



Dear Shareholders,

In 2006 the Group adhered to its long-run development strategy of organic growth and merger & acquisition. In the area of organic growth, we have set up our second coal-fired production line for float glass in Shaanxi for cost-saving purposes, and a production line for ultra clear glass for solar cell in Taicang, Jiangsu Province jointly with Pilkington International Holdings BV ("Pilkington International"). In the area of merger & acquisition, the Group has completed two very substantial acquisitions, namely, the acquisitions of Shaanxi Blue Star Glass Co., Ltd. ("Shaanxi Blue Star") and Beijing Qinchang Glass Co., Ltd. ("Beijing Qinchang"). In late 2006, the Group also obtained approval from the Shareholders' General Meeting for the acquisitions of Weihai Blue Star Glass Co., Ltd. ("Weihai Blue Star"), Zhongbo Technology Co., Ltd. ("Zhongbo Technology"), Hangzhou Blue Star New Materials Technology Co., Ltd. ("Hangzhou Blue Star") and the additional investment in Shaanxi Blue Star. Upon the completion of these four acquisitions on 9 March 2007, the Company will become the largest flat glass listed companies in the PRC in terms of total melting capacity, as well as the glass manufacturers with the most comprehensive range of products, the largest export volume, a premier technological research and development team and a comparatively favorable geographical coverage, thus bringing forward the Group's business to a great extent.

Looking back into 2006, we have witnessed an oversupply in the PRC glass market due to a surge in production capacity, and ongoing low prices of glass products caused by keen competition among glass manufacturers much too scattered around the country. Meanwhile, the price hike in heavy oil has boosted the cost of sales and the consequential loss suffered by the glass industry on the whole.

The Company has been seeking development opportunities through mergers & acquisitions in the down cycle of the glass industry. Thanks to a series of acquisitions, the Company has successfully enhanced its competitive strength.

Last but not least, I, on behalf of the board of directors of the Company (the "Board"), would like to express my gratitude to all our shareholders, as well as our loyal and diligent employees for their support to the Group. My heartfelt gratitude would also extend to all our customers, cooperation partners, suppliers and principal bankers for their confidence and trust in the Group.

Zhao John Huan

Chairman

30 March 2007