浙 江 玻 璃 股 份 有 限 公 司

ZHEJIANG GLASS COMPANY, LIMITED

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

(Stock Code: 739)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2008

FINANCIAL HIGHLIGHTS

- Turnover reached RMB2,756 million, up by 18.7% as compared to RMB2,322 million in 2007.
- EBITDA of RMB678.2 million, down by 15.4% as compared to RMB801.5 million in 2007.
- Net profit attributable to the equity holders of the Company of RMB174 million, decreased by 37.0% as compared to net attributable profit of RMB276 million in 2007.
- Earnings per share of RMB0.230, decreased by 40.0% as compared to earnings per share of RMB0.383 in 2007.
- Total production of soda ash reached 1,020,000 tonnes, up by 9.7% as compared to 930,000 tonnes in 2007.
- Total production of float flat glass reached 24.3 million weight cases, up by 28% as compared to 19.0 million weight cases in 2007.
- The board of Directors does not recommend the payment of a final dividend for the year ended 31 December 2008.

RESULTS

The directors (the "Directors") of Zhejiang Glass Company, Limited (the "Company") are pleased to present the results of the Company and its subsidiaries (collectively, the "Group") for the financial year ended 31 December 2008 (the "Year") and the comparative figures which have been prepared on the basis described below:

CONSOLIDATED INCOME STATEMENT

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

	Note	**2008** *RMB'000*	2007 *RMB'000*
Revenue	*3*	**2,756,230**	2,322,206
Cost of sales	*5*	**(2,097,399)**	(1,754,889)
Gross profit		**658,831**	567,317
Other gains – net	*4*	**56,628**	21,240
Distribution and selling expenses	*5*	**(121,733)**	(70,602)
General, administrative and other operating expenses	*5*	**(158,019)**	(72,210)
Operating profit		**435,707**	445,745
Finance costs – net		**(190,626)**	(123,330)
Profit before income tax		**245,081**	322,415
Income tax income/(expense)	*6*	**5,557**	(25,471)
Profit for the year		**250,638**	296,944
Attributable to:			
Equity holders of the Company		**174,184**	275,824
Minority interests		**76,454**	21,120
		250,638	296,944
Basic and diluted earnings per share for profit attributable to the equity holders of the Company during the year	*8*	**RMB0.230**	RMB0.383
Dividends	*9*	**–**	–

CONSOLIDATED BALANCE SHEET

As at 31 December 2008
(Amounts expressed in Renminbi)

	Note	2008 RMB'000	2007 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment		**5,288,203**	4,072,023
Construction-in-progress		**1,841,022**	1,415,823
Land use rights		**185,801**	189,918
Deposits for land use rights		**565,000**	2,000
Intangible assets		**23,634**	25,039
Long-term prepayments		**38,200**	30,000
Deferred tax assets	*14*	**4,388**	–
		7,946,248	5,734,803
Current assets			
Inventories		**450,877**	353,481
Prepayments, deposits and other current assets	*10*	**276,389**	111,790
Bills receivable		**9,766**	64,264
Accounts receivable	*11*	**209,125**	93,916
Pledged and time deposits		**1,187,265**	82,240
Cash and cash equivalents		**98,649**	593,550
		2,232,071	1,299,241
Total assets		**10,178,319**	7,034,044
EQUITY			
Capital and reserves attributable to the equity holders of the Company			
Share capital		**784,999**	720,833
Other reserves	*13*	**1,096,967**	775,082
Retained earnings		**681,047**	506,863
		2,563,013	2,002,778
Minority interests in equity		**439,016**	208,900
Total equity		**3,002,029**	2,211,678
LIABILITIES			
Non-current liabilities			
Long-term borrowings	*15*	**2,409,100**	1,562,000
Long-term payables		**6,740**	6,292
Deferred tax liabilities	*14*	**50,051**	45,768
		2,465,891	1,614,060

	Note	2008 RMB'000	2007 RMB'000
Current liabilities			
Accounts payable	*12*	**965,632**	644,239
Bills payable		**691,498**	276,503
Accruals and other payables		**223,593**	266,433
Amount due to a related company		**–**	718
Deposits and advance from customers		**234,180**	261,112
Taxes payable		**60,310**	87,725
Current portion of long-term borrowings	*15*	**392,000**	107,000
Short-term borrowings	*15*	**2,143,186**	1,564,576
		4,710,399	3,208,306
Total liabilities		**7,176,290**	4,822,366
Total equity and liabilities		**10,178,319**	7,034,044
Net current liabilities		**2,478,328**	1,909,065
Total assets less current liabilities		**5,467,920**	3,825,738

NOTES TO THE FINANCIAL INFORMATION

1. Basis of preparation – going concern assumption

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

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

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

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

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

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

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

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

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

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

2. Basis of preparation – new standards, amendments and interpretations

The following new standard, amendment to standard, and interpretation are mandatory for financial year ended 31 December 2008:

(i) Interpretation effective in 2008

- HK(IFRIC) – Int 11, 'HKFRS 2 – Group and treasury share transactions.

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

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

- The HKAS 39, 'Financial instruments: Recognition and measurement'.
- HK(IFRIC) – Int 12, 'Service Concession arrangements'
- HK(IFRIC) – Int 14, 'HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction'

Change in accounting estimates

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

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

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

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

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

3. **Revenue and segment information**

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

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

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

(a) Primary reporting format – business segments

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

(1) Manufacturing and selling of glass products; and

(2) Manufacturing and selling of soda ash products.

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

	2008		
	Glass	**Soda Ash**	**Group**
	RMB'000	***RMB'000***	***RMB'000***
Total segment revenue	**1,882,327**	**1,239,229**	**3,121,556**
Inter-segment revenue	**–**	**(365,326)**	**(365,326)**
Revenue – external	**1,882,327**	**873,903**	**2,756,230**
Segment results	**(45,726)**	**458,779**	**413,053**
Interest income			**25,802**
Unallocated expenses – net			**(3,148)**
Operating profit			**435,707**
Finance costs – net			**(190,626)**
Profit before income tax			**245,081**
Income tax income *(Note 6)*			**5,557**
Profit for the year			**250,638**

	2007		
	Glass *RMB'000*	Soda Ash *RMB'000*	Group *RMB'000*
Total segment revenue	1,527,511	997,304	2,524,815
Inter-segment revenue	–	(202,609)	(202,609)
Revenue – external	1,527,511	794,695	2,322,206
Segment results	161,956	271,401	433,357
Interest income			15,945
Unallocated expenses – net			(3,557)
Operating profit			445,745
Finance costs – net			(123,330)
Profit before income tax			322,415
Income tax expense *(Note 6)*			(25,471)
Profit for the year			296,944

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

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

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

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

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

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

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

No unallocated segment assets were identified as at 31 December 2008. Segment liabilities comprise operating liabilities. Unallocated liabilities comprise items such as deferred taxation and borrowings. Capital expenditures comprise additions to property, plant and equipment, construction-in-progress, land use rights, deposits for land use rights and intangible assets.

(b) Secondary reporting format – geographical segments

Revenue

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

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

Total assets

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

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

Capital expenditures

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

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

4. Other gains – net

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

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

5. Expenses by nature

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

	2008	2007
	RMB'000	*RMB'000*
Changes in inventories of finished goods and work-in-progress	**(59,984)**	(21,240)
Raw materials and consumables used	**1,847,343**	1,377,097
Written down of inventories to net realisable value	**34,748**	–
Staff costs	**113,117**	87,103
Depreciation of PPE	**236,369**	350,430
Impairment charges of PPE	**25,877**	–
Loss on disposal or retirement of PPE	**24,240**	–
Amortisation of LUR and intangible assets	**6,164**	5,315
Provision for impairment of prepayments *(Note 10)*	**44,307**	–
Provision for impairment of receivables *(Note 11)*	**10,923**	2,787
Transportation expenses	**64,436**	33,269
Operating lease rental of office premises	**926**	1,263
Auditor's remuneration (statutory audits in the PRC and Hong Kong)	**4,500**	4,200
Other expenses	**24,185**	57,477
	2,377,151	1,897,701

6. Income tax income/(expense)

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

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

(i) Hong Kong profits tax

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

(ii) PRC CIT

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

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

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

7. **(Loss)/profit attributable to equity holders of the Company**

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

8. **Earnings per share**

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

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

9. **Dividends**

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

10. **Prepayments, deposits and other current assets**

	Group	
	2008	2007
	RMB'000	*RMB'000*
Prepayments for raw materials and construction materials (a)	**249,005**	51,857
Prepayments for transportation	**35,807**	18,710
Prepayments and deposits to vendors of property, plant and equipment	**5,622**	18,427
Prepaid expenses	**6,564**	6,988
Receivable for providing electricity transforming services	**429**	1,787
Interest receivable	**5,676**	6,574
Others	**17,593**	7,447
	320,696	111,790
Less: provisions for impairment of prepayments (a)	**(44,307)**	–
	276,389	111,790

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

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

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

11. Accounts receivable

	Group	
	2008	2007
	RMB'000	*RMB'000*
Accounts receivable	**223,274**	97,495
Less: provision for impairment of receivables	**(14,149)**	(3,579)
	209,125	93,916

Trade receivables are non-interest bearing.

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

	Group	
	2008	2007
	RMB'000	*RMB'000*
Under 6 months	**142,263**	83,870
6 to under 12 months	**61,229**	7,899
1 to under 2 years	**15,469**	4,848
2 to under 3 years	**3,766**	727
3 years or over	**547**	151
	223,274	97,495

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

	Group	
	2008	2007
	RMB'000	*RMB'000*
Neither past due nor impaired	**148,498**	88,330
Past due for less than 12 months	**49,661**	5,586
Past due for more than 12 months	**10,966**	–
	209,125	93,916

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

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

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

	Group	
	2008	2007
	RMB'000	*RMB'000*
Under 6 months	**1,399**	195
6 to under 12 months	**1,559**	64
1 to under 2 years	**9,445**	2,442
2 to under 3 years	**1,594**	727
3 years or over	**152**	151
	14,149	3,579

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

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

12. Accounts payable

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

	Group	
	2008	2007
	RMB'000	*RMB'000*
Under 6 months	**500,056**	385,161
6 to under 12 months	**247,495**	158,454
1 to under 2 years	**138,566**	71,073
2 to under 3 years	**61,069**	18,934
3 years or over	**18,446**	10,617
	965,632	644,239

13. Other reserves

Movement of reserves of the Group is as follows:

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

14. Deferred taxation

The movement on the deferred tax liabilities is as follows:

	Group	
	2008	2007
	RMB'000	*RMB'000*
At 1 January	**45,768**	47,005
Consolidated income statement charge	**4,283**	(1,237)
At 31 December	**50,051**	45,768

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

Deferred tax liabilities:

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

Deferred tax assets:

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

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

	Group	
	2008	2007
	RMB'000	*RMB'000*
Deferred tax assets:		
– Deferred tax asset to be recovered after more than 12 months	**–**	–
– Deferred tax asset to be recovered within 12 months	**4,388**	–
	4,388	–
Deferred tax liabilities:		
– Deferred tax liabilities to be recovered after more than 12 months	**48,551**	33,218
– Deferred tax liabilities to be recovered within 12 months	**1,500**	12,550
	50,051	45,768
Deferred tax liabilities (net)	**45,663**	45,768

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

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

15. Borrowings

(i) Repayment details of borrowings

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

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

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

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

(ii) Related security and guarantee information

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

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

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

** *Mr. Feng is a substantial shareholder and the chairman of board of Directors.*

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

	Group	
	2008	2007
	RMB'000	*RMB'000*
Unsecured:	**–**	1,120,000
Secured by:		
Certain PPE, Construction-in-progress, LUR and intangible assets with carrying values of RMB1,522,131,000 (2007: RMB595,796,000) of the Group	**600,000**	455,000
Charge over 22.50% of the equity interests in QSAC and guaranteed by Mr. Feng, Guangyu Group Co, Ltd ("Guangyu") and independent third parties	**326,100**	–
	926,100	455,000
Guaranteed by:		
A third party	**82,000**	94,000
Jointly and severally guaranteed by:		
Mr. Feng and his related parties	**1,793,000**	–
	1,875,000	94,000
	2,801,100	1,669,000

In addition, approximately RMB200,000,000 and RMB1,910,000,000 of short-term and long-term borrowings (2007: RMB150,000,000 and RMB1,220,000,000) of a non-wholly owned subsidiary are guaranteed by the Company as at 31 December 2008, approximately RMB435,000,000 of short term borrowings of the Company were guaranteed by subsidiaries, and RMB10,000,000 and RMB346,1000,000 of short term and long term borrowings of subsidiaries were guaranteed by other subsidiaries.

(iii) Currency denomination of bank borrowings

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

	Group	
	2008	2007
	RMB'000	*RMB'000*
Renminbi	**4,751,490**	2,795,300
USD	**372,796**	438,276
	5,124,286	3,233,576

(iv) Undrawn borrowing facilities

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

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

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

(v) Loan covenants compliance

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

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

16. Contingent liabilities

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

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

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

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

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

SUMMARY OF AUDITOR'S REPORT

The Directors would like to draw your attention to the fact that the independent auditor's report on the consolidated financial statements of the Group for the year ended 31 December 2008 contains the following "basis of disclaimer of opinion" and "disclaimer of opinion":

"Basis for disclaimer of opinion

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

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

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

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

Disclaimer of opinion: disclaimer on view given by consolidated financial statements

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

Notes 1, 10 and 16 to the financial information are extracted from notes 2, 24 and 38 to the consolidated financial statements, respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

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

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

BUSINESS REVIEW

Soda ash business

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

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

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

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

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

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

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

Glass Business

Flat glass

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

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

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

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

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

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

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

Processed glass

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

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

FINANCIAL REVIEW

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

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

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

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

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

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

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

OUTLOOK

Soda ash business

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

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

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

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

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

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

Glass business

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

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

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

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

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

Flat glass

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

Processed glass

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

CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

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

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

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

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

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

EXCHANGE RATE RISK

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

CAPITAL COMMITMENT AND CONTINGENT LIABILITIES

Capital expenditure of the Group amounted to approximately RMB2,509 million for the year. Capital expenditure was mainly for the construction of two new flat glass production lines in Zhejiang Province and the second soda ash production line in Qinghai Province. As of 31 December 2008, the Group had total capital commitment of approximately RMB2,740 million, which was mainly related to the investment in the construction of the second soda ash production line in Qinghai Province (approximately RMB0.5 billion) and the proposed investment in the construction of several glass production lines in Zhejiang Province (approximately RMB2 billion). However, the Group is entitled to adjust the schedule of these proposed investments, and in particular, the Group has the right to adjust the investment amount or to terminate the execution of the investments in the construction of several glass production lines in Zhejiang Province. The Group did not have any significant contingent liabilities during the year, except for those disclosed in Note 16 to the financial information.

CONNECTED TRANSACTIONS

During the year, save for the advance of a sum of RMB50,000,000 by the Company to Guangyu in May 2008 ("Financial Assistance") there have been no related party transactions which also constitute connected transactions that are not exempt under the Listing Rules and which are required to be disclosed in accordance with Chapter 14A of the Listing Rules.

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

EMPLOYEES

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

FINAL DIVIDEND

No interim dividend was paid in 2008 (2007: Nil). The Directors do not recommend the payment of a final dividend for 2008 (2007: Nil).

PURCHASE, SALES OR REDEMPTION OF SECURITIES

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

CORPORATE GOVERNANCE

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

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

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

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

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

DIRECTORS' SECURITIES TRANSACTIONS

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

BOARD OF DIRECTORS

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

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

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

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

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

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

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

NOMINATION OF DIRECTORS

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

REMUNERATION COMMITTEE

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

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

AUDIT COMMITTEE

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

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

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

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

AUDITORS' REMUNERATION

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

DIRECTORS' AND AUDITORS' ACKNOWLEDGEMENT

All Directors acknowledge their responsibility for preparing the accounts for the Year.

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

INTERNAL CONTROL

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

GOING CONCERN ASSUMPTION

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

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

Nevertheless, the Directors adopted the going concern basis in the preparation of the financial statements of the Company and the Group on the assumptions that the Group is able to obtain ongoing support from the Group's bankers for extending its short-term loans upon maturity; obtain long-term financing facilities to refinance its short-term loans; remediate its breaches of certain loan covenants; derive adequate operating cash flow from its existing operations and new products to be produced; and obtain the capital subscription from Sinhoo in a major subsidiary of the Group, and to derive adequate cash flow to finance the remaining capital expenditure of the construction of phase two soda ash production line as set forth in note 1 to the financial information.

AUDIT COMMITTEE'S REVIEW

The audit committee of the board of Directors has reviewed the accounting policies, accounting standards and practices adopted by the Group and the consolidated financial statements of the Group for the year ended 31 December 2008.

In relation to the Finance Assistance and the Litigation, the audit committee has at the audit committee meeting held on 9 May 2009 recommended, among others, that compliance by officers (including Directors) with the Company's internal control system should be improved.

SCOPE OF WORK OF PRICEWATERHOUSECOOPERS

The figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2008 have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on the preliminary announcement.

PUBLICATION OF ANNUAL REPORT ON THE INTERNET WEBSITE OF THE STOCK EXCHANGE OF HONG KONG LIMITED

The 2008 annual report will be published on the website of The Stock Exchange of Hong Kong Limited and the Company in due course.

BOARD OF DIRECTORS

The composition of the board of the Directors as at the date of this announcement is as follows:

Executive Directors: Mr. FENG Guangcheng, Ms. HONG Yumei, Mr. GAO Huojin, Mr. SHEN Guangjun, Mr. JIANG Liqiang; non-executive Directors: Mr. LIU Jianguo and Mr. XIE Yong; and independent non-executive Directors: Mr. WANG Yanmou, Dr. LI Jun, Mr. SU Gongmei and Mr. ZHOU Guochun.

By order of the Board
Zhejiang Glass Company, Limited
Feng Guangcheng
Chairman

Zhejiang Province, the PRC, 8 May 2009