

Chairman's Statement



TO ALL SHAREHOLDERS

I am pleased to announce the annual results of Zhejiang Glass Company, Limited (the "Company") and its subsidiaries (together, the "Group") for the year ended 31 December 2006 (the "Year").

Year 2006 was a challenging year for the flat glass industry and the Group as the market had to tackle the excess of the production capacity, due to rapid expansion in 2004 and 2005. The overcapacity triggered a decline in flat glass price and, coupled with the high fuel cost, left almost the entire glass industry of China with a loss. The average selling price of the Group's mainstream products for the construction sector fell sharply in the first quarter of 2006, but rebounded and stabilized at a reasonable level in the second half of the year. This came about after the Association of the Glass Industry agreed on a price rise of flat glass products and the industry output reduction. The expansion of glass production capacity also showed a sign of slowing down. We believe the glass industry has been recovering from the trough of the industry cycle.

For the Year, the Group recorded a net loss of about RMB57.0 million against the net profit of RMB74.1 million in 2005. The loss was due to a significant decrease in average selling price of flat glass which was triggered by overcapacity in the glass industry. The significant increase in amortisation and

depreciation charge attributable to the Group's soda ash plant also led to the loss. The soda ash plant began commercial production in mid-December of 2005 and had not yet reached full production capacity in 2006 to yield sufficient revenue to offset the amortisation, depreciation charge and related finance charges. Despite these factors, the Group recorded a net cash inflow of about RMB451 million from operations. Turnover rose by 28% to RMB1,521 million as the soda ash business began making revenue contribution in 2006.

To cope with the challenge, the Group has diversified the risks associated with the cycle of the flat glass industry by branching out into soda ash production. Soda ash is a key material in producing glass and various other products, including detergents, alumina and monosodium glutamate. The Group also broadened the glass product range to include high-value added products in demand such as ultra-thin glass for electronics industry and energy-saving low-emission glass for outer-walls of buildings.

The Group's soda ash business began commercial production towards the end of 2005 and overcame teething technical problems in 2006. It started making revenue contribution in the year 2006, boosting the Group's income. The operation generated RMB433 million in revenue, accounting for about 29% of the

Group's turnover. The soda ash business is expected to benefit the Group's glass production with stable supply of quality raw material. It can also enlarge the Group's income stream by sales to other glass makers and other industries. The soda ash business is in smooth operation now after overcoming the transportation problems in 2006. The supply and demand in China's soda ash market was basically balanced in the year. We expect that the soda ash business will help improve the Group's earnings since it has already reached full production capacity in the beginning of 2007.

In November 2006, the Group commenced trial production of its sixth float flat glass production line, which makes ultra-thin glass of 1.1 mm or below in thickness. The new production line will help satisfy the keen domestic demand for such products, which are mainly used in electronic goods. Since China's demand for ultra-thin glass has been mainly satisfied by imports, there is great market potential for the domestically-made products of similar quality at a lower price. The ultra-thin glass business is expected to become another growth driver of the Group.

The PRC government's measures to control over-investment in certain sectors and to better protect the environment will limit the growth in production capacity of certain industries such as flat glass and soda ash production.

The National Development and Reform Commission and other authorities have directed that China's flat glass production capacity be limited to 550 million weight cases per year during the "Eleventh Five-year Plan" (2006-2010). They also required that 40% of the national flat glass output be processed into higher-

value added products, representing an increase from the present rate of 25%. Energy consumption in production is also to be decreased by 20%.

The more stringent environmental protection requirements are also expected to significantly increase the barrier to new entrants to the soda ash industry.

The Group believes the government measures under the "Eleventh Five-year Plan" would effectively control the growth in production capacity and result in a more balanced supply-demand relation in the market for flat glass.

The Group's diversification into production of soda ash and processed glass is expected to pay off and bring good returns to its shareholders as China continues its robust economic growth and the capacity expansion problem is expected to be put under control.

APPRECIATION

On behalf of the board ("Board") of directors of the Company ("Directors"), I would like to express the most sincere gratitude to our shareholders, customers and suppliers for their support to the Group. I am also very grateful to our diligent and dedicated staff, who have contributed to the progress of the Group.

Feng Guangcheng
Chairman

27 April 2007

