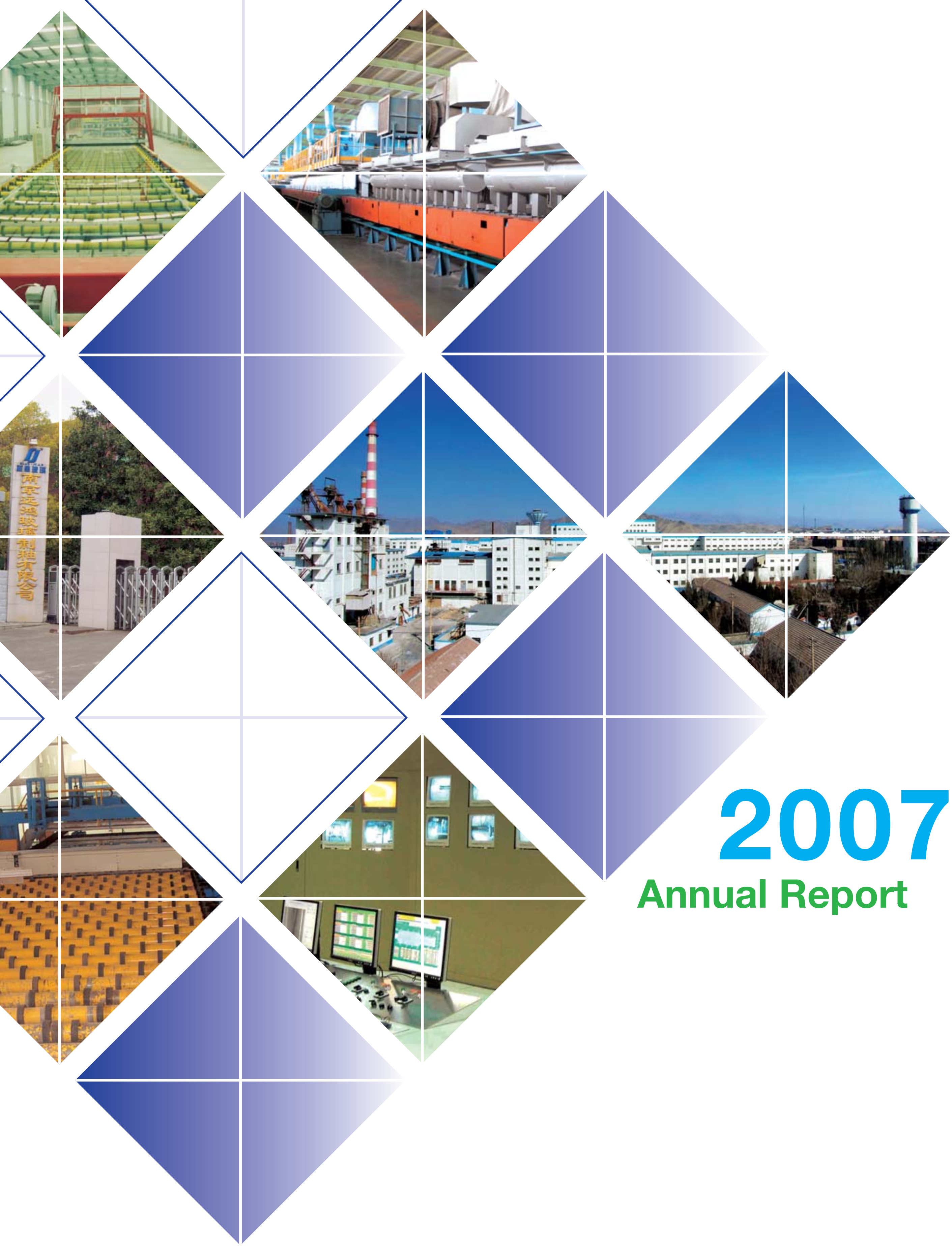

2007
Annual Report

CHINA GLASS HOLDINGS LIMITED
中國玻璃控股有限公司*

(Incorporated in Bermuda with limited liability)
(Stock Code : 3300)

* For identification purposes only

Contents

BOARD OF DIRECTORS

Executive Directors

Mr. Zhou Cheng *(Chairman)*
Mr. Zhang Zhaoheng *(Chief Executive Officer)*
(Appointed on 19 March 2007)
Mr. Li Ping
Mr. Lu Guo (Resigned on 19 March 2007)
Mr. Cui Xiangdong (Appointed on 19 March 2007)

Non-Executive Directors

Mr. Zhao John Huan
Mr. Liu Jinduo
Mr. Eddie Chai
Mr. Guo Wen (Appointed on 19 March 2007)

Independent Non-Executive Directors

Mr. Song Jun
Mr. Sik Siu Kwan
Mr. Zhang Baiheng

SENIOR MANAGEMENT

Mr. Lu Guo
Mr. Ge Yankai
Mr. Yang Hongfu
Mr. Cheng Xin
Mr. Lau Ying Kit *(Qualified Accountant and Company Secretary)*
Mr. Wang Jianxun

AUDIT COMMITTEE

Mr. Sik Siu Kwan *(Chairman of audit committee)*
Mr. Song Jun
Mr. Zhao John Huan

REMUNERATION COMMITTEE

Mr. Zhao John Huan *(Chairman of remuneration committee)*
Mr. Song Jun
Mr. Sik Siu Kwan

REGISTERED OFFICE

Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 8, 26/F., West Tower
Shun Tak Centre
168–200 Connaught Road
Central
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Reid Management Limited
Argyle House
41a Cedar Avenue
Hamilton HM12
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
46 Floor, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

LEGAL ADVISORS

As to Hong Kong Law
Norton Rose Hong Kong

As to the People's Republic of China (the "PRC") Law
Jingtian & Gongcheng

As to Bermuda and British Virgin Islands Laws
Appleby Spurling Hunter

As to Cayman Islands Law
Walkers SPV Limited

COMPLIANCE ADVISOR

Guotai Junan Capital Limited

PRINCIPAL BANKERS

Standard Chartered Bank
Industrial and Commercial Bank of China
Bank of Communications
Bank of China
China Bohai Bank
Agricultural Bank of China

AUDITORS

KPMG
Certified Public Accountants

INVESTOR RELATIONS CONSULTANT

Strategic Financial Relations (China) Limited

STOCK CODE

Hong Kong Stock Exchange 3300

The summary of the results and the assets and liabilities of China Glass Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") and Jiangsu SHD New Materials Co., Ltd. ("Su Hua Da") for each of the five years ended 31 December 2007 are extracted from the audited financial statements of this report and the Company's 2005 and 2006 annual reports and the accountants' reports of the Company and Su Hua Da included in the prospectus of the Company dated 13 June 2005 (the "Prospectus").

RESULTS (EXPRESSED IN RENMINBI ("RMB"))

	The Group				Su Hua Da
	Year ended 31 December				
	2007	2006	2005	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Turnover	2,212,324	573,136	386,494	429,738	351,386
Cost of sales	(1,821,647)	(517,829)	(324,919)	(303,469)	(268,539)
Gross profit	390,677	55,307	61,575	126,269	82,847
Other revenue	16,400	5,076	1,591	115	55
Other net income/(loss)	13,446	(1,173)	1,171	(440)	850
Distribution costs	(71,927)	(24,098)	(16,381)	(14,010)	(9,641)
Administrative expenses	(144,921)	(33,541)	(23,287)	(20,396)	(17,639)
Profit from operations	203,675	1,571	24,669	91,538	56,472
Impairment loss on assets classified as held-for-sale	(5,277)	—	—	—	—
Excess of the net fair value of the acquired net assets over cost	26,071	24,315	—	—	—
Gain from issuance of shares by subsidiaries	5,646	—	—	—	—
Finance costs	(97,217)	(15,538)	(7,739)	(5,524)	(6,991)
Profit before taxation	132,898	10,348	16,930	86,014	49,481
Income tax	6,033	4,257	(828)	(9,305)	(3,020)
Net profit for the year	138,931	14,605	16,102	76,709	46,461

ASSETS AND LIABILITIES

	As at 31 December				
	2007	2006	2005	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total Assets	3,558,441	1,361,234	764,272	436,851	319,937
Total Liabilities	(2,274,401)	(838,510)	(366,209)	(288,268)	(181,526)
Net Assets	1,284,040	522,724	398,063	148,583	138,411

Notes:

1) The 2004, 2005, 2006 and 2007 figures are in respect of the Group, whereas the 2003 figures are in respect of Su Hua Da, one of our principal operating subsidiaries.

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

Dear shareholders,

Continuing the objectives of acquisition, merger and reorganization, the Group successfully acquired Weihai Blue Star Glass Co., Ltd., Hangzhou Blue Star New Materials Technology Co., Ltd., Zhongbo Technology Co., Ltd., etc., which marked the completion of our major acquisition, merger and reorganization effort. On the other hand, regarding the Company's organic growth, the second production line in Shaanxi successfully commenced operation in September 2007. Due to the geographical advantage of Shaanxi, this new production line will bring satisfactory income to the Group. The solar cell ultra-clear glass production line under a joint venture with Pilkington International BV in Taicang has commenced operation in April 2008, which will bring further contribution to the Group's income.

After a series of reorganization and consolidation, the Group currently owns 15 production lines with a daily melting capacity of 5,230 tons, making us one of the largest listed sheet glass companies in the PRC. Our major post-acquisition strategy this year is to integrate resources in respect of the management of subsidiaries, e.g. by synergies, development of new products, technical innovation, reducing consumption in order to enhance the Group's performance in different aspects.

Looking back at the year 2007, the demand and supply relationship of the PRC glass industry continued to improve. With the integration and reorganization of the glass industry and increase in the percentage of product exports, the PRC glass industry is also moving towards stable development. Glass prices remain in an upward trend which commenced in the second half of 2006, resulting in a general return to profit for entire industry. However, the simultaneous and sustained rise in the price of raw materials such as soda ash and fuel such as heavy oil has brought pressure to our costs. Generally speaking, the Group has maintained its good business performance, with all economic indicators going upward.

The Group upholds its strategies of seeking market opportunities through organic growth and merger and acquisitions in order to bring handsome returns to our shareholders.

Lastly, on behalf of the Board, I would like to thank all shareholders and hard working staff who have been supportive to the Group. I would also like to give my sincere thanks to our customers, cooperation partners, suppliers and bankers on behalf of the Group for the confidence and trust they have given us.

Zhou Cheng
Chairman

28 April, 2008

MARKET REVIEW

In 2007, the PRC glass industry has bottomed out from a cyclical trough and continued the recovery trend started in the second half of 2006. The overall earning of the industry is at its best in recent years and consequently the price of glass continued to rise to a new high in recent years. Under this momentum, earnings of the glass industry rebounded significantly, with gross profit margin and profit margin both rising to their new high since 2005. The industry as a whole returned to profit in a grand scale. According to industry information, the PRC glass industry recorded an aggregate profit of RMB1,454 million in 2007 with production reaching 532 million weight cases.

Reaping the benefits of growing market demand brought by the continual rapid development of the PRC macro-economy, a fundamental balance of demand and supply was maintained while the overall production capacity growth of the glass industry stabled at approximately 11%, according to the China Construction Materials Information and Statistics Centre. Moreover, with the continual improvement of the demand and supply relationship and under the pressure of high-cost operation, the market price has been on an upward trend. The possibility of this high-cost operation environment was rarely seen in recent years.

Various factors, including the continued rising exchange rate of Renminbi; the continued increase in price of ocean shipping logistics; the decrease in export tax refund rate from 11% to 5%; implementation of special protectionism measures by Turkey, and anti-dumping investigations launched by South Korea have an adverse effect on the industry. However, China Glass' products are still favoured over its international competitors and a stable export volume has been maintained, bringing in a positive adjustment of the demand and supply relationship of the PRC market.

In addition, macro-adjustment policies on the development of the PRC glass industry were implemented in succession. Efforts put in to adjust and control the scale and total quantity of production, as well as product structure were further increased. Co-ordination on production and sales between enterprises in the industry were further consolidated. Favourable conditions for the development of the glass industry in 2007 were created due to macro policies, public opinion and improved market operation. Business environment of the industry has witnessed marked improvement in 2007 and there was apparent recovery of corporate efficiency, relieving enterprises from the tight supply of funds.

Under the momentum of stable domestic demand and rapid export growth, the entire glass industry is in a trend of stable and upward development. The average unit price of glass products has increased significantly compared to the same period last year. On the other hand, rising prices of fuel and raw materials created additional pressure to the production and operation of enterprises. In the PRC, more than 20 production lines for float glass production commenced production in 2007 and the additional production capacity will produce approximately 59 million weight cases.

BUSINESS REVIEW

At the end of March 2007, the Group successfully acquired Weihai Blue Star Glass Co., Ltd., Hangzhou Blue Star New Materials Technology Co., Ltd., and Zhongbo Technology Co., Ltd., etc. and began integration with each subsidiary, including the acquisition of the remaining 43.8% equity interests of Beijing Qinchang Glass Co., Ltd in September 2007.

With the efforts made in 2007, the Group achieved positive results during the year. The Group currently has 15 production lines, including 12 float glass production lines, 2 sheet glass production lines and 1 patterned glass production line, with a daily melting capacity of 5,230 tons. Through the acquisition and building of new production lines, daily melting capacity recorded a year-on-year growth of 132%, producing a total of 27.32 million weight cases of glass per year, an increase of 203% over the previous year. Sales revenue of RMB2,212 million was recorded, representing a year-on-year growth of 286%; and a net profit after tax of 138.93 million was recorded, representing an increase of 851% over the last year.

The price of glass picked up its growing momentum from the second half of 2006, and rose to a new high since 2003. However, prices of raw materials such as soda ash and fuel such as crude oil and coal continued to rise which increased the cost of production. In this regard, by making use the synergies from continual business expansion, development of new products, improvement of product quality through technical innovation, China Glass has grasped market opportunities and maintained a positive development momentum, and significant improvement was seen in all business indicators.

By continually improving the rules of safety operation, the Group has regulated production and management, achieved high and stable production capacity, and satisfied market demand by providing a vast products mix. The Group continued to improve and upgrade the low-e production technology, industrialization of titanium coating and to increase the percentage of new products and high value-added products in the Group's product mix. The Group has also strengthened the establishment of its primary goals of quality and has reinforced different control of production line operations through improvement of technology and building brand awareness, in order to raise the quality standard of the Company. 81.1% of our products achieved a grading above vehicle level, representing a year-on-year growth of 5.52%.

In respect of domestic sales, by integrating domestic sales channels, the Group has expanded customer resources of domestic product sales. The Group also placed greater efforts in the sales of the surrounding markets, shortened transportation distances and therefore reduced logistics costs which leads to increased profit.

In respect of export sales, despite facing such negative effects such as increase in logistics costs, the appreciation of Renminbi, adjustment of export tax refund policies and deterioration of specific trading environment, we have maintained a stable export volume by integrating international marketing channels and making greater efforts on exports. These efforts included creating a sales platform for international markets, expanding the exports for a number of products and increasing the combined selling prices of products. Percentage of exports by the Company remained at 30% in 2007, a mere 10% decline from 2006.

The Group also reasonably adjusted its product structure, increased resources in market research and doubled its marketing efforts for new and high value-added products such as colored glass, coated glass, low-e coating and titanium coating based on market demand.

During the year, a total of 28.09 million weight cases of glass were sold, representing an increase of 19.04 million weight cases over the same period last year and a year-on-year growth of 211%. Export volume amounted to 7.62 million weight cases, representing an increase of 4.57 million weight cases over the same period last year and a year-on-year growth of 150%.

In respect of costs, as the price of raw materials and fuel continued to rise, the Group has been trying to reduce production costs by persistently implementing strategies on energy-saving and cutting consumption and is actively looking for alternative energy source to reduce fuel costs. The Group also actively implements measures such as plain packaging and bare packaging, increasing uses of iron frames and looking into new ways of packaging in order to reduce packaging costs. These measures have effectively curbed rising costs and relieved some of the pressure stemming from increased costs. At the same time, by taking advantage of the synergies from with acquired production lines, the Group's pressure from rising costs was also mitigated.

Due to the Group's operation needs and the intention to optimize and strengthen the Group's financial structure, the Group placed 42 million and 14 million shares to institutional investors and International Finance Corporation ("IFC") respectively, and issued senior notes due in 2012 with an interest rate of 9.625% and in an aggregate amount of USD$100 million, in exchange for its present short-term loans.

OUTLOOK

Taking into account international and domestic factors, since the sub-prime loan crisis led to a drastic change in global economic environment, it is difficult to determine the direction of the global economy and its effect on the PRC macro-economy. The effect on different industries cannot be easily determined at the stage.

In addition, the demand of the domestic and international markets of the glass products will also be affected by various factors such as the appreciation of the Renminbi, policies on macro economic adjustment and control such as export tax refund and rising costs of raw materials and fuel.

The industry cycle fluctuations of the glass industry will gradually soften. Cyclical fluctuation of the glass industry is a summarization of the characteristics of the development of the PRC glass industry in the past ten years and beyond. The main reason for the cyclical fluctuation of the PRC glass industry is its low concentration level and a low unit production capacity (each manufacturer owning 1-3 production lines on average). During a concentrated cycle, production capacity would increase significantly; and during a concentrated period, production capacity would remain constant, resulting in a mismatch with the stable growth of demand, thus creating a supply in excess of demand and demand in excess of supply in different time phases, which are the characteristics of cyclical fluctuations. However, the PRC has implemented new policies to encourage integration of the industry, which will have profound effect on the development of the industry. It should be noted that as concentration level of the industry increases and the production capacity of enterprises increases (each manufacturer has 4-5 production lines on average), the same level of added production capacity would result in a reduction in growth. The trend in the past three years and the characteristics of industry development has demonstrated that cyclical fluctuations of the glass industry is no longer apparent and is disappearing as the industry integrates.

The Group sought response strategies way before the formation of the cyclical fluctuation characteristic of the glass industry. On one hand, the Group reacted to the domestic and international markets by actively expanding international marketing channels in order to mitigate the effect of cyclical fluctuations. The Group has set up sales channels in nearly 90 countries in the world and is one of the largest exporters in the PRC glass industry. In April 2008, the anti-dumping investigations launched by South Korea was completed and the results was announced. The range of anti-dumping tax duty is from 12.73% to 36.01%. With this regard, the Group is subject to the lowest rate 12.73%. This will make us more comparative advantage among Chinese exporters. On the other hand, the Group places great emphasis on the adjustment of product structure and continually develops new products to bring in new demands. The Group has become a glass manufacturer which provides the most variety and most comprehensives range of products in the industry. The Group mitigated the risk of mismatch of demand and supply stemming from the provision of a single product by adjusting its product offerings structure. In addition, the Group also successfully expanded its market share through acquisitions and mergers during the gloomy times of the industry. The Group will continue to resist future cyclical fluctuations of the industry by such means.

Besides, construction area of the PRC real estate industry rose to a three year high in 2007, which has solidified the demand for glass products by the real estate industry. Although the real estate market will face a greater influence of macro adjustment and control in 2008 than in 2007, the significant rebound in the purchase of land use rights in 2007 has strengthened our determination that the construction glass market will continue to boom next year, driven by the strong demand from the real estate development. For the purpose of market demand, the government's main objective of regulating the real estate industry is to adjust the structure of real estate products and to stabilize the price of commodity properties, which has limited effect on the aggregate demand for glass products of the real estate industry. Generally, the real estate industry, automobile industry, furniture and decoration industry have the greatest product demand for the glass products. The Group offers a wide variety of products and nearly 42% of its products are coated and coloured glass, with commercial property projects as its main target market, the Group is less affected by the residential commodity property market. At the same time, nearly 30% of the Company's products are exported to international markets. Therefore, the Group will continue to offset fluctuations brought by future properties by optimizing product structure and providing a variety of products.

One of the reasons for the rising prices of glass is the sustained increase in production costs of glass enterprises, which has adversely affected the profits of enterprises. In recent years, the price of heavy oil and soda ash, raw materials of glass products has been on the rise, which has led to a continual increase in manufacturing costs of the Company. Heavy oil represents approximately 26% of the costs. Since the beginning of last year, international crude oil prices for the medium to short run has continued to rise or linger around high level, and as the price of heavy oil is highly correlated to the price of crude oil, we expect the price of heavy oil to continue rising in 2008 in the same matter as other energy materials. Soda ash represents 21% of the cost of glass. The demand in the PRC soda ash market has been on an upward trend, therefore pushing up the price of soda ash. In November 2007, the average price of soda ash rose to RMB1,715 per ton (including value added tax). With international prices standing high, the PRC soda ash enterprises are already producing at full capacity but are still unable to satisfy market demand. There will not be additional production capacity for soda ash until the end of 2008 and the strained demand and supply situation will not see any improvement. Therefore, it is expected that the price of soda ash will remain high in 2008. Considering the earnings of the PRC float glass industry, there is a close link between earnings and expansion of production capacity. It is expected that the price of heavy oil and soda ash, which represents the largest part of the cost structure, will increase further in 2008. This is a common factor faced by the whole glass industry and presents challenges in terms of earnings for the entire industry. In this regard, the Group has started using other fuel alternatives in order to reduce costs.

From the perspective of the future development of the sheet glass industry, the demand and supply pattern and spending structure of the glass industry is transiting from low grade plain float glass to high grade and high quality float glass, and is transiting from whole-piece spending to high value-added deep-processed products, with high quality special float glass as the focus of future development and direction of development specifically stipulated for the adjustment of PRC industry structure. According to the "11th Five-Year Plan" planned objective, the percentage of high quality float glass will increase from 20% at present to approximately 40% and deep-processed glass will increase from 25% to over 40%. Although glass production volume in the PRC has ranked first in the world for many years, most products are plain float glass, and only 25% of the products are high quality float glass in 2006. Besides, production technology of special float glass such as ultra-thick, ultra-thin, ultra-white float glass is not advanced enough. According to PRC guidance opinion, high quality float glass will represent 40% of the glass produced by the PRC by 2010. The implementation of the policies and laws such as "Certain Opinion related to the Promotion of Structural Adjustment of the Sheet Glass Industry", "Medium to Long Term Project Planning on Energy Saving", "Energy Saving Works of Government Organizations" has specified the direction and trend for future development of the sheet glass industry. From the perspective of the development trend of product structure, it is expected that high grade glass with energy saving and environmental protection functions will have a positive growth and a bright prospect in 2008 and some time after. The market of low grade plain float glass will shrink relatively. This will bring better business opportunities to the future development by manufacturers of high value-added products such as high quality, high grade float glass, energy saving glass and special glass.

It is expected that energy saving glass such as hollow glass and Low-e coated glass will have the fastest promotion and application among PRC deep-processed glass in the future. For usual constructions, door and window areas account for 30% of the surrounding structural area of construction, but up to 40%-50% of the energy consumption of the surrounding structural area. With glass area covering 58%-87% of the door and window area, the focus of energy saving construction is to improve the heat-proof properties of doors and windows. At present, less than 10% energy saving glass such as hollow glass and Low-E hollow is used in construction in the PRC, much lower than the usage rate of over 50% in Europe and the United States. Apart from the demand for energy saving glass in newly constructed structures, there will be imminent demand for energy saving glass in the reconstruction of existing residential structures. Currently, less than 10% hollow glass is used in newly constructed structures and less than 1% of hollow glass is used in existing structures. It is estimated that the additional energy saving construction will be increased to approximately 3,000 million square metres in the following years, of which 600 million square metres will require the installation of energy saving glass; the annual demand for energy saving glass is approximately 120 million square metres.

As the PRC government exerts greater efforts in promoting energy saving and discharge reduction, much more attention is paid on the energy saving condition of PRC structures. In the future, green and energy saving structures will become the mainstream and the energy saving glass market will expand gradually. Under the state policies on setting up energy saving industries, separate energy saving enterprises shall be given more space for development. As an important construction material, glass is playing an ever more important role in the promotion of energy saving construction. The Group's energy saving products such as low radiation low-e coated glass, solar control coated glass, solar power generation glass, high grade and high quality float glass will have better development opportunities in the future. The solar cell ultra-clear glass production line in Taichang, jointly owned by the Company and Pilkington International BV, has commenced production in April 2008.

As the PRC economy continues its healthy development, large international glass companies will put their business focus on the PRC, which may intensify market competition, and can facilitate adjustment of PRC industry structure at the same time.

We will continue to consistently implement the development strategy of product diversity, and will establish a regulated and modern enterprise through technological and product innovation, craftsmanship innovation, management innovation, market innovation and the materialization of management information system.

We will also reasonably allocate existing resources, optimize product structure, increase our product innovation ability, enhance the added value of our products, foster product competitiveness, brand competitiveness and marketing competitiveness through product diversity in order to push forward our corporate development and growth.

The Group and the Company will closely monitor and make good use of market movements in 2008 to ensure a positive growth of revenue and profits.

FINANCIAL REVIEW

Turnover

The Group's turnover increased by approximately 286% from RMB573.14 million for the year ended 31 December 2006 to RMB2,212.32 million for the year ended 31 December 2007. The increase was mainly attributable to the increase of selling price due to the improvement in the PRC glass industry and the increase in sales volume due to the acquisitions taken place in 2007.

Cost of sales

The Group's cost of sales increased by approximately 252% from RMB517.83 million for the year ended 31 December 2006 to RMB1,821.65 million for the year ended 31 December 2007. This was mainly attributable to the increase in sales volume due to the acquisitions during the year and the increase in unit cost per weight case as a result of the increase in costs of raw materials such as soda ash and fuel such as heavy oil and coal.

Gross profit

The Group's gross profit increased by approximately 606% from RMB55.31 million for the year ended 31 December 2006 to RMB390.68 million for the year ended 31 December 2007. This was mainly attributable to the increase in the selling price and sales volume of glass due to the acquisitions during the year. Gross profit margin increased from 10% in 2006 to 18% in 2007.

Distribution costs

The Group's distribution costs increased by approximately 198% from RMB24.10 million for the year ended 31 December 2006 to RMB71.93 million for the year ended 31 December 2007. This was mainly attributable to the increase in export volume due to the acquisitions taken place in 2007 and the increase in the cost of exports in respect of transportation costs.

Administrative expenses

The Group's administrative expenses increased by approximately 332% from RMB33.54 million for the year ended 31 December 2006 to RMB144.92 million for the year ended 31 December 2007. This was mainly attributable to the consolidation of administrative expenses due to the acquisitions taken place in 2007.

Finance costs

The Group's finance costs increased by approximately 526% from RMB15.54 million for the year ended 31 December 2006 to RMB97.22 million for the year ended 31 December 2007. The increase was mainly attributable to the acquisitions taken place in 2007 and the issuance of the relatively higher interest rate senior notes in July 2007.

Income tax

The Group's income tax changed from RMB(4.26) million for the year ended 31 December 2006 to RMB(6.03) million for the year ended 31 December 2007. This relatively low income tax expense was mainly attributable to the tax benefit enjoyed by the PRC subsidiaries of the Group. Subject to the regulations of Foreign Investment Enterprise and Foreign Enterprise Income Tax of the PRC, the PRC subsidiaries of the Group which are production-oriented foreign enterprises with an operation period for more than 10 years, are entitled to exemptions from Enterprise Income Tax in the first and second years and 50 percent reductions of Enterprise Income Tax in the subsequent three years, commencing with the first profit-making tax year.

In addition, on 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the PRC (the "new tax law") which takes effect on 1 January 2008. According to the new tax law, the applicable income tax rate of the PRC subsidiaries will change to 25% with effect 1 January 2008 or gradually increase to 25% over a five-year period if the PRC subsidiary is currently enjoying a preferential tax rate of below 25%. The new tax law has been applied when measuring the Group's deferred tax assets and liabilities as at 31 December 2007. The balances of deferred tax assets and liabilities decreased by RMB1.9 million and RMB17.8 million, respectively, as a result of the change of the applicable income tax rate. The changes in the balance of deferred tax assets and liabilities are reflected in the financial statements for the year ended 31 December 2007.

Non-current assets

The Group's non-current assets increased by approximately 150% from RMB987.87million as at 31 December 2006 to RMB2,465.13 million as at 31 December 2007, which was mainly attributable to the acquisitions taken place in 2007 and the construction and completion of the second production line in Shaanxi.

Current assets

The Group's current assets increased by approximately 193% from RMB373.36 million as at 31 December 2006 to RMB1,093.31 million as at 31 December 2007. The increase was mainly attributable to the consolidation of current assets on the acquisitions taken place in 2007.

Current liabilities

The Group's current liabilities increased by approximately 138% from RMB597.85 million as at 31 December 2006 to RMB1,425.87 million as at 31 December 2007. This was mainly attributable to the consolidation of current liabilities on the acquisitions taken place in 2007 and the settlement of short-term bank and other loans upon receiving the proceeds from the issuance of the senior notes in July 2007.

Non-current liabilities

The Group's non-current liabilities increased by approximately 253% from RMB240.66 million as at 31 December 2006 to RMB848.53 million as at 31 December 2007. This was mainly attributable to the issurance of senior notes in July 2007.

Capital structure, liquidity, financial resources and assets-liabilities ratio

As at 31 December 2007, the Group's cash and cash equivalents were RMB355.86 million, of which 62% were denominated in RMB, 36% in United States dollars ("USD") and 2% in Hong Kong dollars ("HKD") (2006: RMB67.28 million), outstanding bank and other loans of RMB260.96 million, all of which were denominated in RMB (2006: RMB421.10 million), and outstanding senior notes of RMB705.01 million denominated in United States dollars (2006: RMB Nil). As at 31 December 2007, the gearing ratio (total interest-bearing debts divided by total assets) was 31% (2006: 37%), the decrease of which was primarily attributable to the improvement in the Group's operating results in 2007. As at 31 December 2007, the Group's current ratio (current assets divided by current liabilities) was 0.77 (2006: 0.62), the improvement was mainly attributable to the issue of senior notes which was utilised to repay short-term bank loans. The Group recorded net current liabilities amounting to RMB332.56 million as at 31 December 2007. The Company may consider issue of debt and equity to improve the financial position with this regard. Assets-liabilities ratio (total liabilities divided by total assets) of the Group was 0.64 (2006: 0.62), the rise of which was primarily attributable to the increase in payables on the acquistions of Weihai Blue Star Glass Co., Ltd., Zhongbo Technology Co., Ltd. and Hangzhou Blue Star New Materials Technology Co., Ltd.

Details of the Group's bank and other loans and senior notes are set out in Note 25 and Note 28, respectively, to the financial statements.

Material investments, acquisitions and disposals

During 2007, the Group had completed a series of acquisitions comprising of Weihai Blue Star Glass Co., Ltd, Zhongbo Technology Co., Ltd and Hangzhou Blue Star New Materials Technology Co., Ltd, etc.

The Group also acquired the remaining 43.8% shareholding interest in Beijing Qinchang Glass Co., Ltd.

The management of an associate of the Group plan to liquidate the associate upon the expropriation of the assicate's land use rights by the local government authority in August 2007.

Other than disclosed above, the Group did not have any material investments or capital assets, or material acquisitions and disposals of subsidiaries and affiliated companies during the year ended 31 December 2007.

Human resources and employees' remuneration

As at 31 December 2007, the Group had employed a total of approximately 6,410 employees in the PRC and Hong Kong (31 December 2006: about 2,610 employees). According to the relevant market situation, the Group's employees' remuneration level had maintained at a competitive level and is adjusted in accordance with the employees' performance.

The employees of the companies in the Group which were established in the PRC and in Hong Kong participate in defined contribution retirement benefit schemes and Mandatory Provident Fund Scheme, respectively. No contributions to the above schemes were forfeited for the year ended 31 December 2007. Details of staff costs and pension schemes were set out in Note 6(b) to the financial statements.

Charge on assets

Details of the Group's charge on assets were set out in Note 25 to the financial statements.

Capital commitments

Details of the Group's capital commitments as at 31 December 2007 were set out in Note 35 to the financial statements.

Contingent liabilities

As at 31 December 2007, the Group did not have any significant contingent liabilities.

Exchange rate risk and related hedging

The Group's sales transactions and monetary assets were primarily denominated in HKD, RMB, USD and EUR. Operating expenses and domestic sales of the Group's PRC subsidiaries were primarily denominated in RMB, and certain borrowings of the Group were denominated in USD. The Group was of the opinion that the future appreciation of RMB will closely associate with the development of the PRC economy. With the sustainable development of the PRC economy, the Group expects that RMB will continue to appreciate. Our net assets, profits and dividends may be affected by the fluctuation of the RMB exchange rate. Details of the Group's exchange rate risk were set out in Note 36(d) to the financial statements.

During the year ended 31 December 2007, the Group had not adopted any derivatives for hedging purposes.

Major customers and suppliers

The percentage of purchases and sales for the year ended 31 December 2007 attributable to the Group's major suppliers and customers are as follows:

Purchases	
- the largest supplier	13%
- five largest suppliers combined	39%
Sales	
- the largest customer	16%
- five largest customers combined	22%

During the year ended 31 December 2007, no director of the Company ("Director(s)") or any associates of a Director or any shareholder (which to the knowledge of the Directors owns more than 5% of the Company's share capital) of the Company has any interest in any of the Group's five largest customers and suppliers.

The Board of Directors have pleasure in submitting their annual report together with the audited financial statements of the Company for the year ended 31 December 2007.

PRINCIPAL ACTIVITIES

Details of the principal activities of the Group are set out in Note 4 to the financial statements.

RESULTS AND APPROPRIATIONS

The profit of the Group for the year ended 31 December 2007 and the state of the Company's and of the Group's affairs as at that date are set out in the financial statements on pages 38 to 120.

On 28 April 2008 the Board recommends a final dividend of HK$0.0614 per ordinary share (31 December 2006: HK$ Nil per ordinary share) to the equity shareholders of the Company whose names apper on the register of the Company on 3 June, 2008. The total dividend amounts to HK$25.5 million, equivalent to approximately RMB23.9 million.

RESERVES

Details of distributable reserves of the Company are set out in Note 30(e) to the financial statements.

Details of movements in the reserves of the Group and of the Company during the year are set out in Note 30 to the financial statements.

DONATIONS

Donations made by the Group during the year ended 31 December 2007 amounted to RMB700,000 (2006: RMB Nil).

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group and of the Company during the year are set out in Note 13 to the financial statements.

SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in Note 30(c) to the financial statements.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights which would oblige the Company to offer new shares on a pro-rata basis to its existing shareholders under the Bye-Laws of Company, except if an ordinary resolution is passed by the shareholders of the Company (before the issue of any new shares) to determine that such shares shall be offered to them in the first instance. As at the date hereof the shareholders have not passed such a resolution.

DIRECTORS

The Directors during the year and up to the date of this report are:

Executive Directors
Mr. Zhou Cheng *(Chairman)*
Mr. Zhang Zhaoheng *(Chief Executive Officer)* (Appointed on 19 March 2007)
Mr. Li Ping
Mr. Lu Guo (Resigned on 19 March 2007)
Mr. Cui Xiangdong (Appointed on 19 March 2007)

Non-executive Directors
Mr. Zhao John Huan
Mr. Liu Jinduo
Mr. Eddie Chai
Mr. Guo Wen (Appointed on 19 March 2007)

Independent non-executive Directors
Mr. Song Jun
Mr. Sik Siu Kwan
Mr. Zhang Baiheng

Pursuant to the Bye-Law 99 of the Company, one third of the Directors will retire from office at the forthcoming annual general meeting. The retiring Directors shall be eligible for re-election.

The Company has received from each of the independent non-executive Directors an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), and the Company considers the independent non-executive Directors to be independent.

CONTINUING CONNECTED TRANSACTIONS

Management Services Agreement

During the year ended 31 December 2007, the Company and JV Investments Ltd. ("JV Investments"), a subsidiary of the Company, has entered into a management services agreement ("Management Services Agreement") with Well Faith Management Limited ("Well Faith"), Mei Long Developments Ltd. ("Mei Long") and Pilkington Italy Ltd. ("Pilkington Italy") on 30 December 2005. Pursuant to the Management Services Agreement, Well Faith is the exclusive provider of management services to JV Investments. Well Faith will be responsible for the daily operations of JV Investments, which include investment project sourcing, planning, negotiation, and the submission of selected investment projects to the board of JV Investments for approval. Well Faith will also assist JV Investments in monitoring and supervising acquisitions of JV Investments' assets. After the board of JV Investments approves to invest in the proposed projects, Well Faith will be responsible for the execution of such investment. JV Investments will engage Well Faith exclusively to provide the above services. Mr.Zhao John Huan,a Director of the Company, is also a director of Well Faith which is a wholly-owned subsidiary of Hony Capital Limited ("HCL "). Well Faith is a connected person of the Company by virtue of it being an associate of HCL. HCL is a connected person of the Company under the Listing Rules by virture of it being an associate of Mei Long,a substantial shareholder of JV Investments. HCL is a wholly-owned subsidiary of Right Lane Limited. Right Lane Limited also wholly-owns Mei Long. The Company agreed to pay the relevant management fee at US$285,527 per annum for 3 years.

The Management Services Agreement stated above constitutes a continuing connected transaction of the Company which is subject to the reporting and announcement requirements set out in Rules 14A.45 to 14A.47 and the annual review requirements set out in Rule 14A.37 to 14A.40 of the Listing Rules. The independent non-executive Directors of the Company considers that the Management Services Agreement is in the ordinary and usual course of business of the Group and on normal commercial terms, and believes that its terms, are fair and reasonable and in the interests of the shareholders as a whole.

The auditors of the Company confirmed that the continuing connected transaction stated above:

(a) was approved by the Board of the Company;

(b) was in accordance with the pricing policies of the Management Services Agreement; and

(c) was entered into in accordance with the Management Services Agreement.

Raw Materials Supply Agreement

Weihai Blue Star Glass Co., Ltd. ("Lanxing"), a subsidiary of the Company, has entered into a raw materials supply agreement ("Raw Materials Supply Agreement") with Qingdao Soda Ash Industrial Co., Ltd. ("Qingdao Soda Ash") on 9 November 2006. Pursuant to the Raw Materials Supply Agreement, Lanxing and its subsidiaries had agreed the terms whereby it will purchase and Qingdao Soda Ash has agreed to supply soda ash for a term of three financial years commencing from 1 January 2007. Qingdao Soda Ash is connected person of the Company by virtue of it being a 17.46% equity holder of Lanxing. The annual caps for the procurement of soda ash for the three years ending 31 December 2009 should be RMB135.68 million, RMB127.82 million and RMB135.68 million, respectively.

Having taken into account of normal commercial terms in the Raw Materials Supply Agreement, the continuing connected transactions are in the interest of the Group and the independent Shareholders as a whole.

The auditors of the Company also confirmed that the continuing connected transactions stated above:

(a) was approved by the Board of the Company;

(b) was in accordance with the pricing policies of the Raw Materials Supply Agreement;

(c) was entered into in accordance with the Raw Materials Supply Agreement; and

(d) had not exceeded the cap disclosed in the Company's circular dated 1 December 2006.

Purchase of Raw Materials and Labour Services Agreement

In 2007, Lanxing and its subsidiaries have purchased from Shandong Blue Star Glass Group Company Limited ("Shandong Blue Star"), an associate of the intermediate holding company of the Company, a connected person of the Company by the virtue of being an affiliate of HCL for packaging materials and natural gas supply. In 2007, Lanxing and its subsidiaries have also received labour services from Shandong Blue Star for recruiting and supplying temporary staff to the Group. The Company is taking necessary steps to ensure compliance with the Listing Rules in respect of these connected transactions.

CONNECTED TRANSACTIONS

On 14 June 2007, the Company entered into a transaction to acquire the remaining 43.8% equity interests in Beijing Qingchang Glass Co., Ltd. ("Qingchang") from Qinhuangdao Beifang Glass Co., Ltd. ("Qinhuangdao Beifang") through a subsidiary of the Company. Qinhuangdao Beifang is the connected person of the Company at the date of transaction by virtue of it being a 43.8% equity holder of Qinchang then.

The above transaction constituted connected transaction of the Company which is subject to the approval of the Independent Shareholders at the special general meeting. The resolution of the transaction was passed by the shareholders at the Special General Meeting held on 2 August 2007.

On 29 December 2007, the Company, through a subsidiary, entered into various share transfer agreements to acquire an aggregate of 22.5% equity interests in one of the Group's subsidiaries, Weihai Blue Star New Technology Glass Company Limited. ("Weihai New Tech"), from the then minority equity holders of Weihai New Tech. One of the vendor of the share transfer agreements is Shandong Blue Star Glass Co., Ltd.. Shandong Blue Star Glass Co., Ltd. is the connected person of the Company by virtue of it being an affiliate of HCL.

The above transaction constituted connected transaction of the Company which is exempt from approval of the Independent Shareholders at the special general meeting.

Other than disclosed above, the Group was not involved in any connected transactions for the year ended 31 December 2007.

DIRECTORS' INTERESTS IN CONTRACTS

During the year ended 31 December 2007, none of the Directors of the Company had any material interest, whether directly or indirectly, in any contracts of significance to which the Company, any of its holding company or any of its subsidiaries and fellow subsidiaries was a party.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

At no time during the year was the Company, its holding company or any of its subsidiaries and fellow subsidiaries a party to any arrangement to enable the Directors, their respective spouse or minor children, to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or in any other body corporate.

CONTRACT OF SIGNIFICANCE

Other than the agreements disclosed in the sections headed "Continuing Connected Transactions" in the Report of the Directors of this annual report, no contracts of significance of the whole or any substantial part of the business of the Group were entered into or existed during the year ended 31 December 2007.

DIRECTORS' SERVICE CONTRACTS

None of the Directors has entered into a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

Details of the Directors' emoluments are set out in Note 8 to the financial statements.

INTERESTS AND/OR SHORT POSITIONS OF DIRECTORS AND CHIEF EXECUTIVE IN THE SHARES, UNDERLYING SHARES OR DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 31 December 2007, the interests and/or short positions of the Directors and chief executive in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), or otherwise notified to the Company or the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules were as follows:

Name of Director	Company/name of associated corporation	Capacity	Number and class of securities (1)	Percentage of interest in such corporation in class
Zhou Cheng	The Company	Interest of a controlled corporation (2)	26,617,000 Shares (L)	6.40%
Liu Jinduo	The Company	Interest of a controlled corporation (3)	136,463,000 Shares (L)	32.8%

Notes:

(1) The letters "L" and "S" denote the Director's long position and short position in such securities, respectively.

(2) These Shares are beneficially-owned by Swift Glory which is owned as to 90% by Zhou Cheng. He is taken to be interested in these Shares by virtue of Part XV of the SFO.

(3) These Shares are beneficially-owned by First Fortune, an indirect subsidiary of EML. EML is owned as to one-third by each of Cao Zhijiang, Zhang Zuxiang and Liu Jinduo. Liu Jinduo is taken to be interested in these Shares by virtue of Part XV of the SFO.

SUBSTANTIAL SHAREHOLDERS

So far as the Directors are aware, as at 31 December 2007, the interest and/or a short position of the persons, other than Directors and chief executive of the Company, in the Shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO were as follows:

The Company

Name	Capacity	Class and number of Shares (1)	Approximate percentage of shareholding
First Fortune	Beneficial owner	136,463,000 SHARES (L)	32.80%
Hony International	Interest of a controlled corporation (2)	136,463,000 SHARES (L)	32.80%
EML	Interest of a controlled corporation (3)	136,463,000 SHARES (L)	32.80%
Right Lane Limited	Interest of a controlled corporation (3)	136,463,000 SHARES (L)	32.80%
Cao Zhijiang	Interest of a controlled corporation (4)	136,463,000 SHARES (L)	32.80%
Zhang Zuxiang	Interest of a controlled corporation (4)	136,463,000 SHARES (L)	32.80%
Legend Holdings Limited (5) (15) (16) (17)	Interest of a controlled corporation (6)	136,463,000 SHARES (L)	32.80%
Employees' Shareholding Society of Legend Holdings Limited	Interest of a controlled corporation (7)	136,463,000 SHARES (L)	32.80%
Swift Glory (13) (14)	Beneficial owner	26,617,000 SHARES (L)	6.40%
Pilkington Italy Limited (14)	Beneficial owner	124,384,000 SHARES (L)	29.90%
Pilkington Group Limited (12)	Interest of a controlled corporation (8)	124,384,000 SHARES (L)	29.90%
Pilkington Brothers Limited (13)	Interest of a controlled corporation (9)	124,384,000 SHARES (L)	29.90%

Name	Capacity	Class and number of Shares (1)	Approximate percentage of shareholding
NSG UK Enterprises Limited	Interest of a controlled corporation (10)	124,384,000 SHARES (L)	29.90%
NSG Holdings (Europe) Limited	Interest of a controlled corporation (9)	124,384,000 SHARES (L)	29.90%
Nippon Sheet Glass Co., Ltd	Interest of a controlled corporation (10)	124,384,000 SHARES (L)	29.90%
International Finance Corporation	Beneficial owner	33,698,000 SHARES (L)	8.39%

Notes:

(1) The letters "L" and "S" denote the person's long position and short position in such securities, respectively.

(2) First fortune is a wholly-owned subsidiary of Hong International. Hong International is taken to be interested in these shares by virtue of Part XV of the SFO.

(3) Hony International is owned as to 60% by EML and 40% by Right Lane Limited. EML and Right Lane Limited are taken to be interested in these shares by virtue of Part XV of the SFO.

(4) EML is owned as to one-third by each of Cao Zhijiang, Zhang Zuxiang and Liu Jinduo. Each of them is taken to be interested in these Shares by virtue of Part XV of the SFO.

(5) The English company name "Legend Holdings Limited" is a direct transliteration of its Chinese company name 「聯想控股有限公司」.

(6) Right Lane Limtied is a direct whole-owned subsidiary of Legend Holdings Limited. Legend Holdings Limited is taken to be interested in these shares by virtue of Part XV of SFO.

(7) Employees' Shareholding Society of Legend Holdings Limited is an equity holder of Legend Holdings Limited which in turn wholly owns Right Lane Limited. It is therefore taken to be interested in these Shares by virtue of Part XV of the SFO.

(8) Pilkington Italy Limited is a direct wholly-owned subsidiary of Pilkington Brothers Limtied. Pilkington Brothers Limtied is taken to be interested in these shares by viture of Part XV of SFO.

(9) Pilkington Brothers Limited is a direct wholly-owned subsidiary of Pilkington Group Limtied. Pilkington Group Limtied is taken to be interested in these shares by viture of Part XV of SFO..

(10) Pilkington Group Limited is a direct wholly-owned subsidiary of NSG UK Enterprises, Limited. NSG UK Enterprises, Limited is taken to be interested in these shares by viture of Part XV of SFO.

(11) NSG UK Enterprises, Limited is a direct wholly-owned subsidiary of NSG Holding (Europe) Limited. NSG Holding (Europe) Limited is taken to be interested in these shares by viture of Part XV of SFO.

(12) Nippon Sheet Glass Co.,Ltd is a Japan listed company. NSG Holding (Europe) Limited is directly wholly-owned by Nippon Sheet Glass Co., Ltd.. Nippon Sheet Glass Co., Ltd..is taken to be interested in these shares by viture of Part XV of SFO.

(13) Mr Zhou Cheng is an executive Director and a director of First Fortune and Swift Glory.

(14) Mr Li Ping is an executive Director and a director of Swift Glory.

(15) Mr Gou Wen is a non-executive Director and a director and/or employee of the Legend Group. For the purpose of this section, Legend Group means Legend Holdings Limited and its subsidiaries. Members of the Legend Group include but are not limited to First Fortune, Hony international, and Right Lane Limited.

(16) Mr Zhao John Huan is a non-executive Director, a director of EML and/or employee of the Legend Group.

(17) Mr Liu Jinduo is a non-executive Director, a director of EML and/or employee of the Legend Group.

(18) Mr Eddie Chai is a non-executive Director and an employee of the NSG Group. For the purpose of this section, NSG Group means Nippon Sheet Glass Co. Ltd and its subsidiaries. Members of the NSG Group include but are not limited to Pilkington Group Limited, Pilkington Brothers Limited and Pilkington Italy Limited.

BIOGRAPHICAL INFORMATION OF DIRECTORS AND SENIOR MANAGEMENT

Directors

Executive Directors

Mr. Zhou Cheng （周誠）, aged 51, is an executive Director and the Chairman of the Company. Mr Zhou is a senior engineer. He graduated from Nanjing Institute of Chemical Engineering in 1980, majoring in inorganic chemistry. Mr Zhou joined the Group in January 1997 and has previously served as head of Jiangsu Glass Factory and chairman and general manager of Jiangsu Glass Group. He has 25 years of experience in inorganic chemical industry, building materials industry and enterprise administration and management.

Mr. Zhang Zhaoheng（張昭珩）, aged 49, is an executive Director and the chief executive officer of the Company. Mr Zhang is a senior economist with a postgraduate qualification. Mr Zhang joined Blue Star Glass Company in October 1976 and has previously served as chairman and general manager of Weihai Blue Star Glass Co., Ltd., chairman of companies like Blue Star New Technology Company and Zhongbo Technology. He has 31 years of extensive experience in building material industry and corporate management.

Mr. Li Ping（李平）, aged 47, is an executive Director and senior vice president of the Company and chairman of the board of Su Hua Da. He graduated in 1982 from Zhejiang University, majoring in materials, with a bachelor degree in engineering and a master's degree in business administration. He is a senior engineer at postgraduate level. Mr Li joined the Group in February 1982 and has formerly worked as deputy head of Jiangsu Glass Factory, deputy general manager and general manager of Jiangsu Glass Group. He has 23 years of experience in the building materials industry and enterprise management.

Mr. Cui Xiangdong (崔向東), aged 48, is an executive Director and senior vice president of the Company. Mr Cui is an accountant and a senior economist with a university qualification. Mr Cui joined Blue Star Glass in October 1977 and has previously served as general manager of Shandong Blue Star Glass Group, director of companies like Blue Star Co., Blue Star New Technology Company and Zhongbo Technology. He has 30 years of extensive experience in building material industry, corporate management and marketing.

Non-executive Directors

Mr. Zhao John Huan (趙令歡), aged 45, is a non-executive Director of the Board of the Company. Mr Zhao graduated from Nanjing University with a bachelor degree and from Northwestern University in the US with a masters degree. Mr Zhao has extensive experience in senior management positions at several US and PRC companies. Mr Zhao is currently a vice president of Legend Holdings Limited and was appointed as a Director of the Company in January 2005.

Mr. Liu Jinduo (劉金鐸), aged 69, is a non-executive Director of the Company. Mr Liu has extensive experience in enterprise management. Before retiring in 2001 he served as vice president of Legend Holdings Limited. He is currently also a director of Easylead Management Limited and was appointed as a Director of the Company in January 2005.

Mr. Eddie Chai (柴楠), aged 49, is a non-executive Director of the Company. Mr. Chai is the group country manager of Pilkington (Asia) Limited which is a company in Britain, Pilkington plc ("Pilkington"), one of the world's leading float glass companies and the founder of float glass technology, mainly responsible for the management of business of Pilkington in the PRC. From 2003 to 2006, Mr. Chai was the founder and director of China Investment Solution. From 1996 to 2003, he was the managing director of Northern China and senior vice president in strategy and business development of Lafarge China in China and Paris respectively. Form 1993 to 1995, he was the managing consultant of McKinsey & Co.

Mr. Guo Wen (郭文), aged 40, is a non-executive Director of the Company. Mr Guo graduated from University of Science and Technology Beijing with a bachelor degree. Mr Guo has extensive experience in financial, security, merger and acquisition investment in China and Hong Kong. He is also an executive director of Hony Captial Ltd.

Independent Non-executive Directors

Mr. Song Jun (宋軍), aged 47, is an independent non-executive Director of the Company. Mr Song graduated from Tsinghua University in 1990 with a PhD in engineering. Mr Song has served as directors or chairmen of more than ten affiliated companies of Tsinghua Holdings and has extensive experience in management and operations. Mr Song is currently also the Chairman of Tsinghua Holdings Co., Ltd. and was appointed as a Director of the Company in January 2005.

Mr. Zhang Baiheng (張佰恒), aged 47, is an independent non-executive Director of the Company. He was an officer of the China Air Force. Mr Zhang has extensive experience in the building material industry, and he currently served as the general secretary of the China Architectural and Industrial Glass Association and was appointed as a Director of the Company in January 2005.

Mr. Sik Siu Kwan (薛兆坤), aged 40, is an independent non-executive Director of the Company. Mr. Sik has more than 12 years of experience in investment banking and finance. He has held senior positions with a number of major international investment banks as well as a Hong Kong operation of a core securities and investment banking operation of a state-owned PRC bank, responsible for business development and regional business operations. He has completed several listings on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") and has engaged in corporate finance activities including China B stock listing, and convertible debenture issuance. He achieved first class honours in his Bachelor's degree in engineering from Oxford University in 1989. He is also a member of The Institute of Chartered Accountants in England and Wales. He is currently the managing director of DBS Asia Capital Limited.

Senior Management

Mr. Lu Guo (呂國), aged 45, is a vice president of the Company, a director and general manager of Su Hua Da. Mr Lu is a senior engineer. He graduated in 1984 with a bachelor degree from Wuhan Institute of Building Material, majoring in glass. Mr Lu joined the Group in August 1984 and has worked as head of a branch factory of Jiangsu Glass Factory, an assistant to the general manager and a deputy general manager of Jiangsu Glass Group. He has over 20 years of experience in the PRC glass industry.

Mr. Ge Yankai (葛言凱), aged 47, is a vice president of the Company and a director of Weihai Blue Star, a director and general manager of Blue Star New Technology Company. Mr Ge is a senior engineer. He graduated with an engineering bachelor degree from Shandong University of Technology, majoring in electrical automation, in 1982. Mr Ge joined Blue Star Glass in 1982 and has previously served as deputy general manager Shandong Blue Star Glass Group, director and deputy general manager of Blue Star Co., director and general manager of Blue Star New Technology Company. He has 29 years of extensive experience in the glass industry in the PRC.

Mr. Yang Hongfu (楊洪富), aged 46, is a vice president of the Company. Mr Yang is a senior economist and a university graduate. He has worked as vice director of Jiangsu Branch of Industrial and Commercial Bank of China, senior manager of Nanjing Office of China Huarong Asset Management Corporation, vice chairman of Jiangsu SHD New Materials Company Limited, director of China Nanjing Automobile (Group) Corporation, chairman of the board of supervision Jiangsu Nantong Yaorong Glass Co., Ltd.

Mr. Cheng Xin（程昕）, aged 36, is a vice president and director of Weihai Blue Star Co., Ltd. Mr Cheng is a registered security analyst and an economist. He has a university qualification and is now studying in EMBA in China Europe International Business School. He has previously worked as manager of Investment Advisory Department of Haitong Securities Co., Ltd., deputy general manager of Junxin Venture Capital Investment Company. He has 13 years of extensive experience in the investment scope.

Mr. Lau Ying Kit（劉英傑）, aged 34, was appointed as the chief financial officer and company secretary of the Company in December 2004. Mr Lau holds a Bachelor of Business degree from Victoria University of Technology, Australia and is an Associate Member of the Hong Kong Institute of Certified Public Accountants. Prior to joining the Company, Mr Lau was the financial controller and company secretary for a listed company in Hong Kong. He has gained extensive experience in auditing, accounting, corporate finance from accounting firms and a publicly listed company in Hong Kong.

Mr. Wang Jianxun（汪建勛）, aged 50, is a chief technology officer of the Company and director of Hangzhou Blue Star. Mr Wang graduated from Wuhan Building Materials Technology Institute in 1982 with a bachelor degree in engineering. He is a professor grade senior engineer. Mr Wang has previously worked as engineer, deputy chief engineer, senior engineer, professor grade senior engineer in Qinhuangdao Glass Design Research Institute; professor grade senior engineer in Zhejiang University; director and general manager of Hangzhou Blue Star New Materials Company. Mr Wang has over 30 years of extensive experience in the research and development and application on the glass engineering project design. He was also awarded several National S&T Advance Awards.

SHARE OPTION SCHEME

The Company has conditionally adopted a share option scheme on 30 May 2005 as an incentive for the qualified participants to work with commitment forwards enhancing the value of the Company and its shares. The following is a summary of the principal terms of the rules of the share option scheme.

(a) Who may join

The Board of Directors may at its discretion grant options to: (i) any executive Director, or employee (whether full time or part time) of the Company, any member of the Group or any entity in which any member of the Group holds an equity interest ("Invested Entity"); (ii) any non-executive Directors (including independent non-executive Directors) of the Company, any member of the Group or any Invested Entity; (iii) any supplier of goods or services to the Company, any member of the Group or any Invested Entity; (iv) any customer of the Company, any member of the Group or any Invested Entity; and (v) any person or entity that provides research, development or technological support to the Company, any member of the Group or any Invested Entity (collectively, "Qualified Participants").

(b) The purpose of the share option scheme

The share option scheme seeks to provide an incentive for the Qualified Participants to work with commitment towards enhancing the value of the Company and its shares for the benefit of its shareholders, and to maintain or attract business relationships with the Qualified Participants whose contributions are or may be beneficial to the growth of the Group.

(c) Subscription Price

The subscription price ("Subscription Price") shall, subject to any adjustment pursuant to paragraph (m), be a price determined by the Board of Directors but in any event shall be at least the highest of: (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheets on the date on which the option is offered to a Qualified Participant ("Offer Date"); (ii) the average of the closing prices of the shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the Offer Date; and (iii) the nominal value of the shares.

(d) Grant of Option

An offer of the grant of an option shall be made to a Qualified Participant by letter ("Offer Letter") in such form as the Board of Directors may from time to time determine specifying the terms and subject to the conditions on which the option is to be granted. Subject to the terms of the Offer Letter, there shall be no general performance target to or minimum holding period for the vesting or exercise of options.

An option is deemed to have been accepted and to have taken effect when the duplicate Offer Letter comprising acceptance of the option duly signed by the option-holder together with a remittance in favour of the Company of HK$1 by way of consideration for the grant of the option shall have been received by the Company on or before the last day for acceptance as set out in the Offer Letter.

(e) Maximum number of shares

The maximum number of shares in respect of which options may be granted under the share option scheme and any other share option schemes of the Company shall not in aggregate exceed the number of shares that shall represent 10% ("Scheme Mandate") of the total number of shares in issue (which equals 416 million shares as at the date of this annual report).

(f) Timing for exercise of options

The period during which an option may be exercised in accordance with the terms of the share option scheme ("Option Period") shall be a period of time to be notified by the Board of Directors to each option-holder, which the Board of Directors may in its absolute discretion determine, save that such period shall not be more than ten years commencing on the Offer Date.

(g) Life of the share option scheme

The share option scheme shall be valid and effective for a period of ten (10) years commencing from the date on which the share option scheme is deemed to take effect in accordance with its terms, after which period no further options will be granted but the provisions of the share option scheme shall remain in full force and effect in all other respects. In particular, all options granted before the end of such period shall continue to be valid and exercisable after the end of such period in accordance with the terms of the share option scheme.

As at 31 December 2007, no option has been granted by the Company under the share option scheme. The remaining life of the share option scheme is 8 years and 5 months.

On 29 February 2008, the Directors of the Company granted share options under the share option scheme. Details of the share option granted were set out in Note 37(d) to the financial statements.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year ended 31 December 2007, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

PUBLIC FLOAT

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

MATERIAL INVESTMENTS, ACQUISITIONS OR DISPOSALS

Save as disclosed in "Material Investments, Acqusitions and Disposals" in the Management Discussion and Analysis of this annual report, the Group had not made any material acquisitions or disposals during the year ended 31 December 2007.

POST BALANCE SHEET EVENTS

Details of post balance sheet events of the Group are set out in Note 37 to the financial statements.

CONVERTIBLE NOTES

Details of the convertible notes are set out in Note 27 to the financial statements.

UNSECURED NOTES

Details of the unsecured notes are set out in Note 28 to the financial statements.

AUDIT COMMITTEE

The audit committee of the Company comprises three non-executive Directors, two of whom are independent non-executive Directors. The current committee members are Mr. Sik Siu Kwan (Chairman), Mr. Song Jun and Mr. Zhao John Huan. The audit committee has reviewed with the Company's management and the external auditors the accounting principles and practices adopted by the Group, and has discussed auditing, internal control and financial reporting matters, including the review of the annual results for the year ended 31 December 2007.

INVESTOR RELATIONS AND COMMUNICATIONS

The Company adopts a proactive policy in promoting investor relations and communications. Regular meetings are held with institutional investors and financial analysts to ensure two-way communications on the Company's performance and development.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the Board, the Company has complied with the Code on Corporate Governance Practices (the "CCGP"), as set out in Appendix 14 to the Listing Rules throughout the year ended 31 December 2007.

COMPLIANCE WITH THE MODEL CODE

The Company has adopted a code of conduct rules (the "Code of Conduct") regarding securities transactions by Directors on terms no less exacting than the required standard set out in the Model Code as set out in Appendix 10 to the Listing Rules, and that having made specific enquiry of all the Directors, the Company confirms that all the Directors have complied with the required standard set out in the Code of Conduct and the Model Code.

AUDITORS

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

By order of the Board
Zhou Cheng
Chairman

Hong Kong, 28 April 2008

The Company is committed to the establishment of good corporate governance practices and procedures. The principles of corporate governance adopted by the Company emphasise a board of high quality, sound internal control, transparency and accountability to all shareholders.

The Group met the Code Provisions set out in Appendix 14 to the Listing Rules since the Listing except for Code Provisions B.1. 4 and C.3.4. Under Code Provisions B.1.4 and C.3.4 of the CCGP, the Company should make available the terms of reference of its remuneration committee and audit committee on request and by including the information on its website. Since the Company has not yet established its own website, the above requirement with regard to providing such information on a website cannot be met accordingly. However, the terms of reference of the two committees are available on request.

THE BOARD OF DIRECTORS

The Board assumes responsibility for leadership and control of the Group and is collectively responsible for promoting the success of the Company. The principal roles of the Board are:

- to lay down the Group's objectives, strategies, policies and business plan;
- to monitor and control operating and financial performance through the determination of the annual budget in particular the capital expenditure budget; and
- to set appropriate policies to manage risks in pursuit of the Group's strategic objectives.

The Board has delegated the day-to-day responsibility to the executive management under the instruction/supervision of Chief Executive Officer.

Currently, the Board has established an audit committee and a remuneration committee with defined terms of reference.

Proposed board meeting dates for the forthcoming financial year are circulated to the Board of Directors in the preceding year. During the year ended 31 December 2007, the Board held 12 board meetings. The attendance of the Directors at these 12 board meetings are as follows:

Directors' attendance at board meetings	Directors' number of attendance
Mr. Zhou Cheng	12/12
Mr. Zhang Zhaoheng (Appointed on 19 March 2007)	11/11
Mr. Li Ping	12/12
Mr. Cui Xiangdong (Appointed on 19 March 2007)	11/11
Mr. Lu Guo (Resigned on 19 March 2007)	1/1
Mr. Zhao John Huan	10/12
Mr. Liu Jinduo	10/12
Mr. Eddie Chai	10/12
Mr. Guo Wen (Appointed on 19 March 2007)	10/11
Mr. Song Jun	12/12
Mr. Zhang Baiheng	12/12
Mr. Sik Siu Kwan	9/12

Board minutes are kept by the company secretary of the Company, and are sent to the Directors for records and are open for inspection by the Directors.

Chairman and Chief Executive Officer ("CEO")

In the Board, the Chairman and the CEO are separate persons and their roles are segregated in order to preserve independency and to have a balanced judgement of views. The Board has appointed a Chairman, Mr. Zhou Cheng, who provides leadership to the Board so that the Board works effectively and discharges its responsibilities, and that all major issues are discussed by the Board in a timely manner. The CEO, Mr. Zhang Zhaoheng, who is an executive Director, has executive responsibilities over the business directions and operational decisions of the management and performance of the Group.

The Board also comprises independent non-executive Directors who bring strong independent judgement, knowledge and expertise to the Board. As noted below, the majority of the audit committee members are independent non-executive Directors. This structure is to ensure a sufficient balance of power and authority in place within the Group.

Board Composition

The Board comprises of four executive Directors, namely Mr. Zhou Cheng, Mr. Zhang Zhaoheng, Mr. Li Ping and Mr. Cui Xiangdong; four non-executive Directors, namely Mr. Zhao John Huan, Mr. Liu Jinduo, Mr. Eddie Chai and Mr. Guo Wen, and three independent non-executive Directors, namely Mr. Sik Siu Kwan, Mr. Song Jun and Mr. Zhang Baiheng. Mr. Zhou Cheng is the Chairman of the Board.

The Board members have no financial, business, family or other material/relevant relationships with each other. Such balanced Board composition is formed to ensure strong independence exists across the Board. The biographies of the Directors are set out on pages 23 to 25 to the annual report, which demonstrates a diversity of skills, expertise, experience and qualifications.

The Company has received annual confirmation of independence from the three independent non-executive Directors in accordance with Rule 3.13 of the Listing Rules. The Board has assessed their independence and concluded that all the independent non-executive Directors are independent within the definition of the Listing Rules.

Appointments, Re-election and Removal

Pursuant to the Bye-Law 102(A), the Company may from time to time in general meeting by ordinary resolution elect and pursuant to the Bye-law 102(B), the Board shall have power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy or as an addition to the Board. Such Directors shall hold office until the next general meeting of the Company and shall then be eligible for re-election at the meeting.

Pursuant to the Bye-Law 99, at each annual general meeting, one-third of the Directors shall retire from office by rotation.

Pursuant to the Bye-Law 104, the Company may by ordinary resolution remove any Director before the expiration of his period of office notwithstanding anything in the Bye-Laws or in any agreement between the Company and such Director and may elect another person in his stead.

Mr. Zhang Zhaoheng, Mr. Cui Xiandong and Mr. Guo Wen were appointed on 19 March 2007.

Mr. Lu Guo resigned on 19 March 2007.

All non-executive Directors have contracts with the Company for a specified period of three years subject to retirement and rotation at the general meeting of the Company in accordance with the Company's Bye-Laws and the CCGP.

Responsibilities of Directors

Every newly appointed Director is ensured to have a proper understanding of the operations and business of the Group and that he is fully aware of his responsibilities under statute and common law, the Listing Rules, applicable legal requirements and other regulatory requirements, and the business and governance policies of the Group. The Directors are continually updated with legal and regulatory developments, business and market changes, and the strategic development of the Group to facilitate the discharge of their responsibilities.

The independent non-executive Directors take an active role in board meetings, contribute to the development of strategies and policies and make sound judgement on issues of strategy, policy, performance, accountability, resources, key appointments and standard of conduct. They will take lead where potential conflicts of interests arise. They are also members of board committees and scrutinise the overall performance of the Group in achieving agreed corporate goals and objectives, and monitoring the reporting of performance.

Directors' Securities Transactions

The Company has adopted a set of code of conduct rules (the "Code of Conduct") regarding securities transactions by Directors on terms no less exacting than the required standard set out in the Model Code as set out in Appendix 10 to the Listing Rules, and that having made specific enquiry of all the Directors, the Company confirms that all the Directors have complied with the required standard set out in the Code of Conduct and the Model Code.

Supply of and Access to Information

In respect of regular board meetings, an agenda and the accompanying board papers of each meeting are sent to the Directors approximately one month before the intended date of meeting. Board papers are circulated to the Directors to ensure they have adequate information before the meeting for the ad hoc matters.

The management has the obligation to supply the Board and its committees with adequate information in a timely manner, to enable them to make informed decisions. Where any Director requires more information than is volunteered by the management, each Director has separate and independent access to the Company's senior management to make further enquires if necessary.

All Directors are entitled to have unlimited access to the board papers and relevant materials. Such information is prepared to enable the Board to make an informed decision on matters placed before it.

BOARD COMMITTEE

The board committees of the Company are the Audit Committee and Remuneration Committee.

Audit Committee

The Company has set up an audit committee to establish formal and transparent arrangements for considering how it will apply the financial reporting and internal control principles and for maintaining an appropriate relationship with the Company's auditors.

The Audit Committee currently comprises two independent non-executive Directors of the Company, namely Mr. Sik Siu Kwan and Mr. Song Jun, and one non-executive Director, namely Mr. Zhao John Huan. The chairman of the Audit Committee is Mr. Sik Siu Kwan. The members of the audit committee possess a wealth of management experience in the accounting profession and commercial sectors.

During the year ended 31 December 2007, two audit committee meetings have been held.

Directors' attendance at audit committee meeting

Directors	Number of attendance
Mr. Sik Siu Kwan (Chairman of the audit committee)	2/2
Mr. Song Jun	2/2
Mr. Zhao John Huan	1/2

Full minutes of audit committee meetings are kept by the company secretary. Draft and final versions of minutes of the audit committee meetings are sent to all members of the committee for their comment and records respectively, in both cases within a reasonable time after the meeting.

During the year ended 31 December 2007, the audit committee has met the external auditors to discuss and review areas of concerns and internal control without the presence of the management. The audit committee reviewed the interim and annual reports before submission to the Board. The committee focused not only on the impact of the changes in accounting policies and practices but also on the compliance with accounting standards, the Listing Rules and the legal requirements in the review of the Company's interim and annual reports.

Remuneration Committee

The Company has set up a remuneration committee to ensure that there are formal and transparent procedures for setting policies on the remuneration of the Directors and senior management. The committee is comprised of one non-executive Director, namely Mr. Zhao John Huan, and two independent non-executive Directors, namely Mr. Song Jun and Mr. Sik Siu Kwan. The chairman of the remuneration committee is Mr. Zhao John Huan.

During the year ended 31 December 2007, one remuneration committee meetings have been held.

Directors' attendance at remuneration committee meeting

Directors	Number of attendance
Mr. Zhao John Huan (Chairman of remuneration committee)	1/1
Mr. Song Jun	1/1
Mr. Sik Siu Kwan	1/1

The terms of reference of the remuneration committee are consistent with the terms as set out in the relevant section of the CCGP, and the terms of reference of the remuneration committee are available on request. No Director is involved in deciding his own remuneration.

In order to attract, retain and motivate Directors and senior management serving for the Group, the Company maintained in a competitive level of remuneration according to the relevant market situation, and it also corresponds with the Directors' and the senior management's performance.

Delegation by the Board

The day-to-day management of the Company is delegated to the management, with division heads responsible for different aspects of the business.

Major corporate matters that are specifically delegated by the Board to the management include the preparation of interim and annual reports and announcements for board approval before publishing, execution of business strategies and initiatives adopted by the Board, implementation of adequate systems of internal controls and risk management procedures, and compliance with relevant statutory requirements and rules and regulations.

ACCOUNTABILITY AND AUDIT

The management provides such explanation and information to the Board so as to enable the Board to make an informed assessment of the financial and other information put before the Board.

The Directors acknowledge their responsibility for preparing the financial statements of the Company for each financial year which gives a true and fair view of the state of affairs of the Company and of the Group as at the end of the financial year and of the Group's results and cash flows for the year then ended. The Directors aim to present a balanced and understandable assessment of the Group's position and prospects. The Board is not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Group's ability to continue as a going concern, therefore, the Board continues to adopt the going concern approach in preparing the financial statements.

The Board acknowledges its responsibility to present a balanced, clear and understandable assessment in the Company's annual and interim reports, other price-sensitive announcement and other financial disclosures required under the relevant legal and regulatory requirements.

The Company engaged KPMG, as external auditors of the Group. The auditors' reporting responsibilities are set out in the Report of the Auditors.

INTERNAL CONTROL

The Board has overall responsibility for maintaining a sound and effective internal control system of the Group. The Group endeavors to set up an internal control system with a well defined management structure with limits of authority, which is designed for the achievement of business objectives, to safeguard assets against unauthorized use or disposition, to ensure proper maintenance of books and records for the provision of reliable financial information for internal use or publication, and to ensure compliance with relevant legislations and regulations. The Board has conducted a review on the effectiveness of the Group's internal control system during 2007 with a view to improve its internal control system.

AUDITORS' REMUNERATION

The Company engaged the auditors to review and audit the financial statements of the Company included in the interim and annual reports, respectively, for RMB6.5 million (which is payable by the Company). Save as disclosed above, the Company did not engage KPMG for any other non-audit services during the year ended 31 December 2007.

COMMUNICATIONS WITH SHAREHOLDERS

In every general meeting, in respect of each substantially separate issue, a separate resolution would be proposed by the Chairman of that meeting.

The Chairman of the Board will attend at the annual general meeting to be available to answer questions at the meeting.

VOTING BY POLL

The Company informs the shareholders (in its circulars convening a general meeting) the procedures for voting by poll and the rights of shareholders to demand a poll to ensure compliance with the requirements on the poll voting procedures.

In accordance to Bye-Law 70 of the Company, at any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) demanded:

i) by the chairman of the meeting; or

ii) by at least three shareholders present in person or by a duly authorised corporate representative or by proxy for the time being entitled to vote at the meeting; or

iii) by any shareholder or shareholders present in person or by duly authorised corporate representative or by proxy and representing not less than one-tenth of the total voting rights of all shareholders having the right to vote at the meeting; or

iv) by any shareholder or shareholders present in person or by duly authorised corporate representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

The Company will count all proxy votes, and except where a poll is required, the chairman of a meeting should indicate to the meeting the level of proxies lodged on each resolution, and the balance for and against the resolution, after it has been dealt with on a show of hands. The Company will ensure that votes cast are properly counted and recorded.

The chairman of a meeting will at the commencement of the meeting ensure that an explanation is provided of:

i) the procedure for demanding a poll by shareholders before putting a resolution to the vote on a show of hands; and

ii) the detailed procedures for conducting a poll and then answer any questions from shareholders whenever voting by way of a poll is required.

KPMG

Independent Auditor's Report to the Shareholders of
China Glass Holdings Limited
(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of China Glass Holdings Limited (the "Company") set out on pages 38 to 120, which comprise the consolidated and the Company's 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 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 financial statements based on our audit. This report is made 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 the 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 judgement, 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.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of the Company's and of the Group's affairs 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.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
28 April 2008

Consolidated Income Statement

for the year ended 31 December 2007

(Expressed in Renminbi ("RMB"))

	Note	**2007 RMB'000**	2006 RMB'000
Turnover	4	**2,212,324**	573,136
Cost of sales		**(1,821,647)**	(517,829)
Gross profit		**390,677**	55,307
Other revenue	5	**16,400**	5,076
Other net income/(loss)	5	**13,446**	(1,173)
Distribution costs		**(71,927)**	(24,098)
Administrative expenses		**(144,921)**	(33,541)
Profit from operations		**203,675**	1,571
Impairment loss on assets classified as held-for-sale	23	**(5,277)**	—
Excess of the net fair value of the acquired net assets over cost	31	**26,071**	24,315
Gain from issuance of shares by subsidiaries	32	**5,646**	—
Finance costs	6(a)	**(97,217)**	(15,538)
Profit before taxation	6	**132,898**	10,348
Income tax	7(a)	**6,033**	4,257
Net profit for the year		**138,931**	14,605
Attributable to:			
Equity shareholders of the Company		**82,773**	5,623
Minority interests		**56,158**	8,982
Net profit for the year		**138,931**	14,605
Dividends payable to equity shareholders of the Company attributable to the year:			
Final dividend proposed after the balance sheet date	11(a)	**23,917**	—
Basic earnings per share (RMB)	*12(a)*	***0.208***	*0.016*
Diluted earnings per share (RMB)	*12(b)*	***0.208***	*0.007*

The notes on pages 45 to 120 form part of these financial statements.

Consolidated Balance Sheet

at 31 December 2007

(Expressed in RMB)

	Note	**2007** **RMB'000**	2006 RMB'000
Non-current assets			
Property, plant and equipment	13	**1,971,995**	843,687
Lease prepayments	16	**255,891**	109,108
Intangible assets	17	**116,388**	—
Interest in an associate	18	**63,828**	9,815
Available-for-sale investment		**1,000**	—
Goodwill	19	**14,113**	14,113
Deferred tax assets	29	**41,912**	11,150
		2,465,127	987,873
Current assets			
Inventories	20	**344,159**	91,869
Trade and other receivables	21	**388,887**	214,217
Cash and cash equivalents	22	**355,855**	67,275
Assets classified as held-for-sale	23	**4,413**	—
		1,093,314	373,361
Current liabilities			
Trade and other payables	24	**1,194,627**	330,915
Bank and other loans	25(a)	**225,960**	266,100
Income tax payable		**5,286**	837
		1,425,873	597,852
Net current liabilities		**(332,559)**	(224,491)
Total assets less current liabilities		**2,132,568**	763,382

The notes on pages 45 to 120 form part of these financial statements.

at 31 December 2007

(Expressed in RMB)

	Note	2007 RMB'000	2006 RMB'000
Non-current liabilities			
Bank and other loans	25(b)	**35,000**	155,000
Amount due to a related company	26	**37,695**	41,387
Convertible notes	27	**—**	34,267
Unsecured notes	28	**705,006**	—
Deferred tax liabilities	29	**70,827**	10,004
		848,528	240,658
NET ASSETS		**1,284,040**	522,724
CAPITAL AND RESERVES			
Share capital	30	**43,856**	38,336
Reserves	30	**565,821**	359,980
Total equity attributable to equity shareholders of the Company		**609,677**	398,316
Minority interests	30	**674,363**	124,408
TOTAL EQUITY		**1,284,040**	522,724

Approved and authorised for issue by the board of directors on 28 April 2008.

Zhou Cheng
Chairman

Zhang Zhaoheng
Director

The notes on pages 45 to 120 form part of these financial statements.

Balance Sheet

at 31 December 2007
(Expressed in RMB)

	Note	2007 RMB'000	2006 RMB'000
Non-current assets			
Property, plant and equipment	13	**684**	874
Investments in subsidiaries	14	**179,577**	71,133
Loan to a subsidiary	15	**514,196**	—
		694,457	72,007
Current assets			
Other receivables	21	**458,255**	244,949
Cash and cash equivalents	22	**31,327**	6,563
		489,582	251,512
Current liabilities			
Other payables	24	**46,342**	30,978
Net current assets		**443,240**	220,534
Total assets less current liabilities		**1,137,697**	292,541
Non-current liabilities			
Unsecured notes	28	**705,006**	—
NET ASSETS		**432,691**	292,541
CAPITAL AND RESERVES			
Share capital	30	**43,856**	38,336
Reserves	30	**388,835**	254,205
TOTAL EQUITY		**432,691**	292,541

Approved and authorised for issue by the board of directors on 28 April 2008.

Zhou Cheng
Chairman

Zhang Zhaoheng
Director

The notes on pages 45 to 120 form part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2007
(Expressed in RMB)

	Note	2007 RMB'000	2006 RMB'000
Total equity at 1 January		**522,724**	398,063
Issuance of shares	30(c)	**151,778**	—
Share issue expenses	30(c)	**(10,216)**	—
Contributions from minority interests		**106,460**	36,196
Increase in minority interests through acquisitions of subsidiaries		**309,666**	119,412
Issuance of convertible notes	27	**33,203**	21,392
Increase in minority interests through conversion of convertible notes	27	**76,397**	—
Acquisitions of minority interests	31(d)	**(44,485)**	(60,774)
Net profit for the year		**138,931**	14,605
Dividends approved during the year	11(b)	**—**	(4,824)
Exchange differences on translation into presentation currency		**(418)**	(1,346)
Total equity at 31 December		**1,284,040**	522,724

The notes on pages 45 to 120 form part of these financial statements.

Consolidated Cash Flow Statement

for the year ended 31 December 2007

(Expressed in RMB)

	2007 RMB'000	2006 RMB'000
Operating activities		
Profit before taxation	**132,898**	10,348
Adjustments for:		
Depreciation and amortisation	**159,615**	47,893
Impairment loss on assets classified as held-for-sale	**5,277**	—
Interest income	**(14,297)**	(4,826)
Finance costs	**97,217**	15,538
Net loss on disposal of property, plant and equipment and land use rights	**101**	10
Excess of the net fair value of the acquired net assets over cost	**(26,071)**	(24,315)
Gain from issuance of shares by subsidiaries	**(5,646)**	—
Operating profit before changes in working capital	**349,094**	44,648
Decrease in inventories	**56,913**	5,008
Decrease/(increase) in trade and other receivables	**247,183**	(28,250)
(Decrease)/increase in trade and other payables	**(423,081)**	45,757
Cash generated from operations	**230,109**	67,163
PRC Income Tax paid	**(5,289)**	(114)
Hong Kong Profits Tax paid	**(39)**	—
Net cash generated from operating activities	**224,781**	67,049
Investing activities		
Payment for the purchase of property, plant and equipment	**(286,141)**	(85,921)
Proceeds from disposal of property, plant and equipment and land use rights	**23,743**	921
Payment for acquisitions of equity interests in subsidiaries, net of cash acquired	**(28,688)**	(105,879)
Payment for acquisitions of minority interests	**(15,929)**	(41,275)
Payment for capital injection into an associate	**(54,013)**	(9,815)
Proceeds from disposal of assets classified as held-for-sale	**10,125**	—
Payment for land use right premiums	**(4,726)**	(4,448)
Advances to related parties	**—**	(10,339)
Advances repaid by related parties	**—**	18,090
Interest received	**10,165**	2,129
Net cash used in investing activities	**(345,464)**	(236,537)

The notes on pages 45 to 120 form part of these financial statements.

	2007 RMB'000	2006 RMB'000
Financing activities		
Proceeds from new bank and other loans	**234,219**	306,100
Repayment of bank and other loans	**(819,967)**	(250,000)
Proceeds from the issue of shares	**151,778**	—
Payment of transaction costs on the issue of shares	**(10,216)**	—
Proceeds from the issue of convertible notes	**75,477**	52,171
Proceeds from the issue of unsecured notes	**755,118**	—
Payment of transaction costs on the issue of unsecured notes	**(28,112)**	—
Contributions from minority interests	**106,460**	36,196
Dividends paid to equity shareholders of the Company	**—**	(1,883)
Other finance costs paid	**(53,742)**	(16,261)
Net cash generated from financing activities	**411,015**	126,323
Net increase/(decrease) in cash and cash equivalents	**290,332**	(43,165)
Cash and cash equivalents at the beginning of the year	**67,275**	113,585
Effect of foreign exchange rate changes	**(1,752)**	(3,145)
Cash and cash equivalents at the end of the year	**355,855**	67,275

The notes on pages 45 to 120 form part of these financial statements.

1 CORPORATE INFORMATION

The Company was incorporated in Bermuda on 27 October 2004 as an exempted company with limited liability under the Companies Act 1981 of Bermuda (as amended). The shares of the Company were listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 23 June 2005. The consolidated financial statements of the Company for the year ended 31 December 2007 comprise the Company and its subsidiaries (collectively referred to as the "Group") and the Group's interest in an associate. The Group is principally involved in the production, marketing and distribution of glass and glass products, and the development of glass production technology.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

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

The HKICPA has issued certain new and revised HKFRSs that are first effective for the current accounting period of the Group and the Company. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group and the Company for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2007 comprise the Group and the Group's interest in an associate.

The measurement basis used in the preparation of the financial statements is the historical cost basis. Non-current assets held-for-sale are stated at the lower of carrying amount and fair value less costs to sell (see Note 2(w)).

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in Note 40.

(c) Subsidiaries and minority interests

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

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Minority interests represent the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the Company, whether directly or indirectly through subsidiaries, and in respect of which the Group has not agreed any additional terms with the holders of those equity interests which would result in the Group as a whole having a contractual obligation in respect of those equity interests that meets the definition of a financial liability. Minority interests are presented in the consolidated balance sheet within equity, separately from the equity attributable to the equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between the minority interests and the equity shareholders of the Company.

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Associates

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

An investment in an associate is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the associate's net assets, unless it is classified as held-for-sale (see Note 2(w)). The consolidated income statement includes the Group's share of the post-acquisition, post-tax results of the associate for the year.

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

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

(e) Goodwill

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Property, plant and equipment

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

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

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

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual values, if any, using the straight-line method over their estimated useful lives as follows:

	Estimated useful lives
Plant and buildings	8-45 years
Machinery and equipment	3-30 years
Motor vehicles and others	3-15 years

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

(g) Intangible assets (other than goodwill)

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalised includes the costs of materials, direct labour, and an appropriate proportion of overheads and borrowing costs, where applicable (see Note 2(v)). Capitalised development costs are stated at cost less accumulated amortisation and impairment losses (see Note 2(k)). Other development expenditure is recognised as an expense in the period in which it is incurred.

Other intangible assets that are acquired by the Group are stated in the balance sheet at cost less accumulated amortisation and impairment losses (see Note 2(k)).

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Intangible assets (other than goodwill) (continued)

Amortisation of intangible assets is charged to the income statement on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

	Estimated useful lives
Intellectual properties	10-20 years

Both the period and method of amortisation are reviewed annually.

(h) Lease prepayments

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

(i) Leased assets

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

(i) Classification of assets leased to the Group

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

(ii) Operating lease charges

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Trade and other receivables

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

(k) Impairment of assets

(i) Impairment of financial assets

Non-current and current financial assets that are stated at cost or amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

— significant financial difficulty of the debtor;

— a breach of contract, such as a default or delinquency in interest or principal payments;

— it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

— a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

— for unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities are not reversed.

— for trade and other receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Impairment of assets (continued)

(i) Impairment of financial assets (continued)

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

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade and other receivables directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in the income statement.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

— property, plant and equipment;

— lease prepayments;

— intangible assets;

— investments in subsidiaries and associates (except for those classified as held-for-sale); and

— goodwill

If such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, the recoverable amount is estimated annually whether or not there is any indication of impairment.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Impairment of assets (continued)

(ii) *Impairment of other assets* (continued)

— Calculation of recoverable amount

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

— Recognition of impairment losses

An impairment loss is recognised in the income statement whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

— Reversals of impairment losses

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

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

(iii) *Interim financial reporting and impairment*

Under the Rules Governing the Listing of Securities on the Stock Exchange, the Group is required to prepare an interim financial report in compliance with HKAS 34, *Interim financial reporting*, in respect of first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see Notes 2(k)(i) and 2 (k)(ii)).

Impairment losses recognised in an interim period in respect of goodwill and unquoted equity securities carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Inventories

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

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

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

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

(m) Cash and cash equivalents

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

(n) Convertible notes

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

At initial recognition the liability component of the convertible notes is measured as the present value of the future interest and principal payments, discounted at the market rate of interest applicable at the time of initial recognition of similar liabilities that do not have a conversion option. Any excess of proceeds over the amount initially recognised as the liability component is recognised as the equity component. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds.

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Interest-bearing borrowings

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

(p) Employee benefits

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

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

The Group's contributions to defined contribution retirement plans are charged to the income statement when incurred, except to the extent that they are included in the cost of inventories not yet recognised as an expense or cost of construction in progress not yet transferred to property, plant and equipment.

(ii) Termination benefits

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

(q) Trade and other payables

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

(r) Income tax

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Income tax (continued)

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Income tax (continued)

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

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

— in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  — the same taxable entity; or

  — different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(s) Provisions and contingent liabilities

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the income statement as follows:

(i) Sale of goods

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

(ii) Interest income

Interest income is recognised as it accrues using the effective interest method.

(u) Translation of foreign currencies

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

The results of operations which have a functional currency other than Renminbi are translated into Renminbi at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items are translated into Renminbi at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly in the exchange reserve.

(v) Borrowing costs

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(w) Non-current assets held-for-sale

A non-current asset is classified as held-for-sale if it is highly probable that its carrying amount will be recovered through a sale transaction rather than through continuing use and the asset is available for sale in its present condition.

Immediately before classification as held-for-sale, the measurement of the non-current assets is brought up-to-date in accordance with the accounting policies before the classification. Then, on initial classification as held-for-sale and until disposal, the non-current assets (except for certain assets as explained below), are recognised at the lower of their carrying amount and fair value less costs to sell. The principal exceptions to this measurement policy so far as the financial statements of the Group are concerned are deferred tax assets and financial assets (other than investments in subsidiaries and associates). These assets, even if held-for-sale, would continue to be measured in accordance with the policies set out elsewhere in Note 2.

Impairment losses on initial classification as held-for-sale, and on subsequent re-measurement while held-for-sale, are recognised in the income statement. As long as a non-current asset is classified as held-for-sale, the non-current asset is not depreciated or amortised.

(x) Related parties

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

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

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

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(y) Segment reporting

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

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

The analysis of the geographical location of the operations of the Group during the year is set out in Note 33.

3 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of new and revised HKFRSs and Interpretations that are first effective for the current accounting period of the Group and the Company.

There have been no significant changes to the accounting policies applied in these financial statements for the years presented as a result of these developments. However, as a result of the adoption of HKFRS 7, *Financial instruments: Disclosures* and the amendments to HKAS 1, *Presentation of financial statements: Capital disclosures*, there have been some additional disclosures provided as follows:

As a result of the adoption of HKFRS 7, the financial statements include expanded disclosure about the significance of the Group's financial instruments and the nature and extent of risks arising from those instruments, compared with the information previously required to be disclosed by HKAS 32, *Financial instruments: Disclosure and presentation*. These disclosures are provided throughout these financial statements, in particular in Note 36.

The amendments to HKAS 1 introduces additional disclosure requirements to provide information about the level of capital and the Group's and the Company's objectives, policies and processes for managing capital. These new disclosures are set out in Note 30(f).

Both HKFRS 7 and the amendments to HKAS 1 do not have any material impact on the classification, recognition and measurement of the amounts recognised in the financial instruments.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see Note 41).

4 TURNOVER

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

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

5 OTHER REVENUE AND NET INCOME/(LOSS)

	2007 RMB'000	2006 RMB'000
Other revenue		
Interest income	**14,297**	4,826
Others	**2,103**	250
	16,400	5,076
Other net income/(loss)		
Net foreign exchange gain/(loss)	**12,863**	(1,257)
Net gain from sale of raw and scrap materials	**684**	94
Net loss on disposal of property, plant and equipment and land use rights	**(101)**	(10)
	13,446	(1,173)

6 PROFIT BEFORE TAXATION

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

(a) Finance costs:

	2007 RMB'000	2006 RMB'000
Interest on bank advances and other borrowings	**89,014**	14,498
Finance charges on convertible notes	**1,559**	1,299
Bank charges and other finance costs	**11,586**	774
Total borrowing costs	**102,159**	16,571
Less: amounts capitalised*	**(4,942)**	(1,033)
	97,217	15,538

* The borrowing costs have been capitalised at 6.53% per annum for the year ended 31 December 2007 (2006: 5.82% per annum).

6 PROFIT BEFORE TAXATION (continued)

(b) Staff costs:

	2007 RMB'000	2006 RMB'000
Salaries, wages and other benefits	**134,418**	28,410
Contributions to defined contribution retirement plans	**14,654**	4,500
	149,072	32,910

The employees of the subsidiaries of the Group established in the PRC (the "PRC subsidiaries") participate in defined contribution retirement benefit schemes managed by the local government authorities, whereby the PRC subsidiaries are required to contribute to the schemes at 18% to 20% of the employees' basic salaries. Employees of the PRC subsidiaries are entitled to retirement benefits from the schemes equal to a fixed proportion of their monthly salaries at their normal retirement age.

The employees of the Company who situated in Hong Kong Special Administrative Region ("Hong Kong SAR") participate in the Mandatory Provident Fund Scheme, whereby the Company is required to contribute to the scheme at 5% of the employees' basic salaries.

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

(c) Other items:

	2007 RMB'000	2006 RMB'000
Cost of inventories #	**1,821,647**	517,829
Auditors' remuneration	**7,000**	3,080
Depreciation and amortisation #	**159,615**	47,893
Impairment loss on assets classified as held-for-sale	**5,277**	—
Impairment loss on trade and other receivables	**755**	—
Operating lease charges in respect of #		
– land	**985**	125
– plant and buildings	**2,014**	715
– motor vehicles	**968**	—
Research and development costs	**890**	—

\# Cost of inventories includes RMB221.1 million (2006: RMB58.7 million) for the year ended 31 December 2007, relating to staff costs, depreciation and amortisation expenses and operating lease charges, which amount is also included in the respective total amounts disclosed separately above or in Note 6(b) for each of these types of expenses.

7 INCOME TAX

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

	2007 RMB'000	2006 RMB'000
Provision for income tax on the estimated taxable profits for the year		
– Hong Kong Profits Tax	11	23
– PRC Income Tax	6,581	—
Deferred taxation (Note 29)	(12,625)	(4,280)
	(6,033)	(4,257)

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

	2007 RMB'000	2006 RMB'000
Profit before taxation	132,898	10,348
Expected tax on profit before tax, calculated at the rates applicable to profits in the tax jurisdictions concerned (Notes (i), (ii) and (iii))	27,771	(2,686)
Tax effect of non-deductible expenses	2,794	250
Tax effect of unused tax losses not recognised	5,494	3,923
Tax effect of non-taxable income	—	(854)
Tax credit (Note (iv))	(26,210)	(4,890)
Tax effect of change in tax rate (Note (v))	(15,882)	—
Income tax	(6,033)	(4,257)

7 INCOME TAX (continued)

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

Note (i): The provision for Hong Kong Profits Tax is calculated at 17.5% (2006: 17.5%) of the estimated assessable profits of a Hong Kong SAR subsidiary of the Group for the year.

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

Note (iii): The PRC subsidiaries of the Group are subject to PRC Enterprise Income Tax rates ranging from 24% to 33%.

Note (iv): Certain PRC subsidiaries of the Group are registered as foreign investment enterprises, and according to the relevant income tax rules and regulations applicable to enterprises with foreign investment in the PRC, the PRC subsidiaries obtained approval from the respective tax bureau that they are entitled to a 100% relief from PRC Enterprise Income Tax in the first and second years and 50% relief for the third to fifth years, commencing from the first profitable year after the offset of deductible losses incurred in prior years, if any.

Note (v): On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the PRC (the "new tax law") which takes effect on 1 January 2008. According to the new tax law, the applicable income tax rate of the PRC subsidiaries will change to 25% with effect 1 January 2008 or gradually increase to 25% over a five-year period if the PRC subsidiary is currently enjoying a preferential tax rate of below 25%. The new tax law has been applied when measuring the Group's deferred tax assets and liabilities as at 31 December 2007. The balances of deferred tax assets and liabilities decreased by RMB1.9 million and RMB17.8 million, respectively, as a result of the change of the applicable income tax rate. The changes in the balance of deferred tax assets and liabilities are reflected in the financial statements for the year ended 31 December 2007. The enactment of the new tax law has no financial effect on the amounts accrued in the Group's balance sheet in respect of current taxation.

8 DIRECTORS' REMUNERATION

Details of directors' remuneration are as follows:

	2007				
	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
Executive directors					
Mr. Zhou Cheng	—	449	910	—	1,359
Mr. Zhang Zhaoheng (Appointed on 19 March 2007)	—	408	819	8	1,235
Mr. Li Ping	—	150	410	13	573
Mr. Cui Xiangdong (Appointed on 19 March 2007)	—	210	455	8	673
Mr. Lu Guo (Resigned on 19 March 2007)	—	—	—	—	—
Non-executive directors					
Mr. Zhao John Huan	1	—	—	—	1
Mr. Liu Jinduo	1	—	—	—	1
Mr. Eddie Chai	1	—	—	—	1
Mr. Guo Wen (Appointed on 19 March 2007)	1	—	—	—	1
Independent non-executive directors					
Mr. Song Jun	97	—	—	—	97
Mr. Sik Siu Kwan	97	—	—	—	97
Mr. Zhang Baiheng	97	—	—	—	97
	295	1,217	2,594	29	4,135

8 DIRECTORS' REMUNERATION (continued)

	2006				
	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
Executive directors					
Mr. Zhou Cheng	—	236	—	—	236
Mr. Li Ping	—	150	—	10	160
Mr. Lu Guo	—	120	—	10	130
Non-executive directors					
Mr. Zhao John Huan	1	—	—	—	1
Mr. Liu Jinduo	1	—	—	—	1
Mr. Raymond Koon-Kwong Auyeung (resigned on 29 May 2006)	—	—	—	—	—
Mr. Eddie Chai (appointed on 3 July 2006)	—	—	—	—	—
Independent non-executive directors					
Mr. Song Jun	75	—	—	—	75
Mr. Wong Wai Ming (resigned on 29 May 2006)	13	—	—	—	13
Mr. Sik Siu Kwan (appointed on 29 May 2006)	60	—	—	—	60
Mr. Zhang Baiheng	75	—	—	—	75
	225	506	—	20	751

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

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, four (2006: three) are directors whose emoluments are disclosed in Note 8. The aggregate of the emoluments in respect of the other one (2006: two) individual is as follows:

	2007 RMB'000	2006 RMB'000
Salaries, allowances and benefits in kind	524	586
Discretionary bonuses	364	—
Retirement scheme contributions	23	33
	911	619

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

	2007	2006
HK$Nil – HK$1,000,000	1	2

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

10 PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company includes a profit of RMB26.5 million (2006: loss of RMB5.0 million) which has been dealt with in the financial statements of the Company.

11 DIVIDENDS

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

	2007	2006
	RMB'000	RMB'000
Final dividend proposed after the balance sheet date of HK$0.0614 per ordinary share (2006: HK$Nil per ordinary share)	**23,917**	—

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

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

	2007	2006
	RMB'000	RMB'000
Final dividend in respect of the previous financial year, approved during the year (2006: HK$0.013 per ordinary share)	**—**	4,824

12 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share for the year ended 31 December 2007 is based on the profit attributable to equity shareholders of the Company of RMB82.8 million (2006: RMB5.6 million) and the weighted average number of 398,088,000 ordinary shares (2006: 360,000,000 ordinary shares) in issue during the year, calculated as follows:

	2007	2006
	'000	'000
Issued ordinary shares at 1 January	**360,000**	360,000
Effect of issuance of shares on 12 April 2007 (Note 30(c)(ii))	**30,378**	—
Effect of issuance of shares on 14 June 2007 (Note 30(c)(ii))	**7,710**	—
Weighted average number of ordinary shares at 31 December	**398,088**	360,000

(b) Diluted earnings per share

The calculation of diluted earnings per share for the year ended 31 December 2007 is based on the profit attributable to equity shareholders of the Company of RMB82.8 million (2006: RMB2.4 million), calculated as follows, and the weighted average number of 398,088,000 ordinary shares (2006: 360,000,000 ordinary shares), as calculated in Note 12(a):

	2007	2006
	RMB'000	RMB'000
Profit attributable to equity shareholders of the Company	**82,773**	5,623
Effect of conversion of convertible notes issued by a subsidiary of the Group (Note 27)	**—**	(3,241)
Profit attributable to equity shareholders of the Company (diluted)	**82,773**	2,382

13 PROPERTY, PLANT AND EQUIPMENT

(a) The Group

	Plant and buildings RMB'000	Machinery and equipment RMB'000	Motor vehicles and others RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:					
At 1 January 2006	179,687	479,186	1,759	719	661,351
Additions	1,236	3,236	411	87,129	92,012
Additions through acquisitions of subsidiaries	146,946	260,004	3,913	7,255	418,118
Transfer in/(out)	23,403	51,959	—	(75,362)	—
Disposals	—	(55,140)	(156)	—	(55,296)
At 31 December 2006	351,272	739,245	5,927	19,741	1,116,185
Accumulated depreciation:					
At 1 January 2006	22,370	144,023	278	—	166,671
Additions through acquisitions of subsidiaries	23,322	88,979	1,425	—	113,726
Charge for the year	6,531	39,692	243	—	46,466
Written back on disposals	—	(54,234)	(131)	—	(54,365)
At 31 December 2006	52,223	218,460	1,815	—	272,498
Net book value:					
At 31 December 2006	299,049	520,785	4,112	19,741	843,687

13 PROPERTY, PLANT AND EQUIPMENT (continued)

(a) The Group (continued)

	Plant and buildings RMB'000	Machinery and equipment RMB'000	Motor vehicles and others RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:					
At 1 January 2007	351,272	739,245	5,927	19,741	1,116,185
Additions	1,307	5,345	1,605	250,348	258,605
Additions through acquisitions of subsidiaries	501,157	874,920	9,226	32,014	1,417,317
Adjustment to fair value in connection with the acquisition of additional equity interests in a subsidiary	323	1,033	(11)	—	1,345
Transfer in/(out)	51,522	176,142	—	(227,664)	—
Disposals	—	(9,363)	(485)	—	(9,848)
At 31 December 2007	905,581	1,787,322	16,262	74,439	2,783,604
Accumulated depreciation:					
At 1 January 2007	52,223	218,460	1,815	—	272,498
Additions through acquisitions of subsidiaries	104,821	293,793	2,454	—	401,068
Adjustment to fair value in connection with the acquisition of additional equity interests in a subsidiary	(307)	(2,450)	(192)	—	(2,949)
Charge for the year	25,836	119,392	2,019	—	147,247
Written back on disposals	—	(5,905)	(350)	—	(6,255)
At 31 December 2007	182,573	623,290	5,746	—	811,609
Net book value:					
At 31 December 2007	723,008	1,164,032	10,516	74,439	1,971,995

At 31 December 2007, property certificates of certain properties with an aggregate net book value of RMB349.3 million (31 December 2006: RMB139.3 million) are yet to be obtained.

13 PROPERTY, PLANT AND EQUIPMENT (continued)

(b) The Company

	Office equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
Cost:			
At 1 January 2006	89	—	89
Additions	660	320	980
At 31 December 2006	749	320	1,069
Accumulated depreciation:			
At 1 January 2006	23	—	23
Charge for the year	128	44	172
At 31 December 2006	151	44	195
Net book value:			
At 31 December 2006	598	276	874
Cost:			
At 1 January 2007	**749**	**320**	**1,069**
Additions	**182**	**—**	**182**
At 31 December 2007	**931**	**320**	**1,251**
Accumulated depreciation:			
At 1 January 2007	**151**	**44**	**195**
Charge for the year	**274**	**98**	**372**
At 31 December 2007	**425**	**142**	**567**
Net book value:			
At 31 December 2007	**506**	**178**	**684**

14 INVESTMENTS IN SUBSIDIARIES

	The Company	
	2007	2006
	RMB'000	RMB'000
Unlisted shares, at cost	**179,577**	71,133

(Expressed in RMB unless otherwise indicated)

14 INVESTMENTS IN SUBSIDIARIES (continued)

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group.

			Proportion of ownership interest			
Name of company	**Place of incorporation/ establishment**	**Particulars of registered/issued and paid-up capital**	**The Group's effective interest**	**Held by the Company**	**Held by subsidiaries**	**Principal activities**
Beijing Zhonghai Xingye Safety Glass Company Limited	PRC	Registered and paid-up capital of RMB12,000,000	17.69%	—	75%	Production, marketing and distribution of glass and glass products
Beijing Qinchang Glass Company Limited	PRC	Registered and paid-up capital of RMB100,000,000	43.22%	—	100%	Production, marketing and distribution of glass and glass products
Hanzhong Blue Star Silicon Sand Company Limited	PRC	Registered and paid-up capital of RMB2,400,000	50.03%	—	90.1%	Processing and sale of silicon sand
Huada (HK) International Company Limited	Hong Kong SAR	Issued and paid-up capital of HK$10,000	100%	—	100%	Trading of glass and glass products
Hangzhou Blue Star New Materials Technology Company Limited	PRC	Registered and paid-up capital of RMB1,000,000	74.72%	—	90%	Development of glass production technology
Jiangsu SHD New Materials Company Limited	PRC	Registered and paid-up capital of RMB60,000,000	100%	—	100%	Production, marketing and distribution of glass and glass products
JV Investments Limited	Cayman Islands	Issued and paid-up capital of US$90,313	43.22%	43.22%*	—	Investment holding
Nanjing Yuanhong Glass Glaze Company Limited	PRC	Registered and paid-up capital of RMB20,000,000	18.87%	—	80%	Production, marketing and distribution of glass and glass products

(Expressed in RMB unless otherwise indicated)

14 INVESTMENTS IN SUBSIDIARIES (continued)

Name of company	Place of incorporation/ establishment	Particulars of registered/issued and paid-up capital	Proportion of ownership interest: The Group's effective interest	Proportion of ownership interest: Held by the Company	Proportion of ownership interest: Held by subsidiaries	Principal activities
Shaanxi Blue Star Glass Company Limited	PRC	Registered and paid-up capital of RMB100,000,000	55.53%	—	100%	Production, marketing and distribution of glass and glass products
Suqian Huasheng Management Consulting Company Limited	PRC	Registered and paid-up capital of RMB100,000	100%	—	100%	Provision of management services to group companies
Suqian Huayi Coated Glass Company Limited	PRC	Registered and paid-up capital of RMB100,000,000	90.1%	—	90.1%	Production, marketing and distribution of glass and glass products
Weihai Blue Star Glass Company Limited	PRC	Registered and paid-up capital of RMB107,700,000	23.59%	—	57.74%	Production, marketing and distribution of glass and glass products
Weihai Blue Star Import & Export Company Limited	PRC	Registered and paid-up capital of RMB5,000,000	23.59%	—	100%	Trading of glass and glass products
Weihai Blue Star New Technology Glass Company Limited	PRC	Registered and paid-up capital of USD8,080,000	12.03%	—	51.00%	Production, marketing and distribution of glass and glass products
Weihai Blue Star Technology Industrial Park Company Limited	PRC	Registered and paid-up capital of RMB25,680,000	23.59%	—	100%	Investment holding
Weihai Blue Star Terra Photovoltaic Company Limited	PRC	Registered capital of USD10,000,000 and paid-up capital of USD7,699,990**	15.81%	—	67.00%	Production, marketing and distribution of glass and glass products

(Expressed in RMB unless otherwise indicated)

14 INVESTMENTS IN SUBSIDIARIES (continued)

Name of company	Place of incorporation/ establishment	Particulars of registered/issued and paid-up capital	Proportion of ownership interest: The Group's effective interest	Held by the Company	Held by subsidiaries	Principal activities
Wuhai Blue Star Glass Company Limited	PRC	Registered and paid-up capital of RMB99,778,729	34.16%	—	96.47%	Production, marketing and distribution of glass and glass products
Wuhai Haibo Trading Company Limited	PRC	Registered and paid-up capital of RMB2,570,000	29.18%	—	85.42%	Trading of glass and glass products
Wuhai Blue Star Transportation Company Limited	PRC	Registered and paid-up capital of RMB2,000,000	29.23%	—	100%	Provision of transportation services to group companies
Xianyang Blue Star Coated Glass Company Limited	PRC	Registered and paid-up capital of RMB80,000,000	66.64%	—	100%	Production, marketing and distribution of glass and glass products
Zhongbo Technology Company Limited	PRC	Registered and paid-up capital of RMB194,860,000	22.08%	—	76.68%	Production, marketing and distribution of glass and glass products

* Although the Group owns less than half of the voting power of JV investments Limited ("JV Investments"), it is able to govern the financial and operating policies of JV Investments through the Group's power to cast the majority of votes at meetings of the board of directors of JV Investments, and control of JV Investments is by this board .

** According to the certificate of approval issued by the relevant government authority dated 25 January 2005, the registered capital of Weihai Blue Star Terra Photovoltaic Company Limited ("Terra Photovoltaic") is USD10.0 million, of which 67% equity interests is attributable to a subsidiary of the Group. At 31 December 2007, the minority equity holders of Terra Photovoltaic have not completed their capital contributions into Terra Photovoltaic. The Group had no outstanding commitment in connection with capital injection into Terra Photovoltaic.

15 LOAN TO A SUBSIDIARY

The loan is unsecured, bears interest at 7.00% per annum and is repayable on 30 June 2012.

16 LEASE PREPAYMENTS

	The Group
	RMB'000
Cost:	
At 1 January 2006	58,319
Additions through acquisitions of subsidiaries	54,958
At 31 December 2006	113,277
Accumulated amortisation:	
At 1 January 2006	1,261
Additions through acquisitions of subsidiaries	1,481
Charge for the year	1,427
At 31 December 2006	4,169
Net book value:	
At 31 December 2006	109,108
Cost:	
At 1 January 2007	**113,277**
Additions through acquisitions of subsidiaries	**199,038**
Adjustment to fair value in connection with the acquisition of additional equity interests in a subsidiary	**4,027**
Disposals	**(49,732)**
At 31 December 2007	**266,610**
Accumulated amortisation:	
At 1 January 2007	**4,169**
Additions through acquisitions of subsidiaries	**6,302**
Charge for the year	**5,941**
Written back on disposals	**(5,693)**
At 31 December 2007	**10,719**
Net book value:	
At 31 December 2007	**255,891**

16 LEASE PREPAYMENTS (continued)

Lease prepayments represented land use right premiums paid by the Group for land situated in the PRC. At 31 December 2007, land use right certificates of certain land use rights with an aggregate carrying value of RMB61.1 million (31 December 2006: RMB32.3 million) are yet to be obtained.

17 INTANGIBLE ASSETS

	The Group
	Intellectual properties
	RMB'000
Cost:	
At 1 January 2006, 31 December 2006 and 1 January 2007	—
Additions through acquisition of a subsidiary	123,739
At 31 December 2007	123,739
Accumulated amortisation:	
At 1 January 2006, 31 December 2006 and 1 January 2007	—
Additions through acquisition of a subsidiary	924
Charge for the year	6,427
At 31 December 2007	7,351
Net book value:	
At 31 December 2006	—
At 31 December 2007	116,388

18 INTEREST IN AN ASSOCIATE

	The Group	
	2007	2006
	RMB'000	RMB'000
Share of net assets	**63,828**	9,815

18 INTEREST IN AN ASSOCIATE (continued)

The following contains the particulars of the Group's associate, which is an unlisted entity:

Name of associate	Place of establishment	Particulars of registered and paid-up capital	Proportion of ownership interest: The Group's effective interest	Held by the Company	Held by a subsidiary	Principal activities
Taicang Pilkington China Glass Special Glass Limited ("Taicang Special Glass")	PRC	Registered and paid-up capital of USD16,700,000	50.00%	—	50.00%	Production, marketing and distribution of glass and glass products

Summary financial information on the Group's associate, not adjusted for the percentage ownership held by the Group:

	Assets RMB'000	Liabilities RMB'000	Equity RMB'000
2006			
Taicang Special Glass	19,630	—	19,630
2007			
Taicang Special Glass	**238,392**	**110,736**	**127,656**

At 31 December 2007, Taicang Special Glass is still under construction, and the Group expects it will commence commercial production in 2008.

19 GOODWILL

	The Group
	RMB'000
Cost:	
At 1 January 2006, 31 December 2006 and 2007	14,113
Accumulated impairment losses:	
At 1 January 2006, 31 December 2006 and 2007	—
Carrying amount:	
At 31 December 2006 and 2007	14,113

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

Impairment test for cash-generating units containing goodwill

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

	The Group	
	2007	2006
	RMB'000	RMB'000
The second glass production line of Jiangsu SHD	**14,113**	14,113

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

19 GOODWILL (continued)

Key assumptions used for value-in-use calculations:

	The Group	
	2007	2006
Gross profit margin	**19.0%**	21.8%
Discount rate	**7.8%**	6.8%

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

20 INVENTORIES

	The Group	
	2007	2006
	RMB'000	RMB'000
Raw materials	**120,439**	30,618
Work in progress and finished goods	**195,361**	44,305
Racks, spare parts and consumables	**34,528**	17,138
	350,328	92,061
Less: provision	**(6,169)**	(192)
	344,159	91,869

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

	The Group	
	2007	2006
	RMB'000	RMB'000
Carrying amount of inventories sold	**1,820,947**	518,892
Write-down/(write-back) of inventories	**700**	(1,063)
	1,821,647	517,829

At 31 December 2007, RMB11.9 million (31 December 2006: RMB1.7 million) of finished goods were carried at estimated net realisable value.

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

21 TRADE AND OTHER RECEIVABLES

(a) The Group

	2007 RMB'000	2006 RMB'000
Trade receivable from:		
– Third parties	**73,396**	24,185
– Minority equity holders of subsidiaries of the Group and their affiliates	**38,743**	—
Bills receivable	**44,500**	780
	156,639	24,965
Less: allowance for doubtful debts (Note 21(a)(ii))	**(23,041)**	—
	133,598	24,965
Amounts due from related companies:		
– Equity shareholders of the Company (Note (aa))	**327**	339
– Minority equity holders of subsidiaries of the Group (Note (bb))	**3,152**	141,732
– An associate of the Group (Note (cc))	**840**	—
– Companies under common significant influence (Note (dd))	**125,780**	—
	130,099	142,071
Prepayments, deposits and other receivables	**128,560**	47,181
Less: allowance for doubtful debts (Note 21(a)(ii))	**(3,370)**	—
	125,190	47,181
	388,887	214,217

Notes:

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

(bb) The amounts as at 31 December 2007 are unsecured, non-interest bearing and have no fixed terms of repayment. The amounts as at 31 December 2006 were unsecured, bore interest at 7.34% per annum and had no fixed terms of repayment.

(cc) The amount is unsecured, non-interest bearing and has no fixed terms of repayment.

(dd) The amounts are unsecured and have no fixed terms of repayment. Except for amounts of RMB81.0 million (31 December 2006: RMBNil) which bear interest at 8.75% per annum, all of the remaining balances are non-interest bearing.

21 TRADE AND OTHER RECEIVABLES (continued)

(a) The Group (continued)

All of the trade and other receivables are expected to be recovered within one year. Cash before delivery is generally required for all customers. Credit terms of three to six months from the date of billing may be granted to customers, depending on credit assessment carried out by management on an individual customer basis.

(i) Ageing analysis

Included in trade and other receivables are trade and bills receivables (net of allowance for doubtful debts) with the following ageing analysis as of the balance sheet date:

	2007	2006
	RMB'000	RMB'000
Within 1 month	**51,663**	24,485
More than 1 month but less than 3 months	**27,036**	262
More than 3 months but less than 6 months	**40,556**	218
Over 6 months	**14,343**	—
	133,598	24,965

Trade and bills receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

Further details on the Group's credit policy are set out in Note 36(a).

21 TRADE AND OTHER RECEIVABLES (continued)

(a) The Group (continued)

(ii) Impairment of trade and other receivables

Impairment losses in respect of trade and other receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade and other receivables directly (see Note 2(k)(i)).

The movement in the allowance for doubtful debts during the year is as follows:

	2007	2006
	RMB'000	RMB'000
At 1 January	**—**	—
Additions through acquisitions of subsidiaries	**25,656**	—
Impairment loss recognised	**755**	—
At 31 December	**26,411**	—

At 31 December 2007, the Group's trade and other receivables of RMB26.4 million (31 December 2006: RMBNil) were individually determined to be impaired. The individually impaired receivables related to customers and debtors that were in financial difficulties and management assessed that these receivables are irrecoverable. The Group does not hold any collateral over these balances.

(b) The Company

	2007	2006
	RMB'000	RMB'000
Amount due from an equity shareholder of the Company (Note (aa))	**19**	10
Amounts due from subsidiaries (Note (bb))	**453,117**	242,791
Prepayments, deposits and other receivables	**5,119**	2,148
	458,255	244,949

Notes:

(aa) The amount is unsecured, non-interest bearing and has no fixed terms of repayment.

(bb) The amounts are unsecured. Except for an amount of RMB70.0 million (31 December 2006: RMB70.0 million) which bears interest at 5.76% per annum (31 December 2006: 5.76% per annum) and is repayable before 31 December 2008, all of the remaining balances are non-interest bearing and have no fixed terms of repayment.

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

22 CASH AND CASH EQUIVALENTS

(a) The Group

	2007 RMB'000	2006 RMB'000
Cash at bank and on hand	**355,855**	67,275

At 31 December 2007, cash and cash equivalents of RMB89.3 million (31 December 2006: RMB4.0 million) were pledged to secure bills issued by the Group.

(b) The Company

	2007 RMB'000	2006 RMB'000
Cash at bank and on hand	**31,327**	6,563

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

23 ASSETS CLASSIFIED AS HELD-FOR-SALE

The Group's 34% equity interests in an associate, acquired through the Group's acquisition of Weihai Blue Star Glass Company Limited (see Note 31(a)), is presented as assets held-for-sale following the associate's management plan to liquidate the associate upon the expropriation of the associate's land use rights by the local government authority in August 2007. The associate entered into an agreement with an affiliate of the local government on 28 August 2007 in selling the associate's net assets for a consideration of RMB42.8 million. The Group's share of the associate's net assets immediately before the planned liquidation was RMB19.8 million, and as a result, an impairment loss of RMB5.3 million was recognised in the Company's consolidated financial statements for the year ended 31 December 2007. At 31 December 2007, RMB10.1 million of the Group's share of the above agreed consideration has been received by the Group, and the remaining consideration to be received of RMB4.4 million was classified as assets held-for-sale in the consolidated balance sheet.

24 TRADE AND OTHER PAYABLES

(a) The Group

	2007	2006
	RMB'000	RMB'000
Trade payable to:		
– Third parties	**327,872**	88,558
– Minority equity holders of subsidiaries of the Group and their affiliates	**16,876**	—
Bills payable	**169,000**	22,788
	513,748	111,346
Amounts due to related companies:		
– Minority equity holders of subsidiaries of the Group and their affiliates (Note (i))	**15,100**	1,259
– Companies under common significant influence (Note (ii))	**129,395**	4,726
	144,495	5,985
Advances received from customers	**67,940**	16,246
Accrued charges and other payables	**468,444**	197,338
	1,194,627	330,915

24 TRADE AND OTHER PAYABLES (continued)

(a) The Group (continued)

Notes:

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

(ii) The amounts as at 31 December 2007 are unsecured. Expect for amounts of RMB89.9 million (31 December 2006: RMB 4.7 million) which bear interest ranging from 6.12% to 8.75% per annum (31 December 2006: 6.12% per annum), all of the remaining balances are non-interest bearing. Included in the balance as at 31 December 2007 was RMB5.0 million (31 December 2006: RMB4.7 million) which are repayable in monthly instalments in 2008, where all of the remaining balances have no fixed terms of repayment.

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

Included in trade and other payables are trade and bills payables with the following ageing analysis as of the balance sheet date:

	2007	2006
	RMB'000	RMB'000
Due within 1 month or on demand	**318,279**	98,058
Due after 1 month but within 6 months	**195,469**	13,288
	513,748	111,346

(b) The Company

	2007	2006
	RMB'000	RMB'000
Amounts due to subsidiaries (Note (i))	**4,784**	24,978
Accrued charges and other payables	**41,558**	6,000
	46,342	30,978

Note:

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

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

25 BANK AND OTHER LOANS

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

	2007 RMB'000	2006 RMB'000
Bank loans	183,109	220,000
Loans from senior management of a subsidiary of the Group	8,000	—
Loan from a third party	5,000	—
Loans from minority equity holders of subsidiaries of the Group	—	30,100
	196,109	250,100
Add: current portion of long-term bank and other loans	29,851	16,000
	225,960	266,100

At 31 December 2007, the short-term bank and other loans (excluding current portion of long-term bank and other loans) were secured as follows:

	2007 RMB'000	2006 RMB'000
Bank loans:		
– Pledged by bank bills	1,559	—
– Secured by property, plant and equipment and land use rights	28,800	—
– Guaranteed	113,860	—
– Guaranteed and secured by property, plant and equipment and land use rights	12,890	—
– Unguaranteed and unsecured	26,000	220,000
	183,109	220,000
Loans from minority equity holders and senior management of subsidiaries of the Group:		
– Unguaranteed and unsecured	8,000	30,100
Loan from a third party:		
– Unguaranteed and unsecured	5,000	—
	196,109	250,100

At 31 December 2007, the aggregate carrying values of the secured property, plant and equipment and land use rights were RMB151.0 million (31 December 2006: RMBNil).

25 BANK AND OTHER LOANS (continued)

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

	2007 RMB'000	2006 RMB'000
Bank loans	**57,833**	171,000
Loan from a third party	**7,018**	—
	64,851	171,000
Less: current portion of long-term bank and other loans	**(29,851)**	(16,000)
	35,000	155,000

	2007 RMB'000	2006 RMB'000
The long-term bank and other loans are repayable as follows:		
Within 1 year or on demand	**29,851**	16,000
After 1 year but within 2 years	**35,000**	70,000
After 2 years but within 5 years	**—**	85,000
	64,851	171,000

At 31 December 2007, a long-term bank loan of RMB2.8 million (31 December 2006: RMBNil) was secured by the Group's property, plant and equipment, and the aggregate carrying values of the secured property, plant and equipment were RMB6.6 million (31 December 2006: RMBNil).

All of the non-current interest-bearing borrowings are carried at amortised cost. None of the non-current interest-bearing borrowings is expected to be settled within one year.

26 AMOUNT DUE TO A RELATED COMPANY

The amount arises from the purchases of properties from a related company under common significant influence. The amount as at 31 December 2007 is unsecured, bearing interest at 6.12% per annum (31 December 2006: 6.12% per annum) and is repayable in monthly instalments between January 2009 to December 2014.

27 CONVERTIBLE NOTES

JV Investments, a subsidiary of the Company as at 31 December 2007, issued convertible notes to Pilkington Italy Limited, an equity shareholder of the Company, on the dates and for the amounts set out below:

	In United States Dollars	Equivalent in RMB'000
Principal amounts of convertible notes issued on:		
– 20 December 2005	503,482	4,085
– 24 July 2006	5,470,086	43,676
– 28 September 2006	650,009	5,135
– 30 September 2006	424,847	3,360
Proceeds from issuance of convertible notes		56,256
Accumulated amounts classified as equity component for the years ended 31 December 2005 and 2006		(23,288)
Accrued finance charges for the year ended 31 December 2006		1,299
Carrying amount of liability component as at 31 December 2006		34,267
Proceeds from issuance of convertible notes on 21 February 2007	9,762,270	75,477
Additional amount classified as equity component for the year ended 31 December 2007		(33,203)
Accrued finance charges for the year ended 31 December 2007		1,559
Conversion of convertible notes on 13 April 2007		(78,100)
Carrying amount of liability component as at 31 December 2007		—

For each of the above issuance of convertible notes, the notes are convertible into 5,052 shares of JV Investments. All of the convertible notes shall be automatically converted into shares of JV Investments to be held by Pilkington Italy Limited if at any time up to 30 December 2012, Pilkington Italy Limited shall be interested in or have the ability to control 10% or more of the voting rights of the Company.

On 13 April 2007, Pilkington Italy Limited converted all of the above convertible notes into shares of JV Investments. Upon completion of the conversion, the Company's equity interests in JV Investments decreased from 65.05% to 43.22%. The Group recognised an increase in minority interests of RMB76.4 million.

28 UNSECURED NOTES

On 12 July 2007, the Company issued unsecured senior notes with a total face value of USD100,000,000 at par (the "Notes") on the Singapore Exchange Securities Trading Limited. The Notes bear interest at 9.625% per annum, and interest is payable on 12 January and 12 July of each year, beginning on 12 January 2008. The Notes will mature on 12 July 2012, and are jointly and severally guaranteed by certain subsidiaries of the Company.

29 DEFERRED TAX ASSETS AND LIABILITIES

(a) The Group

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

	Assets					Liabilities	
Deferred tax arising from:	**Unused tax losses**	**Provision for inventories**	**Impairment losses on receivables**	**Depreciation expenses in excess of related tax allowances**	**Total**	**Fair value adjustments on property, plant and equipment, lease prepayments and intangible assets, interest capitalisation and related depreciation**	**Net**
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2006	—	—	—	1,282	1,282	(1,413)	(131)
Additions through acquisitions of subsidiaries	5,339	48	—	—	5,387	(8,390)	(3,003)
Credited/(charged) to consolidated income statement (Note 7(a))	3,300	(25)	—	1,206	4,481	(201)	4,280
At 31 December 2006	8,639	23	—	2,488	11,150	(10,004)	1,146
Additions through acquisitions of subsidiaries	**22,194**	**1,275**	**7,965**	**6,626**	**38,060**	**(78,668)**	**(40,608)**
Adjustment to fair value in connection with the acquisition of additional equity interests in a subsidiary	**—**	**—**	**—**	**—**	**—**	**(2,078)**	**(2,078)**
(Charged)/credited to consolidated income statement (Note 7(a))	**(5,465)**	**(36)**	**(2,242)**	**445**	**(7,298)**	**19,923**	**12,625**
At 31 December 2007	**25,368**	**1,262**	**5,723**	**9,559**	**41,912**	**(70,827)**	**(28,915)**

(b) The Company

There were no significant unrecognised deferred tax assets and liabilities as at 31 December 2006 and 2007.

30 CAPITAL AND RESERVES

(a) The Group

	Attributable to equity shareholders of the Company									
	Share capital RMB'000 (Note 30(c)(i))	Share premium RMB'000 (Note 30(d)(i))	Capital reserve RMB'000 (Note 30(d)(ii))	Statutory reserves RMB'000 (Note 30(d)(iii))	Other reserve RMB'000	Exchange reserve RMB'000 (Note 30(d)(iv))	Retained profits RMB'000	Total RMB'000	Minority interests RMB'000	Total equity RMB'000
At 1 January 2006	38,336	274,440	23,233	30,608	(68,570)	(4,063)	90,690	384,674	13,389	398,063
Contributions from minority interests	—	—	—	—	—	—	—	—	36,196	36,196
Increase in minority interests through acquisitions of subsidiaries	—	—	—	—	—	—	—	—	119,412	119,412
Issuance of convertible notes (Note 27)	—	—	13,916	—	—	—	—	13,916	7,476	21,392
Acquisitions of minority interests	—	—	—	—	—	—	—	—	(60,774)	(60,774)
Net profit for the year	—	—	—	—	—	—	5,623	5,623	8,982	14,605
Dividends approved during the year (Note 11(b))	—	—	—	—	—	—	(4,824)	(4,824)	—	(4,824)
Exchange differences on translation into presentation currency	—	—	—	—	—	(1,073)	—	(1,073)	(273)	(1,346)
At 31 December 2006	38,336	274,440	37,149	30,608	(68,570)	(5,136)	91,489	398,316	124,408	522,724
At 1 January 2007	**38,336**	**274,440**	**37,149**	**30,608**	**(68,570)**	**(5,136)**	**91,489**	**398,316**	**124,408**	**522,724**
Issuance of shares (Note 30(c))	**5,520**	**146,258**	**—**	**—**	**—**	**—**	**—**	**151,778**	**—**	**151,778**
Share issue expenses (Note 30(c))	**—**	**(10,216)**	**—**	**—**	**—**	**—**	**—**	**(10,216)**	**—**	**(10,216)**
Contributions from minority interests	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**106,460**	**106,460**
Increase in minority interests through acquisitions of subsidiaries	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**309,666**	**309,666**
Issuance of convertible notes (Note 27)	**—**	**—**	**21,597**	**—**	**—**	**—**	**—**	**21,597**	**11,606**	**33,203**
Increase in minority interests through conversion of convertible notes (Note 27)	**—**	**—**	**(36,746)**	**—**	**—**	**—**	**—**	**(36,746)**	**113,143**	**76,397**
Acquisitions of minority interests (Note 31(d))	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(44,485)**	**(44,485)**
Net profit for the year	**—**	**—**	**—**	**—**	**—**	**—**	**82,773**	**82,773**	**56,158**	**138,931**
Exchange differences on translation into presentation currency	**—**	**—**	**—**	**—**	**—**	**2,175**	**—**	**2,175**	**(2,593)**	**(418)**
At 31 December 2007	**43,856**	**410,482**	**22,000**	**30,608**	**(68,570)**	**(2,961)**	**174,262**	**609,677**	**674,363**	**1,284,040**

30 CAPITAL AND RESERVES (continued)

(b) The Company

	Share capital RMB'000 (Note 30(c)(i))	Share premium RMB'000 (Note 30(d)(i))	Exchange reserve RMB'000 (Note 30(d)(iv))	Retained profits /(accumulated losses) RMB'000	Total RMB'000
At 1 January 2006	38,336	274,440	(7,203)	7,232	312,805
Net loss for the year	—	—	—	(4,962)	(4,962)
Dividends approved during the year (Note 11(b))	—	—	—	(4,824)	(4,824)
Exchange differences on translation into presentation currency	—	—	(10,478)	—	(10,478)
At 31 December 2006	38,336	274,440	(17,681)	(2,554)	292,541
At 1 January 2007	**38,336**	**274,440**	**(17,681)**	**(2,554)**	**292,541**
Issuance of shares (Note 30(c))	**5,520**	**146,258**	**—**	**—**	**151,778**
Share issue expenses (Note 30(c))	**—**	**(10,216)**	**—**	**—**	**(10,216)**
Net profit for the year	**—**	**—**	**—**	**26,547**	**26,547**
Exchange differences on translation into presentation currency	**—**	**—**	**(27,959)**	**—**	**(27,959)**
At 31 December 2007	**43,856**	**410,482**	**(45,640)**	**23,993**	**432,691**

30 CAPITAL AND RESERVES (continued)

(c) Share capital

(i) Authorised and issued share capital

	2007		2006	
	No. of shares ('000)	**HK$'000**	No. of shares ('000)	HK$'000
Authorised:				
Ordinary shares of HK$0.1 each	**700,000**	**70,000**	700,000	70,000

	2007		2006	
	No. of shares ('000)	**RMB'000**	No. of shares ('000)	RMB'000
Ordinary shares, issued and fully paid:				
At 1 January	**360,000**	**38,336**	360,000	38,336
Issuance of shares (Note 30(c)(ii))	**56,000**	**5,520**	—	—
At 31 December	**416,000**	**43,856**	360,000	38,336

(ii) Issuance of shares

On 12 April 2007 and 14 June 2007, the Company issued in total 56,000,000 ordinary shares of HK$2.75 each. Upon completion of the above issues, the Company's number of shares in issue increased from 360,000,000 as at 31 December 2006 to 416,000,000 as at 31 December 2007. The proceeds of HK$5.60 million (equivalent to RMB5.52 million), representing the par value, were credited to the Company's share capital. The remaining proceeds, net of transaction costs, of HK$137.99 million (equivalent to RMB136.04 million) were credited to the share premium account.

30 CAPITAL AND RESERVES (continued)

(d) Nature and purpose of reserves

(i) Share premium

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

(ii) Capital reserve

The capital reserve comprises the following:

- the value of the unexercised equity component of convertible notes issued by JV Investments recognised in accordance with the accounting policy adopted for convertible notes in Note 2(n). On 13 April 2007, all of the convertible notes issued were converted (see Note 27).

- the amount of contributions in excess of the registered capital contributed by the equity holders of the Group's PRC subsidiaries.

(iii) Statutory reserves

In accordance with the articles of association of the PRC subsidiaries, the PRC subsidiaries were required to set up certain statutory reserves, which were non-distributable. The transfers of these reserves are at discretion of the directors of the PRC subsidiaries. The statutory reserves can only be utilised for predetermined means upon approval by the relevant authority.

(iv) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policy set out in Note 2(u).

(e) Distributable reserves

At 31 December 2007, the aggregate amount of reserves available for distribution to equity shareholders of the Company was RMB24.0 million (31 December 2006: RMBNil). After the balance sheet date, the Directors of the Company proposed a final dividend of HK$0.0614 per ordinary share (2006: HK$Nil per ordinary share), amounting to HK$25.5 million (equivalent to RMB23.9 million) (2006: HK$Nil). This dividend has not been recognised as a liability at the balance sheet date.

30 CAPITAL AND RESERVES (continued)

(f) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for equity shareholders and benefits for other stakeholders, by pricing products commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

Consistent with industry practice, the Group monitors its capital structure on the basis of a net debt-to-adjusted capital ratio. For this purpose the Group defines net debt as total debt (which includes bank and other loans, convertible notes, unsecured notes and trade and other payables) plus unaccrued proposed dividends, less cash and cash equivalents. Adjusted capital comprises all components of equity less unaccrued proposed dividends.

For the year ended 31 December 2007, the Group's strategy was to maintain the net debt-to-adjusted capital ratio at a similar level as for the year ended 31 December 2006. In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to equity shareholders, issue new shares, return capital to equity shareholders, raise new debt financing or sell assets to reduce debt.

30 CAPITAL AND RESERVES (continued)

(f) Capital management (continued)

The net debt-to-adjusted capital ratio at 31 December 2007 and 2006 was as follows:

	The Group	
	2007	2006
	RMB'000	RMB'000
Current liabilities:		
Trade and other payables	**1,194,627**	330,915
Bank and other loans	**225,960**	266,100
	1,420,587	597,015
Non-current liabilities:		
Bank and other loans	**35,000**	155,000
Amount due to a related company	**37,695**	41,387
Convertible notes	**—**	34,267
Unsecured notes	**705,006**	—
Total debt	**2,198,288**	827,669
Add: Proposed dividends	**23,917**	—
Less: Cash and cash equivalents	**(355,855)**	(67,275)
Net debt	**1,866,350**	760,394
Total equity	**1,284,040**	522,724
Less: Proposed dividends	**(23,917)**	—
Adjusted capital	**1,260,123**	522,724
Net debt-to-adjusted capital ratio	**148%**	145%

30 CAPITAL AND RESERVES (continued)

(f) Capital management (continued)

	The Company	
	2007	2006
	RMB'000	RMB'000
Current liabilities:		
Other payables	**46,342**	30,978
Non-current liabilities:		
Unsecured notes	**705,006**	—
Total debt	**751,348**	30,978
Add: Proposed dividends	**23,917**	—
Less: Cash and cash equivalents	**(31,327)**	(6,563)
Net debt	**743,938**	24,415
Total equity	**432,691**	292,541
Less: Proposed dividends	**(23,917)**	—
Adjusted capital	**408,774**	292,541
Net debt-to-adjusted capital ratio	**182%**	8%

The Group and the Company are subject to the fullilment of capital requirements relating to the unsecured notes issued (see Note 28). If the Group or the Company were to breach the capital requirements, the unsecured notes would become payable on demand. The Group and the Company regularly monitor the compliance with these capital requirements. At 31 December 2007, none of the capital requirements relating to the unsecured notes had been breached.

31 ACQUISITIONS OF SUBSIDIARIES AND MINORITY INTERESTS

(a) On 28 February 2007, Real Increase Holdings Limited, a 100% owned subsidiary of the Company, acquired 70% equity interests in Hangzhou Blue Star New Materials Technology Company Limited. The consideration and costs directly attributable to this transaction amounted to RMB19.96 million.

On 7 March 2007, Starfair Group Limited, a 100% owned subsidiary of JV Investments, acquired 50.78% equity interests in Weihai Blue Star Glass Company Limited ("Lanxing"). The consideration and costs directly attributable to this transaction amounted to RMB199.01 million.

The fair value of the net assets acquired in the above transactions was as follows:

	Pre-acquisition carrying amounts	**Fair value adjustments**	**Recognised values on acquisitions**
	RMB'000	RMB'000	RMB'000
Property, plant and equipment	448,869	(9,041)	439,828
Lease prepayments	50,004	43,200	93,204
Intangible assets	2,402	97,217	99,619
Interest in an associate	10,815	—	10,815
Available-for-sale investments	5,846	—	5,846
Deferred tax assets	18,260	—	18,260
Inventories	131,001	—	131,001
Trade and other receivables	119,709	—	119,709
Cash and cash equivalents	118,980	—	118,980
Trade and other payables	(504,606)	—	(504,606)
Bank and other loans	(232,771)	—	(232,771)
Deferred tax liabilities	(8,157)	(40,798)	(48,955)
Net identifiable assets and liabilities	160,352	90,578	250,930
Excess of the net fair value of the acquired net assets over cost			(31,955)
Total purchase price paid plus costs directly attributable to the acquisitions, satisfied in cash			218,975
Less: cash and cash equivalents acquired (not adjusted for the percentage of ownership held by the Group)			(196,906)
Net cash outflow			22,069

31 ACQUISITIONS OF SUBSIDIARIES AND MINORITY INTERESTS (continued)

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

From the respective dates of the above acquisitions to 31 December 2007, and excluding the effect on the excess of the net fair value of the acquired net assets over cost, the above acquisitions contributed net profit of RMB64.4 million to the Group for the year ended 31 December 2007. Had the above acquisitions been occurred on 1 January 2007, the Directors of the Company estimate that the consolidated turnover and consolidated net profit for the year ended 31 December 2007 would have been RMB2,320.9 million and RMB123.6 million, respectively.

(b) On 8 March 2007, Poweridea Limited, a 100% owned subsidiary of JV Investments, acquired 21.58% equity interests in Zhongbo Technology Company Limited ("Zhongbo"), which was already a subsidiary of Lanxing before this acquisition (see Note 31(a)). The consideration and costs directly attributable to this transaction amounted to RMB46.33 million. The fair value of the net assets acquired amounted to RMB40.45 million, resulting in an excess of the cost of purchase over the net fair value of the acquired net assets of RMB5.88 million.

(c) In accordance with the shareholders' circular of the Company dated 1 December 2006, the transactions mentioned in Notes 31(a) and 31(b) above were inter-conditional to each other. These transactions have been approved by the Company's shareholders in a special general meeting held on 18 December 2006.

In entering into the acquisitions mentioned in Notes 31(a) and 31(b), the Directors of the Company considered that the glass industry in the PRC has in general experienced a market downturn in recent periods, which resulted in a material impact on the operating performance of the enterprises in such industry across the board. The Directors of the Company also considered that the glass industry in the PRC is cyclical, and by entering into negotiations of the commercial terms in connection with these acquisitions during the downturn enable the Directors of the Company to achieve relative successes in obtaining terms favourable for the Group, whereby the Group may be able to take the benefits of the upward trend of the cycle in subsequent periods.

The total excess of the net fair value of the acquired net assets over cost recognised on the acquisitions mentioned in Notes 31(a) and 31(b) amounted to RMB26.07 million.

31 ACQUISITIONS OF SUBSIDIARIES AND MINORITY INTERESTS (continued)

(d) On 12 September 2007, Better Rise Group Limited, a 100% owned subsidiary of JV Investments, acquired the remaining 43.8% equity interests in Beijing Qinchang Glass Company Limited ("Qinchang") from the then minority equity holder. The consideration and costs directly attributable to this transaction and the fair value of the net assets acquired were both amounted to RMB50.73 million.

Upon completion of this transaction, Qinchang became an indirectly wholly-owned subsidiary of the Company. The Group recognised a decrease in minority interests of RMB44.49 million.

32 GAIN FROM ISSUANCE OF SHARES BY SUBSIDIARIES

(a) On 20 May 2007, Zhongbo acquired the entire equity interests of Weihai Blue Star Extra Thin Glass Company Limited ("Extra Thin Glass"), already a subsidiary of Lanxing (see Note 31(a)), in exchange for Zhongbo's issuance of additional equity interests to the then equity holders of Extra Thin Glass. Upon completion of the above acquisition, Extra Thin Glass was dissolved and the related assets and liabilities of Extra Thin Glass were merged into that of Zhongbo. The percentage of ownership in Zhongbo held directly by the Group via various subsidiaries immediately before and after the issuance of additional equity interests was 77.73% and 76.68%, respectively. The Group's gain from Zhongbo's issuance of additional equity interests was RMB3.95 million.

(b) As mentioned in Note 27 of these financial statements, the convertible notes issued by JV Investments were fully converted by Pilkington Italy Limited on 13 April 2007. Upon completion of the conversion, the Company's equity interests in JV Investments decreased from 65.05% to 43.22%. The Company's gain from the issuance of shares by JV Investments upon the conversion of the convertible notes was RMB1.70 million.

The total gain from the issuance of shares by the Group's subsidiaries in Notes 32(a) and 32(b) amounted to RMB5.65 million.

33 SEGMENT REPORTING

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

	PRC		Overseas		Consolidated	
	2007	2006	**2007**	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Turnover	**1,542,084**	345,097	**670,240**	228,039	**2,212,324**	573,136
Segment results	**273,946**	9,516	**68,903**	29,114	**342,849**	38,630
Unallocated operating income and expenses					**(139,174)**	(37,059)
Profit from operations					**203,675**	1,571
Impairment loss on assets classified as held-for-sale					**(5,277)**	—
Excess of the net fair value of the acquired net assets over cost					**26,071**	24,315
Gain from issuance of shares by subsidiaries					**5,646**	—
Finance costs					**(97,217)**	(15,538)
Income tax					**6,033**	4,257
Net profit for the year					**138,931**	14,605

34 MATERIAL RELATED PARTY TRANSACTIONS

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

(a) Transactions with companies under common significant influence

(i) Purchase of properties

On 4 January 2005, the Group purchased the properties it had previously leased from Jiangsu Glass Group Company Limited under operating leases. The consideration is RMB56.1 million and is repayable by 120 monthly equal instalments within ten years. As at 31 December 2007, the outstanding amount bears interest at 6.12% per annum (31 December 2006: 6.12% per annum). For the year ended 31 December 2007, interest expenses of RMB2.8 million had incurred and been paid to Jiangsu Glass Group Company Limited (2006: RMB3.1 million).

34 MATERIAL RELATED PARTY TRANSACTIONS (continued)

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

(ii) Management services agreement

The Company and JV Investments entered into a management services agreement with Well Faith Management Limited ("Well Faith"), Mei Long Developments Limited and Pilkington Italy Limited (both the equity shareholders of JV Investments) on 30 December 2005. Pursuant to the management services agreement, Well Faith is the exclusive provider of management services to JV Investments. The Company agreed to pay the relevant management services fee at US$285,527 per annum for three years. For the year ended 31 December 2007, management services fee of RMB2.2 million (2006: RMB2.3 million) had incurred and been paid to Well Faith.

(iii) Labour services agreement

The Group has entered into various labour services agreements with Suqian Huawei Labour Service Company Limited ("Suqian Huawei") and Shandong Blue Star Glass Group Company Limited ("Shandong Blue Star"), both affiliates of the intermediate holding company of the Company, for recruiting and supplying temporary staff to the Group. For the year ended 31 December 2007, labour services costs of RMB0.7 million (2006: RMB1.0 million) and RMB2.8 million (2006: RMBNil) had incurred and been paid to Suqian Huawei and Shandong Blue Star, respectively.

(iv) Purchase of raw materials

The Group has entered into purchase agreements with Shandong Blue Star to purchase raw materials to be used by the Group. For the year ended 31 December 2007, purchase of raw materials amounted to RMB8.1 million (2006: RMBNil) had incurred and been paid to Shandong Blue Star.

(v) Other transactions

	Note	**2007 RMB'000**	2006 RMB'000
Interest income	(i)	**4,132**	—
Interest expenses	(ii)	**6,522**	—
Non-interest bearing advances received from related parties	(v)	**14,579**	—
Repayment of non-interest bearing advances received from related parties	(v)	**22,871**	—

34 MATERIAL RELATED PARTY TRANSACTIONS (continued)

(b) Transactions with equity shareholders of the Company

	Note	2007 RMB'000	2006 RMB'000
Non-interest bearing advances granted to related parties	(v)	**10**	339

(c) Transactions with minority equity holders and management of subsidiaries of the Group and their affiliates

	Note	2007 RMB'000	2006 RMB'000
Sale of glass and glass products to related parties		**436,934**	—
Purchase of raw materials from related parties		**110,480**	—
Interest income	(i)	**1,565**	2,697
Interest expenses	(ii)	**231**	29
Interest bearing advances granted to related parties	(iii)	**—**	10,000
Repayment of interest bearing advances granted to related parties	(iii)	**—**	18,090
Non-interest bearing advances received from related parties	(v)	**10,411**	—
Interest bearing loan received from related parties	(iv)	**8,000**	25,100
Guarantees provided by a related party to a bank for a subsidiary of the Group at year end		**38,360**	—

(d) Transactions with subsidiaries of the Group

	Note	2007 RMB'000	2006 RMB'000
Interest income	(i)	**20,080**	5,304
Non-interest bearing advances granted to subsidiaries	(v)	**236,035**	35,639
Repayment of non-interest bearing advances granted to subsidiaries	(v)	**21,000**	22,048
Non-interest bearing advances received from subsidiaries	(v)	**—**	156,885
Repayment of non-interest bearing advances received from subsidiaries	(v)	**19,171**	136,607
Interest bearing advances granted to subsidiaries	(vi)	**70,000**	69,213
Repayment of interest bearing advances granted to subsidiaries	(vi)	**70,000**	69,704
Loan granted to a subsidiary	(vii)	**532,976**	—

34 MATERIAL RELATED PARTY TRANSACTIONS (continued)

(e) Key management personnel remuneration

Remuneration for key management personnel, including amounts paid to the Company's directors as disclosed in Note 8 and certain of the highest paid employees as disclosed in Note 9, is as follows:

	2007	2006
	RMB'000	RMB'000
Short-term employee benefits	**6,797**	1,565
Contributions to defined contribution retirement plans	**98**	71
	6,895	1,636

Total remuneration is included in "staff costs" (see Note 6(b)).

Notes:

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

(ii) Interest expenses represented interest charges on the advances received from related parties.

(iii) The advances to related parties in 2006 were unsecured and bore interest at 7.34% per annum.

(iv) The loan is unsecured, bearing interest at 7.67% per annum and is repayable before 27 March 2008.

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

(vi) The advances to subsidiaries are unsecured, bearing interest at 5.76% per annum and are repayable before 31 December 2008.

(vii) The loan is unsecured, bears interest at 7.00% per annum and is repayable on 30 June 2012.

35 COMMITMENTS

(a) Capital commitments

At 31 December 2007, the outstanding capital commitments of the Group not provided for in the financial statements were summarised as follows:

	The Group	
	2007	2006
	RMB'000	RMB'000
Commitments in respect of land and buildings, machinery and equipment		
– Contracted for	**6,906**	70,638
– Authorised but not contracted for	**383,573**	—
	390,479	70,638
Commitments in respect of investments in subsidiaries and an associate		
– Contracted for	**52,912**	283,648
– Authorised but not contracted for	**—**	—
	52,912	283,648
Total commitments		
– Contracted for	**59,818**	354,286
– Authorised but not contracted for	**383,573**	—
	443,391	354,286

35 COMMITMENTS (continued)

(b) Operating lease commitments

At 31 December 2007, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

(i) The Group

	2007 RMB'000	2006 RMB'000
Within 1 year	**3,603**	743
After 1 year but within 5 years	**2,096**	1,376
After 5 years	**3,828**	4,329
	9,527	6,448

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

(ii) The Company

	2007 RMB'000	2006 RMB'000
Within 1 year	**674**	—
After 1 year but within 5 years	**548**	—
	1,222	—

The Company leases its office premises under operating leases. None of the leases includes contingent rentals.

36 FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. The Group considers its exposure to equity price risk arising from its equity investment in other entity is insignificant.

These risks are limited by the Group's financial management policies and practices described below:

(a) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

For trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Cash before delivery is generally required for all customers. Credit terms of three to six months from the date of billing may be granted to customers, depending on credit assessment carried out by management on an individual customer basis. Normally, the Group does not obtain collateral from customers.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk but to a lesser extent. The Group has a certain concentration of credit risk as 5.9% (2006: 0.1%) and 9.9% (2006: 1.2%) of the total trade and other receivables was due from the Group's largest customer and the five largest customers respectively.

The maximum exposure to credit risk without taking account of any collateral held is represented by the carrying amount of each financial asset in the balance sheet after deducting any impairment allowance. The Group does not provide any guarantees which would expose the Group or the Company to credit risk.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in Note 21.

36 FINANCIAL INSTRUMENTS (continued)

(b) Liquidity risk

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

The following table details the remaining contractual maturities at the balance sheet date of the Group's and the Company's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the balance sheet date) and the earliest date the Group and the Company can be required to pay:

The Group

	2007					
	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	More than 5 years RMB'000
Trade and other payables	1,194,627	1,197,104	1,197,104	—	—	—
Bank and other loans	260,960	272,611	236,080	36,531	—	—
Non-current amount due to a related company	37,695	45,155	—	7,500	22,500	15,155
Unsecured notes	705,006	1,081,994	70,307	70,307	941,380	—
	2,198,288	2,596,864	1,503,491	114,338	963,880	15,155

36 FINANCIAL INSTRUMENTS (continued)

(b) Liquidity risk (continued)

The Group (continued)

	2006					
	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	More than 5 years RMB'000
Trade and other payables	330,915	333,689	333,689	—	—	—
Bank and other loans	421,100	444,769	280,067	76,256	88,446	—
Non-current amount due to a related company	41,387	52,655	—	7,500	22,500	22,655
Convertible notes	34,267	69,468	—	—	10,617	58,851
	827,669	900,581	613,756	83,756	121,563	81,506

36 FINANCIAL INSTRUMENTS (continued)

(b) Liquidity risk (continued)

The Company

	2007					
	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	More than 5 years RMB'000
Other payables	46,342	46,342	46,342	—	—	—
Unsecured notes	705,006	1,081,994	70,307	70,307	941,380	—
	751,348	1,128,336	116,649	70,307	941,380	—

	2006					
	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	More than 5 years RMB'000
Other payables	30,978	30,978	30,978	—	—	—

36 FINANCIAL INSTRUMENTS (continued)

(c) Interest rate risk

The Group's interest rate risk arises primarily from interest bearing borrowings. Borrowings at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. The Group adopts a policy of ensuring that at least 50% of its borrowings are effectively on a fixed rate basis.

(i) Interest rate profile

The Group's and the Company's interest rate profile at the balance sheet date is set out below.

	The Group			
	2007		2006	
	Effective interest rate %	**RMB'000**	Effective interest rate %	RMB'000
Fixed rate borrowings:				
Bank and other loans	**7.44%**	**114,327**	7.00%	5,000
Amount due to a related company	**6.12%**	**42,718**	6.12%	46,113
Convertible notes	**—**	**—**	13.65%	34,267
Unsecured notes	**9.625%**	**705,006**	—	—
		862,051		85,380
Variable rate borrowings:				
Bank and other loans	**7.06%**	**146,633**	5.80%	416,100
Interest bearing amounts due to related companies	**8.75%**	**84,900**	7.00%	1,259
		231,533		417,359
Total borrowings		**1,093,584**		502,739
Fixed rate borrowings as a percentage of total borrowings		**79%**		17%

36 FINANCIAL INSTRUMENTS (continued)

(c) Interest rate risk (continued)

(i) *Interest rate profile* (continued)

	The Company			
	2007		2006	
	Effective interest rate		Effective interest rate	
	%	**RMB'000**	%	RMB'000
Fixed rate borrowings:				
Unsecured notes	**9.625%**	**705,006**	—	—
Total borrowings		**705,006**		—
Fixed rate borrowings as a percentage of total borrowings		**100%**		—

(ii) *Sensitivity analysis*

At 31 December 2007, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would decrease/increase the Group's profit after tax and retained profits by approximately RMB1.9 million (2006: RMB4.1 million).

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for variable rate borrowings in existence at that date. The 100 basis point increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date. The analysis is performed on the same basis for 2006.

36 FINANCIAL INSTRUMENTS (continued)

(d) Currency risk

The Group is exposed to currency risk primarily through sales, purchases and borrowings that are denominated in a currency other than the functional currency of the operations to which they relate. The currencies giving rise to this risk are primarily United States Dollars, Renminbi, Hong Kong Dollars and Euros.

The Group considers the risk of movements in exchange rates between the Hong Kong Dollar and the United States Dollar to be insignificant.

(i) Recognised assets and liabilities

For receivables, payables and borrowings held in currencies other than the functional currency of the operations to which they relate, the Group ensures that the exposure is kept to an acceptable level, by buying and selling foreign currencies at spot rates where necessary to address short-term imbalances.

(ii) Exposure to currency risk

The following table details the Group's and the Company's exposure at the balance sheet date to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate.

	The Group			
	2007			
	United States Dollars '000	Renminbi '000	Hong Kong Dollars '000	Euros '000
Cash and cash equivalents	2,454	324	21	4
Trade and other receivables	4,457	1,886	—	13
Trade and other payables	(91,565)	(5,401)	—	(5)
Gross exposure arising from recognised assets and liabilities	(84,654)	(3,191)	21	12

36 FINANCIAL INSTRUMENTS (continued)

(d) Currency risk (continued)

(ii) Exposure to currency risk (continued)

	The Group			
	2006			
	United States Dollars '000	Renminbi '000	Hong Kong Dollars '000	Euros '000
Cash and cash equivalents	1,561	—	21	—
Trade and other receivables	2,771	—	—	93
Trade and other payables	(387)	—	—	—
Gross exposure arising from recognised assets and liabilities	3,945	—	21	93

	The Company	
	2007	2006
	Renminbi '000	Renminbi '000
Cash and cash equivalents	**324**	—
Other receivables	**1,863**	—
Other payables	**(4,802)**	—
	(2,615)	—

36 FINANCIAL INSTRUMENTS (continued)

(d) Currency risk (continued)

(iii) Sensitivity analysis

The following table indicates the approximate change in the Group's profit after tax and retained profits in response to reasonably possible changes in foreign exchange rates to which the Group has significant exposure at the balance sheet date. The sensitivity analysis includes balances between group companies where the denomination of the balances is in a currency other than the functional currencies of the lender or borrower.

	The Group			
	2007		2006	
	Increase/ (decrease) in foreign exchange rates	**Effect on (loss)/profit after tax and retained profits RMB'000**	Increase/ (decrease) in foreign exchange rates	Effect on profit/(loss) after tax and retained profits RMB'000
United States Dollars	**10%**	**(60,032)**	10%	2,883
	(10%)	**60,032**	(10%)	(2,883)
Renminbi	**10%**	**(296)**	—	—
	(10%)	**296**	—	—
Hong Kong Dollars	**10%**	**2**	10%	2
	(10%)	**(2)**	(10%)	(2)
Euros	**6%**	**7**	6%	57
	(6%)	**(7)**	(6%)	(57)

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the balance sheet date and had been applied to each of the group entities' exposure to currency risk for non-derivative financial instruments in existence at that date, and that all other variables, in particular interest rates, remain constant.

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the next annual balance sheet date. In this respect, it is assumed that the pegged rate between the Hong Kong Dollar and the United States Dollar would be materially unaffected by any changes in movement in value of the United States Dollar against other currencies. Results of the analysis as presented in the above table represent an aggregation of the effects on each of the group entities' profit after tax and retained earnings measured in the respective functional currencies, translated into Renminbi at the exchange rate ruling at the balance sheet date for presentation purposes. The analysis is performed on the same basis for 2006.

36 FINANCIAL INSTRUMENTS (continued)

(e) Fair value

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2007 and 2006 except as follows:

	The Group			
	2007		2006	
	Carrying amount RMB'000	**Fair value RMB'000**	Carrying amount RMB'000	Fair value RMB'000
Bank and other loans	**35,000**	**35,000**	155,000	155,000
Amount due to a related company	**37,695**	**33,196**	41,387	38,944
Convertible notes	**—**	**—**	34,267	34,267
Unsecured notes	**705,006**	**693,937**	—	—

	The Company			
	2007		2006	
	Carrying amount RMB'000	**Fair value RMB'000**	Carrying amount RMB'000	Fair value RMB'000
Loan to a subsidiary	**514,196**	**510,302**	—	—
Unsecured notes	**705,006**	**693,937**	—	—

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments set out above.

36 FINANCIAL INSTRUMENTS (continued)

(e) Fair value (continued)

(i) Bank and other loans, amount due to a related company, convertible notes and loan to a subsidiary

The fair value is estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments.

The Group uses the interest rates published by the People's Bank of China plus an adequate constant credit spread to discount financial instruments. The interest rates used are as follows:

	2007	2006
Bank and other loans	**6.48%**	5.74%
Amount due to a related company	**7.83%**	6.84%
Convertible notes	**—**	13.65%
Loan to a subsidiary	**7.65%**	—

(ii) Unsecured notes

The fair value is based on quoted market price at the balance sheet date without any deduction for transaction costs.

37 NON-ADJUSTING POST BALANCE SHEET EVENTS

(a) Capital increase in a subsidiary of the Group

On 21 September 2007, the Company announced that the Company, through a wholly owned subsidiary, has entered into a capital increase agreement with one of the Group's subsidiaries, Wuhai Blue Star Glass Company Limited ("Wuhai Blue Star"), to subscribe for Wuhai Blue Star's additional 25.01% equity interests for a consideration of RMB28.6 million. Upon completion of the above capital increase on 21 February 2008, the Group's effective interest in Wuhai Blue Star increased from 34.16% to 50.63%.

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

(b) Acquisitions of minority interests in a subsidiary of the Group

On 29 December 2007, the Company announced that the Company, through a subsidiary, has entered into various share transfer agreements to acquire an aggregate of 22.5% equity interests in one of the Group's subsidiaries, Weihai Blue Star New Technology Glass Company Limited ("Weihai New Tech"), from the then minority equity holders of Weihai New Tech for a total consideration of RMB52.9 million. Upon completion of the above share transfers on 13 March 2008, the Group's effective interest in Weihai New Tech increased from 12.03% to 17.34%.

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

(c) Disposal of equity interests in a subsidiary of the Group

On 10 January 2008, the Company announced that the Company, through a subsidiary, has entered into a share transfer agreement to dispose of its 45% equity interest in one of the Group's subsidiaries, Beijing Zhonghai Xingye Safety Glass Company Limited ("Zhonghai Xingye"), to the then minority equity holder of Zhonghai Xingye for a consideration of RMB6.2 million. Upon completion of the above share transfer, the Group's effective interest in Zhonghai Xingye will decrease from 17.69% to 7.08%, and Zhonghai Xingye will cease to be a subsidiary of the Group.

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

37 NON-ADJUSTING POST BALANCE SHEET EVENTS (continued)

(d) Grant of share options

On 29 February 2008, the Directors of the Company granted share options under a share option scheme to the directors and management of the Company.

The total number of shares issuable upon exercise of the options granted is 20,000,000. For the options granted, 40% will vest after one year from the date of grant; another 30% will vest after two years from the date of grant; and the remaining 30% will vest after three years from the date of grant. The exercise price is HK$3.5 per share. The option will lapse on 29 May 2015.

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

(e) Change of Hong Kong Profits Tax rate

On 27 February 2008, the Financial Secretary of the Hong Kong SAR Government announced his annual budget which proposes a cut in the profits tax rate from 17.5% to 16.5% with effect from the fiscal year 2008/09 and a one-off reduction of 75% of the tax payable for the 2007/08 assessment subject to a ceiling of HK$25,000. In accordance with the Group's accounting policy set out in Note 2(r), no adjustments have been made to these financial statements as a result of this announcement.

The Directors of the Company estimate that these proposed changes will have an insignificant impact on the opening balance of the Group as at 1 January 2008, and it is impracticable to further estimate the impact on future financial statements of the change in tax rate.

38 COMPARATIVE FIGURES

As a result of adopting HKFRS 7, *Financial instruments: Disclosures*, and the amendments to HKAS 1, *Presentation of financial statements: Capital disclosures*, certain comparative figures have been adjusted to conform with changes in disclosures in the current year and to show separately comparative amounts in respect of items disclosed for the first time in 2007. Further details of these developments are disclosed in Note 3.

39 ULTIMATE HOLDING COMPANY

The Directors of the Company consider the ultimate holding company of the Company at 31 December 2007 to be Easylead Management Limited, which is incorporated in the British Virgin Islands.

40 ACCOUNTING ESTIMATES AND JUDGEMENTS

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

(a) Impairment of receivables

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

(b) Impairment of long-lived assets

If circumstances indicate that the carrying amount of a long-lived asset may not be recoverable, the asset may be considered "impaired", and an impairment loss may be recognised in accordance with accounting policy for impairment of long-lived assets as described in Note 2(k). The carrying amounts of long-lived assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever the events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount. The recoverable amount is the greater of the net selling price and the value in use. In determining the value in use, expected future cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to the level of revenue and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of the recoverable amount, including estimates based on reasonable and supportable assumptions and projections of the level of revenue and amount of operating costs. Changes in these estimates could have a significant impact on the carrying value of the assets and could result in additional impairment charge or reversal of impairment in future periods.

(c) Depreciation

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

(Expressed in RMB unless otherwise indicated)

41 POSSIBLE IMPACT OF NEW STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2007

Up to the date of issue of these financial statements, the HKICPA has issued the following new standards, amendments to standards and interpretations which are not yet effective for the year ended 31 December 2007 and which have not been adopted in these financial statements:

	Effective for accounting periods beginning on or after
HK(IFRIC) 11, HKFRS 2 - *Group and treasury share transactions*	1 March 2007
HK(IFRIC) 12, *Service concession arrangements*	1 January 2008
HK(IFRIC) 13, *Customer loyalty programmes*	1 July 2008
HK(IFRIC) 14, HKAS 19 - *The limit on a defined benefit asset, minimum funding requirements and their interaction*	1 July 2008
HKFRS 8, *Operating segments*	1 January 2009
Amendments to HKFRS 2, *Share-based payment - Vesting conditions and cancellations*	1 January 2009
Revised HKFRS 3, *Business combinations*	Applied to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period on or after 1 July 2009
Revised HKAS 1, *Presentation of financial statements*	1 January 2009
Revised HKAS 23, *Borrowing costs*	1 January 2009
Revised HKAS 27, *Consolidated and separate financial statements*	1 July 2009

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