

# 2009 Interim Report



浙江玻璃股份有限公司  
ZHEJIANG GLASS COMPANY, LIMITED

Stock Code: 739

## CONTENTS

	page
Corporate information	2
Condensed consolidated income statement	3
Condensed consolidated statement of comprehensive income	4
Condensed consolidated statement of financial position	5
Condensed consolidated statement of changes in equity	7
Condensed consolidated statement of cash flows	8
Notes to the condensed consolidated financial statements	9
Management discussion and analysis	20
Other information	25

## CORPORATE INFORMATION

### DIRECTORS

#### **Executive Directors**

Mr. FENG Guangcheng (*Chairman*)

Ms. HONG Yumei

Mr. GAO Huojin

(*resigned with effect on 30 June 2009*)

Mr. SHEN Guangjun

Mr. JIANG Liqiang

Mr. ZHANG Shutao

(*appointed with effect on 30 June 2009*)

#### **Non-executive Directors**

Mr. LIU Jianguo

Mr. XIE Yong

(*resigned with effect on 30 June 2009*)

Ms. CHEN Rong

(*appointed with effect on 30 June 2009*)

#### **Independent non-executive Directors**

Mr. WANG Yanmou

Dr. LI Jun

Mr. SU Gongmei

Mr. ZHOU Guochun

### SUPERVISORS

Mr. XU Yuxiang

Mr. LOU Zhenrong

Mr. FU Guohua

Mr. FANG Shengli

Mr. XU Mingfeng

Mr. MEI Linfeng

Mr. JI Peng

### SHARE LISTING

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

### AUDITORS

RSM Nelson Wheeler

RSM China

### LEGAL ADVISORS

*As to Hong Kong law:*

Chiu & Partners

*As to PRC law:*

Commerce & Finance Law Offices

### LEGAL ADDRESS

Yangxunqiao Township

Shaoxing County

Zhejiang Province

The People's Republic of China

### PRINCIPAL PLACE OF BUSINESS IN HONG KONG

1301 Ruttonjee House

Ruttonjee Centre

11 Duddell Street

Central, Hong Kong

### JOINT COMPANY SECRETARIES

Ms. TAO Haiping

Ms. WONG Hoi Kam

### AUTHORISED REPRESENTATIVES

Mr. FENG Guangcheng

Ms. TAO Haiping

### HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor  
Services Limited

Shops 1712-1716, 17/F

Hopewell Centre

183 Queen's Road East, Wan Chai

Hong Kong

### PRINCIPAL BANKERS

Agricultural Bank of China

Bank of China

Bank of China (Hong Kong) Limited

Bank of Communications

China Construction Bank

### INVESTOR RELATIONS CONSULTANT

Financial Dynamics International

### INTERNET WEBSITE

[www.zjglass.cn](http://www.zjglass.cn)

The board (the "Board") of directors (the "Directors") of Zhejiang Glass Company, Limited (the "Company") are pleased to present the unaudited condensed interim financial information of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2009 (the "Period").

## CONDENSED CONSOLIDATED INCOME STATEMENT

		<b>Six months ended 30 June</b>	
		<b>2009</b>	2008
Note		<b>RMB'000</b>	RMB'000
		<b>(Unaudited)</b>	(Unaudited)
	<b>TURNOVER</b>		
3	Cost of sales	<b>1,190,415</b>	1,373,152
		<b>(1,171,395)</b>	(949,151)
	<b>GROSS PROFIT</b>		
	Other income	<b>19,020</b>	424,001
	Distribution and selling expenses	<b>20,725</b>	12,810
	Administrative and other operating expenses	<b>(53,177)</b>	(48,260)
		<b>(49,622)</b>	(36,578)
	<b>(LOSS)/PROFIT FROM OPERATIONS</b>		
4		<b>(63,054)</b>	351,973
5	Financial expenses	<b>(142,521)</b>	(71,808)
	<b>(LOSS)/PROFIT BEFORE TAX</b>		
6	Income tax expense	<b>(205,575)</b>	280,165
		<b>(1,979)</b>	(4,183)
	<b>(LOSS)/PROFIT FOR THE PERIOD</b>		
		<b>(207,554)</b>	275,982
	<b>Attributable to:</b>		
7	Equity holders of the Company	<b>(191,013)</b>	218,552
	Minority interests	<b>(16,541)</b>	57,430
		<b>(207,554)</b>	275,982
	<b>INTERIM DIVIDEND</b>		
8		-	-
	<b>(LOSS)/EARNINGS PER SHARE</b>		
	- Basic	<b>RMB(0.243)</b>	RMB0.298
	- Diluted	<b>N/A</b>	N/A

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	<b>Six months ended 30 June</b>	
	<b>2009</b>	2008
	<b>RMB'000</b>	RMB'000
	<b>(Unaudited)</b>	(Unaudited)
<b>(LOSS)/PROFIT FOR THE PERIOD</b>	<b>(207,554)</b>	275,982
Other comprehensive income	-	-
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>	<b>(207,554)</b>	275,982
<b>Attributable to:</b>		
Equity holders of the Company	<b>(191,013)</b>	218,552
Minority interests	<b>(16,541)</b>	57,430
	<b>(207,554)</b>	275,982

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at 30 June 2009 RMB'000 (Unaudited)	As at 31 December 2008 RMB'000 (Audited)
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	9	5,200,794	5,288,203
Construction-in-progress	9	2,249,840	1,841,022
Prepaid land lease payments	9	184,685	185,801
Deposits for land use rights	9	761,360	565,000
Intangible assets	9	22,280	23,634
Long-term prepayments		38,200	38,200
Deferred tax assets		—	4,388
		<b>8,457,159</b>	<b>7,946,248</b>
<b>CURRENT ASSETS</b>			
Inventories		366,458	450,877
Prepayments, deposits and other receivables		517,529	276,389
Trade and bills receivables	10	240,354	218,891
Pledged and time deposits		995,231	1,187,265
Bank and cash balances		63,357	98,649
		<b>2,182,929</b>	<b>2,232,071</b>
<b>CURRENT LIABILITIES</b>			
Trade and bills payables	11	1,843,815	1,657,130
Accruals and other payables		342,254	263,994
Deposits and advance from customers		276,961	234,180
Current tax liabilities		17,909	19,909
Borrowings	12	2,690,478	2,535,186
		<b>5,171,417</b>	<b>4,710,399</b>
<b>NET CURRENT LIABILITIES</b>		<b>(2,988,488)</b>	<b>(2,478,328)</b>

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

	Note	As at 30 June 2009 RMB'000 (Unaudited)	As at 31 December 2008 RMB'000 (Audited)
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>5,468,671</b>	5,467,920
<b>NON-CURRENT LIABILITIES</b>			
Borrowings	12	2,620,080	2,409,100
Long-term payables		6,474	6,740
Deferred tax liabilities		47,642	50,051
		<b>2,674,196</b>	2,465,891
<b>NET ASSETS</b>		<b>2,794,475</b>	3,002,029
<b>CAPITAL AND RESERVES</b>			
Share capital		784,999	784,999
Reserves		1,587,001	1,778,014
Equity attributable to equity holders of the Company		<b>2,372,000</b>	2,563,013
Minority interests		422,475	439,016
<b>TOTAL EQUITY</b>		<b>2,794,475</b>	3,002,029

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Unaudited)

	Attributable to equity holders of the Company							Total equity RMB'000
	Share capital RMB'000	Share premium RMB'000	Statutory reserve RMB'000	Other reserve RMB'000	Retained profits RMB'000	Total RMB'000	Minority interests RMB'000	
<b>At 1 January 2008</b>	720,833	453,486	165,869	155,727	506,863	2,002,778	208,900	2,211,678
Issue of new shares	64,166	284,270	-	-	-	348,436	-	348,436
Changes in equity for the Period	-	-	-	-	218,552	218,552	57,430	275,982
Capital contribution from a minority equity owner of a subsidiary	-	-	-	25,581	-	25,581	58,419	84,000
<b>At 30 June 2008</b>	784,999	737,756	165,869	181,308	725,415	2,595,347	324,749	2,920,096
At 1 January 2009	<b>784,999</b>	<b>729,033</b>	<b>165,869</b>	<b>202,065</b>	<b>681,047</b>	<b>2,563,013</b>	<b>439,016</b>	<b>3,002,029</b>
Changes in equity for the Period	-	-	-	-	(191,013)	(191,013)	(16,541)	(207,554)
<b>At 30 June 2009</b>	<b>784,999</b>	<b>729,033</b>	<b>165,869</b>	<b>202,065</b>	<b>490,034</b>	<b>2,372,000</b>	<b>422,475</b>	<b>2,794,475</b>



## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	<b>Six months ended 30 June</b>	
	<b>2009</b> <b>RMB'000</b> <b>(Unaudited)</b>	2008 RMB'000 (Unaudited)
Net cash generated from operating activities	<b>70,818</b>	135,532
Net cash used in investing activities	<b>(512,443)</b>	(1,071,861)
Net cash generated from financing activities	<b>406,333</b>	1,274,894
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(35,292)</b>	338,565
<b>Cash and cash equivalents at 1 January</b>	<b>98,649</b>	593,550
<b>Cash and cash equivalents at 30 June</b>	<b>63,357</b>	932,115
<b>Cash and cash equivalents at end of Period, represented by</b>		
Bank and cash balances	<b>63,357</b>	932,115

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 1. Basis of preparation

These unaudited condensed financial statements have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34, ‘Interim Financial Reporting’ and other relevant HKASs and Interpretations and the Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and the applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”).

These condensed financial statements should be read in conjunction with the annual audited financial statements for the year ended 31 December 2008. The accounting policies and methods of computation used in the preparation of these condensed financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2008 except as stated below.

One underlying assumption under the HKFRSs 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 of 30 June 2009, the Group had net current liabilities of approximately RMB2,988 million (31 December 2008: RMB2,478 million). This condition indicates the existence of a material uncertainty which may cast 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 information of the Group based on the following assumptions and conditions:

1. The Group will succeed in negotiating with its bankers to roll over the outstanding bank loans and/or to extend their repayment terms to meet its working capital and financial requirements in the near future.
2. The Group has been actively exploring the availability of alternative sources of long-term financing in order to re-finance its existing short-term bank loans and it will be successful in obtaining such re-financing arrangements.

**1. Basis of preparation (Continued)**

3. The Company believes it will succeed in working out a remedial plan with International Finance Corporation (“IFC”) for not satisfying of certain loan covenants associated with a loan facility granted to and drawn down by the Company. As at 30 June 2009, the outstanding balance of loans from IFC was approximately RMB323 million (US\$47 million).
4. The Group is expected to derive sufficient operating cash flow in 2009 from its existing flat glass products, ultra-thick and other glass products, and soda ash products.
5. On 21 June 2007, the Company entered into a capital subscription agreement with a third party, pursuant to which, the third party agrees to pay approximately RMB905 million as capital contribution made into Qinghai Soda Ash Company Limited (“QSAC”), a 71.47% subsidiary of the Company as at 30 June 2009, in return for 35% of equity interests in QSAC. Up to 30 June 2009, RMB500 million has been contributed by that third party. The Directors consider the remaining capital contribution of RMB405 million will be received and used to finance the capital expenditure 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 outflow on the existing production line construction projects, repairs and maintenance as adjusting the dividend pay-out ratio for 2009 and 2010.

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 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 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.

These unaudited condensed consolidated interim financial statements have been reviewed by the audit committee of the Company and were approved by the Board on 18 September 2009.

## 2. Adoption of new and revised Hong Kong Financial Reporting Standards

In the current period, the Group has adopted all the new and revised HKFRSs issued by the HKICPA that are relevant to its operations and effective for its accounting year beginning on 1 January 2009. HKFRSs comprise Hong Kong Financial Reporting Standards; Hong Kong Accounting Standards and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group's accounting policies, presentation of the Group's financial statements and amounts reported for the current period and prior years except as stated below.

### a. *Presentation of Financial Statements*

HKAS 1 (Revised) "Presentation of Financial Statements" affects certain disclosures and presentation of the financial statements. The balance sheet is renamed as the statement of financial position and the cash flow statement is renamed as the statement of cash flows. All income and expenses arising from transactions with non-owners are presented in the income statement and statement of comprehensive income, and the total carried to the statement of changes in equity. The owner changes in equity are presented in the statement of changes in equity. These presentation requirements have been applied retrospectively in these condensed financial statements.

### b. *Operating Segments*

HKFRS 8 "Operating Segments" requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. Previously, HKAS 14 "Segment Reporting" required an entity to identify two sets of segments (business and geographical), using a risks and rewards approach, with the entity's 'system of internal financial reporting to key management personnel' serving as the starting point for the identification of such segments. HKFRS 8 results in a redesignation of the Group's reportable segments, but has had no impact on the reported results or financial position of the Group. HKFRS 8 has been applied retrospectively.

The segment accounting policies under HKFRS 8 are stated in note 3 to the condensed financial statements.

The Group has not applied the new HKFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a material impact on its results of operations and financial position.

### 3. Segment information

The Group has two reportable segments as follows:

Glass	–	manufacturing and selling of glass products
Soda ash	–	manufacturing and selling of soda ash products

The Group's reportable segments are strategic business units that offer different products. They are managed separately because each business requires different technology and marketing strategies.

Segment profits or losses do not include exchange gains, unallocated financial expenses and directors' remuneration which are common costs incurred for all operating segments as a whole that are not used by the chief operating decision-makers as a basis for the purpose of resource allocation and assessment of segment performance. Income tax expense is also not allocated to individual operating segments. Segment assets do not include deferred tax assets.

The Group accounts for intersegment sales and transfers as if the sales or transfers were to third parties, i.e. at current market prices.

	<b>Glass</b>	<b>Soda Ash</b>	<b>Total</b>
	RMB'000	RMB'000	RMB'000
<b>Segment (loss)/profit:</b>	(Unaudited)	(Unaudited)	(Unaudited)
Six months ended 30 June 2009			
Revenue from external customers	787,175	403,240	1,190,415
Intersegment revenue	–	32,458	32,458
Segment loss	(85,062)	(57,214)	(142,276)
Six months ended 30 June 2008			
Revenue from external customers	888,858	484,294	1,373,152
Intersegment revenue	–	159,681	159,681
Segment profit	39,407	260,898	300,305

3. Segment information (Continued)

	<b>Glass</b> RMB'000 (Unaudited)	<b>Soda Ash</b> RMB'000 (Unaudited)	<b>Total</b> RMB'000 (Unaudited)
<b>Segment assets:</b>			
As at 30 June 2009	6,017,588	4,622,500	10,640,088
	(Audited)	(Audited)	(Audited)
As at 31 December 2008	5,878,415	4,295,516	10,173,931

	<b>Six months ended 30 June</b>	
	<b>2009</b> RMB'000 (Unaudited)	2008 RMB'000 (Unaudited)
<b>Reconciliation of segment (loss)/profit:</b>		
Total (loss)/profit of reportable segments	<b>(142,276)</b>	300,305
Elimination of intersegment profits	<b>4,386</b>	(2,936)
Unallocated amounts:		
Exchange gains	-	21,881
Interest income	<b>17,207</b>	10,441
Expenses	<b>(852)</b>	(1,620)
Financial expenses	<b>(84,040)</b>	(47,906)
(Loss)/profit before tax	<b>(205,575)</b>	280,165

**4. (Loss)/profit from operations**

The Group's (loss)/profit from operations is stated after charging and (crediting) the following:

	<b>Six months ended 30 June</b>	
	<b>2009</b> <b>RMB'000</b> <b>(Unaudited)</b>	2008 RMB'000 (Unaudited)
Staff costs		
– salaries, wages and staff welfare	<b>56,177</b>	52,324
– social security insurance contributions	<b>7,128</b>	5,852
– retirement benefit scheme contributions	–	20
	<b>63,305</b>	58,196
Directors' remuneration	<b>852</b>	481
	<b>64,157</b>	58,677
Depreciation of property, plant and equipment	<b>156,919</b>	136,957
Amortisation of prepaid land lease payments and intangible assets	<b>3,970</b>	3,032
Impairment on property, plant and equipment	–	18,343
Operating lease rental of office premises	<b>347</b>	454
	<b>(17,207)</b>	(10,441)
Interest income on bank deposits	<b>(34,748)</b>	–
Reversal of allowance for inventories*	<b>(34,748)</b>	–

\* Because of the change in the market conditions of the Group's products during the Period, there was a significant increase in the net realisable value of inventories. As a result, allowance made in prior years against the inventories of RMB34,748,000 was reversed during the Period.

**5. Financial expenses**

	<b>Six months ended 30 June</b>	
	<b>2009</b> <b>RMB'000</b> <b>(Unaudited)</b>	2008 RMB'000 (Unaudited)
Interest expenses on borrowings	<b>138,676</b>	89,472
Net exchange gains on financing activities	–	(21,881)
Charges on discounting of bills	<b>3,845</b>	4,217
	<b>142,521</b>	71,808

**6. Income tax expense**

	<b>Six months ended 30 June</b>	
	<b>2009</b>	2008
	<b>RMB'000</b>	RMB'000
	<b>(Unaudited)</b>	(Unaudited)
Current-tax		
PRC Enterprise Income Tax ("EIT") *		
– provision for the Period	–	1,951
– overprovision for pervious periods	–	(7,156)
	–	(5,205)
Deferred tax	<b>1,979</b>	9,388
	<b>1,979</b>	4,183

\* During the Period, the Company and all its subsidiaries incorporated in the PRC are subject to EIT at a rate of 25% (2008: 25%) on their assessable profits, except QSAC which is exempted from EIT commencing in year 2004 ending in the year 2008 and subject to a reduced rate at 15% from year 2009 to year 2012.

**7. (Loss)/earnings per share**

The calculation of the basic (loss)/earnings per share is based on the (loss)/profit attributable to the equity holders of the Company for the Period of approximately RMB191,013,000 (six months ended 30 June 2008: RMB218,552,000) divided by the weighted average number of 784,999,000 shares in issue during the Period (six months ended 30 June 2008: 732,467,000).

There were no dilutive potential shares outstanding at 30 June 2009 (six months ended 30 June 2008: Nil).

**8. Dividends**

The Board has resolved not to declare any interim dividend for the Period (2008: Nil).



## 9. Capital expenditures

	Property, plant and equipment RMB'000	Construction- in-progress RMB'000	Prepaid land lease payments RMB'000	Deposits for land use rights RMB'000	Intangible assets RMB'000	Total RMB'000
Opening carrying amount at 1 Jan 2009	5,288,203	1,841,022	185,801	565,000	23,634	7,903,660
Additions (Unaudited)	49,338	428,990	1,500	196,360	-	676,188
Transfers (Unaudited)	20,172	(20,172)	-	-	-	-
Depreciation/amortisation charge (Unaudited)	(156,919)	-	(2,616)	-	(1,354)	(160,889)
Impairment (Unaudited)	-	-	-	-	-	-
Closing carrying amount at 30 June 2009	5,200,794	2,249,840	184,685	761,360	22,280	8,418,959
Opening carrying amount at 1 Jan 2008	4,072,023	1,415,823	189,918	2,000	25,039	5,704,803
Additions (Unaudited)	38,430	1,285,458	642	-	-	1,324,530
Transfers (Unaudited)	623,972	(623,972)	-	-	-	-
Depreciation/amortisation charge (Unaudited)	(136,957)	-	(2,210)	-	(822)	(139,989)
Impairment (Unaudited)	(18,343)	-	-	-	-	(18,343)
Closing carrying amount at 30 June 2008	4,579,125	2,077,309	188,350	2,000	24,217	6,871,001

During the Period, the Group paid capital expenditures of approximately RMB676,188,000 (six months ended 30 June 2008: RMB1,324,530,000).

## 10. Trade and bills receivables

	As at 30 June 2009 RMB'000 (Unaudited)	As at 31 December 2008 RMB'000 (Audited)
Trade receivables	225,547	209,125
Bills receivables	14,807	9,766
	240,354	218,891

**10. Trade and bills receivables (Continued)**

The aging analysis of trade receivables based on the invoice date, is set out below:

	<b>As at 30 June 2009 RMB'000 (Unaudited)</b>	As at 31 December 2008 RMB'000 (Audited)
Current to under 6 months	<b>163,741</b>	142,263
6 to under 12 months	<b>39,264</b>	61,229
1 to under 2 years	<b>35,430</b>	15,469
2 to under 3 years	<b>1,261</b>	3,766
3 years or over	<b>–</b>	547
Provision made	<b>(14,149)</b>	(14,149)
	<b>225,547</b>	209,125

Cash on delivery is required for majority of the customers. Credit is only granted for a period of up to a maximum of twelve months for certain customers with good credit worthiness, ascertained by an assessment performed on their financial abilities and past payment history, and with the approval obtained from top management of the Group.

**11. Trade and bills payables**

	<b>As at 30 June 2009 RMB'000 (Unaudited)</b>	As at 31 December 2008 RMB'000 (Audited)
Trade payables	<b>1,198,730</b>	965,632
Bills payables	<b>645,085</b>	691,498
	<b>1,843,815</b>	1,657,130

The aging analysis of trade payables is set out below:

	<b>As at 30 June 2009 RMB'000 (Unaudited)</b>	As at 31 December 2008 RMB'000 (Audited)
Current to under 6 months	<b>744,966</b>	500,056
6 to under 12 months	<b>341,831</b>	247,495
1 to under 2 years	<b>111,933</b>	138,566
2 to under 3 years	<b>–</b>	61,069
3 years or over	<b>–</b>	18,446
	<b>1,198,730</b>	965,632

## 12. Borrowings

The Group's borrowings are secured by the Group's property, plant and equipment, personal guarantee by an executive director, Mr. Feng Guangcheng ("Mr. Feng"), related parties of Mr. Feng and independent third parties. New borrowings of RMB1,427,220,000 were raised in order to finance its operation during the Period in which RMB59,500,000 are secured by inventories of RMB70,000,000.

### *Loan covenants compliance*

Included in the Group's borrowings are loans due from a shareholder, International Finance Corporation ("IFC"). 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 expenditures. The Company has not been satisfying certain of these covenants, including the limit on capital expenditures 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 2008 and 30 June 2009. Nevertheless, IFC has not demanded for immediate repayment of the outstanding balances up to 18 September 2009, the date when these financial statements were approved.

## 13. Contingent liabilities

As stated in the annual audited financial statements for the year ended 2008, in December 2008, a third party ("the Plaintiff") filed a lawsuit ("Litigation") with 紹興市中級人民法院 against the Company (alleged as a borrower), QSAC, Zhejiang Shaoxing Taoyan Glass Company Limited and Mr. Feng (alleged as joint and several guarantors) for an alleged default in repayment of RMB50,000,000 due to the Plaintiff. On 7 January 2009, the court granted a freezing order ("Freezing Order") in favor of the Plaintiff against the 94,304,310 shares held by the Group in QSAC, representing approximately 18.55% of the Group's interest in QSAC, and approximately 13.26% of the entire registered capital of QSAC. On 17 May 2009, the Group filed an appeal to 浙江省高級人民法院 to seek to set aside the Freezing Order granted by 紹興市中級人民法院. The Directors consider that it has grounds to defend against the Litigation, therefore, the Group has not provided for any contingent liabilities that may be resulted in the unaudited condensed financial statements as at 30 June 2009.

There are no other material contingent liabilities or lawsuits pending at 30 June 2009.

**14. Capital commitments**

	<b>30 June 2009 RMB'000 (Unaudited)</b>	31 December 2008 RMB'000 (Audited)
Contracted but not provided for:		
Construction of a soda ash plant	<b>913,706</b>	568,183
Construction of glass production lines	<b>1,958,615</b>	2,051,612
	<b>2,872,321</b>	2,619,795
Authorised but not contracted for:		
Acquisition of land use rights	-	196,360
	<b>2,872,321</b>	2,816,155

**15. Related party transactions**

In connection with the Litigation as explained in note 13 above, the sum of RMB50,000,000 advanced by the Company to Guangyu Group Company Limited ("Guangyu Group") in May 2008 constituted related party transaction and financial assistance under Chapter 14A of the Listing Rules and in accordance with HKAS 24 "Related Party Disclosures". The amount has been settled in full in July 2008 by Guangyu Group at the direction of the Company. Mr. Feng owns 96% of equity interests in Guangyu Group.

Saved as disclosed above, there are no other related party transactions incurred during the Period.

**16. Comparative figures**

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

## MANAGEMENT DISCUSSION AND ANALYSIS

The Group is a vertically integrated industrial raw materials manufacturer, principally engaged in the production and sale of soda ash and flat glass. The upstream soda ash business produces soda ash, which is one of the most important and fundamental chemical raw materials used broadly in glass, alumina, synthetic detergent and various other industries. The Group's soda ash product is sold to both internal and external clients to produce glass and various other products. The Group's downstream glass business mainly produces high quality flat glass and processed glass which is widely used in construction, automobile and electronics industries.

The Group currently operates one soda ash production line in Qinghai Province, and ten flat glass production lines and thirteen glass processing lines for the production of high value-added glass products, namely mirror glass, tempered glass, insulated glass, laminated glass and low-E glass in Zhejiang Province.

During the Period, due to the impacts of the global financial crisis, tightened macroeconomic control and oversupply in the industry. The price of both soda ash and glass products dropped significantly. As such, most soda ash and glass producers generally recorded relatively unsatisfactory results. Although the Group's vertically integrated business model is superior to the pure soda ash or glass business in its risk resistance capacity, the Group recorded a substantial loss as a result of the plunge of both soda ash and glass products price and demand. Overall, the Group has recorded a net attributable loss amounting to RMB191 million for the Period, compared to a net attributable profit of RMB219 million for the same period of 2008.

### Business Review

#### ***Soda ash business***

The output volume of downstream industries such as glass, alumina and synthetic detergent kept declining, which in turn curtailed the demand of soda ash. In addition, the inventory compiled as a result of expansion of production capacity, which has led to low price and output volume for soda ash since December 2008. According to the statistics of China Soda Industry Association, China's soda ash output volume was only 8.88 million tons during the Period, 8.2% lower than that of first half of 2008. Elsewhere, according to the statistics of China Building Materials Federation, the average price of soda ash in the Period was about RMB1,200 per ton (including VAT), 37% lower than that of first half of 2008.

During the Period, Qinghai Soda Ash Company Limited (“QSAC”), a subsidiary of the Company, was in the process of constructing its phase two plant. Upon completion and commencement of commercial operation, the Group’s soda ash production capacity is expected to add 1.2 million tons per annum. QSAC’s current capacity is 1.2 million tons per annum, with utilization rate of 82% in the Period.

During the Period, the output volume of soda ash of the Group was 492,000 tons, sales volume was 588,000 tons, and sales to output ratio approximated 120%. The turnover of soda ash from external customers during the Period was RMB403 million (corresponding period in 2008 (“1H2008”): RMB484 million), accounting for 34% of the Group’s total turnover (1H2008: 35%). The average selling price excluding freight and VAT approximated RMB685 per ton (1H2008: RMB1,400 per ton) while the selling price including freight and VAT approximated RMB1,170-1,200 per ton (1H2008: RMB1,850-2,050 per ton).

Light soda ash (lower density) is used widely in synthetic detergent, alumina and monosodium glutamate production. During the Period, light soda ash accounted for approximately 21% of the Group’s total soda ash sales, while dense soda ash (higher density) , which is mainly used in glass production, accounted for the remaining 79% of total soda ash sales.

### ***Glass Business***

#### *Flat glass*

During the Period, the Group has a total of ten float glass production lines (1H2008: nine production lines). The tenth production line which commenced operation in late November 2008, is capable of making high quality flat glass for processing of Low-E and Sun-E glass with a daily melting capacity of 500 tons. The aggregate daily melting capacity reached 5,000 tons in the Period (1H2008: 4,500 tons). During the Period, the sales volume of flat glass of the Group was 13.38 million weight case (1H2008: 11 million), or 670,000 tons (1H2008: 550,000 tons). The sales to output ratio was approximately 102% (1H2008: approximately 94%). The turnover of flat glass business was RMB714 million (1H2008: RMB802 million), accounted for 60% of the Group’s total turnover (1H2008: 65%).

During the Period, high quality automotive grade glass (with a higher average selling price and higher margin) accounted for approximately 88% of the glass output volume (1H2008: 90%), while the low quality construction grade glass (with a lower average selling price and lower margin) accounted for the remaining 12% (1H2008: 10%).

During the Period, the average selling price of flat glass dropped dramatically by 28% year-on-year to RMB56 per weight case (1H2008: RMB78 per weight case).

On the other hand, average production cost per weight case decreased by 25% to RMB53 per weight case (1H2008: RMB71 per weight case).

The price of heavy oil, the major fuel for producing flat glass, remained high during the Period. The average cost of heavy oil including VAT was approximately RMB2,950 per ton, down 32% year-on-year. The Group has also applied coal tar to replace part of heavy oil consumptions in some of the production lines to further reduce production cost.

The average price of soda ash including freight and VAT was RMB1,200 per ton (1H2008: RMB1,900 per ton), down approximately 37% year-on-year.

### ***Processed glass***

During the Period, approximately 2% of the Group's flat glass was further processed into higher value-added products which had higher margins (1H2008: approximately 3%).

During the Period, the Group had a total of thirteen glass processing lines for mirror glass, tempered glass, insulating glass, laminated glass and low-E glass respectively.

The Group sold approximately 1.02 million sq. m. of processed glass in the Period (1H2008: 1.31 million sq. m.), with an average selling price of RMB72 per sq. m. (1H2008: RMB67 per sq. m.) and turnover of RMB73 million (1H2008: RMB87 million). Sale of processed glass accounted for approximately 6% of Group's total glass turnover (1H2008: 6%).

### **Financial Review**

Due to the impacts of the global financial crisis, tightened macroeconomic control and oversupply in the industry, the Group incurred a loss for both the soda ash and the glass business. Overall, the Group recorded a net attributable loss of RMB191 million during the Period (1H2008: net attributable profit of RMB219 million).

During the Period, turnover decreased by approximately 13% to RMB1.19 billion (1H2008: RMB1.37 billion). The gross margin was 1.6% (1H2008: 30.9%, 4.9 percentage point of which was attributable to changes in accounting estimate).

The average inventory turnover days dropped to 64 days in the Period (1H2008: 77 days).

## Outlook

### ***Soda ash business***

We expect the difficult times for the soda ash business industry in the PRC has passed. The recovery of downstream industries is generally satisfactory for soda ash industry. Following an increase in demand from downstream industries, the price of soda ash is expected to rise.

Currently, the average utilization rate of China's soda ash industry was approximately 84%. According to the statistics of China Soda Industrial Association, price remains low and far lagged behind downstream industries, such as glass, as a result of over 20% oversupply, which offset the positive impact of increased demand from downstream industries. According to the statistics of China Chemical Industry Network, the light soda ash's selling price is approximately RMB950-1,150 per ton, while dense soda ash's selling price is approximately RMB1,200-1,300 per ton. Such prices are only slightly above the breakeven point of most manufacturers.

Approximately 42% of the soda ash is used in producing glass while more than half of the glass is used in building and automobile industry. According to the statistics from the State Bureau of Statistics, the new developed floor amounted to 120 million sq. m. in June 2009, being the first positive movement since July 2008, representing 12% growth year-on-year or 54% growth month-on-month. The figure rose further to 130 million sq. m. in July 2009, representing 15% growth month-on-month. In addition, sales of automobiles continued to rise. Statistics from the China Automobile Association showed that approximately 898,600 and 872,900 automobile were respectively produced and sold in June 2009, representing a growth of 9.38% and 5.29% month-on-month, or 47.49% and 48.36% year-on-year respectively. Thanks to the recovery of local real estate and automobile industry, we expect soda ash industry to recover in the fourth quarter of this year.

The governmental revitalization plan also helped to boost industry recovery. On 18 May 2009, the State Department enacted the detailed rules to the "Petrochemical Industry Modulation and Revitalization Plan". The rules impose stricter control on the supply of soda ash industry which is expected to improve the oversupply situation and help to sustain the price. The Group also expects to further expand market share and maintain leadership in the industry.



Due to sluggish market demand for soda ash, the Group has postponed its phase two construction of Qinhai soda ash plant. The construction is currently expected to be completed in 2010. After its commercial production, total capacity of the Group is expected to reach 2.4 million tons per annum. The Directors believe that such expanded scale would help to improve the profitability and market share of the Group.

### ***Glass business***

#### *Flat glass*

The supply gap has boosted the price of glass in the PRC significantly. There were a total of 47 glass production lines shut down at around the end of 2008 in China with a total cut in output volume of approximately 130 million weight cases. There were only 12 new production lines put into use in the first half of 2009 with a total increase in output volume of approximately 50 million weight cases. In all, the supply decreased by approximately 80 million weight cases. On the other hand, the property market started to recover in June 2009 and automobile sales kept rising, which boosted demand of glass significantly. The decrease in supply and increase in demand has led to a supply gap for the first time since 2004 and boost the glass price to rise to approach the historical height of that in 2007.

In the long run, according to the “Eleventh Five-year Plan for National Economic and Social Development” of China, due to the winged industrialization and urbanism in China, we expect demand for glass to remain strong for decades, as a result from the development of property and construction, automobile and electronics industries.

Following the commercial operation of the Group’s two new ultra-thick flat glass production lines in 2009, the production capacity is enlarged with margin enhanced, while the Group’s market share in this regard is also expected to be expanded.

#### *Processed glass*

Thanks to the growing demand for environmental friendly products, the Group’s high grade low-E glass and other energy-saving glass are expected to grow fast in future. We expect the processed glass segment business to keep expanding and its contribution to the Group’s turnover and profit to increase.

## OTHER INFORMATION

### INTERIM DIVIDEND

At the meeting of the Board held on 18 September 2009, the Directors have resolved not to declare any interim dividend for the Period.

### CAPITAL COMMITMENT AND CONTINGENT LIABILITIES

Capital expenditures amounted to RMB676 million in the Period. It was mainly for the repair and maintenance of two glass production lines in Zhejiang Province and the construction of phase II of soda ash production plant in Qinghai Province. As at 30 June 2009, the Group has a total capital commitment of RMB2.9 billion, which is mainly in connection with the construction of phase two of soda ash production plant in Qinghai Province and construction of glass production lines in Zhejiang Province.

In December 2008, a third party (“the Plaintiff”) filed a lawsuit (“Litigation”) with 紹興市中級人民法院 against the Company (alleged as a borrower), QSAC, Zhejiang Shaoxing Taoyan Glass Company Limited (“Taoyan”) and Mr. Feng (alleged as joint and several guarantors) for an alleged default in repayment of RMB50,000,000 due to the Plaintiff. On 7 January 2009, the court granted a freezing order (“Freezing Order”) in favor of the Plaintiff against the 94,304,310 shares held by the Group in QSAC, representing approximately 18.55% of the Group’s interest in QSAC, and approximately 13.26% of the entire registered capital of QSAC.

As stated in the 2008 annual report, the Company considers that it has grounds to defend against the Litigation. The Group filed an appeal on 17 May 2009 to 浙江省高級人民法院 to seek to set aside the Freezing Order granted by 紹興市中級人民法院. In case the Company, QSAC, or Taoyan were ruled by the court to be obliged to pay the Plaintiff, the Group would need to record a receivable balance due from Guangyu amounting to the balance (plus interest and other charges) that it had to pay to the Plaintiff. If Guangyu were unable to repay the sum to the Group, the Group might need to record a provision against the receivable from Guangyu in future periods. The Directors will review the Company’s position and the need for loss provisions, if any, periodically according to the progress of the Litigation.

## LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2009, the Group had cash and cash equivalent amounting to RMB63.4 million (1H2008: RMB98.6 million). Pledged and time deposits amounted to RMB995 million (1H2008: RMB1,187 million). Shareholders equity was RMB2.4 billion (1H2008: RMB2.6 billion).

As at 30 June 2009, the Group had outstanding bank borrowings amounted to RMB5.31 billion (1H2008: RMB4.94 billion). Out of the outstanding bank borrowings, RMB2.69 billion was payable within one year (1H2008: RMB2.54 billion).

Similar to prior years, the Group recorded a net current liability position as at 30 June 2009 as a major portion of the bank financing consisted of short-term bank loans. Nevertheless, the Group has not experienced any major problem in renewing its short-term bank loans upon their expiry.

The Group's net gearing ratio (total borrowing net of cash and pledged deposits ("Net Debt") divided by total capital, while total capital is calculated as total equity plus Net Debt) increased from 55% as at 31 December 2008 to 60% as at 30 June 2009. The Net-debt-to-equity ratio (Net Debt divided by total equity) increased from 122% as at 31 December 2008 to 152% as at 30 June 2009.

## EXCHANGE RATE RISK

During the Period, 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 purchased in value. The Group's borrowings were also predominantly denominated in Renminbi, except for the borrowing from International Finance Corporation which is denominated in US\$. The Group neither entered into any foreign exchange forward contracts nor adopted other hedging instruments to hedge against possible exchange rate fluctuations during the Period. Management expects the movement of Renminbi spot rates against the US\$ will remain stable and therefore, the exposure to the Group arising from adverse fluctuations in exchange rates would not be significant.

## **DETAILS OF THE CHARGES ON GROUP ASSETS**

As at 30 June 2009, certain land use rights, plant and buildings, machinery and equipment with an aggregated carrying value of approximately RMB2.7 billion (31 December 2008: RMB2.6 billion) were pledged as collaterals for loans of the Group totaling approximately RMB5.31 billion (31 December 2008: RMB4.94 billion).

## **PURCHASE, SALE OR REDEMPTION OF SHARES**

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

## **NUMBER AND REMUNERATION OF EMPLOYEES**

Including the Directors, as at 30 June 2009, the Group employed a total of approximately 6,092 full-time employees. The pay levels of the employees are commensurate with their responsibilities, performance and contribution.

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

As at 30 June 2009, the interests and short positions of each Director, supervisor and chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein (including interests and short positions, if any, which they are taken or deemed to have under such positions of the SFO), or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules ("Model Code"), to be notified to the Company and the Stock Exchange were as follows:

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

Notes:

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

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

As at 30 June 2009, the following persons and entities, other than a Director, supervisor or chief executive of the Company, had an interest or a short position in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of SFO:

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

Notes:

- The letter "L" represents the person's or the entity's interests in the shares of the Company.
- According to the place record as at 7 December 2006 kept by the Company and up to the latest practicable date before the publication of this interim report, so far as is known to the Directors, the number of H Shares which is held by IFC is 107,672,000 (long position and as beneficial owner), representing approximately 27.97% of the H shares of the Company in issue as at 30 June 2009 and approximately 13.72% of the total number of issued shares of the Company as at 30 June 2009. In the corporate substantial shareholder notice filed by IFC on 20 September 2006, it was set out that a total of 227,672,000 shares were then held by IFC. Of the said 227,672,000 shares, 120,000,000 shares are believed to be domestic shares pledged in favour of IFC by Mr. Feng at such time. As disclosed in note 2 on page 29 of this interim report, as at 30 June 2009, a total of 120,000,000 domestic shares of the Company have been pledged to IFC by Mr. Feng, which represents 30% of the domestic shares of the Company as at 30 June 2009.

## COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Group complied with the code provisions contained in the Code on Corporate Governance Practices (“the Code”) set out in Appendix 14 to the Listing Rules for the Period. The Board confirms that there were no deviations from or non-compliance with the code provisions of the Code for the period, 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 for enhancing the corporate governance of the Company and independence of the Board by, among others, separating the roles of chairman and CEO, and limiting the representation of Mr. Feng’s family on the Board 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 and a chairman simultaneously 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.



## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Group has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard set out in the Model Code. During the Period, 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.

## INDEPENDENT NON-EXECUTIVE DIRECTORS AND AUDIT COMMITTEE

During the Period, there has not been non-compliance with Rules 3.10(1), 3.10(2) and 3.21 of the Listing Rules relating to the appointment of independent non-executive Directors and the establishment of an audit committee.

## REVIEW BY AUDIT COMMITTEE

This interim report has been reviewed by the Group's audit committee, which comprises four independent non-executive Directors.

On behalf of the Board  
**Zhejiang Glass Company, Limited**  
**FENG Guangcheng**  
*Chairman*

Zhejiang Province, the PRC  
18 September 2009