1 CORPORATE REORGANISATION

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 certain new and revised HKFRSs that are first effective or available for early adoption for accounting periods beginning after 1 January 2006. The Group has not early applied any new standard or interpretation that is not yet effective for the current accounting period (see Note 35).

(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 year ended 31 December 2005, rather than from 22 May 2005. Accordingly, the consolidated financial statements of the Group for the year ended 31 December 2005 include the financial statements of the Company and its subsidiaries with effect from 1 January 2005, as if the then group structure had been in existence throughout the year ended 31 December 2005. 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 consolidated financial statements for the year ended 31 December 2006 comprise the Group and the Group's interest in an associate.

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.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in Note 34.

(c) Subsidiaries and minority interests

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

An investment in a subsidiary is consolidated into 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 full in preparing the consolidated financial statements. 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 represent 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, and in respect of which the Group has not agreed any additional terms with the holders of those equity interests which would result in the Group as a whole having a contractual obligation in respect of those equity interests that meets the definition of a financial liability. Minority interests 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 the 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 applicable to the minority, are charged against the Group's equity interests except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's equity interests are allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Subsidiaries and minority interests (continued)

Loans from equity holders of minority interests and other contractual obligations towards these equity holders are presented as financial liabilities in the consolidated balance sheet in accordance with Notes 2(n) or 2(p) depending on the nature of the liability.

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

(d) Associate

An associate is an entity in which the Group has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the associate's net assets, unless it is classified as held for sale. The consolidated income statement includes the Group's share of the post-acquisition, post-tax results of the associate for the year, including any impairment loss on goodwill relating to the investment in an associate recognised for the year (see Notes 2(e) and 2(j)).

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate. For this purpose, the Group's interest in the associate is the carrying amount of the investment under the equity method together with the Group's long term interests that in substance form part of the Group's net investment in the associate.

Unrealised profits and losses resulting from transactions between the Group and its associate are eliminated to the extent of the Group's interest in the associate, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in the consolidated income statement.

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) 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(j)).

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.

(f) Property, plant and equipment

Property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see Note 2(j)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see Note 2(u)).

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

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	3-30 years
Motor vehicles	3-15 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the estimated useful life of an asset and its residual value are reviewed annually. No depreciation is provided in respect of construction in progress until it is completed and ready for its intended use.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Lease prepayments

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

(h) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

(ii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to the income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in the income statement as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the income statement in the accounting period in which they are incurred.

(i) 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(j)), 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(j)).

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) 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 financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material.

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(j)(i)), inventories (see Note 2(k)) and deferred tax assets (see Note 2(q)), are reviewed at each balance sheet date to identify indications that the assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased. If any such indication exists, the asset's recoverable amount is estimated.

The recoverable amount of goodwill is estimated annually whether or not there is any indication of impairment.

— 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).

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Impairment of assets (continued)

(ii) Impairment of other assets (continued)

— Recognition of impairment losses

An impairment loss is recognised in the income statement whenever the carrying amount of 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 the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or 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 costs to sell, or value in use, if determinable.

— 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 in respect of goodwill is not reversed.

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

(k) 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 is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(l) 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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Convertible notes

Convertible notes that can be converted to equity share capital at the option of the holder, where the number of shares that would be issued on conversion and the value of the consideration that would be received at that time do not vary, are accounted for as compound financial instruments which contain both a liability component and an equity component.

At initial recognition the liability component of the convertible notes is measured 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 amount 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.

(n) 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 the amount initially recognised and redemption value being recognised in the income statement over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(o) Employee benefits

(i) Short-term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year 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.

The Group's contributions to defined contribution retirement plans 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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Employee benefits (continued)

(ii) Termination benefits

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.

(p) Trade and other payables

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

(q) Income tax

Income tax for the year 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.

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

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.

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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Income tax (continued)

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 profits 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 profits will be available.

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 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

— 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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group or the Company 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.

(s) 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 recognised as it accrues using the effective interest method.

(t) Translation of foreign currencies

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(u) 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.

(v) Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group;

(iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(w) 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 production, marketing and distribution of glass and 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 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.

4 OTHER REVENUE AND NET (LOSS)/INCOME

	2006	2005
	RMB'000	RMB'000
Other revenue		
Interest income	**4,826**	1,007
Others	**250**	584
	5,076	1,591
Other net (loss)/income		
Net foreign exchange loss	**(1,257)**	(908)
Net gain from sale of raw and scrap materials	**94**	2,062
Net (loss)/gain on disposal of property, plant and equipment	**(10)**	17
	(1,173)	1,171

5 PROFIT BEFORE TAXATION

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

(a) Finance costs:

	2006 RMB'000	2005 RMB'000
Interest on bank advances and other borrowings wholly repayable within five years	**14,498**	12,176
Finance charges on convertible notes	**1,299**	—
Bank charges and other finance costs	**774**	1,033
Total borrowing costs	**16,571**	13,209
Less: amounts capitalised*	**(1,033)**	(5,470)
	15,538	7,739

* The borrowing costs have been capitalised at a rate of 5.82% (2005: 5.76%) per annum for the year ended 31 December 2006.

(b) Staff costs:

	2006 RMB'000	2005 RMB'000
Salaries, wages and other benefits	**28,410**	21,734
Contributions to defined contribution retirement plans	**4,500**	3,660
	32,910	25,394

The employees of the PRC subsidiaries of the Group 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 salaries at their normal retirement age.

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

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

5 PROFIT BEFORE TAXATION (continued)

(c) Other items:

	2006 RMB'000	2005 RMB'000
Cost of inventories #	517,829	324,919
Auditors' remuneration	3,080	1,200
Depreciation and amortisation #	47,893	29,888
Operating lease charges in respect of #		
– land	125	45
– plant and buildings	715	307
Research and development costs	—	58

\# Cost of inventories includes RMB58.7 million (2005: RMB41.8 million) for the year ended 31 December 2006, 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 5(b) for each of these types of expenses.

6 INCOME TAX

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

	2006 RMB'000	2005 RMB'000
Provision for income tax on the estimated taxable profits for the year		
– Hong Kong Profits Tax	23	—
– PRC Income Tax	—	882
Deferred taxation (Note 24)	(4,280)	(54)
	(4,257)	828

6 INCOME TAX (continued)

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

	2006	2005
	RMB'000	RMB'000
Profit before taxation	**10,348**	16,930
Expected tax on profit before tax, calculated at the rates applicable to profits in the tax jurisdictions concerned	**(2,686)**	6,863
Tax effect of non-deductible expenses	**250**	1,095
Tax losses not recognised for deferred tax	**3,923**	—
Tax effect of non-taxable income	**(854)**	—
Tax credit (Note (iii))	**(4,890)**	(7,130)
Income tax	**(4,257)**	828

Note (i): The provision for Hong Kong Profits Tax is calculated at 17.5% (2005: 17.5%) of the estimated assessable profits of a Hong Kong subsidiary of the Group for the year.

Note (ii): The Company and its subsidiaries incorporated in countries other than the PRC and Hong Kong are not subject to any income tax pursuant to the rules and regulations of their respective countries of incorporation.

Note (iii): The subsidiaries of the Group established in the PRC (the "PRC subsidiaries") were subject to PRC Enterprise Income Tax rate ranging from 24% to 33%. The PRC subsidiaries are registered as foreign investment enterprises, 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 respective 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.

7 DIRECTORS' REMUNERATION

Details of directors' remuneration are as follows:

	2006				
	Directors' 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	—	236	—	—	236
Mr. Li Ping	—	150	—	10	160
Mr. Lu Guo	—	120	—	10	130
Non-executive directors					
Mr. Zhao John Huan	1	—	—	—	1
Mr. Liu Jinduo	1	—	—	—	1
Mr. Raymond Koon-Kwong Auyeung (resigned on 29 May 2006)	—	—	—	—	—
Mr. Eddie Chai (appointed on 3 July 2006)	—	—	—	—	—
Independent non-executive directors					
Mr. Song Jun	75	—	—	—	75
Mr. Wong Wai Ming (resigned on 29 May 2006)	13	—	—	—	13
Mr. Sik Siu Kwan (appointed on 29 May 2006)	60	—	—	—	60
Mr. Zhang Baiheng	75	—	—	—	75
	225	506	—	20	751

7 DIRECTORS' REMUNERATION (continued)

	2005				
	Directors' 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. Raymond Koon-Kwong Auyeung	—	—	—	—	—
Independent non-executive directors					
Mr. Song Jun	18	—	—	—	18
Mr. Wong Wai Ming	18	—	—	—	18
Mr. Zhang Baiheng	18	—	—	—	18
	56	370	—	14	440

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.

8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, three (2005: three) are directors whose emoluments are disclosed in Note 7. The aggregate of the emoluments in respect of the other two (2005: two) individuals are as follows:

	2006	2005
	RMB'000	RMB'000
Salaries, allowances and benefits in kind	**586**	650
Retirement scheme contributions	**33**	20
	619	670

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:

	2006	2005
HK$Nil – HK$1,000,000	**2**	2

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.

9 PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company includes a loss of RMB5.0 million (2005: profit of RMB7.3 million) which has been dealt with in the financial statements of the Company.

10 DIVIDENDS

(a) Dividends payable to equity shareholders of the Company attributable to the year

The Board of Directors of the Company does not recommend the payment of a final dividend for the year ended 31 December 2006 (2005: RMB4.8 million).

(b) Dividends payable to equity shareholders of the Company attributable to the previous year, approved during the year

	2006	2005
	RMB'000	RMB'000
Final dividend in respect of the previous year, approved during the year, of HK$0.013 per share (2005: Nil)	**4,824**	—

11 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share for the year ended 31 December 2006 is based on the profit attributable to equity shareholders of the Company of RMB5.6 million and the weighted average number of 360,000,000 ordinary shares in issue during the year.

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 RMB16.1 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, 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.

(b) Diluted earnings per share

The calculation of diluted earnings per share for the year ended 31 December 2006 is based on the profit attributable to equity shareholders of the Company of RMB2.4 million (2005: RMB16.1 million), calculated as follows, and the weighted average number of 360,000,000 (2005: 317,342,000) ordinary shares in issue during the year:

	2006	2005
	RMB'000	RMB'000
Profit attributable to equity shareholders of the Company	**5,623**	16,103
Effect of conversion of convertible notes issued by a subsidiary of the Group	**(3,241)**	—
Profit attributable to equity shareholders of the Company (diluted)	**2,382**	16,103

12 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 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
Cost:					
At 1 January 2006	179,687	479,186	1,759	719	661,351
Additions	1,236	3,236	411	87,129	92,012
Additions through acquisitions of subsidiaries	146,946	260,004	3,913	7,255	418,118
Transfer in/(out)	23,403	51,959	—	(75,362)	—
Disposals	—	(55,140)	(156)	—	(55,296)
At 31 December 2006	351,272	739,245	5,927	19,741	1,116,185
Accumulated depreciation:					
At 1 January 2006	22,370	144,023	278	—	166,671
Additions through acquisitions of subsidiaries	23,322	88,979	1,425	—	113,726
Charge for the year	6,531	39,692	243	—	46,466
Written back on disposals	—	(54,234)	(131)	—	(54,365)
At 31 December 2006	52,223	218,460	1,815	—	272,498
Net book value:					
At 31 December 2006	299,049	520,785	4,112	19,741	843,687

At 31 December 2006, property certificates of certain properties with an aggregate net book value of RMB139.3 million (31 December 2005: RMB46.7 million) are yet to be obtained.

12 PROPERTY, PLANT AND EQUIPMENT (continued)

(b) The Company

	Office equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
Cost:			
At 1 January 2005	—	—	—
Additions	89	—	89
At 31 December 2005	89	—	89
Accumulated depreciation:			
At 1 January 2005	—	—	—
Charge for the year	23	—	23
At 31 December 2005	23	—	23
Net book value:			
At 31 December 2005	66	—	66
Cost:			
At 1 January 2006	89	—	89
Additions	660	320	980
At 31 December 2006	749	320	1,069
Accumulated depreciation:			
At 1 January 2006	23	—	23
Charge for the year	128	44	172
At 31 December 2006	151	44	195
Net book value:			
At 31 December 2006	598	276	874

13 INVESTMENTS IN SUBSIDIARIES

	The Company	
	2006	2005
	RMB'000	RMB'000
Unlisted shares, at cost	**71,133**	5,261

(Expressed in RMB unless otherwise indicated)

13 INVESTMENTS IN SUBSIDIARIES (continued)

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

			Proportion of ownership interest			
Name of company	Place of incorporation/ establishment	Registered and issued/paid-up capital	The Group's effective interest	Held by the Company	Held by subsidiaries	Principal activities
JV Investments Limited	Cayman Islands	Registered capital of US$50,000 and issued capital of US$40,001	65.05%	65.05%	—	Investment holding
Success Castle Limited	British Virgin Islands	Registered capital of US$50,000 and issued capital of US$100	100%	100%	—	Investment holding
Jiangsu SHD New Materials Company Limited ("Jiangsu SHD")*	PRC	Registered and paid-up capital of RMB60,000,000	100%	—	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%	—	90.1%	Production, marketing and distribution of glass and glass products
Beijing Qinchang Glass Company Limited** ("Beijing Qinchang")	PRC	Registered and paid-up capital of RMB100,000,000	36.56%	—	56.2%	Production, marketing and distribution of glass and glass products
Shaanxi Blue Star Glass Company Limited** ("Shaanxi Blue Star")	PRC	Registered and paid-up capital of RMB100,000,000	67.38%	—	90.1%	Production, marketing and distribution of glass and glass products
Hanzhong Blue Star Silicon Sand Company Limited**	PRC	Registered and paid-up capital of RMB2,400,000	60.71%	—	90.1%	Processing and sale of silicon sand
Xianyang Blue Star Coated Glass Company Limited** ("Xianyang Blue Star")	PRC	Registered capital of RMB80,000,000***	75.54%	—	100%	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%	—	100%	Trading of glass and glass products

13 INVESTMENTS IN SUBSIDIARIES (continued)

* A wholly foreign owned enterprise established in the PRC.

** Sino-foreign equity joint ventures established in the PRC.

*** According to the joint venture agreement dated 10 October 2006 ("JV Agreement") and the certificate of approval issued by the relevant government authorities dated 30 October 2006, the registered capital of Xianyang Blue Star is RMB80.0 million, of which the entire equity interests is attributable to subsidiaries of the Group. As at 31 December 2006, the Group has not contributed any capital into Xianyang Blue Star, and the total outstanding capital commitment of the Group is RMB80.0 million.

14 LEASE PREPAYMENTS

	The Group RMB'000
Cost:	
At 1 January 2005	—
Additions	58,319
At 31 December 2005	58,319
Accumulated amortisation:	
At 1 January 2005	—
Charge for the year	1,261
At 31 December 2005	1,261
Net book value:	
At 31 December 2005	57,058
Cost:	
At 1 January 2006	58,319
Additions through acquisitions of subsidiaries	54,958
At 31 December 2006	113,277
Accumulated amortisation:	
At 1 January 2006	1,261
Additions through acquisitions of subsidiaries	1,481
Charge for the year	1,427
At 31 December 2006	4,169
Net book value:	
At 31 December 2006	109,108

14 LEASE PREPAYMENTS (continued)

Lease prepayments represented land use right premiums paid by the Group for land situated in the PRC. At 31 December 2006, land use right certificates of certain land use rights with an aggregate carrying value of RMB32.3 million (31 December 2005: RMBNil) are yet to be obtained.

15 INTEREST IN AN ASSOCIATE

	The Group	
	2006	2005
	RMB'000	RMB'000
Share of net assets	**9,815**	—

On 5 October 2006, the Company announced that the Company, via Jade Vision Investments Limited (a wholly owned subsidiary of the Company), and Pilkington International Holdings BV ("Pilkington") will together form a joint venture, Taicang Pilkington China Glass Special Glass Limited ("Taicang Pilkington China Glass"), to engage principally in the production of low iron glass in the PRC. The registered capital of Taicang Pilkington China Glass is US$16.70 million, of which the Company and Pilkington will each contribute US$8.35 million in obtaining 50% equity interests in Taicang Pilkington China Glass. As at 31 December 2006, only US$1.25 million of the total registered capital of Taicang Pilkington China Glass was contributed by the Company, and the outstanding capital commitment of the Company is US$7.10 million.

16 GOODWILL

	The Group
	RMB'000
Cost:	
At 1 January 2005, 31 December 2005 and 2006	14,113
Accumulated amortisation and impairment losses:	
At 1 January 2005, 31 December 2005 and 2006	—
Carrying amount:	
At 31 December 2005 and 2006	14,113

16 GOODWILL (continued)

Impairment test for cash-generating units containing goodwill

Goodwill is allocated to the following cash generating unit ("CGU") of the Group:

	2006	2005
	RMB'000	RMB'000
The second glass production line of Jiangsu SHD	**14,113**	14,113

The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets prepared by the Directors of the Company covering a five-year period.

Key assumptions used for value-in-use calculations:

	2006	2005
Gross profit margin	**21.80%**	17.30%
Discount rate	**6.84%**	5.76%

The Directors of the Company determined the budgeted gross profit margin based on past performance and their expectation for market development. The discount rates are pre-tax and reflect specific risks relating to the relevant CGU.

During the year ended 31 December 2004, Jiangsu SHD acquired the remaining 20% equity interests in Suqian Huaxing New Building Materials Company Limited ("Suqian Huaxing") from Jiangsu Glass Group Company Limited for a consideration of RMB49.8 million. The excess of the cost of purchase over the net fair value of Suqian Huaxing's identifiable assets and liabilities was RMB14.1 million, which was recorded as goodwill and allocated to Suqian Huaxing. Jiangsu SHD then cancelled the legal person status of Suqian Huaxing on 23 December 2004, and as a result, the production facilities of Suqian Huaxing became the second glass production line of Jiangsu SHD.

17 INVENTORIES

	The Group	
	2006	2005
	RMB'000	RMB'000
Raw materials	**30,618**	17,085
Work in progress and finished goods	**44,305**	26,035
Racks, spare parts and consumables	**17,138**	15,321
	92,061	58,441
Less: provision	**(192)**	(1,255)
	91,869	57,186

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

	The Group	
	2006	2005
	RMB'000	RMB'000
Carrying amount of inventories sold	**518,892**	323,664
(Write-back)/Write-down of inventories	**(1,063)**	1,255
	517,829	324,919

At 31 December 2006, RMB1.7 million (31 December 2005: RMB12.7 million) of finished goods were carried at estimated net realisable value.

18 TRADE AND OTHER RECEIVABLES

(a) The Group

	2006	2005
	RMB'000	RMB'000
Trade receivable from third parties	**24,185**	10,426
Bills receivable	**780**	1,242
	24,965	11,668
Amounts due from related companies:		
– Equity shareholders of the Company (Note (i))	**339**	—
– A minority equity holder of a subsidiary of the Group and its related parties (Note (ii))	**141,732**	—
	142,071	—
Prepayments, deposits and other receivables	**47,181**	14,700
	214,217	26,368

Note (i): The amounts due from equity shareholders of the Company are unsecured, non-interest bearing and have no fixed terms of repayment.

Note (ii): The amounts are unsecured, bearing interest at 7.34% per annum and are repayable in June and August 2007.

All of the trade and other receivables are expected to be recovered within one year. Cash before delivery is generally required for all customers. Credit terms up to two months 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:

	2006	2005
	RMB'000	RMB'000
Within 1 month	**24,485**	10,657
More than 1 month but less than 3 months	**262**	1,011
More than 3 months but less than 6 months	**218**	—
	24,965	11,668

18 TRADE AND OTHER RECEIVABLES (continued)

(a) The Group (continued)

Included in trade and other receivables are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	2006 '000	2005 '000
United States Dollars	**US$ 2,771**	US$ 702
Euros	**Eur 93**	Eur 17

(b) The Company

	2006 RMB'000	2005 RMB'000
Amount due from an equity shareholder of the Company (Note (i))	**10**	—
Amounts due from subsidiaries (Note (ii))	**242,791**	222,920
Prepayments, deposits and other receivables	**2,148**	288
	244,949	223,208

Note (i) The amount due from an equity shareholder of the Company is unsecured, non-interest bearing and has no fixed terms of repayment.

Note (ii) The amounts are unsecured. Except for RMB70.0 million which bears interest at 5.76% per annum and is repayable in four instalments before December 2007, all of the remaining amounts are non-interest bearing and have no fixed terms of repayment.

All of the other receivables are expected to be recovered within one year.

19 CASH AND CASH EQUIVALENTS

(a) The Group

	2006	2005
	RMB'000	RMB'000
Cash at bank and on hand	**67,275**	113,585

Included in cash and cash equivalents in the consolidated balance sheet are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	2006	2005
	'000	'000
United States Dollars	**US$ 1,561**	US$ 103
Hong Kong Dollars	**HK$ 21**	HK$—

Included in cash and cash equivalents were RMB4.0 million as at 31 December 2006 (31 December 2005: RMB2.0 million) pledged to secure bills issued by the Group.

(b) The Company

	2006	2005
	RMB'000	RMB'000
Cash at bank and on hand denominated in HK$	**6,563**	79,953

(c) 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.

20 TRADE AND OTHER PAYABLES

(a) The Group

	2006 RMB'000	2005 RMB'000
Trade payable to third parties	**88,558**	48,685
Bills payable	**22,788**	10,000
	111,346	58,685
Amounts due to related companies:		
– A minority equity holder of a subsidiary of the Group (Note (i))	**1,259**	—
– A company under common significant influence (Note (ii))	**4,726**	4,448
	5,985	4,448
Advances received from customers	**16,246**	9,567
Accrued charges and other payables	**197,338**	91,536
	330,915	164,236

Note (i): The amount is unsecured, bearing interest at a rate of 7.0% per annum and has no fixed terms of repayment.

Note (ii): The amount as at 31 December 2006 is unsecured, bearing interest at a rate of 6.84% per annum (2005: 6.12% per annum) and is repayable by monthly equal instalments in 2007.

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:

	2006 RMB'000	2005 RMB'000
Due within 1 month or on demand	**98,058**	48,685
Due after 1 month but within 6 months	**13,288**	10,000
	111,346	58,685

20 TRADE AND OTHER PAYABLES (continued)

(a) The Group (continued)

Included in trade and other payables are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	2006	2005
	'000	'000
United States Dollars	**US$ 387**	US$ 48

(b) The Company

	2006	2005
	RMB'000	RMB'000
Amounts due to subsidiaries (Note (i))	**24,978**	4,700
Accrued charges and other payables	**6,000**	866
	30,978	5,566

Note (i): The amounts are unsecured, non-interest bearing and have no fixed terms of repayment.

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

21 BANK AND OTHER LOANS

(a) The Group's short-term bank and other loans

	2006	2005
	RMB'000	RMB'000
Bank loans	**220,000**	30,000
Loans from minority equity holders of subsidiaries of the Group	**30,100**	—
	250,100	30,000
Add: current portion of long-term bank loans	**16,000**	120,000
	266,100	150,000

The weighted average interest rates per annum on short-term bank and other loans (excluding current portion of long-term bank loans) were 5.87% as at 31 December 2006 (31 December 2005: 6.14%).

21 BANK AND OTHER LOANS (continued)

(b) The Group's long-term bank loans

	2006 RMB'000	2005 RMB'000
Bank loans	**171,000**	120,000
Less: current portion of long-term bank loans	**(16,000)**	(120,000)
	155,000	—
The bank loans are repayable as follows:		
Within 1 year or on demand	**16,000**	120,000
After 1 year but within 2 years	**70,000**	—
After 2 years but within 3 years	**85,000**	—
	171,000	120,000

As at 31 December 2006, the Group's long-term bank loans bear interest ranging from 5.67% to 5.76% per annum (31 December 2005: 5.76% per annum) .

(c) The banking facilities of the Group, amounting to RMB125.0 million (31 December 2005: RMB120.0 million), were utilised to the extent of RMB125.0 million (31 December 2005: RMB120.0 million) as at 31 December 2006.

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).

22 AMOUNT DUE TO A RELATED COMPANY

The amount arises from the purchase of land use rights from a related company under common significant influence (see Note 28(a)). The amount as at 31 December 2006 is unsecured, bearing interest at a rate of 6.84% per annum (31 December 2005: 6.12% per annum) and is repayable by monthly equal instalments till December 2014.

23 CONVERTIBLE NOTES

JV Investments Limited, a 65.05% owned subsidiary of the Company, issued convertible notes to Pilkington Italy Limited, an equity shareholder of the Company, on the dates and for the amounts set out below:

	Principal amounts of convertible notes issued	
	In US$	Equivalent in RMB'000
Convertible notes issued on:		
– 20 December 2005	503,482	4,085
– 24 July 2006	5,470,086	43,676
– 28 September 2006	650,009	5,135
– 30 September 2006	424,847	3,360
Proceeds from issue of convertible notes	7,048,424	56,256
Amounts classified as equity component		(23,288)
Accrued finance charges		1,299
Carrying amount of liability component as at 31 December 2006		34,267

For each of the above issuance of convertible notes, the notes are convertible into 5,052 shares of JV Investments Limited. All of the convertible notes shall be automatically converted into 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 amounts 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 amounts 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. The convertible notes are unsecured.

24 DEFERRED TAX ASSETS AND LIABILITIES

(a) The Group

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

Deferred tax arising from:	**Unused tax losses**	**Provision for inventories**	**Depreciation expenses in excess of related depreciation allowances**	**Fair value adjustments of property, plant and equipment, and lease prepayments, interest capitalisation and related depreciation**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2005	—	—	—	(185)	(185)
Credited/(charged) to consolidated income statement (Note 6(a))	—	—	1,282	(1,228)	54
At 31 December 2005	—	—	1,282	(1,413)	(131)
Additions through acquisitions of subsidiaries	5,339	48	—	(8,390)	(3,003)
Credited/(charged) to consolidated income statement (Note 6(a))	3,300	(25)	1,206	(201)	4,280
At 31 December 2006	**8,639**	**23**	**2,488**	**(10,004)**	**1,146**

(b) The Company

There were no significant unrecognised deferred tax assets and liabilities as at 31 December 2005 and 2006.

25 CAPITAL AND RESERVES

(a) The Group

	Attributable to equity shareholders of the Company									
	Share capital RMB'000	Share premium RMB'000 (Note (iii))	Capital reserve RMB'000 (Note (iv))	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 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
At 1 January 2006	38,336	274,440	23,233	30,608	(68,570)	(4,063)	90,690	384,674	13,389	398,063
Contributions from minority interests	—	—	—	—	—	—	—	—	36,196	36,196
Increase in minority interests through acquisitions of subsidiaries	—	—	—	—	—	—	—	—	119,412	119,412
Issuance of convertible notes	—	—	13,916	—	—	—	—	13,916	7,476	21,392
Buy-out of minority interests	—	—	—	—	—	—	—	—	(60,774)	(60,774)
Exchange differences on translation into presentation currency	—	—	—	—	—	(1,073)	—	(1,073)	(273)	(1,346)
Net profit for the year	—	—	—	—	—	—	5,623	5,623	8,982	14,605
Dividends approved during the year (Note 10)	—	—	—	—	—	—	(4,824)	(4,824)	—	(4,824)
At 31 December 2006	38,336	274,440	37,149	30,608	(68,570)	(5,136)	91,489	398,316	124,408	522,724

25 CAPITAL AND RESERVES (continued)

(b) The Company

	Share capital RMB'000	Share premium RMB'000 (Note (iii))	Exchange reserve RMB'000	(Accumulated losses)/ retained profits RMB'000	Total RMB'000
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
At 1 January 2006	38,336	274,440	(7,203)	7,232	312,805
Exchange differences on translation into presentation currency	—	—	(10,478)	—	(10,478)
Net loss for the year	—	—	—	(4,962)	(4,962)
Dividends approved during the year (Note 10)	—	—	—	(4,824)	(4,824)
At 31 December 2006	38,336	274,440	(17,681)	(2,554)	292,541

(c) Share capital

	2006 No. of shares ('000)	**2006** RMB'000	2005 No. of shares ('000)	2005 RMB'000
Authorised:				
Ordinary shares of HK$ 0.1 each	**360,000**	**38,336**	700,000	74,543
Issued and fully paid:				
At 1 January	**360,000**	**38,336**	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
At 31 December	**360,000**	**38,336**	360,000	38,336

25 CAPITAL AND RESERVES (continued)

(c) Share capital (continued)

Notes:

(i) Capitalisation issue

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. The proceeds of HK$26,000,000 (equivalent to RMB28,646,000), representing the par value, were credited to the Company's share capital. The remaining proceeds of HK$94,188,000 (equivalent to RMB100,300,000) were credited to the share premium account of the Company.

(ii) Issuance of shares by placing and public offer

On 23 June 2005, 90,000,000 additional ordinary shares of par value of HK$0.1 each 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 equity component of convertible notes issued by JV Investments Limited recognised in accordance with the accounting policy adopted for convertible notes in Note 2(m).

(v) Statutory reserves

In accordance with the articles of association of the PRC subsidiaries of the Group, 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 of the Group. 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.

26 ACQUISITIONS OF SUBSIDIARIES AND MINORITY INTERESTS

(a) On 1 October 2006, JV Investments Limited acquired 100% equity interests in Clear Aim Holdings Limited, which in turn owns 50% equity interests in Shaanxi Blue Star, for a cash consideration of RMB50.0 million. On 22 November 2006, Better Rise Group Limited, a wholly owned subsidiary of the Company, acquired 56.2% equity interests in Beijing Qinchang for a cash consideration of RMB66.76 million. In accordance with the shareholders' circular of the Company dated 30 June 2006, the above transactions were inter-conditional to each other. These transactions have been approved by the Company's shareholders in a special general meeting held on 24 July 2006. The fair value of the net assets acquired in these transactions was as follows:

	Pre-acquisition carrying amounts	**Fair value adjustments**	**Recognised values on acquisitions**
	RMB'000	RMB'000	RMB'000
Property, plant and equipment	157,211	2,478	159,689
Lease prepayments	18,083	9,647	27,730
Deferred tax assets	3,014	—	3,014
Inventories	20,922	—	20,922
Trade and other receivables	78,789	—	78,789
Cash and cash equivalents	8,216	—	8,216
Trade and other payables	(55,416)	—	(55,416)
Bank and other loans	(110,100)	—	(110,100)
Deferred tax liabilities	(2,386)	(2,177)	(4,563)
Net identifiable assets and liabilities	118,333	9,948	128,281
Excess of the net fair value of the acquired net assets over cost			(6,357)
Total purchase price paid plus costs directly attributable to the acquisitions, satisfied in cash			121,924
Less: Cash and cash equivalents acquired (not adjusted for the percentage of ownership held by the Group)			(16,045)
Net cash outflow			105,879

26 ACQUISITIONS OF SUBSIDIARIES AND MINORITY INTERESTS (continued)

Pre-acquisition carrying amounts of the acquirees' assets and liabilities were determined based on applicable HKFRSs immediately before the acquisitions. The values of assets, liabilities and contingent liabilities recognised on acquisitions are their estimated fair values. In determining the fair values of property, plant and equipment and lease prepayments, the Directors of the Company have referenced the adjustments to valuation reports issued by independent valuers. The valuation methods adopted were depreciated replacement cost approach and market value approach.

From the dates of acquisitions to 31 December 2006 and excluding the effect on the excess of the net fair value of the acquired net assets over cost, the above subsidiaries contributed net profit of RMB5.9 million to the Group for the year ended 31 December 2006. Had the acquisitions been occurred on 1 January 2006, the Directors of the Company estimate that consolidated turnover and consolidated net profit would have been RMB801.8 million and RMB3.5 million, respectively.

(b) On 4 December 2006, Clear Aim Holdings Limited acquired an additional 15% equity interests in Shaanxi Blue Star. The consideration and costs directly attributable to this transaction amounted to RMB15.00 million. The fair value of the net assets acquired amounted to RMB22.05 million, resulting in an excess of the fair value of the acquired net assets over cost of RMB7.05 million.

(c) On 30 December 2006, Jiangsu SHD acquired an additional 25.1% equity interests in Shaanxi Blue Star. The consideration and costs directly attributable to this transaction amounted to RMB26.28 million. The fair value of the net assets acquired amounted to RMB37.19 million, resulting in an excess of the fair value of the acquired net assets over cost of RMB10.91 million.

(d) In entering into the acquisitions stated in Notes 26(a) to 26(c), the Directors of the Company considered that the glass industry in the PRC has in general experienced a market downturn in recent periods, which resulted in a material impact on the operating performance of the enterprises in such industry across the board. The Directors of the Company also considered that the glass industry in the PRC is cyclical, and by entering into negotiations of the commercial terms in connection with these acquisitions during this downturn enable the Directors of the Company to achieve relative successes in obtaining terms favourable for the Group, whereby the Group may be able to take the benefits of the upward trend of the cycle in subsequent periods.

The total excess of the net fair value of the acquired net assets over cost recognised on the acquisitions in Notes 26(a) to 26(c) amounted to RMB24.32 million.

27 SEGMENT REPORTING

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

	PRC		Overseas		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Turnover	**345,097**	236,019	**228,039**	150,475	**573,136**	386,494
Segment results	**9,516**	21,614	**29,114**	30,130	**38,630**	51,744
Unallocated operating income and expenses					**(37,059)**	(27,075)
Profit from operations					**1,571**	24,669
Excess of the net fair value of the acquired net assets over cost					**24,315**	—
Finance costs					**(15,538)**	(7,739)
Income tax					**4,257**	(828)
Net profit for the year					**14,605**	16,102

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) Transactions with companies under common significant influence

(i) 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 consideration for the land use rights is RMB56.076 million and is repayable by 120 monthly equal instalments within ten years. As at 31 December 2006, the outstanding amount bears interest at a rate of 6.84% per annum (2005: 6.12% per annum). For the year ended 31 December 2006, interest expenses of RMB3.05 million incurred had been paid to Jiangsu Glass Group Company Limited (2005: RMB3.32 million).

28 RELATED PARTY TRANSACTIONS (continued)

(a) Transactions with companies under common significant influence (continued)

(ii) Management services agreement

The Company and JV Investments Limited entered into a management services agreement with Well Faith Management Limited ("Well Faith"), Mei Long Developments Limited and Pilkington Italy Limited (both the equity shareholders of JV Investments Limited) on 30 December 2005. Pursuant to the management services agreement, Well Faith is the exclusive provider of management services to JV Investments Limited. The Company agreed to pay the relevant management services fee at US$285,527 per annum for three years. For the year ended 31 December 2006, management services fee of RMB2.34 million (2005: RMBNil) incurred had been paid to Well Faith.

(iii) Labour services agreement

The Group has entered into a labour services agreement with Suqian Huawei Labour Service Company Limited ("Suqian Huawei"), a subsidiary of Jiangsu Glass Group Company Limited, for recruiting and supplying temporary staff to the Group. For the year ended 31 December 2006, labour service cost of RMB0.97 million incurred had been paid to Suqian Huawei (2005: RMBNil).

(b) Transactions with equity shareholders of the Company

	Note	2006 RMB'000	2005 RMB'000
Non-interest bearing advances granted	(v)	**339**	—

(c) Transactions with minority equity holders of subsidiaries of the Group and their related parties

	Note	2006 RMB'000	2005 RMB'000
Interest income	(i)	**2,697**	—
Interest expenses	(ii)	**29**	—
Interest bearing advances granted	(iii)	**10,000**	—
Repayment of interest bearing advances granted	(iii)	**18,090**	—
Interest bearing loans received	(iv)	**25,100**	—

28 RELATED PARTY TRANSACTIONS (continued)

(d) Transactions with subsidiaries of the Group

	Note	2006 RMB'000	2005 RMB'000
Interest income	(i)	**5,304**	1,734
Non-interest bearing advances granted	(v)	**35,639**	164,139
Repayment of non-interest bearing advances granted	(v)	**22,048**	91
Non-interest bearing advances received	(v)	**156,885**	5,324
Repayment of non-interest bearing advances received	(v)	**136,607**	570
Interest bearing advances granted	(vi)	**69,213**	70,867
Repayment of interest bearing advances granted	(vi)	**69,704**	114

(e) Key management personnel remuneration

Remuneration for key management personnel, including amounts paid to the Company's directors as disclosed in Note 7 and certain of the highest paid employees as disclosed in Note 8, is as follows:

	2006 RMB'000	2005 RMB'000
Short-term employee benefits	**1,565**	1,284
Retirement scheme contributions	**71**	56
	1,636	1,340

Total remuneration is included in "staff costs" (see Note 5(b)).

Notes:

(i) Interest income represented interest charges on the advances granted to related companies.

(ii) Interest expenses represented interest charges on the loans obtained from related companies.

(iii) The advances to related companies are unsecured, bearing interest at 7.34% per annum and are repayable in August 2007.

(iv) The loans from related companies are unsecured, bearing interest at 5.58% per annum and are repayable before 31 May 2007.

(v) The advances are unsecured and have no fixed terms of repayment.

(vi) The advances to related companies are unsecured, bearing interest at 5.76% per annum and are repayable before December 2007.

29 COMMITMENTS

(a) Capital commitments

At 31 December 2006, the outstanding capital commitments of the Group not provided for in the financial statements are summarised as follows:

	2006	2005
	RMB'000	RMB'000
Commitments in respect of land and buildings, machinery and equipment		
– authorised and contracted for	**70,638**	507
– authorised but not contracted for	**—**	—
	70,638	507
Commitments in respect of investments in subsidiaries and an associate		
– authorised and contracted for	**283,648**	—
– authorised but not contracted for	**—**	—
	283,648	—
Total commitments		
– authorised and contracted for	**354,286**	507
– authorised but not contracted for	**—**	—
	354,286	507

29 COMMITMENTS (continued)

(b) Operating lease commitments

At 31 December 2006, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

(i) The Group

	2006	2005
	RMB'000	RMB'000
Within 1 year	**743**	45
After 1 year but within 5 years	**1,376**	180
After 5 years	**4,329**	409
	6,448	634

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

(ii) The Company

The Company has no significant non-cancellable operating lease commitment.

30 DISTRIBUTABLE RESERVES

At 31 December 2006, the aggregate amount of reserves available for distribution to equity shareholders of the Company was RMBNil (31 December 2005: RMB7.2 million).

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 and other loans and trade and other payables. The Group is exposed to credit, liquidity, interest rate, foreign currency and fair value risks in the normal course of the Group's business. The Group had no position in derivative contracts at 31 December 2005 and 2006.

(a) Credit risk

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

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 maximum exposure to credit risk is represented by the carrying amount of trade and other receivables disclosed in Note 18.

The aggregate value of the individual trade and other receivables balance exceeding 10% of the Group's net assets as at 31 December 2006 represented 46% (31 December 2005: Nil) of the total trade and other receivables balance as at 31 December 2006. Other than this, there were no significant concentrations of credit risk.

(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 Company's board when the borrowings exceed certain pre-determined levels of authority. 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 and other loans and convertible notes of the Group are disclosed in Note 21 and Note 23, respectively.

The interest rates and terms of repayment of interest bearing advances to/from related companies of the Group are disclosed in Notes 18, 20 and 22.

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, primarily through sales and purchases that are denominated in a currency other than the functional currency of the operations to which they relate:

	2006	2005
	RMB'000	RMB'000
Cash at bank and on hand denominated in:		
– US$	**12,189**	831
– HK$	**21**	—
Trade and other receivables denominated in:		
– US$	**21,639**	5,662
– Euros	**950**	163
Trade and other payables denominated in:		
– US$	**3,019**	389

31 FINANCIAL INSTRUMENTS (continued)

(e) Fair value

The disclosures of the fair value estimates, methods and assumptions, set forth below for the Group's financial instruments, are made to comply with the requirements of HKAS 32 and HKAS 39 and should be read in conjunction with the Group's consolidated financial statements and related notes. The estimated fair value amounts have been determined by the Group using market information and valuation methodologies considered appropriate. However, considerable judgement is required to interpret market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Group could realise in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

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 2006.

	2006	2005
	RMB'000	RMB'000
Long-term bank loans excluding current portion of long-term bank loans:		
Carrying amount	**155,000**	—
Fair value	**155,000**	—
Amount due to a related company:		
Carrying amount	**41,387**	47,443
Fair value	**41,387**	47,443
Convertible notes:		
Carrying amount	**34,267**	2,189
Fair value	**34,267**	2,189

Except for the above, the fair values of all financial instruments approximated to their respective carrying amounts as at 31 December 2006 due to the nature or short term maturity of these instruments.

32 POST BALANCE SHEET EVENTS

(a) Acquisitions of subsidiaries

On 9 November 2006, the Company announced that the Company has entered into a series of transactions through its various subsidiaries to acquire the controlling interests in the following companies, which are principally engaged in the production, marketing and distribution of glass and glass products, and development of glass production technology.

Name of company acquired by the Group	Equity interests acquired	Consideration paid
		RMB'000
Weihai Blue Star Glass Co., Ltd.	50.78%	176,084
Hangzhou Blue Star New Materials Technology Co., Ltd.	70.00%	19,780
Zhongbo Technology Co., Ltd.	21.58%	39,680
		235,544
Add: costs directly attributable to the acquisitions		24,895
Total purchase price paid plus cost directly attributable to the acquisitions		260,439

32 POST BALANCE SHEET EVENTS (continued)

(a) Acquisitions of subsidiaries (continued)

These transactions have been approved by the Company's shareholders in a special general meeting held on 18 December 2006.

On 9 March 2007, the Company announced that the acquisitions of the above companies have been completed on or before 9 March 2007. Upon completion of the above transactions, the Company became the holding company of the above companies.

The Directors of the Company have confirmed that the Group has commenced considering the potential financial impact of the above acquisitions but is not yet in a position to determine the potential financial impact of the above acquisitions on the Group's results of operations in future periods and financial position at future date.

(b) Change in the law on corporate income tax in the PRC

On16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the People's Republic of China ("new tax law") which will take effect on 1 January 2008. However, the detailed implementation rules regarding the new tax law have yet to be made public. Consequently, the Company is not able to make an estimate of the expected financial effect of the new tax law on its deferred tax assets and liabilities as at 31 December 2006. The expected financial effect of the new tax law, if any, will be reflected in the Group's 2007 consolidated financial statements. The enactment of the new tax law is not expected to have any financial effect on the amounts accrued in the consolidated balance sheet in respect of current tax payable.

33 ULTIMATE HOLDING COMPANY

The directors consider the ultimate holding company of the Company at 31 December 2006 to be Easylead Management Limited, which is incorporated in British Virgin Islands.

34 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of the 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 the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from those 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.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment are discussed 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 ageing of the individual receivable 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.

34 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(b) Impairment of long-lived assets

If circumstances indicate that the carrying amount of a long-lived asset may not be recoverable, the asset may be considered "impaired", and an impairment loss may be recognised in accordance with accounting policy for impairment of long-lived assets as described in Note 2(j). 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 the 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. In determining the value in use, expected future cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to level of revenue and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of revenue and amount of operating costs. Changes in these estimates could have a significant impact on the carrying value of the assets and could result in additional impairment charge or reversal of impairment in future periods.

(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 values. The management reviews the estimated useful lives and the residual values of the assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The determination of the useful lives and the 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.

(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 2006

Up to the date of issue of this report, HKICPA has issued the following amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2006 and which have not been adopted in this report:

	Effective for accounting periods beginning on or after
HKFRS 7, Financial Instruments: Disclosures	1 January 2007
HKFRS 8, Operating Segments	1 January 2009
HK(IFRIC) 7, Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary economies	1 March 2006
HK(IFRIC) 8, Scope of HKFRS 2	1 May 2006
HK(IFRIC) 9, Reassessment of Embedded Derivatives	1 June 2006
HK(IFRIC) 10, Interim Financial Reporting and Impairment	1 November 2006
HK(IFRIC) 11, HKFRS 2 - Group and Treasury Share Transactions	1 March 2007
HK(IFRIC) 12, Service Concession Arrangements	1 January 2008
Amendments to HKAS 1, Presentation of Financial Statements: Capital Disclosures	1 January 2007
Revised Guidance on Implementing HKFRS 4, Insurance Contracts (December 2005)	1 January 2007

The Directors of the Company have confirmed that the Group has commenced considering the potential impact of the above HKFRSs and interpretations but is not yet in a position to determine whether these HKFRSs and interpretations will have a significant impact on how the results of operations and financial position are prepared and presented. These standards and interpretations may result in changes in the future as to how the results and financial position are prepared and presented.