08 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)*
Mr. Li Ping
Mr. Cui Xiangdong

Non-Executive Directors

Mr. Zhao John Huan
Mr. Liu Jinduo
Mr. Eddie Chai
Mr. Chen Shuai *(Appointed on 2 January 2009)*
Mr. Guo Wen *(Resigned on 22 July 2008)*

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 *(Resigned on 5 January 2009)*
Mr. Wang Jianxun

COMPANY SECRETARY

Mr. Ng Kit Man *(Appointed on 13 March 2009)*

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

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HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Reid Management Limited
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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
Commerce & Finance

As to Bermuda and British Virgin Islands Laws
Appleby Spurling Hunter

As to Cayman Islands Law
Walkers SPV 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") for each of the five years ended 31 December 2008 are extracted from the audited financial statements of this report and the Company's 2005, 2006 and 2007 annual reports and the accountants' report of the Company included in the prospectus of the Company dated 13 June 2005.

RESULTS (EXPRESSED IN RENMINBI ("RMB"))

	The Group				
	Year ended 31 December				
	2008	**2007**	**2006**	**2005**	**2004**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**
Turnover	2,289,941	2,212,324	573,136	386,494	429,738
Cost of sales	(2,078,045)	(1,821,647)	(517,829)	(324,919)	(303,469)
Gross profit	211,896	390,677	55,307	61,575	126,269
Other revenue	19,398	16,400	5,076	1,591	115
Other net (loss)/income	(5,164)	583	84	2,079	(355)
Distribution costs	(82,879)	(71,927)	(24,098)	(16,381)	(14,010)
Administrative expenses	(219,588)	(144,921)	(33,541)	(23,287)	(20,396)
Other expenses	(60,061)	—	—	—	—
(Loss)/profit from operations	(136,398)	190,812	2,828	25,577	91,623
Share of losses of an associate	(41,999)	—	—	—	—
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	(66,001)	(84,354)	(16,795)	(8,647)	(5,609)
(Loss)/profit before taxation	(244,398)	132,898	10,348	16,930	86,014
Income tax	26,990	6,033	4,257	(828)	(9,305)
(Loss)/profit for the year	(217,408)	138,931	14,605	16,102	76,709

ASSETS AND LIABILITIES

	As at 31 December				
	2008	2007	2006	2005	2004
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	3,554,990	3,558,441	1,361,234	764,272	436,851
Total liabilities	(2,554,289)	(2,274,401)	(838,510)	(366,209)	(288,268)
Net assets	1,000,701	1,284,040	522,724	398,063	148,583

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

Dear shareholders:

Due to the impact of the global financial crisis in 2008, there was a decline in demand in both the real estate and the automobile industries, leading to the decrease in overall demand in the flat glass industry. As a result of the slump in activity in real estate construction in China, production and sales figures in the flat glass industry dropped compared to the same period last year. Glass exports also witnessed a downward trend as a result of the decline in demand of overseas markets, the export rebate rate cut by the Chinese government, the anti-dumping duty imposed on Chinese exporters by some countries, and the appreciation of the Renminbi. The prices of main raw materials of flat glass significantly increased by 40% in the first three quarters of 2008, which kept production costs high. The flat glass industry again slipped into its periodic downturn. The Group, in accordance with the industry-wide trend, also recorded an annual loss for the first time since its listing.

Since the fourth quarter of 2008, global commodity prices have declined. The price of main raw materials of flat glass has dropped, and production costs can now more easily be controlled. Some glass manufacturers ceased production during the downturn due to serious loss of profits; the state of oversupply has eased and the rates of production and sales have begun to rise. Production and operations in the flat glass industry have stabilised.

The Chinese government has introduced a four trillion economic stimulus plan to maintain the growth of the Chinese economy. If we take advantage of the growth in the automobile and real estate sectors, especially in the housing construction industry, we believe the flat glass industry will soon recover from the current recession.

China Glass Holdings is committed to becoming the most competitive and influential manufacturer of flat glass in China. While we are faced with many challenges, there are also plenty of opportunities to be embraced. The Group, which has a leading role in the market, is the largest tinted glass and coated glass manufacturer in China, and is the only "Low-e" glass manufacturer which has its own intellectual property rights. Of note is the fact that these products remained profitable even in the year 2008. The Group will endeavour to enhance production capacity and strengthen market promotion for these products. Moreover, the Group is using a strategy of product differentiation to increase its competitiveness in the market.

In all, I am confident about China's economic development as well as the company's prospects for the future.

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

Zhou Cheng
Chairman

MARKET REVIEW

In 2008, the glass industry encountered various adverse factors in an extremely challenging market environment. Increased production volume and unit costs combined with lower sales volume and unit selling price resulted in an apparent decline in economic efficiency and brought difficulties to production and operations.

Entering 2008, the PRC glass market lingered in a state of recession, and the financial storm triggered by the sub-prime crisis spread all over the globe from July 2008. The intensifying global financial crisis, an overall slowdown in national economic growth and a slump in real estate sales caused a sharp demand contraction in the glass market. Due to the impact of, among other things, the export tax rate adjustment, the appreciation of the RMB and particularly the economic recession in the second half of 2008, which caused a dramatic fluctuation in the values of the currencies of many countries and regions, export sales of glass were severely hampered. As a consequence, the Group's export sales volume of glass in 2008 decreased by 3% compared to the previous year. Meanwhile, due to the dramatic fluctuation in the prices of energy resources and raw materials and the increase in transportation expenses, labor costs, the manufacturing cost of glass increased. Although the prices of major fuels and raw materials such as oil, coal and soda ash fell in the second half of 2008, the selling price of glass suffered decreases due to stagnant sales and sluggish demand for glass. As such, the profit margin of the industry narrowed. Apart from the sluggish demand, the increase in production capacity of glass products also caused an intensified clash between the supply and demand in the industry, which was also a major contributor to the slow down of the industry.

According to the statistics released by the Information Department of the China Building Materials Federation and the China Architectural and Industrial Glass Association, the glass producers in the PRC produced an aggregate of 574.23 million weight cases of sheet glass in 2008, representing an increase of 5.1% as compared to that of 2007. The accumulative production and sales rate of sheet glass was 97.47%, representing a decrease of 0.9% as compared to that of 2007, and the accumulative production and sales rate of float glass was 97.44%, representing a decrease of 0.4% as compared to that of 2007.

As at the end of 2008, there were a total of 190 production lines for float glass in the PRC, of which 4 were newly added in 2008. Currently, 43 production lines for float glass with an aggregate production capacity of approximately 100 million weight cases have suspended production due to market reasons and some glass processing enterprises have suspended production or are running at half capacity. It appears that this trend for large scale suspension of production will continue in the first half of 2009.

BUSINESS REVIEW

Overview: The Group currently has 15 glass production lines (same as that in 2007), 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. In 2008, due to the ending of lifespan of furnaces and adverse market conditions, 1 patterned glass, 2 float glass and 2 sheet glass production lines have stopped production. As a result, the glass production lines of the Group still in operation are 10 float glass production lines.

In addition, the Group also owns 1 glass processing line and one 3MW photovoltaic battery module production line, which was put into production in 2008.

The Group produced a total of 27.75 million weight cases of various types of glass, an increase of 0.43 million weight cases or 1.58% over last year; sold 27.22 million weight cases of glass, representing a production and sales rate of 98.10% which was higher than the industry average; and recorded a sales revenue of RMB2.29 billion, representing an increase of 4% over last year, and a loss after tax of RMB217 million.

In 2008, affected by various adverse factors including a decline in market demand in the glass industry, the increase in unit selling price of glass products was less than the increase in price of raw materials. The Group has taken certain measures such as adjustment to product mix and renovation of fuel system for energy-saving and consumption-reduction, which were quite effective, but could not entirely offset the adverse impact imposed by the market and hence, unable to turn operating losses into gains.

Raw materials price and production cost: The price of major raw materials from January to September 2008 increased by more than 40% over that of the same period of 2007; since mid-September though, the price of major raw materials declined as international oil prices slumped due to the weak demand for fuels and raw materials amid the international financial crisis. The price of soda ash, heavy oil, coal tar and petroleum powder fell by about 50% in only two months to a level lower than the price at the beginning of 2008. The average unit production cost for glass products of the Group was RMB76 in 2008, a rise of RMB11 or 17% over last year. The increase in consolidated average unit production cost was mainly due to (1) the increase in prices of raw materials, (2) a higher proportion of high value-added products (being high cost products) being produced and (3) the increase in non-deductible VAT rate for export sales from 6% to 12% since July 2007.

Production, sales and selling price: In 2008, the 10 float glass production lines of the Group in normal operation maintained safe production with stable quality. The Group produced 27.75 million weight cases of various types of glass during the year, with a gross rate of finished products of 86.56% and a consolidated rate of finished products of 82.38%.

The Group consistently adheres to an operational strategy of "product diversity" in its production and operations. At present, the Group's most competitive products in China are various types of on-line coated glass, particularly the on-line low-emissions ("Low-E") coated glass. The Group possesses the most advanced production technology for on-line coated glass and is the sole producer who possesses the intellectual property rights to the "manufacturing technology for on-line Low-E coated float glass". The Group also has the largest production base for painted glass and coated glass in China. On-line coated glass, particularly the on-line Low-E coated glass, involves higher technology and added-value, has less competitors, lower conflict between supply and demand and a more stable selling price. The Group sold 11.91 million weight cases of painted glass in 2008, which accounted for 44% of our total sales, of which coated glass amounted to 4.57 million weight cases, accounting for 38% of our total sales of painted glass and ranking among the top of the glass producers in China, in terms of quantity, and this was the biggest contributor to the Group's profit.

The Group sold a total of 27.22 million weight cases of various types of glass in 2008, representing a production and sales rate of 98.10%, of which export sales accounted for 7.40 million weight cases, accounting for 27% of total sales, a drop of 3% as compared to that of last year; export delivery value amounted to RMB728 million, an increase of RMB58 million or 8.58% over that of last year.

The unit selling price of the glass products of the Group was RMB82 per weight case, an increase of RMB4 per weight case over that of last year.

In 2008, the Group's revenue from exports increased despite the decrease in export volume, as the unit selling price increased compared to that of 2007, mainly due to a higher proportion of high value-added products.

Loss for the year: In 2008, the Group recorded a loss after tax of RMB217.41 million, a decrease of RMB356.34 million as compared to last year. The significant decrease in profit was mainly due to:

1. Rising raw material prices caused the increase in manufacture costs to surpass the increase in the products' selling price, which greatly narrowed the profit margin of the Group;

2. The suspension of some production lines resulted in a higher proportion of operating costs for the Group;

3. The impairment made on certain of the Group's property, plant and equipment, intangible assets and goodwill of RMB60.06 million; and

4. Share of losses of an associate of the Group of RMB42.00 million.

New product development and technological advancement: In 2008, the production volume and quality of solar easy-to-clean glass, a new product jointly developed by the Group's research branch and the Weihai production base, made great progress with coating circle extended and coating quality reaching the standards.

The Group's Weihai production base has successfully developed a series of on-line Low-E coated glass products with extended coating circle and improved quality. Such products have been used in landmark buildings, which have become symbolic construction projects in such cities.

Furthermore, the "new-type solid fuel spraying and blowing technology" independently developed by the Group's Weihai production base finally became a success in 2008, after two years' work. This technology replaces the heavy oil previously powering glass furnaces with coal (carbon) power so as to reduce fuel costs. This project has been awarded a national utility model patent and a patent for invention. In view of its satisfactory performance during its practical application at the Weihai production base, we intend to promote application of the technology in the Group's other production lines which currently use heavy oil. We expect that it will markedly reduce the overall manufacturing cost of the Company.

The result of the antidumping investigation in South Korea: The antidumping investigation conducted by South Korea came to an end in April 2008. In South Korea, the rate of antidumping duty ranges from 12.73% to 36.01%, and the Group was levied an antidumping duty at the lowest rate of 12.73%. This rate will further enhance the Group's competitive strength over many glass exporters in China. However, the depreciation of KRW in the second half of 2008 offsets to some extent the advantage gained from the antidumping investigation. The Group is currently vigorously changing its product mix for export to high-end products with high profit margin in an effort to offset the loss in quantity.

Investment activities: In February 2008, the Group invested additional capital of RMB28.60 million in Wuhai Blue Star Glass Co., Ltd., which increased the Group's effective shareholding from 34.16% to 50.63%.

In March 2008, the Group acquired 22.5% equity interests in Weihai Blue Star New Technology Glass Co., Ltd., for a consideration of RMB52.91 million, which increased the Group's effective shareholding from 12.03% to 17.34%.

In August 2008, the Group acquired 9.90% equity interests in Sugian Huayi Coated Glass Company Limited for a consideration of RMB24.00 million, which increased the Group's effective shareholding from 90.1% to 100%.

In July 2008, the 600T/D on-line Low-E glass production line of Dongtai China Glass Special Glass Company Limited, a company newly established by the Group, commenced construction in Dongtai City, Jiangsu Province. These production lines are expected to be put into operation this year and have the following features: (1) they will use coke-oven gas from nearby coke plants as fuel and have the advantage of low cost; (2) they will produce on-line Low-E glass, a kind of energy-saving glass, and have the advantage of high added-value; and (3) they root themselves in the economically developed regions of Yangtze River Delta and thereby achieve a geographical advantage.

Development of new business: the 3MW photovoltaic battery module production line of Weihai China Glass Solar Company Limited, a company established by the Group with a registered capital of US$10 million, was put into commercial operation in 2008, which reached its production capacity and recorded a profit in the same year. The project of "film photovoltaic integrated construction system" (2008-D1-4) of this company was listed in the 2008 technological project program of the Ministry of Housing and Urban-Rural Development — industrial base (green construction), and won a number of awards from municipal government, provincial government and national ministries and commissions for its energy-saving effects. The company applied for 8 utility model patents in 2008 and its products will become a new driver for the Group's revenue.

OUTLOOK

In 2009, due to the spread of the impact of the global financial crisis and the slowdown in economic growth, the property development industry and automobile industry closely related to the glass industry demonstrated an overall depression trend across the world. In this environment, the glass industry will face more difficulties and severe competition. The Group believes that favorable opportunities for the growth and upgrading of the glass industry will still exist amid various adverse factors in 2009, which are detailed as follows:

The healthy and steady development of the property development industry is of the utmost importance to the industry. Unsold real estates in the PRC has increased since 2008. According to the data published by the National Bureau of Statistics of China, it will take at least 14.5 months for the current unsold real estates to be sold out, based on the sales pace in December 2008, assuming no effective stimulus plans are to be implemented in the property development industry. Therefore, it is almost certain that the property development industry will be sluggish in the short term. Meanwhile, the export volume of glass will be reduced to a certain extent as a result of the decrease in demand from the international market.

However, the increased supply of social housing provides a new opportunity for the stabilization and development of the glass industry. With the launch of the low-income housing project totalling RMB900 billion, which will in turn stimulate the demands for glass products.

Besides, energy saving construction will be the focus of new residential units for the upcoming 3 years which will open up good opportunities for the development of energy saving glass and solar photovoltaic materials production. Relevant authorities, including the Ministry of Housing and Urban-Rural Development of the PRC and the National Development and Reform Commission have clearly declared to strictly implement compulsory energy saving standards and promote energy saving construction in the PRC. On 23 March 2009, the Ministry of Finance and the Ministry of Housing and Urban-Rural Development of the PRC jointly issued the Trial Management Rules for Subsidies Granted to Photovoltaic Solar Buildings, pursuant to which the central finance authority will allocate special funds to support the demonstrative promotion of application of solar photovoltaic materials in urban and rural buildings.

Overall, the sluggish economy has not only created difficulties for the entire glass industry's operations, it also provides opportunity for an overall upgrade of the industry. Those manufacturers that owning high-end technology and advanced production processes will be in a better position amid the industry crisis. The technological resources and advanced production processes earlier conserved by the Group strengthened our risk resistance.

It is expected that the RMB exchange rate against USD will be stable in 2009. Factors affecting export due to the appreciation of RMB will therefore be excluded.

It is expected that prices of raw materials and fuels will stabilize or fluctuate slightly in 2009. By the end of 2008, the price of high-quality soda ash in China had decreased by 50% from its peak in July 2008 due to the decrease in demand from such downstream industries as the glass industry, the aluminium oxide industry, the lotion industry and the chemical industry, which was in turn a result of the economic slowdown. The utilization rate of soda ash producers was about 60% and the price still maintained at the level in the beginning of the year. However, the export tax refund rate of soda ash was raised from 0% to 9%, effective 1 April 2009. Implementation of this policy will increase the export volume of soda ash which will in turn put an upward pressure on the price of soda ash. However, the increase in sales volume will certainly result in an improvement in utilization rate and counter-elimination. Thus the current price of soda ash is expected to be stabilized for quite a long time. In respect of heavy oil, the price of heavy oil in the PRC is closely correlated with the price of crude oil and fuel oil in the international market. As the effect of the financial crisis is continuously deepening, it is expected that there will be a slight possibility for international oil price to rise within a short period of time. With effect from 1 January 2009, a fuel oil tax of RMB0.80/liter was imposed on domestic fuel oil. As a result, some oil refineries were forced to limit their production or change their lines of production due to the increased cost of RMB800-900/ton and the decrease in demand. The trend for the upcoming period is that the utilization rate will be improved as demand increases. Therefore, the price of heavy oil will not be significantly different from the current level. By the end of the year, coal prices also decreased by 40% from its peak in July 2008 due to the sharp decrease in demand from downstream industries such as the power industry, the iron and steel industry, the construction material industry and the chemical industry, which was also a result of macroeconomic conditions. The costs of the coal industry were increased due to the raise of VAT for the coal industry from 13% to 17% with effect from 1 January 2009. Mainly due to this factor and such issues as the production safety of the industry, some enterprises were forced to reduce or suspend production and the price of coal increased slightly in first three months of 2009. After the resumption of production of small and medium coal pits, we think there is slight possibility for coal prices to rise in the near future.

While the tendency for the shutdown of production lines in the glass industry continues, and though the economy is gradually stabilizing, its fundamentals are far from sound. The Group believes that the sales price of the glass industry will undergo a process of stabilization and recovery in the first half of the year. Although the recovery extent is limited, it can basically meet the requirement of those producers which have survived. We expect that this will continue until the end of 2009, after which the market is expected undergo a process of significant improvement.

In the face of market conditions where difficulties and opportunities co-exist, the Group will mainly adopt the following policies:

1. **Continue to implement the operation strategy of "product diversity", adjust product mix and improve the production percentage of energy saving glass.**

Currently, the excess production of sheet glass in the PRC is structural, i.e. absolute excess production of plain sheet glass and relatively short supply of high quality float glass, especially versatile glass featuring environmental protection and energy saving functions. Energy saving glass mainly includes coated glass, hollow glass and particularly Low-E glass. Due to such reasons as complex production technology and high production costs, the utilization rate of these categories of glass in China is still low. According to the statistics of China Architectural and Industrial Glass Association, the utilization rate of energy saving glass such as hollow glass and Low-E hollow glass in buildings in the PRC is less than 10%, while the use of hollow glass is basically common in the US and European countries and Low-E hollow glass accounts for more than 50% of hollow glass. According to the requirements of the new Energy Conservation Law, energy saving construction materials such as Low-E glass will be used in substantial amounts in new buildings and renovation projects of existing buildings. The Ministry of Housing and Urban-Rural Development of the PRC and the National Development and Reform Commission will also strictly implement compulsory energy saving standards. According to the statistics of the Ministry of Housing and Urban-Rural Development of the PRC, there will be additional construction of 20 billion square meters in the PRC by 2012. Construction energy consumption accounts for more than 50% of the total social consumption. Currently, the increasing promotion of environmentally friendly construction standards for new buildings and implementation of energy saving measures favoring for environmentally friendly buildings are defined by relevant authorities, including the Ministry of Housing and Urban-Rural Development of the PRC and the Ministry of Science and Technology of the PRC. They consider these of the utmost importance to the construction of properties for the time being and in the future. The Chinese government implemented the Appraisal Standards for Environmental Friendly Buildings on 1 June 2006. In the future, construction of public and private residential units will have to comply with the above-mentioned standards by using substantial amounts of energy saving construction materials, including hollow glass and Low-E glass.

The considerable demand from the low-income housing project to be fully launched for energy saving glass, especially Low-E glass, is no doubt a good business opportunity for the Group. The solar control coated glass, low-emissions Low-E coated glass, titanium coated glass, solar easy-to-clean coated glass and solar power generation glass produced by the Group enjoy absolute advantages compared with those produced by our domestic competitors in terms of quality, output, category and after-sales services, and enjoy considerable advantages compared with imported products in terms of price.

In 2009, the Group will fully adjust its product mix and all its production lines will be used for the production of solar control coated glass and Low-E glass. Meanwhile, the Group will increase its investment in scientific research activities, accelerate the development of new products, conduct technological improvement for existing products, continuously improve the technological contents and add value to the Group's products and secure the technological advantages and dominant market position of the Group's products.

2. Conduct technological improvement in entities which are currently not in production, resume production within the year and improve the market share of the Group's products

In 2008, a total of five production lines of the Group, including Beijing Qinchang Line, Jiangsu Suqian 2nd Line, the sheet glass production line and patterned glass production line in Nanjing of Jiangsu and the sheet glass production line in Wuhai, Inner Mongolia were forced to suspend production due to such reasons as maturity of kiln life and operating loss incurred as a result of production of low grade products. The Group has decided to conduct technological upgrade and improvement for certain of these production lines within the year. Upon completion of technological improvement, some of these production lines will be able to produce super white glass, Low-E glass and super white patterned glass and will strive to resume production before overall market recovery within the year.

Following commencement of full production of the Group's new and technologically improved production lines, the Group's daily melting capacity will reach 6,430 tons and its production capacity will increase by 23% from the current capacity.

3. Fully promote and apply the "new-type solid fuel spraying and blowing technology" within the Group, introduce new package methods and reduce production costs

The "new-type solid fuel spraying and blowing technology" independently developed by the Group's production base in Weihai, Shandong Province is mature and has obtained patent right. The Group has decided to fully promote and apply this technology within the Group during the year, with a goal of reducing the fuel costs of our products.

Depending on product category, transportation means and transportation distance, the Group will also actively improve the current wood box packing method and fully promote a variety of packages, including plain packaging, bare packaging and plastic packaging instead of wood box and iron frame packaging. Meanwhile, the Group will conduct research on new packaging materials and methods, so as to save energy while reducing packaging costs.

The Group will strictly implement and constantly revise its established parity procurement system and material inventory management system, strictly monitor the procurement process, closely focus on the market development, keep inventory in a reasonable level, improve the utilization efficiency of funds and reduce production costs.

4. Expand the production capacity of photovoltaic glass and make it a new source of revenue

The production line for 3 MW PV panels of Weihai China Glass Solar Company Limited, a subsidiary of the Group, commenced operation in 2008. Due to stable production, satisfactory product quality and smooth sales channels as well as the government subsidies received, this production line enjoys very good economic benefits. Lacking an economy of scale, the existing operation scale of this production line cannot meet market demand. The Group will closely monitor the development trend of photovoltaic glass and seek every opportunity to further expand its scale, so as to expand this segment and make it a new source of revenue for the Group.

FINANCIAL REVIEW

Turnover

The Group's turnover increased by approximately 4% from RMB2.21 billion for the year ended 31 December 2007 to RMB2.29 billion for the year ended 31 December 2008. The increase was due to combined effect of the increase of selling price driven by the increase in price of raw materials and fuels and the increase in non-deductible input value-added tax rate and the decrease in sales volume due to the shrinking demand in both domestic and overseas glass markets affected by the global economic downturn from second half 2008.

Cost of sales

The Group's cost of sales increased by approximately 14% from RMB1.82 billion for the year ended 31 December 2007 to RMB2.08 billion for the year ended 31 December 2008. This was mainly attributable to the increase in unit cost per weight case as a result of the increase in purchase prices of raw materials such as soda ash and fuel such as heavy oil and coal.

Gross profit

The Group's gross profit decreased by approximately 46% from RMB390.68 million for the year ended 31 December 2007 to RMB211.90 million for the year ended 31 December 2008. This was mainly attributable to the reason that the increase in unit selling price is less than the increase in unit cost. Affected by the shrinking demand, the Group was not able to pass all the effect of increase in raw materials and fuel costs to the Group's customers. Gross profit margin decreased from 18% in 2007 to 9% in 2008 accordingly.

Distribution costs

The Group's distribution costs increased by approximately 15% from RMB71.93 million for the year ended 31 December 2007 to RMB82.88 million for the year ended 31 December 2008. This was mainly attributable to the increase in the cost of transportation and packaging .

Administrative expenses

The Group's administrative expenses increased by approximately 52% from RMB144.92 million for the year ended 31 December 2007 to RMB219.59 million for the year ended 31 December 2008. This was mainly attributable to the increase in the Group's size due to the acquisitions taken place in March 2007.

Other expenses

Based on the Group's assessment of recoverable amount of its long-term assets, the Group provided RMB60.06 million of impairment losses for certain property, plant and equipment, intangible assets and goodwill

Share of losses of an associate

Taicang Pilkington China Glass Special Glass Company Limited ("Taicang Special Glass"), the associate of the Group, incurred a loss of RMB84.00 million in 2008, which is the first commercial operation year for Taicang Special Glass, as the completion rate of its finished goods is at low level during the initial production phase. The Group share RMB42.00 million loss in accordance with its shareholding in Taicang Special Glass.

Finance costs

The Group's finance costs decreased by approximately 22% from RMB84.35 million for the year ended 31 December 2007 to RMB66.00 million for the year ended 31 December 2008. This was mainly attributable to the increase in the net foreign exchange gain arising from the senior notes denominated in United States Dollars ("USD") issued in July 2007, as a result of continuous appreciation of RMB against USD.

Income tax

The Group's income tax changed from RMB(6.03) million for the year ended 31 December 2007 to RMB(26.99) million for the year ended 31 December 2008. This relatively low income tax expense was mainly attributable to the deferred tax expenses on tax loss recognised and 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 after offset of deductive losses incurred in prior years, if any, but subject to the new tax law mentioned below.

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 changed to 25% with effect 1 January 2008 or gradually increase to 25% over a five-year period if the PRC subsidiary is previously enjoying a preferential tax rate of below 25%; or if the PRC subsisidary is entitled but has not commenced in enjoying the tax holiday mentioned above, the tax holiday will commence immediately in 2008.

Non-current assets

The Group's non-current assets increased by approximately 5% from RMB2,465.13 million as at 31 December 2007 to RMB2,593.66 million as at 31 December 2008, which was mainly attributable to the construction of new production lines in Dongtai.

Current assets

The Group's current assets decreased by approximately 12% from RMB1,093.31 million as at 31 December 2007 to RMB961.33 million as at 31 December 2008. The decrease was mainly attributable to the combined effect of increase in inventory at the end of 2008 and decrease in cash and cash equivalents and trade and other receivables in 2008.

Current liabilities

The Group's current liabilities increased by approximately 11% from RMB1,425.87 million as at 31 December 2007 to RMB1,584.76 million as at 31 December 2008. This was mainly attributable to the increase in trade payables for purchase of raw materials and fuel and payables in connection with constructions.

Non-current liabilities

The Group's non-current liabilities increased by approximately 14% from RMB848.53 million as at 31 December 2007 to RMB969.53 million as at 31 December 2008. This was mainly attributable to the new borrowing made in 2008.

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

As at 31 December 2008, the Group's cash and cash equivalents were RMB279.50 million (2007: RMB355.86 million), of which 77% were denominated in RMB, 18% in USD and 4% in Hong Kong dollars ("HKD"). Outstanding bank and other loans were RMB447.70 million, of which 66% were denominated in RMB and 34% were denominated in USD (2007: RMB260.96 million), and outstanding unsecured notes of RMB669.24 million denominated in USD (2007: RMB 705.01). As at 31 December 2008, the gearing ratio (total interest-bearing debts divided by total assets) was 32% (2007: 31%). As at 31 December 2008, the Group's current ratio (current assets divided by current liabilities) was 0.61 (2007: 0.77). The Group recorded net current liabilities amounting to RMB623.43 million as at 31 December 2008 (2007: RMB332.56 million). Assets-liabilities ratio (total liabilities divided by total assets) of the Group was 0.72 (2007: 0.64), the rise of which was primarily attributable to the increase in trade and other payables and other loans.

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

Material investments, acquisitions and disposals

During the year ended 31 December 2008, the Group subscribed for Wuhai Blue Star Glass Company Limited's additional 25.01% equity interests, acquired an aggregate of 22.5% equity interests in Weihai Blue Star New Technology Glass Company Limited and 9.9% remaining equity interests in Suqian Huayi Coated Glass Limited from then minority equity holders.

The Group established Dongtai China Glass Special Glass Company Limited ("Dongtai Special Glass") in Dongtai, Jiangsu Province with a regisrered capital of RMB 150 million. As at 31 December 2008, the Group has contributed RMB68.5 million into Dongtai Special Glass.

On 10 January 2008, the Group has entered into a share transfer agreement to dispose of 45% equity interests in Beijing Zhonghai Xingye Safety Glass Company Limited. As at the date of this report, the disposal has yet to be completed.

Other than that disclosed above, the Group did not have any material investments or capital assets, or material acquisitions and disposals of subsidiaries and affiliated companies for the year ended 31 December 2008.

Human resources and employees' remuneration

As at 31 December 2008, the Group had employed a total of approximately 6,476 employees in the PRC and Hong Kong (31 December 2007: about 6,410 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 2008. 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 2008 were set out in Note 35 to the financial statements.

Contingent liabilities

As at 31 December 2008, 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 Euro Dollars ("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 fluctuation of RMB will closely associate with the development of the PRC economy. 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 2008, 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 2008 attributable to the Group's major suppliers and customers are as follows:

Purchases	
- the largest supplier	13%
- five largest suppliers combined	38%
Sales	
- the largest customer	17%
- five largest customers combined	24%

During the year ended 31 December 2008, 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 submit herewith their annual report together with the audited financial statements of the Company for the year ended 31 December 2008.

PRINCIPAL ACTIVITIES

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

RESULTS AND APPROPRIATIONS

The loss of the Group for the year ended 31 December 2008 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 44 to 130.

The Board does not recommend any final dividend for the year ended 31 December 2008 (31 December 2007: HK$0.0614 per ordinary share).

RESERVES

Details of distributable reserves of the Company are set out in Note 31(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 31 to the financial statements.

DONATIONS

Donations made by the Group during the year ended 31 December 2008 amounted to RMB210,430 (2007: RMB700,000).

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 31(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)*
Mr. Li Ping
Mr. Cui Xiangdong

Non-Executive Directors

Mr. Zhao John Huan
Mr. Liu Jinduo
Mr. Eddie Chai
Mr. Chen Shuai *(Appointed on 2 January 2009)*
Mr. Guo Wen *(Resigned on 22 July 2008)*

Independent Non-Executive Directors

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

Pursuant to 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 of Hong Kong Ltd. (the "Listing Rules"), and the Company considers the independent non-executive Directors to be independent.

CONTINUING CONNECTED TRANSACTIONS

Management Services Agreement

On 30 December 2005, the Company and JV Investments Ltd. ("JV Investments"), a subsidiary of the Company, 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. for an initial term of three years. 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. Well Faith, an associate of Right Lane Limited (which is a substantial shareholder of the Company), is a connected person of the Company. Mei Long, a substantial shareholder of JV Investments, and a wholly owned subsidiary of Right Lane Limited, is a connected person of the Company. Pilkington Italy Limited, a substantial shareholder of the Company, is a connected person of the Company. The value of the transaction for the year ended 2008 amounted to US$285,527.

The above continuing connected transaction ceased on 30 December 2008.

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

(1) the transaction was approved by the Board of the Company; and

(2) the service fees paid by JV Investments for the services received from Well Faith for the year ended 31 December 2008 are in accordance with the terms set out in 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 to purchase soda ash from Qingdao Soda Ash for a term of three years commencing from 1 January 2007. Qingdao Soda Ash is a connected person of the Company by virtue of it being a 17.46% equity holder of Lanxing. The value of the transaction for the year ended 2008 was RMB126.8 million.

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

(1) the transaction was approved by the Board of the Company;

(2) the price charged for the transaction was consistent with the prices charged for comparable transactions; and

(3) the value of the transaction for the year ended 2008 did not exceed the cap disclosed in the circular dated 1 December 2006.

Purchase of Raw Materials and Labour Services Agreement

On 8 May 2008, the Company entered into the master agreement (the "Master Agreement") with Shandong Bluestar (Group) Company Limited ("Shandong Bluestar") pursuant to which the Company and its subsidiaries agreed to purchase raw materials and receive labour services from Shandong Bluestar for a term of three years commencing from 1 January 2008. Shandong Bluestar (an associate of Right Lane Limited) is a connected person of the Company. The value of the transaction for the year ended 2008 was RMB9.9 million.

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

(1) the transaction was approved by the Board of the Company;

(2) the price charged for the transaction was consistent with the prices charged for comparable transactions; and

(3) the value of the transaction for the year ended 2008 did not exceed the cap disclosed in the announcement dated 8 May 2008.

Master Sales Agreement

On 24 July 2008, the Company entered into the master sales agreement with Vidrios Lirquen S.A ("Vidrios") on behalf of the Vidrios Lirquen S.A. and Vidrios Lirquen Peru SAC (collectively, the "Vidrios Group") for a term of three years commencing from 1 January 2008 to regulate the future sales arrangements between the Group and the Vidrios Group. Pilkington Italy Limited, a substantial shareholder of the Company, holds 51% interest in Inversiones Float Chile Limitada which in turn holds 51% interest in Vidrios. Vidrios in turn holds 100% of the interest in Vidrios Lirquen Peru SAC. Members of the Vidrios Group are therefore connected persons of the Company. The value of the transaction for the year ended 2008 was RMB1.0 million.

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

(1) the transaction was approved by the Board of the Company;

(2) the price charged for the transaction was consistent with the prices charged for comparable transactions; and

(3) the value of the transaction for the year ended 2008 did not exceed the cap disclosed in the circular dated 11 August 2008.

The independent non-executive Directors of the Company have reviewed all the above continuing connected transactions and confirm that:

(1) the above transactions are in the ordinary and usual course of business of the Group;

(2) the above transactions are on normal commercial terms, or if there are insufficient comparable transactions to judge whether the terms of those transactions are normal commercial terms, as far as the Company is concerned, the terms of the above transactions are no less favourable than that available from or provided by independent third parties (as the case may be); and

(3) the above transactions are entered into under the terms of the agreements in respect of the relevant transactions and the transaction terms are fair and reasonable and are in the interest of shareholders of the Company as a whole.

CONNECTED TRANSACTIONS

On 10 January 2008, the Group entered into a share transfer agreement to dispose of 45% equity interests in Beijing Zhonghai Xingye Safety Glass Company Limited ("Zhonghai Xingye") for a consideration of RMB6.21 million. The transferor, Weihai Blue Star Glass Co., Ltd. and the transferee, Mr. Xu Yulin held 75% and 25% of registered capital of Zhonghai Xingye, respectively. As the transferee is a substantial shareholder of Zhonghai Xingye, he is a connected person of the Company.

Mr. Xu Yulin is required to pay the consideration in cash within 90 days after the business registration procedure is completed.

As Zhonghai Xingye had recorded operating losses for two consecutive years, the Company had decided to sell part of its interest in Zhonghai Xingye to mitigate its investment losses. In addition, the Company intends to consolidate its glass manufacturing business and reduce capital input into the glass deep processing business.

The above transaction constituted connected transaction of the Company which is exempt from approval of its independent Shareholders at the special general meeting. As of the date of this annual report, this transaction has not been completed.

On 24 June 2008, the Group entered into an acquisition agreement with Jiangsu Glass Group Co. Ltd. to acquire the remaining 9.9% of the registered capital of Suqian Huayi Coated Glass Limited ("Suqian") for a consideration of RMB24 million. Jiangsu Glass Group Co, Ltd. (the vendor for the transaction) is a connected person of the Company by virtue of it being an associate of Right Lane Limited and Easy Lead Management Limited, the substantial shareholders of the Company.

The consideration will be paid in three instalments within three years of the grant of all necessary approvals by the PRC governmental departments. The first instalment of RMB7.5 million shall be paid by 31 December 2008; the second instalment of RMB8.75 million by 31 December 2009 and the third instalment of RMB7.75 million by 31 December 2010.

The Board believed the acquisition will improve its overall competitiveness and considers the transaction to be in line with the Company's long term strategy to expand its business through organic growth of new product development acquisitions. In addition, after the acquisition, Suqian will be a wholly-owned subsidiary of the Company and the Company will therefore be able to exercise control on the operations of Suqian more effectively and recognize all profits (if any) of Suqian.

The above transaction constituted connected transaction of the Company which is subject to the approval of its independent shareholders at the special general meeting. The resolution of the transaction was passed by the shareholders at the Special General Meeting held on 1 September 2008.

Other than disclosed above, the Group was not involved in any connected transactions for the year ended 31 December 2008.

The related party transactions are set out in Note 34 to the consolidated financial statements. Apart from the connected transactions disclosed above, all the other related party transactions did not fall within the scope of Chapter 14A of the Listing Rules which are required to comply with the reporting, announcement or independent Shareholders' approval requirements.

DIRECTORS' INTERESTS IN CONTRACTS

During the year ended 31 December 2008, 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 2008.

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 2008, 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
Mr. Zhou Cheng	The Company	Interest of a controlled corporation [2]	26,617,000 Shares (L)	6.40%
Mr. Liu Jinduo	The Company	Interest of a controlled corporation [3]	136,463,000 Shares (L)	32.80%

Notes:

(1) The letter "L" denotes the Director's long position in such securities.

(2) These Shares are beneficially-owned by Swift Glory Investment Limited ("Swift Glory") which is owned as to 90% by Mr. 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 Enterprise Limited ("First Fortune"), an indirect subsidiary of Easylead Management Limited ("EML"). EML is owned as to one-third by each of Messrs. Cao Zhijiang, Zhang Zuxiang and Liu Jinduo. Mr. 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 2008, 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	Number and class of securities[1]	Approximate percentage of shareholding
First Fortune [13]	Beneficial owner	136,463,000 Shares (L)	32.80%
Hony International Limited ("Hony International")	Interest of a controlled corporation [2]	136,463,000 Shares(L)	32.80%
EML	Limited 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%
Mr. Cao Zhijiang	Interest of a controlled corporation [4]	136,463,000 Shares (L)	32.80%
Mr. 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 Brothers Limited [13]	Interest of a controlled corporation [8]	124,384,000 Shares (L)	29.90%
Pilkington Group Limited [12]	Interest of a controlled corporation [9]	124,384,000 Shares (L)	29.90%

Name	Capacity	Number and class of securities[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 [11]	124,384,000 Shares (L)	29.90%
Nippon Sheet Glass Co., Ltd. [18]	Interest of a controlled corporation [12]	124,384,000 Shares (L)	29.90%
International Finance Corporation	Beneficial owner	33,698,000 Shares (L)	8.38%

Notes:

(1) The letter "L" denotes the person's long position in such securities.

(2) First Fortune is a wholly-owned subsidiary of Hony International. Hony 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 Messrs. 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 translation of its Chinese company name「聯想控股有限公司」.

(6) Right Lane Limited is a direct wholly-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 Limited. Pilkington Brothers Limited is taken to be interested in these Shares by virtue of Part XV of SFO.

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

(12) Nippon Sheet Glass Co.,Ltd is a Japan listed company. NSG Holding (Europe) Limited is a direct wholly-owned subsidiary of Nippon Sheet Glass Co., Ltd. Nippon Sheet Glass Co., Ltd. is taken to be interested in these Shares by virtue 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. Guo 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.

SHARE OPTION SCHEME

The Company has conditionally adopted a share option scheme on 30 May 2005 in order to provide an incentive for the qualified participants to work with commitment towards 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% of the total number of Shares in issue as at the listing date, which is 36,000,000 (representing 8.7% of the issued share capital 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 10 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.

On 29 February 2008, the Directors of the Company granted share options under the share option scheme.

The closing price of the Shares at the date of grant was HK$3.50. Movement of share options granted under the option scheme during the year ended 31 December 2008 are as follow:

Participant	Date of grant	Exercise price per share	Exercise period from	Exercise period until	No. of share: Held as at 1/1/2008	No. of share: Granted during the period	No. of share: Held as at 31/12/2008	Approximate percentage interest in the Company's issued share
		HK$						
Directors								
Zhou Cheng	29/2/2008	3.5	28/2/2009	29/5/2015	—	750,000	750,000	0.18%
	29/2/2008	3.5	28/2/2010	29/5/2015	—	562,500	562,500	0.14%
	29/2/2008	3.5	28/2/2011	29/5/2015	—	562,500	562,500	0.14%
Zhang Zhaoheng	29/2/2008	3.5	28/2/2009	29/5/2015	—	750,000	750,000	0.18%
	29/2/2008	3.5	28/2/2010	29/5/2015	—	562,500	562,500	0.14%
	29/2/2008	3.5	28/2/2011	29/5/2015	—	562,500	562,500	0.14%
Li Ping	29/2/2008	3.5	28/2/2009	29/5/2015	—	320,000	320,000	0.08%
	29/2/2008	3.5	28/2/2010	29/5/2015	—	240,000	240,000	0.06%
	29/2/2008	3.5	28/2/2011	29/5/2015	—	240,000	240,000	0.06%
Cui Xiangdong	29/2/2008	3.5	28/2/2009	29/5/2015	—	320,000	320,000	0.08%
	29/2/2008	3.5	28/2/2010	29/5/2015	—	240,000	240,000	0.06%
	29/2/2008	3.5	28/2/2011	29/5/2015	—	240,000	240,000	0.06%
Employees*	29/2/2008	3.5	28/2/2009	29/5/2015	—	5,860,000	5,860,000	1.41%
	29/2/2008	3.5	28/2/2010	29/5/2015	—	4,395,000	4,395,000	1.06%
	29/2/2008	3.5	28/2/2011	29/5/2015	—	4,395,000	4,395,000	1.06%
Total					—	20,000,000	20,000,000	

* The number of Shares involved in the options outstanding at the end of the year included share options granted to Mr. Lau Ying Kit involving a total of 700,000 Shares. Mr. Lau Ying Kit resigned as Company Secretary of the Company in January 2009.

Details of the share options granted were set out in Note 29 to the financial statements.

BIOGRAPHICAL INFORMATION OF DIRECTORS AND SENIOR MANAGEMENT

Directors

Executive Directors

Mr. Zhou Cheng （周誠）, aged 52, 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 50, is an executive Director and the chief executive officer of the Company. He joined the Group in March 2007. Mr Zhang is a senior economist with a postgraduate qualification, he is the Vice President of China Marketing Association and Vice Chairman of China Building Glass and Industrial Glass Association. 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 48, 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 49, is an executive Director and senior vice president of the Company. He joined the Group in March 2007. 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 46, is a non-executive Director of the Company. He joined the Group in January 2005. 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.

Mr. Liu Jinduo（劉金鐸）, aged 70, is a non-executive Director of the Company. He joined the Group in January 2005. 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.

Mr. Eddie Chai (柴楠), aged 50, is a non-executive Director of the Company. He joined the Group in July 2006. Mr. Chai is the group country manager of Pilkington (Asia) Limited which is a subsidiary of Pilkington plc ("Pilkington"), one of the world's leading float glass companies and the founder of float glass technology. 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. Chen Shuai (陳帥), aged 34, was appointed as a non-executive Director of the Company. He joined the Group on 2 January 2009. Mr. Chen graduated from the Beijing Forestry University with a bachelor degree. Mr. Chen is currently a vice president of Hony Capital Ltd, and has extensive experience in financial, banking, merger and acquisition investment in China. Mr. Chen also has over 6 years of experience in the field of finance and capital investment in the PRC.

Independent Non-executive Directors

Mr. Song Jun (宋軍), aged 48, is an independent non-executive Director of the Company. He joined the Group in January 2005. 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.

Mr. Sik Siu Kwan(薛兆坤), aged 41, is an independent non-executive Director of the Company. He joined the Group in May 2006. 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.

Mr. Zhang Baiheng (張佰恒), aged 48, is an independent non-executive Director of the Company. He joined the Group in January 2005. 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.

Senior Management

Mr. Lu Guo (呂國), aged 46, 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 48, 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. He joined the Group in March 2007. 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 47, is a vice president of the Company. He joined the Group in January 2005. 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. He joined the Group in March 2007. Mr. Cheng is a registered security analyst, an economist and a master of business administration, he graduated from China Europe International Business School. Mr. Cheng 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 15 years of extensive experience in the investment scope.

Mr. Wang Jianxun (汪建勛), aged 51, is a chief technology officer of the Company and director of Hangzhou Blue Star. He joined the Group in March 2007. 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.

Company Secretary

Mr. Ng Kit Man （伍潔文）, aged 36, was appointed as the company secretary of the Company. He joined the Group on 13 March 2009. Mr. Ng received his honors degree of Bachelor of Accountancy from the Hong Kong Polytechnic University in 1995. After graduation, he gained his accounting experiences in several private and listed companies in Hong Kong. He is now a member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants.

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

During the year ended 31 December 2008, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

PUBLIC FLOAT

Based on information that is publicly available to the Company and to the best knowledge of the Directors, as at the date of this report, the Company has maintained the prescribed public float of not less than 25% under the Listing Rules.

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 2008.

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 2008.

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 2008.

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, 27 April 2009

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. 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 2008, the Board held twelve board meetings. The attendance of the Directors at these twelve board meetings are as follows:

Directors' attendance at board meetings	Directors' number of attendance
Mr. Zhou Cheng	10/12
Mr. Zhang Zhaoheng	12/12
Mr. Li Ping	12/12
Mr. Cui Xiangdong	11/12
Mr. Zhao John Huan	4/12
Mr. Liu Jinduo	7/12
Mr. Eddie Chai	7/12
Mr. Guo Wen (Resigned on 22 July 2008)	7/9
Mr. Song Jun	8/12
Mr. Zhang Baiheng	8/12
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. Chen Shuai, 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 29 to 31 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.

Nomination of Directors

The Company does not have a Nomination Committee. The Board will identify suitable individual qualified to become board members, in particular candidates who can add value to the management through their contributions in the relevant strategic business areas and which appointments will result on the constitution of strong and diverse Board. The Board as a whole is responsible for the procedure of agreeing to the appointment of its members and for nominating appropriate person for election by shareholders at the annual general meeting, either to fill a casual vacancy or as an addition to the existing Directors.

According to the Bye-laws of the Company, notice in writing of the intention to propose a person for election as a Director and notice in writing by that person of his willingness to be elected shall have been lodged at the Head Office or at the Registration Office of the Company at least seven days before the date of the general meeting, or else no person, other than a retiring Director, shall, unless recommended by the Board for election, be eligible for election to the office of Director at any general meeting.

The detailed information on election of Directors including detailed biography of all Directors standing for election or re-election to ensure shareholders to make an informed decision on their election will be set out in the circular regarding, inter alia, the share repurchase mandate and notice of annual general meeting.

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. Guo Wen resigned on 22 July 2008.

Mr. Chen Shuai was appointed on 2 January 2009.

All non-executive Directors have contracts with the Company for a specified period of one year 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 2008, 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 2008, 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 2008, two remuneration committee meetings have been held.

Directors' attendance at remuneration committee meeting

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

Under its terms of reference, the principal responsibilities of the Remuneration Committee include making recommendations to the Board on the Company's policy and structure for all remuneration of directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration, determining the remuneration packages of all executive Directors and make recommendations to the Board of the remuneration of non-executive Directors, and reviewing and approving performance-based remuneration by reference to the Company's goals and objectives.

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 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 2008 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 RMB7,500,000 (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 2008.

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 44 to 130, which comprise the consolidated and the Company's balance sheets as at 31 December 2008, 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, in accordance with Section 90 of the Companies Act 1981 of Bermuda, 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 2008 and of the Group's loss 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

27 April 2009

Consolidated Income Statement

for the year ended 31 December 2008
(Expressed in Renminbi ("RMB"))

	Note	2008 RMB'000	2007 RMB'000
Turnover	4	**2,289,941**	2,212,324
Cost of sales		**(2,078,045)**	(1,821,647)
Gross profit		**211,896**	390,677
Other revenue	5	**19,398**	16,400
Other net (loss)/income	5	**(5,164)**	583
Distribution costs		**(82,879)**	(71,927)
Administrative expenses		**(219,588)**	(144,921)
Other expenses	6(c)	**(60,061)**	—
(Loss)/profit from operations		**(136,398)**	190,812
Share of losses of an associate		**(41,999)**	—
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		**—**	26,071
Gain from issuance of shares by subsidiaries		**—**	5,646
Finance costs	6(a)	**(66,001)**	(84,354)
(Loss)/profit before taxation	6	**(244,398)**	132,898
Income tax	7(a)	**26,990**	6,033
(Loss)/profit for the year		**(217,408)**	138,931
Attributable to:			
Equity shareholders of the Company		**(189,343)**	82,773
Minority interests		**(28,065)**	56,158
(Loss)/profit for the year		**(217,408)**	138,931
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 and diluted (loss)/earnings per share (RMB)	12	***(0.455)***	*0.208*

The notes on pages 51 to 130 form part of these financial statements.

at 31 December 2008

(Expressed in RMB)

	Note	2008 RMB'000	2007 RMB'000
Non-current assets			
Property, plant and equipment	13	**2,116,809**	1,971,995
Lease prepayments	16	**307,426**	255,891
Intangible assets	17	**81,978**	116,388
Interest in an associate	18	**20,893**	63,828
Available-for-sale investment		**1,000**	1,000
Goodwill	19	**—**	14,113
Deferred tax assets	30	**65,557**	41,912
		2,593,663	2,465,127
Current assets			
Inventories	20	**402,535**	344,159
Trade and other receivables	21	**277,389**	388,887
Prepaid income tax		**1,900**	—
Cash and cash equivalents	22	**279,503**	355,855
Assets classified as held-for-sale	23	**—**	4,413
		961,327	1,093,314
Current liabilities			
Trade and other payables	24	**1,334,463**	1,194,627
Bank and other loans	25(a)	**249,038**	225,960
Income tax payable		**1,257**	5,286
		1,584,758	1,425,873
Net current liabilities		**(623,431)**	(332,559)
Total assets less current liabilities		**1,970,232**	2,132,568

The notes on pages 51 to 130 form part of these financial statements.

at 31 December 2008
(Expressed in RMB)

	Note	2008 RMB'000	2007 RMB'000
Non-current liabilities			
Bank and other loans	25(b)	**198,657**	35,000
Amounts due to a related company	26	**40,103**	37,695
Unsecured notes	28	**669,243**	705,006
Deferred tax liabilities	30	**61,528**	70,827
		969,531	848,528
NET ASSETS		**1,000,701**	1,284,040
CAPITAL AND RESERVES			
Share capital	31	**43,856**	43,856
Reserves	31	**350,979**	565,821
Total equity attributable to equity shareholders of the Company		**394,835**	609,677
Minority interests	31	**605,866**	674,363
TOTAL EQUITY		**1,000,701**	1,284,040

Approved and authorised for issue by the board of directors on 27 April 2009.

Zhou Cheng
Chairman

Zhang Zhaoheng
Director

The notes on pages 51 to 130 form part of these financial statements.

Balance Sheet

at 31 December 2008

(Expressed in RMB)

	Note	2008 RMB'000	2007 RMB'000
Non-current assets			
Property, plant and equipment	13	**2,490**	684
Investments in subsidiaries	14	**173,625**	179,577
Loans to a subsidiary	15	**542,733**	514,196
		718,848	694,457
Current assets			
Other receivables	21	**358,040**	458,255
Cash and cash equivalents	22	**12,695**	31,327
		370,735	489,582
Current liabilities			
Other payables	24	**49,517**	46,342
Net current assets		**321,218**	443,240
Total assets less current liabilities		**1,040,066**	1,137,697
Non-current liabilities			
Unsecured notes	28	**669,243**	705,006
NET ASSETS		**370,823**	432,691
CAPITAL AND RESERVES			
Share capital	31	**43,856**	43,856
Reserves	31	**326,967**	388,835
TOTAL EQUITY		**370,823**	432,691

Approved and authorised for issue by the board of directors on 27 April 2009.

Zhou Cheng
Chairman

Zhang Zhaoheng
Director

The notes on pages 51 to 130 form part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2008
(Expressed in RMB)

	Note	2008 RMB'000	2007 RMB'000
Total equity at 1 January		**1,284,040**	522,724
Issuance of shares		**—**	151,778
Share issue expenses		**—**	(10,216)
Contributions from minority interests		**27,167**	106,460
(Decrease)/increase in minority interests through acquisitions of subsidiaries and minority interests		**(76,912)**	265,181
Issuance of convertible notes		**—**	33,203
Increase in minority interests through conversion of convertible notes		**—**	76,397
Equity settled share-based transactions	6(b),29	**9,189**	—
(Loss)/profit for the year		**(217,408)**	138,931
Dividends approved during the year	11(b)	**(22,938)**	—
Exchange differences on translation into presentation currency		**(2,437)**	(418)
Total equity at 31 December		**1,000,701**	1,284,040

The notes on pages 51 to 130 form part of these financial statements.

for the year ended 31 December 2008
(Expressed in RMB)

	2008 RMB'000	2007 RMB'000
Operating activities		
(Loss)/profit before taxation	**(244,398)**	132,898
Adjustments for:		
Depreciation and amortisation	**182,479**	159,615
Impairment loss on property, plant and equipment	**19,252**	—
Impairment loss on intangible assets	**26,696**	—
Impairment loss on goodwill	**14,113**	—
Net loss on disposal of property, plant and equipment and land use rights	**3,584**	101
Interest income	**(4,455)**	(14,297)
Finance costs	**103,374**	97,217
Share of losses of an associate	**41,999**	—
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)
Gain from issuance of shares by subsidiaries	**—**	(5,646)
Equity settled share-based payment expenses	**9,189**	—
Operating profit before changes in working capital	**151,833**	349,094
(Increase)/decrease in inventories	**(58,376)**	56,913
Decrease in trade and other receivables	**30,157**	247,183
Increase/(decrease) in trade and other payables	**10,196**	(423,081)
Cash generated from operations	**133,810**	230,109
PRC Income Tax paid	**(11,791)**	(5,289)
Hong Kong Profits Tax paid	**(92)**	(39)
Net cash generated from operating activities	**121,927**	224,781
Investing activities		
Payment for the purchase of property, plant and equipment	**(286,677)**	(286,141)
Payment for land use right premiums	**(12,646)**	(4,726)
Proceeds from disposal of property, plant and equipment and land use rights	**60,281**	23,743
Payment for acquisitions of equity interests in subsidiaries, net of cash acquired	**—**	(28,688)
Payment for acquisitions of minority interests	**(50,932)**	(15,929)
Payment for capital injection into an associate	**—**	(54,013)
Proceeds from disposal of assets classified as held-for-sale	**4,413**	10,125
Interest received	**4,455**	10,165
Net cash used in investing activities	**(281,106)**	(345,464)

The notes on pages 51 to 130 form part of these financial statements.

for the year ended 31 December 2008
(Expressed in RMB)

	2008 RMB'000	2007 RMB'000
Financing activities		
Proceeds from new bank and other loans	**420,764**	234,219
Repayment of bank and other loans	**(233,942)**	(819,967)
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
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	**27,167**	106,460
Dividends paid to equity shareholders of the Company	**(15,781)**	—
Other finance costs paid	**(106,784)**	(53,742)
Net cash generated from financing activities	**91,424**	411,015
Net (decrease)/increase in cash and cash equivalents	**(67,755)**	290,332
Cash and cash equivalents at the beginning of the year	**355,855**	67,275
Effect of foreign exchange rate changes	**(8,597)**	(1,752)
Cash and cash equivalents at the end of the year	**279,503**	355,855

The notes on pages 51 to 130 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 2008 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 or available for early adoption 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 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 2008 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)).

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

An investment in an associate is accounted for in the consolidated financial statements under the equity method, unless it is classified as held-for-sale (see Note 2(w)). Under the equity method, the investment is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the associate's net assets and any impairment loss relating to the investment (see Note 2(k)). The consolidated income statement includes the Group's share of the post-acquisition, post-tax results of the associate and any impairment loss 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 associate are eliminated to the extent of the Group's interest in the associate, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in the consolidated income statement.

(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 arising on a business combination 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 associate (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 fair value less costs to sell 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 the 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 to 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) Share-based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in capital reserve within equity. The fair value is measured at grant date using the Black-Scholes model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to the income statement for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

(iii) 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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 the relevant amounts of tax 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.

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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Income tax (continued)

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.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

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

Revenue is measured at the fair value of the consideration received or receivable. 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.

(iii) Government grants

Government grants are recognised in the balance sheet initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as revenue in the income statement on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in the income statement over the useful life of the asset by way of reduced depreciation expenses.

(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 within equity.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

(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 associate). 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;

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(x) Related parties (continued)

(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.

(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 HKFRSs, amendments to HKFRSs and Interpretations that are first effective or available for early adoption 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 the adoption of the amendments to HKFRSs and new Interpretations that are first effective for the current accounting period.

The Group has not applied any new HKFRSs, amendment to HKFRSs or Interpretation that is not yet effective for the current accounting period (see Note 41) except for HKFRS 3 (as revised in 2008), *Business combinations*, which applies to business combinations for which the acquisition date is on or after the beginning of the first annual accounting period on or after 1 July 2009; and HKAS 27 (as amended in 2008), *Consolidated and separate financial statements*, which is effective for accounting periods beginning on or after 1 July 2009.

(a) Estimated effect of changes in accounting policies on the current period

The following tables provide estimates of the extent to which each of the line items in the consolidated income statement for the year ended 31 December 2008 and consolidated balance sheet as at 31 December 2008 is higher or lower than it would have been had the previous policies still been applied in the year, where it is practicable to make such estimates.

(i) Estimated effect on the consolidated income statement for the year ended 31 December 2008:

	Estimated effect of new policies (decrease/(increase) in loss for the year) ***HKFRS 3 (as revised in 2008)*** **and** ***HKAS 27 (as amended in 2008)*** (Note 3(b)) RMB'000
Excess of the net fair value of the acquired net assets over cost	(9,072)
Loss from issuance of shares by subsidiaries	2,343
Loss for the year	(6,729)
Attributable to:	
Equity shareholders of the Company	(839)
Minority interests	(5,890)
Loss for the year	(6,729)
Basic and diluted loss per share (RMB)	*(0.002)*

3 CHANGES IN ACCOUNTING POLICIES (continued)

(a) Estimated effect of changes in accounting policies on the current period (continued)

(ii) Estimated effect on the consolidated balance sheet at 31 December 2008:

	Estimated effect of new policies (increase/(decrease) in net assets) ***HKFRS 3 (as revised in 2008)*** **and** ***HKAS 27 (as amended in 2008)*** (Note 3(b)) RMB'000
Non-current assets	
Goodwill	(9,178)
Net assets	(9,178)
Capital and reserves	
Attributable to equity shareholders of the Company	(13,217)
Attributable to minority interests	4,039
	(9,178)

(b) Consolidation procedures for changes in the Group's ownership interests in subsidiaries (HKFRS 3 (as revised in 2008) and HKAS 27 (as amended in 2008))

In prior years, changes in the Group's ownership interests in a subsidiary that do not result in a loss of control are accounted for as follows:

- Increase in the Group's ownership interests in a subsidiary

  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 was recorded as goodwill. 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 was recognised immediately in the consolidated income statement.

- Decrease in the Group's ownership interests in a subsidiary

  The surplus or deficit between the proceeds on the Group's disposal of a portion of its interests in a subsidiary and the share of the carrying amount of the subsidiary's net assets disposed was recorded as gain or loss, respectively, in the consolidated income statement.

3 CHANGES IN ACCOUNTING POLICIES (continued)

(b) Consolidation procedures for changes in the Group's ownership interests in subsidiaries (HKFRS 3 (as revised in 2008) and HKAS 27 (as amended in 2008)) (continued)

- Issuance of additional shares by a subsidiary

  The issuance of additional shares by a subsidiary may result in a reduction of the Group's interest in the subsidiary. The Group recognised gain or loss in the consolidated income statement based on the Group's share of the carrying amount of the subsidiary's net assets immediately before and after the issuance of additional shares by the subsidiary.

In preparation of the Group's consolidated financial statements for the current accounting period, the Group has early adopted HKFRS 3 (as revised in 2008) and HKAS 27 (as amended in 2008). Under the Group's new accounting policies, changes in the Group's ownership interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions (ie transactions between equity shareholders in their capacity as equity shareholders).

The new accounting policies have been applied prospectively for changes in the Group's ownership interests in a subsidiary on or after 1 January 2008 in accordance with the transitional arrangements under HKFRS 3 (as revised in 2008) and HKAS 27 (as amended in 2008). As a result, comparative amounts have not been restated. The adjustments for each financial statement line item affected for the year ended 31 December 2008 are set out in Note 3(a).

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 (LOSS)/INCOME

	2008 RMB'000	2007 RMB'000
Other revenue		
Interest income	**4,455**	14,297
Government grants	**12,133**	1,254
Others	**2,810**	849
	19,398	16,400
Other net (loss)/income		
Net (loss)/gain from sale of raw and scrap materials	**(1,580)**	684
Net loss on disposal of property, plant and equipment and land use rights	**(3,584)**	(101)
	(5,164)	583

6 (LOSS)/PROFIT BEFORE TAXATION

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

(a) Finance costs:

	2008 RMB'000	2007 RMB'000
Interest on bank advances and other borrowings	**99,299**	89,014
Finance charges on convertible notes	**—**	1,559
Bank charges and other finance costs	**14,864**	11,586
Total borrowing costs	**114,163**	102,159
Less: amounts capitalised*	**(10,789)**	(4,942)
Net borrowing costs	**103,374**	97,217
Net foreign exchange gain	**(37,373)**	(12,863)
	66,001	84,354

* The borrowing costs have been capitalised at 7.26% per annum for the year ended 31 December 2008 (2007: 6.53% per annum).

6 (LOSS)/PROFIT BEFORE TAXATION (continued)

(b) Staff costs:

	2008 RMB'000	2007 RMB'000
Salaries, wages and other benefits	**171,481**	134,418
Contributions to defined contribution retirement plans	**17,500**	14,654
Equity settled share-based payment expenses (see Note 29)	**9,189**	—
	198,170	149,072

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 expenses:

	2008 RMB'000	2007 RMB'000
Impairment loss on property, plant and equipment (Note 13(a))	**19,252**	—
Impairment loss on intangible assets (Note 17)	**26,696**	—
Impairment loss on goodwill (Note 19)	**14,113**	—
	60,061	—

6 (LOSS)/PROFIT BEFORE TAXATION (continued)

(d) Other items:

	2008 RMB'000	2007 RMB'000
Cost of inventories #	**2,078,045**	1,821,647
Auditors' remuneration	**7,500**	7,000
Depreciation and amortisation #	**182,479**	159,615
Impairment loss on assets classified as held-for-sale	**—**	5,277
Impairment loss on trade and other receivables	**13,827**	755
Operating lease charges in respect of #		
- land	**1,602**	985
- plant and buildings	**3,164**	2,014
- motor vehicles	**820**	968
Research and development costs	**3,805**	890

\# Cost of inventories includes RMB256.4 million (2007: RMB221.1 million) for the year ended 31 December 2008, 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 represents:

	2008 RMB'000	2007 RMB'000
Provision for income tax on the estimated taxable profits for the year		
- Hong Kong Profits Tax	**47**	11
- PRC Income Tax	**5,907**	6,581
	5,954	6,592
Deferred taxation (Note 30)		
Origination and reversal of temporary differences	**(40,887)**	3,257
Effect on deferred tax balances at 1 January resulting from a change in tax rate	**—**	(15,882)
Write-down of deferred tax assets	**7,943**	—
	(32,944)	(12,625)
	(26,990)	(6,033)

7 INCOME TAX (continued)

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

	2008 RMB'000	2007 RMB'000
(Loss)/profit before taxation	**(244,398)**	132,898
Expected tax on (loss)/profit before tax, calculated at the rates applicable to profits in the tax jurisdictions concerned (Notes (i), (ii) and (iii))	**(36,345)**	27,771
Tax effect of non-deductible expenses	**5,500**	2,794
Tax effect of unused tax losses not recognised (Note 30(a)(i))	**12,264**	5,494
Tax credit (Note (iv))	**(16,352)**	(26,210)
Tax effect of change in tax rate (Note (v))	**—**	(15,882)
Tax effect of write-down of deferred tax assets (Note (vi))	**7,943**	—
Income tax	**(26,990)**	(6,033)

Note (i): In February 2008, the Hong Kong SAR Government announced a decrease in the Hong Kong Profits Tax rate from 17.5% to 16.5% applicable to the Group's operations in Hong Kong SAR as from the year ended 31 December 2008. This decrease is taken into account in the preparation of the Group's consolidated financial statements. Accordingly, the provision for Hong Kong Profits Tax for 2008 is calculated at 16.5% (2007: 17.5%) of the estimated assessable profits of a subsidiary of the Group incorporated in Hong Kong SAR 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 15% to 25% (2007: 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, but subject to the new tax law mentioned in Note 7(b)(v) below.

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 of the Group has changed to 25% with effect 1 January 2008; or gradually increase to 25% over a five-year period if the PRC subsidiary was previously enjoying a preferential tax rate of below 25%; or if the PRC subsidiary is entitled but has not commenced in enjoying the tax holiday mentioned in Note 7(b)(iv) above, the tax holiday will commence immediately in 2008. The new tax law has been applied when measuring the Group's deferred tax assets and liabilities as at 31 December 2007 and 2008.

Note (vi): Previously recognised tax losses were written-down in 2008, following a change in estimates of the future operating results of certain PRC subsidiaries of the Group.

8 DIRECTORS' REMUNERATION

Details of directors' remuneration are as follows:

	2008						
	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Sub-total RMB'000	Share-based payments RMB'000 (Note)	Total RMB'000
Executive directors							
Mr. Zhou Cheng	—	449	—	—	449	861	1,310
Mr. Zhang Zhaoheng	—	449	—	23	472	861	1,333
Mr. Li Ping	—	251	—	15	266	368	634
Mr. Cui Xiangdong	—	251	—	23	274	368	642
Non-executive directors							
Mr. Zhao John Huan	1	—	—	—	1	—	1
Mr. Liu Jinduo	1	—	—	—	1	—	1
Mr. Eddie Chai	1	—	—	—	1	—	1
Mr. Guo Wen (Resigned on 22 July 2008)	1	—	—	—	1	—	1
Mr. Chen Shuai (Appointed on 2 January 2009)	—	—	—	—	—	—	—
Independent non-executive directors							
Mr. Song Jun	91	—	—	—	91	—	91
Mr. Sik Siu Kwan	91	—	—	—	91	—	91
Mr. Zhang Baiheng	91	—	—	—	91	—	91
	277	1,400	—	61	1,738	2,458	4,196

8 DIRECTORS' REMUNERATION (continued)

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

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.

Note:

These represent the estimated value of share options granted to the directors under the Company's share option scheme. The value of these share options is measured according to the Group's accounting policies for share-based payment transactions as set out in Note 2(p)(ii).

The details of these benefits in kind, including the principal terms and number of options granted, are disclosed under the paragraph "Share option scheme" in the Report of the Directors and Note 29.

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, four (2007: four) are directors whose emoluments are disclosed in Note 8. The aggregate of the emoluments in respect of the other one (2007: one) individual is as follows:

	2008	2007
	RMB'000	RMB'000
Salaries, allowances and benefits in kind	**687**	524
Discretionary bonuses	**—**	364
Share-based payments	**322**	—
Retirement scheme contributions	**22**	23
	1,031	911

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:

	2008	2007
HK$Nil – HK$1,000,000	**—**	1
HK$1,000,001 – HK$1,500,000	**1**	—

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 (LOSS)/PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated loss attributable to equity shareholders of the Company includes a loss of RMB25.0 million (2007: profit of RMB26.5 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

The board of directors of the Company does not recommend the payment of a final dividend for the year ended 31 December 2008 (2007: RMB23.9 million).

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

	2008 RMB'000	2007 RMB'000
Final dividend in respect of the previous financial year, approved during the year, of HK$0.0614 per ordinary share (2007: HK$Nil per ordinary share)	**22,938**	—

12 (LOSS)/EARNINGS PER SHARE

(a) Basic (loss)/earnings per share

The calculation of basic loss per share for the year ended 31 December 2008 is based on the loss attributable to equity shareholders of the Company of RMB189.3 million (2007: profit attributable to equity shareholders of the Company of RMB82.8 million) and the weighted average number of 416,000,000 ordinary shares (2007: 398,088,000 ordinary shares) in issue during the year, calculated as follows:

	2008 '000	2007 '000
Issued ordinary shares at 1 January	**416,000**	360,000
Effect of issuance of shares on 12 April 2007	**—**	30,378
Effect of issuance of shares on 14 June 2007	**—**	7,710
Weighted average number of ordinary shares at 31 December	**416,000**	398,088

(b) Diluted (loss)/earnings per share

There were no dilutive potential ordinary shares as at 31 December 2007 and 2008.

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 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

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 2008	905,581	1,787,322	16,262	74,439	2,783,604
Additions	4,211	28,660	4,744	356,813	394,428
Transfer in/(out)	58,904	115,695	—	(174,599)	—
Disposals	(56,780)	(144,754)	(2,292)	—	(203,826)
At 31 December 2008	911,916	1,786,923	18,714	256,653	2,974,206
Accumulated depreciation and impairment losses:					
At 1 January 2008	182,573	623,290	5,746	—	811,609
Charge for the year	25,887	138,809	3,734	—	168,430
Impairment loss (Note 6(c))	8,562	10,602	88	—	19,252
Written back on disposals	(14,313)	(126,386)	(1,195)	—	(141,894)
At 31 December 2008	202,709	646,315	8,373	—	857,397
Net book value:					
At 31 December 2008	709,207	1,140,608	10,341	256,653	2,116,809

At 31 December 2008, property certificates of certain properties with an aggregate net book value of RMB357.6 million (31 December 2007: RMB349.3 million) are yet to be obtained.

Impairment loss

As at 31 December 2008, the Group considered certain of its property, plant and equipment were technologically less advance, and would become obsolete in the foreseeable future. The Group assessed the recoverable amounts of these assets, and as a result the carrying amount of the property, plant and equipment was written down by RMB19.3 million (included in "other expenses"). The estimates of recoverable amount were based on the assets' fair values less costs to sell, determined by reference to the recent observable market prices for similar assets within the same industry.

13 PROPERTY, PLANT AND EQUIPMENT (continued)

(b) The Company

	Office equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
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
Cost:			
At 1 January 2008	**931**	**320**	**1,251**
Additions	**1,242**	**1,707**	**2,949**
At 31 December 2008	**2,173**	**2,027**	**4,200**
Accumulated depreciation:			
At 1 January 2008	**425**	**142**	**567**
Charge for the year	**674**	**469**	**1,143**
At 31 December 2008	**1,099**	**611**	**1,710**
Net book value:			
At 31 December 2008	**1,074**	**1,416**	**2,490**

14 INVESTMENTS IN SUBSIDIARIES

	The Company	
	2008	2007
	RMB'000	RMB'000
Unlisted shares, at cost	**173,625**	179,577

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 and operations	Particulars of registered/issued and paid-up capital	The Group's effective interest	Held by the Company	Held by subsidiaries	Principal activities
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
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
Dongtai China Glass Special Glass Company Limited	PRC	Registered capital of RMB150,000,000 and paid-up capital of RMB68,534,402*	100%	—	100%	Production, marketing and distribution 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
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

(Expressed in RMB unless otherwise indicated)

14 INVESTMENTS IN SUBSIDIARIES (continued)

Name of company	Place of incorporation/ establishment and operations	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
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
Jiangsu SHD New Materials Company Limited	PRC	Registered and paid-up capital of RMB96,000,000	100%	—	100%	Production, marketing and distribution of glass and glass products
JV Investments Limited	Cayman Islands	Issued and paid-up capital of USD90,313	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
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 (Note 32(v))	PRC	Registered and paid-up capital of RMB100,000,000	100%	—	100%	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 and operations	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
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 (Note 32(ii))	PRC	Registered and paid-up capital of USD12,000,000	17.34%	—	73.50%	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 China Glass Solar Company Limited (formerly known as Weihai Blue Star Terra Photovoltaic Company Limited) (Note 32(iii))	PRC	Registered and paid-up capital of USD10,000,000	15.81%	—	67.00%	Production, marketing and distribution of glass and glass products
Wuhai Blue Star Glass Company Limited (Note 32(i))	PRC	Registered and paid-up capital of RMB128,378,729	50.63%	—	97.35%	Production, marketing and distribution of glass and glass products

(Expressed in RMB unless otherwise indicated)

14 INVESTMENTS IN SUBSIDIARIES (continued)

			Proportion of ownership interest			
Name of company	Place of incorporation/ establishment and operations	Particulars of registered/issued and paid-up capital	The Group's effective interest	Held by the Company	Held by subsidiaries	Principal activities
Wuhai Blue Star Transportation Company Limited	PRC	Registered and paid-up capital of RMB2,000,000	38.02%	—	100%	Provision of transportation services to group companies
Wuhai Haibo Trading Company Limited	PRC	Registered and paid-up capital of RMB2,570,000	43.25%	—	85.42%	Trading of glass and glass products
Xianyang Blue Star Coated Glass Company Limited (Note 32(iv))	PRC	Registered and paid-up capital of RMB90,000,000	60.48%	—	88.89%	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

* According to the certificate of approval issued by the relevant government authority dated 20 June 2008, the registered capital of Dongtai China Glass Special Glass Company Limited ("Dongtai Special Glass") is RMB150.0 million, of which 100% equity interests is attributable to subsidiaries of the Group. At 31 December 2008, the Group has contributed RMB68.5 million into Dongtai Special Glass, and the total outstanding capital commitment of the Group is RMB81.5 million.

** Although the Group owns less than half of the voting power of JV Investments Limited ("JV Investment"), 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.

15 LOANS TO A SUBSIDIARY

The Company's loans to a subsidiary are unsecured, bear interest ranging from 8.79% to 9.79% per annum (31 December 2007: 7.00% per annum) and are repayable on 30 June 2012.

16 LEASE PREPAYMENTS

	The Group
	RMB'000
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
Cost:	
At 1 January 2008	**266,610**
Additions	**57,870**
At 31 December 2008	**324,480**
Accumulated amortisation:	
At 1 January 2008	**10,719**
Charge for the year	**6,335**
At 31 December 2008	**17,054**
Net book value:	
At 31 December 2008	**307,426**

Lease prepayments represented land use right premiums paid by the Group for land situated in the PRC. At 31 December 2008, land use right certificates of certain land use rights with an aggregate carrying value of RMB70.1 million (31 December 2007: RMB61.1 million) are yet to be obtained.

17 INTANGIBLE ASSETS

	The Group
	Intellectual properties
	RMB'000
Cost:	
At 1 January 2007	—
Additions through acquisition of a subsidiary	123,739
At 31 December 2007, 1 January 2008 and 31 December 2008	**123,739**
Accumulated amortisation and impairment losses:	
At 1 January 2007	—
Additions through acquisition of a subsidiary	924
Charge for the year	6,427
At 31 December 2007	**7,351**
Charge for the year	**7,714**
Impairment loss (Note 6(c))	**26,696**
At 31 December 2008	**41,761**
Net book value:	
At 31 December 2008	**81,978**
At 31 December 2007	116,388

The amortisation charge and impairment loss for the year are included in "cost of sales" and "other expenses", respectively, in the consolidated income statement.

Impairment loss

The carrying amount of intangible assets as at 31 December 2008 represented intellectual properties used in the Group's glass production processes. An impairment test was triggered in 2008 due to the global economic downturn, and that the benefits of such intellectual properties would not be realised as soon as expected. The recoverable amounts of the cash-generating units (the production lines using the intellectual properties to produce glass products) were estimated based on their value in use, using cash flow projections prepared by the directors of the Company and after-tax discount rate of 12.01%. Based on this assessment, the related recoverable amounts of the intellectual properties were determined to be RMB26.7 million lower than the carrying amount, and an impairment loss was recognised accordingly.

17 INTANGIBLE ASSETS (continued)

Impairment loss (continued)

As the intellectual properties have been reduced to their recoverable amounts, any adverse change in the assumptions used in the calculation of recoverable amounts would cause the carrying values to be less than the recoverable amounts.

18 INTEREST IN AN ASSOCIATE

	The Group	
	2008	2007
	RMB'000	RMB'000
Share of net assets	**20,893**	63,828

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

			Proportion of ownership interest			
Name of associate	Place of establishment and operations	Particulars of registered and paid-up capital	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, was listed below:

	Assets	Liabilities	Equity	Revenue	Net loss
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
2007					
Taicang Special Glass	238,392	110,736	127,656	—	—
2008					
Taicang Special Glass	**486,327**	**442,669**	**43,658**	**6,171**	**83,998**

19 GOODWILL

	The Group
	RMB'000
Cost:	
At 1 January 2007, 31 December 2007 and 2008	14,113
Accumulated impairment losses:	
At 1 January 2007 and 31 December 2007	—
Impairment loss (Note 6(c))	14,113
At 31 December 2008	**14,113**
Carrying amount:	
At 31 December 2008	**—**
At 31 December 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 unit containing goodwill

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

	The Group	
	2008	2007
	RMB'000	RMB'000
The second glass production line of Jiangsu SHD	**—**	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.

The directors of the Company determined the budgeted gross profit margin based on past performance and their expectation for market development to be 15.7% (2007: 19.0%). The discount rate of 6.8% (2007: 7.8%) is pre-tax and reflects specific risks relating to the relevant CGU.

As the cash generating unit has been reduced to its recoverable amount, any adverse change in the assumptions used in the calculation of recoverable amount would cause the carrying value to be less than the recoverable amount.

20 INVENTORIES

	The Group	
	2008	2007
	RMB'000	RMB'000
Raw materials	**119,356**	120,439
Work in progress and finished goods	**263,719**	195,361
Racks, spare parts and consumables	**37,811**	34,528
	420,886	350,328
Less: provision	**(18,351)**	(6,169)
	402,535	344,159

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

	The Group	
	2008	2007
	RMB'000	RMB'000
Carrying amount of inventories sold	**2,065,863**	1,820,947
Write-down of inventories	**12,182**	700
	2,078,045	1,821,647

At 31 December 2008, RMB59.5 million (31 December 2007: RMB11.9 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

	2008 RMB'000	2007 RMB'000
Trade receivable from:		
– Third parties	**65,984**	73,396
– Minority equity holders of subsidiaries of the Group and their affiliates	**43,557**	38,743
– Companies under common significant influence	**337**	—
Bills receivable	**26,611**	44,500
	136,489	156,639
Less: allowance for doubtful debts (Note 21(a)(ii))	**(26,627)**	(23,041)
	109,862	133,598
Amounts due from related companies:		
– Equity shareholders of the Company (Note (aa))	**2,215**	327
– Minority equity holders of subsidiaries of the Group (Note (aa))	**142**	3,152
– An associate of the Group (Note (aa))	**3,246**	840
– Companies under common significant influence (Note (bb))	**45,448**	125,780
	51,051	130,099
Less: allowance for doubtful debts (Note 21(a)(ii))	**(3,824)**	—
	47,227	130,099
Prepayments, deposits and other receivables	**129,766**	128,560
Less: allowance for doubtful debts (Note 21(a)(ii))	**(9,466)**	(3,370)
	120,300	125,190
	277,389	388,887

Notes:

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

(bb) The amounts as at 31 December 2008 are unsecured, non-interest bearing and have no fixed terms of repayment. The amounts as at 31 December 2007 were unsecured and had no fixed terms of repayment, and except for amounts of RMB81.0 million which bore interest at 8.75% per annum, all of the remaining balances were 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:

	2008	2007
	RMB'000	RMB'000
Within 1 month	**43,462**	51,663
More than 1 month but less than 3 months	**23,573**	27,036
More than 3 months but less than 6 months	**30,249**	40,556
Over 6 months	**12,578**	14,343
	109,862	133,598

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:

	2008	2007
	RMB'000	RMB'000
At 1 January	**26,411**	—
Additions through acquisitions of subsidiaries	**—**	25,656
Impairment loss recognised	**13,827**	755
Uncollectible amounts written off	**(321)**	—
At 31 December	**39,917**	26,411

At 31 December 2008, the Group's trade and other receivables of RMB39.9 million (31 December 2007: RMB26.4 million) 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

	2008	2007
	RMB'000	RMB'000
Amount due from an equity shareholder of the Company (Note (aa))	**26**	19
Amounts due from subsidiaries (Note (bb))	**355,744**	453,117
Prepayments, deposits and other receivables	**2,270**	5,119
	358,040	458,255

Notes:

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

(bb) The amounts are unsecured. Except for an amount of RMB70.0 million (31 December 2007: RMB70.0 million) which bears interest at 5.76% per annum (31 December 2007: 5.76% per annum) and is repayable before 31 December 2009, 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

	2008 RMB'000	2007 RMB'000
Cash at bank and on hand	**279,503**	355,855

At 31 December 2008, cash and cash equivalents of RMB111.5 million (31 December 2007: RMB89.3 million) were pledged to secure bills issued by the Group.

(b) The Company

	2008 RMB'000	2007 RMB'000
Cash at bank and on hand	**12,695**	31,327

(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, was presented as assets held-for-sale at 31 December 2007 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 of RMB4.4 million was classified as assets held-for-sale in the consolidated balance sheet at 31 December 2007, and was subsequently received by the Group in 2008.

24 TRADE AND OTHER PAYABLES

(a) The Group

	2008 RMB'000	2007 RMB'000
Trade payable to:		
– Third parties	**328,733**	327,872
– Minority equity holders of subsidiaries of the Group and their affiliates	**8,270**	16,876
– Companies under common significant influence	**2,163**	—
Bills payable	**278,620**	169,000
	617,786	513,748
Amounts due to related companies:		
– An equity shareholder of the Company (Note (i))	**4,267**	—
– Minority equity holders of subsidiaries of the Group and their affiliates (Note (ii))	**13,268**	15,100
– Companies under common significant influence (Note (iii))	**52,712**	129,395
	70,247	144,495
Advances received from customers	**83,424**	67,940
Accrued charges and other payables	**563,006**	468,444
	1,334,463	1,194,627

Notes:

(i) The amounts are unsecured, non-interest bearing and are repayable within one year.

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

(iii) The amounts at 31 December 2007 and 2008 are unsecured. Except for an amount of RMB5.3 million at 31 December 2008 (31 December 2007: RMB89.9 million) which bears interest at 6.12% per annum (31 December 2007: ranging from 6.12% to 8.75% per annum), all of the remaining balances are non-interest bearing. Included in the balance at 31 December 2008 are RMB20.1 million (31 December 2007: RMB5.0 million) which are repayable within one year, where all of the remaining balances have no fixed terms of repayment.

24 TRADE AND OTHER PAYABLES (continued)

(a) The Group (continued)

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:

	2008 **RMB'000**	2007 RMB'000
Due within 1 month or on demand	**401,380**	318,279
Due after 1 month but within 6 months	**216,406**	195,469
	617,786	513,748

(b) The Company

	2008 **RMB'000**	2007 RMB'000
Amounts due to subsidiaries (Note (i))	**4,506**	4,784
Accrued charges and other payables	**45,011**	41,558
	49,517	46,342

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

	2008 RMB'000	2007 RMB'000
Bank loans	**196,020**	183,109
Loans from senior management of a subsidiary of the Group (see Note 34(c))	**—**	8,000
Loans from third parties	**18,018**	5,000
	214,038	196,109
Add: current portion of long-term bank and other loans	**35,000**	29,851
	249,038	225,960

At 31 December 2008, the short-term bank and other loans (excluding current portion of long-term bank and other loans) were secured as follows:

	2008 RMB'000	2007 RMB'000
Bank loans:		
- Pledged by bank bills	**1,700**	1,559
- Secured by property, plant and equipment and land use rights	**68,320**	28,800
- Guaranteed	**14,000**	113,860
- Guaranteed and secured by property, plant and equipment and land use rights	**7,000**	12,890
- Unguaranteed and unsecured	**105,000**	26,000
	196,020	183,109
Loans from senior management of a subsidiary of the Group:		
- Unguaranteed and unsecured	**—**	8,000
Loans from third parties:		
- Unguaranteed and unsecured	**18,018**	5,000
	214,038	196,109

At 31 December 2008, the aggregate carrying value of the secured property, plant and equipment and land use rights were RMB118.3 million (31 December 2007: RMB151.0 million).

25 BANK AND OTHER LOANS (continued)

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

	2008 RMB'000	2007 RMB'000
Bank loans	**35,000**	57,833
Loans from third parties	**48,500**	7,018
Loans from an equity shareholder of the Company (see Note 34(b))	**150,157**	—
	233,657	64,851
Less: current portion of long-term bank and other loans	**(35,000)**	(29,851)
	198,657	35,000

The long-term bank and other loans are repayable as follows:

	2008 RMB'000	2007 RMB'000
Within 1 year or on demand	**35,000**	29,851
After 1 year but within 2 years	**13,676**	35,000
After 2 years but within 5 years	**100,556**	—
After 5 years	**84,425**	—
	233,657	64,851

At 31 December 2008, all of the long-term bank and other loans are unsecured. At 31 December 2007, a long-term bank loan of RMB2.8 million was secured by the Group's property, plant and equipment, and the aggregate carrying value of the secured property, plant and equipment were RMB6.6 million.

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.

(c) Subsequent to the balance sheet date, the Group had entered into negotiations with major financial institutions and had renewed RMB22.0 million and obtained options to renew RMB162.3 million of the bank and other loans falling due before 31 December 2009. The Group has also obtained a new long-term bank loan of RMB19.0 million maturing in 2012. In addition to the above, the Group has obtained banking facilities totalled RMB270.0 million , where the Group could draw down loans with a maturity of 3 to 6 years, of which RMB150.0 million would be subject to the completion of the Group's outstanding capital commitment of RMB81.5 million into Dongtai Special Glass.

26 AMOUNTS DUE TO A RELATED COMPANY

The amounts at 31 December 2008 comprised RMB32.4 million on the purchase of properties and RMB7.7 million on the acquisition of 9.90% equity interests in Suqian Huayi Coated Glass Company Limited ("Suqian Huayi") (see Note 32(v)) from a related party under common significant influence. Both amounts are unsecured. The amount of RMB32.4 million (31 December 2007: RMB37.7 million) bears interest at 6.12% per annum (31 December 2007: 6.12% per annum) and is repayable in monthly instalments between January 2010 to December 2014. The amount of RMB7.7 million (31 December 2007: RMBNil) is non-interest bearing and is repayable before 31 December 2010.

27 CONVERTIBLE NOTES

JV Investments, a subsidiary of the Company, issued various lots of convertible notes to Pilkington Italy Limited, an equity shareholder of the Company, between 20 December 2005 and 21 February 2007. On 13 April 2007, Pilkington Italy Limited converted all of the 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%. Details on the particulars of JV Investments are set out in Note 14.

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 Group.

29 EQUITY SETTLED SHARE-BASED TRANSACTIONS

The Company has a share option scheme which was adopted on 30 May 2005 whereby the directors of the Company are authorised, at their discretion, to invite (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, to take up options at HK$1.00 from each option holder to subscribe for shares of the Company. 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 options will lapse on 29 May 2015. Each option gives the holder the right to subscribe for one ordinary share in the Company.

29 EQUITY SETTLED SHARE-BASED TRANSACTIONS (continued)

(a) The terms and conditions of the grants are as follows:

	Number of instruments	Vesting conditions	Contractual life of options
Options granted to directors:			
- on 29 February 2008	**2,140,000**	One year from the date of grant	7.25 years
- on 29 February 2008	**1,605,000**	Two years from the date of grant	7.25 years
- on 29 February 2008	**1,605,000**	Three years from the date of grant	7.25 years
Options granted to employees:			
- on 29 February 2008	**5,860,000**	One year from the date of grant	7.25 years
- on 29 February 2008	**4,395,000**	Two years from the date of grant	7.25 years
- on 29 February 2008	**4,395,000**	Three years from the date of grant	7.25 years
Total share options	**20,000,000**		

(b) The number and weighted average exercise price of share options are as follows:

	2008 Weighted average exercise price	**2008** Number of options '000
Outstanding at the beginning of the year	—	—
Granted during the year	**HK$3.50**	**20,000**
Outstanding at the end of the year	**HK$3.50**	**20,000**
Exercisable at the end of the year	—	—

The options outstanding at 31 December 2008 had an exercise price of HK$3.50 and a weighted average remaining contractual life of 6.42 years.

(Expressed in RMB unless otherwise indicated)

29 EQUITY SETTLED SHARE-BASED TRANSACTIONS (continued)

(c) Fair value of share options and assumptions

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on the Black-Scholes model. The expected life of the share options is used as an input into this model. Expectations of early exercise are incorporated into the Black-Scholes model.

Fair value of share options and assumptions	**2008**
Fair value at measurement date	**HK$0.8740 to HK$1.2865**
Share price	**HK$3.5**
Exercise price	**HK$3.5**
Expected volatility (expressed as weighted average volatility used in the modelling under the Black-Scholes model)	**48.18%**
Option life (expressed as weighted average life used in the modelling under the Black-Scholes model)	**3.10 years**
Expected dividends	**1.75%**
Risk-free interest rate (based on Exchange Fund Notes of Hong Kong SAR)	**1.39% to 2.22%**

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility based on publicly available information. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share option grants.

30 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 RMB'000	Provision for inventories RMB'000	Impairment losses on receivables RMB'000	Depreciation expenses in excess of related tax allowances RMB'000	Impairment losses on property, plant and equipment and intangible assets RMB'000	Total RMB'000	Fair value adjustments on property, plant and equipment, lease prepayments and intangible assets, interest capitalisation and related depreciation RMB'000	Net RMB'000
At 1 January 2007	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)
Credited to consolidated income statement (Note 7(a))	9,452	1,821	196	3,580	8,596	23,645	9,299	32,944
At 31 December 2008	34,820	3,083	5,919	13,139	8,596	65,557	(61,528)	4,029

30 DEFERRED TAX ASSETS AND LIABILITIES (continued)

(a) The Group (continued)

Notes:

(i) Deferred tax assets not recognised

In accordance with the accounting policy set out in Note 2(r), the Group has not recognised deferred tax assets in respect of cumulative tax losses arising from certain PRC subsidiaries of the Group of RMB74.7 million (2007: RMB23.1 million) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. The tax losses do not expire under current tax legislation.

(ii) Deferred tax liabilities not recognised

At 31 December 2008, temporary differences relating to the undistributed profits of certain PRC subsidiaries of the Group amounted to RMB34.0 million (2007: RMBNil). Deferred tax liabilities of RMB1.3 million (2007: RMBNil) have not been recognised in respect of the tax that would be payable on the distribution of these retained profits as the Company controls the dividend policy of these subsidiaries and it has been determined that it is probable that profits will not be distributed in the foreseeable future.

(b) The Company

There were no significant unrecognised deferred tax assets and liabilities as at 31 December 2007 and 2008.

31 CAPITAL AND RESERVES

(a) The Group

	Attributable to equity shareholders of the Company									
	Share capital RMB'000 (Note 31(c)(i))	Share premium RMB'000 (Note 31(d)(i))	Capital reserve RMB'000 (Note 31(d)(ii))	Statutory reserves RMB'000 (Note 31(d)(iii))	Other reserve RMB'000	Exchange reserve RMB'000 (Note 31(d)(iv))	Retained profits/ (accumulated losses) RMB'000	Total RMB'000	Minority interests RMB'000	Total equity RMB'000
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 31(c))	5,520	146,258	–	–	–	–	–	151,778	–	151,778
Share issue expenses (Note 31(c))	–	(10,216)	–	–	–	–	–	(10,216)	–	(10,216)
Contributions from minority interests	–	–	–	–	–	–	–	–	106,460	106,460
Increase in minority interests through acquisitions of subsidiaries and minority interests	–	–	–	–	–	–	–	–	265,181	265,181
Issuance of convertible notes	–	–	21,597	–	–	–	–	21,597	11,606	33,203
Increase in minority interests through conversion of convertible notes	–	–	(36,746)	–	–	–	–	(36,746)	113,143	76,397
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
At 1 January 2008	**43,856**	**410,482**	**22,000**	**30,608**	**(68,570)**	**(2,961)**	**174,262**	**609,677**	**674,363**	**1,284,040**
Contributions from minority interests	**–**	**–**	**–**	**–**	**(1,301)**	**–**	**–**	**(1,301)**	**28,468**	**27,167**
Decrease in minority interests through acquisitions of minority interests	**–**	**–**	**–**	**–**	**(11,077)**	**–**	**–**	**(11,077)**	**(65,835)**	**(76,912)**
Transfer between reserves	**–**	**–**	**(22,000)**	**(14,000)**	**36,000**	**–**	**–**	**–**	**–**	**–**
Equity settled share-based transactions (Note 29)	**–**	**–**	**9,189**	**–**	**–**	**–**	**–**	**9,189**	**–**	**9,189**
Loss for the year	**–**	**–**	**–**	**–**	**–**	**–**	**(189,343)**	**(189,343)**	**(28,065)**	**(217,408)**
Appropriations to reserves	**–**	**–**	**–**	**6,632**	**–**	**–**	**(6,632)**	**–**	**–**	**–**
Dividends approved during the year (Note 11(b))	**–**	**–**	**–**	**–**	**–**	**–**	**(22,938)**	**(22,938)**	**–**	**(22,938)**
Exchange differences on translation into presentation currency	**–**	**–**	**–**	**–**	**–**	**628**	**–**	**628**	**(3,065)**	**(2,437)**
At 31 December 2008	**43,856**	**410,482**	**9,189**	**23,240**	**(44,948)**	**(2,333)**	**(44,651)**	**394,835**	**605,866**	**1,000,701**

31 CAPITAL AND RESERVES (continued)

(b) The Company

	Share capital RMB'000 (Note 31(c)(i))	Share premium RMB'000 (Note 31(d)(i))	Capital reserve RMB'000 (Note 31(d)(ii))	Exchange reserve RMB'000 (Note 31(d)(iv))	(Accumulated losses)/ retained profits RMB'000	Total RMB'000
At 1 January 2007	38,336	274,440	—	(17,681)	(2,554)	292,541
Issuance of shares (Note 31(c))	5,520	146,258	—	—	—	151,778
Share issue expenses (Note 31(c))	—	(10,216)	—	—	—	(10,216)
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
At 1 January 2008	**43,856**	**410,482**	**—**	**(45,640)**	**23,993**	**432,691**
Equity settled share-based transactions (Note 29)	**—**	**—**	**9,189**	**—**	**—**	**9,189**
Loss for the year	**—**	**—**	**—**	**—**	**(25,005)**	**(25,005)**
Dividends approved during the year (Note 11(b))	**—**	**—**	**—**	**—**	**(22,938)**	**(22,938)**
Exchange differences on translation into presentation currency	**—**	**—**	**—**	**(23,114)**	**—**	**(23,114)**
At 31 December 2008	**43,856**	**410,482**	**9,189**	**(68,754)**	**(23,950)**	**370,823**

31 CAPITAL AND RESERVES (continued)

(c) Share capital

(i) Authorised and issued share capital

	2008		2007	
	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

	2008		2007	
	No. of shares ('000)	**RMB'000**	No. of shares ('000)	RMB'000
Ordinary shares, issued and fully paid:				
At 1 January	**416,000**	**43,856**	360,000	38,336
Issuance of shares (Note 31(c)(ii))	**—**	**—**	56,000	5,520
At 31 December	**416,000**	**43,856**	416,000	43,856

(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 1 January 2007 to 416,000,000 as at 31 December 2007. The proceeds of HK$5.6 million (equivalent to RMB5.5 million), representing the par value, were credited to the Company's share capital. The remaining proceeds, net of transaction costs, of HK$138.0 million (equivalent to RMB136.0 million) were credited to the share premium account.

(Expressed in RMB unless otherwise indicated)

31 CAPITAL AND RESERVES (continued)

(c) Share capital (continued)

(iii) Terms of unexpired and unexercised share options at balance sheet date

Exercise period	Exercise price	2008 Number	2007 Number
1 March 2009 to 29 May 2015	HK$3.50	**8,000,000**	—
1 March 2010 to 29 May 2015	HK$3.50	**6,000,000**	—
1 March 2011 to 29 May 2015	HK$3.50	**6,000,000**	—
		20,000,000	—

Each option entitles the holder to subscribe for one ordinary share in the Company. Further details of these options are set out in Note 29 to the financial statements.

(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:

— at 31 December 2008, the portion of the grant date fair value of unexercised share options granted to employees of the Group that has been recognised in accordance with the accounting policy adopted for share-based payments in Note 2(p)(ii);

— at 31 December 2007, the amount of contributions in excess of the registered capital contributed by the equity holders of the Group's PRC subsidiaries; and

— at 1 January 2007, 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).

(iii) Statutory reserves

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

31 CAPITAL AND RESERVES (continued)

(d) Nature and purpose of reserves (continued)

(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 2008, the aggregate amount of reserves available for distribution to equity shareholders of the Company was RMBNil (31 December 2007: RMB24.0 million). The board of directors of the Company does not recommend the payment of a final dividend for the year ended 31 December 2008 (2007: HK$0.0614 per ordinary share, amounting to HK$25.5 million).

(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.

The Group monitors its capital structure on the basis of an adjusted net debt-to-capital ratio. For this purpose, adjusted net debt is defined as total debt (which includes bank and other loans, 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.

During 2008, the Group's strategy was to lower the adjusted net debt-to-capital ratio to an acceptable level. However, the Group's operations were affected by the global economic downturn in 2008, which resulted in such ratio increased from 148% at 31 December 2007 to 221% at 31 December 2008. In order to improve the Group's capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares, raise new debt financing or sell assets to reduce debt.

31 CAPITAL AND RESERVES (continued)

(f) Capital management (continued)

The adjusted net debt-to-capital ratio at 31 December 2008 and 2007 was as follows:

	The Group	
	2008	2007
	RMB'000	RMB'000
Current liabilities:		
Trade and other payables	**1,334,463**	1,194,627
Bank and other loans	**249,038**	225,960
	1,583,501	1,420,587
Non-current liabilities:		
Bank and other loans	**198,657**	35,000
Amounts due to a related company	**40,103**	37,695
Unsecured notes	**669,243**	705,006
Total debt	**2,491,504**	2,198,288
Add: Proposed dividends	**—**	23,917
Less: Cash and cash equivalents	**(279,503)**	(355,855)
Adjusted net debt	**2,212,001**	1,866,350
Total equity	**1,000,701**	1,284,040
Less: Proposed dividends	**—**	(23,917)
Adjusted capital	**1,000,701**	1,260,123
Adjusted net debt-to-capital ratio	**221%**	148%

31 CAPITAL AND RESERVES (continued)

(f) Capital management (continued)

	The Company	
	2008	2007
	RMB'000	RMB'000
Current liabilities:		
Other payables	**49,517**	46,342
Non-current liabilities:		
Unsecured notes	**669,243**	705,006
Total debt	**718,760**	751,348
Add: Proposed dividends	**—**	23,917
Less: Cash and cash equivalents	**(12,695)**	(31,327)
Adjusted net debt	**706,065**	743,938
Total equity	**364,186**	432,691
Less: Proposed dividends	**—**	(23,917)
Adjusted capital	**364,186**	408,774
Adjusted net debt-to-capital ratio	**194%**	182%

The Group and the Company are subject to the fulfilment 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 2008, none of the capital requirements that would cause the unsecured notes to become payable on demand had been breached.

32 CHANGES IN OWNERSHIP INTERESTS IN SUBSIDIARIES

(i) On 21 February 2008, Bondtime Holdings Limited, a wholly owned subsidiary of the Company, subscribed 25.01% equity interests of Wuhai Blue Star Glass Company Limited ("Wuhai Blue Star"), another subsidiary of the Group, for a consideration of RMB28.6 million.

Upon completion of this transaction, the Group's effective interest in Wuhai Blue Star increased from 34.16% to 50.63%. The Group recognised an increase in minority interests of RMB4.26 million.

(ii) On 13 March 2008, Weihai Blue Star Glass Company Limited, a subsidiary of the Group, acquired 22.5% equity interests in Weihai Blue Star New Technology Glass Company Limited ("Weihai New Technology"), another subsidiary of the Group, for a consideration of RMB52.9 million.

Upon completion of this transaction, the Group's effective interest in Weihai New Technology increased from 12.03% to 17.34%. The Group recognised a decrease in minority interests of RMB55.05 million.

(iii) On 30 May 2008, certain of the now minority equity holders of Weihai China Glass Solar Company Limited ("Weihai Solar") contributed RMB17.17 million to subscribe 23.00% equity interests in Weihai Solar, a subsidiary of the Group.

Upon completion of this transaction, the Group's effective interest in Weihai Solar decreased from 20.53% to 15.81%. The Group recognised an increase in minority interests of RMB17.17 million.

(iv) On 2 June 2008, one of the now minority equity holders of Xianyang Blue Star Coated Glass Company Limited ("Xianyang Blue Star") contributed RMB10.0 million to subscribe 11.11% equity interests in Xianyang Blue Star, a subsidiary of the Group.

Upon completion of this transaction, the Group's effective interest in Xianyang Blue Star decreased from 66.64% to 60.48%. The Group recognised an increase in minority interests of RMB11.30 million.

(v) On 29 August 2008, Jiangsu SHD, a subsidiary of the Group, acquired the remaining 9.90% equity interests in Suqian Huayi, another subsidiary of the Group, for a consideration of RMB24.0 million.

Upon completion of this transaction, the Group's effective interest in Suqian Huayi increased from 90.1% to 100%. The Group recognised a decrease in minority interests of RMB15.05 million.

The contributions from minority interests as mentioned in Notes 32(iii) and 32(iv) above resulted in an increase in minority interests of RMB28.47 million. The acquisitions of the then minority interests by the Group as mentioned in Notes 32(i), 32(ii) and 32(v) above resulted in a net decrease in minority interests of RMB65.84 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	
	2008	2007	**2008**	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Turnover	**1,549,401**	1,542,084	**740,540**	670,240	**2,289,941**	2,212,324
Segment results	**127,879**	273,946	**31,778**	68,903	**159,657**	342,849
Unallocated operating income and expenses					**(296,055)**	(152,037)
(Loss)/profit from operations					**(136,398)**	190,812
Share of losses of an associate					**(41,999)**	—
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
Gain from issuance of shares by subsidiaries					**—**	5,646
Finance costs					**(66,001)**	(84,354)
Income tax					**26,990**	6,033
(Loss)/profit for the year					**(217,408)**	138,931

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 2008, the outstanding amount bears interest at 6.12% per annum (31 December 2007: 6.12% per annum). For the year ended 31 December 2008, interest expenses of RMB2.5 million had incurred and been paid to Jiangsu Glass Group Company Limited (2007: RMB2.8 million).

(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 2008, management services fee of RMB2.0 million (2007: RMB2.2 million) had incurred and been paid to Well Faith.

34 MATERIAL RELATED PARTY TRANSACTIONS (continued)

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

(iii) Other transactions

	Note	2008 RMB'000	2007 RMB'000
Sale of glass and glass products to related parties		**1,206**	—
Purchase of raw materials from related parties		**10,418**	8,116
Labour services expenses		**630**	3,559
Operating lease expenses		**870**	—
Interest income	(i)	**1,826**	4,132
Interest expenses	(ii)	**3,046**	6,522
Non-interest bearing advances granted to related parties	(iii)	**6,028**	—
Settlement of non-interest bearing advances granted to related parties	(iii)	**5,541**	—
Non-interest bearing advances received from related parties	(iii)	**4,463**	14,579
Repayment of non-interest bearing advances received from related parties	(iii)	**6,463**	22,871
Repayment of interest bearing advances received from related parties	(iv)	**7,939**	—
Acquisitions of non-controlling equity interests in subsidiaries from related parties (Notes 32(ii) and 32(v))		**32,936**	—

(b) Transactions with equity shareholders of the Company

	Note	2008 RMB'000	2007 RMB'000
Interest expenses	(ii)	**4,365**	—
Non-interest bearing advances granted to a related party	(iii)	**7**	10
Loans received from a related party	(vi)	**150,244**	—
Payments of finance charges on loans received from a related party		**6,999**	—

34 MATERIAL RELATED PARTY TRANSACTIONS (continued)

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

	Note	2008 RMB'000	2007 RMB'000
Sale of glass and glass products to related parties		495,036	436,934
Purchase of raw materials from related parties		128,121	110,480
Interest income	(i)	—	1,565
Interest expenses	(ii)	205	231
Non-interest bearing advances granted to related parties	(iii)	3,016	—
Settlement of non-interest bearing advances granted to related parties	(iii)	6,026	—
Non-interest bearing advances received from related parties	(iii)	585	10,411
Repayment of non-interest bearing advances received from related parties	(iii)	2,417	—
Interest bearing loans received from related parties	(v)	—	8,000
Repayment of interest bearing loans received from related parties	(v)	8,000	—
Acquisitions of non-controlling equity interests in a subsidiary from related parties (Note 32(ii))		43,975	—
Guarantees provided by a related party to banks for subsidiaries of the Group at year end		1,000	38,360

(d) Transactions with subsidiaries of the Group

	Note	2008 RMB'000	2007 RMB'000
Interest income	(i)	59,709	20,080
Non-interest bearing advances granted to subsidiaries	(iii)	87,493	236,035
Settlement of non-interest bearing advances granted to subsidiaries	(iii)	159,164	21,000
Repayment of non-interest bearing advances received from subsidiaries	(iii)	—	19,171
Interest bearing advances granted to a subsidiary	(vii)	155,542	70,000
Settlement of interest bearing advances granted to a subsidiary	(vii)	155,542	70,000
Loans granted to a subsidiary	(viii)	60,092	532,976

34 MATERIAL RELATED PARTY TRANSACTIONS (continued)

(e) Transactions with an associate of the Group

	Note	2008 RMB'000	2007 RMB'000
Service income		**2,773**	—
Non-interest bearing advances granted to a related party	(iii)	**3,599**	—
Settlement of non-interest bearing advances granted to a related party	(iii)	**1,193**	—

(f) 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:

	2008 RMB'000	2007 RMB'000
Short-term employee benefits	**3,415**	6,797
Contributions to defined contribution retirement plans	**134**	98
Equity compensation benefits	**4,388**	—
	7,937	6,895

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 are unsecured and have no fixed terms of repayment.

(iv) The advances are unsecured and bear interest ranging from 6.37% to 8.96% per annum.

(v) The loan received from related parties in 2007 was unsecured, bore interest at 7.67% per annum and had been repaid in 2008.

(vi) The loans are unsecured, bear interest ranging from 7.36% to 7.73% per annum and are repayable in bi-annual instalments from 15 July 2010 to 15 July 2015.

(vii) The advances to a subsidiary are unsecured, bear interest ranging from 5.76% to 7.00% per annum (2007: 5.76% per annum) and are repayable before 31 December 2009.

(viii) The loans granted to a subsidiary are unsecured, bear interest ranging from 8.79% to 9.79% per annum (31 December 2007: 7.00% per annum) and are repayable on 30 June 2012.

35 COMMITMENTS

(a) Capital commitments

At 31 December 2008, the outstanding capital commitments of the Group not provided for in the consolidated financial statements were summarised as follows:

	The Group	
	2008	2007
	RMB'000	RMB'000
Commitments in respect of land and buildings, and machinery and equipment		
- Contracted for	**484,239**	6,906
- Authorised but not contracted for	**60,811**	383,573
	545,050	390,479
Commitments in respect of investments in subsidiaries		
- Contracted for	**81,466**	52,912
- Authorised but not contracted for	**—**	—
	81,466	52,912
Total commitments		
- Contracted for	**565,705**	59,818
- Authorised but not contracted for	**60,811**	383,573
	626,516	443,391

At 31 December 2008, capital commitments in respect of land and buildings, and machinery and equipment are for the construction of new and relocation of existing production lines of the Group.

35 COMMITMENTS (continued)

(b) Operating lease commitments

At 31 December 2008, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

(i) The Group

	2008	2007
	RMB'000	RMB'000
Within 1 year	**3,098**	3,603
After 1 year but within 5 years	**1,492**	2,096
After 5 years	**3,881**	3,828
	8,471	9,527

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

(ii) The Company

	2008	2007
	RMB'000	RMB'000
Within 1 year	**636**	674
After 1 year but within 5 years	**180**	548
	816	1,222

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

36 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

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 to be insignificant.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are 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.

In respect of 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 rather than the industry or country in which the customers operate and therefore significant concentration of credit risk primarily arise when the Group has significant exposure to individual customers. At the balance sheet date, 9.6% (2007: 5.9%) and 11.8% (2007: 9.9%) 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 RISK MANAGEMENT AND FAIR VALUES (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.

At 31 December 2008, the Group had net current liabilities of RMB623.4 million. As mentioned in Note 25(c) to the financial statements, the Group is undertaking certain measures after 31 December 2008 in order to improve its liquidity position 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

	2008 Contractual undiscounted cash outflow					
	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	Total RMB'000	Balance sheet carrying amount RMB'000
Trade and other payables	1,336,624	—	—	—	1,336,624	1,334,463
Bank and other loans	273,702	28,988	136,103	93,247	532,040	447,695
Non-current amounts due to a related company	—	15,250	22,500	7,655	45,405	40,103
Unsecured notes	65,783	65,783	815,026	—	946,592	669,243
	1,676,109	110,021	973,629	100,902	2,860,661	2,491,504

36 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(b) Liquidity risk (continued)

The Group (continued)

	2007 Contractual undiscounted cash outflow					
	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	Total RMB'000	Balance sheet carrying amount RMB'000
Trade and other payables	1,197,104	—	—	—	1,197,104	1,194,627
Bank and other loans	236,080	36,531	—	—	272,611	260,960
Non-current amount due to a related company	—	7,500	22,500	15,155	45,155	37,695
Unsecured notes	70,307	70,307	941,380	—	1,081,994	705,006
	1,503,491	114,338	963,880	15,155	2,596,864	2,198,288

The Company

	2008 Contractual undiscounted cash outflow					
	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**	**Total RMB'000**	**Balance sheet carrying amount RMB'000**
Other payables	**49,517**	**—**	**—**	**—**	**49,517**	**49,517**
Unsecured notes	**65,783**	**65,783**	**815,026**	**—**	**946,592**	**669,243**
	115,300	**65,783**	**815,026**	**—**	**996,109**	**718,760**

36 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(b) Liquidity risk (continued)

The Company (continued)

	2007 Contractual undiscounted cash outflow					
	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	Total RMB'000	Balance sheet carrying amount RMB'000
Other payables	46,342	—	—	—	46,342	46,342
Unsecured notes	70,307	70,307	941,380	—	1,081,994	705,006
	116,649	70,307	941,380	—	1,128,336	751,348

36 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(c) Interest rate risk

The Group's interest rate risk arises primarily from interest bearing borrowings. Borrowings issued at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. Given the current low interest rate environment, the Group's strategy is to maintain a higher proportion of its short-term borrowings on a variable basis, whilst the Group will continue to negotiate with major financial institutions to modify the terms on existing fixed rate borrowings. As mentioned in Note 25(c) to the financial statements, the Group is undertaking certain measures after 31 December 2008 in order to minimise its interest rate risk.

(i) Interest rate profile

The following table details the interest rate profile of the Group's and the Company's borrowings at the balance sheet date.

	The Group			
	2008		2007	
	Effective interest rate %	**RMB'000**	Effective interest rate %	RMB'000
Fixed rate borrowings:				
Bank and other loans	**7.34%**	**335,695**	7.44%	114,327
Amounts due to a related company	**6.12%**	**37,693**	6.12%	42,718
Unsecured notes	**9.625%**	**669,243**	9.625%	705,006
		1,042,631		862,051
Variable rate borrowings:				
Bank and other loans	**5.92%**	**112,000**	7.06%	146,633
Interest bearing amounts due to related companies	**—**	**—**	8.75%	84,900
		112,000		231,533
Total borrowings		**1,154,631**		1,093,584
Fixed rate borrowings as a percentage of total borrowings		**90%**		79%

36 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(c) Interest rate risk (continued)

(i) Interest rate profile (continued)

	The Company			
	2008		2007	
	Effective interest rate %	**RMB'000**	Effective interest rate %	RMB'000
Fixed rate borrowings:				
Unsecured notes	**9.625%**	**669,243**	9.625%	705,006
Total borrowings		**669,243**		705,006
Fixed rate borrowings as a percentage of total borrowings		**100%**		100%

(ii) Sensitivity analysis

At 31 December 2008, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have increased/decreased the Group's loss after tax and accumulated losses by approximately RMB0.9 million (2007: decreased/increased the Group's profit after tax and retained profits by approximately RMB1.9 million).

The sensitivity analysis above indicates the instantaneous change in the Group's results after tax (and retained profits or accumulated losses) that would arise assuming that the change in interest rates had occurred at the balance sheet date and had been applied to re-measure those financial instruments held by the Group which expose the Group to fair value interest rate risk at the balance sheet date. In respect of the exposure to cash flow interest rate risk arising from floating rate financial instruments held by the Group at the balance sheet date, the impact on the Group's results (and retained profits or accumulated losses) is estimated as an annualised impact on interest expense or income of such a change in interest rates. The analysis is performed on the same basis for 2007.

36 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(d) Currency risk

The Group is exposed to currency risk primarily through sales, purchases and borrowings which give rise to receivables, payables, loans and cash balances that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily United States Dollars, Renminbi, Hong Kong Dollars and Euros. The Group manages this risk as follows:

(i) Recognised assets and liabilities

In respect of receivables, payables and borrowings denominated in foreign currencies, 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. For presentation purposes, the amounts of the exposure are shown in Renminbi, translated using the spot rate at the year end date. Differences resulting from the translation of the financial statements of foreign operations into the Group's presentation currency are excluded.

The Group

	Exposure to foreign currencies (expressed in RMB)			
	2008			
	United States Dollars RMB'000	Renminbi RMB'000	Hong Kong Dollars RMB'000	Euros RMB'000
Bank and other loans	(150,157)	—	—	—
Cash and cash equivalents	4,796	63	19	9
Trade and other receivables	40,081	61	—	747
Trade and other payables	(550,106)	(4,506)	—	(3,859)
Gross exposure arising from recognised assets and liabilities	(655,386)	(4,382)	19	(3,103)

36 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(d) Currency risk (continued)

(ii) Exposure to currency risk (continued)

The Group (continued)

	Exposure to foreign currencies (expressed in RMB)			
	2007			
	United States Dollars RMB'000	Renminbi RMB'000	Hong Kong Dollars RMB'000	Euros RMB'000
Cash and cash equivalents	17,926	324	20	43
Trade and other receivables	32,556	1,886	—	139
Trade and other payables	(668,846)	(5,401)	—	(54)
Gross exposure arising from recognised assets and liabilities	(618,364)	(3,191)	20	128

The Company

	Exposure to foreign currencies (expressed in RMB)	
	2008 Renminbi RMB'000	2007 Renminbi RMB'000
Cash and cash equivalents	**63**	324
Other receivables	**61**	1,863
Other payables	**(4,506)**	(4,802)
Gross exposure arising from recognised assets and liabilities	**(4,382)**	(2,615)

36 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(d) Currency risk (continued)

(iii) Sensitivity analysis

The following table indicates the instantaneous change in the Group's results (and retained profits or accumulated losses) that would arise if foreign exchange rates to which the Group has significant exposure at the balance sheet date has changed at that date, assuming all other risk variables remained constant. 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.

	The Group			
	2008		2007	
	Increase/ (decrease) in foreign exchange rates	**(Increase)/ decrease in loss after tax and accumulated losses RMB'000**	Increase/ (decrease) in foreign exchange rates	(Decrease)/ increase in profit after tax and retained profits RMB'000
United States Dollars	**5%**	**(28,698)**	10%	(60,032)
	(5%)	**28,698**	(10%)	60,032
Renminbi	**5%**	**(219)**	10%	(296)
	(5%)	**219**	(10%)	296
Hong Kong Dollars	**5%**	**1**	10%	2
	(5%)	**(1)**	(10%)	(2)
Euros	**10%**	**(215)**	6%	7
	(10%)	**215**	(6%)	(7)

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the group entities' results after tax and equity measured in the respective functional currencies, translated into Renminbi at the exchange rate ruling at the balance sheet date for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the balance sheet date, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency. The analysis is performed on the same basis for 2007.

36 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(e) Fair values

All financial instruments are carried at amounts not materially different from their fair values at 31 December 2008 and 2007 except as follows:

The Group

	2008		2007	
	Carrying amount RMB'000	**Fair value RMB'000**	Carrying amount RMB'000	Fair value RMB'000
Bank and other loans	**198,657**	**212,996**	35,000	35,000
Amounts due to a related company	**40,103**	**36,794**	37,695	33,196
Unsecured notes	**669,243**	**273,384**	705,006	693,937

The Company

	2008		2007	
	Carrying amount RMB'000	**Fair value RMB'000**	Carrying amount RMB'000	Fair value RMB'000
Loan to a subsidiary	**484,263**	**547,317**	514,196	510,302
Unsecured notes	**669,243**	**273,384**	705,006	693,937

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

(i) *Bank and other loans, amounts due to a related company 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 at 31 December 2008 plus an adequate constant credit spread to discount financial instruments. The interest rates used are as follows:

	2008	2007
Bank and other loans	**6.55%**	6.48%
Amounts due to a related company	**6.50%**	7.83%
Loan to a subsidiary	**6.54%**	7.65%

36 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(e) Fair values (continued)

(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) 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. Up to the date of issue of these financial statements, this transaction has not been completed.

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.

(b) Issuance of new shares

On 19 March 2009, the Company announced that the board of directors of the Company has resolved to place a total of 46,330,000 new shares to certain senior management of the Group at a price of HK$0.53 per ordinary share. The Placing has been approved by the Company's shareholders in a special general meeting held on 24 April 2009. Upon completion of the Placing, the number of shares issued by the Company will increase from 416,000,000 to 462,330,000, and the Company shall receive HK$24.6 million (equivalent to RMB21.7 million) as proceeds from the issuance of such shares.

38 COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to current year's presentation.

39 IMMEDIATE AND ULTIMATE HOLDING COMPANY

The directors of the Company consider the immediate and ultimate holding company of the Company at 31 December 2008 to be First Fortune Enterprises Limited and Easylead Management Limited, respectively, which are both 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 2008

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 2008 and which have not been adopted in these financial statements:

	Effective for accounting periods beginning on or after (unless specified)
HK(IFRIC) 13, *Customer loyalty programmes*	1 July 2008
HK(IFRIC) 15, *Agreements for the construction of real estate*	1 January 2009
HK(IFRIC) 16, *Hedges of a net investment in a foreign operation*	1 October 2008
HK(IFRIC) 17, *Distributions of non-cash assets to owners*	1 July 2009
HK(IFRIC) 18, *Transfer of assets from customers*	Effective for transfers of assets from customers received on on after 1 July 2009
HKFRS 8, *Operating segments*	1 January 2009
Amendments to HK(IFRIC) 9, *Reassessment of embedded derivatives* and HKAS 39, *Financial instruments: Recognition and measurement – Embedded derivatives*	The amendments are effective for annual periods ending on or after 30 June 2009
Amendments to HKFRS 1, *First-time adoption of Hong Kong Financial Reporting Standards* and HKAS 27, *Consolidated and separate financial statements – Cost of an investment in a subsidiary, jointly–controlled entity or associate*	1 January 2009

(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 2008 (continued)

	Effective for accounting periods beginning on or after (unless specified)
Amendments to HKFRS 2, *Share-based payment – Vesting conditions and cancellations*	1 January 2009
Amendments to HKFRS 7, *Financial instruments: Disclosures – Improving disclosures about financial instruments*	1 January 2009
Amendments to HKAS 32, *Financial instruments: Presentation* and HKAS 1, *Presentation of financial statements – Puttable financial instruments and obligations arising on liquidation*	1 January 2009
Amendments to HKAS 39, *Financial instruments: Recognition and measurement – Eligible hedged items*	1 July 2009
Improvements to HKFRSs	1 January 2009 or 1 July 2009
Revised HKFRS 1, *First-time adoption of Hong Kong Financial Reporting Standards*	1 July 2009
Revised HKAS 1, *Presentation of financial statements*	1 January 2009
Revised HKAS 23, *Borrowing costs*	1 January 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.