Notes to the Consolidated Financial Statements

For the year ended 31 December 2006
(Amounts expressed in Renminbi)

1. GENERAL INFORMATION, ORGANISATION AND OPERATIONS

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

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

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

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

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

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

The Company and its subsidiaries (the "Group") is principally engaged in the manufacturing and selling of glass products and soda ash products. The activities of the subsidiaries are set out in note 20.

These consolidated financial statements are presented in Renminbi, unless otherwise stated.

These consolidated financial statements have been approved by the board of Directors (the "Directors") on 27 April 2007.

2. BASIS OF PREPARATION – GOING CONCERN ASSUMPTION

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

As of 31 December 2006, the Group had net current liabilities of approximately RMB1,786 million. This condition indicates the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006
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2. BASIS OF PREPARATION – GOING CONCERN ASSUMPTION (continued)

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

1. The Group will succeed in negotiating with its bankers to roll over the outstanding bank loans and/or to extend their repayment terms to meet its working capital and financial requirements in the near future. As disclosed in Note 27, certain bank loans, with which the Group largely finances its capital expenditures, are due for repayment in 2007. Subsequent to 31 December 2006, approximately RMB587 million of these loans had been rolled over for a further period of twelve months and none of these banks has indicated its intention to withdraw their facilities granted to the Group. In addition, certain banks have advised their intention in writing, though not legally binding, to renew or extend the loans for another period of twelve months when they fall due after the date of approval of these financial statements in 2007.

2. The Group has been actively exploring the availability of alternative sources of long term financing in order to re-finance its existing short term bank loans.

3. The Company will succeed in working out a remedial plan with International Finance Corporation ("IFC") for the breach of certain loan covenants associated with a loan facility granted to and drawn down by the Company during 2006 of US$40 million and subsequently after 2006 of US$20 million (in an aggregated amount of US$60 million, equivalent to approximately RMB468 million).

4. The Group is expected to derive sufficient operating cash flow in 2007 from its existing flat glass products, soda ash products, as well as from the sales of ultra thin and other glass products to be produced by 3 production lines, with one newly put into use in early 2007 and two to be put into operations in mid-2007.

In addition, the Directors would take relevant measures in 2007 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 reducing the dividend pay-out ratio for 2007.

In light of the measures undertaken and the assumptions and conditions adopted in the preparation of cash flow projection of the Group for 2007, the Directors are confident that the Group will have sufficient working capital to finance its operations in order to maintain its operating scale and 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 Company and the Group on a going concern basis. The financial statements do not include any adjustments relating to the carrying amount and reclassification of assets and liabilities that might be necessary should the Group be unable to continue as a going concern.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of preparation

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

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

The following new standards, amendments to standards and interpretations are mandatory for financial year ended 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 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;

- Amendment to 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 financial statements;

- 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;

- HKAS 39 and 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. The later Amendment to HKFRS 6 and HKFRS 1, 'First-time Adoption of Hong Kong Financial Reporting Statements', are not relevant 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 of all its contracts, and has not identified any additional contract to be required to be accounted for as leases in accordance with HKAS 17;

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006
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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Basis of preparation (continued)

- 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.

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

- HK(IFRIC)-Int 7, 'Applying the Restatement Approach under 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;

- HK(IFRIC)-Int 8, 'Scope of 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;

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

- HK(IFRIC)-Int 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006). HK(IFRIC)-Int 10 prohibits the impairment losses recognised in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date. The Group will apply HK(IFRIC)-Int 10 from 1 January 2007, but it is not expected to have any impact on the Group's accounts;

- HKFRS 7, 'Financial instruments. Disclosures', effective for annual periods beginning on or after 1 January 2007. HKAS 1, 'Amendments to capital disclosures', effective for annual periods beginning on or after 1 January 2007. The Group assessed the impact of HKFRS 7 and the amendment to 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 HKAS 1. The Group will also apply HKFRS 7 and the amendment to HKAS 1 from annual periods beginning 1 January 2007;

- IFRIC-Int 11 – IFRS2, Group and Treasury Share Transaction (effective for annual periods beginning on or after 1 March 2007). IFRIC-Int 11 provides guidance on the how to apply requirements of IFRS 2 when involving the equity instruments of the parent or subsidiaries and when involving the purchase of the entity's own equity instrument from third parties. As the Company's Article of Association does not provide any provision for treasury share and redemption of the Company's own shares, IFRIC-Int 11 is not relevant to the Group's operation;

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Basis of preparation (continued)

- IFRIC-Int 12, Service Concession Arrangements (effective for annual periods beginning on or after 1 January 2008), which gives guidance on the accounting by operation for public-to-private service concession arrangement. As the Group does not engage into such operations, IFRIC-Int 12 is not relevant to the Group's operation;

- HKFRS8, Operating Segments (effective for annual periods beginning on or after 1 January 2009) supersedes HKAS 14, Segment Reporting and requires the reporting of financial and descriptive information about an entity's reportable segments on the basis of internal reports that are regularly reviewed by its management. The Group are still in the process to assess the impact of HKFRS 8. The Group will apply HKFRS 8 from 1 January 2009; and

- Amendment to HKAS 23, 'Borrowing costs' (effective for annual periods beginning on or after 1 January 2009). The revised HKAS 23 requires management to capitalize borrowing costs attributable to qualifying assets. Qualifying assets are assets that take a substantial time to get ready for their intended use or sale. The Group are still in the process to assess the impact of HKAS 23(R), however currently the directors are of the view that the revised HKAS 23 will not have material impact to the Group as the Group have already adopted the alternative approach under existing HKAS 23 which is similar to the revised HKAS 23. The Group will apply HKAS 23(R) from 1 January 2009.

(b) Consolidation

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

(i) Subsidiaries

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006
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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Consolidation (continued)

(ii) Transactions with minority interests

The Group applies a policy of treating transactions with minority interests as transactions with equity owners of the Group. For purchases from minority interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is deducted from equity. Gains or losses on disposals to minority interests, differences between any proceeds received and the relevant share of minority interests are also recorded in equity.

(c) Segment reporting

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

(d) Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

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

(iii) Group companies

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Foreign currency translation (continued)

(iii) Group companies (continued)

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

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

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

(e) Property, plant and equipment

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

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

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

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006
(Amounts expressed in Renminbi)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Construction-in-progress

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

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

(g) Intangible assets

Technical know-how

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

Exploration rights

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

(h) Impairment of investments in subsidiaries and non-financial assets

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

(i) Inventories

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

(j) Trade and other receivables

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Cash and cash equivalents

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

(l) Borrowings

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

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

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

(m) Deferred income tax

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

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

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

Notes to the Consolidated Financial Statements

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees.

Employee entitlements to sick leave and maternity or paternity leave are not recognised until the time of leave.

(ii) Pension obligations

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

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

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

(o) Provisions

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Revenue recognition

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

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

(q) Government grants

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

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

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

(r) Leases (as the lessee)

(i) Operating lease

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

(ii) Finance lease

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006
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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Dividend distribution

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

(t) Non-current assets (or disposal groups) held for sale

Non-current assets (or disposal groups) are classified as assets held for sale and stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is recovered principally through a sale transaction rather than through a continuing use.

4. FINANCIAL RISK MANAGEMENT

(a) Foreign exchange risk

The Group's principal sales and operations are transacted in the PRC and recorded in Renminbi. The Group's export business, which was conducted in foreign currencies, accounted for an insignificant portion of the Group's turnover. The purchase of materials from abroad also accounted for a very small portion of the Group's total materials purchase in value. The Group's borrowings were also predominantly denominated in RMB, except for the long-term loans from IFC which are denominated in US dollars. The Group neither entered into any foreign exchange forward contracts nor adopted other hedging instruments to hedge against possible exchange rate fluctuations because the Directors have assessed that the potential adverse effect due to the fluctuations would not be significant.

(b) Credit risk

The Group currently sells substantially all its glass products and soda ash products in the Mainland China domestic market. Cash on delivery is required for most customers buying the Group's normal flat glass products 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 and to a limited range of customers buying the Group's flat glass products and soda ash products. An assessment is made based on the financial conditions and past payment history of these customers with the approval of senior management. As at 31 December 2006, the five largest debtors accounted for 38% of total accounts receivable balances of the Group.

The Directors are of the view that the customers with outstanding balances outstanding as at 31 December 2006 amounting to approximately RMB113 million were all existing customers of the Group and/or reputable companies in the industry, the risk of credit default is considered to be low and accordingly, the provision for doubtful debts as at 31 December 2006 amounting to approximately RMB792,000 is considered adequate to hedge against potential credit risk.

4. FINANCIAL RISK MANAGEMENT (continued)

(c) Liquidity risk

The Group has been investing in the construction of its soda ash production line and certain processed glass production lines and a major portion of the financing was obtained from short-term bank loans. As a result, the Group recorded a net current liability position as at 31 December 2006 in the amount of approximately RMB1,786 million. Nevertheless, the Group has not experienced any problems in renewing its short-term bank loans upon their maturity.

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

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

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

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

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

(d) Cash flow and fair value interest rate risk

The Group's interest-rate risk arises from interest-bearing borrowings, which include both long-term and short-term bank loans. Borrowings issued at variable rates expose the Group to cash flow interest-rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. As at 31 December 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.

Notes to the Consolidated Financial Statements

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5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

(a) Critical accounting estimates and assumptions

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

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

Details of assumptions adopted by the Directors of the Company for adopting the going concern basis in preparing the 2006 financial statements are set out in Note 2.

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

As described in Note 17b(iv), the Directors performed impairment loss assessment on two glass production lines, whose construction had been temporarily put on hold, based on the results of valuation performed by a PRC valuer on these projects. The valuation basis was determined according to the fair value less costs to sell of the facilities, machineries and equipment, and land use rights associated with these projects. As a result of such an assessment, the recoverable amounts of the assets relating to these projects were estimated to be higher than their respective carrying values as at 31 December 2006. Accordingly, the Directors conclude that there was no impairment loss to be recognised for the year ended 31 December 2006.

6. REVENUE AND SEGMENT INFORMATION

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

	2006 **RMB'000**	2005 RMB'000
Sales of glass and soda ash products	**1,517,160**	1,192,472
Sales of by-products	**2,818**	2,666
Service income	**534**	498
Total revenues	**1,520,512**	1,195,636

Sales made to the top five customers during the year ended 31 December 2006 represent 12% (2005: 19%) of the total turnover during the year.

6. REVENUE AND SEGMENT INFORMATION (continued)

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

(a) Primary reporting format-business segments

The Group's business are conducted through two business segments

(1) Manufacturing and selling of glass products; and

(2) Manufacturing and selling of soda ash.

The segment results for the year ended 31 December 2006 are as follows:

	Glass Manufacturing RMB'000	Soda Ash Manufacturing RMB'000	Inter-segment elimination RMB'000	Group RMB'000
Revenue	1,087,829	572,062	(139,379)	1,520,512
Segment result	52,436	38,878	954	92,268
Interest income				18,006
Unallocated expenses net				(4,224)
Operating profit				106,050
Finance costs				(156,158)
Loss from disposal of a subsidiary				(1,435)
Loss before income tax				(51,543)
Income tax expense				(8,371)
Loss for the year				(59,914)
Assets	3,434,683	2,556,253	(93,893)	5,897,043
Liabilities				
Segment liabilities	510,274	1,014,967	(102,099)	1,423,142
Unallocated liabilities				2,856,863
				4,280,005
Other information				
Capital expenditure	339,387	200,526	–	539,913
Depreciation	169,496	125,888	1,059	296,443
Amortisation of land use rights and intangible assets	2,952	353	–	3,305

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6. REVENUE AND SEGMENT INFORMATION (continued)

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

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

	Glass Manufacturing RMB'000	Soda Ash Manufacturing RMB'000	Inter-segment elimination RMB'000	Group RMB'000
Revenue	1,191,580	4,056	–	1,195,636
Segment result	209,418	(10,532)	7,251	206,137
Interest income				12,310
Unallocated expenses net				(4,499)
Operating profit				213,948
Finance costs				(89,288)
Profit before income tax				124,660
Income tax expense				(50,108)
Profit for the year				74,552
Assets	3,318,327	2,466,316	(3,159)	5,781,484
Liabilities				
Segment liabilities	209,448	885,725	(11,192)	1,083,981
Unallocated liabilities	–	–	–	3,267,958
				4,351,939
Other information				
Capital expenditure	475,313	1,429,082	–	1,904,395
Depreciation	164,435	6,000	–	170,435
Amortisation of land use rights and intangible assets	2,377	159	–	2,536

6. REVENUE AND SEGMENT INFORMATION (continued)

(b) Secondary reporting format-geographical segments

Revenue	2006 RMB'000	2005 RMB'000
Zhejiang province	825,221	885,401
Shanxi, Henan and Hebei	133,555	–
Jiangsu province	128,811	154,295
Shanghai	89,918	99,447
Qinghai, Gansu, Shaanxi, Ningxia and Xinjiang	63,069	–
Guangdong and Fujian provinces	57,073	33,230
Liaoning, Jilin, and Heilongjiang	36,931	–
Anhui, Hubei, and Hunan	40,851	–
Other regions	145,083	23,263
	1,520,512	1,195,636

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

Total assets	2006 RMB'000	2005 RMB'000
Zhejiang	3,434,683	3,318,327
Qinghai	2,556,253	2,466,316
Inter-segment elimination	(93,893)	(3,159)
	5,897,043	5,781,484

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

Capital expenditure	2006 RMB'000	2005 RMB'000
Zhejiang	339,387	475,313
Qinghai	200,526	1,429,082
	539,913	1,904,395

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

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7. OTHER GAINS

	2006 RMB'000	2005 RMB'000
Interest income	**18,006**	12,310
Government grants (a)	**26,380**	8,851
Gain on disposal of fixed assets	**2,521**	–
Others	**362**	66
	47,269	21,227

(a) Cash subsidy income related to grants made by the local government to the Company in order to support the expansion of the Company and to finance the Group's staff costs and manufacturing overheads incurred during the year.

8. EXPENSES BY NATURE

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

	2006 RMB'000	2005 RMB'000
Changes in inventories of finished goods and work in progress	**(28,443)**	(15,294)
Raw materials and consumables used	**1,039,722**	755,757
Staff costs (including Directors' emoluments)		
– salaries, wages and related employee welfare expenses	**68,297**	46,119
– pension costs-state-sponsored retirement plan	**2,294**	2,311
– pension costs-defined contribution retirement scheme	**24**	24
	70,615	48,454
Depreciation of property, plant and equipment (note 17)	**296,443**	170,435
Amortisation of land use rights and intangible assets (notes 16 and 18)	**3,305**	2,536
Operating lease rental of office premises	**1,098**	818
Auditor's remuneration (statutory audits in the PRC and Hong Kong)	**3,673**	2,996
Exchange loss, net	**160**	882
Other expenses	**75,158**	36,331
Total	**1,461,731**	1,002,915

9. FINANCE COSTS

	2006 RMB'000	2005 RMB'000
Interest expenses on:		
Bank loans	**213,982**	184,305
Less: interest expenses capitalized under construction-in-progress (note 17)	**(64,563)**	(96,243)
	149,419	88,062
Charges on discounting of bills	**6,739**	1,226
	156,158	89,288

10. TAXATION

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

	2006 RMB'000	2005 RMB'000
Hong Kong profits tax (i)	**–**	–
PRC Enterprise Income Tax(ii)	**1,036**	30,069
Deferred taxation relating to the origination of temporary differences (note 32)	**7,335**	20,039
Taxation charge	**8,371**	50,108

(i) Hong Kong profits tax

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

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

The Group is subject to Enterprise Income Tax of the PRC at a rate of 33% (2005: 33%) on its assessable profit.

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10. TAXATION (continued)

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

	2006 **RMB'000**	2005 RMB'000
(Loss)/profit before taxation	**(51,543)**	124,660
Calculated at a taxation rate of 33% (2005: 33%)	**(17,009)**	41,138
Income not subject to tax	**(3,490)**	–
Expenses not deductible for taxation purposes	**225**	1,751
Tax on deemed income arising from intragroup transactions	**–**	3,479
Unrecognised tax losses of subsidiaries	**28,645**	3,740
Taxation charge	**8,371**	50,108

11. PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

The profit attributable to shareholders of the Company is dealt with in the accounts of the Company to the extent of approximately RMB20,474,000 (2005: RMB62,399,000).

12. (LOSS)/EARNINGS PER SHARE

The calculation of the basic loss per share is based on the Group's loss attributable to shareholders of approximately RMB57,008,000 (2005: profit of RMB74,072,000) divided by the weighted average number of 627,033,800 ordinary shares in issue during the year (2005: 578,713,000).

The diluted loss per share information was the same as basic loss per share as above since there were no dilutive potential ordinary shares outstanding (2005: same). In addition, the presentation of diluted loss per share is anti-dilutive.

13. DIVIDENDS

	2006 **RMB'000**	2005 RMB'000
Dividends paid:		
– Final dividends for the year 2004 of RMB0.0503 per ordinary share	**–**	29,105
– Interim dividends for the year 2005 of RMB0.0361 per ordinary share	**–**	20,892
	–	49,997
Dividends proposed:		
– No final dividends proposed for the year 2006 (2005: Nil)	**–**	–

(i) At a board of directors' meeting held on 27 April 2007, the Directors proposed not to declare any final dividend for the year ended 31 December 2006.

14. STAFF COSTS (EXCLUDING DIRECTORS' EMOLUMENTS)

	2006 **RMB'000**	2005 RMB'000
Salaries, wages and related employee welfare expenses:		
– current year charges	**65,013**	42,923
Pension costs:		
– state-sponsored retirement plan	**2,055**	2,091
– defined contribution retirement scheme	**–**	–
	67,068	45,014

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

a. The emoluments of each director and supervisor for the years ended 31 December 2006 and 2005, are set out below:

	2006				
Name	Fees RMB'000	Salary and allowances RMB'000	Bonuses RMB'000	Pension scheme contributions RMB'000	Total RMB'000
Director					
Feng Guangcheng	–	499	–	85	584
Xu Yujuan (iv)	–	–	–	–	–
Feng Luwen (iv)	–	–	–	–	–
Wang Yanchun (iv)	–	230	–	39	269
Hong Yumei	–	225	–	38	263
Chung Kwok Mo John (ii)	–	1,476	–	24	1,500
Gao Huojin (i)	–	243	–	41	284
Liu Jianguo	10	–	–	–	10
Shi Guodong	10	–	–	–	10
Shen Guangjun (i)	–	211	–	36	247
Wang Yanmou	100	–	–	–	100
Li Jun	100	–	–	–	100
Wang Herong	100	–	–	–	100
Su Gongmei (iii)	100	–	–	–	100
Supervisor					
Xu Yuxiang	–	188	–	32	220
Zhang Guoqing	–	207	–	35	242
Shen Guangjun	–	–	–	–	–
Ni Daoxin	–	–	–	–	–
Yang Kuang	–	94	–	16	110
Mao Junchun	–	90	–	15	105

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

a. (continued)

	2005				
Name	Fees RMB'000	Salary and allowances RMB'000	Bonuses RMB'000	Pension scheme contributions RMB'000	Total RMB'000
Director					
Feng Guangcheng	–	501	–	85	586
Xu Yujuan (iv)	–	401	–	68	469
Wang Yanchun (iv)	–	217	–	37	254
Hong Yumei	–	175	–	30	205
Chung Kwok Mo John (ii)	–	1,476	–	24	1,500
Wang Yanmou	100	–	–	–	100
Li Jun	106	–	–	–	106
Wang Herong	100	–	–	–	100
Su Gongmei (iii)	100	–	–	–	100
Liu Jianguo	10	–	–	–	10
Shi Guodong	10	–	–	–	10
Supervisor					
Xu Yuxiang	–	224	–	38	262
Zhang Guoqing	–	230	–	39	269
Shen Guangjun	–	194	–	33	227
Ni Daoxin	–	88	–	15	103
Yang Kuang	–	89	–	15	104
Mao Junchun	–	80	–	14	94
Chen Baijin	–	–	–	–	–

Notes:

i. Appointed with effect from 25 October 2006.

ii. Appointed with effect from 17 October 2005, including emoluments before the appointment.

iii. Appointed with effect from 12 March 2005.

iv. Resigned with effect from 29 August 2006.

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

a. (continued)

During the year, two (2005: five) directors waived emoluments of approximately RMB600,000 (2005: RMB1,306,000). Neither incentive payment for joining the Company nor compensation for loss of office was paid or payable to any directors during the year (2005: nil).

During the year, three (2005: four) supervisors waived emoluments of approximately RMB660,000 (2005: RMB1,252,000). No emoluments were paid to the supervisors as inducement to join or upon joining the Company or as compensation for loss of office (2005: nil).

b. Five highest paid individuals

The five highest paid individuals consisted of:

	2006 RMB'000	2005 RMB'000
Number of directors	**5**	3
Number of employees	**–**	2
	5	5

The details of emoluments paid to the five highest paid individuals who were Directors of the Company during the year have been included in note a above. Details of emoluments paid or payable to the remaining two highest paid individuals in 2005 were:

	2006 RMB'000	2005 RMB'000
Salaries and allowances	**–**	468
Pension scheme contributions	**–**	79
Bonuses	**–**	–
Others	**–**	–
	–	547

The remuneration of each of the five highest paid individuals who are not directors during 2005 fell within the band of RMB nil to RMB500,000 (equivalent to HK$500,000).

16. INTANGIBLE ASSETS

Group	Technology know-how (note a)	Exploration rights (note b)	Total
Year ended 31 December 2005	RMB'000	RMB'000	RMB'000
Opening net book amount	5,254	–	5,254
Addition	–	6,020	6,020
Amortisation charge	(650)	(159)	(809)
Closing net book amount	4,604	5,861	10,465
At 31 December 2005			
Cost	6,500	6,020	12,520
Accumulated amortisation	(1,896)	(159)	(2,055)
Net book amount	4,604	5,861	10,465
Year ended 31 December 2006			
Opening net book amount	**4,604**	**5,861**	**10,465**
Addition	**–**	**16,732**	**16,732**
Amortisation charge	**(704)**	**(306)**	**(1,010)**
Closing net book amount	**3,900**	**22,287**	**26,187**
At 31 December 2006			
Cost	**6,500**	**22,687**	**29,187**
Accumulated amortisation	**(2,600)**	**(400)**	**(3,000)**
Net book amount	**3,900**	**22,287**	**26,187**

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

(b) The exploitation rights are the 30-year mineral resources exploitation licenses ("the licenses"), granted to Qinghai Soda Ash Company Limited ("QSAC"), a subsidiary of the Company, by Bureau of Land and Resources of Qinghai Province, the PRC. The total consideration of the license was approximately RMB23,142,000, of which the payments of RMB5,020,000 and RMB3,625,000 have been made in 2005 and 2006 respectively by cash, and the remaining RMB14,497,000 ("the deferred portion") will be paid by installments in the following four years. The cost of the licenses was recognized at the present value of the payments.

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

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

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

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

a. (continued)

	Group 2006					
	Plant and buildings RMB'000	Machinery and equipment RMB'000	Furnaces RMB'000	Motor vehicles RMB'000	Office equipment RMB'000	Total RMB'000
Cost:						
At 1 January 2006	1,183,160	2,249,598	289,847	14,527	2,111	3,739,243
Reclassification	184,277	(185,112)	–	154	681	–
Additions	–	393	–	–	72	465
Transfer from CIP	31,159	28,344	–	3,750	324	63,577
Disposal of a subsidiary	–	(2,997)	–	–	(24)	(3,021)
Disposal	(3,147)	(29,118)	–	(3,013)	–	(35,278)
At 31 December 2006	1,395,449	2,061,108	289,847	15,418	3,164	3,764,986
Accumulated depreciation :						
At 1 January 2006	82,408	348,215	133,510	2,558	932	567,623
Reclassification	–	(93)	–	109	(16)	–
Charge for the year	68,834	185,226	39,969	1,956	458	296,443
Disposal of a subsidiary	–	(171)	–	–	(3)	(174)
Disposal	(305)	(6,771)	–	(292)	–	(7,368)
At 31 December 2006	150,937	526,406	173,479	4,331	1,371	856,524
Net book value:						
At 31 December 2006	1,244,512	1,534,702	116,368	11,087	1,793	2,908,462

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

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

a. (continued)

	Company 2006					
	Plant and buildings RMB'000	Machinery and equipment RMB'000	Furnaces RMB'000	Motor vehicles RMB'000	Office equipment RMB'000	Total RMB'000
Cost:						
At 1 January 2006	446,676	854,862	289,847	8,731	1,188	1,601,304
Additions	–	392	–	–	39	431
Transfer from CIP	1,630	311	–	–	–	1,941
Disposal	–	(5,278)	–	–	–	(5,278)
At 31 December 2006	448,306	850,287	289,847	8,731	1,227	1,598,398
Accumulated depreciation:						
At 1 January 2006	77,345	326,246	133,512	2,220	663	539,986
Charge for the year	17,975	81,223	39,969	873	239	140,279
Disposal	–	(4,459)	–	–	–	(4,459)
At 31 December 2006	95,320	403,010	173,481	3,093	902	675,806
Net book value:						
At 31 December 2006	352,986	447,277	116,366	5,638	325	922,592

As at 31 December 2006, certain plant and buildings and machinery and equipment with an aggregate carrying value of approximately RMB737,779,000 (2005: RMB651,011,000) had been pledged as security for certain bank loans of the Group (see note 27).

As at 31 December 2006, the Group was in the process of applying for the ownership certificates of certain buildings of the Group with an aggregate carrying amount of approximately RMB794 million (2005: RMB522 million). The Directors believe that there are no restrictions to obtain such certificates and there is no significant adverse impact on the financial position of the Group.

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

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

	Group		Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
At 1 January 2006	**1,129,189**	1,425,296	**198,137**	94,813
Additions	**515,071**	1,813,604	**71,169**	113,753
Reclassified as held for sale (ii)	**(74,818)**	–	**–**	–
Disposals (iii)	**(4,515)**	–	**–**	–
Transfer to fixed assets	**(63,577)**	(2,109,711)	**(1,941)**	(10,429)
At 31 December 2006 (note (i))	**1,501,350**	1,129,189	**267,365**	198,137

(i) The CIP of the Group and the Company as at 31 December 2006 mainly represents construction expenditures incurred on plant and buildings located in the PRC and production machinery and equipment acquired for several new glass products production lines and a soda ash production line not yet put into use.

(ii) During the year, the Directors of the Company resolved not to proceed with the construction of a new glass production line (the "Binghai Project") in the Binhai Industrial Zone located in Zhejiang Province, the PRC after a review of the prospects of the project. Accordingly, the Company began to look for potential buyer to dispose of the project assets. Subsequent to the balance sheet date, on 9 February 2007, an agreement was reached by the Company with two independent third parties (the "Buyers") that the Company's interests in the Binghai Project, including the land use rights and related structures constructed thereon, would be transferred to a newly established enterprise of which the Buyers would eventually become the only two beneficial owners upon the receipt of the entire consideration for the transaction by the Company. The consideration for the disposal is approximately RMB139 million and the transaction is scheduled to be completed on or before 30 September 2007. The Directors consider that no material gain or loss would result from the disposal. Accordingly, the recoverable amount of the Binghai Project, which is equal to the carrying value of approximately RMB134 million as at 31 December 2006 (including approximately RMB60 million of deposit for land use rights and RMB74 million of CIP), was presented as "non current assets held for sale" in the balance sheet.

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

b. (continued)

(iii) During the year, the Directors decided not to proceed with the construction of the new glass production line in Jiaojiang, Zhejiang Province after the review of the prospects of the project. The total expenditures incurred on the project amounting to approximately RMB4.5 million was fully written off to the income statement accordingly.

(iv) In 2005, the Directors of the Company determined to put the construction of two new glass production lines on hold temporarily due to unsatisfactory market conditions of the glass industry. The carrying amount of capital expenditures incurred on these projects amounted to approximately RMB173 million in aggregate as at 31 December 2006, comprising approximately RMB138 million recorded as CIP, approximately RMB26 million recorded as land use rights, and the remaining RMB9 million as deposits for land use rights on the balance sheet. The Directors have assessed the recoverable amounts of these two projects based on valuation performed by a PRC independent valuer on their respective estimated fair values less selling costs, determined based on the current market values of similar assets. As a result of such an assessment performed, no impairment loss had been recognized in the 2006 financial statements of the Group.

The Directors currently intend to resume these projects upon recovery of the market conditions of the glass industry.

During the year, the amount of borrowing costs capitalised in CIP was approximately RMB64,563,000 (2005: RMB96,243,000) and the capitalisation rate is approximately 6.76% (2005: 6.62%).

18. LAND USE RIGHTS

	Group		Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
As at 1 January	**104,437**	84,534	**58,730**	59,694
Additions	**5,744**	300	**–**	300
Transfer from deposits for land use rights	**34,519**	21,330	**–**	–
Amortisation of prepaid operating lease payments	**(2,295)**	(1,727)	**(1,266)**	(1,264)
As at 31 December	**142,405**	104,437	**57,464**	58,730

At 31 December 2006, approximately RMB105,662,000 land use rights (2005: RMB98,043,000) had been pledged as security for the bank borrowings of the Group (note 27).

19. DEPOSITS FOR LAND USE RIGHTS

The balances as at 31 December 2006 and 2005 represent deposits paid by the Group and the Company for acquiring land use rights of premises in the PRC, at where certain new production lines are located, from local land bureaux amounting to approximately RMB9 million (2005: RMB118 million).

The relevant local land bureaux in the PRC have committed to finalise the title transfer procedures of the land use rights and the Directors have also obtained an advice from its PRC legal counsel that there are no legal restrictions which prohibit the fulfillment of the commitment given by the relevant local land bureaux in the PRC.

20. INTERESTS IN SUBSIDIARIES

As at 31 December 2006, interests in subsidiaries comprised the following:

	2006	2005
	RMB'000	RMB'000
Unlisted shares, at cost	**752,966**	757,466
Amounts due from subsidiaries (note c)	**900,567**	551,303
	1,653,533	1,308,769

The Directors of the Company are of the opinion that the underlying value of the subsidiaries was not less than the carrying value at 31 December 2006.

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20. INTERESTS IN SUBSIDIARIES (continued)

The following is a list of the principal subsidiaries of the Group as at 31 December 2006:

Name	Place and date of incorporation/ establishment and legal status	Principal activities and place of operations	Particulars of issued/ registered capital	Interest directly held	Interest indirectly held
Zhejiang Engineering Glass Company Limited ("ZEGC")	The PRC, 6 March 2003, limited liability company	Manufacturing, development and sales of engineering glass products and the provision of related services in the PRC	Registered capital of RMB90,000,000	90%	10%
Qinghai Soda Ash Company Limited (青海鹼業有限公司) ("QSAC")	The PRC, 11 July 2003, limited liability company	Manufacturing and sales of soda ash in the PRC	Registered capital of RMB548,060,000 (note 30)	92.74%	–
Zhejiang Glass (Hong Kong) Company Limited (浙江玻璃(香港)有限公司) ("ZGHKC")	Hong Kong, 18 January 2003, limited liability company	Business liaison and administration	2,000 ordinary shares* of HK$100 each	100%**	–
Zhejiang Changxing Glass Company Limited (浙江長興玻璃有限公司) ("ZCGC") (a)	The PRC, 19 February 2005, limited liability company	Manufacturing and sales of related glass products in the PRC	Registered capital RMB50,000,000	95%	5%
Zhejiang Jiaojiang Glass Company Limited (浙江椒江玻璃有限公司) ("ZJGC") (a)	The PRC, 18 March 2005, limited liability company	Manufacturing and sales of related glass products in the PRC	Registered capital RMB50,000,000	95%	5%
Zhejiang Pinghu Glass Company Limited (浙江平湖玻璃有限公司) ("ZPGC") (a)	The PRC, 26 March 2005, limited liability company	Manufacturing and sales of related glass products in the PRC	Registered capital RMB20,000,000	95%	5%
Zhejiang Shaoxing Taoyan Glass Company Limited ("ZTYG") (浙江紹興陶堰玻璃有限公司)	The PRC, 12 April 2006, limited liability company	Manufacturing and sales of related glass products	Registered capital RMB40,000,000	90%	10%

20. INTERESTS IN SUBSIDIARIES (continued)

Name	Place and date of incorporation/ establishment and legal status	Principal activities and place of operations	Particulars of issued/ registered capital	Interest directly held	Interest indirectly held
Zhejiang Anji Guangyin Quartz Sand Products Company Limited (浙江安吉光吟石英砂製品有限公司) ("Anji Company") (b)	The PRC, 7 December 2005, limited liability company	Manufacturing and sales of related quartz sand products in the PRC	Registered capital RMB5,000,000	90%	–

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

(b) On 9 February 2007, the Company entered into an agreement with a third party to dispose of its entire 90% equity interest in Anji Company at a cash consideration of RMB2,500,000.

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

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

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

21. LONG TERM PREPAYMENTS

Pursuant to two service and supplies agreements entered into by QSAC with two companies incorporated in the PRC (collectively the "Providers"), the Providers undertake to provide to QSAC certain limestone and salt mining/exploration and related delivery services to the production site of QSAC over a period of 10 years, commencing from August 2005 and December 2005 respectively. According to the terms of these agreements, these Providers also undertake to supply the limestone and salt at fixed prices to QSAC over the whole terms of the agreements unless otherwise as mutually agreed by the parties. In return, QSAC prepaid RMB36 million to these Providers in aggregate, which will be deducted from the purchase prices of lime stones and salt supplied by the Providers to QSAC throughout the terms of the agreements. During the year ended 31 December 2006, the agreement with one of the Providers was terminated and the contractual obligations, as well as related prepayment amount of RMB10 million, were assumed by another service provider.

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22. INVENTORIES

	Group		Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Raw materials	**136,107**	103,983	**45,474**	39,780
Work-in-progress	**1,522**	216	**–**	7
Finished goods	**56,223**	29,086	**10,297**	8,735
Packaging materials	**10,179**	7,339	**4,595**	5,934
Low value consumables	**8,501**	2,531	**1,105**	1,104
	212,532	143,155	**61,471**	55,560

As at 31 December 2006, none of the above inventories were carried at net realisable value (2005: nil).

23. ACCOUNTS RECEIVABLE

As at 31 December 2006 and 2005, the aging analysis of accounts receivable is set out below:

	Group		Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Current to under 6 months	**70,586**	91,416	**11,601**	34,853
6 to under 12 months	**20,382**	36,143	**27,133**	2,981
1 to under 2 years	**20,958**	2,057	**12,553**	2,057
2 to under 3 years	**1,875**	–	**1,875**	–
Provision made	**(792)**	(683)	**(355)**	(248)
Accounts receivable, net	**113,009**	128,933	**52,807**	39,643

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

24. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

As at 31 December 2006, substantially all cash and cash equivalents of the Group and the Company were denominated in Renminbi.

In addition, pledged deposits of the Group and the Company denominated in RMB amounted to approximately RMB172,603,000 (2005: RMB229,181,000) and RMB172,603,000 (2005: RMB180,492,000), respectively. Pledged deposits represent deposits placed with certain banks as security for the grant of certain bank loans and trade finance facilities from banks of RMB434,028,000 (2005: RMB205,842,000) (Note 27).

25. ACCOUNTS PAYABLE

As at 31 December 2006 and 2005, the aging analysis of accounts payable is set out below:

	Group		Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Current to under 6 months	**187,128**	422,960	**104,530**	105,714
6 to under 12 months	**112,875**	55,868	**4,551**	26,727
1 to under 2 years	**193,308**	15,700	**18,726**	15,467
2 to under 3 years	**14,644**	427	**14,643**	427
3 years or over	**–**	4,209	**–**	4,208
	507,955	499,164	**142,450**	152,543

26. ACCRUALS AND OTHER PAYABLES

	Group		Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Accrued operating expenses	**29,198**	18,704	**25,289**	5,630
Accrued staff costs and bonuses	**4,947**	10,326	**2,078**	6,150
PRC individual income tax payable and other surcharges	**1,232**	1,758	**1,200**	1,604
Deposits received from customers for delivery equipment loaned for their use	**58,091**	55,141	**57,014**	54,863
Accrued expenditure on CIP	**66,100**	28,600	**20,700**	17,000
Advance from an environmental protection authority	**–**	2,000	**–**	2,000
Guarantee deposits received from suppliers	**50**	1,479	**50**	700
Guarantee deposits received from fixed assets vendors	**9,135**	9,626	**1,658**	1,406
Others	**7,306**	3,361	**6,400**	5,897
	176,059	130,995	**114,389**	95,250

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27. BORROWINGS

i. Repayment details of bank loans:

As of 31 December 2006 and 2005, the bank loans were repayable as follows:

	Group		Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
– amounts repayable within 1 year	**1,649,858**	2,068,288	**1,199,858**	1,538,288
– amounts repayable between 1 to 2 years	**160,000**	100,000	**–**	–
– amounts repayable between 2 to 5 years	**580,000**	540,000	**–**	–
– amounts repayable beyond 5 years	**420,000**	520,000	**–**	–
	2,809,858	3,228,288	**1,199,858**	1,538,288
Less: amounts repayable within 1 year (included in current liabilities)				
– short-term bank loans (note (v))	**(1,549,858)**	(1,958,288)	**(1,199,858)**	(1,468,288)
– current portion of long-term bank loans	**(100,000)**	(110,000)	**–**	(70,000)
Long-term portion	**1,160,000**	1,160,000	**–**	–

Subsequent to 31 December 2006 and up to the date of approval of the financial statements, approximately RMB587 million of the short-term banks loans which reached maturity had been renewed or extended for another twelve months' period. In addition, the Group has obtained non-legally binding indication from certain banks to renew or extend short-term loan facilities of approximately RMB211 million which will fall due in 2007.

27. BORROWINGS (continued)

ii. Related security and guarantee information:

As at 31 December 2006 and 2005, security and guarantee information relating to certain of the short-term bank loans were as follows:

	Group		Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Secured by:				
Certain land use rights, property, plant and equipment of the Group with a carrying value of approximately RMB873,029,000 (2005: RMB724,792,000)*	**554,450**	629,000	**459,450**	477,000
Pledge of 240,000,000 domestic shares of the Company held by Mr. Feng and personal guarantee from Mr. Feng**	**312,348**	–	**312,348**	–
Certain property, plant and equipment of an independent third party***	**40,000**	–	**40,000**	
Charge over the assets of one related company (Note 35)	**8,060**	–	**8,060**	–
Pledged bank deposits for 2006: Nil (2005: RMB67,664,000)	**–**	68,320	**–**	68,320
	914,858	697,320	**819,858**	545,320
Guaranteed by:				
Independent third parties	**30,000**	188,000	**–**	170,000
Mr. Feng	**85,000**	50,000	**55,000**	50,000
Jointly and severally guaranteed by:				
Mr. Feng and his related company	**–**	178,968	**–**	178,968
Mr. Feng, his related company and independent third parties	**305,000**	80,000	**260,000**	60,000
	420,000	496,968	**315,000**	458,968

* RMB190,000,000 (2005: RMB20,000,000) of these loans are, in addition to pledged assets provided by the Group, guaranteed by Mr. Feng.

** In addition to the pledge on 240,000,000 domestic shares, certain land use rights, property, plant and equipment of the Company with a carrying value of approximately RMB851,581,000 are pledged subsequent to 31 December 2006.

*** In addition to pledged assets provided by an independent third party, this short-term bank loan is guaranteed by Mr. Feng.

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27. BORROWINGS (continued)

ii. Related security and guarantee information: (continued)

As at 31 December 2006 and 2005, details of security and guarantees of the long-term bank loans were as follows:

	Group		Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Secured by:				
Certain land use rights, plant and buildings and machinery and equipment of the Group with carrying value for 2006: Nil (2005: RMB24,262,000)	**–**	70,000	**–**	70,000
	–	70,000	**–**	70,000
Guaranteed by:				
Jointly and severally guaranteed by:				
Mr. Feng and his related company	**100,000**	–	**–**	–
	100,000	–	**–**	–

In addition, approximately RMB100,000,000 and RMB1,160,000,000 of short-term and long-term bank loans of a non-wholly owned subsidiary are guaranteed by the Company as at 31 December 2006.

Save as disclosed above, the rest of the outstanding bank loan balances are unsecured. All bank loans are interest-bearing at floating commercial rates and subject to market changes. The effective interest rate as at 31 December 2006 was 6.35% p.a. (2005: 6.36% p.a.).

27. BORROWINGS (continued)

iii. Currency denomination of bank loans:

The carrying amounts of the Group's borrowings are dominated in the follow currencies:

	2006 RMB'000	2005 RMB'000
RMB	**2,497,378**	3,228,288
US dollar	**312,480**	–
	2,809,858	3,228,288

iv. Unutilised banking facilities:

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

	Group		**Company**	
	2006 RMB'000	2005 RMB'000	**2006 RMB'000**	2005 RMB'000
Bank loans facility from International finance Corporation (note (v))	**218,644**	–	**218,644**	–
Trade financing	**1,579**	–	**1,579**	–
	220,223	–	**220,223**	–

The available bank loan facility of approximately RMB219 million is the unutilized portion of a long-term facility of US$68 million (equivalent to approximately RMB531 million) granted by IFC, a shareholder, pursuant to a loan agreement entered into with the Company on 26 June 2006 (the "IFC Loan Facility"). The amount can be drawn down by the Company within 2007 according to the provision of the loan agreement. Subsequent to 31 December 2006 and up to the date of approval of these financial statements, US$20 million (equivalent to approximately RMB156 million) had been drawn down. The drawdown of the remaining RMB63 million is subject to the approval of IFC because the Company has breached certain loan covenants as described in note (v) below.

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27. BORROWINGS (continued)

v. Loan covenants compliance:

According to the provisions of the loan agreement of the IFC Loan Facility, the loans drawn down are repayable by 11 instalments, commencing from 15 July 2008 and with final maturity falling due in 2013. However, the Company is required to comply with certain loan covenants such as the completion of a restructuring plan (including the reduction of the level of short term debts), adherence to the defined financial debt-to-EBITDA ratio, current ratio; and the limitation on the capital expenditure amounts. As at 31 December 2006, the Company did not meet certain of these covenants, including the expenditure limit on capital expenditure made, application of available surplus cash balance to repay outstanding short term loans, and the financial ratios mentioned above (collectively defined as "Covenant Breach"). Accordingly, the whole outstanding IFC Loan balance drawn down had been reclassified as short term loans in the balance sheet.

As of the date of approval of these financial statements, the Company is still under negotiation with IFC to work out a remedial plan for the Covenant Breach. The Directors are confident that the Company and IFC can agree on a mutually acceptable plan that the Company will not be required to repay, within 2007, US$60 million (equivalent to approximately RMB468 million) drawn down from the IFC Loan Facility up to that date (comprising approximately RMB312 million and approximately RMB156 million drawn down during and after 2006, mentioned in note (iv) above)).

28. TAXES PAYABLE

Taxes payable consists of:

	Group		Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
PRC EIT (note (a))	**15,940**	21,517	**15,940**	17,736
Hong Kong profits tax (note (b))	**–**	–	**–**	–
PRC value-added tax (note (c))	**22,072**	5,864	**8,681**	6,727
Other taxes payable	**4,199**	1,583	**3,737**	1,389
	42,211	28,964	**28,358**	25,852

28. TAXES PAYABLE (continued)

(a) PRC EIT

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

QSAC is entitled to EIT tax holiday that there is full exemption of EIT for the first five years from commencement of its business operation and followed by another five years of EIT concession at a reduced rate of 50% of the then enacted tax rate.

On 16 March 2007, the 10th National People's Congress of the PRC approved the reform of the Enterprise Income Tax Law of PRC ("New EIT Law"), which will come into effect on 1 January 2008. The Company and all its subsidiaries incorporated in the PRC, except QSAC, will be subject to PRC EIT rate of 25% from 1 January 2008. The tax status of QSAC will be dependent on the transitional rules of existing preferential tax status yet to be announced by relevant authorities in the PRC.

An analysis of the potential impact of the pronouncement of the new EIT law on the deferred tax liabilities of the Group is set out in Note 32.

(b) Hong Kong profit tax

ZGHKC is a company incorporated in Hong Kong and is assessable under Hong Kong profits tax at 17.5% on its assessable profits. ZGHKC did not have any assessable profits in 2006 (2005: Nil) and no provision for Hong Kong profits tax is required.

(c) PRC value-added tax

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

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29. SHARE CAPITAL

	Company			
	2006	2005	**2006**	2005
	Number of shares		**Nominal value**	
			RMB'000	RMB'000
Authorised:				
Ordinary shares of RMB1 each	**720,833,000**	578,713,000	**720,833**	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	**320,833,000**	178,713,000	**320,833**	178,713
	720,833,000	578,713,000	**720,833**	578,713

Pursuant to the provisions of a subscription agreement entered into by the Company and certain institutional investors during the year, the authorized ordinary share capital of the Company was approved by the shareholders to increase by 142,120,000 H shares at a normal value of RMB1.00 each. All the newly created H shares were then allotted to and fully paid up by the institutional investors at a price of HK$1.8 per share on 29 August 2006.

30. RESERVES

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

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

	Share Premium	Statutory surplus reserves	Statutory public welfare fund	Retained profits	Proposed dividends	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2005	350,066	59,758	59,758	284,879	29,105	783,566
Profit attributable to shareholders	–	–	–	62,399	–	62,399
Appropriations to reserves	–	5,830	5,830	(11,660)	–	–
Dividends paid	–	–	–	(20,892)	(29,105)	(49,997)
Proposed dividends	–	–	–	–	–	–
Balance at 31 December 2005	350,066	65,588	65,588	314,726	–	795,968
Profit attributable to shareholders	–	–	–	20,474	–	20,474
Issue of new shares (note 29)	105,724	–	–	–	–	105,724
Transfer	–	65,588	(65,588)	–	–	–
Balance at 31 December 2006	**455,790**	**131,176**	**–**	**335,200**	**–**	**922,166**

30. RESERVES (continued)

According to the Company Law of the PRC, before distributing the profit attributable to shareholders of the Company each year, the Company shall set aside 10% of its profit attributable to shareholders for the statutory surplus reserve (except where the reserve balance has reached 50% of the Company's registered capital).

Appropriation to statutory surplus reserve should be made based on the amount of profits reflected in the financial statements prepared in accordance with the PRC accounting standards and regulations. In accordance with the Company's articles of association, the Company declares dividends based on the lower of distributable profits as reported in accordance with the PRC accounting standards and regulations and that reported in accordance with the accounting principles generally accepted in Hong Kong, after deduction of current year's appropriations to the statutory reserves.

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

(i) set off against prior years' losses;

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

(iii) distribution of dividends.

Pursuant to the provisions under the Company Law of PRC which came into effect on 1 January 2006, the Company ceased appropriation to statutory public welfare fund from 1 January 2006 onwards. Balance of this fund was transferred to statutory surplus fund in accordance with the regulation promulgated by the Ministry of Finance of the PRC.

The unappropriated profit attributable to shareholders of the Company as at 31 December 2006 was approximately RMB335,200,000 (2005: RMB314,726,000).

31. EMPLOYEE RETIREMENT BENEFITS

As stipulated by the rules and regulations in the PRC, the Group is required to contribute to a State-sponsored retirement plan for all of its PRC employees at 17% of their basic salaries. The State-sponsored retirement plan is responsible for the entire pension obligations payable to retired employees and the Group has no further obligations for the actual pension payments or other post-retirement benefits beyond the annual contributions. During the year, the Group's contributions made to the retirement plan amounted to approximately RMB2,055,000 (2005: RMB2,091,000).

The Group also contributes to a defined contribution retirement scheme in Hong Kong for all its employees based in Hong Kong. Contributions to the scheme made by the Group and the employees are calculated on a percentage of the employees' basic salaries. The cost of the retirement benefit scheme charged to the income statement represents contributions payable by the Group to the fund. The Group's contributions to the defined contribution retirement scheme are recorded as expenses incurred and are not reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. During the year, the Group's contributions to the defined contribution retirement scheme in Hong Kong amounted to approximately HK$24,000 (approximately RMB24,000) (2005: RMB24,000).

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32. DEFERRED TAXATION

Deferred taxation are calculated in full on temporary differences under the liability method using a principal taxation rate of 33% (2005: 33%).

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

	Group		Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
As at 1 January	**39,670**	19,631	**29,223**	19,631
Recognised in the income statement	**7,335**	20,039	**10,486**	9,592
As at 31 December	**47,005**	39,670	**39,709**	29,223
Accelerated tax	**3,886**	9,592	**3,886**	9,592
Unrealized intragroup profits arising from intra-group sales	**(1,969)**	2,337	**–**	–
Temporary difference on capitalisation of borrowing costs	**(1,182)**	8,110	**–**	–
Temporary difference on income recognised on cash basis for tax purpose	**6,600**	–	**6,600**	–
	7,335	20,039	**10,486**	9,592

As there is no certainty of realisation of the tax benefits through offsetting with future taxable profits, the Group did not recognise the related deferred income tax assets of RMB20,914,480 (2005: RMB40,892) in respect of tax losses of RMB63,377,213 (2005: RMB123,915) that can be carried forward to offset against future taxable profits of certain subsidiaries as at 31 December 2006. Such tax losses will expire in the period between 2007 and 2011.

All deferred tax liabilities are expected to be settled after 12 months except for approximately RMB1,969,000 relating to unrealised intragroup profits mainly arising from sales of soda ash products from QSAC to the Company.

As disclosed in Note 28, the enacted EIT tax rate of the Group (except QSAC) will become 25% on 1 January 2008. Since the deferred tax assets and deferred tax liabilities shall be measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, the change in the applicable tax rate will affect the determination of the carrying values of deferred tax assets and deferred tax liabilities of the Group. As at the date when these financial statements are approved, detailed measures of the New EIT Law have yet to be issued. Subject to detailed measures and other related regulations concerning computation of taxable income, as well as specific preferential tax treatments and their related transitional provisions, the Group has performed a preliminary assessment on the balances of the deferred tax liabilities as at 31 December 2006 and estimated that the deferred tax liabilities would be reduced by approximately RMB11,800,000 as a result of the change in the applicable tax rate. The Group will further evaluate the impact to its operating results and financial position in future as more detailed measures and other related regulations on the New EIT Law are announced.

33. CONSOLIDATED CASH FLOW STATEMENT

Reconciliation of (loss)/profit before income tax and net cash inflow from operations:

	2006 RMB'000	2005 RMB'000
(Loss)/profit before income tax	**(51,543)**	124,660
Interest income	**(18,006)**	(12,310)
Interest expense	**156,158**	89,288
Depreciation of fixed assets	**296,443**	170,435
Amortisation of land use rights	**2,295**	1,727
Amortisation of intangible assets	**1,010**	809
Loss on disposal of a subsidiary	**1,435**	–
Gain on disposal of fixed assets	**(2,521)**	–
Operating profit before working capital changes	**385,271**	374,609
Increase in inventories	**(69,570)**	(64,515)
Increase in due from related companies	**(2,670)**	(5,151)
Increase in prepayments, deposits and other current assets	**(50,650)**	(21,771)
(Increase)/decrease in bills receivable	**(1,127)**	9,776
Decrease/(increase) in accounts receivable	**15,924**	(101,934)
Increase in accounts payable	**67,893**	50,516
Increase in accruals and other payables	**1,527**	5,475
Decrease in payable to a related company	**(111)**	(260)
Increase in deposits and advance from customers	**72,558**	23,888
Increase/(decrease) in other taxes payable	**18,814**	(1,197)
Increase/(decrease) in long term prepayments	**13,198**	(35,698)
Net cash inflow from operations	**451,057**	233,738

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34. COMMITMENTS

(i) Capital commitments

The Group had the following significant capital commitments in relation to construction of production lines and the investment projects which were not provided for in the financial statements as at 31 December 2006:

	Group		Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Authorised and contracted for:				
Construction of new glass production lines	**530,306**	457,728	**321,475**	182,544
Construction of a soda ash plant (note (a))	**1,085,394**	1,231,950	**–**	–
Glass production investment projects (note (b))	**2,998,552**	5,857,199	**2,870,520**	2,872,878
	4,614,252	7,546,877	**3,191,995**	3,055,422
Authorised but not contracted for:	**–**	–	**–**	–
Total commitments	**4,614,252**	7,546,877	**3,191,995**	3,055,422

(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 Prefecture Government") under which the Company is committed, through its then 90% owned subsidiary, QSAC, to construct a factory with two soda ash production lines in five years with an annual production capacity of 600,000 tonnes each. The committed total investment amount for this project as prescribed in the Soda Ash Agreement is RMB1.6 billion, which are to be injected in two phases. The first phase was scheduled to be completed within two years after signing of the Soda Ash Agreement. The commencement of the second phase was subject to the progress of construction and the utilisation rate of the first phase.

34. COMMITMENTS (continued)

(i) Capital commitments (continued)

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

On 25 December 2004, the Company entered into a revised cooperation agreement (the "Revised Soda Ash Agreement") with the Haixi Prefecture Government. Pursuant to the Revised Soda Ash Agreement, the annual production capacity of two soda ash production lines was revised to 900,000 tonnes and they are required to be constructed in two phases within five years. The total investment amount was increased from RMB1.6 billion to RMB3 billion and is to be injected by two phases of which RMB1.4 billion is for the second phase. The first phase was completed in late 2005 and the second phase also started construction in late 2005. As at 31 December 2006, approximately RMB315 million had been incurred for the second phase and the outstanding commitment was estimated to be approximately RMB1,085 million.

(b) *Glass production investment projects*

(i) 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) to invest approximately RMB1 billion for the construction of two special glass production lines and five processed glass production lines. A subsidiary was established in Changxing in 2005 with a registered capital of RMB50,000,000 in order to operate the project. Up to the year ended 31 December 2006, approximately RMB88 million had been spent in the project.

(ii) 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) to invest approximately RMB2 billion for the construction of four float flat glass production lines.

On 16 April 2004, a supplementary agreement was further executed that the Company is entitled to adjust the schedule as well as the amount of the investment. In addition, it was agreed that the Company has the right to terminate the execution of the project at its own discretion with reference to its financial position, the market conditions and other relevant factors.

As at 31 December 2006, the Group had invested approximately RMB85 million into this project.

In 2005, the Directors resolved that the construction of these two glass production lines had to be put on hold temporarily. An assessment of the potential impairment loss of these projects had been performed in 2006 (see Note 17(b)(iv)).

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34. COMMITMENTS (continued)

(ii) Commitments under operating leases

At 31 December 2006, the Group and the Company had total future aggregate minimum lease payments under non-cancellable operating leases entered into with third party companies in respect of land and buildings as follows:

	Group		Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within one year	**1,208**	562	**1,208**	543
In the second to fifth year inclusive	**1,208**	–	**1,208**	–
	2,416	562	**2,416**	543

35. RELATED PARTY TRANSACTIONS

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

	Note	**2006 RMB'000**	2005 RMB'000
Rental charged by Guangyu Group Co. Ltd. ("Guangyu", 光宇集團有限公司)*	(a)	**498**	498
Sales to Guangyu		**16**	323
Service fees earned from Zhejiang Technology Company Limited ("ZTC")** and Zhejiang Cement Company Limited ("ZCC")*** in relation to the provision of electricity voltage transforming services	(b)	**534**	498
Purchase of cement from ZCC	(c)	**5,129**	9,390

(a) The Group has entered into a 2-year renewable lease agreement with Guangyu to lease office space for a period of 2 years in December 2001. 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 lease rental payment of RMB41,500 per month.

35. RELATED PARTY TRANSACTIONS (continued)

(i) (continued)

(b) The Company entered into two separate 2-year renewable service agreements with ZTC and ZCC respectively in 2003 that the Company agreed to provide electricity voltage transforming services for ZTC and ZCC by using the electricity transformer owned by the Company. It also undertakes to settle on behalf of ZTC and ZCC their respective share of electricity charges (the "Electricity Charges") with the local electricity bureau. The two related parties are required to reimburse the Company for the Electricity Charges and pay service fees computed at 1% of the amount of the Electricity Charges. The two agreements expired in the first half of 2005 without being renewed. The agreement with ZTC expired in 2005 without being renewed. On 29 August 2006, the board of Directors of the Company approved the execution of a new service agreement with ZCC with similar terms and conditions for a term of 3 years, commencing from 1 July 2006. The agreement is, renewable for another 3 years upon expiration. As of 31 December 2006, approximately RMB15 million of electricity charges paid by the Company on behalf of ZCC was recorded as a receivable balance due from a related company. Such receivable balance had been fully settled up to the date of approval of the financial statements.

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

(d) Pursuant to a land use right transfer agreement dated 29 December 2004 (the "Contract Date") entered into between the Company and Shaoxing County Huahong Cement Co., Ltd. ("SHCC"), a related company under the common control of Mr. Feng Guangcheng ("Mr. Feng", the substantial shareholder and chairman of the Company), certain land use rights (the "SHCC Land Use Rights") were acquired from SHCC by the Company. A supplementary agreement was also entered into between SHCC, Mr. Feng and the Company on 27 April 2006 that SHCC undertook to complete the necessary title transfer of the SHCC Land Use Rights on or before 30 September 2006. In August 2006, the transfer was completed.

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

Save as disclosed above and disclosed in Note 27 (ii), no other material related party transactions have been entered into by the Group.

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35. RELATED PARTY TRANSACTIONS (continued)

(ii) Balances with related parties are as follows:

	Group		Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Receivables from ZCC (note (i)(b))	**14,984**	12,314	**14,984**	12,314
Payables to Related company: Guangyu	**–**	111	**–**	111
Amounts due to wholly-owned subsidiaries	**–**	–	**48,432**	38,718

	Maximum receivable balance of receivables from related parties during the year ended 31 December			
	Group		Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
ZTC	**–**	3	**–**	3
ZCC	**41,081**	28,272	**41,081**	28,272
Guangyu	**52**	178	**43**	178

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

36. SUBSEQUENT EVENTS

Saved as disclosed in the notes to the consolidated financial statements, there were no other significant subsequent events.