# 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 2008

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 2008 together with the comparative figures for the corresponding period in 2007.

**Consolidated income statement**
**for the six months ended 30 June 2008 - unaudited**
*(Expressed in Renminbi ("RMB"))*

| | Note | Six months ended 30 June 2008 RMB'000 | Six months ended 30 June 2007 RMB'000 |
|---|---|---|---|
| **Turnover** | 3 | **1,221,587** | 883,023 |
| Cost of sales | | **(1,080,923)** | (750,483) |
| **Gross profit** | | **140,664** | 132,540 |
| Other revenue | | **7,059** | 6,103 |
| Other net loss | | **(858)** | (838) |
| Distribution costs | | **(39,207)** | (33,220) |
| Administrative expenses | | **(80,183)** | (64,157) |
| **Profit from operations** | 3 | **27,475** | 40,428 |
| Share of losses of an associate | | **(5,646)** | — |
| 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 | 4 | **(15,873)** | (40,215) |
| **Profit before taxation** | 4 | **5,956** | 31,930 |
| Income tax | 5 | **5,537** | 11,514 |
| **Net profit for the period** | | **11,493** | 43,444 |
| **Attributable to:** | | | |
| Equity shareholders of the Company | | **(22,240)** | 48,182 |
| Minority interests | | **33,733** | (4,738) |
| **Net profit for the period** | | **11,493** | 43,444 |
| Basic and diluted (loss)/earnings per share (RMB) | 7 | **(0.053)** | 0.127 |

**Consolidated balance sheet**
**at 30 June 2008 - unaudited**
*(Expressed in RMB)*

| | Note | At 30 June 2008 RMB'000 | At 31 December 2007 RMB'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | | **1,981,963** | 1,971,995 |
| Lease prepayments | | **253,911** | 255,891 |
| Intangible assets | | **112,532** | 116,388 |
| Interest in an associate | | **57,245** | 63,828 |
| Available-for-sale investment | | **1,000** | 1,000 |
| Goodwill | | **14,113** | 14,113 |
| Deferred tax assets | | **45,748** | 41,912 |
| | | **2,466,512** | 2,465,127 |
| **Current assets** | | | |
| Inventories | | **405,202** | 344,159 |
| Trade and other receivables | 8 | **366,188** | 388,887 |
| Cash and cash equivalents | | **229,930** | 355,855 |
| Assets classified as held-for-sale | | **4,413** | 4,413 |
| | | **1,005,733** | 1,093,314 |
| **Current liabilities** | | | |
| Trade and other payables | 9 | **1,221,610** | 1,194,627 |
| Bank and other loans | 10(a) | **196,878** | 225,960 |
| Income tax payable | | **1,245** | 5,286 |
| | | **1,419,733** | 1,425,873 |
| **Net current liabilities** | | **(414,000)** | (332,559) |
| **Total assets less current liabilities** | | **2,052,512** | 2,132,568 |

| | Note | At 30 June 2008 RMB'000 | At 31 December 2007 RMB'000 |
|---|---|---|---|
| **Non-current liabilities** | | | |
| Bank and other loans | 10(b) | **35,000** | 35,000 |
| Amount due to a related company | | **35,063** | 37,695 |
| Unsecured notes | | **664,534** | 705,006 |
| Deferred tax liabilities | | **63,597** | 70,827 |
| | | **798,194** | 848,528 |
| **NET ASSETS** | | **1,254,318** | 1,284,040 |
| **CAPITAL AND RESERVES** | | | |
| Share capital | | **43,856** | 43,856 |
| Reserves | | **526,588** | 565,821 |
| **Total equity attributable to equity shareholders of the Company** | | **570,444** | 609,677 |
| **Minority interests** | | **683,874** | 674,363 |
| **TOTAL EQUITY** | | **1,254,318** | 1,284,040 |

**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 (the "HKICPA"). It was authorised for issuance on 26 September 2008.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2007 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2008 annual financial statements. Details of these changes in accounting policies are set out in Note 2.

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 2007 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 2007 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 2007 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 28 April 2008.

## 2 Changes in accounting policies

The HKICPA has issued a number of new and revised HKFRSs and Interpretations that are first effective or available for early adoption for accounting periods beginning on or after 1 January 2008. The Directors have determined the accounting policies to be adopted in the preparation of the Group's annual financial statements for the year ending 31 December 2008, on the basis of HKFRSs currently in issue.

The following sets out further information on the changes in accounting policies for the annual accounting period beginning on 1 January 2008 which have been reflected in this interim financial report. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period except for HKFRS 3 (revised March 2008), *Business combinations*, which applies to business combinations for which the acquisition date is on or after the beginning of the first annual accounting period on or after 1 July 2009; and HKAS 27 (revised March 2008), *Consolidated and separate financial statements*, which is effective for accounting periods beginning on or after 1 July 2009.

### (a) Summary of the effect of changes in the accounting policies

(i) Effect on net profit for the six months ended 30 June 2008 (estimated)

In respect of the six months ended 30 June 2008, the following table provides estimates of the extent to which the net profit/loss for that period are higher or lower than they would have been had the previous policies still been applied in the interim period, where it is practicable to make such estimates.

| | | Six months ended 30 June 2008 | | |
|---|---|---|---|---|
| **Effect of new policy (increase/(decrease))** | *Note* | **Equity shareholders of the Company** *RMB'000* | **Minority interests** *RMB'000* | **Total** *RMB'000* |
| *HKFRS 3 (revised March 2008) and HKAS 27 (revised March 2008)* | | | | |
| Consolidation procedures for changes in the Group's ownership interests in subsidiaries | 2(b) | **(839)** | **(5,890)** | **(6,729)** |
| Effect on basic and diluted loss per share (RMB) | | **(0.002)** | | |

(ii) Effect on amounts recognised as capital transactions with the equity shareholders for the six months ended 30 June 2008 (estimated)

In respect of the six months ended 30 June 2008, the following table provides estimates of the extent to which the amounts recorded as capital transactions with the equity shareholders (excluding the effect on retained profits) are higher or lower than they would have been had the previous policies still been applied in the interim period, where it is practicable to make such estimates.

| | | **Six months ended 30 June 2008** | | |
|---|---|---|---|---|
| **Effect of new policy (increase/(decrease))** | *Note* | **Equity shareholders of the Company** *RMB'000* | **Minority interests** *RMB'000* | **Total** *RMB'000* |
| *HKFRS 3 (revised March 2008) and HKAS 27 (revised March 2008)* | | | | |
| Consolidation procedures for changes in the Group's ownership interests in subsidiaries | 2(b) | **(3,427)** | **9,929** | **6,502** |

**(b) Consolidation procedures for changes in the Group's ownership interests in subsidiaries (HKFRS 3 (revised March 2008) and HKAS 27 (revised March 2008))**

In prior years, changes in the Group's ownership interests in a subsidiary that do not result in a loss of control are accounted for as follows:

- Increase in the Group's ownership interests in a subsidiary

  The excess of the cost of a business combination over the Group's interests in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities was recorded as goodwill. Any excess of the Group's interests in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination was recognised immediately in the consolidated income statement.

- Decrease in the Group's ownership interests in a subsidiary

  The surplus or deficit between the proceeds on the Group's disposal of a portion of its interests in a subsidiary and the share of the carrying amount of the subsidiary's net assets disposed was recorded as gain or loss, respectively, in the consolidated income statement.

- Issuance of additional shares by a subsidiary

  The issuance of additional shares by a subsidiary may result in a reduction of the Group's interest in the subsidiary. The Group recognised gain or loss in the consolidated income statement based on the Group's share of the carrying amount of the subsidiary's net assets immediately before and after the issuance of additional shares by the subsidiary.

In preparation of the Group's interim financial report for the six months ended 30 June 2008, the Group has early adopted HKFRS 3 (revised March 2008) and HKAS 27 (revised March 2008). Under the Group's new accounting policies, changes in the Group's ownership interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions (ie transactions between equity shareholders in their capacity as equity shareholders).

The new accounting policies have been applied prospectively for changes in the Group's ownership interests in a subsidiary on or after 1 January 2008 in accordance with the transitional arrangements under HKFRS 3 (revised March 2008) and HKAS 27 (revised March 2008). As a result, comparative amounts have not been restated. This change has decreased the Group's net profit for the six months ended 30 June 2008 by RMB6.73 million and has decreased the Group's net assets as at 30 June 2008 by RMB0.23 million.

## 3 Segment reporting

The analysis of the geographical location of the operations of the Group during the period was as follows:

| For the six months ended 30 June | The People's Republic of China (the "PRC") | | Overseas | | Consolidated | |
|---|---|---|---|---|---|---|
| | **2008** | **2007** | **2008** | **2007** | **2008** | **2007** |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| Turnover | **861,521** | 546,032 | **360,066** | 336,991 | **1,221,587** | 883,023 |
| Segment results | **101,080** | 69,449 | **12,734** | 38,816 | **113,814** | 108,265 |
| Unallocated operating income and expenses | | | | | **(86,339)** | (67,837) |
| Profit from operations | | | | | **27,475** | 40,428 |

## 4 Profit before taxation

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

| | Six months ended 30 June | |
|---|---|---|
| | **2008** | **2007** |
| | ***RMB'000*** | *RMB'000* |
| **Finance costs:** | | |
| Interest on bank advances and other borrowings | **47,345** | 30,445 |
| Finance charges on convertible notes | **—** | 1,559 |
| Bank charges and other finance costs | **5,467** | 5,790 |
| Total borrowing costs | **52,812** | 37,794 |
| Less: amounts capitalised | **(520)** | (1,148) |
| Net borrowing costs | **52,292** | 36,646 |
| Net foreign exchange (gain)/loss | **(36,419)** | 3,569 |
| | **15,873** | 40,215 |
| **Staff costs: #** | | |
| Salaries, wages and other benefits | **79,348** | 51,206 |
| Contributions to defined contribution retirement plans | **9,005** | 6,582 |
| Equity settled share-based payment expenses (see Note 11) | **3,652** | — |
| | **92,005** | 57,788 |
| **Other items:** | | |
| Cost of inventories # | **1,080,923** | 750,483 |
| Depreciation and amortisation # | **89,475** | 70,779 |
| Impairment loss on trade and other receivables | **2,888** | 2,875 |
| Operating lease charges in respect of # | | |
| - land | **346** | 364 |
| - plant and buildings | **1,196** | 1,003 |
| - motor vehicles | **400** | 418 |
| Research and development costs | **624** | 562 |
| Net (gain)/loss on disposal of property, plant and equipment | **(300)** | 26 |
| Interest income | **3,098** | 4,967 |

\# Cost of inventories includes RMB132.0 million for the six months ended 30 June 2008 (six months ended 30 June 2007: RMB92.7 million), 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.

## 5 Income tax

| | Six months ended 30 June | |
|---|---|---|
| | **2008** | **2007** |
| | ***RMB'000*** | *RMB'000* |
| Provision for income tax on the estimated taxable profits for the period | | |
| - Hong Kong Profits Tax | **47** | — |
| - PRC Income Tax | **5,482** | 3,142 |
| Deferred taxation | **(11,066)** | (14,656) |
| | **(5,537)** | (11,514) |

The provision of Hong Kong Profits Tax is calculated at 16.5% (six months ended 30 June 2007: 17.5%) of the estimated assessable profits of a subsidiary of the Group incorporated in Hong Kong Special Administrative Region ("Hong Kong SAR") for the six months ended 30 June 2008.

The Company and its subsidiaries incorporated in countries other than the PRC and Hong Kong SAR 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 (the "PRC subsidiaries") were subject to PRC Enterprise Income Tax rate ranging from 18% to 25% for the six months ended 30 June 2008 (six months ended 30 June 2007: 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, the PRC subsidiaries obtained approval from the respective 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 (the "new tax law") which takes effect on 1 January 2008. According to the new tax law, the applicable income tax rate of the PRC subsidiaries will change to 25% with effect 1 January 2008 or gradually increase to 25% over a five-year period if the PRC subsidiary is currently enjoying a preferential tax rate of below 25%. The new tax law has been applied when measuring the Group's deferred tax assets and liabilities as at 30 June 2007 and 31 December 2007.

## 6 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 2008 (six months ended 30 June 2007: RMBNil).

### (b) Dividends attributable to the previous financial year, approved during the interim period

| | Six months ended 30 June | |
|---|---|---|
| | **2008** | **2007** |
| | ***RMB'000*** | *RMB'000* |
| Final dividend in respect of the financial year ended 31 December 2007, approved during the following interim period, of HK$0.0614 per ordinary share (year ended 31 December 2006: HK$Nil per ordinary share) | **22,938** | — |

## 7 (Loss)/earnings per share

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

The calculation of basic loss per share for the six months ended 30 June 2008 is based on the net loss attributable to the equity shareholders of the Company of RMB22,240,000 (six months ended 30 June 2007: net profit attributable to the equity shareholders of the Company of RMB48,182,000) and the weighted average number of 416,000,000 ordinary shares (six months ended 30 June 2007: 379,878,000 ordinary shares) in issue during the six months ended 30 June 2008.

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

There were no dilutive potential ordinary shares as at 30 June 2007 and 2008.

## 8 Trade and other receivables

| | At 30 June 2008 *RMB'000* | At 31 December 2007 *RMB'000* |
|---|---|---|
| Trade receivable from: | | |
| - Third parties | **131,158** | 73,396 |
| - Minority equity holders of subsidiaries of the Group and their affiliates | **43,511** | 38,743 |
| - A company under common significant influence | **141** | — |
| Bills receivable | **43,063** | 44,500 |
| | **217,873** | 156,639 |
| Less: allowance for doubtful debts (Note 8(ii)) | **(25,424)** | (23,041) |
| | **192,449** | 133,598 |
| Amounts due from related companies: | | |
| - Equity shareholders of the Company (Note (aa)) | **306** | 327 |
| - Minority equity holders of subsidiaries of the Group (Note (aa)) | **2,503** | 3,152 |
| - An associate of the Group (Note (aa)) | **3,069** | 840 |
| - Companies under common significant influence (Note (bb)) | **48,491** | 125,780 |
| | **54,369** | 130,099 |
| Prepayments, deposits and other receivables | **123,245** | 128,560 |
| Less: allowance for doubtful debts (Note 8(ii)) | **(3,875)** | (3,370) |
| | **119,370** | 125,190 |
| | **366,188** | 388,887 |

*Notes:*

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

(bb) At 30 June 2008, the amounts are unsecured, non-interest bearing and have no fixed terms of repayment. At 31 December 2007, except for amounts of RMB81.0 million which bear interest at 8.75% per annum, all of the remaining balances were non-interest bearing.

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 of three to six months from the date of billing may be granted to customers, depending on credit assessment carried out by management on an individual customer basis.

(i) Ageing analysis

Included in trade and other receivables are trade and bills receivables (net of allowance for doubtful debts) with the following ageing analysis as of the balance sheet date:

| | At 30 June 2008 | At 31 December 2007 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Within 1 month | **118,547** | 51,663 |
| More than 1 month but less than 3 months | **35,678** | 27,036 |
| More than 3 months but less than 6 months | **20,269** | 40,556 |
| More than 6 months | **17,955** | 14,343 |
| | **192,449** | 133,598 |

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

(ii) Impairment of trade and other receivables

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

The movement in the allowance for doubtful debts during the period is as follows:

| | Six months ended 30 June | |
|---|---|---|
| | **2008** | **2007** |
| | ***RMB'000*** | *RMB'000* |
| At 1 January | **26,411** | — |
| Additions through acquisitions of subsidiaries | **—** | 25,656 |
| Impairment loss recognised | **2,888** | 2,875 |
| At 30 June | **29,299** | 28,531 |

At 30 June 2008, the Group's trade and other receivables of RMB29.3 million (31 December 2007: RMB26.4 million) were individually determined to be impaired. The individually impaired receivables related to customers and debtors that were in financial difficulties and management assessed that these receivables are irrecoverable. The Group does not hold any collateral over these balances.

## 9 Trade and other payables

| | At 30 June 2008 *RMB'000* | At 31 December 2007 *RMB'000* |
|---|---|---|
| Trade payable to: | | |
| - Third parties | **351,764** | 327,872 |
| - Minority equity holders of subsidiaries of the Group and their affiliates | **29,759** | 15,640 |
| - Companies under common significant influence | **1,611** | 1,236 |
| Bills payable | **208,500** | 169,000 |
| | **591,634** | 513,748 |
| Amounts due to related companies: | | |
| - Minority equity holders of subsidiaries of the Group and their affiliates (Note (i)) | **15,676** | 15,100 |
| - Companies under common significant influence (Note (ii)) | **57,435** | 129,395 |
| | **73,111** | 144,495 |
| Advances received from customers | **102,925** | 67,940 |
| Accrued charges and other payables | **453,940** | 468,444 |
| | **1,221,610** | 1,194,627 |

*Notes:*

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

(ii) At 30 June 2008, the amounts are unsecured. Except for amounts of RMB13.1 million at 30 June 2008 (31 December 2007: RMB89.9 million) which bear interest ranging from 6.12% to 8.96% per annum (31 December 2007: ranging from 6.12% to 8.75% per annum), all of the remaining balances are non-interest bearing. Included in the balance at 30 June 2008 was RMB5.2 million (31 December 2007: RMB5.0 million) which are repayable in monthly instalments in the coming twelve months, where all of the remaining balances have no fixed terms of repayment.

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

Included in trade and other payables are trade and bills payables with the following ageing analysis as of the balance sheet date:

| | At 30 June 2008 *RMB'000* | At 31 December 2007 *RMB'000* |
|---|---|---|
| Due within 1 month or on demand | **404,988** | 318,279 |
| Due after 1 month but within 6 months | **186,646** | 195,469 |
| | **591,634** | 513,748 |

## 10 Bank and other loans

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

| | At 30 June 2008 *RMB'000* | At 31 December 2007 *RMB'000* |
|---|---|---|
| Bank loans | **184,860** | 183,109 |
| Loans from senior management of a subsidiary of the Group | **—** | 8,000 |
| Loan from a third party | **5,000** | 5,000 |
| | **189,860** | 196,109 |
| Add: current portion of long-term bank and other loans | **7,018** | 29,851 |
| | **196,878** | 225,960 |

At 30 June 2008, the short-term bank and other loans (excluding current portion of long-term bank and other loans) were secured as follows:

| | At 30 June 2008 *RMB'000* | At 31 December 2007 *RMB'000* |
|---|---|---|
| Bank loans: | | |
| - Pledged by bank bills | **—** | 1,559 |
| - Secured by property, plant and equipment and land use rights | **28,800** | 28,800 |
| - Guaranteed | **79,760** | 113,860 |
| - Guaranteed and secured by property, plant and equipment and land use rights | **10,300** | 12,890 |
| - Unguaranteed and unsecured | **66,000** | 26,000 |
| | **184,860** | 183,109 |
| Loans from senior management of a subsidiary of the Group: | | |
| - Unguaranteed and unsecured | **—** | 8,000 |
| Loan from a third party: | | |
| - Unguaranteed and unsecured | **5,000** | 5,000 |
| | **189,860** | 196,109 |

At 30 June 2008, the aggregate carrying values of the secured property, plant and equipment and land use rights were RMB124.1 million (31 December 2007: RMB151.0 million).

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

| | At 30 June 2008 *RMB'000* | At 31 December 2007 *RMB'000* |
|---|---|---|
| Bank loans | **35,000** | 57,833 |
| Loan from a third party | **7,018** | 7,018 |
| | **42,018** | 64,851 |
| Less: current portion of long-term bank and other loans | **(7,018)** | (29,851) |
| | **35,000** | 35,000 |

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

| | At 30 June 2008 *RMB'000* | At 31 December 2007 *RMB'000* |
|---|---|---|
| Within 1 year or on demand | **7,018** | 29,851 |
| After 1 year but within 2 years | **35,000** | 35,000 |
| | **42,018** | 64,851 |

At 30 June 2008, all of the long-term bank and other loans are unsecured. At 31 December 2007, a long-term bank loan of RMB2.8 million was secured by the Group's property, plant and equipment, and the aggregate carrying values of the secured property, plant and equipment were RMB6.6 million.

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

## 11 Equity settled share-based transactions

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

**(a) The terms and conditions of the grants that existed during the period are as follows, whereby all options will be settled by physical delivery of shares:**

| | Number of instruments | Vesting conditions | Contractual life of options |
|---|---|---|---|
| **Options granted to directors:** | | | |
| – on 29 February 2008 | **2,140,000** | One year from the date of grant | 7.25 years |
| – on 29 February 2008 | **1,605,000** | Two years from the date of grant | 7.25 years |
| – on 29 February 2008 | **1,605,000** | Three years from the date of grant | 7.25 years |
| **Options granted to employees:** | | | |
| – on 29 February 2008 | **5,860,000** | One year from the date of grant | 7.25 years |
| – on 29 February 2008 | **4,395,000** | Two years from the date of grant | 7.25 years |
| – on 29 February 2008 | **4,395,000** | Three years from the date of grant | 7.25 years |
| Total share options | **20,000,000** | | |

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

| | Six months ended 30 June 2008 | |
|---|---|---|
| | **Weighted average exercise price** | **Number of options '000** |
| Outstanding at the beginning of the period | **—** | **—** |
| Granted during the period | **HK$3.50** | **20,000** |
| Outstanding at the end of the period | **HK$3.50** | **20,000** |
| Exercisable at the end of the period | **—** | **—** |

The options outstanding at 30 June 2008 had an exercise price of HK$3.50 and a weighted average remaining contractual life of 6.92 years.

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

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

| **Fair value of share options and assumptions** | **Six months ended 30 June 2008** |
|---|---|
| Fair value at measurement date | **HK$0.8740 to HK$1.2865** |
| Share price | **HK$3.5** |
| Exercise price | **HK$3.5** |
| Expected volatility (expressed as weighted average volatility used in the modelling under the Black-Scholes model) | **48.18%** |
| Option life (expressed as weighted average life used in the modelling under the Black-Scholes model) | **3.10 years** |
| Expected dividends | **1.75%** |
| Risk-free interest rate (based on Exchange Fund Notes of Hong Kong SAR) | **1.39% to 2.22%** |

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

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

## 12 Commitments

### (a) Capital commitments

At 30 June 2008, the outstanding capital commitments of the Group not provided for in the interim financial report were summarised as follows:

| | At 30 June 2008 *RMB'000* | At 31 December 2007 *RMB'000* |
|---|---|---|
| Commitments in respect of land and buildings, and machinery and equipment | | |
| - Contracted for | **155,850** | 6,906 |
| - Authorised but not contracted for | **770,086** | 383,573 |
| | **925,936** | 390,479 |
| Commitments in respect of investments in subsidiaries | | |
| - Contracted for | **24,000** | 52,912 |
| - Authorised but not contracted for | **—** | — |
| | **24,000** | 52,912 |
| Total commitments | | |
| - Contracted for | **179,850** | 59,818 |
| - Authorised but not contracted for | **770,086** | 383,573 |
| | **949,936** | 443,391 |

### (b) Operating lease commitments

At 30 June 2008, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

| | At 30 June 2008 *RMB'000* | At 31 December 2007 *RMB'000* |
|---|---|---|
| Within 1 year | **2,834** | 3,603 |
| After 1 year but within 5 years | **1,635** | 2,096 |
| After 5 years | **3,717** | 3,828 |
| | **8,186** | 9,527 |

The Group leases certain land and plant and buildings under operating leases. None of the leases includes contingent rentals.

## 13 Non-adjusting post balance sheet events

### (a) Disposal of equity interests in a subsidiary of the Group

On 10 January 2008, the Company, through a subsidiary, has entered into a share transfer agreement to dispose of its 45% equity interests in one of the Group's subsidiaries, Beijing Zhonghai Xingye Safety Glass Company Limited ("Zhonghai Xingye"), to the then minority equity holder of Zhonghai Xingye for a consideration of RMB6.2 million. Upon completion of the above share transfer, the Group's effective interest in Zhonghai Xingye will decrease from 17.69% to 7.08%, and Zhonghai Xingye will cease to be a subsidiary of the Group. Up to the date of this report, the above transaction has yet to be completed.

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

**(b) Acquisition of minority interests in a subsidiary of the Group**

On 24 June 2008, the Company, through a wholly-owned subsidiary, has entered into an equity transfer agreement to acquire the remaining 9.9% equity interests in one of the Group's subsidiaries, Suqian Huayi Coated Glass Company Limited ("Suqian Huayi"), from Jiangsu Glass Group Company Limited for a consideration of RMB24.0 million. Upon completion of the above acquisition, Suqian Huayi will become an indirectly wholly-owned subsidiary of the Company. Up to the date of this report, the above acquisition has yet to be 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 dates.

**14 Comparative figures**

Certain comparative figures have been reclassified to conform with changes in presentation in the current period.

## MANAGEMENT DISCUSSION AND ANALYSIS

## MARKET REVIEW

In the first half of 2008, affected by a decline in macro-economic growth as well as a decrease in growth in the property development and automobiles industries, the PRC glass industry saw a progressively declining trend in domestic market demand. Affected by deteriorating global economic slowdown and the appreciation of RMB against the US Dollar, international market demand for PRC glass products remained low. According to the statistics of the PRC glass industry association, during the period from January to May 2008, the average production and sales rate for the industry was around 92.5%, far lower than the basic supply and demand balance point of 98%. Supply exceeded demand in the industry as a whole.

Affected by an international inflationary trend, the prices of fuel materials such as coal, coal tar and heavy oil and raw materials such as soda ash and silicon sand have been rising. The unit cost of glass products increased as a result. Despite such impact, the prices of glass products at the beginning of the year continued the upward trend from 2007. But market prices started to drop slightly in the second quarter due to a slowdown in the global demand. High costs and low prices simultaneously squeezed the profitability of the industry. The gross profit margin recorded by the whole industry dipped substantially with the gradual widening of losses suffered by the industry.

The pressure of the appreciation of RMB, an increase in export freight charges and the adjustment of the export tax refund by the PRC government was significant. However, the overall pressure on manufacturers eased as compared with 2007. RMB continued its rapid appreciation in the first half of this year but experienced fluctuations in recent months. Export freight charges did not show any trend of upsurge. Apart from routes such as South America, freight charges for some routes such as Europe experienced a relatively sharp decline. There was also no further adjustment to export tax refund granted by the PRC government. The stability of these key factors played an important role in maintaining a stable export volume for the industry.

## BUSINESS REVIEW

In the first half of 2008, Nanjing Rolled Line, Beijing Float Line and Suqian 2nd Float Line of the Company have commenced major overhauls as their furnaces have reached the end of their lifespans. Weihai 2nd Float Line will carry out a major overhaul in September at the latest. However, since Wuhai 1st and 2nd Float Line have completed their major overhauls and resumed production and Xianyang Float Line started production last year, the overall production capacity of the Company was not significantly affected.

Our product prices remained relatively high in the first quarter 2008 but experienced a slight decline in the second quarter. The overall price for the first half year increased by approximately 12% over the average price in the first half 2007. The differences in price changes of the Company's different products were significant. As there were many competitors in the industry, prices of products with a low added-value such as clear glass declined as compared with the beginning of the year. Meanwhile, because of fewer competitors and relatively higher demand, sale prices of tinted glass, coated glass, LOW-E glass and other new products in which the Company had recently increased its investment were relatively stable.

Although products such as clear glass were affected by the sluggishness of the industry, the overall production and sales rate of products was 94%, which was slightly better than the average industry level.

Sustaining steady international market channels by the Company would have even greater positive impact on the Company's sales amidst a slowdown of the industry. The overall price for domestic and overseas sales of products of the Company was higher than the industry average. In the anti-dumping investigation conducted by the Korean government which ended in late April 2008, the Company was the only enterprise amongst the PRC glass manufacturers which came to agreement on the pricing of products to be sold to the Korean market. In the recent two months, the Company gradually restored exports to the Korean market. The current export price exceeds the domestic sale price by more than 20%. The Group's favourable competitive advantages in both price and technology of our products will present a better scenario in the future.

The tight supply of energy on a worldwide basis has driven energy-saving requirements for industries such as property development and automobile which promoted sales of the Company's products such as LOW-E and titanium coated glass with good energy-saving functions. New energy and new energy accessory products newly put into production by the Company such as A-Si solar cell products and ultra white rolled solar glass (超白壓花太陽能玻璃) will have a positive impact on the overall sales price of the Company's products.

## OUTLOOK

Under the impact of various factors such as global economic turbulence, an overall slowdown in growth, the appreciation of RMB against the US dollar, significant fluctuations in prices of international raw materials and fuel products, the PRC glass industry is facing a deteriorating operating environment. The industry faces adjustments and restructuring of both structure and capital. It remains uncertain to what extent this will be carried out and when this will come to an end.

Overall, the gap between supply and demand for products such as clear glass will widen further. The supply and demand relationship for other products might be affected by potential new participants, resulting in a turbulent situation characterized by local supply and demand imbalance.

The healthy and steady development of the domestic property development industry is of utmost importance to the industry. Constructions in progress and new real estate projects are expected to decrease as compared with the previous year, which will affect to some extent the current demand for glass products. As for the future trend, this will depend on changes in the PRC's macro-economic policy.

Continuous high oil prices will further affect the consumption of automobile products, which will have an indirect impact on the demand for glass products. However, products manufactured by the Company are mainly products with a thickness of more than 4mm and are therefore subject to limited direct impact from the automobile industry.

Key factors such as an increase in manufacturing costs, the continued rapid appreciation of RMB in recent years, high export freight charges and the downturn of the international economic environment have a negative impact on the demand of the Company's products. In particular, the impact on the Company's sale of clear glass has been relatively greater. Nevertheless, demand from markets such as Korea and the Middle East will continue to generate stable revenue for the Company in the future, which will considerably reduce pressure from the international market.

Key indicators and benchmarks for macro-economic outlook such as international oil prices, the extent of inflation and the appreciation of RMB against the US dollar, tend to have an increasing significance and influence on the operation of the glass industry and its structure.

Competition in the property development industry will drive the development of more complicated functional requirements for glass products in this industry. The energy-saving and environmental protection requirements will propel the development of double glazing and composite functions. These healthy developments will also boost consumption of products of the industry. Energy-saving products of the Company such as LOW-E will continue to have promising sales prospects.

Continuous high operation costs will intensify the rapid differentiation of enterprises operating at different cost structure. Some enterprises operating at high costs might withdraw from this industry, thus narrowing the gap between supply and demand. Meanwhile, enterprises enjoying a competitive edge in costs will capture strategic opportunities for mergers, acquisitions and consolidations in the industry and will certainly lead to a more favourable supply and demand layout of the industry and product portfolio adjustment.

## FINANCIAL REVIEW

For the first six months of 2008, the turnover of the Group increased by 38% to RMB1,221.6 million as compared to RMB883.0 million in the first six months of 2007. The increase was due to increase in sales volume. The gross profit margin decreased to approximately 11.5% from 15.0% compared to the corresponding period last year. The decrease was primarily due to the increase in costs of fuel and raw materials such as coal, heavy oil and soda ash.

The Group's net profit amounted to approximately RMB11.5 million, representing a decrease of approximately 73.5% as compared to RMB43.4 million for the first six months of 2007. The decrease was mainly attributable to the decrease of gross profit margin from 15.0% to 11.5% as mentioned above.

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

As at 30 June 2008, the Group's cash and cash equivalents amounted to RMB229.9 million (31 December 2007: RMB355.9 million), of which 75% were denominated in RMB, 14% in United States dollars ("USD") and 11% in Hong Kong dollars ("HKD"), the outstanding bank and other loans amounted to RMB231.9 million (31 December 2007: RMB261.0 million) and the unsecured notes amounted to RMB664.5 million (31 December 2007: RMB705.0 million), all of which were denominated in RMB except for the unsecured notes which were denominated in USD. As at 30 June 2008, the gearing ratio (total interest-bearing debts divided by total assets) was 27% (31 December 2007: 31%), the decrease of which was primarily attributable to the repayment of interest bearing bank and other borrowings and the depreciation of USD denominated unsecured notes. As at 30 June 2008, the Group's current ratio (current assets divided by current liabilities) was 0.71 (31 December 2007: 0.77), the fall of which was mainly attributable to the decrease in cash and cash equivalents. In addition, the Group had net current liabilities amounted to RMB414.0 million as at 30 June 2008. Assets-liabilities ratio (total liabilities divided by total assets) of the Group was 0.64 (31 December 2007: 0.64). The Group has obtained long-term borrowings facilities of USD30.0 million from International Financial Corporation in second half 2008 and also expects to improve the net current liabilities situation through the positive operating cash flows in the coming year.

Details of the bank and other loans were set out in Note 10.

## EXCHANGE RATE RISK AND RELATED HEDGING

The Group's sales transactions and monetary assets were primarily denominated in HKD, RMB and USD. Operating expenses and domestic sales of the Group's PRC subsidiaries were primarily denominated in RMB, and certain borrowings of the Group were denominated in USD. The Group was of the opinion that the future appreciation 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 in the long term. Our net assets, profits and dividends may be affected by the fluctuation of the RMB exchange rate.

During the six months ended 30 June 2008, the Group had not adopted any derivatives for hedging purposes.

## INTERIM DIVIDEND

The Board does not recommend any interim dividend for the six months ended 30 June 2008 (Dividend for the six months ended 30 June 2007 : Nil).

## CHARGE ON ASSETS

Details of the Group's charge of assets were set out in Note 10.

## CAPITAL COMMITMENTS

As at 30 June 2008, details of the Group's capital commitments were set out in Note 12.

## CONTINGENT LIABILITIES

There were no significant contingent liabilities for the Group as at 30 June 2008.

## 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 towards enhancing the value of the Company and its shares.

On 29 February 2008, the Board of the Company granted share options under the share option scheme. Details of the share options granted were set out in Note 11.

## 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 announcement, the Company has maintained the prescribed public float required under the Listing Rules, based on information that is publicly available to the Company and to the best knowledge of the Board.

## HUMAN RESOURCES AND EMPLOYEES' REMUNERATION

As at 30 June 2008, the Group had employed about 6,462 employees in the PRC and Hong Kong (31 December 2007: about 6,410 employees). According to the relevant market situation, employee's remuneration level had maintained at a competitive level, and also corresponds with their performance.

The employees of the companies in the Group which were established in the PRC and in Hong Kong SAR participate in defined contribution retirement benefit schemes and Mandatory Provident Fund Scheme, respectively. No contributions to the above schemes were forfeited for the six months ended 30 June 2008. Details of staff costs and pension schemes were set out in Note 4.

## MATERIAL ACQUISITIONS OR DISPOSALS

During the first half of 2008, the Group subscribed for Wuhai Blue Star Glass Company Limited's additional 25.01% equity interests and acquired an aggregate of 22.5% equity interests in Weihai Blue Star New Technology Glass Company Limited from the then minority equity holders.

The Group established Dongtai China Glass Special Glass Company Limited ("Dongtai Special Glass") for a production plant in Dongtai, Jiangsu Province. The total investment will amount to approximately RMB680 million. As at 30 June 2008, the investment has not been injected into Dongtai Special Glass.

On 10 January 2008, the Group has entered into a share transfer agreement to dispose of 45% equity interests in Beijing Zhonghai Xingye Safety Glass Company Limited. As at the date of this announcement, the disposal has yet to be completed.

On 24 June 2008, the Group also entered into an acquisition agreement to acquire the remaining 9.9% of the registered capital of Suqian Huayi Coated Glass Limited. Up to the date of this announcement, the acquisition has yet to be completed.

Other than that 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 2008.

## POST BALANCE SHEET EVENTS

Details of post balance sheet events of the Group were set out in Note 13.

## 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 2008 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 as set out in Appendix 14 to the Listing Rules throughout the period of six months ended 30 June 2008.

## 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 Board has strictly complied with the Model Code during this reporting period.

By Order of the Board
**China Glass Holdings Limited**
**Zhou Cheng**
*Chairman*

Hong Kong, 26 September 2008

*As at the date of this announcement, the Board comprises Mr. Zhou Cheng, Mr. Zhang Zhaoheng, Mr. Li Ping and Mr. Cui Xiangdong as Executive Directors; Mr. Zhao John Huan, Mr. Liu Jinduo and Mr. Eddie Chai as Non-Executive Directors; and Mr. Song Jun, Mr. Sik Siu Kwan and Mr. Zhang Baiheng as Independent Non-Executive Directors.*

* *For identification purpose only*