# CHINA GLASS HOLDINGS LIMITED
# 中 國 玻 璃 控 股 有 限 公 司 *

*(Incorporated in Bermuda with limited liability)*

**Stock Code: 3300**

## RESULTS ANNOUNCEMENT
## FOR THE SIX MONTHS ENDED 30 JUNE 2007

The board of directors (the "Board") of China Glass Holdings Limited (the "Company") announces the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended 30 June 2007 together with the comparative figures for the corresponding period in 2006.

**Consolidated income statement**
for the six months ended 30 June 2007 - unaudited
(Expressed in Renminbi ("RMB"))

| | | Six months ended 30 June | |
|---|---|---|---|
| | | **2007** | 2006 |
| | ***Note*** | **RMB'000** | RMB'000 |
| **Turnover** | 2 | **883,023** | 220,284 |
| Cost of sales | | **(750,483)** | (226,948) |
| **Gross profit/(loss)** | | **132,540** | (6,664) |
| Other revenue | | **6,103** | 1,190 |
| Other net loss | | **(4,407)** | (339) |
| Distribution costs | | **(33,220)** | (9,314) |
| Administrative expenses | | **(64,157)** | (11,756) |
| **Profit/(loss) from operations** | 2 | **36,859** | (26,883) |
| Excess of the net fair value of the acquired net assets over cost | | **26,071** | — |
| Gain from issuance of shares by subsidiaries | | **5,646** | — |
| Finance costs | 3 | **(36,646)** | (7,015) |
| **Profit/(loss) before taxation** | 3 | **31,930** | (33,898) |
| Income tax | 4 | **11,514** | 4,479 |
| **Net profit/(loss) for the period** | | **43,444** | (29,419) |
| **Attributable to:** | | | |
| Equity shareholders of the Company | | **48,182** | (28,833) |
| Minority interests | | **(4,738)** | (586) |
| **Net profit/(loss) for the period** | | **43,444** | (29,419) |
| Basic and diluted earnings/(loss) per share (RMB) | 6 | **0.13** | (0.08) |

**Consolidated balance sheet**
at 30 June 2007 - unaudited
(Expressed in RMB)

| | *Note* | At 30 June 2007 RMB'000 | At 31 December 2006 RMB'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | | **1,958,160** | 843,687 |
| Lease prepayments | | **299,048** | 109,108 |
| Intangible assets | | **120,244** | — |
| Interests in associates | | **38,854** | 9,815 |
| Available-for-sale investment | | **1,000** | — |
| Goodwill | | **14,113** | 14,113 |
| Deferred tax assets | | **46,139** | 11,150 |
| | | **2,477,558** | 987,873 |
| **Current assets** | | | |
| Inventories | | **321,710** | 91,869 |
| Trade and other receivables | 7 | **483,405** | 214,217 |
| Cash and cash equivalents | | **265,759** | 67,275 |
| | | **1,070,874** | 373,361 |
| **Current liabilities** | | | |
| Trade and other payables | 8 | **1,274,208** | 330,915 |
| Bank and other loans | | **755,111** | 266,100 |
| Income tax payable | | **6,727** | 837 |
| | | **2,036,046** | 597,852 |
| **Net current liabilities** | | **(965,172)** | (224,491) |
| **Total assets less current liabilities** | | **1,512,386** | 763,382 |
| **Non-current liabilities** | | | |
| Bank and other loans | 9 | **112,018** | 155,000 |
| Amounts due to related companies | | **120,491** | 41,387 |
| Convertible notes | | **—** | 34,267 |
| Deferred tax liabilities | | **70,946** | 10,004 |
| | | **303,455** | 240,658 |
| **NET ASSETS** | | **1,208,931** | 522,724 |
| **CAPITAL AND RESERVES** | | | |
| Share capital | | **43,856** | 38,336 |
| Reserves | | **535,151** | 359,980 |
| **Total equity attributable to equity shareholders of the Company** | | **579,007** | 398,316 |
| **Minority interests** | | **629,924** | 124,408 |
| **TOTAL EQUITY** | | **1,208,931** | 522,724 |

## Notes

(Expressed in RMB unless otherwise indicated)

### 1 Basis of preparation

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange, including compliance with Hong Kong Accounting Standard ("HKAS") 34, Interim financial reporting, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). It was authorised for issuance on 14 September 2007.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2006 annual financial statements.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2006 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, "Review of interim financial information performed by the independent auditor of the entity" issued by the HKICPA.

The financial information relating to the financial year ended 31 December 2006 that is included in the interim financial report as being previously reported information does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2006 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 16 March 2007.

## 2 Segment reporting

An analysis of the geographical location of the operations of the Group was as follows:

| For the six months ended 30 June | The People's Republic of China (the "PRC") | | Overseas | | Consolidated | |
|---|---|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 | **2007** | 2006 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Turnover | **546,032** | 136,839 | **336,991** | 83,445 | **883,023** | 220,284 |
| Segment results | **69,449** | (17,844) | **38,816** | 5,346 | **108,265** | (12,498) |
| Unallocated operating income and expenses | | | | | **(71,406)** | (14,385) |
| Profit/(loss) from operations | | | | | **36,859** | (26,883) |

## 3 Profit/(loss) before taxation

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

| | Six months ended 30 June | |
|---|---|---|
| | **2007** | 2006 |
| | **RMB'000** | RMB'000 |
| **Finance costs:** | | |
| Interest on bank advances and other borrowings | **30,445** | 6,777 |
| Finance charges on convertible notes | **1,559** | 87 |
| Bank charges and other finance costs | **5,790** | 410 |
| Total borrowing costs | **37,794** | 7,274 |
| Less: amounts capitalised | **(1,148)** | (259) |
| | **36,646** | 7,015 |
| **Staff costs:** # | | |
| Salaries, wages and other benefits | **51,206** | 11,767 |
| Contributions to defined contribution retirement plans | **6,582** | 1,848 |
| | **57,788** | 13,615 |
| **Other items:** | | |
| Cost of inventories # | **750,483** | 226,948 |
| Operating lease charges in respect of # | | |
| — land | **364** | 48 |
| — plant and buildings | **1,003** | 250 |
| — motor vehicles | **418** | — |
| Depreciation and amortisation # | **70,779** | 21,363 |
| Net loss on disposal of property, plant and equipment | **26** | 5 |
| Interest income | **4,967** | 1,148 |
| Net foreign exchange loss | **3,569** | 327 |

# Cost of inventories includes RMB92.7 million (six months ended 30 June 2006: RMB26.0 million) for the six months ended 30 June 2007, relating to staff costs, depreciation and amortisation expenses and operating lease charges, which amount is also included in the respective total amounts disclosed separately above for each of these types of expenses.

## 4 Income tax

| | Six months ended 30 June | |
|---|---|---|
| | **2007** | 2006 |
| | **RMB'000** | RMB'000 |
| Provision for PRC income tax on the estimated taxable profits for the period | **3,142** | — |
| Deferred taxation | **(14,656)** | (4,479) |
| | **(11,514)** | (4,479) |

No provision for Hong Kong Profits Tax has been made as the Group did not have assessable profits subject to Hong Kong Profits Tax during the six months ended 30 June 2007.

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

The subsidiaries of the Group established in the PRC were subject to PRC Enterprise Income Tax rate ranging from 15% to 33%. Certain PRC subsidiaries are registered as foreign investment enterprises, and according to the relevant income tax rules and regulations applicable to enterprises with foreign investment in the PRC, these PRC subsidiaries obtained approval from the tax bureau that they are entitled to a 100% relief from PRC Enterprise Income Tax in the first and second years and 50% relief for the third to fifth years, commencing from the first profitable year after the offset of deductible losses incurred in prior years, if any.

On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the PRC ("new tax law") which will take effect on 1 January 2008. According to the new tax law, the applicable income tax rate of certain subsidiaries of the Group established in the PRC will change from 33% to 25% with effect on 1 January 2008. As a result of the new tax law, the deferred tax assets and deferred tax liabilities as at 30 June 2007 have decreased by RMB6.1 million and RMB17.0 million, respectively. These changes have been reflected in this interim financial report.

## 5 Dividends

### (a) Dividends attributable to the interim period

The Directors of the Company do not recommend the payment of an interim dividend for the six months ended 30 June 2007 (six months ended 30 June 2006: RMBNil).

### (b) Dividends attributable to the previous financial year

The Directors of the Company did not recommend the payment of a final dividend for the year ended 31 December 2006 (year ended 31 December 2005: HK$0.013 per share (equivalent to RMB0.0134 per share)).

## 6 Earnings/(loss) per share

### (a) Basic earnings/(loss) per share

The calculation of basic earnings per share for the six months ended 30 June 2007 is based on the net profit attributable to equity shareholders of the Company of RMB48,182,000 (six months ended 30 June 2006: net loss attributable to equity shareholders of the Company of RMB28,833,000) and the weighted average number of 379,878,000 (six months ended 30 June 2006: 360,000,000) ordinary shares in issue during the six months ended 30 June 2007.

### (b) Diluted earnings/(loss) per share

There were no dilutive potential ordinary shares as at 30 June 2006 and 2007.

## 7 Trade and other receivables

| | At 30 June 2007 RMB'000 | At 31 December 2006 RMB'000 |
|---|---|---|
| Trade receivable from: | | |
| — Third parties | **153,739** | 24,185 |
| — Minority equity holders of subsidiaries of the Group and their affiliates | **62,934** | — |
| Bills receivable | **76,876** | 780 |
| | **293,549** | 24,965 |
| Amounts due from related companies: | | |
| — Equity shareholders of the Company | **330** | 339 |
| — Minority equity holders of subsidiaries of the Group and their affiliates (Note (i)) | **69,965** | 141,732 |
| — Associates of the Group | **433** | — |
| — An affiliate of the intermediate holding company of the Company (Note (ii)) | **36,425** | — |
| | **107,153** | 142,071 |
| Prepayments, deposits and other receivables | **111,234** | 47,181 |
| | **511,936** | 214,217 |
| Less: impairment losses | **(28,531)** | — |
| | **483,405** | 214,217 |

Notes:

(i) The amounts are unsecured and have no fixed terms of repayment. Except for RMB55.0 million as at 30 June 2007 (31 December 2006: RMB141.7 million), which bear interest rate at 7.67% per annum (31 December 2006: 7.34% per annum), all of the remaining balances are non-interest bearing.

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

All of the trade and other receivables are expected to be recovered within one year. Cash before delivery is generally required for all customers. Credit terms up to three months from the date of billing may be granted to customers, depending on credit assessment carried out by management on an individual customer basis. An ageing analysis of trade and bills receivables (net of impairment losses of bad and doubtful debts) is as follows:

| | At 30 June 2007 RMB'000 | At 31 December 2006 RMB'000 |
|---|---|---|
| Within 1 month | **139,260** | 24,485 |
| More than 1 month but less than 3 months | **72,405** | 262 |
| More than 3 months but less than 6 months | **50,014** | 218 |
| More than 6 months | **7,106** | — |
| | **268,785** | 24,965 |

## 8 Trade and other payables

| | At 30 June 2007 RMB'000 | At 31 December 2006 RMB'000 |
|---|---|---|
| Trade payable to: | | |
| – Third parties | **359,471** | 88,558 |
| – Minority equity holders of subsidiaries of the Group and their affiliates | **10,111** | — |
| Bills payable | **272,720** | 22,788 |
| | **642,302** | 111,346 |
| Amounts due to related companies: | | |
| – Minority equity holders of subsidiaries of the Group and their affiliates (Note (i)) | **28,745** | 1,259 |
| – A company under common significant influence (Note (ii)) | **4,874** | 4,726 |
| – An affiliate of the intermediate holding company of the Company (Note (iii)) | **33,765** | — |
| | **67,384** | 5,985 |
| Advances received from customers | **92,454** | 16,246 |
| Accrued charges and other payables | **472,068** | 197,338 |
| | **1,274,208** | 330,915 |

*Notes:*

(i) The amounts are unsecured and have no fixed terms of repayment. Except for RMB18.4 million (31 December 2006: RMB1.3 million) as at 30 June 2007, which bear interest ranging from 7.00% to 7.67% per annum (31 December 2006: 7.00% per annum), all of the remaining balances are non-interest bearing.

(ii) The amount as at 30 June 2007 is unsecured, bearing interest at a rate of 6.12% per annum (31 December 2006: 6.12% per annum) and is repayable by monthly equal instalments in the coming twelve months.

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

All of the trade and other payables are expected to be settled within one year.

An ageing analysis of trade and bills payables is as follows:

| | At 30 June 2007 RMB'000 | At 31 December 2006 RMB'000 |
|---|---|---|
| Due within 1 month or on demand | **395,282** | 98,058 |
| Due after 1 month but within 6 months | **247,020** | 13,288 |
| | **642,302** | 111,346 |

## 9 Bank and other loans

### (a) Short-term bank and other loans

| | **At 30 June 2007 RMB'000** | At 31 December 2006 RMB'000 |
|---|---|---|
| Bank loans | **673,000** | 220,000 |
| Loans from minority equity holders and management of subsidiaries of the Group | **13,000** | 30,100 |
| | **686,000** | 250,100 |
| Add: current portion of long-term bank loans | **69,111** | 16,000 |
| | **755,111** | 266,100 |

The weighted average interest rates per annum on short-term bank and other loans (excluding current portion of long-term bank loans) were 6.41% as at 30 June 2007 (31 December 2006: 5.87% per annum).

At 30 June 2007, the short-term bank and other loans (excluding current portion of long-term bank loans) were secured as follows:

| | **At 30 June 2007** | | | At 31 December 2006 | | |
|---|---|---|---|---|---|---|
| | **Revolving facilities utilised RMB'000** | **Loans RMB'000** | **Total RMB'000** | Revolving facilities utilised RMB'000 | Loans RMB'000 | Total RMB'000 |
| Bank loans: | | | | | | |
| - Pledged by bank bills | **—** | **40,000** | **40,000** | — | — | — |
| - Secured by property, plant and equipment and land use rights | **—** | **134,650** | **134,650** | — | — | — |
| - Guaranteed | **—** | **135,260** | **135,260** | — | — | — |
| - Guaranteed and secured by property, plant and equipment and land use rights | **—** | **42,090** | **42,090** | — | — | — |
| - Unguaranteed and unsecured | **35,000** | **286,000** | **321,000** | 35,000 | 185,000 | 220,000 |
| | **35,000** | **638,000** | **673,000** | 35,000 | 185,000 | 220,000 |
| Loans from minority equity holders and management of subsidiaries of the Group: | | | | | | |
| - Unguaranteed and unsecured | **—** | **13,000** | **13,000** | — | 30,100 | 30,100 |
| | **35,000** | **651,000** | **686,000** | 35,000 | 215,100 | 250,100 |

As at 30 June 2007, the aggregate carrying values of secured property, plant and equipment and land use rights were RMB336.6 million (31 December 2006: RMBNil).

## 9 Bank and other loans (continued)

### (b) Long-term bank and other loans

| | At 30 June 2007 RMB'000 | At 31 December 2006 RMB'000 |
|---|---|---|
| Bank loans | **174,111** | 171,000 |
| Loan from a third party | **7,018** | — |
| | **181,129** | 171,000 |
| Less: current portion of long-term bank loans | **(69,111)** | (16,000) |
| | **112,018** | 155,000 |

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

| | At 30 June 2007 RMB'000 | At 31 December 2006 RMB'000 |
|---|---|---|
| Within 1 year or on demand | **69,111** | 16,000 |
| After 1 year but within 2 years | **77,018** | 70,000 |
| After 2 years but within 3 years | **35,000** | 85,000 |
| | **181,129** | 171,000 |

As at 30 June 2007, the Group's long-term bank and other loans bear interest ranging from 3.00% to 5.76% per annum (31 December 2006: ranging from 5.67% to 5.76% per annum).

As at 30 June 2007, long-term bank loan of RMB3.2 million (31 December 2006: RMBNil) were secured by property, plant and equipment and cash at bank. The aggregate carrying values of secured property, plant and equipment were RMB7.3 million (31 December 2006: RMBNil).

(c) The banking facilities of the Group, amounting to RMB231.7 million (31 December 2006: RMB125.0 million), were utilised to the extent of RMB125.0 million (31 December 2006: RMB125.0 million) as at 30 June 2007.

All of the Group's banking facilities are subject to the fulfilment of covenants relating to certain of the Group's balance sheet and income statement ratios, as are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants, the drawn down facilities would become payable on demand.

## 10 Commitments

### (a) Capital commitments

At 30 June 2007, the outstanding capital commitments of the Group not provided for in the interim financial report are summarised as follows:

| | **At 30 June 2007 RMB'000** | At 31 December 2006 RMB'000 |
|---|---|---|
| Commitments in respect of land and buildings, and machinery and equipment | | |
| - authorised and contracted for | **99,181** | 70,638 |
| - authorised but not contracted for | **—** | — |
| | **99,181** | 70,638 |
| Commitments in respect of investments in subsidiaries and an associate | | |
| - authorised and contracted for | **79,351** | 283,648 |
| - authorised but not contracted for | **—** | — |
| | **79,351** | 283,648 |
| Total commitments | | |
| - authorised and contracted for | **178,532** | 354,286 |
| - authorised but not contracted for | **—** | — |
| | **178,532** | 354,286 |

### (b) Operating lease commitments

At 30 June 2007, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

| | **At 30 June 2007 RMB'000** | At 31 December 2006 RMB'000 |
|---|---|---|
| Within 1 year | **2,591** | 743 |
| After 1 year but within 5 years | **1,924** | 1,376 |
| After 5 years | **4,246** | 4,329 |
| | **8,761** | 6,448 |

The Group leases certain properties and motor vehicles under operating leases. None of the leases includes contingent rentals.

## 11 Post balance sheet events

### (a) Acquisition of minority interests in a subsidiary of the Group

On 14 June 2007, the Company announced that the Company, through a wholly-owned subsidiary, has entered into an agreement to acquire the remaining 43.8% equity interests of one of its subsidiaries, Beijing Qinchang Glass Co., Ltd. ("Beijing Qinchang"), for a consideration of RMB49.8 million. Upon completion of the above acquisition of the minority interests, Beijing Qinchang will become a wholly-owned subsidiary of the Group. Up to the date of this report, the acquisition of the above minority interests has not been completed.

The Directors of the Company have confirmed that the Group has commenced considering the potential financial impact of the above acquisition but is not yet in a position to determine the potential financial impact of the above acquisition on the Group's results of operations in future periods and financial position at future date.

### (b) Issuance of senior notes

On 12 July 2007, the Company issued US$100 million in aggregate principle amount of senior fixed rate notes (the "Notes"). The Notes bear interest at a rate of 9.625% per annum. Interest on the Notes is payable on 12 January and 12 July of each year, beginning on 12 January 2008. The Notes will mature on 12 July 2012. The Notes were listed on Singapore Exchange Securities Trading Limited.

## MANAGEMENT DISCUSSION AND ANALYSIS

### MARKET REVIEW

Since the beginning of 2007, the PRC glass industry has shown signs of bottoming out from a cyclical trough.

The market conditions continued to improve:- demand has exhibited growth, whilst production capacity expansion has paced down. According to the information released by the State Development and Reform Commission of the PRC, the additional production capacity in 2006 was recorded at 54 million weight cases, whilst the production-capacity-under-construction currently stands at 16 million weight cases. This signifies a slow down in float glass production capacity. The trend of aimless expansion of float glass production capacity stands a fairly good chance of coming under control, rendering a more rational development of the glass sector.

Glass selling price has sustained a modest growth. In view of the lukewarm recovery in the glass sector in the second half of 2006, domestic PRC enterprises invariably stepped up exports, thereby increasing the proportion of their export output, which then alleviated the pressure of domestic competition. At the same time, the steady growth of the real estate sector domestically has boosted growth of demand for glass products. In addition, the recent consolidation of the glass sector had the impact of enhancing concentration of the industry, thereby reducing market disorder in competition, and facilitating the gradual price recovery of flat glass.

On the whole, the price of glass hit on a rise in mid-2006 and kept on rising steadily in the first-half of 2007, according to the data from the China Building Materials Information, forming the basis for a continued upward growth. It is believed that the glass industry has turned around from loss -making, and had has trended up from the deep-end of the cyclical trough.

As competition in the domestic glass market intensified, despite of the reduction of tax refund of glass products exports to 5% which became effective on 1 July 2007, manufacturers still increased the overseas sales volume of their glass products in the first half of the year. As a whole, the export sector has maintained a positive outlook of growth momentum.

### BUSINESS REVIEW

After a series of acquisitions in 2006 and in the first half of 2007, leading to the acquisition of a total of 11 production lines by the Group from Weihai Blue Star Glass Co., Ltd., Wuhai Blue Star Glass Co., Ltd., Shaanxi Blue Star Glass Co., Ltd, etc., the Company has significantly increased its production capacity. In terms of total production capacity, the Group currently owns 14 production lines, with daily melting capacity of 4,780 tonnes of glass products, and has then become one of the largest publicly-listed flat glass producers in the PRC. It is also one of the biggest online coating glass manufacturers in China, capable of manufacturing products such as online solar control coating glass, low emission glass, Titanium coating glass. In addition, it is a glass manufacturer with capability to manufacture a (wide) range of quality float glass products in various colours such as white, green, blue, grey and umber and in various thickness.

Production volume in the first-half of 2007 was 11.61 million weight cases, representing an increase of 198% over the same period last year, while sales in the same period was 11.93 million weight cases Sales/production ratio stood at 103%, representing an increase of 5%. For the six months ended 30 June 2007, the Group recorded a turnover of RMB883.02 million, domestic sales and export sales accounted for 62% and 38% respectively, which remained in the same proportion in the same period last year.

Meanwhile, as the glass industry recovered, the price of glass products is also going upward. In the first half of 2007, the average selling price of the Group's products increased by 28% over the same period last year.

Despite the fact that from the beginning of this year, the price of fuel such as heavy oil started to rise slightly and stayed in the momentum of consolidation, the cost of fuel of the Group's glass products still decreased slightly comparing with the same period last year. Since this year, the price of soda ash has recorded a slight increase over the same period last year. In conclusion, the average cost of the Group's glass products increased by approximately 7% over the same period last year.

On a separate note, in order to pace up growth, the Company acquired Weihai Blue Star Glass Co., Ltd., Shaanxi Blue Star Glass Co. Ltd., etc. in 2006, all of which were completed in March this year. By integrating the acquirees' business, personnel and operations into that of the Group, the Group embarked on a process of optimization, which thereby enhanced the Group's overall operating efficiency. The optimization is well in progress through which the Company expects to benefit significantly from several perspectives including giving a facelift on production capacity, production quality and distribution network.

The Company placed 42,000,000 and 14,000,000 shares of the Company at a price of HK$2.75 to institutional investors and International Finance Corporation ("IFC") in April and June 2007 respectively, in an attempt to expand the Company's capital and shareholder base. The proceeds would be used as general working capital. During the same period, Pilkington Italy Limited ("Pilkington") exercised its option in April to acquire 84,558,000 shares of the Company from First Fortune Enterprises Limited ("First Fortune") and Pilkington's shareholding in the Company increased to approximately 29%.

## OUTLOOK

Looking forward, the PRC glass industry is expected to go beyond the pursuit of mere growth in production scale and volume. It has indeed entered into a phase of steady development, in a volume-controlled and structure optimization manner, the pursuit of quality and efficiency has become priority.

The supply-and-demand condition and consumption pattern of glass will gradually transform from the low-to-mid graded ordinary float glass to high-graded float glass, from mainly whole panel purchases to value-added processed products. In the midst of the slowdown in production capacity growth whilst downstream demand remains strong, the supply-and-demand is expected to improve, and glass prices are set for a re-bounce.

According to the data of the China Building Materials Information, glass prices have staggered to the peak early this year and has trended stably. Therefore, it is expected that the prices will rise steadily in the second-half of the year. In addition, due to government control on the construction of new production lines, we stay cautiously optimistic over the sales prices in the second-half of 2007.

We believe that unfavorable factors including the adverse effects of the new policy of export tax refund that came into effect on 1 July 2007 on the Company are controllable. Aiming at suppressing excessive growth of foreign exports, the PRC Government reduced tax refund on glass products to 5% on 1 July 2007. Together with the adverse effect of the increase in export transportation costs, the Company has difficulty increasing its exports, and has witnessed a squeeze in the export profit margin. However, the Company still enjoyed significant competitive advantage over its foreign competitors in terms of manufactory cost, and its feature products such as colored and coated glass also commands competitive advantage over its domestic competitors, the Company believes it will be able to contain such adverse effects through price adjustments in the long run, and thus stabilizing its export profit margin.

Further, in view of the overall market demand, according to the PRC Government's regulatory principle "to effectively increase the supply of residential units as the guiding principle", housing construction in the PRC is expected to continue to increase in the future, thus help boosting the demand for glass.

Meanwhile, the acquisition of businesses will remain the Company's focus in the second half of 2007. The strengths of old and new companies can compliment each other, which will in turn enhance the Company's combined competitiveness in terms of production capacity, product quality, technological standard and marketing channels, giving the Company a competitive edge in the new round of competition. In particular, the Company will actively compare quality and prices and make combined purchase for the group as a whole to take advantage of competitive price advantage arising from economies of scale and lower purchasing costs. At the same time, by integrating its marketing channels, the Company seeks to optimize its operating model to increase the combined pricing power of its products. Furthermore, the Company will increase the ratio of high added-value products such as low emission coating glass, Titanium coating glass in order to increase the Company's profitability.

In order to optimize the financial structure of the Group, in July 2007, the Company issued an aggregate of US$100,000,000 9.625% preferred notes due in 2012. The purpose of this issue of preferred notes is to refinance the Group's existing debts and be used as general working capital.

A production line of the Group in Xianyang is to commence operation in August and the daily total melting capacity of the Group will increase to 5,230,000 tonnes. In addition, the solar energy production line in Taichang, jointly owned by the Company and Pilkington International Holdings BV, is expected to commence operation in the first quarter in 2008. This glass production line belongs to a high value-added industry which the Company believes would generate satisfactory investment returns to the Group.

## FINANCIAL REVIEW

For the first half of 2007, the Group recorded a gross profit of 15%, representing an increase of 18% as compared with the same period last year. It was mainly attributable to the increase in selling price. The Group recorded a profit after tax of RMB43.44 million, representing a turnaround of 248% as compared with the same period last year. It was mainly attributable to the increase of selling price and the increase of selling volume due to the acquisitions.

## CAPITAL STRUCTURE, LIQUIDITY, FINANCIAL RESOURCES AND ASSETS-LIABILITIES RATIO

As at 30 June 2007, the Group's cash and cash equivalents amounted to RMB266 million (31 December 2006: RMB67 million), of which 96% were denominated in RMB, 3% in United State dollars ("USD") and 1% in Hong Kong dollars ("HKD"), and the outstanding bank and other loans were RMB867 million (31 December 2006: RMB421 million), all of which were denominated in RMB. As at 30 June 2007, the gearing ratio (total interest-bearing debts divided by total assets) was 28% (31 December 2006: 37%), the decrease of which was primarily attributable to the decrease in bank and other loans and convertible notes. As at 30 June 2007, the Group's current ratio (current assets divided by current liabilities) was 0.53 (31 December 2006: 0.62), the fall of which was mainly attributable to the increase in trade and other payables due to the acquisitions. In addition, the Group recorded net current liabilities amounting to RMB965 million as at 30 June 2007. With this regard, the Company issued US$100 million in aggregate principle amount of senior notes due 2012 and at interest rate of 9.625% per annum in order to improve the financial position. Assets-liabilities ratio (total liabilities divided by total assets) of the Group was 0.66 (31 December 2006: 0.62), the rise of which was primarily attributable to the increase in trade and other payables due to the acquisitions.

Details of the bank and other loans are set out in Note 9 to the unaudited interim financial report.

## EXCHANGE RATE RISK AND RELATED HEDGING

The Group's sales transactions and monetary assets were primarily denominated in HKD, RMB, USD and EUR. Operating expenses and domestic sales of the Group's PRC subsidiaries were primarily denominated in RMB, except that overseas sales were denominated in USD and EUR. The Group is of the opinion that the exchange rate trend of RMB will closely associate with the development of the PRC economy. With the sustainable development of the PRC economy, the Group expects that RMB will continue to appreciate. Our net assets, profits and dividends may be affected by the fluctuations of the RMB exchange rate.

The Board of Directors submit herewith the interim report together with the unaudited financial statements of the Group for the six months ended 30 June 2007.

## INTERIM DIVIDEND

The Board does not recommend any interim dividend for the six months ended 30 June 2007 (Dividend for the six months ended 30 June 2006 : Nil).

## CHARGE ON ASSETS

As at 30 June 2007, certain subsidiaries of the Group in the PRC pledged assets with aggregate carrying value RMB344 million (31 December 2006: NIL) to secure bank loans.

As at 30 June 2007, details of the Group's charge of assets were set out in Note 9 to the unaudited interim financial report.

## CAPITAL COMMITMENTS

As at 30 June 2007, details of the Group's capital commitments were set out in Note 10 to the unaudited interim financial report.

## CONTINGENT LIABILITIES

There was no significant contingent liabilities for the Group as at 30 June 2007.

## SHARE OPTION SCHEME

The Company has conditionally adopted the share option scheme on 30 May 2005 in order to provide an incentive for the qualified participants to work with commitment forwards enhancing the value of the Company and its shares. As at 30 June 2007, no option has been granted by the Company under the scheme.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the reporting period.

## PUBLIC FLOAT

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

## HUMAN RESOURCES AND EMPLOYEES' REMUNERATION

As at 30 June 2007, the Group had employed about 6,330 employees in the PRC and Hong Kong (31 December 2006: about 2,610 employees). According to the relevant market situation, employee's remuneration level had maintained at a competitive level, and also corresponds with their performance.

## MATERIAL ACQUISITIONS OR DISPOSALS

During the first half of 2007, the Company has completed the very substantial acquisitions of Weihai Blue Star Glass Co., Ltd., Zhongbo Technology Co., Ltd., and Hangzhou Blue Star New Materials Technology Co., Ltd..

Other than disclosed above, the Group did not have any material investments or capital assets, or material acquisitions and disposals of subsidiaries and affiliated companies during the six-month period ended 30 June 2007.

## POST BALANCE SHEET EVENTS

Details of post balance sheet events of the Group were set out in Note 11 to the unaudited interim financial report.

## AUDIT COMMITTEE

The audit committee of the Company comprises three non-executive Directors, two of whom are independent. The current committee members are Mr. Sik Siu Kwan (Chairman), Mr. Song Jun and Mr. Zhao John Huan. The audit committee has reviewed the accounting principles and practices adopted by the Company and discussed auditing, internal control and financial reporting matters, including the review of the unaudited interim financial report for the six months ended 30 June 2007 with the Company's management and the external auditors.

## INVESTOR RELATIONS AND COMMUNICATIONS

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

## COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the Board, the Company has complied with the Code of Corporate Governance Practices ("CCGP") as set out in Appendix 14 to the Listing Rules throughout the period of six months ended 30 June 2007.

## COMPLIANCE WITH THE MODEL CODE

The Company has adopted the Model Code contained in the Listing Rules. Having made specific enquiries of all the directors, the Company confirms that the Directors have strictly complied with the Model Code during this reporting period.

By order of the Board
**Zhao John Huan**
*Chairman*

Hong Kong, 14 September 2007

*As at the date of this announcement, members of the Board of Directors comprised of Mr. Zhou Cheng, Mr. Zhang Zhaoheng, Mr. Li Ping and Mr. Cui Xiangdong as executive Directors, Mr. Zhao John Huan, Mr. Liu Jinduo, Mr. Eddie Chai and Mr. Guo Wen as non-executive Directors and Mr. Song Jun, Mr. Sik Siu Kwan and Mr. Zhang Baiheng as Independent non-executive Directors.*

* *For identification purposes only*