

Chairman's Statement



TO ALL SHAREHOLDERS

I am pleased to present the annual results of Zhejiang Glass Company, Limited (the "Company") and its subsidiaries (together, the "Group") for the year ended 31 December 2005.

The bright outlook for the market enticed a new wave of investments to flow into the glass industry from 2003. During 2004 and 2005, 47 new float flat glass production lines came into commercial operation, bringing the national total to 143 production lines by the end of 2005. The aggressive expansion has led to overcapacity and intense competition in 2005. In particular, the selling price of the mainstream products, 4mm to 8mm regular flat glass commonly used in the construction industry, fell by around 20% during the year.

Moreover, the costs of soda ash (the key raw material) and heavy oil (the fuel), surged respectively in 2004 and 2005, and remained high in 2005, further bringing down the profitability of the glass industry.

Despite the difficult industry conditions, the Group was able to mitigate the adverse impact by diversifying into higher margin products such as ultra-thin glass for automotive and electronics industries. As a result, the average selling price of the Group's flat glass products dropped as compared with 2004 by only about 9% to RMB70 per weight case. The Group recorded a net profit of RMB74.1 million in 2005, compared with RMB205.0 million in 2004. The Group's flat glass production capacity in 2005 remained the same as in 2004.

It is estimated that about 29 new float flat glass production lines will become operational in the People's Republic of China (the "PRC" or "China") in 2006 and 2007.

In the short term, we expect overcapacity and high production costs to persist in the country's glass industry.

In the year under review, we realized vertical integration by bringing the soda ash plant of Qinghai Soda Ash Company Limited ("Qinghai Soda Ash") into commercial operation. The soda ash business will ensure the Group a stable supply of the key raw material of standard quality for glass production. Moreover, the soda ash business will enlarge our income stream by selling its output to other glass makers and manufacturers of detergents, alumina and monosodium glutamate.

Chairman's Statement (cont'd)



The first phase of the soda ash plant which has an annual production capacity of 900,000 tonnes is expected to reach its full capacity in the second quarter of 2006.



In December 2005, Qinghai Soda Ash convened its first customer order-placing meeting, where it secured from clients letters of intent for purchasing a total of 1.2 million tonnes of soda ash for 2006. The responses indicated a promising return for the soda ash business's future.

Qinghai Soda Ash will capitalize on its economy of scale and proximity to natural resources to perform well in the industry. The soda ash business is expected to become the Group's key growth driver and major income source in the future.

Although the diversification into the soda ash business has pushed up the Group's gearing ratio, I am confident that the investment will pay off in the long term and enable the Company to realize good returns to its shareholders.

APPRECIATION

On behalf of the board of directors, I would like to express heartfelt gratitude to our shareholders, investors and customers for their support, and also to our staff for their diligence.

Feng Guangcheng
Chairman

27 April 2006