洛阳玻璃股份有限公司

LUOYANG GLASS COMPANY LIMITED*

(a joint stock limited company incorporated in the People's Republic of China with limited liability)

(Stock code: 01108)

ANNOUNCEMENT ON REPLY TO THE LETTER OF ENQUIRY FROM HENAN REGULATORY BUREAU OF CHINA SECURTIES REGULATORY COMMISSION IN RELATION TO THE 2015 ANNUAL REPORT

Luoyang Glass Company Limited (the "**Company**") and all members of the board (the "**Board**") of directors (the "**Directors**") of the Company warrant the truthfulness, accuracy and completeness of the contents of this announcement, and accept several and joint responsibilities for any false information, misleading statements or material omissions in this announcement.

As required in the Letter of Enquiry in Relation to the 2015 Annual Report of Luoyang Glass Company Limited (Yu Zheng Jian Han [2016] No. 153) (hereinafter referred to as the "**Enquiry Letter**") issued by Henan Regulatory Bureau of China Securities Regulatory Commission, the Company hereby replies to the relevant enquiries in the Enquiry Letter as follows:

I. ENQUIRIES IN RELATION TO BUSINESS MERGERS

In 2015, the 100% equity interest in Longhao Company, 63.98% equity interest in Longfei Company, 67% equity interest in Dengfeng Silicon Company, 52% equity interest in Huasheng Mining and 40.29% equity interest in Group Mining, all of which were subsidiaries of the Company, and the claim receivables of the Company from Longhao Company, Longfei Company, Longxiang Company, Huasheng Mining and Group Mining were used for the asset swap at equivalent value with the 100% equity interest in Bengbu China National Building Materials Information Display Materials Company Limited (蚌埠中建材信息顯示材料有限公司) held by China Luoyang Float Glass (Group) Company Limited (中國洛陽浮法玻璃集團有限責任公司), the controlling shareholder, while the balance of the asset swap was paid by way of issuance of shares and cash.

The above transactions constitute a significant asset restructuring and shall be recognized as a business merger under common control. However, in the process of disposing of the equity investments in the subsidiaries and the relevant claim receivables, the Company accounted for the disposed assets on the basis of transferred assets and recognized the profit or loss of the relevant equity transfer in the consolidated financial statements, and made the provision for impairment of the relevant disposed claim receivables.

Please explain whether the above accounting approach complies with the relevant requirements set forth in the Accounting Standards for Business Enterprises No. 20 – Business Mergers in relation to the recognition of the difference between the assets entry value acquired from the merger and the book value of the consideration of the merger as capital reserves or retained earnings.

Reply:

In the process of the significant asset restructuring in 2015, the Company acquired 100% equity interest in Bengbu China Building Information Display Materials Co. Ltd.* (蚌埠中建材信息顯示材料有限公司) held by the controlling shareholder and disposed of equity interests and claim receivables of four subsidiaries (including Longhao Company) and one invested company. The difference in amount was paid by way of issuance of shares and cash. This is a merger under common control, and the profit and loss recognized mainly comprise the gain from the reversal of excessive deficit from disposal of subsidiaries of RMB540 million and the loss of claim receivables of RMB270 million from subsidiaries that are no longer included in the consolidated financial statements, amounting to a net gain of RMB270 million. The accounting treatments of the Company for the transaction and the reasons therefor are as follows:

1. Article 6 of the Accounting Standards for Business Enterprises No. 20 – Business Mergers provides that "the assets and liabilities obtained from the business merger by the merging party shall be measured at the book value as recorded by the merged party as at the date of merger. The difference between the book value of the net assets obtained and the book value of consideration paid for the merger by the merging party (or the total par value of shares issued) shall be adjusted to the capital reserve. If the capital reserve is insufficient, any excess shall be adjusted to retained earnings". In the restructuring transaction:

   (1) The book value of the net assets acquired by the Company as at the date of merger, i.e. the book value of the 100% equity interest in Bengbu China Building Information Display Materials Co. Ltd. (蚌埠中建材信息顯示材料有限公司) being acquired, was RMB690 million (as the equity assets acquired were newly constructed projects with an appraisal value of RMB680 million, which approximates to the book value, the consideration of the transaction was based on the appraisal value). According to the requirements under the standards, the Company recognized the costs of the long-term equity investment initially measured in accordance with the book value of the net assets of Bengbu China Building Information Display Materials Co. Ltd. (蚌埠中建材信息顯示材料有限公司), the assets and liabilities of Bengbu China Building Information Display Materials Co. Ltd. (蚌埠中建材信息顯示材料有限公司) were measured based on the book value in the consolidated financial statements, and figures in the comparative financial statements were adjusted according to the Accounting Standards for Business Enterprises No. 20 – Business Mergers in the preparation of the consolidated financial statements.

   (2) To obtain the acquired equity interest, the Company paid the consideration for the merger, including cash and non-cash assets: ① equity assets: the disposed equity interests were mainly subsidiaries which suffered long-term operating loss; in particular, the net assets of Longhao Company and Longfei Company were RMB-360 million and RMB-280 million respectively, and on the basis of the attributable net assets measured according to the shareholdings (i.e. the excess deficit of RMB540 million in aggregate), the consideration of the equity transaction was RMB1. As at the date of merger, the book value of the long-term equity investment from the Company in Longhao Company and Longfei Company at the book level has been written down to RMB0, and thus the book value of the disposal of equity interest in Longhao Company and Longfei Company was RMB0. The assets of the other three companies being disposed of were relatively insignificant. ② assets in respect of claim receivables: the original value of claim receivables (i.e. account receivables and held-to-maturity investment

and entrusted loans from the parent company) of disposed subsidiaries, including Longhao Company and Longfei Company, and the invested company was RMB710 million and the provision for bad debts made was RMB270 million, amounting to the book value of RMB440 million. As the appraisal value of disposed claim receivables was RMB440 million, which is consistent with the book value, the consideration of the restructuring transaction was based on the appraisal value. ③ issuance of shares: pursuant to the restructuring plan, the Company issued 15 million shares at RMB6 each, aggregating to RMB90 million which was used as part of the consideration of the merger (i.e. the total par value of the issuance of shares of RMB15 million). ④ cash assets: in the restructuring, the consideration paid in cash was RMB90.73 million. The book value of the above-mentioned cash and non-cash assets was RMB550 million.

Pursuant to the requirements of the standards, the difference between the book value of the net assets obtained and the book value of consideration paid for the merger by the merging party shall be adjusted to the capital reserve. In this restructuring transaction, the difference between the book value of the net assets obtained and the consideration paid for the merger adjusted the capital reserve by RMB100 million.

2. The Accounting Standard for Business Enterprises No. 20 – Business Mergers does not provide any requirement of accounting approach on the disposal of reversal of the excess deficit of subsidiaries. The Accounting Standards for Business Enterprises No. 33 – Consolidated Financial Statements may provide the foundation and as stipulated by the Questions and Answers in Respect of Regulation Issues Regarding the Implementation of the Accounting Standards for Business Enterprises by Listed Companies by the China Securities Regulatory Commission [first phase of 2009] (Kuai Ji Bu Han [2009] No. 48), in particular, the answer to Question 3 on "How to perform accounting treatment in the consolidated financial statements in relation to the transfer of economic business operations of subsidiaries with excess deficit upon the implementation of the new accounting standards?" in the Questions and Answers stipulates that "regarding a company's investment loss not recognized for subsidiaries with excess deficit pursuant to relevant regulations before 31 December 2006, when the Company transfers the aforesaid subsidiaries with excess deficit upon the implementation of the new accounting standards, the difference between the consideration of the transfer and the above-mentioned investment loss not recognized shall be adjusted to undistributed profit and shall not be recognized as gains from investment for the period in the consolidated income statement; as to the excess deficit of subsidiaries recognized in the income statement upon the implementation of new accounting standards, the difference between the consideration of the transfer and the recognized

excess deficit may be recorded in the consolidated income statement for the current period as investment income when the subsidiary is transferred." Therefore, the disposal of subsidiaries with excess deficit in the transaction (the loss was mainly caused upon the implementation of the new standards) was recognized as investment income in the consolidated financial statement. Moreover, there are many ways where the parent company loses its control over a subsidiary such as direct disposal, acquisition of other assets by way of payment of consideration and liquidation, but the standards do not provide whether different treatments shall be applied for the reversal of excess deficit under different ways of losing control. From the consolidated statement, different ways of losing control shall have substantially the same impact on the consolidated financial statement.

As for the loss in the disposed claim receivables due also to the changing scope of consolidation, it shall be proceeded with accounting treatment in accordance with the Accounting Standard for Business Enterprises No. 33 – Consolidated Financial Statements and relevant standards. Upon the disposal of the subsidiaries, the claim receivables from and the provision for bad debts made for Longhao Company, Longfei Company and other companies by the Company were no longer offset as internal transactions, and became the external claim receivables. Pursuant to the stipulations under the Accounting Standard for Business Enterprises No. 8 – Impairment of Assets and the Accounting Standard for Business Enterprises No. 22 – Recognition and Measurement of Financial Instruments, provision for impairment of RMB270 million that became actual loss shall be recognized as impairment loss on assets for the current period. Should such transaction be allowed to be recognized as equity, a company, in practice, may adjust its financial statement and recognize the loss that shall be recorded in the costs for the current period as equity through "fabricating" transactions and achieve regulatory arbitrage.

3. With respect to the accounting approach for business mergers under common control, the parties thereto shall not alter the measurement attributes for assets and liabilities, i.e. making measurement in accordance with the book value. In the asset restructuring, the value of the acquired assets of the Company (i.e. the assets injected by the controlling shareholder) and the acquired assets of the controlling shareholder (i.e. the disposed assets of the Company) were measured in accordance with the book value of the assets and liabilities of the original accounting entity instead of the fair value (appraisal value), which is in line with the requirements under the principle for the entry value of assets and liabilities for business mergers under common control. Meanwhile, the subsidiaries acquired or disposed of during the current period refer to the assets acquired and disposed of. Consolidated statements were prepared pursuant to the requirements under the Accounting Standards for Business Enterprises No. 33, i.e. adjustments were made to the comparative financial statements, while the income, costs and cash flows of the disposed subsidiaries before the date of merger were incorporated into the consolidated statements. In view of the above, the appreciation of the appraisal value of the acquired and disposed assets under this transaction was relatively small, whereas the significant amount of gain or loss from the disposal was not attributable to appreciation of the value of the disposed assets but was the result of the treatment to items with excess deficit and impairment loss according to the consolidated financial statements, which shall not be recognized as "difference between the assets entry value acquired from the merger and the book value of the consideration of the merger".

   In view of the aforesaid, regarding the entry value of the acquired assets under this transaction and the preparation of the consolidated financial statements as well as the principal gain and loss arising from the disposal of the assets, the Company performed the accounting treatments in accordance with the relevant standards, which was in line with the requirements under the Accounting Standards for Business Enterprises.

II. ACCOUNTS RECEIVABLE

Please elaborate on the provisions for bad debts for accounts receivable of the Company made, recovered or reversed for the current period and the accounts receivables actually verified and written off for the current period.

Reply:

1. Bad debts provision provided, recovered or reversed during the current period

   Bad debts provision provided during the current period amounted to RMB76,110,734.67 and provisions for bad debt recovered or reversed during the current period amount to RMB0.

2. Accounts receivables actually verified and written off during the current period amounted to RMB72,509,658.55, among which the major accounts receivables actually verified and written off are as follows:

Unit: RMB (Yuan)

Name of enterprise	Nature of the receivables	Amount of write-off	Reasons for write-off	The procedure involved in performing write-off	Whether or not arising from related party transactions
CLFG Longfei Glass Co. Ltd	Current accounts	38,619,150.86	Disposal of claim receivables in asset restructuring	Resolved by the Board and shareholders' meeting	Yes
CLFG Longxiang Glass Co. Ltd	Current accounts	33,888,598.45	Disposal of claim receivables in asset restructuring	Resolved by the Board and shareholders' meeting	Yes
Total		72,507,749.31			

III. OTHER RECEIVABLES

1. **Please elaborate on other receivables of the Company – the nature of the payments from Xili Branch, Zhengzhou of China Construction Bank and the reasons why full provision for bad debts was made.**

2. **Please elaborate on the provisions for bad debts for other receivables of the Company made, recovered or reversed for the current period and other receivables actually verified and written off for the current period.**

Reply:

1. Other receivables – the nature of receivables of the Xili Branch in Zhengzhou of China Construction Bank and the reasons for full provision for bad debts was made

   Other receivables – the nature of receivables of the Xili Branch in Zhengzhou of China Construction Bank is time deposit. In 5 December 1995, the Company deposited RMB20 million at Xili Branch in Zhengzhou of China Construction Bank (hereinafter referred to as "**Xili Branch**") for a period of one year. Afterwards, the Company lent the time deposit to Xinghua South Street First Wholesale Department of Zhengzhou Pharmaceutical Distribution Company (hereinafter referred to as "**Pharmaceutical Company**") via Xili Branch. Due to the reason that the Company was unable to collect the principal and interests after the maturity date, the Company filed a lawsuit in court. In 1997, Henan High People's Court ordered the Pharmaceutical Company to repay the principal and interests to the Company, and the Xili Branch shall assume the liability for compensating 40% of the amount which the Pharmaceutical Company failed to repay. In 1999, the Xili Branch has fulfilled its obligation to compensate. The Company made a full provision for bad debts of the remaining principal in accordance with the actual circumstances.

2. (1) Bad debts provision provided, recovered or reversed during the current period

   Bad debts provision provided during the current period amounted to RMB17,342,521.37, and provisions for bad debt recovered or reversed during the current period amount to RMB0.

(2) Other receivables actually verified and written off during the current period amounted to RMB10,681,917.04, among which the major other receivables actually verified and written off are as follows:

Unit: RMB (Yuan)

Name of enterprise	Nature of the receivables	Amount of write-off	Reasons for write-off	The procedure involved in performing write-off	Whether or not arising from related party transactions
CLFG Longfei Glass Co. Ltd	Current accounts	10,673,100.00	Disposal of claim receivables in asset restructuring	Resolved by the Board and shareholders' meeting	Yes
Total		10,673,100.00			

IV. AVAILABLE-FOR-SALE FINANCIAL ASSETS

Please elaborate on relevant issues that the Company has no significant impact on CLFG Luoyang Jingwei Glass Fibre Co., Ltd., (洛玻集團洛陽晶緯玻璃纖維有限公司) CLFG Luoyang Jingjiu Glass Products Company Limited (洛玻集團洛陽晶久製品有限公司) and CLFG Luoyang New Lighting Company Limited (洛玻集團洛陽新光源照明有限公司), although its equity investments in them have all exceeded 20%.

Reply:

Criteria for determining significant impact were mainly:

(I) representative sent to the Board or similar authority of the invested company.

(II) participation in the formulation process of financial or operation policies of the invested company.

(III) material transaction with the invested company.

(IV) management personnel assigned to the invested company.

(V) key technological information provided to the invested company.

Based on the above criteria, neither did the Company assign management personnel to CLFG Luoyang Jingwei Glass Fibre Co., Ltd. (洛玻集團洛陽晶緯玻璃纖維有限公司), CLFG Luoyang Jingjiu Glass Products Company Limited (洛玻集團洛陽晶久製品有限公司) and CLFG Luoyang New Lighting Company Limited (洛玻集團洛陽新光源照明有限公司), nor did it participate in the formulation process of financial or operation policies of these invested companies, nor did it enter into material transactions with these invested companies, nor did it provide key technological information to these invested companies. As a result, the Company determined that it does not have significant influence on these invested companies and therefore classifies them as available-for-sale financial assets.

These three invested companies, namely CLFG Luoyang Jingwei Glass Fibre Co., Ltd. (洛玻集團洛陽晶緯玻璃纖維有限公司), CLFG Luoyang Jingjiu Glass Products Company Limited (洛玻集團洛陽晶久製品有限公司) and CLFG Luoyang New Lighting Company Limited (洛玻集團洛陽新光源照明有限公司), are currently closed down and there are no production and operation activities in these invested companies. The financial statements of these three companies show insolvency. As early as in 2002, the Company had already made provision of asset impairment at the full investment costs for the above three invested companies.

V. LONG-TERM RECEIVABLES

In December 2013, the Company transferred its 100% equity interest in Luoyang Luobo Industrial Co., Ltd. to Luoyang Tianyuan Property Company Limited at the consideration of RMB122 million, among which, RMB55 million was discounted as long-term receivables at the banks' lending rate of 6.15% for the same period with a term of 34 months. Please specify:

1. **Whether there is any connected relationship between the Company and Luoyang Tianyuan Property Company Limited;**

2. **The allocation of the unrealized financing income during the reporting period;**

3. **Whether there are signs of impairment of the long-term receivables and impairment testing is conducted.**

Reply:

1. There is no connected relationship between the Company and Luoyang Tianyuan Property Company Limited (hereinafter referred to as "**Tianyuan Company**"). According to the inquiries of business information, Tianyuan Company was established on 9 December 1998 with the registered capital of RMB50.66 million. Shareholders were natural persons Wang Ronghui and Ma Anle. Tianyuan Company is mainly engaged in real estate development business.

2. The allocation of the unrealized financing income during the reporting period is as follows:

Unit: RMB (Yuan)

Period	**Confirmed financing income**	**Carrying value of long-term receivables**
January 2015	249,330.13	48,899,110.78
February 2015	250,607.94	49,149,718.72
March 2015	251,892.31	49,401,611.03
April 2015	253,183.26	49,654,794.29
May 2015	254,480.82	49,909,275.11
June 2015	255,785.03	50,165,060.14
July 2015	257,095.93	50,422,156.08
August 2015	258,413.55	50,680,569.63
September 2015	259,737.92	50,940,307.55
October 2015	261,069.08	51,201,376.62
November 2015	262,407.06	51,463,783.68
December 2015	263,751.89	51,727,535.57
Total	3,077,754.92	

3. On 31 December 2013, the Company and Tianyuan Company entered into the Equity Transfer Contract whereby the 100% equity interest in Luoyang Luobo Industrial Co., Ltd. (洛陽洛玻實業有限公司) held by the Company was transferred to Tianyuan Company at a consideration of RMB122,000,000. On 21 February 2014, as resolved at the shareholders' meeting, it was approved that the Company shall dispose of the 100% equity interest in Luoyang Luobo Industrial Co., Ltd. (洛陽洛玻實業有限公司), and the Company completed the formalities for the disposal of the equity interest. Pursuant to the payment method and payment schedule stipulated in the Equity Transfer Contract, the Company received from Tianyuan Company the consideration for the equity transfer of RMB63 million on 31 December 2013 and RMB4 million in January 2014. The remaining consideration for the equity transfer of RMB55 million may be paid in kind by Tianyuan Company, i.e. by the transfer of frame structure properties worth RMB55 million (calculated on the basis of RMB5,800 per square meter for aboveground structures and RMB4,000 per square meter for underground structures) to the Company by 31 December 2016 which may be extended to 31 December 2017 in case of difficulties. As of 31 December 2015, the Company was of the view that there were no signs of impairment of the long-term receivables of RMB55 million, and the reasons are as follows:

The property as agreed upon between the Company and Tianyuan Company is located in Luoyang National Hi-Tech Industrial Development Zone surrounded by numerous enterprises and institutions, as well as the key military industry enterprise 5715, military hospitals 150, 534 and 202, etc.. Adjacent to the four main parks, namely the Zhoushan Forest Park, Luopu Park, Yalong Bay Amusement Park, and the Art Museum of Stone Painting, and situated close to the Luohe River, which is a prime area, with various kindergartens, elementary schools, middle schools, senior high schools (including a key senior high school of the city). All this bestows the area with rich educational resources and a well-developed community; Moreover, as required in the contract between the parties, the real estate transferred to the Company by Tianyuan Company shall have the property ownership certificate and land use certificate and such property shall be furnished with water supply, electricity, broadband network, granite on the exterior and delicate interior decoration, and elevators in line with design standards so as to meet the criteria of the Company for immediate use; the underground structures transferred should be ensured to be divided into designated parking space and the formalities for obtaining property ownership certificate shall be completed.

It is known that the average selling price of nearby residential areas (pre-sold residential properties and non-renovated properties) is approximately RMB6,000 per square meter. The properties agreed by the Company and Tianyuan Company are renovated, the selling price of which shall be higher than that of pre-sold residential properties and non-renovated properties. Therefore, the Company is of the view that no sign of impairment exists.

VI. HELD-TO-MATURITY INVESTMENTS

According to the notes to the financial statements-impairment loss on assets, the impairment loss on assets of the Company for the current period included impairment loss on held-to-maturity assets of RMB191 million. Please elaborate on the relevant held-to-maturity investments.

Reply:

The principal reason for the loss on impairment of held-to-maturity investment of RMB191 million for the current period is that upon the disposal of certain subsidiaries due to the completion of the significant asset restructuring, the original amount of entrusted loans to the disposed subsidiaries could not be recovered in full, and the difference between the recoverable amount and the carrying amount of such entrusted loans on the disposal date (Completion date: 21 December 2015) is recognized in the consolidated statement as impairment loss on assets. The process of the calculation of the impairment of the held-to-maturity investment is as follows:

Unit: RMB (Yuan)

Debtor	Item in the financial statement	Balance of claim as at the settlement date of the asset restructuring (1)	Amount recovered as of the end of the reporting period (2)	Amount of loss (3)=(1)-(2)
CLFG Longfei Glass Co. Ltd.	Held-to-maturity investment	72,000,000.00		72,000,000.00
CLFG Longhao Glass Co. Ltd.	Held-to-maturity investment	135,089,000.00	16,050,083.96	119,038,916.04
Total		207,089,000.00	16,050,083.96	191,038,916.04

Announcement is hereby given.

By order of the Board
LUOYANG GLASS COMPANY LIMITED*
Zhang Chong
Chairman

Luoyang, the PRC
19 May 2016

As at the date of this announcement, the Board comprises four executive Directors: Mr. Zhang Chong, Mr. Ni Zhisen, Mr. Wang Guoqiang and Mr. Ma Yan; three non-executive Directors: Mr. Zhang Chengong, Mr. Xie Jun and Mr. Tang Liwei; and four independent non-executive Directors: Mr. Jin Zhanping, Mr. Liu Tianni, Mr. Ye Shuhua and Mr. He Baofeng.

* *For identification purposes only*