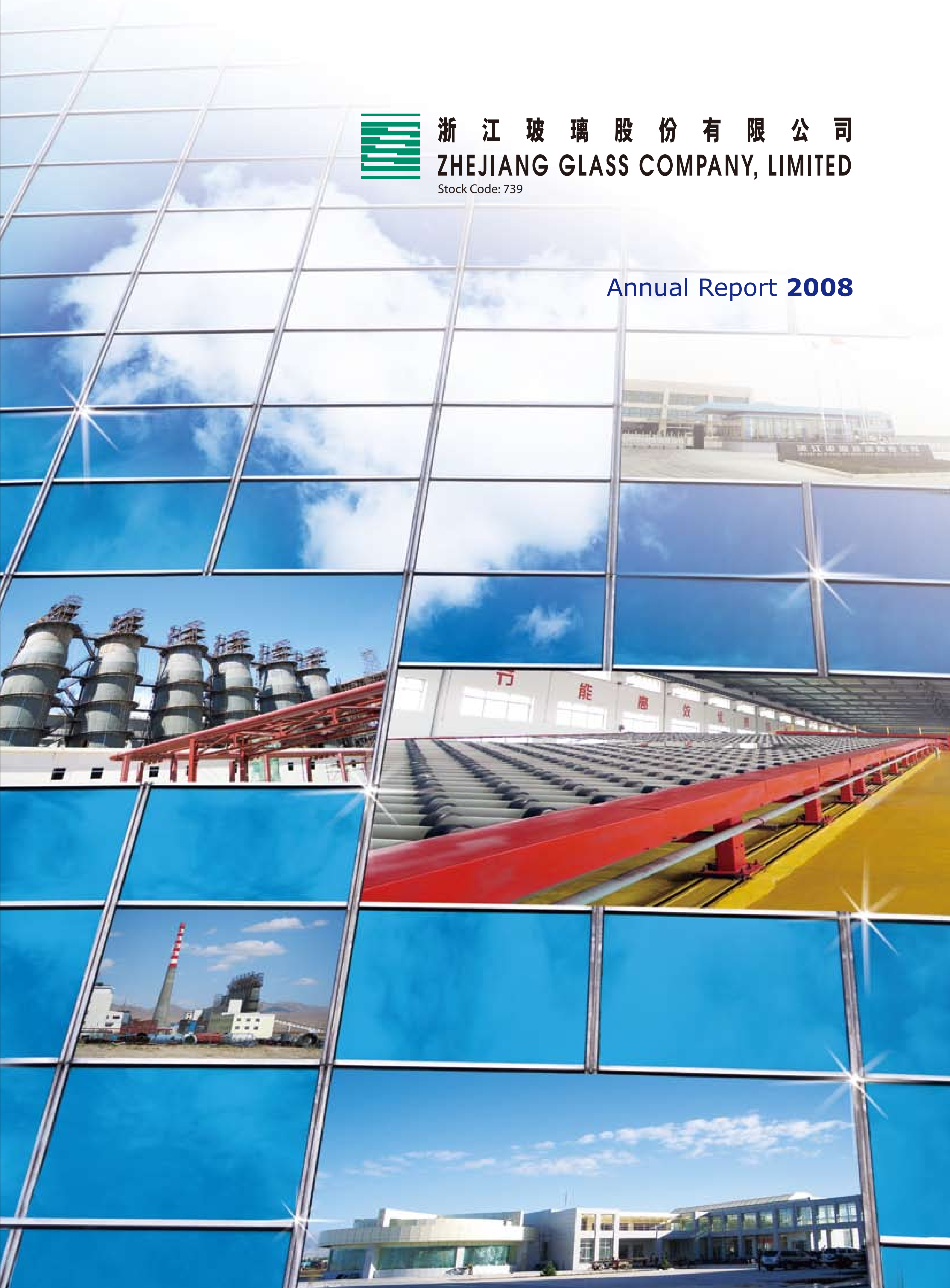
浙江玻璃股份有限公司

ZHEJIANG GLASS COMPANY, LIMITED

Stock Code: 739

Annual Report **2008**



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Corporate Information

DIRECTORS

Executive Directors

Mr. FENG Guangcheng *(Chairman)*
Ms. HONG Yumei
Mr. GAO Huojin
Mr. SHEN Guangjun
Mr. JIANG Liqiang

Non-executive Directors

Mr. LIU Jianguo
Mr. XIE Yong

Independent non-executive Directors

Mr. WANG Yanmou
Dr. LI Jun
Mr. SU Gongmei
Mr. ZHOU Guochun

SUPERVISORS

Mr. XU Yuxiang
Mr. LOU Zhenrong
Mr. FU Guohua
Mr. FANG Shengli
Mr. XU Mingfeng
Mr. MEI Lingfeng
Mr. JI Peng

SHARE LISTING

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

AUDITORS

PricewaterhouseCoopers
PricewaterhouseCoopers Zhong Tian CPAs Limited Company

LEGAL ADVISORS

as to Hong Kong law:
Chiu & Partners

as to PRC law:
Commerce & Finance Law Offices

LEGAL ADDRESS

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

PLACE OF BUSINESS IN HONG KONG

1301 Ruttonjee House
Ruttonjee Centre
11 Duddell Street
Central
Hong Kong

COMPANY SECRETARIES

Ms. TAO Haiping
Mr. CHOW Yiu Ming
(resigned with effect from 31 August 2008)
Ms. WONG Hoi Kam
(appointed with effect from 31 August 2008)

AUTHORISED REPRESENTATIVES

Mr. FENG Guangcheng
Ms. TAO Haiping

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

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

PRINCIPAL BANKERS

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

INVESTOR RELATIONS CONSULTANT

Financial Dynamics Asia

INTERNET WEBSITE

www.zjglass.cn

Financial Summary

	Year ended 31 December				
	2004 RMB'000	2005 RMB'000	2006 RMB'000	2007 RMB'000	**2008** **RMB'000**
Results					
Revenue	1,212,888	1,195,636	1,520,512	2,322,206	**2,756,230**
Profit/(loss) before income tax	334,393	124,660	(51,543)	322,415	**245,081**
Income tax income/(expense)	(129,647)	(50,108)	(8,371)	(25,471)	**5,557**
Profit/(loss) for the year	204,746	74,552	(59,914)	296,944	**250,638**
Attributable to:					
Equity holders of the Company	205,044	74,072	(57,008)	275,824	**174,184**
Minority interests	(298)	480	(2,906)	21,120	**76,454**
	204,746	74,552	(59,914)	296,944	**250,638**
Dividends	61,513	20,892	–	–	**–**
Assets and Liabilities					
Total assets	3,879,933	5,781,484	5,897,043	7,034,044	**10,178,319**
Total liabilities	(2,500,749)	(4,351,939)	(4,280,005)	(4,822,366)	**(7,176,290)**
Capital and reserves attributable to the Company's equity holders	1,358,620	1,390,444	1,581,280	2,002,778	**2,563,013**

Chairman's Statement

Mr. Feng Guangcheng
Chairman

To the shareholders of Zhejiang Glass Company, Limited:

The Group's strategic approach to growth through the evolution of our vertically integrated business model yielded satisfactory results in 2008, allowing us to remain relatively resilient despite the notable macroeconomic challenges and isolated financial incidents that occurred during the year.

For the year ended 31 December 2008, the Group recorded a turnover of RMB2,756.2 million, 18.7% higher than the year ended 31 December 2007. Profit attributable to equity holders of the Company was at RMB174.2 million (2007: RMB275.8 million).

Despite a gross profit rise of 16.1% to RMB658.8 million, the Group's operating profit conversely fell by a slight 2.3% to RMB435.7 million due to several financial occurrences that hampered profitability.

Profitability was most notably affected by the provisions for asset impairment against inventories, property, plant and equipment, receivables and prepayments totalling to RMB115.9 million.

The Group's production of soda ash meanwhile reached 1.02 million tonnes during the year while the output of flat glass increased 27.6% to 24.25 million weight cases.

At a macro level, the results have been accomplished against a backdrop of great economic uncertainty at home and abroad. Like many of the world's key economies, the global financial crisis impacted on China in 2008, triggering sharp declines in sectors crucial to the sustainability of our business – most notably construction industry, and contributed to an increasingly challenging operating environment for the Group.

The volatile conditions impacting the products market further fueled price fluctuations for soda ash and glass domestically and internationally. Prices of heavy soda ash and light soda ash in the country reached respective highs of RMB1,700 per tonne and RMB1,500 (inclusive of value-added-tax ("VAT")) per tonne in the first eight months of 2008 before plummeting to RMB1,300 per tonne and RMB1,100 (inclusive of VAT) per tonne, respectively, by September 2008, according to data from the China Building Material Industry Association.

Glass prices meanwhile bucked a similar trend with float glass in 35% of China's major cities down by as much as 19% during the year.

Though the operating environment is expected to remain relatively difficult for the foreseeable future, we believe the government's gamut of economic stimulus initiatives, aiming at reviving and stimulating its ten pillar industries, which includes the property, auto, steel and textile sectors, will provide a major booster to the economy by the second half of 2009.

The construction sector, one of the nation's biggest drivers of domestic consumption, is expected to see some rebound later this year as the government plans to make the purchase of second homes more accessible through the provision of more loan options and the reduction of taxes and associated fees.

The roll out of a low-income home ownership scheme, which promises to provide more affordable housing to low- and moderate-income families, is also expected to kick start property development projects and resuscitate the glass industry.

Meanwhile, a stimulus plan for the auto industry, with the goal of boosting the sales and production of automobiles to 10 million units in 2009 through tax cuts and financial aid for domestic automakers, and with the aim of maintaining the average annual growth rate at 10% over the next three years, is further expected to intensify the demand for glass in the future. The government is, in particular, encouraging consumers to buy low-emission and energy efficient vehicles.

With China's ever tightening environmental specifications, a growing number of soda ash plants which are unable to meet the new environmental standards are made to shut down or be removed,

which is, in turn, creating a supply shortage in the soda ash market. As a result, demand for our soda ash is expected to increase considerably over the next few years in view of the falling number of suppliers.

We believe this demand supply tilt will prove favourable for the Group. It will allow us the opportunity to capitalise on the competitive advantages of our vertically integrated business model, the transformation from a traditional glass manufacturer to a modern and efficient industrial raw material manufacturer, and position us well to meet the challenges ahead.

By focusing on soda ash production, we not only have the security of steady raw material supply, but can also leverage on the Group's strongest competitive strength: the strategic location of our plant, more pertinent now than ever before, as soda ash plants in the nation are under pressure to be shut down, relocated or upgraded given the tightening of environmental specifications.

Chairman's Statement

Our government-approved soda ash plant in Qinghai province is in close proximity to natural resources such as salt, limestone and coal, components essential for the production of soda ash, and for which we have been granted the right to explore.

The plant also has a convenient and comprehensive sales and transportation network capable of facilitating the direct sale of soda ash to other major cities in China.

Phase one of our soda ash plant was fully operational during 2008. We anticipate phase two of the plant will begin timely operations in 2009 to meet the growing market demand. The plant is expected to double the annual production capacity to 2.4 million tonnes to meet the anticipated rebound in economic activity.

In addition, we have continued to expand the production of our high-end glass products; in particular, energy saving low e-glass, ultra-thick glass for the exterior walls of buildings, and ultra-thin glass for the electronics industry, to add significant value to our glass range, and meet new industry demand and more stringent environmental standards.

The Group's flat glass production lines achieved a total daily melting capacity of 5,000 tonnes in 2008. During the period, the Group's output for ultra-thick glass (12 mm or above in thickness) reached 1,787 thousands weight case. Ultra thin glass was at 2,912 thousands weight case and low e-glass was at 804 thousands square meter.

By meeting the market's emerging demands, the Group is confident that we can boost the profitability of our glass production business.

Given our strategic positioning coupled with China's macroeconomic policies, we look forward to another productive year in which we hope to further enhance our foothold in the soda ash and glass markets in the long run.

APPRECIATION

On behalf of the board of directors of the Company, I would like to extend my gratitude to our shareholders, customers and suppliers for their continuous support. I am also extremely grateful to our staff whose invaluable hard work has made a significant contribution to the Group.

Feng Guangcheng
Chairman

8 May 2009

Management Discussion and Analysis

During the year, the Group successfully leveraged on the benefits of its vertically integrated business model to overcome the economic difficulties brought about by the global economy.

The upstream soda ash business produces soda ash for the Group's glass business as well as other glassmakers in the country. Soda ash is also used for metallurgical, chemical and various other industries. The downstream glass business produces and sells high quality float flat glass and processed glass for the construction, automotive and electronics sectors.

BUSINESS REVIEW

Soda ash business

The industry weathered much volatility in the second half of 2008 with the economic downturn curtailing demand from our upstream customer base cut their output in the year. The impact became most visible by the second half of the year with activities across the industries slowing down as the global economy plunged into a recession.

Market price averages for heavy soda ash and light soda ash soared to a respective high of RMB1,700 and RMB1,500 per tonne (inclusive of VAT) in the first eight months of the year before plummeting to respective lows of RMB1,300 and RMB1,100 per tonne (inclusive of VAT) by September 2008 due to the slowing down of the local economy, according to data from the China Building Material Industry Association. China meanwhile retained its position as the world's largest soda ash producer with an annual output of 18.8 million tonnes, 6.45% higher than the level in 2007. The nation exported two million tonnes of net soda ash in the year, at an average price of US$267.7 per tonne, 24.7% more than the volume exported in 2007.

The Group contributed to China's robust soda ash production with the Group's soda plant in Qinghai Province operating at full capacity. The strategic geographic location of the plant, coupled with the infrastructure of a conveniently linked sales network and the accessibility of the Qinghai-Tibet railway and government-supported highway networks, allowed us to keep down transport and logistical costs and enabled customers to enjoy the relatively competitive prices.

In 2008, phase one of the Qinghai Soda Ash Company Limited (QSAC), a 71.47% owned subsidiary of the Group produced a total of 1.02 million tonnes of soda ash. 677,000 tonnes were sold to the Group's external customers and 276,000 tonnes were used for the Group's own glass business.

High density dense soda ash, mainly used in the production of glass, accounted for 75% of the Group's entire sales volume. Low density light soda ash, used widely in the production of detergent, alumina and monosodium glutamate, contributed to the remaining 25%.

Management Discussion and Analysis

The Group's average selling price of soda ash (inclusive of VAT) was RMB1,520 per tonne, 22.6% higher than RMB1,240 per tonne in 2007.

Revenue from external customers for the soda ash business accounted for 31.7% of the Group's total revenue, at RMB873.9 million, an increase of 10.0% as compared to RMB794.7 million in 2007.

Glass business

Flat glass

The economic downturn has posed some tough hurdles for the nation flat glass industry. Prices, which were already pressured down by overcapacity in the market dipped further in the year due to laggard activities in the real estate and auto industries, the glass industry's primary customers.

In December 2008, glass prices slid with the average for 5mm float glass plummeting to RMB1.25 per square metre, translating into a 1.64% year-on-year dip, in most major cities in China. The unit cost of flat glass was RMB68 per weight case, in contrast to RMB66 per weight case in 2007.

During the year, actual output of flat glass in China was at 520 million weight cases, with a growth rate of 4.4%, half the pace of growth in 2007, according to the National Bureau of Statistics of China. Glass output, however, took a dive of 18% in December 2008 as the financial crisis reached a crescendo, forcing some of the country's glass manufacturers to halt operations (45 production lines nationwide) in a bid to avert overcapacity.

The average sales/production ratio of the 42 major flat glass manufacturers in China was at 95%, compared with 96% in 2007.

The Group, throughout 2008, focused on the development and production of higher margin premium glass. The Group launched two new glass production lines in the second half of 2008, dedicated to the production of ultra-thick glass (12 mm or above in thickness) for the exterior walls of buildings. Additional efforts will be devoted on the development of new technologies for the production of ultra thin glass for the electronics industry.

As of 31 December 2008, the Group operated a total of ten flat glass production lines with an aggregate daily melting capacity of 5,000 tonnes. During the year, the Group produced about 24.3 million weight cases (2007: 19.0 million weight cases) or 1,212,500 tonnes (2007: 950,000 tonnes) of flat glass. The sales production ratio reached 97% (2007: 95%). Flat glass sales reached RMB1,660 million in 2008 (2007: RMB1,307 million), accounting for about 60.2% (2007: 56.3%) of the Group's total revenue. The unit price of flat glass was RMB73 per weight case, RMB3 per weight case lower than in 2007.

Automotive grade glass meanwhile accounted for 89% of the Group's flat glass output (2007: 90%) during the year, while construction grade glass comprised 11% (2007: 10%).

Processed glass

The Group's 13 processed glass production lines for mirror glass, tempered glass, insulating glass, laminated glass and low e-glass operated normally in the year. Around 3% of the Group's flat glass output was processed into higher margin products (2007: 5%).

The Group sold about 2.8 million square meters of processed glass at an average selling price of RMB72 per square metre (2007: RMB48 per square metre). The processed glass business segment reported a revenue of RMB199 million (2007: RMB215 million), representing 7.2% of the Group's entire revenue (2007: 9.3%).

FINANCIAL REVIEW

For the year ended 31 December 2008, the Group recorded a turnover of RMB2,756.2 million, 18.7% higher than the year ended 31 December 2007, on the back of higher overall sales for both glass and soda ash businesses. Profit attributable to equity holders of the Company was RMB174.2 million (2007: RMB275.8 million).

Despite a gross profit rise of 16.1% to RMB658.8 million, the Group's operating profit conversely fell by a slight 2.3% to RMB435.7 million in the year under review due to price fluctuations of raw materials and several financial incidences.

Profitability was most notably affected by the provisions for asset impairment against inventories, PPE, receivables and prepayments totalling to RMB115.9 million.

At the macro level, the lower average selling price of products continued to contribute towards a challenging business environment though these obstacles were mitigated, in part, by our vertically integrated business model that has fueled strong growth.

The Group gross profit margin fell 0.5% point to 23.9%. The gross profit margin for soda ash was at 47.8%, 13.2% point higher than that in 2007 with the improved economies of scale and effective cost management measures.

The Group's EBITDA (earnings before interest, taxation, depreciation and amortisation) reached RMB678.2 million, down 15.4% compared with that in 2007. The Group's EBITDA margin for the year, calculated based on turnover, was 25% as compared to 35% for 2007.

Average inventory turnover for the soda ash business was at about 137 days in 2008, compared with 101 days in 2007. Average inventory turnover for the Group's glass business was at 39 days in 2008, compared to 33 days in 2007.

OUTLOOK

Soda ash business

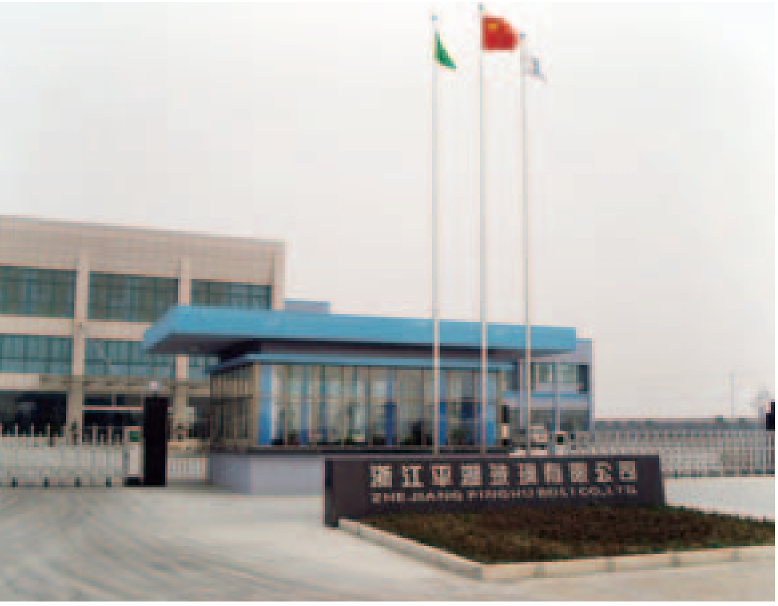
China's unprecedented stimulus packages aimed at reviving economic growth amid the global downturn is expected to kick start the sluggish local economy by the second half of 2009.

The demand for soda ash in China are expected to increase amid a backdrop of diminishing supply as a growing number of industry players have been forced to shut down or remove their facilities following failure to comply with the nation more stringent environmental regulations. This demand/supply imbalance is favourable for the development of our soda ash business.

By leveraging on our rights to exploit the natural reserves surrounding our soda ash plant in Qinghai province, the Group can ensure the security of steady raw material supply for its soda ash production, be protected simultaneously from the price volatility in the market and maintain a low cost competitive edge.

Further, our soda ash plant, which meets the applicable environmental requirements in China and has been approved by the State Environmental Protection Administration of China to manufacture soda ash, provides us with a significant advantage considering the tremendous upheaval and consolidation occurring in the industry at this time.

Management Discussion and Analysis



To further strengthen the existing synergies of our vertically integrated business model and to meet the anticipated pick up in market demand, phase two of the soda ash plant in Qinghai province, expected to double annual production capacity to 2.4 million tonnes per annum, is slated for timely completion to meet growing market demand.

Going forward, the operating profit margin of our soda ash business will improve further on better economies of scale and an enhancement in market conditions. We plan to focus primarily on the growth of the soda ash business and expect it to remain a major contributor to the Group's profits.

Glass business

The glass industry expects to see some recovery by the second half of 2009 given the government's plans to resuscitate the ailing real estate and construction sectors.

The above government's plans include making the purchase of second homes more affordable through the provision of more loan options and a reduction in taxes and fees. The launch of the low-income home ownership scheme, designed to provide low and moderate income families with cheaper housing, is also expected to kick start the sector, laying the groundwork for the development of more property projects which is expected to benefit the glass industry in the future.

Meanwhile, the auto sector's equally ambitious plan is expected to have a positive knock-on effect for the glass industry too. The government plans to boost the sales and production of automobiles to ten million units in 2009, with average annual growth of 10% maintained over the next few years.

Demand for China's float glass output is therefore expected to rebound as these initiatives take effect. In 2009, the Group's flat glass production lines will maintain at a total daily melting capacity of 4,100 tonnes after considering the relining of two production lines.

To meet the diverse needs of the market and supply products that are in line with the country's flat glass standards, the Group is committed to further broadening its product range to focus on the development of value-added glass products. These include ultra thick glass, ultra thin glass and energy saving low-e glass; the latter being an increasingly popular product given China's stringent environmental policies targeted at reducing the country's electricity consumption.

Flat glass

Market conditions for the low margin flat glass industry are expected to remain difficult for much of 2009 given the soaring raw material costs. The profit margin for flat glass is expected to remain flat despite the product's steady increasing price trend. Flat glass will, however, likely benefit from a rebound in the market, particularly ultra-thick and ultra-thin glass, as activities in the property and construction, automotive and electronics industries pick up pace towards the end of the year.

Processed glass

Processed glass with energy efficient and conserving features is well poised to meet a demand niche in the market, as China grows more environmentally conscious. As one of the country's leading energy saving low e-glass manufacturers, the Group anticipates the development of its processed glass product range to yield significant revenue contribution in the future.

CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

On 22 May 2008, the Company entered into a placing agreement with Cazenove Asia Limited (as the sole bookrunner and lead manager), pursuant to which the Company agreed to sell, and the sole bookrunner and lead manager agreed to procure, on a best effort basis, the independent professional, institutional and other investors to subscribe up to 64,166,000 newly issued H shares at the price of HK$6.05 per share. The placing of 64,166,000 new H shares pursuant to the placing agreement was completed on 28 May 2008 and the net proceeds of approximately HK$382 million was received. Details of the placing were disclosed in the Company's announcements dated 22 May 2008 and 28 May 2008.

As at 31 December 2008, the Group's cash and cash equivalents amounted to around RMB98.6 million, compared with RMB593.6 million as at 31 December 2007.

The Group's total bank borrowings was about RMB4,944.3 million as at 31 December 2008, compared with RMB3,233.6 million as at 31 December 2007.

The gearing ratio (total borrowing net of cash and cash equivalents ("net debt") divided by total capital, while total capital is calculated as total equity plus net debt) increased from 54% as at 31 December 2007 to 62% as at 31 December 2008.

The net-debt-to-equity ratio (net debt divided by total equity) increased from 119% as at 31 December 2007 to 161% as at 31 December 2008.

EXCHANGE RATE RISK

During the year, most of the Group's businesses were settled in Renminbi, which is not freely convertible into foreign currencies. The Group's export business, which was conducted in foreign currencies, accounted for an insignificant portion of the Group's turnover. The purchase of materials from abroad also accounted for a very small portion of the Group's total materials purchase in value. The Group's borrowings were also predominately in Renminbi, except for the borrowing from International Finance Corporation ("IFC"), which is denominated in US Dollars. The Group neither entered into any foreign exchange forward contracts nor adopted other hedging instruments to hedge against possible exchange risk fluctuations. The management expects the exposure to the Group arising from adverse fluctuations in exchange rates will not be significant.

CAPITAL COMMITMENT AND CONTINGENT LIABILITIES

Capital expenditure of the Group amounted to approximately RMB2,509 million for the year. Capital expenditure was mainly for the construction of two new flat glass production lines in Zhejiang Province and the second soda ash production line in Qinghai Province. As of 31 December 2008, the Group had total capital commitment of approximately RMB2,740 million, which was mainly related to the investment in the construction of the second soda ash production line in Qinghai Province (approximately RMB0.5 billion) and the proposed investment in the construction of several glass production lines in Zhejiang Province (approximately RMB2 billion). However, the Group is entitled to adjust the schedule of these proposed investments, and in particular, the Group has the right to adjust the investment amount or to terminate the execution of the investments in the construction of several glass production lines in Zhejiang Province. The Group did not have any significant contingent liabilities during the year, except for those disclosed in Note 38 to the consolidated financial statements.

Corporate Governance

The Group complied with the Code on Corporate Governance Practices ("the Code") set out in Appendix 14 to the Listing Rules for the Year (save for the recent amendments thereto which came into effect only on 1 January 2009). The Board confirms that there were no deviations from or non-compliance with the code provisions of the Code during 2008, except that the official position of the chief executive officer ("CEO") did not exist in the Group. Mr. Feng Guangcheng ("Mr. Feng"), apart from being the major shareholder and chairman of the Company and the Group, also assumed responsibilities comparable to those of a CEO at the Group level. Mr. Feng was responsible for making decisions, executing the decisions of the Board and overseeing the daily operations of the Group. Two different general managers were respectively in charge of the daily operations of the Group's two major divisions of business: glass and soda ash, and reported to Mr. Feng. Mr. Feng was involved in the decision-making process of the two major business divisions. The division of responsibilities between the chairman and general managers has been clearly established and set out in writing under the Company's articles of association. The Board will periodically review the merits and demerits of this management structure and will adopt the appropriate necessary measures, taking into account the nature and extent of the Group's operations. The Board believes that this structure can provide the Group with strong and consistent leadership and allow for more effective and efficient business planning and decision- making as well as execution of long-term business strategies.

In connection with the IFC's investment in the Company, the Company undertook to implement steps to for enhancing the corporate governance of the Company and independence of the Board of Directors by, among others, separating the roles of chairman and CEO, and limiting the representation of Mr. Feng's family on the board of Directors to Mr. Feng himself. While not all the aforesaid has been achieved (for example, our chairman, Mr. Feng, still assumes similar responsibility as a CEO as set out above), the Company has continued maintaining the independence of the Board by, as an instance, keeping sufficient number of independent non-executive Directors.

Mr. Chow Yiu Ming ("Mr. Chow"), the former chief financial officer and a qualified accountant, the joint company secretary and the process agent for the Company, resigned on 31 August 2008 for personal career development. Mr. Chow confirmed that he did not have any disagreements with the Board, and there was no further information relating to his resignation to draw to the attention of shareholders and the Stock Exchange. Details of Mr. Chow's resignation were set out in an announcement issued by the Company dated 29 August 2008.

Following Mr. Chow's resignation, during the year there remains the outstanding appointment of a qualified accountant for the Company as then required under Rule 3.24 of the Listing Rules. During the year, the Company was not been able to identify and retain a qualified accountant in accordance with the then requirement under Rule 3.24 of the Listing Rules and has made a submission to the Stock Exchange in this regard. With effect from 1 January 2009, the then Rule 3.24 of the Listing Rules has been repealed and the requirement for the Company to retain a qualified accountant thereunder has been removed from the Listing Rules.

At present, the Company has an executive Director, namely Ms. Hong Yumei ("Ms. Hong"), who is a registered accountant in the People's Republic of China ("PRC"). Ms. Hong Yumei is also the financial controller of the Company. Further, the Company has established an audit committee which regularly reviews the mechanism of internal controls and accounting-related matters of the Company and its subsidiaries. The Company has authorised Ms. Feng Mei ("Ms. Feng"), the executive secretary the Company, to act as the process agent, in place of Mr. Chow, with effect from of 31 August 2008. The Board also appointed, with effect from of 31 August 2008, Ms. Wong Hoi Kam ("Ms. Wong"), a solicitor as defined under the Legal Practitioners Ordinance (Chapter 159, the laws of Hong Kong), as the joint secretary of the Company.

DIRECTORS' SECURITIES TRANSACTIONS

During the year, the Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") set out in Appendix 10 to the Listing Rules (save for the recent amendments thereto which came into effect only in 2009 ("Model Code")). During the Year, upon specific enquiry made on all Directors, the Directors confirmed that they have complied with the required standard set out in the Model Code and its code of conduct regarding Directors' securities transactions.

BOARD OF DIRECTORS

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

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

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

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

	Attendance/Number of Meetings		
Directors during the Year	**Board meetings**	**Audit Committee meetings**	**Remuneration Committee meetings**
Executive Directors			
Mr. FENG Guangcheng	8/8	N/A	N/A
Ms. HONG Yumei	8/8	N/A	N/A
Mr. GAO Huojin	8/8	N/A	N/A
Mr. SHEN Guangjun	8/8	2/2	N/A
Mr. JIANG Liqiang	8/8	2/2	N/A
Non-executive Directors			
Mr. LIU Jianguo	8/8	N/A	N/A
Mr. XIE Yong	8/8	N/A	N/A
Independent non-executive Directors			
Mr. WANG Yanmou	3/8	2/2	1/1
Dr. LI Jun	3/8	2/2	N/A
Mr. SU Gongmei	3/8	2/2	1/1
Mr. ZHOU Guochun	3/8	2/2	N/A

Corporate Governance

Save for Mr. Feng who is the controlling shareholder (as defined in the Listing Rules) of the Company, other Directors do not have any relationship with any other Directors, senior management, substantial shareholders (as defined in the Listing Rules), or controlling shareholders of the Company. Other Directors, save for Mr. Feng, do not have any interests in shares of the Company within the meaning of Part XV of the Securities and Futures Ordinance. None of the directors have any family relationships with each other.

Currently, there are 11 Board members, including five executive Directors, two non-executive Directors and four independent non-executive Directors with at least one independent non-executive Director with the appropriate professional qualification, or accounting or related financial management expertise. The number of independent non-executive Directors represents to not less than one-third of the total number of Directors of the Company. The Company has received from each independent non-executive Director an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules, and the Board still considers them to be independent.

Biographies and responsibilities of the Directors and senior management are detailed on pages 17 to 19 of this annual report.

NOMINATION OF DIRECTORS

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

REMUNERATION COMMITTEE

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

During the Year, the remuneration committee consisted of three members: Mr. Feng (chairman of the remuneration committee, an executive Director), Mr. Wang Yanmou (an independent non-executive Director) and Mr. Su Gongmei (an independent non-executive Director). One meeting was held by the remuneration committee during the Year to make recommendations to the Board in relation to the remuneration of the non-executive Directors and independent non-executive Directors. The meeting was attended by all members of the remuneration committee.

AUDIT COMMITTEE

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

Under its terms of reference in force during the Year the audit committee shall meet at least twice a year to review the accounting principles and practices adopted by the Group, discuss internal control and financial reporting matters including the interim and annual financial statements before submission to the Board for approval. The external auditors, chief financial officer and the management of finance department of the Company attended the audit committee meetings to answer questions on the reports of their work. Two meetings were held during the Year of 2008. With respect to the results of the Group for the Year, the audit committee reviewed with senior management and the auditors of the Company their respective audit findings, the accounting principles and practices adopted by the Group and internal control, risk management and financial reporting matters. This review by the audit committee included an appraisal of the integrity of the financial statements of the Group and the annual report and accounts of the Company. The audit committee has also reviewed the external auditors' remuneration. There was no disagreement between the Board and the audit committee on the selection and appointment of the external auditors.

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

During the Year, the audit committee comprised the following independent non-executive Directors: Mr. Wang Yanmou (chairman of the audit committee), Dr. Li Jun, Mr. Su Gongmei and Mr. Zhou Guochun. Mr. Zhou Guochun is a registered accountant in the PRC while Mr. Su Gongmei has extensive knowledge and experience in the construction materials industry.

AUDITORS' REMUNERATION

During the Year, the fee paid and payable to the Group's external auditors, PricewaterhouseCoopers, for the annual audit services provided to the Group was RMB4,500,000. The Group did not engage the external auditors for any non-audit services.

DIRECTORS' AND AUDITORS' ACKNOWLEDGEMENT

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

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

Corporate Governance

INTERNAL CONTROL

The Board has overall responsibility for the system of internal controls of the Company and for reviewing its effectiveness. The Board is committed to implementing an effective and sound internal control system to safeguard the interest of shareholders of the Company and the Group's assets. The Board has conducted a review of the effectiveness of the Group's internal control system, covering its financial and operational functions.

GOING CONCERN ASSUMPTION

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

As at 31 December 2008, the Group had net current liabilities of approximately RMB2,478 million. This condition indicates the existence of a material uncertainty, which may cause significant doubt about the Group's ability to continue as a going concern.

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

Directors, Supervisors and Senior Management

DIRECTORS

Executive Directors

Mr. FENG Guangcheng, aged 57, is the chairman and the founder of the Company. He is qualified as a senior engineer certified by Shaoxing City Educational Training Group in April 1999. He completed his study in Zhejiang Finance and Economics College with a major in Business Administration in 1989. In June 1994, he founded Zhejiang Float Glass Industry Company Limited (former name of the Company) and became the chairman and general manager of the Company. Mr. Feng has extensive experience in the construction materials industry, glass manufacturing, corporate management and administration.

Ms. HONG Yumei, aged 44, is the financial controller of the Company. Ms. Hong is a registered accountant of Zhejiang Province. She obtained the certificate of accounting and the professional certificate of finance and taxation in Zhejiang Province in 1987 and she obtained the professional certificate of financial affairs and accounting from Hangzhou University in 1990. Ms. Hong received the qualification of assistant accountant in 1992 and of a registered accountant in 1998. Ms. Hong studied in Zhejiang Industrial University of the PRC. Ms. Hong joined the Company in 1996 and has been responsible for the financial affairs of the Company since then.

Mr. GAO Huojin, aged 48, is the general manager and production manager of the Company. Mr. Gao graduated from Zhejiang University of Technology. Mr. Gao is a senior engineer. He joined the Company in May 1996 and had been the deputy manager of the production workshop and was subsequently promoted to manager of the production workshop. Mr. Gao has since 1999 been the factory director of Zhejiang Glass Factory (the predecessor of the Company), supervising the operation of the production lines of float glass.

Mr. SHEN Guangjun, aged 33, is the deputy general manager and the sales manager of the Company. Mr. Shen was a supervisor of the Company since 2004 until his resignation from the office with effect from 29 August 2006. He graduated from Zhejiang Shengzhou Chongren Middle School of the PRC. Mr. Shen joined the Company in 1997 responsible from the sales of the Company's glass products. He has been the manager of the sales division of the Company since 2003. In February 2003, Mr. Shen obtained a qualification certificate of senior sales of the PRC, and he completed a 2-year program in marketing in Southwest Technology University and obtained a certificate in respect thereof in June 2005.

Mr. JIANG Liqiang, aged 30, is the deputy head of the Corporate Finance department of the Company. Mr. Jiang graduated from the University of British Columbia - Okanagan, majoring in business administration. From 2004 to 2005, Mr. Jiang worked in the sales department of TD Canada Trust Bank. Mr. Jiang joined the Company in May 2005.

Non-executive Directors

Mr. LIU Jianguo, aged 52, is a non-executive Director of the Company. Mr. Liu graduated from the Hangzhou University with a major in Chinese in 1982. He is the general manager of Zhongda Technology Import and Export Company Limited. From 1986 to 1998, Mr. Liu worked as the secretary of the government office of Zhejiang Province and as the deputy chairman and general manager of Provincial Technology Import and Export Company.

Directors, Supervisors and Senior Management

Mr. XIE Yong, aged 39, is a non-executive Director of the Company. Mr. Xie graduated from Zhejiang Gongshang University, majoring in legal profession. From 1986 to 2002, Mr. Xie first worked as an accountant and was subsequently promoted to a chief officer at the Industrial and Commercial Bank of China, Shaoxing branch. From 2002 to 2003, Mr. Xie assumed various posts including deputy manager of the finance department at Zhejiang Hualian Sunshine Petro-chemical Co., Ltd. In 2003, Mr. Xie joined Guangyu Group Company Limited, which is owned as to 93% by Mr. Feng, and is currently the deputy manager of Guangyu Group Company Limited.

Independent non-executive Directors

Dr. LI Jun, aged 48, is an independent non-executive Director of the Company. Dr. Li received his Ph.D degree in Political Science from Oxford University in England in 1994. He also took a Master degree course in Economics at China People's University. Dr. Li worked as a senior manager and director in several securities and investment companies in Hong Kong. During the last three years, Dr. Li used to be an executive director of Superb Summit International Timber Company Limited and used to be an executive director of Far East Golden Resources Group Limited, both companies the shares of which are listed on the Stock Exchange. At present, Dr. Li is an independent non-executive director of Hong Long Holdings Limited, and a non-executive director of Global Flex Holdings Limited, all being companies listed in Hong Kong.

Mr. WANG Yanmou, aged 76, is an independent non-executive Director of the Company. Mr. Wang graduated from the former Nanjing Polytechnic Institute with a major in Chemistry in 1956 and was awarded an Associate Doctoral Degree in Science and Technology by the former Leningrad Architectural Engineering Institute of the former Soviet Union. He is an advisor to Expert Committee of International Engineering Consulting Company, an advisor to China Investment Association, the honorary chairman of China Construction Material Industry Committee and the honorary secretary general of China Silicate Association.

Mr. SU Gongmei, aged 69, is an independent non-executive Director of the Company and a senior engineer at professor level. Mr. Su worked as a lecturer at Beijing Institute of Construction Industry (currently known as Wuhan Polytechnic University) and previously assumed the posts as the head of the design department, chief engineer and so forth of the Qinhuang Island Glass Industrial Research and Design Institute. Mr. Su is currently the deputy director of the PRC Construction Material Economic Research Society.

Mr. ZHOU Guochun, aged 45, is an independent non-executive Director of the Company. Mr. Zhou is registered accountant in the PRC. Mr. Zhou graduated from Jiangsu Nanjing School of Communications (currently known as Nanjing Communications Institute of Technology（江蘇省南京交通學校）) majoring in finance. From 1984 to 1994, Mr. Zhou worked as an assistant accountant and was subsequently promoted as the head of the finance department at Jiangsu Ganghang Group Jiangnan Company, Yixing branch（江蘇省港航集團江南公司宜興分公司）. From 1995 to 1999, Mr. Zhou worked as a chief officer of the foreign capital department at Yixing Surui Accountant Firm（宜興蘇瑞會計師事務所）. At present, Mr. Zhou is the chief accountant at Yixing Huada Accountant Firm（宜興達華會計師事務所）.

SUPERVISORS

Mr. LOU Zhenrong, aged 55, graduated from Zhejiang University with a major in Law and is a PRC lawyer. He works for the Lungshan Law Firm. From 1981 to 1993, Mr. Lou worked in Shaoxing City Catering Service Company and Shaoxing City Materials Company.

Mr. Xu Yuxiang, aged 40, graduated from Shaoxing Teacher's School first and studied in Zhejiang Industrial University. Mr. Xu has been working in the Company since 1996 and has extensive experience in glass manufacturing, administration management and project development.

Mr. FU Guohua, aged 61, received a bachelor degree from Shanghai Tongji University and is an engineer. He has been working in the Company since 1995. Mr. Fu has extensive experience in production management and project development.

Mr. FANG Shengli, aged 40, is the general manager of Zhejiang Shaoxing Taoyan Glass Company Limited which is owned as to 90% direct and 10% indirect by the Group. Mr. Fang joined the military in the PRC in 1987. He graduated from the Guangzhou School of Warship, the People's Liberal Army in the PRC（中國人民解放軍海軍廣州艦艇學院）and has furthered his study at Nanjing Navy College（南京海軍指揮學院）. Mr. Fang joined the Company in 2003 and is mainly responsible for human resources management.

Mr. XU Mingfeng, aged 35, is the deputy manager of Zhejiang Engineering Glass Company Limited which is owned as to 90% direct and 10% indirect by the Group. Mr. Xu Mingfeng joined the Company after his graduation from Wuhan Industrial University (currently known as Wuhan University of Technology（武漢理工大學）). He has been involved in administrative and recruitment areas in the Company. Mr. Xu Mingfeng has almost ten years of experience in administrative management.

Mr. MEI Lingfeng, aged 30, graduated from Hubei Polytechnic University (currently known as Hubei University of Technology) majoring in finance. Mr. Mei joined the finance department of the Company in 2002 and has assumed various posts including an auditor at the supervising department and the deputy chief of the management department at Qinghai Soda Ash Company Limited.

Mr. JI Peng, aged 30, graduated from Shannxi University of Science & Technology, majoring in accounting. In 2002, Mr. Ji joined the finance department of Guangyu Group Co. Ltd., which is owned as to 93% by Mr. Feng Guangcheng, the chairman and an executive Director of the Company. In 2003, Mr. Ji joined the finance department of QSAC, and is currently the vice chief officer of the finance department of QSAC.

SENIOR MANAGEMENT

Ms. TAO Haiping, aged 31, is a joint company secretary of the Company. Ms. Tao graduated from Zhejiang Shaoxing Wenli College with a Professional Diploma in Economic Administration and Office Automation. Ms. Tao has been working with the Company since February 2000 and was appointed company secretary on 10 January 2003.

JOINT COMPANY SECRETARY

Ms. Wong Hoi Kam, aged 26, is a joint company secretary of the Company. Ms. Wong is a practising solicitor in Hong Kong. She is currently a solicitor with Chiu & Partners, the Company's legal advisers as to Hong Kong law.

Report of the Directors

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

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The Group is principally engaged in the manufacturing and selling of glass and soda ash products. The activities of the subsidiaries are set out in Note 21 to the consolidated financial statements.

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

RESULT AND APPROPRIATIONS

The results of the Group for the Year are set out in the consolidated income statement on page 32.

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

RESERVES

Movements in the reserves of the Group and of the Company during the Year are set out in the consolidated statement of changes in equity on page 37 and in Note 32 to the consolidated financial statements respectively.

PROPERTY, PLANT AND EQUIPMENT AND CONSTRUCTION-IN-PROGRESS

Details of the movements in property, plant and equipment and construction-in-progress of the Group and of the Company are set out in Notes 16 and 17, respectively, to the consolidated financial statements.

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in Note 31 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company as at 31 December 2008, calculated according to the provisions of the Company Law of the PRC, amounted to RMB345,144,000 (2007: RMB406,277,000).

PRE-EMPTIVE RIGHTS

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

FIVE YEAR FINANCIAL SUMMARY

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

PURCHASE, SALE OR REDEMPTION OF SECURITIES

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

SHARE CAPITAL STRUCTURE

As at 31 December 2008, the total number of shares issued by the Company was 784,999,000. The Company's shareholders were Mr. Feng, Mr. Feng Liwen, Mr. Feng Guangji, Mr. Xu Haichao, Mr. Jin Jinlong and holders of overseas listed foreign shares ("H Shares", who held 384,000,000 domestic shares, 4,000,000 domestic shares, 4,000,000 domestic shares, 4,000,000 domestic shares, 4,000,000 domestic shares and 384,999,000 H Shares, respectively, representing 48.92%, 0.51%, 0.51%, 0.51%, 0.51% and 49.55% respectively, of the entire issued share capital of Company.

NUMBER OF SHAREHOLDERS

Details of the shareholders as recorded in the register of members of the Company as at 31 December 2008 are as follows:

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

LISTING OF H SHARES

The Company's H Shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange" since 10 December 2001. On 29 August 2006, the Company allotted and issued to certain institutional investors an aggregate of 142,120,000 new H Shares with nominal value of RMB1.00 each, which were listed on the Stock Exchange on the same date. Further, on 22 May 2008, the Company entered into a placing agreement with Cazenove Asia Limited (as the sole bookrunner and lead manager), pursuant to which the Company agreed to sell, and the sole bookrunner and lead manager agreed to procure, on a best effort basis, the independent professional, institutional and other investors to subscribe up to 64,166,000 newly issued H shares at the price of HK$6.05 per share. The placing of 64,166,000 new H shares pursuant to the placing agreement was completed on 28 May 2008 and the net proceeds of approximately HK$382 million (equivalent to approximately RMB348 million) was received. Details of the placing were disclosed in the Company's announcements dated 22 May 2008 and 28 May 2008.

Performance of the Company's H Shares in 2008:

Closing price per H Share at 31 December 2008	HK$1.38
From 1 January 2008 to 31 December 2008:	
Highest traded price per H Share	HK$7.8
Lowest traded price per H Share	HK$0.69
Total number of H Shares traded	958,719,200 shares

MANAGEMENT CONTRACTS

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

Report of the Directors

DIRECTORS

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

Executive Directors

Mr. FENG Guangcheng *(Chairman)*
Ms. HONG Yumei
Mr. GAO Huojin
Mr. SHEN Guangjun
Mr. JIANG Liqiang

Non-executive Directors

Mr. LIU Jianguo
Mr. XIE Yong

Independent non-executive Directors

Mr. WANG Yanmou
Dr. LI Jun
Mr. SU Gongmei
Mr. ZHOU Guochun

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

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

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

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

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

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

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

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Except for the contracts described in the section "CONNECTED TRANSACTIONS" on page 25, no contracts of significance in relation to the Group's business to which the Company or its subsidiaries was a party and in which any of the Directors or supervisors of the Company had a material interest, whether directly or indirectly, subsisted at the end of the Year or at any time during the Year.

BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Brief biographical details of the Directors, supervisors and senior management are set out on pages 17 to 19.

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

As at 31 December 2008, the interests and short positions of each Director, supervisor and chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein (including interests and short positions, if any, which they are taken or deemed to have under such positions of the SFO), or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange were as follows:

Name	The Company/ name of associated corporation	Capacity	Number and class of securities (Note 1)	Approximate percentage in the entire issued share capital of the Company/ associated corporation
Feng Guangcheng	The Company	Beneficial owner	384,000,000 domestic Shares (L) (Note 2)	48.92%

Notes:

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

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

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

As at 31 December 2008, the following persons and entities, other than a Director, supervisor or chief executive of the Company, had an interest or a short position in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of SFO:

Name of shareholder	Number of H Shares of the Company (Note 1)	Capacity	Approximate percentage of interest in the entire issued share capital of the Company	Approximate percentage in H Shares of the Company
International Finance Corporation (Note 2)	107,672,000 (L) 120,000,000 domestic shares	Beneficial owner	13.72%	27.97%
FIL Limited	31,430,000 (L)	Investment manager	4.00%	8.16%

Notes:

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

2. According to the placee record as at 7 December 2006 kept by the Company and up to the latest practicable date before the publication of this annual report, so far as is known to the Directors, the number of H Shares which is held by IFC is 107,672,000 (long position and as beneficial owner), representing approximately 33.56% of the H shares of the Company in issue as at 31 December 2007 and approximately 14.94% of the total number of issued shares of the Company as at 31 December 2007. In the corporate substantial shareholder notice filed by IFC on 20 September 2006, it was set out that a total of 227,672,000 shares were then held by IFC. Of the said 227,672,000 shares, 120,000,000 shares are believed to be domestic shares pledged in favour of IFC by Mr. Feng at such time. As disclosed in note 29 on page 90 of this annual report, as at 31 December 2008, a total of 120,000,000 domestic shares of the Company have been pledged to IFC by Mr. Feng, which represents 30% of the domestic shares of the Company as at 31 December 2008.

PUBLIC FLOAT

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

MAJOR CUSTOMERS AND SUPPLIERS

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

Purchases	
The largest supplier	6%
Five largest suppliers combined	26%
Sales	
The largest customer	2%
Five largest customers combined	10%

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

CONNECTED TRANSACTIONS

During the year, save for the advance of a sum of RMB50,000,000 by the Company to Guangyu in May 2008 ("Financial Assistance"), there have been no related party transactions which also constitute connected transactions that are not exempt under the Listing Rules and which are required to be disclosed in accordance with Chapter 14A of the Listing Rules. Such connected transaction was an advance of a sum of RMB50,000,000 from the Company to Guangyu in May 2008. Such money in the sum of RMB50,000,000 was borrowed under a loan agreement dated 4 May 2008 entered into by the Company as borrower, which was directed by the Company to be advanced to Guangyu on 13 May 2008. In connection with the loan drawn down from the said loan agreement in May 2008, a guarantee and pledge agreement was given by Mr Feng dated 4 May 2008 (which is considered to be invalid as it has not gone through the necessary filing procedures in the PRC) and a guarantee given by QSAC and Taoyan Glass dated 4 May 2008. By July 2008, Guangyu has settled in full the amount advanced by the Company. Guangyu is owned as to 96% by Mr. Feng and therefore is a connected person of the Company. Such advance of money (for the use of Guangyu in its operation) accordingly constituted financial assistance under Chapter 14A of the Listing Rules, and the Company has then failed to duly comply with the relevant disclosures requirements under the Listing Rules.

It was noted by the independent non-executive Directors that other than the then failure to duly comply with the applicable requirements under the Listing Rules in connection with the Financial Assistance, there should be no other connected transactions of the Company during the year ended 31 December 2008 which would otherwise be subject to the announcement and/or independent shareholders' approval requirement under Chapter 14A of the Listing Rules. The independent non-executive directors of the Company recommended, among others, that compliance by officers (including directors) with the Company's internal control system should be improved.

Report of the Directors

INDEPENDENT NON-EXECUTIVE DIRECTORS AND AUDIT COMMITTEE

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

DIRECTORS' AND SUPERVISORS' INTEREST IN COMPETING BUSINESS

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

SUBSEQUENT EVENTS

Details of significant events subsequent to the balance sheet date as at 31 December 2008 are set out in Note 39 to the consolidated financial statements.

EMPLOYEES

As at 31 December 2008, the Group had 6,350 employees. The pay levels of the employees commensurate with their responsibilities, performance and contribution.

EMOLUMENT POLICY

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

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

EMPLOYEE RETIREMENT BENEFITS

All full time employees of the Group are covered by either a state-sponsored retirement plan in the PRC or a defined contribution retirement scheme in Hong Kong. Details of the employee retirement benefits are set out in Note 15 to the consolidated financial statements.

EMPLOYEE BASIC MEDICAL INSURANCE

The employee basic medical insurance scheme currently implemented in Shaoxing County, Zhejiang Province where the Company is located is only applicable to large county enterprises and state enterprises in the County.

As the Company does not belong to these types of enterprises, it is not yet subject to such medical insurance scheme at present. The Company will provide medical insurance to its employees by complying with the local regulations when it becomes applicable to the Company.

MATERIAL LITIGATION

The Group was not involved in any material litigation during the Year. As supplemental information, a litigation was brought against the Company, Mr Feng, QSAC and Taoyan Glass in or about December 2008 for alleged default in payment of loan purportedly borrowed by the Company and, in connection with such litigation, a freezing order was granted subsequent to the balance sheet date of 31 December 2008 over certain shares held by the Company in QSAC. Given the Company considered that it has good defence to the said litigation based on the current information available and that the said freezing order has not created any material adverse impact on the operation of QSAC or the Group, the directors of the Company do not consider such litigation to be material.

BANK LOANS AND OTHER BORROWINGS

Details of bank loans, other borrowings and bank facilities of the Group are set out in Note 29 to the consolidated financial statements.

AUDITORS

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

On behalf of the Board
Feng Guangcheng
Chairman

8 May 2009

Report of the Supervisory Committee

TO ALL SHAREHOLDERS

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

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

The supervisory committee has reviewed the financial report of the Company prepared by the Board for submission to the annual general meeting and gives full concurrence thereto. The supervisory committee has reviewed the Report of the Directors to be submitted to the shareholders and believes that its content reflects a true and fair view of the Group. In the course of the Group's operations, members of the Board, general manager and other senior management of the Company have discharged their duties diligently in the exercise of their respective rights and obligations. No cases of abuse of power or infringement of the interests of shareholders and employees of the Group have been found. In connection with the Financial Assistance, the supervisory committee agreed at the recommendation by the independent non-executive directors of the Company in this regard that compliance by officers (including directors) with the Company's internal control system should be improved.

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

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

8 May 2009

Auditor's Report

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

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

We were engaged to audit the consolidated financial statements of Zhejiang Glass Company, Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 32 to 104, which comprise the consolidated and company 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 consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Except for the limitation in the scope of our work as described in the basis for disclaimer of opinion paragraphs, 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. However, because of the matters described in the basis for disclaimer of opinion paragraphs, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Auditor's Report

BASIS FOR DISCLAIMER OF OPINION

(a) As described in note 24 to the consolidated financial statements, the Group has advanced a total of approximately RMB102,373,000 to two entities and made a provision of approximately RMB44,307,000 against these advances as at 31 December 2008. Management of the Company has advised that these advances were prepayments for purchase of raw materials and construction materials. Subsequent to the year end and up to 31 March 2009, further advances totalling RMB267,665,000 were made to one of these two entities and a third entity. Subsequent to the dates on which the respective advances were made and up to the date of this report, there were no goods received by the Group in settlement of the prepayments. We were unable to obtain sufficient appropriate explanations and evidence relating to these transactions, including but not limited to the nature of the transactions, the ability of the entities to fulfill the obligation to supply the raw materials and construction materials or to repay the prepayments to the Group. There were no practical alternative audit procedures that we could perform to satisfy ourselves as to the nature of such transactions, the appropriateness of the accounting for the transactions and the provisions against the carrying amount of prepayments and the appropriateness and completeness of the related disclosures.

(b) As described in note 38 to the consolidated financial statements, the Company, Qinghai Soda Ash Company Limited, Zhejiang Shaoxing Taoyan Glass Company Limited (the latter two being subsidiaries of the Company), and Mr. Feng Guangcheng (the substantial shareholder and Chairman of the Company) are the joint defendants in a litigation (the "Litigation") alleging default in repayment of a loan amounting to RMB50,000,000 (the "Loan") by the Company to the plaintiff. Pursuant to the request made in the claim documents, a portion of the shares of Qinghai Soda Ash Company Limited held by the Company is subject to a freezing order granted by the court pending resolution of the case. The Loan had not been recorded and no provision for losses had been made in the consolidated financial statements of the Group as at 31 December 2008.

The Company has disclosed matters relating to related party transactions and the Litigation in note 37 and note 38 to the consolidated financial statements, respectively. However, we are unable to perform all the audit procedures we consider necessary to satisfy ourselves that the impact of all other claims or potential claims as at 31 December 2008 and all material related party transactions, if any, that might involve the Company and any of its subsidiaries for the year ended 31 December 2008 have been appropriately accounted for and/or disclosed in the consolidated financial statements.

BASIS FOR DISCLAIMER OF OPINION (continued)

(c) As set out in note 2 to the consolidated financial statements, the Group's current liabilities exceeded its current assets by approximately RMB2,478 million as at 31 December 2008. This condition, along with the Group's ability to extend its short-term loans upon maturity; obtain long-term financing facilities to re-finance its short-term loans; remediate its breaches in certain loan covenants; derive adequate operating cash flow from its existing operations; and receive from a minority equity owner of a major subsidiary the scheduled capital contribution to be made into that subsidiary, as set forth in Note 2, and the possible impact of the matters described in (a) and (b) above, indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. The consolidated financial statements did not include any adjustments that would have to be made to reduce the value of the assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively, should the Group be unable to continue as a going concern. The consequential effects of these potential adjustments may have a significant impact on the profit of the Group for the year ended 31 December 2008 and the equity of the Company and the Group as at 31 December 2008.

DISCLAIMER OF OPINION: DISCLAIMER ON VIEW GIVEN BY CONSOLIDATED FINANCIAL STATEMENTS

Because of the significance of the matters described in the basis for disclaimer of opinion paragraphs, we do not express an opinion on the consolidated financial statements as to whether they give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2008 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and the disclosure requirements of Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 8 May 2009

Consolidated Income Statement

For the year ended 31 December 2008
(Amounts expressed in Renminbi)

	Note	**2008 RMB'000**	2007 RMB'000
Revenue	6	**2,756,230**	2,322,206
Cost of sales	8	**(2,097,399)**	(1,754,889)
Gross profit		**658,831**	567,317
Other gains – net	7	**56,628**	21,240
Distribution and selling expenses	8	**(121,733)**	(70,602)
General, administrative and other operating expenses	8	**(158,019)**	(72,210)
Operating profit		**435,707**	445,745
Finance costs – net	9	**(190,626)**	(123,330)
Profit before income tax		**245,081**	322,415
Income tax income/(expense)	10	**5,557**	(25,471)
Profit for the year		**250,638**	296,944
Attributable to:			
Equity holders of the Company		**174,184**	275,824
Minority interests		**76,454**	21,120
		250,638	296,944
Basic and diluted earnings per share for profit attributable to the equity holders of the Company during the year	12	**RMB0.230**	RMB0.383
Dividends	13	**–**	–

The notes on pages 39 to 104 are an integral part of these consolidated financial statements.

Consolidated Balance Sheet

As at 31 December 2008
(Amounts expressed in Renminbi)

	Note	**2008 RMB'000**	2007 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	16	**5,288,203**	4,072,023
Construction-in-progress	17	**1,841,022**	1,415,823
Land use rights	18	**185,801**	189,918
Deposits for land use rights	19	**565,000**	2,000
Intangible assets	20	**23,634**	25,039
Long-term prepayments	22	**38,200**	30,000
Deferred tax assets	34	**4,388**	–
		7,946,248	5,734,803
Current assets			
Inventories	23	**450,877**	353,481
Prepayments, deposits and other current assets	24	**276,389**	111,790
Bills receivable		**9,766**	64,264
Accounts receivable	25	**209,125**	93,916
Pledged and time deposits	26	**1,187,265**	82,240
Cash and cash equivalents	26	**98,649**	593,550
		2,232,071	1,299,241
Total assets		**10,178,319**	7,034,044
EQUITY			
Capital and reserves attributable to the equity holders of the Company			
Share capital	31	**784,999**	720,833
Other reserves	32	**1,096,967**	775,082
Retained earnings		**681,047**	506,863
		2,563,013	2,002,778
Minority interests in equity		**439,016**	208,900
Total equity		**3,002,029**	2,211,678

Consolidated Balance Sheet

As at 31 December 2008
(Amounts expressed in Renminbi)

	Note	2008 RMB'000	2007 RMB'000
LIABILITIES			
Non-current liabilities			
Long-term borrowings	29	**2,409,100**	1,562,000
Long-term payables		**6,740**	6,292
Deferred tax liabilities	34	**50,051**	45,768
		2,465,891	1,614,060
Current liabilities			
Accounts payable	27	**965,632**	644,239
Bills payable		**691,498**	276,503
Accruals and other payables	28	**223,593**	266,433
Amount due to a related company	37	**–**	718
Deposits and advance from customers		**234,180**	261,112
Taxes payable	30	**60,310**	87,725
Current portion of long-term borrowings	29	**392,000**	107,000
Short-term borrowings	29	**2,143,186**	1,564,576
		4,710,399	3,208,306
Total liabilities		**7,176,290**	4,822,366
Total equity and liabilities		**10,178,319**	7,034,044
Net current liabilities		**2,478,328**	1,909,065
Total assets less current liabilities		**5,467,920**	3,825,738

Feng Guangcheng
Director

Hong Yumei
Director

The notes on pages 39 to 104 are an integral part of these consolidated financial statements.

Balance Sheet

As at 31 December 2008
(Amounts expressed in Renminbi)

	Note	2008 RMB'000	2007 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	16	**1,101,056**	1,119,195
Construction-in-progress	17	**80,276**	33,855
Land use rights	18	**54,932**	56,198
Deposits for land use rights	19	**563,000**	–
Interests in subsidiaries	21	**1,711,359**	1,645,394
		3,510,623	2,854,642
Current assets			
Inventories	23	**81,129**	73,326
Prepayments, deposits and other current assets	24	**87,089**	27,086
Amounts due from subsidiaries	37	**41,240**	62,905
Bills receivable		**5,782**	34,180
Accounts receivable	25	**11,926**	33,859
Pledged and time deposits	26	**698,477**	41,581
Cash and cash equivalents	26	**28,260**	476,895
		953,903	749,832
Total assets		**4,464,526**	3,604,474
EQUITY			
Capital and reserves attributable to the equity holders of the Company			
Share capital	31	**784,999**	720,833
Other reserves	32	**881,121**	605,574
Retained earnings	33	**345,144**	406,277
Total equity		**2,011,264**	1,732,684

Balance Sheet

As at 31 December 2008
(Amounts expressed in Renminbi)

	Note	2008 RMB'000	2007 RMB'000
LIABILITIES			
Non-current liabilities			
Long-term borrowings	29	–	60,000
Deferred tax liabilities	34	**35,010**	41,323
		35,010	101,323
Current liabilities			
Accounts payable	27	**390,369**	181,246
Bills payable		**339,328**	228,580
Accruals and other payables	28	**99,395**	120,506
Amounts due to subsidiaries	37	**6,780**	9,393
Amount due to a related company	37	–	498
Deposits and advance from customers		**91,405**	51,754
Taxes payable	30	**26,679**	38,714
Current portion of long-term borrowings	29	**60,000**	15,000
Short-term borrowings	29	**1,404,296**	1,124,776
		2,418,252	1,770,467
Total liabilities		**2,453,262**	1,871,790
Total equity and liabilities		**4,464,526**	3,604,474
Net current liabilities		**1,464,349**	1,020,635
Total assets less current liabilities		**2,046,274**	1,834,007

Feng Guangcheng
Director

Hong Yumei
Director

The notes on pages 39 to 104 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2008
(Amounts expressed in Renminbi)

	Attributable to equity holders of the Company				
	Share capital RMB'000	**Other reserves** RMB'000	**Retained profits** RMB'000	**Minority interests** RMB'000	**Total** RMB'000
Balance at 1 January 2007	720,833	594,715	265,732	35,758	1,617,038
Total income and expenses recognised in the year – profit for the year	–	–	275,824	21,120	296,944
Transfer (Note 32)	–	11,713	(11,713)	–	–
Appropriations to statutory reserves	–	22,980	(22,980)	–	–
Capital contribution from a minority equity owner of a subsidiary (note 21(a))	–	147,978	–	152,022	300,000
Others	–	(2,304)	–	–	(2,304)
Balance at 31 December 2007	720,833	775,082	506,863	208,900	2,211,678
Balance at 1 January 2008	720,833	775,082	506,863	208,900	2,211,678
Total income and expenses recognised in the year – profit for the year	–	–	174,184	76,454	250,638
Issue of new shares (Note 31)	64,166	275,547	–	–	339,713
Capital contribution from a minority equity owner of a subsidiary (Note 21(a))	–	46,338	–	153,662	200,000
Balance at 31 December 2008	**784,999**	**1,096,967**	**681,047**	**439,016**	**3,002,029**

The notes on pages 39 to 104 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2008
(Amounts expressed in Renminbi)

	Note	2008 RMB'000	2007 RMB'000
Cash flows from operating activities			
Cash generated from operations	35	**622,738**	861,723
Interest paid		**(338,760)**	(234,225)
PRC Corporate Income Tax paid		**(8,669)**	(8,618)
Net cash generated from operating activities		**275,309**	618,880
Cash flows from investing activities			
Disposal of a subsidiary, net of cash disposed		**–**	2,500
Acquisition of property, plant and equipment and construction-in-progress		**(1,822,422)**	(1,219,326)
Proceeds from disposal of property, plant and equipment and other non-current assets		**2,020**	139,825
Payment for land use rights		**(642)**	(42,487)
Payment for intangible assets		**–**	(3,949)
Deposits for land use rights		**(563,000)**	(2,000)
Interest received		**26,700**	13,171
Increase in time deposits		**(865,700)**	–
Net cash used in investing activities		**(3,223,044)**	(1,112,266)
Cash flows from financing activities			
Proceeds from short-term borrowings		**2,414,390**	2,473,450
Proceeds from long-term borrowings		**1,239,100**	455,000
Repayment of short-term borrowings		**(1,809,039)**	(2,430,105)
Repayment of long-term borrowings		**(107,000)**	(46,000)
Capital contribution from a minority equity owner of a subsidiary	21(a)	**200,000**	300,000
(Increase)/decrease in pledged deposits		**(239,325)**	92,068
Increase/(decrease) in bills payable		**414,995**	(293,747)
Proceeds from issue new shares		**339,713**	–
Delayed payment for the transaction cost of issuance of ordinary shares		**–**	(2,304)
Net cash generated from financing activities		**2,452,834**	548,362
Net (decrease)/increase in cash and cash equivalents		**(494,901)**	54,976
Cash and cash equivalents at beginning of year		**593,550**	538,574
Cash and cash equivalent at end of the year		**98,649**	593,550

The notes on pages 39 to 104 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008
(All amounts expressed in Renminbi unless otherwise stated)

1. GENERAL INFORMATION, ORGANISATION AND OPERATIONS

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

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

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

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

The H shares of the Company are listed on The Stock Exchange of Hong Kong Limited.

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

The Company and its subsidiaries (the “Group”) are principally engaged in the manufacturing and selling of glass products and soda ash products. The activities of the subsidiaries are set out in Note 21.

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

These consolidated financial statements have been approved for issue by the board of directors of the Company (the “Directors”) on 8 May 2009.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008
(All amounts expressed in Renminbi unless otherwise stated)

2. BASIS OF PREPARATION – GOING CONCERN ASSUMPTION

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

As at 31 December 2008, the Group had net current liabilities of approximately RMB2,478 million (2007: RMB1,909 million). This condition indicates the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

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

1. As disclosed in Note 29, certain bank loans of approximately RMB2,535 million, which the Group mainly used for financing its capital expenditures, are due for repayment in 2009. Subsequent to 31 December 2008 and up to the date of approval of these consolidated financial statements, approximately RMB157 million of these loans had been rolled over for a further period of twelve months. In addition, certain banks have advised their intention in writing, though not on a legally binding basis, to renew or extend the loans for another period of twelve months as they fall due in 2009.

2. The Group has been actively exploring the availability of alternative sources of long-term or short-term financing in order to re-finance its existing short-term bank loans. Subsequently after the year end, the Group has successfully arranged a one year credit facility of RMB600 million with a third party which can be utilized to finance the purchase of raw materials of the Group.

3. The Company believes it will succeed in working out a remedial plan with International Finance Corporation ("IFC") for not satisfying certain loan covenants associated with a loan facility granted to and drawn down by the Company. As at 31 December 2008, the outstanding balance of loans from IFC was United States dollar ("USD") 55 million, equivalent to approximately RMB373 million.

4. The Group is expected to derive profits from its operations and stable cash inflow from operating activities in 2009.

5. On 21 June 2007, the Company entered into a capital subscription agreement with a third party, pursuant to which, the third party agreed to pay approximately RMB905 million as capital contribution into Qinghai Soda Ash Company Limited ("QSAC"), a subsidiary of the Company as at 31 December 2008, in return for 35% equity interests in QSAC (Note 21(a)). During 2007 and 2008, RMB300 million and RMB200 million had been contributed by that third party respectively. The Directors consider that the remaining capital contribution of RMB405 million will be received and used to finance the capital expenditures of the construction of the phase two manufacturing facilities of QSAC.

In addition, the Directors would take relevant measures in 2009 in order to control the cash flow of the Group, such as closely monitoring the expected cash outflows on the construction projects, repair and maintenance as well as adjusting the dividend pay-out ratio for 2009.

2. BASIS OF PREPARATION – GOING CONCERN ASSUMPTION (continued)

In light of the measures undertaken, the assumptions made and factors considered in the preparation of the cash flow projection of the Group for 2009, the Directors consider that the Group will have sufficient working capital to finance its operations in order to maintain its operating scale and meet its obligations in the next twelve months from the balance sheet date. Accordingly, the Directors are satisfied that it is appropriate to prepare the financial statements of the Company and the Group on a going concern basis. The consolidated financial statements do not include any adjustments relating to the carrying amounts and reclassification of assets and liabilities that might be necessary should the Company and the Group be unable to continue as a going concern. Should the Group be unable to continue as a going concern, adjustments would have to be made in the financial statements to reduce the value of the assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of preparation

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

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

(i) Interpretation effective in 2008

- HK(IFRIC) – Int 11, 'HKFRS 2 – Group and treasury share transactions', provides guidance on whether share-based transactions involving treasury shares or involving group entities (for example, options over a parent's shares) should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and group companies. This interpretation does not have an impact on the Group's financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008
(All amounts expressed in Renminbi unless otherwise stated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Basis of preparation (continued)

(ii) Amendments and interpretations effective in 2008 but not relevant

The following amendments and interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2008 but are not relevant to the Group's operations:

- The HKAS 39, 'Financial instruments: Recognition and measurement', amendment on reclassification of financial assets permits reclassification of certain financial assets out of the held-for-trading and available-for-sale categories if specified conditions are met. The related amendment to HKFRS 7, 'Financial instruments: Disclosures', introduces disclosure requirements with respect to financial assets reclassified out of the held-for-trading and available-for-sale categories.
- HK(IFRIC) – Int 12, 'Service Concession arrangements'
- HK(IFRIC) – Int 14, 'HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction'

(iii) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group unless otherwise stated

The following standards and amendments to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2009 or later periods, but the Group has not early adopted them unless otherwise stated:

- HKAS 1 (Revised), 'Presentation of financial statements' (effective from 1 January 2009). The revised standard will prohibit the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All non-owner changes in equity will be required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the consolidated income statement and statement of comprehensive income). Where entities restate or reclassify comparative information, they will be required to present a restated balance sheet as at the beginning comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period. The Group will apply HKAS 1 (Revised) from 1 January 2009. Currently, the directors are of the view that HKAS 1 (Revised) will not have material impact to the Group's financial statements.
- HKAS 23 (Revised), 'Borrowing costs' (effective from 1 January 2009). The amendment requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The Group is still in the process to assess the impact of the revised HKAS 23. However, the Directors are of the view that the revised HKAS 23 will not have material impact to the Group as the Group has already adopted the alternative approach under existing HKAS 23 which is similar to the revised HKAS 23 for the year ended 31 December 2008. The Group will apply HKAS 23 (Revised) from 1 January 2009.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Basis of preparation (continued)

(iii) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group unless otherwise stated (continued)

- HKAS 27 (Revised), 'Consolidated and separate financial statements' (effective from 1 July 2009). The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value and a gain or loss is recognised in profit or loss. The Group will apply HKAS 27 (Revised) prospectively to transactions with non-controlling interests from 1 January 2010. However, in respect of transactions with minority interests, the Group has already adopted the same principle to HKAS 27 (Revised) for the year ended 31 December 2008.

- HKFRS 1 (Amendment), 'First time adoption of HKFRS' and HKAS 27 'Consolidated and separate financial statements' (effective from 1 July 2009). The amended standard allows first-time adopters to use a deemed cost of either fair value or the carrying amount under previous accounting practice to measure the initial cost of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements. The amendment also removes the definition of the cost method from HKAS 27 and replaces it with a requirement to present dividends as income in the separate financial statements of the investor. The Company will apply HKAS 27 (Amendment) prospectively from 1 January 2010 in its separate financial statements, but it is not expected to have any impact on the Company's financial statements.

- HKFRS 3 (Revised), 'Business combinations' (effective from 1 July 2009). The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the consolidated income statement. There is a choice on an acquisition by acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Group will apply HKFRS 3 (Revised) prospectively to all business combinations from 1 January 2010.

- HKFRS 8, 'Operating segments' (effective from 1 January 2009). HKFRS 8 replaces HKAS 14, 'Segment reporting'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The Group is still in the process of assessing the impact of HKFRS 8 on future accounting periods. The Group will apply HKFRS 8 from 1 January 2009.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008
(All amounts expressed in Renminbi unless otherwise stated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Basis of preparation (continued)

(iii) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group unless otherwise stated (continued)

- HK(IFRIC) – Int 16, 'Hedges of a net investment in a foreign operation' (effective from 1 October 2008). HK(IFRIC) – Int 16 clarifies the accounting treatment in respect of net investment hedging. This includes the fact that net investment hedging relates to differences in functional currency not presentation currency, and hedging instruments may be held anywhere in the Group. The requirements of HKAS 21, 'The effects of changes in foreign exchange rates', do apply to the hedged item. The Group will apply HK(IFRIC) – Int 16 from 1 January 2009. It is not expected to have a material impact on the Group's financial statements.

- HKICPA's improvements to HKFRS published in October 2008

  ➢ HKAS 1 (Amendment), 'Presentation of financial statements' (effective from 1 January 2009). The amendment clarifies that some rather than all financial assets and liabilities classified as held for trading in accordance with HKAS 39, 'Financial instruments: Recognition and measurement' are examples of current assets and liabilities respectively. The Group will apply the HKAS 1 (Amendment) from 1 January 2009. It is not expected to have an impact on the Group's financial statements.

  ➢ HKAS 20 (Amendment), 'Accounting for government grants and disclosure of government assistance' (effective from 1 January 2009). The benefit of a below-market rate government loan is measured as the difference between the carrying amount in accordance with HKAS 39, 'Financial instruments: Recognition and measurement' and the proceeds received with the benefit accounted for in accordance with HKAS 20. The Group will adopt this amendment from 1 January 2009 but currently it is not expected to have any material impact to the Group.

  ➢ HKAS 23 (Amendment), 'Borrowing costs' (effective from 1 January 2009). The definition of borrowing costs has been amended so that interest expense is calculated using the effective interest method defined in HKAS 39 'Financial instruments: Recognition and measurement'. This eliminates the inconsistency of terms between HKAS 39 and HKAS 23. The Group will apply the HKAS 23 (Amendment) prospectively to the capitalisation of borrowing costs on qualifying assets from 1 January 2009.

  ➢ HKAS 36 (Amendment), 'Impairment of assets' (effective from 1 January 2009). Where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made. The Group will apply the HKAS 36 (Amendment) and provide the required disclosure where applicable for impairment tests from 1 January 2009.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Basis of preparation (continued)

(iii) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group unless otherwise stated (continued)

- HKICPA's improvements to HKFRS published in October 2008 (continued)

  ➢ HKAS 38 (Amendment), 'Intangible assets' (effective from 1 January 2009). A prepayment may only be recognised in the event that payment has been made in advance of obtaining right of access to goods or receipt of services. The Group will apply the HKAS 38 (Amendment) from 1 January 2009, but it is not expected to have any material impact to the Group.

  ➢ HKFRS 5 (Amendment), 'Non-current assets held for sale and discontinued operations' (and consequential amendment to HKFRS 1, 'First-time adoption') (effective from 1 July 2009). The amendment clarifies that all of a subsidiary's assets and liabilities are classified as held for sale if a partial disposal sale plan results in loss of control, and relevant disclosure should be made for this subsidiary if the definition of a discontinued operation is met. A consequential amendment to HKFRS 1 states that these amendments are applied prospectively from the date of transition to HKFRSs. The Group will apply the HKFRS 5 (Amendment) prospectively to all partial disposals of subsidiaries from 1 January 2010.

  ➢ There are a number of minor amendments to HKFRS 7, 'Financial instruments: Disclosures', HKAS 8, 'Accounting policies, changes in accounting estimates and errors', HKAS 10, 'Events after the balance sheet date', HKAS 18, 'Revenue' and HKAS 34, 'Interim financial reporting' which are not addressed above. These amendments are unlikely to have an impact on the Group's financial statements and have therefore not been analysed in detail.

(iv) Interpretations and amendments to existing standards that are not yet effective and not relevant for the Group's operations

The following interpretations and amendments to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2009 or later periods but are not relevant for the Group's operations:

- HKAS 32 (Amendment), 'Financial instruments: Presentation', and HKAS 1 (Amendment), 'Presentation of financial statements' 'Puttable financial instruments and obligations arising on liquidation' (effective from 1 January 2009).

- HKAS 39 (Amendment) 'Financial Instruments: Recognition and Measurement' – 'Eligible hedged items' (effective from 1 July 2009).

- HKFRS 2 (Amendment), 'Share-based payment' (effective from 1 January 2009).

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For the year ended 31 December 2008
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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Basis of preparation (continued)

(iv) Interpretations and amendments to existing standards that are not yet effective and not relevant for the Group's operations (continued)

- HK(IFRIC) – Int 13, 'Customer loyalty programmes' (effective from 1 July 2008).

- HK(IFRIC) – Int 15, 'Agreements for construction of real estates' (effective from 1 January 2009) supercedes HK Int-3, 'Revenue – Pre-completion contracts for the sale of development properties'.

- HK(IFRIC) – Int 17, 'Distributions of non-cash assets to owners' (effective from 1 July 2009).

- HK(IFRIC) – Int 18, 'Transfer of Assets from Customer' (affection from 1 July 2009).

- HKICPA's improvements to HKFRS published in October 2008

  ➢ HKAS 16 (Amendment), 'Property, plant and equipment' (and consequential amendment to HKAS 7, 'Statement of cash flows') (effective from 1 January 2009).

  ➢ HKAS 19 (Amendment), 'Employee benefits' (effective from 1 January 2009).

  ➢ HKAS 27 (Amendment), 'Consolidated and separate financial statements' (effective from 1 January 2009).

  ➢ HKAS 28 (Amendment), 'Investments in associates' (and consequential amendments to HKAS 32, 'Financial Instruments: Presentation' and HKFRS 7, 'Financial instruments: Disclosures') (effective from 1 January 2009).

  ➢ HKAS 29 (Amendment), 'Financial reporting in hyperinflationary economies' (effective from 1 January 2009).

  ➢ HKAS 31 (Amendment), 'Interests in joint ventures (and consequential amendments to HKAS 32 and HKFRS 7) (effective from 1 January 2009).

  ➢ HKAS 38 (Amendment), 'Intangible assets' (effective from 1 January 2009).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Basis of preparation (continued)

(iv) Interpretations and amendments to existing standards that are not yet effective and not relevant for the Group's operations (continued)

- HKICPA's improvements to HKFRS published in October 2008 (continued)
  - ➢ HKAS 39 (Amendment), 'Financial instruments: Recognition and measurement' (effective from 1 January 2009).
  - ➢ HKAS 40 (Amendment), 'Investment property' (and consequential amendments to HKAS 16) (effective from 1 January 2009).
  - ➢ HKAS 41 (Amendment), 'Agriculture' (effective from 1 January 2009).
  - ➢ The minor amendments to HKAS 20 'Accounting for government grants and disclosure of government assistance', HKAS 29, 'Financial reporting in hyperinflationary economies', HKAS 40, 'Investment property' and HKAS 41, 'Agriculture', which are not addressed above.

Change in accounting estimates

During the year, management of the Group had reviewed the estimated useful lives of the property, plant and equipment ("PPE") of the Group and, with reference to the historical data and industry practice, revised them as follows:

	Before	After
Plant and buildings	20 to 25 years	25 years
Railways*	20 years	50 years
Machinery and equipment	10 years	14 to 20 years
Motor vehicles	5 to 10 years	5 to 10 years

* Prior to 1 January 2008, railways were categorised as plant and buildings.

During the year, management of the Group had also reviewed and revised the estimated residual values of certain property, plant and equipment from zero to 5%.

This change in accounting estimates is prospectively applied, with an effect of increasing the net profit of the Group for the year ended 31 December 2008 by approximately RMB117,647,000.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008
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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Consolidation

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

(i) Subsidiaries

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

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidated income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed in the consolidated financial statements where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses (Note 3(h)). The results of subsidiaries are accounted by the Company on the basis of dividend received and receivable.

(ii) Transactions with minority interests

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Segment reporting

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

(d) Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated income statement within "finance income or cost". All other foreign exchange gains and losses are presented in the consolidated income statement within "other (losses)/gains" net.

(iii) Group companies

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008
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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Foreign currency translation (continued)

(iii) Group companies (continued)

(3) all resulting exchange differences are recognised as a separate component of equity.

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

(e) Property, plant and equipment

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

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

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

Plant and buildings	25 years
Railways	50 years
Machinery and equipment	14 to 20 years
Furnaces	6 to 8 years
Motor vehicles	5 to 10 years
Office equipment	5 years

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 3(h)).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within other gains – net, in the consolidated income statement.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Construction-in-progress

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

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

(g) Intangible assets

(i) Technical know-how

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

(ii) Exploitation rights

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

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

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

(i) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work-in-progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Notes to the Consolidated Financial Statements

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Financial assets

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

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

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

(k) Accounts and other receivables

Accounts and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of accounts and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the consolidated income statement within 'Distribution and selling expenses'. When a receivable is uncollectible, it is written off against the allowance account for receivables. Subsequent recoveries of amounts previously written off are credited against 'Distribution and selling expenses' in the consolidated income statement.

(l) Cash and cash equivalents

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

(m) Share capital

Ordinary shares are classified as equity.

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

(n) Trade payables and bills payable

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

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

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

(p) Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated income statement, except to the extent that it relates to items recognised directly in equity. In this case, the tax is also recognised in equity.

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

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

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

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

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Employee benefits

(i) Employee leave entitlements

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

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

(ii) Pension obligations

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

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

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

(r) Provisions

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

Sales of goods are recognised when a Group entity has delivered products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.

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

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

Service income is recognised when the service is rendered.

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

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

(t) Government grants

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

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

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

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(u) Leases

(i) Operating lease

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor), including upfront payment made for leasehold land and land use rights, are charged to the consolidated income statement on a straight-line basis over the period of the lease.

(ii) Finance lease

Leases of assets where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased asset and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to the consolidated income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

(v) Dividend distribution

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

4. FINANCIAL RISK MANAGEMENT

4.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: foreign exchange risk, credit risk, liquidity risk and cash flow and fair value interest-rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Foreign exchange risk

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

4. FINANCIAL RISK MANAGEMENT (continued)

4.1 Financial risk factors (continued)

(b) Credit risk

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

The Group mainly maintains relationship with banks and financial institutions with reliable credibility. An analysis of the cash and cash equivalents, time deposits and pledged deposits held by the Group in different banks and financial institutions in the PRC as at 31 December 2008 is as follows:

	2008	2007
	RMB'000	RMB'000
State-owned commercial banks	**850,700**	199,477
Listed commercial banks	**239,498**	183,085
Other domestic banks	**175,745**	283,562
Domestic co-operative credit union	**17,879**	6,959
	1,283,822	673,083

The Group currently sells substantially all its glass products and soda ash products in the PRC domestic market. Cash on delivery is required for most customers buying the Group's normal flat glass products and soda ash products. Based on market demand of the products, advance covering full or partial sales values is received from customers before goods delivery. Credit is granted for a period of up to twelve months to most customers buying the Group's processed glass products and to a limited range of customers buying the Group's flat glass products and soda ash products. The credit period is determined according to an assessment made on the financial conditions and past payment history of these customers with the approval obtained from senior management. As at 31 December 2008, the five largest debtors accounted for 42% (2007: 44%) of total accounts receivable balance of the Group.

The Directors are of the view that the customers with outstanding balances as at 31 December 2008 amounting to approximately RMB223 million are either existing customers of the Group and/or reputable companies in the industry, the risk of credit default is considered to be low and accordingly, the provision for doubtful debts as at 31 December 2008 amounting to approximately RMB14,149,000 is considered adequate to cover any potential credit risk.

The Directors have assessed the credit risk in associated with the prepayments made to two entities and have made provision of RMB44,307,000 against the balance accordingly (Note 24(a)).

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4. FINANCIAL RISK MANAGEMENT (continued)

4.1 Financial risk factors (continued)

(c) Liquidity risk

The Group has been investing in the construction of its soda ash production line and certain processed glass production line. A significant amount of financing for the construction was obtained from short-term borrowings. As a result, the Group recorded a net current liability position as at 31 December 2008 in the amount of approximately RMB2,478 million.

The table below analyses the Group's and the Company's financial liabilities (including the interests payable) that will be settled on a net basis into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

Group	**Less than 1 year**	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**
At 31 December 2008				
Borrowings	**2,579,200**	**781,164**	**2,112,558**	**382,252**
Accounts payable	**965,632**	**–**	**–**	**–**
Bills payable	**691,498**	**–**	**–**	**–**
Accruals and other payables	**223,593**	**–**	**–**	**–**
At 31 December 2007				
Borrowings	1,490,627	583,315	1,633,913	189,755
Accounts payable	644,239	–	–	–
Bills payable	276,503	–	–	–
Accruals and other payables	266,433	–	–	–

Company	**Less than 1 year**	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**
At 31 December 2008				
Borrowings	**1,259,491**	**93,841**	**250,669**	**–**
Accounts payable	**390,369**	**–**	**–**	**–**
Bills payable	**339,328**	**–**	**–**	**–**
Accruals and other payables	**99,395**	**–**	**–**	**–**
Amounts due to subsidiaries	**6,780**	**–**	**–**	**–**
At 31 December 2007				
Borrowings	807,972	170,542	291,169	84,420
Accounts payable	181,246	–	–	–
Bills payable	228,580	–	–	–
Accruals and other payables	120,506	–	–	–
Amounts due to subsidiaries	9,393	–	–	–
Amount due to a related company	498	–	–	–

4. FINANCIAL RISK MANAGEMENT (continued)

4.1 Financial risk factors (continued)

(c) Liquidity risk (continued)

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

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

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

– closely monitor rolling forecasts of the Group's liquidity reserves (comprises cash and cash equivalents, time deposits and pledged deposits) and utilise undrawn borrowing facility if necessary in order to meet expected cash flow requirements;

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

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

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

The Group's interest bearing assets are mainly cash at banks and time deposits. Cash at banks earns interest income at floating rates published by the banks from time to time. Time deposits are maintained for various periods, largely between three months to one year, depending on the cash requirements of the Group. They earn interest income at the respective time deposit rates. The Group's interest-rate risk arises from both long-term and short-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest-rate risk. Borrowings issued at fixed rates expose the Group to fair value interest-rate risk. As at 31 December 2008, substantially all borrowings of the Group were at variable rates. The Group had neither engaged in any derivative activities nor was it committed to any financial instruments to hedge its interest-rate risk exposure.

As at 31 December 2008, if interest rates on Renminbi and USD denominated borrowings at floating rate had been 0.5% higher/lower with all other variables held constant, pre-tax profit for the year would have been approximately RMB12,953,000 lower/higher as a result of higher/lower interest expense on floating rate borrowings (2007: RMB10,066,000).

4. FINANCIAL RISK MANAGEMENT (continued)

4.2 Capital risk management

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

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

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

The gearing ratios at 31 December 2008 and 2007 were as follows:

	2008 RMB'000	2007 RMB'000
Total borrowings (Note 29)	**4,944,286**	3,233,576
Less:		
Cash and cash equivalents (Note 26)	**(98,649)**	(593,550)
Net debt	**4,845,637**	2,640,026
Total equity	**3,002,029**	2,211,678
Total capital	**7,847,666**	4,851,704
Gearing ratio	**62%**	54%

The increase in gearing ratio in 2008 reflected the fact that the Group has obtained more loans to finance its capital expenditures during the year, alongside the capital raised from an issuance of new shares and contribution from a minority shareholder of a major subsidiary.

4.3 Fair value estimation

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

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

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

Critical accounting estimates and assumptions

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

(a) Going concern

The Group adopted the going concern assumption in the preparation of the financial statements. Details of the assumptions adopted by the Directors for adopting the going concern basis in preparing the 2008 financial statements are set out in Note 2.

(b) Useful lives of property, plant and equipment

Details of the changes in the estimated useful lives of PPE are set out in Note 3(a).

The Directors are of the view that the revised useful lives will better reflect the actual employment status of PPE of the Group.

(c) Estimated impairment of property, plants and equipment.

The Group tests the impairment of PPE whenever there are impairment indicators, in accordance with accounting policy stated in Note 3(h).

During the year, the Group has performed such assessment on PPE employed by its floating glass business. The recoverable amounts of PPE have been determined based on value in use calculations. These calculations require the use of estimates (See Note 16).

An impairment charge of RMB25,877,000 has been recorded in the financial statements for the year ended 31 December 2008 as a result of above assessment. If the forecasted selling prices of the floating glass products had been 5% lower than management estimates as at 31 December 2008, the Group would have recognised a further impairment of PPE by approximately RMB19.5 million.

If the estimated pre tax discount rate applied to the discounted cash flows had been 1% higher than management's estimates, the Group would have recognised a further impairment against PPE by approximately RMB10 million.

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5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Critical accounting estimates and assumptions (continued)

(d) Provision for impairment of receivables and prepayments

The Group makes provision for impairment of receivables and prepayments based on the assessment of the recoverability of receivables with reference to the extent and duration that the amount will be recovered. Provisions are applied to receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of impairment requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact the carrying value of receivables and impairment expenses in the period in which such estimate has been changed.

(e) Write-down of inventories to net realisable values

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. A considerable amount of estimation is required in assessing the selling price and related expenses.

During the year ended 31 December 2008, write-down of inventories to net realisable values with amount of RMB34,748,000 (2007: Nil) has been made. In the opinion of the Directors, the write-down is considered to be adequate.

6. REVENUE AND SEGMENT INFORMATION

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

	2008 **RMB'000**	2007 RMB'000
Sales of glass products	**1,859,447**	1,522,374
Sales of soda ash products	**873,903**	794,695
Sales of by-products	**22,880**	4,918
Service income	**–**	219
	2,756,230	2,322,206

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

(a) Primary reporting format – business segments

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

(1) Manufacturing and selling of glass products; and

(2) Manufacturing and selling of soda ash products.

6. REVENUE AND SEGMENT INFORMATION (continued)

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

The segment results for the years ended 31 December 2008 are as follows:

	2008		
	Glass RMB'000	**Soda Ash RMB'000**	**Group RMB'000**
Total segment revenue	**1,882,327**	**1,239,229**	**3,121,556**
Inter-segment revenue	**–**	**(365,326)**	**(365,326)**
Revenue – external	**1,882,327**	**873,903**	**2,756,230**
Segment results	**(45,726)**	**458,779**	**413,053**
Interest income			**25,802**
Unallocated expenses – net			**(3,148)**
Operating profit			**435,707**
Finance costs – net (Note 9)			**(190,626)**
Profit before income tax			**245,081**
Income tax income (Note 10)			**5,557**
Profit for the year			**250,638**

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

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6. REVENUE AND SEGMENT INFORMATION (continued)

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

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

	2008		
	Glass RMB'000	**Soda Ash RMB'000**	**Group RMB'000**
Depreciation	**151,920**	**84,449**	**236,369**
Amortisation of land use rights ("LUR") and intangible assets	**5,260**	**904**	**6,164**
Impairment provision	**76,464**	**39,391**	**115,855**

	2007		
	Glass RMB'000	Soda Ash RMB'000	Group RMB'000
Depreciation	215,003	135,427	350,430
Amortisation of LUR and intangible assets	4,356	959	5,315
Impairment provision	2,787	–	2,787

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

6. REVENUE AND SEGMENT INFORMATION (continued)

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

The segment assets and liabilities at 31 December 2008 and capital expenditures for the year then ended are as follows:

	2008		
	Glass RMB'000	Soda Ash RMB'000	Group RMB'000
Assets			
Total segment assets	5,879,043	4,294,888	10,173,931
Unallocated:			
Deferred tax assets			4,388
Total assets			10,178,319
Liabilities			
Total segment liabilities	129,065	2,052,888	2,181,953
Unallocated:			
Deferred tax liabilities			50,051
Current borrowings			2,535,186
Non-current borrowings			2,409,100
Total unallocated liabilities			4,994,337
Total liabilities			7,176,290
Capital expenditures	1,584,462	924,545	2,509,007

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6. REVENUE AND SEGMENT INFORMATION (continued)

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

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

No unallocated segment assets were identified as at 31 December 2007.

Segment liabilities comprise operating liabilities. Unallocated liabilities comprise items such as deferred taxation and borrowings. Capital expenditures comprise additions to property, plant and equipment, construction-in-progress, land use rights, deposits for land use rights and intangible assets.

6. REVENUE AND SEGMENT INFORMATION (continued)

(b) Secondary reporting format – geographical segments

Revenue

	2008 **RMB'000**	2007 RMB'000
Zhejiang	**1,292,435**	1,090,196
Shanxi, Henan and Hebei	**167,464**	210,843
Jiangsu	**292,467**	206,496
Northwest China and Inner Mongolia	**349,404**	188,246
Shanghai	**170,737**	148,477
Anhui, Hubei and Hunan	**122,485**	67,801
Shandong	**66,857**	61,273
Northeast China	**64,950**	51,088
Guangdong and Fujian	**94,062**	50,101
Sichuan and Chongqing	**68,436**	42,615
Other regions in China	**53,803**	184,482
Overseas	**13,130**	20,588
	2,756,230	2,322,206

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

Total assets

	2008 **RMB'000**	2007 RMB'000
Zhejiang	**5,879,043**	3,985,325
Qinghai	**4,294,888**	3,048,719
Unallocated assets	**4,388**	–
	10,178,319	7,034,044

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

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6. REVENUE AND SEGMENT INFORMATION (continued)

(b) Secondary reporting format – geographical segments (continued)

Capital expenditures

	2008 RMB'000	2007 RMB'000
Zhejiang	**1,584,462**	940,515
Qinghai	**924,545**	532,760
	2,509,007	1,473,275

Capital expenditures are allocated based on where the assets are located.

7. OTHER GAINS – NET

	2008 RMB'000	2007 RMB'000
Interest income	**25,802**	15,945
Government grants (a)	**25,080**	498
Gain on disposal of property, plant and equipment and other non-current assets	**–**	5,419
Others	**5,746**	(622)
	56,628	21,240

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

8. EXPENSES BY NATURE

Expenses included in cost of sales, distribution and selling expenses and general, administrative and other operating expenses are analysed as follows:

	2008 RMB'000	2007 RMB'000
Changes in inventories of finished goods and work-in-progress	(59,984)	(21,240)
Raw materials and consumables used	1,847,343	1,377,097
Written down of inventories to net realisable value	34,748	–
Staff costs (Note 14)	113,117	87,103
Depreciation of PPE (Note 16)	236,369	350,430
Impairment charges of PPE (Note 16)	25,877	–
Loss on disposal or retirement of PPE	24,240	–
Amortisation of LUR and intangible assets (Notes 18 and 20)	6,164	5,315
Provision for impairment of prepayments (Note 24)	44,307	–
Provision for impairment of receivables (Note 25)	10,923	2,787
Transportation expenses	64,436	33,269
Operating lease rental of office premises	926	1,263
Auditor's remuneration (statutory audits in the PRC and Hong Kong)	4,500	4,200
Other expenses	24,185	57,477
	2,377,151	1,897,701

9. FINANCE COSTS – NET

	2008 RMB'000	2007 RMB'000
Interest expenses on bank borrowings	324,231	244,426
Less: interest expenses capitalised under construction-in-progress (Note 17)	(116,377)	(94,942)
	207,854	149,484
Net foreign exchange gains on financing activities	(26,741)	(28,627)
Charges on discounting of bills	9,513	2,473
	190,626	123,330

10. INCOME TAX INCOME/(EXPENSE)

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

	2008 RMB'000	2007 RMB'000
Current income tax		
– Hong Kong profits tax (i)	–	–
– PRC Corporate Income Tax ("CIT") (ii)	–	(26,708)
Adjustment in respect of prior years	5,452	–
Total current tax	5,452	(26,708)
Deferred income tax	105	1,237
	5,557	(25,471)

(i) Hong Kong profits tax

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

(ii) PRC CIT

The Company and all its subsidiaries incorporated in the PRC were subject to CIT of the PRC at a rate of 25% in 2008 (2007: 33%) on its assessable profit, except QSAC. QSAC was fully exempt from CIT in 2008 under a tax concession grant (Note 30).

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

	2008 RMB'000	2007 RMB'000
Profit before taxation	245,081	322,415
Calculated at a taxation rate of 25% (2007: 33%)	61,270	106,397
CIT exemption on QSAC tax assessable profits	(92,330)	(61,360)
Effect of tax rate change on deferred taxes brought forward	–	(14,646)
Income not subject to tax	–	(4,065)
Adjustment in respect of prior years	(5,452)	–
Expenses not deductible for taxation purpose	4,419	409
Utilisation of unrecognised tax losses	(2,609)	(1,855)
Unrecognised tax losses	29,145	591
Taxation (income)/charge	(5,557)	25,471

11. (LOSS)/PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The loss attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of approximately RMB61,133,000 (2007: profit RMB91,989,000).

12. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the Group's profit attributable to equity holders of approximately RMB174,184,000 (2007: RMB275,824,000) divided by the weighted average number of 758,805,208 (2007: 720,833,000) ordinary shares in issue during the year.

The diluted earnings per share information was the same as basic earnings per share as above since there were no dilutive potential ordinary shares outstanding as at 31 December 2008 (2007: same).

13. DIVIDENDS

No dividend has been paid during the year or proposed for the year ended 31 December 2008 (2007: Nil).

14. EMPLOYEE BENEFIT EXPENSES

(i) Staff costs (including directors emoluments)

	2008 **RMB'000**	2007 RMB'000
Salaries, wages and related employee welfare expenses	**108,773**	78,519
Social security insurance costs	**4,319**	8,568
Defined contribution retirement scheme in Hong Kong	**25**	16
	113,117	87,103

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14. EMPLOYEE BENEFIT EXPENSES (continued)

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

The emoluments of each Director and supervisor for the years ended 31 December 2008 and 2007, are set out below:

	2008				
Name	Fees RMB'000	Salary and allowances RMB'000	Bonuses RMB'000	Pension scheme contributions RMB'000	Total RMB'000
Director					
Feng Guangcheng	–	600	–	102	702
Gao Huojin	–	237	–	40	277
Shen Guangjun	–	276	–	47	323
Hong Yumei	–	360	–	61	421
Jiang Liqiang	–	9	–	2	11
Liu Jianguo	10	–	–	–	10
Xie Yong	10	360	–	–	370
Li Jun	100	–	–	–	100
Wang Yanmou	100	–	–	–	100
Su Gongmei	100	–	–	–	100
Zhou Guochun	100	–	–	–	100
Supervisor					
Xu Yuxiang	–	198	–	34	232
Fang Shengli	–	81	–	14	95
Xu Mingfeng	–	177	–	30	207
Mei Lingfeng	–	–	–	–	–
Ji Peng	–	176	–	30	206
Lou Zhenrong (i)	–	–	–	–	–
Fu Guohua (i)	–	–	–	–	–

14. EMPLOYEE BENEFIT EXPENSES (continued)

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

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

Notes:

(i) Appointed with effect from 29 June 2008

During the year, 2 (2007: 4) Directors waived emoluments of approximately RMB161,000 (2007: RMB138,000). Neither payment as an inducement for joining the Company nor compensation for loss of office was paid or payable to any directors during the year (2007: Nil).

During the year, 1 (2007: 3) supervisors waived emoluments of approximately RMB24,000 (2007: RMB201,000). No emoluments were paid to the supervisors as an inducement to join or upon joining the Company or as compensation for loss of office (2007: Nil).

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14. EMPLOYEE BENEFIT EXPENSES (continued)

(iii) Five highest paid individuals

The five highest paid individuals consisted of:

	2008 RMB'000	2007 RMB'000
Number of Directors	1	3
Number of supervisors	–	2
Number of employees	4	–
	5	5

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

The emoluments of the four individuals who were not directors fell within the following bands:

	Number of individuals	
	2008 RMB'000	2007 RMB'000
Emolument bands (in Hong Kong dollars ("HK$"))		
Below HK$1,000,000	3	–
HK$1,000,000 – HK$1,500,000	1	–

15. EMPLOYEE RETIREMENT BENEFITS

As stipulated by the rules and regulations in the PRC, the Group is required to contribute to a state-sponsored retirement plan for all of its PRC employees. The state-sponsored retirement plan is responsible for the entire pension obligations payable to retired employees and the Group has no further obligations for the actual pension payments or other post-retirement benefits beyond the above mentioned contributions. During the year, the Group's contributions made to the state-sponsored retirement plan amounted to approximately RMB4,319,000 (2007: RMB8,568,000) for its employees (including directors).

The Group also contributes to a defined contribution retirement scheme in Hong Kong for all its employees based in Hong Kong. The cost of the retirement benefit scheme charged to the income statement represents contributions payable by the Group to the fund. The Group's contributions to the defined contribution retirement scheme are recorded as expenses incurred and are not reduced by contributions forfeited relating to those employees who leave the scheme prior to vesting fully in the contributions. During the year, the Group's contributions to the defined contribution retirement scheme in Hong Kong amounted to approximately HK$28,000 (equivalent to approximately RMB25,000) (2007: HK$16,000).

16. PROPERTY, PLANT AND EQUIPMENT

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

	Group						
	Plant and buildings RMB'000	Railways RMB'000	Machinery and equipment RMB'000	Furnaces RMB'000	Motor vehicles RMB'000	Office equipment RMB'000	Total RMB'000
As at 1 January 2007							
Cost	1,395,449	–	2,061,108	289,847	15,418	3,164	3,764,986
Accumulated depreciation	(150,937)	–	(526,406)	(173,479)	(4,331)	(1,371)	(856,524)
Net book value	1,244,512	–	1,534,702	116,368	11,087	1,793	2,908,462
Year ended 31 December 2007							
Opening net book value	1,244,512	–	1,534,702	116,368	11,087	1,793	2,908,462
Additions	4,405	–	4,286	–	442	1,244	10,377
Transfer from CIP	676,670	–	688,516	137,464	520	444	1,503,614
Depreciation charge	(78,853)	–	(219,860)	(49,029)	(2,122)	(566)	(350,430)
Closing net book value	1,846,734	–	2,007,644	204,803	9,927	2,915	4,072,023
As at 31 December 2007							
Cost	2,076,524	–	2,753,910	427,311	16,380	4,852	5,278,977
Accumulated depreciation	(229,790)	–	(746,266)	(222,508)	(6,453)	(1,937)	(1,206,954)
Net book value	1,846,734	–	2,007,644	204,803	9,927	2,915	4,072,023
Year ended 31 December 2008							
Opening net book value	1,846,734	–	2,007,644	204,803	9,927	2,915	4,072,023
Reclassification	(40,830)	23,634	17,196	–	–	–	–
Additions	11,998	–	113,287	3,285	2,138	1,148	131,856
Transfer from CIP	656,098	–	498,385	230,157	2,762	908	1,388,310
Depreciation charge	(74,390)	(490)	(121,621)	(36,801)	(2,177)	(890)	(236,369)
Impairment charge (a)	(9,127)	–	(12,274)	(4,476)	–	–	(25,877)
Disposal and retirement	(2,956)	–	(12,751)	(25,915)	(118)	–	(41,740)
Closing net book value	2,387,527	23,144	2,489,866	371,053	12,532	4,081	5,288,203
As at 31 December 2008							
Cost	2,700,834	25,790	3,370,027	634,838	21,162	6,908	6,759,559
Accumulated depreciation	(304,180)	(2,646)	(867,887)	(259,309)	(8,630)	(2,827)	(1,445,479)
Impairment	(9,127)	–	(12,274)	(4,476)	–	–	(25,877)
Net book value	2,387,527	23,144	2,489,866	371,053	12,532	4,081	5,288,203

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16. PROPERTY, PLANT AND EQUIPMENT (continued)

As at 31 December 2008, certain plant and buildings and machinery and equipment with an aggregate carrying value of approximately RMB2,364,291,000 (2007: RMB2,025,334,000) had been pledged as security for certain bank borrowings of the Group (Note 29).

As at 31 December 2008, the Group was in the process of applying for the ownership certificates of certain buildings of the Group with an aggregate carrying amount of approximately RMB127,000,000 (2007: RMB1,491,000,000). The Group is in the process of applying for such certificates and the Directors consider that there is no difficulty to obtain such. Accordingly, there would not be significant adverse impact on the financial position and operating results of the Group.

(a) The Directors of the Company performed an impairment assessment on certain PPE employed by the floating glass business of the Group as at 31 December 2008 in accordance with the accounting policies as set out in Note 3(h). As a result of such assessment, an impairment loss of approximately RMB25,877,000 (2007: nil) was recognised. The recoverable amount of these PPE is determined based on value-in-use calculations. These calculations/assessment employ cash flow projections based on financial budgets approved by management covering the estimated remaining useful lives of the PPE (the maximum period is six years).

Key assumptions used for value-in-use calculations are as follows:

Forecasted selling prices (RMB per weight case)	70 to 277
Budgeted gross margin of sales	15% to 59%
Discount rate (i)	11%

(i) Pre-tax discount rate applied to the cash flow projections.

Management determined the forecasted selling prices and budgeted gross margin based on past performance and its expectation for the market development. The discount rates used are pre-tax and reflect specific risks relating to the Group.

16. PROPERTY, PLANT AND EQUIPMENT (continued)

	Company					
	Plant and buildings RMB'000	Machinery and equipment RMB'000	Furnaces RMB'000	Motor vehicles RMB'000	Office equipment RMB'000	Total RMB'000
As at 1 January 2007						
Cost	448,306	850,287	289,847	8,731	1,227	1,598,398
Accumulated depreciation	(95,320)	(403,010)	(173,481)	(3,093)	(902)	(675,806)
Net book value	352,986	447,277	116,366	5,638	325	922,592
Year ended 31 December 2007						
Opening net book value	352,986	447,277	116,366	5,638	325	922,592
Additions	–	2,393	–	259	91	2,743
Transfer from CIP	110,109	233,152	24,629	–	–	367,890
Sales to a subsidiary	–	(17,882)	–	–	–	(17,882)
Depreciation charge	(21,009)	(90,646)	(43,418)	(884)	(191)	(156,148)
Closing net book value	442,086	574,294	97,577	5,013	225	1,119,195
As at 31 December 2007						
Cost	558,415	1,052,449	314,476	8,990	1,318	1,935,648
Accumulated depreciation	(116,329)	(478,155)	(216,899)	(3,977)	(1,093)	(816,453)
Net book value	442,086	574,294	97,577	5,013	225	1,119,195
Year ended 31 December 2008						
Opening net book value	442,086	574,294	97,577	5,013	225	1,119,195
Additions	–	6,667	160	–	70	6,897
Transfer from CIP	3,108	36,626	64,845	–	–	104,579
Depreciation charge	(17,331)	(35,314)	(22,980)	(433)	(86)	(76,144)
Impairment charge (a)	(9,127)	(12,274)	(4,476)	–	–	(25,877)
Disposal and retirement (b)	(1,679)	–	(25,915)	–	–	(27,594)
Closing net book value	417,057	569,999	109,211	4,580	209	1,101,056
As at 31 December 2008						
Cost	559,844	1,095,742	353,566	8,990	1,388	2,019,530
Accumulated depreciation	(133,660)	(513,469)	(239,879)	(4,410)	(1,179)	(892,597)
Impairment	(9,127)	(12,274)	(4,476)	–	–	(25,877)
Net book value	417,057	569,999	109,211	4,580	209	1,101,056

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17. CONSTRUCTION-IN-PROGRESS

Movement of CIP during the year is as follows:

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
At 1 January	**1,415,823**	1,501,350	**33,855**	267,365
Additions	**1,813,509**	1,418,087	**151,000**	134,380
Transfer to property, plant and equipment	**(1,388,310)**	(1,503,614)	**(104,579)**	(367,890)
At 31 December	**1,841,022**	1,415,823	**80,276**	33,855

The CIP of the Group and the Company as at 31 December 2008 mainly represented construction expenditures incurred on plant and buildings located in the PRC and production machinery and equipment acquired for a soda ash production line not yet available for use.

As at 31 December 2008, certain CIP with an aggregate carrying value of approximately RMB746,748,000 (2007: Nil) had been pledged as security for certain bank borrowings of the Group (Note 29).

During the year, the amount of borrowing costs capitalised in CIP was approximately RMB116,377,000 (2007: RMB94,942,000) and the capitalisation rate was approximately 7.3% (2007: 7.6%).

18. LAND USE RIGHTS

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
At 1 January	**189,918**	142,405	**56,198**	57,464
Additions	**642**	42,487	**–**	–
Transfer from deposits for land use rights	**–**	8,869	**–**	–
Amortisation	**(4,759)**	(3,843)	**(1,266)**	(1,266)
At 31 December	**185,801**	189,918	**54,932**	56,198

As at 31 December 2008, certain land use rights with an aggregate carrying value of approximately RMB171,480,000 (2007: RMB120,994,000) had been pledged as security for certain bank borrowings of the Group (Note 29).

19. DEPOSITS FOR LAND USE RIGHTS – GROUP AND COMPANY

During the year, the Company has paid certain deposits amounting to RMB563,000,000 to Shaoxing YangXunQiao Town Government ("Town Government"). The deposits were placed for the conversion of certain land use rights from industrial use only to commercial use in relation to the land occupied by the Group in YangXunQiao Town. The conversion is subject to the entering into of written agreement(s) and further approval from various authorities. The deposits will be refunded to the Group if the conversion is not able to be completed. Subsequent to the year end, further deposits amounting to RMB196,360,000 were paid to Town Government for the same purpose.

20. INTANGIBLE ASSETS – GROUP

	Technical know-how (note (i)) RMB'000	Exploitation rights (note (ii)) RMB'000	Total RMB'000
At 1 January 2007			
Cost	6,500	22,687	29,187
Accumulated amortisation	(2,600)	(400)	(3,000)
Net book amount	3,900	22,287	26,187
Year ended 31 December 2007			
Opening net book amount	3,900	22,287	26,187
Additions	–	324	324
Amortisation charge	(650)	(822)	(1,472)
Closing net book amount	3,250	21,789	25,039
At 31 December 2007			
Cost	6,500	23,011	29,511
Accumulated amortisation	(3,250)	(1,222)	(4,472)
Net book amount	3,250	21,789	25,039
Year ended 31 December 2008			
Opening net book amount	3,250	21,789	25,039
Amortisation charge	(650)	(755)	(1,405)
Closing net book amount	2,600	21,034	23,634
At 31 December 2008			
Cost	6,500	23,011	29,511
Accumulated amortisation	(3,900)	(1,977)	(5,877)
Net book amount	2,600	21,034	23,634

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20. INTANGIBLE ASSETS – GROUP (continued)

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

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

As at 31 December 2008, certain exploitation rights with an aggregate carrying value of approximately RMB21,034,000 (2007: Nil) had been pledged as security for certain bank borrowings of the Group (Note 29).

21. INTERESTS IN SUBSIDIARIES – COMPANY

As at 31 December 2008, interests in subsidiaries comprised the following:

	2008 **RMB'000**	2007 RMB'000
Unlisted shares, at cost	**1,400,966**	885,466
Amounts due from subsidiaries	**310,393**	759,928
	1,711,359	1,645,394

The Directors are of the opinion that the underlying value of the subsidiaries was not less than the carrying value at 31 December 2008.

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

21. INTERESTS IN SUBSIDIARIES – COMPANY (continued)

The following is a list of the principal subsidiaries of the Group as at 31 December 2008:

Name	Place and date of incorporation/ establishment and legal status	Principal activities and place of operations	Particulars of issued/ registered capital	Interest directly held	Interest indirectly held
Zhejiang Engineering Glass Company Limited (“Eng Glass”)	The PRC, 6 March 2003, limited liability company	Manufacturing, development and sales of engineering glass products and the provision of related services in the PRC	Registered capital of RMB100,000,000	100%	–
QSAC (a)	The PRC, 11 July 2003, limited liability company	Manufacturing and sales of soda ash in the PRC	Registered capital of RMB843,168,000	71.47%	–
Zhejiang Glass (Hong Kong) Company Limited (“ZGHKC”)	Hong Kong, 18 January 2003, limited liability company	Business liaison and administration	2,000 ordinary shares* of HK$100 each	100%**	–
Zhejiang Changxing Glass Company Limited (b) (“CX Company”)	The PRC, 19 February 2004, limited liability company	Manufacturing and sales of related glass products in the PRC	Registered capital of RMB300,000,000	99%	1%
Zhejiang Pinghu Glass Company Limited (c) (“PH Company”)	The PRC, 26 March 2004, limited liability company	Manufacturing and sales of related glass products in the PRC	Registered capital of RMB250,000,000	100%	–
Zhejiang Shaoxing Taoyan Glass Company Limited (“Taoyan”)	The PRC, 12 April 2005, limited liability company	Manufacturing and sales of related glass products in the PRC	Registered capital of RMB240,000,000	100%	–
Shaoxing County Huahong Cement Co., Ltd. (“SHCC”) (d)	The PRC, 30 October 2007,*** limited liability company	Dormant	Registered capital of RMB50,000,000	–	100%

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

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

*** Acquisition date by the Group.

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21. INTERESTS IN SUBSIDIARIES – COMPANY (continued)

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

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

Total contribution from Sinhoo was RMB 200,000,000 (2007: RMB300,000,000) during the year following the contribution by Sinhoo. The equity interests hold by the Company, Sinhoo and other minority shareholders before and after the contributions during the year are set out below.

	31 December 2008	31 December 2007
The Company	**71.74%**	78.69%
Sinhoo	**22.93%**	15.15%
Other shareholders	**5.33%**	6.16%
Total	**100%**	100%

The Group recorded the change in equity of QSAC as a gain of approximately RMB46,338,000 in equity – other reserves in accordance with the accounting policy of the Group (Note 3(b)(ii)).

(b) During the year ended 31 December 2008, the registered capital of CX Company was increased from RMB50,000,000 to RMB300,000,000 and was fully paid in cash by the Company. The equity interests held by the Company before and after this contribution are set out below.

	31 December 2008	31 December 2007
Directly	**99%**	95%
Indirectly	**1%**	5%
Total	**100%**	100%

(c) During the year ended 31 December 2008, the registered capital of PH Company was increased from RMB20,000,000 to RMB250,000,000 and was fully paid in cash by the Company. After this capital contribution and the transfer of 5% interest held by Eng Glass to the Company, PH Company has become a 100% subsidiary of the Company (2007: directly 95%, indirectly 5%).

(d) SHCC was liquidated and de-registered during the year ended 31 December 2008.

22. LONG TERM PREPAYMENTS – GROUP

	2008	2007
	RMB'000	RMB'000
As at 1 January	**30,000**	32,500
Addition	**15,000**	–
Deduction from prepayments	**(6,800)**	(2,500)
As at 31 December	**38,200**	30,000

Pursuant to certain services and supplies agreements entered into by QSAC with companies incorporated in the PRC (collectively the "Providers"), the Providers undertake to provide certain limestone and salt mining/exploitation services and related delivery services to the production site of QSAC over a period of 10 years. According to the terms of these agreements, QSAC prepaid RMB51 million to these Providers in aggregate, which was and will be deducted from the purchase prices of limestone and salt supplied by the Providers to QSAC throughout the terms of the agreements.

During the year, approximately RMB6,800,000 (2007: RMB2,500,000) of the prepayments had been utilised.

23. INVENTORIES

	Group		**Company**	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Raw materials	**254,130**	245,054	**56,446**	47,169
Finished goods	**138,312**	77,117	**17,884**	20,623
Packaging materials	**50,081**	20,163	**5,623**	4,405
Low value consumables	**7,697**	9,279	**1,176**	1,129
Work-in-progress	**657**	1,868	**–**	–
	450,877	353,481	**81,129**	73,326

The cost of inventories recognised as expense and included in cost of sales amounted to RMB2,105,186,000 (2007: RMB1,750,262,000).

In the year ended 31 December 2008, write-down of inventories to net realisable value of approximately RMB9,627,000 and RMB25,121,000 (2007: Nil) had been made against the raw materials and finished goods, respectively.

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24. PREPAYMENTS, DEPOSITS AND OTHER CURRENT ASSETS

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Prepayments for raw materials and construction materials (a)	**249,005**	51,857	**88,287**	16,274
Prepayments for transportation	**35,807**	18,710	**16**	80
Prepayments and deposits to vendors of property, plant and equipment	**5,622**	18,427	**1,041**	942
Prepaid expenses	**6,564**	6,988	**1,109**	1,736
Receivable for providing electricity transforming services	**429**	1,787	**174**	1,787
Interest receivable	**5,676**	6,574	**4,752**	5,750
Others	**17,593**	7,447	**848**	517
	320,696	111,790	**96,227**	27,086
Less: provisions for impairment of prepayments (a)	**(44,307)**	–	**(9,138)**	–
	276,389	111,790	**87,089**	27,086

(a) During the year ended 31 December 2008, the Group advanced a total of approximately RMB78,406,000 and RMB23,967,000 to two entities respectively. These advances were prepayments made for the purchase of raw materials and construction materials. The Directors have assessed the recoverability of these advances and have made a provision of RMB44,307,000 against them as at 31 December 2008.

Subsequent to the year end and up to 31 March 2009, the Group has made further advances totalling approximately RMB159,487,000 to one of these two entities and RMB108,178,000 to a third entity.

Subsequent to the dates on which the respective advances were made and up to date of issue of the consolidated financial statements, no goods have been received by the Group from these entities in settlement of the prepayments made.

25. ACCOUNTS RECEIVABLE

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Accounts receivable	**223,274**	97,495	**17,201**	35,927
Less: provision for impairment of receivables	**(14,149)**	(3,579)	**(5,275)**	(2,068)
	209,125	93,916	**11,926**	33,859

Trade receivables are non-interest bearing.

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

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Under 6 months	**142,263**	83,870	**11,926**	32,510
6 to under 12 months	**61,229**	7,899	**1,590**	832
1 to under 2 years	**15,469**	4,848	**1,981**	2,367
2 to under 3 years	**3,766**	727	**1,552**	67
3 years or over	**547**	151	**152**	151
	223,274	97,495	**17,201**	35,927

Credit terms for customers buying the Group's normal flat glass products and soda ash products are usually six months; credit terms for customers buying the Group's processed glass products are usually one year. The aging analysis of accounts receivables that are not considered to be impaired is as follows:

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Neither past due nor impaired	**148,498**	88,330	**11,926**	32,510
Past due for less than 12 months	**49,661**	5,586	**–**	1,349
Past due for more than 12 months	**10,966**	–	**–**	–
	209,125	93,916	**11,926**	33,859

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

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25. ACCOUNTS RECEIVABLE (continued)

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

As at 31 December 2008, accounts receivables of RMB14,149,000 (2007: RMB3,579,000) were impaired and fully provided for. The individual impaired balances mainly relate to customers, which are in poor financial position or have disputes with the Group over the outstanding balances. An aging analysis of these impaired receivables is as follows:

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Under 6 months	**1,399**	195	**–**	–
6 to under 12 months	**1,559**	64	**1,590**	42
1 to under 2 years	**9,445**	2,442	**1,981**	1,809
2 to under 3 years	**1,594**	727	**1,552**	66
3 years or over	**152**	151	**152**	151
	14,149	3,579	**5,275**	2,068

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

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
At 1 January	**3,579**	792	**2,068**	355
Impairment losses recognised	**11,560**	2,980	**3,560**	1,713
Amount written off as uncollectible	**(353)**	–	**(353)**	–
Impairment losses reversed	**(637)**	(193)	**–**	–
At 31 December	**14,149**	3,579	**5,275**	2,068

26. CASH AND CASH EQUIVALENTS, TIME DEPOSITS AND PLEDGED DEPOSITS

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash on hand	**2,092**	2,707	**425**	1,396
Cash in bank balances	**418,122**	127,083	**137,812**	71,080
Time deposits	**865,700**	546,000	**588,500**	446,000
	1,285,914	675,790	**726,737**	518,476
Less:				
Pledged deposits for short-term trade finance facilities	**(321,565)**	(82,240)	**(109,977)**	(41,581)
Time deposits	**(865,700)**	–	**(588,500)**	–
Cash and cash equivalents the purpose of cash flow statement	**98,649**	593,550	**28,260**	476,895

Pledged deposits of the Group and the Company represent deposits placed with certain banks as security for the grant of certain trade finance facilities from banks amounting to RMB677,498,000 (2007: RMB194,000,000) and RMB230,328,000 (2007: RMB146,080,000) respectively.

As at 31 December 2008, substantially all cash and cash equivalents, time deposits and pledged deposits of the Group and the Company were denominated in Renminbi.

The carrying amounts of cash and cash equivalents, time deposits and pledged deposits as at 31 December 2008 approximate their fair values.

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27. ACCOUNTS PAYABLE

As at 31 December 2008, the aging analysis of accounts payable is set out below:

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Under 6 months	**500,056**	385,161	**280,806**	80,056
6 to under 12 months	**247,495**	158,454	**32,899**	85,276
1 to under 2 years	**138,566**	71,073	**73,113**	1,161
2 to under 3 years	**61,069**	18,934	**240**	4,137
3 years or over	**18,446**	10,617	**3,311**	10,616
	965,632	644,239	**390,369**	181,246

28. ACCRUALS AND OTHER PAYABLES

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Deposits received from customers for delivery equipment loaned for their use	**109,683**	99,784	**75,541**	79,398
Accrued expenditure on CIP	**–**	83,900	**–**	–
Accrued operating expenses and taxes	**36,404**	28,594	**13,636**	26,565
Accrued staff costs and bonuses	**16,637**	19,247	**4,973**	7,942
Performance guarantee deposits received from suppliers	**300**	300	**300**	300
IIT and other surcharges	**592**	–	**–**	–
Performance guarantee deposits and retention payments received from vendors of PPE	**33,421**	25,939	**2,484**	1,355
Others	**26,556**	8,669	**2,461**	4,946
	223,593	266,433	**99,395**	120,506

29. BORROWINGS

(i) Repayment details of borrowings

As at 31 December 2008, the borrowings were repayable as follows:

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
– Amounts repayable within 1 year	**2,535,186**	1,671,576	**1,464,296**	1,139,776
– Amounts repayable between 1 to 2 years	**487,000**	352,000	**–**	60,000
– Amounts repayable between 2 to 5 years	**1,577,100**	1,115,000	**–**	–
– Amounts repayable beyond 5 years	**345,000**	95,000	**–**	–
	4,944,286	3,233,576	**1,464,296**	1,199,776
Less: amounts repayable within 1 year (included in current liabilities)				
– Short-term borrowings	**(2,143,186)**	(1,564,576)	**(1,404,296)**	(1,124,776)
– Current portion of long-term borrowings	**(392,000)**	(107,000)	**(60,000)**	(15,000)
Long-term portion	**2,409,100**	1,562,000	**–**	60,000

All borrowings are interest-bearing at floating commercial rates and subject to market changes. The effective interest rate as at 31 December 2008 was 8.11% and 6.90% per annum for Renminbi and USD dominated loans, respectively (2007: 7.33% and 7.93% per annum). The carrying amounts of the borrowings approximate their fair values.

Subsequent to 31 December 2008 and up to the date of approval of the financial statements, approximately RMB157 million of the short-term borrowings which reached maturity had been renewed or extended for another twelve months' period. In addition, the Group has obtained non-legally binding indication from certain banks to renew or extend short-term loan facilities of approximately RMB600 million which will fall due in 2009.

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29. BORROWINGS (continued)

(ii) Related security and guarantee information

As at 31 December 2008, security and guarantee information relating to the short-term borrowings are as follows:

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Unsecured:	**95,000**	170,000	**–**	40,000
Secured by:				
Certain PPE, LUR and intangible assets of the Group and the Company with carrying values of approximately RMB1,468,198,000 (2007: RMB1,187,595,000) and RMB825,863,000 (2007: RMB564,304,000 respectively*	**917,500**	605,500	**557,500**	425,500
Pledge of 120,000,000 (2007: 120,000,000) domestic shares of the Company held by Mr. Feng, certain PPE and LUR of the Company with carrying values of RMB313,224,000 (2007: RMB362,937,000) and personal guarantee from Mr. Feng	**372,796**	438,276	**372,796**	438,276
Secured by pledged deposits	**63,890**	–	**–**	–
Charge over 35.57% of the equity interests in QSAC*	**325,000**	–	**325,000**	–
	1,679,186	1,043,776	**1,255,296**	863,776
Guaranteed by:				
Independent third parties	**–**	75,000	**–**	15,000
Mr. Feng	**–**	40,000	**–**	–
A related party	**–**	30,000	**–**	30,000
Jointly and severally guaranteed by:				
Mr. Feng, his related parties and independent third parties	**369,000**	205,800	**149,000**	176,000
	369,000	350,800	**149,000**	221,000
	2,143,186	1,564,576	**1,404,296**	1,124,776

* RMB959,500,000 of these loans (2007: RMB230,500,000) of the Group and the Company are, in addition to the pledged assets provided by the Group, jointly and severally guaranteed by Mr. Feng, his related parties and independent third parties.

29. BORROWINGS (continued)

(ii) Related security and guarantee information (continued)

As at 31 December 2008, security and guarantee information relating to the long-term borrowings were as follows:

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Unsecured:	**–**	1,120,000	**–**	–
Secured by:				
Certain PPE, CIP, LUR and intangible assets with carrying values of RMB1,522,131,000 (2007: RMB595,796,000) and RMB55,053,000 (2007: RMB57,717,000) of the Group and the Company respectively	**600,000**	455,000	**60,000**	75,000
Charge over 22.50% of the equity interests in QSAC and guaranteed by Mr. Feng, a related party and independent third parties	**326,100**	–	**–**	–
	926,100	455,000	**60,000**	75,000
Guaranteed by:				
A third party	**82,000**	94,000	**–**	–
Jointly and severally guaranteed by:				
Mr. Feng and his related parties	**1,793,000**	–	**–**	–
	1,875,000	94,000	**–**	–
	2,801,100	1,669,000	**60,000**	75,000

In addition, approximately RMB200,000,000 and RMB1,910,000,000 of short-term and long-term borrowings (2007: RMB150,000,000 and RMB1,220,000,000) of a non-wholly owned subsidiary are guaranteed by the Company as at 31 December 2008, approximately RMB435,000,000 of short term borrowings of the Company were guaranteed by subsidiaries, and RMB10,000,000 and RMB346,100,000 of short term and long term borrowings of subsidiaries were guaranteed by other subsidiaries.

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29. BORROWINGS (continued)

(iii) Currency denomination of bank borrowings

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

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Renminbi	**4,571,490**	2,795,300	**1,091,500**	761,500
USD	**372,796**	438,276	**372,796**	438,276
	4,944,286	3,233,576	**1,464,296**	1,199,776

(iv) Undrawn borrowing facilities

As at 31 December 2008, the Group and the Company had the following granted but undrawn borrowing facilities:

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Borrowing facility from IFC *	**54,677**	58,437	**54,677**	58,437
Borrowing facility from a commercial bank	**275,000**	–	**275,000**	–
	329,677	58,437	**329,677**	58,437

* The available borrowing facility of USD8 million (equivalent to approximately RMB54.7 million) is the undrawn portion of a long-term facility of USD68 million (equivalent to approximately RMB464.8 million) granted by IFC, a shareholder, pursuant to the loan agreement entered into with the Company on 26 June 2006 (the "IFC Loan Facility"). The future draw-down of the undrawn portion is subject to the approval of IFC because the Company has breached certain loan covenants as described in note (v) below.

(v) Loan covenants compliance

According to the provisions of the loan agreement of the IFC Loan Facility, the loans drawn down are repayable by 11 instalments, commencing from 15 July 2008 and with the final instalment falling due in 2013. However, the Company is required to comply with certain loan covenants such as the completion of a restructuring plan (including the reduction of the level of short-term borrowing), adherence to defined financial debt-to-EBITDA ratio, current ratio, and limitation on the capital expenditure. The Company has not been satisfying certain of these covenants, including the limit on capital expenditure made, application of available surplus cash to repay outstanding short-term borrowings, and the financial ratios mentioned above (collectively defined as "Covenants Breach"). Accordingly, the entire outstanding balance from the IFC Loan Facility has been reclassified as short-term borrowings in the balance sheet as at 31 December, 2007 and 2008. Nevertheless, IFC has not demanded for immediate repayment of the outstanding balances up to 8 May 2009, the date when these financial statements were approved.

29. BORROWINGS (continued)

(v) Loan covenants compliance (continued)

As of the date of approval of these financial statements, the Company is still in negotiation with IFC to work out a remedial plan for the Covenants Breach. The Directors consider that the Company and IFC can agree on a mutually acceptable plan such that, save for the amount payable within 2009 according to the repayment schedule of the loan agreement, the Company will not be required to repay the outstanding loan balance within 2009.

30. TAXES PAYABLE

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
PRC CIT (a)	**19,909**	34,030	**20,923**	25,814
Hong Kong profits tax (b)	**–**	–	**–**	–
PRC value-added tax ("VAT") (c)	**29,426**	43,622	**927**	7,106
Other taxes payable	**10,975**	10,073	**4,829**	5,794
	60,310	87,725	**26,679**	38,714

(a) PRC CIT

During the year, the Company and its subsidiaries incorporated in the PRC are subject to CIT at a rate of 25% on their assessable profits, except QSAC.

According to Circular Qing Zheng No. (2003) 35 issued by the People's Government of Qinghai Province, QSAC is entitled to CIT holiday that CIT is fully exempted for the first five years from commencement of its business operation and followed by another five years of CIT concession at a reduced rate of 50% of the then enacted tax rate ("Preferential Treatment").

On 16 March 2007, the 10th National People's Congress of the PRC issued a new Corporate Income Tax ("CIT") Law of the PRC, which came into effect on 1 January 2008. According to transitional rules announced by both the State Council in a circular, State Council Circular No. 39, and by the State Administration of Taxation in Circular No. (2008) 21, the Preferential Treatment for QSAC, which was granted by an Ethnics Minority Prefecture（民族自治州）in western China, is allowed to remain effective up to 31 December 2012.

Pursuant to an approval from State Tax Bureau of Qinghai Province (Document No. 青國稅函[2008] 430) dated 8 August 2008, the Preferential Treatment of QSAC was deemed to start from 2004. Accordingly, QSAC was exempted from CIT for 2008 and will be subject to a reduced rate at 15% from 2009 to 2012.

Up to the date of approval of these financial statements, QSAC has not yet obtained any affirmative advice from tax authorities regarding the applicable tax rate for 2013.

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30. TAXES PAYABLE (continued)

(b) Hong Kong profit tax

ZGHKC is a company incorporated in Hong Kong and is assessable under Hong Kong profits tax at 16.5% (2007: 17.5%) on its assessable profits. ZGHKC did not have any assessable profits in 2008 (2007: Nil) and no provision for Hong Kong profits tax is required.

(c) VAT

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

31. SHARE CAPITAL – GROUP AND COMPANY

	2008	2007	**2008**	2007
	Number of shares		**Nominal value**	
			RMB'000	RMB'000
Authorised:				
Ordinary shares of RMB1 each	**784,999,000**	720,833,000	**784,999**	720,833
Issued and fully paid:				
Domestic shares of RMB1 each	**400,000,000**	400,000,000	**400,000**	400,000
H shares of RMB1 each	**384,999,000**	320,833,000	**384,999**	320,833
	784,999,000	720,833,000	**784,999**	720,833

On 22 May 2008, the Company and Cazenove Asia Limited, as the sole bookrunner and lead manager of a private placement of shares of the Company, entered into a placing agreement, pursuant to which the Company agreed to issue 64,166,000 new H shares at a nominal value of RMB1.00 each. Placing of such new H shares at a price of HK$6.05 per share. The placement was completed on 28 May 2008.

The total proceeds from the placement, net off the transaction costs, amounted to approximately RMB339,713,000, of which RMB64,166,000 and RMB275,547,000 were recorded in share capital and share premium, respectively.

32. OTHER RESERVES

Movement of reserves of the Group is as follows:

	Share premium RMB'000	Statutory surplus reserves RMB'000	Other reserves RMB'000	Total RMB'000
Balance at 1 January 2007	455,790	131,176	7,749	594,715
Transfer (a)	–	11,713	–	11,713
Appropriations to statutory reserves (b)	–	22,980	–	22,980
Capital contribution from a minority equity owner of a subsidiary	–	–	147,978	147,978
Others	(2,304)	–	–	(2,304)
At 31 December 2007	453,486	165,869	155,727	775,082
Balance at 1 January 2008	453,486	165,869	155,727	775,082
Issue of new shares (Note 31)	275,547	–	–	275,547
Capital contribution from a minority equity owner of a subsidiary	–	–	46,338	46,338
At 31 December 2008	**729,033**	**165,869**	**202,065**	**1,096,967**

Movement of reserves of the Company is as follows:

	Share premium RMB'000	Statutory surplus reserves RMB'000	Total RMB'000
Balance at 1 January 2007	455,790	131,176	586,966
Transfer (a)	–	11,713	11,713
Appropriations to statutory reserves (b)	–	9,199	9,199
Others	(2,304)	–	(2,304)
At 31 December 2007	453,486	152,088	605,574
Balance at 1 January 2008	453,486	152,088	605,574
Issue of new shares (Note 31)	275,547	–	275,547
At 31 December 2008	**729,033**	**152,088**	**881,121**

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32. OTHER RESERVES (continued)

(a) On 1 January 2007, the Company adopted the "Accounting Standards for Business Enterprise (2006)" of the PRC, with retrospective application in its statutory financial statements. The retained earnings brought forward were restated as a result of such application. Accordingly, the Directors made an additional appropriation of RMB11,713,000 from retained earnings to the statutory surplus reserve.

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

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

Profit attributable to the equity holders of the Company is appropriated in the following sequences:

(i) set off against prior years' losses;

(ii) appropriation to statutory surplus reserves; and

(iii) distribution of dividends.

The unappropriated profit attributable to equity holders of the Company as at 31 December 2008 was approximately RMB345,144,000 (2007: RMB406,277,000).

33. RETAINED EARNINGS – COMPANY

Movement of retained earnings of the Company is as follows:

	2008 **RMB'000**	2007 RMB'000
At 1 January	**406,277**	335,200
(Loss)/profit attributable to equity holders	**(61,133)**	91,989
Transfer (32(a))	**–**	(11,713)
Appropriations to statutory reserves (32(b))	**–**	(9,199)
At 31 December	**345,144**	406,277

34. DEFERRED TAXATION

The movement on the deferred tax liabilities is as follows:

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
At 1 January	**45,768**	47,005	**41,323**	39,709
Consolidated income statement charge (Note 10)	**4,283**	(1,237)	**(6,313)**	1,614
At 31 December	**50,051**	45,768	**35,010**	41,323

The movement of deferred tax liabilities/assets during the year, after taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred tax liabilities:

	Group				
	Accelerated depreciation of property, plant and equipment	**Temporary difference on capitalisation of borrowing costs**	**Assets impairment**	**Others**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2007	33,109	6,928	–	6,968	47,005
Recognised in the income statement	18,916	(77)	–	(5,430)	13,409
Effect of change of tax rate	(12,612)	(1,661)	–	(373)	(14,646)
At 31 December 2007	39,413	5,190	–	1,165	45,768
Recognised in the income statement	28,124	(3,289)	(17,966)	(2,586)	4,283
At 31 December 2008	**67,537**	**1,901**	**(17,966)**	**(1,421)**	**50,051**

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34. DEFERRED TAXATION (continued)

	Company				
	Accelerated depreciation of property, plant and equipment RMB'000	**Temporary difference on capitalisation of borrowing costs** RMB'000	**Assets impairment** RMB'000	**Others** RMB'000	**Total** RMB'000
At 1 January 2007	33,109	–	–	6,600	39,709
Recognised in the income statement	18,916	619	–	(4,698)	14,837
Effect of change of tax rate	(12,612)	(150)	–	(461)	(13,223)
At 31 December 2007	39,413	469	–	1,441	41,323
Recognised in the income statement	5,170	(469)	(3,594)	(7,420)	(6,313)
At 31 December 2008	**44,583**	**–**	**(3,594)**	**(5,979)**	**35,010**

Deferred tax assets:

	Group Assets impairment RMB'000
At 1 January 2007 and 31 December 2007	–
Recognised in the income statement (Note 10)	4,388
At 31 December 2008	**4,388**

34. DEFERRED TAXATION (continued)

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income tax levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis. The offset amounts are as follows:

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Deferred tax assets:				
– Deferred tax assets to be recovered after more than 12 months	**–**	–	**–**	–
– Deferred tax assets to be recovered within 12 months	**4,388**	–	**–**	–
	4,388	–	**–**	–
Deferred tax liabilities:				
– Deferred tax liabilities to be recovered after more than 12 months	**48,551**	33,218	**32,524**	28,497
– Deferred tax liabilities to be recovered within 12 months	**1,500**	12,550	**2,486**	12,826
	50,051	45,768	**35,010**	41,323
Deferred tax liabilities (net)	**45,663**	45,768	**35,010**	41,323

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 25% (2007: 25%).

As there is no certainty of realisation of tax benefits that can be derived through offsetting tax losses with future taxable profits, the Group did not recognise the related deferred income tax assets of approximately RMB29,640,000 (2007: RMB6,500,000) in respect of tax losses of certain subsidiaries amounting to approximately RMB118,560,000 (2007: RMB26,000,000) as at 31 December 2008. Such tax losses will expire in the period between 2009 and 2013.

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35. CASH GENERATED FROM OPERATIONS – GROUP

	2008 RMB'000	2007 RMB'000
Profit before income tax	**245,081**	322,415
Interest income	**(25,802)**	(15,945)
Interest expense	**217,367**	151,957
Gain on foreign currency translation of bank borrowing	**(26,741)**	(28,627)
Depreciation of PPE	**236,369**	350,430
Impairment charge of PPE	**25,877**	–
Amortisation of land use rights	**4,759**	3,843
Amortisation of intangible assets	**1,405**	1,472
Written down of inventories to net realisable value	**34,748**	–
Provision for impairment of receivables and prepayments	**55,230**	2,787
Loss/(gain) on disposal or retirement of PPE and other non-current assets	**24,240**	(5,419)
Operating profit before working capital changes	**792,533**	782,913
Increase in inventories	**(132,144)**	(140,949)
Increase in prepayments, deposits and other current assets	**(209,323)**	(17,197)
Decrease/(increase) in bills receivable	**54,498**	(54,142)
(Increase)/decrease in accounts receivable	**(126,133)**	16,306
(Increase)/decrease in long-term prepayments	**(8,200)**	2,500
Increase in accounts payable	**245,926**	39,888
Increase in accruals and other payables	**46,525**	60,455
(Decrease)/increase in payable to a related company	**(718)**	718
(Decrease)/increase in deposits and advance from customers	**(26,932)**	143,807
(Decrease)/increase in other taxes payable	**(13,294)**	27,424
Cash generated from operations	**622,738**	861,723

In cash flow statement, proceeds from sale of property, plant and equipment and other non current assets comprise:

	2008 RMB'000	2007 RMB'000
Net book amount (Note 16)	**41,740**	134,406
(Loss)/profit on disposal of property, plant and equipment and other non-current assets	**(24,240)**	5,419
Less: proceeds net off with long-term prepayment to the Providers (Note 22)	**(15,000)**	–
Less: proceeds receivables	**(480)**	–
Proceeds from disposal of property, plant and equipment and other non-current assets	**2,020**	139,825

36. COMMITMENTS

(i) Capital commitments

The Group had the following significant capital commitments in relation to construction of production lines and investment projects which were not provided for in the financial statements as at 31 December 2008:

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Authorised and contracted for:				
Construction of a soda ash plant (a)	**568,183**	1,208,658	**–**	–
Glass production investment projects (b)	**2,051,612**	2,472,683	**–**	–
	2,619,795	3,681,341	**–**	–
Authorised and not contracted for:				
Payment for land use rights (Note 19)	**196,360**	–	**196,360**	–
	2,816,155	3,681,341	**196,360**	–

(a) Construction of a soda ash plant

On 25 April 2004, the Company entered into a cooperation agreement (the "Soda Ash Agreement") with the People's Government of Haixi Mongolian Nationality and Tibetan Nationality Autonomous Prefecture of Qinghai Province (the "Haixi Prefecture Government") under which the Company is committed, through its then 90% owned subsidiary, QSAC, to construct a factory with two soda ash production lines in five years with an annual production capacity of 600,000 tonnes each. The committed total investment for this project as prescribed in the Soda Ash Agreement is RMB1.6 billion, which are to be injected in two phases. The first phase was scheduled to be completed within two years after signing of the Soda Ash Agreement. The commencement of the second phase was dependent on the progress of construction and the utilisation rate of the first phase.

On 25 December 2004, the Company entered into a revised cooperation agreement (the "Revised Soda Ash Agreement") with the Haixi Prefecture Government. Pursuant to the Revised Soda Ash Agreement, the annual production capacity of two soda ash production lines was revised to 900,000 tonnes and they are required to be constructed in two phases within five years. The total investment was increased from RMB1.6 billion to RMB3 billion and was to be injected by two phases, of which, RMB1.4 billion is for the second phase. The first phase was completed in late 2005 and the construction of the second phase commenced in late 2005. As at 31 December 2008, approximately RMB1,601 million had been incurred for the second phase and the outstanding commitment was estimated to be approximately RMB568 million.

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36. COMMITMENTS (continued)

(i) Capital commitments (continued)

(b) Glass production investment projects

(i) On 6 August 2003, the Company entered into a cooperation agreement with the People's Government of Changxing County of the Zhejiang Province to invest approximately RMB1 billion for the construction of two special glass production lines and five processed glass production lines. A subsidiary was established in Changxing with a registered capital of RMB50 million in order to operate the project. Up to 31 December 2008, approximately RMB512 million has been spent in the project, and one of the glass production lines had been completed and put into operation during the year.

(ii) On 21 September 2003, the Company entered into a cooperation agreement with an industrial development council of Pinghu City of the Zhejiang Province to invest approximately RMB2 billion for the construction of four float flat glass production lines.

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

Up to 31 December 2008, the Group has invested approximately RMB438 million into this project, and one of the glass production lines had been completed and put into use during the year.

(ii) Commitments under operating leases

As at 31 December 2008, the Group and the Company had total future aggregate minimum lease payments under non-cancellable operating leases entered into with third party companies in respect of land and buildings as follows:

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within one year	**952**	996	**952**	996
In the second to fifth year inclusive	**–**	1,052	**–**	1,052
	952	2,048	**952**	2,048

37. RELATED PARTY TRANSACTIONS

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

Mr. Feng	Substantial shareholder of the Company holding 48.92% of the equity interests
Guangyu Group Co., Ltd ("Guangyu")	96% owned by Mr. Feng
Zhejiang Cement Company Limited ("ZCC"*)	90.47% owned by Mr. Feng before 30 June 2007

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

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

	2008 RMB'000	2007 RMB'000
Rental charged by Guangyu	**–**	498
Service fees earned from ZCC in relation to the provision of electricity voltage transforming services	**–**	219

(ii) Balances with related parties are as follows:

	Group		**Company**	
	2008 RMB'000	2007 RMB'000	**2008 RMB'000**	2007 RMB'000
Amount due to a related party – Guangyu	**–**	718	**–**	498
Amounts due from wholly-owned subsidiaries			**41,240**	53,248
Amounts due from a non wholly-owned subsidiary			**–**	9,657
			41,240	62,905
Amounts due to wholly-owned subsidiaries			**6,780**	9,393

	Maximum balance of receivables from related parties during the year			
	Group		**Company**	
	2008 RMB'000	2007 RMB'000	**2008 RMB'000**	2007 RMB'000
ZCC**	**–**	27,299	**–**	27,299

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

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

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38. CONTINGENT LIABILITIES

On 9 December 2008, a third party ("the Plaintiff") filed a lawsuit ("Litigation") with Shaoxing City Intermediate People's Court against the Company (alleged as a borrower), QSAC, Taoyan and Mr. Feng (alleged as joint and several guarantors) for default in the repayment of RMB50,000,000 due to the Plaintiff. On 7 January 2009, the court granted a freezing order ("Freezing Order") in favour of the plaintiff against the 94,304,310 shares held by the Company in QSAC, representing approximately 18.55% of the Company's interest in QSAC, and approximately 13.26% of the entire registered capital of QSAC.

The Company entered into a loan agreement with the Plaintiff on 4 May 2008 ("Loan Agreement") and QSAC, Taoyan and Mr. Feng acted as joint and several guarantors. A sum of RMB50,000,000 was borrowed from the Plaintiff pursuant to the Loan Agreement and deposited into the bank account of Guangyu, a company owned and controlled by Mr.Feng, in May 2008 at the Company's direction. The money borrowed by the Company pursuant to the Loan Agreement has been settled in full by Guangyu (including interests thereto) on 4 July 2008.

Based on the information provided by Guangyu, Guangyu further borrowed money on 4 July 2008 and 11 September 2008 directly from the Plaintiff. The Company neither directed nor requested the Plaintiff to advance any money in connection with the sums borrowed by Guangyu in July 2008 or in September 2008.

The Plaintiff alleged that (i) a sum of RMB50,000,000 was deposited into the account of Guangyu at the Company's direction on 11 September 2008 pursuant to the Loan Agreement; and (ii) the Company had defaulted in repaying the said sum to the Plaintiff on time.

Given the subject matter of the Litigation was the alleged non-repayment to the Plaintiff for money advances on 11 September 2008 (instead of the loan drawn down in May 2008 which has been repaid in July 2008), the Company considers that it has grounds to defend against the litigation. After obtaining PRC legal advice in relation to the Litigation and the Freezing Order, the Directors are of the view that: 1) the Freezing Order has not created any impact on the operation of QSAC or the Group and did not affect the Company's rights therein as a shareholder; 2) the ultimate outcome of the Litigation cannot presently be determined at this stage. Accordingly, no provision for any loss that may result from the Litigation has been made in the consolidated financial statements as at 31 December 2008. In case the Company, QSAC, or Taoyan were ruled by the court to be obliged to pay the Plaintiff, the Group would need to record a receivable balance due from Guangyu amounting to the balance (plus interest and other charges) that it had to pay to the Plaintiff. If Guangyu were unable to repay the sum to the Group, the Group might need to record a provision against the receivable from Guangyu in future periods. The Directors will review the Company's position and the need for loss provisions, if any, periodically according to the progress of the Litigation.

39. SUBSEQUENT EVENTS

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