# 07
# Interim report

**CHINA GLASS HOLDINGS LIMITED**

中國玻璃控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code : 3300)

* For identification purposes only

# Contents

# Corporate Information

## BOARD OF DIRECTORS

### Executive Directors

Mr. Zhou Cheng *(Chairman)*
Mr. Zhang Zhaoheng *(Chief Executive Officer)*
(Appointed on 16 March 2007)
Mr. Li Ping
Mr. Cui Xiangdong (Appointed on 16 March 2007)

### Non-Executive Directors

Mr. Zhao John Huan
Mr. Liu Jinduo
Mr. Eddie Chai
Mr. Guo Wen (Appointed on 16 March 2007)

### Independent Non-Executive Directors

Mr. Song Jun
Mr. Sik Siu Kwan
Mr. Zhang Baiheng

## SENIOR MANAGEMENT

Mr. Lu Guo
Mr. Ge Yankai
Mr. Yang Hongfu
Mr. Cheng Xin
Mr. Lau Ying Kit *(Qualified Accountant and Company Secretary)*
Mr. Wang Jianxun

## AUDIT COMMITTEE

Mr. Sik Siu Kwan *(Chairman)*
Mr. Song Jun
Mr. Zhao John Huan

## REMUNERATION COMMITTEE

Mr. Zhao John Huan *(Chairman)*
Mr. Song Jun
Mr. Sik Siu Kwan

## 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 REGISTRAR AND TRANSFER OFFICE

Reid Management Limited
Argyle House
41a Cedar Avenue
Hamilton HM12
Bermuda

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
46 Floor, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

## LEGAL ADVISORS

*As to Hong Kong Law*
Norton Rose

*As to the People's Republic of China (the "PRC") Law*
Commerce & Finance

*As to Bermuda and British Virgin Islands Laws*
Appleby Spurling Hunter

*As to Cayman Islands Law*
Walkers SPV Limited

## PRINCIPAL BANKERS

Standard Chartered Bank
Industrial and Commercial Bank of China
Bank of Communications
Bank of China
China Bohai Bank
Agricultural Bank of China
Weihai Commercial Bank
Industrial Bank
Huaxia Bank
China Merchants Bank
Shenzhen Development Bank

## AUDITORS

KPMG
Certified Public Accountants

## INVESTOR RELATIONS CONSULTANT

Strategic Financial Relations (China) Limited

## STOCK CODE

Hong Kong Stock Exchange 3300

# Consolidated income statement

for the six months ended 30 June 2007 - unaudited

(Expressed in Renminbi ("RMB"))

| | Note | Six months ended 30 June 2007 RMB'000 | Six months ended 30 June 2006 RMB'000 |
|---|---|---|---|
| **Turnover** | 3 | **883,023** | 220,284 |
| Cost of sales | | **(750,483)** | (226,948) |
| **Gross profit/(loss)** | | **132,540** | (6,664) |
| Other revenue | | **6,103** | 1,190 |
| Other net loss | | **(4,407)** | (339) |
| Distribution costs | | **(33,220)** | (9,314) |
| Administrative expenses | | **(64,157)** | (11,756) |
| **Profit/(loss) from operations** | 3 | **36,859** | (26,883) |
| Excess of the net fair value of the acquired net assets over cost | 21 | **26,071** | — |
| Gain from issuance of shares by subsidiaries | 22 | **5,646** | — |
| Finance costs | 4 | **(36,646)** | (7,015) |
| **Profit/(loss) before taxation** | 4 | **31,930** | (33,898) |
| Income tax | 5 | **11,514** | 4,479 |
| **Net profit/(loss) for the period** | | **43,444** | (29,419) |
| **Attributable to:** | | | |
| Equity shareholders of the Company | 20 | **48,182** | (28,833) |
| Minority interests | 20 | **(4,738)** | (586) |
| **Net profit/(loss) for the period** | | **43,444** | (29,419) |
| Basic and diluted earnings/(loss) per share (RMB) | 7 | **0.13** | (0.08) |

The notes on pages 8 to 33 form part of this interim financial report.

# Consolidated balance sheet

at 30 June 2007 - unaudited

(Expressed in RMB)

| | Note | At 30 June 2007 RMB'000 | At 31 December 2006 RMB'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 8 | **1,958,160** | 843,687 |
| Lease prepayments | 9 | **299,048** | 109,108 |
| Intangible assets | 10 | **120,244** | — |
| Interests in associates | | **38,854** | 9,815 |
| Available-for-sale investment | | **1,000** | — |
| Goodwill | 11 | **14,113** | 14,113 |
| Deferred tax assets | 19 | **46,139** | 11,150 |
| | | **2,477,558** | 987,873 |
| **Current assets** | | | |
| Inventories | 12 | **321,710** | 91,869 |
| Trade and other receivables | 13 | **483,405** | 214,217 |
| Cash and cash equivalents | 14 | **265,759** | 67,275 |
| | | **1,070,874** | 373,361 |
| **Current liabilities** | | | |
| Trade and other payables | 15 | **1,274,208** | 330,915 |
| Bank and other loans | 16 | **755,111** | 266,100 |
| Income tax payable | | **6,727** | 837 |
| | | **2,036,046** | 597,852 |
| **Net current liabilities** | | **(965,172)** | (224,491) |
| **Total assets less current liabilities** | | **1,512,386** | 763,382 |

The notes on pages 8 to 33 form part of this interim financial report.

# Consolidated balance sheet (continued)

at 30 June 2007 - unaudited

(Expressed in RMB)

| | Note | At 30 June 2007 RMB'000 | At 31 December 2006 RMB'000 |
|---|---|---|---|
| **Non-current liabilities** | | | |
| Bank and other loans | 16 | **112,018** | 155,000 |
| Amounts due to related companies | 17 | **120,491** | 41,387 |
| Convertible notes | 18 | **—** | 34,267 |
| Deferred tax liabilities | 19 | **70,946** | 10,004 |
| | | **303,455** | 240,658 |
| **NET ASSETS** | | **1,208,931** | 522,724 |
| **CAPITAL AND RESERVES** | | | |
| Share capital | 20 | **43,856** | 38,336 |
| Reserves | 20 | **535,151** | 359,980 |
| **Total equity attributable to equity shareholders of the Company** | | **579,007** | 398,316 |
| **Minority interests** | 20 | **629,924** | 124,408 |
| **TOTAL EQUITY** | | **1,208,931** | 522,724 |

The notes on pages 8 to 33 form part of this interim financial report.

# Consolidated statement of changes in equity

for the six months ended 30 June 2007 - unaudited

(Expressed in RMB)

| | | Six months ended 30 June | |
|---|---|---|---|
| | | **2007** | 2006 |
| | ***Note*** | **RMB'000** | RMB'000 |
| Total equity at 1 January | | **522,724** | 398,063 |
| Issuance of shares | | **146,134** | — |
| Contributions from minority interests | | **77,190** | — |
| Increase in minority interests through acquisitions of subsidiaries and minority interests | | **309,666** | — |
| Issuance of convertible notes | | **33,203** | — |
| Increase in minority interests through conversion of convertible notes | | **76,397** | — |
| Net profit/(loss) for the period | | **43,444** | (29,419) |
| Dividends approved during the period | 6(b) | **—** | (4,824) |
| Exchange differences on translation into presentation currency | | **173** | (614) |
| Total equity at 30 June | | **1,208,931** | 363,206 |

The notes on pages 8 to 33 form part of this interim financial report.

# Condensed consolidated cash flow statement

for the six months ended 30 June 2007 - unaudited

(Expressed in RMB)

| | Six months ended 30 June | |
|---|---|---|
| | **2007** | 2006 |
| | **RMB'000** | RMB'000 |
| Cash generated from operations | **76,484** | 12,612 |
| PRC income tax paid | **(437)** | (91) |
| Net cash generated from operating activities | **76,047** | 12,521 |
| Net cash used in investing activities | **(174,219)** | (33,143) |
| Net cash generated from/(used in) financing activities | **297,362** | (10,454) |
| Net increase/(decrease) in cash and cash equivalents | **199,190** | (31,076) |
| Cash and cash equivalents at 1 January | **67,275** | 113,585 |
| Effect of foreign exchange rate changes | **(706)** | (960) |
| Cash and cash equivalents at 30 June | **265,759** | 81,549 |

The notes on pages 8 to 33 form part of this interim financial report.

# Notes to the unaudited interim financial report

(Expressed in RMB unless otherwise indicated)

## 1 CORPORATE INFORMATION

China Glass Holdings Limited (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). The shares of the Company were listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 23 June 2005. The condensed consolidated interim financial statements of the Company as at and for the six months ended 30 June 2007 comprise the Company and its subsidiaries (collectively referred to as the "Group") and the Group's interests in associates. The Group is principally involved in the production, marketing and distribution of glass and glass products, and the development of glass production technology.

## 2 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 ("HKICPA"). It was authorised for issuance on 14 September 2007.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2006 annual financial statements.

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 2006 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. KPMG's independent review report to the Board of Directors (the "Directors") of the Company is included on page 34.

The financial information relating to the financial year ended 31 December 2006 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 2006 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 16 March 2007.

## 3 SEGMENT REPORTING

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

| For the six months ended 30 June | The People's Republic of China (the "PRC") | | Overseas | | Consolidated | |
|---|---|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 | **2007** | 2006 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Turnover | **546,032** | 136,839 | **336,991** | 83,445 | **883,023** | 220,284 |
| Segment results | **69,449** | (17,844) | **38,816** | 5,346 | **108,265** | (12,498) |
| Unallocated operating income and expenses | | | | | **(71,406)** | (14,385) |
| Profit/(loss) from operations | | | | | **36,859** | (26,883) |

## 4 PROFIT/(LOSS) BEFORE TAXATION

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

| | Six months ended 30 June | |
|---|---|---|
| | **2007** | 2006 |
| | **RMB'000** | RMB'000 |
| **Finance costs:** | | |
| Interest on bank advances and other borrowings | **30,445** | 6,777 |
| Finance charges on convertible notes | **1,559** | 87 |
| Bank charges and other finance costs | **5,790** | 410 |
| Total borrowing costs | **37,794** | 7,274 |
| Less: amounts capitalised | **(1,148)** | (259) |
| | **36,646** | 7,015 |
| **Staff costs:** # | | |
| Salaries, wages and other benefits | **51,206** | 11,767 |
| Contributions to defined contribution retirement plans | **6,582** | 1,848 |
| | **57,788** | 13,615 |

## 4 PROFIT/(LOSS) BEFORE TAXATION (continued)

| | Six months ended 30 June | |
|---|---|---|
| | **2007** | 2006 |
| | **RMB'000** | RMB'000 |
| **Other items:** | | |
| Cost of inventories # | **750,483** | 226,948 |
| Operating lease charges in respect of # | | |
| — land | **364** | 48 |
| — plant and buildings | **1,003** | 250 |
| — motor vehicles | **418** | — |
| Depreciation and amortisation # | **70,779** | 21,363 |
| Net loss on disposal of property, plant and equipment | **26** | 5 |
| Interest income | **4,967** | 1,148 |
| Net foreign exchange loss | **3,569** | 327 |

\# Cost of inventories includes RMB92.7 million (six months ended 30 June 2006: RMB26.0 million) for the six months ended 30 June 2007, 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 | |
|---|---|---|
| | **2007** | 2006 |
| | **RMB'000** | RMB'000 |
| Provision for PRC income tax on the estimated taxable profits for the period | **3,142** | — |
| Deferred taxation (Note 19) | **(14,656)** | (4,479) |
| | **(11,514)** | (4,479) |

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 six months ended 30 June 2007.

The Company and its subsidiaries incorporated in countries other than the PRC and Hong Kong are not subject to any income tax pursuant to the rules and regulations of their respective countries of incorporation.

## 5 INCOME TAX (continued)

The subsidiaries of the Group established in the PRC were subject to PRC Enterprise Income Tax rate ranging from 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, these PRC subsidiaries obtained approval from the 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 ("new tax law") which will take effect on 1 January 2008. According to the new tax law, the applicable income tax rate of certain subsidiaries of the Group established in the PRC will change from 33% to 25% with effect on 1 January 2008. As a result of the new tax law, the deferred tax assets and deferred tax liabilities as at 30 June 2007 have decreased by RMB6.1 million and RMB17.0 million, respectively. These changes have been reflected in this interim financial report.

## 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 2007 (six months ended 30 June 2006: RMBNil).

### (b) Dividends attributable to the previous financial year

The Directors of the Company did not recommend the payment of a final dividend for the year ended 31 December 2006 (year ended 31 December 2005: HK$0.013 per share (equivalent to RMB0.0134 per share)).

## 7 EARNINGS/(LOSS) PER SHARE

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

The calculation of basic earnings per share for the six months ended 30 June 2007 is based on the net profit attributable to equity shareholders of the Company of RMB48,182,000 (six months ended 30 June 2006: net loss attributable to equity shareholders of the Company of RMB28,833,000) and the weighted average number of 379,878,000 (six months ended 30 June 2006: 360,000,000) ordinary shares in issue during the six months ended 30 June 2007.

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

There were no dilutive potential ordinary shares as at 30 June 2006 and 2007.

## 8 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 2006 | 179,687 | 479,186 | 1,759 | 719 | 661,351 |
| Additions | 1,236 | 3,236 | 411 | 87,129 | 92,012 |
| Additions through acquisitions of subsidiaries | 146,946 | 260,004 | 3,913 | 7,255 | 418,118 |
| Transfer in/(out) | 23,403 | 51,959 | — | (75,362) | — |
| Disposals | — | (55,140) | (156) | — | (55,296) |
| At 31 December 2006 | 351,272 | 739,245 | 5,927 | 19,741 | 1,116,185 |
| **Accumulated depreciation:** | | | | | |
| At 1 January 2006 | 22,370 | 144,023 | 278 | — | 166,671 |
| Additions through acquisitions of subsidiaries | 23,322 | 88,979 | 1,425 | — | 113,726 |
| Charge for the year | 6,531 | 39,692 | 243 | — | 46,466 |
| Written back on disposals | — | (54,234) | (131) | — | (54,365) |
| At 31 December 2006 | 52,223 | 218,460 | 1,815 | — | 272,498 |
| **Net book value:** | | | | | |
| At 31 December 2006 | 299,049 | 520,785 | 4,112 | 19,741 | 843,687 |
| **Cost:** | | | | | |
| At 1 January 2007 | 351,272 | 739,245 | 5,927 | 19,741 | 1,116,185 |
| Additions | 467 | 2,758 | 320 | 161,775 | 165,320 |
| Additions through acquisitions of subsidiaries | 501,157 | 874,920 | 9,226 | 32,014 | 1,417,317 |
| Transfer in/(out) | 13,417 | 19,826 | — | (33,243) | — |
| Disposals | — | (6,106) | (301) | — | (6,407) |
| At 30 June 2007 | 866,313 | 1,630,643 | 15,172 | 180,287 | 2,692,415 |
| **Accumulated depreciation:** | | | | | |
| At 1 January 2007 | 52,223 | 218,460 | 1,815 | — | 272,498 |
| Additions through acquisitions of subsidiaries | 104,821 | 293,793 | 2,454 | — | 401,068 |
| Charge for the period | 11,724 | 52,834 | 854 | — | 65,412 |
| Written back on disposals | — | (4,547) | (176) | — | (4,723) |
| At 30 June 2007 | 168,768 | 560,540 | 4,947 | — | 734,255 |
| **Net book value:** | | | | | |
| At 30 June 2007 | 697,545 | 1,070,103 | 10,225 | 180,287 | 1,958,160 |

As at 30 June 2007, property certificates of certain properties with an aggregate net book value of RMB319.7 million (31 December 2006: RMB139.3 million) are yet to be obtained.

## 9 LEASE PREPAYMENTS

| | RMB'000 |
|---|---|
| **Cost:** | |
| At 1 January 2006 | 58,319 |
| Additions through acquisitions of subsidiaries | 54,958 |
| At 31 December 2006 | 113,277 |
| **Accumulated amortisation:** | |
| At 1 January 2006 | 1,261 |
| Additions through acquisitions of subsidiaries | 1,481 |
| Charge for the year | 1,427 |
| At 31 December 2006 | 4,169 |
| **Net book value:** | |
| At 31 December 2006 | 109,108 |
| **Cost:** | |
| At 1 January 2007 | 113,277 |
| Additions through acquisitions of subsidiaries | 199,038 |
| At 30 June 2007 | 312,315 |
| **Accumulated amortisation:** | |
| At 1 January 2007 | 4,169 |
| Additions through acquisitions of subsidiaries | 6,302 |
| Charge for the period | 2,796 |
| At 30 June 2007 | 13,267 |
| **Net book value:** | |
| At 30 June 2007 | 299,048 |

Lease prepayments represented land use right premiums paid by the Group for land situated in the PRC. As at 30 June 2007, land use right certificates of certain land use rights with an aggregate carrying value of RMB61.8 million (31 December 2006: RMB32.3 million) are yet to be obtained.

## 10 INTANGIBLE ASSETS

| | Intellectual property RMB'000 |
|---|---|
| **Cost:** | |
| At 1 January and 31 December 2006 | — |
| Additions through acquisition of a subsidiary | 123,739 |
| At 30 June 2007 | 123,739 |
| **Accumulated amortisation:** | |
| At 1 January and 31 December 2006 | — |
| Additions through acquisition of a subsidiary | 924 |
| Charge for the period | 2,571 |
| At 30 June 2007 | 3,495 |
| **Net book value:** | |
| At 31 December 2006 | — |
| At 30 June 2007 | 120,244 |

## 11 GOODWILL

| | RMB'000 |
|---|---|
| **Cost:** | |
| At 1 January 2006, 31 December 2006 and 30 June 2007 | 14,113 |
| **Accumulated impairment loss:** | |
| At 1 January 2006, 31 December 2006 and 30 June 2007 | — |
| **Carrying amount:** | |
| At 31 December 2006 and 30 June 2007 | 14,113 |

## 11 GOODWILL (continued)

Goodwill is allocated to the following cash generating unit of the Group:

| | At 30 June 2007 RMB'000 | At 31 December 2006 RMB'000 |
|---|---|---|
| The second glass production line of Jiangsu SHD New Materials Company Limited ("Jiangsu SHD") (Note) | **14,113** | 14,113 |

*Note:*

During the year ended 31 December 2004, Jiangsu SHD acquired the remaining 20% equity interests in Suqian Huaxing New Building Materials Company Limited ("Suqian Huaxing") from Jiangsu Glass Group Company Limited for a consideration of RMB49.8 million. The excess of the cost of purchase over the net fair value of Suqian Huaxing's identifiable assets and liabilities was RMB14.1 million, which was recorded as goodwill and allocated to Suqian Huaxing. Jiangsu SHD then cancelled the legal person status of Suqian Huaxing on 23 December 2004, and as a result, the production facilities of Suqian Huaxing became the second glass production line of Jiangsu SHD.

## 12 INVENTORIES

| | At 30 June 2007 RMB'000 | At 31 December 2006 RMB'000 |
|---|---|---|
| Raw materials | **66,084** | 30,618 |
| Work in progress and finished goods | **225,693** | 44,305 |
| Racks, spare parts and consumables | **34,084** | 17,138 |
| | **325,861** | 92,061 |
| Less: provision | **(4,151)** | (192) |
| | **321,710** | 91,869 |

## 12 INVENTORIES (continued)

An analysis of the amount of inventories recognised as an expense is as follows:

| | Six months ended 30 June | |
|---|---|---|
| | **2007** | 2006 |
| | **RMB'000** | RMB'000 |
| Carrying amount of inventories sold | **751,801** | 227,296 |
| Write-back of inventories | **(1,318)** | (348) |
| | **750,483** | 226,948 |

As at 30 June 2007, RMB4.4 million (31 December 2006: RMB1.7 million) of finished goods were carried at estimated net realisable value.

## 13 TRADE AND OTHER RECEIVABLES

| | At 30 June 2007 RMB'000 | At 31 December 2006 RMB'000 |
|---|---|---|
| Trade receivable from: | | |
| — Third parties | **153,739** | 24,185 |
| — Minority equity holders of subsidiaries of the Group and their affiliates | **62,934** | — |
| Bills receivable | **76,876** | 780 |
| | **293,549** | 24,965 |
| Amounts due from related companies: | | |
| — Equity shareholders of the Company | **330** | 339 |
| — Minority equity holders of subsidiaries of the Group and their affiliates (Note (i)) | **69,965** | 141,732 |
| — Associates of the Group | **433** | — |
| — An affiliate of the intermediate holding company of the Company (Note (ii)) | **36,425** | — |
| | **107,153** | 142,071 |
| Prepayments, deposits and other receivables | **111,234** | 47,181 |
| | **511,936** | 214,217 |
| Less: impairment losses | **(28,531)** | — |
| | **483,405** | 214,217 |

*Notes:*

(i) The amounts are unsecured and have no fixed terms of repayment. Except for RMB55.0 million as at 30 June 2007 (31 December 2006: RMB141.7 million), which bear interest rate at 7.67% per annum (31 December 2006: 7.34% per annum), all of the remaining balances are non-interest bearing.

(ii) The amount is unsecured, non-interest bearing and has no fixed terms of repayment.

## 13 TRADE AND OTHER RECEIVABLES (continued)

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 up to three months from the date of billing may be granted to customers, depending on credit assessment carried out by management on an individual customer basis. An ageing analysis of trade and bills receivables (net of impairment losses of bad and doubtful debts) is as follows:

| | **At 30 June 2007 RMB'000** | At 31 December 2006 RMB'000 |
|---|---|---|
| Within 1 month | **139,260** | 24,485 |
| More than 1 month but less than 3 months | **72,405** | 262 |
| More than 3 months but less than 6 months | **50,014** | 218 |
| More than 6 months | **7,106** | — |
| | **268,785** | 24,965 |

## 14 CASH AND CASH EQUIVALENTS

| | At 30 June 2007 RMB'000 | At 31 December 2006 RMB'000 |
|---|---|---|
| Cash at bank and on hand | **265,759** | 67,275 |

Included in cash and cash equivalents were RMB126.8 million as at 30 June 2007 (31 December 2006: RMB4.0 million) pledged to secure bills issued and a loan borrowed by the Group.

RMB is not a freely convertible currency and the remittance of funds out of the PRC is subject to the exchange restriction imposed by the PRC government.

## 15 TRADE AND OTHER PAYABLES

| | At 30 June 2007 RMB'000 | At 31 December 2006 RMB'000 |
|---|---|---|
| Trade payable to: | | |
| – Third parties | **359,471** | 88,558 |
| – Minority equity holders of subsidiaries of the Group and their affiliates | **10,111** | — |
| Bills payable | **272,720** | 22,788 |
| | **642,302** | 111,346 |
| Amounts due to related companies: | | |
| – Minority equity holders of subsidiaries of the Group and their affiliates (Note (i)) | **28,745** | 1,259 |
| – A company under common significant influence (Note (ii)) | **4,874** | 4,726 |
| – An affiliate of the intermediate holding company of the Company (Note (iii)) | **33,765** | — |
| | **67,384** | 5,985 |
| Advances received from customers | **92,454** | 16,246 |
| Accrued charges and other payables | **472,068** | 197,338 |
| | **1,274,208** | 330,915 |

## 15 TRADE AND OTHER PAYABLES (continued)

*Notes:*

(i) The amounts are unsecured and have no fixed terms of repayment. Except for RMB18.4 million (31 December 2006: RMB1.3 million) as at 30 June 2007, which bear interest ranging from 7.00% to 7.67% per annum (31 December 2006: 7.00% per annum), all of the remaining balances are non-interest bearing.

(ii) The amount as at 30 June 2007 is unsecured, bearing interest at a rate of 6.12% per annum (31 December 2006: 6.12% per annum) and is repayable by monthly equal instalments in the coming twelve months.

(iii) The amount is unsecured, non-interest bearing and has no fixed terms of repayment.

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

An ageing analysis of trade and bills payables is as follows:

| | At 30 June 2007 RMB'000 | At 31 December 2006 RMB'000 |
|---|---|---|
| Due within 1 month or on demand | **395,282** | 98,058 |
| Due after 1 month but within 6 months | **247,020** | 13,288 |
| | **642,302** | 111,346 |

## 16 BANK AND OTHER LOANS

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

| | At 30 June 2007 RMB'000 | At 31 December 2006 RMB'000 |
|---|---|---|
| Bank loans | **673,000** | 220,000 |
| Loans from minority equity holders and management of subsidiaries of the Group | **13,000** | 30,100 |
| | **686,000** | 250,100 |
| Add: current portion of long-term bank loans | **69,111** | 16,000 |
| | **755,111** | 266,100 |

The weighted average interest rates per annum on short-term bank and other loans (excluding current portion of long-term bank loans) were 6.41% as at 30 June 2007 (31 December 2006: 5.87% per annum).

## 16 BANK AND OTHER LOANS (continued)

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

At 30 June 2007, the short-term bank and other loans (excluding current portion of long-term bank loans) were secured as follows:

| | At 30 June 2007 | | | At 31 December 2006 | | |
|---|---|---|---|---|---|---|
| | **Revolving facilities utilised RMB'000** | **Loans RMB'000** | **Total RMB'000** | Revolving facilities utilised RMB'000 | Loans RMB'000 | Total RMB'000 |
| Bank loans: | | | | | | |
| – Pledged by bank bills | **—** | **40,000** | **40,000** | — | — | — |
| – Secured by property, plant and equipment and land use rights | **—** | **134,650** | **134,650** | — | — | — |
| – Guaranteed | **—** | **135,260** | **135,260** | — | — | — |
| – Guaranteed and secured by property, plant and equipment and land use rights | **—** | **42,090** | **42,090** | — | — | — |
| – Unguaranteed and unsecured | **35,000** | **286,000** | **321,000** | 35,000 | 185,000 | 220,000 |
| | **35,000** | **638,000** | **673,000** | 35,000 | 185,000 | 220,000 |
| Loans from minority equity holders and management of subsidiaries of the Group: | | | | | | |
| – Unguaranteed and unsecured | **—** | **13,000** | **13,000** | — | 30,100 | 30,100 |
| | **35,000** | **651,000** | **686,000** | 35,000 | 215,100 | 250,100 |

As at 30 June 2007, the aggregate carrying values of secured property, plant and equipment and land use rights were RMB336.6 million (31 December 2006: RMBNil).

## 16 BANK AND OTHER LOANS (continued)

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

| | At 30 June 2007 RMB'000 | At 31 December 2006 RMB'000 |
|---|---|---|
| Bank loans | 174,111 | 171,000 |
| Loan from a third party | 7,018 | — |
| | 181,129 | 171,000 |
| Less: current portion of long-term bank loans | (69,111) | (16,000) |
| | 112,018 | 155,000 |

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

| | At 30 June 2007 RMB'000 | At 31 December 2006 RMB'000 |
|---|---|---|
| Within 1 year or on demand | 69,111 | 16,000 |
| After 1 year but within 2 years | 77,018 | 70,000 |
| After 2 years but within 3 years | 35,000 | 85,000 |
| | 181,129 | 171,000 |

As at 30 June 2007, the Group's long-term bank and other loans bear interest ranging from 3.00% to 5.76% per annum (31 December 2006: ranging from 5.67% to 5.76% per annum).

As at 30 June 2007, long-term bank loan of RMB3.2 million (31 December 2006: RMBNil) were secured by property, plant and equipment and cash at bank. The aggregate carrying values of secured property, plant and equipment were RMB7.3 million (31 December 2006: RMBNil).

(c) The banking facilities of the Group, amounting to RMB231.7 million (31 December 2006: RMB125.0 million), were utilised to the extent of RMB125.0 million (31 December 2006: RMB125.0 million) as at 30 June 2007.

All of the Group's banking facilities are subject to the fulfilment of covenants relating to certain of the Group's balance sheet and income statement ratios, as are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants, the drawn down facilities would become payable on demand.

## 17 AMOUNTS DUE TO RELATED COMPANIES

The amounts arise from the purchases of properties from related companies and general purpose advances to the Group. The amounts are unsecured, bear interest ranging from 6.12% to 6.70% per annum (31 December 2006: 6.12% per annum) and are repayable in instalments between July 2007 to December 2014.

## 18 CONVERTIBLE NOTES

JV Investments Limited ("JV Investments"), a subsidiary of the Company as at 30 June 2007, issued convertible notes to Pilkington Italy Limited, an equity shareholder of the Company, on the dates and for the amounts set out below:

| | **Principal amounts of convertible notes issued** | |
|---|---|---|
| | In US$ | Equivalent in RMB'000 |
| Convertible notes issued on: | | |
| – 20 December 2005 | 503,482 | 4,085 |
| – 24 July 2006 | 5,470,086 | 43,676 |
| – 28 September 2006 | 650,009 | 5,135 |
| – 30 September 2006 | 424,847 | 3,360 |
| Proceeds from issuance of convertible notes | | 56,256 |
| Amounts classified as equity component | | (23,288) |
| Accrued finance charges for the year ended 31 December 2006 | | 1,299 |
| Carrying amount of liability component as at 31 December 2006 | | 34,267 |
| Proceeds from issuance of convertible notes on 21 February 2007 | 9,762,270 | 75,477 |
| Additional amounts classified as equity component | | (33,203) |
| Accrued finance charges for the six months ended 30 June 2007 | | 1,559 |
| Conversion of convertible notes | | (78,100) |
| Carrying amount of liability component as at 30 June 2007 | | — |

For each of the above issuance of convertible notes, the notes are convertible into 5,052 shares of JV Investments. All of the convertible notes shall be automatically converted into shares of JV Investments to be held by Pilkington Italy Limited if at any time up to 30 December 2012, Pilkington Italy Limited shall be interested in or have the ability to control 10% or more of the voting rights of the Company.

The principal amounts of the convertible notes shall be repaid to Pilkington Italy Limited on 31 December 2012 or such later date as shall be agreed by Pilkington Italy Limited and JV Investments in writing, subject to conversion.

## 18 CONVERTIBLE NOTES (continued)

Interest on the outstanding principal amounts of the convertible notes shall be payable upon any declaration of dividends by JV Investments in an amount equal to the aggregate amount of dividends or distribution declared on the shares of JV Investments then in issue, multiplied by a fraction, the numerator of which is the number of the conversion shares and the denominator which is the total number of ordinary shares of JV Investments then outstanding plus the conversion shares. The convertible notes are unsecured.

On 13 April 2007, Pilkington Italy Limited converted all of the above convertible notes into the shares of JV Investments. Upon the completion of the conversion, the Company's equity interests in JV Investments decreased from 65.05% to 43.22%.

## 19 DEFERRED TAX ASSETS AND LIABILITIES

The components of deferred tax assets/(liabilities) recognised in the consolidated balance sheet and the movement during the period are as follows:

| Deferred tax arising from: | Unused tax losses | Provision for inventories | Impairment losses of receivables | Depreciation expenses and disposal losses of property, plant and equipment in excess of related deductible allowances | Fair value adjustments of property, plant and equipment and lease prepayments, interest capitalisation and related depreciation | Total |
|---|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| At 1 January 2006 | — | — | — | 1,282 | (1,413) | (131) |
| Additions through acquisitions of subsidiaries | 5,339 | 48 | — | — | (8,390) | (3,003) |
| Credited/(charged) to consolidated income statement | 3,300 | (25) | — | 1,206 | (201) | 4,280 |
| At 31 December 2006 | 8,639 | 23 | — | 2,488 | (10,004) | 1,146 |
| Additions through acquisitions of subsidiaries | 22,194 | 1,275 | 7,965 | 6,626 | (78,669) | (40,609) |
| (Charged)/credited to consolidated income statement (Note 5) | (2,064) | (329) | (1,105) | 427 | 17,727 | 14,656 |
| At 30 June 2007 | 28,769 | 969 | 6,860 | 9,541 | (70,946) | (24,807) |

## 20 CAPITAL AND RESERVES

| | Attributable to equity shareholders of the Company | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital RMB'000 Note (i) | Share premium RMB'000 Note (i) | Capital reserve RMB'000 | Statutory reserves RMB'000 | Other reserve RMB'000 | Exchange reserve RMB'000 | Retained profits RMB'000 | Total RMB'000 | Minority interests RMB'000 | Total equity RMB'000 |
| At 1 January 2006 | 38,336 | 274,440 | 23,233 | 30,608 | (68,570) | (4,063) | 90,690 | 384,674 | 13,389 | 398,063 |
| Net loss for the period | — | — | — | — | — | — | (28,833) | (28,833) | (586) | (29,419) |
| Dividends approved during the period | — | — | — | — | — | — | (4,824) | (4,824) | — | (4,824) |
| Exchange differences on translation into presentation currency | — | — | — | — | — | (614) | — | (614) | — | (614) |
| At 30 June 2006 | 38,336 | 274,440 | 23,233 | 30,608 | (68,570) | (4,677) | 57,033 | 350,403 | 12,803 | 363,206 |
| At 1 July 2006 | 38,336 | 274,440 | 23,233 | 30,608 | (68,570) | (4,677) | 57,033 | 350,403 | 12,803 | 363,206 |
| Contributions from minority interests | — | — | — | — | — | — | — | — | 36,196 | 36,196 |
| Increase in minority interests through acquisitions of subsidiaries | — | — | — | — | — | — | — | — | 119,412 | 119,412 |
| Issuance of convertible notes | — | — | 13,916 | — | — | — | — | 13,916 | 7,476 | 21,392 |
| Buy-out of minority interests | — | — | — | — | — | — | — | — | (60,774) | (60,774) |
| Net profit for the period | — | — | — | — | — | — | 34,456 | 34,456 | 9,568 | 44,024 |
| Exchange differences on translation into presentation currency | — | — | — | — | — | (459) | — | (459) | (273) | (732) |
| At 31 December 2006 | 38,336 | 274,440 | 37,149 | 30,608 | (68,570) | (5,136) | 91,489 | 398,316 | 124,408 | 522,724 |
| At 1 January 2007 | 38,336 | 274,440 | 37,149 | 30,608 | (68,570) | (5,136) | 91,489 | 398,316 | 124,408 | 522,724 |
| Issuance of shares | 5,520 | 140,614 | — | — | — | — | — | 146,134 | — | 146,134 |
| Contributions from minority interests | — | — | — | — | — | — | — | — | 77,190 | 77,190 |
| Increase in minority interests through acquisitions of subsidiaries and minority interests | — | — | — | — | — | — | — | — | 309,666 | 309,666 |
| Issuance of convertible notes | — | — | 21,597 | — | — | — | — | 21,597 | 11,606 | 33,203 |
| Increase in minority interests through conversion of convertible notes | — | — | (36,746) | — | — | — | — | (36,746) | 113,143 | 76,397 |
| Net profit/(loss) for the period | — | — | — | — | — | — | 48,182 | 48,182 | (4,738) | 43,444 |
| Exchange differences on translation into presentation currency | — | — | — | — | — | 1,524 | — | 1,524 | (1,351) | 173 |
| At 30 June 2007 | 43,856 | 415,054 | 22,000 | 30,608 | (68,570) | (3,612) | 139,671 | 579,007 | 629,924 | 1,208,931 |

## 20 CAPITAL AND RESERVES (continued)

*Note:*

(i) On 12 April 2007 and 14 June 2007, the Company issued 42,000,000 and 14,000,000 of new shares for HK$2.75 per share. Upon completion of the above issues, the Company's number of shares in issue increased from 360,000,000 as at 31 December 2006 to 416,000,000 as at 30 June 2007. The proceeds of HK$5.60 million (equivalent to RMB5.52 million), representing the par value, were credited to the Company's share capital. The remaining proceeds of HK$142.68 million (equivalent to RMB140.61 million) were credited to the share premium account.

## 21 ACQUISITIONS OF SUBSIDIARIES AND MINORITY INTERESTS

(a) On 28 February 2007, Real Increase Holdings Limited, a 100% owned subsidiary of the Company, acquired 70% equity interests in Hangzhou Blue Star New Materials Technology Co., Ltd.. The consideration and costs directly attributable to this transaction amounted to RMB19.96 million.

On 7 March 2007, Starfair Group Limited, a 100% owned subsidiary of JV Investments, acquired 50.78% equity interests in Weihai Blue Star Glass Co., Ltd. ("Lanxing"). The consideration and costs directly attributable to this transaction amounted to RMB199.01 million.

## 21 ACQUISITIONS OF SUBSIDIARIES AND MINORITY INTERESTS (continued)

The fair value of the net assets acquired in these transactions was as follows:

| | Pre-acquisition carrying amounts RMB'000 | Fair value adjustments RMB'000 | Recognised values on acquisitions RMB'000 |
|---|---|---|---|
| Property, plant and equipment | 448,869 | (9,041) | 439,828 |
| Lease prepayments | 50,004 | 43,200 | 93,204 |
| Intangible assets | 2,402 | 97,217 | 99,619 |
| Interest in an associate | 10,815 | — | 10,815 |
| Available-for-sale investments | 5,846 | — | 5,846 |
| Deferred tax assets | 18,260 | — | 18,260 |
| Inventories | 131,001 | — | 131,001 |
| Trade and other receivables | 119,709 | — | 119,709 |
| Cash and cash equivalents | 118,980 | — | 118,980 |
| Trade and other payables | (504,606) | — | (504,606) |
| Bank and other loans | (232,771) | — | (232,771) |
| Deferred tax liabilities | (8,157) | (40,798) | (48,955) |
| Net identifiable assets and liabilities | 160,352 | 90,578 | 250,930 |
| Excess of the net fair value of the acquired net assets over cost | | | (31,955) |
| Total purchase price paid plus costs directly attributable to the acquisitions, satisfied in cash | | | 218,975 |
| Less: cash and cash equivalents acquired (not adjusted for the percentage of ownership held by the Group) | | | (196,906) |
| Net cash outflow | | | 22,069 |

Pre-acquisition carrying amounts of the acquirees' assets and liabilities were determined based on applicable HKFRSs immediately before the acquisitions. The values of assets, liabilities and contingent liabilities recognised on acquisitions are their estimated fair values. In determining the fair values of property, plant and equipment, lease prepayments and intangible assets, the Directors of the Company have referenced the adjustments to valuation reports issued by independent valuers. The valuation methods adopted were depreciated replacement cost approach and market value approach.

## 21 ACQUISITIONS OF SUBSIDIARIES AND MINORITY INTERESTS (continued)

From the dates of acquisitions to 30 June 2007 and excluding the effect on the excess of the net fair value of the acquired net assets over cost, the above subsidiaries contributed net profit of RMB8.4 million to the Group for the six months ended 30 June 2007. Had the acquisitions been occurred on 1 January 2007, the Directors of the Company estimate that consolidated turnover and consolidated net profit would have been RMB991.6 million and RMB28.1 million, respectively.

(b) On 8 March 2007, Poweridea Limited, a 100% owned subsidiary of JV Investments, acquired 21.58% equity interests in Zhongbo Technology Co., Ltd. ("Zhongbo"), which was already a subsidiary of Lanxing before this acquisition. The consideration and costs directly attributable to this transaction amounted to RMB46.33 million. The fair value of the net assets acquired amounted to RMB40.45 million, resulting in an excess of the cost of purchase over the net fair value of the acquired assets of RMB5.88 million.

(c) In accordance with the shareholders' circular of the Company dated 1 December 2006, the transactions mentioned in Notes 21(a) and 21(b) above were inter-conditional to each other. These transactions have been approved by the Company's shareholders in a special general meeting held on 18 December 2006.

In entering into the acquisitions stated in Notes 21(a) and 21(b), the Directors of the Company considered that the glass industry in the PRC has in general experienced a market downturn in recent periods, which resulted in a material impact on the operating performance of the enterprises in such industry across the board. The Directors of the Company also considered that the glass industry in the PRC is cyclical, and by entering into negotiations of the commercial terms in connection with these acquisitions during this downturn enable the Directors of the Company to achieve relative successes in obtaining terms favourable for the Group, whereby the Group may be able to take the benefits of the upward trend of the cycle in subsequent periods.

The total excess of the net fair value of the acquired net assets over cost recognised on the acquisitions in Notes 21(a) and 21(b) amounted to RMB26.07 million.

## 22 GAIN FROM ISSUANCE OF SHARES BY SUBSIDIARIES

(a) On 20 May 2007, Zhongbo acquired the entire equity interests of Weihai Blue Star Extra Thin Glass Co., Ltd. ("Extra Thin Glass") in exchange for Zhongbo's issuance of additional equity interests. Upon the completion of the above acquisition, Extra Thin Glass was dissolved and the related assets and liabilities of Extra Thin Glass were merged into that of Zhongbo. The percentage of ownership in Zhongbo by Lanxing before and after the issuance of additional equity interests was 41.62% and 39.26%, respectively. Lanxing's gain from Zhongbo's issuance of additional equity interests was RMB3.95 million.

(b) As mentioned in Note 18 of this interim financial report, the convertible notes issued by JV Investments were fully converted on 13 April 2007 by Pilkington Italy Limited. Upon the completion of the conversion, the Company's equity interests in JV Investments decreased from 65.05% to 43.22%. The Company's gain from the issuance of shares upon the conversion of the convertible notes was RMB1.70 million.

The total gain from issuance of shares by subsidiaries in Notes 22(a) and 22(b) amounted to RMB5.65 million.

## 23 MATERIAL RELATED PARTY TRANSACTIONS

In addition to the balances disclosed elsewhere in this interim financial report, the Group entered into the following material related party transactions during the six months ended 30 June 2007.

**(a) Transactions with minority equity holders and management of subsidiaries of the Group and their affiliates**

| | Six months ended 30 June | |
|---|---|---|
| | **2007** | 2006 |
| | **RMB'000** | RMB'000 |
| Sale of glass and glass products | **201,982** | — |
| Purchase of raw materials | **47,337** | — |
| Interest income | **3,593** | — |
| Interest expenses | **2,994** | — |
| Interest bearing advances received | **8,000** | — |
| Guarantees given to banks for a subsidiary of the Group at period end | **38,360** | — |

**(b) Transactions with related companies under common significant influence**

(i) Purchase of land use rights

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 consideration for the land use rights is RMB56.076 million and is repayable by 120 monthly equal instalments within ten years. As at 30 June 2007, the outstanding amount bears interest at a rate of 6.12% per annum. For the six months ended 30 June 2007, interest expenses of RMB1.4 million incurred had been paid to Jiangsu Glass Group Company Limited (six months ended 30 June 2006: RMB1.6 million).

(ii) Management services agreement

The Company and JV Investments have entered into a management services agreement with Well Faith Management Limited ("Well Faith"), Mei Long Developments Limited and Pilkington Italy Limited (both the equity shareholders of JV Investments) on 30 December 2005. Pursuant to the management services agreement, Well Faith is the exclusive provider of management services to JV Investments. The Company agreed to pay the relevant management services fee at US$285,527 per annum for three years. For the six months ended 30 June 2007, management services fee of RMB1.1 million had incurred (six months ended 30 June 2006: RMB1.2 million).

## 23 MATERIAL RELATED PARTY TRANSACTIONS (continued)

### (c) Transactions with an affiliate of the intermediate holding company of the Company

| | Six months ended 30 June | |
|---|---|---|
| | **2007** | 2006 |
| | **RMB'000** | RMB'000 |
| Non-interest bearing advances received | **14,579** | — |

### (d) Key management personnel remuneration

Remuneration for key management personnel is as follows:

| | Six months ended 30 June | |
|---|---|---|
| | **2007** | 2006 |
| | **RMB'000** | RMB'000 |
| Short-term employee benefits | **961** | 716 |
| Retirement scheme contributions | **45** | 28 |
| | **1,006** | 744 |

## 24 COMMITMENTS

### (a) Capital commitments

At 30 June 2007, the outstanding capital commitments of the Group not provided for in the interim financial report are summarised as follows:

| | **At 30 June 2007 RMB'000** | At 31 December 2006 RMB'000 |
|---|---|---|
| Commitments in respect of land and buildings, and machinery and equipment | | |
| - authorised and contracted for | **99,181** | 70,638 |
| - authorised but not contracted for | **—** | — |
| | **99,181** | 70,638 |
| Commitments in respect of investments in subsidiaries and an associate | | |
| - authorised and contracted for | **79,351** | 283,648 |
| - authorised but not contracted for | **—** | — |
| | **79,351** | 283,648 |
| Total commitments | | |
| - authorised and contracted for | **178,532** | 354,286 |
| - authorised but not contracted for | **—** | — |
| | **178,532** | 354,286 |

## 24 COMMITMENTS (continued)

### (b) Operating lease commitments

At 30 June 2007, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

| | At 30 June 2007 RMB'000 | At 31 December 2006 RMB'000 |
|---|---|---|
| Within 1 year | **2,591** | 743 |
| After 1 year but within 5 years | **1,924** | 1,376 |
| After 5 years | **4,246** | 4,329 |
| | **8,761** | 6,448 |

The Group leases certain properties and motor vehicles under operating leases. None of the leases includes contingent rentals.

## 25 POST BALANCE SHEET EVENTS

### (a) Acquisition of minority interests in a subsidiary of the Group

On 14 June 2007, the Company announced that the Company, through a wholly-owned subsidiary, has entered into an agreement to acquire the remaining 43.8% equity interests of one of its subsidiaries, Beijing Qinchang Glass Co., Ltd. ("Beijing Qinchang"), for a consideration of RMB49.8 million. Upon completion of the above acquisition of the minority interests, Beijing Qinchang will become a wholly-owned subsidiary of the Group. Up to the date of this report, the acquisition of the above minority interests has not been 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 date.

### (b) Issuance of senior notes

On 12 July 2007, the Company issued US$100 million in aggregate principle amount of senior fixed rate notes (the "Notes"). The Notes bear interest at a rate of 9.625% per annum. Interest on the Notes is payable on 12 January and 12 July of each year, beginning on 12 January 2008. The Notes will mature on 12 July 2012. The Notes were listed on Singapore Exchange Securities Trading Limited.

(Expressed in RMB unless otherwise indicated)

## 26 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ACCOUNTING PERIOD ENDED 30 JUNE 2007

Up to the date of issue of this interim financial report, the HKICPA has issued the following amendments, new standards and interpretations which are not yet effective for the six months ended 30 June 2007 and which have not been adopted in this interim financial report:

| | **Effective for accounting periods beginning on or after** |
|---|---|
| HKFRS 8, Operating Segments | 1 January 2009 |
| HKAS 23 (Revised), "Borrowing costs" | 1 January 2009 |
| HK(IFRIC) 11, HKFRS 2 – Group and Treasury Share Transactions | 1 March 2007 |
| HK(IFRIC) 12, Service Concession Arrangements | 1 January 2008 |

The Directors of the Company have confirmed that the Group has commenced considering the potential impact of the above HKFRSs and interpretations but is not yet in a position to determine whether these HKFRSs and interpretations will have a significant impact on how the results of operations and financial position are prepared and presented. These standards and interpretations may result in changes in the future as to how the results and financial position are prepared and presented.

# Review report to the board of directors of China Glass Holdings Limited

KPMG

## INTRODUCTION

We have reviewed the interim financial report set out on pages 3 to 33 which comprise the consolidated balance sheet of China Glass Holdings Limited and the related consolidated statements of income, and changes in equity and condensed statement of cash flows for the six months then ended and explanatory notes. 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 directors are responsible for the preparation and presentation of the interim financial report in accordance with Hong Kong Accounting Standard 34.

Our responsibility is to form a 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.

## SCOPE OF REVIEW

We conducted our review 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 Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

## CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2007 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 "Interim financial reporting".

**KPMG**
*Certified Public Accountants*
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

14 September 2007

## MARKET REVIEW

Since the beginning of 2007, the PRC glass industry has shown signs of bottoming out from a cyclical trough.

The market conditions continued to improve:- demand has exhibited growth, whilst production capacity expansion has paced down. According to the information released by the State Development and Reform Commission of the PRC, the additional production capacity in 2006 was recorded at 54 million weight cases, whilst the production-capacity-under-construction currently stands at 16 million weight cases. This signifies a slow down in float glass production capacity. The trend of aimless expansion of float glass production capacity stands a fairly good chance of coming under control, rendering a more rational development of the glass sector.

Glass selling price has sustained a modest growth. In view of the lukewarm recovery in the glass sector in the second half of 2006, domestic PRC enterprises invariably stepped up exports, thereby increasing the proportion of their export output, which then alleviated the pressure of domestic competition. At the same time, the steady growth of the real estate sector domestically has boosted growth of demand for glass products. In addition, the recent consolidation of the glass sector had the impact of enhancing concentration of the industry, thereby reducing market disorder in competition, and facilitating the gradual price recovery of flat glass.

On the whole, the price of glass hit on a rise in mid-2006 and kept on rising steadily in the first-half of 2007, according to the data from the China Building Materials Information, forming the basis for a continued upward growth. It is believed that the glass industry has turned around from loss -making, and had has trended up from the deep-end of the cyclical trough.

As competition in the domestic glass market intensified, despite of the reduction of tax refund of glass products exports to 5% which became effective on 1 July 2007, manufacturers still increased the overseas sales volume of their glass products in the first half of the year. As a whole, the export sector has maintained a positive outlook of growth momentum.

## BUSINESS REVIEW

After a series of acquisitions in 2006 and in the first half of 2007, leading to the acquisition of a total of 11 production lines by the Group from Weihai Blue Star Glass Co., Ltd., Wuhai Blue Star Glass Co., Ltd., Shaanxi Blue Star Glass Co., Ltd, etc., the Group has significantly increased its production capacity. In terms of total production capacity, the Group currently owns 14 production lines, with daily melting capacity of 4,780 tonnes of glass products, and has then become one of the largest publicly-listed flat glass producers in the PRC. It is also one of the biggest online coating glass manufacturers in China, capable of manufacturing products such as online solar control coating glass, low emission glass, Titanium coating glass. In addition, it is a glass manufacturer with capability to manufacture a wide range of quality float glass products in various colours such as white, green, blue, grey and umber and in various thicknesses.

Production volume in the first half of 2007 was 11.61 million weight cases, representing an increase of 198% over the same period last year, while sales in the same period was 11.93 million weight cases, representing a sales/production ratio of 103%. For the six months ended 30 June 2007, the Group recorded a turnover of RMB883.02 million, domestic sales and export sales accounted for 62% and 38% respectively, which remained in the same proportion in the same period last year.

Meanwhile, as the glass industry recovered, the price of glass products is also going upward. In the first half of 2007, the average selling price of the Group's products increased by 28% over the same period last year.

From the beginning of this year, the price of fuel such as heavy oil started to rise slightly and together with the slight increase in the price of soda ash, the average cost of the Group's glass products increased by approximately 7% over the same period last year.

On a separate note, in order to pace up growth, the Group commenced the process in acquiring Weihai Blue Star Glass Co., Ltd., Shaanxi Blue Star Glass Co. Ltd., etc. in 2006, all of which were completed in March this year. By integrating the acquirees' business, personnel and operations into that of the Group, the Group embarked on a process of optimization, which thereby enhanced the Group's overall operating efficiency. The optimization is well in progress through which the Group expects to benefit significantly from several perspectives including giving a facelift on production capacity, production quality and distribution network.

The Company placed 42,000,000 and 14,000,000 shares of the Company at a price of HK$2.75 to an institutional investor and International Finance Corporation ("IFC") in April and June 2007 respectively, in an attempt to expand the Company's capital and shareholder base. The proceeds would be used as general working capital. During the same period, Pilkington Italy Limited ("Pilkington") exercised its option in April to acquire 84,558,000 shares of the Company from First Fortune Enterprises Limited ("First Fortune") and Pilkington's shareholding in the Company increased to approximately 29%.

## OUTLOOK

Looking forward, the PRC glass industry is expected to go beyond the pursuit of mere growth in production scale and volume. It has indeed entered into a phase of steady development, in a volume-controlled and structure optimization manner, the pursuit of quality and efficiency has become priority.

The supply-and-demand condition and consumption pattern of glass will gradually transform from the low-to-mid graded ordinary float glass to high-graded float glass, from mainly whole panel purchases to value-added processed products. In the midst of the slowdown in production capacity growth whilst downstream demand remains strong, the supply-and-demand is expected to improve, and glass prices are set for a re-bounce.

According to the data of the China Building Materials Information, glass prices have staggered to the peak early this year and has trended stably. Therefore, it is expected that the prices will rise steadily in the second-half of the year. In addition, due to government control on the construction of new production lines, we stay cautiously optimistic over the sales prices in the second half of 2007.

We believe that unfavorable factors including the adverse effects of the new policy of export tax refund that came into effect on 1 July 2007 on the Group are controllable. Aiming at suppressing excessive growth of foreign exports, the PRC Government reduced tax refund on glass products to 5% on 1 July 2007. Together with the adverse effect of the increase in export transportation costs, the Group has difficulty increasing its exports, and has witnessed a squeeze in the export profit margin. However, the Group still enjoyed significant competitive advantage over its foreign competitors in terms of manufactory cost, and its feature products such as colored and coated glass also commands competitive advantage over its domestic competitors, the Group believes it will be able to contain such adverse effects through price adjustments in the long run, and thus stabilizing its export profit margin.

Further, in view of the overall market demand, according to the PRC Government's regulatory principle "to effectively increase the supply of residential units as the guiding principle", housing construction in the PRC is expected to continue to increase in the future, thus help boosting the demand for glass.

Meanwhile, the acquisition of businesses will remain the Company's focus in the second half of 2007. The strengths of old and new companies can compliment each other, which will in turn enhance the Group's combined competitiveness in terms of production capacity, product quality, technological standard and marketing channels, giving the Group a competitive edge in the new round of competition. In particular, the Group will actively compare quality and prices and make combined purchase for the Group as a whole to take advantage of competitive price advantage arising from economies of scale and lower purchasing costs. At the same time, by integrating its marketing channels, the Group seeks to optimize its operating model to increase the combined pricing power of its products. Furthermore, the Group will increase the ratio of high value-added products such as low emission coating glass, Titanium coating glass in order to increase the Company's profitability.

In order to optimize the financial structure of the Group, in July 2007, the Company issued an aggregate of US$100,000,000 9.625% senior notes due in 2012. The purpose of this issue of senior notes is to refinance the Group's existing short-term debts and be used as general working capital.

A production line of the Group in Xianyang is to commence operation in September and the daily total melting capacity of the Group will increase to 5,230 tonnes. In addition, the solar energy production line in Taichang, jointly owned by the Company and Pilkington International Holdings BV, is expected to commence operation in the first quarter in 2008. This glass production line belongs to a high value-added industry which the Company believes would generate satisfactory investment returns to the Group.

## FINANCIAL REVIEW

For the first half of 2007, the Group recorded a gross profit of 15%, representing an increase of 18% as compared with the same period last year. It was mainly attributable to the increase in selling price. The Group recorded a profit after tax of RMB43.44 million, representing a turnaround of 248% as compared with the same period last year, and it was mainly attributable to the increase of selling price and selling volume due to the acquisitions took place in second half 2006 and first half 2007.

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

As at 30 June 2007, the Group's cash and cash equivalents amounted to RMB266 million (31 December 2006: RMB67 million), of which 96% were denominated in RMB, 3% in United State dollars ("USD") and 1% in Hong Kong dollars ("HKD"), and the outstanding bank and other loans amounted to RMB867 million (31 December 2006: RMB421 million), all of which were denominated in RMB. As at 30 June 2007, the gearing ratio (total interest-bearing debts divided by total assets) was 28% (31 December 2006: 37%), the decrease of which was primarily attributable to the repayment of bank and other loans and the conversion of convertible notes, together with the increase in assets size from the acquisitions. As at 30 June 2007, the Group's current ratio (current assets divided by current liabilities) was 0.53 (31 December 2006: 0.62), the fall of which was mainly attributable to the increase in trade and other payables due to the acquisitions. In addition, the Group had net current liabilities amounted to RMB965 million as at 30 June 2007. With this regard, the Company issued US$100 million in aggregate principle amount of senior notes due 2012 and at interest rate of 9.625% per annum in order to improve the Group's financial position. Assets-liabilities ratio (total liabilities divided by total assets) of the Group was 0.66 (31 December 2006: 0.62), the rise of which was primarily attributable to the increase in trade and other payables due to the acquisitions.

Details of the bank and other loans were set out in Note 16 to the unaudited interim financial report.

## EXCHANGE RATE RISK AND RELATED HEDGING

The Group's sales transactions and monetary assets were primarily denominated in HKD, RMB, USD and EUR. Operating expenses and domestic sales of the Group's PRC subsidiaries were primarily denominated in RMB, except that overseas sales were denominated in USD and EUR. The Group is of the opinion that the exchange rate trend of RMB will closely associate with the development of the PRC economy. With the continuous growth of the PRC economy, the Group expects that RMB will continue to appreciate. Our net assets, profits and dividends may be affected by the fluctuations of the RMB exchange rate.

The Board of Directors has pleasure in submitting the interim report together with the unaudited financial statements of the Group for the six months ended 30 June 2007.

## INTERIM DIVIDEND

The Board does not recommend any interim dividend for the six months ended 30 June 2007 (Dividend for the six months ended 30 June 2006 : 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 2007, 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 ("Model Code") contained in the Rules Governing the Listing of Securities on the Stock Exchange ("the Listing Rules") were as follows:

Interests and/or short positions of the Directors and Chief Executive in shares, underlying shares and debentures of the Company and its associated corporations

| 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] | 26,617,000 shares (L) | 6.40% |
| Liu Jinduo | The Company | Interest of a controlled corporation[3] | 140,649,000 shares (L) | 33.81% |
| Liu Jinduo | First Fortune Enterprises Limited ("First Fortune") | Interest of a controlled corporation[4] | 1 ordinary share (L) | 100% |
| Liu Jinduo | Hony International Limited ("Hony International") | Interest of a controlled corporation[5] | 6 ordinary shares (L) | 60% |
| Liu Jinduo | Easylead Management Limited ("EML") | Beneficial owner | 1 ordinary share (L) | 33.33% |
| Liu Jinduo | Best Joint Investments Limited | Interest of a controlled corporation[7] | 100 ordinary shares (L) | 100% |
| Liu Jinduo | Brightway Enterprises Limited | Interest of a controlled corporation[8] | 60 class L shares (L) | 100% |
| Liu Jinduo | Grand Smart Management Limited | Interest of a controlled corporation[9] | 1 ordinary share (L) | 100% |
| Liu Jinduo | Kenmore Enterprises Holdings Ltd. | Interest of a controlled corporation[10] | 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 | Kinluck Enterprises Ltd. | Interest of a controlled corporation[11] | 1 ordinary share (L) | 100% |
| Liu Jinduo | Milford Enterprises Holdings Ltd. | Interest of a controlled corporation[12] | 1 ordinary share (L) | 100% |
| Liu Jinduo | New Power Investments Inc. | Interest of a controlled corporation[13] | 1 ordinary share (L) | 100% |
| Liu Jinduo | Norisa Investments Inc. | Interest of a controlled corporation[14] | 1 ordinary share (L) | 100% |
| Liu Jinduo | Marketway Development Limited | Interest of a controlled corporation[15] | 1 ordinary share (L) | 100% |
| Liu Jinduo | Castle Power Holdings Limited | Interest of a controlled corporation[16] | 1 ordinary share (L) | 100% |
| Liu Jinduo | Time Region Investments Limited | Interest of a controlled corporation[17] | 1 ordinary share (L) | 100% |
| Liu Jinduo | Huge Option Investments Limited | Interest of a controlled corporation[18] | 1 ordinary share (L) | 100% |
| Liu Jinduo | Newtone Limited | Interest of a controlled corporation[19] | 2 ordinary shares (L) | 100% |
| Liu Jinduo | Sino Express Limited | Interest of a controlled corporation[20] | 2 ordinary shares (L) | 100% |
| Liu Jinduo | Koway Investments Limited | Interest of a controlled corporation[21] | 2 ordinary shares (L) | 100% |
| Liu Jinduo | Pacific Crown Limited | Interest of a controlled corporation[22] | 2 ordinary shares (L) | 100% |
| Liu Jinduo | Rich Sunshine Limited | Interest of a controlled corporation[23] | 2 ordinary shares (L) | 100% |
| Liu Jinduo | Goldsco Investments Limited | Interest of a controlled corporation[24] | 2 ordinary shares (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 | Jiangsu Glass Group Company Limited | Interest of a controlled corporation[(25)] | 101,686,927 ordinary shares (L) | 92% |
| Liu Jinduo | Suqian Subo Development Co., Ltd. | Interest of a controlled corporation[(26)] | 42,011,400 ordinary shares (L) | 60% |
| Liu Jinduo | Spring Scene Investments Ltd. | Interest of a controlled corporated[(27)] | 1 ordinary share (L) | 100% |
| Liu Jinduo | Present Treasure Investments Ltd. | Interest of a controlled corporated[(28)] | 1 ordinary share (L) | 100% |

*Notes:*

(1) The letters ,"L"and ,"S" denote the person'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 is 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 Jinhuo. Liu Jinduo is taken to be interested in these Shares by virtue of Part XV of the SFO.

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

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

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

(8) 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 Zhijing, Zhang Zuxiang and Liu Jinduo. Liu Jinduo is taken to be interest 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 Zhijing, Zhang Zuxiang and Liu Jinduo. Liu Jinduo is taken to be interest in these shares by virtue of Part XV of the SFO.

(10) 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 Zhijing, Zhang Zuxiang and Liu Jinduo. Liu Jinduo is taken to be interest 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 Zhijing, Zhang Zuxiang and Liu Jinduo. Liu Jinduo is taken to be interest 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 Zhijing, Zhang Zuxiang and Liu Jinduo. Liu Jinduo is taken to be interest 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 Zhijing, Zhang Zuxiang and Liu Jinduo. Liu Jinduo is taken to be interest 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 Zhijing, Zhang Zuxiang and Liu Jinduo. Liu Jinduo is taken to be interest 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 Zhijing, Zhang Zuxiang and Liu Jinduo. Liu Jinduo is taken to be interest 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 Zhijing, Zhang Zuxiang and Liu Jinduo. Liu Jinduo is taken to be interest 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 Zhijing, Zhang Zuxiang and Liu Jinduo. Liu Jinduo is taken to be interest 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 Zhijing, Zhang Zuxiang and Liu Jinduo. Liu Jinduo is taken to be interest in these shares by virtue of Part XV of the SFO.

(19) 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 Zhijing, Zhang Zuxiang and Liu Jinduo. Liu Jinduo is taken to be interest in these shares by virtue of Part XV of the SFO.

(20) 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 Zhijing, Zhang Zuxiang and Liu Jinduo. Liu Jinduo is taken to be interest in these shares by virtue of Part XV of the SFO.

(21) 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 Zhijing, Zhang Zuxiang and Liu Jinduo. Liu Jinduo is taken to be interest in these shares by virtue of Part XV of the SFO.

(22) 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 Zhijing, Zhang Zuxiang and Liu Jinduo. Liu Jinduo is taken to be interest in these shares by virtue of Part XV of the SFO.

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

(24) 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 Zhijing, Zhang Zuxiang and Liu Jinduo. Liu Jinduo is taken to be interest in these shares by virtue of Part XV of the SFO.

(25) These shares are beneficially owned by Suqian Subo Development Co., Ltd., an indirect subsidiary of EML. EML is owned as to one-third by each of Cao Zhijing, Zhang Zuxiang and Liu Jinduo. Liu Jinduo is taken to be interest in these shares by virtue of Part XV of the SFO.

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

(27) These shares are beneficially-owned by Brightway Enterprises Ltd., which is beneficially owned as to one-third by each of Cao Zhijing, Zhang Zuxiang and Liu Jinduo. Liu Jinduo is taken to be interested in these shares by virtue of Part XV of the SFO.

(28) These shares are beneficially-owned by Brightway Enterprises Ltd., which is beneficially owned as to one-third by each of Cao Zhijing, Zhang Zuxiang and Liu Jinduo. Liu Jinduo is taken to be interested in these shares by virtue of Part XV of the SFO.

## INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS

So far as the Directors are aware as at 30 June 2007, the interests or short positions of the persons other than Directors and chief executive of the Company in the shares or underlying of the Company as recorded in the register required to be kept under Section 336 of the SFO were as follows:

| Name | Nature of Interest | Class and number of shares(1) | Approximate percentage of shareholding |
|---|---|---|---|
| First Fortune | Beneficial owner | 140,649,000 shares (L) | 33.81% |
| Hony International | Interest of a controlled corporation(2) | 140,649,000 shares (L) | 33.81% |
| EML | Interest of a controlled corporation(3) | 140,649,000 shares (L) | 33.81% |
| Right Lane Limited | Interest of a controlled corporation(3) | 140,649,000 shares (L) | 33.81% |
| Cao Zhijiang | Interest of a controlled corporation(4) | 140,649,000 shares (L) | 33.81% |
| Zhang Zuxiang | Interest of a controlled corporation(4) | 140,649,000 shares (L) | 33.81% |
| Liu Jinduo | Interest of a controlled corporation(4) | 140,649,000 shares (L) | 33.81% |
| Legend Holdings Limited(5) | Interest of a controlled corporation(6) | 140,649,000 shares (L) | 33.81% |
| Employees' Shareholding Society of Legend Holdings Limited | Interest of a controlled corporation(7) | 140,649,000 shares (L) | 33.81% |
| Swift Glory | Beneficial owner | 26,617,000 shares (L) | 6.40% |
| Zhou Cheng | Interest of a controlled corporation(8) | 26,617,000 shares (L) | 6.40% |
| Nippon Sheet Glass Co., Ltd(9) | Interest of a controlled corporation | 120,198,000 shares (L) | 28.89% |
| Pilkington Group Limited(10) | Interest of a controlled corporation | 128,198,000 shares (L) | 28.89% |

| Name | Nature of Interest | Class and number of shares[1] | Approximate percentage of shareholding |
|---|---|---|---|
| Pilkington Brothers Limited[11] | Interest of a controlled corporation | 128,198,000 shares (L) | 28.89% |
| Pilkington Italy Limited[12] | Beneficial owner | 128,198,000 shares (L) | 28.89% |
| International Finance Corporation | Beneficial owner | 33,698,000 shares (L) | 8.38% |

*Notes:*

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

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

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

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

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

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

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

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

(9) Nippon Sheet Glass Co., Ltd. is a Japan listed company. NSG UK Enterprises, Limited is a direct wholly-owned subsidiary of NSG Holdings (Europe) Limited which is in turn wholly-owned by Nippon Sheet Glass Co., Ltd.. NSG UK Enterprises Limited is interested in 90.7% of the share capital of Pilkington Group Limited. NSG UK Enterprises, Limited and NSG Holdings (Europe) Limited are therefore taken to be interested in the share capital of the Company owned by Pilkington Group Limited. NSG Holding USA, Inc., a direct wholly-owned subsidiary of Nippon Sheet Glass Co., Ltd., is interested in the remaining 9.3% of the share capital of Pilkington Group Limited.

(10) Pilkington Group Limited is a direct wholly-owned subsidiary of NSG UK Enterprise, Limited.

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

(12) Pilkington Italy Limited is a company incorporated in England and a wholly-owned direct subsidiary of Pilkington Brothers Limited.

## CHARGE ON ASSETS

As at 30 June 2007, certain subsidiaries of the Group established in the PRC have pledged assets with aggregate carrying values of RMB344 million (31 December 2006: Nil) in order to secure bank loans drawn.

Details of the Group's charge of assets were set out in Note 16 to the unaudited interim financial report.

## CAPITAL COMMITMENTS

As at 30 June 2007, details of the Group's capital commitments were set out in Note 24 to the unaudited interim financial report.

## CONTINGENT LIABILITIES

There was no significant contingent liabilities for the Group as at 30 June 2007.

## 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 2007, 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 2007, the Group had employed about 6,330 employees in the PRC and Hong Kong (31 December 2006: about 2,610 employees). According to the relevant market situation, employee's remuneration level had maintained at a competitive level, and also corresponds with their performance.

## MATERIAL ACQUISITIONS OR DISPOSALS

During the first half of 2007, the Company has completed the very substantial acquisitions of Weihai Blue Star Glass Co., Ltd., Zhongbo Technology Co., Ltd. and Hangzhou Blue Star New Materials Technology Co., Ltd..

Other than 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 2007.

## POST BALANCE SHEET EVENTS

Details of post balance sheet events of the Group were set out in Note 25 to the unaudited interim financial report.

## 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 2007 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 ("CCGP") as set out in Appendix 14 to the Listing Rules throughout the period of six months ended 30 June 2007.

## 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 Directors have strictly complied with the Model Code during this reporting period.

By order of the Board
**Zhao John Huan**
*Chairman*

Hong Kong, 14 September 2007