CHINA GLASS HOLDINGS LIMITED
中國玻璃控股有限公司*

(incorporated in Bermuda with limited liability)

2005
Interim Report

* *for identification only*

Contents

Corporate Information	02
Consolidated Income Statement	03
Consolidated Balance Sheet	04
Consolidated Statement of Changes in Equity	06
Condensed Consolidated Cash Flow Statement	07
Notes to the Unaudited Interim Financial Report	08
Independent Review Report	22
Management Discussion and Analysis	23
Reports of the Directors	26

Corporate Information

BOARD OF DIRECTORS

Executive Directors
Mr. Zhou Cheng (*Chief Executive Officer*)
Mr. Li Ping
Mr. Lu Guo

Non-Executive Directors
Mr. Zhao John Huan (*Chairman*)
Mr. Liu Jinduo

Independent Non-Executive Directors
Mr. Song Jun
Mr. Wong Wai Ming
Mr. Zhang Baiheng

SENIOR MANAGEMENT

Mr. Zhou Qiping
Mr. Cai Ling
Mr. Jiang Hongfang
Mr. Zhang Zuozhen
Mr. Lau Ying Kit (*Qualified Accountant and Company Secretary*)

AUDIT COMMITTEE

Mr. Wong Wai Ming (*Chairman*)
Mr. Song Jun
Mr. Zhao John Huan

REMUNERATION COMMITTEE

Mr. Zhao John Huan (*Chairman*)
Mr. Song Jun
Mr. Wong Wai Ming

REGISTERED OFFICE

Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 8, 26/F., West Tower
Shun Tak Centre
168–200 Connaught Road
Central
Hong Kong

PRINCIPAL SHARE REGISTER AND TRANSFER OFFICE

Reid Management Limited
Argyle House
41a Cedar Avenue
Hamilton Avenue
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shop 1712–16, 17/F, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

LEGAL ADVISERS

As to Hong Kong Law
Norton Rose

As to PRC Law
Jingtian & Gongcheng

As to Bermuda Law
Appleby Spurling Hunter

PRINCIPAL BANKERS

Industrial and Commercial Bank of China, Suqian Branch
Standard Chartered Bank, Shanghai Branch

AUDITORS

KPMG
Certified Public Accountants

STOCK CODE

Hong Kong Stock Exchange 3300

Consolidated Interim Financial Statements

The Board of Directors (the "Board") of China Glass Holdings Limited (the "Company") have the pleasure to announce the consolidated financial statements of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2005 together with the comparative figures as follows:

CONSOLIDATED INCOME STATEMENT

for the six months ended 30 June 2005 — unaudited

(Expressed in Renminbi ("RMB"))

		Six months ended 30 June	
		2005	2004
			(Note 3(c))
	Note	**RMB'000**	RMB'000
Turnover	4	**193,367**	205,210
Cost of sales		**(152,980)**	(139,426)
Gross profit		**40,387**	65,784
Other revenue		**119**	37
Other net income		**48**	42
Distribution costs		**(7,776)**	(4,867)
Administrative expenses		**(10,445)**	(8,639)
Profit from operations	4	**22,333**	52,357
Finance costs	5	**(6,088)**	(3,274)
Profit before taxation	5	**16,245**	49,083
Income tax	6	**(218)**	(5,329)
Profit after taxation		**16,027**	43,754
Attributable to:			
Equity holders of the parent	16	**16,027**	37,164
Minority interests	16	**—**	6,590
Profit after taxation		**16,027**	43,754
Basic earnings per share (RMB)	8	**0.06**	0.14

The notes on pages 8 to 21 form part of this interim financial report.

CONSOLIDATED BALANCE SHEET

at 30 June 2005 — unaudited

(Expressed in RMB)

	Note	At 30 June 2005 RMB'000	At 31 December 2004 (Note 3(c)) RMB'000
Non-current assets			
Property, plant and equipment	9	**343,077**	256,793
Goodwill		**14,113**	14,113
Interest in leasehold land held for own use under an operating lease		**57,716**	—
		414,906	270,906
Current assets			
Inventories		**40,684**	42,945
Trade and other receivables	10	**139,600**	16,487
Amount due from an immediate holding company	11	**—**	60
Cash and cash equivalents	12	**159,966**	106,453
		340,250	165,945
Current liabilities			
Bank loans		**124,389**	46,000
Trade and other payables	13	**118,975**	78,084
Amounts due to immediate and intermediate holding companies	14	**—**	39,190
Amounts due to other related companies	15	**4,314**	3,118
Income tax payable		**46**	1,691
		247,724	168,083
Net current assets/(liabilities)		**92,526**	(2,138)
Total assets less current liabilities		**507,432**	268,768

CONSOLIDATED BALANCE SHEET (CONTINUED)

at 30 June 2005 — unaudited

(Expressed in RMB)

	Note	At 30 June 2005 RMB'000	At 31 December 2004 (Note 3(c)) RMB'000
Non-current liabilities			
Bank loans		**60,000**	120,000
Amount due to a related company	15	**49,701**	—
Deferred tax liabilities		**403**	185
		110,104	120,185
NET ASSETS		**397,328**	148,583
CAPITAL AND RESERVES			
Share capital	16	**38,336**	60,107
Reserves		**349,092**	88,476
Total equity attributable to equity holders of the parent		**387,428**	148,583
Minority interests	16	**9,900**	—
TOTAL EQUITY	16	**397,328**	148,583

The notes on pages 8 to 21 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2005 — unaudited

(Expressed in RMB)

		Six months ended 30 June	
		2005	2004
	Note	**RMB'000**	RMB'000
Total equity at 1 January	3(c)	**148,583**	138,411
Net profit for the period	3(c)	**16,027**	43,754
Contributions from minority interests		**9,900**	—
Capitalisation issue	16(i)	**128,946**	—
Issuance of shares by placing and public offer	16(ii)	**208,934**	—
Share issue expenses		**(25,210)**	—
Equity movements arising from the Reorganisation		**(89,852)**	—
Total equity at 30 June		**397,328**	182,165

The notes on pages 8 to 21 form part of this interim financial report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

for the six months ended 30 June 2005 — unaudited

(Expressed in RMB)

	Note	2005 RMB'000	2004 RMB'000
		Six months ended 30 June	
Cash generated from operations		**17,924**	31,740
Income tax paid		**(1,645)**	(6,073)
Net cash from operating activities		**16,279**	25,667
Net cash used in investing activities		**(68,998)**	(26,719)
Net cash generated from/(used in) financing activities		**106,232**	(6,686)
Net increase/(decrease) in cash and cash equivalents		**53,513**	(7,738)
Cash and cash equivalents at 1 January	12	**106,453**	10,019
Cash and cash equivalents at 30 June	12	**159,966**	2,281

The notes on pages 8 to 21 form part of this interim financial report.

NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB unless otherwise indicated)

1. CORPORATE REORGANISATION

The Company was incorporated in Bermuda on 27 October 2004 as an exempted company with limited liability under the Companies Act 1981 of Bermuda (as amended). Pursuant to a reorganisation (the "Reorganisation") of the Group completed on 22 May 2005 to rationalise the group structure in preparation of the public listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the subsidiaries now comprising the Group. The shares of the Company were listed on the Stock Exchange on 23 June 2005.

2. BASIS OF PREPARATION

The Group is regarded as a continuing entity resulting from the Reorganisation and has been accounted for on the basis of merger accounting. The consolidated financial statements have been prepared on the basis that the Company was the holding company of the Group throughout the six months ended 30 June 2005 and 2004 ("the periods presented"), rather than from 22 May 2005. Accordingly, the consolidated financial statements of the Group for the periods presented include the financial statements of the Company and its subsidiaries with effect from 1 January 2004 or since their respective dates of incorporation, whichever is a shorter period, as if the current group structure had been in existence throughout the periods presented. All material intra-group transactions and balances have been eliminated on consolidation. In the opinion of the directors, the consolidated financial statements prepared on this basis present fairly the results of operations and the state of affairs of the Group as a whole.

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 2005.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the Accountants' Report of the Company (the "Accountants' Report") included in the Company's prospectus dated 13 June 2005 (the “Prospectus”), except for the accounting policy changes that are expected to be reflected in the 2005 annual financial statements. Details of these changes in accounting policies are set out in note 3.

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 issuance of the Accountants’ Report. 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 Statement of Auditing Standards 700, Engagements to review interim financial reports, issued by the HKICPA. KPMG’s independent review report to the Board of Directors is included on page 22.

The financial information relating to the financial year ended 31 December 2004 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 the Accountants’ Report. The financial information of the Group for the year ended 31 December 2004 is contained in the Accountants’ Report included in the Prospectus. The Accountants’ Report is available from the Company’s registered office. The auditors have expressed an unqualified opinion in the Accountants’ Report dated 13 June 2005.

3. CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of new and revised HKFRSs (which term collectively includes HKASs and Interpretations) that are effective or available for early adoption for accounting periods beginning on or after 1 January 2005. The Board has determined the accounting policies expected to be adopted in the preparation of the Group’s annual financial statements for the year ending 31 December 2005, on the basis of HKFRSs currently in issue.

The HKFRSs that will be effective or are available for voluntary early adoption in the annual financial statements for the year ending 31 December 2005 may be affected by the issue of additional interpretation(s) or other changes announced by the HKICPA subsequent to the date of issuance of this interim report. Therefore the policies that will be applied in the Group's financial statements for that period cannot be determined with certainty at the date of issuance of this interim financial report.

The following sets out further information on the changes in accounting policies for the annual accounting period beginning on 1 January 2005 which have been reflected in this interim financial report.

(a) Employee share option scheme (HKFRS 2, Share-based payment)

With effect from 1 January 2005, in order to comply with HKFRS 2, the Group recognises the fair value of such share options as an expense in the income statement, or as an asset, if the cost qualifies for recognition as an asset under the Group's accounting policies. A corresponding increase will be recognised in a capital reserve within equity.

Where the employees are required to meet vesting conditions before they become entitled to the options, the Group recognises the fair value of the options granted over the vesting period. Otherwise, the Group recognises the fair value in the period in which the options are granted.

If an employee chooses to exercise options, the related capital reserve is transferred to share capital and share premium, together with the exercise price. If the options lapse unexercised the related capital reserve is transferred directly to retained earnings.

A share option scheme was passed by the shareholders of the Company at a special general meeting on 30 May 2005. As at 30 June 2005, no employees of the Group were granted any share options. The change in policy relating to share-based payment has no effect on the interim financial report.

(b) Amortisation of positive and negative goodwill (HKFRS 3, Business combinations and HKAS 36, Impairment of assets)

In prior periods:

- Positive goodwill was amortised on a straight line basis over its useful life and was subject to impairment testing when there were indications of impairment; and

- Negative goodwill was amortised over the weighted average useful life of the depreciable/amortisable non-monetary assets acquired, except to the extent it related to identified expected future losses as at the date of acquisition. In such cases it was recognised in the income statement as those expected losses were incurred.

With effect from 1 January 2005, in accordance with HKFRS 3 and HKAS 36, the Group no longer amortises positive goodwill. Such goodwill is tested annually for impairment, including in the year of its initial recognition, as well as when there are indications of impairment. Impairment losses are recognised when the carrying amount of the cash generating unit to which the goodwill has been allocated exceeds its recoverable amount.

Also with effect from 1 January 2005 and in accordance with HKFRS 3, if the fair value of the net assets acquired in a business combination exceeds the consideration paid (i.e. an amount arises which would have been known as negative goodwill under the previous accounting policy), the excess is recognised immediately in the income statement as it arises.

The new policy in respect of positive goodwill has been applied prospectively in accordance with the transitional arrangements under HKFRS 3. As a result, comparative amounts have not been restated and no amortisation charge for goodwill has been recognised in the income statement for the six months ended 30 June 2005. There was no cumulative amount of amortisation as at 1 January 2005.

The change in policy relating to negative goodwill had no effect on the interim financial report as there was no negative goodwill deferred as at 31 December 2004.

(c) Minority interests (HKAS 1, Presentation of financial statements and HKAS 27, Consolidated and separate financial statements)

In prior years, minority interests at the balance sheet date were presented in the consolidated balance sheet separately from liabilities and as deduction from net assets. Minority interests in the results of the Group for the year were also separately presented in the income statement as a deduction before arriving at the profit attributable to shareholders.

With effect from 1 January 2005, in order to comply with HKAS 1 and HKAS 27, minority interests at the balance sheet date are presented in the consolidated balance sheet within equity, separately from the equity attributable to the equity holders of the parent, and minority interests in the results of the Group for the period are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the period between the minority interests and the equity holders of the parent.

The presentation of minority interests in the consolidated balance sheet, income statement and statement of changes in equity for the comparative period has been restated accordingly.

4. SEGMENT REPORTING

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

	The People's Republic of China		**Overseas**		**Consolidated**	
For the six months ended	**2005**	2004	**2005**	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Turnover	**122,358**	183,399	**71,009**	21,811	**193,367**	205,210
Segment result	**21,318**	59,304	**19,069**	6,480	**40,387**	65,784
Unallocated operating income and expenses					**(18,054)**	(13,427)
Profit from operations					**22,333**	52,357

5. PROFIT BEFORE TAXATION

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

	Six months ended 30 June	
	2005	2004
	RMB'000	RMB'000
Interest on borrowings	**6,194**	2,186
Bank charges and other finance costs	**975**	1,088
Total borrowing costs	**7,169**	3,274
Less: borrowing costs capitalised into construction in progress	**(1,081)**	—
	6,088	3,274
Amortisation of land lease premium	**631**	—
Depreciation	**15,864**	15,106
Interest income	**85**	16

6. INCOME TAX

	Six months ended 30 June	
	2005	2004
	RMB'000	RMB'000
Current tax — Overseas	**—**	5,329
Deferred taxation	**218**	—
	218	5,329

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 periods presented.

Pursuant to the rules and regulations of Bermuda and British Virgin Islands, the Company and Success Castle Limited, a wholly-owned subsidiary of the Company, are not subject to any income tax in Bermuda and British Virgin Islands respectively.

Taxation for subsidiaries of the Group established in the People's Republic of China ("the PRC subsidiaries") was subject to a statutory PRC Enterprise Income Tax rate at 33%. The PRC subsidiaries are registered as foreign investment enterprise, 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 state 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.

7. DIVIDENDS

The Board of the Company does not recommend the payment of an interim dividend for the period (2004: Nil).

8. BASIC EARNINGS PER SHARE

The calculation of basic earnings per share for the six months ended 30 June 2005 is based on the profit attributable to equity holders of the parent of RMB16,027,000 and the weighted average number of 274,000,000 ordinary shares, after taken into account the 270,000,000 ordinary shares of the Company in issue as at the date of the Prospectus, as if the shares were outstanding throughout the six months ended 30 June 2005 and the issuance of 90,000,000 ordinary shares by placing and public offer on 23 June 2005.

The calculation of basic earnings per share for the six months ended 30 June 2004 was based on the profit attributable to equity holders of the parent of RMB37,164,000 and on the 270,000,000 ordinary shares of the Company in issue as at the date of the Prospectus, as if the shares were outstanding throughout the six months ended 30 June 2004.

The amount of diluted earnings per share is not presented as there were no dilutive potential ordinary shares in existence for both periods presented.

9. PROPERTY, PLANT AND EQUIPMENT

	Plant and buildings RMB'000	Machinery and equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:					
At 1 January 2005	124,065	259,491	1,118	10,295	394,969
Additions	2,263	720	182	98,983	102,148
Transfer in/(out)	1,596	483	—	(2,079)	—
At 30 June 2005	127,924	260,694	1,300	107,199	497,117
Accumulated depreciation:					
At 1 January 2005	(18,307)	(119,567)	(302)	—	(138,176)
Charge for the period	(1,945)	(13,880)	(39)	—	(15,864)
At 30 June 2005	(20,252)	(133,447)	(341)	—	(154,040)
Net book value:					
At 30 June 2005	107,672	127,247	959	107,199	343,077
At 31 December 2004	105,758	139,924	816	10,295	256,793

10. TRADE AND OTHER RECEIVABLES

	At 30 June 2005 RMB'000	At 31 December 2004 RMB'000
Total debtors and bills receivable	**26,364**	8,288
Prepayments, deposits and other receivables	**10,388**	8,199
Proceeds from international placing due from the underwriter	**102,848**	—
	139,600	16,487

All the debtors and bills receivable (net of impairment losses) are current in nature. Credit terms up to two months from the date of billing may be granted to customers, depending on credit assessment carried out by management on an individual customer basis.

11. AMOUNT DUE FROM AN IMMEDIATE HOLDING COMPANY

The amount due from an immediate holding company, First Fortune Enterprises Limited, was unsecured, non-interest bearing and was repaid during the six months ended 30 June 2005.

12. CASH AND CASH EQUIVALENTS

	At 30 June 2005 RMB'000	At 31 December 2004 RMB'000
Cash at bank and in hand	**143,256**	106,453
Time deposits	**16,710**	—
Cash and cash equivalents in the balance sheet and cash flow statement	**159,966**	106,453

13. TRADE AND OTHER PAYABLES

	At 30 June 2005 RMB'000	At 31 December 2004 RMB'000
Trade payable	**22,861**	22,760
Advances received from customers	**9,577**	18,260
Accrued charges and other payables	**86,537**	37,064
	118,975	78,084

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

An ageing analysis by maturities of trade and other payables is as follows:

	At 30 June 2005 RMB'000	At 31 December 2004 RMB'000
Due within 1 month or on demand	**104,192**	73,502
Due after 1 month but within 6 months	**4,423**	3,802
Due over 6 months	**10,360**	780
	118,975	78,084

14. AMOUNTS DUE TO IMMEDIATE AND INTERMEDIATE HOLDING COMPANIES

The amounts due to immediate and intermediate holding companies as at 31 December 2004 were unsecured and non-interest bearing. These amounts were either settled by cash or settled by the issuance of the Company's shares pursuant to the Reorganisation during the six months ended 30 June 2005.

15. AMOUNTS DUE TO OTHER RELATED COMPANIES

	At 30 June 2005 RMB'000	At 31 December 2004 RMB'000
Jiangsu Glass Group Company Limited	**54,015**	1,544
Suqian Stated-owned Assets Management Company Limited	**—**	1,544
Legend Holdings Limited	**—**	30
	54,015	3,118
Less: amounts repayable within one year	**(4,314)**	(3,118)
Amount repayable after one year	**49,701**	—

The amounts due to other related companies as at 31 December 2004 were unsecured, non-interest bearing and were settled during the six months ended 30 June 2005. The amount due to a related company as at 30 June 2005 is unsecured, bearing interest at a rate of 6.12% per annum and is repayable by monthly equal instalments from January 2005 to December 2014.

16. CAPITAL AND RESERVES

	Attributable to equity holders of the parent								
	Share capital RMB'000	**Share premium** RMB'000	**Capital reserve** RMB'000	**Statutory reserves** RMB'000	**Other reserve** RMB'000	**Retained profits** RMB'000	**Total** RMB'000	**Minority interests** RMB'000	**Total equity** RMB'000
				(Note (iii))					
At 1 January 2004	60,000	—	22,000	11,626	—	28,753	122,379	16,032	138,411
Profit for the period	—	—	—	—	—	37,164	37,164	6,590	43,754
At 30 June 2004	60,000	—	22,000	11,626	—	65,917	159,543	22,622	182,165
At 1 July 2004	60,000	—	22,000	11,626	—	65,917	159,543	22,622	182,165
Profit for the period	—	—	—	—	—	27,652	27,652	5,303	32,955
Transfer to reserves	—	—	—	16,851	—	(16,851)	—	—	—
Distributions to the then shareholders	—	—	—	—	—	(38,719)	(38,719)	—	(38,719)
Buy-out of minority interests	—	—	—	—	—	—	—	(27,925)	(27,925)
Issuance of shares	107	—	—	—	—	—	107	—	107
At 31 December 2004	60,107	—	22,000	28,477	—	37,999	148,583	—	148,583
At 1 January 2005	60,107	—	22,000	28,477	—	37,999	148,583	—	148,583
Profit for the period	—	—	—	—	—	16,027	16,027	—	16,027
Contributions from minority interests	—	—	—	—	—	—	—	9,900	9,900
Capitalisation issue (Note (i))	28,646	100,300	—	—	—	—	128,946	—	128,946
Issuance of shares by placing and public offer (Note (ii))	9,584	199,350	—	—	—	—	208,934	—	208,934
Share issue expenses	—	(25,210)	—	—	—	—	(25,210)	—	(25,210)
Equity movements arising from the Reorganisation	(60,001)	—	—	—	(68,570)	38,719	(89,852)	—	(89,852)
At 30 June 2005	38,336	274,440	22,000	28,477	(68,570)	92,745	387,428	9,900	397,328

Notes:

(i) Pursuant to the Reorganisation, as consideration for the acquisition of the entire issued share capital of Success Castle Limited, 7,341,000, 1,171,000 and 488,000 shares of HK$0.1 each were allotted and issued and credited as fully paid to First Fortune Enterprises Limited ("First Fortune"), Swift Glory Investments Limited ("Swift Glory") and Ample Best Holdings Limited ("Ample Best") respectively by way of capitalisation of the advances of approximately RMB108 million, RMB15 million and RMB6 million due to First Fortune, Swift Glory and Ample Best, respectively.

Pursuant to the resolutions passed by the shareholders of the Company at a special general meeting on 30 May 2005, 260,000,000 shares of HK$0.1 each were allotted and issued by way of capitalisation of RMB28 million standing to the credit of the share premium account of the Company.

(ii) On 23 June 2005, 90,000,000 additional ordinary shares of par value of HK$0.1 were issued and offered for subscription at a price of HK$2.18 per share upon the listing of the Company's shares on the Main Board of the Stock Exchange. The proceeds of HK$9,000,000 (equivalent to RMB9,584,000), representing the par value, were credited to the Company's share capital. The remaining proceeds of HK$187,200,000 (equivalent to RMB199,350,000) were credited to the share premium account.

(iii) In accordance with the articles of association of the PRC subsidiaries, the PRC subsidiaries of the Group were required to set up a general reserve fund and an enterprise expansion fund, which were non-distributable. The transfers of these reserves are at discretion of the directors of the PRC subsidiaries. The general reserve fund can only be used to make good of previous years' losses upon approval by the relevant authority. The enterprise expansion fund can only be used to increase their capital or to expand their production operations upon approval by the relevant authority.

17. CAPITAL COMMITMENTS

Capital commitments outstanding not provided for in the interim financial report were summarised as follows:

	At 30 June 2005 RMB'000	At 31 December 2004 RMB'000
Commitments in respect of land and buildings		
— contracted for	**5,018**	1,661
— authorised but not contracted for	**—**	94,673
	5,018	96,334
Commitments in respect of machinery and equipment		
— contracted for	**81,939**	38,821
— authorised but not contracted for	**45,472**	143,928
	127,411	182,749
Total commitments		
— contracted for	**86,957**	40,482
— authorised but not contracted for	**45,472**	238,601
	132,429	279,083

18. MATERIAL RELATED PARTY TRANSACTIONS

On 4 January 2005, the Group purchased the buildings and the land use rights for the related land it had previously leased from Jiangsu Glass Group Company Limited under operating leases. The amount of operating lease charges the Group paid for the land for the six months ended 30 June 2004 was RMB1,188,000.

The consideration for the land use rights is RMB56,076,000 and is repayable by 120 equal instalments within ten years. During the repayment period, the outstanding amount is bearing interest at a rate of 6.12% per annum. For the six months ended 30 June 2005, interest expenses of RMB1,690,000 incurred had been paid to Jiangsu Glass Group Company Limited.

The consideration for the building is RMB1,764,000 and has been paid to Jiangsu Glass Group Company Limited during the six months ended 30 June 2005.

Independent Review Report

Independent review report to the board of directors of
China Glass Holdings Limited

INTRODUCTION

We have been instructed by the Company to review the interim financial report set out on pages 3 to 21.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34, *Interim financial reporting* issued by the Hong Kong Institute of Certified Public Accountants. The interim financial report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

REVIEW WORK PERFORMED

We conducted our review in accordance with Statement of Auditing Standards 700, *Engagements to review interim financial reports* issued by the Hong Kong Institute of Certified Public Accountants. A review consists principally of making enquiries of group management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the interim financial report.

REVIEW CONCLUSION

On the basis of our review, which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 June 2005.

KPMG
Certified Public Accountants
Hong Kong, 26 September 2005

BUSINESS REVIEW

The Group is currently operating two flat glass production lines with a daily melting capacity of 900 tons. The Group's construction of the third production line was completed on 25 September 2005 and will be ready for production lit-up on 1 October 2005. The production capacity of the Group will expand by about two-thirds to a melting capacity of 1,500 tons daily.

According to the National Bureau of Statistics of the PRC, during the first half of 2005, China's production volume of flat glass was approximately 173 million weight cases, a period-on-period increase of approximately 14.5%. According to the China Association of Flat Glass Industry, sales/production ratio of 42 key flat glass enterprises in the PRC was approximately 95%, which was comparable to the level of the same period of last year.

During the first half of 2005, the Group's two flat glass production lines operated satisfactorily with a daily melting capacity of approximately 900 tons (2004: 900 tons). For the six months ended 30 June 2005, the Group produced approximately 2.96 million weight cases (2004: 3.00 million weight cases) of flat glass, or approximately 0.148 million tons (2004: 0.15 million tons), with sales/production ratio sustained in excess of approximately 96%. For the six months ended 30 June 2005, sales of flat glass amounted to approximately RMB193 million (2004: RMB205 million). During the first half of 2005 the Group sold approximately 2.84 million weight cases (2004: 3.00 million tons) of flat glass, or approximately 0.142 million tons (2004: 0.15 million tons). The Group's domestic sales of flat glass was approximately 1.92 million weight cases (2004: 2.70 million weight cases), or approximately 0.096 million tons (2004: 0.135 million tons), representing a decrease of approximately 28.9%. Domestic sales amounted to approximately RMB122 million, accounting for approximately 63.3% of total sales; and average selling price per weight case was approximately RMB63.7 (2004: RMB67.9 per weight case), representing a decrease of approximately 6.3%. During the first half of 2005, the Group continued to maintain substantial growth in export sales of products and sold approximately 0.921 million weight cases (2004: 0.305 million weight cases), or approximately 0.046 million tons (2004: 0.0153 million tons), representing a growth of approximately 202%. Export sales amounted to approximately RMB71.01 million (2004: RMB21.81 million), representing a growth of approximately 225.6%. Export sales accounted for approximately 36.7% of total sales and average export selling price per weight case was approximately RMB77.1 (2004: RMB71.5 per weight case), a growth of approximately 7.8%. Growth in export sales and selling prices reduced the unfavourable impact of the Group's fall of domestic selling price. Overall selling price of the Group's products fell by less than 1% over the same period of 2004 to approximately RMB68 per weight case.

The Group's cost of sales for the six months ended 30 June 2005 was approximately RMB153 million (2004: RMB139 million), representing an increase of approximately 9.7% over the same period of last year, which was primarily attributable to price hikes in soda ash, a key raw material for producing flat glass. Average cost of soda ash per tonne went up by approximately 42% from approximately RMB1,071 in the first half of 2004 to approximately RMB1,521 in the first half of 2005. Prices of fuel oil (a key fuel for producing flat glass) also maintained at high levels in this period. The Group's replacement of fuel oil with coal fuel products in one of its production lines at the end of last year showed satisfactory results with a decrease of approximately 9.3% in fuel costs over the same period of last year. In order to further control production costs and enhance profitability, the Group has replaced heavy oil with coal fuel products for another production line at the end of June 2005, it is expected that significant results will be achieved in the second half of 2005. For the six months ended 30 June 2005, production cost per weight case was RMB53.8, representing a period-on-period increase of approximately 16%.

FINANCIAL REVIEW

During the first half of 2005, the Group's gross margin was approximately 20.9%, compared with 32.1% for the same period of last year. Decrease in the Group's gross margin was primarily attributable to price hikes in heavy oil and soda ash. The Group's profit after tax for this period was approximately RMB16.03 million at a net profit margin of approximately 8.3%. Net profit for the same period of 2004 was approximately RMB43.75 million at a net profit margin of approximately 21.3%. Decreases in net profit was primarily attributable to the aforesaid price hikes in the raw materials of heavy oil and soda ash and the period-on-period fall in sales which led to declines in gross profit. The decrease in profit after taxation was also attributable to the increase in exports distribution cost, staff salary increment in June 2004 and increase in finance costs which arose the increase in bank loans in 2004.

CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2005, the Group's cash and cash equivalents were approximately RMB160 million (2004: RMB106 million) and outstanding bank loans were approximately RMB184 million (2004: RMB166 million). Gearing ratio (total loans divided by total equity) was approximately 46.40% (2004: 111.72%), the improvement of which was primarily attributable to the increases in total assets as a result of the proceeds from the listing. As at 30 June 2005, the Group's current ratio (current assets divided by current liabilities) was approximately 1.37 (2004: 0.99) and assets-liabilities ratio (total liabilities divided by total assets) was approximately 0.47 (2004: 0.66). Changes in those ratios were primarily attributable to the increases in total assets as a result of the proceeds from the listing.

The Group's current cash reserves and cash flows from ordinary operations are sufficient to meet its present day-to-day operating requirements. However, the Group will consider external fund raisings, if necessary, for business development. The Group will monitor the conditions of capital and debt markets and the status of its latest development carefully in order to ensure that its financial resources are utilised efficiently.

EXCHANGE RATE RISK AND RELATED HEDGING

The Group's sales transactions and monetary assets were primarily denominated in Hong Kong dollars, RMB and US dollars. Operating expenses and domestic sales of the Group's PRC subsidiaries were primarily denominated in RMB except that overseas sales income was in US dollars. Although the People's Bank of China had announced that, with effect from 21 July 2005, the PRC adopted the new floating exchange rate system with a 2% appreciation in RMB, the Group was of the opinion that it was a normal adjustment to the historical value of RMB and the future appreciation of RMB will closely associate with the development of the PRC economy. With the sustainable development of the domestic economy, RMB is expected to continue to appreciate. However, the Group considers that the possibility of a significant appreciation in the second half of 2005 is rather remote and therefore will not have a material impact on its export prices. In view of this, the Group considers it unnecessary to adopt derivatives for hedging purposes and will assess and monitor regularly the effects of foreign currency risks applicable to the Group.

OUTLOOK

Price hikes in raw materials, such as heavy oil and soda ash, will affect the marginal profitability of the flat glass industry. As stated in the "risk-factors" section of the Prospectus, increase in raw material and energy prices may negatively impact our profit margins. The Group is one of the few PRC flat glass production enterprises capable of replacing heavy oil with cheaper coal-processed fuel. The third production line of the Group will focus on producing thicker panels of glass of large specifications which will further complement its product range. As selling prices in the international market is more stable than that of the domestic market, the Group will continue to intensify its export efforts in order to alleviate the impacts of price hikes in raw materials and decreases in domestic selling prices.

Economic growth and development of the construction industry in the PRC will continue to sustain the robust growth in demands for flat glass. The scope of application for glass products will be broadened and continue to herald in new arenas of use. Since 2004, growth in production capacity of flat glass has been faster, but the PRC government continues to implement macroeconomic austerity measures will gradually slow down the growth in production capacity of flat glass, the issue of excess supply over demand will emerge. Accordingly, during this period of expected industry rationalisation, the Group will capitalise and continue to seek opportunities in order to achieve its strategy of accelerated development through mergers, acquisitions and restructurings.

The Board of Directors take pleasure in submitting their interim report together with the unaudited financial statements of the Company and the Group for the six months ended 30 June 2005.

INTERIM DIVIDEND

The Board does not recommend any interim dividend for the six months ended 30 June 2005 (2004: Nil).

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

As at 30 June 2005, the interests and/or short positions of the Directors and chief executive in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), or otherwise notified to the Company or the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

Name of Director	Company/name of associated corporation	Capacity	Number and class of securities(1)	Percentage of interest in such corporation in class
Zhou Cheng	The Company	Interest of a controlled corporation(2)	31,617,000 Shares (L)	8.78%
Liu Jinduo	The Company	Interest of a controlled corporation(3)	225,207,000 Shares (L)	62.56%
			85,500,000 Shares (S)(4)	23.75%
Liu Jinduo	First Fortune Enterprises Limited ("First Fortune")	Interest of a controlled corporation(5)	1 ordinary share (L)	100%
Liu Jinduo	Hony International Limited ("Hony International")	Interest of a controlled corporation(6)	6 ordinary shares (L)	60%
Liu Jinduo	Easylead Management Limited ("EML")	Beneficial owner	1 ordinary share (L)	33$\frac{1}{3}$ %

Name of Director	Company/name of associated corporation	Capacity	Number and class of securities[1]	Percentage of interest in such corporation in class
Liu Jinduo	Beijing Wanhang Best Joint Investment Adviser Ltd.	Interest of a controlled corporation[7]	680,000 ordinary shares (L)	85%
Liu Jinduo	Best Joint Investments Limited	Interest of a controlled corporation[8]	100 ordinary shares (L)	100%
Liu Jinduo	Brightway Enterprises Ltd.	Interest of a controlled corporation[9]	85 class L shares (L)	100%
Liu Jinduo	Grand Smart Management Limited	Interest of a controlled corporation[10]	1 ordinary share (L)	100%
Liu Jinduo	Kenmore Enterprises Holdings Ltd.	Interest of a controlled corporation[11]	1 ordinary share (L)	100%
Liu Jinduo	Kinluck Enterprises Ltd.	Interest of a controlled corporation[12]	1 ordinary share (L)	100%
Liu Jinduo	Milford Enterprises Holdings Ltd.	Interest of a controlled corporation[13]	1 ordinary share (L)	100%
Liu Jinduo	New Power Investments Inc.	Interest of a controlled corporation[14]	1 ordinary share (L)	100%
Liu Jinduo	Norisa Investments Inc.	Interest of a controlled corporation[15]	1 ordinary share (L)	100%
Liu Jinduo	Marketway Development Limited	Interest of a controlled corporation[16]	1 ordinary share (L)	100%
Liu Jinduo	Castle Power Holding Limited	Interest of a controlled corporation[17]	1 ordinary share (L)	100%
Liu Jinduo	Time Region Investments Limited	Interest of a controlled corporation[18]	1 ordinary share (L)	100%
Liu Jinduo	Huge Option Investments Limited	Interest of a controlled corporation[19]	1 ordinary share (L)	100%

Name of Director	Company/name of associated corporation	Capacity	Number and class of securities[1]	Percentage of interest in such corporation in class
Liu Jinduo	Newtone Limited	Interest of a controlled corporation[20]	2 ordinary shares (L)	100%
Liu Jinduo	Sino Express Limited	Interest of a controlled corporation[21]	2 ordinary shares (L)	100%
Liu Jinduo	Koway Investments Limited	Interest of a controlled corporation[22]	2 ordinary shares (L)	100%
Liu Jinduo	Pacific Crown Limited	Interest of a controlled corporation[23]	2 ordinary shares (L)	100%
Liu Jinduo	Rich Sunshine Limited	Interest of a controlled corporation[24]	2 ordinary shares (L)	100%
Liu Jinduo	Goldsco Investments Limited	Interest of a controlled corporation[25]	2 ordinary shares (L)	100%

Notes:

(1) The letters "L" and "S" denote the Director's long position and short position in such securities, respectively.

(2) These Shares are beneficially-owned by Swift Glory Investments Limited ("Swift Glory"), which is owned as to 90% by Zhou Cheng. He will be taken to be interested in these Shares by virtue of Part XV of the SFO.

(3) These Shares are beneficially-owned by First Fortune, the indirect subsidiary of EML. EML is owned as to one-third by each of Cao Zhijiang, Zhang Zuxiang and Liu Jinduo. Liu Jinduo will be taken to be interested in these Shares by virtue of Part XV of the SFO.

(4) Among these Shares, 13,500,000 Shares of which are the subject of the stock borrowing agreement between First Fortune and Guotai Junan Securities (Hong Kong) Limited; and 72,000,000 Shares of which are the subject of the first option granted by First Fortune in favour of Pilkington Italy Limited pursuant to an option agreement dated 3 June 2005.

(5) These shares are beneficially-owned by Hony International, a subsidiary of EML. EML is owned as to one-third by each of Cao Zhijiang, Zhang Zuxiang and Liu Jinduo. Liu Jinduo will be taken to be interested in these shares by virtue of Part XV of the SFO.

(6) These shares are beneficially-owned by EML. EML is owned as to one-third by each of Cao Zhijiang, Zhang Zuxiang and Liu Jinduo. Liu Jinduo will be taken to be interested in these shares by virtue of Part XV of the SFO.

(7) These shares are beneficially-owned by Hony International, a subsidiary of EML. EML is owned as to one-third by each of Cao Zhijiang, Zhang Zuxiang and Liu Jinduo. Liu Jinduo will be taken to be interested in these shares by virtue of Part XV of the SFO.

(8) These shares are beneficially-owned by Hony International, a subsidiary of EML. EML is owned as to one-third by each of Cao Zhijiang, Zhang Zuxiang and Liu Jinduo. Liu Jinduo will be taken to be interested in these shares by virtue of Part XV of the SFO.

(9) These shares are beneficially-owned by Best Joint Investments Limited, an indirect subsidiary of EML. EML is owned as to one-third by each of Cao Zhijiang, Zhang Zuxiang and Liu Jinduo. Liu Jinduo will be taken to be interested in these shares by virtue of Part XV of the SFO.

(10) These shares are beneficially-owned by Best Joint Investments Limited, an indirect subsidiary of EML. EML is owned as to one-third by each of Cao Zhijiang, Zhang Zuxiang and Liu Jinduo. Liu Jinduo will be taken to be interested in these shares by virtue of Part XV of the SFO.

(11) These shares are beneficially-owned by Brightway Enterprises Ltd., an indirect subsidiary of EML. EML is owned as to one-third by each of Cao Zhijiang, Zhang Zuxiang and Liu Jinduo. Liu Jinduo will be taken to be interested in these shares by virtue of Part XV of the SFO.

(12) These shares are beneficially-owned by Brightway Enterprises Ltd., an indirect subsidiary of EML. EML is owned as to one-third by each of Cao Zhijiang, Zhang Zuxiang and Liu Jinduo. Liu Jinduo will be taken to be interested in these shares by virtue of Part XV of the SFO.

(13) These shares are beneficially-owned by Brightway Enterprises Ltd., an indirect subsidiary of EML. EML is owned as to one-third by each of Cao Zhijiang, Zhang Zuxiang and Liu Jinduo. Liu Jinduo will be taken to be interested in these shares by virtue of Part XV of the SFO.

(14) These shares are beneficially-owned by Brightway Enterprises Ltd., an indirect subsidiary of EML. EML is owned as to one-third by each of Cao Zhijiang, Zhang Zuxiang and Liu Jinduo. Liu Jinduo will be taken to be interested in these shares by virtue of Part XV of the SFO.

(15) These shares are beneficially-owned by Brightway Enterprises Ltd., an indirect subsidiary of EML. EML is owned as to one-third by each of Cao Zhijiang, Zhang Zuxiang and Liu Jinduo. Liu Jinduo will be taken to be interested in these shares by virtue of Part XV of the SFO.

(16) These shares are beneficially-owned by Brightway Enterprises Ltd., an indirect subsidiary of EML. EML is owned as to one-third by each of Cao Zhijiang, Zhang Zuxiang and Liu Jinduo. Liu Jinduo will be taken to be interested in these shares by virtue of Part XV of the SFO.

(17) These shares are beneficially-owned by Brightway Enterprises Ltd., an indirect subsidiary of EML. EML is owned as to one-third by each of Cao Zhijiang, Zhang Zuxiang and Liu Jinduo. Liu Jinduo will be taken to be interested in these shares by virtue of Part XV of the SFO.

(18) These shares are beneficially-owned by Brightway Enterprises Ltd., an indirect subsidiary of EML. EML is owned as to one-third by each of Cao Zhijiang, Zhang Zuxiang and Liu Jinduo. Liu Jinduo will be taken to be interested in these shares by virtue of Part XV of the SFO.

(19) These shares are beneficially-owned by Brightway Enterprises Ltd., an indirect subsidiary of EML. EML is owned as to one-third by each of Cao Zhijiang, Zhang Zuxiang and Liu Jinduo. Liu Jinduo will be taken to be interested in these shares by virtue of Part XV of the SFO.

(20) These shares are beneficially-owned by Kenmore Enterprises Holdings Ltd., an indirect subsidiary of EML. EML is owned as to one-third by each of Cao Zhijiang, Zhang Zuxiang and Liu Jinduo. Liu Jinduo will be taken to be interested in these shares by virtue of Part XV of the SFO.

(21) These shares are beneficially-owned by Kinluck Enterprises Ltd., an indirect subsidiary of EML. EML is owned as to one-third by each of Cao Zhijiang, Zhang Zuxiang and Liu Jinduo. Liu Jinduo will be taken to be interested in these shares by virtue of Part XV of the SFO.

(22) These shares are beneficially-owned by Milford Enterprises Holdings Ltd., an indirect subsidiary of EML. EML is owned as to one-third by each of Cao Zhijiang, Zhang Zuxiang and Liu Jinduo. Liu Jinduo will be taken to be interested in these shares by virtue of Part XV of the SFO.

(23) These shares are beneficially-owned by New Power Investments Inc., an indirect subsidiary of EML. EML is owned as to one-third by each of Cao Zhijiang, Zhang Zuxiang and Liu Jinduo. Liu Jinduo will be taken to be interested in these shares by virtue of Part XV of the SFO.

(24) These shares are beneficially-owned by Norisa Investments Inc., an indirect subsidiary of EML. EML is owned as to one-third by each of Cao Zhijiang, Zhang Zuxiang and Liu Jinduo. Liu Jinduo will be taken to be interested in these shares by virtue of Part XV of the SFO.

(25) These shares are beneficially-owned by Marketway Development Limited, an indirect subsidiary of EML. EML is owned as to one-third by each of Cao Zhijiang, Zhang Zuxiang and Liu Jinduo. Liu Jinduo will be taken to be interested in these shares by virtue of Part XV of the SFO.

SUBSTANTIAL SHAREHOLDERS

So far as the Directors are aware, as at 30 June 2005, the interest and/or a short position of the persons, other than Directors and chief executive of the Company, in the Shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO were as follows:

The Company

Name	Capacity	Class and number of Shares(1)	Approximate percentage of shareholding
First Fortune	Beneficial owner	225,207,000 Shares (L) 85,500,000 Shares (S)(2)(3)	62.56% 23.75%
Hony International	Interest of a controlled corporation(4)	225,207,000 Shares (L) 85,500,000 Shares (S)(2)(3)	62.56% 23.75%
EML	Interest of a controlled corporation(5)	225,207,000 Shares (L) 85,500,000 Shares (S)(2)(3)	62.56% 23.75%
Right Lane Limited	Interest of a controlled corporation(5)	225,207,000 Shares (L) 85,500,000 Shares (S)(2)(3)	62.56% 23.75%
Cao Zhijiang	Interest of a controlled corporation(6)	225,207,000 Shares (L) 85,500,000 Shares (S)(2)(3)	62.56% 23.75%
Zhang Zuxiang	Interest of a controlled corporation(6)	225,207,000 Shares (L) 85,500,000 Shares (S)(2)(3)	62.56% 23.75%
Liu Jinduo	Interest of a controlled corporation(6)	225,207,000 Shares (L) 85,500,000 Shares (S)(2)(3)	62.56% 23.75%
Legend Holdings Limited(7)	Interest of a controlled corporation(8)	225,207,000 Shares (L) 85,500,000 Shares (S)(2)(3)	62.56% 23.75%

Name	Capacity	Class and number of Shares[1]	Approximate percentage of shareholding
Employees' Shareholding Society of Legend Holdings Limited	Interest of a controlled corporation[9]	225,207,000 Shares (L) 85,500,000 Shares (S)[2][3]	62.56% 23.75%
Swift Glory	Beneficial owner	31,617,000 Shares (L)	8.78%
Zhou Cheng	Interest of a controlled corporation[10]	31,617,000 Shares (L)	8.78%
Pilkington plc[11]	Interest of a controlled corporation	72,000,000 Shares (L)	20%
Pilkington Brothers Limited[12]	Interest of a controlled corporation	72,000,000 Shares (L)	20%
Pilkington Italy Limited[13]	Beneficial owner	72,000,000 Shares (L)	20%

Notes:

(1) The letters "L" and "S" denote the person's long position and short position in such securities, respectively.

(2) 13,500,000 Shares of which are the subject of the stock borrowing agreement between First Fortune and Guotai Junan Securities (Hong Kong) Limited.

(3) 72,000,000 Shares of which are the subject of the first option granted by First Fortune in favour of Pilkington Italy Limited pursuant to an option agreement dated 3 June 2005.

(4) First Fortune is a wholly-owned subsidiary of Hony International. Hony International will be taken to be interested in these Shares by virtue of Part XV of the SFO.

(5) Hony International is owned as to 60% by EML and 40% by Right Lane Limited. EML and Right Lane Limited will be taken to be interested in these Shares by virtue of Part XV of the SFO.

(6) EML is owned as to one-third by each of Cao Zhijiang, Zhang Zuxiang and Liu Jinduo. Each of them will be taken to be interested in these Shares by virtue of Part XV of the SFO.

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

(8) These Shares are beneficially held by Right Lane Limited, a direct wholly-owned subsidiary of Legend Holdings Limited.

(9) Employees' Shareholding Society of Legend Holdings Limited is an equity holder of Legend Holdings Limited which in turn wholly owns Right Lane Limited. It will therefore be taken to be interested in these Shares by virtue of Part XV of the SFO.

(10) Swift Glory is owned as to 90% by Zhou Cheng. Zhou Cheng will be taken to be interested in these Shares by virtue of Part XV of the SFO.

(11) Pilkington plc is a UK listed company.

(12) Pilkington Brothers Limited is a direct subsidiary of Pilkington plc.

(13) Pilkington Italy Limited is a company incorporated in England and a wholly-owned direct subsidiary of Pilkington Brothers Limited. It has an option to acquire 20% of the enlarged capital of the Company pursuant to an option agreement dated 3 June 2005.

CHARGE ON ASSETS

The Group had not charged any of its assets in the first half of 2005.

CAPITAL COMMITMENTS

Details of the Group's capital commitments are set out in Note 17 to the unaudited interim financial report.

CONTINGENT LIABILITIES

There was no significant contingent liabilities of the Group as at 30 June 2005.

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 2005, 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 2005, the Group had employed about 1,380 employees in the PRC and Hong Kong (30 June 2004: about 1,370 employees). According to the relevant market situation, employee's remuneration level had maintained in a competitive level, and also corresponds with their performance.

MATERIAL ACQUISITION OR DISPOSAL

Save as disclosed in the Prospectus, the Company had not made any material acquisition or disposal during the reporting period.

SUBSEQUENT EVENTS

There was no significant subsequent event.

AUDIT COMMITTEE

The audit committee of the Company comprises three non-executive Directors, two of whom are independent. The current committee members are Mr. Wong Wai Ming (Chairman), Mr. Song Jun and Mr. Zhao John Huan. The audit committee has reviewed with the Company's management and the external auditors the accounting principles and practices adopted by the Company and discussed auditing, internal control and financial report matters including the review of the unaudited interim financial report for the six months ended 30 June 2005.

INVESTOR RELATIONS AND COMMUNICATIONS

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

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the Board, save as disclosed below, 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 2005.

Under Code Provisions B.1.4 and C.3.4 of the CCGP, the Company should make available the terms of reference of its remuneration committee and audit committee on request and by including the information on its website. Since the Company has not yet established its own website, the above requirement with regard to providing such information on a website cannot be met accordingly. However, the terms of reference of the two committees are available on request.

COMPLIANCE WITH THE MODEL CODE

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as the Company's code of conduct regarding dealings in the securities of the Company. Having made specific enquiry of all Directors, the Company confirms that the Directors had strictly complied with the Model Code during this reporting period.

By order of the Board
Zhao John Huan
Chairman

Hong Kong, 26th September 2005