CHINA GLASS HOLDINGS LIMITED

中 國 玻 璃 控 股 有 限 公 司*

(Incorporated in Bermuda with limited liability)

(Stock Code : 3300)

Annual Report 2011

* For identification purposes only

CONTENTS

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Zhang Zhaoheng *(Chief Executive Officer)*
Mr. Li Ping
Mr. Cui Xiangdong

Non-Executive Directors

Mr. Zhou Cheng *(Chairman)*
Mr. Zhao John Huan
Mr. Chen Shuai
Mr. Ning Min (appointed on 30 June 2011)
Ms. Lu Minghong (appointed on 12 December 2011)
Mr. Liu Jinduo (resigned on 30 June 2011)
Mr. Eddie Chai (resigned on 27 October 2011)

Independent Non-Executive Directors

Mr. Sik Siu Kwan
Mr. Zhang Baiheng
Mr. Zhao Lihua (appointed on 30 June 2011)
Mr. Song Jun (resigned on 30 June 2011)

SENIOR MANAGEMENT

Mr. Lu Guo
Mr. Ge Yankai
Mr. Yang Hongfu
Mr. Cheng Xin
Mr. Wang Jianxun

COMPANY SECRETARY

Ms. Li Hiu Ling (appointed on 1 March 2011)
Mr. Ng Kit Man (resigned on 28 February 2011)

AUDIT COMMITTEE

Mr. Sik Siu Kwan *(Chairman of audit committee)*
Mr. Zhao John Huan
Mr. Zhao Lihua (appointed on 30 June 2011)
Mr. Song Jun (resigned on 30 June 2011)

REMUNERATION COMMITTEE

Mr. Zhao Lihua (appointed as director on 30 June 2011 and appointed as Chairman of remuneration committee on 26 March 2012)
(Chairman of remuneration committee)
Mr. Sik Siu Kwan
Mr. Zhao John Huan (resigned as Chairman of remuneration committee on 26 March 2012)
Mr. Song Jun (resigned on 30 June 2011)

NOMINATION COMMITTEE

(established on 27 March 2012)
Mr. Zhou Cheng
(Chairman of nomination committee)
Mr. Sik Siu Kwan
Mr. Zhang Baiheng

STRATEGY COMMITTEE

(established on 27 March 2012)
Mr. Zhao John Huan
(Chairman of strategy committee)
Mr. Zhang Zhaoheng
Mr. Zhou Cheng

REGISTERED OFFICE

Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 2608, 26/F, West Tower
Shun Tak Centre
168-200 Connaught Road
Central
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Appleby Management (Bermuda) Ltd.
Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

LEGAL ADVISORS

As to Hong Kong Law
Norton Rose Hong Kong

As to the People's Republic of China (the "PRC") Law
Commerce & Finance

As to Bermuda and British Virgin Islands Laws
Appleby

As to Cayman Islands Law
Walkers SPV Limited

PRINCIPAL BANKERS

Standard Chartered Bank
Industrial and Commercial Bank of China
Bank of Communications
Bank of China
Agricultural Bank of China
Shanghai Pudong Development Bank
Bank of Jiangsu
China Minsheng Banking Corp. Ltd.
China Merchants Bank
Bank of Hankou

AUDITORS

KPMG
Certified Public Accountants

INVESTOR RELATIONS CONSULTANT

Brunswick Group Ltd.

STOCK CODE

Hong Kong Stock Exchange 3300

Financial Highlights

The summary of the results and the assets and liabilities of China Glass Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") for each of the five years ended 31 December 2011 are extracted from the audited financial statements of this report and the Company's 2007, 2008, 2009 and 2010 annual reports.

RESULTS (EXPRESSED IN RENMINBI ("RMB"))

	The Group Year ended 31 December				
	2011 RMB'000	2010 RMB'000	2009 RMB'000	2008 RMB'000	2007 RMB'000
Turnover	**2,946,048**	3,154,796	2,078,408	2,289,941	2,212,324
Cost of sales	**(2,504,040)**	(2,293,413)	(1,613,726)	(2,078,045)	(1,821,647)
Gross profit	**442,008**	861,383	464,682	211,896	390,677
Other revenue	**76,129**	33,024	19,009	19,398	16,400
Other net income/(loss)	**180,599**	8,107	955	(5,164)	583
Distribution costs	**(98,077)**	(77,486)	(62,183)	(82,879)	(71,927)
Administrative expenses	**(250,804)**	(205,989)	(179,726)	(219,588)	(144,921)
Other expenses	**-**	–	–	(60,061)	–
Profit/(loss) from operations	**349,855**	619,039	242,737	(136,398)	190,812
Share of losses of an associate	**-**	–	(20,893)	(41,999)	–
Impairment loss on assets classified as held-for-sale	**-**	–	–	–	(5,277)
Excess of the net fair value of the acquired net assets over cost	**-**	–	–	–	26,071
Gain from issuance of shares by subsidiaries	**-**	–	–	–	5,646
Net gain from disposal of controlling equity interests in a subsidiary	**-**	4,608	–	–	–
Net gain from disposal of equity interests in an associate	**-**	78,025	–	–	–
Finance (costs)/income	**(68,357)**	(94,275)	34,344	(66,001)	(84,354)
Profit/(loss) before taxation	**281,498**	607,397	256,188	(244,398)	132,898
Income tax	**(69,752)**	(100,637)	(38,772)	26,990	6,033
Profit/(loss) for the year	**211,746**	506,760	217,416	(217,408)	138,931

Financial Highlights (continued)

ASSETS AND LIABILITIES

	The Group As at 31 December				
	2011	2010	2009	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	**5,988,812**	4,982,093	3,834,060	3,554,990	3,558,441
Total liabilities	**(3,481,435)**	(3,038,788)	(2,596,573)	(2,554,289)	(2,274,401)
Net assets	**2,507,377**	1,943,305	1,237,487	1,000,701	1,284,040

Chairman's Statement

Dear Shareholders,

In 2011, the growth in the global economy and the economy of the PRC apparently slowed down, which was affected by numerous factors, such as the debt crisis in Europe. Being affected directly by the macro-economic control policies imposing on both real estates and automobiles industry, there was a slowdown in the growth of demand in the glass industry in the PRC. In the meantime, the production line constructed in 2010 when the industry was booming gradually commenced operation in 2011. Supply in the glass market during 2011 exceeded demand. In addition, the prices of raw materials and fuels required for the production of glass demonstrated an upward rising trend in 2011, which resulted in the surge of production costs for the glass industry. Subject to a two-pronged pressure from the fall of price in the industry as a whole and the surge in cost, economic efficiencies dropped significantly.

The development of the Group's businesses was seriously affected by the stringent conditions in the industry during 2011. Despite the Group being subjected to the prevailing market conditions, the Group still adhered to the development strategy of "Two-High-One-Low" (high technology, high quality and low costs)" adopted in 2010. The product structure was adjusted proactively by the Company to enlarge the production capacity of high value-added products. The keen competition arising from general glass market was mitigated to a certain extent. At the same time, new fuel technologies continued to be implemented, which increased the use of low cost fuel so as to reduce production costs. The Group achieved economic benefits higher than the average standard in the industry.

The global economy will still face a lot of uncertainties in 2012. The macro-economic control policies imposed by the PRC over its real estate industry, which is closely associated with the glass industry, will continue to be effective. However, as there had occurred self adjustment in the glass market since the second half of 2011, such as suspending operation of certain production lines and reducing the number of new production lines to be constructed, it is expected that by the middle of 2012, the supply and demand relationship in the industry will be gradually improved. In addition, we also noted that the demand for housing arising from the accelerating urbanization process in the PRC is still strong. The government is devoting its efforts to expand the construction of social security housing, which is conducting alongside with the control policies over commodity housing, so as to satisfy the public demand. This initiative will effectively uphold the stable growth in demand for glass products.

In addition, the PRC government also published guidance measures according to the "Twelfth Five-Year Development Plan" of Building Materials Industry, which will steer the sound development of the glass industry in the PRC, promote restructuring in the industry, and develop energy saving and new energy products. This will contribute significantly to the integration of the industry, and will also bring new opportunities to the development of the Group.

To reconcile from the above, the Group will continue to adhere to the development strategy of "Two-High-One-Low". The competitiveness of the products will be enhanced through ongoing technology advancement and upgrading the product hierarchy. This in turn will enhance the competitiveness of the Group in the market through maintaining the edges in its core competencies. In the meantime, the Group will continue to implement its long term development strategies of combining organic growth with increasing numbers of mergers and acquisitions. We will seek to achieve the mission of transforming from a general glass manufacturer to one of the largest energy saving and new energy glass manufacturer in the PRC.

With the sustainable development of the economy in the PRC and steady implementation of the Company's strategies, I am confident with the prospects of the Company.

On behalf of the Board, I would like to thank all shareholders and the dedicated and hardworking staff who have supported the Group. I would also like to give my sincere thanks on behalf of the Group to our customers, suppliers and other cooperation partners for their confidences and trusts in us.

Zhou Cheng
Chairman

Management Discussion and Analysis

MARKET REVIEW

In 2011, driven by new production capacity putting into operation, the glass market in the PRC saw rapidly growing supply, while the increase in demand for glass slowed down sharply affected by the control policies imposed on the real estate and automobile policy control.

According to statistics from the Glass Information Network, in 2011, there were 23 new glass production lines in the PRC with daily melting capacity increasing by 17,400 tonnes, representing a year-on-year increase of 13.93%. Although some production lines suspended operations for overhaul in the second half of the year, glass output in 2011 maintained at a high level.

At the same time, due to increasing requirements for energy saving and environmental protection, the domestic demand for energy saving products such as low-emission ("Low-E") coated glass were gradually soaring. In short, in 2011, the glass industry saw continuously declining selling price (running at a low level) and persistently rising price of raw materials and fuels (running at a high level). The profit margin of glass enterprises was limited by these two factors.

In a word, China's glass industry suffered the most rigorous market conditions in 2011, especially the second half of the year. As a result, enterprises with deficient ability to mitigate risk began to suspend production as a measure to respond to the crisis.

BUSINESS REVIEW

Overview

The Group had 17 glass production lines, of which there were 14 float glass production lines and 3 rolling glass production lines for solar power ultra-clear photovoltaic glass. The melting capacity amounted to 7,630T/D. The melting capacity of the Group increased by 860T/D compared with that of last year. In 2011, there were 1 new online transparent conducting oxide ("TCO") glass and online Low-E glass production line added in Linyi, 1 new production line in Nanjing and 1 new production line in Wuhai both under construction. As at 31 December 2011, the Group had 11 glass production lines in operation. Operations at the float glass production line of Qinchang in Beijing, a patterned glass production line in Nanjing, a production line in Suqian and a production line in Weihai were suspended for overhaul or technical transformation.

In addition, there was also 1 offline Low-E coated glass production line with an output of 3 million square meters per annum and 1 amorphous silicon thin-film battery production line with production capacity of 12MW per annum.

In 2011, the Group produced 39.23 million weight cases of glass in different categories, representing an increase of 3.72 million weight cases from last year, or a year-on-year increase of 10.48%.

In 2011, under the guidance of the strategic plan of "Two-High-One-Low" (high technology, high quality, and low cost), the Group actively promoted technical transformation through increasing technical investment and by taking advantage of market downturn. The production lines previously used for producing low value-added products were upgraded technically. The Group actively adjusted the product structure and made efforts to increase the technology content of products and to improve product quality. At the same time, the Group tried to increase the share of high value-added products in the overall mix, amid the market condition where both output-to-sales ratio and price declined, by means of expanding scale, stabilizing output, improving quality and developing new markets, so as to ease the impact of the decline of the industry as a whole on corporate profit and consolidate the market share of high-end products. Moreover, the Group achieved relatively better operating results in the industry by taking the measures of reducing costs such as technical transformation and strategic sourcing.

Raw materials prices and production costs

In 2011, the price of major raw materials and fuels as well as labor costs surged. During the first three quarters, the prices of raw materials and fuels, such as petroleum powder, coal tar, coal and soda ash climbed remarkably. In the fourth quarter, the prices of raw materials and fuels fell moderately. In 2011, fuel oil prices advanced to a level with 15% higher than same period of last year and the price of soda ash, a major raw material of the glass industry, rose about 30% compared with that in 2010. The prices of other raw materials also soared to different extent.

In 2011, the consolidated average cost of sales for the glass products of the Group increased by 7.69% than the same period of last year. The increase in cost was mainly due to the following two reasons: firstly, the rising price of raw materials procurement; secondly, the proportion of coated glass, energy saving and new energy glass products with higher costs increased. The Group effectively reduced the cost of fuels through the low-cost fuel substituting technology, so that increase of the overall cost was much lower than that of the industry.

Production, sales and selling price

In 2011, the production lines in operation of the Group maintained sound operating conditions. A total of 39.23 million weight cases of glass of different types were produced, representing an increase of 3.72 million weight cases or 10.48% compared with that of the same period of last year. The Group sold a total of 36.02 million weight cases of glass of different types for the year. The output-to-sales ratio was 91.8%. The consolidated average selling price of glass products for the year decreased by 6.98% compared with last year.

Profit analysis

In 2011, the profit after tax of the Group was RMB212 million, representing a decrease of RMB295 million from the same period of last year, of which the operating profit declined by RMB269 million, representing a decrease of 43.5%. The decrease in profit after tax was mainly due to substantially increasing raw materials price and declining selling price.

The strategy of "Two-High-One-Low" achieved initial success

In 2011, the Group continued to maintain its leading edge in high technologies. Apart from online Low-E products, the development of online TCO glass production technology also made further progress and was put into test operation in Linyi production base. The production of high-end products by low-cost energy was realized.

The Group devoted itself to adjust the product structure by fully leveraging its leading edge in technologies and in connection with market demands and development trend, and at the same time ensuring the long-term stability of product quality. In terms of the percentages shared in turnover, the comparisons for different types of products between 2011 and 2010 were as follows: the proportion for clear glass decreased from 45.80% in 2010 to 32.94% in 2011, the proportion of painted glass increased from 21.52% in 2010 to 25.89% in 2011, the proportion of coated glass increased from 24.18% in 2010 to 30.02% this year, and the proportion of energy saving and new energy glass products increased from 8.50% in 2010 to 11.14% in 2011.

The Group adopted various measures to reduce costs and achieved remarkable effect. Taking the fuel costs that accounted for about 30% of total manufacturing costs for example, the Group continued to optimize and improve the "new solid fuel spraying and blowing technology" with independent intellectual property rights, and optimized the combustion process system and amplified its application scope in the Group's existing production lines to enhance the spraying and blowing ratio. In addition, the Company improved the strategic layout of new production capacity to utilize low-cost scarce energy. Under this strategy, the new production lines in the production bases of Dongtai, Linyi, and Wuhai exclusively purchase cheap coke gas as fuels locally, thus greatly reducing the production cost and decreasing the pollution of local environment by the gas emissions. At the same time, the Group applied its own patented technology to produce high value-added energy saving and new energy glass products in such bases, accomplishing "making the waste profitable" and achieving good economic and social benefits.

Energy saving and emission reduction

The Group's technical transformation projects of waste heat power generation in the production bases at Suqian and Dongtai have been put into operation.

All of the Group's production lines implemented the desulphurisation and dust removal technologies and reduced emissions to meet the discharge standard. The substances derived from desulphurisation were also recycled to substitute the raw material sodium sulfate, which not only met the environmental requirements, but also reduced costs.

Acquisition of minority interest of high-quality subsidiaries and capital increase to high-quality subsidiaries

The Group completed a placement and issuance of 200,000,000 new shares in May 2011. The proceeds were applied for the acquisition of minority interests of certain subsidiaries and providing additional working capital. As at the end of the reporting period, the following acquisitions of minority interests or capital increase were completed:

(1) acquired 25% equity interest of Weihai Blue Star New Technology Glass Co., Ltd. ("Weihai New Technology"), upon which the interests held by the Group and its subsidiaries reached 98.50% in aggregate;

(2) acquired 11.48% equity interests of Zhongbo Technology Co., Ltd. ("Zhongbo Technology"), upon which the interests held by the Group and its subsidiaries reached 88.16% in aggregate;

(3) acquired 2.406% equity interests of Wuhai Blue Star Glass Co., Ltd. ("Wuhai Blue Star"), upon which the interests held by the Group and its subsidiaries reached 99.76% in aggregate;

(4) acquired 49% equity interests of Dongtai China Glass Special Glass Co., Ltd. ("Dongtai Zhongbo"), upon which the interests held by the Group and its subsidiaries reached 100% in aggregate;

(5) acquired 17.44% equity interests of Zhongbo Bluestar (Linyi) Glass Co., Ltd. ("Linyi Blue Star"), upon which the interests held by the Group and its subsidiaries reached 76.21% in aggregate; and

(6) acquired 16,660,000 public shares or 15.47% equity interests of Weihai Blue Star Glass Co., Ltd. ("Weihai Blue Star"), upon which the interests held by the Group and its subsidiaries reached 90.67%.

At the same time, the Group completed the capital increases to Jiangsu Suhuada New Materials Company Limited ("Suhuada"), Dongtai Zhongbo, Linyi Blue Star and Weihai China Glass Solar Company Limited ("Zhongbo Solar"). The funds were used as expenditure for technical transformation projects to realize the orientation and transformation of the production base of high-end products.

SHARE AWARD SCHEME

The Group adopted the share award scheme on 12 December 2011. The Group believed that the commitment and contribution of employees were one of the key factors for the Group to achieve success one after another. The share award scheme aimed at rewarding employees for their contributions to the Group, retaining excellent employees for the continual operation and development of the Group, and attracting external eligible personnel for further development of the Group. Please refer to the section headed "Report of the Directors – Share Award Scheme" for details.

OUTLOOK

2012 is the second year for the "12th Five-Year Plan" period of the PRC. With the further improvement of people's livelihood by the State, especially that of the security housing system, the increase of investment in environmental protection and energy saving, the development of central and western regions as well as the investment into strategic emerging industries etc., the sheet glass industry will gradually revive. At the same time, the energy saving products and new energy products will grow faster on favorable policies.

The Group believes that the glass market in 2012 will trend downwards before gradually recovering and the profit margin of enterprises will gradually return to the normal level, as analyzed as follows:

Influence of international and domestic macro-economic development trend

In 2012, China will continue to implement the proactive fiscal policy and prudent monetary policy, accelerate the transformation of the economic development pattern and the economic restructuring, vigorously expand domestic demand, strengthen the independent innovation and energy saving and emission reduction, make efforts to ensure and improve people's livelihood and maintain the stable economic development; all these will have an impact on the glass market.

Influence of national industrial policies and economic development strategies

The real estate industry will continue to be the major force to boost the demand for glass. In the coming period of time, although real estate control policies will continue, the demand for housing will see strong growth with changes in structure only. In particular, the implementation of a series of economic development strategies such as the gradual completion of the government security housing construction, the advance of urbanization construction, and the acceleration of new countryside construction will definitely promote the sound and stable development of the real estate industry. The Group forecasts that the second half of 2012 will see the corresponding driving growth, when the sheet glass industry will re-enter a promising cycle.

The development of the automobile industry will continue to drive the consumer demand for high-quality float glass. There will still be great purchase potential in the automobile consumption field in the future, which will drive the rapid growth of the safety glass for cars.

Energy saving and emission reduction has become a basic national policy of the State. The State has successively issued a series of laws and regulations such as the Energy Conservation Law of the People's Republic of China, Management Stipulations of Building Safety Glass, the 12th Five-Year Plan for Industrial Energy Conservation, the 12th Five-Year Development Plan for Solar Photovoltaic Industry. These industrial policies will definitely promote the use of energy saving products of the State, whilst the application of energy saving glass products is the primary and most convenient way to achieve the goal of energy saving buildings. This will bring an extremely broad prospect for the development of Low-E glass, titanium series sunlight easy clean coated glass ("Sun-E glass") and various kinds of hollow and laminated safety glass that have safety, energy saving and environmental protection features. In addition, new energy products, especially construction energy saving integrated products, will become increasingly valued, which will provide policy guarantee for the development of TCO glass and other solar products.

Besides, the policy guidance of industry integration will make the glass industry get rid of a vicious cycle featured by traditional expansion – vicious competition – industry loss contraction – recovery of profitability in the industry – re-expansion. The Flat Glass Industry Access Conditions and the 12th Five-Year Development Plan for Building Materials Industry issued by the State strictly limit the capacity expansion of ordinary sheet glass with high energy consumption and low output, and play a positive role in controlling new capacity, eliminating obsolete capacity, optimizing industrial structure, accelerating the development of high-end products, and intensifying industrial mergers and acquisitions.

As the Group's previous development strategic direction is transiting into a glass producer of high value-added glass products with features of energy saving and new energy and the strategy is basically consistent with the national macro-industrial policy and economic development strategy, national control policies will be more conducive to the development of the Group.

Forecast of market demand for glass

The Group forecasts that the growth in the new construction area of housing properties will continue to slow down in 2012 from 2011 and will not improve until the end of the third quarter of 2012. As a large number of demands for glass from the security housing construction in 2011 will be reflected in 2012, it will partially offset the impact of growth decline in new construction rate in the first half of 2012 on the demand for glass. The demand for glass from renovation and decoration markets may have a certain inertia growth, of about 5% as expected, in 2012. The Group expects that the demand from the automotive glass market will still maintain a certain level of growth in 2012. The glass export market will suffer great pressure. The proportion of the export volume of the glass industry of the PRC was about 20% in 2011. Due to many uncertainties of the international economic situation, this proportion in 2012 is expected to be the same as that of the previous year.

In addition, The Group predicts that the demand for energy saving and new energy glass products (excluding ordinary solar cover glass) will continue to grow rapidly.

Forecast of supply of raw materials and fuels

In the coming period of time, affected by the change of proactive monetary policies to prudent ones, the persistent implementation of control policies for real estate and the strict control over new construction projects of the Government, the investment growth in the PRC will continue to slow down. Prices of raw materials and fuels will continue to trend downwards in 2012 due to sluggish demand. In particular, the market demand for soda ash continued to stay low on adverse economic environment and the price is expected to remain at a low level for a period of time in the future. Fuel oil prices will continue to fluctuate in accordance with international oil prices and are expected to fluctuate higher in 2012. Coal prices are expected to fall in the first half of 2012 as curbed by demand and will rebound in the second half of 2012. Petroleum powder prices will decline moderately in 2012 as influenced by the sluggish downstream industry. The price of silicon sand is expected to change marginally in the short term.

In a conclusion of above, the market demand for deep processing glass products, including: functional glass of environmental protection and energy saving effects featuring Low-E glass, TCO glass, ultra-clear glass, coated glass as well as hollow glass, tempered glass, vacuum glass with additional security features, will maintain rapid growth. The competition of ordinary float glass will be more intense. It is expected that the selling price of glass products will show the trend of drop – stabilize – rally in 2012. Glass enterprises will gradually return to the normal level of profitability.

For the market estimation in 2012, the Group will continue to stick to the development strategy of "Two-High-One-Low" and will focus on the following areas:

I. To continually strengthen research and development work and ensure "high-tech" products. The Group will continually focus on the online Low-E glass, Sun-E glass and TCO glass, comprehensively promote these high-quality technologies and steady large-scale production process, ensure the Company's leading edge in technologies, and expand the coverage of these technologies in the Group's production lines on this basis.

II. To continually strengthen the unified and standardized quality assurance system and ensure the "high quality" of products institutionally. The Group will, first, intensify the unified standard for product quality and process technologies; second, strengthen the monitoring of production, safety, environmental protection, energy consumption and other indicators on various production bases; third, strengthen the supervision of the product manufacturing and equipment management. Meanwhile, the Group will take the opportunities of new construction, relocation and overhaul to conduct technological transformation of production lines to ensure the "high quality" of products from basic hardware.

III. To reduce production costs based on the premise of ensuring high-tech and high quality of products. First, the Group will continue with the research in substitute fuel projects, improve the mature "spraying and blowing technology" of the substitution of coal powder and petroleum powder for heavy oil, and do the technical grafting or transplantation work well; second, steadily enhance the efficiency of production lines which use low-cost coke-oven gas; and third, continue with the research in a new generation of energy saving technologies.

IV. To speed up the integration of supply and sales for reducing operating costs. The Group will continue to promote the full integration of sales, create a unified brand, and enhance the market competitiveness. The Group will continually promote the full consolidation of supply and carry out the unified procurement of bulk raw materials and fuels by innovative methods and technical tools to reduce procurement costs.

V. The Group will increase its efforts in the raw material base construction of silicon sand and stone to ensure the quality of supply of raw materials and reduce costs.

VI. The Group will continually pay close attention to the policy of industrial adjustment of the state and the market development trend; track, analyze and study competitors' advantages and disadvantages as well as industry operating trend; pay attention to the development dynamics and mode of operation of the enterprises in upstream and downstream industry chains to make full preparations for the potential acquisition opportunity of the Company in the future industry trough.

Management Discussion and Analysis (continued)

FINANCIAL REVIEW

Turnover

The Group's turnover decreased mildly by approximately 7% from RMB3.15 billion for the year ended 31 December 2010 to RMB2.95 billion for the year ended 31 December 2011. This was mainly attributable to a decrease of 7% in the annual average selling price compared to the last year due to a significant decrease in the glass market price since the second half of the year although the Group increased the proportion of high value-added products.

Cost of sales

The Group's cost of sales increased by approximately 9% from RMB2.29 billion for the year ended 31 December 2010 to RMB2.50 billion for the year ended 31 December 2011. This was mainly attributable to the increase in unit cost by 8% due to the increase in purchase prices of major raw materials and fuels such as soda ash and petroleum powder.

Gross profit

The Group's gross profit decreased by approximately 49% from RMB861 million for the year ended 31 December 2010 to RMB442 million for the year ended 31 December 2011. This was mainly attributable to the decrease in gross profit margin. Gross profit margin decreased from 27% in 2010 to 15% in 2011, which was mainly due to the combined effect of the fall in the average selling price and the increase in unit costs as stated above.

Other net income

The Group's other net income increased from RMB8.11 million for the year ended 31 December 2010 to RMB181 million for the year ended 31 December 2011. This was primarily attributable to the expropriation of the land use right owned by Wuhai Blue Star by the local government in 2011 which resulted in a gain of approximately RMB168 million.

Distribution costs

The Group's distribution costs increased by approximately 27% from RMB77.49 million for the year ended 31 December 2010 to RMB98.08 million for the year ended 31 December 2011. This was mainly attributable to the increase in the cost of export fees as a result of increase in the Group's export sales and the increase of the domestic freight expenses.

Administrative expenses

The Group's administrative expenses increased by approximately 22% from RMB206 million for the year ended 31 December 2010 to RMB251 million for the year ended 31 December 2011. This was mainly due to the payment of city construction tax and education surcharge imposed on foreign-owned enterprises in Mainland China effective from the end of last year and the increase in staff cost and depreciation charges as a result of expansion in the production capacity.

Finance costs

The Group's finance costs decreased from RMB94.28 million for the year ended 31 December 2010 to RMB68.36 million for the year ended 31 December 2011. This was mainly attributable to the increase in the exchange gains of the Group resulting from the appreciation of RMB for the year.

Income tax

The Group's income tax decreased from RMB101 million for the year ended 31 December 2010 to RMB69.75 million for the year ended 31 December 2011. This was mainly due to the decrease in taxable profits of certain PRC subsidiaries of the Group.

Non-current assets

The Group's non-current assets increased by approximately 16% from RMB3.274 billion as at 31 December 2010 to RMB3.802 billion as at 31 December 2011, which was mainly attributable to the completion of the second production line at Linyi, the construction of new production line at Wuhai and the overhaul and upgrade of production line of Qinchang.

Current assets

The Group's current assets increased by approximately 28% from RMB1.709 billion as at 31 December 2010 to RMB2.187 billion as at 31 December 2011. The increase was mainly attributable to the increase in inventories and accounts receivable at the end of the year due to the expansion of the scale of production capacity as well as a change in market demand and supply.

Current liabilities

The Group's current liabilities increased by approximately 59% from RMB1.898 billion as at 31 December 2010 to RMB3.013 billion as at 31 December 2011. The increase was mainly attributable to a proportion of long term borrowings and unsecured notes becoming due in 2012 and being transferred to current liabilities by the Group and the increase in short term bank borrowings.

Non-current liabilities

The Group's non-current liabilities deceased by approximately 59% from RMB1.141 billion as at 31 December 2010 to RMB468 million as at 31 December 2011. This was mainly attributable to a proportion of long term borrowings and unsecured notes becoming due in 2012 and being transferred from non-current liabilities.

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

As at 31 December 2011, the Group's cash and cash equivalents were RMB546 million (31 December 2010: RMB828 million), of which 86% were denominated in RMB, 11% were denominated in United States dollars ("USD") and 3% were denominated in Hong Kong dollars ("HK$"). Outstanding bank and other loans were RMB1.064 billion (2010: RMB760 million), of which 84% were denominated in RMB (31 December 2010: 74%) and 16% were denominated in USD (31 December 2010: 26%). Outstanding unsecured notes amounted to RMB530 million (31 December 2010: RMB542 million), of which 28% were denominated in RMB (31 December 2010: 27%) and 72% were denominated in USD (31 December 2010: 73%). As at 31 December 2011, the gearing ratio (total interest-bearing debts divided by total assets) was 27% (31 December 2010: 28%). As at 31 December 2011, the Group's current ratio (current assets divided by current liabilities) was 0.73 (31 December 2010: 0.90). The Group recorded net current liabilities amounting to RMB826 million as at 31 December 2011 (31 December 2010: RMB189 million). Assets-liabilities ratio (total liabilities divided by total assets) of the Group was 0.58 (31 December 2010: 0.61).

Details of the Group's bank and other loans and unsecured notes were set out in Note 24 and Note 26, respectively, to the financial statements.

Material acquisitions or disposals

On 25 May 2009, Keen Moral Investment Limited ("Keen Moral") and Suhuada, both being wholly-owned subsidiaries of the Group, entered into an equity transfer agreement (the "Equity Transfer Agreement") with Jiangsu Glass Group Co., Ltd. ("Subo Group") and Dongtai Zhongbo, pursuant to which Keen Moral and Suhuada agreed to transfer a total of 49% equity interest in Dongtai Zhongbo to Subo Group. Pursuant to the Equity Transfer Agreement, Subo Group has also granted Keen Moral or its nominee an exclusive and irrevocable option to acquire part of or the whole of the 49% of the equity interest in Dongtai Zhongbo held by Subo Group (the "Option"). On 28 February 2011, Suhuada (as a nominee of Keen Moral) exercised the Option to request Subo Group to transfer to it 49% of the equity interest in Dongtai Zhongbo at the consideration of RMB69.1 million. The transfer of the equity interest pursuant to the Option was completed on 12 May 2011 and Dongtai Zhongbo has become a wholly-owned subsidiary of the Group.

On 31 March 2011, Keen Moral acquired an additional 25% equity interests in Weihai New Technology, a non-wholly owned subsidiary of the Group, for a consideration of USD12.4 million. Upon completion of this acquisition and the acquisition of equity interests in Weihai Blue Star as mentioned below, the Group's effective interest in Weihai New Technology increased from 53.91% to 91.13%. Therefore, the Group recognized a decrease in non-controlling interests of RMB91,400,000.

On the same date, Poweridea Limited, a wholly-owned subsidiary of the Group, acquired an additional 11.48% equity interests in Zhongbo Technology, a non-wholly owned subsidiary of the Group, for a consideration of RMB39.0 million. Upon completion of this acquisition and the acquisition of equity interests in Weihai Blue Star as mentioned below, the Group's effective interests in Zhongbo Technology increased from 61.67% to 82.51%. Therefore, the Group recognized a decrease in non-controlling interests of RMB44,400,000.

On 31 March 2011, Bondtime Holdings Limited, a wholly-owned subsidiary of the Group, acquired 16.72% equity interests in Wuhai Blue Star from Hangzhou Blue Star New Materials Technology Company Limited, another subsidiary of the Group, at a consideration of RMB17,100,000. On 31 March 2011, Weihai Blue Star Technology Industrial Park Company Limited, a subsidiary of the Group acquired an additional 2.406% equity interests in Wuhai Blue Star at a consideration of RMB2,500,000. Upon the completion of the above acquisitions and the acquisition of equity interests in Weihai Blue Star as mentioned below, the Group's effective interests in Wuhai Blue Star increased from 79.96% to 93.94%. Therefore, the Group recognized a decrease in non-controlling interests of RMB3,700,000.

On 27 June 2011, Keen Moral acquired an additional 17.44% equity interests in Linyi Blue Star, a non-wholly owned subsidiary of the Group, for a consideration of RMB25.8 million. In August 2011, Keen Moral and another non-controlling equity interests holders injected a total of RMB52,000,000 to Linyi Blue Star, increasing its paid-up capital from RMB148,000,000 to RMB200,000,000. Upon the completion of the above acquisition and capital increase, and together with the acquisition of equity interests in Weihai Blue Star as mentioned below, the Group's effective interests in Linyi Blue Star increased from 43.11% to 77.04%. Therefore, the Group recognized a decrease in non-controlling interests of RMB26,300,000.

On 9 December 2011, Dongtai Zhongbo acquired additional 15.47% equity interests in Weihai Bluestar, at a consideration of RMB108,000,000. Upon the completion of the above acquisitions, the Group's effective interests in Weihai Bluestar increased from 73.34% to 89.97%. Therefore, the Group recognized a decrease in non-controlling interests of RMB108,700,000.

Further details of all of the above transactions were set out in Note 30 to the financial statements.

Save as disclosed above, the Group did not have any material investments or capital assets, or material acquisitions or disposals of subsidiaries and associated companies for the year ended 31 December 2011. Save as disclosed in the section headed "Outlook" above, as at the date of this report, the Group has no plan to make any material investment in or acquisition of capital assets.

Human resources and employees' remuneration

As at 31 December 2011, the Group had employed a total of approximately 6,584 employees in the PRC and Hong Kong (31 December 2010: about 6,933 employees). According to the relevant market situation, the Group's employees' remuneration level has maintained at a competitive level and is adjusted in accordance with the employees' performance.

The employees of the companies in the Group which were established in the PRC and in Hong Kong participate in defined contribution retirement benefit schemes and Mandatory Provident Fund Scheme, respectively. Details of staff costs and pension schemes were set out in Note 6(b) to the financial statements.

Charge on assets

Details of the Group's charge on assets were set out in Notes 22 and 24 to the financial statements.

Capital commitments

Details of the Group's capital commitments as at 31 December 2011 were set out in Note 32 to the financial statements.

Contingent liabilities

As at 31 December 2011, the Group did not have any significant contingent liabilities.

Exchange rate risk and related hedging

The Group's sales transactions and monetary assets were primarily denominated in RMB, HK$, USD and Euro Dollars ("EUR"). Operating expenses and domestic sales of the Group's PRC subsidiaries were primarily denominated in RMB, and certain borrowings of the Group were denominated in USD. The Group was of the opinion that the future fluctuation of RMB will closely associate with the development of the PRC economy. Our assets, profits and dividends may be affected by the fluctuation of the RMB exchange rate. Details of the Group's exchange rate risk were set out in Note 33(d) to the financial statements.

During the year ended 31 December 2011, the Group had not adopted any derivatives for hedging purposes.

Major customers and suppliers

The percentage of purchases and sales for the year ended 31 December 2011 attributable to the Group's major suppliers and customers are as follows:

Purchases	
– the largest supplier	8%
– five largest suppliers combined	27%
Sales	
– the largest customer	11%
– five largest customers combined	17%

During the year ended 31 December 2011, no director of the Company ("Director(s)") or any associates of a Director or any shareholder (which to the knowledge of the Directors owns more than 5% of the Company's share capital) of the Company has any interest in any of the Group's five largest customers and suppliers.

The Board of Directors (the "Board") have pleasure in submitting their annual report together with the audited financial statements of the Company for the year ended 31 December 2011.

PRINCIPAL ACTIVITIES

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

PROPOSED DISTRIBUTIONS

The profit of the Group for the year ended 31 December 2011 and the state of the Company's and of the Group's affairs as at that date are set out in the financial statements on pages 44 to 134.

The Board proposed to make a distribution of an amount of HK$15,501,470.58 (representing HK$0.01 per ordinary share) out of the contributed surplus account of the Company, payable to the shareholders of the Company whose names appear on the register of members of the Company at the close of business on 21 May 2012, subject to approval by the shareholders of the Company of the proposal (i) to reduce the share premium and transfer the credit arising therefrom to the contributed surplus account; and (ii) the distribution out of the share premium account, at the annual general meeting of the Company to be held on 15 May 2012 (31 December 2010: the final dividends declared by the Company was HK$0.015 per ordinary share, after adjusting for the share split in 2011, details of which are set out in Note 29(c)(ii) to the financial statements). Further details are set out in Note 29(b) to the financial statements.

RESERVES

Details of distributable reserves of the Company are set out in Note 29(e) to the financial statements.

Details of movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity of the financial statements. Details of movements in the reserves of the Company during the year are set out in Note 29(a) to the financial statements.

DONATIONS

There was no donation made by the Group during the year ended 31 December 2011 (2010: Nil).

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group and of the Company during the year are set out in Note 12 to the financial statements.

SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in Note 29(c) to the financial statements.

PRE-EMPTIVE RIGHTS

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

Report of the Directors (continued)

DIRECTORS

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

Executive Directors

Mr. Zhang Zhaoheng *(Chief Executive Officer)*
Mr. Li Ping
Mr. Cui Xiangdong

Non-Executive Directors

Mr. Zhou Cheng *(Chairman)*
Mr. Zhao John Huan
Mr. Chen Shuai
Mr. Ning Min (appointed on 30 June 2011)
Ms. Lu Minghong (appointed on 12 December 2011)
Mr. Liu Jinduo (resigned on 30 June 2011)
Mr. Eddie Chai (resigned on 27 October 2011)

Independent Non-Executive Directors

Mr. Sik Siu Kwan
Mr. Zhang Baiheng
Mr. Zhao Lihua (appointed on 30 June 2011)
Mr. Song Jun (resigned on 30 June 2011)

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

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

CONTINUING CONNECTED TRANSACTIONS

Purchase of Raw Materials and Labour Services Agreement

Upon the expiry of a former master agreement on 31 December 2010 whereby Weihai Blue Star and its subsidiaries agreed to purchase raw materials and receive labour services from Shandong Bluestar Glass (Group) Company Limited ("Shandong Bluestar"), Weihai Blue Star and Shandong Bluestar entered into a new master agreement on 17 December 2010 for a term of three years commencing from 1 January 2011, pursuant to which Shandong Bluestar agreed to provide the packaging materials, gas supply, labour and rental services to the Group on a continuing basis.

At the time of the transaction, Shandong Bluestar was a non-wholly owned subsidiary of Legend Holdings Limited. Legend Holdings Limited indirectly held 40% equity interests in Hony International Limited ("Hony International") and Hony International indirectly held approximately 32.80% equity interests in the Company as at the date of the transaction and was a substantial shareholder of the Company. Therefore, Shandong Bluestar was an associate of the substantial shareholder of the Company and a connected person of the Company, until Hony International disposed of its entire interest in Shandong Bluestar to an independent third party of the Company on 20 January 2011. For the period from 1 January 2011 to 20 January 2011 (being the period of time when Shandong Bluestar was a connected person of the Company), the Group has not purchased any raw materials nor received any labour services from Shandong Bluestar.

Master Supply Agreement

On 21 September 2009, Zhongbo Solar, a non-wholly owned subsidiary of the Group, and Zhuhai Singyes Green Building Technology Co., Ltd. ("Zhuhai Singyes", formerly known as Zhuhai Singyes Curtain Wall Engineering Co., Ltd.) entered into a master supply agreement for a term of three years commencing 1 January 2009, pursuant to which Zhongbo Solar agreed to supply amorphous silicon thin-film battery and its building-integrated photovoltaic parts manufactured by Zhongbo Solar to Zhuhai Singyes on a continuing basis.

At the time of the transaction, Zhongbo Solar was a non-wholly owned subsidiary of the Group which was owned as to 67% by a subsidiary of the Group and China Singyes Solar Technologies Holdings Limited ("China Singyes"), which held directly or indirectly, an aggregate of 33% equity interest in Zhongbo Solar, was a substantial shareholder of Zhongbo Solar. Zhuhai Singyes was owned as to 75% by China Singyes and was a non wholly-owned subsidiary of China Singyes. Accordingly, Zhuhai Singyes was a connected person of the Company. The total sales amount under the master supply agreement for the year ended 31 December 2011 was RMB3.54 million.

Except for the above transactions, the Group's other transactions with Zhuhai Singyes for the year ended 31 December 2011 are exempt from the reporting, annual review, announcement and independent shareholder's approval requirements under Rule 14A.33 of the Listing Rules.

Lease Agreement

On 21 September 2009, Zhongbo Solar entered into a lease agreement ("Lease Agreement") with Shandong Bluestar for a term of three years commencing 1 January 2009 in relation to the leasing of a production site in Shandong Province, the PRC.

At the time of the transaction, Shandong Bluestar was an associate of Hony International, a substantial shareholder of the Company and a connected person of the Company. As stated above, Shandong Bluestar ceased to be a connected person of the Company on 20 January 2011. For the period from 1 January 2011 to 20 January 2011 (being the period of time when Shandong Bluestar was a connected person of the Company), the operating lease expenses incurred under the Lease Agreement was RMB0.09 million.

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

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

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

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

The Company has complied with all the applicable requirements in accordance with Chapter 14A of the Listing Rules for all of the above continuing connected transactions.

Further, the Company has engaged its external auditor to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued an unqualified letter containing their conclusions in respect of the non-exempted continuing connected transactions set out above in accordance with Listing Rule 14A.38. A copy of the auditor's letter has been provided by the Company to The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

CONNECTED TRANSACTIONS

Exercise of Option to transfer 49% of equity interest in Dongtai Zhongbo from Subo Group by Suhuada

On 28 February 2011, Suhuada (as nominee of Keen Moral) exercised the Option to request Subo Group to transfer to it 49% of the equity interest in Dongtai Zhongbo at the consideration of RMB69.1 million. Details of which are set out in the section headed "Management Discussion and Analysis – Material acquisitions or disposals". At the time of the transfer, Subo Group was a substantial shareholder of Dongtai Zhongbo which was a non-wholly owned subsidiary of the Group. Subo Group was therefore a connected person of the Company at the time of transfer.

The above transaction constituted both a discloseable and non-exempt connected transaction of the Company which was subject to the reporting, announcement and approval of its independent shareholders at the special general meeting. The resolution of the transaction was passed by the shareholders at the special general meeting held on 1 April 2011. The transfer of the equity interest pursuant to the Option was completed on 12 May 2011 and Dongtai Zhongbo has become a wholly-owned subsidiary of the Group.

Other than disclosed above, the Group was not involved in any non-exempt connected transactions for the year ended 31 December 2011.

The related party transactions are set out in Note 31 to the financial statements. Apart from the connected transactions disclosed above, all the other related party transactions did not fall within the scope of Chapter 14A of the Listing Rules which are required to comply with the reporting, announcement or independent shareholders' approval requirements.

DIRECTORS' INTERESTS IN CONTRACTS

During the year ended 31 December 2011, none of the Directors of the Company had any material interest, whether directly or indirectly, in any contracts of significance to which the Company, any of its holding company or any of its subsidiaries and fellow subsidiaries was a party.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

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

CONTRACT OF SIGNIFICANCE

No contracts of significance of the whole or any substantial part of the business of the Group were entered into or existed during the year ended 31 December 2011.

DIRECTORS' SERVICE CONTRACTS

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

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

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

As at 31 December 2011, the interests and/or short positions of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), (i) as recorded in the register required to be kept under section 352 of the SFO; or (ii) otherwise notified to the Company or the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") contained in the Listing Rules were as follows:

Name of Director	Company/name of associated corporation	Capacity	Total number of ordinary shares (1)	Percentage of interest in such corporation
Mr. Zhou Cheng	The Company	Beneficial owner	3,750,000 (L)	0.24%
Mr. Zhang Zhaoheng	The Company	Beneficial owner	30,510,000 (L)	1.97%
Mr. Li Ping	The Company	Beneficial owner	1,600,000 (L)	0.10%
Mr. Cui Xiangdong	The Company	Beneficial owner	13,600,000 (L)	0.88%

Note:

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

Save as disclosed above, as at 31 December 2011, none of the Directors or the chief executive of the Company had any interests or short positions in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were (i) recorded in the register kept by the Company pursuant to Section 352 of the SFO; or (ii) notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS

So far as the Directors are aware, as at 31 December 2011, the interest and/or a short position of the persons, other than Directors and chief executive of the Company, in the Shares or underlying Shares of the Company as recorded in the register required to be kept under Section 336 of the SFO were as follows:

The Company

Name	Capacity	Total number of ordinary shares (1)	Approximate percentage of shareholding
First Fortune Enterprises Limited	Beneficial owner	272,926,000 (L)	17.61%
Hony International Limited	Interest of a controlled corporation (2)	272,926,000 (L)	17.61%
Mei Long Developments Limited	Beneficial owner	104,750,740 (L)	6.76%
Easylead Management Limited	Interest of a controlled corporation (3)	377,676,740 (L)	24.36%
Right Lane Limited	Interest of a controlled corporation (3) (4)	412,676,740 (L)	26.62%
Mr. Cao Zhijiang	Interest of a controlled corporation (5)	377,676,740 (L)	24.36%
Mr. Liu Jinduo	Interest of a controlled corporation (5)	377,676,740 (L)	24.36%
Mr. Zhang Zuxiang	Interest of a controlled corporation (5)	377,676,740 (L)	24.36%
Legend Holdings Limited (6)	Interest of a controlled corporation (7)	412,676,740 (L)	26.62%
Pilkington Italy Limited	Beneficial owner	390,156,318 (L)	25.17%
Pilkington Brothers Limited	Interest of a controlled corporation (8)	390,156,318 (L)	25.17%
Pilkington Group Limited	Interest of a controlled corporation (9)	390,156,318 (L)	25.17%

Report of the Directors (continued)

Name	Capacity	Total number of ordinary shares (1)	Approximate percentage of shareholding
NSG UK Enterprises, Limited	Interest of a controlled corporation (10)	390,156,318 (L)	25.17%
NSG Holding (Europe) Limited	Interest of a controlled corporation (11)	390,156,318 (L)	25.17%
Nippon Sheet Glass Co., Ltd.	Interest of a controlled corporation (12)	390,156,318 (L)	25.17%
Public Mutual Berhad (As Fund Manager for PBAEF, PBCAEF, PBCAUEF, PBCPEF, PBEPEF, PBF, PCSF, PFA30F, PFEDF, PFES, PFETIF, PINDOSF, PRSEC & PSCF)	Beneficial owner	108,990,000 (L)	7.03%

Notes:

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

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

(3) Hony International Limited is owned as to 60% by Easylead Management Limited and 40% by Right Lane Limited. Mei Long Developments Limited is owned as to 60% by Easylead Management Limited and 40% by Right Lane Limited, Easylead Management Limited and Right Lane Limited are taken to be interested in the shares held by Hony International Limited and Mei Long Developments Limited by virtue of Part XV of the SFO.

(4) Elite World Investments Limited holds 35,000,000 shares of the Company. Elite World Investments Limited is wholly-owned by Cheer Elite Holdings Limited. Cheer Elite Holdings Limited is wholly-owned by Right Lane Limited. Right Lane Limited is taken to be interested in the shares held by Elite World Investments Limited by virtue of Part XV of SFO.

(5) Easylead Management Limited is owned as to one-third by each of Messrs. Cao Zhijiang, Zhang Zuxiang and Liu Jinduo. Each of them is taken to be interested in the shares held by Easylead Management Limited by virtue of Part XV of the SFO.

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

(7) Right Lane Limited is a direct wholly-owned subsidiary of Legend Holdings Limited. Legend Holdings Limited is taken to be interested in the shares held by Right Lane Limited by virtue of Part XV of SFO.

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

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

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

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

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

Save as disclosed above, as at 31 December 2011, no other person (other than a Director or the chief executive of the Company) had an interest or short position in the Shares or underlying Shares of the Company which were recorded in the register kept by the Company pursuant to Section 336 of the SFO.

SHARE OPTION SCHEME

The Company has conditionally adopted a share option scheme on 30 May 2005 in order to provide an incentive for the qualified participants to work with commitment towards enhancing the value of the Company and its Shares. The following is a summary of the principal terms of the rules of the share option scheme:

(a) Who may join

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

(b) The purpose of the share option scheme

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

(c) Subscription Price

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

(d) Grant of Option

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

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

(e) Maximum number of Shares

The maximum number of Shares in respect of which options may be granted under the share option scheme and any other share option schemes of the Company shall not in aggregate exceed the number of Shares that shall represent 10% of the total number of Shares in issue as at the listing date, which is 36,000,000 (representing 2.3% of the issued share capital as at the date of this annual report).

(f) Timing for exercise of options

The period during which an option may be exercised in accordance with the terms of the share option scheme shall be a period of time to be notified by the Board to each option-holder, which the Board may in its absolute discretion determine, save that such period shall not be more than 10 years commencing on the Offer Date.

(g) Life of the share option scheme

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

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

The closing price of the share of the Company at the date of grant was HK$3.50, before adjusting for the subdivision of shares in 2011. Movement of share options granted under the option scheme during the year ended 31 December 2011 are as follow:

Participant	Date of grant	Exercise price per share (Note) HK$	Exercise period from	until	No. of shares to be issued upon exercise of the options 1/1/2011 and 31/12/2011	Approximate percentage interest in the Company's issued shares
Directors						
Zhou Cheng	29/2/2008	1.75	28/2/2009	29/5/2015	1,500,000	0.10%
	29/2/2008	1.75	28/2/2010	29/5/2015	1,125,000	0.07%
	29/2/2008	1.75	28/2/2011	29/5/2015	1,125,000	0.07%
Zhang Zhaoheng	29/2/2008	1.75	28/2/2009	29/5/2015	1,500,000	0.10%
	29/2/2008	1.75	28/2/2010	29/5/2015	1,125,000	0.07%
	29/2/2008	1.75	28/2/2011	29/5/2015	1,125,000	0.07%
Li Ping	29/2/2008	1.75	28/2/2009	29/5/2015	640,000	0.04%
	29/2/2008	1.75	28/2/2010	29/5/2015	480,000	0.03%
	29/2/2008	1.75	28/2/2011	29/5/2015	480,000	0.03%
Cui Xiangdong	29/2/2008	1.75	28/2/2009	29/5/2015	640,000	0.04%
	29/2/2008	1.75	28/2/2010	29/5/2015	480,000	0.03%
	29/2/2008	1.75	28/2/2011	29/5/2015	480,000	0.03%
Employees	29/2/2008	1.75	28/2/2009	29/5/2015	11,160,000	0.72%
	29/2/2008	1.75	28/2/2010	29/5/2015	8,370,000	0.54%
	29/2/2008	1.75	28/2/2011	29/5/2015	8,370,000	0.54%
Total					38,600,000	

Note: The Company has undergone a subdivision of shares in April 2011 where each of the existing issued and unissued shares of par value of HK$0.10 each in the share capital of the Company has been subdivided into two subdivided shares of par value of HK$0.05 each. As a result of the subdivision, the exercise price per share for the option has been adjusted to HK$1.75.

No options were granted by the Group and no options granted were lapsed or cancelled for the year ended 31 December 2011. Details of the share options granted were set out in Note 27(a) to the financial statements.

SHARE AWARD SCHEME

The Board has approved the adoption of the share award scheme on 12 December 2011 ("Adoption Date"). The share award scheme will operate in parallel with the Company's share option scheme adopted on 30 May 2005.

(a) Who may join

Employee(s) are selected by the Board pursuant to the scheme rules for participation in the share award scheme (the "Selected Employee(s)"). Selected Employees can be any employee of the Group or Directors of the Company. If any grant of awarded shares is proposed to be made to Director (including an independent non-executive Director) of the Company, such grant must first be approved by all the members of the remuneration committee of the Company, or in the case where the grant is proposed to be made to any member of the remuneration committee, by all of the other members of the remuneration committee. In addition, where any grant of awarded shares is proposed to be made to any Director or any other person who is a connected person within the meaning of the Listing Rules, the Company shall comply with such provisions of the Listing Rules as may be applicable, including any reporting, announcement and/or shareholders' approval requirements, unless otherwise exempted under the Listing Rules.

(b) The purpose of the share award scheme

The purposes of the share award scheme are to recognise the contributions by Selected Employees and to provide them with incentives in order to retain them for the continual operation and development of the Group, and to attract suitable personnel for further development of the Group.

(c) Operation of the share award scheme

Bank of Communications Trustee Limited has been appointed as the trustee of the share award scheme (the "Trustee"). Pursuant to the scheme rules and the trust deed entered into with the Trustee, existing shares of the Company will be purchased by the Trustee on the market out of cash contributed by the Group and be held in trust for the employees of the Group until such shares are vested with the relevant Selected Employees in accordance with the scheme rules.

(d) Life of the share award scheme

The share award scheme came into effect on the Adoption Date, and shall terminate on the earlier of (i) the tenth (10) anniversary date of the Adoption Date; and (ii) such date of early termination as determined by the Board by a resolution of the Board.

During the year ended 31 December 2011, based on the Company's instruction, 13,636,000 shares were purchased from the market for the purpose of the share award scheme, representing approximately 0.88% of the issued share capital of the Company as at the Adoption Date and the aggregate price paid by the Company were HK$17,200,000. During the year ended 31 December 2011, no shares were granted to the Selected Employee under the share award scheme.

Further details of the share award scheme are disclosed in Note 27(b) to the financial statements.

BIOGRAPHICAL INFORMATION OF DIRECTORS AND SENIOR MANAGEMENT

Directors

Executive directors

Mr. Zhang Zhaoheng（張昭珩）, aged 52, is an executive Director and the chief executive officer of the Company. He joined the Group in March 2007. Mr. Zhang is a senior economist with a postgraduate qualification and he is the Vice President of China Marketing Association and Vice Chairman of China Building Glass and Industrial Glass Association. Mr. Zhang joined Weihai Blue Star Glass Co., Ltd. in October 1976 and has previously served as chairman of Weihai Blue Star Glass Co., Ltd., Weihai Blue Star New Technology Glass Co., Ltd., Zhongbo Technology Co., Ltd., Shaanxi Bluestar Glass Limited, Wuhai Blue Star Glass Co., Ltd., Zhongbo Bluestar (Linyi) Glass Co., Ltd. etc, and as director of Jiangsu SHD New Materials Co., Ltd. and Dongtai China Glass Special Glass Co., Ltd. etc. He has 34 years of extensive experience in building material industry and corporate management.

Mr. Li Ping（李平）, aged 50, is an executive Director and senior vice president of the Company and chairman of the board of Jiangsu SHD New Materials Company Limited (江蘇蘇華達新材料股份有限公司), an indirect wholly-owned subsidiary of the Company. He graduated in 1982 from Zhejiang University, majoring in materials, with a bachelor degree in engineering and a master's degree in business administration. He is a senior engineer at postgraduate level. Mr. Li joined the Group in February 1982 and has formerly worked as deputy head of Jiangsu Glass Factory, deputy general manager and general manager of Jiangsu Glass Group Company Limited. He has 29 years of experience in the building materials industry and enterprise management.

Mr. Cui Xiangdong（崔向東）, aged 52, is an executive Director and senior vice president of the Company. He joined the Group in March 2007. Mr. Cui is an accountant and a senior economist with a university qualification. Mr. Cui joined Weihai Blue Star Glass Co., Ltd. in October 1977 and has previously served as director of Weihai Blue Star Glass Co., Ltd., Weihai Blue Star New Technology Glass Co., Ltd., Zhongbo Technology Co., Ltd., Shaanxi Bluestar Glass Limited, Wuhai Blue Star Glass Co., Ltd. etc. He has 33 years of extensive experience in building material industry, corporate management and marketing.

Non-Executive Directors

Mr. Zhou Cheng（周誠）, aged 55, is the Chairman of the Company. Mr. Zhou has been an executive director and Chief Executive Officer of the Company since the listing of the Company in 2005 and has been the Chairman of the Company since September 2007. He is a senior engineer and graduated from Nanjing University of Technology in 1980, majoring in inorganic chemistry. Mr. Zhou joined the Group in January 1997 and has previously served as head of Jiangsu Glass Factory and chairman and general manager of Jiangsu Glass Group Company Limited. Mr. Zhou is now the venture partner of Hony Capital Ltd..

Mr. Zhao John Huan（趙令歡）, aged 49, is a non-executive Director of the Company. He joined the Group in January 2005. Mr. Zhao graduated from Nanjing University with a bachelor degree and from Northwestern University in the US with a master degree. Mr. Zhao has extensive experience in senior management positions at several US and PRC companies. Mr. Zhao is currently a director and a senior vice president of Legend Holdings Limited, a president of Hony Capital Ltd., and a director of Simcere Pharmaceutical Group, an executive director of China Pharmaceutical Group Limited, a non-executive director of Wumart Stores, Inc., an independent non-executive director of Gemdale (Group) Co., Ltd. and a director of Biosensors International Group.

Report of the Directors (continued)

Mr. Chen Shuai（陳帥）, aged 38, was appointed as a non-executive Director of the Company. He joined the Group on 2 January 2009. Mr. Chen graduated from the Beijing Forestry University with a bachelor degree and he received a MBA degree from China Europe International Business School. Mr. Chen is currently a director of the investment department of Hony Capital Ltd. and a non-executive director of China Golden Development Holdings Ltd., he has extensive experience in financial, banking, merger and acquisition investment in China. Mr. Chen also has over 7 years of experience in the field of finance and capital investment in the PRC.

Mr. Ning Min（寧旻）, aged 42, is currently the secretary of the board of directors, a senior vice-president and a member of the executive committee of Legend Holdings Limited, an indirect substantial shareholder of the Company. Mr. Ning graduated and obtained a bachelor's degree in economics from Beijing City College in 1991 and an EMBA postgraduate degree from Renmin University of China in 2001. Since his joining Legend Holdings Limited in July 1991, Mr. Ning held positions in various departments including administration, training and finance departments, and has accumulated rich experience in corporate operation, finance and capital management.

Ms. Lu Minghong（陸銘紅）, aged 41, is currently the human resources director of the China region of NSG (Shanghai) Ltd., a wholly-owned subsidiary of Nippon Sheet Glass Co., Ltd., an indirect substantial shareholder of the Company. Ms. Lu obtained a Bachelor Degree in Arts from Nanjing Normal University in 1993. From 2000 to 2003, Ms. Lu was a human resources manager of GE Medical System (China) Co., Ltd.. From 2003 to 2005, she was a human resources manager of Ingersoll-Rand (Wuxi) Road Machinery Co., Ltd.. From 2005 to 2009, she was a human resources manager of the Asia region of International Paper Company. From her previous employments in human resources sectors of various multinational companies, Ms. Lu has gained valuable experience in group organization and enhancing staff professional developments.

Mr. Liu Jinduo（劉金鐸）, aged 73, is a non-executive Director of the Company. He joined the Group in January 2005. Mr. Liu has extensive experience in enterprise management. Before retiring in 2001 he served as vice president of Legend Holdings Limited. He is currently also a director of EML. Mr. Liu has been resigned as a non-executive director of the Company on 30 June 2011.

Mr. Eddie Chai（柴楠）, aged 53, is a non-executive Director of the Company. He joined the Group in July 2006. Mr. Chai is the group country manager of Pilkington (Asia) Limited which is a subsidiary of Pilkington, one of the world's leading float glass companies and the founder of float glass technology. From 2003 to 2006, Mr. Chai was the founder and director of China Investment Solution. From 1996 to 2003, he was the managing director of Northern China and senior vice president in strategy and business development of Lafarge China in China and Paris respectively. From 1993 to 1995, he was the managing consultant of McKinsey & Co. Mr. Chai has been resigned as a non-executive director of the Company on 27 October 2011.

Independent Non-Executive Directors

Mr. Song Jun（宋軍）, aged 51, is an independent non-executive Director. He joined the Group in January 2005. Mr. Song graduated from Tsinghua University in 1990 with a PhD in engineering. Mr. Song has served as directors or chairmen of more than ten affiliated companies of Tsinghua Holdings Co., Ltd. and has extensive experience in management and operations. Mr. Song was formerly the Chairman of Tsinghua Holdings Co., Ltd. and is now the Secretary-General of Tsinghua University Education Foundation. Mr. Song has been resigned as an independent non-executive director of the Company on 30 June 2011.

Mr. Sik Siu Kwan（薛兆坤）, aged 44, is an independent non-executive Director of the Company. He joined the Group in May 2006. Mr. Sik has more than 20 years of experience in investment banking and finance. He has held senior positions with a number of major international investment banks, responsible for investment bank business development and regional business operations. He graduated from Oxford University with first class honours in his Bachelor's degree in engineering and master degree. He is also a member of The Institute of Chartered Accountants in England and Wales.

Mr. Zhang Baiheng（張佰恒）, aged 50, is an independent non-executive Director. He joined the Group in January 2005. He was an officer of the China Air Force. Mr. Zhang has extensive experience in the building material industry, and he currently served as the general secretary of the China Architectural and Industrial Glass Association.

Mr. Zhao Lihua（趙立華）, aged 69, is currently a professor and a tutor of doctorate candidates of Hunan University. He was graduated from Hunan University in 1965 with a bachelor's degree majoring in physics. He was a visiting scholar of the University of Wisconsin-Madison in the United States from August 1979 to August 1981 and was promoted to a professor in the same university in 1987. He was a visiting professor of University of Hanover in Germany in 1989 and the vice president of Hunan University from March 1992 to March 2000. He served as the chairman of the board of Hebei Huda Technology & Education Development Co., Ltd. from March 2000 to October 2002. He served as the chief supervisor of Sinosafe General Insurance Co. Ltd. from July 2003 to June 2011.

Senior Management

Mr. Lu Guo（呂國）, aged 49, is a vice president of the Company, Mr. Lu is a senior engineer. He graduated in 1984 with a bachelor degree from Wuhan Institute of Building Material, majoring in glass. Mr. Lu joined the Group in August 1984 and has worked as head of a branch factory of Jiangsu Glass Factory, an assistant to the general manager and a deputy general manager of Jiangsu Glass Group. He has over 21 years of experience in the PRC glass industry.

Mr. Ge Yankai（葛言凱）, aged 51, is a vice president of the Company and a director of Weihai Blue Star, a director and general manager of Blue Star New Technology Company. He joined the Group in March 2007. Mr. Ge is a senior engineer. He graduated with an engineering bachelor degree from Shandong University of Technology, majoring in electrical automation, in 1982. Mr. Ge joined Blue Star Glass in 1982 and has previously served as deputy general manager Shandong Blue Star Glass Group, director and deputy general manager of Blue Star Co., director and general manager of Blue Star New Technology Company. He has 31 years of extensive experience in the glass industry in the PRC.

Report of the Directors (continued)

Mr. Yang Hongfu（楊洪富）, aged 50, is a vice president of the Company and a director of Dongtai Zhongbo. He joined the Group in January 2005. Mr. Yang is a senior economist and a university graduate. He has worked as vice director of Jiangsu Branch of Industrial and Commercial Bank of China, senior manager of Nanjing Office of China Huarong Asset Management Corporation, vice chairman of Jiangsu SHD New Materials Company Limited, director of China Nanjing Automobile (Group) Corporation, chairman of the board of supervision Jiangsu Nantong Yaorong Glass Co., Ltd.

Mr. Cheng Xin（程昕）, aged 39, is a vice president and director of Weihai Blue Star. He joined the Group in March 2007. Mr. Cheng is a registered security analyst, an economist and a master of business administration, he graduated from China Europe International Business School. Mr. Cheng has previously worked as manager of Investment Advisory Department of Haitong Securities Co., Ltd., deputy general manager of Junxin Venture Capital Investment Company. He has 18 years of extensive experience in the investment scope.

Mr. Wang Jianxun（汪建勛）, aged 54, is a chief technology officer of the Company and director of Hangzhou Blue Star. He joined the Group in March 2007. Mr. Wang graduated from Wuhan Building Materials Technology Institute in 1982 with a bachelor degree in engineering. He is a professor grade senior engineer. Mr. Wang has previously worked as engineer, deputy chief engineer, senior engineer, professor grade senior engineer in Qinhuangdao Glass Design Research Institute; professor grade senior engineer in Zhejiang University; director and general manager of Hangzhou Blue Star New Materials Company. Mr. Wang has over 31 years of extensive experience in the research and development and application on the glass engineering project design. He was also awarded several National S&T Advance Awards.

Company Secretary

Mr. Ng Kit Man（伍潔文）, aged 39, was appointed as the company secretary of the Company. He joined the Group on 13 March 2009. Mr. Ng received his honors degree of Bachelor of Accountancy from the Hong Kong Polytechnic University in 1995. After graduation, he gained his accounting experiences in several private and listed companies in Hong Kong. He is now a member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. Mr. Ng has been resigned as the company secretary of the Company on 28 February 2011.

Ms. Li Hiu Ling（李曉玲）, aged 27, has been appointed as the company secretary of the Company on 28 February 2011. Ms. Li is an associate member of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators, and holds a bachelor degree in social sciences (honours) from the Hong Kong Baptist University and a master degree in science from the City University of Hong Kong. Ms. Li joined the Group in April 2008 and participated in managing company secretarial and investor relations matters. Ms. Li is familiar with the Company's secretarial practice, and has good understanding of the Company's operation and extensive experience in handling the relevant affairs.

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

On 9 June 2011, the Board passed a resolution to repurchase its shares on the Stock Exchange pursuant to the repurchase mandate granted to the Board at the annual general meeting of the Company held on 15 April 2011 (the "Repurchase Mandate").

During the period between 9 June 2011 and 30 June 2011, the Company repurchased a total of 5,652,000 of its own shares pursuant to the Repurchase Mandate, representing approximately 0.36% of the issued share capital of the Company as of 31 December 2011. The repurchase of the shares were funded with internal resources of the Company. All of the shares repurchased pursuant to the Repurchase Mandate were cancelled on 11 July 2011. Upon the cancellation of the repurchased shares, the Company's number of shares in issue decreased from 1,555,799,058 to 1,550,147,058. Details of the repurchase of shares are set out in the various announcements of the Company dated between 9 June 2011 and 31 December 2011 and Note 29(c)(iv) to the financial statements.

Save as disclosed above, during the year ended 31 December 2011, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

PUBLIC FLOAT

Based on information that is publicly available to the Company and to the best knowledge of the Directors, during the year ended 31 December 2011, the Company has maintained the prescribed public float of not less than 25% under the Listing Rules.

MATERIAL INVESTMENTS, ACQUISITIONS OR DISPOSALS

Save as disclosed in "Material acquisitions or disposals" in the Management Discussion and Analysis of this annual report, the Group had not made any material acquisitions or disposals during the year ended 31 December 2011.

INCREASE OF THE AUTHORISED SHARE CAPITAL

At the special general meeting of the Company held on 1 April 2011, the Company's shareholders approved the increase of the authorised share capital of the Company from HK$70,000,000 (divided into 700,000,000 ordinary shares of HK$0.10 each) to HK$180,000,000 (divided into 1,800,000,000 ordinary shares) by creating an additional 1,100,000,000 new unissued shares of par value of HK$0.10 each.

SUBDIVISION OF SHARES

At the annual general meeting of the Company held on 15 April 2011, The Company's shareholders approved the subdivision of shares of the Company. On 18 April 2011, each of the existing issued and unissued share of par value HK$0.10 each in the share capital of the Company were sub-divided into two subdivided shares of par value HK$0.05 each. Following the subdivision of shares, the authorised share capital of the Company is HK$180,000,000 divided into 3,600,000,000 shares of par value HK$0.05 each.

PLACING OF SHARES

On 10 May 2011, the Company entered into a placing agreement (the "Placing Agreement") with First Fortune Enterprises Limited (the "Vendor"), UBS AG, Hong Kong branch, Guoyuan Securities Brokerage (Hong Kong) Limited and Macquarie Capital Securities Limited (collectively the "Placing Agents") under which the Vendor agreed to sell, or procure the sale of, up to 200,000,000 shares owned by the Vendor (the "Placing Shares") and the Placing Agents agreed, as agents of the Vendor to use their best efforts to procure purchasers to purchase, the Placing Shares at HK$4.06 per Placing Share (the "Placing Price"). On the same day, the Company entered into a subscription agreement with the Vendor under which the Vendor conditionally agreed to subscribe, and the Company conditionally agreed to allot and issue to the Vendor, new shares of the Company equivalent to the number of the Placing Shares at the Placing Price.

The placing of the Placing Shares was completed on 13 May 2011 in accordance with the terms and conditions of the Placing Agreement in which an aggregate of 200,000,000 Placing Shares have been successfully placed to not less than six placees at the Placing Price. The subscription of 200,000,000 new shares of the Company by the Vendor was completed on 19 May 2011. The aggregate net proceeds received by the Company pursuant to the placing was approximately HK$790,000,000.

POST BALANCE SHEET EVENTS

Details of post balance sheet events of the Group are set out in Note 34 to the financial statements.

UNSECURED NOTES

Details of the unsecured notes are set out in Note 26 to the financial statements.

AUDIT COMMITTEE

The audit committee of the Company comprises three non-executive Directors, two of whom are independent non- executive Directors. The current committee members are Mr. Sik Siu Kwan (Chairman), Mr. Zhao Lihua and Mr. Zhao John Huan. The audit committee has reviewed with the Company's management and the external auditors the accounting principles and practices adopted by the Group, and has discussed auditing, internal control and financial reporting matters, including the review of the annual results for the year ended 31 December 2011.

REMUNERATION COMMITTEE

The remuneration committee of the Company comprises one non-executive Director, namely Mr. Zhao John Huan, and two independent non-executive Directors, namely Mr. Zhao Lihua and Mr. Sik Siu Kwan. Mr. Zhao John Huan has been the chairman of the remuneration committee during the year 2011, and on 26 March 2012, Mr. Zhao Lihua has been appointed as the new chairman of the remuneration committee. The Company has set up a remuneration committee to ensure that there are formal and transparent procedures for setting policies on the remuneration of the Directors and senior management.

INVESTOR RELATIONS AND COMMUNICATIONS

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

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES ("CCGP")

The Board is satisfied that the Company has complied with the applicable code provisions of the Code on Corporate Governance Practices, as set out in Appendix 14 to the Listing Rules throughout the year ended 31 December 2011.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED COMPANIES

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules, and that having made specific enquiry of all the Directors, the Company confirms that all the Directors have complied with the required standard set out in the Model Code during the financial year ended 31 December 2011.

AUDITORS

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

By order of the Board
Zhou Cheng
Chairman

Hong Kong, 27 March 2012

Corporate Governance Report

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

THE BOARD OF DIRECTORS

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

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

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

During the year ended 31 December 2011, the Board has established an audit committee and a remuneration committee with defined terms of reference.

Proposed board meeting dates for the forthcoming financial year are circulated to the Board in the preceding year. During the year ended 31 December 2011, the Board held eight board meetings. The attendance of the Directors at these eight board meetings are as follows:

Directors' attendance at board meetings	**Directors' number of attendance**
Mr. Zhang Zhaoheng	7/8
Mr. Li Ping	7/8
Mr. Cui Xiangdong	8/8
Mr. Zhou Cheng	8/8
Mr. Zhao John Huan	1/8
Mr. Chen Shuai	8/8
Mr. Ning Min (appointed on 30 June 2011)	2/3
Ms. Lu Minghong (appointed on 12 December 2011)	0/0
Mr. Liu Jinduo (resigned on 30 June 2011)	1/4
Mr. Eddie Chai (resigned on 27 October 2011)	5/6
Mr. Zhang Baiheng	6/8
Mr. Sik Siu Kwan	7/8
Mr. Zhao Lihua (appointed on 30 June 2011)	3/3
Mr. Song Jun (resigned on 30 June 2011)	4/4

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

Chairman and Chief Executive Officer ("CEO")

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

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

Board Composition

The Board comprises of three executive Directors, namely Mr. Zhang Zhaoheng, Mr. Li Ping and Mr. Cui Xiangdong; five non-executive Directors, namely Mr. Zhou Cheng, Mr. Zhao John Huan, Mr. Chen Shuai, Mr. Ning Min and Ms. Lu Minghong, and three independent non-executive Directors, namely Mr. Sik Siu Kwan, Mr. Zhang Baiheng and Mr. Zhao Lihua. Mr. Zhou Cheng is the Chairman of the Board.

The Board members have no financial, business, family or other material/relevant relationships with each other. Such balanced Board composition is formed to ensure strong independence exists across the Board. The biographies of the Directors are set out on pages 29 to 32 to the annual report, which demonstrates a diversity of skills, expertise, experience and qualifications.

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

Nomination of Directors

The Company does not have a nomination committee during the year 2011. The Board will identify suitable individual qualified to become board members, in particular candidates who can add value to the management through their contributions in the relevant strategic business areas and which appointments will result on the constitution of strong and diverse Board. The Board as a whole is responsible for the procedure of agreeing to the appointment of its members and for nominating appropriate person for election by shareholders at the annual general meeting, either to fill a casual vacancy or as an addition to the existing Directors.

On 27 March 2012, the Board has established a nomination committee in accordance with the amendments of the Listing Rules which became effective as of 1 April 2012, which is comprised of one non-executive Director, namely Mr. Zhou Cheng and two independent non-executive Directors, namely Mr. Sik Siu Kwan and Mr. Zhang Baiheng. The chairman of the nomination committee is Mr. Zhou Cheng.

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

Strategy Committee

On 27 March 2012, the Board has also established a strategy committee, which is comprised of one executive Director, namely Mr. Zhang Zhaoheng and two non-executive Directors, namely Mr. Zhao John Huan and Mr. Zhou Cheng. The chairman of the strategy committee is Mr. Zhao John Huan. The strategy committee is mainly responsible for reviewing the mid-term and long-term strategies of the Company pursuant to its defined terms of reference.

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

Appointments, Re-election and Removal

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

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

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

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

Responsibilities of Directors

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

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

Supply of and Access to Information

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

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

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

BOARD COMMITTEE

For the year ended 31 December 2011, the board committees of the Company are the audit committee and remuneration committee.

Audit Committee

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

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

During the year ended 31 December 2011, two audit committee meetings have been held.

Directors' attendance at audit committee meeting

Directors	**Number of attendance**
Mr. Sik Siu Kwan (Chairman of the audit committee)	2/2
Mr. Zhao John Huan	0/2
Mr. Zhao Lihua (appointed as a member of the audit committee on 30 June 2011)	0/1
Mr. Song Jun (resigned as a member of the audit committee on 30 June 2011)	1/1

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

Corporate Governance Report (continued)

During the year ended 31 December 2011, the audit committee has met the external auditors to discuss and review areas of concerns and internal control without the presence of the management. The audit committee reviewed the interim and annual reports before submission to the Board. The committee focused not only on the impact of the changes in accounting policies and practices but also on the compliance with accounting standards, the Listing Rules and the legal requirements in the review of the Company's interim and annual reports.

Remuneration Committee

The Company has set up a remuneration committee to ensure that there are formal and transparent procedures for setting policies on the remuneration of the Directors and senior management. The committee is comprised of one non-executive Director, namely Mr. Zhao John Huan, and two independent non-executive Directors, namely Mr. Zhao Lihua and Mr. Sik Siu Kwan. Mr. Zhao John Huan has been the chairman of the remuneration committee during the year 2011 and on 26 March 2012, Mr. Zhao Lihua has been appointed as the new chairman of the remuneration committee.

During the year ended 31 December 2011, two remuneration committee meetings have been held.

Directors' attendance at remuneration committee meeting

Directors	Number of attendance
Mr. Zhao John Huan (Chairman of remuneration committee)	2/2
Mr. Sik Siu Kwan	2/2
Mr. Zhao Lihua (appointed as a member of the remuneration committee on 30 June 2011)	1/1
Mr. Song Jun (resigned as a member of the remuneration committee on 30 June 2011)	0/0

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

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

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

Delegation by the Board

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

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

ACCOUNTABILITY AND AUDIT

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

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

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

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

INTERNAL CONTROL

The Board has overall responsibility for maintaining a sound and effective internal control system of the Group. The Group endeavors to set up an internal control system with a well defined management structure with limits of authority, which is designed for the achievement of business objectives, to safeguard assets against unauthorized use or disposition, to ensure proper maintenance of books and records for the provision of reliable financial information for internal use or publication, and to ensure compliance with relevant legislations and regulations. The Board has conducted a review on the effectiveness of the Group's internal control system during 2011 with a view to improve its internal control system.

AUDITORS' REMUNERATION

The Company engaged the auditors to review and audit the financial statements of the Company included in the interim and annual reports, respectively, for RMB7,000,000 (which is payable by the Company). Save as disclosed above, the Company did not engage KPMG for any other non-audit services during the year ended 31 December 2011.

COMMUNICATIONS WITH SHAREHOLDERS

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

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

Independent Auditor's Report

To the Shareholders of China Glass Holdings Limited
(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of China Glass Holdings Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 44 to 134, which comprise the consolidated and the Company's statements of financial position as at 31 December 2011, the consolidated income statement, the consolidated statement of comprehensive income, 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 information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view 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 and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2011 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

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

27 March 2012

Consolidated Income Statement

For the year ended 31 December 2011

(Expressed in Renminbi ("RMB"))

	Note	**2011** **RMB'000**	2010 RMB'000
Turnover	4	**2,946,048**	3,154,796
Cost of sales		**(2,504,040)**	(2,293,413)
Gross profit	4	**442,008**	861,383
Other revenue	5	**76,129**	33,024
Other net income	5	**180,599**	8,107
Distribution costs		**(98,077)**	(77,486)
Administrative expenses		**(250,804)**	(205,989)
Profit from operations		**349,855**	619,039
Net gain from disposal of controlling equity interests in a subsidiary		**-**	4,608
Net gain from disposal of equity interests in an associate		**-**	78,025
Finance costs	6(a)	**(68,357)**	(94,275)
Profit before taxation	6	**281,498**	607,397
Income tax	7	**(69,752)**	(100,637)
Profit for the year		**211,746**	506,760
Attributable to:			
Equity shareholders of the Company		**181,602**	304,751
Non-controlling interests		**30,144**	202,009
Profit for the year		**211,746**	506,760
Earnings per share (RMB)			
Basic	11(a)	**0.123**	0.322
Diluted	11(b)	**0.122**	N/A

The notes on pages 53 to 134 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in Note 29(b).

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2011
(Expressed in RMB)

	2011 RMB'000	2010 RMB'000
Profit for the year	**211,746**	506,760
Other comprehensive income for the year (before and after tax):		
Exchange differences on translation into presentation currency	**(17,069)**	(623)
Total comprehensive income for the year	**194,677**	506,137
Attributable to:		
Equity shareholders of the Company	**164,533**	304,549
Non-controlling interests	**30,144**	201,588
Total comprehensive income for the year	**194,677**	506,137

The notes on pages 53 to 134 form part of these financial statements.

Consolidated Statement of Financial Position

At 31 December 2011
(Expressed in RMB)

	Note	2011 RMB'000	2010 RMB'000
Non-current assets			
Property, plant and equipment	12(a)	**3,351,981**	2,798,556
Lease prepayments	15	**286,664**	321,752
Intangible assets	16	**67,511**	58,148
Receivables from related companies	19	**15,268**	19,645
Available-for-sale investment		**1,000**	1,000
Deferred tax assets	28(b)	**79,274**	74,410
		3,801,698	3,273,511
Current assets			
Inventories	20	**661,996**	342,180
Trade and other receivables	21(a)	**966,211**	538,475
Prepaid income tax	28(a)	**13,086**	–
Cash and cash equivalents	22	**545,821**	827,927
		2,187,114	1,708,582
Current liabilities			
Trade and other payables	23(a)	**1,786,269**	1,561,920
Bank and other loans	24(a)	**789,973**	292,560
Unsecured notes	26(a)	**382,851**	–
Income tax payable	28(a)	**54,289**	43,487
		3,013,382	1,897,967
Net current liabilities		**(826,268)**	(189,385)
Total assets less current liabilities		**2,975,430**	3,084,126

The notes on pages 53 to 134 form part of these financial statements.

Consolidated Statement of Financial Position (continued)

At 31 December 2011

(Expressed in RMB)

	Note	2011 RMB'000	2010 RMB'000
Non-current liabilities			
Bank and other loans	24(b)	**274,073**	467,526
Amounts due to a related company	25	**14,144**	81,276
Unsecured notes	26(a)	**146,700**	541,757
Deferred tax liabilities	28(b)	**33,136**	50,262
		468,053	1,140,821
NET ASSETS		**2,507,377**	1,943,305
CAPITAL AND RESERVES	29		
Share capital		**74,553**	66,422
Reserves		**2,172,237**	1,385,231
Total equity attributable to equity shareholders of the Company		**2,246,790**	1,451,653
Non-controlling interests		**260,587**	491,652
TOTAL EQUITY		**2,507,377**	1,943,305

Approved and authorised for issue by the board of directors on 27 March 2012.

Zhou Cheng
Director

Zhang Zhaoheng
Director

The notes on pages 53 to 134 form part of these financial statements.

Statement of Financial Position

At 31 December 2011

(Expressed in RMB)

	Note	2011 RMB'000	2010 RMB'000
Non-current assets			
Property, plant and equipment	12(b)	**472**	972
Investments in subsidiaries	13	**858,567**	900,191
Loans to subsidiaries	14	**70,000**	334,783
		929,039	1,235,946
Current assets			
Other receivables	21(b)	**1,243,707**	491,590
Cash and cash equivalents	22	**135,651**	108,495
		1,379,358	600,085
Current liabilities			
Other payables	23(b)	**61,118**	67,891
Unsecured notes	26(b)	**382,851**	–
		443,969	67,891
Net current assets		**935,389**	532,194
Total assets less current liabilities		**1,864,428**	1,768,140
Non-current liabilities			
Unsecured notes	26(b)	**-**	396,857
NET ASSETS		**1,864,428**	1,371,283
CAPITAL AND RESERVES	29		
Share capital		**74,553**	66,422
Reserves		**1,789,875**	1,304,861
TOTAL EQUITY		**1,864,428**	1,371,283

Approved and authorised for issue by the board of directors on 27 March 2012.

Zhou Cheng
Director

Zhang Zhaoheng
Director

The notes on pages 53 to 134 form part of these financial statements.

Consolidated Statement of Changes In Equity

For the year ended 31 December 2011

(Expressed in RMB)

	Attributable to equity shareholders of the Company									
	Share capital RMB'000 (Note 29(c))	Share premium RMB'000 (Note 29(d)(i))	Capital reserve RMB'000 (Note 29(d)(iii))	Statutory reserves RMB'000 (Note 29(d)(iv))	Other reserve RMB'000	Exchange reserve RMB'000 (Note 29(d)(v))	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2010	43,856	410,482	14,302	40,785	(21,824)	(23)	73,699	561,277	676,210	1,237,487
Changes in equity for 2010:										
Profit for the year	-	-	-	-	-	-	304,751	304,751	202,009	506,760
Other comprehensive income	-	-	-	-	-	(202)	-	(202)	(421)	(623)
Total comprehensive income for the year	-	-	-	-	-	(202)	304,751	304,549	201,588	506,137
Issuance of shares	22,566	985,792	-	-	-	-	-	1,008,358	-	1,008,358
Contributions from non-controlling interests	-	-	-	-	-	-	-	-	11,236	11,236
Effect on equity arising from the acquisitions of non-controlling interests	-	-	-	-	(425,180)	-	-	(425,180)	(459,436)	(884,616)
Effect on equity arising from the acquisition of a subsidiary	-	-	-	-	-	-	-	-	61,000	61,000
Effect on equity arising from the disposal of controlling equity interests in a subsidiary	-	-	-	-	-	-	-	-	1,054	1,054
Equity-settled share-based transactions (Note 27(a))	-	-	2,649	-	-	-	-	2,649	-	2,649
Transfer between reserves	-	-	-	-	(10,286)	-	10,286	-	-	-
Transactions with equity holders of the Group	22,566	985,792	2,649	-	(435,466)	-	10,286	585,827	(386,146)	199,681
Balance at 31 December 2010	66,422	1,396,274	16,951	40,785	(457,290)	(225)	388,736	1,451,653	491,652	1,943,305

The notes on pages 53 to 134 form part of these financial statements.

Consolidated Statement of Changes In Equity (continued)

For the year ended 31 December 2011
(Expressed in RMB)

	Attributable to equity shareholders of the Company										
	Share capital RMB'000 (Note 29(c))	Share premium RMB'000 (Note 29(d)(i))	Shares held under share award scheme RMB'000 (Note 29(d)(ii))	Capital reserve RMB'000 (Note 29(d)(iii))	Statutory reserves RMB'000 (Note 29(d)(iv))	Other reserve RMB'000	Exchange reserve RMB'000 (Note 29(d)(v))	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2011	66,422	1,396,274	-	16,951	40,785	(457,290)	(225)	388,736	1,451,653	491,652	1,943,305
Changes in equity for 2011:											
Profit for the year	-	-	-	-	-	-	-	181,602	181,602	30,144	211,746
Other comprehensive income	-	-	-	-	-	-	(17,069)	-	(17,069)	-	(17,069)
Total comprehensive income for the year	-	-	-	-	-	-	(17,069)	181,602	164,533	30,144	194,677
Dividends approved in respect of the previous year (Note 29(b)(ii))	-	(17,305)	-	-	-	-	-	-	(17,305)	-	(17,305)
Issuance of shares (Note 29(c)(iii))	8,367	652,640	-	-	-	-	-	-	661,007	-	661,007
Purchase of own shares (Note 29(c)(iv))											
- par value paid	(236)	-	-	-	-	-	-	-	(236)	-	(236)
- premium paid	-	-	-	-	-	-	-	(13,430)	(13,430)	-	(13,430)
Shares purchased under the share award scheme (Note 27(b))	-	-	(13,936)	-	-	-	-	-	(13,936)	-	(13,936)
Contributions from non-controlling interests	-	-	-	-	-	-	-	-	-	13,251	13,251
Effect on equity arising from the acquisitions of non-controlling interests (Note 30)	-	-	-	-	-	13,535	-	-	13,535	(274,460)	(260,925)
Equity-settled share-based transactions (Note 27(a))	-	-	-	969	-	-	-	-	969	-	969
Transfer between reserves	-	-	-	-	-	(3,877)	-	3,877	-	-	-
Transactions with equity holders of the Group	8,131	635,335	(13,936)	969	-	9,658	-	(9,553)	630,604	(261,209)	369,395
Balance at 31 December 2011	74,553	2,031,609	(13,936)	17,920	40,785	(447,632)	(17,294)	560,785	2,246,790	260,587	2,507,377

The notes on pages 53 to 134 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2011

(Expressed in RMB)

	Note	2011 RMB'000	2010 RMB'000
Operating activities			
Profit before taxation		**281,498**	607,397
Adjustments for:			
Depreciation and amortisation	6(c)	**245,783**	225,145
Net gain on disposal of property, plant and equipment and land use rights	5	**(172,242)**	(731)
Interest income	5	**(8,191)**	(2,012)
Interest expenses and other borrowing costs	6(a)	**103,302**	107,638
Net gain from disposal of controlling equity interests in a subsidiary		**–**	(4,608)
Net gain from disposal of equity interests in an associate		**–**	(78,025)
Equity-settled share-based payment expenses	6(b)	**969**	2,649
Changes in working capital:			
Increase in inventories		**(319,816)**	(32,867)
Decrease/(increase) in non-current receivables from related companies		**5,867**	(19,645)
Increase in trade and other receivables		**(265,795)**	(17,656)
Increase in trade and other payables		**227,341**	8,001
Cash generated from operations		**98,716**	795,286
The People's Republic of China (the "PRC") Income Tax paid	28(a)	**(94,026)**	(99,437)
Net cash generated from operating activities		**4,690**	695,849
Investing activities			
Payment for the purchase of property, plant and equipment		**(1,069,269)**	(288,313)
Payment for land use right premiums		**(27,215)**	(56,432)
Proceeds from disposal of property, plant and equipment and land use rights		**270,731**	3,421
Payment for the development of intangible assets		**(21,278)**	–
Payment for acquisition of controlling equity interests in a subsidiary, net of cash acquired		**–**	(85,099)
Proceeds from disposal of controlling equity interests in a subsidiary, net of cash disposed of		**–**	(1,064)
Decrease/(increase) in time deposits	22(a)	**13,000**	(23,000)
Interest received		**6,530**	2,012
Net cash used in investing activities		**(827,501)**	(448,475)

The notes on pages 53 to 134 form part of these financial statements.

Consolidated Cash Flow Statement (continued)

For the year ended 31 December 2011
(Expressed in RMB)

	Note	2011 RMB'000	2010 RMB'000
Financing activities			
Proceeds from new bank and other loans		**805,534**	491,091
Repayment of bank and other loans		**(489,791)**	(479,559)
Proceeds from the issuance of unsecured notes	26(a)	**-**	150,000
Payment of transaction costs on issuance of unsecured notes		**-**	(5,400)
Proceeds from issuance of new shares	29(c)(iii)	**679,408**	378,765
Payment of transaction costs on issuance of new shares	29(c)(iii)	**(18,401)**	(10,727)
Payment for repurchase of shares	29(c)(iv)	**(13,666)**	–
Payment for purchase of shares under share award scheme	27(b)	**(13,936)**	–
Contributions from non-controlling interests		**13,251**	11,236
Payment for acquisitions of non-controlling interests in subsidiaries	30	**(263,662)**	(172,742)
Dividends paid to the equity shareholders of the Company	29(b)(ii)	**(17,305)**	–
Dividends paid to non-controlling interests		**(2,238)**	(50)
Other finance costs paid		**(116,335)**	(98,237)
Net cash generated from financing activities		**562,859**	264,377
Net (decrease)/increase in cash and cash equivalents		**(259,952)**	511,751
Cash and cash equivalents at 1 January	22(a)	**804,927**	291,037
Effect of foreign exchange rate changes		**(9,154)**	2,139
Cash and cash equivalents at 31 December	22(a)	**535,821**	804,927

The notes on pages 53 to 134 form part of these financial statements.

1 CORPORATE INFORMATION

The Company was incorporated in Bermuda on 27 October 2004 as an exempted company with limited liability under the Bermuda Companies Act 1981. The shares of the Company were listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 23 June 2005. The consolidated financial statements of the Company for the year ended 31 December 2011 comprise the Company and its subsidiaries (collectively referred to as the "Group") and the Group's interest in an associate. The Group is principally involved in the production, marketing and distribution of glass and glass products, and the development of glass production technology.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

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

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 2(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2011 comprise the Group and the Group's interest in an associate.

The measurement basis used in the preparation of the financial statements is the historical cost basis.

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in Note 3.

(c) Changes in accounting policies

The HKICPA has issued a number of amendments to HKFRSs and one new Interpretation that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's financial statements:

- HKAS 24 (revised 2009), *Related party disclosures*
- Improvements to HKFRSs (2010)
- HK(IFRIC) 19, *Extinguishing financial liabilities with equity instruments*

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

HK(IFRIC) 19 has not yet had a material impact on the Group's financial statements as these changes will first be effective as and when the Group enters into a relevant transaction.

The impacts of other developments are discussed below:

- HKAS 24 (revised 2009) revises the definition of a related party. As a result, the Group has re-assessed the identification of related parties and concluded that the revised definition does not have any material impact on the Group's related party disclosures in the current and previous periods. HKAS 24 (revised 2009) also introduces modified disclosure requirements for government-related entities. This does not impact the Group because the Group is not a government-related entity.

- Improvements to HKFRSs (2010) omnibus standard introduces a number of amendments to the disclosure requirements in HKFRS 7, *Financial instruments: Disclosures*. The disclosures about the Group's financial instruments in Note 33 have been conformed to the amended disclosure requirements. These amendments do not have any material impact on the classification, recognition and measurements of the amounts recognised in the financial statements in the current and previous periods.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Subsidiaries and non-controlling interests

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

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

Non-controlling interests represent the equity interests in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those equity interests which would result in the Group as a whole having a contractual obligation in respect of those equity interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at their proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from the equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated income statement and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between the non-controlling interests and the equity shareholders of the Company. Loans from equity holders of non-controlling interests and other contractual obligations towards these equity holders are presented as financial liabilities in the consolidated statement of financial position in accordance with Notes 2(o) or 2(q) depending on the nature of the liability.

Changes in the Group's equity interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire equity interests in that subsidiary, with a resulting gain or loss being recognised in the income statement. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate (see Note 2(e)) or jointly controlled entity.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see Note 2(l)(i)), unless the investment is classified as held-for-sale.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Associate

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

An investment in an associate is accounted for in the consolidated financial statements under the equity method, unless it is classified as held-for-sale. Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see Note 2(l)(i)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated income statement, whereas the Group's share of the post-acquisition post-tax items of the investee's other comprehensive income is recognised in the consolidated statement of comprehensive income.

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

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

(f) Goodwill

Goodwill represents the excess of

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the Group's previously held equity interests in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in the consolidated income statement as a gain on a bargain purchase.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Goodwill (continued)

Goodwill is stated at cost less accumulated impairment losses (see Note 2(l)(ii)). Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash-generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see Note 2(l)(ii)).

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

(g) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see Note 2(l)(ii)).

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Intangible assets (other than goodwill)

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

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

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

	Estimated useful lives
Intellectual properties	7 years

Both the period and method of amortisation are reviewed annually.

(i) Lease prepayments

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

(j) Leased assets

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Leased assets (continued)

(i) Classification of assets leased to the Group

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

(ii) Operating lease charges

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

(k) Trade and other receivables

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

(l) Impairment of assets

(i) Impairment of investments in equity securities and receivables

Investments in equity securities and current and non-current receivables that are stated at cost or amortised cost are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

Notes to the Financial Statements (continued)

(Expressed in RMB unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Impairment of assets (continued)

(i) Impairment of investments in equity securities and receivables (continued)

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

- for investments in subsidiaries and an associate (including that recognised using the equity method (see Note 2(e))), the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with Note 2(l)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with Note 2(l)(ii).

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Impairment of assets (continued)

(ii) Impairment of other assets

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

– property, plant and equipment;

– lease prepayments;

– intangible assets; and

– goodwill.

If such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill and intangible assets that are not yet available for use, the recoverable amount is estimated annually whether or not there is any indication of impairment.

– Calculation of recoverable amount

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

– Recognition of impairment losses

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

– Reversals of impairment losses

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Impairment of assets (continued)

(iii) Interim financial reporting and impairment

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

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

(m) Inventories

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

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

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

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

(n) Cash and cash equivalents

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

(o) Interest-bearing borrowings

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Employee benefits

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

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

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

(ii) Share-based payments

– Share options granted to employees

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Employee benefits (continued)

(ii) Share-based payments (continued)

– Shares granted to employees under the share award scheme

The shares awarded under the share award scheme are acquired from open market. The net consideration paid, including any directly attributable incremental costs, is presented as "Shares held under share award scheme" and deducted from equity.

For shares granted under the share award scheme, the fair value of shares granted to employees is recognised as an employee cost with a corresponding increase in capital reserve within equity. The fair value is based on the closing price of the Company's shares on grant date plus any directly attributable incremental costs. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the shares, the total fair value of the shares is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of shares that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to the income statement for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of shares that vest with a corresponding adjustment to the capital reserve.

When the awarded shares are transferred to the awardees upon vesting, the related weighted average acquisition cost of the awarded shares vested are credited to "Shares held under share award scheme", and the grant date fair value of the awarded shares vested are debited to the capital reserve. The difference between the related weighted average acquisition cost and the grant date fair value of the awarded shares vested is transferred to retained profits directly.

Where the share award scheme is revoked, the amount in the "Shares held under share award scheme" and the gain or loss on disposal of the revoked shares are transferred to retained profits directly.

(iii) Termination benefits

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Trade and other payables

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

(r) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the income statement except to the extent that they relate to business combinations, or items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Income tax (continued)

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

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

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

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

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

  - the same taxable entity; or

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

(s) Provisions and contingent liabilities

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the income statement as follows:

(i) Sale of goods

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

(ii) Interest income

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

(iii) Government grants

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

(u) Translation of foreign currencies

Foreign currency transactions are translated into the functional currency of the entity to which they relate at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency of the entity to which they relate at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in the income statement.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated into the functional currency of the entity to which they relate using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated into the functional currency of the entity to which they relate using the foreign exchange rates ruling at the dates the fair value was determined.

The results of operations which have a functional currency other than RMB are translated into RMB at the exchange rates approximating the foreign exchange rates at the dates of the transactions. Statement of financial position items are translated into RMB at the closing foreign exchange rates ruling at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(v) Borrowing costs

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

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

(w) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group.

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(iv) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(v) The entity is controlled or jointly controlled by a person identified in (a).

(vi) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(x) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products, the nature of production processes, the type or class of customers, the methods used to distribute the products and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

3 ACCOUNTING ESTIMATES AND JUDGEMENTS

Notes 18, 27 and 33 contain information about the assumptions and their risk factors relating to goodwill impairment, and fair value of share options, shares granted under share award scheme and financial instruments. Other key sources of estimation uncertainty are as follows:

(a) Impairment of receivables

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

(b) Impairment of long-lived assets

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

3 ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(c) Depreciation

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

4 TURNOVER AND SEGMENT REPORTING

(a) Turnover

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

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

The Group's customer base is diversified and has no customer with whom transactions have exceeded 10% of the Group's turnover for the years ended 31 December 2011 and 2010. Details of concentrations of credit risk are set out in Note 33(a).

Further details regarding the Group's principal activities are disclosed below:

(b) Segment reporting

The Group manages its businesses by products. In view of the Group's continuous efforts in the implementation of the product differentiation strategy and shifting of its focus towards producing more high-end products such as energy saving and new energy glass products, the information reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment has expanded from two operating segments, namely "low value-added glass products" and "high value-added glass products" as previously reported for the year ended 31 December 2010, to the following four operating segments for the year ended 31 December 2011. No operating segments have been aggregated to form the following reportable segments:

- Clear glass products: this segment produces, markets and distributes clear glass products.
- Painted glass products: this segment produces, markets and distributes painted glass products.
- Coated glass products: this segment produces, markets and distributes coated glass products.
- Energy saving and new energy glass products: this segment produces, markets and distributes energy saving and new energy glass products, such as ultra clear glass, low-emission coated glass and photovoltaic battery module products.

4 TURNOVER AND SEGMENT REPORTING (continued)

(b) Segment reporting (continued)

Comparative figures have been adjusted to conform to the current year's segments presentation.

(i) Segment results

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results attributable to each reportable segment on the following bases:

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments. The measure used for reporting segment profit is gross profit. No inter-segment sales have occurred for the years ended 31 December 2011 and 2010. The Group's other operating expenses, such as distribution costs and administrative expenses, and assets and liabilities, including the sharing of technical know-how, are not measured under individual segments. Accordingly, neither information on segment assets and liabilities nor information concerning capital expenditure, interest income and interest expenses is presented.

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2011 and 2010 is set out below.

	Clear glass products		Painted glass products		Coated glass products		Energy saving and new energy glass products		Total	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Revenue from external customers and reportable segment revenue	**970,463**	1,444,903	**762,855**	678,827	**884,534**	762,851	**328,196**	268,215	**2,946,048**	3,154,796
Reportable segment gross profit	**97,741**	351,933	**77,817**	158,660	**194,098**	273,061	**72,352**	77,729	**442,008**	861,383

4 TURNOVER AND SEGMENT REPORTING (continued)

(b) Segment reporting (continued)

(ii) Geographic information

The following table sets out information about the geographical location of (i) the Group's revenue from external customers and (ii) the Group's property, plant and equipment, lease prepayments, intangible assets and goodwill (together as the "specified non-current assets"). The geographical location of customers is determined based on the location at which the goods were delivered. The geographical location of the specified non-current assets is determined based on the physical location of the assets, in the case of property, plant and equipment and lease prepayments, and the location of the operation to which they are allocated, in the case of intangible assets and goodwill.

	Revenue from external customers		Specified non-current assets	
	2011 RMB'000	2010 RMB'000	**2011 RMB'000**	2010 RMB'000
The PRC (including Hong Kong) (place of domicile)	**2,198,242**	2,453,253	**3,706,156**	3,178,456
Middle East	**317,739**	279,116	**-**	–
South Korea	**78,958**	87,661	**-**	–
Brazil	**44,371**	42,209	**-**	–
Philippines	**15,731**	7,947	**-**	–
Malaysia	**14,165**	13,453	**-**	–
Germany	**12,445**	6,143	**-**	–
Nigeria	**8,349**	13,522	**-**	–
Other countries	**256,048**	251,492	**-**	–
	747,806	701,543	**-**	–
	2,946,048	3,154,796	**3,706,156**	3,178,456

5 OTHER REVENUE AND NET INCOME

	2011 RMB'000	2010 RMB'000
Other revenue		
Interest income	**8,191**	2,012
Government grants	**59,397**	25,675
Others	**8,541**	5,337
	76,129	33,024
Other net income		
Net gain from sale of raw and scrap materials	**8,357**	7,376
Net gain on disposal of property, plant and equipment and land use rights (Note (i))	**172,242**	731
	180,599	8,107

Note (i): The amount included a gain of RMB168.2 million arising from the expropriation of the land use rights of Wuhai Blue Star Glass Company Limited ("Wuhai Blue Star") by the local government authority during the year ended 31 December 2011. Of the proceeds received from the disposal of the land use rights, a total amount of RMB197.3 million was used to compensate (i) losses incurred from the relocation of the production facilities of Wuhai Blue Star; and (ii) expenditure incurred in the construction of a new production line that produces energy saving and new energy glass products, as stipulated in the notices from and agreements with the local government authority.

6 PROFIT BEFORE TAXATION

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

(a) Finance costs:

	2011 RMB'000	2010 RMB'000
Interest on bank advances and other borrowings	**109,355**	92,452
Bank charges and other finance costs	**15,304**	23,413
Total borrowing costs	**124,659**	115,865
Less: amounts capitalised*	**(21,357)**	(8,227)
Net borrowing costs	**103,302**	107,638
Net foreign exchange gain	**(34,945)**	(13,363)
	68,357	94,275

* The borrowing costs have been capitalised at 6.28% per annum for the year ended 31 December 2011 (2010: 5.96% per annum).

6 PROFIT BEFORE TAXATION (continued)

(b) Staff costs#:

	2011 RMB'000	2010 RMB'000
Salaries, wages and other benefits	**264,699**	234,413
Contributions to defined contribution retirement plans	**31,637**	26,363
Equity-settled share-based payment expenses (see Note 27(a))	**969**	2,649
	297,305	263,425

The employees of the subsidiaries of the Group established in the PRC (the "PRC subsidiaries") participate in defined contribution retirement benefit schemes managed by the local government authorities, whereby the PRC subsidiaries are required to contribute to the schemes at rates ranging from 18% to 20% of the employees' basic salaries. Employees of the PRC subsidiaries are entitled to retirement benefits, calculated based on a percentage of the average salaries level in the PRC, from the above mentioned retirement schemes at their normal retirement age.

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

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

(c) Other items:

	2011 RMB'000	2010 RMB'000
Cost of inventories# (Note 20)	**2,504,040**	2,293,413
Auditors' remuneration – audit services	**7,000**	7,000
Depreciation and amortisation# (Notes 12, 15 and 16)	**245,783**	225,145
Impairment loss/(reversal of impairment loss) on trade and other receivables (see Note 21(a)(ii))	**3,629**	(5,603)
Operating lease charges in respect of#		
– land	**254**	328
– plant and buildings	**5,270**	4,690
– motor vehicles	**1,371**	1,396
Research and development costs (other than capitalised costs and related amortisation)	**6,187**	2,425

\# Cost of inventories includes RMB393.9 million (2010: RMB360.1 million) for the year ended 31 December 2011, relating to staff costs, depreciation and amortisation expenses and operating lease charges, which amount is also included in the respective total amounts disclosed separately above or in Note 6(b) for each of these types of expenses.

7 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

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

	2011 RMB'000	2010 RMB'000
Current tax – PRC income tax (Note 28(a))		
– Provision for the year	**91,545**	112,378
– Under-provision in respect of prior years	**197**	3,423
	91,742	115,801
Deferred tax (Note 28(b))		
– Origination and reversal of temporary differences	**(21,990)**	(7,332)
– Write-down of deferred tax assets	**–**	3,722
– Recognition of prior years' tax losses and impairment losses previously not recognised	**–**	(11,554)
	(21,990)	(15,164)
	69,752	100,637

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

	2011 RMB'000	2010 RMB'000
Profit before taxation	**281,498**	607,397
Expected tax on profit before tax, calculated at the rates applicable to profits in the tax jurisdictions concerned (Notes (i), (ii) and (iii))	**78,303**	133,592
Tax effect of non-deductible expenses	**2,813**	4,394
Tax effect of unused tax losses not recognised (Note 28(c))	**7,000**	5,335
Tax credit (Notes (iv) and (v))	**(18,561)**	(38,275)
Tax effect of recognition of prior years' tax losses and impairment losses previously not recognised (Note (vi))	**–**	(11,554)
Tax effect of write-down of deferred tax assets (Note (vi))	**–**	3,722
Under-provision in respect of prior years	**197**	3,423
Income tax	**69,752**	100,637

Notes to the Financial Statements (continued)

(Expressed in RMB unless otherwise indicated)

7 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT (continued)

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

Notes:

(i) No provision for Hong Kong Profits Tax has been made, as the Company and the subsidiary of the Group incorporated in Hong Kong did not have assessable profits subject to Hong Kong Profits Tax for the year ended 31 December 2011 (2010: RMBNil).

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

(iii) The PRC subsidiaries of the Group are subject to PRC Corporate Income Tax rates ranging from 15% to 25% (2010: 15% to 25%).

(iv) Certain PRC subsidiaries of the Group are registered as foreign investment enterprises, and according to the relevant income tax rules and regulations applicable to enterprise with foreign investment in the PRC, these PRC subsidiaries obtained approval from the respective tax bureau that they are entitled to a 100% relief from PRC Corporate Income Tax in the first and second years and 50% relief for the third to fifth years, commencing from the first profitable year after the offset of deductible losses incurred in prior years, if any, or if the PRC subsidiary is entitled but has not commenced in enjoying the tax holiday, the tax holiday must commence immediately in 2008 under the new tax law mentioned in Note 7(b)(v) below.

(v) On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the PRC (the "new tax law") which takes effect on 1 January 2008. According to the new tax law, the applicable income tax rate of the PRC subsidiaries of the Group has changed to 25% with effect 1 January 2008; or gradually increase to 25% over a five-year period if the PRC subsidiary was previously enjoying a preferential tax rate of below 25%.

(vi) The Group had recognised previously unrecognised tax losses and impairment losses and written down previously recognised tax losses in 2010, after changes were made to the estimates of the future operating results of certain PRC subsidiaries of the Group.

8 DIRECTORS' REMUNERATION

Details of directors' remuneration are as follows:

	2011						
	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Sub-total RMB'000	Share-based payments RMB'000 (Note (i))	Total RMB'000
Executive directors							
Mr. Zhang Zhaoheng	-	711	-	30	741	94	835
Mr. Li Ping	-	398	530	22	950	40	990
Mr. Cui Xiangdong	-	532	776	30	1,338	40	1,378
Non-executive directors							
Mr. Zhou Cheng	1	-	3,762	64	3,827	94	3,921
Mr. Zhao John Huan	1	-	-	-	1	-	1
Mr. Chen Shuai	1	-	-	-	1	-	1
Mr. Ning Min (appointed on 30 June 2011)	1	-	-	-	1	-	1
Ms. Lu Minghong (appointed on 12 December 2011)	-	-	-	-	-	-	-
Mr. Liu Jinduo (resigned on 30 June 2011)	-	-	-	-	-	-	-
Mr. Eddie Chai (resigned on 27 October 2011)	1	-	-	-	1	-	1
Independent non-executive directors							
Mr. Sik Siu Kwan	83	-	-	-	83	-	83
Mr. Zhang Baiheng	83	-	-	-	83	-	83
Mr. Zhao Lihua (appointed on 30 June 2011)	42	-	-	-	42	-	42
Mr. Song Jun (resigned on 30 June 2011)	42	-	-	-	42	-	42
	255	1,641	5,068	146	7,110	268	7,378

Notes to the Financial Statements (continued)

(Expressed in RMB unless otherwise indicated)

8 DIRECTORS' REMUNERATION (continued)

	2010						
	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Sub-total RMB'000	Share-based payments RMB'000 (Note (i))	Total RMB'000
Executive directors							
Mr. Zhou Cheng (Re-designated on 19 October 2010)	–	373	1,799	–	2,172	257	2,429
Mr. Zhang Zhaoheng	–	637	1,580	26	2,243	257	2,500
Mr. Li Ping	–	362	630	19	1,011	110	1,121
Mr. Cui Xiangdong	–	362	790	26	1,178	110	1,288
Non-executive directors							
Mr. Zhou Cheng (Re-designated on 19 October 2010)	–	–	–	–	–	–	–
Mr. Zhao John Huan	–	–	–	–	–	–	–
Mr. Chen Shuai	–	–	–	–	–	–	–
Mr. Liu Jinduo	–	–	–	–	–	–	–
Mr. Eddie Chai	–	–	–	–	–	–	–
Independent non-executive directors							
Mr. Sik Siu Kwan	100	–	–	–	100	–	100
Mr. Zhang Baiheng	100	–	–	–	100	–	100
Mr. Song Jun	100	–	–	–	100	–	100
	300	1,734	4,799	71	6,904	734	7,638

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

Note (i): These represent the estimated value of share options granted to the directors under the Company's share option scheme. The value of these share options is measured according to the Group's accounting policies for share-based payment transactions as set out in Note 2(p)(ii). The details of these benefits in kind, including the principal terms and number of options granted, are disclosed under the section "Share option scheme" in the Report of the Directors and Note 27(a).

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, three (2010: three) are directors whose emoluments are disclosed in Note 8. The aggregate of the emoluments in respect of the other two (2010: two) individuals is as follows:

	2011	2010
	RMB'000	RMB'000
Salaries, allowances and benefits in kind	**797**	649
Discretionary bonuses	**1,278**	1,692
Share-based payments	**70**	192
Retirement scheme contributions	**46**	48
	2,191	2,581

The emoluments of the employees who are not directors and who are amongst the five highest paid individuals of the Group are within the following band:

	2011	2010
HK$Nil – HK$1,000,000	**–**	–
HK$1,000,001 – HK$1,500,000	**2**	1
HK$1,500,001 – HK$2,000,000	**–**	1

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

10 PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company includes a loss of RMB40.7 million (2010: a loss of RMB55.8 million) which has been dealt with in the financial statements of the Company (see Note 29(a)).

11 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share for the year ended 31 December 2011 is based on the profit attributable to ordinary equity shareholders of the Company of RMB181.6 million (2010: RMB304.8 million) and the weighted average of 1,476,817,000 ordinary shares (2010: 946,662,000 ordinary shares, after adjusting for the share split took place in 2011 (Note 29(c)(ii))) in issue during the year, calculated as follows:

Weighted average number of ordinary shares:

	2011	2010
	'000	'000
Issued ordinary shares at 1 January	**677,900**	416,000
Effect of shares issued on 26 January 2010	**-**	43,157
Effect of shares issued on 8 December 2010	**-**	14,174
Effect of share split (Note 29(c)(ii))	**677,900**	473,331
Effect of shares issued on 19 May 2011 (Note 29(c)(iii))	**124,384**	–
Effect of shares repurchased (Note 29(c)(iv))	**(3,042)**	–
Effect of shares purchased under a share award scheme (Notes 27(b) and 29(c)(vi))	**(325)**	–
Weighted average number of ordinary shares at 31 December	**1,476,817**	946,662

(b) Diluted earnings per share

The calculation of diluted earnings per share for the year ended 31 December 2011 is based on the profit attributable to ordinary equity shareholders of the Company of RMB181.6 million and the weighted average of 1,489,450,000 ordinary shares in issue during the year ended 31 December 2011, calculated as follows:

	2011
	'000
Weighted average number of ordinary shares at 31 December	**1,476,817**
Effect of deemed issue of shares under the Company's share option scheme for nil consideration (Note 27(a))	**12,633**
Weighted average number of ordinary shares (diluted) at 31 December	**1,489,450**

There were no dilutive potential ordinary shares for the year ended 31 December 2010.

12 PROPERTY, PLANT AND EQUIPMENT

(a) The Group

	Plant and buildings RMB'000	Machinery and equipment RMB'000	Motor vehicles and others RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:					
At 1 January 2010	1,129,809	1,973,164	20,939	113,398	3,237,310
Additions	29,334	39,704	9,430	542,990	621,458
Additions through acquisition of a subsidiary	–	–	–	89,022	89,022
Transfer in/(out)	85,949	307,067	–	(393,016)	–
Decrease through disposal of a subsidiary	(20,412)	(18,853)	(1,447)	–	(40,712)
Disposals	(5,261)	(29,692)	(3,680)	–	(38,633)
At 31 December 2010	1,219,419	2,271,390	25,242	352,394	3,868,445
Accumulated depreciation and impairment losses:					
At 1 January 2010	203,255	703,938	10,170	–	917,363
Charge for the year	38,437	165,225	2,322	–	205,984
Decrease through disposal of a subsidiary	(3,983)	(12,174)	(903)	–	(17,060)
Written back on disposals	(4,511)	(29,619)	(2,268)	–	(36,398)
At 31 December 2010	233,198	827,370	9,321	–	1,069,889
Net book value:					
At 31 December 2010	986,221	1,444,020	15,921	352,394	2,798,556

Notes to the Financial Statements (continued)

(Expressed in RMB unless otherwise indicated)

12 PROPERTY, PLANT AND EQUIPMENT (continued)

(a) The Group (continued)

	Plant and buildings RMB'000	Machinery and equipment RMB'000	Motor vehicles and others RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:					
At 1 January 2011	1,219,419	2,271,390	25,242	352,394	3,868,445
Additions	7,830	15,068	9,691	868,734	901,323
Transfer in/(out)	253,612	407,839	-	(661,451)	-
Disposals	(150,826)	(312,634)	(2,268)	-	(465,728)
At 31 December 2011	1,330,035	2,381,663	32,665	559,677	4,304,040
Accumulated depreciation and impairment losses:					
At 1 January 2011	233,198	827,370	9,321	-	1,069,889
Charge for the year	43,264	179,622	3,148	-	226,034
Written back on disposals	(79,582)	(263,097)	(1,185)	-	(343,864)
At 31 December 2011	196,880	743,895	11,284	-	952,059
Net book value:					
At 31 December 2011	1,133,155	1,637,768	21,381	559,677	3,351,981

At 31 December 2011, property certificates of certain properties with an aggregate net book value of RMB549.0 million (31 December 2010: RMB381.1 million) are yet to be obtained.

12 PROPERTY, PLANT AND EQUIPMENT (continued)

(b) The Company

	Office equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
Cost:			
At 1 January 2010	2,173	2,027	4,200
Additions	–	627	627
At 31 December 2010	2,173	2,654	4,827
Accumulated depreciation:			
At 1 January 2010	1,699	1,262	2,961
Charge for the year	446	448	894
At 31 December 2010	2,145	1,710	3,855
Net book value:			
At 31 December 2010	28	944	972
Cost:			
At 1 January 2011 and 31 December 2011	**2,173**	**2,654**	**4,827**
Accumulated depreciation:			
At 1 January 2011	**2,145**	**1,710**	**3,855**
Charge for the year	**28**	**472**	**500**
At 31 December 2011	**2,173**	**2,182**	**4,355**
Net book value:			
At 31 December 2011	**–**	**472**	**472**

Notes to the Financial Statements (continued)

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13 INVESTMENTS IN SUBSIDIARIES

	The Company	
	2011	2010
	RMB'000	RMB'000
Unlisted shares, at cost	**858,567**	900,191

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

Name of company	Place of establishment/ incorporation	Particulars of registered/issued and paid-up capital	Proportion of ownership interest: The Group's effective interest	Held by the Company	Held by subsidiaries	Principal activities
Baoji China Glass Mining Company Limited	PRC	Registered and paid-up capital of RMB3,000,000	82.18%	-	83%	Mining, production and sale of minerals to group companies
Beijing Qinchang Glass Company Limited	PRC	Registered and paid-up capital of RMB100,000,000	100%	-	100%	Production, marketing and distribution of glass and glass products
Zhongbo Blue Star (Linyi) Glass Company Limited ("Linyi Blue Star") (Note 30(e))	PRC	Registered capital of RMB206,800,000 and paid-up capital of RMB200,000,000	77.04%	-	81.40%	Production, marketing and distribution of glass and glass products
Dongtai China Glass Special Glass Company Limited ("Dongtai Glass Company") (Note 30(d))	PRC	Registered and paid-up capital of RMB200,000,000	100%	-	100%	Production, marketing and distribution of glass and glass products
Hangzhou Blue Star New Materials Technology Company Limited ("Hangzhou Blue Star")	PRC	Registered and paid-up capital of RMB1,000,000	87.99%	-	90%	Development of glass production technology
Hanzhong Blue Star Silicon Sand Company Limited	PRC	Registered and paid-up capital of RMB2,400,000	89.21%	-	90.10%	Processing and sale of silicon sand
Huada (HK) International Company Limited	Hong Kong	Issued and paid-up capital of HK$10,000	100%	-	100%	Trading of glass and glass products
Jiangsu SHD New Materials Company Limited ("Jiangsu SHD")	PRC	Registered and paid-up capital of RMB136,000,000	100%	-	100%	Production, marketing and distribution of glass and glass products
JV Investments Limited	Cayman Islands	Issued and paid-up capital of USD90,313	100%	100%	-	Investment holding
Nanjing Yuanhong Special Glass Company Limited	PRC	Registered and paid-up capital of RMB80,000,000	72.71%	-	80.95%	Production, marketing and distribution of glass and glass products

(Expressed in RMB unless otherwise indicated)

13 INVESTMENTS IN SUBSIDIARIES (continued)

Name of company	Place of establishment/ incorporation	Particulars of registered/issued and paid-up capital	Proportion of ownership interest: The Group's effective interest	Proportion of ownership interest: Held by the Company	Proportion of ownership interest: Held by subsidiaries	Principal activities
Shaanxi Blue Star Glass Company Limited	PRC	Registered and paid-up capital of RMB100,000,000	99.01%	-	100%	Production, marketing and distribution of glass and glass products
Suqian Huasheng Management Consulting Company Limited	PRC	Registered and paid-up capital of RMB100,000	100%	-	100%	Provision of management services to group companies
Suqian Huayi Coated Glass Company Limited	PRC	Registered and paid-up capital of RMB100,000,000	100%	-	100%	Production, marketing and distribution of glass and glass products
Weihai Blue Star Glass Company Limited ("Weihai Blue Star") (Note 30(f))	PRC	Registered and paid-up capital of RMB107,700,000	89.97%	-	90.67%	Production, marketing and distribution of glass and glass products
Weihai Blue Star Import & Export Company Limited	PRC	Registered and paid-up capital of RMB5,000,000	89.97%	-	100%	Trading of glass and glass products
Weihai Blue Star New Technology Glass Company Limited ("Weihai New Technology") (Note 30(a))	PRC	Registered and paid-up capital of USD12,000,000	91.13%	-	98.50%	Production, marketing and distribution of glass and glass products
Weihai Blue Star Technology Industrial Park Company Limited ("Weihai Industrial Park")	PRC	Registered and paid-up capital of RMB25,680,000	89.97%	-	100%	Investment holding
Weihai China Glass Contract Energy Management Company Limited	PRC	Registered and paid-up capital of RMB10,000,000	60.28%	-	100%	Development of photovoltaic system, marketing and distribution of photovoltaic battery module products
Weihai China Glass Solar Company Limited	PRC	Registered and paid-up capital of USD14,920,000	60.28%	-	67.00%	Production, marketing and distribution of photovoltaic battery module products
Weihai China Glass Solar Construction Company Limited	PRC	Registered and paid-up capital of RMB2,000,000	60.28%	-	100%	Installation of photovoltaic battery module products
Weihai China Glass Solar Inspection Company Limited	PRC	Registered and paid-up capital of RMB12,000,000	60.28%	-	100%	Testing of photovoltaic products and photo-thermal products

Notes to the Financial Statements (continued)

(Expressed in RMB unless otherwise indicated)

13 INVESTMENTS IN SUBSIDIARIES (continued)

Name of company	Place of establishment/ incorporation	Particulars of registered/issued and paid-up capital	Proportion of ownership interest: The Group's effective interest	Held by the Company	Held by subsidiaries	Principal activities
Wuhai Blue Star (Note 30(c))	PRC	Registered and paid-up capital of RMB128,378,729	93.94%	-	99.76%	Production, marketing and distribution of glass and glass products
Wuhai Blue Star Transportation Company Limited	PRC	Registered and paid-up capital of RMB2,000,000	92.09%	-	100%	Provision of transportation services to group companies
Wuhai Haibo Trading Company Limited	PRC	Registered and paid-up capital of RMB2,570,000	80.24%	-	85.42%	Trading of glass and glass products
Xianyang Blue Star Coated Glass Company Limited	PRC	Registered and paid-up capital of RMB90,000,000	88.26%	-	88.89%	Production, marketing and distribution of glass and glass products
Zhongbo Technology Company Limited ("Zhongbo") (Note 30(b))	PRC	Registered and paid-up capital of RMB194,860,000	82.51%	-	88.16%	Production, marketing and distribution of glass and glass products

14 LOANS TO SUBSIDIARIES

	The Company 2011 RMB'000	2010 RMB'000
Loans to subsidiaries (Note (i))	**388,955**	334,783
Less: current portion of loans to a subsidiary (Note 21(b))	**(318,955)**	–
	70,000	334,783

Note:

(i) The amounts are unsecured. Except for the amounts of RMB319.0 million (31 December 2010: RMB334.8 million) which are non-interest bearing and repayable on 30 June 2012, the remaining balance bears interest at 9.625% per annum and is repayable on 31 December 2016.

15 LEASE PREPAYMENTS

	The Group RMB'000
Cost:	
At 1 January 2010	328,808
Additions	36,831
Additions through acquisition of a subsidiary	8,203
Decrease through disposal of a subsidiary	(22,701)
At 31 December 2010	351,141
Accumulated amortisation:	
At 1 January 2010	24,146
Charge for the year	7,246
Decrease through disposal of a subsidiary	(2,003)
At 31 December 2010	29,389
Net book value:	
At 31 December 2010	321,752
Cost:	
At 1 January 2011	**351,141**
Additions	**21,180**
Disposals	**(53,783)**
At 31 December 2011	**318,538**
Accumulated amortisation:	
At 1 January 2011	**29,389**
Charge for the year	**7,834**
Written back on disposals	**(5,349)**
At 31 December 2011	**31,874**
Net book value:	
At 31 December 2011	**286,664**

Lease prepayments represented land use right premiums paid by the Group for land situated in the PRC. At 31 December 2011, land use right certificates of certain land use rights with an aggregate carrying value of RMB8.1 million (31 December 2010: RMB32.5 million) are yet to be obtained.

16 INTANGIBLE ASSETS

	The Group Intellectual properties RMB'000
Cost:	
At 1 January 2010, 31 December 2010 and 1 January 2011	**123,739**
Additions through internal development	**21,278**
At 31 December 2011	**145,017**
Accumulated amortisation and impairment losses:	
At 1 January 2010	53,676
Charge for the year	11,915
At 31 December 2010	**65,591**
Charge for the year	**11,915**
At 31 December 2011	**77,506**
Net book value:	
At 31 December 2011	**67,511**
At 31 December 2010	58,148

The amortisation charge for the year is included in "cost of sales" in the consolidated income statement.

17 INTEREST IN AN ASSOCIATE

	The Group	
	2011	2010
	RMB'000	RMB'000
Share of net assets	**–**	–

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

Name of associate	Place of establishment and operations	Particulars of registered and paid-up capital	Proportion of ownership interest: The Group's effective interest	Proportion of ownership interest: Held by the Company	Proportion of ownership interest: Held by a subsidiary	Principal activities
Beijing Zhonghai Xingye Safety Glass Company Limited ("Zhonghai Xingye")	PRC	Registered and paid-up capital of RMB12,000,000	26.99%	-	30.00%	Production, marketing and distribution of glass and glass products

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

	Assets	Liabilities	Total equity-deficit	Revenue	Net (loss)/ profit
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
31 December 2011					
Zhonghai Xingye	**72,910**	**74,800**	**(1,890)**	**33,700**	**(566)**
31 December 2010					
Zhonghai Xingye	65,089	66,413	(1,324)	40,440	1,728

Notes to the Financial Statements (continued)

(Expressed in RMB unless otherwise indicated)

18 GOODWILL

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

At 31 December 2008, the directors of the Company has determined that the recoverable amount of the cash generating unit was less than its carrying value by RMB14.1 million, hence an impairment loss of the same amount was provided in 2008.

The recoverable amount of the cash generating unit was determined based on value-in-use calculations. These calculations used cash flow projections based on financial budgets prepared by the directors of the Company covering a five-year period, budgeted gross profit margin of 15.7% and discount rate of 6.8%.

19 NON-CURRENT RECEIVABLES FROM RELATED COMPANIES

	The Group	
	2011	2010
	RMB'000	RMB'000
Amount due from an associate (Note (i))	**18,666**	17,475
Amount due from an affiliate of an equity shareholder of the Company (Note (ii))	**2,330**	3,845
	20,996	21,320
Less: current portion of non-current receivables from related companies	**(5,728)**	(1,675)
	15,268	19,645

Notes:

(i) At 31 December 2011, the amount is secured by property, plant and equipment and land use right of the associate and non-interest bearing, where the non-current portion of the amount is to be settled by instalments between January 2013 to June 2015.

(ii) At 31 December 2011, the amount is unsecured and non-interest bearing, where the non-current portion of the amount is to be settled by bi-annual instalments between January 2013 to June 2013.

20 INVENTORIES

	The Group	
	2011	2010
	RMB'000	RMB'000
Raw materials	**204,980**	123,474
Work in progress and finished goods	**421,192**	191,246
Racks, spare parts and consumables	**47,223**	30,978
	673,395	345,698
Less: write-down of inventories	**(11,399)**	(3,518)
	661,996	342,180

An analysis of the amount of inventories recognised as an expense and included in the consolidated income statement is as follows:

	The Group	
	2011	2010
	RMB'000	RMB'000
Carrying amount of inventories sold	**2,496,159**	2,294,884
Write-down of inventories/(reversal of write-down of inventories)	**7,881**	(1,471)
	2,504,040	2,293,413

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

Notes to the Financial Statements (continued)

(Expressed in RMB unless otherwise indicated)

21 TRADE AND OTHER RECEIVABLES

(a) The Group

	2011 RMB'000	2010 RMB'000
Trade receivable from:		
– Third parties	**292,470**	133,263
– Non-controlling equity holders of subsidiaries of the Group and their affiliates	**20,269**	62,977
– Companies under common significant influence	**11,065**	147
Bills receivable	**166,021**	69,103
	489,825	265,490
Less: allowance for doubtful debts (Note 21(a)(ii))	**(20,316)**	(20,346)
	469,509	245,144
Amounts due from related companies:		
– Equity shareholders of the Company and their affiliate (Note (aa))	**1,812**	4,140
– An affiliate of a non-controlling equity holder of a subsidiary of the Group (Note (bb))	**–**	446
– An associate of the Group (Note (cc))	**4,403**	198
– Companies under common significant influence (Note (bb))	**47,408**	48,312
	53,623	53,096
Less: allowance for doubtful debts (Note 21(a)(ii))	**(3,074)**	(3,074)
	50,549	50,022
Prepayments, deposits and other receivables	**453,563**	247,060
Less: allowance for doubtful debts (Note 21(a)(ii))	**(7,410)**	(3,751)
	446,153	243,309
	966,211	538,475

21 TRADE AND OTHER RECEIVABLES (continued)

(a) The Group (continued)

Notes:

(aa) The amounts are unsecured and non-interest bearing. Except for an amount of RMB1.5 million at 31 December 2011 (31 December 2010: RMB1.5 million) which is to be settled within one year, all of the remaining balances have no fixed terms of repayment.

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

(cc) Except for an amount of RMB0.2 million at 31 December 2011 (31 December 2010: RMB0.2 million) which is unsecured, non-interest bearing and has no fixed terms of repayment, the remaining balance is secured by property, plant and equipment and land use right of an associate, non-interest bearing and is to be settled within one year (see Note 19(i)).

All of the trade and other receivables are expected to be recovered or recognised as expense within one year.

(i) Ageing analysis

Included in trade and other receivables are trade and bills receivables (net of allowance for doubtful debts) with the following ageing analysis as of the end of the reporting period:

	2011	2010
	RMB'000	RMB'000
Within 1 month	**204,786**	136,910
More than 1 month but less than 3 months	**116,264**	57,650
More than 3 months but less than 6 months	**114,045**	40,461
Over 6 months	**34,414**	10,123
	469,509	245,144

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

Further details on the Group's credit policy are set out in Note 33(a).

(ii) Impairment of trade and other receivables

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

Notes to the Financial Statements (continued)

(Expressed in RMB unless otherwise indicated)

21 TRADE AND OTHER RECEIVABLES (continued)

(a) The Group (continued)

(ii) Impairment of trade and other receivables (continued)

The movements in the allowance for doubtful debts during the year are as follows:

	2011 RMB'000	2010 RMB'000
At 1 January	**27,171**	40,943
Impairment loss recognised/(reversal of impairment loss)	**3,629**	(5,603)
Decrease through disposal of a subsidiary	**–**	(6,557)
Uncollectible amounts written off	**–**	(1,612)
At 31 December	**30,800**	27,171

At 31 December 2011, the Group's trade and other receivables of RMB30.8 million (31 December 2010: RMB27.2 million) were individually determined to be impaired. The individually impaired receivables related to customers and debtors that were in financial difficulties and management assessed that these receivables are irrecoverable. The Group does not hold any collateral over these balances.

(b) The Company

	2011 RMB'000	2010 RMB'000
Amount due from an equity shareholder of the Company (Note (aa))	**24**	26
Amounts due from subsidiaries (Note (bb))	**578,010**	490,137
Loans to subsidiaries (Note (cc))	**342,116**	–
Current portion of loans to a subsidiary (Note 14)	**318,955**	–
Prepayments, deposits and other receivables	**4,602**	1,427
	1,243,707	491,590

Notes:

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

(bb) The amounts at 31 December 2011 are unsecured, non interest bearing and have no fixed terms of repayment. The amounts at 31 December 2010 were unsecured, non-interest bearing and had no fixed terms of repayment, except for an amount of RMB70.0 million which originally bore interest at 6.70% per annum and was repayable within one year, where in 2011, the repayment date was subsequently renewed to 31 December 2016.

(cc) The amounts are unsecured, bear interest rates ranging from 6.70% to 9.625% per annum and are repayable within one year.

All of the receivables are expected to be recovered or recognised as expenses within one year.

22 CASH AND CASH EQUIVALENTS

(a) The Group

	2011 RMB'000	2010 RMB'000
Cash at bank and in hand	**535,821**	804,927
Time deposits with banks	**10,000**	23,000
Cash and cash equivalents in the consolidated statement of financial position	**545,821**	827,927
Less: time deposits with original maturity over 3 months	**(10,000)**	(23,000)
Cash and cash equivalents in the consolidated cash flow statement	**535,821**	804,927

At 31 December 2011, cash and cash equivalents of RMB96.0 million (31 December 2010: RMB59.9 million) were pledged to secure bills and future interest payments arising from the unsecured notes issued by the Group.

(b) The Company

	2011 RMB'000	2010 RMB'000
Cash at bank and in hand	**135,651**	108,495

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

Notes to the Financial Statements (continued)

(Expressed in RMB unless otherwise indicated)

23 TRADE AND OTHER PAYABLES

(a) The Group

	2011 RMB'000	2010 RMB'000
Trade payable to:		
– Third parties	**597,012**	339,670
– Non-controlling equity holders of subsidiaries of the Group and their affiliates	**550**	3,895
– Companies under common significant influence	**3,217**	3,681
Bills payable	**147,450**	124,516
	748,229	471,762
Amounts due to related companies:		
– An equity shareholder of the Company (Note (i))	**6,621**	4,829
– An affiliate of a non-controlling equity holder of a subsidiary of the Group (Note (ii))	**–**	14
– Companies under common significant influence (Note (iii))	**43,188**	35,612
	49,809	40,455
Accrued charges and other payables	**872,756**	938,530
Financial liabilities measured at amortised cost	**1,670,794**	1,450,747
Advances received from customers	**115,475**	111,173
	1,786,269	1,561,920

Notes:

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

(ii) The amount at 31 December 2010 was unsecured, non-interest bearing and had no fixed terms of repayment.

(iii) The amounts are unsecured. Except for an amount of RMB6.5 million at 31 December 2011 (31 December 2010: RMB6.0 million) which bears interest at 6.12% per annum (31 December 2010: 6.12% per annum) and is repayable within one year, all of the remaining balances are non-interest bearing and have no fixed terms of repayment.

All of the trade and other payables are expected to be settled or recognised as revenue within one year or are repayable on demand.

23 TRADE AND OTHER PAYABLES (continued)

(a) The Group (continued)

Included in trade and other payables are trade and bills payables with the following ageing analysis as of the end of the reporting period:

	2011 RMB'000	2010 RMB'000
Due within 1 month or on demand	**633,979**	367,246
Due after 1 month but within 6 months	**114,250**	104,516
	748,229	471,762

(b) The Company

	2011 RMB'000	2010 RMB'000
Amounts due to subsidiaries (Note (i))	**42,587**	44,694
Accrued charges and other payables	**18,531**	23,197
	61,118	67,891

Note:

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

All of the payables are expected to be settled within one year or are repayable on demand.

24 BANK AND OTHER LOANS

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

	2011 RMB'000	2010 RMB'000
Bank loans	**568,614**	203,706
Loans from third parties	**21,000**	5,000
	589,614	208,706
Add: current portion of long-term bank and other loans	**200,359**	83,854
	789,973	292,560

24 BANK AND OTHER LOANS (continued)

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

At 31 December 2011, the Group's short-term bank and other loans (excluding current portion of long-term bank and other loans) are secured as follows:

	2011 RMB'000	2010 RMB'000
Bank loans:		
- Pledged by bank bills	**51,250**	3,150
- Secured by the Group's property, plant and equipment and land use rights	**110,000**	20,000
- Unguaranteed and unsecured	**407,364**	180,556
	568,614	203,706
Loans from third parties:		
- Unguaranteed and unsecured	**21,000**	5,000
	589,614	208,706

At 31 December 2011, the aggregate carrying values of the secured property, plant and equipment and land use rights are RMB214.3 million (31 December 2010: RMB141.2 million).

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

	2011 RMB'000	2010 RMB'000
Bank loans	**299,800**	321,800
Loans from third parties	**27,018**	44,568
Loans from an equity shareholder of the Company	**147,614**	185,012
	474,432	551,380
Less: current portion of long-term bank and other loans	**(200,359)**	(83,854)
	274,073	467,526

24 BANK AND OTHER LOANS (continued)

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

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

	2011	2010
	RMB'000	RMB'000
Within 1 year or on demand	**200,359**	83,854
After 1 year but within 2 years	**118,343**	214,091
After 2 years but within 5 years	**135,730**	233,435
After 5 years	**20,000**	20,000
	474,432	551,380

At 31 December 2011, except for long-term bank loans of RMB184.8 million (31 December 2010: RMB237.0 million) which are secured by the Group's property, plant and equipment and land use rights, all of the remaining borrowings are unsecured. At 31 December 2011, the aggregate carrying values of the secured property, plant and equipment and land use rights are RMB434.1 million (31 December 2010: RMB466.0 million).

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

At 31 December 2011, the Group's banking facilities amounted to RMB150.0 million (31 December 2010: RMB150.0 million) were utilised to the extent of RMB130.0 million (31 December 2010: RMB150.0 million).

(c) Certain of the Group's bank and other loans are subject to the fulfilment of covenants commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants, the loans would become payable on demand. The Group regularly monitors its compliance with these covenants. Further details of the Group's management of liquidity risk are set out in Note 33(b). At 31 December 2011, none of the covenants relating to the bank and other loans had been breached (31 December 2010: RMBNil).

Notes to the Financial Statements (continued)

(Expressed in RMB unless otherwise indicated)

25 NON-CURRENT AMOUNTS DUE TO A RELATED COMPANY

	The Group	
	2011	2010
	RMB'000	RMB'000
Payable for purchase of properties (Note (i))	**14,144**	20,614
Expected consideration to be paid on a written put option over non-controlling interests (Note (ii))	**-**	60,662
	14,144	81,276

Notes:

(i) The amount is unsecured, bears interest at 6.12% per annum (31 December 2010: 6.12% per annum) and is repayable in monthly instalments between January 2013 to December 2014. Further details of the transaction are set out in Note 31(a)(i).

(ii) The amount at 31 December 2010 represented the present value of the redemption amount of a written put option over 49% equity interests in Dongtai Glass Company held by Jiangsu Glass Group, a related party under common significant influence. On 12 May 2011, the Group has acquired the 49% equity interests in Dongtai Glass Company for a consideration of RMB69.1 million (see Note 30(d)).

26 UNSECURED NOTES

(a) The Group

	2011	2010
	RMB'000	RMB'000
Unsecured notes 9.625% due in 2012 (Note (i))	**382,851**	396,857
Unsecured notes 4.95% due in 2013 (Note (ii))	**146,700**	144,900
	529,551	541,757
Less: current portion of unsecured notes	**(382,851)**	–
	146,700	541,757

Notes:

(i) On 12 July 2007, the Company issued unsecured senior notes with an aggregate principal amount of USD100.0 million at par on the Singapore Exchange Securities Trading Limited. The unsecured notes bear interest at 9.625% per annum, and interest is payable on 12 January and 12 July of each year, beginning on 12 January 2008.

On 31 July 2009, the Company redeemed an aggregate principal amount of USD39.11 million (equivalent to RMB267.2 million) of the unsecured notes with a cash consideration of USD19.56 million (equivalent to RMB133.6 million). The outstanding unsecured notes will mature on 12 July 2012, and are jointly and severally guaranteed by certain subsidiaries of the Group.

(ii) On 27 October 2010, a subsidiary of the Group issued unsecured notes with an aggregate principal amount of RMB150.0 million at par on the PRC inter-bank bonds market. The unsecured notes bear interest at 4.95% per annum, and interest is payable monthly beginning on 2 November 2010. The unsecured notes will mature on 27 October 2013 and are guaranteed by a third party.

26 UNSECURED NOTES (continued)

(b) The Company

	2011 RMB'000	2010 RMB'000
Unsecured notes 9.625% due in 2012 (Note 26(a)(i))	**382,851**	396,857
Less: current portion of unsecured notes	**(382,851)**	–
	-	396,857

27 EQUITY-SETTLED SHARE-BASED TRANSACTIONS

(a) Share option scheme

The Company has a share option scheme which was adopted on 30 May 2005 whereby the directors of the Company are authorised, at their discretion, to invite (i) any executive director, or employee (whether full time or part time) of the Company, any member of the Group or any entity in which any member of the Group holds an equity interest ("Invested Entity"); (ii) any non-executive directors (including independent non-executive directors) of the Company, any member of the Group or any Invested Entity; (iii) any supplier of goods or services to the Company, any member of the Group or any Invested Entity; (iv) any customer of the Company, any member of the Group or any Invested Entity; and (v) any person or entity that provides research, development or technological support to the Company, any member of the Group or any Invested Entity, to take up options at HK$1.00 as consideration to subscribe for shares of the Company. For the options granted, 40% will vest after one year from the date of grant; another 30% will vest after two years from the date of grant; and the remaining 30% will vest after three years from the date of grant. The options will lapse on 29 May 2015. Each option gives the holder the right to subscribe for one ordinary share in the Company.

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

	Number of instruments		Vesting conditions	Contractual life of options
	Before adjustment for the share split took place in 2011	After adjustment for the share split took place in 2011		
Options granted to directors:				
– on 29 February 2008	2,140,000	4,280,000	One year from the date of grant	7.25 years
– on 29 February 2008	1,605,000	3,210,000	Two years from the date of grant	7.25 years
– on 29 February 2008	1,605,000	3,210,000	Three years from the date of grant	7.25 years
Options granted to employees:				
– on 29 February 2008	5,860,000	11,720,000	One year from the date of grant	7.25 years
– on 29 February 2008	4,395,000	8,790,000	Two years from the date of grant	7.25 years
– on 29 February 2008	4,395,000	8,790,000	Three years from the date of grant	7.25 years
Total share options granted	20,000,000	40,000,000		

27 EQUITY-SETTLED SHARE-BASED TRANSACTIONS (continued)

(a) Share option scheme (continued)

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

	2011		2010	
	Weighted average exercise price	**Number of options '000**	Weighted average exercise price	Number of options '000
Outstanding at the beginning of the year	**HK$3.50**	**19,300**	HK$3.50	19,300
Effect of share split (Note 29(c)(ii))		**19,300**		–
Outstanding at the end of the year	**HK$1.75**	**38,600**	HK$3.50	19,300
Exercisable at the end of the year	**HK$1.75**	**38,600**	HK$3.50	13,510

The options outstanding at 31 December 2011 had an exercise price of HK$1.75 (31 December 2010: HK$3.50 (before adjusting for the share split (Note 29(c)(ii)))) and a weighted average remaining contractual life of 3.42 years (31 December 2010: 4.42 years).

(iii) *Fair value of share options and assumptions*

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

(Expressed in RMB unless otherwise indicated)

27 EQUITY-SETTLED SHARE-BASED TRANSACTIONS (continued)

(a) Share option scheme (continued)

(iii) Fair value of share options and assumptions (continued)

Fair value of share options and assumptions

Fair value at measurement date*	HK$0.4370 to HK$0.6433
Share price*	HK$1.75
Exercise price*	HK$1.75
Expected volatility (expressed as weighted average volatility used in the modelling under the Black-Scholes model)	48.18%
Option life (expressed as weighted average life used in the modelling under the Black-Scholes model)	3.10 years
Expected dividends	1.75%
Risk-free interest rate (based on Exchange Fund Notes of Hong Kong)	1.39% to 2.22%

* adjusted for the share split (Note 29(c)(ii)).

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

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

(b) Share award scheme

On 12 December 2011 (the "Adoption Date"), the directors of the Company adopted a share award scheme (the "Share Award Scheme") as a mean of rewarding and retaining employees of the Group and to attract suitable personnel for further development with the Group. A trust has been set up for the purpose of administering the Share Award Scheme.

Pursuant to the Share Award Scheme, the trust may purchase shares of the Company from the Stock Exchange with cash contributed by the Group, and to hold such shares until they are vested.

The directors of the Company may, from time to time, at its discretion select any employee of the Group for participation in the Share Award Scheme and grant such number of awarded shares to any selected employee of the Group at nil consideration. The directors of the Company is entitled to impose any conditions (including a period of continued service within the Group after the award) with respect to the vesting of the awarded shares. In addition, the selected employee shall not transfer or dispose of more than 50% of the awarded shares during the period of one year after the date of vesting of such awarded shares.

27 EQUITY-SETTLED SHARE-BASED TRANSACTIONS (continued)

(b) Share award scheme (continued)

The Share Award Scheme came into effect on the Adoption Date, and shall terminate on the earlier of (i) the tenth anniversary date of the Adoption Date; and (ii) such date of early termination as determined by the directors of the Company.

(i) Details of the shares held under the Share Award Scheme are set out below:

	2011		
	Average purchase price HK$	No. of shares held	Value RMB'000
At 12 December 2011 (i.e. the Adoption Date)	–	–	–
Shares purchased during the year	**1.26**	**13,636,000**	**13,936**
At 31 December	**1.26**	**13,636,000**	**13,936**

For the year ended 31 December 2011, the Company, through the trust, acquired a total of 13,636,000 ordinary shares of the Company from the Stock Exchange at a total cash consideration of approximately HK$17.2 million (equivalent to approximately RMB13.9 million), including directly attributable incremental costs.

During the year ended 31 December 2011, no shares held under the Share Award Scheme have been granted to any employee.

28 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) Movements in current taxation in the consolidated statement of financial position are as follows:

	The Group	
	2011 RMB'000	2010 RMB'000
Balance of income tax payable at 1 January	**43,487**	27,123
Provision for income tax on the estimated taxable profits for the year (Note 7(a))	**91,545**	112,378
Under-provision in respect of prior years (Note 7(a))	**197**	3,423
Income tax paid	**(94,026)**	(99,437)
Balance of income tax payable (net of prepaid income tax) at 31 December	**41,203**	43,487

28 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

(b) Deferred tax assets and liabilities recognised:

(i) The Group

The components of deferred tax assets/(liabilities) recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Assets						Liabilities	
Deferred tax arising from:	Unused tax losses RMB'000	Write-down of inventories RMB'000	Impairment losses on trade and other receivables RMB'000	Depreciation expenses in excess of related tax allowances, and government grants and related depreciation RMB'000	Impairment losses on property, plant and equipment and intangible assets RMB'000	Total RMB'000	Fair value adjustments on property, plant and equipment, lease prepayments and intangible assets, interest capitalisation and related depreciation RMB'000	Net RMB'000
At 1 January 2010	32,685	772	5,785	14,318	8,596	62,156	(58,591)	3,565
Credited/(charged) to the consolidated income statement (Note 7(a))	1,852	(111)	506	8,244	1,763	12,254	2,910	15,164
Decrease through disposal of a subsidiary	-	-	-	-	-	-	5,419	5,419
At 31 December 2010	**34,537**	**661**	**6,291**	**22,562**	**10,359**	**74,410**	**(50,262)**	**24,148**
Credited/(charged) to the consolidated income statement (Note 7(a))	**5,514**	**2,188**	**1,258**	**(85)**	**(4,011)**	**4,864**	**17,126**	**21,990**
At 31 December 2011	**40,051**	**2,849**	**7,549**	**22,477**	**6,348**	**79,274**	**(33,136)**	**46,138**

(ii) The Company

There were no significant unrecognised deferred tax assets and liabilities at 31 December 2011 and 2010.

28 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in Note 2(r), the Group has not recognised deferred tax assets in respect of unused tax losses arising from certain PRC subsidiaries of the Group of RMB89.2 million (31 December 2010: RMB88.6 million) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. The unused tax losses of RMB89.2 million at 31 December 2011 will expire on or before 31 December 2016.

(d) Deferred tax liabilities not recognised

At 31 December 2011, temporary differences relating to the undistributed profits of certain PRC subsidiaries of the Group amounted to RMB950.4 million (31 December 2010: RMB656.0 million). Deferred tax liabilities of RMB75.3 million (31 December 2010: RMB29.7 million) have not been recognised in respect of the tax that would be payable on the distribution of these retained profits as the Company controls the dividend policy of these PRC subsidiaries and it has been determined that it is probable that profits will not be distributed in the foreseeable future.

29 CAPITAL AND RESERVES

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity.

Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

29 CAPITAL AND RESERVES (continued)

(a) Movements in components of equity (continued)

The Company

	Share capital RMB'000 (Note 29(c))	Share premium RMB'000 (Note 29(d)(i))	Capital reserve RMB'000 (Note 29(d)(iii))	Exchange reserve RMB'000 (Note 29(d)(v))	Retained profits/ (accumulated losses) RMB'000	Total RMB'000
At 1 January 2010	43,856	410,482	14,302	(69,373)	39,104	438,371
Changes in equity for 2010:						
Loss for the year	–	–	–	–	(55,753)	(55,753)
Other comprehensive income	–	–	–	(22,342)	–	(22,342)
Total comprehensive income for the year	–	–	–	(22,342)	(55,753)	(78,095)
Issuance of shares	22,566	985,792	–	–	–	1,008,358
Equity-settled share-based transactions (Note 27(a))	–	–	2,649	–	–	2,649
Transactions with equity shareholders of the Company	22,566	985,792	2,649	–	–	1,011,007
At 31 December 2010	66,422	1,396,274	16,951	(91,715)	(16,649)	1,371,283

Notes to the Financial Statements (continued)

(Expressed in RMB unless otherwise indicated)

29 CAPITAL AND RESERVES (continued)

(a) Movements in components of equity (continued)

The Company (continued)

	Share capital RMB'000 (Note 29(c))	Share premium RMB'000 (Note 29(d)(i))	Shares held under share award scheme RMB'000 (Note 29(d)(ii))	Capital reserve RMB'000 (Note 29(d)(iii))	Exchange reserve RMB'000 (Note 29(d)(v))	Accumulated losses RMB'000	Total RMB'000
At 1 January 2011	66,422	1,396,274	-	16,951	(91,715)	(16,649)	1,371,283
Changes in equity for 2011:							
Loss for the year	-	-	-	-	-	(40,661)	(40,661)
Other comprehensive income	-	-	-	-	(83,263)	-	(83,263)
Total comprehensive income for the year	-	-	-	-	(83,263)	(40,661)	(123,924)
Dividends approved in respect of the previous year (Note 29(b)(ii))	-	(17,305)	-	-	-	-	(17,305)
Issuance of shares (Note 29(c)(iii))	8,367	652,640	-	-	-	-	661,007
Purchase of own shares (Note 29(c)(iv))							
– par value paid	(236)	-	-	-	-	-	(236)
– premium paid	-	-	-	-	-	(13,430)	(13,430)
Shares purchased under the share award scheme (Note 27(b))	-	-	(13,936)	-	-	-	(13,936)
Equity-settled share-based transactions (Note 27(a))	-	-	-	969	-	-	969
Transactions with equity shareholders of the Company	8,131	635,335	(13,936)	969	-	(13,430)	617,069
At 31 December 2011	74,553	2,031,609	(13,936)	17,920	(174,978)	(70,740)	1,864,428

29 CAPITAL AND RESERVES (continued)

(b) Dividends

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

	2011 **RMB'000**	2010 RMB'000
Final dividend proposed after the end of the reporting period of HK$0.01 per ordinary share (2010: HK$0.015 per ordinary share, after adjusting for the share split in 2011 (Note 29(c)(ii)))	**12,567**	17,305

The final dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

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

	2011 **RMB'000**	2010 RMB'000
Final dividend in respect of the previous financial year, approved and paid during the year, of HK$0.015 per ordinary share, after adjusting for the share split in 2011 (Note 29(c)(ii)) (2010: HK$Nil per ordinary share)	**17,305**	–

(c) Share capital

(i) Authorised and issued share capital

	2011		2010	
	No. of shares	**HK$'000**	No. of shares	HK$'000
Authorised:				
At 1 January	**700,000,000**	**70,000**	700,000,000	70,000
Increase in authorised share capital (Note 29(c)(ii))	**1,100,000,000**	**110,000**	–	–
Share split (Note 29(c)(ii))	**1,800,000,000**	**-**	–	–
At 31 December	**3,600,000,000**	**180,000**	700,000,000	70,000

Notes to the Financial Statements (continued)

(Expressed in RMB unless otherwise indicated)

29 CAPITAL AND RESERVES (continued)

(c) Share capital (continued)

(i) Authorised and issued share capital (continued)

	2011		2010	
	No. of shares	**RMB'000**	No. of shares	RMB'000
Ordinary shares, issued and fully paid:				
At 1 January	**677,899,529**	**66,422**	416,000,000	43,856
Shares issued in 2010	**–**	**–**	261,899,529	22,566
Share split (Note 29(c)(ii))	**677,899,529**	**–**	–	–
Shares issued in 2011 (Note 29(c)(iii))	**200,000,000**	**8,367**	–	–
Shares repurchased (Note 29(c)(iv))	**(5,652,000)**	**(236)**	–	–
At 31 December	**1,550,147,058**	**74,553**	677,899,529	66,422

(ii) Increase in authorised share capital and share split

By an ordinary resolution passed at the special general meeting held on 1 April 2011, the Company's authorised share capital was increased from HK$70.0 million to HK$180.0 million by creating additional 1,100,000,000 unissued ordinary shares of HK$0.1 each, which when issued, will rank pari passu with the existing ordinary shares of the Company.

By an ordinary resolution passed at the annual general meeting held on 15 April 2011, the Company completed a one-to-one share split on its share capital, i.e. each existing ordinary share of HK$0.1 was split into two ordinary shares of HK$0.05 each. The share split also resulted in a change of the Company's authorised share capital to HK$180.0 million divided into 3,600,000,000 ordinary shares.

(iii) Issuance of ordinary shares

On 13 May 2011, First Fortune Enterprises Limited ("First Fortune"), the immediate holding company of the Company, placed 200,000,000 ordinary shares of the Company to independent third parties at a price of HK$4.06 (the "Placing"). On 19 May 2011, First Fortune subscribed for 200,000,000 new ordinary shares issued by the Company (the "Subscription"). Upon completion of the Placing and the Subscription, the proceeds of HK$10.0 million (equivalent to approximately RMB8.4 million) received by the Company, representing the par value, were credited to the Company's share capital. The remaining proceeds received by the Company, net of transaction costs, of HK$780.0 million (equivalent to approximately RMB652.6 million) were credited to the Company's share premium account.

29 CAPITAL AND RESERVES (continued)

(c) Share capital (continued)

(iv) Purchase of own shares

During the year, the Company repurchased its own ordinary shares on the Stock Exchange as follows:

Month/year	Number of ordinary shares repurchased	Highest price paid per ordinary share HK$	Lowest price paid per ordinary share HK$	Aggregate price paid HK$'000
June 2011	**5,652,000**	**3.10**	**2.47**	**16,411**

The repurchased shares were cancelled and accordingly the issued share capital of the Company was reduced by the nominal value of these ordinary shares of HK$282,600 (equivalent to approximately RMB236,000). The premium paid on the repurchase of the ordinary shares of HK$16.1 million (equivalent to approximately RMB13.4 million) was charged to the retained profits directly.

(v) Terms of unexpired and unexercised share options at the end of the reporting period

Exercise period	Exercise price	2011 Number	2010 Number (Adjusted for share split in 2011)
28 February 2009 to 29 May 2015	HK$1.75	**15,440,000**	15,440,000
28 February 2010 to 29 May 2015	HK$1.75	**11,580,000**	11,580,000
28 February 2011 to 29 May 2015	HK$1.75	**11,580,000**	11,580,000
		38,600,000	38,600,000

Each option entitles the holder to subscribe for one ordinary share in the Company. Further details of these options are set out in Note 27(a) to these financial statements.

(vi) At 31 December 2011, 13,636,000 ordinary shares of the Company are held under the Share Award Scheme (see Note 27(b)).

29 CAPITAL AND RESERVES (continued)

(d) Nature and purpose of reserves

(i) Share premium

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

(ii) Shares held under share award scheme

The shares held under share award scheme represents the weighted average acquisition cost for invested shares acquired under the Share Award Scheme that has been recognised in accordance with the accounting policy adopted for share-based payments in Note 2(p)(ii).

(iii) Capital reserve

The capital reserve represents the portion of the grant date fair value of unexercised share options granted to employees of the Group that has been recognised in accordance with the accounting policy adopted for share-based payments in Note 2(p)(ii).

(iv) Statutory reserves

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

(v) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations which have a functional currency other than RMB into RMB. The reserve is dealt with in accordance with the accounting policy set out in Note 2(u).

29 CAPITAL AND RESERVES (continued)

(e) Distributable reserves

At 31 December 2011, the aggregate amount of reserves (including the Company's retained profits, if any, and share premium, subject to equity shareholders' approval) available for distribution to equity shareholders of the Company was RMB2,031.6 million (31 December 2010: RMB1,396.3 million). The directors of the Company recommend the payment of a final dividend of HK$0.01 per ordinary share for the year ended 31 December 2011 (2010: HK$0.015 per ordinary share, after adjusting for the share split in 2011 (Note 29(c)(ii))).

(f) Capital management

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

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

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

During 2011, in view of the slow down of the glass industry, the Group's strategy was to maintain the adjusted net debt-to-capital ratio at 2010's level. In order to improve the Group's capital structure, the Group may adjust the amount of dividends paid to equity shareholders, issue new shares, raise new debt financing or sell assets to reduce debt.

Notes to the Financial Statements (continued)

(Expressed in RMB unless otherwise indicated)

29 CAPITAL AND RESERVES (continued)

(f) Capital management (continued)

The adjusted net debt-to-capital ratio at 31 December 2011 and 2010 is as follows:

	The Group	
	2011	2010
	RMB'000	RMB'000
Current liabilities:		
Trade and other payables	**1,786,269**	1,561,920
Bank and other loans	**789,973**	292,560
Unsecured notes	**382,851**	–
	2,959,093	1,854,480
Non-current liabilities:		
Bank and other loans	**274,073**	467,526
Amounts due to a related company	**14,144**	81,276
Unsecured notes	**146,700**	541,757
	434,917	1,090,559
Total debt	**3,394,010**	2,945,039
Add: proposed dividends	**12,567**	17,305
Less: cash and cash equivalents	**(545,821)**	(827,927)
Adjusted net debt	**2,860,756**	2,134,417
Total equity	**2,507,377**	1,943,305
Less: proposed dividends	**(12,567)**	(17,305)
Adjusted capital	**2,494,810**	1,926,000
Adjusted net debt-to-capital ratio	**115%**	111%

29 CAPITAL AND RESERVES (continued)

(f) Capital management (continued)

	The Company	
	2011	2010
	RMB'000	RMB'000
Current liabilities:		
Other payables	**61,118**	67,891
Unsecured notes	**382,851**	–
	443,969	67,891
Non-current liabilities:		
Unsecured notes	**–**	396,857
Total debt	**443,969**	464,748
Add: proposed dividends	**12,567**	17,305
Less: cash and cash equivalents	**(135,651)**	(108,495)
Adjusted net debt	**320,885**	373,558
Total equity	**1,864,428**	1,371,283
Less: proposed dividends	**(12,567)**	(17,305)
Adjusted capital	**1,851,861**	1,353,978
Adjusted net debt-to-capital ratio	**17%**	28%

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

30 CHANGES IN OWNERSHIP INTERESTS IN SUBSIDIARIES

(a) On 31 March 2011, Keen Moral Investment Limited ("Keen Moral"), a wholly-owned subsidiary of the Group, acquired an additional 25% equity interests in Weihai New Technology for a consideration of USD12.4 million (equivalent to approximately RMB81.1 million).

Upon completion of the above acquisition and together with the acquisition in Note 30(f), the Group's effective interest in Weihai New Technology increased from 53.91% to 91.13%. Consequently, the Group recognised a decrease in non-controlling interests of RMB91.4 million.

(b) On 31 March 2011, Poweridea Limited, a wholly-owned subsidiary of the Group, acquired an additional 11.48% equity interests in Zhongbo for a consideration of RMB39.0 million.

Upon completion of the above acquisition and together with the acquisition in Note 30(f), the Group's effective interest in Zhongbo increased from 61.67% to 82.51%. Consequently, the Group recognised a decrease in non-controlling interests of RMB44.4 million.

(c) On 31 March 2011, Bondtime Holdings Limited, a wholly-owned subsidiary of the Group, acquired 16.72% equity interests in Wuhai Blue Star from Hangzhou Blue Star, another subsidiary of the Group, for a consideration of RMB17.1 million.

On 31 March 2011, Weihai Industrial Park, a subsidiary of the Group, acquired an additional 2.406% equity interests in Wuhai Blue Star for a consideration of RMB2.5 million.

Upon completion of the above acquisitions and together with the acquisition in Note 30(f), the Group's effective interest in Wuhai Blue Star increased from 79.96% to 93.94%. Consequently, the Group recognised a decrease in non-controlling interests of RMB3.7 million.

(d) Pursuant to an equity transfer agreement jointly entered into by Jiangsu SHD and Keen Moral, both wholly-owned subsidiaries of the Group, with Jiangsu Glass Group, a related party under common significant influence, on 25 May 2009, Jiangsu Glass Group has granted Keen Moral or its nominee an exclusive and irrevocable option (the "Buy-back Option") to acquire the whole of or part of its 49% equity interests in Dongtai Glass Company at specified terms and conditions. At the same time, Keen Moral has written a put option (the "Written Put Option") to Jiangsu Glass Group under which the Group can be required to purchase the 49% equity interests in Dongtai Glass Company for cash upon the occurrence of certain events that are outside the control of either party.

On 28 February 2011, the Company announced that Jiangsu SHD, as a nominee of Keen Moral, would exercise the Buy-back Option to acquire the 49% equity interests in Dongtai Glass Company at a consideration of RMB69.1 million. The above acquisition was completed on 12 May 2011.

In prior years, the directors of the Company have adopted an accounting policy to account for the above equity transfer agreement as if the Written Put Option had been exercised by the non-controlling equity holder, i.e. the underlying equity interests are deemed to have been acquired by the Group upon the entering of such contract. Accordingly, the 49% equity interests and related profit or loss are presented as equity and profit or loss attributable to equity shareholders of the Company.

Upon exercise of the Buy-back Option and completion of the above acquisition, the carrying amount of the expected consideration on the Written Put Option was transferred to other reserve, where the difference between this carrying amount and the actual consideration paid resulted in the decrease in other reserve of RMB4.5 million.

30 CHANGES IN OWNERSHIP INTERESTS IN SUBSIDIARIES (continued)

(e) On 27 June 2011, Keen Moral acquired an additional 17.44% equity interests in Linyi Blue Star for a consideration of RMB25.8 million.

In August 2011, Keen Moral and a non-controlling equity holder contributed a total of RMB52.0 million into Linyi Blue Star, increasing its paid-in capital from RMB148.0 million to RMB200.0 million.

Upon completion of the above acquisitions and capital increase, and together with the acquisition in Note 30(f), the Group's effective interests in Linyi Blue Star increased from 43.11% to 77.04%. Consequently, the Group recognised a decrease in non-controlling interests of RMB26.3 million.

(f) On 9 December 2011, Dongtai Glass Company acquired an additional 15.47% equity interests in Weihai Blue Star for a consideration of RMB108.0 million.

Upon completion of the above acquisition, the Group's effective interests in Weihai Blue Star increased from 73.34% to 89.97%. Consequently, the Group recognised a decrease in non-controlling interests of RMB108.7 million.

31 MATERIAL RELATED PARTY TRANSACTIONS

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

(a) Transactions with companies under common significant influence

(i) Purchase of properties

On 4 January 2005, the Group purchased the properties it had previously leased from Jiangsu Glass Group under operating leases. The consideration is RMB56.1 million and is repayable by 120 monthly equal instalments within ten years. As at 31 December 2011, the outstanding amount bears interest at 6.12% per annum (31 December 2010: 6.12% per annum). For the year ended 31 December 2011, interest expenses of RMB1.5 million had incurred and been paid to Jiangsu Glass Group (2010: RMB1.8 million).

(ii) Acquisition of non-controlling interests

As mentioned in Note 30(d), on 12 May 2011, Jiangsu SHD, as a nominee of Keen Moral, exercised the Buy-back Option to acquire the 49% equity interests in Dongtai Glass Company from Jiangsu Glass Group at a consideration of RMB69.1 million.

Notes to the Financial Statements (continued)

(Expressed in RMB unless otherwise indicated)

31 MATERIAL RELATED PARTY TRANSACTIONS (continued)

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

(iii) Other transactions

	Note	2011 RMB'000	2010 RMB'000
Sale of glass and glass products to related parties		**48,575**	32
Purchase of raw materials from related parties		**18,471**	18,037
Labour service expenses		**1,578**	40
Operating lease expenses		**1,662**	1,662
Net increase in non-interest bearing advances granted to related parties	(iii)	**674**	5,585
Net increase/(decrease) in non-interest bearing advances received from related parties	(iii)	**1,354**	(6,108)

(b) Transactions with equity shareholders of the Company and their affiliate

	Note	2011 RMB'000	2010 RMB'000
Interest expenses	(ii)	**10,979**	11,097
Net increase in non-interest bearing advances granted to a related party	(iii)	**-**	309
Net decrease in non-interest bearing advances granted to a related party	(iv)	**(1,560)**	–
Net (decrease)/increase in loans received from a related party	(v)	**(26,151)**	39,420

31 MATERIAL RELATED PARTY TRANSACTIONS (continued)

(c) Transactions with non-controlling equity holders of subsidiaries of the Group and their affiliates

	Note	2011 RMB'000	2010 RMB'000
Sale of glass and glass products to related parties		**91,292**	342,861
Purchase of raw materials from related parties		**4,220**	86,688
Labour service expenses		**19,685**	2,056
Net (decrease)/increase in non-interest bearing advances granted to related parties	(iii)	**(446)**	304
Net decrease in non-interest bearing advances received from related parties	(iii)	**-**	(84)

(d) Transactions with subsidiaries of the Group

	Note	2011 RMB'000	2010 RMB'000
Interest income	(i)	**12,577**	4,021
Loans granted to subsidiaries	(vii)	**350,604**	–
Net increase in non-interest bearing advances granted to subsidiaries	(iii)	**190,410**	177,381
Net increase in non-interest bearing advances received from a subsidiary	(iii)	**11**	49,596

(e) Transactions with an associate of the Group

	Note	2011 RMB'000	2010 RMB'000
Net increase in non-interest bearing advances granted to a related party	(iii)	**-**	33
Net decrease in non-interest bearing advances granted to a related party	(vi)	**(101)**	(4,986)

31 MATERIAL RELATED PARTY TRANSACTIONS (continued)

(f) Key management personnel remuneration

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

	2011	2010
	RMB'000	RMB'000
Short-term employee benefits	**10,836**	11,222
Contributions to defined contribution retirement plans	**248**	233
Equity compensation benefits	**444**	1,215
	11,528	12,670

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

Notes:

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

(ii) Interest expenses represented interest charges on the loans received from a related party.

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

(iv) The advance is unsecured and is to be settled by instalments from 2011 to 2013.

(v) The loans are unsecured, bear interest ranging from 4.66% to 7.73% per annum and are repayable in instalments from 2010 to 2015.

(vi) The advance is secured by property, plant and equipment and land use right of the Group's associate and is to be settled by instalments from 2010 to 2015.

(vii) The loans granted are unsecured, bear interest ranging from 6.70% to 9.625% per annum and are repayable within one year.

32 COMMITMENTS

(a) Capital commitments

At 31 December 2011, the outstanding capital commitments of the Group not provided for in the consolidated financial statements were as follows:

	The Group	
	2011	2010
	RMB'000	RMB'000
Commitments in respect of land and buildings, and machinery and equipment		
– Contracted for	**451,285**	74,994
– Authorised but not contracted for	**18,242**	220,000
	469,527	294,994
Commitments in respect of investment in a subsidiary		
– Contracted for	**-**	16,306
Total commitments		
– Contracted for	**451,285**	91,300
– Authorised but not contracted for	**18,242**	220,000
	469,527	311,300

At 31 December 2011, capital commitments in respect of land and buildings, and machinery and equipment are for the expansion and upgrade of the production lines of the Group.

32 COMMITMENTS (continued)

(b) Operating lease commitments

At 31 December 2011, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

(i) The Group

	2011 RMB'000	2010 RMB'000
Within 1 year	**5,411**	4,533
After 1 year but within 5 years	**13,148**	3,654
After 5 years	**11,714**	5,040
	30,273	13,227

The Group leases certain land, plant and buildings and motor vehicles under operating leases. The leases typically run for an initial period of 1 to 18 years, where all terms are renegotiated upon renewal. None of the leases includes contingent rentals.

(ii) The Company

	2011 RMB'000	2010 RMB'000
Within 1 year	**1,663**	1,359
After 1 year but within 5 years	**1,992**	1,749
	3,655	3,108

The Company leases its office premises under operating leases. The leases run for an initial period of 2 to 5 years, where all terms are renegotiated upon renewal. The leases do not include contingent rentals.

33 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

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

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

(a) Credit risk

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

In respect of trade and other receivables and non-current receivables from related companies, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Cash before delivery is generally required for all customers. Credit terms of three to six months from the date of billing or separately negotiated repayment schedules may be granted to customers, depending on credit assessment carried out by management on an individual customer basis. Normally, the Group does not obtain collateral from customers, except for those disclosed in Notes 19 and 21(a).

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At 31 December 2011, 5.1% (31 December 2010: 14.5%) and 17.9% (31 December 2010: 34.8%) of the total trade and bills receivables was due from the Group's largest trade debtor and the five largest trade debtors respectively.

The Group does not provide any guarantees which would expose the Group or the Company to credit risk.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from non-current receivables from related companies and trade and other receivables are set out in Notes 19 and 21, respectively.

(b) Liquidity risk

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

33 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(b) Liquidity risk (continued)

At 31 December 2011, the Group had net current liabilities of RMB826.3 million. The Group is currently under negotiation with several financial institutions in the raising of new bank loans that if successfully obtained, would be sufficient to cover the Group's short-term liquidity needs, in particular for the purpose of the repayment of short-term bank and other loans and unsecured notes that are to fall due during the year ending 31 December 2012. The directors of the Company consider that these short-term financings would provide adequate time for the Group to raise additional financings to meet its long-term liquidity requirements. In addition to the above, based on a cash flow forecast of the Group for the year ending 31 December 2012 prepared by the management, the directors of the Company anticipate that the Group would generate sufficient cash inflows from its operating activities to meet its operating liabilities as they fall due for at least twelve months from the end of the current reporting period. Nevertheless, the Group will continue to undertake various measures in order to further improve its liquidity position in the short and longer term.

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

The Group

	2011 Contractual undiscounted cash outflow					
	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	More than 5 years RMB'000	Total RMB'000	Carrying amount at 31 December RMB'000
Trade and other payables	1,786,483	–	–	–	1,786,483	1,786,269
Bank and other loans	830,085	133,268	148,964	21,228	1,133,545	1,064,046
Non-current amounts due to a related company	870	7,500	7,655	–	16,025	14,144
Unsecured notes	410,714	156,188	–	–	566,902	529,551
	3,028,152	296,956	156,619	21,228	3,502,955	3,394,010

33 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(b) Liquidity risk (continued)

The Group (continued)

	2010 Contractual undiscounted cash outflow					
	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	More than 5 years RMB'000	Total RMB'000	Carrying amount at 31 December RMB'000
Trade and other payables	1,563,388	–	–	–	1,563,388	1,561,920
Bank and other loans	329,502	238,385	263,705	22,307	853,899	760,086
Non-current amounts due to a related company	71,285	7,500	15,155	–	93,940	81,276
Unsecured notes	46,238	449,495	156,188	–	651,921	541,757
	2,010,413	695,380	435,048	22,307	3,163,148	2,945,039

The Company

	2011 Contractual undiscounted cash outflow					
	Within 1 year or on demand RMB'000	**More than 1 year but less than 2 years RMB'000**	**More than 2 years but less than 5 years RMB'000**	**More than 5 years RMB'000**	**Total RMB'000**	**Carrying amount at 31 December RMB'000**
Other payables	**61,118**	**-**	**-**	**-**	**61,118**	**61,118**
Unsecured notes	**403,289**	**-**	**-**	**-**	**403,289**	**382,851**
	464,407	**-**	**-**	**-**	**464,407**	**443,969**

Notes to the Financial Statements (continued)

(Expressed in RMB unless otherwise indicated)

33 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(b) Liquidity risk (continued)

The Company (continued)

	2010 Contractual undiscounted cash outflow					
	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	More than 5 years RMB'000	Total RMB'000	Carrying amount at 31 December RMB'000
Other payables	67,891	–	–	–	67,891	67,891
Unsecured notes	38,813	442,070	–	–	480,883	396,857
	106,704	442,070	–	–	548,774	464,748

33 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(c) Interest rate risk

The Group's interest rate risk arises primarily from interest bearing borrowings. Borrowings issued at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. Given the anticipation of a rise in interest rate in the foreseeable future, the Group's strategy is to maintain a relatively higher proportion of its borrowings on a fixed rate basis.

(i) Interest rate profile

The following table details the interest rate profile of the Group's and of the Company's borrowings at the end of the reporting period.

	The Group			
	2011		2010	
	Effective interest rate %	**RMB'000**	Effective interest rate %	RMB'000
Fixed rate borrowings:				
Bank and other loans	**6.37%**	**433,959**	6.55%	301,730
Amounts due to a related company	**6.12%**	**20,607**	6.12%	26,552
Unsecured notes	**4.95%-9.625%**	**529,551**	4.95%-9.625%	541,757
		984,117		870,039
Variable rate borrowings:				
Bank and other loans	**6.50%**	**630,087**	6.20%	458,356
Amounts due to a related company	**-**	**-**	6.44%	60,662
		630,087		519,018
Total borrowings		**1,614,204**		1,389,057
Fixed rate borrowings as a percentage of total borrowings		**61%**		63%

33 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(c) Interest rate risk (continued)

(i) Interest rate profile (continued)

	The Company			
	2011		2010	
	Effective interest rate %	**RMB'000**	Effective interest rate %	RMB'000
Fixed rate borrowings:				
Unsecured notes	**9.625%**	**382,851**	9.625%	396,857
Total borrowings		**382,851**		396,857
Fixed rate borrowings as a percentage of total borrowings		**100%**		100%

(ii) Sensitivity analysis

At 31 December 2011, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have decreased/increased the Group's profit after tax and retained profits by approximately RMB4.95 million (31 December 2010: RMB4.23 million).

The sensitivity analysis above indicates the exposure to cash flow interest rate risk arising from floating rate non-derivative financial instruments held by the Group at the end of the reporting period. The impact on the Group's results and retained profits is estimated as an annualised impact on interest expense of such a change in interest rates. The analysis is performed on the same basis for 2010.

(d) Currency risk

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

(i) Recognised assets and liabilities

In respect of receivables, payables and borrowings denominated in foreign currencies, the Group ensures that the exposure is kept to an acceptable level, by buying and selling foreign currencies at spot rates where necessary to address short-term imbalances.

(ii) Exposure to currency risk

The following table details the Group's and the Company's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in Renminbi, translated using the spot rate at the year end date. Differences resulting from the translation of the financial statements of foreign operations into the Group's presentation currency are excluded.

33 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(d) Currency risk (continued)

(ii) Exposure to currency risk (continued)

The Group

	2011 Exposure to foreign currencies			
	United States Dollars RMB'000	**Renminbi RMB'000**	**Hong Kong Dollars RMB'000**	**Euros RMB'000**
Bank and other loans	**(167,128)**	**–**	**–**	**–**
Cash and cash equivalents	**18,054**	**105,570**	**19**	**320**
Trade and other receivables	**58,196**	**150**	**2**	**–**
Trade and other payables	**(384,435)**	**(49,550)**	**(349,854)**	**–**
Gross exposure arising from recognised assets and liabilities	**(475,313)**	**56,170**	**(349,833)**	**320**

	2010 Exposure to foreign currencies			
	United States Dollars RMB'000	Renminbi RMB'000	Hong Kong Dollars RMB'000	Euros RMB'000
Bank and other loans	(194,568)	–	–	–
Cash and cash equivalents	40,212	270	21	96
Trade and other receivables	62,358	150	–	–
Trade and other payables	(384,903)	(5,076)	–	(1,356)
Non-current amounts due to a related company	–	(60,662)	–	–
Gross exposure arising from recognised assets and liabilities	(476,901)	(65,318)	21	(1,260)

33 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(d) Currency risk (continued)

(ii) Exposure to currency risk (continued)

The Company

	Exposure to foreign currencies	
	2011	2010
	Renminbi	Renminbi
	RMB'000	RMB'000
Cash and cash equivalents	**105,570**	270
Other receivables	**150**	150
Other payables	**(5,076)**	(5,076)
Gross exposure arising from recognised assets and liabilities	**100,644**	(4,656)

(iii) Sensitivity analysis

The following table indicates the instantaneous change in the Group's results and retained profits that would arise if foreign exchange rates to which the Group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant. In this respect, it is assumed that the pegged rate between the Hong Kong Dollars and the United States Dollars would be materially unaffected by any changes in movement in value of the United States Dollars against other currencies.

33 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(d) Currency risk (continued)

(iii) Sensitivity analysis (continued)

	The Group			
	2011		2010	
	Increase/ (decrease) in foreign exchange rates	**(Decrease)/ increase in profit after tax and retained profits RMB'000**	Increase/ (decrease) in foreign exchange rates	(Decrease)/ increase in profit after tax and retained profits RMB'000
United States Dollars	**5%**	**(18,367)**	5%	(18,984)
	(5%)	**18,367**	(5%)	18,984
Renminbi	**5%**	**2,809**	5%	(3,266)
	(5%)	**(2,809)**	(5%)	3,266
Hong Kong Dollars	**5%**	**(13,899)**	5%	1
	(5%)	**13,899**	(5%)	(1)
Euros	**15%**	**37**	20%	(220)
	(15%)	**(37)**	(20%)	220

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' results after tax and retained profits measured in the respective functional currencies, translated into Renminbi at the exchange rates ruling at the end of the reporting period for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency. The analysis is performed on the same basis for 2010.

33 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(e) Fair values

The Group does not have any financial instruments measured at fair value at the end of the reporting period.

The carrying amounts of the Group's and of the Company's financial instruments carried at cost or amortised cost are not materially different from their fair values at 31 December 2011 and 2010 except as follows:

	The Group			
	2011		2010	
	Carrying amount RMB'000	**Fair value RMB'000**	Carrying amount RMB'000	Fair value RMB'000
Assets				
Available-for-sale investment	**1,000**	*	1,000	*
Liabilities				
Long-term bank and other loans	**274,073**	**272,285**	467,526	472,698
Non-current amounts due to a related company	**14,144**	**13,286**	81,276	92,651
Unsecured notes	**529,551**	**485, 637**	541,757	535,613

	The Company			
	2011		2010	
	Carrying amount RMB'000	**Fair value RMB'000**	Carrying amount RMB'000	Fair value RMB'000
Assets				
Non-current loans to subsidiaries	**70,000**	**76,864**	334,783	302,906
Liabilities				
Unsecured notes	**382,851**	**343,377**	396,857	388,388

* The available-for-sale investment represents unquoted equity securities in a PRC company and is measured at cost less any impairment losses. The investment does not have a quoted market price in an active market and accordingly a reasonable estimate of the fair value of the investment cannot be measured reliably. Hence, the directors of the Company consider it is not meaningful to disclose its fair value.

(Expressed in RMB unless otherwise indicated)

33 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(e) Fair values (continued)

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

(i) *Long-term bank and other loans, non-current amounts due to a related company and non-current loans to subsidiaries*

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

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

	2011	2010
Long-term bank and other loans	**7.25%**	6.63%
Non-current amounts due to a related company	**6.98%**	6.64%-6.82%
Non-current loans to subsidiaries	**7.25%**	6.64%

(ii) *Unsecured notes*

The fair value is based on quoted market prices at the end of the reporting period without any deduction for transaction costs.

34 NON-ADJUSTING EVENT AFTER THE REPORTING PERIOD

On 27 March 2012, the directors of the Company have proposed a final dividend. Further details are disclosed in Note 29(b).

35 COMPARATIVE FIGURES

As a result of a revision made to the presentation of reportable segments as detailed in Note 4(b), certain comparative figures have been adjusted to conform to current year's presentation and to provide comparative amounts in respect of items disclosed for the first time in 2011.

36 IMMEDIATE AND ULTIMATE HOLDING COMPANY

The directors of the Company consider the immediate and ultimate holding company of the Company at 31 December 2011 to be First Fortune Enterprises Limited and Easylead Management Limited, respectively, which are both incorporated in the British Virgin Islands. Neither of these companies produces financial statements available for public use.

37 POSSIBLE IMPACT OF NEW STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2011

Up to the date of issue of these financial statements, the HKICPA has issued a number of new standards, amendments to standards and interpretations which are not yet effective for the year ended 31 December 2011 and which have not been adopted in these financial statements.

Notes to the Financial Statements (continued)

(Expressed in RMB unless otherwise indicated)

37 POSSIBLE IMPACT OF NEW STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2011 (continued)

	Effective for accounting periods beginning on or after
Amendments to HKFRS 1, *First-time adoption of Hong Kong Financial Reporting Standards – Severe hyperinflation and removal of fixed dates for first-time adopters*	1 July 2011
Amendments to HKFRS 7, *Financial instruments: Disclosures – Transfers of financial assets*	1 July 2011
Amendments to HKAS 12, *Income taxes – Deferred tax: Recovery of underlying assets*	1 January 2012
Amendments to HKAS 1, *Presentation of financial statements – Presentation of items of other comprehensive income*	1 July 2012
HKFRS 10, *Consolidated financial statements*	1 January 2013
HKFRS 11, *Joint arrangements*	1 January 2013
HKFRS 12, *Disclosure of interests in other entities*	1 January 2013
HKFRS 13, *Fair value measurement*	1 January 2013
HKAS 27, *Separate financial statements* (2011)	1 January 2013
HKAS 28, *Investments in associates and joint ventures* (2011)	1 January 2013
Amendments to HKFRS 7, *Financial instruments: Disclosures – Disclosures – Offsetting financial assets and financial liabilities*	1 January 2013
Revised HKAS 19, *Employee benefits*	1 January 2013
HK(IFRIC) 20, *Stripping costs in the production phase of a surface mine*	1 January 2013
Amendments to HKAS 32, *Financial instruments: Presentation – Offsetting financial assets and financial liabilities*	1 January 2014
HKFRS 9, *Financial instruments* (2009)	1 January 2015
HKFRS 9, *Financial instruments* (2010)	1 January 2015
Amendments to HKFRS 9, *Financial instruments* and HKFRS 7, *Financial instruments: Disclosures – Mandatory effective date and transition disclosures*	1 January 2015

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