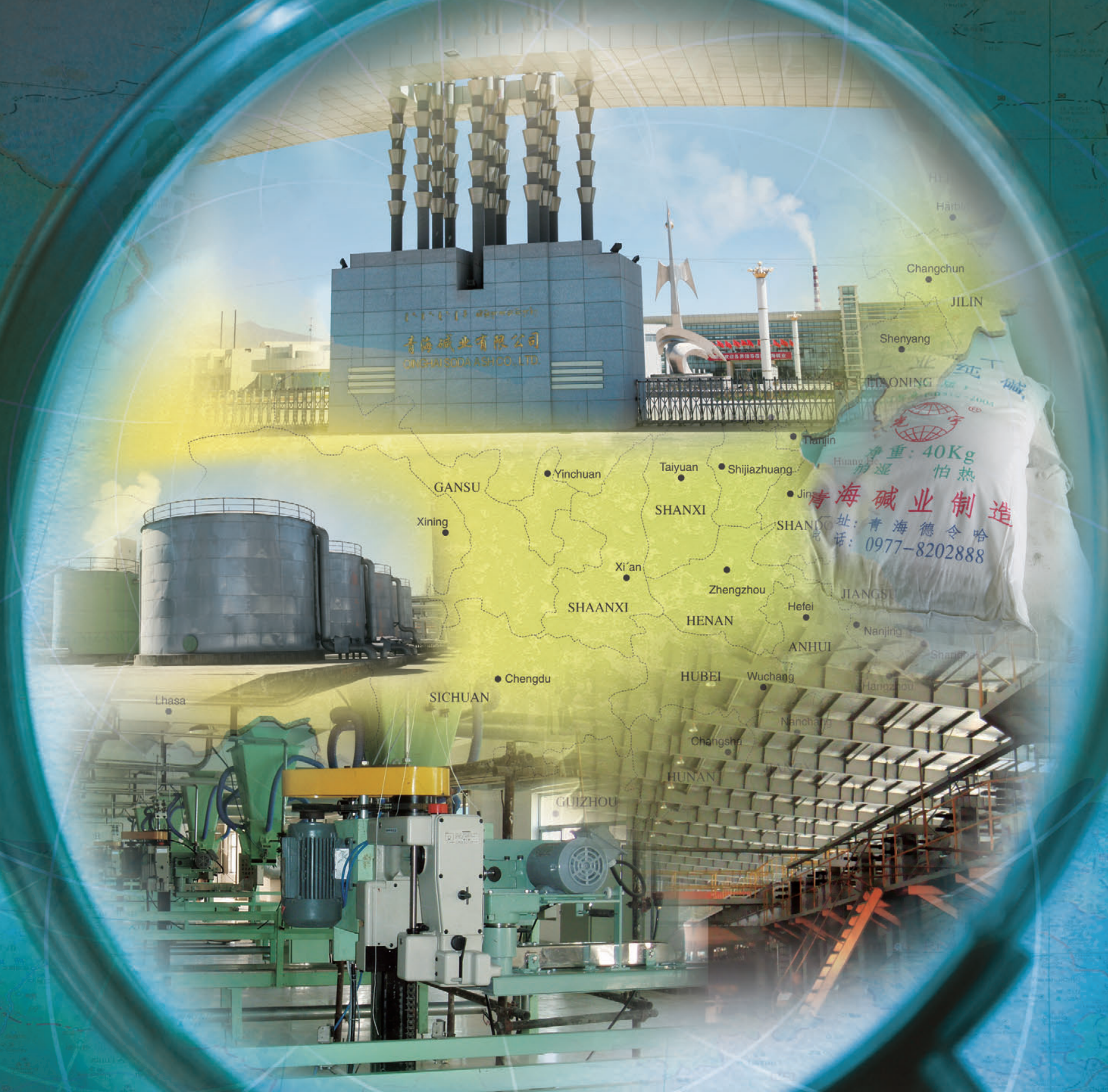


Robust Growth on our **New Platform**

浙江玻璃股份有限公司
Zhejiang Glass Company, Limited

Stock Code: 739

Annual Report **2007**

Contents

CORPORATE PROFILE

Established in 1994, Zhejiang Glass Company, Limited (Stock Code: 739), together with its subsidiaries is one of the five largest float glass manufacturers in the People's Republic of China (the "PRC" or "China"). In addition to offering float flat glass, the Group not only expends downstream to the production and sale of processed glass, such as low-E glass, but also upstream to soda ash production in 2005. The Group's products are now covering various industries in different levels.

Corporate Information

DIRECTORS

Executive Directors

Mr. FENG Guangcheng *(Chairman)*
Ms. HONG Yumei
Mr. GAO Huojin
Mr. SHEN Guangjun
Mr. JIANG Liqiang
(appointed with effect from 29 June 2007)
Mr. CHUNG Kwok Mo John
(resigned with effect from 15 May 2007)

Non-executive Directors

Mr. LIU Jianguo
Mr. XIE Yong
(appointed with effect from 29 June 2007)
Mr. SHI Guodong
(retired with effect from 29 June 2007)

Independent non-executive Directors

Mr. WANG Yanmou
Dr. LI Jun
Mr. SU Gongmei
Mr. ZHOU Guochun
(appointed with effect from 29 June 2007)
Mr. WANG Herong
(retired with effect from 29 June 2007)

SUPERVISORS

Mr. XU Yuxiang
Mr. LOU Zhenrong
Mr. FU Guohua
Mr. FANG Shengli
(appointed with effect from 29 June 2007)
Mr. XU Mingfeng
(appointed with effect from 29 June 2007)
Mr. MEI Lingfeng
(appointed with effect from 29 June 2007)
Mr. JI Peng *(elected on 24 August 2007)*
Mr. ZHANG Guoqing
(retired with effect from 29 June 2007)
Mr. NI Daoxin
(retired with effect from 29 June 2007)
Mr. MAO Junchun
(retired with effect from 29 June 2007)
Mr. YANG Kuang
(retired with effect from 29 June 2007)

SHARE LISTING

Main Board of The Stock Exchange of Hong Kong Limited
Stock Code: 739

AUDITORS

PricewaterhouseCoopers
PricewaterhouseCoopers Zhong Tian CPAs Ltd.

LEGAL ADVISORS

as to Hong Kong law:
Chiu & Partners

as to PRC law:
Commerce & Finance Law Offices

LEGAL ADDRESS

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

PLACE OF BUSINESS IN HONG KONG

1301 Ruttonjee House
Ruttonjee Centre
11 Duddell Street
Central
Hong Kong

COMPANY SECRETARIES

Ms. TAO Haiping
Mr. CHOW Yiu Ming
(appointed with effect from 20 June 2007)
Ms. HUNG Wing Yan Winnei
(resigned with effect from 20 June 2007)

AUTHORISED REPRESENTATIVES

Mr. FENG Guangcheng
Ms. TAO Haiping

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17/F
Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANKERS

Agricultural Bank of China
Bank of China
Bank of China (Hong Kong) Limited
Bank of Communications
China Construction Bank

INVESTOR RELATIONS CONSULTANT

Strategic Financial Relations (China) Limited

INTERNET WEBSITE

www.zjglass.cn

Financial Summary

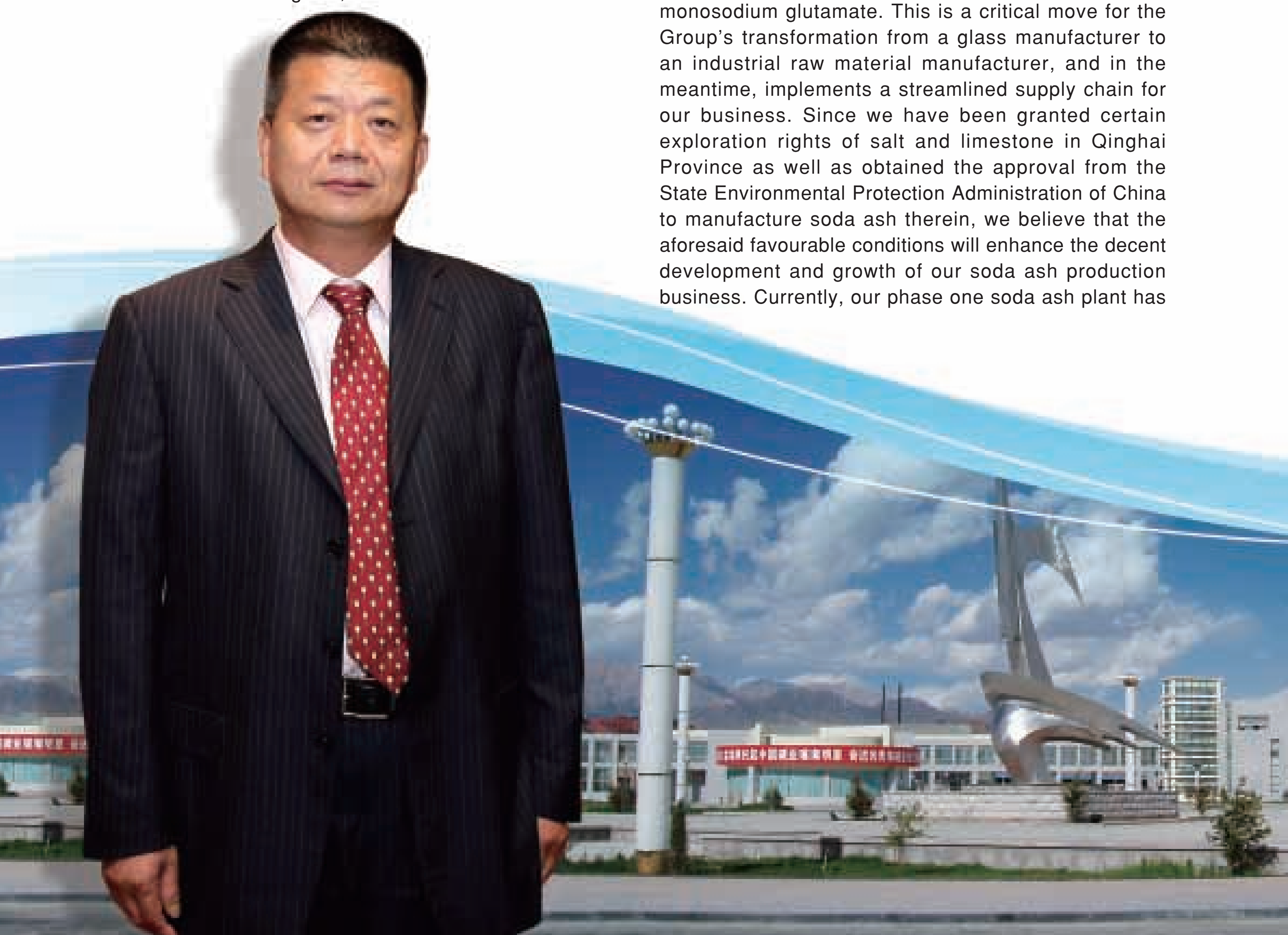
	Year ended 31 December				
	2003 RMB'000	2004 RMB'000	2005 RMB'000	2006 RMB'000	**2007** **RMB'000**
Results					
Revenue	826,960	1,212,888	1,195,636	1,520,512	**2,322,206**
Profit/(loss) before income tax	245,213	334,393	124,660	(51,543)	**322,415**
Income tax expense	(63,177)	(129,647)	(50,108)	(8,371)	**(25,471)**
Profit/(loss) for the year	182,036	204,746	74,552	(59,914)	**296,944**
Attributable to:					
Equity holders of the Company	182,175	205,044	74,072	(57,008)	**275,824**
Minority interests	(139)	(298)	480	(2,906)	**21,120**
	182,036	204,746	74,552	(59,914)	**296,944**
Dividends	54,862	61,513	20,892	–	**–**
Assets and Liabilities					
Total assets	2,312,224	3,879,933	5,781,484	5,897,043	**7,034,044**
Total liabilities	(1,059,017)	(2,500,749)	(4,351,939)	(4,280,005)	**(4,822,366)**
Capital and reserves attributable to the Company's equity holders	1,240,846	1,358,620	1,390,444	1,581,280	**2,002,778**

Chairman's Statement

To the shareholders of Zhejiang Glass Company, Limited:

I am pleased to announce the annual results of Zhejiang Glass Company, Limited (the "Company") and its subsidiaries (collectively, the "Group") for the year ended 31 December 2007 (the "Year").

Year 2007 is a flourishing year for the Group. Revenue, net profit and production volume have all achieved its recorded high since the Group listed in 2001. For the year ended 31 December 2007, the Group has successfully turned a profit of RMB275.8 million against the net loss of RMB57.0 million in 2006. Revenue rose by 52.7% to RMB2,322.2 million, compared to RMB1,520.5 million in 2006. During the Year, the production volumes of soda ash and flat glass were 930,000 tonnes and 19 million weight cases, respectively. Overall, our major operating businesses, soda ash and flat glass, did well in 2007.



The economic growth of China is keeping on robust. According to the data from National Bureau of Statistics of China, the production volumes of soda ash and flat glass in China have recorded a growth of 13.6% and 13.4%, respectively, during the Year. At the same time, the selling prices of soda ash and glass products are maintained in a steady rising trend, which shows the demand for soda ash and glass products remains strong.

We believe that the major area of value of the Group is our soda ash business as raw materials are the life-blood of any manufacturing process. In recent years, we have witnessed the soaring raw material prices all over the world, and that in turn becomes major threats and challenges to all manufacturers. Therefore, during the Year, we have solidly expanded our soda ash production business in Qinghai Province. Soda ash is the key raw material in producing glass and various other products, including detergents, alumina and monosodium glutamate. This is a critical move for the Group's transformation from a glass manufacturer to an industrial raw material manufacturer, and in the meantime, implements a streamlined supply chain for our business. Since we have been granted certain exploration rights of salt and limestone in Qinghai Province as well as obtained the approval from the State Environmental Protection Administration of China to manufacture soda ash therein, we believe that the aforesaid favourable conditions will enhance the decent development and growth of our soda ash production business. Currently, our phase one soda ash plant has already been running in full operations and we expected our phase two construction can be completed by the end of 2008. By means of our focus on the soda ash business development, the Group has successfully diversified the risks associated with the cycle of the flat glass industry as well as ensured the stability of the profitability of the Group. This lays down a strong foundation for the Group's future growth and success.

In addition, we have continued our expansion of glass production business. During the Year, the seventh and eighth float flat glass production lines have successfully commenced operations, which in turn raised the total daily melting capacity of the Group to 3,700 tonnes. At the end of March 2008, the Group commenced trial production of its ninth float flat glass production line, which makes ultra-thick glass of 15mm or above in thickness. The new production line will help satisfy the keen domestic demand for such products, which are mainly used in the outer-wall of buildings after processing thereof. The Group will continue to broaden the glass product range to include high-value added products in demand such as ultra-thin glass for electronics industry and ultra-thick glass for outer-walls of buildings in order to drive up the profitability in glass production business segment.

Looking ahead of year 2008, under the influences of the government policy adjustments as well as the environmental pressure, the newly implemented soda ash production capacity in China is expected to reduce significantly. At the same time, strong soda ash demand is expected due to the rapid growth of the downstream businesses such as chemical, glass and household chemical industries. On the other hand, we understand that, due to the environmental protection issue, certain soda ash production plants in Japan and Korea have been shut down and certain of those in China are forced to relocate. The aforesaid factors are expected to create a tight supply-demand balance which in turn creates a favourable environment for the development of the Group's soda ash production business.

In respect of the glass production business, we expect the government in China will continue to announce new flat glass standards. The main features of the new standards are expected to meet or even exceed the standards of the developed countries in various aspects such as energy consumptions, waste gas and water discharge. We expect those glass manufacturers which are unable to meet the new standards will be eliminated in the long run. These will bring positive effects to the Group's glass production business.

We believe that the Group will benefit from all of the aforesaid favourable conditions, and we expect we can bring in fruitful returns to the shareholders in the coming year.

APPRECIATION

On behalf of the board ("Board") of directors of the Company ("Directors"), I would like to express the most sincere gratitude to our shareholders, customers and suppliers for their support to the Group. I am also very grateful to our diligent and dedicated staff who have contributed to the progress of the Group.

Feng Guangcheng
Chairman

17 April 2008

Management Discussion and Analysis

During the year, the Group has successfully implemented a streamlined supply chain for its business, and transformed from a glass manufacturer to an industrial raw material manufacturer.

The upstream soda ash business produces soda ash for the Group's glass business as well as selling soda ash to other glass makers and for the use of metallurgical, chemical and various other industries. The downstream glass business produces and sells high quality float flat glass and processed glass for the construction sector, automotive as well as electronics industries.

BUSINESS REVIEW

Soda ash business

In 2007, the domestic market showed a strong demand for soda ash, especially in the second half of the Year. The strong demand driven up the average market price of soda ash to approximately RMB1,670 per tonne (inclusive of value-added tax), representing a 6.3% increase as compared to approximately RMB1,570 per tonne (inclusive of value-added tax) in 2006, according to the statistics of China Soda Industry Association. The soda ash output in China was approximately 17.7 million tonnes in 2007, representing a 13.6% increase as compared to that of in 2006. Domestic consumption grew by 10.2% to about 15.1 million tonnes. China's net soda ash export amounted to 1.7 million tonnes in 2007, compared with the similar level of 1.7 million tonnes in 2006.

In 2007, phase one soda ash plant of Qinghai Soda Ash Company Limited ("QSAC"), a 78.69% owned subsidiary of the Company as at 31 December 2007, produced about 930,000 tonnes of soda ash. 948,000 tonnes of soda ash were sold during the Year, including 175,000 tonnes which were consumed by the Group's glass business sector. During the Year, revenue to external customers from the soda ash business recorded RMB794.7 million, representing a 83.7% increase as compared to RMB432.7 million in 2006, and accounted for 34.2% of the Group's revenue. Average selling price of the Group's soda ash (inclusive of value-added tax but exclusive of transportation cost) was approximately RMB1,240 per tonne. Including value-added tax and transportation cost, the Group's soda ash products sold at approximately RMB1,570 per tonne.

During the Year, light soda ash (lower density), which is widely used in the production of detergent, alumina and monosodium glutamate, accounted for 50% of QSAC's sales volume, while dense soda ash (higher density), which is used in glass production, accounted for the remaining 50%.

In 2007, phase one soda ash plant of QSAC has successfully implemented a technology upgrade and the annual production capacity thereof has been increased to 1.2 million tonnes. Phase two production facilities, with an annual capacity of 1.2 million tonnes, is now under construction and is expected to be completed by the end of 2008.

On 21 June 2007, a strategic investor, Zhejiang Sinhoo Co., Ltd. ("Sinhoo", 浙江新湖集團股份有限公司), agreed to invest in the business of QSAC. This transaction constitutes a deemed disposal of the Company's equity interests in a subsidiary of the Company under Rule 14.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"), details of which have been set out in the announcement and circular of the Company dated 22 June 2007 and 29 June 2007, respectively. During the Year, RMB300 million has been contributed by Sinhoo as scheduled. The remaining balances of RMB200 million and RMB404.6 million are expected to be contributed by Sinhoo on or before 2 July 2008 and 30 May 2009, respectively. The injection of capital helps to improve the Group's financial gearing and brings in capital for the development of QSAC phase two project.

Glass business

Flat glass

The growth of national flat glass output has steadily accelerated during the Year. According to the statistics published by the National Bureau of Statistics of China, the actual output of flat glass in China in 2007 recorded approximately 498 million weight cases, representing an increase of 13.4% from that of in 2006. According to the statistics of the China Building Materials Industry Association, the average sales/production ratio of 43 major flat glass manufacturers in China was approximately 96% during the Year, as compared to 99% in 2006.

The Group's seventh and eighth high quality float flat glass production lines, which are capable of making 3mm to 19mm flat glass, have successfully commenced operations in May and August 2007, respectively, which in turn increase the total daily production capacity of the Group by 1,200 tonnes. As at 31 December 2007, The Group operates eight (2006: six) flat glass production lines with an aggregate daily melting capacity of 3,700 tonnes (2006: 2,500 tonnes). During the Year, the Group produced approximately 19.0 million weight cases (2006: 15.1 million weight cases), or 950,000 tonnes (2006: 755,000 tonnes) of flat glass, with sales-production ratio of approximately 95% (2006: 99%). Sales of flat glass amounted to RMB1,307 million in 2007 (2006: RMB966 million), accounting for about 56.3% (2006: 63.5%) of the Group's revenue.

During the Year, automotive grade glass (higher quality with higher average selling price) accounted for approximately 90% of the Group's flat glass output (2006: 90%), and construction grade glass (lower quality with lower average selling price) accounted for 10% thereof (2006: 10%).

With the strong market demand for flat glass during the Year, the overall average selling price of the Group's flat glass products increased by about 11.8% to about RMB76 per weight case (2006: RMB68 per weight case).

Management Discussion and Analysis

During the Year, the prices of raw materials for flat glass production, such as soda ash, have been increased significantly. Average price of heavy oil remained stable in 2007 as compared to that in 2006, but has been showing a rising trend during the Year. In 2007, the average cost of heavy oil was RMB3,225 per tonne, representing a slight increase of 1%, as compared to RMB3,200 per tonne in 2006. The unit cost of flat glass was RMB66 per weight case, as compared to RMB62 per weight case in 2006.

Processed glass

The Group had thirteen processed glass production lines for mirror glass, tempered glass, insulating glass, laminated glass and low-E glass and were in normal operation. During the Year, the Group processed about 5% (2006: 6%) of its flat glass output into higher margin processed glass products. It sold approximately 4.5 million square metre (2006: 2.9 million square metre) of processed glass at the average selling price of RMB48 per square metre (2006: RMB41 per square metre). The business segment generated revenue of RMB215 million (2006: RMB118 million), or, 9.3% (2006: 7.8%) of the Group's revenue.

FINANCIAL REVIEW

The Group recorded a net profit attributable to the equity holders of the Company of RMB275.8 million for the Year, a strong turnaround as compared to net attributable loss of RMB57.0 million in 2006. This was because the investment in phase one soda ash production line has reached its full capacity and started to pay off, as well as the glass industry has been recovering from the trough of the industry cycle.

During the Year, the Company's EBITDA (i.e. earnings before interest, taxation, depreciation and amortisation) reached RMB785.5 million, representing an increase of approximately 103%, as compared to RMB386.4 million for the year ended 31 December 2006. The Company's EBITDA margin for the Year, calculated based on turnover, was approximately 34%, as compared to approximately 25% for the year ended 31 December 2006.

Turnover increased by 52.7% to RMB2,322.2 million for the Year (2006: RMB1,520.5 million).

Gross profit margin for the Year was 24%, compared with approximately 11% for the year ended 31 December 2006.

Average inventory turnover of the Group's soda ash business was about 101 days in 2007, compared with 85 days in 2006. The average inventory turnover was relatively long because it is a general practice for QSAC to stock up raw materials reserves from October to December to avoid any obstruction to production caused by potential problem with shipment of raw materials during Winter time.

Average inventory turnover of the Group's glass business was about 33 days in 2007, compared with 26 days in 2006.

OUTLOOK

Soda ash business

Some soda ash plants in the PRC are being forced to relocate by the PRC government due to environmental issues. In addition, the PRC government continues to pay more attention to energy consumption and to environmental issues. Therefore, the soda ash production capacity expansion in the PRC is expected to be limited by the PRC government measures and policies imposed.

On the demand side, strong soda ash demand is expected due to the continuous growth of the national output of downstream products such as glass, alumina, detergent and monosodium glutamate.

Prices of soda ash products in the PRC are forecasted to continue to grow in a steady manner, mainly due to the strong growth of the demand and also in part to recover higher costs of energy, transportation and raw materials.

The aforesaid conditions will positively enhance the development of the Group's development in soda ash business. The exploitation rights of salt and limestone in Qinghai Province granted to the Group shelter the Group from the threat of major raw material costs increase in the market, and the approval granted to the Group from the State Environmental Protection Administration of China to manufacture soda ash in Qinghai Province protects the Group from the threat of relocation of plants.

Looking forward to the fiscal year of 2008, QSAC is expected to produce 1.2 million tonnes of soda ash by its phase one production plant running at full capacity. In the meantime, phase two project is expected to be completed by the end of 2008, which will then double the annual soda ash production capacity of QSAC from 1.2 million tonnes to 2.4 million tonnes.

The operating profit margin of soda ash business of the Group will improve further by enjoying the economies of scale as well as the favourable conditions of the market environment. Overall, the soda ash business is expected to play a major role to the profit contribution for the Group.

Glass business

Flat glass

With the support by China's rapid industrialisation and urbanisation in the next five years under the "Eleventh-Five Year Plan", China's float flat glass production capacity expansion is expected to be in a healthy manner in the next few years, while the demand for glass from property and construction sectors, automotive and electronic industries are expected to experience decent growth in the coming decades.

The newly built ninth glass production line of daily melting capacity of 800 tonnes, has successfully commenced operation in March 2008. This production line is currently the largest one in Zhejiang and mainly produces high quality ultra-thick glass with over 15mm in thickness. It is located in Changxing County of Huzhou City in Zhejiang and strategically targets the glass markets in Jiangsu, Shanghai and Anhui in order to boost our market shares outside Zhejiang. In addition, the construction of the Group's tenth glass production line of daily melting capacity of 500 tonnes is in progress and is expected to commence operation in June 2008.

With the total of 10 float flat glass production lines commenced commercial operations, the total production capacity can be further enhanced to a daily melting capacity of 5,000 tonnes, which in turn solidified the leading position of the Group as a glass maker. In addition, the product mix of the Group will also be widened, which helps the Group to keep up enjoying an above-the-market average selling price.

Nevertheless, the Group is still facing price fluctuation of heavy oil, but the enhanced economies of scale should help to relieve the overall energy cost rises.

Management Discussion and Analysis

Processed glass

The environmental protection issue in China provides the Group with huge market on energy saving glass and other processed glass with high energy saving capability. Being one of the key suppliers of high quality low-emissivity coated glass in China, the Group expects the processed glass business will grow healthily in the long run.

CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2007, the Group's cash and cash equivalents amounted to approximately RMB593.6 million, as compared to approximately RMB538.6 million as at 31 December 2006.

The Group's total bank borrowings amounted to about RMB3,233.6 million as at 31 December 2007, as compared to RMB2,809.9 million as at 31 December 2006.

The gearing ratio (total borrowing net of cash and pledged deposits ("Net Debt") divided by total capital, total capital is calculated as total equity plus Net Debt) decreased from 58% as at 31 December 2006 to 54% as at 31 December 2007.

The net-debt-to-equity ratio (Net Debt divided by total equity) decreased from 130% as at 31 December 2006 to 116% as at 31 December 2007.

EXCHANGE RATE RISK

Most of the Group's businesses were settled in Renminbi, which is not freely convertible into foreign currencies. 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 Renminbi, except for the long-term loan from International Finance Corporation ("IFC") which is denominated in United States dollar ("USD"). The Group neither entered into any foreign exchange forward contracts nor adopted other hedging instruments to hedge against possible exchange rate fluctuations. Management expects the movement of Renminbi spot rates against the USD will reflect a steady appreciation and therefore, the exposure to the Group arising from adverse fluctuations in exchange rates would not be significant.

CAPITAL COMMITMENT AND CONTINGENT LIABILITIES

As at 31 December 2007, the Group had total capital commitment of approximately RMB3,681.3 million, which was mainly related to the investment in the construction of the second soda ash production line in Qinghai Province (approximately RMB1,208.6 million) and the investment in the construction of several glass production lines in Zhejiang Province (approximately RMB2,472.7 million). However, the Group is entitled to adjust the schedule of these investments, and in particular, the Group has the right to adjust the amount or to terminate the execution of the investments in the construction of several glass production lines in Zhejiang Province. It is expected that these investments will be funded by the Group's continuous cash inflow from operations and also potential new debts and/or equity funding in future. The Group did not have any contingent liabilities as at 31 December 2007.

Corporate Governance

The Group complied with the Code on Corporate Governance Practices ("the Code") set out in Appendix 14 to the Listing Rules for the Year. The Board confirms that there were no deviations from or non-compliance with the code provisions of the Code during 2007, except that the official position of the chief executive officer ("CEO") did not exist in the Group. Mr. Feng Guangcheng ("Mr. Feng"), who apart from being the major shareholder and chairman of the Company and the Group, also assumed responsibilities which are comparable to those of a CEO at the Group level. Mr. Feng was responsible for making decisions, executing the decisions of the Board and overseeing the daily operations of the Group. Two different general managers were respectively in charge of the daily operation of the Group's two major divisions of business, being glass and soda ash, and reported to Mr. Feng. Mr. Feng was involved in the decision-making process of the two major business divisions. The division of responsibilities between the chairman and general managers has been clearly established and set out in writing under the Company's articles of association. The Board will periodically review the merits and demerits of this management structure and will adopt such appropriate measures as may be necessary in the future, taking into account the nature and extent of the Group's operations. The Board believed that this structure can provide the Group with strong and consistent leadership and allow for more effective and efficient business planning and decisions as well as execution of long-term business strategies.

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

Mr. Chung Kwok Mo John ("Mr. Chung"), who used to be an executive Director and chief financial officer of the Company, resigned on 15 May 2007 due to personal reasons. Mr. Chung confirmed that he did not have any disagreement with the Board, that there was nothing which need to be drawn to the shareholders' attention, and that there was no claim for any charges or compensations against the Company with regard to his resignation. Details of Mr. Chung's resignation were set out in an announcement issued by the Company dated 15 May 2007.

Pursuant to the relevant provisions of the articles of association of the Company, on 29 June 2007, Mr. Feng, Mr. Gao Huojin, Mr. Shen Guangjun and Ms. Hong Yumei were re-elected as executive Directors; Mr. Liu Jianguo was re-elected as a non-executive Director; Mr. Wang Yanmou, Dr. Li Jun and Mr. Su Gongmei were re-elected as independent non-executive Directors; and Mr. Xu Yuxiang, Mr. Lou Zhenrong and Mr. Fu Guohua were re-elected as supervisors of the Company, while Mr. Shi Guodong retired as an non-executive Director; Mr. Wang Herong retired as an independent non-executive Director; and Mr. Zhang Guoqing, Mr. Ni Daoxin, Mr. Mao Junchun and Mr. Yang Kuang retired as supervisors of the Company. All such Directors and supervisors retired at their own accord and there are no matters which need to be brought to the attention of the shareholders of the Company.

On 29 June 2007, Mr. Jiang Liqiang was approved to be appointed as a new executive Director; Mr. Xie Yong as a new non-executive Director; Mr. Zhou Guochun as a new independent non-executive Director; and Mr. Fang Shengli, Mr. Xu Mingfeng and Mr. Mei Lingfeng as new shareholders representative supervisors of the Company. On 24 August 2007, Mr. Ji Peng was elected in a staff representative meeting of the Company as a new staff representative supervisor of the Company.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") set out in Appendix 10 to the Listing Rules. During the Year, upon specific enquiry made on all Directors, the Directors confirmed that they have complied with the required standard set out in the Model Code and its code of conduct regarding Directors' securities transactions.

Corporate Governance

BOARD OF DIRECTORS

The Board is responsible to the shareholders of the Company for leadership and control of the Group and is collectively responsible for promoting the success of the Group and its business by directing and supervising the Group's affairs. It oversees the Group's strategic development, and determines the objectives, strategies and policies of the Group. The Board also monitors and controls operating and financial performance in pursuit of the Group's strategic objectives. The Directors have access to appropriate business documents and information about the Group on a timely basis. The Directors can also have access to the management for enquiries and to obtain further information when required. All Directors and Board committees also have recourse to external legal counsel and other professionals for independent advice at the Group's expense when so required.

At the intervals between meetings, the senior management of the Company provides the Directors with information on a timely basis regarding the activities and developments in the businesses of the Group and meet with the non-executive Directors (including the independent non-executive Directors) to seek their views on business and operational matters of the Group.

The company secretary keeps detailed minutes of each meeting which are available to all Directors.

The full Board met five times during the Year at which the Directors considered and approved significant matters including, among other things, interim and annual results of the Group, changes in Board members and senior management. For other daily business matters, the decision making of which are delegated to the senior management include, among other things, personnel changes in middle-level management, selection and appointment of external consultants and professional parties (except for external auditors) and selection of raw materials suppliers and service providers. The composition of the Board during the Year and attendance of individual Directors at the Board and Board committee meetings are as follows:

	Attendance/Number of Meetings		
Directors during the Year	**Board meetings**	**Audit Committee meetings**	**Remuneration Committee meetings**
Executive Directors			
Mr. FENG Guangcheng	5/5	N/A	1/1
Mr. GAO Huojin	5/5	N/A	N/A
Mr. SHEN Guangjun	5/5	N/A	N/A
Ms. HONG Yumei	5/5	#2/2	N/A
Mr. JIANG Liqiang*	3/5	N/A	N/A
Mr. CHUNG Kwok Mo John**	1/5	#1/2	N/A
Non-executive Directors			
Mr. LIU Jianguo	5/5	N/A	N/A
Mr. XIE Yong*	3/5	N/A	N/A
Mr. SHI Guodong***	1/5	N/A	N/A
Independent non-executive Directors			
Mr. WANG Yanmou	5/5	2/2	1/1
Dr. LI Jun	3/5	2/2	N/A
Mr. SU Gongmei	5/5	2/2	1/1
Mr. ZHOU Guochun*	3/5	1/2	N/A
Mr. WANG Herong***	2/5	1/2	N/A

In the capacity of chief financial officer and the management of the finance department of the Company

* appointed with effect from 29 June 2007

** resigned with effect from 15 May 2007

*** retired with effect from 29 June 2007

During the Year, Mr. Feng, Mr. Gao Huojin, Mr. Shen Guangjun and Ms. Hong Yumei were re-elected as executive Directors; and Mr. Jiang Liqiang was approved to be appointed as a new executive Director. Save for Mr. Feng who is the controlling shareholder (as defined in the Listing Rules) of the Company, other Directors do not have any relationship with any other Directors, senior management, substantial shareholders (as defined in the Listing Rules), or controlling shareholders of the Company. Other Directors, save for Mr. Feng, do not have any interests in shares of the Company within the meaning of Part XV of the Securities and Futures Ordinance. All Directors do not have any family relationships with each other.

Currently, there are 11 Board members, including 5 executive Directors, 2 non-executive Directors and 4 independent non-executive Directors with at least one independent non-executive Director having appropriate professional qualification, or accounting or related financial management expertise. The Company increased the number of independent non-executive Directors to not less than one-third of the total number of Directors of the Company. The Company has received from each independent non-executive Directors an annual confirmation of his independence, and the Board considers them to be independent under the guidelines set out in Rule 3.13 of the Listing Rules.

Biographies and responsibilities of the Directors and senior management are detailed on pages 16 to 18 of this annual report, while the terms of their appointments are stated on page 21.

NOMINATION OF DIRECTORS

The Company has not established any nomination committee and the Board is responsible for identifying suitable candidates for the members of the Board when there is a vacancy or an additional Director is considered necessary. Normally, the chairman of the Board recommends the suitable candidates to each member of the Board. The members of the Board will then review the qualifications of the relevant candidates for determining the suitability to the Group on the basis of his or her qualifications, experiences and background. Suitable candidates will be recommended by the Board to the shareholders of the Company for approval at the general meeting.

During the Year, there was only one meeting held by the Board (which was attended by Mr. Feng, Mr. Gao Huojin, Mr. Shen Guangjun, Ms. Hong Yumei, Mr. Chung, Mr. Liu Jianguo, Mr. Shi Guodong, Dr. Li Jun, Mr. Wang Yanmou, Mr. Su Gongmei and Mr. Wang Herong in relation to the nomination of Directors. That meeting was held on 27 April 2007 in which Mr. Jiang Liqiang was nominated by the chairman of the Board to be appointed as an executive Director (Mr. Jiang Liqiang was appointed as a Company's executive Director with effect from the close of the annual general meeting of the Company held on 29 June 2007).

Each of the existing executive Directors has entered into a service agreement and each of the existing non-executive Directors and independent non-executive Directors has entered into a letter of appointment respectively with the Company which will all expire on the date of the annual general meeting of the Company to be held in the year 2010.

REMUNERATION COMMITTEE

On 30 August 2005, the Board established a remuneration committee with specific written terms of reference in accordance with the Code Provision B.1.3 in Appendix 14 to the Listing Rules which deal with the authorities and duties of the remuneration committee. The remuneration committee assists the Board in reviewing and determining the framework or broad policy for the remuneration of executive Directors and overseeing any major changes in employee benefit structures.

Corporate Governance

During the Year, the remuneration committee consisted of 3 members: executive Director Mr. Feng (committee chairman), independent non-executive Director Mr. Wang Yanmou, and independent non-executive Director Mr. Su Gongmei. Ms. Tao Haiping, who was and still is a joint company secretary of the Company, also was the secretary of the remuneration committee. The composition of the remuneration committee remained unchanged during the Year. One meeting was held by the remuneration committee during the Year to make recommendation to the Board in relation to the remuneration of the non-executive Directors and independent non-executive Directors, and the meeting was attended by all its members.

AUDIT COMMITTEE

The Board has established an audit committee since November 2001 which acts as an important link between the Board and the Group's auditors over the matters of the Group's audit. The audit committee also monitors the effectiveness of external audit and is responsible for reviewing the mechanism of internal controls and risk evaluation.

The previous terms of reference which described the authority and duties of the audit committee were replaced by the new terms of reference with effect from 31 August 2005. The new terms of reference adopted certain changes in accordance with the Code.

Under its terms of reference, the audit committee shall meet at least twice annually to review the accounting principles and practices adopted by the Group, discuss internal control and financial reporting matters including the interim and annual financial statements before submission to the Board for approval. The external auditors, chief financial officer and the management of finance department of the company attended the audit committee meetings to answer questions on the reports of their work. Two meetings were held during the financial year of 2007. With respect to the results of the Group for the Year, the audit committee reviewed with senior management and the auditors of the Company their respective audit findings, the accounting principles and practices adopted by the Group and internal control, risk management and financial reporting matters. This review by the audit committee included an appraisal of the integrity of the financial statements of the Group and the annual report and accounts of the Company. The audit committee has also reviewed the external auditors' remuneration. There was no disagreement between the Board and the audit committee on the selection and appointment of the external auditors.

The audit committee reports its work, findings and recommendations to the Board after each meeting.

During the Year, the audit committee comprised the following independent non-executive Directors: Mr. Wang Yanmou (Committee Chairman), Dr. Li Jun, Mr. Su Gongmei, Mr. Wang Herong (retired with effect from 29 June 2007) and Mr. Zhou Guochun (appointed with effect from 29 June 2007). Mr. Wang Herong is a certified public accountant and Mr. Zhou Guochun is a registered accountant. Both Mr. Wang Yanmou and Mr. Su Gongmei have extensive knowledge and experience in the construction materials industry.

AUDITORS' REMUNERATION

During the Year, the fee paid and payable to the Group's external auditors, PricewaterhouseCoopers, for the annual audit services provided to the Group was RMB4,200,000. The Group did not engage the external auditors for any non-audit services.

DIRECTORS' AND AUDITORS' ACKNOWLEDGEMENT

All Directors acknowledge their responsibility for preparing the financial statements for the Year.

The external auditors of the Company acknowledge their reporting responsibilities in the auditors' report on the financial statements for the Year.

INTERNAL CONTROL

The Board has overall responsibility for the system of internal controls of the Company and for reviewing its effectiveness. The Board is committed to implement an effective and sound internal control system to safeguard the interest of shareholders of the Company and the Group's assets.

The Board has conducted a review of the effectiveness of the Group's internal control system, covering its financial and operational functions.

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 at 31 December 2007, the Group had net current liabilities of approximately RMB1,909.1 million. This condition indicates the existence of a material uncertainty which may case significant doubt about the Group's ability to continue as a going concern.

Nevertheless, the Directors adopted the going concern basis in the preparation of the financial statements of the Company and the Group based on the assumptions that the Group is able to obtain ongoing support from the Group's bankers for extending its short-term loans upon maturity; obtain long-term financing facilities to re-finance its short-term loans; remediate its breaches of certain loan covenants; derive adequate operating cash flow from its existing operations and new products to be produced; and to obtain the capital subscription from Sinhoo in a major subsidiary of the Group and to derive adequate cash flow to finance the remaining capital expenditure of the construction of phase two soda ash production line as set forth in Note 2 "Basis of Preparation – Going Concern Assumption" to the consolidated financial statements in this annual report.

Directors, Supervisors and Senior Management

DIRECTORS

Executive Directors

Mr. FENG Guangcheng, aged 56, is the chairman and the founder of the Company. He is qualified as a senior engineer certified by Shaoxing City Educational Training Group in April 1999. He completed his study in Zhejiang Finance and Economics College with a major in Business Administration in 1989. In June 1994, he founded Zhejiang Float Glass Industry Company Limited (former name of the Company) and became the chairman and general manager of the Company. Mr. Feng has extensive experience in the construction materials industry, glass manufacturing, corporate management and administration.

Ms. HONG Yumei, aged 43, is the financial controller of the Company. Ms. Hong is a registered accountant of Zhejiang Province. She obtained the certificate of accounting and the professional certificate of finance and taxation in Zhejiang Province in 1987 and she obtained the professional certificate of financial affairs and accounting from Hangzhou University in 1990. Ms. Hong received the qualification of assistant accountant in 1992 and of a registered accountant in 1998. Ms. Hong studied in Zhejiang Industrial University of the PRC. Ms. Hong joined the Company in 1996 and has been responsible for the financial affairs of the Company since then.

Mr. GAO Huojin, aged 47, is the general manager and production manager of the Company. Mr. Gao graduated from Zhejiang University of Technology. Mr. Gao is a senior engineer. He joined the Company in May 1996 and had been the deputy manager of the production workshop and was subsequently promoted to manager of the production workshop. Mr. Gao has since 1999 been the factory director of Zhejiang Glass Factory (the predecessor of the Company), supervising the operation of the production lines of float glass.

Mr. SHEN Guangjun, aged 32, is the deputy general manager and the sales manager of the Company. Mr. Shen was a supervisor of the Company since 2004 until his resignation from the office with effect from 29 August 2006. He graduated from Zhejiang Shengzhou Chongren Middle School of the PRC. Mr. Shen joined the Company in 1997 responsible from the sales of the Company's glass products. He has been the manager of the sales division of the Company since 2003. In February 2003, Mr. Shen obtained a qualification certificate of senior sales of the PRC, and he completed a 2-year program in marketing in Southwest Technology University and obtained a certificate in respect thereof in June 2005.

Mr. JIANG Liqiang, aged 29, is the deputy head of the securities department of the Company. Mr. Jiang graduated from the University of British Columbia - Okanagan, majoring in business administration. From 2004 to 2005, Mr. Jiang worked in the sales department of TD Canada Trust Bank. Mr. Jiang joined the Company in May 2005.

Non-executive Directors

Mr. LIU Jianguo, aged 51, is a non-executive Director of the Company. Mr. Liu graduated from the Hangzhou University with a major in Chinese in 1982. He is the general manager of Zhongda Technology Import and Export Company Limited. From 1986 to 1998, Mr. Liu worked as the secretary of the government office of Zhejiang Province and as the deputy chairman and general manager of Provincial Technology Import and Export Company.

Mr. XIE Yong, aged 38, is a non-executive Director of the Company. Mr. Xie graduated from Zhejiang Gongshang University, majoring in legal profession. From 1986 to 2002, Mr. Xie first worked as an accountant and was subsequently promoted to a chief officer at the Industrial and Commercial Bank of China, Shaoxing branch. From 2002 to 2003, Mr. Xie assumed various posts including deputy manager of the finance department at Zhejiang Hualian Sunshine Petro-chemical Co., Ltd. In 2003, Mr. Xie joined Guangyu Group Company Limited, which is owned as to 93% by Mr. Feng, and is currently the deputy manager of Guangyu Group Company Limited.

Independent non-executive Directors

Dr. LI Jun, aged 47, is an independent non-executive Director of the Company. Dr. Li received his Ph.D degree in Political Science from Oxford University in England in 1994. He also took a Master degree course in Economics at China People's University. Dr. Li worked as a senior manager and director in several securities and investment companies in Hong Kong. Dr. Li is currently an executive director of Superb Summit International Timber Company Limited, an independent non-executive director of Hong Long Holdings Limited, and a non-executive director of Global Flex Holdings Limited, all being companies listed in Hong Kong.

Mr. WANG Yanmou, aged 75, is an independent non-executive Director of the Company. Mr. Wang graduated from the former Nanjing Polytechnic Institute with a major in Chemistry in 1956 and was awarded an Associate Doctoral Degree in Science and Technology by the former Leningrad Architectural Engineering Institute of the former Soviet Union. He is an advisor to Expert Committee of International Engineering Consulting Company, an advisor to China Investment Association, the honorary chairman of China Construction Material Industry Committee and the honorary secretary general of China Silicate Association.

Mr. SU Gongmei, aged 68, is an independent non-executive Director of the Company and a senior engineer at professor level. Mr. Su worked as a lecturer at Beijing Institute of Construction Industry (currently known as Wuhan Polytechnic University) and previously assumed the posts as the head of the design department, chief engineer and so forth of the Qinhuang Island Glass Industrial Research and Design Institute. Mr. Su is currently the deputy director of the PRC Construction Material Economic Research Society.

Mr. ZHOU Guochun, aged 44, is an independent non-executive Director of the Company. Mr. Zhou is registered accountant in the PRC. Mr. Zhou graduated from Jiangsu Nanjing School of Communications (currently known as Nanjing Communications Institute of Technology (江蘇省南京交通學校)) majoring in finance. From 1984 to 1994, Mr. Zhou worked as an assistant accountant and was subsequently promoted as the head of the finance department at Jiangsu Ganghang Group Jiangnan Company, Yixing branch (江蘇省港航集團江南公司宜興分公司). From 1995 to 1999, Mr. Zhou worked as a chief officer of the foreign capital department at Yixing Surui Accountant Firm (宜興蘇瑞會計師事務所). At present, Mr. Zhou is the chief accountant at Yixing Huada Accountant Firm (宜興達華會計師事務所).

SUPERVISORS

Mr. LOU Zhenrong, aged 54, graduated from Zhejiang University with a major in Law and is a PRC lawyer. He works for the Lungshan Law Firm. From 1981 to 1993, Mr. Lou worked in Shaoxing City Catering Service Company and Shaoxing City Materials Company.

Directors, Supervisors and Senior Management

Mr. Xu Yuxiang, aged 39, graduated from Shaoxing Teacher's School first and studied in Zhejiang Industrial University. Mr. Xu has been working in the Company since 1996 and has extensive experience in glass manufacturing, administration management and project development.

Mr. FU Guohua, aged 60, received a bachelor degree from Shanghai Tongji University and is an engineer. He has been working in the Company since 1995. Mr. Zhang has extensive experience in production management and project development.

Mr. FANG Shengli, aged 39, is the general manager of Zhejiang Shaoxing Taoyan Glass Company Limited which is owned as to 90% direct and 10% indirect by the Group. Mr. Fang joined the military in the PRC in 1987. He graduated from the Guangzhou School of Warship, the People's Liberal Army in the PRC (中國人民解放軍海軍廣州艦艇學院) and has furthered his study at Nanjing Navy College (南京海軍指揮學院). Mr. Fang joined the Company in 2003 and is mainly responsible for human resources management.

Mr. XU Mingfeng, aged 34, is the deputy manager of Zhejiang Engineering Glass Company Limited which is owned as to 90% direct and 10% indirect by the Group. Mr. Xu Mingfeng joined the Company after his graduation from Wuhan Industrial University (currently known as Wuhan University of Technology (武漢理工大學)). He has been involved in administrative and recruitment areas in the Company. Mr. Xu Mingfeng has almost ten years of experience in administrative management.

Mr. MEI Lingfeng, aged 29, graduated from Hubei Polytechnic University (currently known as Hubei University of Technology) majoring in finance. Mr. Mei joined the finance department of the Company in 2002 and has assumed various posts including an auditor at the supervising department and the deputy chief of the management department at Qinghai Soda Ash Company Limited.

Mr. JI Peng, aged 29, graduated from Shannxi University of Science & Technology, majoring in accounting. In 2002, Mr. Ji joined the finance department of Guangyu Group Co. Ltd., which is owned as to 93% by Mr. Feng Guangcheng, the chairman and an executive Director of the Company. In 2003, Mr. Ji joined the finance department of QSAC, and is currently the vice chief officer of the finance department of QSAC.

SENIOR MANAGEMENT

Mr. CHOW Yiu Ming, aged 35, is the chief financial officer, qualified accountant and the joint company secretary of the Company. Mr. Chow holds a bachelor's degree of business administration from the University of Hong Kong and is also a member of Hong Kong Institute of Certified Public Accountants and The Association of Chartered Certified Accountants. Mr. Chow joined the Company in June 2007 and has over 12 years of experience in auditing, finance and accounting.

Ms. TAO Haiping, aged 30, is a joint company secretary of the Company. Ms. Tao graduated from Zhejiang Shaoxing Wenli College with a Professional Diploma in Economic Administration and Office Automation. Ms. Tao has been working with the Company since February 2000 and was appointed company secretary on 10 January 2003.

Report of the Directors

The Directors submit their report together with the audited financial statements for the Year.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The Group is principally engaged in the manufacturing and selling of glass and soda ash products. The activities of the subsidiaries are set out in Note 19 to the financial statements.

An analysis of the Group's performance for the Year by business and geographical segments is set out in Note 6 to the financial statements.

RESULT AND APPROPRIATIONS

The results of the Group for the Year are set out in the consolidated income statement on page 29.

The Directors do not recommend the declaration of a final dividend for the Year.

RESERVES

Movements in the reserves of the Group and of the Company during the Year are set out in the consolidated statement of changes in equity on page 34 and in Note 30 to the financial statements respectively.

PROPERTY, PLANT AND EQUIPMENT AND CONSTRUCTION-IN-PROGRESS

Details of the movements in property, plant and equipment and construction-in-progress of the Group and of the Company are set out in Notes 15 and 16, respectively, to the financial statements.

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in Note 29 to the financial statements.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company as at 31 December 2007, calculated according to the provisions of the Company Law of the PRC, amounted to RMB406,277,000 (2006: RMB335,200,000).

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's articles of association and there was no restriction against such rights under the laws of the PRC.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 3.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the Year.

Report of the Directors

SHARE CAPITAL STRUCTURE

As at 31 December 2007, the total number of shares issued by the Company was 720,833,000. The Company's shareholders were Mr. Feng, Mr. Feng Liwen, Mr. Feng Guangji, Mr. Xu Haichao, Mr. Jin Jinlong and holders of overseas listed foreign shares ("H Shares"), who held 384,000,000 domestic shares, 4,000,000 domestic shares, 4,000,000 domestic shares, 4,000,000 domestic shares, 4,000,000 domestic shares and 320,833,000 H Shares, respectively, representing 53.27%, 0.555%, 0.555%, 0.555%, 0.555% and 44.51% respectively, of the entire issued share capital of Company.

NUMBER OF SHAREHOLDERS

Details of the shareholders as recorded in the register of members of the Company as at 31 December 2007 are as follows:

Total number of shareholders (including nominee companies)	62
Holders of domestic shares	5
Holders of H Shares	57

LISTING OF H SHARES

The Company's H Shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 10 December 2001. On 29 August 2006, the Company allotted and issued to certain institutional investors an aggregate of 142,120,000 new H Shares with nominal value of RMB1.00 each, which were listed on the Stock Exchange on the same date.

Performance of the Company's H Shares in 2007:

Closing price per H Share at 31 December 2007	HK$7.35
From 1 January 2007 to 31 December 2007:	
Highest traded price per H Share	HK$11.20
Lowest traded price per H Share	HK$1.45
Total number of H Shares traded	463,755,261 shares

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the Year.

DIRECTORS

The Directors during the Year and up to the date of this report were:

Executive Directors

Mr. FENG Guangcheng *(Chairman)*	
Ms. HONG Yumei	
Mr. GAO Huojin	
Mr. SHEN Guangjun	
Mr. JIANG Liqiang	*(appointed with effect from 29 June 2007)*
Mr. CHUNG Kwok Mo John	*(resigned with effect from 15 May 2007)*

Non-executive Directors

Mr. LIU Jianguo	
Mr. XIE Yong	*(appointed with effect from 29 June 2007)*
Mr. SHI Guodong	*(retired with effect from 29 June 2007)*

Independent non-executive Directors

Mr. WANG Yanmou	
Dr. LI Jun	
Mr. SU Gongmei	
Mr. ZHOU Guochun	*(appointed with effect from 29 June 2007)*
Mr. WANG Herong	*(retired with effect from 29 June 2007)*

The Company considered that Mr. Wang Yanmou, Dr. Li Jun, Mr. Su Gongmei, Mr. Zhou Guochun and Mr. Wang Herong are independent pursuant to the criteria set out in the Listing Rules and that confirmations of independence pursuant to Rule 3.13 of the Listing Rules have been received from each of them.

The term of office of all the Directors (including the non-executive Directors) will end on the expiry of 3 years from the annual general meeting held on 29 June 2007.

All the above Directors shall be eligible for re-election upon the expiry of their terms.

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

Each of the executive Directors and internal supervisors has entered into a service agreement with the Company for a term of 3 years commencing 29 June 2007 and up to the date of the annual general meeting of the Company to be held in 2010.

Each of the non-executive and independent non-executive Directors has entered into a letter of appointment with the Company for a term of 3 years commencing 29 June 2007 and up to the date of the annual general meeting of the Company to be held in 2010.

None of the Directors nor the supervisors of the Company has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within 1 year without payment of compensation, other than statutory compensation.

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Except for the contracts described in the section "CONNECTED TRANSACTIONS" on page 24, no contracts of significance in relation to the Group's business to which the Company or its subsidiaries was a party and in which any of the Directors or supervisors of the Company had a material interest, whether directly or indirectly, subsisted at the end of the Year or at any time during the Year.

BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Brief biographical details of the Directors, supervisors and senior management are set out on pages 16 to 18.

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

As at 31 December 2007, the interests and short positions of each Director, supervisor and chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein (including interests and short positions, if any, which they are taken or deemed to have under such positions of the SFO), or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange were as follows:

Name	**The Company/ name of associated corporation**	**Capacity**	**Number and class of securities** (Note 1)	**Approximate percentage in the entire issued share capital of the Company/ associated corporation**
Feng Guangcheng	The Company	Beneficial owner	384,000,000 domestic Shares (L) (Note 2)	53.27%

Notes:

1. The letter "L" represents the interests in the shares and underlying shares of the Company or its associated corporations.

2. A total of 120,000,000 of these shares of the Company held by Mr. Feng were pledged to IFC. Pursuant to the loan agreement dated 26 June 2006 entered into between the Company as borrower and IFC as lender, IFC granted a loan to the Company which was secured by, among others, the pledge of 120,000,000 shares of the Company held by Mr. Feng to International Finance Corporation. Details of the said loan agreement have been disclosed in the announcement of the Company dated 27 June 2006. On 28 September 2006, Mr. Feng, the Company and IFC entered into a share pledge agreement pursuant to which Mr. Feng agreed to pledge an additional 120,000,000 shares held by him in the Company to IFC. Details of the said share pledge agreement has been disclosed in the announcement of the Company dated 3 October 2006. On 17 August 2007, the Company received a written confirmation from IFC that the condition for the discharge of security under the share pledge agreement dated 28 September 2006 had been satisfied and that the security under the said share pledge agreement was discharged. For the purpose of completing the relevant procedures of the said discharge, the discharge of security of 120,000,000 shares held by Mr. Feng under the said share pledge agreement was subsequently put on record with the relevant government authorities in the PRC including the Ministry of Commerce of the PRC, and came into effect on 14 September 2007. Details of the said discharge of security has been disclosed in the announcement of the Company dated 20 September 2007.

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

As at 30 June 2007, the following persons and entities, other than a Director, supervisor or chief executive of the Company, had an interest or a short position in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of SFO:

Name of shareholder	Number of H Shares of the Company (Note 1)	Capacity	Approximate percentage of interest in the entire issued share capital of the Company	Approximate percentage in H Shares of the Company
International Finance Corporation (Note 2)	107,672,000 (L) 120,000,000 domestic shares	Beneficial owner	14.94%	33.56%
Mr. Michael James Burry (Note 3)	34,448,000 (L)	Beneficial owner	4.78%	10.73%
Scion Capital LLC (Note 3)	34,448,000 (L)	Investment manager	4.78%	10.73%
Mirae Asset Global Investments (Hong Kong) Limited	19,586,000 (L)	Beneficial owner	2.72%	6.10%
Scion Qualified Funds LLC	17,922,000 (L)	Beneficial owner	2.49%	5.58%

Notes:

1. The letter "L" represents the person's or the entity's interests in the shares of the Company.

2. According to the placee record as at 7 December 2006 kept by the Company and up to the latest practicable date before the publication of this annual report, so far as is known to the Directors, the number of H Shares which is held by IFC is 107,672,000 (long position and as beneficial owner), representing approximately 33.56% of the H shares of the Company in issue as at 31 December 2007 and approximately 14.94% of the total number of issued shares of the Company as at 31 December 2007. In the corporate substantial shareholder notice filed by IFC on 20 September 2006, it was set out that a total of 227,672,000 shares were then held by IFC. Of the said 227,672,000 shares, 120,000,000 shares are believed to be domestic shares pledged in favour of IFC by Mr. Feng at such time. As disclosed in note 2 on page 22 of this annual report, as at 31 December 2007, a total of 120,000,000 domestic shares of the Company have been pledged to IFC by Mr. Feng, which represents 30% of the domestic shares of the Company as at 31 December 2007.

3. Mr. Michael James Burry was reported to be the direct controlling shareholder of Scion Capital LLC with a long position of 34,448,000 H Shares of the Company. Scion Capital LLC was reported to be the direct controlling shareholder of (a) Scion Funds LLC which had a long position of 3,608,000 H Shares of the Company; (b) Scion Qualified Funds LLC which had a long position of 17,922,000 H Shares of the Company; (c) Scion Asian Opportunity Fund LLC which had a long position of 11,979,000 H Shares of the Company; and (d) Scion Asian Opportunity Fund II LLC which had a long position of 939,000 H Shares of the Company.

PUBLIC FLOAT

As at the latest practicable date prior to the issue of this annual report, the Company has maintained the prescribed public float under the Listing Rules based on the information that is publicly available to the Company and within the knowledge of the Directors.

MAJOR CUSTOMERS AND SUPPLIERS

The percentages of purchases and sales for the Year attributable to the Group's major suppliers and customers are as follows:

Purchases	
The largest supplier	4%
Five largest suppliers combined	18%
Sales	
The largest customer	2%
Five largest customers combined	9%

None of the Directors, supervisors, their associates or any shareholder (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had an interest in the major suppliers or customers noted above.

CONNECTED TRANSACTIONS

Significant related party transactions entered into by the Group during the Year are disclosed in Note 35 to the financial statements.

During the Year, there have been no related party transactions which also constitute connected transactions that are not exempt under the Listing Rules and which are required to be disclosed in accordance with Chapter 14A of the Listing Rules.

The master supply agreement dated 29 December 2004 entered into between the Company and Zhejiang Cement Company Limited ("ZCC", which ceased to be a related party of / connected person to the Group since 30 June 2007, further details are disclosed in Note 35 to the financial statements) in relation to the supply of cement by ZCC to the Group (which constitutes continuing connected transactions under Chapter 14A of the Listing Rules) is effective during the Year. However, no transactions had been carried out with ZCC pursuant to such an agreement during the Year.

INDEPENDENT NON-EXECUTIVE DIRECTORS AND AUDIT COMMITTEE

So far as the Directors are aware, during the Year, there were not any non-compliance with Rules 3.10(1), 3.10(2) and 3.21 of the Listing Rules relating to the appointment of independent non-executive Directors and the establishment of an audit committee.

DIRECTORS' AND SUPERVISORS' INTEREST IN COMPETING BUSINESS

None of the Directors and supervisors is interested in any business which competes or is likely to compete, either directly or indirectly, with the Group's business.

SUBSEQUENT EVENTS

Details of significant events subsequent to the balance sheet date as at 31 December 2007 are set out in Note 36 to the financial statements.

EMPLOYEES

As at 31 December 2007, the Group had 4,877 employees. The pay levels of the employees are commensurate with their responsibilities, performance and contribution.

EMOLUMENT POLICY

The emolument policy of the employees of the Group is set up by the Board on the basis of their merit, qualification and competence.

The emolument of the Directors are decided by the Board, as authorised by shareholders of the Company at the annual general meeting, having regard to the Group's operating results, individual performance and comparable market statistics.

EMPLOYEE RETIREMENT BENEFITS

All full time employees of the Group are covered by either a state-sponsored retirement plan in the PRC or a defined contribution retirement scheme in Hong Kong. Details of the employee retirement benefits are set out in Note 31 to the financial statements.

EMPLOYEE BASIC MEDICAL INSURANCE

The employee basic medical insurance scheme currently implemented in Shaoxing County, Zhejiang Province where the Company is located is only applicable to large county enterprises and state enterprises in the County. As the Company does not belong to these types of enterprises, it is not yet subject to such medical insurance scheme at present. The Company will provide medical insurance to its employees by complying with the local regulations when it becomes applicable to the Company.

MATERIAL LITIGATION

The Group was not involved in any material litigation during the Year.

BANK LOANS AND OTHER BORROWINGS

Details of bank loans, other borrowings and bank facilities of the Group are set out in Note 27 to the financial statements.

AUDITORS

The financial statements have been audited by PricewaterhouseCoopers who will retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-appointment.

On behalf of the Board
Feng Guangcheng
Chairman

17 April 2008

Report of the Supervisory Committee

TO ALL SHAREHOLDERS

All seven members of the supervisory committee of Zhejiang Glass Company, Limited (the "Company") have fulfiled their duties to protect the interests of the shareholders and the interests of the Company in accordance with the Company Law of the People's Republic of China (the "PRC"), relevant laws and regulations of the PRC and Hong Kong and the Company's articles of association. Our principal duties are: to attend meetings of the board (the "Board") of directors (the "Directors"); to monitor effectively the procedures for decision making and the decisions made by the Board to ensure their compliance with the laws and regulations of the PRC and the articles of association of the Company and that they are in the interests of shareholders and employees; to review the financial reports submitted by the Board; and to carry out vetting of the financial report and profit distribution plan of the Company submitted to the annual general meeting by the Board.

With the assistance of various intermediaries and professionals, the Directors, general manager and other members of the senior management of the Company carried out their duties in compliance with the articles of association of the Company and obtained satisfactory results in the Group's operations.

The supervisory committee has reviewed the financial report of the Company prepared by the Board for submission to the annual general meeting and gives full concurrence thereto. The supervisory committee has reviewed the Report of the Directors to be submitted to the shareholders and believes that its content reflects a true and fair view of the Group. In the course of the Group's operations, members of the Board, general manager and other senior management of the Company have discharged their duties diligently in the exercise of their respective rights and obligations. No cases of abuse of power or infringement of the interests of shareholders and employees of the Group have been found.

The supervisory committee is satisfied with the results achieved by the Group. Accordingly, we are confident about the Group's future prospects.

On behalf of the supervisory committee
Xu Yuxiang
Chairman of the supervisory committee

17 April 2008

Auditor's Report

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor, Prince's Building
Central, Hong Kong

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF ZHEJIANG GLASS COMPANY, LIMITED

(A joint stock limited company incorporated in the People's Republic of China)

We have audited the consolidated financial statements of Zhejiang Glass Company, Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 29 to 90, which comprise the consolidated and company balance sheets as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Auditor's Report

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

MATERIAL UNCERTAINTY REGARDING GOING CONCERN OF THE GROUP

Without qualifying our opinion, we draw attention to Note 2 to the financial statements concerning the adoption of the going concern basis on which the financial statements have been prepared. As of 31 December 2007, the Group's current liabilities exceeded its current assets by approximately RMB1,909 million. This condition, along with the Group's ability to extend its short-term loans upon maturity; obtain long-term financing facilities to re-finance its short-term loans; remediate its breaches in certain loan covenants; derive adequate operating cash flow from its existing operations and new production lines to be put in operation; and to receive from a minority equity owner of a major subsidiary the scheduled capital contribution to be made into that subsidiary, as set forth in Note 2, indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 17 April 2008

Consolidated Income Statement

For the year ended 31 December 2007
(Amounts expressed in Renminbi)

	Note	2007 RMB'000	2006 RMB'000
Revenue	6	**2,322,206**	1,520,512
Cost of sales	8	**(1,754,889)**	(1,352,235)
Gross profit		**567,317**	168,277
Other gains – net	7	**21,240**	47,269
Distribution and selling expenses	8	**(70,602)**	(52,309)
General, administrative and other operating expenses	8	**(72,210)**	(57,187)
Operating profit		**445,745**	106,050
Finance costs – net	9	**(123,330)**	(156,158)
Loss from disposal of a subsidiary		**–**	(1,435)
Profit/(loss) before income tax		**322,415**	(51,543)
Income tax expense	10	**(25,471)**	(8,371)
Profit/(loss) for the year		**296,944**	(59,914)
Attributable to:			
Equity holders of the Company		**275,824**	(57,008)
Minority interests		**21,120**	(2,906)
		296,944	(59,914)
Basic and diluted earnings/(loss) per share for profit/(loss) attributable to the equity holders of the Company during the year	12	**RMB0.383**	RMB(0.091)
Dividends	13	**–**	–

The notes on pages 36 to 90 are an integral part of these consolidated financial statements.

Consolidated Balance Sheet

As at 31 December 2007
(Amounts expressed in Renminbi)

	Note	**2007 RMB'000**	2006 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	15	**4,072,023**	2,908,462
Construction-in-progress	16	**1,415,823**	1,501,350
Land use rights	17	**189,918**	142,405
Deposits for land use rights		**2,000**	8,869
Intangible assets	18	**25,039**	26,187
Long-term prepayments	20	**30,000**	32,500
		5,734,803	4,619,773
Current assets			
Inventories	21	**353,481**	212,532
Prepayments, deposits and other current assets	22	**111,790**	94,319
Bills receivable	4(f)	**64,264**	10,122
Accounts receivable	23	**93,916**	113,009
Pledged deposits	24	**82,240**	174,308
Cash and cash equivalents	24	**593,550**	538,574
		1,299,241	1,142,864
Non-current assets classified as held for sale	7	**–**	134,406
		1,299,241	1,277,270
Total assets		**7,034,044**	5,897,043
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	29	**720,833**	720,833
Other reserves		**775,082**	594,715
Retained earnings		**506,863**	265,732
		2,002,778	1,581,280
Minority interests in equity		**208,900**	35,758
Total equity		**2,211,678**	1,617,038

	Note	2007 RMB'000	2006 RMB'000
LIABILITIES			
Non-current liabilities			
Long-term borrowings	27	**1,562,000**	1,160,000
Long-term payables		**6,292**	9,362
Deferred tax liabilities	32	**45,768**	47,005
		1,614,060	1,216,367
Current liabilities			
Accounts payable	25	**644,239**	507,955
Bills payable	4(f)	**276,503**	570,250
Accruals and other payables	26	**266,433**	176,059
Due to a related company	35	**718**	–
Deposits and advance from customers		**261,112**	117,305
Taxes payable	28	**87,725**	42,211
Current portion of long-term borrowings	27	**107,000**	100,000
Short-term borrowings	27	**1,564,576**	1,549,858
		3,208,306	3,063,638
Total liabilities		**4,822,366**	4,280,005
Total equity and liabilities		**7,034,044**	5,897,043
Net current liabilities		**1,909,065**	1,786,368
Total assets less current liabilities		**3,825,738**	2,833,405

Feng Guangcheng
Director

Hong Yumei
Director

The notes on pages 36 to 90 are an integral part of these consolidated financial statements.

Balance Sheet

As at 31 December 2007
(Amounts expressed in Renminbi)

	Note	2007 RMB'000	2006 RMB'000 (Note 37)
ASSETS			
Non-current assets			
Property, plant and equipment	15	**1,119,195**	922,592
Construction-in-progress	16	**33,855**	267,365
Land use rights	17	**56,198**	57,464
Interests in subsidiaries	19	**1,645,394**	1,518,682
		2,854,642	2,766,103
Current assets			
Inventories	21	**73,326**	61,471
Prepayments, deposits and other current assets	22	**27,086**	53,645
Amounts due from subsidiaries	35	**62,905**	134,851
Bills receivable	4(f)	**34,180**	4,072
Accounts receivable	23	**33,859**	52,807
Pledged deposits	24	**41,581**	174,308
Cash and cash equivalents	24	**476,895**	428,190
		749,832	909,344
Non-current assets classified as held for sale	7	**–**	134,406
		749,832	1,043,750
Total assets		**3,604,474**	3,809,853
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	29	**720,833**	720,833
Other reserves	30	**605,574**	586,966
Retained earnings	30	**406,277**	335,200
Total equity		**1,732,684**	1,642,999

	Note	2007 RMB'000	2006 RMB'000
LIABILITIES			
Non-current liabilities			
Long-term borrowings	27	**60,000**	–
Deferred tax liabilities	32	**41,323**	39,709
		101,323	39,709
Current liabilities			
Accounts payable	25	**181,246**	142,450
Bills payable	4(f)	**228,580**	570,250
Accruals and other payables	26	**120,506**	114,389
Amounts due to subsidiaries	35	**9,393**	48,432
Due to a related company	35	**498**	–
Deposits and advance from customers		**51,754**	23,408
Taxes payable	28	**38,714**	28,358
Current portion of long-term borrowings	27	**15,000**	–
Short-term borrowings	27	**1,124,776**	1,199,858
		1,770,467	2,127,145
Total liabilities		**1,871,790**	2,166,854
Total equity and liabilities		**3,604,474**	3,809,853
Net current liabilities		**1,020,635**	1,083,395
Total assets less current liabilities		**1,834,007**	1,682,708

Feng Guangcheng
Director

Hong Yumei
Director

The notes on pages 36 to 90 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2007
(Amounts expressed in Renminbi)

	Attributable to equity holders of the Company								
	Share capital RMB'000	Share premium RMB'000	Statutory surplus reserve RMB'000	Statutory public welfare fund RMB'000	Other reserve RMB'000	Retained profits RMB'000	Proposed dividends RMB'000	Minority interest RMB'000	Total RMB'000
Balance at 1 January 2006	578,713	350,066	65,588	65,588	7,749	322,740	–	39,101	1,429,545
Issue of new shares	142,120	105,724	–	–	–	–	–	–	247,844
Total income and expenses recognised in the year									
– Loss for the year	–	–	–	–	–	(57,008)	–	(2,906)	(59,914)
Disposal of a subsidiary	–	–	–	–	–	–	–	(437)	(437)
Transfer (Note 30)	–	–	65,588	(65,588)	–	–	–	–	–
Balance at 31 December 2006	720,833	455,790	131,176	–	7,749	265,732	–	35,758	1,617,038
Balance at 1 January 2007	720,833	455,790	131,176	–	7,749	265,732	–	35,758	1,617,038
Total income and expenses recognised in the year									
– Profit for the year	–	–	–	–	–	275,824	–	21,120	296,944
Transfer (Note 30)	–	–	11,713	–	–	(11,713)	–	–	–
Appropriations to statutory reserves	–	–	22,980	–	–	(22,980)	–	–	–
Capital contribution from a minority equity owner of a subsidiary (Note 19(a))	–	–	–	–	147,978	–	–	152,022	300,000
Others	–	(2,304)	–	–	–	–	–	–	(2,304)
Balance at 31 December 2007	**720,833**	**453,486**	**165,869**	**–**	**155,727**	**506,863**	**–**	**208,900**	**2,211,678**

The notes on pages 36 to 90 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2007
(Amounts expressed in Renminbi)

	Note	2007 RMB'000	2006 RMB'000
Cash flows from operating activities			
Cash generated from operations	33	**861,723**	451,057
Interest paid		**(234,225)**	(214,121)
PRC Enterprise Income Tax paid		**(8,618)**	(6,613)
Net cash generated from operating activities		**618,880**	230,323
Cash flows from investing activities			
Disposal of a subsidiary, net of cash disposed		**2,500**	(87)
Acquisition of property, plant and equipment and construction-in-progress		**(1,219,326)**	(451,179)
Proceeds from disposal of property, plant and equipment and other non-current assets	7	**139,825**	20,430
Payment for land use rights		**(42,487)**	(5,744)
Payment for intangible assets		**(3,949)**	(7,370)
Deposits for land use rights		**(2,000)**	(1,901)
Interest received		**13,171**	18,006
Net cash used in investing activities		**(1,112,266)**	(427,845)
Net cash used before financing		**(493,386)**	(197,522)
Cash flows from financing activities			
Proceeds from issuance of ordinary shares		**–**	247,844
Proceeds from short-term borrowings		**2,473,450**	2,437,938
Proceeds from long-term borrowings		**455,000**	100,000
Repayment of short-term borrowings		**(2,430,105)**	(2,846,218)
Repayment of long-term borrowings		**(46,000)**	(110,000)
Capital contribution from a minority equity owner of a subsidiary into that subsidiary	19(a)	**300,000**	–
Decrease in pledged deposits		**92,068**	154,825
(Decrease)/Increase in bills payable		**(293,747)**	190,250
Delayed payment for the transaction cost of issuance of ordinary shares		**(2,304)**	–
Net cash generated from financing activities		**548,362**	174,639
Net increase/(decrease) in cash and cash equivalents		**54,976**	(22,883)
Cash and cash equivalents at beginning of year		**538,574**	561,457
Cash and cash equivalents at end of the year		**593,550**	538,574

The notes on pages 36 to 90 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007
(All amounts expressed in Renminbi unless otherwise stated)

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 fulfiled 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 of the Company is Yangxunqiao Township, Shaoxing County, Zhejiang Province, the PRC.

The Company and its subsidiaries (the "Group") are principally engaged in the manufacturing and selling of glass products and soda ash products. The activities of the subsidiaries are set out in Note 19.

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

These consolidated financial statements have been approved for issue by the board of directors of the Company (the "Directors") on 17 April 2008.

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") issued by the Hong Kong Institute of Certified Public Accountants. 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 2007, the Group had net current liabilities of approximately RMB1,909 million (2006: 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.

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 used for financing its capital expenditures, are due for repayment in 2008. Subsequent to 31 December 2007 and up to the date of approval of these financial statements, approximately RMB59.8 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 in 2008.

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 and it will be successful in obtaining such re-financing arrangements.

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 in an aggregated amount of the United States dollar ("USD") 60 million, equivalent to approximately RMB438 million.

4. The Group is expected to derive sufficient operating cash flow in 2008 from its existing flat glass products, soda ash products, as well as from the sales of ultra-thick and other glass products to be produced by 2 production lines, with one newly put into use in early 2008 and one to be put into operation in mid 2008.

5. On 21 June 2007, the Company entered into a capital subscription agreement with a third party, pursuant to which, the third party agrees to pay approximately RMB905 million as capital contribution made into Qinghai Soda Ash Company Limited ("QSAC"), a 78.69% subsidiary of the Company as at 31 December 2007, in return for 35% equity interests of QSAC (Note 19). During the year, RMB300 million had been contributed by that third party. The Directors are confident that the transaction will be completed on schedule and the remaining capital contribution of RMB605 million will be used to finance the capital expenditure of the construction of the phase two manufacturing facilities of QSAC.

In addition, the Directors would take relevant measures in 2008 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 adjusting the dividend pay-out ratio for 2008.

In light of the measures undertaken and the assumptions and conditions adopted in the preparation of cash flow projection of the Group for 2008, 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007
(All amounts expressed in Renminbi unless otherwise stated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied 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, as modified by the revaluation of financial assets and financial liabilities at fair value through profit or loss.

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 standard, amendment to standard, and interpretation are mandatory for financial year ended 31 December 2007:

- HKFRS 7, 'Financial instruments: Disclosures', effective for annual periods beginning on or after 1 January 2007. This standard requires disclosures that enable users of the financial statements to evaluate the significance of the entity's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are incorporated throughout the financial statements. While there has been no effect on the financial position or results of operations of the Group, comparative information has been included/revised where appropriate;

- Amendment to HKAS 1, 'Presentation of Financial Statements – capital disclosures', effective for annual periods beginning on or after 1 January 2007. This amendment requires the entity to make disclosures that enable users of the financial statements to evaluate the entity's objectives, policies and processes for managing capital. These new disclosures are shown in Note 4; and

- 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. This interpretation does not have any significant impact on the Group's financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Basis of preparation (continued)

The following interpretations are mandatory for accounting periods beginning on or after 1 January 2007 but they are not relevant to the Group's operations:

- HK(IFRIC)-Int 8, 'Scope of HKFRS 2';
- HK(IFRIC)-Int 7, 'Applying the Restatement Approach under HKFRS 29, Financial Reporting in Hyper-inflationary Economies'; and
- HK(IFRIC)-Int 9, 'Reassessment of Embedded Derivatives'.

The following new standards, amendments to the standards and interpretations have been issued but are not effective for 2007 and have not been early adopted:

- HKAS 1 (Revised), 'Presentation of Financial Statements', effective for annual periods beginning on or after 1 January 2009. HKAS 1 (Revised) requires all owner changes in equity to be presented in a statement of changes in equity. All comprehensive income is presented in one statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income). It requires presenting a statement of financial position as at the beginning of the earliest comparative period in a complete set of financial statements when there are retrospective adjustments or reclassification adjustments. However, it does not change the recognition, measurement or disclosure of specific transactions and other events required by other HKFRSs. The Group will apply HKAS 1 (Revised) from 1 January 2009;
- HKFRS 8, 'Operating Segments', effective for annual periods beginning on or after 1 January 2009, supersedes HKAS 14, 'Segment Reporting' and requires a "management approach", under which 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 is still in the process to assess the impact of HKFRS 8. The Group will apply HKFRS 8 from 1 January 2009;
- Amendment to HKAS 23, 'Borrowing costs', effective for annual periods beginning on or after 1 January 2009. The revised HKAS 23 requires management to capitalise 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 is still in the process to assess the impact of the revised HKAS 23, however currently the Directors are of the view that the revised HKAS 23 will not have material impact to the Group as the Group has already adopted the alternative approach under existing HKAS 23 which is similar to the revised HKAS 23. The Group will apply the revised HKAS 23 from 1 January 2009;

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007
(All amounts expressed in Renminbi unless otherwise stated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Basis of preparation (continued)

- HK(IFRIC)-Int 11, 'Scope of HKFRS 2 – Group and Treasury Share Transaction', effective for annual periods beginning on or after 1 March 2007. HK(IFRIC)-Int 11 provides guidance on how to apply requirements of HKFRS 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. HK(IFRIC)-Int 11 does not have significant impact on the Group's financial statements;

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

- HK(IFRIC)-Int 13, 'Customer Loyalty Programmes', effective for annual periods beginning on or after 1 July 2008. HK(IFRIC)-Int 13 requires that loyalty award credits granted to customers as part of a sales transaction are accounted for as a separate component of the sales transaction. The consideration received in the sales transaction is allocated between the loyalty award credits and the other components of the sale. The amount allocated to the loyalty award credits is determined by reference to their fair value and is deferred until the awards are redeemed or the liability is otherwise extinguished. As the Group currently does not operate any customer loyalty programmes, HK(IFRIC)-Int 13 is not relevant to the Group;

- HK(IFRIC)-Int 14, 'HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction', effective for annual periods beginning on or after 1 January 2008. As the Group currently does not operate any defined benefit scheme, HK(IFRIC)-Int 14 is not relevant to the Group;

- HKAS 27 (Revised), 'Consolidated and Separate Financial Statements', effective from annual period beginning on or after 1 July 2009. The amendment requires non-controlling interests (i.e. minority interests) to be presented in the consolidated statement of financial position within equity, separately from the equity of the owners of the parent. Total comprehensive income must be attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Changes in a parent's ownership interest in a subsidiary that do not result in the loss of control are accounted for within equity. When control of a subsidiary is lost, the assets and liabilities and related equity components of the former subsidiary are derecognised. Any gain or loss is recognised in profit or loss. Any investment retained in the former subsidiary is measured at its fair value at the date when control is lost. The Group will apply HKAS 27 (Revised) from 1 January 2010, however, in respect of transactions with minority interests, the Group has already adopted an accounting policy similar to HKAS 27 (Revised);

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Basis of preparation (continued)

- HKFRS 3 (Revised), 'Business Combination', effective for business combinations with acquisition date on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. The amendment may bring more transactions into acquisition accounting as combinations by contract alone and combinations of mutual entities are brought into the scope of the standard and the definition of a business has been amended slightly. It now states that the elements are 'capable of being conducted' rather than 'are conducted and managed'. It requires considerations (including contingent consideration), each identifiable asset and liability to be measured at its acquisition-date fair value, except leases and insurance contracts, reacquired right, indemnification assets as well as some assets and liabilities required to be measured in accordance with other HKFRSs. They are income taxes, employee benefits, share-based payment and non current assets held for sale and discontinued operations. Any non-controlling interest in an acquiree is measured either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets. The Group will apply HKFRS 3 (Revised) from 1 January 2010; and

- HKFRS 2 Amendment 'Share-based Payment – Vesting Conditions and Cancellations' (effective from 1 January 2009). This amendment is not relevant to the Group's operation as the Group has currently no such schemes.

(b) Consolidation

The consolidated financial statements included the financial statements of the Company and all of 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 unrealised gains on transactions between group companies are eliminated. Unrealised 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 2007
(All amounts expressed in Renminbi unless otherwise stated)

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 of the carrying value of net assets of the subsidiary acquired 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 recognised 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Foreign currency translation (continued)

(iii) Group companies

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

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

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

(3) All resulting exchange differences are recognised 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 recognised 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 recognised 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 charged 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% – 4.75%
Machinery and Equipment	9.5% – 10%
Furnaces	12.5% – 16.67%
Motor Vehicles	10% – 19%
Office Equipment	19% – 20%

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007
(All amounts expressed in Renminbi unless otherwise stated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Property, plant and equipment (continued)

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date *(see Note 15)*.

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 the proceeds with the carrying amount and are recognised within other gains, in the income statement.

(f) Construction-in-progress

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

CIP is not depreciated until such time the assets are completed and available for their intended use.

(g) Intangible assets

(i) 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.

(ii) Exploitation rights

Exploitation 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 or have not yet been available for use are not subject to amortisation and are at least tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised 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). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Inventories

Inventories are stated at the lower of cost and net realisable 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 realisable 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) Financial assets

The Group's financial assets are all classified in the loans and receivables category.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as 'trade and other receivables' (Note 3(k)), 'bills receivable' (Note 3(k)) and 'cash and cash equivalents' (Note 3(l)) on the balance sheet.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. Impairment testing of trade receivables is described in Note 3(k).

(k) Trade and other receivables and bills receivable

Trade and other receivables and bills receivable are recognised 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 debtors, probability that the debtor will enter bankruptcy or financial reorganisation, 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 recognised in the income statement.

(l) 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.

(m) Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007
(All amounts expressed in Renminbi unless otherwise stated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Trade payables and bills payable

Trade payables and bills payable are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(o) Borrowings

Borrowings are recognised 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 recognised 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.

(p) Current and deferred income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

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 realised or the deferred income tax liability is settled.

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

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) 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 and are funded by the Group. The government agency is responsible for the pension liabilities relating to these employees upon their retirements. 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.

(r) Provisions

Provisions for products warranty, environmental restoration, restructuring costs and legal claims are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable 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 recognised 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 recognised 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 recognised as interest expense.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007
(All amounts expressed in Renminbi unless otherwise stated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) 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 recognised when a Group entity has delivered products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.

For sales of goods under "bill and hold" arrangements, sales are recognised when the buyer takes title, provided that:

- it is probable that delivery will be made;
- the item is on hand, identified and ready for delivery to the buyer at the time the sale is recognised;
- the buyer specially acknowledges the deferred delivery instructions; and
- the usual payment terms apply.

Service income is recognised when the service is rendered.

Interest income is recognised 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 recognised using the original effective interest rate.

Dividend income is recognised when the right to receive payment is established.

(t) Government grants

Grants from the government are recognised 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 recognised 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 recognised in the income statement on a straight-line basis over the expected lives of the related assets.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(u) 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 to 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 capitalised 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 recognised 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.

(v) Dividend distribution

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

(w) 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 operations are transacted in the PRC and denominated 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 Renminbi, except for the borrowings from IFC which were denominated in USD. 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 there is an expected continuous appreciation of Renminbi against USD and the exposure to the Group arising from the potential adverse fluctuations in the exchange rate would not be significant.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007
(All amounts expressed in Renminbi unless otherwise stated)

4. FINANCIAL RISK MANAGEMENT (continued)

(b) Credit risk

Credit risk is managed on a group basis. Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions, credit exposures to customers, arising from outstanding receivables, and prepayments made to vendors and suppliers.

The Group mainly maintains relationship with banks and financial institutions with reliable credibility. An analysis of the cash and cash equivalents and pledged deposits held by the Group in different banks and financial institutions in the PRC as at 31 December 2007 is as follows:

	2007 RMB'000	2006 RMB'000
State-owned commercial banks	**199,477**	261,801
Listed commercial banks	**183,085**	137,085
City commercial banks	**141,286**	167,092
Other domestic banks	**142,276**	145,145
Domestic co-operative credit union	**6,959**	1,116
	673,083	712,239

The Group currently sells substantially all its glass products and soda ash products in the PRC domestic market. Cash on delivery is required for most customers buying the Group's normal flat glass products and soda ash products. Based on market demand of the products, advance covering full or partial sales values is received from customers before goods delivery. 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. The credit period is determined according to an assessment made on the financial conditions and past payment history of these customers with the approval obtained from senior management. As at 31 December 2007, the five largest debtors accounted for 44% of total accounts receivable balance of the Group.

The Directors are of the view that the customers with outstanding balances as at 31 December 2007 amounting to approximately RMB97 million are either 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 2007 amounting to approximately RMB3,579,000 is considered adequate to cover any 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 significant amount of the financing was obtained from short-term borrowings. As a result, the Group recorded a net current liability position as at 31 December 2007 in the amount of approximately RMB1,909 million. Nevertheless, the Group has not experienced any difficulties in renewing its short-term borrowings upon their maturities.

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

– obtain written indication from various banks on their agreement to renew or extend the existing short-term borrowings as and when they fall due;

– actively identify new sources of long-term bank financing in order to re-finance its existing short-term borrowings; and

– undertake close monitoring process 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.

An analysis of the Group's borrowings by maturity is shown in Note 27. The remaining financial liabilities of the Group, substantively consisted of trade payables, other payables and bills payable, are all due within one year from the balance sheet date.

(d) Cash flow and fair value interest-rate risk

The Group's interest bearing assets are mainly cash at banks and time deposits. Cash at banks earns interest income at floating rates published by the banks from time to time. Short-term time deposits are maintained for various periods between one day to three months, depending on the cash requirements of the Group. They earn interest income at the respective short-term time deposit rates. The Group's interest-rate risk arises from both long-term and short-term borrowings. 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 2007, substantially all borrowings of the Group were at variable rates. The Group had neither engaged in any derivative activities nor was it committed to any financial instruments to hedge its interest-rate risk exposure.

As at 31 December 2007, if interest rates on Renminbi and USD denominated borrowings at floating rate had been 0.5% higher/lower with all other variables held constant, pre-tax profit for the year would have been RMB10,066,000 lower/higher as a result of higher/lower interest expense on floating rate borrowings.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007
(All amounts expressed in Renminbi unless otherwise stated)

4. FINANCIAL RISK MANAGEMENT (continued)

(e) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including current and non-current borrowings as shown in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as 'equity', as shown in the consolidated balance sheet, plus net debt.

The gearing ratios at 31 December 2007 and 2006 were as follows:

	2007 RMB'000	2006 RMB'000
Total borrowings (Note 27)	**3,233,576**	2,809,858
Less:		
Cash and cash equivalents (Note 24)	**(593,550)**	(538,574)
Net debt	**2,640,026**	2,271,284
Total equity	**2,211,678**	1,617,038
Total capital	**4,851,704**	3,888,322
Gearing ratio	**54%**	58%

The decrease in the gearing ratio during 2007 was primarily due to the capital injection of RMB300 million made by a minority equity owner of a subsidiary (Note 19).

(f) Fair value estimation

The carrying values less impairment provisions of accounts receivable and payable are a reasonable approximation of their fair values. The carrying amounts of the bills receivable and bills payable, which are all due within one year, approximate their fair values. The Group's bank borrowings are substantially bearing floating interest rates, and their carrying amounts approximate their fair values.

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.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimate and assumption that has a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year is the going concern assumption in the preparation of the financial statements. Details of the assumptions adopted by the Directors for adopting the going concern basis in preparing the 2007 financial statements are set out in Note 2.

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:

	2007 **RMB'000**	2006 RMB'000
Sales of glass products	**1,522,374**	1,084,477
Sales of soda ash products	**794,695**	432,683
Sales of by-products	**4,918**	2,818
Service income	**219**	534
	2,322,206	1,520,512

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

(a) Primary reporting format – business segments

The Group's businesses are conducted through two main business segments:

(1) Manufacturing and selling of glass products; and

(2) Manufacturing and selling of soda ash products.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007
(All amounts expressed in Renminbi unless otherwise stated)

6. REVENUE AND SEGMENT INFORMATION (continued)

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

The segment results for the years ended 31 December 2007 and 2006 are as follows:

	2007		
	Glass RMB'000	**Soda Ash RMB'000**	**Group RMB'000**
Total segment revenue	**1,527,511**	**997,304**	**2,524,815**
Inter-segment revenue	**–**	**(202,609)**	**(202,609)**
Revenue – external	**1,527,511**	**794,695**	**2,322,206**
Segment results	**161,956**	**271,401**	**433,357**
Interest income			**15,945**
Unallocated expenses – net			**(3,557)**
Operating profit			**445,745**
Finance costs – net (Note 9)			**(123,330)**
Profit before income tax			**322,415**
Income tax expense (Note 10)			**(25,471)**
Profit for the year			**296,944**

	2006		
	Glass RMB'000	Soda Ash RMB'000	Group RMB'000
Total segment revenue	1,087,829	572,062	1,659,891
Inter-segment revenue	–	(139,379)	(139,379)
Revenue – external	1,087,829	432,683	1,520,512
Segment results	52,436	39,832	92,268
Interest income			18,006
Unallocated expenses – net			(4,224)
Operating profit			106,050
Finance costs (Note 9)			(156,158)
Loss from disposal of a subsidiary			(1,435)
Loss before income tax			(51,543)
Income tax expense (Note 10)			(8,371)
Loss for the year			(59,914)

6. REVENUE AND SEGMENT INFORMATION (continued)

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

Other segment items included in the income statement are as follows:

	2007		
	Glass RMB'000	**Soda Ash RMB'000**	**Group RMB'000**
Depreciation (Note 15)	**215,003**	**135,427**	**350,430**
Amortisation of land use rights and intangible assets (Notes 17 and 18)	**4,356**	**959**	**5,315**

	2006		
	Glass RMB'000	Soda Ash RMB'000	Group RMB'000
Depreciation (Note 15)	169,496	126,947	296,443
Amortisation of land use rights and intangible assets (Notes 17 and 18)	2,952	353	3,305

Inter-segment transactions are entered into under the normal commercial terms and conditions that would also be available to unrelated third parties.

No unallocated segment assets were identified as at 31 December 2007 and 2006. Segment liabilities comprise operating liabilities. Unallocated liabilities comprise items such as deferred taxation and borrowings.

Capital expenditure comprises additions to property, plant and equipment, construction-in-progress, land use rights, deposits for land use rights and intangible assets.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007
(All amounts expressed in Renminbi unless otherwise stated)

6. REVENUE AND SEGMENT INFORMATION (continued)

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

The segment assets and liabilities at 31 December 2007 and 2006 and capital expenditure for the years then ended are as follows:

	2007		
	Glass RMB'000	**Soda Ash RMB'000**	**Group RMB'000**
Assets			
Total segment assets	**3,985,325**	**3,048,719**	**7,034,044**
Liabilities			
Total segment liabilities	**240,203**	**1,302,819**	**1,543,022**
Unallocated:			
Deferred tax liabilities			**45,768**
Current borrowings			**1,671,576**
Non-current borrowings			**1,562,000**
Total unallocated liabilities			**3,279,344**
Total liabilities			**4,822,366**
Capital expenditure	**940,515**	**532,760**	**1,473,275**

	2006		
	Glass RMB'000	Soda Ash RMB'000	Group RMB'000
Assets			
Total segment assets	3,434,683	2,462,360	5,897,043
Liabilities			
Total segment liabilities	510,274	912,868	1,423,142
Unallocated:			
Deferred tax liabilities			47,005
Current borrowings			1,649,858
Non-current borrowings			1,160,000
Total unallocated liabilities			2,856,863
Total liabilities			4,280,005
Capital expenditure	339,387	200,526	539,913

6. REVENUE AND SEGMENT INFORMATION (continued)

(b) Secondary reporting format – geographical segments

Revenue

	2007 RMB'000	2006 RMB'000
Zhejiang	**1,090,196**	825,221
Shanxi, Henan and Hebei	**210,843**	133,555
Jiangsu	**206,496**	128,811
Northwest China and Inner Mongolia	**188,246**	99,096
Shanghai	**148,477**	89,918
Anhui, Hubei and Hunan	**67,801**	40,851
Shandong	**61,273**	20,313
Northeast China	**51,088**	36,931
Guangdong and Fujian	**50,101**	57,073
Sichuan and Chongqing	**42,615**	33,395
Overseas	**20,588**	11,930
Other regions	**184,482**	43,418
	2,322,206	1,520,512

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

Total assets

	2007 RMB'000	2006 RMB'000
Zhejiang	**3,985,325**	3,434,683
Qinghai	**3,048,719**	2,462,360
	7,034,044	5,897,043

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

Capital expenditure

	2007 RMB'000	2006 RMB'000
Zhejiang	**940,515**	339,387
Qinghai	**532,760**	200,526
	1,473,275	539,913

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007
(All amounts expressed in Renminbi unless otherwise stated)

7. OTHER GAINS – NET

	2007 **RMB'000**	2006 RMB'000
Interest income	**15,945**	18,006
Government grants (a)	**498**	26,380
Gain on disposal of property, plant and equipment and other non-current assets (b)	**5,419**	2,521
Others	**(622)**	362
	21,240	47,269

(a) Cash subsidy income relates to grants made by the local government to the Company in order to support the expansion of the Company and to compensate the Company's staff costs and other expenses incurred.

(b) The recoverable amount of an abandoned glass production line of the Group amounting to approximately RMB134,406,000 was presented as "non-current assets held for sale" in the balance sheet as at 31 December 2006. During the year, the Group completed the disposal and received a proceed of approximately RMB139,825,000, resulting in a gain of approximately RMB5,419,000 recognised in the income statement as a component of other gains.

8. EXPENSES BY NATURE

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

	2007 **RMB'000**	2006 RMB'000
Changes in inventories of finished goods and work-in-progress	**(21,240)**	(28,443)
Raw materials and consumables used	**1,377,097**	1,039,722
Staff costs (including Directors' emoluments)		
– Salaries, wages and related employee welfare expenses	**78,519**	68,297
– Social security insurance contributions	**8,568**	2,294
– Pension costs – defined contribution retirement scheme in Hong Kong	**16**	24
	87,103	70,615
Depreciation of property, plant and equipment (Note 15)	**350,430**	296,443
Amortisation of land use rights and intangible assets (Notes 17 and 18)	**5,315**	3,305
Operating lease rental of office premises	**1,263**	1,098
Auditor's remuneration (statutory audits in the PRC and Hong Kong)	**4,200**	3,673
Transportation expenses	**33,269**	20,460
Other expenses	**60,264**	54,858
	1,897,701	1,461,731

9. FINANCE COSTS

	2007 RMB'000	2006 RMB'000
Interest expenses on		
Bank borrowings	**244,426**	213,982
Less: interest expenses capitalised under construction-in-progress (Note 16)	**(94,942)**	(64,563)
	149,484	149,419
Net foreign exchange gains on financing activities	**(28,627)**	–
Charges on discounting of bills	**2,473**	6,739
	123,330	156,158

10. INCOME TAX EXPENSE

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

	2007 RMB'000	2006 RMB'000
Current income tax		
– Hong Kong profits tax (i)	**–**	–
– PRC Enterprise Income Tax ("EIT")(ii)	**26,708**	1,036
Deferred income tax	**(1,237)**	7,335
	25,471	8,371

(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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007
(All amounts expressed in Renminbi unless otherwise stated)

10. INCOME TAX EXPENSE (continued)

(ii) PRC EIT

The Company and all its subsidiaries were subject to EIT of the PRC at a rate of 33% in 2007 (2006: 33%) on its assessable profit, except QSAC. QSAC was fully exempt from EIT in 2007 under a tax concession grant (Note 28).

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:

	2007 **RMB'000**	2006 RMB'000
Profit/(loss) before taxation	**322,415**	(51,543)
Calculated at a taxation rate of 33% (2006: 33%)	**106,397**	(17,009)
EIT exemption on QSAC tax assessable profits	**(61,360)**	–
Effect of tax rate change on deferred taxes brought forward (Note 32)	**(14,646)**	–
Income not subject to tax	**(4,065)**	(3,490)
Expenses not deductible for taxation purpose	**409**	225
Utilisation of unrecognised tax losses of subsidiaries	**(1,855)**	–
Unrecognised tax losses of subsidiaries	**591**	28,645
Taxation charge	**25,471**	8,371

11. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of approximately RMB91,989,000 (2006: RMB20,474,000).

12. EARNINGS/(LOSS) PER SHARE

The calculation of the basic earnings per share is based on the Group's profit attributable to equity holders of approximately RMB275,824,000 (2006: loss of RMB57,008,000) divided by the weighted average number of 720,833,000 (2006: 627,033,800) ordinary shares in issue during the year.

The diluted earnings per share information was the same as basic earnings per share as above since there were no dilutive potential ordinary shares outstanding as at 31 December 2007 (2006: same).

13. DIVIDENDS

	2007 RMB'000	2006 RMB'000
Dividends paid:		
– No interim dividend paid for the year 2007 (2006: Nil)	**–**	–
Dividend proposed:		
– No final dividend proposed for the year 2007 (2006: Nil)	**–**	–

At a board of Directors' meetings held on 17 April 2008, the Directors proposed not to declare any final dividend for the year ended 31 December 2007.

14. EMPLOYEE BENEFIT EXPENSES

(i) Staff costs (excluding Directors' emoluments)

	2007 RMB'000	2006 RMB'000
Salaries, wages and related employee welfare expenses:		
– Current year charges	**76,660**	65,013
Social security insurance costs	**8,324**	2,055
Defined contribution retirement scheme in Hong Kong	**16**	–
	85,000	67,068

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007
(All amounts expressed in Renminbi unless otherwise stated)

14. EMPLOYEE BENEFIT EXPENSES (continued)

(ii) Directors', supervisors' and senior management's emoluments

The emoluments of each Director and supervisor for the years ended 31 December 2007 and 2006, are set out below:

	2007				
Name	Fees RMB'000	Salary and allowances RMB'000	Bonuses RMB'000	Pension scheme contributions RMB'000	Total RMB'000
Director					
Feng Guangcheng	–	502	–	85	587
Gao Huojin	–	356	–	60	416
Shen Guangjun	–	289	–	49	338
Hong Yumei	–	292	–	50	342
Jiang Liqiang (i)	–	–	–	–	–
Chung Kwok Mo John (iv)	–	–	–	–	–
Liu Jianguo	10	–	–	–	10
Shi Guodong (iii)	–	–	–	–	–
Xie Yong (i)	10	–	–	–	10
Li Jun	100	–	–	–	100
Wang Yanmou	100	–	–	–	100
Wang Herong (iii)	–	–	–	–	–
Su Gongmei	100	–	–	–	100
Zhou Guochun (i)	100	–	–	–	100
Supervisor					
Xu Yuxiang	–	310	–	53	363
Zhang Guoqing (iii)	–	313	–	53	366
Ni Daoxin (iii)	–	–	–	–	–
Mao Junchun (iii)	–	106	–	18	124
Yang Kuang (iii)	–	99	–	16	115
Fang Shengli (i)	–	249	–	42	291
Xu Mingfeng (i)	–	–	–	–	–
Mei Lingfeng (i)	–	16	–	3	19
Ji Peng (ii)	–	150	–	26	176

14. EMPLOYEE BENEFIT EXPENSES (continued)

(ii) Directors', supervisors' and senior management's emoluments (continued)

Name	2006				
	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	–	–	–	–	–
Feng Luwen	–	–	–	–	–
Wang Yanchun	–	230	–	39	269
Hong Yumei	–	225	–	38	263
Chung Kwok Mo John (iv)	–	1,476	–	24	1,500
Gao Huojin	–	243	–	41	284
Liu Jianguo	10	–	–	–	10
Shi Guodong (iii)	10	–	–	–	10
Shen Guangjun	–	211	–	36	247
Wang Yanmou	100	–	–	–	100
Li Jun	100	–	–	–	100
Wang Herong (iii)	100	–	–	–	100
Su Gongmei	100	–	–	–	100
Supervisor					
Xu Yuxiang	–	188	–	32	220
Zhang Guoqing (iii)	–	207	–	35	242
Ni Daoxin (iii)	–	–	–	–	–
Yang Kuang (iii)	–	94	–	16	110
Mao Junchun (iii)	–	90	–	15	105

Notes:

(i) Appointed with effect from 29 June 2007

(ii) Elected on 24 August 2007

(iii) Retired with effect from 29 June 2007

(iv) Resigned with effect from 15 May 2007

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007
(All amounts expressed in Renminbi unless otherwise stated)

14. EMPLOYEE BENEFIT EXPENSES (continued)

(ii) Directors', supervisors' and senior management's emoluments (continued)

During the year, 4 (2006: 2) Directors waived emoluments of approximately RMB138,000 (2006: RMB600,000). Neither payment as an inducement for joining the Company nor compensation for loss of office was paid or payable to any directors during the year (2006: Nil).

During the year, 3 (2006: 3) supervisors waived emoluments of approximately RMB201,000 (2006: RMB660,000). No emoluments were paid to the supervisors as an inducement to join or upon joining the Company or as compensation for loss of office (2006: Nil).

(iii) Five highest paid individuals

The five highest paid individuals consisted of:

	2007	2006
Number of Directors	**3**	5
Number of supervisors	**2**	–
	5	5

The details of emoluments paid to the 5 highest paid individuals who were Directors or supervisors of the Company during the year have been included in note (ii) above.

15. PROPERTY, PLANT AND EQUIPMENT

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

	Group					
	Plant and buildings RMB'000	Machinery and equipment RMB'000	Furnaces RMB'000	Motor vehicles RMB'000	Office equipment RMB'000	Total RMB'000
At 1 January 2006						
Cost	1,183,160	2,249,598	289,847	14,527	2,111	3,739,243
Accumulated depreciation	(82,408)	(348,215)	(133,510)	(2,558)	(932)	(567,623)
Net book value	1,100,752	1,901,383	156,337	11,969	1,179	3,171,620
Year ended 31 December 2006						
Opening net book value	1,100,752	1,901,383	156,337	11,969	1,179	3,171,620
Reclassifications	184,277	(185,019)	–	45	697	–
Additions	–	393	–	–	72	465
Transfer from CIP	31,159	28,344	–	3,750	324	63,577
Disposal of a subsidiary	–	(2,826)	–	–	(21)	(2,847)
Disposals	(2,842)	(22,347)	–	(2,721)	–	(27,910)
Depreciation charge	(68,834)	(185,226)	(39,969)	(1,956)	(458)	(296,443)
Closing net book value	1,244,512	1,534,702	116,368	11,087	1,793	2,908,462
At 31 December 2006						
Cost	1,395,449	2,061,108	289,847	15,418	3,164	3,764,986
Accumulated depreciation	(150,937)	(526,406)	(173,479)	(4,331)	(1,371)	(856,524)
Net book value	1,244,512	1,534,702	116,368	11,087	1,793	2,908,462
Year ended 31 December 2007						
Opening net book value	1,244,512	1,534,702	116,368	11,087	1,793	2,908,462
Additions	4,405	4,286	–	442	1,244	10,377
Transfer from CIP	676,670	688,516	137,464	520	444	1,503,614
Depreciation charge	(78,853)	(219,860)	(49,029)	(2,122)	(566)	(350,430)
Closing net book value	1,846,734	2,007,644	204,803	9,927	2,915	4,072,023
At 31 December 2007						
Cost	2,076,524	2,753,910	427,311	16,380	4,852	5,278,977
Accumulated depreciation	(229,790)	(746,266)	(222,508)	(6,453)	(1,937)	(1,206,954)
Net book value	1,846,734	2,007,644	204,803	9,927	2,915	4,072,023

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007
(All amounts expressed in Renminbi unless otherwise stated)

15. PROPERTY, PLANT AND EQUIPMENT (continued)

	Company					
	Plant and buildings RMB'000	Machinery and equipment RMB'000	Furnaces RMB'000	Motor vehicles RMB'000	Office equipment RMB'000	Total RMB'000
At 1 January 2006						
Cost	446,676	854,862	289,847	8,731	1,188	1,601,304
Accumulated depreciation	(77,345)	(326,246)	(133,512)	(2,220)	(663)	(539,986)
Net book value	369,331	528,616	156,335	6,511	525	1,061,318
Year ended 31 December 2006						
Opening net book value	369,331	528,616	156,335	6,511	525	1,061,318
Additions	–	392	–	–	39	431
Transfer from CIP	1,630	311	–	–	–	1,941
Disposals	–	(819)	–	–	–	(819)
Depreciation charge	(17,975)	(81,223)	(39,969)	(873)	(239)	(140,279)
Closing net book value	352,986	447,277	116,366	5,638	325	922,592
At 31 December 2006						
Cost	448,306	850,287	289,847	8,731	1,227	1,598,398
Accumulated depreciation	(95,320)	(403,010)	(173,481)	(3,093)	(902)	(675,806)
Net book value	352,986	447,277	116,366	5,638	325	922,592
Year ended 31 December 2007						
Opening net book value	352,986	447,277	116,366	5,638	325	922,592
Additions	–	2,393	–	259	91	2,743
Transfer from CIP	110,109	233,152	24,629	–	–	367,890
Sales to a subsidiary	–	(17,882)	–	–	–	(17,882)
Depreciation charge	(21,009)	(90,646)	(43,418)	(884)	(191)	(156,148)
Closing net book value	442,086	574,294	97,577	5,013	225	1,119,195
At 31 December 2007						
Cost	558,415	1,052,449	314,476	8,990	1,318	1,935,648
Accumulated depreciation	(116,329)	(478,155)	(216,899)	(3,977)	(1,093)	(816,453)
Net book value	442,086	574,294	97,577	5,013	225	1,119,195

15. PROPERTY, PLANT AND EQUIPMENT (continued)

During the year, the Directors had reviewed the estimated residual value of the property, plant and equipment employed by soda ash segment and revised it from 3% to 5%. This change in accounting estimates is prospectively applied, with an effect by increasing the profit for the year of the Group by approximately RMB2,800,000.

As at 31 December 2007, certain plant and buildings and machinery and equipment with an aggregate carrying value of approximately RMB2,025,334,000 (2006: RMB737,779,000) had been pledged as security for certain bank borrowings of the Group (Note 27).

As at 31 December 2007, 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 RMB1,491 million (2006: RMB794 million). The Group is in the process of applying for such certificates and the Directors consider that there is no difficulty to obtain such. Accordingly, there would not be significant adverse impact on the financial position and operating results of the Group.

16. CONSTRUCTION-IN-PROGRESS

Movement of CIP during the year is as follows:

	Group		**Company**	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
At 1 January 2007	**1,501,350**	1,129,189	**267,365**	198,137
Additions	**1,418,087**	515,071	**134,380**	71,169
Reclassified as assets held for sale	**–**	(74,818)	**–**	–
Disposals	**–**	(4,515)	**–**	–
Transfer to property, plant and equipment	**(1,503,614)**	(63,577)	**(367,890)**	(1,941)
At 31 December 2007	**1,415,823**	1,501,350	**33,855**	267,365

The CIP of the Group and the Company as at 31 December 2007 mainly represented 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 available for use.

During the year, in light of the improved market condition in the glass industry, the Directors approved to resume the construction of two new flat glass production lines which had been temporarily put on hold in prior years.

During the year, the amount of borrowing costs capitalised in CIP was approximately RMB94,942,000 (2006: RMB64,563,000) and the capitalisation rate was approximately 7.6% (2006: 6.76%).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007
(All amounts expressed in Renminbi unless otherwise stated)

17. LAND USE RIGHTS

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
At 1 January	**142,405**	104,437	**57,464**	58,730
Additions	**42,487**	5,744	**–**	–
Transfer from deposits for land use rights	**8,869**	34,519	**–**	–
Amortisation	**(3,843)**	(2,295)	**(1,266)**	(1,266)
At 31 December	**189,918**	142,405	**56,198**	57,464

As at 31 December 2007, certain land use rights with an aggregate carrying value of approximately RMB120,994,000 (2006: RMB105,662,000) had been pledged as security for certain bank borrowings of the Group (Note 27).

18. INTANGIBLE ASSETS – GROUP

	Technical know-how (note (i)) RMB'000	**Exploitation rights** (note (ii)) RMB'000	**Total** RMB'000
At 1 January 2006			
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
Additions	–	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
Year ended 31 December 2007			
Opening net book amount	3,900	22,287	26,187
Additions	–	324	324
Amortisation charge	(650)	(822)	(1,472)
Closing net book amount	3,250	21,789	25,039
At 31 December 2007			
Cost	6,500	23,011	29,511
Accumulated amortisation	(3,250)	(1,222)	(4,472)
Net book amount	3,250	21,789	25,039

18. INTANGIBLE ASSETS – GROUP (continued)

(i) The technical know-how was non-patented and contributed by a minority equity owner of a subsidiary at evaluation 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.

(ii) The exploitation rights are the 30-year mineral resources exploitation licences (the "Licences"), granted to QSAC by Bureau of Land and Resources of Qinghai Province, the PRC. The consideration of one of the Licences was approximately RMB23,142,000, being paid by instalments between 2006 and 2010. The cost of this Licence was recognised at the present value of the payments. The consideration of all other Licences had been fully settled by lump sum payments made.

19. INTERESTS IN SUBSIDIARIES – COMPANY

As at 31 December 2007, interests in subsidiaries comprised the following:

	2007	2006
	RMB'000	RMB'000
		(Note 37)
Unlisted shares, at cost	**885,466**	752,966
Amounts due from subsidiaries	**759,928**	765,716
	1,645,394	1,518,682

The Directors are of the opinion that the underlying value of the subsidiaries was not less than the carrying value at 31 December 2007.

The amounts due from subsidiaries are unsecured and have no fixed repayment terms. These advances were regarded as quasi-capital contributed by the Company. Balances arising from sale and purchase transactions were classified as current accounts maintained with the subsidiaries.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007
(All amounts expressed in Renminbi unless otherwise stated)

19. INTERESTS IN SUBSIDIARIES – COMPANY (continued)

The following is a list of the principal subsidiaries of the Group as at 31 December 2007:

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	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 (a)	The PRC, 11 July 2003, limited liability company	Manufacturing and sales of soda ash in the PRC	Registered capital of RMB843,168,000	78.69%	–
Zhejiang Glass (Hong Kong) Company Limited ("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	The PRC, 19 February 2004, limited liability company	Manufacturing and sales of related glass products in the PRC	Registered capital of RMB50,000,000	95%	5%
Zhejiang Jiaojiang Glass Company Limited ("ZJGC") (b)	The PRC, 18 March 2004, limited liability company	Manufacturing and sales of related glass products in the PRC	Registered capital of RMB50,000,000	95%	5%
Zhejiang Pinghu Glass Company Limited	The PRC, 26 March 2004, limited liability company	Manufacturing and sales of related glass products in the PRC	Registered capital of RMB20,000,000	95%	5%
Zhejiang Shaoxing Taoyan Glass Company Limited	The PRC, 12 April 2005, limited liability company	Manufacturing and sales of related glass products in the PRC	Registered capital of RMB240,000,000	90%	10%
Shaoxing County Huahong Cement Co., Ltd. ("SHCC") (c)	The PRC, 30 October 2007, *** limited liability company	Dormant	Registered capital of RMB50,000,000	–	100%

* 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.

*** Acquisition date by the Group.

19. INTERESTS IN SUBSIDIARIES – COMPANY (continued)

(a) On 21 June 2007, the Company, Zhejiang Sinhoo Co., Ltd. ("Sinhoo") and other minority equity owners of QSAC entered into a capital subscription agreement (the "Subscription Agreement"). Pursuant to which, the parties have agreed that Sinhoo will contribute RMB904,600,000 in cash by instalments from 2007 to 2009 as capital injection made to QSAC, in return for holding 35% aggregate equity interests in QSAC upon completion of the subscription.

The Subscription Agreement was approved by the shareholders of the Company on 14 August 2007. The whole capital subscription is scheduled to be completed on 30 May 2009.

As at 31 December 2007, Sinhoo had contributed RMB300,000,000 to QSAC according to schedule and obtained 15.2% equity interests in QSAC. Accordingly, the Group's effective equity interests in QSAC was diluted from 92.74% to 78.69% and the Group recorded such change as a gain of approximately RMB147,978,000 in equity – other reserve in accordance with the accounting policy of the Group (Note 3(b)(ii)).

Upon completion of the capital subscription, QSAC will be owned as to 60.28%, 35% and 4.72% by the Company, Sinhoo and other minority equity holders, respectively.

(b) During the year, ZJGC was put into voluntary liquidation. The legal procedures had been completed as of 31 December 2007. There were no material gain or loss arising from the liquidation.

(c) On 30 October 2007, the Group acquired 100% of the equity interests of SHCC from a vendor (the "Vendor") at a cash consideration of RMB50 million. At the time of acquisition, SHCC was dormant without any business operations. It owned certain transportation facilities and production premises and the land use rights of a parcel of land on which they were located. Accordingly, the acquisition was accounted for as an acquisition of assets other than a business combination. Both the Vendor and SHCC were formerly related parties of the Group. Before 27 September 2005, the Vendor had been majority owned by Guangyu Group Co., Ltd. ("Guangyu"), which was 93% owned by Mr. Feng, while SHCC was a subsidiary of Zhejiang Cement Company Limited ("ZCC"), a formerly related party of the Group before 30 June 2007 (Note 35). Subsequent to year end, SHCC was put into voluntary liquidation by the Group and the legal procedures had been completed before the date of the approval of these financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007
(All amounts expressed in Renminbi unless otherwise stated)

20. LONG TERM PREPAYMENTS – GROUP

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 certain limestone and salt mining/exploitation 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 was and will be deducted from the purchase prices of limestone and salt supplied by the Providers to QSAC throughout the terms of the agreements. In 2006, the agreement with one of the Providers was terminated and the contractual obligations, as well as related prepayment then, were assumed by another service provider without any modifications.

During the year, approximately RMB2,500,000 of the prepayments had been utilised.

21. INVENTORIES

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Raw materials	**245,054**	136,107	**47,169**	45,474
Work-in-progress	**1,868**	1,522	**–**	–
Finished goods	**77,117**	56,223	**20,623**	10,297
Packaging materials	**20,163**	10,179	**4,405**	4,595
Low value consumables	**9,279**	8,501	**1,129**	1,105
	353,481	212,532	**73,326**	61,471

As at 31 December 2007, none of the above inventories were carried at net realisable value (2006: Nil).

22. PREPAYMENTS, DEPOSITS AND OTHER CURRENT ASSETS

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Prepayments for raw materials	**51,857**	10,328	**16,274**	4,732
Prepayments for transportation	**18,710**	9,061	**80**	174
Prepayments and deposits to vendors of property, plant and equipment	**18,427**	11,011	**942**	997
Receivable for providing electricity transformation services (Note 35)	**1,787**	14,984	**1,787**	14,984
Interest receivable	**6,574**	3,800	**5,750**	3,800
Subsidy income receivable	**–**	25,000	**–**	20,000
Others	**14,435**	20,135	**2,253**	8,958
	111,790	94,319	**27,086**	53,645

23. ACCOUNTS RECEIVABLE

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Accounts receivable	**97,495**	113,801	**35,927**	53,162
Provision made	**(3,579)**	(792)	**(2,068)**	(355)
	93,916	113,009	**33,859**	52,807

Trade receivables are non-interest bearing.

The aging analysis of accounts receivable as at the balance sheet date is set out below:

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Current to under 6 months	**83,870**	70,586	**32,510**	11,601
6 to under 12 months	**7,899**	20,382	**832**	27,133
1 to under 2 years	**4,848**	20,958	**2,367**	12,553
2 to under 3 years	**727**	1,875	**67**	1,875
3 years or over	**151**	–	**151**	–
	97,495	113,801	**35,927**	53,162

The aging analysis of trade receivables that are not considered to be impaired is as follows:

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Neither past due nor impaired	**88,330**	75,706	**32,510**	11,601
Past due for less than 12 months	**5,586**	34,967	**1,349**	38,434
Past due for more than 12 months	**–**	2,336	**–**	2,772
	93,916	113,009	**33,859**	52,807

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have maintained a good credit history with the Group. Based on past experience, the Directors are of the opinion that no provision for impairment is necessary in respect of these balances. There has not been a significant change in credit quality and the balances are considered to be fully recoverable. The Group and the Company do not hold any collateral or other credit enhancements over these balances.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007
(All amounts expressed in Renminbi unless otherwise stated)

23. ACCOUNTS RECEIVABLE (continued)

As of 31 December 2007, accounts receivables of RMB3,579,000 (2006: RMB792,000) were impaired and fully provided for. The individual impaired balances mainly relate to receivable balances maintained with customers with poor financial position or they have disputes with the Group over the outstanding balances. An aging analysis of these impaired receivables is as follows:

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Current to under 6 months	**195**	–	**–**	–
6 to under 12 months	**64**	–	**42**	–
1 to under 2 years	**2,442**	–	**1,809**	–
2 to under 3 years	**727**	792	**66**	355
3 years or over	**151**	–	**151**	–
	3,579	792	**2,068**	355

The movements of provision for impairment of trade receivables are as follows:

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
At 1 January	**792**	683	**355**	248
Impairment losses recognised	**2,980**	109	**1,713**	107
Impairment losses reversed	**(193)**	–	**–**	–
At 31 December	**3,579**	792	**2,068**	355

24. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash and bank balances	**129,790**	206,882	**72,476**	196,498
Time deposits	**546,000**	506,000	**446,000**	406,000
	675,790	712,882	**518,476**	602,498
Less:				
Pledged deposits for short-term trade finance facilities	**(82,240)**	(174,308)	**(41,581)**	(174,308)
Cash and cash equivalents	**593,550**	538,574	**476,895**	428,190

As at 31 December 2007, substantially all cash and cash equivalents of the Group and the Company were denominated in Renminbi.

Pledged deposits of the Group and the Company represent deposits placed with certain banks as security for the grant of certain trade finance facilities from banks at RMB194,000,000 (2006: RMB434,028,000) and RMB146,080,000 (2006: RMB434,028,000) respectively.

The carrying amounts of the cash and cash equivalents and the pledged deposits as at 31 December 2007 approximate their fair values.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007
(All amounts expressed in Renminbi unless otherwise stated)

25. ACCOUNTS PAYABLE

As at 31 December 2007, the aging analysis of accounts payable is set out below:

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Current to under 6 months	**385,161**	187,128	**80,056**	104,530
6 to under 12 months	**158,454**	112,875	**85,276**	4,551
1 to under 2 years	**71,073**	193,308	**1,161**	18,726
2 to under 3 years	**18,934**	14,644	**4,137**	14,643
3 years or over	**10,617**	–	**10,616**	–
	644,239	507,955	**181,246**	142,450

26. ACCRUALS AND OTHER PAYABLES

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Deposits received from customers for delivery equipment loaned for their use	**99,784**	58,091	**79,398**	57,014
Accrued expenditure on CIP	**83,900**	66,100	**–**	20,700
Accrued operating expenses and taxes	**28,594**	30,430	**26,565**	26,489
Accrued staff costs and bonuses	**19,247**	4,947	**7,942**	2,078
Performance guarantee deposits received from suppliers	**300**	50	**300**	50
Performance guarantee deposits and retention payments received from vendors of property, plant and equipment	**25,939**	9,135	**1,355**	1,658
Others	**8,669**	7,306	**4,946**	6,400
	266,433	176,059	**120,506**	114,389

27. BORROWINGS

(i) Repayment details of bank borrowings

As at 31 December 2007, the bank borrowings were repayable as follows:

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
– Amounts repayable within 1 year	**1,671,576**	1,649,858	**1,139,776**	1,199,858
– Amounts repayable between 1 to 2 years	**352,000**	160,000	**60,000**	–
– Amounts repayable between 2 to 5 years	**1,115,000**	580,000	**–**	–
– Amounts repayable beyond 5 years	**95,000**	420,000	**–**	–
	3,233,576	2,809,858	**1,199,776**	1,199,858
Less: amounts repayable within 1 year (included in current liabilities)				
– Short-term bank borrowings	**(1,564,576)**	(1,549,858)	**(1,124,776)**	(1,199,858)
– Current portion of long-term bank borrowings	**(107,000)**	(100,000)	**(15,000)**	–
Long-term portion	**1,562,000**	1,160,000	**60,000**	–

All bank borrowings are interest-bearing at floating commercial rates and subject to market changes. The effective interest rate as at 31 December 2007 was 7.33% and 7.93% per annum for Renminbi and USD dominated loans, respectively (2006: 6.31% and 7.35% per annum). The carrying amounts of the borrowings approximate their fair values.

Subsequent to 31 December 2007 and up to the date of approval of the financial statements, approximately RMB59.8 million of the short-term bank borrowings 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 RMB428 million which will fall due in 2008.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007
(All amounts expressed in Renminbi unless otherwise stated)

27. BORROWINGS (continued)

(ii) Related security and guarantee information

As at 31 December 2007, security and guarantee information relating to certain of the short-term bank borrowings are as follows:

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Unsecured:	**170,000**	215,000	**40,000**	65,000
Secured by:				
Certain land use rights, property, plant and equipment of the Group and the Company with carrying values of approximately RMB1,187,595,000 (2006: RMB873,029,000) and RMB564,304,000 (2006: RMB564,394,000) respectively*	**605,500**	554,450	**425,500**	459,450
Pledge of 120,000,000 (2006: 240,000,000) domestic shares of the Company held by Mr. Feng, certain land use rights, plant and buildings and equipment of the Company with carrying values of RMB362,937,000 (2006: RMB851,581,000) and personal guarantee from Mr. Feng	**438,276**	312,348	**438,276**	312,348
Certain property, plant and equipment of an independent third party	**–**	40,000	**–**	40,000
Charge over the assets of a related company	**–**	8,060	**–**	8,060
	1,043,776	914,858	**863,776**	819,858
Guaranteed by:				
Independent third parties	**75,000**	30,000	**15,000**	–
Mr. Feng	**40,000**	85,000	**–**	55,000
A related party, Guangyu	**30,000**	–	**30,000**	–
Jointly and severally guaranteed by:				
Mr. Feng, his related parties and independent third parties	**205,800**	305,000	**176,000**	260,000
	350,800	420,000	**221,000**	315,000
	1,564,576	1,549,858	**1,124,776**	1,199,858

* RMB230,500,000 of these loans of the Group and the Company are, in addition to the pledged assets provided by the Group, jointly and severally guaranteed by Mr. Feng, his related parties and independent third parties.

27. BORROWINGS (continued)

(ii) Related security and guarantee information (continued)

As at 31 December 2007, security and guarantee information relating to long-term bank borrowings were as follows:

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Unsecured:	**1,120,000**	1,160,000	**–**	–
Secured by: Certain land use rights, plant and buildings and machinery and equipment with carrying value of RMB595,796,000 (2006: Nil) and RMB57,717,000 (2006: Nil) of the Group and the Company respectively	**455,000**	–	**75,000**	–
Guaranteed by: A third party	**94,000**	–	**–**	–
Jointly and severally guaranteed by: Mr. Feng and his related parties	**–**	100,000	**–**	–
	94,000	100,000	**–**	–
	1,669,000	1,260,000	**75,000**	–

In addition, approximately RMB150,000,000 and RMB1,220,000,000 of short-term and long-term bank borrowings of a non-wholly owned subsidiary are guaranteed by the Company as at 31 December 2007.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007
(All amounts expressed in Renminbi unless otherwise stated)

27. BORROWINGS (continued)

(iii) Currency denomination of bank borrowings

The carrying amounts of the borrowings are dominated in the following currencies:

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Renminbi	**2,795,300**	2,497,378	**761,500**	887,378
USD	**438,276**	312,480	**438,276**	312,480
	3,233,576	2,809,858	**1,199,776**	1,199,858

(iv) Undrawn borrowing facilities

As at 31 December 2007, the Group and the Company had the following granted but undrawn borrowing facilities:

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Bank borrowing facility from IFC	**58,437**	218,644	**58,437**	218,644
Trade financing	**–**	1,579	**–**	1,579
	58,437	220,223	**58,437**	220,223

The available borrowing facility of USD8 million (equivalent to approximately RMB58.4 million) is the undrawn portion of a long-term facility of USD68 million (equivalent to approximately RMB496.7 million) granted by IFC, a shareholder, pursuant to the loan agreement entered into with the Company on 26 June 2006 (the "IFC Loan Facility"). The future draw-down of the undrawn portion is subject to the approval of IFC because the Company has breached certain loan covenants as described in note (v) below.

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 defined financial debt-to-EBITDA ratio, current ratio, and the limitation on the capital expenditure amounts. The Company has not been meeting certain of these covenants, including the expenditure limit on capital expenditure made, application of available surplus cash balance to repay outstanding short-term borrowings, and the financial ratios mentioned above (collectively defined as "Covenant Breach"). Accordingly, the whole outstanding balance drawn down from the IFC Loan Facility had been reclassified as short-term borrowings in the balance sheet for both 2006 and 2007. Nevertheless, IFC had not demanded for immediate repayment of the outstanding loan balances.

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 2008, USD60 million (equivalent to approximately RMB438 million) drawn down from the IFC Loan Facility up to 31 December 2007.

28. TAXES PAYABLE

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
PRC EIT (a)	**34,030**	15,940	**25,814**	15,940
Hong Kong profits tax (b)	**–**	–	**–**	–
PRC value-added tax ("VAT") (c)	**43,622**	22,072	**7,106**	8,681
Other taxes payable	**10,073**	4,199	**5,794**	3,737
	87,725	42,211	**38,714**	28,358

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007
(All amounts expressed in Renminbi unless otherwise stated)

28. TAXES PAYABLE (continued)

(a) PRC EIT

During the year, the Company and all it subsidiaries incorporated in the PRC are subject to EIT at a rate of 33% on their assessable profits, except QSAC.

QSAC is entitled to EIT holiday that EIT is fully exempted 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 ("Preferential Treatment").

On 16 March 2007, the 10th National People's Congress of the PRC issued a new Corporate Income Tax ("CIT") Law of the PRC, which came into effect on 1 January 2008. The Company and all its subsidiaries incorporated in the PRC, except QSAC, are subject to CIT rate of 25% from 1 January 2008 onwards. According to transitional rules announced by both the State Council in a circular, State Council Circular No. 39, and by the State Administration of Taxation in Circular No. (2008) 21, the Preferential Treatment for QSAC, which was granted by an Ethnics Minority Prefecture (民族自治州) in western China, is allowed to be carried forward to 31 December 2012.

(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 2007 (2006: Nil) and no provision for Hong Kong profits tax is required.

(c) VAT

The Group is subject to VAT which is the principal indirect tax on the sales of tangible goods ("Output VAT"). Output VAT is calculated at 17% of sales and is receivable from the customers in addition to the sales. The Group pays VAT at purchase 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.

29. SHARE CAPITAL – COMPANY

	2007	2006	2007	2006
	Number of shares		Nominal value	
			RMB'000	RMB'000
Authorised:				
Ordinary shares of RMB1 each	**720,833,000**	720,833,000	**720,833**	720,833
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**	320,833,000	**320,833**	320,833
	720,833,000	720,833,000	**720,833**	720,833

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

30. RESERVES

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

Movement of reserves of the Company is as follows:

	Share premium RMB'000	Statutory surplus reserves RMB'000	Statutory public welfare fund RMB'000	Retained profits RMB'000	Proposed dividends RMB'000	Total RMB'000
Balance at 1 January 2006	350,066	65,588	65,588	314,726	–	795,968
Profit attributable to equity holders	–	–	–	20,474	–	20,474
Issue of new shares	105,724	–	–	–	–	105,724
Transfer	–	65,588	(65,588)	–	–	–
At 31 December 2006	455,790	131,176	–	335,200	–	922,166
Balance at 1 January 2007	455,790	131,176	–	335,200	–	922,166
Profit attributable to equity holders	–	–	–	91,989	–	91,989
Transfer	–	11,713	–	(11,713)	–	–
Appropriations to statutory reserves	–	9,199	–	(9,199)	–	–
Others	(2,304)	–	–	–	–	(2,304)
At 31 December 2007	**453,486**	**152,088**	**–**	**406,277**	**–**	**1,011,851**

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007
(All amounts expressed in Renminbi unless otherwise stated)

30. RESERVES (continued)

According to the Company Law of the PRC, before distributing the profit attributable to the equity holders of the Company each year, the Company shall set aside 10% of its profit attributable to equity holders 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 the equity holders of the Company is appropriated in the following sequences:

(i) set off against prior years' losses;

(ii) appropriation to 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 to make appropriation to statutory public welfare fund from 1 January 2006 onwards. Balance of this fund of approximately RMB65,588,000 was transferred to statutory surplus fund in accordance with the regulation promulgated by the Ministry of Finance of the PRC. On 1 January 2007, the Company adopted the "Accounting Standards for Business Enterprise (2006)" of the PRC, with retrospective application in its statutory accounts. The retained earnings brought forward were restated as a result of such application. Accordingly, the Directors made an additional appropriation of RMB11,713,000 from retained earnings to the statutory surplus reserve.

The unappropriated profit attributable to equity holders of the Company as at 31 December 2007 was approximately RMB406,277,000 (2006: RMB335,200,000).

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. 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 above mentioned contributions. During the year, the Group's contributions made to the state-sponsored retirement plan amounted to approximately RMB8,324,000 (2006: RMB2,055,000).

The Group also contributes to a defined contribution retirement scheme in Hong Kong for all its employees based in Hong Kong. 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 relating to 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 Hong Kong dollar ("HK$") 16,000 (equivalent to approximately RMB16,000) (2006: HK$24,000).

32. DEFERRED TAXATION

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

	Group				Company			
	Accelerated depreciation of property, plant and equipment RMB'000	Temporary difference on capitalisation of borrowing costs RMB'000	Others RMB'000	Total RMB'000	Accelerated depreciation of property, plant and equipment RMB'000	Temporary difference on capitalisation of borrowing costs RMB'000	Others RMB'000	Total RMB'000
At 1 January 2006	29,223	8,110	2,337	**39,670**	29,223	–	–	**29,223**
Recognised in the income statement	3,886	(1,182)	4,631	**7,335**	3,886	–	6,600	**10,486**
At 31 December 2006	33,109	6,928	6,968	**47,005**	33,109	–	6,600	**39,709**
At 1 January 2007	33,109	6,928	6,968	**47,005**	33,109	–	6,600	**39,709**
Recognised in the income statement	18,916	(77)	(5,430)	**13,409**	18,916	619	(4,698)	**14,837**
Effect of change of tax rate	(12,612)	(1,661)	(373)	**(14,646)**	(12,612)	(150)	(461)	**(13,223)**
At 31 December 2007	39,413	5,190	1,165	**45,768**	39,413	469	1,441	**41,323**

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 25% (2006: 33%). As disclosed in Note 28, the enacted EIT rate of the Group (except QSAC) became 25% on 1 January 2008. The carrying value of deferred tax liabilities brought forward from 2006 had been re-measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled. As a result, approximately RMB14,646,000 and RMB13,223,000 deferred tax liabilities were reversed during the year in the financial statements of the Group and the Company, respectively.

As there is no certainty of realisation of tax benefits that can be derived through offsetting tax losses with future taxable profits, the Group did not recognise the related deferred income tax assets of approximately RMB6,500,000 (2006: RMB20,914,000) in respect of tax losses of approximately RMB26,000,000 (2006: RMB63,377,000) of certain subsidiaries as at 31 December 2007. Such tax losses will expire in the period between 2008 and 2012.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007
(All amounts expressed in Renminbi unless otherwise stated)

33. CASH GENERATED FROM OPERATIONS – GROUP

	2007 **RMB'000**	2006 RMB'000
Profit/(loss) before income tax	**322,415**	(51,543)
Interest income	**(15,945)**	(18,006)
Interest expense	**151,957**	156,158
Exchange gain on bank borrowing translation	**(28,627)**	–
Depreciation of property, plant and equipment	**350,430**	296,443
Amortisation of land use rights	**3,843**	2,295
Amortisation of intangible assets	**1,472**	1,010
Loss on disposal of a subsidiary	**–**	1,435
Gain on disposal of property, plant and equipment and other non-current assets	**(5,419)**	(2,521)
Operating profit before working capital changes	**780,126**	385,271
Increase in inventories	**(140,949)**	(69,570)
Increase in prepayments, deposits and other current assets	**(17,197)**	(53,320)
Increase in bills receivable	**(54,142)**	(1,127)
Decrease in accounts receivable	**19,093**	15,924
Increase in accounts payable	**39,888**	67,893
Increase in accruals and other payables	**60,455**	1,527
Increase/(decrease) in payable to a related company	**718**	(111)
Increase in deposits and advance from customers	**143,807**	72,558
Increase in other taxes payable	**27,424**	18,814
Decrease in long-term prepayments	**2,500**	13,198
Cash generated from operations	**861,723**	451,057

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 2007:

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Authorised and contracted for:				
Construction of new glass production lines	**–**	530,306	**–**	321,475
Construction of a soda ash plant (a)	**1,208,658**	1,085,394	**–**	–
Glass production investment projects (b)	**2,472,683**	2,998,552	**–**	2,870,520
	3,681,341	4,614,252	**–**	3,191,995
Authorised but not contracted for	**–**	–	**–**	–
Total commitments	**3,681,341**	4,614,252	**–**	3,191,995

(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 dependent on the progress of construction and the utilisation rate of the first phase.

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 commenced its construction in late 2005. As of 31 December 2007, approximately RMB361 million had been incurred for the second phase and the outstanding commitment was estimated to be approximately RMB1,209 million.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007
(All amounts expressed in Renminbi unless otherwise stated)

34. COMMITMENTS (continued)

(i) Capital commitments (continued)

(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 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 with a registered capital of RMB50 million in order to operate the project. Up to 31 December 2007, approximately RMB359 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 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.

Up to 31 December 2007, the Group had invested approximately RMB168 million into this project.

(ii) Commitments under operating leases

As at 31 December 2007, 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	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within one year	**996**	1,208	**996**	1,208
In the second to fifth year inclusive	**1,052**	1,208	**1,052**	1,208
	2,048	2,416	**2,048**	2,416

35. RELATED PARTY TRANSACTIONS

The related parties with which the Group had transactions during the year are set out below:

Mr. Feng	Substantial shareholder of the Company holding 53.27% of the equity interests
Guangyu	93% owned by Mr. Feng
ZCC*	90.47% owned by Mr. Feng before 30 June 2007

* Before 30 June 2007, ZCC was 90.47% owned by Mr. Feng. Mr. Feng sold all his equity interest in ZCC to a third party and the transaction was completed on 30 June 2007. Accordingly, ZCC ceased to be a related party of the Group thereafter. Accordingly, the disclosed related party transactions in this note was made up to 30 June 2007.

(i) Saved as disclosed in other notes, significant related party transactions carried out in the normal course of business by the Group are as follows:

	Notes	**2007 RMB'000**	2006 RMB'000
Rental charged by Guangyu	(a)	**498**	498
Sales to Guangyu		**–**	16
Service fees earned from ZCC in relation to the provision of electricity voltage transforming services	(b)	**219**	534
Purchase of cement from ZCC	(c)	**–**	5,129

(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.

(b) The Company entered into a renewable service agreement with ZCC in 2003 that the Company agreed to provide electricity voltage transforming services for ZCC by using the electricity transformer owned by the Company. It also undertakes to settle on behalf of ZCC its share of electricity charges (the "Electricity Charges") with the local electricity bureau. ZCC is required to reimburse the Company for the Electricity Charges and pay service fees computed at 1% of the amount of the Electricity Charges. On 29 August 2006, the board of Directors 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.

(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. No transactions had been carried out pursuant to this master supply agreement during the year.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007
(All amounts expressed in Renminbi unless otherwise stated)

35. RELATED PARTY TRANSACTIONS (continued)

(ii) Balances with related parties are as follows:

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Payables to Guangyu	**718**	–	**498**	–
Amounts due from wholly-owned subsidiaries	**–**	–	**53,248**	32,752
Amounts due from a non wholly-owned subsidiary	**–**	–	**9,657**	102,099
Amounts due to wholly-owned subsidiaries	**–**	–	**9,393**	48,432

	Maximum balance of receivables from related parties during the year			
	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
ZCC (note (i)(b)) **	**27,299**	41,081	**27,299**	41,081
Guangyu	**–**	52	**–**	43

** Disclosed maximum balance of receivable from ZCC was that for the period during which ZCC was a related company of the Group and the Company up to 30 June 2007.

The balances with related parties 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.

37. 2006 COMPARATIVE FIGURES

The current account balances maintained by the Company with its subsidiaries which are repayable on demand had been reclassified from interests in subsidiaries and separately disclosed as current assets in the balance sheet of the Company as at 31 December 2006 in order to conform with current year presentation.