to adjust the schedule of these proposed investments, and in particular, the Group has the right to adjust the investment amount or to terminate the execution of the investments in the construction of several glass production lines in Zhejiang Province. Indeed, it is the Group's intention to limit the capital expenditure in 2006 aiming to improve the Group's liquidity position. The Group did not have any significant contingent liabilities during the six months ended 30 June 2006.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2006, the Group's cash and cash equivalents balance amounted to RMB756 million, compared with RMB561 million as at 31 December 2005. In addition, the Group had pledged deposits of RMB176 million as at 30 June 2006 (31 December 2005: RMB329 million). As at 30 June 2006, capital and reserves attributable to the Company's equity holders amounted to RMB1,315 million, representing a decrease of RMB75 million from RMB1,390 million as at 31 December 2005.

As at 30 June 2006, the Group had outstanding bank loans amounting to RMB3,353 million, representing an increase of RMB125 million from RMB3,228 million as at 31 December 2005. Out of the outstanding bank loans, RMB2,243 million was repayable within one year and RMB1,110 million was repayable beyond one year.

Similar to prior years, the Group recorded a net current liability position as at 30 June 2006 as a major portion of the bank financing consisted of short-term bank loans. Nevertheless, the Group did not experience any major problem in renewing its short-term bank loans upon their expiry.

The Group's gearing ratio based on total liabilities divided by total assets has increased from 75.3% as at 31 December 2005 to 76.9% as at 30 June 2006. The Group's net gearing ratio based on net debts (interest-bearing debts, net of cash and bank deposits, including pledged deposits) to equity (capital and reserves attributable to the Company's equity holders) has increased from 168% as at 31 December 2005 to 184% as at 30 June 2006. This increase is mainly due to an increase in bank borrowings to finance the working capital required for the Group's soda ash business operation which has just commenced around the end of 2005.

As disclosed in the announcement dated 28 June 2006, the Company entered into a subscription agreement on 26 June 2006 pursuant to which the Company has agreed, subject to certain conditions being fulfilled, to issue 142.12 million new H shares at the subscription of HK$1.8 each to certain institutional investors, including IFC, to raise approximately HK$255.8 million (equivalent to approximately RMB263.5 million) for the purpose of repaying part of the Company's outstanding short-term bank loans. On the same day, the Company also entered into a loan agreement to secure a long-term loan (with final maturity falls due in 2013) of US$68 million (equivalent to approximately RMB544 million) from IFC, for the purpose of restructuring part of the Company's short-term loans into long-term loans.

The Group had previously acquired the land use rights for a few plots of lands in Zhejiang Province for building glass production plants to expand production capacity (please see the details for these proposed investment projects in Note 34 of the 2005 annual financial statements). However, the investment projects were put on hold because the glass market turned difficult. As the Group currently does not have any concrete schedule to further implement the investment project, the Group is now actively seeking opportunities to sell those land use rights to prospective buyers. If successful, the Group will be able to further improve its cash flow and to improve the use of resources and liquidity.

DETAILS OF THE CHARGES ON GROUP ASSETS

As at 30 June 2006, certain land use rights, plant and buildings and machinery and equipment with an aggregate carrying value of approximately RMB1,078 million (31 December 2005 – RMB749 million) and certain bank deposits of RMB69 million (31 December 2005 – RMB68 million) were pledged as security for bank loans of the Group totaling approximately RMB3.35 billion (31 December 2005 – RMB3.23 billion).

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares during the six months ended 30 June 2006.

NUMBER AND REMUNERATION OF EMPLOYEES

Including the Directors, as at 30 June 2006, the Group employed a total of approximately 4,060 full-time employees. The pay levels of the employees are commensurate with their responsibilities, performance and contribution.

DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 30 June 2006, the interests and short positions of each Director, supervisor and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), which would have to be notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO, or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), to be notified to the Company and the Stock Exchange were as follows:

Name	The Company/ name of associated corporation	Capacity	Number and class of securities (Note 1)	Approximate percentage in the issued share capital of the Company/ associated corporation
Director				
Feng Guangcheng	The Company	Beneficial owner	384,000,000 domestic shares (L)	66.36%
Xu Yujuan	The Company	Interest of spouse (Note 2)	384,000,000 domestic shares (L)	66.36%

Notes:

1. The letter "L" represents the interests in the shares of the Company.

2. Ms. Xu Yujuan, an executive Director (resigned with effect from 29 August 2006) is the wife of Mr. Feng Guangcheng. Ms. Xu is deemed to be interested in the shares in which Mr. Feng Guangcheng is interested under Divisions 2 and 3 of XV of the SFO.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN THE SHARES, AND UNDERLYING SHARES OF THE COMPANY

As at 30 June 2006, the following persons and entities, other than a Director, supervisor or chief executive of the Company, had an interest or a short position in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of SFO:

Name of shareholder	Capacity	Number and class of securities (Note 1)	Approximate percentage in the relevant class of securities	Approximate percentage in the entire issued share capital of the Company
Capital Research and Management Company	Investment manager	11,499,400 H shares (L)	6.43%	1.99%
The Capital Group Companies, Inc.	Interest of controlled corporation (Note 2)	11,499,400 H shares (L)	6.43%	1.99%
Pacific Dragon Fund L.L.C.	Beneficial owner	12,053,000 H shares (L)	6.74%	2.08%
International Finance Corporation	Beneficial owner	107,672,000 H shares (L)	33.56% (Note 3)	14.94% (Note 3)
Scion Qualified Funds LLC	Beneficial owner	17,922,000 H shares (L)	10.02% (Note 4)	3.10% (Note 4)
Michael James BURRY	Beneficial owner	34,448,000 H shares (L)	19.27% (Notes 4&5)	5.95% (Notes 4&5)

Notes:

1. The letter "L" represents the entity's interest in the shares of the Company.

2. The interest in the H shares were held through Capital Research and Management Company, the share capital of which was wholly owned by The Capital Group Companies, Inc..

3. Assuming completion of the subscription agreement dated 26 June 2006 and made by the Company with various subscribers, such that the total number of H Shares will become 320,833,000 and the Company's total number of Shares in issue will become 720,883,000.

4. Based on the existing total number of 178,713,000 H Shares and the Company's total number of 578,713,000 Shares in issue.

5. Mr Michael James Burry was reported to be the direct controlling shareholder of Scion Capital LLC a long position of 34,448,000 H Shares. Scion Capital LLC was reported to be the direct controlling shareholder of (a) Scion Funds which had a long position of 3,608,000 H Shares, (b) Scion Qualified Funds which had a long position of 17,022,000 H Shares, (c) Scion Asian Opportunity Fund LLC which had a long position of 11,979,000 H Shares, and (d) Scion Asian Opportunity Fund II LLC which had a long position of 939,000 H Shares.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company complied with the Code on Corporate Governance Practices ("the Code") set out in Appendix 14 to the Listing Rules for the six months ended 30 June 2006. The board of Directors confirms that there were no deviations from or non-compliance with the Code during the period under review, except that the official position of the chief executive officer ("CEO") did not exist in the Group. Under the Code Provision A.2.1, the roles of chairman and CEO should be separate and should not be performed by the same individual. Mr. Feng Guangcheng, who apart from being the major shareholder and Chairman of the Company, also assumed responsibilities which are comparable to those of a CEO at the Group level. Mr. Feng was responsible for making decisions, executing the decisions of the board of Directors and overseeing the daily operations of the Group. Two different general managers were respectively in charge of the daily operation of the Group's two major divisions of business, glass and soda ash, and reported to Mr. Feng. Mr. Feng was involved in the decision-making process of the two business divisions. The board of Directors then believed that this structure provided the Group with strong and consistent leadership and allowed for more effective and efficient business planning and decisions as well as execution of long-term business strategies.

In connection with IFC's investment in the Company, the Company undertook to enhance the corporate governance of the Company and independence of the board of Directors by, among others, separating the roles of chairman and CEO and limiting the representation of Mr. Feng Guangcheng's family on the board of Directors to Mr. Feng himself.

Two executive Directors, namely Ms. Xu Yujuan and Ms Feng Luwen, who are respectively the wife and daughter of Mr. Feng Guangcheng, stepped down after their resignations were approved at the board meeting of the Company held on 29 August 2006.

Ms. Xu Yujuan also resigned as general manager of the Company, and Mr. Gao Huojin, who was the then Company's deputy general manager and production manager, was appointed by the board of Directors on 29 August 2006 to replace Ms. Xu as the new general manager of the Company.

Another executive Director, namely Mr. Wang Yanchun, also resigned on 29 August 2006 due to personal reasons. Mr. Wang confirmed that he did not have any disagreement with the board of Directors and there was nothing which need to be drawn to the Shareholders' attention with regard to his resignation.

On 29 August 2006, the board of Directors also nominated the Company's then supervisors, Mr. Gao Huojin and Mr. Shen Guangjun, to be appointed as new executive Directors. The appointments of Mr. Gao and Mr. Shen as new executive Directors have yet to be approved by the shareholders in a general meeting, which is expected to be held in October 2006. Both Mr. Gao and Mr. Shen resigned as supervisors on 29 August 2006 in connection with their proposed appointment as executive Directors. Another supervisor, Mr. Chen Baijin also resigned as supervisor of the Company on 29 August 2006 for personal reasons.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") set out in Appendix 10 to the Listing Rules. Having made specific enquiry of all Directors, the Company is not aware of any non-compliance by any Directors with the required standard set out in the Model Code.

INDEPENDENT NON-EXECUTIVE DIRECTORS AND AUDIT COMMITTEE

During the six months ended 30 June 2006, there were not any non-compliance with Rules 3.10(1), 3.10(2) and 3.21 of the Listing Rules relating to the appointment of independent non-executive Directors and the establishment of an audit committee.

REVIEW BY AUDIT COMMITTEE

The 2006 interim financial statements have been reviewed by the Company's audit committee, which comprises four independent non-executive Directors.

On behalf of the Board
Feng Guangcheng
Chairman

Zhejiang Province, the PRC
29 August 2006