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: 1108)

2007 Annual Report

Contents

Important Notice

The Board of Directors (the "Board") and Supervisory Committee of Luoyang Glass Company Limited (the "Company") and its directors (the "Directors"), supervisors and senior management warrant that there are no false representation and misleading statement in or material omission from this report and jointly and severally accept responsibilities for the truthfulness, accuracy and completeness of the content contained herein.

Due to personal reasons, independent director Mr. Ge Tieming appointed independent director Mr. Guo Aimin to attend the meeting on his behalf and exercise voting rights. Other directors attended the Board meeting.

As Deputy General Manager Mr. Cheng Zonghui was out of the country, he did not sign confirmations of opinions in respect of the content of the annual report.

The financial statements were prepared by the management of the Company and its subsidiaries (the "Group") in accordance with the People's Republic of China ("PRC") Accounting Rules and Regulations and International Financial Reporting Standards and audited by Guangdong Hengxin Delu Certified Accountants Company Limited and Ting Ho Kwan & Chan Certified Public Accountants (practising) respectively. The auditors have issued auditors' reports with explanatory paragraph. Detailed explanations were also made by the Board and the Supervisory Committee of the Company; investors are advised to take note in reading this summary.

Mr. Zhu Leibo, the Chairman of the Company, Mr. Cao Mingchun, the Chief Financial Officer and and Ms. Hai Sumin, the Head of Financial Department, warrant the authenticity and completeness of the financial statements set out in the annual report.

Chairman: **Zhu Leibo**

Chief Financial Officer: **Cao Mingchun**

Head of Financial Department: **Hai Sumin**

Company profile

1.	Registered company name in Chinese: Company's Short Name: Registered company name in English:	洛陽玻璃股份有限公司 Luoyang Glass Luoyang Glass Company Limited (Abbreviation: LYG)
2.	Legal representative:	Mr. Zhu Leibo
3.	Board secretary: Correspondence address:	Mr. Cao Mingchun Secretary office of the Board of Luoyang Glass Company Limited No. 9, Tang Gong Zhong Lu, Xigong District, Luoyang Municipal, Henan Province, the PRC
	Telephone: Facsimile: E-mail: Securities representative of the Board: Correspondence address:	86-379-63908588; 63908856 86-379-63251984 cmc@clfg.com Zhang Kefeng Secretary office of the Board of Luoyang Glass Company Limited No. 9, Tang Gong Zhong Lu, Xigong District, Luoyang Municipal, Henan Province, the PRC
	Telephone: Facsimile: E-mail:	86-379-63908629 86-379-63251984 lyzkf@163.com
4.	Registered address and office address:	No.9, Tang Gong Zhong Lu, Xigong District Luoyang Municipal, Henan Province, the People's Republic of China (the "PRC")
	Postal code: Internet website:	471009 http://www.zhglb.com/
5.	Newspapers for information disclosure: The website for publishing the annual report: Company's annual report available at:	China Securities Journal and Shanghai Securities News http://www.sse.com.cn and http://www.hkexnews.hk Secretarial Office of the Board of Luoyang Glass Company Limited
6.	A Shares — Place of Listing: Stock Code: Stock Name: H Shares — Place of Listing: Stock Code: Stock Name:	Shanghai Stock Exchange 600876 Luoyang Glass The Stock Exchange of Hong Kong Limited 1108 Luoyang Glass
7.	Date of the First Registration of the Company: Place of the First Registration of the Company:	6 April 1994 Luoyang Administration for Industry and Commerce
8.	Date and Place of Registration of Change of the Company:	19 April 1995 at the Luoyang Administration for Industry and Commerce 9 August 1996 at Luoyang Administration for Industry and Commerce (Approved by the the State Administration for Industry and Commerce).
9.	Legal Person Business Registration Number of the Company:	Qi Ye Yu Luo Zong Zi 000327
10.	Taxation Registration Number of the Company:	41030300100100027
11.	Enterprise Code Certificate:	61480889-9
12.	Accountants the Company appointed The PRC: International:	 GuangDong HengXin Delu Certified Public Accountants Company Limited Zhuhai, the PRC Ting Ho Kwan & Chan, Certified Public Accountants (practising) 9/F, Tung Ning Building, 249-253 Des Voeux Road Central, Hong Kong
13.	Legal Advisers Legal advisor of the PRC: Address: Legal advisor of Hong Kong: Address:	 Henan Wang Cheng Law Firm 6/F, Henan Run Sheng, Lichun West Road, Luoyang, Henan, the PRC Li & Partners Solicitors 21/F, World Wide House, Central, Hong Kong

Summary of accounting and business data

(1) Major financial data in the reporting period

Items	Amount *(Rmb'000)*
Operating profit	(87,226)
Total profit	(73,009)
Net profit attributable to shareholders of the Company	(95,343)
Net profit after non-recurring items attributable to shareholders of the Company	(110,186)
Net cash flow from operating activities	(10,721)

(2) Net profit after non-recurring items

Non-recurring items	Amount *(Rmb'000)*
Profit or loss on disposal of non-current assets	8,897
Government subsidies through profit or loss for the reporting period	2,695
Profit or loss from reorganization of debt	252
Other non-operating income and expenses	2,372
Profit or loss of entrusted investment	5
Effect of non-recurring profit or loss on income tax	(48)
Effect of non-recurring profit or loss on minority interest	670
Total	14,843

(3) Differences between IFRSs and the PRC Accounting Rules and Regulations

Unit: Rmb'000

	PRC accounting standards	IFRSs
Net profit	(95,343)	(100,089)
Net asset	216,373	143,819
Description of differences	Significant differences between the annual financial reports of the Group for the year prepared under the PRC accounting standards and regulations and IFRSs are set out in this summary of the financial report.	

Summary of accounting and business data

(Continued)

(4) Principal accounting data and financial indicators in the previous three years as at the end of the reporting period

Unit: Rmb'000

Principal financial indicators	2007	2006 Prior to adjustments	2006 Upon adjustments	Increase/ decrease as compared with last year *(%)*	2005 Prior to adjustments	2005 Upon adjustments
operating revenue	1,508,756	1,247,338	1,247,338	20.96	1,075,860	1,075,860
Total profit	(73,009)	(413,526)	(429,032)	82.98	3,487	3,487
Net profit attributable to shareholders of the listed company	(95,343)	(317,482)	(372,467)	74.40	4,952	4,952
Net profit after extraordinary profit or loss attributable to shareholders of the listed company	(110,186)	(309,706)	(366,922)	69.97	(87,255)	(87,255)
Net cash flow from operating activities	(10,721)	(7,549)	(7,551)	(41.98)	153,464	153,464
Total assets	2,039,582	2,189,300	2,189,294	(6.84)	2,610,375	2,610,375
Shareholder's interest (or shareholders' equity interest)	216,373	313,660	311,716	(30.59)	951,079	951,079
Basic earnings per share (Rmb)	(0.19)	(0.45)	(0.53)	64.15	0.007	0.007
Diluted earnings per share (Rmb)	(0.19)	(0.45)	(0.53)	64.15	0.007	0.007
Basic earnings per share after extraordinary profit or loss (Rmb)	(0.22)	(0.44)	(0.52)	57.69	(0.12)	(0.12)
Return on net assets (fully diluted) (%)	(44.06)	(101.22)	(119.49)	Increased by 75.43 percentage points	0.52	0.52
Weighted average return on net assets (%)	(36.11)	(40.07)	(48.21)	Increased by 12.10 percentage points	0.52	0.52
Return on net assets after non-recurring items (fully diluted) (%)	(50.92)	(98.74)	(117.71)	Increased by 66.79 percentage points	(9.17)	(9.17)
Weighted average return on net assets after non-recurring items (%)	(41.73)	(39.09)	(47.49)	Increased by 5.76 percentage points	(9.25)	(9.25)
Net cash flow per share from operating activities (Rmb)	(0.021)	(0.015)	(0.015)	40.00	0.22	0.22
Net assets per share attributable to shareholders of the listed company (Rmb)	0.43	0.63	0.62	(30.65)	1.36	1.36

Change in share capital and shareholders

1. Share changes

Unit: share

Items	Before change Number	Before change Percentage	Increase/(decrease) New share Issue	Bonus issue	Converted from capital reserve	Others	Sub-total	After change Number	After change Percentage
I. Share subject to trading moratorium	179,018,242	35.80%						179,018,242	35.80%
1. State-owned shares									
2. State-owned legal person shares	179,018,242	35.80%						179,018,242	35.80%
3. Other domestic shares									
Including: shares held by domestic corporations									
Shares held by domestic natural persons									
4. Foreign invested shares									
Including: shares held by overseas corporations									
shares held by overseas individuals									
II. Share not subject to trading moratorium	321,000,000	64.20%						321,000,000	64.20%
1. Ordinary domestic shares	71,000,000	14.20%						71,000,000	14.20%
2. Domestically listed foreign invested shares									
3. Overseas listed foreign invested shares	250,000,000	50%						250,000,000	50%
4. Others									
III. Total shares	500,018,242	100%						500,018,242	100%

Changes in shares subject to trading moratorium

Name of shareholder	Number of shares subject to trading moratorium at the beginning of the year	Number of shares with trading moratorium released in the year	Increase/ decrease of shares subject to trading moratorium in the year	Numbers of shares subject to trading moratorium at the end of the year	Reason for trading moratorium	Expiry date of trading moratorium
China Luoyang Float Glass (Group) Company Limited	179,018,242	0	0	179,018,242	Share Reform	Nil

2. Issuance and Listing of Securities

1. For the three years ended before the end of the reporting period, the Company has not issued stocks, convertible corporate bond, bonds with warrants, bonds with warrants, corporate bonds or other derivative securities.

2. There is no change in the total number of shares and shareholding structure of the Company during the reporting period.

3. There is no internal employee's shares during the reporting period.

3. Shareholders and de facto controller

1. Total numbers and shareholding of shareholders

Unit: share

Total number of shareholders: As at 31 December 2007, there were 20,354 shareholders, including 1 state-owned legal person shareholder, 20,275 shareholders of A shares and 78 shareholders of H shares.

Shareholdings of the top 10 shareholders

Name of shareholders	Nature of shareholder	Percentage	Numbers of shares held	Number of shares subject to trading moratorium held	Number of shares pledged or frozen
China Luoyang Float Glass (Group) Company Limited	State-owned shareholder	35.80%	179,018,242	179,018,242	Nil
HKSCC Nominees Limited	Foreign shareholder	49.45%	247,250,998	0	Nil
Hedy Holding Co.,Ltd	Others	0.156%	780,000	0	Nil
Shan Xuejun(單學軍)	Others	0.095%	475,400	0	Nil
Liu Shengli(劉勝利)	Others	0.076%	381,800	0	Nil
Chuk Yee Men Liza	Foreign shareholder	0.075%	374,000	0	Nil
Han Jianmin(韓建民)	Others	0.069%	345,000	0	Nil
Huang Jingjing(黃晶晶)	Others	0.065%	327,033	0	Nil
ZhaoYuhua(趙玉花)	Others	0.061%	302,700	0	Nil
Chen Zhou(陳舟)	Others	0.06%	302,100	0	Nil

Shareholdings of the top 10 holders of shares not subject to trading moratorium

Name of shareholders	Number of shares not subject to trading moratorium shares held	Type of shares
HKSCC Nominees Limited	247,250,998	Overseas listed foreign shares
Hedy Holding Co.,Ltd	780,000	Ordinary shares denominated in Rmb
Shan Xuejun(單學軍)	475,400	Ordinary shares denominated in Rmb
Liu Shengli(劉勝利)	381,800	Ordinary shares denominated in Rmb
Chuk Yee Men Liza	374,000	Overseas listed foreign shares
Han Jianmin(韓建民)	345,000	Ordinary shares denominated in Rmb
Huang Jingjing(黃晶晶)	327,033	Overseas listed foreign shares
Zhao Yuhua(趙玉花)	302,700	Ordinary shares denominated in Rmb
Chen Zhou(陳舟)	302,100	Ordinary shares denominated in Rmb
Wong Ming Shun	280,000	Overseas listed foreign shares

Explanations on connected relationship or action in concert of the above shareholders: There is no connected relationship or action in concert as defined by Regulations for Disclosure of Changes in Shareholding of Listed Companies《上市公司股東持股變動信息披露管理辦法》among the top ten shareholders of the Company, including CLFG and shareholders of circulating shares. The Company is not aware of any parties acting in concert or any connected relationship among other shareholders of circulating shares.

Note: Nature of shareholder includes State-owned shareholder, Foreign shareholder and Others. Type of shares includes Ordinary shares denominated in Rmb, Domestic listed foreign shares, Overseas listed foreign shares and Other.

3. Shareholders and de facto controller *(continued)*

2. Information on Controlling Shareholder

Name of Controlling Shareholder:	China Luoyang FloatGlass (Group) Company Limited
Legal Representative:	Liu Baoying
Regitered Capital:	Rmb1,286,740,000
Date of establishment:	April 1991
Principal Activities:	Production and sales of float glass; import, export and domestic sales of glass, processing technology, design and subcontracting of engineering works and labour export.

Apart from China Luoyang Float Glass (Group) Company Limited, no other legal person shareholder (excluding HKSCC Nominees Limited) holds 10% or more shares of the Company.

3. Information on the de facto controller of the Company

Name of the de facto controller:	China National Building Material Group Corporation
Legal Representative:	Song Zhiping
Registered Capital:	Rmb3,723,038,000
Date of establishment:	1984
Principal Activities:	The Company is principally engaged in the development, wholesale and retail of construction material (including steel products and wood products, but only purchase and supply to those enterprises which are directly under and supply to the system), raw materials and productive technology equipment as well as the supply of seden in the plan of the system; undertake the designs of housing, factory and decoration with new construction materials. Not to mention: real estate operations with new materials and technology equiry and information service in relations to principal activities.

Details of other controller are set out as follows:

Name of shareholders	Shareholding percentage
China National Building Material Group Corporation	70%
Luoyang Assets Management Company	10.27%
China Hua Rong Assets Management Company	8.55%
China Changcheng Assets Management Company	5.44%
China Dongfang Assets Management Company	3.10%
China Xinda Assets Management Company	1.94%
China Xinxing Construction Material (Group) Company	0.7%

4. Change in de facto controller

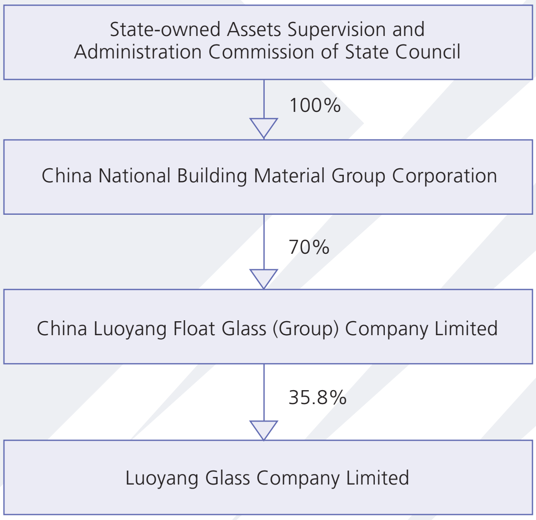
On 22 June 2007, the State-owned Assets Supervision and Administration Commission of the State Council issued "Reply and Approval in relation to the Transfer at Nil consideration of State-owned Shares in China Luoyang Float Glass (Group) Company Limited" (No.552 (2007) Guo Zi Chan Quan) and approved the transfer of 70% shares in CLFG held by Luoyang State-owned Assets Operation Company to China National Building Material Group Corporation ("CNBMG") at nil consideration. On 11 September 2007, China National Building Material Group Corporation received a "Reply and Approval of the agreement on the announcement of China National Building Material Group Corporation in relation to the acquisition report of Luoyang Glass Company Limited and the waiver of its obligations of the acquisition." (No. 144 [2007] Zheng Jain Gong Si Zi) from China Securities Regulatory Commissions. According to which, China National Building Material Group Corporation was agreed to hold 179,018,242 shares (35.80% total share capital of the Company) of the Company due to the administrative reform of domestic share and waive its obligation for general offer. It is thereby that China National Building Material Group Corporation become the de facto controller of the Company.

Change in share capital and shareholders

(Continued)

3. Shareholders and de facto controller *(continued)*

5. Framework of equity interests and controlling relationship between the Company and de facto controllers.



Directors, supervisors, senior management and employees

1. General information, changes in shareholding for the year and remuneration of Directors, Supervisors, Senior Management

Number of A shares held in the interest of individuals

Name	Position	Sex	Age	Date of Appointment	Date of cessation	Shareholding at the beginning of the year (share)	Shareholding at the end of the year (share)	Reason of change	Total remuneration received from the Company during the reporting period *(Rmb'0000)*	Whether they received remuneration from corporate shareholders or other connected parties
Zhu Leibo	Chairman	M	45	2006-04-10 (Director) 2007-9-12 (Chairman)	2009-04-10	2,840	2,840	Nil	19.55	No
Gao Tianbao	Executive Director General Manager	M	49	2007-09-10 (Director) 2007-07-24 (Gerneral Manager)	2009-04-10	0	0	Nil	16.37	No
Zhu Liuxin	Executive Director Duputy General Manager	M	55	2006-04-10 (Director) 2007-07-24 (Deputy General Manager)	2009-04-10	2,414	2,414	Nil	16.37	No
Xie Jun	Executive Director Duputy General Manager	M	42	2007-09-10 (Director) 2007-07-24 (Deputy General Manager)	2009-04-10	0	0	Nil	7.33	No
Cao Mingchun	Executive Director Duputy General Manager Chief Financial Officer Board Secretary	M	44	2006-04-10 (Chief financial officer and Board Secretary) 2007-09-10 (Director) 2007-07-24 (Deputy GeneralManager)	2009-04-10	0	0	Nil	10.6	No
Shen Anqin	Non-executive director	M	58	2007-09-10	2009-04-10	0	0	Nil	4	No
Yang Weiping	Non-executive director	M	49	2007-09-10	2009-04-10	0	0	Nil	4	No
Xi Shengyang	Independent Director	M	52	2006-04-10	2009-04-10	0	0	Nil	4	No
Guo Aimin	Independent Director	M	52	2006-04-10	2009-04-10	0	0	Nil	4	No
ZhangZhanying	Independent Director	M	49	2006-04-10	2009-04-10	0	0	Nil	4	No
Ge Tieming	Independent Director	M	62	2007-09-10	2009-04-10	0	0	Nil	4	No
Ren Zhenduo (任振鐸)	Chairman of the Supervisory Committee	M	43	2007-09-10 (Supervisory) 2007-9-12 (Chairman of the Superviosry Committee)	2009-04-10	0	0	Nil	10.5	No
Li Jingyi (李靜宜)	Independent Supervisor	F	54	2006-04-10	2009-04-10	0	0	Nil	2	No
He Baofeng (何寶峰)	Independent Supervisor	M	36	2007-09-10	2009-04-10	0	0	Nil	2	No
Yao Wenjun (姚文君)	Supervisor	F	39	2007-09-10	2009-04-10	0	0	Nil	2	No
Lu Junfend (盧俊峰)	Supervisor from staff represenative	M	39	2007-09-10	2009-04-10	0	0	Nil	3.33	No
Wong Yiu Hung (黃耀雄)	Company Secretary and qualifted accountant	M	51	2007-10-08	2009-04-10	0	0	Nil	HK$125,000	No
Cheng Zonghui (程宗慧)	Deputy General Manager	M	45	2007-07-24	2009-04-10	0	0	Nil	8.84	No
Song Jianming (宋建明)	Deputy General Manager	M	51	2007-07-24	2009-04-10	0	0	Nil	8.35	No

Note:

(1) Save as disclosed above, as at 31 December 2007, none of the Directors, Supervisors and senior management of the Company had any interest nor short position in the underlying shares or debentures in the shares, equity derivatives of the Company or its associated corporations (within the meaning as defined in Part XV of the "Securities and Futures Ordinance" (Chapter 571 of the Hong Kong Ordinance)) which was required to be entered in the register of interest maintained by the Company pursuant to section 352 of the "Securities and Futures Ordinance"; or required to be notified to the Company or Hong Kong Stock Exchange pursuant to the "Model Code for Securities Transactions by Directors of Listed Companies".

(2) As at 31 December 2007, none of the Directors, supervisors or their spouses or children under the age of eighteen was granted right to purchase shares or debentures of the Company or any of its associated corporations.

(3) Total remuneration above amounted to Rmb1,433,900.

2. Major work experience of Directors, Supervisors and Senior Management in past five years

Directors:

Mr. Zhu Leibo, aged 45, Doctor of Science, professor-grade Senior Engineer, Chairman of the Company. Mr. Zhu has served as general manager and deputy secretary of Party Committee of CLFG since June 2003. In September 2007, he served as the Chairman of the Company. He is also a Vice Chairman of China Federation of Building Materials Industries, standing director of China Silicate Institute, member of National glass standard technology committee, professor and graduate tutor of Shanghai Tongji University, doctoral adviser of China Building Materials Academy, professor of Wuhan University of Technology.

Mr. Gao Tianbao, aged 49, a senior accountant with a bachelor's degree, He is currently Executive Director and General Manager of the Company. He is also Chairman of China Luoyang Float Glass Group Financial Company. He had served as Financial Controller of the Company and Financial Controller of the Parent. He has extensive operation and management experience in glass industry. Mr. Gao is director of Henan management account society, vice chairman of Henan Province Metallurgy & Building Materials Financial Society, economy and technology expert of flat glass special committee of China building glass and industry glass association.

Mr. Zhu Liuxin, aged 55, Senior Engineer, Executive Director and Deputy General Manager of the Company. He is Chairman of CLFG Longhao Glass Company Limited (a subsidiary of the Company) and Chairman of Yinan Huasheng Mining Company Limited. Mr. Zhu has served as deputy general manager of the Company since 1996, being in charge of production management. He has extensive theory and practice experience in production and technology management.

Mr. Xie Jun, aged 42, Doctor, Senior Engineer, Executive Director and Deputy General Manager of the Company. From June 2003 to December 2005, he served as party secretary and deputy general manager of the Company. From May 2006, he served as Standing Member of party committee of China Luoyang Float Glass (Group) Company Limited. From July 2007, He served as deputy general manager for the second time. He specialises in the research of float glass technology, production coordination, enterprise management and marketing.

Mr. Cao Mingchun, aged 44, Postgraduate, Executive Director, Deputy General Manager, Financial Controller and Secretary to the Board of the Company. From 1994 he served as deputy general manager of Company's subsidiary Chenzhou Bada Glass Co., Ltd. and manager of the Company's supplies department. He has profound practice experience in dealing with the Group's financial management, business of domestic and overseas listed companies and materials supply management. In recent years, He participated in share reform of the Company, the strategic reconstruction with CNBMG, enterprise capital operation, reconstruction of internal assets of the Company and corporate governance.

Mr. Shen Anqin, aged 58, a senior accountant with a bachelor's degree, Non-executive director of the Company. He is currently the deputy general manager and chief accountant of China National Building Material Group Corporation. From August 1998 he served as Vice President of China National Building Material Group Corporation and from September 2003 he served as chief accountant of China National Building Material Group Corporation. Mr. Shen has extensive experience in corporate finance management.

Mr. Yang Weiping, aged 49, an enterprise legal adviser and lawyer with master degree, Non-executive director of the Company. He is currently the head of Legal Affairs Department of CLFG. Mr. Yang has engaged in work concerning legal affairs for a long term. He has extensive experience as an enterprise legal adviser. He is also an arbitrator of Luoyang Arbitration Commission and an arbitrator of Luoyang Labour Dispute Arbitration Commission.

Mr. Xi Shengyang, aged 54, doctor degree, professor, Independent Director of the Company. He is currently Dean of Economic and Management Faculty of Henan Science University, director of MBA training center, head of China Enterprise Science Academy, graduate tutor for management science and engineering and enterprise management. He is also Chairman of Henan Province Logic Society, Vice Chairman of Religious Culture Academy, Deputy Secretary of Henan Province Economic Society, Chairman of Luoyang Philosophical and Enterprise Culture Research Society and Vice Chairman of Economics Society.

Mr. Guo Aimin, aged 54, doctor degree, Independent Director of the Company. He is currently vice chancellor of Henan University of Finance and Economics and professor of management. Mr. Guo has been worked in Henan University of Finance and Economics since 1988, and served as head of Teaching Research Office, department head and vice dean. He was responsible for science research, international communication and cooperation, academic subject construction and Postgraduate Education of the academy. Mr. Guo has deep study on organization management, strategic management and management system construction. He is also Standing Member of Henan Province Economic Society and Chief Director of Henan Province enterprise development association.

Mr. Zhang Zhanying, aged 50, doctor degree, professor, Independent Director of the Company. Mr. Zhang had served as head of Teaching Research Office, director of science research department, head of material engineer department of Luoyang Institute of Science and vice chancellor of Luoyang Technology College. Since August 2007, he has served as vice chancellor of Henan Polytechnic University. Mr. Zhang has deep study in inorganic non-metal materials (glass) preparations, structure and performance.

Mr. Ge Tieming, aged 62, Senior economist and Senior Engineer with a bachelor's degree, Independent Director of the Company. He is currently an external director of CITS Group Corporation and an external director of Panzhihua Iron & Steel (Group) Company Limited. Mr. Ge had served as director of Shenyang Glass Factory, head of Shenyang building material bureau, general manager of Shenyang Xingguang Building Material Group Co., Ltd. From August 1995 to November 2002, he served as general manager of China New Building Material Group Corporation. From November 2000 to October 2005, he served as party secretary of China New Building Material Group Corporation. Mr. Ge has extensive experience in enterprise strategy management.

2. Work experience of Directors, Supervisors and Senior Management in past five years *(continued)*

Supervisors

Mr. Ren Zhenduo, aged 43, holder of bachelor's degree. He is chairman of supervisory committee and Deputy Party Secretary of the Company. He successively served as general manager of Longmen Glass Company Limited (a subsidiary of the Company), Director of No.2 Float Grass Plant, Secretary of Party Committee to No.3 Float Grass Plant and general manager of Luoyang Longxin Glass Co. Ltd. which is a subsidiary of CLFG. Mr. Ren specialises in business management and has extensive experiences on glass technology and corporate culture building.

Ms. Li Jingyi, aged 55, a senior accountant with a bachelor's degree, Independent supervisor of the Company. She is currently vice director of state-owned large and medium enterprise department of SASAC of Henan province. She is also standing director of building material special committee of China account society, director of Henan Province Management & Accounting Society, and Vice Chairman of Henan Province Metallurgy & Building Materials Financial Society. Ms. Li had served as vice director of financial auditor division of Henan Metallurgy & Building Materials industry department, manager of financial department of Henan Metallurgy & Building Enterprise, director of economic financial division of Henan Metallurgy & Building Materials industry department.

Mr. He Baofeng, aged 36, is a PRC public certified accountant and a PRC certified tax agent with a bachelor's degree and Supervisor of the Company. He is currently the Chairman and vice head of Luoyang Topchina CPA Ltd. and head of Luoyang Topchina tax agent. From 2001, Mr. He presided over and participated financing and tax auditing in large scale enterprises. He has extensive expertise in finance and tax. He is a member of the Expert Panel under Henan Institute of Certified Public Accountants.

Ms. Yao Wenjun, aged 39, is a senior accountant with a bachelor's degree. She is currently the supervisor and general manager of Audit Department of China National Building Material Group Corporation. From November 2002 She served as vice general manager of financial department of China National Building Material Group Corporation and from February 2007 She served as general manager of auditor department of China National Building Material Group Corporation. Ms. Yao has extensive experience in corporate finance management.

Mr. Lu Junfeng, aged 39, is a technician of float glass and Supervisor from staff members of the Company with a college degree. He is head of float melting department of Luoyang Glass (Group) Longhao Glass Company Limited. Mr. Lu joined the Company in 1990. He served as chief of smelting department of No.2 Float Grass Plant, head of float melting department of Luoyang Glass (Group) Longhao Glass Company Limited.

Senior Management

Mr. Wong Yiu Hung, male, aged 51, a Bachelor of Social Science of the Chinese University of Hong Kong (Major: Account), is currently a member of the Hong Kong Institute of Certified Public Accountants and the Chartered Institute of Management Accountants. Mr. Wong had served for several Hong Kong listed companies including Century City International Holdings Limited（世紀城市控股有限公司）, Lamex Trading Company Limited（美時文儀傢具有限公司）, Applied Electronics Limited and Hang Fung Gold Technology Group and had acted as the chief financial officer and company secretary in listed companies.

Mr. Cheng Zonghui, aged 46, senior engineer with a bachelor's degree. He is currently Deputy General Manager of the Company. Mr. Cheng had served as Workshop Officer of branch plant of the Company, deputy head of the Electromechanical Institute of Luoyang Glass Technology Centre, head of the float glass plant and the assistant to general manager of the Company. Mr. Cheng is experienced in float glass processes and technologies, production and management.

Mr. Song Jianming, aged 51, engineer with a bachelor's degree. He is currently Deputy General Manager of the Company. Since he joined the Company in 1989, he had successively been the deputy manager, manager and the manager of the sales company of the Company. Mr. Song is experienced in international trade and marketing.

The above information is as 31 December 2007.

3. Remunerations of Directors, Supervisors and Senior Management

Decision-making procedures for remunerations of Directors, Supervisors and Senior Management: considering other listed companies' level in the same sector and economic growth in the region, the proposal in relation to the remuneration of the Directors submitted by the Remuneration and Review Committee of the Board will be confirmed subject to consideration and approval by the Board and the general meetings.

Basis for Determination of Remunerations of Directors, Supervisors and Senior Management: to integrate the operating results with the economic efficiency of the Company, while the annual performance of the Company's senior management will be reviewed on an annual basis in which their remuneration will be confirmed based on the appraisal results.

Please refer to section 1 of this chapter for the remunerations of Directors, Supervisors and senior management.

4. Particulars of Directors and Supervisors holding positions in the Company's shareholders

Name	Name of shareholders who hold positions in	Position held in entity shareholder	Term of appointment	Whether receiving remuneration and allowance in entity shareholder or not (Yes/No)
Zhu Leibo	China Luoyang Float Glass (Group) Company Limited	General manager and deputy secretary of Party Committee	From September 2006 to September 2009	No
Shen Anqin	China Luoyang Float Glass (Group) Company Limited	Vice Chairman of the Board	From August 2007 to September 2009	No

5. Changes in Directors, Supervisors or senior management during the reporting period

On 7 June 2007, Mr. Liu Baoying resigned as the Chairman of the Board due to work arrangement and internal work adjustment of the Company. Mr. Zhang Shaojie, Mr. Jiang Hong and Mr. Ding Jianluo resigned from their office as executive director of the Company due to work rearrangement. They also resigned from concurrent positions in subsidiaries or associated companies of the Company. Due to personal reasons, Mr. Dong Chao has resigned as an Independent Director of the Company. At the Second Extraordinary General Meeting of 2007 on 10 September 2007, Mr. Gao Tianbao, Mr. Xie Jun, Mr. Cao Mingchun, Mr. Shen Anqin, Mr. Yang Weiping and Mr. Guo Tiemin were by-elected as members of the Fifth Board of Directors of the Company, and Mr. Ren Zhenduo, Ms Yao Wenjun and Mr. He Baofeng were by-elected as the members of the Fifth Supervisory Committee of the Company. Mr. Lu Junfeng was elected as Supervisor from staff members by employee representative meeting. Mr. Tao Shanwu, Mr. Ma Shixin, Ms. Song Fei and Ms. Gu Meifeng resigned as supervisors of the Company.

At the 10th meeting of the fifth Board of the Company on 24 July 2007, the resignation of Mr. Ding Jianluo from his office as General Manager of the Company and the resignation of Mr. Wang Heping from his office as Deputy General Manager of the Company was approved. Mr. Gao Tianbao was appointed as General Manager of the Company and Mr. Zhu Liuxin, Mr. Xie Jun, Mr. Cao Mingchun, Mr. Cheng Zonghui and Mr. Song Jianming were appointed as Deputy General Managers of the Company, each with a term of office the same as that of the members of the current Board.

At the 13th Meeting of the Fifth Board on 12 September 2007, Mr. Zhu Leibo was elected as Chairman of the Board.

At the Meeting of the Supervisory Committee on 12 September 2007, Mr. Ren Zhenduo was elected as Chairman of the Supervisory Committee.

6. Employees

As at 31 December 2007, the Company had 4,534 employees, including 3,325 production workers, 79 sales personnel, 3,148 technicians, 99 financial personnel, 580 administrative personnel and 137 other staff members. Among them, 336 employees graduated from colleges or universities, representing 7.41% of the staff and 1,083 employees graduated from professional training colleges, representing 23.89% of the staff. The Company provided pensions to 1,626 retired employees.

Corporate governance structure

1 Improvements in Corporate Governance

The Company strictly abides by the Company Law, the Securities Law, the Rules Governing the Listing of Securities on Shanghai Stock Exchange to establish and continuously improve corporate governance structure, standardize its operations and strengthen information disclosure, which comply with the requirements of the corporate governance standards for listed companies issued by China Securities Regulatory Commission. At present, regulatory documents of corporate governance of the Company includes, but not limited to the following documents:

(1) Articles of Association of Luoyang Glass Company Limited

(2) Rules of Procedures for the Board of Director's Meeting of Luoyang Glass Company Limited

(3) Rules of Procedures for the Supervisory Committee's Meeting of Luoyang Glass Company Limited

(4) Rules of Procedures for the Annual General Meeting of Luoyang Glass Company Limited

(5) Work System for Independent Non-executive Directors of Luoyang Glass Company Limited

(6) Rules of Duties for Secretary of the Board of Directors of Luoyang Glass Company Limited

(7) Implementation Rules of the Strategic Committee under the Board of Directors of Luoyang Glass Company Limited

(8) Implementation Rules of the Nomination Committee under the Board of Directors of Luoyang Glass Company Limited

(9) Implementation Rules of the Audit or Review Committee under the Board of Directors of Luoyang Glass Company Limited

(10) Articles of Implementation for the Remuneration and Review Committee under the Board of Directors of Luoyang Glass Company Limited

(11) Implementation Rules of the Compliance Committee under the Board of Directors of Luoyang Glass Company Limited

(12) Management Methods on Information Disclosure of Luoyang Glass Company Limited

(13) Regulations for Financial Management of Luoyang Glass Company Limited

(14) Internal Control System of Luoyang Glass Company Limited

(15) Internal Audit System of Luoyang Glass Company Limited

(16) Significant Information Internal Report System of Luoyang Glass Company Limited

2 Performance of Duties by Independent Directors

During the reporting period, all Independent directors performed their duties with due diligence, played an active role to keep informed of the Company's material decision-making, made use of their working experience and expertise, gave independent opinions on significant events of the Company, performed their duties faithfully, thus protected the legal interests of the Company and shareholders and facilitated the Company's standard operations.

Attendance of independent directors at the Board meetings during the reporting period

Name of independent director	**Required attendance to the Board meetings** (times)	**Attendance in person** (times)	**Attendance by proxy** (times)	**Absence** (times)	***Note***
Guo Aimin	12	12	0	0	
Xi Shengyang	12	12	0	0	
Zhang Zhanying	12	12	0	0	
Dong Chao	6	6	0	0	
Ge Tieming	6	6	0	0	

3 Independence of the Company from the Controlling Shareholder

5 of the 10 directors in the Company's previous structure of the Board hold concurrent posts of directors in the Parent, which has an impact on the independence of the Company. In September 2007, the Board was restructured. Only 2 of 11 directors in the Company's new Board hold concurrent posts of directors in the Parent, thus ensuring the Company's independence.

With respect to business, the Company independently carries out operations with a complete business structure, and has no competition with the Controlling Shareholder with independent operation ability. The Company is not connected with the Controlling Shareholder and its associated companies.

With respect to personnel, the Company has independent organization structure and relevant employees. The labour, personnel and salary management of the Company is completely independent.

With respect to assets, there is a clear delineation in property title between the Company and the Controlling Shareholder. The Company has independent production facilities and ancillaries. The assets of the Company are completely separated from the Controlling Shareholder.

With respect to organization: the Board, Supervisory Committee and other organizations operate separately. The Controlling Shareholder and its function departments have no impact in any form on the independence of the Company and subsidiaries in establishing and managing organization. The Company has established an organization structure which is completely independent from shareholders and has independent function management department.

With respect to finance, the Company has its independent financial department and established an independent accounting auditing system and financial management system. It has independent bank account and is an independent tax payer with separate tax registration.

4 Establishment and Improvement of Internal Control System

During the reporting period, Shine Wing (HK) CPA Limited ("Shine Wing") was appointed as independent adviser of the Company. By adopting COSO model, it conducted a review on the internal control system (including compliance with internal control system under the Code on Corporate Governance Practices set out in Appendix 14 to the Listing Rules) of the Company and its subsidiaries.

On 26 June 2007, Shine Wing reported to the management of the Company regarding the executed procedure and findings and made recommendations for improvement ("First Report"). In December 2007, Shine Wing conducted follow up review on the improvement of the Company. The period of the follow up review was from 1 May 2007 to 31 December 2007. Shine Wing issued follow up review report ("Follow Up Review Report") on 15 January 2008. Accordingly, the Company conducted rectification on the findings as set out in Follow Up Review Report. The defects of the internal control system and the rectification made by the Company are as follows:

(I) Major Problems in Internal Control System at the Level of Headquarters

(1) The four special committees under the Board did not effectively operated independently;

(2) The appointment, selection and dismissal of employee of the Company were overall conducted by human resource department of the Controlling Shareholder. The Company was only responsible for daily employee management;

(3) The Company failed to provide regular training on the Hong Kong Laws and regulations to the employees;

(4) The Company did prepare budget every year, participated by operation and production department. After the budget was submitted by each department, it was approved and adjusted by the Controlling Shareholder. But there was always a big difference between the budget adjusted by the Controlling Shareholder and the actual results;

(5) Great pressure in repayment of short-term debts and critical insufficiency of capital;

(6) At present, only 3 out of 12 production lines were equipped with online inspection equipment and other production lines were manually inspected, which has an impact on the accuracy of production quality inspection, resulting in customer quality complaint and significant amount of compensation;

(7) Trading suspension risk as a result of omission from disclosure;

(8) Significant events of the Company, such as major transactions and very substantial acquisitions which are subject to approval of the general meeting, were not defined pursuant to the Listing Rules;

(9) In respect of computer application, some employees of the function departments of the Company need to improve their computer operation skills;

(10) The Company did not set up an internal audit department to review on an ongoing basis the effectiveness of the internal control system and whether it was performed honestly;

(11) Through weakness and errors in internal control were mainly found by external auditors and reported promptly to the senior management to make remedial or preventive measures, no document shows that communication channel in such respect has been established.

4 Establishment and Improvement of Internal Control System *(continued)*

Rectification of the Company:

After rectification, the Follow Up Review Report shows that the Company has followed the suggestion in the First Report with a satisfactory performance.

(II) Major Problems in Compliance with Internal Control System under the Listing Rules and the Possible, Potential and Existing Conflict of Interests concerning Executive Directors in respect of Such Connected Transactions

(1) Overlapping capacity of members of the Board and members of board of the Controlling Shareholder;

(2) Remuneration of certain members of the Board and the Supervisory Committee paid by CLFG;

(3) Appointment and removal of the senior management of the Company was decided and executed by the Controlling Shareholder. The Board executed the selection and engagement procedure. The medium management (heads of functional departments of the Company, branch plants and subsidiaries) were appointed or recommended to the board of a subsidiary subject to opinions sought from the executive directors of the Company (concurrently being the chairman, directors or senior management of Controlling Shareholder). Upon overall recruitment, selection and enrolment by the personnel department of the Controlling Shareholder, other employees could be allocated to go for their posts of the Company and managed by the personnel department of the Company. Cancellation of labour contracts was also required to be approved by the Controlling shareholder;

(4) Controlling shareholder excessively interfered in daily business of the Company. Besides the above-mentioned overall planning of recruitment, appointment and dismissal, the Controlling Shareholder also made preliminary study for external equity investment of the Company, and the bidding and tendering of investment projects, equipment procurement and project payment were all in the charge of Controlling Shareholder;

(5) The Company deposited its sales revenue with China Luoyang Float Glass Group Financial Company, a subsidiary of Controlling Shareholder, and drew it on demand to make payment. The financing arrangement of the Company was handled by the Controlling Shareholder in a centralised way, and its banking facilities were negotiated as a whole by the Controlling Shareholder with banks;

(6) Executive directors' lacking in financial and legal background of Hong Kong and the PRC;

(7) Failure in providing regular training on the Listing Rules to the management;

(8) Failure in establishing a system of dispatching updates of the Listing Rules to the management;

(9) Omission from disclosure due to insufficient personnel in the secretariat department of the Board;

(10) Failure in establishing approval procedures for connected transactions other than ordinary operations and for utilisation of large-sum capital according to their natures.

Rectification of the Company:

After rectification, the Follow Up Review Report shows that the Company has followed most of the suggestion in the First Report with a satisfactory performance. However, the Company has not established an independent settlement platform. The Company will seek to solve this problem by 2008. The Company has appointed KPMG Corporate Finance Limited, who has started to work, to be responsible for checking connected transactions of the Group and assist in reporting.

4 Establishment and Improvement of Internal Control System *(continued)*

(III) Major problems in Compliance with the Code on Corporate Governance Practices

(1) The minutes of the Board were simple and incomplete and some documents were missing. The Company failed to send the draft and final versions of the meeting minutes to directors within the reasonable time limit after conclusion of the Board meetings;

(2) The latest list of members of the Board, their roles and duties and whether they were independent non-executive directors were not specified and available at the website of the Company;

(3) The Detailed Implementation Rules of the Nomination Committee of the Board of Directors were not available at the website of the Company, which were only kept by the secretary to the Board;

(4) The Company did not offer all-round, official and tailored training on specific duties for each newly-appointed director upon his first appointment;

(5) Certain director was absent from the Board meeting four times consecutively and did not appoint other director to attend and vote on his behalf, but the Board did not apply to the general meeting to replace him in accordance with the provisions of the Company's Articles of Association;

(6) As disclosed in the 2006 Corporate Governance Report of the Company, the Remuneration and Review Committee convened two meetings in 2006; however, no meeting minutes were provided for verification. Hence, it was not sure that whether the Remuneration and Review Committee has performed its responsibilities, including the determination of specific remuneration for all executive directors and senior management through discussion at meeting and giving suggestion to the Board for the remuneration of non-executive directors, as well as consultation with Chairman and/or General Manager (Chief Executive Officer) in respect of the remuneration of other executive directors;

(7) The directors were not aware of their duties to review the performance of the Company in a balanced, clear and explicit manner, especially in the annual and interim reports, other announcements of price sensitive information, other discloseable financial information under the Listing Rules, reports submitted to the regulatory bodies and information required to be disclosed in accordance with other laws and regulations. According to the announcement of public censure to the directors of the Company from the Stock Exchange dated 19 January 2006, the directors of the Company were publicly censured for continuous failure in performing their duties in accordance with the Listing Rules;

(8) As disclosed in the 2006 Corporate Governance Report of the Company, "the Audit Committee of the Board has reviewed the efficiency of internal controls in the year"; however, the Company failed to provide specific documents or relevant report for verification;

(9) At present, the Company does not have an internal audit department. It only has a financial audit team under the Office with two dedicated personnel. As required by the meetings of the Company management or the special financial meetings or by the senior management, the financial auditing personnel conducted special financial audits on subsidiaries and directly reported to the General Manager and the Financial Controller on the audit results;

(10) As disclosed in the 2006 Corporate Governance Report of the Company, the Audit Committee convened four meetings in 2006; however, no meeting minutes were provided for verification. The Company failed to comply with the requirements of the Code on Corporate Governance Practices since the secretary to the Board did not keep full meeting minutes of the Audit Committee;

(11) From January 2006 to April 2007, eight meetings were held by the Board, but Mr. Dong Chao only attended twice, while once attended by other director on his behalf. Therefore, Mr. Dong Chao failed to perform its duties as the chief member to the Audit Committee and a qualified accounting expert;

(12) In accordance with provision D1.1 of the Code on Corporate Governance Practices, when the Board authorises its managerial and administrative functions to the management, it shall give explicit guidance for the power of the management, especially specifying under which circumstances the management shall report to the Board and that the management shall obtain prior approval from the Board before making any decisions or undertakings on behalf of the Company;

(13) The Company shall, in compliance with provision D1.2 of the Code on Corporate Governance Practices, distinctly define the functions retained at the Board and the functions to be authorised to the management, and review the arrangement on a regular basis to ensure that it is in the interest of the Company;

(14) The Company failed to offer the attendance minutes of the 2006 general meeting, therefore, we are not aware whether the chairmen (or the appointed proxy) of the Nomination Committee, the Audit Committee, and the Remuneration and Review Committee to attend such meeting;

(15) In the Report on Corporate Governance of the Company for 2006, there were no high-level statements stating specific decision making respectively by the Board and the management;

4 Establishment and Improvement of Internal Control System *(continued)*

(III) Major problems in Compliance with the Code on Corporate Governance Practices *(continued)*

(16) In the Report on Corporate Governance of the Company for 2006, there was no statement for the work summary of the Remuneration and Review Committee, including the policy making for executive directors' remuneration, assessment of executive's directors' performance and approval of terms of executive director's service contract;

(17) In the Report on Corporate Governance of the Company for 2006, there were no statements for the nomination procedure and relevant process adopted by the Nomination Committee in the year as well as the criterion for choosing and recommending director candidates.

Rectification of the Company

After the rectification, the Follow Up Review Report shows the Company has followed the suggestions in the First Report with a satisfactory performance, provided that:

(1) for revision to the time period for notice to regular Board meeting, the Company will amend the Articles of Association at the 2007 general meeting to be held no later than 30 June 2008;

(2) at the future annual general meeting, the chairmen of the Audit Committee, the Remuneration and Review Committee, the Strategy Committee and the Nomination Committee will be arranged to answer questions.

(IV) Major Problems in Review on the Internal Control System at the Level of Business Processes

(1) The Financial Department of the Company did not regularly check the accounts with customers to ensure the accuracy and completeness of financial statements of the Company.

(2) It is understood that the preparation of sales invoice should be based on delivery order; however, the dates of some sales invoice were found earlier than the date on relevant delivery order in the spot-check.

(3) The Company failed, in accordance with the Provision on Inventory Takings Management, to arrange warehousing manager, business personnel and financial personnel to jointly conduct all-round inventory takings at the end of the year and give their signature on inventory sheet for verification.

(4) The Company failed to timely handle warehousing formalities at acceptance of auxiliary materials and enter them in the account timely. The Financial Department did not regularly check the accounts of materials and goods keeping, nor give reasonable arrangement after reason analysis for the deficits at the end of the period.

(5) The delivery of bulk material did not enter in the account according to the actual quantity and the keeping of goods was not recorded timely.

(6) The Company regularly submitted the titles and number of employees to controlling shareholders in line with business requirements, and the human resources department of the controlling shareholder carried out public recruitment, selection, appointment and allocation of employees. As such, the selection of new employees was not conducted by the head of the Company, and mistake allocation of personnel is possible.

(7) The time for final settlement of construction in progress was different from that for transfer to fixed assets.

(8) Certain fixed assets purchased by the Company were put into use in the year but did not enter in account until the end of the year.

(9) The personnel of the department in charge of report preparation (Accounting Department), due to limited professional capabilities, needed the assistance from external auditors in preparing financial statements under HKFRS. The Company did not carefully review the adjustment entries to the difference arising from the standards provided by external auditors. The Company's management is responsible for the preparation of financial statements and should not depend on external assistance generally.

(10) The Company had corresponding positions for ordinary business in finance, but definite leader for significant events (such as the connected transactions between the Company and its controlling shareholders and associates and entrusted loan) was not available.

(11) For internal checking of current accounts within the Group, the signature and verification system was not implemented. Internal statement of current accounts, connected transaction and data flows, and account checking data filled by subsidiaries were not kept.

(12) The methods for identification of related parties and disclosure management were not available. During the review, there were circumstances where related parties were unable to be identified.

(13) In accounting vouchers, names of the persons in charge of preparation, checking and book-keeping were printed, but mostly, the signatures by them were not available. Therefore, it cannot be ensured that these procedures, especially the checking procedure, have been practically implemented.

4 Establishment and Improvement of Internal Control System *(continued)*

(IV) Major Problems in Review on the Internal Control System at the Level of Business Processes *(continued)*

(14) At the preparation of accounting vouchers by the financial department, it was common that different kinds of accounts were recorded in one voucher. Therefore, it is difficult to check the accounts and confusion is possible.

(15) The bank reconciliation statement of Longhai Company, prepared by the cashier, did not comply with the provision of internal control on monetary funds in connection with the segregation of incompatible duties. Payment by Longhai Company basically got through procedures for authorisation and approval, but the procedure of payment to CLFG was not standard as no Payment Review Form was filled. Generally, the reviewer only gave signature on accounting voucher for approval. It was found that there were no written approval procedures of Longhai Company for the payments in current accounts to Longmen Company（龍門公司）.

Rectification of the Company

After the rectification, the Follow Up Review Report shows the Company has followed the suggestions in the First Report with a satisfactory performance, provided that the Company must follow the suggestions in the First Report at implementation of the transfer to fixed assets from construction in progress.

In the reporting period, in accordance with the requirements and arrangement of the circular (ZHJGS ZI [2007] NO.28), Notice on the Matters concerning Carrying out a Special Campaign to Strengthen the Corporate Governance of Listed Companies, issued by CSRC on 9 March 2007, and the Notice to Strengthen the Corporate Governance of Listed Companies issued by CSRC Henan Bureau, the Company carried out special campaigns in self-inspection, assessment, and rectification and supported Shine Wing to check the internal control system of the Company. The problems in corporate governance for improvement by the Company are consistent with the findings by Shine Wing. Major measures for rectification are as follows (include but not limited to):

(1) To restructure the board, adjust the senior management and enhance self-management ability;

(2) To gradually solve horizontal competition arising from the convergence of part of principal operations between the Company and the Controlling Shareholder;

To enhance the function of Special Committees of the Board; an independent compliance committee of the Board is established to further enhance the internal control system of the Company;

(3) To intensify the investor relation management horizontally and vertically;

(4) To further standardize connected transactions and reinforce information disclosure management;

(5) To establish special internal audit department, Audit Department, with dedicated personnel;

(6) To enhance training to directors, supervisors and senior management of the Company; and

(7) To further improve certain management systems of the Company in accordance with the latest laws and regulations.

The Company fulfilled rectification in the stipulated period pursuant to the requirements of Yu Zheng Jian Fa (2007) Circular No. 332, Comprehensive Appraisal of Corporate Governance of Luoyang Glass Company Limited and Rectification Requirements.

In 2008, the Company is committed to further improve internal control system to enhance the execution, supervision and checking of internal control system and ensure sustainable and sound development of the Company.

5. Appraisal and Incentive Mechanism and Relevant Reward System for Senior Management during the Reporting Period

An annual salary package and a risk deposit system have been implemented for the senior management. The Board of Directors directly conducts appraisal of, grants award to or imposes punishment on senior management members in terms of their performance and efficiency on the basis of relevant operation benchmarks and management standards. Besides, the Company has embarked on revising and improving a fair and transparent performance assessment standard and an incentive regulatory mechanism for senior management. Meanwhile, senior management members report their work on Employee Representative Meeting convened by the Company, where employee representatives give democratic view on senior management. The Company will take more effective measures in the future and fully optimize the incentive and restrictive function of the distribution system.

6. Corporate Governance Report

(1) In Compliance with the Code on Corporate Governance

The Company has fully complied with requirement under the Code on Corporate Governance in 2007.

(2) Securities Transactions of the Directors and Supervisors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules, which requires the securities transactions of the Directors to be conducted in accordance with the Model Code. The Model Code which is also applicable to the senior management of the Company. After making specific enquiries, all Directors have confirmed that they have fully complied with the Model Code throughout the year of 2006.

(3) The Board of Directors

During the reporting period, the Board of the Company convened twelve meetings, of which four of them were regular meetings and eight of them were extraordinary Board meetings.

Please refer to the Report of Directors in this annual report for composition of the Board and attendance of directors to regular Board meetings.

There are no financial, business, family connections or other significant connections among members of the Board and between Chairman and Chief Executive Officer.

(4) Operation of the Board

The Board of the Company is elected by and is responsible for general meeting. It is the highest decision-making body exercising authority during the period when the general meeting is not in session. It basic duty is giving strategic guide to the Company and effective supervision over the management in order to ensure the interests of the Company as well its responsibility for the shareholders. Certain significant matters are decided by the Board, including: strategic scheme and medium and long term planning; annual operating and investment plan; Annual financial budget scheme; annual performance assessment indicators of the members of executive organization of the Company and annual remuneration scheme; interim and annual financial report; interim and annual preliminary proposal of profit distribution; material events involving development, acquisition and organization restructuring of the Company. Directors and the Board take initiatives in corporation governance, and elect directors in strict compliance with procedures of director election under the Articles of Association; All directors can earnestly attend the Board meetings and implement their duties with due diligence, as well as determine the significant decisions including appointment, dismissal and supervision of the members of the executive organization of the Company, communication with shareholders and self-improvement.

The Company has established the independent director system. There are four independent non-executive directors in members of the Board, which is in compliance with requirement for minimum number of independent non-executive directors under the Listing Rules. The Company has received the confirmation on independence from four independent non-executive directors pursuant to Rule 3.13 of the Listing Rules. The Company is in opinion that the four independent non-executive directors are completely independent from the Company and its substantial shareholders and connected persons, which is in full compliance with requirement for independent non-executive director under the Listing Rules. Guo Aimin, an independent non-executive director of the Company, processes professional qualifications in accounting or financial management, which complies with the requirements under Rule 3.10 of the Listing Rules. For biographical detail of Mr. Guo Aimin, please refer to biographical details of directors in Information on Directors, Supervisors, Senior Management and Staff Members in this annual report. The four independent non-executive directors have no other position in the Company and have strictly performed their duties required by relevant laws and regulations and the Articles of Association.

The Board has established strategic committee, audit committee, nomination committee, remuneration and review committee and compliance committee. The major duty of above committees is to support the Board to make decisions. The directors appointed in special committee focus on problems in a certain aspect according to division of work in order to provide suggestion on management improvement of the Company.

(5) Chairman and Chief Executive Officer

The Chairman of the Company is Mr. Zhu Leibo and the Chief Executive Officer is Mr. Gao Tianbao. The Chairman and the Chief Executive Officer are two definitely different positions, and the Chairmen shall not concurrently hold the position of the latter, and their duties shall be clearly separated and defined in written form. Under the Articles of Association, the main duties of the Chairman are: presiding over general meeting, convening and presiding over the Board meetings; examining implementation of resolution of the Board; signing securities issued by the Company; and other duties and power under the Articles of Association and authorised by the Board. The principal duties of Chief Executive Officer are: presiding over production, operation and management of the Company as well as organizing to implement the resolutions of the Board; organizing to implement annual operating plan and investment scheme of the Company as well as drafting the internal management organisation setup of the Company; drafting the basic management system of the Company; formulating the specific regulations of the Company; proposing to the Board for appointment or dismissal of senior vice president, chief financial officer and other senior management of the Company, as well as appointment or dismissal of the management members except those supposed to be appointed or dismissed by the Board; and other duties and rights authorised by Articles of Association and the Board.

6. Corporate Governance Report *(continued)*

(6) Directors' term of office

Pursuant to the Articles of Association, all directors (including non-executive directors) are elected at the general meeting with a term of office of 3 years. The directors are eligible for re-election upon expiry.

(7) Remuneration of directors

The Review and Remuneration Committee of the Company consists of 3 directors, 2 of whom are independent non-executive directors, namely Mr. Ge Tieming (the chief member), Mr. Xi Shengyang (member) and Mr. Zhu Liuxin (executive director), which is in compliance with provisions under the Code on Corporate Governance. Since the establishment of Review and Remuneration Committee, there have been 3 adjustments to its members. Its duty and work rules are specified by Implementation Rules on Remuneration and Review Committee, which are available on the Company's website: http://www.zhglb.com/.

The principal duties of the Review and Remuneration Committee of the Company are: making remuneration plan or scheme according to main scope, duties and importance of positions held by directors and senior management as well as remuneration level of other relevant positions in other relevant enterprises; the remuneration plan or scheme principally includes, but not limited to, standards and procedures of performance assessment and key assessment system as well as major scheme and system of prize and punishment; reviewing the duty performance of the directors (non-independent directors) and senior management and making annual performance assessment on them; responsibilities for supervising implementation of the remuneration determined; and other matters authorised by the Board.

For details of the working status and research of the Review and Remuneration Committee during the reporting period, please refer to the "Report of the directors" section in this annual report.

(8) Nomination of directors

In accordance with the Articles of Association, the election and change of Directors are subject to consideration at shareholders' general meeting. Shareholders representing more than 5% (including 5%) shares carrying voting rights shall have proposal right. In light of the nominees of Nomination Committee, the final list of the nominees shall be summarized by the Chairman after thorough consideration and review by the Nomination Committee, and Secretariat of the Board shall be required to prepare relevant procedure documents with relevant departments, including but not limited to letter of invitation, letter of confirmation for the Directors, biographies of the candidates and resignation. Secretariat of the Board are responsible for reporting to the Chairman and the shareholders with proposal right and despatching the letter of invitation to the director candidates, who shall execute the letter of confirmation. Meanwhile, the Directors to resign shall execute their resignation. As specified by the Articles of Association, the Company shall dispatch a 45-day prior notice in written before shareholders' general meeting and also dispatch a circular to shareholders. Under Rule 13.51(2) of the Listing Rules, the list, biographies and relevant remuneration of the director candidates shall be set out in the circular for shareholders' voting at their discretion. New directors shall be elected with votes representing more than half of total shares carrying voting rights held by shareholders or their authorised proxies present at the relevant shareholders' general meeting.

The major duties of the Nomination Committee of the Company include: to make suggestions on the scale and composition of the Board according to corporate operating activities, scale of assets and shareholding structure; to study the selection standard and procedure of the directors and managers, and to make suggestions to the Board; to extensively identify qualified director candidates and managers; to review and make suggestions on director candidates and managers; to review and make suggestions on other senior management members which are appointed subject to approval by the Board; and other matters authorised by the Board.

Duties and work rules for the committee are clearly specified by Implementation Rules on the Nomination Committee, and are available on the Company's website: http://www.zhglb.com/.

Please refer to the Report of the Directors of this annual report for details of work of the Nomination Committee during the reporting period.

(9) Audit Committee

The Company's Audit Committee comprises three Independent Non-executive Directors. According to the Company's Implementation Rules of Audit Committee of the Board, the chief member of the committee shall be an Independent Director and all the committee's resolutions must be put to a vote of the Independent Directors for approval. The Audit committee's terms of reference are available on the website of the Company. http://www.zhglb.com/.

Major duties of the Company's Audit Committee include: to submit proposals regarding appointment and change of external auditor (review institution); to supervise and implement internal audit (review) system; to take charge of the communication between the internal audit (review) and the external audit (review); to review the internal financial information and its disclosure; to review the Company's internal control and audit (review) major connected transactions; and to deal with other matters authorised by the Board.

As for details of its work during the reporting period, please refer to the Report of the Directors in this annual report.

6. Corporate Governance Report *(continued)*

(10) Shareholders and General Meetings

For details of the shareholders and the general meetings, please refer to the Brief on General Meetings in this annual report.

The Board and the senior management of the Company are well aware that they shall work for the interests of shareholders as a whole, and therefore shall take maximizing shareholders' interests as their primary task. The Company always attaches importance to maintaining good communication with the shareholders. The Company has established major communication channels such as general meetings, website, e-mail, and fax and telephone of the Secretary Office to the Board, so as to facilitate shareholders' expressing their views or exercising their rights. For relevant procedures of general meetings and voting of shareholders and proxies, please refer to the Company's Articles of Association published on the website of Shanghai Stock Exchange.

(11) Supervisors and Supervisory Committee

The Supervisory Committee reports to the general meeting and comprises, one Supervisor elected by staff representatives and two Independent Supervisors. Following the Articles of Association, Supervisors have conscientiously performed their duties, attended all Board meetings and duly reported them to the general meetings, and submitted the report of the Supervisory Committee and relevant proposals. Guided by the principle of being responsible to shareholders, the Supervisory Committee has watched over the Company's finance; supervised the compliance of duty performance of Directors, Chief Executive Officer and other senior management; and actively participated in and made good recommendations on the Company's significant events such as production, operation and investment projects.

(12) Directors' responsibility of preparing financial statements

Directors are responsible for reviewing the Company's financial statements prepared for every financial year with the support of the Accounting Department, and shall ensure the adoption of appropriate accounting policies in the preparation of the financial statements in accordance with International Financial Reporting Standards and Accounting Standards for Business Enterprises of the PRC, so as to give a true and fair view of the affairs of the Company.

(13) Operation as a going concern

The Board is of the view that the Company has adequate resources for operation as a going concern in the foreseeable future. Accordingly, it is appropriate to prepare the financial statements on a going concern basis.

Brief notes on general meetings

1. The 2007 First Extraordinary General Meeting

The 2007 First Extraordinary General Meeting was held at the Conference Room of the Company on 1st Floor, No. 9 Tang Gong Zhong Lu, Xigong District, Luoyang Municipal, Henan Province, the People's Republic of China (the "PRC") at 9:00 a.m. on 13 February 2007, and was attended by 3 shareholders and proxies. At the First EGM, amendments to the articles of the Articles of Association of the Company were considered and passed as ordinary resolutions, and the board of directors (the "Board") of the Company was authorised do all such further acts and things and take all steps which in the Board's opinion may be necessary, desirable and expedient to give effect to such amendments, including but not limited to application for approval of, registration of or filing the amended Articles of Association of the Company to the relevant governmental authorities of the PRC and Hong Kong and making further amendments as governmental authorities of the PRC may require.

The announcements of the resolutions passed at the General Meeting were published in China Securities Journal and Shanghai Securities News in Mainland China, and were published in Sing Tao Daily and The Standard (in English) in Hong Kong on 14 February 2007.

2. 2006 Annual General Meeting

The 2006 Annual General Meeting was held at the Conference Room of the Company on 1st Floor, No. 9 Tang Gong Zhong Lu, Xigong District, Luoyang Municipal, Henan Province, the People's Republic of China (the "PRC") at 9:00 a.m. on 26 June 2007, and was attended by 2 shareholders and proxies. At the meeting, the following matters were considered and approved by way of ordinary resolutions:

the report of the Board of Directors of the Company for the year 2006;

the report of the Supervisory Committee of the Company for the year 2006;

the financial report of the Company for the year 2006;

the Company's profit distribution plan for the year 2006;

the re-appointment of Ting Ho Kwan & Chan and GuangDong HengXin Delu Certified Accountants Company Limited respectively as the international and domestic auditors of the Company for 2007, and authorise the Board to fix their remunerations.

The announcements of the resolutions passed at the General Meeting were published in China Securities Journal and Shanghai Securities News on 27 June 2007.

3. The 2007 Second Extraordinary General Meeting of the Company

The 2007 Second Extraordinary General Meeting was held at the Conference Room of the Company on 1st Floor, Xigong District, Luoyang Municipal, Henan Province, the People's Republic of China (the "PRC") at 9:00 a.m. on 10 September 2007, and was attended by 2 shareholders and proxies. At the meeting, the following matters were considered and approved by way of ordinary resolutions: addition and appointment of Mr. Gao Tianbao, Mr. Xie Jun, Mr. Cao Mingchun, Mr. Yang Weiping, Mr. Shen Anqin and Mr. Ge Tieming as members of the Fifth Board of Directors of the Company;

In addition, Mr. Ren Zhenduo, Ms. Yao Wenjun and Mr. He Baofeng are newly appointed as members of the Fifth Supervisory Committee of the Company.

The announcements of the resolutions passed at the General Meeting were published in China Securities Journal and Shanghai Securities News on 11 September 2007.

4. The 2007 Third Extraordinary General Meeting of the Company

The 2007 Third Extraordinary General Meeting was held at the Conference Room of the Company on 1st Floor, Xigong District, Luoyang Municipal, Henan Province, the People's Republic of China (the "PRC") at 9:00 a.m. on 30 October 2007, and was attended by 2 shareholders and proxies. The General Meeting reviewed and approved the following ordinary resolutions and voted on them by way of registered ballot: Resolution in relation to the Remuneration of the Directors of the Fifth Board of the Company; and Resolution in relation to the Remuneration of the Supervisors of the Fifth Supervisory Committee of the Company.

The announcements of the resolutions passed at the General Meeting were published in China Securities Journal and Shanghai Securities News on 31 October 2007.

5. The 2007 Fourth Extraordinary General Meeting of the Company

The 2007 Fourth Extraordinary General Meeting was held at the Conference Room of the Company on 1st Floor, Xigong District, Luoyang Municipal, Henan Province, the People's Republic of China (the "PRC") at 9:00 a.m. on 18 December 2007, and was attended by 8 shareholders and proxies. The General Meeting considered and approved the following ordinary resolutions and voted on them by way of registered ballot:

1) Resolution in relation to the Luoyang Longxin Glass Company Share Transfer Agreement and the terms and conditions thereof and the transaction contemplated thereunder and the implementation thereof;

2) Resolution in relation to Luoyang CLFG Storage and Logistics Company Limited Share Transfer Agreement and the terms and conditions thereof and the transaction contemplated thereunder and the implementation thereof;

3) Resolution in relation to the approval, ratification and confirmation of any one of the Directors be authorised for and on behalf of the Company, among other matters, to sign, execute, perfect, deliver or to authorise signing, executing, perfecting and delivering all such documents and deeds; to do or authorise doing all such acts, matters and things as they may in their discretion consider necessary, expedient or desirable to give effect to and implement the Longxin Glass Share Transfer Agreement and the Logistics Company Share Transfer Agreement respectively and to waive compliance from or make and agree such variations of a non-material nature to any of the terms of any of the Longxin Glass Share Transfer Agreement and the Logistics Company Share Transfer Agreement respectively as they may in their discretion consider to be desirable and in the interests of the Company and in line with all the Directors' acts as aforesaid.

The announcements of the resolutions passed at the General Meeting were published in China Securities Journal and Shanghai Securities News on 19 December 2007.

Report of the directors

(1) Business Review

1. The position in the industry and the principal products of the Company

The Company is the place of origin for one of three great float glass production methods- "Luoyang Float Glass". The Company is one of the largest manufacturers and distributors of float glass in glass industry in the PRC. The Company mainly engages in the production and sales of float sheet glass.

2. Overall operation of the Company during the reporting period

In 2007, the Company overcame various adverse factors including the rising price of raw materials, tightened working capital, pressure from environmental protection, instability arisen in the later stage of the operation of smelting kiln production lines and transportation bottleneck, and implemented a series of measures to improve the Company's operation in the highly competitive market, recording significant growth in each financial indicator over 2006. According to the PRC Accounting rules and Regulations, the total loss before taxation of the Group in 2007 amounted to Rmb73.01 million, representing a year-on-year decrease of 82.98%. The net loss attributable to the shareholders of the Company was Rmb95.34 million, down 74.40% against the corresponding period last year. The basic earnings per share was Rmb-0.19. According to the IFRSs, the total profit before taxation of the Group in 2007 was Rmb77.66 million, representing a year-on-year decrease of 81.01%. The net loss attributable to the shareholders of the Company was Rmb100.09 million, down 870.45% as compared with the same period last year. In 2007, the basic loss per share attributable to the shareholders of the Company was Rmb0.20.

As such, the Board of the Company proposed not to declare final dividend but to increase share capital by the transfers of capital reserve.

During the year 2007, the performance of the Company saw a great lift from 2006. First, the production scale was enlarged. Amidst the successive operation commencement of the production lines in Longhai, Longhao and Longxiang in 2006, the production and sales as well as the sales income recorded a considerable increase in 2007. Second, the economic efficiency was tremendously enhanced with a surge in profits. After July, particularly, the change in the Company's management led to substantial changes in the internal system and mechanism of the Company. Together with the drive from the market, the Company recorded earnings since the third quarter which reverse its suffering from loss of principal businesses for over a year. Third, the Company overcame a number of difficulties and reinforced the disposal of idle assets. Fourth, the Company established an operation mechanism integrating supply, production and sales. The adoption of open-minded and flexible way effectively aroused the enthusiasm and innovation of its subsidiaries. Fifth, the Company became one of the core enterprises of China National Building Material Group Corporation, laying down a sound foundation for the rapid and groundbreaking development of the Company in the future. Sixth, the corporate governance achieved success. The labour, finance, materials, production, supply and sales of the Company are independent of its controlling shareholders. Such policy was optimized and guaranteed, and recognized by supervisory authorities.

The Company published the announcement on the estimated earnings in the results on 30 January 2008 and subsequently published the Announcement on Amendment of Results Forecast on 14 March 2008, mainly because the accountant of the Company could not recognise the revenue generated from the disposal of assets for the following reasons:

(1) On 22 October 2007, the Company entered into an agreement for the transfer of 100% equity interest in Luoyang CLFG Storage and Logistics Company Limited ("Logistics Company") to China Luoyang Float Glass (Group) Company Limited. The agreement was approved by independent shareholders of the Company at the extraordinary general meeting on 18 December 2007. As the registration for the change of shareholding was not completed until 29 January 2008, the Accountants considered the equity transfer of Logistics Company cannot be confirmed as completed in 2007. Accordingly, the Company's gain of Rmb50.68 million from its land investment in Logistics Company was eliminated upon consolidation and cannot be included into the consolidated financial statement.

(2) On 28 December 2007, the Company entered into an agreement to sell its idle production equipment and auxiliary equipment to a purchaser. The purchaser made the initial payment on 29 December 2007 but recently advised the Company that it was relatively difficult for them to settle the outstanding consideration according to the terms of the agreement, which shows an intention to defer the performance of the agreement by the purchaser. Based on this latest situation, the Accountants considered that the income of Rmb29.38 million from the sale of assets cannot be recognised in 2007.

As the income of the two projects above cannot be confirmed and the principal business recorded a significant loss and thereby the operating results in 2007 of the Company is still of deficit.

The following discussion and analysis should be read in conjunction with this annual report and the audited financial statements of the Group and the notes thereon prepared in accordance with the PRC Accounting Rules and Regulations set out in other sections of this report.

(1) Business Review *(continued)*

3. Principal business and operating status

Products of principal business

By industry or products	Income from operations *(Rmb'000)*	Cost of operations *(Rmb'000)*	Profit margin of operations *(%)*	Increase/ (decrease) of income from operations as compared to last year *(%)*	Increase/ (decrease) of cost of operations as compared to last year *(%)*	Increase/ (decrease) of profit margin of operations as compared to last year *(%)*
Float glass	1,508,756	1,350,932	10.46	20.96	0.51	Increased by 18.21 percentage points

Principal operations in different regions

Regions	Income from operations *(Rmb'000)*	Increase/ (decrease) of income from operations as compared to last year *(%)*
Domestic	1,467,025	27.29
Overseas	41,731	-56.01

Information on top five suppliers and top five customers

Top five suppliers

Total volume of purchase from the top five suppliers *(Rmb'000)*	282,316	Percentage in the Company's total purchase volume	29%

Top five customers

Total volume of sales to the top five customers *(Rmb'000)*	199,659	Percentage in the Company's total sales volume	13%

Save as disclosed above, none of the directors, supervisors and their respective associates or any shareholders (who held 5% or more of the Company's share capital to the knowledge of the directors) were interested in the said suppliers and customers.

4. Composition of cash flow

For the year, the Company's net cash flow from operating activities amounted to Rmb-10,721,000, representing a decrease of Rmb3,170,000 from Rmb-7,551,000 last year. The Company's net cash flow from investment activities amounted to Rmb62,142,000, representing an increase of Rmb68,037,000 from Rmb-5,895,000 last year. This was primarily due to the receipt of cash Rmb13,416,000 from the disposal of unused land and the receipt of advances in cash Rmb10,500,000 from the disposal of unused assets, the income of Rmb22,000,000 from disposal of equity, and the advances in cash Rmb21,109,000 from equity transfer. The Company's net cash flow from financing activities amounted to Rmb-35,727,000, representing an increase of Rmb43,836,000 from Rmb-76,563,000 last year, primarily due to the addition of borrowings in 2007 changes on cash and cash equivalents from fluctuations in the exchange rate amounted to Rmb-284,000, representing an increase of Rmb22,000 over Rmb-306,000 over the corresponding period last year. Net increase of cash and cash equivalents amounted to Rmb15,410,000, representing year-on-year increase of Rmb108,725,000 from Rmb-93,315,000.

(1) Business Review *(continued)*

5. Analysis on Items of accounts with movements over 30%

(1) Provision for diminution in value of inventory reduced by 58.07% from the previous year, mainly due to the hiking prices of raw material and fuel and the rebound of selling price of inventories this year.

(2) Provision for impairment of fixed assets increased by 136.83% over last year, primarily due to the serious impact on operation of Chenzhou Bada, a subsidiary of the Group, from prolonged power failure due to unprecedented snow disaster in Hunan Province this year. On the prudent basis, the Company increased provision for impairment of leased assets.

(3) Construction in progress increased by 60.84% over last year, primarily due to the additional renovations including Long Xiang gas project, Long Hao waste heat power generation project, and road project for mine of silicon company.

(4) Constructive materials reduced by 53.53% from last year, primarily due to the settlement of final account for projects of Longxiang Company.

(5) Other non-current assets increased by 40% over last year, primarily due to the fact that the Company and CLFG entered into an agreement this year to acquire 50% equity interest in Luoyang Longxin Glass Company Limited held by CLFG but the administrative registration for equity settlement and shareholder change were not fulfilled as at 31 December 2007, and therefore the prepayment for such acquisition was classified to other non-current assets.

(6) Tax payable increased by 1,108.48% over last year, primarily due to tax increase arising from increased operating income this year.

(7) Non-current liabilities due within one year increased by 91.06% over last year, primarily due to the increase of the borrowings due within one year.

(8) Long-term loan reduced by 89.33% over last year, primarily due to the repayment of loans this year.

(9) Business tax and surcharges increased by 517.05% over last year, primarily due to tax increase arising from increased operating income this year.

(10) Investment income increased by 170.80% over last year, primarily due to the income from disposal of long-term equity investments this year.

(11) Non-operating income increased by 53.11% over last year, primarily due to the sales of land in development zone and the receipt of government grants this year.

(12) Non-operating expenditure reduced by 71.65% from last year, primarily due to the fine imposed on Bada Company last year.

6. Change in equipment and principal technicians of the Company

A float glass production line of the Company, which has stopped production in February 2006 due to expiry of operation and requirement of cold repair (cold repair is a procedure, in which the float glass production line stops production periodically for the renovation and redevelopment of equipments and materials and thereafter resumes production). Yet, since this production line is located at the urban areas of Luoyang City, according to the policy of Luoyang government, the production line shall not restart production after its cold repair at the original place. Therefore, the equipments of the production line and the relevant assets have been idle. The Company signed the contract on 28 December 2007 and agreed to dispose of the production line; yet, the transaction has not yet completed.

During the reporting period, there were no changes in principal technicians of the Company.

(1) Business Review *(continued)*

7. Operation analysis of major subsidiaries and investee companies

Background of major subsidiaries and investee companies

Name of company	Nature of operation	Principal product	Registered capial ('000)	Total asset ('000)	Net asset ('000)	Net profit ('000)
Longhao Company	Production and sales of product	Float glass	50,000	332,240	55,168	34,312
Longhai Company	Production and sales of product	Ultra thin glass	60,000	311,663	36,048	16,122
Longmen Company	Production and sales of product	Ultra thin glass	20,000	182,712	-76,425	-36,946
Longfei Comapny	Production and sales of product	Float glass	74,080	180,118	48,065	-2,245
Longxiang Company	Production and sales of products	Float glass	50,000	134,191	51,415	14,657
Yinan Huasheng Company	Production and sales of product	Silica sand raw materials	28,000	43,945	8,042	-1,610
Luo Shen Company	Production and sales of products	Automobile glass	10,000	16,747	7,174	-2,139
Logistics Company	Warehousing and logistics service	Offer service	10,000	69,879	69,864	-500
Processing Company	Production and sales of products	Processing glass	181,496	291,619	-28,188	-33,331
Finance Company	Non-bank financial institution	Finance service	300,000	403,644	320,007	8,593
Jingxin Ceramic Company	Production and sales of products	Inner wall tile	41,945	129,168	-45,828	-5,323
Mineral Company	Production and sales of products	Silica sand raw materials	30,960	31,889	-7,389	-2,041

For the reporting period, sales revenue of Longhao Company amounted to Rmb335,612,000, representing an increase of Rmb109,437,200 or 48.39% over the corresponding period in 2006; gross profit margin of sales increased by 15.86% to 21.65%; profit after tax amounted to Rmb34,311,700, representing an increase of Rmb56,766,100 or 252.81% over the corresponding period in 2006.

For the reporting period, sales revenue of Longhai Company amounted to Rmb153,208,300, representing an increase of Rmb70,008,800 or 84.15% over the corresponding period in 2006; gross profit margin of sales increased by 44.96% to 28.28%; profit amounted to Rmb16,122,200, representing an increase of Rmb56,196,900 or 140.23% over the corresponding period in 2006. With the rapid development of the electronics industry, the market demand for ultra thin glass for making electronic glass substrates like ITO is ever-increasing; and the company's ultra-thin glass has obvious advantages among domestic products, despite the gap between it and foreign products.

For the reporting period, sales revenue of Longmen Company amounted to Rmb114,799,200, representing a decrease of Rmb4,748,000 or 3.97% from 2006; gross profit margin of sales increased by 15.96% to -6.99%; profit amounted to Rmb-36,945,900, representing a decrease of Rmb22,255,500 in loss or an increase of 37.59% over 2006. Though Longmen Company recorded less loss when compared with 2006, it still incurred a big loss to the Company. Given its difficulty to operate as a going concern due to its over-high gearing ratio and insolvency, the company is going to change its products in 2008.

For the reporting period, sales revenue of Longfei Company amounted to Rmb136,170,400, representing an increase of Rmb89,277,700 or 190.39% over the corresponding period in 2006; gross profit margin of sales increased by 33.82% to 7.6%; profit amounted to Rmb-2,244,800, representing a decrease of Rmb36,357,300 in loss or an increase of 94.18% over the corresponding period in 2006.

For the reporting period, sales revenue of Longxiang Company amounted to Rmb177,610,400, representing an increase of Rmb96,560,100 or 119.13% over 2006; gross profit margin of sales increased by 21.18% to 14.58%; profit after tax amounted to Rmb14,657,200, representing an increase of Rmb27,899,500 or 210.68% over the corresponding period in 2006.

(1) Business Review *(continued)*

8. Investment during the report period

(1) The Company has not raised any fund during the period, nor raised any fund in the previous period and its use subsisted in the reporting period;

(2) The principal projects, the progress of projects and the revenue of non-raised fund investment.

Please refer to no. 2, section 4 of significant events in this report.

9. The Board's explanation for non-standard opinion given by the auditors

Guangdong Hengxin Delu Certified Accountants Company Limited presented their auditors' reports with an explanatory paragraph in the financial report 2007 of Luoyang Glass Company limited. Particulars of the explanatory paragraph are as follows:

"Besides, we would draw the attention of the users of financial statements to the disclosures made in note 2 to the financial statements, that the financial statements of the Group and the Company were prepared on the assumption that Group and the Company are on a continuing basis from the end of the reporting period to 31 December 2008. The Company had accumulated uncovered losses amounted to Rmb1,262,751,000 and net current liabilities amounted to Rmb1,089,394,000 as at 31 December 2007. Notwithstanding the measures taken by the Company's management to address this situation as set out in note 2 to the financial statements, there exists fundamental uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. This explanatory paragraph does not affect the audit opinion made."

Appendix: Note 2 to the financial statements: Basis of preparation

"Notwithstanding that the Company had accumulated uncovered losses of Rmb1,262,751,000 and net current liabilities amounted to Rmb1,089,394,000 at 31 December 2007 in its consolidated financial statements, the directors of the Company are of the opinion that the Group are able to continue as a going concern and to meet their obligations, as and when they fall due, having regard to the following:

(i) agreements obtained from financial institutions for renewal of loan facilities totaling approximately Rmb653,500,000 to the Company upon their expiry in 2008; and

(ii) continuing financial support received from the largest company and the controlling shareholder of the largest company.

The directors believe that the Company and the Group will have sufficient cash resources to satisfy its future working capital and other operating needs. Accordingly, the financial statements have been prepared on a going concern basis. If the Company and the Group fail to continue as a going concern, adjustments will have to be made to reduce the value of its assets to their realisable value, to provide for any possible liabilities which might arise, and to reclassify long-term liabilities as current liabilities."

According to the explanatory paragraph set out in the auditors' report presented by the above accountant, the Company considered the net current liabilities was attributable to the operating loss for the year, mainly due to a significant decrease in selling prices from intensified market competition and the significantly increased cost of major capital goods as well as a number of necessary provisions. The increased bank loans were due to reduction in cash inflow and changes in receivables. The Group's operation was affected by the net current liabilities to a certain extent.

In the opinion of the Board, cash inflow status will be improved with the gradual effect from optimisation of the Group's product mix, which will in turn significantly reduce the reliance on bank loans for its operation. Furthermore, the Company may obtain financial support, if necessary, from its controlling company and other financial institutions to cope with the potential financing difficulties.

The following discussion and analysis should be read in conjunction with this annual report and the audited financial statements of the Group and the notes thereon prepared in accordance with the IFRS set out in other sections of this report.

Turnover

The turnover increased by 20.86% as compared with the corresponding period last year, which is principally because the price of products increased, leading to an increase in revenue.

Operating expenditures

A slight decrase of operating expenditures is recorded as compared with the corresponding period last year.

Staff remuneration cost

As the price level generally rose in the year and thereby the staff remuneration cost increased slightly accordingly.

(1) Business Review *(continued)*

9. The Board's explanation for non-standard opinion given by the auditors *(continued)*

Depreciation, impairment and amortisation

As compared with the corresponding period last year, depreciation, impairment and amortization decreased mainly due to the sales of certain land parcels.

Sales, general and management expenses

As the Company exercised stringent control over management expenses, sales, general and management expenses reduced as compared with the corresponding period last year.

Taxation other than income tax

Taxation other than income tax increased as compared with the corresponding period last year mainly because of the growth of income.

Operating profit

Owing to the increase in selling price, the operating profit recorded a substantial year-on-year growth.

Net foreign exchange loss

As compared with the corresponding period last year, the net foreign exchange loss reduced mainly because of the decrease in exchange rate as well as the appreciation of Rmb.

Net interest expenditures

The net interest expenditures raised as compared with the corresponding period last year, the reason is mianly due to the increase in financial charges resulting from the growth of interest rate.

Profit before taxation

As compared the corresponding period last year, profit before taxation decreased because the profit before taxation last year consisted of the provision for reversal of capital appropriation of the Company's substantial shareholders.

Taxation

Taxation recorded a year-on-year increase mainly due to the provisions for income tax in accordance with net profit for the period after the profit realisation of the subsidiary of the Company in the year.

Net profit

As compared with the corresponding period last year, net profit decreased because the profit last year consisted of the provision for reversal of capital appropriation of the Company's substantial shareholders.

(1) Business Review *(continued)*

10. Five-year financial highlight

The results, assets and liabilities of the Group for the five years ended 31 December 2007 as prepared under IFRS are summarised below:

Operating results

	2007 **Rmb'000**	2006 Rmb'000	2005 Rmb'000	2004 Rmb'000	2003 Rmb'000
Turnover	**1,444,535**	1,195,193	1,028,976	1,128,544	975,816
(Loss)/profit of attributable to associated companies	**2,194**	(38,419)	(20,751)	1,678	(28,817)
Profit/(loss) before taxation	**(77,658)**	(42,902)	8,592	85,160	(337,605)
Taxation	**3,412**	0	1,950	4,493	2,172
Profit/(loss) after taxation	**(81,070)**	(42,902)	6,642	80,667	(339,777)
Profit/(loss) attributable to minority interests	**19,019**	(55,893)	(3,022)	18,927	244
Profit/(loss) attributable to shareholders of the Company	**(100,089)**	12,991	9,664	61,740	(340,021)

Assets and liabilities

	2007 **Rmb'000**	2006 Rmb'000	2005 Rmb'000	2004 Rmb'000	2003 Rmb'000
Fixed assets	**1,067,166**	1,174,616	959,352	865,049	938,228
Construction in progress	**7,113**	5,550	265,271	2,323	4,535
Interest in associates	**116,922**	111,105	154,919	174,476	186,843
Other investments	**410**	32,000	32,297	32,983	35,739
Non-current assets	**1,310,212**	1,430,288	1,569,852	1,208,129	1,309,553
Net current liabilities	**1,078,274**	1,063,686	530,657	215,548	349,055
Long-term liabilities	**11,020**	65,104	95,163	74,059	120,849
Shareholders' funds	**143,819**	243,908	862,366	851,216	789,476
Minority interests	**77,099**	57,590	81,666	67,306	50,173

Bank and other loans

Details of the bank and other loans of the Company and the Group for the year ended 31 December 2007 are set out in notes to the financial statements of this annual report prepared under IFRS.

Capitalisation of interests

There was no capitalisation of interests of the Company and the Group as at 31 December 2007.

Fixed assets

Movements in the fixed assets of the Company and the Group during the reporting period are set out in notes to the financial statements of this annual report prepared under IFRS.

Land appreciation tax

During the year, there is no land appreciation tax to be paid by the Company and the Group.

Reserves

Movements in the reserves of the Company and the Group for the year ended 31 December 2007 are set out in notes to the financial statements of this annual report prepared under IFRS.

Distributable reserves

As at 31 December 2007, the distributable reserves of the Company was Rmb-850,354,000.

(1) Business Review *(continued)*

10. Five-year financial highlight *(continued)*

Statutory public welfare fund

Details of the nature, application, movement and basis of calculation (including the percentage used and amount of profits for calculation) are set out in notes to the financial statements of this annual report prepared under IFRS.

Charity and other donations

During the year, there is no charity and other donations made by the Compand and the Group.

Transactions with related parties

The material related party transactions of the Company for the year ended 31 December 2007 are set out in notes to the account of the financial report prepared under IFRS.

(2) Future Development Prospect of the Company

1. Development trend

Driven by favourable factors including support from the national policies, stable domestic demand and increase in export, the glass market, after years of depression, eventually takes on a trend of steady growth in 2007. Meanwhile, glass-producing enterprises recorded remarkable improvement in terms of efficiency with the tightening capital being alleviated. The glass market in 2008 is still full of opportunities and challenges.

Favourable factors

(1) The national economy is expected to maintain a high development standard in 2008. In particular, the thorough implememtation of such strategies as development of Western and Central China will bring further opportunities to the Company which is situated in Central China.

(2) The glass market is now in a rise cycle with clear industry outlook in 2008. Driven by the continuous growth in the demand for glass for construction use; popularity of buildings of energy-saving design; rapid increase in the vehicle production in China; development and use of solar energy; and high-end decoration, the demand for glass takes on a steady rise.

(3) Significant changes occur in the competition of the glass industry. With the accelerating business acquisition, reconstruction and collaboration, large enterprises' need to further enlarge their scale and small and medium-sized enterprises' desire to join, the concentration of the business is expected to experience a rapid growth while the competitions among enterprises will tend to be stronger and stronger. Capitalized on the advantageous platform constructed by CNBMG, the Company has risen as one of the integrators .

Adverse factors

(1) The overgrowing glass production capacity remains the major source of pressure to the glass market. In 2007, there were 18 new float glass production lines that the production capacity will continue to rise in 2008, resulting in even stronger competition. As some of our production lines have to undergo cold repair and relocation, our production capacity will be affected.

(2) The tighten monetary policy of the central government will curb the scale of bank credit, bringing difficulties to coproate finance which will further push up the finance cost.

(3) Overgrowth in the market of production goods will remain with the overheating economy. Prices of coal, heavy oil and soda ash which account for a large proportion of the production cost of glass are expected to rise even further. Such increases will erode the profits and constrain the profitability of an enterprise.

(4) The implementation of energy-saving and emission reduction policy and higher entry barrier require centralized application of resources and reduce waste. These will effectively limit the expansion of glass production capacity, bringing about positive impact on business reconstruction. Meanwhile, large amount of capital will be needed in advocating environmental protection which will result in great pressure.

(5) Continuous adjustment in export tax refund rate leads to uncertainties in exported products.

(2) Future Development Prospect of the Company *(continued)*

2. Policies and Measures *(continued)*

Goals of operation in 2008:

To achieve a production of 23,880,000 weight cases; sales income of RMB1,617,432,700; total finished product ratio of 82.22%; production cost of RMB66.58 per weight case; the comprehensive energy consumption per ten-thousand RMB output value of 2.4 tonnes standard coal.

To realize the above goals, the Company will focus on the following works in 2008:

(1) Be innovative, reinforce management and improve operating efficiency

1. Reinforce occupational trainings on six kinds of capabilities and two kinds of awareness for the management. Strengthen the ability of each grade of management to learn; to innovate; to lead the enterprise for development; to respond to the market and the economy; to pioneer; and to produce and manage along with their sense of responsibility and to concern the whole situation; to innovate new mindset, to renew their concepts, to unify and lead the staff to strive for success as to accomplish various works. Propose to speed up the occupational training for management by means of sending young management to learn in universities and work in advanced corporations, enabling them to catch up with the modernized management model in terms of their thought, concept and ability as well as contributing talents to the strategic development of the Company.

2. Champion fivefold management model to catch up with CNBMG. Examine the fivefold management of China National Building Material Group Corporation which concerns unity, system, procedure, statistics and mode and formulate specific proposal and plan to get abreast with CNBMG.

3. Improve operating efficiency. Implement the principle of "unified right and responsibility, high efficient operation, smooth coordination and comprehensive optimization" Identify the relationship between centralized and separated management to arouse their enthusiasm as well as vitalizing the internal systems.

(2) Increase production and reduce consumption, strengthen operation and sales, and secure profit of principal business

1. Eliminate sources of losses. Specifically research on losses incurred from production lines and adopts all feasible and effective measures to endeavor for a turnaround.

2. Utilize substitutes of raw materials and improve packaging. Enforce research and management of control on silica sand, adopts market-oriented operation model to establish a quality, stable and reliable base of silica sand. Employ such measures as the localization of raw materials and replacing loading with bulk cargo so as to reduce the procurement cost of raw materials. Emphasize on research and improvement of substitutes of raw materials. Increase usage of racks and reduce packaging by wooden boxes. Promote methods such as free packaging and compose different wooden boxes to cut the cost of packaging.

3. Create a platform for unified procurement of resources. Establish a procurement centre of extra resources and materials out of bulk raw materials and supplies by suppliers. Establish a platform for centralized and unified procurement platform to capitalize on the scale of procurement effect. Strengthen supervision and capture the market trend to handle risky procurement. Maximize control and minimize procurement cost.

4. Leverage on technology to explore the potential of cost cut. Promote application of new work craft, new facilities (such as power-saving equipment) and explore new channels to cut costs.

5. Facilitate stable and massive production with low consumption to ensure safety of incinerators. Each production line should run in such way as to fulfill the target of stability, quality, massive production and reduced consumption, aiming at increasing daily output and the overall completion rate. Carry out detailed organization of production, explore new energy, and reinforce control and improvement of the work craft of gas to reduce the consolidated energy consumption.

6. Stress on social obligations and aspire to reduce energy consumption and emission. Fortify control management with reference to the targets of energy saving and emission reduction as requested by China National Building Material Group Corporation. Ensure the fulfillment of targets by replacing the hydrogen and oxygen electrolyzed from water with H2 Production from NH3 decomposition, waste heat power generation by Longhao and Longxin, technological renovation of treatment of tailings by mining companies as well as other projects.

(2) Future Development Prospect of the Company *(continued)*

2. Policies and measures *(continued)*

(2) Increase production and reduce consumption, strengthen operation and sales, and secure profit of principal business *(continued)*

7. Strengthen sales and marketing planning and enforce management of brands. Further management of sales and marketing to enhance the influence of the Company in Henan and surrounding markets. To natvigate by following the price gradually to taking the lead to change regional market prices, reinforce centralized and unified management for major customers, consolidate the synergy of all subsidiaries in terms of product types, scale and centralization of market segmentation. Promote consistent stratgies and price to avoid internal competitions. Stress on synergy to bring integrated edges into full play.

   Reinforce brnad management and enhance brand value. The systemactic research on brand management need to bereinforced to form a set of management system. Expore the accurate and standard capitalization on "CLFG" brand during the reorganization and integration of the glass industry. Elevate "CLFG" brand value. All subsidiaries need to uplift the quality of production and services, the level of sales and marketing as well as management so as to render strong support for the implementation of brand strategy and fully leverage on the multifying effect of brands on effectiveness.

8. Boost diviersified marketing to create a sales and marketing entity with competitiveness. Increase the sales volume of ultra-thin products of 0.7mm and 0.55mm and thick glass over 15mm as well as effectiveness. Timely change specification, type and the color of glass. Besides, take intitiave to expand new market share, lift direct sales of high-end glass of processing enterprises, stabilize the price and minimize the effect of market fluctuations.

(3) Business growth standing on reorganisation and combination, and regional collaboration

1. We will undergo expansion to enhance market control. There will be a Luoyang-centered glass industry reorganization and combination within the planned region of a radius of 600km. The number of production lines of float glass shall exceed 20 by the end of 2008. This will bring Luoyang Glass to a leading position in the middle and mid-western region of the market and render the Company more market-controlling and price-making power.

2. We will fully bring out the functions of the sales and marketing center and procurement centere and research and develop a way of manipulation which allows business expansion in supply and sales segment, as to increase the overall effectiveness.

3. We will formally figure out and remedy the problems and deficiencies in the internal control system of the enterprise. Through equity optimisation, we will minimise the number of connected transactions and make adequate preparation for resumption of H share trading.

4. We will increase our capability to prepare for new issue of shares, and hence to finance from the capital market in order to improve the quality of finance and ease the problem of capital shortage. We will implement reorganization of assets and duly carry out asset disposal. We will rely on China National Building Material Group Corporation, carry out reorganization through displacement by the quality assets from its acquired enterprises. The new assets will be incorporated into the listed company. Together with layoff of malignant assets, the quality of assets of the listed company will be increased.

(4) Launch projects to foster scientific advancement so as to lay foundation for development

1. Echo with the change of sites to install, transfer and construct 1-2 production lines of float glass in Longhao Company.

2. Introduce strategic investors to investment in Longhao Company and Longxin Company for the construction of waste heat power plant, which can aggregate waste heat for useful purposes and power consumption cut. We will try our best to complete the construction within the year.

3. Carry out survey of complete headquarter production line removal project. To make use of the advantages of special transport railway, storage and golden area to invite cooperation partners for better logistic development

4. Investigate methods and channels of soda ash investment, as to save the passive situation of soda ash supply.

5. Decide the research direction of new gas generator. Duly carry out the research and implementation of new energy substitutes, for the purpose of facilitating steady improvement of product quality and substantial reduction of production cost.

(2) Future Development Prospect of the Company *(continued)*

2. Policies and measures *(continued)*

(4) Launch projects to foster scientific advancement so as to lay foundation for development *(continued)*

6. By means of the Company's principal techniques of float glass production, with the advantages of personnel and branding, the Company proactively participates in competitions in the international market. Investigate and attempt to invest and set up float glass production line or to provide technical services of float glass production in China and foreign countries.

3. Fund required for future development strategy, application plan and sources

According to the Company's future development strategy, it intends to increase the capital through various channels. Firstly, it will vacant a piece of land through the removal of production line for commercial development or disposal in return for cash inflow to be used in the removal. Secondly, the Company will select favourable projects, introduce the investments of strategic investors and implement construction projects. Thirdly, with a view to achieve a turnaround to profitability and increase the inflow of working capital, it will adjust the product structures by manufacturing new and high value-added products of subsidiaries which had recorded a loss. Fourthly, the Company will expand the business scale to increase operating revenue through reorganization and unification of glass companies in the area. Fifthly, it will increase the capital by disposing of existing assets and creditor's rights which idled for a long period of time and the associated proceeds will be used for operating expenses of production.

4. All risk factors which may pose adverse impact on the realisation of future development strategy and operational targets:

During the production and operation, the Group proactively adopts various measures to avoid all kinds of risk. However, in actual circumstances, the operation is still exposed to various risks and uncertainties.

(1) Risks arising from macro policies:

In 2008, the State has implemented stable and healthy financial policies and stringent currency policies to fulfill the goal of "double prevention". Given a more strict macro-economic control and restrictions on the credit scale, the interest rate and the provision rate of inventories are envisaged to increase. Due to difficulties in finance, the finance cost of the Company will increase. Affected by continuous appreciation of Renminbi and the U.S. subprime crisis, the international market demand will be suppressed and exports of products are expected to be rather difficult. Consecutive surge in the international oil price adds to the price of raw materials, leading to great challenges and difficulties for the Company to cut cost.

(2) Market risks:

Market of glass: the glass market in 2008 is expected to witness a downturn and then a rebound. With ongoing expansion of the national economy, accelerating urban construction, upscale of automobile industry and quick momentum in the residential industry, a host of promising opportunities emerge in the market of flat sheet glass. However, as the production line of glass provides quicker investment growth, the production capacity of glass will be expanded in a quicker pace, which marks a severe challenge against the development of the glass market. As estimated, the price of glass is poised to rally after June and the overall price level will be well above that of 2007.

Market of major fuels: With consecutive hike in the international oil price, the one-time energy price shows an upward trend in general. It is more likely that the price will stay high, while the price of heavy oil and fuel oil may return to lower levels at certain stage (demand in summer is generally modest). However, the coal price throughout the year may possibly remain high.

Market of major raw materials: in 2008, the performance of the market of soda ash has been surprising. The beginning of the year saw ongoing growth (over years, the soda ash market after the Spring Festival will show signs of a downturn) and the price soared at several stages, mainly attributable to substantial expansion in the downstream industry of soda ash. The sector of aluminum oxides rallied by over 45% and the sector of finished glass products grew at a rate of over 26%. The growth of glass and detergent has lingered around 15% and the growth rate of the production capacity of soda ash merely stays at approximately 12%. In addition to the fact that U.S. stopped exporting natural soda ash to Asian regions, exports of soda ash from China increase as a result. Amidst vigorous domestic demand together with significant increase in exports, the price of soda ash has been mounting since the fourth season in 2007, showing no signs of cessation. As estimated, the soda ash market will remain strong in the first half. With additional production capacity gradually released in the second half, there is a good chance for the high price to fall.

(2) Future Development Prospect of the Company *(continued)*

4. All risk factors which may pose adverse impact on the realisation of future development strategy and operational targets: *(continued)*

(3) Financial Risks:

The PBOC has continued increasing the interest rate and banks' required deposit reserve ratio in recent years. The management has repeatedly signified the warning of "tightening policies". The tight currency policy has imposed difficulties in financing for the Company under an increasing finance cost. According to a market risk forecast, it is expected that the Company will encounter financial strain on its capital in the first half of the year.

(4) Technological risks:

"Technology of Float Glass of CLFG"(洛玻浮法玻璃技術) is one of the top three float glass technology in the world. The manufacturing technology of ultra thin glass (超薄玻璃生產技術) attained the State Scientific and Technological Award (Level 1) (國家科學技術進步一等獎). The production technology of the Company is advanced but in-between the stage of melting furnace operation of certain production lines as well as post-production control will become more difficult. Management of production should be reinforced to ensure stable production and high efficiency.

(5) Exchange rate risks:

The exchange rate volatility has no material effect to the Group as majority of the Group's assets, liabilities and transactions are deminated in Reminbi.

(3) Daily work of the Board

1. Board meetings held and the resolutions passed:

(1) The Company held the 7th meeting of the fifth Board on 25 April 2007. The meeting considered and approved the Work Report of General Manger for 2006; approved the financial report of the Company for the year 2006; approved the 2006 Annual Report of the Company and its summary; approved the Company's profit distribution plan for 2006; approved the proposal for reappointment of GuangDong HengXin Delu Certified Public Accountants Co. Ltd. and Ting Ho Kwan & Chan, Certified Public Accountant (Practising) as PRC and internantional auditors of the Company respectively for the year 2007;approved the proposal for engagement of ShineWing (HK) CPA Limited as independent professional consultant of the Company; approved the proposal for engagement of South China Capital Limited as compliance consultant of the Company; approved the resignation of Mr. Cao Hua from his office of Duputy General Manager of the Company due to personal reasons;considered and approved the non-standard opinion given by the Board. The announcement of resolutions was published on China Securities Journal and Shanghai Securities News in the PRC and SingTao Daily and The Standard in Hong Kong on 26 April 2007.

(2) The Company held the 8th meeting of the fifth Board on 26 April 2007. The meeting considered and passed "The Proposed Amendments to Major Accounting Policies and Accounting Estimates" of the Company and the first quarterly report of 2007. The announcement of resolutions was published on China Securities Journal and Shanghai Securities news in the PRC and SingTao Daily and The Standard in Hong Kong on 27 April 2007.

(3) The Company held the 9th meeting of the fifth Board on 28 June 2007. The meeting considered and approved the Administrative Measures for the Disclosure of Information of the Company. The announcement of the resolution was published on China Securities Journal and Shanghai Securities News on 29 June 2007.

(3) Daily work of the Board *(continued)*

1. Board meetings held and the resolutions passed: *(continued)*

(4) The Company held the 10th meeting of the fifth Board on 24 July 2007.The meeting considered and passed the following resolutions: to approve Mr. Zhang Shaojie, Mr. Jiang Hong, Mr. Ding Jianluo and Mr. Dong Chao to resign from their office of Directors of the Company; to approve the resignation of Mr. Ding Jianluo from his office of General Manager of the Company and the resignation of Mr. Wang Heping from his office of Deputy General Manager of the Company; to appoint Mr. Gao Tianbao as General Manager of the Company. To appoint Mr. Zhu Liuxin, Mr. Xie Jun, Mr. Cao Mingchun, Mr. Cheng Zonghui and Mr. Song Jianming as Deputy General Managers of the Company; to agree the nomination of Mr. Gao Tianbao, Mr. Xie Jun, Mr. Cao Mingchun, Mr. Yang Weiping, Mr. Shen Anqin and Mr. Guo Tieming as candidates for the position of Directors (among which Mr. Guo Tieming being as candidate for the position of Independent Director and the nomination was submitted to the subsequent Board meeting for consideration); to authorise Director, Mr. Zhu Leibo, to execute on behalf of the Company any contracts or agreements on external investment, purchase or sale, contracting or outsourcing with an amount below Rmb50 million during his term of office, all economic and legal liabilities arising out of which shall be borne by the Company; to authorise General Manager, Mr. Gao Tianbao, to execute on behalf of the Company any contracts or agreements on external investment, purchase or sale, contracting or outsourcing with an amount below Rmb30 million during his term of office, all economic and legal liabilities arising out of which shall be borne by the Company; to authorise Financial Controller, Mr. Cao Mingchun, to execute on behalf of the Company any contracts or agreements on external investment, purchase or sale, contracting or outsourcing with an amount below Rmb20 million during his term of office, all economic and legal liabilities arising out of which shall be borne by the Company; to resolve to convene the 2007 Second Extraordinary General Meeting of the Company on 10 September 2007 in order to elect the new Directors as soon as practiceable. The announcement of the resolutions was published on China Securities Journal and Shanghai Securities News on 25 July 2007.

(5) The Company held the 11th meeting of the fifth Board on 17 August 2007.The meeting considered and approved the proposal for "Corporate Governance Self-inspection Report and Rectification Plan" and the Company Organisation Structure Plan. The announcement of the resolutions was published on China Securities Journal and Shanghai Securities News on 18 August 2007.

(6) The Company held the 12th meeting of the fifth Board on 27 August 2007.The meeting considered and approved the 2007 interim report and summary. The announcement of the resolutions was published on China Securities Journal and Shanghai Securities News on 28 August 2007.

(7) The Company held the 13th meeting of the fifth Board on 12 September 2007.The meeting considered and passed the following resolutions: to elect Mr. Zhu Leibo as the Chairman of the Company; to appoint the Executive Director and General Manager, Mr. Gao Tianbao as the authorised representative of the Company and terminate Mr. Liu Baoying's capacity as the authorised representative; to approve the establishment of an independent Compliance Committee by the Company and adjust the personnel constitution of the special committees of the Board; to appoint Mr. Zhang Kefeng as the representative for securities affairs of the Company; to authorise Mr. Gao Tianbao (Executive Director) and Mr. Cao Mingchun (Executive Director) to handle with full rights matters regarding loans from financial institutions guaranteed or pledged by the Company's assets, with full report to the Board; to consider and approve "Corporate Governance Self-inspection Report and Rectification Plan"; to consider and approve the proposal of adjusting the remuneration of Directors, which shall be implemented subject to the approval of the shareholders'general meeting of the Company. The announcement of the resolutions was published on China Securities Journal and Shanghai Securities News on 13 September 2007.

(8) The Company held the 14th meeting of the fifth Board on 8 October 2007. The meeting considered and passed the following resolutions: the appointment of Mr. Wong Yiu Hung as the Hong Kong Company Secretary of the Company; the appointment of Mr. Wong Yiu Hung as the Hong Kong Qualified Accountant of the Company; the appointment of Mr. Wong Yiu Hung as the member of the Independent Compliance Committee of the Board of the Company; the authorisation to Mr. Gao Tianbao, the Executive Director and General Manager of the Company, to dispose of part of the assets of the Company at his full discretion; the investment and establishment of Luoyang CLFG Storage and Logistic Company Limited (洛陽洛玻倉儲物流有限公司). The announcement of the resolutions was published on China Securities Journal and Shanghai Securities News on 9 October 2007.

(9) The Company held the 15th meeting of the fifth Board on 23 October 2007. The meeting considered and passed the resolutions of proposed acquisition of 50% equity interest in Longxin Glass of CLFG by China Luoyang Float Glass (Group) Company Limited and the proposed transfer of 100% equity interest in Luoyang CLFG Storage and Logistic Company Limited to China Luoyang Float Glass (Group) Company Limited. The announcement of the resolutions was published on China Securities Journal and Shanghai Securities News on 24 October 2007.

(3) Daily work of the Board *(continued)*

1. Board meetings held and the resolutions passed: *(continued)*

(10) The Company held the 16th meeting of the fifth Board on 25 October 2007. The meeting considered and passed the 2007 third quarterly report. The announcement of the resolutions was published on China Securities Journal and Shanghai Securities News on 26 October 2007.

(11) The Company held the 17th meeting of the fifth Board on 20 November 2007. The meeting considered and passed the "Reorganisation Report on Special Activities of Governance for Luoyang Glass Company Limited" (洛陽玻璃股份有限公司治理專項活動整改報告). The announcement of the resolutions was published on China Securities Journal and Shanghai Securities News on 21 November 2007.

(12) The Company held the 18th meeting of the fifth Board on 26 November 2007. The meeting considered and passed the resolution of remuneration of managers of the Company in 2007. The announcement of the resolutions was published on China Securities Journal and Shanghai Securities News on 27 November 2007.

In 2007, the Board of the Company has held 12 meetings, all of which were convened by Directors of the fifth Board. Details of attendance of each of the Directors are as follows,

Number of meetings Name	12 Attendance	Attendance by proxy
Liu Baoying	2	0
Zhu Leibo	12	0
Zhang Shaojie	6	0
Zhu Liuxin	12	0
Jiang Hong	6	0
Ding Jianluo	6	0
Gao Tianbao	6	0
Xie Jun	6	0
Cao Mingchun	6	0
Shen Anqin	6	0
Yang Weiping	6	0
Guo Aimin	12	0
Xi Shengyang	12	0
Zhang Zhanying	12	0
Dong Chao	6	0
Ge Tieming	6	0

2. The Board's implementation of resolutions passed at general meetings

In the reporting period, the Company abided by the Company Law, the Securities Law and relevant requirements of the Articles of Association to carefully fulfill the duties and strictly implement the resolutions of general meetings. All resolutions were wholly carried out within the time limit.

3. Fulfillment of duties of the Board's Special Committee

(1) Strategic Committee

The Strategic Committee of the Company held two special meetings during the reporting period: 1. On 18 October 2007, to discuss two reorganization plans: acquisition of 50% equity interest in Longxin Glass (owned by CLFG) and the disposal of a 100% equity interest in Luobo Logistics Company to CLFG It was believed that the two reorganization plans could avoid competitions within the same industry and cashed in assets, which could help the Company enter into a virtuous cycle as quickly as possible. Hence, the committee provided feasible recommendations to the Board. 2. On 29 December 2007, the Group held a seminar on the Company's strategic development. Relevant experts and scholars were invited to the meeting to elaborate, analyse and forecast Luoyang Glass from different perspectives, which positively helped direct the Company's future development.

Attendance of individual members in 2007 Strategic Committee meetings

Number of meetings Name	2 Attendance	Attendance by proxy
Shen Anqin	2	0
Gao Tianbao	2	0
Xie Jun	2	0
Zhang Zhanying	2	0

(3) Daily work of the Board *(continued)*

3. Fulfillment of duties of the Board's Special Committee *(continued)*

(2) Audit Committee

The Audit Committee of the Company carefully fulfilled their duties during the reporting period. The committee performed auditing on the Company's operating status through listening to reports from relevant departments, checking financial statements, consulting relevant personnel, etc. Four meetings were held by the Audit Committee altogether to perform audit on 2007 first quarterly report, 2007 interim report, 2007 third quarterly report and 2007 annual report. It shoud be noted that during the auditing on the 2007 annual report, the Audit Committee performed the following duties in accordance with "Notice on Proper Preparation of Annual Reports for the Year 2007 and Related Works by Listed Companies" and "Rule No.15 on Information Disclosure and Financial Records of Companies Publicly Issuing Securities - General Provisions on Financial Reports" by China Securities Regulatory Commission:

1. Carefully read the Company's financial statements and communicate with the licensed accountants of accounting firms before the auditing personnel initiated the auditing in order to ensure the time arrangement;

2. Communicated on the problems arising from the auditing process and date of report submission upon the start of corporate auditing;

3. Carefully read the Company's financial statements and communicate with the licensed accountants and senior management personnel before the licensed accountants stated their initial auditing opinions;

4. Considered, aftering the licensed accountants issued the official financial statements and upon calling the Audit Committee to perform auditing, that the Company had strictly complied with the laws and regulations; the financial information in the financial statements disclosed by the Company was objective, comprehensive and realistically reflected the actual status of the Company; the auditing personnel of GuangDong HengXin Delu Certified Public Accountants Co. Ltd. And Ting Ho Kwan & Chan, Certified Public Accountant(Practising) followed the professional principles of independence, objectiveness and fairness. The 2007 annual report truly, accurately and comprehensively reflects the financial and operating conditions of the Company and shareholders' equity interest.

Attendance of individual members in 2007 Remuneration and Review Committee meetings

Number of meetings	**4**	
Name	**Attendance**	**Attendance by proxy**
Guo Aimin	4	0
Zhang Zhanying	4	0
Dong Chao	1	1
Xi Shengyang	2	0

(3) Daily work of the Board *(continued)*

3. Fulfillment of duties of the Board's Special Committee *(continued)*

(3) Remuneration and Review Committee

The Remuneration Committee and Supervisory Committee of the Company called two special meetings during the reporting period respectively for discussing the remuneration of Directors of the Company and managers' remuneration plan in 2007, so as to provide feasible solutions to be considered and passed by the Board. The Remuneration Committee investigated the remuneration of Directors, supervisors and senior management personnel to be disclosed in 2007 annual report, and believed that the remuneration they received have been examined strictly in compliance with the economic accountability system of the Company. The Remuneration Committee believed the amount disclosed is coherent with the actual situation.

The Remuneration and Review Committee shall submit relevant proposals based on Director's work performance, emolument levels in other listed companies in the industry and development level of local economy, and upon its approval by the Board and at general meeting, shall determine emolument of directors. In addition, the Remuneration and Review Committee carries out annual performance appraisal of senior management and determines their emolument according to appraisal results.

The Company has not established any share incentive mechanisms at present

Attendance of individual members of the Nomination Committee meetings in 2007

Number of meetings Name	2 Attendance	Attendance by proxy
Xi Shengyang	2	0
Zhang Zhanying	1	0
Ge Tieming	1	0
Zhu Liuxin	1	0

(4) Compliance Committee

The Compliance Committee of the Company carefully performed its duties during the reporting period and called two special meetings: 1. On 18 October 2007, the Compliance Committee discussed the compliance operation of two reorganization projects of assets to be carried out by the Company (acquisition of a 50% equity interest in Longxin Glass and the disposal of a 100% equity interest in Luobo Logistics Company to CLFG and submitted feasible plans to the Board. 2. On 24 November 2007, the Compliance Committee considered the content of the connected transaction of the Company and urged to carry out the process of waiver from obtaining approval as soon as practiceable.

Attendance of individual members in Compliance Committee meetings in 2007

Number of meetings Name	2 Attendance	Attendance by proxy
Xi Shengyang	2	0
Lam Ka Wai, Graham	2	0
Lo Wai Keung, Eric	2	0
Yang Weiping	2	0

(5) Nomination Committee

The Nomination Committee carefully performed its duties during the reporting period. The committee called two special meetings: 1. On 18 July 2007, the Committee considered the five candidates of Directors of Mr. Gao Tianbao, Mr. Xie Jun, Mr. Cao Mingchun, Mr. Yang Weiping, Mr. Shen Anqin and Mr. Guo Tieming, and submitted its opinions to the Board in respect of the candidates' eligibility. 2. On 23 July 2007, the committee considered the eligibility of the six candidates of manager personnels, namely Mr. Gao Tianbao, Mr. Zhu Liuxin, Mr. Xie Jun, Mr. Cao Mingchun, Mr. Cheng Zonghui and Mr. Song Jianming and submitted its opinions to the Board in respect of their eligibility.

Attendance of individual members in Nomination Committee meetings in 2007

Number of meetings Name	2 Attendance	Attendance by proxy
Xi Shengyang	2	0
Guo Aimin	2	0

(3) Daily work of the Board *(continued)*

3. Fulfillment of duties of the Board's Special Committee *(continued)*

(5) Nomination Committee (continued)

Results and Profit Distribution Plan of 2007 and Reversal of Capital Reserve to Share Capital

In accordance with the International Accounting Standards, the Company's net loss attributable to shareholders of listed company in 2007 amounted to Rmb100,089,000 along with the loss in the beginning of last year amounting to Rmb750,265,000, resulted in an accumulated loss of Rmb850,354,000. Therefore, the Company did not distribute profits in 2007 and no capital reserve was reversed into share capital.

In accordance with the PRC Accounting Standards, the Company's net loss attributable to shareholders of listed company in 2007 amounted to Rmb95,343,000 along with the loss in the beginning of last year amounting to Rmb1,167,408,000, resulted in an accumulated loss of Rmb1,262,751,000. Therefore, the Company did not distribute profits in 2007 and no capital reserve was reversed into share capital.

Service Contracts of Directors and Supervisors

No Directors or Supervisors have entered into any service contract with the Company.

Management Contract

No contracts were entered into or at all by the Company in respect of the management and administration of the overall business or other important business in the reporting period.

Purchase, Sale and redemption of Shares

During the period, the Company and its subsidiaries did not purchase, sell or redeem any securities of the Company.

Overdue Deposits

The balances of deposits overdue as at 31 December 2007 was the deposit in Guangzhou International Trust & Investment Corporation ("GZITIC"), after a 75% impairment made previously. In 2007, through further understanding of the Company in 2007, the title rights of properties in the debt repayment plan was restricted and certain certificates were pledged. Taking into account the drop of regional prices of properties in Guangdong at different levels in the second half of 2007, and with reference to the acquisition price offered by Sun Kian Ip Holding Company Limited in its letter to the Company in respect of the claims on 8 June 2007, the Board of the Company considered that the recoverable amount of this claim of GZITIC was Rmb35,000,000, also taking into account the provisions for bad debt amounted to Rmb15,000,000. The Company has not accrued interest in respect of the deposits. Save as the aforesaid deposits, the Company had no other overdue deposits as at 31 December 2007.

Pre-emptive Rights

Neither the Articles of Association of the Company nor the relevant laws of the PRC has listed terms on pre-emptive rights.

Public Float

On the basis of public information and the Company's information available for inspection, to the best knowledge of Directors, the Company has maintained a public float in compliance with the Listing Rules and such public float has been approved by the Stock Exchange of Hong Kong Limited.

Certified Public Account

The Company appointed certified public accountant on 8 October 2007 and satisfied all requirements set out in Rule 3.24 of the Listing Rules of the Stock Exchange.

Luoyang Glass Company Limited
Zhu Leibo
Chairman

27 March 2008

Report of the supervisory committee

1. Work of the Supervisory Committee

1. The Supervisory Committee of the Company held the 2007 first meeting on 25 April 2007, at which the 2006 Annual Report and its summary were reviewed and analysed.

2. The Supervisory Committee of the Company held the 2007 second meeting on 26 April 2007, at which the First Quarterly Report for 2007 was reviewed and analysed.

3. The Supervisory Committee of the Company held the 2007 third meeting on 27 August 2007, at which the 2007 Interim Report and its summary were reviewed and analysed.

4. The Supervisory Committee of the Company held the 2007 fourth meeting on 12 September 2007, at which Mr. Ren Zhenduo was elected to be the Chairman of the Supervisory Committee and the remuneration proposal for supervisors was drawn up.

5. The Supervisory Committee of the Company held the 2007 fifth meeting on 25 October 2007, at which the Third Quarterly Report for 2007 was reviewed and analysed.

The Supervisory Committee attended general meetings and board meetings and effectively monitored its compliance with laws and safeguarding the interests of shareholders.

2. The Supervisory Committee provided independent opinions on the following issues:

1. Compliance of relevant laws and regulations

During the reporting period, the Supervisory Committee, following the laws and regulations, supervised the convening procedures of general meetings and board meetings, resolutions, the Board's implementation of the general meeting's resolutions, senior management's performance of their duties and the Company's internal control. The Supervisory Committee is of the opinion that the Board of Directors had normalized operation in accordance with the Company Law, Articles of Associations of the Company and relevant laws and regulations. Directors and senior management executed their duties within their terms of reference. No violation of any laws, regulations and the Articles of Association of the Company or harming the Company's interests was found.

2. The Company's financial status

The Supervisory Committee concurs with auditors' reports on the financial statements for the year ended 31 December 2007 issued by GuangDong HengXin Delu Certified Public Accountants Company Limited and Ting Ho Kwan & Chan prepared under the PRC Accounting Standards and Regulations and IFRS respectively. The Supervisory Committee is of opinion that the auditors' reports are objective and fair, and the Company's financial statements give a true, objective, complete and accurate view of the financial position and operating results of the Company.

3. Actual utilisation of the latest raised proceeds

Not applicable for the Company as to utilisation of raised proceeds during the reporting period

4. Assets acquisition and disposal

During the reporting period, the trading prices of assets acquisition and disposal of the Company were reasonable. No insider trading has been found as well as indication of damage of shareholders' rights and interests or runoff of the Company's assets.

5. Connected transaction

The Supervisory Committee is of opinion that relevant connected transactions were arrived at on normal commercial terms and have no adverse impact on the interests of the Company.

2. The Supervisory Committee provided independent opinions on the following issues: *(continued)*

6. Non-standard report of the auditors

Guangdong Hengxin Delu Certified Accountants Company Limited presented their auditors' reports with an explanatory paragraph in the 2007 financial report of the Company. Particulars of the explanatory paragraph are as follows:

"Besides, we would draw the attention of the users of financial statements to the disclosures made in note 2 to the financial statements, that the financial statements of the Group and the Company were prepared on the assumption that the Group and the Company are on a continuing basis from the end of the reporting period to 31 December 2008. The Company had accumulated uncovered losses amounted to Rmb1,262,751,000 and net current liabilities amounted to Rmb1,089,394,000 as at 31 December 2007 in its consolidated financial statements. Notwithstanding the measures taken by the Company's management to address this situation as set out in note 2 to the financial statements, there exists fundamental uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. This explanatory paragraph does not affect the audit opinion made."

Appendix: Note 2 to the financial statements: Basis of preparation

Notwithstanding that the Company had accumulated uncovered losses of Rmb1,262,751,000 and net current liabilities amounted to Rmb1,089,394,000 at 31 December 2007 in its consolidated financial statements, the directors of the Company are of the opinion that the Group are able to continue as a going concern and to meet their obligations, as and when they fall due, having regard to the following:

(i) agreements obtained from financial institutions for renewal of loan facilities totalling approximately Rmb653,500,000 to the Company upon their expiry in 2008; and

(ii) continuing financial support received from the largest company and the controlling shareholder of the largest company.

The directors believe that the Company and the Group will have sufficient cash resources to satisfy its future working capital and other operating needs. Accordingly, the financial statements have been prepared on a going concern basis. If the Company and the Group fail to continue as a going concern, adjustments will have to be made to reduce the value of its assets to their realisable value, to provide for any possible liabilities which might arise, and to reclassify long-term liabilities as current liabilities.

According to the explanatory paragraph set out in the auditor's report presented by the above accountant, the Supervisory Committee considered the net current liabilities was attributable to the operating loss for the year, mainly due to a significant decrease in selling prices from intensified market competition and the significantly increased cost of major capital goods as well as a number of necessary provisions. The increased bank loans were due to reduction in cash inflow and changes in receivables. The Group's operation was affected by the net current liabilities to a certain extent.

In the opinion of the Supervisory Committee, cash inflow status will be improved with the gradual effect from optimisation of the Group's product mix, which will in turn significantly reduce the reliance on bank loans for its operation. Furthermore, the Company may obtain financial support, if necessary, from its controlling company, de fact controller and other financial institutions to cope with the potential financing difficulties.

7. The Company published the Announcement on the 2007 Estimated Earnings in the Results on 30 January 2008 and then published Announcement on Amendments to Results Forecast on 14 March 2008, mainly due to the fact that the auditors of the Company can't recognize the revenue from disposal of assets. In the opinion of the Supervisory Committee, the opinions of auditors of the Company are objective and fair and in compliance with accounting principles. On the principle of being responsible to shareholders, the Supervisory Committee fully concur with auditors' opinion.

(1) Material litigation and arbitration

The Company was not involved in any litigation and arbitration of material importance during the year.

(2) Equity interest in other companies held by the Company

1. Equity interest in other listed companies held by the Company

During the reporting period, the Company did not hold shareholding interest in other listed companies.

2. The Company's equity investment in financial enterprises such as commercial banks, securities companies, insurance companies, trust companies, futures companies and etc.

Name of Investee	Initial investment cost *('000)*	Shareholding percentage *(%)*	Book value at the end of the period *('000)*	Revenue of the period *('000)*	Accounting item	Source of Share
CLFG Financial Company of Limited Liabilities	111,000	37	118,403	3,447	Investment Income	Original Investment

(3) Acquisition and disposal of assets and merger during the reporting period

1. Non-connected Transactions concerning Disposal of Assets

The Company (Party A) entered into an assets sale and purchase contract with Ruyang Arts And Crafts Welfare Factory (Party B) on 28 December 2007. Both parties reached an agreement on the acquisition of the idle production and auxiliary equipment of Party A by Party B. As at 31 August 2007, the net book value of the assets was Rmb10,622,500 (unaudited). The value of the assets assessed by Henan Yatai Assets Valuation Company Limited was Rmb34,945,300. The total consideration for the disposal of the equipment by Party A was Rmb35,000,000. Party A had received the first payment, 30% of the consideration on 29 December 2007. As at the date hereof, the Company had not recognised the income from such asset transfer for the reporting period, as the contract may be terminated due to Party B's intention of deferring the payment of remaining consideration.

2. As for details of connected transactions in relation to assets acquisition and disposal, please refer to the paragraph 2 of section 5 under this chapter.

(4) Implementation of the Company's Employee Stock Owner Plan during the reporting period

As at the date hereof, the Company does not have Employee Stock Owner Plan.

(5) Major connected transactions occurred during the reporting period

1. Connected transactions relating to day-to-day operations

Unit: Rmb'000

	Sale of products to connected parties		Provision of services to connected parties		Purchase of products from connected parties		Receiving services from connected parties	
Connected party	Amount of transactions	Percentage to similar type of transactions in terms of amount	Amount of transactions	Percentage to similar type of transactions in terms of amount	Amount of transactions	Percentage to similar type of transactions in terms of amount	Amount of transactions	Percentage to similar type of transactions in terms of amount
CLFG	0	0	1,013	4.35	0	0	4,414	45.38
Subsidiaries of CLFG	7,824	0.54	21,110	90.74	11,143	33.08	5,313	54.62

Details are set out in the notes to the financial statements.

(5) Major connected transactions occurred during the reporting period *(Continued)*

2. Connected transactions relating to assets acquisition and disposal

On 22 October 2007, the Company entered into two connected transactions agreements: First, agreement on acquisition of 50% equity interest in Longxin Glass held by CLFG (CLFG is a limited company holding 35.8% of the Company's equity interest) at a consideration of Rmb35,000,000, which was determined by the Company and CLFG after arm's length negotiations with reference to the audited net assets value of Longxin Glass as at 31 August 2007, the financial position of Longxin Glass, the economic benefits to the Company after completion of the transaction, and the appraised value of approximately Rmb80,755,000 contained in the asset valuation report prepared by a PRC qualified valuer, an independent third party of the Company and CLFG. The consideration represents a premium of approximately 4% of the attributable interest of Longxin Glass' audited net asset value of approximately Rmb33,536,000 as at 31 August 2007 and represents a discount of approximately 13% of the attributable appraised value of approximately Rmb40,378,000.

The Company is principally engaged in the production and sale of float flat glass and reprocessed automobile glass, which is same as the business of Longxin Glass. The Board believes that the acquisition of 50% equity interest in Longxin Glass will result in the Company participating in the business of Longxin Glass directly and enable CLFG to give up its equity interest in Longxin Glass, thereby eliminating competition between CLFG and the Company. Further, in view of the comprehensive equipment and production lines of Longxin Glass, it will enhance the Group's market position in the glass industry.

The Company had paid up the consideration of Rmb35,000,000 in cash before 31 December 2007.

The board of directors of Longxin Glass will still comprise of 7 directors, of which 3 directors shall be nominated by the Company and 4 directors shall be nominated by Xinan Fada. Longxin Glass will still be controlled by Xinan Fada and become an associate of the Company. Longxin Glass will be equity accounted for as an associate of the Company. As Longxin Glass did not complete the registration for transfer of equity during the reporting period, it was not accounted for and had no impact on the current profit and loss.

Second, agreement in relation to transfer of 100% equity interest in Logistics Company to CLFG at consideration of Rmb70,364,000. It was determined by the Company and CLFG after arm's length negotiations with reference to total investment cost of Rmb70,364,000 of the Company in Logistics Company and Logistics Company's audited net asset value of Rmb70,351,000 and the appraised value of Rmb70,351,000 of Logistics Company contained in the Report of Asset Valuation prepared by qualified PRC Valuer, an independent third party.

Logistics Company only owns Rmb3,000,000 cash and a piece of land. Up to date, it has not carried out any businesses. The disposal of Logistics Company (including the land) represented a good opportunity for the Company to realise the Land at a reasonable price and the proceeds obtained will enhance the financial position and liquidity of the Company. Upon the disposal of the logistics Company, the Land was acquired by the Company in 1994 at Rmb17,697,000. As at 31 August 2007, the unaudited carrying amount of the land amounted to Rmb12,978,000 in the consolidated accounts of the Company. The Company's total initial cost of investment in Logistics Company is Rmb15,978,000 comprising Rmb3,000,000 cash and the Land. Upon disposal of Logistics Company, the Company will realise a gain of approximately Rmb50,685,000, which is the difference between the consideration of Rmb70,364,000 and the total of the Company's total investment cost of approximately Rmb15,978,000, business tax of approximately Rmb2,991,000 based on 5.5% tax rate and a transaction levy of Rmb710,000.

CLFG has paid 30% of the consideration of Rmb70,364,000 (i.e. Rmb21,109,000) before 31 December 2007, and paid the remaining 70% of the consideration (i.e. Rmb49,255,000) before 31 March 2008.

As Logistics Company had not completed registration of transfer of equity during the reporting period, it has impact on current profit and loss.

Such two transactions had been approved by the Independent Shareholders at EGM on 18 December 2007.

(5) Major connected transactions occurred during the reporting period *(Continued)*

3. Connected transactions arising from the joint investment by the Company and related parties

During the reporting period, there was no connected transaction arising from the joint investment by the Company and related parties.

4. Creditor rights and debts and guarantees between the Company and connected parties

Connected parties	Funds provided to connected party Amount Incurred	Funds provided to connected party Balance	Funds provided by connected party to the Company Amount Incurred	Funds provided by connected party to the Company Balance
CLFG	0	0	0	0
Subsidiaries of CLFG	(1,121)	1,090	0	817
Total	(1,121)	1,090	0	817

Among which the amount of funds provided by the Company to its controlling shareholders and subsidiaries was Rmb(1,121,000), balance of which was Rmb1,090,000.

(6) Material contracts and their implementation

(1) During the reporting period, the Company did not have any event of trusting, contracting or leasing assets of other companies that contributed 10% or more (10% inclusive) to the Company's total profit for the year.

(2) Material guarantees

Unit: Rmb'000

Guarantees provided by the Company (excluding guarantee to controlling subsidiaries)

Guarantees provided	Date of occurrence (agreement execution date)	Amount of guarantee	Type of guarantee	Performance term of guarantee	Whether completed or not	Whether related party guarantee
Nil						
Total amount of guarantee provided during the reporting period						0
Balance of guarantee at the end of the reporting period						0
Guarantee provided by the Company to its controlling subsidiaries						
Total amount of guarantee provided by the Company to its controlling subsidiaries during the reporting period						141,500
Balance of guarantee provided by the Company to its controlling subsidiaries at the end of the reporting period						89,200
Guarantee provided by the Company (including guarantee to controlling subsidiaries)						
Total amount of guarantee						89,200
Total amount of guaranties as a percentage to the Company's net assets (%)						41.23
Including:						
Breach in respect of the Company guarantee						
Amount of guarantee provided to shareholders, the de facto controller and its related parties						0
Debt guarantee directly or indirectly provided to parties with gearing ratio over 70%						0
Total amount of guarantee over 50% of the net assets						0
Total amount of above 3 guarantees						0

(6) Material contracts and its implementation *(Continued)*

(3) The Company did not have any cash asset mandate managed by other party which occurred in or subsisted to the reporting period.

(4) Other material contracts

Save as otherwise disclosed in this report, the Company had no other discloseable material contract during the reporting period.

(7) Performance of commitments

During the shareholding allocation reform of the Company in 2006, China Luoyang Float Glass (Group) Company Limited has made the following undertakings: the shares held by CLFG shall not be traded or transferred within 12 months from the date on which the shares are allowed to be listed for circulation; upon the expiry of the said undertaking, the percentage of the amount of shares disposed (being originally non-circulating shares disposed through trading upon listing in stock exchange) shall not exceed 5% and 10% of the total number of shares of the Company within 12 months and 24 months respectively. CLFG has complied with the taking during the reporting period.

In the reporting period, China National Building Material Group Corporation, the de facto controller of the Company has complied with the undertaking set out in the Acquisition Report on Luoyang Glass Company Limited to avoid competition among the industry and reduce and restrict connected transaction.

(8) Appointment or dismissal of certified public accountants

The Company did not change its appointment of certified public accountants during the reporting period.

During the reporting period, the Company reappointed GuangDong HengXin Delu Certified Accountants Company Limited and Ting Ho Kwan & Chan respectively as the domestic and international auditors of the Company for 2007, following the procedures required by regulatory authorities and the Articles of Association of the Company. The accompanying financial statements have been audited.

Set out below are the annual auditing expenses paid to GuangDong HengXin Delu Certified Accountants Company Limited and Ting Ho Kwan & Chan during the reporting period.

	GuangDong HengXin Delu Certified Accountants Company Limited	**Ting Ho Kwan & Chan Certified Public Accountants (Practising)**
Auditing expenses for 2007	Rmb1,000,000	HK$1,100,000
Travel expenses	Borne by the Company	Borne by the Company

As at the end of the reporting period, GuangDong HengXin Delu Certified Public Accountants Co., Ltd. and Ting Ho Kwan & Chan Certified Public Accountants (Practising) have been offering audit service to the Company for two years.

(9) Sanction imposed on the Company, Directors, Supervisors, senior management, shareholders, de facto controller or the acquisition party and the rectification

During the reporting period, there was no inspection or sanction or prohibition on access to securities market as carried out or imposed by CSRC on the Company, Directors, Supervisors, senior management, shareholders, de facto controller or the acquisition party, nor sanction imposed by other authorities or stock exchanges' censure for being deemed as inappropriate candidates to their posts.

(10) Other significant events

Suspension of Trading in H shares

On 31 October 2006, the Company's H Share was suspended as required by the Company until the release of price sensitive information in connection with the feasibility of recovery of accounts receivables by the Company from the controlling shareholder and its subsidiaries and associates. Upon the subsequent announcement of the process and results of relevant matters, H Shares of the Company shall be resumed for trading. However, on 1 September 2006, the Stock Exchange of Hong Kong required the Company and certain directors to attend the Disciplinary Hearing in connection with the Company's violation of the Listing Rules in 2005, involving two transactions for establishment of two joint ventures, Longhai Glass Company Limited（洛陽龍海電子玻璃有限公司）and CLFG Longhao Glass Company Limited（洛玻集團龍昊玻璃有限公司）. Relevant details have been announced. Listing (Disciplinary) Committee arrived at its decision on 27 January 2007 on certain conditions for resumption of the Company's H Shares in the Stock Exchange of Hong Kong. The Company has applied for a review before the Listing (Review) Committee. The Listing (Review) Committee arrived at its decision on 26 October 2007 to uphold the sanction imposed by the Listing (Disciplinary) Committee. The Company applied for a review of the decision by the Listing (Disciplinary) Committee before Listing Appeals Committee on 1 November 2007. The appeal hearing will be conducted on 23 April 2008. The Company will release a further announcement upon any development.

Independent Auditor's Report

TO THE SHAREHOLDERS OF LUOYANG GLASS COMPANY LIMITED
(Incorporated in the People's Republic of China with limited liability)

We have audited the consolidated financial statements of Luoyang Glass Company Limited (the "Company") and its subsidiaries (the "Group"), set out on pages 48 to 92, which have been prepared in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board. These financial statements comprise the consolidated and Company balance sheets as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2007 and of the Group's loss and cash flows for the year then ended and have been properly prepared in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance.

Emphasis of matters

Without qualifying our opinion, we draw attention to note 2(b) on the financial statements concerning the adoption of the going concern basis in the preparation of the financial statements, the validity of which depends upon the continuing financial support of the controlling shareholder company, the holding company of the controlling shareholder company, the financial institutions and other individuals (see note 2(b)(ii)). These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern. The failure of the Company and the Group to continue as a going concern would result in certain assets realising significantly less than the amounts stated in the consolidated and Company balance sheets, and non-current assets and liabilities being reclassified as current assets and liabilities, and might lead to additional liabilities being incurred by the Company and the Group.

TING HO KWAN & CHAN
Certified Public Accountants (Practising)
Hong Kong, 27 March 2008

Consolidated Income Statement

For the year ended 31 December 2007
(Prepared in accordance with International Financial Reporting Standards)
(Expressed in Renminbi)

	Note	**2007** ***Rmb'000***	2006 *Rmb'000*
Turnover	5	**1,444,535**	1,195,193
Cost of sales	23	**(1,310,420)**	(1,332,852)
Gross profit/(loss)		**134,115**	(137,659)
Other operating income	6	**32,608**	422,422
Other operating expenses		**(7,422)**	(32,866)
Selling expenses		**(39,247)**	(48,915)
Administrative expenses		**(149,379)**	(146,689)
(Loss)/profit from operations		**(29,325)**	56,293
Net finance costs	7(a)	**(72,591)**	(51,373)
Net investment income/(loss)	7(b)	**22,064**	(9,403)
Share of net profits/(losses) of associates		**2,194**	(38,419)
Loss before taxation	7	**(77,658)**	(42,902)
Income tax expense	10(a)	**(3,412)**	—
Loss for the year		**(81,070)**	(42,902)
Attributable to:			
Equity shareholders of the Company	11, 34	**(100,089)**	12,991
Minority interests		**19,019**	(55,893)
Loss for the year		**(81,070)**	(42,902)
Basic (loss)/earnings per share *(in Rmb: Yuan)*	13	**(0.20)**	0.02

The notes on pages 53 to 92 are an integral part of these financial statements.

Consolidated balance sheet

As at 31 December 2007
(Prepared in accordance with International Financial Reporting Standards)
(Expressed in Renminbi)

	Note	**2007** **Rmb'000**	2006 Rmb'000
Non-current assets			
Property, plant and equipment	14	**1,067,166**	1,174,616
Construction in progress	15	**7,113**	5,550
Intangible assets	16	**13,747**	15,219
Lease prepayments	17	**34,854**	41,798
Interests in associates	19	**116,922**	111,105
Other investments	20	**410**	32,000
Investment deposit	21	**35,000**	—
Deposits with a non-bank financial institution	22	**35,000**	50,000
		1,310,212	1,430,288
Current assets			
Inventories	23	**283,303**	291,019
Trade and bills receivables	24	**81,588**	68,853
Other receivables	25	**48,360**	58,970
Income tax recoverable		**—**	2,249
Pledged deposits with banks and non-bank financial institutions	26	**167,302**	214,545
Cash and cash equivalents	27	**73,824**	58,414
		654,377	694,050
Current liabilities			
Trade and bills payables	28	**516,013**	566,527
Other payables	29	**252,386**	260,786
Income tax payable		**1,169**	—
Bank and other loans	30	**963,083**	930,423
		1,732,651	1,757,736
Net current liabilities		**(1,078,274)**	(1,063,686)
Total assets less current liabilities		**231,938**	366,602
Non-current liabilities			
Bank and other loans	30	**6,405**	60,027
Deferred income	31	**4,615**	5,077
		11,020	65,104
Net assets		**220,918**	301,498
Capital and reserves			
Share capital	32	**500,018**	500,018
Share premium	33	**540,028**	540,028
Reserves	34	**(45,873)**	(45,873)
Accumulated losses	34	**(850,354)**	(750,265)
Total equity attributable to equity shareholders of the Company		**143,819**	243,908
Minority interests		**77,099**	57,590
Total equity		**220,918**	301,498

Approved and authorised for issue by the Board of Directors on 27 March 2008

Zhu Leibo
Chairman

Gao Tianbao
Director

The notes on pages 53 to 92 are an integral part of these financial statements.

Balance sheet

As at 31 December 2007
(Prepared in accordance with International Financial Reporting Standards)
(Expressed in Renminbi)

	Note	2007 Rmb'000	2006 Rmb'000
Non-current assets			
Property, plant and equipment	14	**297,595**	366,540
Construction in progress	15	**683**	73
Lease prepayments	17	**23,026**	29,568
Interests in subsidiaries	18	**394,355**	411,313
Interests in associates	19	**112,145**	116,808
Other investments	20	**—**	31,800
Investment deposit	21	**35,000**	—
Deposits with a non-bank financial institution	22	**35,000**	50,000
		897,804	1,006,102
Current assets			
Inventories	23	**103,934**	139,890
Trade and bills receivables	24	**45,783**	69,579
Other receivables	25	**15,507**	46,232
Pledged deposits with banks and non-bank financial institutions	26	**133,502**	176,845
Cash and cash equivalents	27	**58,028**	43,195
		356,754	475,741
Current liabilities			
Trade and bills payables	28	**194,401**	294,425
Other payables	29	**111,376**	130,130
Bank and other loans	30	**808,853**	767,513
		1,114,630	1,192,068
Net current liabilities		**(757,876)**	(716,327)
Total assets less current liabilities		**139,928**	289,775
Non-current liability			
Bank and other loans	30	**6,405**	6,697
Net assets		**133,523**	283,078
Capital and reserves			
Share capital	32	**500,018**	500,018
Share premium	33	**540,028**	540,028
Reserves	34	**(55,583)**	(55,583)
Accumulated losses	34	**(850,940)**	(701,385)
Total equity		**133,523**	283,078

Approved and authorised for issue by the Board of Directors on 27 March 2008

Zhu Leibo
Chairman

Gao Tianbao
Director

The notes on pages 53 to 92 are an integral part of these financial statements.

Consolidated statement of changes in equity

For the year ended 31 December 2007
(Prepared in accordance with International Financial Reporting Standards)
(Expressed in Renminbi)

	Attributable to equity shareholders of the Company						
	Share capital *Rmb'000* *(Note 32)*	**Share premium** *Rmb'000* *(Note 33)*	**Reserves** *Rmb'000* *(Note 34)*	**Accumulated losses** *Rmb'000* *(Note 34)*	**Total** *Rmb'000*	**Minority interests** *Rmb'000*	**Total equity** *Rmb'000*
At 1 January 2006	700,000	969,988	119,921	(927,543)	862,366	81,666	944,032
Profit/(loss) for the year	—	—	—	12,991	12,991	(55,893)	(42,902)
Capital contributions from minority shareholders	—	—	—	—	—	30,000	30,000
Arising from additional investment in a subsidiary	—	—	—	—	—	6,922	6,922
Repurchase and cancellation of shares	(199,982)	(429,960)	—	—	(629,942)	—	(629,942)
Appropriation	—	—	(162,130)	162,130	—	—	—
Deconsolidation of a subsidiary	—	—	(3,664)	2,157	(1,507)	(5,105)	(6,612)
At 31 December 2006	500,018	540,028	(45,873)	(750,265)	243,908	57,590	301,498
At 1 January 2007	**500,018**	**540,028**	**(45,873)**	**(750,265)**	**243,908**	**57,590**	**301,498**
(Loss)/profit for the year	**—**	**—**	**—**	**(100,089)**	**(100,089)**	**19,019**	**(81,070)**
Capital contributions from minority shareholders	**—**	**—**	**—**	**—**	**—**	**490**	**490**
At 31 December 2007	**500,018**	**540,028**	**(45,873)**	**(850,354)**	**143,819**	**77,099**	**220,918**

The notes on pages 53 to 92 are an integral part of these financial statements.

Consolidated cash flow statement

For the year ended 31 December 2007
(Prepared in accordance with International Financial Reporting Standards)
(Expressed in Renminbi)

	Note	**2007** ***Rmb'000***	2006 *Rmb'000*
Operating activities			
Cash generated from operations	35	**43,500**	177,290
Income tax refunded/(paid)		**6**	(6)
Net cash generated from operating activities		**43,506**	177,284
Investing activities			
Interest and investment income received		**3,042**	7,952
Capital expenditure			
— Property, plant and equipment		**(16,900)**	(61,534)
— Lease prepayments		**—**	(703)
— Construction in progress		**(16,694)**	(111,175)
Cash outflow from increase in shareholding in a subsidiary		**—**	(10,500)
Cash outflow from deconsolidation of a subsidiary	35	**—**	(6,762)
Increase in investment deposit		**(35,000)**	—
Increase in other investments		**(210)**	(200)
Return received upon winding up of an investee company		**53,859**	—
Proceeds from disposal of property, plant and equipment		**6,686**	2,721
Proceeds from disposal of lease prepayments		**18,240**	998
Net cash generated from/(used in) investing activities		**13,023**	(179,203)
Financing activities			
Interest paid		**(67,890)**	(70,794)
Decrease/(increase) in pledged deposits		**47,243**	(102,672)
Proceeds from bank and other loans		**1,151,662**	1,220,852
Repayment of bank and other loans		**(1,172,624)**	(1,161,708)
Capital contributions received from minority shareholders		**490**	30,000
Net cash used in financing activities		**(41,119)**	(84,322)
Net increase/(decrease) in cash and cash equivalents		**15,410**	(86,241)
Cash and cash equivalents at 1 January		**58,414**	144,655
Cash and cash equivalents at 31 December	27	**73,824**	58,414

The notes on pages 53 to 92 are an integral part of these financial statements.

Notes on the financial statements

For the year ended 31 December 2007
(Prepared in accordance with International Financial Reporting Standards)
(Expressed in Renminbi)

1 Background of the Company

Luoyang Glass Company Limited ("the Company") is a company incorporated in the People's Republic of China ("the PRC") as a joint stock limited company that, together with its subsidiaries ("the Group"), engaged in the production and sales of float sheet glass.

2 Significant accounting policies

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs") which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards ("IAS") and Interpretations promulgated by the International Accounting Standards Board ("IASB"). These financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). A summary of the significant accounting policies adopted by the Group is set out below.

The Company also prepares a set of financial statements which complies with the PRC Accounting Rules and Regulations. A reconciliation of the Group's loss for the year and total equity attributable to equity shareholders of the Company prepared under IFRSs and the PRC Accounting Rules and Regulations is presented on page 159.

The IASB has issued a number of new and revised IFRSs that are effective for accounting periods beginning on or after 1 January 2007. Information on the changes in accounting policies resulting from initial application of these new and revised IFRSs for the current and prior accounting periods reflected in these financial statements is provided in note 3.

(b) Basis of preparation of the financial statements

The consolidated financial statements comprise the Group and the Group's interests in associates.

The financial statements are presented in Renminbi, rounded to the nearest thousand. The measurement basis used in the preparation of the financial statements is historical cost.

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next financial year are discussed in note 40.

Notwithstanding that the Company and the Group had net current liabilities as at 31 December 2007, the directors of the Company are of the opinion that the Company and the Group are able to continue as a going concern and to meet their obligations as and when they fall due having regard to the following:

(i) agreements obtained from financial institutions for renewal of loan facilities totalling approximately Rmb653,500,000 to the Company upon their expiry in 2008; and

(ii) continuing financial support received from China Luoyang Float Glass Group Company Limited ("CLFG"), the controlling shareholder company, together with China National Building Material Group Corporation ("CNBMG"), the holding company of CLFG. CNBMG has provided guarantees totalling approximately Rmb250,000,000 for procuring bank loans of the Company.

The directors believe that the Company and the Group will have sufficient cash resources to satisfy its future working capital and other financing requirements. Accordingly, it is appropriate that these financial statements should be prepared on a going concern basis and do not include any adjustments that would be required should the Company and the Group fail to continue as a going concern.

2 Significant accounting policies *(Continued)*

(c) Basis of consolidation

(i) Subsidiaries and minority interests

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Minority interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Company, whether directly or indirectly through subsidiaries, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Minority interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the Company.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (see note 2(l)), unless the investment is classified as held for sale.

(ii) Associates

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the associate's net assets, unless it is classified as held for sale. The consolidated income statement includes the Group's share of the post-acquisition, post-tax results of the associates for the year, including any impairment loss on goodwill relating to the investment in associates recognised for the year (see note 2(l)).

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate. For this purpose, the Group's interest in the associate is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate.

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associate, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

In the Company's balance sheet, its investment in associates is stated at cost less any impairment losses (see note 2(l)), unless it is classified as held for sale.

2 Significant accounting policies *(Continued)*

(d) Property, plant and equipment

(i) Property, plant and equipment, which consist of buildings, plant, machinery, equipment and motor vehicles, are stated at cost less accumulated depreciation (see below) and any impairment losses (see note 2(l)). The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to the present working condition and location for its intended use, the cost of borrowed funds used during the period of construction (see note 2(u)) and, when relevant, the costs of dismantling and removing the items and restoring the site in which they are located, and changes in the measurement of existing liabilities recognised for these costs resulting from changes in the timing or outflow of resources required to settle the obligation or from changes in the discount rate.

The Group recognises in the carrying value of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. All the cost is recognised as an expense in the income statement in the period in which it is incurred.

(ii) Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

(iii) Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

Buildings	30 to 50 years
Plant, machinery and equipment	4 to 28 years
Motor vehicles	6 to 12 years

(e) Construction in progress

Construction in progress is stated at cost less any impairment losses (note 2(l)). Cost comprises the direct cost of materials and borrowing costs capitalised (see note 2(u)) during the period of construction.

Capitalisation of these costs ceases and the construction in progress is transferred to property, plant and equipment when substantially all the activities necessary to prepare the asset for its intended use are completed. No depreciation is provided in respect of construction in progress until it is substantially completed and ready for its intended use.

(f) Lease prepayments

Lease prepayments represent land use rights paid to the PRC's land bureau. Land use rights are carried at cost less accumulated amortisation and any impairment losses (see note 2(l)).

Amortisation is calculated on a straight-line basis over the respective periods of the rights.

(g) Intangible assets

Intangible assets are stated in the balance sheet at cost less accumulated amortisation and any impairment losses (see note 2(l)).

Amortisation of intangible assets is charged to profit or loss on a straight-line basis over the assets' estimated useful lives unless such lives are indefinite. Intangible assets represent trademark and non-patented technical know-how, which are amortised over their estimated useful lives of 10 to 20 years.

2 Significant accounting policies *(Continued)*

(h) Investments in equity securities

The Group's and the Company's policies for investments in equity securities, other than investments in subsidiaries and associates, are as follows:

Investments in equity securities are initially stated at cost, which is their transaction price unless fair value can be more reliably estimated using valuation techniques whose variables include only data from observable markets. Cost includes attributable transaction costs, except where indicated otherwise below. These investments are subsequently accounted for as follows, depending on their classification:

Investments in securities held for trading are classified as current assets. Any attributable transaction costs are recognised in profit or loss as incurred. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised in profit or loss. The net gain or loss recognised in profit or loss does not include any dividends or interest earned on these investments as these are recognised in accordance with the policies set out in note 2(q).

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the balance sheet at cost less impairment losses (see note 2(l)).

Investments in securities which do not fall into any of the above categories are classified as available-for-sale securities. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised directly in equity, except foreign exchange gains or losses resulting from changes in the amortised cost of monetary items such as debt securities which are recognised directly in profit or loss. Dividend income from these investments is recognised in profit or loss in accordance with the policy set out in note 2(q)(ii) and, where these investments are interest-bearing, interest calculated using the effective interest method is recognised in profit or loss in accordance with the policy set out in note 2(q)(iii). When these investments are derecognised or impaired (see note 2(l)), the cumulative gain or loss previously recognised directly in equity is recognised in profit or loss.

Investments are recognised / derecognised on the date the Group commits to purchase / sell the investments or they expire.

(i) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

(j) Inventories

Inventories, other than spare parts and consumables, are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(k) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of bad and doubtful debts (see note 2(l)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of bad and doubtful debts (see note 2(l)).

2 Significant accounting policies *(Continued)*

(l) Impairment of assets

(i) Impairment of investments in equity securities and other receivables

Investments in equity securities other than investments in subsidiaries and associates (see note 2(l)(ii)) and other current and non-current receivables that are stated at cost or are classified as available-for-sale equity securities are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

— significant financial difficulty of the debtor;
— a breach of contract, such as a default or delinquency in interest or principal payments;
— it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;
— significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
— a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

— For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities are not reversed.

— For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

— For available-for-sale securities, the cumulative loss that had been recongised directly in equity is removed from equity and is recognised in profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

Impairment losses recognised in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised directly in equity.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade receivables included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade receivables directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

2 Significant accounting policies *(Continued)*

(l) Impairment of assets *(Continued)*

(ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

— property, plant and equipment;
— construction in progress;
— lease prepayments;
— intangible assets; and
— investments in subsidiaries and associates.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

— Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

— Recognition of impairment losses

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

— Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(m) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

Interest-bearing borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liabilities for at least 12 months after the balance sheet date.

(n) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with note 2(o)(i), trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

2 Significant accounting policies *(Continued)*

(o) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 2(o)(iii) if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

(ii) Contingent liabilities acquired in business combinations

Contingent liabilities acquired as part of a business combination are initially recognised at fair value, provided the fair value can be reliably measured. After their initial recognition at fair value, such contingent liabilities are recognised at the higher of the amount initially recognised, less accumulated amortisation where appropriate, and the amount that would be determined in accordance with note 2(o)(iii). Contingent liabilities acquired in a business combination that cannot be reliably fair valued are disclosed in accordance with note 2(o)(iii).

(iii) Other provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(p) Employee benefits

Salaries, annual bonuses, paid annual leave, contributions to defined contribution plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

2 Significant accounting policies *(Continued)*

(q) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit and loss as follows:

(i) Sales of goods

Revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(ii) Dividend income

Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

(iii) Interest income

Interest income is recognised as it accrues using the effective interest method.

(iv) Commission income

Commission income is recognised when service is rendered.

(v) Government grants

Government grants are recognised in the balance sheet initially as deferred income when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted in arriving at the carrying amount of the asset and consequently are recognised in profit and loss over the useful life of the asset.

(r) Translation of foreign currencies

Foreign currency transactions during the year are translated into Renminbi at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Renminbi at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in profit and loss.

(s) Repairs and maintenance expenses

Repairs and maintenance expenses, including cost of major overhaul, are expensed as incurred.

(t) Research and development expenses

Expenditure on research and development activities is recognised as an expense in the period in which it is incurred.

(u) Borrowing costs

Borrowing costs are expensed in profit and loss in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

2 Significant accounting policies (Continued)

(v) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the income statement except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward.

The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

2 Significant accounting policies *(Continued)*

(w) Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group;

(iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

(x) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

3 Changes in accounting policies

IASB has issued a number of new and revised IFRSs and interpretations that are first effective or available for early adoption for the current accounting period of the Group and the Company.

There have been no significant changes to the accounting policies applied in the financial statements for the years presented as a result of these developments. However, as a result of the adoption of IFRS 7, *Financial instruments: Disclosures* and the amendment to IAS 1, *Presentation of financial statements*: *Capital Disclosure*, there have been some additional disclosures provided as follows:

As a result of the adoption of IFRS 7, the financial statements include expanded disclosure about the significance of the Group's financial instruments and the nature and extent of risks arising from those instruments, compared with the information previously required to be disclosed by IAS 32, *Financial instruments: Disclosure and presentation*. These disclosures are provided throughout these financial statements, in particular in note 40.

The amendment to IAS 1 introduces additional disclosure requirements to provide information about the level of capital and the Group's and the Company's objectives, policies and processes for managing capital. These new disclosures are set out in note 40.

Both IFRS 7 and the amendment to IAS 1 do not have any material impact on the classification, recognition and measurement of the amounts recognised in the financial statements.

The Group has not applied any new standard, amendment or interpretation that is not yet effective for the current accounting period (see note 43).

4 Segment reporting

The Group's turnover and operating results are almost entirely generated from the production and sales of float sheet glass. Accordingly, no business segment information is provided. In presenting information on the basis of geographical segments, segment turnover is based on the geographical location of customers. The Group's assets and liabilities are almost entirely situated in the PRC and accordingly, no information on segment assets and liabilities is provided.

The analysis of the geographical location of the operations of the Group during the financial year is as follows:

	China		Asia		America		Oceania		Others		Total	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*	***Rmb'000***	*Rmb'000*	***Rmb'000***	*Rmb'000*	***Rmb'000***	*Rmb'000*	***Rmb'000***	*Rmb'000*
Turnover	**1,402,955**	1,100,320	**24,330**	45,256	**1,644**	17,106	**5,974**	16,266	**9,632**	16,245	**1,444,535**	1,195,193
Segment results	**(33,185)**	(321,754)	**2,258**	(661)	**153**	(284)	**555**	(191)	**894**	(452)	**(29,325)**	(323,342)
Unallocated income											**—**	379,635
(Loss)/profit from operations											**(29,325)**	56,293
Net finance costs											**(72,591)**	(51,373)
Net investment income/(loss)											**22,064**	(9,403)
Share of net profits/(losses) of associates											**2,194**	(38,419)
Income tax expense											**(3,412)**	—
Loss for the year											**(81,070)**	(42,902)

5 Turnover

Turnover represents revenue from the invoiced value of goods sold to customers, net of value-added tax and surcharges and is after deduction of any trade discounts.

6 Other operating income

	2007	2006
	Rmb'000	*Rmb'000*
Waiver of debts	**252**	1,088
Reversal of impairment losses on:		
— amounts due from the ultimate holding company and the fellow subsidiaries	**—**	310,397
— amount due from an associate	**—**	37,177
— other receivables	**—**	71
— deposit with a non-bank financial institution	**—**	14,346
Gain on disposal of racks	**—**	4,601
Gain on deconsolidation of a subsidiary	**—**	12,561
Government grants *(note i below)*	**3,157**	562
Compensation for factory removal *(note ii below)*	**—**	1,126
Gain on disposal of lease prepayments *(note iii below)*	**12,000**	—
Profit on sales of raw materials	**9,209**	11,310
Write off of long term payables	**2,588**	732
Gain on redemption of financial liabilities	**—**	19,500
Commission income	**4,301**	7,901
Others	**1,101**	1,050
	32,608	422,422

6 Other operating income *(Continued)*

Notes:

i A subsidiary of the Company did not receive government grant during the year (2006: Rmb100,000).

According to notices from the Yanshi Municipal Finance Bureau and Henan Province Finance Bureau, a government grant of Rmb6,000,000 was awarded in 2005 to CLFG Longmen Glass Co. Ltd. ("Longmen"), a subsidiary of the Company, for the construction of a production plant. Such grant is recognised in the consolidated income statement over the useful life of the respective assets, of which Rmb461,500 has been recognised during the year (2006: Rmb461,500).

According to a routine conference summary from the Luoyang Municipal People's Government, the Company received a government grant of Rmb2,695,000 during the year (2006: Nil).

ii During the year, the Company did not receive compensation for the factory removal from the Luoyang Municipal Finance Bureau (2006: Rmb1,126,000).

iii During the year, the Company disposed of certain leased land to the government at a net consideration of Rmb18,240,000. As a result, the Company derived a gain on disposal of Rmb12,000,000 (2006: Nil).

7 Loss before taxation

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

		2007 **Rmb'000**	2006 Rmb'000
(a)	Net finance costs:		
	Interest on bank loans and other borrowings repayable within 5 years	**(67,890)**	(70,794)
	Less: borrowing costs capitalised into construction in progress*	**—**	898
		(67,890)	(69,896)
	Interest income	**3,042**	26,917
	Net foreign exchange loss	**(1,522)**	(2,726)
	Bank charges	**(6,221)**	(5,668)
		(72,591)	(51,373)

* No borrowing cost has been capitalised during the year (2006: 5.76% per annum).

		2007 **Rmb'000**	2006 Rmb'000
(b)	Net investment income/(loss):		
	Dividend income from unlisted available-for-sale securities	**—**	3,600
	Impairment losses on unlisted available-for-sale securities	**—**	(14,058)
	Return of surplus assets upon winding up of an investee company	**22,059**	—
	Others	**5**	1,055
		22,064	(9,403)

		2007 **Rmb'000**	2006 Rmb'000
(c)	Staff costs:		
	Wages and salaries	**(66,120)**	(64,023)
	Contributions to defined contribution plan	**(21,181)**	(22,371)
		(87,301)	(86,394)

7 Loss before taxation *(Continued)*

Loss before taxation is arrived at after (charging)/crediting: *(Continued)*

	2007 **Rmb'000**	2006 Rmb'000
(d) Other items:		
Cost of inventories *(note 23)*	**(1,310,420)**	(1,332,852)
Depreciation	**(112,481)**	(116,233)
Allowances for impairment of		
— trade receivables	**(946)**	(1,262)
— other receivables	**(1,448)**	(24,521)
— property, plant and equipment	**(17,154)**	(12,536)
Loss on disposal of property, plant and equipment	**(3,160)**	(1,414)
Loss on disposal of lease prepayments	**—**	(862)
Auditors' remuneration		
— current year	**(2,150)**	(2,150)
— underprovision in prior year	**—**	(2,639)
Research and development expenses	**—**	(144)
Amortisation of intangible assets	**(1,472)**	(1,414)
Amortisation of lease prepayments	**(704)**	(2,652)
Goodwill arising from increase in investment in a subsidiary written off	**—**	(6,922)

8 Directors' and supervisors' remuneration

Directors' and supervisors' remuneration disclosed pursuant to the disclosure requirement of the Listing Rules is as follows:

	Fees *Rmb'000*	**Bonuses** *Rmb'000*	**Salaries, allowance and benefits allowance in kind** *Rmb'000*	**Contributions to defined contribution plan** *Rmb'000*	**2007 Total** *Rmb'000*
Executive directors					
Liu Baoying**	—	—	—	—	—
Zhu Leibo	—	—	196	17	213
Ding Jianluo*	—	—	—	—	—
Zhang Shaojie*	—	—	—	—	—
Zhu Liuxin	—	—	164	17	181
Jiang Hong*	—	—	—	—	—
Gao Tianbao#	—	—	164	17	181
Xie Jun#	—	—	53	15	68
Cao Mingchun#	—	—	106	15	121
Shen Anqin#	40	—	—	—	40
Yang Weiping#	40	—	—	—	40
Independent directors					
Guo Aimin	40	—	—	—	40
Zhang Zhanying	40	—	—	—	40
Xi Shengyang	40	—	—	—	40
Ge Tieming#	40	—	—	—	40
Dong Chao*	—	—	—	—	—
Supervisors					
Tao Shanwu*	—	—	—	—	—
Song Fei*	—	—	—	—	—
Ma Shixin*	—	—	26	8	34
Ren Zhenduo##	—	—	105	14	119
Yao Wenjun#	20	—	—	—	20
Independent supervisors					
Li Jingyi	20	—	—	—	20
Gu Meifeng*	—	—	—	—	—
He Baofeng#	20	—	—	—	20
	300	**—**	**814**	**103**	**1,217**

* his term of office expired on 10 September 2007
** his term of office expired on 7 June 2007
# appointed on 10 September 2007
appointed on 12 September 2007

8 Directors' and supervisors' remuneration *(Continued)*

Directors' and supervisors' remuneration disclosed pursuant to the disclosure requirement of the Listing Rules is as follows *(Continued)*:

	Fees *Rmb'000*	Bonuses *Rmb'000*	Salaries, allowance and benefits allowance in kind *Rmb'000*	Contributions to defined contribution plan *Rmb'000*	2006 Total *Rmb'000*
Executive directors					
Liu Baoying	—	—	—	—	—
Zhu Leibo	—	—	—	—	—
Ding Jianluo	—	—	93	10	103
Wang Jie	—	—	—	—	—
Zhang Shaojie	—	—	—	—	—
Zhu Liuxin	—	—	—	—	—
Jiang Hong	—	—	—	—	—
Independent directors					
Dai Zhiliang	—	—	—	—	—
Zong Pengrong	—	—	—	—	—
Guo Aimin	20	—	—	—	20
Zhang Zhanying	20	—	—	—	20
Xi Shengyang	20	—	—	—	20
Dong Chao	20	—	—	—	20
Supervisors					
Tao Shanwu	—	—	—	—	—
Song Fei	—	—	—	—	—
Cheng Rongfa	—	—	—	—	—
Ma Shixin	—	—	81	10	91
Independent supervisors					
Li Jingyi	6	—	—	—	6
Gu Meifeng	6	—	—	—	6
	92	—	174	20	286

9 Individuals with highest emoluments

Of the 5 individuals with the highest emoluments, 5 (2006: 2) are directors or supervisors, whose emoluments are disclosed in note 8. In 2006, the aggregate of the emoluments in respect of the remaining 3 individuals are as follows:

	2007 ***Rmb'000***	2006 *Rmb'000*
Salaries and other emoluments	—	179
Contribution to defined contribution plan	—	27
	—	206

No individuals (2006: 3) with the highest emoluments are within the following band:

Hong Kong dollars	**No. of individuals 2007**	2006
Nil — HK$1,000,000	—	3

10 Income tax expense

(a) Taxation in the consolidated income statement represents:

	2007 Rmb'000	2006 Rmb'000
Income tax provision for the year	**3,412**	—

The provision for PRC income tax is calculated at 33% of the estimated assessable profits in accordance with the relevant income tax rules and regulations of the PRC (2006: Nil).

The Group did not carry on business overseas and therefore no provision has been made for overseas profits tax.

Reconciliation between tax expense and accounting loss at applicable tax rate:

	2007 Rmb'000	2006 Rmb'000
Loss before taxation	**(77,658)**	(42,902)
Notional PRC income tax using the Company's tax rate of 33%	**(25,627)**	(14,158)
Tax effect of non-deductible expenses	**52,810**	71,512
Tax effect of tax exempt revenue	**(29,234)**	(112,042)
Tax effect of tax loss utilised	**(4,932)**	—
Tax losses not recognised for deferred tax	**10,395**	54,688
Actual tax expense	**3,412**	—

(b) Major components of unrecognised deferred tax assets are as follows:

	2007 Rmb'000	2006 Rmb'000
Tax losses	**320,083**	309,688
Lease prepayments	**12,341**	14,633
	332,424	324,321

The deferred tax assets have not been recognised as it is not certain whether the potential taxation benefit will be realised in the foreseeable future. The tax losses represent the maximum benefit from unutilised tax losses, which can be carried forward up to 5 years from the year in which the loss was originated to offset against future taxable profits. Also, no deferred tax liability has been recognised at the balance sheet date.

11 Loss attributable to equity shareholders of the Company

The net loss attributable to equity shareholders of the Company includes a loss of Rmb149,555,000 (2006: profit of Rmb53,608,000) which has been dealt with in the financial statements of the Company.

12 Dividends

The board of directors of the Company does not recommend the payment of a dividend in respect of the year ended 31 December 2007 (2006: Nil).

13 Basic loss per share

The calculation of basic loss per share is based on the loss attributable to equity shareholders of the Company of Rmb100,089,000 (2006: profit of Rmb12,991,000) and 500,018,000 (2006: 685,754,724) shares in issue during the year.

No diluted earnings per share are calculated as there are no dilutive potential shares for the 2 years ended 31 December 2007 and 31 December 2006.

14 Property, plant and equipment

The Group

	Buildings *Rmb'000*	Plant, machinery and equipment *Rmb'000*	Motor vehicles *Rmb'000*	Total *Rmb'000*
Cost:				
At 1 January 2006	523,499	1,156,247	20,375	1,700,121
Reclassification	242,304	(257,240)	14,936	—
At 1 January 2006	765,803	899,007	35,311	1,700,121
Deconsolidation of a subsidiary	(112,384)	(81,941)	(5,809)	(200,134)
Additions	29,292	31,334	907	61,533
Transfer from construction in progress *(note 15)*	71,023	300,173	—	371,196
Disposals	(3,363)	(49,976)	(1,780)	(55,119)
At 31 December 2006	750,371	1,098,597	28,629	1,877,597
Accumulated depreciation and impairment:				
At 1 January 2006	134,932	594,144	11,693	740,769
Reclassification	170,553	(179,457)	8,904	—
At 1 January 2006	305,485	414,687	20,597	740,769
Deconsolidation of a subsidiary	(42,868)	(68,852)	(3,853)	(115,573)
Charge for the year	31,446	82,410	2,377	116,233
Impairment	11,056	1,480	—	12,536
Written back on disposals	(308)	(49,597)	(1,079)	(50,984)
At 31 December 2006	304,811	380,128	18,042	702,981
Net book value:				
At 31 December 2006	445,560	718,469	10,587	1,174,616
Cost:				
At 1 January 2007	**750,371**	**1,098,597**	**28,629**	**1,877,597**
Reclassification	**(22,106)**	**18,779**	**3,327**	**—**
At 1 January 2007	**728,265**	**1,117,376**	**31,956**	**1,877,597**
Additions	**4,420**	**11,995**	**485**	**16,900**
Transfer from construction in progress *(note 15)*	**216**	**14,915**	**—**	**15,131**
Disposals	**(9,138)**	**(3,548)**	**(2,000)**	**(14,686)**
At 31 December 2007	**723,763**	**1,140,738**	**30,441**	**1,894,942**
Accumulated depreciation and impairment:				
At 1 January 2007	**304,811**	**380,128**	**18,042**	**702,981**
Reclassification	**(54,800)**	**54,113**	**687**	**—**
At 1 January 2007	**250,011**	**434,241**	**18,729**	**702,981**
Charge for the year	**25,742**	**84,646**	**2,093**	**112,481**
Impairment	**—**	**17,154**	**—**	**17,154**
Written back on disposals	**(1,233)**	**(2,213)**	**(1,394)**	**(4,840)**
At 31 December 2007	**274,520**	**533,828**	**19,428**	**827,776**
Net book value:				
At 31 December 2007	**449,243**	**606,910**	**11,013**	**1,067,166**

14 Property, plant and equipment *(Continued)*

The Company

	Buildings *Rmb'000*	Plant, machinery and equipment *Rmb'000*	Motor vehicles *Rmb'000*	Total *Rmb'000*
Cost:				
At 1 January 2006	222,705	635,542	2,212	860,459
Reclassification	215,780	(236,246)	20,466	—
At 1 January 2006	438,485	399,296	22,678	860,459
Additions	22,146	34,504	239	56,889
Transfer from construction in progress *(note 15)*	—	8,622	—	8,622
Disposals	(341)	(46,260)	(854)	(47,455)
At 31 December 2006	460,290	396,162	22,063	878,515
Accumulated depreciation and impairment:				
At 1 January 2006	78,865	425,175	725	504,765
Reclassification	152,426	(165,594)	13,168	—
At 1 January 2006	231,291	259,581	13,893	504,765
Charge for the year	17,164	22,972	1,492	41,628
Impairment	11,020	—	—	11,020
Written back on disposals	(262)	(44,798)	(378)	(45,438)
At 31 December 2006	259,213	237,755	15,007	511,975
Net book value:				
At 31 December 2006	201,077	158,407	7,056	366,540
Cost:				
At 1 January 2007	**460,290**	**396,162**	**22,063**	**878,515**
Reclassification	**(45,606)**	**45,606**	**—**	**—**
At 1 January 2007	**414,684**	**441,768**	**22,063**	**878,515**
Additions	**—**	**147**	**—**	**147**
Transfer from construction in progress *(note 15)*	**—**	**73**	**—**	**73**
Disposals	**(9,139)**	**(1,103)**	**(1,429)**	**(11,671)**
At 31 December 2007	**405,545**	**440,885**	**20,634**	**867,064**
Accumulated depreciation and impairment:				
At 1 January 2007	**259,213**	**237,755**	**15,007**	**511,975**
Reclassification	**(44,326)**	**44,326**	**—**	**—**
At 1 January 2007	**214,887**	**282,081**	**15,007**	**511,975**
Charge for the year	**5,814**	**36,381**	**1,319**	**43,514**
Impairment	**—**	**17,154**	**—**	**17,154**
Written back on disposals	**(1,234)**	**(931)**	**(1,009)**	**(3,174)**
At 31 December 2007	**219,467**	**334,685**	**15,317**	**569,469**
Net book value:				
At 31 December 2007	**186,078**	**106,200**	**5,317**	**297,595**

Notes:

(a) All of the Group's buildings are located in the PRC.

(b) At 31 December 2007, buildings and plant, machinery and equipment with net book values of Rmb5,798,000 (2006: Rmb6,429,000) and Rmb50,574,000 (2006: Nil) respectively were pledged for certain short-term loans.

15 Construction in progress

Construction in progress comprises expenditure incurred on the construction of buildings, plant, machinery and equipment not yet completed at 31 December.

	The Group		The Company	
	2007	2006	**2007**	2006
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
At 1 January	**5,550**	265,271	**73**	8,582
Additions	**16,694**	111,475	**683**	113
	22,244	376,746	**756**	8,695
Transfer to property, plant and equipment *(note 14)*	**(15,131)**	(371,196)	**(73)**	(8,622)
At 31 December	**7,113**	5,550	**683**	73

16 Intangible assets

The Group

	2007	2006
	Rmb'000	*Rmb'000*
Cost:		
At 1 January and at 31 December	**18,400**	18,400
Accumulated amortisation:		
At 1 January	**3,181**	1,767
Charge for the year	**1,472**	1,414
At 31 December	**4,653**	3,181
Net book value:		
At 31 December	**13,747**	15,219

Intangible assets represent trademark, non-patented technical know-how obtained by certain subsidiaries. They are amortised on a straight-line basis over 10 to 20 years. The amortisation charge for the year is included in administrative expenses in the consolidated income statement.

17 Lease prepayments

	The Group		The Company	
	2007	2006	**2007**	2006
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Cost:				
At 1 January	**63,935**	106,683	**48,970**	51,422
Additions	**—**	703	**—**	—
Disposals	**(23,347)**	(2,452)	**(23,347)**	(2,452)
Deconsolidation of a subsidiary	**—**	(40,999)	**—**	—
At 31 December	**40,588**	63,935	**25,623**	48,970
Accumulated amortisation:				
At 1 January	**22,137**	27,398	**19,402**	18,480
Amortised for the year	**704**	2,652	**302**	1,514
Written back on disposals	**(17,107)**	(592)	**(17,107)**	(592)
Deconsolidation of a subsidiary	**—**	(7,321)	**—**	—
At 31 December	**5,734**	22,137	**2,597**	19,402
Net Book Value:				
At 31 December	**34,854**	41,798	**23,026**	29,568

Lease prepayments represent the land use rights on land located in the PRC. The remaining periods of the land use rights are from 36 to 49 years. At 31 December 2007, the Group was in the process of application for the relevant land use rights certificate of a piece of land with a carrying value of Rmb24,770,000 (2006: Rmb31,980,000). As at 31 December 2007, the Group's land use rights with net book value of Rmb2,878,000 (2006: Rmb2,948,000) have been pledged for certain short-term loans.

18 Interests in subsidiaries

The Company

	2007	2006
	Rmb'000	*Rmb'000*
Unlisted equity interest, at cost	**230,417**	226,706
Less: impairment losses	**110,217**	158,546
	120,200	68,160
Amounts due from subsidiaries	**365,580**	343,153
Less: allowances for impairment of doubtful debts	**91,425**	—
	274,155	343,153
	394,355	411,313

The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment. The impaired receivables related to certain subsidiaries that were in financial difficulties and the directors assessed that such debts were not expected to be recovered. These impaired receivables are of ages over 1 year. All of the other receivables do not contain impaired assets.

Details of the Company's principal subsidiaries at 31 December 2007, all of which are incorporated and operated in the PRC, are set out below.

Name of company	**Registered capital**	**Attributable equity interest Direct**	**Indirect**	**Principal activities**	***Notes***
CLFG Longmen Glass Co. Ltd. ("Longmen")	Rmb20,000,000	79.06%	—	Manufacture of float sheet glass	(i)
CLFG Long Fei Glass Co. Ltd. ("Long Fei")	Rmb74,080,000	54.00%	—	Manufacture of float sheet glass	(ii)
Xiangfang Luoshen Auto Glass Co. Ltd.	Rmb30,000,000	66.67%	—	Manufacture of auto glass	(ii)
Yinan Mineral Products Co. Ltd.	Rmb28,000,000	52.00%	—	Exploration of minerals	(ii)
CLFG Long Hai Electronic Glass Co. Ltd.	Rmb60,000,000	80.00%	—	Manufacture of float sheet glass	(ii)
CLFG Long Hao Glass Co. Ltd.	Rmb50,000,000	80.00%	—	Manufacture of float sheet glass	(ii)
Luoyang CLFG Logistics Co. Ltd. ("Logistics Company")	Rmb10,000,000	100.00%	—	Storage and logistics services	(ii)
CLFG LongXiang Glass Co. Ltd. ("Long Xiang")	Rmb50,000,000	—	40.00%	Manufacture of float sheet glass	(ii), (iii)
Dengfeng CLFG Silicon Company Limited	Rmb1,000,000	—	51.00%	Exploration of minerals	(ii)

Notes:

(i) This subsidiary is a collective joint enterprise.

(ii) These subsidiaries are limited liability companies.

(iii) The Group indirectly, through Long Fei, held 40% shareholding in Long Xiang. Certain shareholders, who held 33% shareholding in Long Xiang, has authorised the Company to exercise their rights in Long Xiang. Accordingly, Long Xiang is the subsidiary of the Group since the Group has the power to govern the financial and operating policies of this subsidiary.

19 Interests in associates

	The Group		The Company	
	2007	2006	**2007**	2006
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Unlisted equity interest, at cost	**—**	—	**220,649**	220,649
Share of net assets	**118,402**	116,208	**—**	—
	118,402	116,208	**220,649**	220,649
Amounts due from associates	**5,029**	3,445	**1,329**	1,825
Amounts due to associates	**(6,509)**	(7,766)	**(184)**	(1,225)
	116,922	111,887	**221,794**	221,249
Less: impairment losses	**—**	782	**109,649**	104,441
	116,922	111,105	**112,145**	116,808

The amounts due from/(to) associates are unsecured, interest-free and have no fixed terms of repayment. The amounts due from associates are neither past due nor impaired.

Details of the associates, which are unlisted corporate entities, incorporated and operated in the PRC, are as follows:

Name of company	**Form of business structure**	**Registered capital**	**Direct equity interest**	**Principal activities**
Luoyang Jingxin Ceramic Co. Ltd. ("Jingxin")	Sino-foreign equity joint venture	Rmb41,945,000	49.00%	Manufacture of ceramic wall tiles
CLFG Financial Company of Limited Liabilities ("CLFC")	Limited liability company	Rmb300,000,000	37.00%	Provision of financial services
CLFG Processed Glass Co. Ltd. ("CPGC")	Joint stock limited liability company	Rmb181,496,000	49.09%	Production and sale of vehicle safety reprocessed glass

The Group's share of post-acquisition total recognised losses in the above associates for the year ended 31 December 2007, was Rmb102,246,000 (2006: Rmb104,440,000). The Group has not recognised losses relating to Jingxin and CPGC totalling Rmb36,434,000 (2006: Rmb18,629,000) of which Rmb17,805,000 was incurred in the current financial year (2006: Rmb2,860,000). The Group has no obligation in respect of those unrecognised losses.

Summarised financial information on associates

	Assets	**Liabilities**	**Equity**	**Revenues**	**Profits/(losses)**
	Rmb'000	*Rmb'000*	*Rmb'000*	*Rmb'000*	*Rmb'000*
2007					
100 per cent	**823,559**	**(578,221)**	**245,338**	**134,787**	**(29,515)**
Group's effective interest	**355,368**	**(236,966)**	**118,402**	**63,552**	**2,194**
2006					
100 per cent	922,950	(649,015)	273,935	153,462	(90,568)
Group's effective interest	394,787	(278,579)	116,208	72,879	(38,419)

20 Other investments

	The Group		The Company	
	2007	2006	**2007**	2006
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Unlisted available-for-sale securities, at cost	**44,789**	82,718	**43,827**	75,627
Less: impairment losses	**44,379**	50,718	**43,827**	43,827
	410	32,000	**—**	31,800

Unlisted securities are not stated at fair value but at cost less any accumulated impairment losses, because they do not have a quoted market price on active market, the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed.

21 Investment deposit

On 22 October 2007, the Company entered into a Sales and Purchases Agreement with CLFG for the acquisition of a 50% equity interest in CLFG Luoyang Longxin Glass Company Limited ("Longxin Glass") at a consideration of Rmb35,000,000 which was fully paid during the year. However, the official application procedures are not completed at the balance sheet date and the amount is classified as investment deposit accordingly.

22 Deposits with a non-bank financial institution

The balances at 31 December 2007 represent the overdue time deposits at Guangzhou International Trust & Investment Corporation ("GZITIC"), after a 75% (2006: 65%) impairment made. GZITIC is in the process of a corporate restructuring. In 2006, a preliminary negotiation regarding the debt repayment has been undergoing between the two parties and GZITIC initially intended to repay to the Company certain of its properties with estimated prevailing market value of not less than Rmb50,000,000 in lieu of cash. In the opinion of directors, after considering the current market situation during the year, a further impairment of Rmb15,000,000 has been made. No interest has been accrued in respect of this deposit recovered.

23 Inventories

	The Group		The Company	
	2007	2006	**2007**	2006
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Raw materials	**182,282**	208,057	**83,675**	103,799
Work in progress	**10,984**	18,915	**5,340**	6,692
Finished goods	**106,260**	102,738	**28,216**	56,299
	299,526	329,710	**117,231**	166,790
Less: write-down	**16,223**	38,691	**13,297**	26,900
	283,303	291,019	**103,934**	139,890

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

	The Group	
	2007	2006
	Rmb'000	*Rmb'000*
Carrying amount of inventories sold	**1,332,888**	1,311,998
Write-down of inventories	**6,099**	24,365
Reversal of write-down of inventories	**(28,567)**	(3,511)
	1,310,420	1,332,852

24 Trade and bills receivables

	The Group		The Company	
	2007	2006	**2007**	2006
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Trade receivables				
— third parties	**71,824**	66,949	**50,321**	49,265
— subsidiaries of the controlling shareholder company	**165**	1,421	**3,300**	1,171
	71,989	68,370	**53,621**	50,436
Less: allowances for impairment of doubtful debts	**45,862**	44,916	**42,914**	42,735
	26,127	23,454	**10,707**	7,701
Bills receivable	**55,461**	45,399	**35,076**	61,878
	81,588	68,853	**45,783**	69,579

The directors consider that the carrying amounts of the trade and bills receivables approximate to their fair values.

The ageing analysis of trade and bills receivables, net of allowances for impairment of doubtful debts, is as follows:

	The Group		The Company	
	2007	2006	**2007**	2006
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Within 1 month	**75,525**	62,471	**43,975**	68,345
Between 1 month and 1 year	**5,873**	3,901	**1,801**	1,224
Between 1 and 2 years	**85**	1,650	**—**	10
Between 2 and 3 years	**105**	831	**7**	—
	81,588	68,853	**45,783**	69,579

Debts are normally due within 30 days from the date of billing. The ageing analysis above is prepared in accordance with invoice dates.

The amounts within 1 month presented in the ageing analysis above represented the trade and bills receivables that are neither past due nor impaired.

At 31 December, 2007, the Group's and the Company's trade and bills receivables of Rmb6,063,000 (2006: Rmb6,382,000) and Rmb1,808,000 (2006: Rmb1,234,000) respectively were past due but not impaired. These receivables relate to a number of independent customers that have a good track record with the Group and the Company. Based on past experience, the directors believe that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

At 31 December, 2007, the Group's and the Company's trade and bills receivables of Rmb45,862,000 (2006: Rmb44,916,000) and Rmb42,914,000 (2006: Rmb42,735,000) respectively were individually determined to be fully impaired. The individually impaired receivables related to customers that were in financial difficulties and the directors assessed that such debts were not expected to be recovered. The Group does not hold any collateral over these balances. The ageing analysis of these trade and bills receivables is as follows:

	The Group		The Company	
	2007	2006	**2007**	2006
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Between 1 and 2 years	**1,050**	703	**—**	—
Between 2 and 3 years	**722**	830	**7**	4
More than 3 years	**44,090**	43,383	**42,907**	42,731
	45,862	44,916	**42,914**	42,735

24 Trade and bills receivables *(Continued)*

The movements in the allowances for impairment of doubtful debts during the year are as follows:

	The Group		The Company	
	2007	2006	**2007**	2006
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
At 1 January	**44,916**	143,026	**42,735**	129,782
Impairment loss recognised	**946**	1,262	**179**	—
Uncollectible amounts written off	**—**	(99,372)	**—**	(87,047)
At 31 December	**45,862**	44,916	**42,914**	42,735

Included in the Company's bills receivable in 2006, there were commercial bills of Rmb50,000,000 received from its subsidiaries with 100% recourse. The Company recognised the asset and the associated liability in 2006.

Included in trade and bills receivables are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	The Group		The Company	
	2007	2006	**2007**	2006
	'000	*'000*	***'000***	*'000*
United States Dollars	**532**	1,198	**532**	1,198

25 Other receivables

	The Group		The Company	
	2007	2006	**2007**	2006
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Current assets				
Amount due from controlling shareholder company	**1,272**	—	**—**	—
Amount due from subsidaries of the controlling shareholder company	**4,879**	—	**4,879**	—
Advance payments, accounts receivables and prepayments	**99,481**	114,803	**45,810**	81,159
	105,632	114,803	**50,689**	81,159
Less: allowances for impairment of doubtful debts	**57,272**	55,833	**35,182**	34,927
	48,360	58,970	**15,507**	46,232

The amounts due from the controlling shareholder company and its subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

The impaired other receivables of Rmb57,272,000 (2006: Rmb55,833,000) are of ages over 1 year. All of the other balances of other receivables are neither past due nor impaired.

All of the other receivables are expected to be recovered or recognised as expense within 1 year.

The movements in the allowances for impairment of doubtful debts during the year are as follows:

	The Group		The Company	
	2007	2006	**2007**	2006
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
At 1 January	**55,833**	279,585	**34,927**	256,678
Impaiment loss recognised	**1,448**	24,521	**255**	15,650
Uncollectible amounts written off	**(9)**	(248,273)	**—**	(237,401)
At 31 December	**57,272**	55,833	**35,182**	34,927

26 Pledged deposits with banks and non-bank financial institutions

	The Group		The Company	
	2007	2006	**2007**	2006
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Deposits with banks and non-bank financial institutions (pledged)	**167,302**	214,545	**133,502**	176,845

At 31 December 2007, time deposits with banks and non-bank financial institutions totalling Rmb60,000,000 (2006: Rmb100,000,000) were pledged to secure loans granted to the Company and the Group (see note 30).

At 31 December 2007, deposits with banks and non-bank financial institutions of Rmb73,502,000 (2006: Rmb76,845,000) and Rmb107,302,000 (2006: Rmb114,545,000) were pledged to secure bills payable of the Company and the Group respectively.

27 Cash and cash equivalents

	The Group		The Company	
	2007	2006	**2007**	2006
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Cash in hand	**335**	294	**67**	42
Deposits with banks and non-bank financial institutions with an original maturity within 3 months	**73,489**	58,120	**57,961**	43,153
Cash and cash equivalents	**73,824**	58,414	**58,028**	43,195

Included in cash and cash equivalents in the balance sheets are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	The Group		The Company	
	2007	2006	**2007**	2006
	'000	*'000*	***'000***	*'000*
Hong Kong Dollars	**219**	5,907	**219**	5,907
United States Dollars	**389**	359	**389**	359

28 Trade and bills payables

	The Group		The Company	
	2007	2006	**2007**	2006
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Trade payables				
— third parties	**373,180**	385,154	**118,774**	190,386
— controlling shareholder company	**—**	1,214	**—**	—
— subsidiaries of the controlling shareholder company	**1,831**	8,769	**725**	5,349
	375,011	395,137	**119,499**	195,735
Bills payable	**141,002**	171,390	**74,902**	98,690
	516,013	566,527	**194,401**	294,425

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

	The Group		The Company	
	2007	2006	**2007**	2006
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Due within 1 month or on demand	**516,013**	566,527	**194,401**	294,425

29 Other payables

	The Group		The Company	
	2007	2006	**2007**	2006
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Amount due to controlling shareholder company	**20,332**	—	**—**	—
Amounts due to subsidiaries of the controlling shareholder company	**301**	7,958	**301**	7,847
Accrued expenses, accounts payables and receipts in advance	**231,753**	252,828	**111,075**	122,283
	252,386	260,786	**111,376**	130,130

The amounts due to the controlling shareholder company and its subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

At the balance sheet date, no retention monies (2006: Rmb67,000) in respect of certain construction in progress included in other payables are expected to be settled after more than 1 year.

All of the other payables are expected to be settled or recognised as income within 1 year or are repayable on demand.

30 Bank and other loans

The Group

	Interest Rate	Interest type	2007 *Rmb'000*	2006 *Rmb'000*
Secured bank loans	2.50%-8.38%	Fixed and floating	**805,658**	754,910
Unsecured loans from a controlling shareholder company	N/A	N/A	**—**	31,540
Secured loans from an associate	5.70%-6.08%	Fixed	**21,500**	50,000
Unsecured loans from an associate	7.65%-10.44%	Fixed	**71,500**	63,000
Secured loans from a non-bank financial instituation	6.03%	Floating	**52,330**	80,000
Unsecured loans from a non-bank financial instituation	7.04%-10.44%	Fixed	**18,500**	11,000
			969,488	990,450

The Company

	Interest Rate	Interest type	2007 *Rmb'000*	2006 *Rmb'000*
Secured bank loans	2.50%-8.38%	Fixed and floating	**793,758**	702,710
Secured loans from an associate	5.70%-6.08%	Fixed	**21,500**	50,000
Unsecured loans from an associate	N/A	N/A	**—**	21,500
			815,258	774,210

Rmb188,900,000 (2006: Rmb3,100,000) included in secured bank loans of the Group is secured by the land use rights, buildings and plant, machinery and equipment amounting to Rmb2,878,000 (2006: Rmb2,948,000), Rmb5,798,000 (2006: Rmb6,429,000) and Rmb50,574,000 (2006: Nil) respectively.

Included in loans from banks of the Company are loans amounting to Rmb54,000,000 (2006: Rmb91,880,000) which are secured by time deposits of Rmb60,000,000 (2006: Rmb100,000,000) (see note 26). The remaining balances are guaranteed by a controlling shareholder company and carry interest at the prevailing market rates.

Included in secured loans from a non-bank financial institution to a subsidiary of Rmb6,000,000 (2006: Rmb20,400,000) has become overdue for payment.

30 Bank and other loans *(Continued)*

The bank and other loans are repayable as follows:

The Group

	2007 **Rmb'000**	2006 Rmb'000
Within 1 year		
— short-term loans	**909,200**	902,221
— current portion of long-term loans	**53,883**	28,202
	963,083	930,423
Between 1 and 2 years	**582**	53,862
Between 2 and 5 years	**1,165**	1,596
After 5 years	**4,658**	4,569
	6,405	60,027
	969,488	990,450

The Company

	2007 **Rmb'000**	2006 Rmb'000
Within 1 year		
— short-term loans	**808,300**	766,981
— current portion of long-term loans	**553**	532
	808,853	767,513
Between 1 and 2 years	**582**	532
Between 2 and 5 years	**1,165**	1,596
After 5 years	**4,658**	4,569
	6,405	6,697
	815,258	774,210

30 Bank and other loans *(Continued)*

The interest rates and repayment terms of long-term loans are as follows:

Repayment terms and last repayment date	Interest rate	Interest type	The Group 2007 Rmb'000	The Group 2006 Rmb'000	The Company 2007 Rmb'000	The Company 2006 Rmb'000
Secured bank loans						
Euro denominated:						
Payable semi-annually in 2008/2007	2.50%	Fixed	**553**	532	**553**	532
Payable semi-annually from 2009/2008 through 2019	2.50%	Fixed	**6,405**	6,697	**6,405**	6,697
			6,958	7,229	**6,958**	7,229
Secured loans from a non-bank financial institution						
Due in 2007	6.03%	Floating	**—**	27,670	**—**	—
Due in 2008	6.03%	Floating	**52,330**	52,330	**—**	—
			52,330	80,000	**—**	—
Unsecured loans from a non-bank financial institution						
Payable semi-annual from 2001 through 2009	N/A	N/A	**—**	—	**—**	—
Due in 2008	10.44%	Fixed	**1,000**	1,000	**—**	—
			1,000	1,000	**—**	—
Total long-term loans			**60,288**	88,229	**6,958**	7,229
Less: Current-portion repayable within 1 year			**53,883**	28,202	**553**	532
Non-current portion of long-term loans			**6,405**	60,027	**6,405**	6,697

All of the non-current interest bearing loans are carried at amortised cost. None of the non-current interest bearing loans is expected to be settled within 1 year.

Included in bank loans are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	The Group 2007 '000	The Group 2006 '000	The Company 2007 '000	The Company 2006 '000
Euros	**652**	704	**652**	704

Short-term loans

The weighted average interest rates on short-term loans for the Group and the Company were 8.03% and 9.52% per annum respectively (2006: 6.89% and 6.37% per annum respectively).

Details of the Group's liquidity management policy are set out in note 40(I)(c).

31 Deferred income

According to notices from the Yanshi Municipal Finance Bureau and Henan Province Finance Bureau, a government grant of Rmb6,000,000 was awarded to Longmen, a subsidiary of the Company, for the construction of a production plant. Such grant is recognised in the consolidated income statement over the useful life of the respective assets, of which Rmb461,500 has been recognised during the year (2006: Rmb461,500).

32 Share capital

	2007		2006	
	Shares'000	***Rmb'000***	*Shares'000*	*Rmb'000*
Registered, issued and paid-up capital:				
State-owned legal person shares of Rmb1.00 each				
At beginning of the year	**179,018**	**179,018**	400,000	400,000
Decreased as a result of Revised Share Reform	**—**	**—**	(21,000)	(21,000)
Cancellation upon repurchase of own shares	**—**	**—**	(199,982)	(199,982)
At end of the year	**179,018**	**179,018**	179,018	179,018
Domestic listed shares ("A Shares") of Rmb1.00 each				
At beginning of the year	**71,000**	**71,000**	50,000	50,000
Increased as a result of Revised Share Reform	**—**	**—**	21,000	21,000
At end of the year	**71,000**	**71,000**	71,000	71,000
Overseas listed shares ("H Shares") of Rmb1.00 each				
At beginning and end of the year	**250,000**	**250,000**	250,000	250,000
	500,018	**500,018**	500,018	500,018

33 Share premium

The application of the share premium account is governed by Sections 178 and 179 of the PRC Company Law.

34 Reserves

The Group

	Statutory surplus reserve *Rmb'000* *Note (a)*	**Statutory public welfare fund** *Rmb'000*	**Discretionary surplus reserve** *Rmb'000*	**Excess over share capital** *Rmb'000* *Note (b)*	**Capital reserve** *Rmb'000*	**Accumulated losses** *Rmb'000*	**Total** *Rmb'000*
At 1 January 2006	58,937	55,662	110,764	(106,949)	1,507	(927,543)	(807,622)
Profit attributable to equity shareholders of the Company	—	—	—	—	—	12,991	12,991
Transfer to accumulated losses	(51,366)	—	(110,764)	—	—	162,130	—
Transfer from/(to) reserves	55,662	(55,662)	—	—	—	—	—
Deconsolidation of a subsidiary	(2,157)	—	—	—	(1,507)	2,157	(1,507)
At 31 December 2006	61,076	—	—	(106,949)	—	(750,265)	(796,138)
At 1 January 2007	**61,076**	**—**	**—**	**(106,949)**	**—**	**(750,265)**	**(796,138)**
Loss attributable to equity shareholders of the Company	**—**	**—**	**—**	**—**	**—**	**(100,089)**	**(100,089)**
At 31 December 2007	**61,076**	**—**	**—**	**(106,949)**	**—**	**(850,354)**	**(896,227)**

34 Reserves *(Continued)*

The Company

	Statutory surplus reserve *Rmb'000* *Note (a)*	Statutory public welfare fund *Rmb'000*	Discretionary surplus reserve *Rmb'000*	Excess over share capital *Rmb'000* *Note (b)*	Accumulated losses *Rmb'000*	Total *Rmb'000*
At 1 January 2006	51,366	51,366	110,764	(106,949)	(917,123)	(810,576)
Profit attributable to equity shareholders of the Company	—	—	—	—	53,608	53,608
Transfer to accumulated losses	(51,366)	—	(110,764)	—	162,130	—
Transfer from/(to) reserves	51,366	(51,366)	—	—	—	—
At 31 December 2006	51,366	—	—	(106,949)	(701,385)	(756,968)
At 1 January 2007	**51,366**	**—**	**—**	**(106,949)**	**(701,385)**	**(756,968)**
Loss attributable to equity shareholders of the Company	**—**	**—**	**—**	**—**	**(149,555)**	**(149,555)**
At 31 December 2007	**51,366**	**—**	**—**	**(106,949)**	**(850,940)**	**(906,523)**

Notes:

(a) According to the Company's and its subsidiaries' Articles of Association, the Company and its subsidiaries are required to transfer 10% of their respective profit after taxation, as determined in accordance with the PRC Accounting Rules and Regulations, to statutory surplus reserve until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before the distribution of a dividend to shareholders. Statutory surplus reserve can be used to make good previous years' losses, if any, and for capitalisation issue provided that the balance after such issue is not less than 25% of the registered capital.

(b) Effective 1 January 2002, land use rights which are included in lease prepayments are carried at historical cost. Accordingly, the surplus on the revaluation of land use rights was reversed to shareholders' funds.

(c) According to the Company's Articles of Association, the reserve available for distribution is the lower of the amount determined under PRC Accounting Rules and Regulations and the amount determined under IFRSs. As at 31 December 2007, there was no reserve available for distribution (2006: Nil).

Notes on the financial statements *(Continued)*

For the year ended 31 December 2007
(Prepared in accordance with International Financial Reporting Standards)
(Expressed in Renminbi)

35 Notes to the consolidated cash flow statement

(a) Reconciliation of loss before taxation to cash generated from operations

	Note	**2007 *Rmb'000***	2006 *Rmb'000*
Loss before taxation		**(77,658)**	(42,902)
Share of net (profits)/losses of associates		**(2,194)**	38,419
Gain on deconsolidation of a subsidiary		**—**	(12,561)
Amortisation and depreciation		**114,657**	120,299
Interest income		**(3,042)**	(26,917)
Dividend income		**—**	(3,600)
Interest expense		**67,890**	69,896
Impairment loss on unlisted available-for-sale securities		**—**	14,058
Impairment loss on deposits with a non-bank financial institution		**15,000**	—
Impairment loss on property, plant and equipment		**17,154**	12,536
Impairment losses on receivables		**2,394**	25,783
Reversal of impairment losses on receivables		**—**	(361,991)
Waiver of debts	35(b)	**(252)**	(1,088)
Write off of long-term payables		**(2,588)**	(732)
Net written-down of inventories		**(22,468)**	20,854
Net loss on disposal of property, plant and equipment		**3,160**	1,414
Net (gain)/loss on disposal of lease prepayments		**(12,000)**	862
Return of surplus assets upon winding up of an investee company		**(22,059)**	—
Foreign exchange loss		**1,522**	2,726
Gain on redemption of financial liabilities		**—**	(19,500)
Goodwill arising from increase in investment in a subsidiary written off		**—**	6,922
Decrease/(increase) in inventories		**30,184**	(71,336)
(Increase)/decrease in trade and bills receivables		**(15,203)**	90,586
Decrease/(increase) in other receivables		**6,796**	(69,056)
Decrease in time deposits with original maturity more than three months		**—**	7,074
(Decrease)/increase in trade and bills payables		**(47,674)**	347,451
(Decrease)/increase in other payables		**(9,657)**	28,554
Decrease in deferred income		**(462)**	(461)
Cash generated from operations		**43,500**	177,290

(b) Non-cash items in investing and financing activities:

	2007 *Rmb'000*	2006 *Rmb'000*
Waiver of debts	**252**	1,088
Repayment debts by way of repurchase of own shares	**—**	629,942

35 Notes to the consolidated cash flow statement *(Continued)*

(c) Deconsolidation of a subsidiary

	2007 **Rmb'000**	2006 *Rmb'000*
Deconsolidation of assets		
Trade payables	—	(58,166)
Other payables	—	(100,873)
Other loans	—	(20,499)
Dividend payable	—	(1,365)
Prepayment	—	1,807
Other receivables	—	1,894
Cash and cash equivalents	—	6,762
Trade receivables	—	24,088
Intangible assets	—	33,678
Inventories	—	38,779
Property, plant and equipment	—	92,561
Minority interests	—	(5,105)
	—	13,561
Classified as other investment	—	(13,561)
	—	—
Release of unrecognised gain on inter-group transactions upon deconsolidation	—	11,054
Release of capital reserves upon deconsolidation	—	1,507
Gain on deconsolidation of a subsidiary	—	12,561

Analysis of net cash flow from cash and cash equivalents of a deconsolidated subsidiary:

	2007 **Rmb'000**	2006 *Rmb'000*
Cash and cash equivalents upon deconsolidation	—	(6,762)

36 Related party transactions

CLFG is considered to be a related party as it has the ability to exercise significant influence over the Group in making financial and operating decision. Other subsidiaries of CLFG are considered to be related parties as they are subject to common control of CLFG.

(a) Transactions between the Group and CLFG were as follows:

	Note	2007 Rmb'000	2006 Rmb'000
Ancillary and social services	(i)	**4,414**	4,403
Provision of utilities	(ii)	**1,013**	915
Interest paid and payable		**1,142**	2,928
Guarantees issued by CLFG to the banks in favour of the Group		**163,830**	151,500
Indirect guarantees	(iii)	**499,750**	473,600

Notes:

(i) The Company has entered into a 3-year agreement with CLFG effective 3 August 2004, which is expired on 3 August 2007. In accordance with the agreement, CLFG provides certain social welfare and support services, such as education, property management, medical care and transportation services to the staff of the Company. The amount charged by CLFG is based on a reasonable cost incurred in providing such services plus respective tax charge. Up to the date of this report, the renewal procedure is in progress.

(ii) The Company has entered into a 3-year agreement with CLFG effective 3 August 2004, which is expired on 3 August 2007, for provision of utilities such as water and electricity to CLFG. The amount charged to CLFG is based on a reasonable cost incurred in providing such services plus respective tax charge. Up to the date of this report, the renewal procedure is in progress.

(iii) Guarantees have been issued by CLFG, in respect of bank loans to third party entities in return for guarantees issued by such entities to banks in favour of the Company.

(b) Transactions between the Group and the subsidiaries of CLFG were as follows:

	Note	2007 Rmb'000	2006 Rmb'000
Sales of goods		**7,824**	12,552
Proceeds from sale of racks and scrap materials		**574**	—
Ancillary and social services	(i)	**5,313**	4,288
Provision of utilities	(ii)	**21,110**	17,455
Purchase of raw materials	(iii)	**11,143**	12,205
Interest paid and payable		**4,814**	4,108
Interest received and receivable		**236**	83
Rental income	(iv)	**581**	730

Notes:

(i) The Company has entered into a 3-year agreement with a CLFG's subsidiary, CLFG Xinxing Co. ("Xinxing") effective 3 August 2001 by which Xinxing provides certain social welfare and support services, such as education, property management, medical care and transportation services to the staff of the Company. The agreement is supplementary amended on 22 July 2002, which is expired on 3 August 2007. The amount charged by Xinxing is based on a reasonable cost incurred in providing such services plus respective tax charge. Up to the date of this report, the renewal procedure is in progress.

(ii) The Company has entered into 3-year agreements with certain CLFG's subsidiaries, including Xinxing and CLFG Jingwei Glass Fibre Co. Ltd.("Jingwei"), effective from 3 August 2004, which is expired on 3 August 2007 with Xinxing and Jingwei. In accordance with this agreement, the Company provides utilities such as water and electricity to these subsidiaries. The amounts charged to these companies are based on reasonable costs incurred in providing such services plus respective tax charges. Up to the date of this report, the renewal procedure is in progress.

(iii) The Company entered into a 3-year agreement with a CLFG's subsidiary, CLFG Minerals Products Co. Ltd.("Mineral Co"), effective from 3 August 2004, which is expired on 3 August 2007, by which Mineral Co supplied certain raw materials to the Company at market prices. Up to the date of this report, the renewal procedure is in progress.

(iv) The Company has entered into a 5-year agreement with an associate, CPGC, effective 1 January 2003 by which the Company sub-leases a portion of land use rights of land located in the PRC to CPGC at the market rental.

36 Related party transactions *(Continued)*

The Company is in the process of application to the Stock Exchange of Hong Kong Limited for a waiver of strict compliance with the requirements of Chapter 14A of the Listing Rules on all of the above continuing connected transactions.

The directors of the Company are of the opinion that the above transactions with related parties were conducted in the ordinary course of business and on normal commercial terms or in accordance with the agreements governing such transactions, and these have been reviewed and confirmed by the independent non-executive directors.

In addition, the Group and the Company had made the following allowances for impairment of the amounts due from related parties as at 31 December:

	The Group		The Company	
	2007	2006	**2007**	2006
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Allowances for impairment of amounts due from fellow subsidiaries (including associates which are also fellow subsidiaries of the Company)	**—**	782	**—**	—

(c) Key management personnel remuneration

Remuneration for key management personnel, including amounts paid to the Company's directors as disclosed in note 8 is as follows:

	2007	2006
	Rmb'000	*Rmb'000*
Short-term employee benefits	**682**	272
Contribution to defined contribution plan	**81**	37
	763	309

Total remuneration is included in "staff costs" (note 7(c)).

(d) Transactions with other state-owned enterprises

The Group is a state-owned entity and operates in an economic regime currently predominated by state-owned entities. Apart from transactions with CLFG and its affiliates, the Group conducts a majority of its business activities with entities directly or indirectly owned or controlled by the PRC government and numerous government authorities and agencies (collectively referred to as "state-owned entities") in the ordinary course of business. These transactions, which include sales and purchase of goods and ancillary materials, rendering and receiving services, purchase of property, plant and equipment and obtaining finance, are carried out at terms similar to those that would be entered into with non-stateowned entities and have been reflected in the financial statements. The management believes that it has provided meaningful disclosure of related party transactions as summarised above.

(e) Contribution to retirement benefits plans

The Group participates in various defined contribution retirement benefits plans organised by local authorities for its employees. Further details of the Group's retirement benefits plans are disclosed in note 39.

37 Capital commitments

Capital commitments outstanding at 31 December 2007 not provided for in the financial statements were as follows:

	The Group		The Company	
	2007	2006	**2007**	2006
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Contracted for				
— construction project	**1,468**	—	**1,468**	—
Authorised but not contracted for				
— construction project	**—**	7,687	**—**	5,926
	1,468	7,687	**1,468**	5,926

38 Contingent liabilities

At 31 December 2007, contingent liabilities were as follows:

	The Group		The Company	
	2007	2006	**2007**	2006
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Guarantees issued to banks in favour of subsidiaries	**—**	—	**47,700**	75,000
Guarantees issued to CLFC in favour of subsidiaries	**—**	—	**41,500**	41,500
	—	—	**89,200**	116,500

In the opinion of the directors, the fair values of the liabilities in relation to the above guarantees given by the Company are insignificant as at 31 December 2007 and 31 December 2006.

39 Employee retirement benefits

As stipulated by the regulations of the PRC, the Group has participated in defined contribution retirement plans organised by the local authorities for its employees. Under this arrangement, the Group is required to make contributions to the retirement plans at an applicable rate on the basic salary, bonus and certain allowances of its employees. Each employee is entitled to an annual pension equal to a fixed proportion of his basic salary at the retirement date. The Group has no material obligation for the payment of pension benefits beyond its annual contributions.

40 Financial risk management

(I) Financial risk factors

The Company's activities expose it to a variety of financial risks: market risks (including foreign exchange risk, fair value and cash flow interest rate risk and price risk), credit risk and liquidity risk. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to mininise potential adverse effects on the Company's financial performance. These risks are limited by the Group's financial management policies and practices described below.

(a) Market risks

(i) Foreign exchange risk

(1) Forecast transactions, recognised assets and liabilities

The Group is exposed to currency risk primarily through trade receivables, bank balances and borrowings that are denominated in a currency other than the functional currency of the operations to which they relate. The currencies giving rise to this risk are mainly United States dollars, Euros and Hong Kong dollars.

During the year of 2007, the Group's transactions denominated in foreign currency were minimal. Accordingly, management does not expect there are any future commercial transactions which would cause material impact on the foreign exchange risk.

40 Financial risk management *(Continued)*

(I) Financial risk factors *(Continued)*

(a) Market risk *(Continued)*

(i) Foreign exchange risk *(Continued)*

(2) Exposure to currency risk

The following table details the Group's major exposure at the balance sheet date to currency risk arising from recognised assets or (liabilities) denominated in a currency other than the functional currency of the entity to which they relate.

		2007			2006		
	Note	***US$'000***	***EUR'000***	***HK$'000***	*US$'000*	*EUR'000*	*HK$'000*
Assets							
Trade receivables	24	**532**	**—**	**—**	1,198	—	—
Cash and cash equivalents	27	**389**	**—**	**219**	359	—	5,907
Liability							
Bank loans	30	**—**	**(652)**	**—**	—	(704)	—
Exposure arising from recognised assets and liabilities		**921**	**(652)**	**219**	1,557	(704)	5,907

(3) Sensitivity analysis

The following table indicates the approximate change in the Group's loss after tax (and accumulated losses) and other components of equity in response to reasonably possible changes in the foreign exchange rates to which the Group has significant exposure at the balance sheet date. The sensitivity analysis includes trade and bills receivables, cash and cash equivalents and bank and other loans where the denomination of the balances is in a currency other than the functional currency.

	2007			2006		
	Increase/ (decrease) in foreign exchange rates *in %*	**Effect on loss after tax and accumulated losses** *Rmb'000*	**Effect on other components of equity** *Rmb'000*	Increase/ (decrease) in foreign exchange rates *in %*	Effect on loss after tax and accumulated losses *Rmb'000*	Effect on other components of equity *Rmb'000*
United States Dollars	**5%**	**336**	**—**	5%	608	—
	(5%)	**(336)**	**—**	(5%)	(608)	—
Euros	**5%**	**347**	**—**	5%	363	—
	(5%)	**(347)**	**—**	(5%)	(363)	—
Hong Kong Dollars	**5%**	**10**	**—**	5%	296	—
	(5%)	**(10)**	**—**	(5%)	(296)	—

The sensitivity analysis has been determined assuming that the change in foreign exchange rates has occurred at the balance sheet date and had been applied to each of the Group entities' exposure to currency risk for both derivative and non-derivative financial instruments in exisitence at that date, and that all other variables, in particular interest rate, remain constant.

The stated changes represent management's assessment of reasonably possible change in foreign exchange rates over the period until the next annual balance sheet date. Results of the analysis as presented in the above table represent an aggregation of the effects on each of the Group's profit/loss after tax and equity measured in the respective functional currencies, translated into Renminbi at the exhcange rate ruling at the balance sheet date for presentation purposes. The analysis is performed on the same basis for 2006.

40 Financial risk management *(Continued)*

(I) Financial risk factors *(Continued)*

(a) Market risk *(Continued)*

(ii) Interest rate risk

(1) Interest rate profile

The Group's interest rate risk arises primarily from bank and other loans and cash at bank. Bank loans with fixed rate were insensitive to any change in market interest rates as the Group's expenses and operating cash flows are substantially independent of changes in market interest rates. The Group historically has not used any financial instruments to hedge potential fluctuations in interest rates. The following table details the interest rate profile of the Group's interest-generating financial assets and interest-bearing financial liabilities at the balance sheet date:

	2007		2006	
	Effective interest rate	***Rmb'000***	Effective interest rate	*Rmb'000*
Bank and other loans at fixed rate (included in non-current liabilities)	**2.50%**	**6,405**	2.50% - 10.44%	60,027
Bank and other loans at fixed rate (included in current liabilities)	**5.70% - 10.44%**	**684,953**	2.50% - 8.26%	930,423
Bank and other loans at variable rate (included in current liabilities)	**6.03% - 7.77%**	**278,130**	N/A	—
Cash and bank balances	**0.72% - 2.25%**	**241,126**	0.72% - 2.25%	272,959

(2) Sensitivity analysis

At 31 December 2007, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would increase/decrease the Group's loss after tax and accumulated losses for the year by approximately Rmb37,000 (2006: Rmb2,730,000). Other components of equity would not be affected (2006: Nil) by the changes in interest rates.

The sensitivity analysis above has been determined assuming that the change in interest rates has occurred at the balance sheet date and had been applied to the exposure to interest rate risk for financial instruments in existence at that date. The 100 basis points increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date. The analysis is performed on the same basis for 2006.

(iii) Price risk

The Group is not exposed to any equity securities risk or commodity price risk. The Company is exposed to other price risk in respect of its investments in subsidiaries and associates. The sensitivity to price risk in relation to these investments cannot be reliably determined due to numerous uncertainties regarding the future development of these subsidiaries and associates.

(b) Credit risk

(i) Trade receivables

The Group's credit risk is primarily attributable to trade receivables. Credit evaluations are performed on all customers requiring credit over a certain amount. These receivables are due within 30 to 90 days from the date of billing. Debtors with balances that are more than 3 months from the date of billing are requested to settle all outstanding balances before any further credit is granted.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk but to a lessor extent. Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade receivables are set out in note 24.

At the balance sheet date, the Group has a certain concentration of credit risk as 24% (2006: 13%) and 71% (2006: 52%) of the total trade receivables (after allowance for impairment) were due from the Group's largest customer and the 5 largest customers as at 31 December 2007 respectively.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated balance sheet after deducting any allowance for impairment.

(ii) Deposits with banks

The Group mitigates its exposure to credit risk by placing deposits with financial institutions with established credit ratings. Given the high credit ratings of the banks, management does not expect any counterparty to fail to meet its obligations.

40 Financial risk management *(Continued)*

(I) Financial risk factors *(Continued)*

(c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as and when they fall due. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and readily realisable marketable securities and adequate committed lines of funding from major financial institutions and continuing financial supports from CLFG and CNBMG to meet its liquidity requirements in the short and longer term.

The following table details the remaining contractual maturities at the balance sheet date of the Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the balance sheet date) and the earliest date the Group can be required to pay:

2007

	Carrying amount *Rmb'000*	Total contractual undiscounted cash flow *Rmb'000*	< 1 year or on demand *Rmb'000*	1 and < 2 years *Rmb'000*	> 2 and < 5 years *Rmb'000*	> 5 years *Rmb'000*
Bank and other loans	**969,488**	**1,013,432**	**1,006,062**	**710**	**2,046**	**4,614**
Trade and bills payables	**516,013**	**516,013**	**516,013**	**—**	**—**	**—**
Other payables	**252,386**	**252,386**	**252,386**	**—**	**—**	**—**
	1,737,887	**1,781,831**	**1,774,461**	**710**	**2,046**	**4,614**

2006

	Carrying amount *Rmb'000*	Total contractual undiscounted cash flow *Rmb'000*	< 1 year or on demand *Rmb'000*	1 and < 2 years *Rmb'000*	> 2 and < 5 years *Rmb'000*	> 5 years *Rmb'000*
Bank and other loans	990,450	1,030,236	966,767	56,377	2,009	5,083
Trade and bills payables	566,527	566,527	566,527	—	—	—
Other payables	260,786	260,786	260,786	—	—	—
	1,817,763	1,857,549	1,794,080	56,377	2,009	5,083

40 Financial risk management *(Continued)*

(II) Capital risk management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group actively reviews and manages its capital structure in the light of changes in economic conditions so as to maintain a sound capital position.

Consistent with industry practice, the Company monitors its capital structure on the basis of a net debt-to-capital ratio. This ratio is calculated as net debt divided by total capital. Net debt is defined as total debts (which include bank and other loans, trade and other payables) as shown in the consolidated balance sheet less cash and cash equivalents. Total capital is defined as all components of shareholders' equity in the consolidated balance sheet.

The net debt-to-capital ratios as at 31 December 2007 and 2006 were as follows:

		The Group	
	Note	**2007** **Rmb'000**	2006 Rmb'000
Current liabilities			
Trade and bills payables	28	**516,013**	566,527
Other payables	29	**252,386**	260,786
Bank and other loans	30	**963,083**	930,423
		1,731,482	1,757,736
Non-current liability			
Bank and other loans	30	**6,405**	60,027
Total debts		**1,737,887**	1,817,763
Less: cash and cash equivalents	27	**73,824**	58,414
Adjusted net debt		**1,664,063**	1,759,349
Total equity		**220,918**	301,498
Net debt-to-capital ratio		**753%**	584%

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

40 Financial risk management *(Continued)*

(III) Fair value estimation

(i) Non-current investments represent unquoted available-for-sale equity securities of companies established in the PRC. There was no quoted market price for such equity securities and accordingly a reasonable estimate of the fair value cannot be measured reliably.

(ii) Most of the amounts due from controlling shareholder company, subsidiaries of the controlling shareholder company and associates are unsecured, interest-free and have no fixed terms of repayment. Given these terms, it is not meaningful to disclose fair values of these balances.

(iii) Other financial instruments are carried at amounts not materially different from their fair values as at 31 December 2007 and 2006 due to their short maturities except the following:

The Group

	2007		2006	
	Carrying amount	**Fair value**	Carrying amount	Fair value
	Rmb'000	***Rmb'000***	*Rmb'000*	*Rmb'000*
Non-current bank and other loans	**6,405**	**4,914**	60,027	54,763

The Company

	2007		2006	
	Carrying amount	**Fair value**	Carrying amount	Fair value
	Rmb'000	***Rmb'000***	*Rmb'000*	*Rmb'000*
Non-current bank and other loans	**6,405**	**4,914**	6,697	5,064

The fair value has been estimated by applying a discounted cash flow approach using interest rates available to the Group for similar indebtedness.

Fair value estimates are made at a specific point in time and are based on relevant market information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore cannot not be determined with precision. Changes in assumptions could significantly affect the estimates.

41 Accounting estimates and judgements

The Group's financial condition and results of operations are sensitive to accounting methods, assumptions and estimates that underlie the preparation of the financial statements. The Group bases the assumptions and estimates on historical experience and on various other assumptions that the Group believes to be reasonable and which form the basis for making judgements about matters that are not readily apparent from other sources. On an on-going basis, management evaluates its estimates. Actual results may differ from those estimates such as facts, circumstances and conditions change.

The selection of critical accounting policies, the judgements and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing the financial statements. The significant accounting policies are set forth in note 2. The Group believes the following critical accounting policies involve the most significant judgements and estimates used in the preparation of the financial statements.

Impairment

In considering the impairment losses that may be required for of the Group's long-lived assets (see note 2(l)(ii)), recoverable amount of the asset needs to be determined. The recoverable amount is the greater of the net selling price and the value in use. It is difficult to precisely estimate selling price because quoted market prices for these assets may not be readily available. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to items such as level of sale volume, selling price and amount of operating costs. The Group uses all readily available information in determining an amount that is reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of items such as sale volume, selling price and amount of operating costs.

The Group maintains allowances for impairment of doubtful debts for estimated losses resulting from the inability of debtors to make the required payments. The Group bases the estimates of future cash flows on the ageing of trade receivable balances, the debtors' credit-worthiness and the historical write-off experiences. If the financial condition of the debtors were to deteriorate, actual writeoffs would be higher than estimated.

(Expressed in Renminbi)

41 Accounting estimates and judgements *(Continued)*

Depreciation

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual value. The Group reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

42 Post balance sheet events

On 22 October 2007, the Company entered into a Sales and Purchases Agreements with CLFG for the disposal of 100% equity interest in Logistics Company at a consideration of approximately Rmb70,364,000. The transaction was completed after the balance sheet date.

43 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2007

Up to the date of issue of these financial statements, the IASB has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2007 and which have not been early adopted in these financial statements.

In addition, the following developments may result in new or amended disclosures in the financial statements:

	Effective for accounting periods beginning on or after
IAS 23 (Amendment) — Borrowing Costs	1 January 2009
IFRS 8 — Operating Segments	1 January 2009
IFRIC Int 12 — Service Concession Arrangements	1 January 2008
IFRIC Int 13 — Customer Loyalty Programmes	1 July 2008
IFRIC Int 14 — IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	1 January 2008

The Group is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of these amendments, new standards and interpretations in future period is unlikely to have a significant impact on the Group's results of operations and financial position.

Report of the PRC Auditors

GuangDong HengXin Delu Certified Public Accountants Co., Ltd
Heng De Gan Shen Zi [2008] No. 105
For the year ended 31 December 2007

To the shareholders of Luoyang Glass Company Limited:

We have audited the financial statements of Luoyang Glass Company Limited (the "Company") and its subsidiaries (the "Group"), including consolidated balance sheet and balance sheet as at 31 December 2007, and the consolidated income statement, income statement, consolidated cash flow statement and cash flow statement, statement of owner's movement in equity, consolidated statement of owner's movement in equity and notes to the financial statements for the year then ended.

I. Senior Management's responsibility for the financial statements

The Company's and the Group's management is responsible for the preparation of these financial statements in accordance with the Accounting Standards for Business Enterprises and the Accounting Regulations for Business Enterprises issued by the Ministry of Finance of the People's Republic of China. This responsibility includes: (1) designing, implementing and maintaining internal control relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error; (2) selecting and applying appropriate accounting policies; and (3) making accounting estimates that are reasonable in the circumstances.

II. Certified public accountants' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with China's Auditing Standards for the Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the registered certified public accountants' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we considers internal control relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

III. Auditors' Opinion

In our opinion, the above-mentioned financial statements of the Company and the Group comply with the requirements of the Accounting Standards for Business Enterprises and the Accounting Regulations for Business Enterprises issued by the Ministry of Finance of the People's Republic of China and present fairly, in all material respects, the consolidated financial position and financial position of the Company and the Group as at 31 December 2007 and the Company's consolidated results of operations, the results of operations, the consolidated cash flows and the cash flows for the year then ended.

IV. Statement on emphasis

We would draw the attention of the users of financial statements, as stated in note 2 to the financial statements, that the financial statements of the Company and the Group was prepared on assumption that the Company and the Group will continue as a going concern during the period from the end of the reporting period to 31 December 2008. The Group's accumulated uncovered losses amounted to Rmb1,262,751,000, and net current liabilities amounted to Rmb1,089,394,000 at 31 December 2007. Notwithstanding the ongoing operational basis remaining as reasons for preparation of the above financial statements as disclosed in note 2 to the financial statements, there exists fundamental uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. This explanatory paragraph does not affect the audit opinion made.

GuangDong HengXin Delu Certified Public Accountants Co., Ltd

the PRC certified public accountant: Li Wenzhi

the PRC certified public accountant: Wang Yanquan

Zhuhai, China

27 Mar 2008

Consolidated Balance Sheet

As at 31 December 2007
(Prepared under the PRC Accounting Rules and Regulations)
(Expressed in Renminbi)

Unit: Rmb'000

Assets	*Notes*	**As at 31 December 2007**	As at 31 December 2006
Current assets			
Bank balance and cash	8	**241,126**	272,959
Notes receivable	9	**55,461**	45,399
Accounts receivable	10	**27,453**	25,609
Prepayments	11	**14,136**	12,203
Other receivables	12	**14,488**	17,782
Inventory	13	**294,176**	299,801
Total current assets		**646,840**	673,753
Non-current assets			
Long-term investment in equity	14	**118,813**	148,208
Investment properties	15	**18,502**	18,765
Fixed assets	16	**1,065,021**	1,172,382
Construction in progress	17	**6,377**	3,965
Construction materials	18	**737**	1,585
Intangible assets	19	**113,292**	120,636
Goodwill	20	**—**	—
Other non-current assets	21	**70,000**	50,000
Total non-current assets		**1,392,742**	1,515,541
Total assets		**2,039,582**	2,189,294

The notes on pages 108 to 158 are an integral part of these financial statements.

Consolidated Balance Sheet *(Continued)*

At 31 December 2007
(Prepared under the PRC Accounting Rules and Regulations)
(Expressed in Renminbi)

Unit: Rmb'000

Liabilities and shareholders' equity	*Notes*	**As at 31 December 2007**	As at 31 December 2006
Current liabilities			
Short-term borrowings	24	**909,200**	902,220
Notes payable	25	**141,002**	171,390
Account payables	26	**380,760**	400,622
Payments received in advance	26	**76,274**	85,985
Staff remuneration payables	27	**22,242**	24,604
Taxes payable	28	**21,835**	1,807
Interest payable	29	**600**	—
Other payables	26	**130,438**	141,564
Non-current liabilities due within one year	30	**53,883**	28,202
Total current liabilities		**1,736,234**	1,756,394
Non-current liabilities			
Long-term borrowing	30	**6,406**	60,027
Accrued Liabilities	31	**2,503**	2,503
Total non-current liabilities		**8,909**	62,530
Total liabilities		**1,745,143**	1,818,924
Shareholders' equity			
Share capital	32	**500,018**	500,018
Capital reserve	33	**927,740**	927,740
Surplus reserve	34	**51,366**	51,366
Accumulated losses		**(1,262,751)**	(1,167,408)
Total equity attributable to the equity holders of the Company		**216,373**	311,716
Minority interests	35	**78,066**	58,654
Total shareholders' equity		**294,439**	370,370
Total liabilities and shareholders' equity		**2,039,582**	2,189,294

These financial statements have been approved by the Board of Directors on 27 March 2008.

Zhu Leibo
Legal representative
(Sign and chop)

Gao Tianbao
General Manager
(Sign and chop)

Cao Mingchun
Financial Controller
(Sign and chop)

The notes on pages 108 to 158 are an integral part of these financial statements.

Balance Sheet

As at 31 December 2007
(Prepared under the PRC Accounting Rules and Regulations)
(Expressed in Renminbi)

Unit: Rmb'000

Assets	*Notes*	**As at 31 December 2007**	As at 31 December 2006
Current assets			
Bank balance and cash		**191,530**	220,040
Notes receivable		**38,211**	65,351
Accounts receivable	53.a	**8,898**	9,914
Prepayments		**476**	275
Other receivables	53.b	**26,192**	50,705
Inventory		**108,540**	146,032
Total current assets		**373,847**	492,317
Non-current assets			
Held-to-maturity investment		**296,175**	354,600
Long-term investment in equity	53.c	**332,037**	296,777
Investment properties		**18,502**	18,765
Fixed assets		**295,449**	364,307
Construction in progress		**679**	73
Construction materials		**4**	—
Intangible assets		**71,774**	93,187
Other non-current assets		**70,000**	50,000
Total non-current assets		**1,084,620**	1,177,709
Total assets		**1,458,467**	1,670,026

The notes on pages 108 to 158 are an integral part of these financial statements.

Balance Sheet *(Continued)*

At 31 December 2007
(Prepared under the PRC Accounting Rules and Regulations)
(Expressed in Renminbi)

Unit: Rmb'000

Liabilities and shareholders' equity	*Notes*	As at 31 December 2007	As at 31 December 2006
Current liabilities			
Short-term borrowings		**808,300**	766,980
Notes payable		**82,202**	98,690
Accounts payables		**146,253**	212,707
Payments received in advance		**30,152**	50,868
Staff remuneration payables		**14,619**	16,186
Taxes payable		**7,741**	6,088
Other payables		**64,505**	73,442
Non-current liabilities due within one year		**553**	532
Total current liabilities		**1,154,325**	1,225,493
Non-current liabilities			
Long-term borrowing		**6,406**	6,697
Accrued Liabilities		**2,503**	2,503
Total non-current liabilities		**8,909**	9,200
Total liabilities		**1,163,234**	1,234,693
Shareholders' equity			
Share capital		**500,018**	500,018
Capital reserve		**894,104**	894,104
Surplus reserve		**51,366**	51,366
Accumulated losses		**(1,150,255)**	(1,010,155)
Total shareholders' equity		**295,233**	435,333
Total liabilities and shareholders' equity		**1,458,467**	1,670,026

These financial statements have been approved by the Board of Directors on 27 March 2008.

Zhu Leibo	**Gao Tianbao**	**Cao Mingchun**
Legal representative	*General Manager*	*Financial Controller*
(Sign and chop)	(Sign and chop)	(Sign and chop)

The notes on pages 108 to 158 are an integral part of these financial statements.

Consolidated Income Statement

For the year ended 31 December 2007
(Prepared under the PRC Accounting Rules and Regulations)
(Expressed in Renminbi)

Unit: Rmb'000

Items		Notes	As at 2007	As at 2006
Revenue from operations		36	**1,508,756**	1,247,338
Less:	Cost of operations	37	**(1,350,932)**	(1,344,050)
	Business tax and surcharge	38	**(5,424)**	(879)
	Selling expenses		**(39,767)**	(48,915)
	Administrative expenses		**(112,134)**	(157,996)
	Finance expenses	39	**(72,591)**	(51,373)
	Impairment loss of assets	40	**(39,392)**	(37,255)
Add:	Gains/(losses) from investment	41	**24,258**	(34,262)
	Including: Gains/(losses) from investment in associates and joint ventures	41	**2,194**	(38,127)
Operating loss			**(87,226)**	(427,392)
Add:	Non-operating income	42	**18,017**	11,767
Less:	Non-operating expenses	43	**(3,800)**	(13,407)
	Including: Loss from disposal of non-current assets	43	**(3,266)**	(4,018)
Total loss			**(73,009)**	(429,032)
Less:	Income tax	44	**(3,412)**	—
Net loss			**(76,421)**	(429,032)
Including:	Net profit attributable to shareholders of parent company		**(95,343)**	(372,467)
	Minority interests		**18,922**	(56,565)
Earnings per share				
i) Basic earnings per share *(Rmb/share)*		45	**(0.19)**	(0.53)
ii) Diluted earnings per share *(Rmb/share)*		45	**(0.19)**	(0.53)

These financial statements have been approved by the Board of Directors on 27 March 2008.

Zhu Leibo
Legal representative
(Sign and chop)

Gao Tianbao
General Manager
(Sign and chop)

Cao Mingchun
Financial Controller
(Sign and chop)

The notes on pages 108 to 158 are an integral part of these financial statements.

Income Statement

For the year ended 31 December 2007
(Prepared under the PRC Accounting Rules and Regulations)
(Expressed in Renminbi)

Unit: Rmb'000

Items	*Notes*	**2007**	2006
Revenue from operations	53.d	**600,757**	737,516
Less: Cost of operations	53.e	**(579,018)**	(776,334)
Business tax and surcharge		**(2,245)**	(385)
Selling expenses		**(20,258)**	(24,986)
Administrative expenses		**(78,466)**	(80,782)
Finance expenses		**(49,171)**	(23,548)
Impairment loss of assets		**(135,331)**	(68,910)
Add: Gains/(losses) from investment	53.f	**53,728**	(16,242)
Including: Gains/(losses) from investment in associates and joint ventures	53.f	**2,194**	(38,127)
Operating loss		**(210,004)**	(253,671)
Add: Non-operating income		**72,086**	575
Less: Non-operating expenses		**(2,182)**	(2,709)
Including: Loss from disposal of non-current assets		**(1,973)**	(2,642)
Total loss		**(140,100)**	(255,805)
Less: Income tax		**—**	—
Net loss		**(140,100)**	(255,805)

These financial statements have been approved by the Board of Directors on 27 March 2008.

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Legal representative	*General Manager*	*Financial Controller*
(Sign and chop)	(Sign and chop)	(Sign and chop)

The notes on pages 108 to 158 are an integral part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2007
(Prepared under the PRC Accounting Rules and Regulations)
(Expressed in Renminbi)

Unit: Rmb'000

Items	Notes	2007	2006
Cash flow from operating activities:			
Cash received from sale of goods and provision of services		**834,279**	908,945
Tax rebates		**1,893**	11,773
Other cash received from activities related to operation	49	**85,075**	239,253
Sub-total of cash inflow from operating activities		**921,247**	1,159,971
Cash paid for goods purchased and service rendered		**(663,725)**	(653,004)
Cash paid to and on behalf of employee		**(89,911)**	(73,311)
Taxes payments		**(71,506)**	(21,195)
Other cash paid for activities related to operation	49	**(106,826)**	(420,012)
Sub-total of cash outflow from operating activities	48	**(931,968)**	(1,167,522)
Net cash flow from operating activities		**(10,721)**	(7,551)
Cash flow from investment activities:			
Cash received from disposal of investment		**55,209**	64,500
Cash received from gains in investment		**22,064**	3,690
Net cash received from disposal of fixed assets, intangible assets and other long term assets		**21,803**	1,098
Other cash received from activities related to investment	50	**13,417**	24,806
Sub-total of cash inflow from investment activities		**112,493**	94,094
Cash paid for acquisition of fixed assets, intangible assets and other long term assets		**(15,190)**	(61,799)
Cash paid for acquisition of investment		**(35,000)**	(8,200)
Other cash paid for activities related to investment	50	**(161)**	(29,990)
Sub-total of cash outflow from investment activities		**(50,351)**	(99,989)
Net cash flow from investment activities		**62,142**	(5,895)

The notes on pages 108 to 158 are an integral part of these financial statements.

Consolidated Cash Flow Statement *(Continued)*

For the year ended 31 December 2007
(Prepared under the PRC Accounting Rules and Regulations)
(Expressed in Renminbi)

Unit: Rmb'000

Items	*Notes*	2007	2006
Cash flow from financing activities:			
Proceeds received from investments		**490**	13,775
Including: Proceeds received by subsidiaries from minority shareholders' investment		**490**	13,775
Cash received from borrowings		**1,147,750**	1,128,926
Other cash received from financing-related activities	51	**190**	31
Sub-total of cash inflow from financing activities		**1,148,430**	1,142,732
Cash paid for repayment of debts		**(1,119,002)**	(1,161,188)
Cash paid for dividend and profit distribution or interest repayment		**(63,628)**	(59,135)
Other cash paid for financing-related activities	51	**(1,527)**	(1,972)
Sub-total of cash outflow from financing activities		**(1,184,157)**	(1,222,295)
Net cash flow from financing activities		**(35,727)**	(79,563)
Impact of fluctuations in exchange rates on cash and cash equivalents		**(284)**	(306)
Net increase/(decrease) in cash and cash equivalents		**15,410**	(93,315)
Add: Balance of cash and cash equivalents at the beginning of the period	47	**58,414**	151,729
Balance of cash and cash equivalents at the end of the period	47	**73,824**	58,414

These financial statements have been approved by the Board of Directors on 27 March 2008.

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(Sign and chop)

Gao Tianbao
General Manager
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Cao Mingchun
Financial Controller
(Sign and chop)

The notes on pages 108 to 158 are an integral part of these financial statements.

Cash Flow Statement

For the year ended 31 December 2007
(Prepared under the PRC Accounting Rules and Regulations)
(Expressed in Renminbi)

Unit: Rmb'000

Items	2007	2006
Cash flows from operating activities:		
Cash received from sale of goods and provision of services	**440,480**	528,363
Tax rebates	**1,890**	9,773
Other cash received from activities related to operation	**76,336**	173,399
Sub-total of cash inflows operating activities	**518,706**	711,535
Cash paid for goods purchased and service rendered	**(483,144)**	(362,571)
Cash paid to and on behalf of employees	**(48,863)**	(30,473)
Taxes payments	**(26,202)**	(9,590)
Other cash paid for activities related to operation	**(74,772)**	(283,477)
Sub-total of cash outflows from operating activities	**(632,981)**	(686,111)
Net cash flow from operating activities	**(114,275)**	25,424
Cash flows from investing activities:		
Cash received from disposal of investments	**414,809**	223,532
Cash received from gains in investments	**53,219**	23,475
Net cash from disposal of fixed assets, intangible assets and other long-term assets	**21,782**	1,075
Other cash received from activities related to investment	**13,417**	28,000
Sub-total of cash inflows from investment activities	**503,227**	276,082
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets	**(132)**	(980)
Cash paid for acquisition of investment	**(415,600)**	(364,632)
Other cash paid activities related to investment	**—**	(28,000)
Sub-total of cash outflows from investing activities	**(415,732)**	(393,612)
Net cash flow from investing activities	**87,495**	(117,530)

The notes on pages 108 to 158 are an integral part of these financial statements.

Cash Flow Statement *(Continued)*

For the year ended 31 December 2007
(Prepared under the PRC Accounting Rules and Regulations)
(Expressed in Renminbi)

Unit: Rmb'000

Items	**2007**	2006
Cash flows from financing activities:		
Cash received from borrowings	**928,300**	932,380
Other cash received from financing-related activities	**130**	—
Sub-total of cash inflows from investing activities	**928,430**	932,380
Cash paid for repayment of debts	**(837,727)**	(865,556)
Cash paid for dividend and profit distribution or interest repayment	**(48,806)**	(43,507)
Sub-total of cash outflows	**(886,533)**	(909,063)
Net cash flow from financing activities	**41,897**	23,317
Impact of fluctuations in exchange rates on cash and cash equivalents	**(284)**	(306)
Net increase/(decrease) in cash or cash equivalents	**14,833**	(69,095)
Add: Balance of cash and cash equivalents at the beginning of the year	**43,195**	112,290
Balance of cash and cash equivalents at the end of the year	**58,028**	43,195

These financial statements have been approved by the Board of Directors on 27 March 2008.

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Legal representative	*General Manager*	*Financial Controller*
(Sign and chop)	(Sign and chop)	(Sign and chop)

The notes on pages 108 to 158 are an integral part of these financial statements.

Consolidated statement of changes in owner's equity

For the year ended 31 December 2007
(Prepared under the PRC Accounting Rules and Regulations)
(Expressed in Renminbi)

Unit: Rmb'000

	2007					
	Attributable to owner's equity of the parent company					
Items	**Share capital**	**Capital reserve**	**Surplus reserve**	**Undistributed profit**	**Minority Interest**	**Total owner's equity**
1. Balance as of 31 December 2006 (Before the retrospective adjustment)	**500,018**	**914,179**	**61,075**	**(1,161,613)**	**—**	**313,659**
Retrospective adjustment — First adoption of Accounting Standards for Business Enterprises	**—**	**13,561**	**(9,709)**	**(5,795)**	**58,654**	**56,711**
2. Balance as of 1 January 2007 (After the retrospective adjustment)	**500,018**	**927,740**	**51,366**	**(1,167,408)**	**58,654**	**370,370**
3. Amount incurred in the year	**—**	**—**	**—**	**(95,343)**	**19,412**	**(75,931)**
Net profit	**—**	**—**	**—**	**(95,343)**	**18,922**	**(76,421)**
Capital contributed by owners	**—**	**—**	**—**	**—**	**490**	**490**
4. Balance as of 31 December 2007	**500,018**	**927,740**	**51,366**	**(1,262,751)**	**78,066**	**294,439**

The notes on pages 108 to 158 are an integral part of these financial statements.

Consolidated statement of changes in owner's equity *(Continued)*

For the year ended 31 December 2007
(Prepared under the PRC Accounting Rules and Regulations)
(Expressed in Renminbi)

Unit: Rmb'000

	2006					
	Attributable to owner's equity of the parent company					
Items	**Share capital**	**Capital reserve**	**Surplus reserve**	**Undistributed profit**	**Minority Interest**	**Total owner's equity**
1. Balance as of 31 December 2005 (Before the retrospective adjustment)	700,000	994,655	225,362	(968,937)	—	951,080
Retrospective adjustment — First adoption of Accounting Standards for Business Enterprises	—	—	(11,866)	11,866	113,348	113,348
2. Balance as of 1 January 2006 (After the retrospective adjustment)	700,000	994,655	213,496	(957,071)	113,348	1,064,428
3. Amount incurred in the year	(199,982)	(66,915)	(162,130)	(210,337)	(54,694)	(694,058)
(1) Net profit	—	—	—	(372,467)	(56,565)	(429,032)
(2) Gains and loss directly credited to owner's equity	—	15,472	—	—	53	15,525
Others	—	15,472	—	—	53	15,525
Sub-total of abovementioned (1) and (2)	—	15,472	—	(372,467)	(56,512)	(413,507)
(3) Capital contributed by owners and capital decrease	(199,982)	(82,387)	—	—	1,818	(280,551)
i. Capital contributed by owners	—	—	—	—	30,000	30,000
ii. Others	(199,982)	(82,387)	—	—	(28,182)	(310,551)
(4) Internal transfer of owner's equity	—	—	(162,130)	162,130	—	—
Transfer from surplus reserve to cover loss	—	—	(162,130)	162,130	—	—
4. Balance as of 31 December 2006	500,018	927,740	51,366	(1,167,408)	58,654	370,370

These financial statements have been approved by the Board of Directors on 27 March 2008.

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Financial Controller
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The notes on pages 108 to 158 are an integral part of these financial statements.

Statement of changes in owner's equity

For the year ended 31 December 2007
(Prepared under the PRC Accounting Rules and Regulations)
(Expressed in Renminbi)

Unit: Rmb'000

Items	2007 Share capital	Capital reserve	Surplus reserve	Undistributed profit	Total Owner's equity
1. Balance as of 31 December 2006 (Before the retrospective adjustment)	**500,018**	**914,179**	**51,366**	**(1,108,895)**	**356,668**
Retrospective adjustment — First adoption of Accounting Standards for Business Enterprises	—	**(20,075)**	—	**98,740**	**78,665**
2. Balance as of 1 January 2007 (After the retrospective adjustment)	**500,018**	**894,104**	**51,366**	**(1,010,155)**	**435,333**
3. Amount incurred in the year	—	—	—	**(140,100)**	**(140,100)**
Net profit	—	—	—	**(140,100)**	**(140,100)**
4. Balance as of 31 December 2007	**500,018**	**894,104**	**51,366**	**(1,150,255)**	**295,233**

The notes on pages 108 to 158 are an integral part of these financial statements.

Statement of changes in owner's equity *(Continued)*

For the year ended 31 December 2007
(Prepared under the PRC Accounting Rules and Regulations)
(Expressed in Renminbi)

Unit Rmb'000

	2006				
Items	**Share capital**	**Capital reserve**	**Surplus reserve**	**Undistributed profit**	**Total Owner's equity**
1. Balance as of 31 December 2005 (Before the retrospective adjustment)	700,000	994,656	213,496	(957,071)	951,081
Retrospective adjustment — First adoption of Accounting Standards for Business Enterprises	—	(20,860)	—	40,591	19,731
2. Balance as of 1 January 2006 (After the retrospective adjustment)	700,000	973,796	213,496	(916,480)	970,812
3. Amount incurred in the year	(199,982)	(79,692)	(162,130)	(93,675)	(535,479)
(1) Net profit	—	—	—	(255,805)	(255,805)
(2) Gain and loss directly credited to owner's equity	—	2,695	—	—	2,695
Others	—	2,695	—	—	2,695
Sub-total of abovementioned (1) and (2)	—	2,695	—	(255,805)	(253,110)
(3) Capital contributed by owners and capital decrease					
i. Capital contributed by owners	(199,982)	(82,387)	—	—	(282,369)
ii. Others	(199,982)	(82,387)	—	—	(282,369)
(4) Internal transfer of owner's equity	—	—	(162,130)	162,130	—
Transfer from surplus reserve to cover loss	—	—	(162,130)	162,130	—
4. Balance as of 31 December 2006	500,018	894,104	51,366	(1,010,155)	435,333

These financial statements have been approved by the Board of Directors on 27 March 2008.

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The notes on pages 108 to 158 are an integral part of these financial statements.

Notes on the financial statements

For the year ended 31 December 2007
(Prepared under the PRC Accounting Rules and Regulations)
(Expressed in Renminbi)

1 Company status

Luoyang Glass Company Limited ("the Company") was established in the People's Republic of China ("the PRC") as a joint stock limited company.

The Company was established as part of the restructuring of a state-owned enterprise known as China Luoyang Float Glass Group Company of Limited Liability ("CLFG"). Pursuant to the approvals granted by various PRC authorities including the State Restructuring Commission and the National Administrative Bureau of State-Owned Assets, CLFG underwent a corporate reorganisation whereby the Company was established on 6 April 1994 with CLFG as its sold promoter. At the time of its establishment, the Company had a registered capital of RMB400,000,000 divided into 400,000,000 state-owned legal person shares of RMB1.00 each which was paid up in kind by CLFG by way of transfer of its principal business undertakings and subsidiaries together with the relevant assets and liabilities.

On 29 June 1994, 250,000,000 'H' shares were issued at HK$3.65 per share. The 'H' shares were listed on the Stock Exchange of Hong Kong Limited on 8 July 1994.

According to the plan disclosed in the 'H' shares prospectus and with the approval from the China Securities Regulatory Commission, the Company issued 40,000,000 ordinary 'A' shares to the public in the PRC and 10,000,000 ordinary 'A' shares to the employees of the Company on 29 September 1995 at Rmb5.03 each. The 40,000,000 public 'A' shares and 10,000,000 internal employee 'A' shares were subsequently listed on the Shanghai Stock Exchange on 30 October 1995 and 10 May 1996 respectively.

In June 2006, CLFG got the approval from the board and an "Approval and Reply in relation to the Transfer of Shares of Luoyang Glass Company Limited" (Shang Zi Pi [2006] No. 1232) from the Ministry of Commerce of the People's Republic of China and offered 21,000,000 non-tradable A Shares as a condition to have trading right in the A Shares market. This reform is made in accordance with regulations of "Provisions on Management of Share Reform Proposals of Listed Companies" (《上市公司股權分置改革管理辦法》) issued by China Securities Regulatory Commission ("CSRC") and "Guidelines on Share Reform Proposals of Listed Companies" (《關於上市公司股權分置改革的指導意見》) issued by Shanghai Stock Exchange. Upon the completion of the reform, CLFG reduced its shareholding in the Company to 379,000,000 shares.

According to the judement (2007) [Luo Zhi Zi No. 18-32] of the intermediate People's Court of Luoyang, Henan Province on 30 November 2006, 199,981,758 A shares of the Company held by CLFG were used to offset the debts and the interest thereof in the total sum of Rmb629,942,543. The transfer register and other related documents have been processed by Shanghai Securities Central Clearing and Registration Corporation on 6 December 2006. Upon the completion of the repayment, CLFG, would have to decrease its shareholding in the Company to 179,018,242 shares and the Company's total issued shares should then go down to 500,018,242 shares.

The principal activities of the Company and its subsidiaries ("the Group") are the manufacturing and selling of float sheet glass. The scope of business includes the manufacturing of glass and relevant sophisticated processing goods, machineries, electric appliances, accessories and component parts, and the provision of technical consultancy services. The major products are the various types of float sheet glass and vehicle use glass, including transparent glass, grey glass, green glass, grey-coated glass and green-coated glass.

2 Basis of preparation of financial statements

Initial implementation of Accounting Standard for Business Enterprises issued by Ministry of Finance on 15 February 2006

The Group prepared the financial statements as originally specified by Accounting Standard for Business Enterprises issued before 15 February 2006 and Accounting Standard for Business Enterprises issued on 29 December 2000 and relevant regulations (collectively, "Original Accounting Standard and System"). The Group has adopted the Accounting Standards for Business Enterprises - Basic Standard issued by Ministry of Finance and 38 Accounting Standards, Accounting Standards for Business Enterprises — Application Guide issued later, Interpretation of Accounting Standard for Business Enterprise and other relevant regulations (collectively, "Accounting Standard for Business Enterprises") since 1 January 2007. The financial statements for 2007 are the first annual financial statements of the Group prepared under Accounting Standard for Business Enterprises.

In the initial implementation of Accounting Standard for Business Enterprise on 1 January 2007, the Group retrospectively adjusted the financial statements for 2006 as specified by Article 5 and Article 19 of Accounting Standards for Business Enterprises No. 38 - Initial Implementation of Accounting Standards and Interpretation 1 to Accounting Standards for Business Enterprises, and relevant data were represented as per the amount after such retrospective adjustment. The retrospective adjustments mainly include:

— long-term equity investment in a subsidiary held shall be accounted for retrospectively in the parent's financial statements, and the subsidiary shall be deemed to be initially accounted for using cost method. Meanwhile, provisions for impairment of long-term equity investment in subsidiaries offset with capital reserves (equity investment provision) shall be retrospectively adjusted;

— salary payable to an employee subject to internal union retirement plan and social security fees payable by the Company, which are calculated from 1 January 2007 to the date that the employee would retire normally, shall be retrospectively adjusted;

— presentation of losses occurred to insolvent subsidiaries assumed by the Company shall be retrospectively adjusted;

— retrospective adjustment in minority interests and presentation of minority interests;

— retrospective adjustment to ceasing the provision for surplus reserve made by subsidiaries which were eliminated in the consolidated financial statements.

Consolidated shareholders' equity at the beginning and at the end of 2006 and consolidated net profit for 2006 presented under the original accounting standard and system are adjusted to be the amount of the consolidated shareholders' equity and consolidated net profit presented under Accounting Standard for Business Enterprises, with the adjustment process included in note 59 to the financial statements.

Assumption of continuing operations

The Company recorded an accumulative loss of Rmb1,262,751,000 in the consolidated financial statements as at 31 December 2007, and current liabilities exceeded current assets by Rmb1,089,394,000. However, the directors are of opinion that the Company and the Group are able to continue their operations and repay debts upon expiry thereof, because:

(i) According to consent from financial institutions, the credit facilities totalling Rmb653,500,000 granted to the Group may be renewed upon expiry in 2008; and

(ii) The largest shareholder and controlling shareholder of the largest shareholder will continue to provide financial supports.

In the opinion of the directors, the Company and the Group will have sufficient cash resource to meet the requirements of working capital and other operations in the future. Thus, the financial statements are prepared based on continuing operations. If such assumption of continuing operations is not tenable, the Company and the Group's assets shall be adjusted to realizable value, provisions shall be made for potential liabilities and long-term liabilities shall also be converted to current liabilities.

3 Declaration on compliance with the Accounting Standards for Business Enterprises

The financial statements of the Company for 2007 were prepared under the requirements of Accounting Standards for Business Enterprises, reflecting the Group and the Company's financial positions as of 31 December 2007, and operating results, cash flows and other relevant information for 2007 on a true and complete basis.

4 Significant accounting policies and accounting estimates

The following significant accounting policies and accounting estimates are determined under Accounting Standard for Business Enterprises.

(1) Accounting year

Accounting year of the Group is the calendar year from January 1 to December 31.

(2) Basis of accounting and principle of measurement

The Group's accounting is to execute accounting measurement, recognition and reporting on an accrual basis. In measuring accounting elements, historical cost shall generally be adopted as the measurement basis other than the fact that accounting elements can be measured at replacement cost, net realisable value, present value or fair value where such amounts can be obtained and reliably measured.

(3) Measurement currency

The Group's reporting currency is the Renminbi.

(4) Determination of the fair value

The "fair value" refers to the amount, at which both parties to a transaction who are familiar with the condition exchange their assets or clear off their debts under fair conditions. For financial assets or financial liabilities traded in an active market, fair value is determined based on the quoted price in such market; for financial assets or financial liabilities where there is no active market, fair value is determined using valuation techniques. In subsequent measurement according to their fair values, transaction expenses that may occur when the said financial asset is disposed or financial liability is repaid in the future may not be deducted.

(5) Amortized cost

The "amortized cost" refers to the balance of the initially recognised amount of the financial asset or financial liability after deducting the already paid principal, plus or minus the accumulative amount of amortization incurred from amortizing the balance between the initially recognised amount and the amount of the maturity date by adopting the actual interest rate method, and impairment losses that have actually incurred to financial assets.

(6) Cash equivalents

"Cash equivalents" refer to short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk on change in value.

(7) Accounting of foreign currency businesses

In initial recognition of foreign currency business, it shall be translated at the spot exchange rate of the transaction date.

The gap arising from the difference between the spot exchange rate on the balance sheet date on which foreign currency monetary items are translated at the spot exchange rate and the spot exchange rate at the time of initial recognition or on the last balance sheet date shall be recorded into the profits and losses in the current period, except that the exchange gap arising from special foreign currency borrowings eligible for capitalization shall be capitalized in the capitalization period and charged into costs of relevant assets and the exchange gap arising from hedging instruments for hedging foreign exchange risks shall be treated using the hedging accounting method.

The foreign currency non-monetary items measured at the historical cost shall still be measured at the amount of its functional currency translated at the spot exchange rate on the transaction date. Foreign currency non-monetary item measured at the fair value are translated at the spot exchange rate on the date of determination of fair value. The difference between before and after the translation of the amount of functional currency will be treated as the changes in fair value (including changes in foreign exchange rates) and recorded into the profits and losses in the current period or shareholders' equity.

Exchange gap arising from change in exchange rate where the preparation of consolidated financial statements relates to overseas operation and foreign currency monetary items materially constitute net investment in overseas operation shall be recorded into "gap arising from the translation of foreign currency financial statements" of shareholders' equity; disposal of overseas operation shall be included into profits and losses on disposal in the current period.

(8) Financial Instruments

When becoming a party to a financial instrument, the Group will recognise relevant financial asset or financial liability. Financial assets and financial liabilities are measured at fair value for initial recognition. For financial assets or financial liabilities at fair value through profit or loss, transaction costs shall be recognised immediately in profit or loss for the current period. For other categories of financial assets and financial liabilities, the transaction costs thereof shall be included into the initially recognised amount.

4 Significant accounting policies and accounting estimates *(continued)*

(9) Financial assets

Financial assets are divided into financial assets at fair value through profit or loss, held-to-maturity investments, loans and the account receivables and available-for-sale financial assets when they are initially recognised.

(i) Classification and Measurement of Financial Assets

Financial assets at fair value through profit or loss

It includes financial assets held for trading and financial assets which are measured at fair value through profit and loss.

The financial assets meeting any of the following requirements shall be classified as transactional financial assets: The purpose to acquire the said financial assets is mainly for selling or repurchase of them in the near future; Forming a part of the identifiable combination of financial instruments which are managed in a centralized way and for which there are objective evidences proving that the Group may manage the combination by way of short-term profit making in the near future; being a derivative instrument, however, it excludes the derivatives instrument designated as effective hedging instruments, the derivatives instrument to financial guarantee contract, and the derivatives instrument linked to equity instrument investment which have no quoted price in an active market nor a reliably measured fair value and are required to be settled through that equity instrument.

Only the financial assets meeting any of the following requirements can be designated, when they are initially recognised, as financial assets which are measured at fair value through profit and loss: The designation is able to eliminate or obviously reduce the discrepancies in the recognition or measurement of relevant gains or losses arisen from the different basis of measurement of the financial assets; the official written documents on risk management or investment strategies of the Group concerned have recorded that the combination of said financial assets, or the combination of said financial assets and financial liabilities will be managed and evaluated on the basis of their fair values and be reported to the key management personnel.

Held-to-maturity investments

It refers to the non-derivative financial assets with fixed maturity and fixed or determinable recoverable amount where the Group has the positive intent and ability to hold to maturity.

Loans and receivables

It refers to the non-derivative financial assets with fixed or determinable recoverable amount that are not quoted in an active market.

Available-for-sale financial assets

It includes the non-derivative financial assets designated as available-for-sale at initial recognition and financial assets other than the financial assets at fair value through profit or loss, the account receivables loans and the investments which will be held to their maturity.

Financial assets are measured at fair value for initial recognition. For financial assets at fair value through profit or loss, transaction costs shall be recognised immediately in profit or loss for the current period; for financial assets being classified in other categories, transaction costs shall be included in the initial recognised amount.

A subsequent measurement shall be made for the financial assets at fair value through profit or loss at their fair values. The gain or loss arising from the change in fair value is included into the current profit or loss. The change in the fair value of available-for-sale financial asset shall be included directly in the owner's equity with the exception of impairment losses and the gap arising from foreign exchange conversion of cash financial assets in any foreign currency, and when the said financial asset is terminated from recognition and is transferred out, it shall be recorded into the profits and losses of the current period. Interests and cash dividends realised during the period of holding financial assets available for sale shall be recorded into the profits and losses of the current period. Held-to-maturity investments or loans and receivables are subsequently measured based on amortised cost. The gain or loss arising from discontinuing recognition, impairment or amortisation is included in current profit or loss.

4 Significant accounting policies and accounting estimates *(continued)*

(9) Financial assets *(continued)*

(ii) Impairment of financial assets

Save as financial assets at fair value through profit or loss, the Company assesses at the balance sheet date whether there is any objective evidence that other financial assets are impaired. If any such evidence exists, a provision for impairment is made.

Impairment of held-to-maturity investments and loans and receivables

For held-to-maturity investments, loans or substantial amount of single account receivable, where objective evidence showing the Group will not be able to collect all amount, separate impairment test and impairment provision will be made based on the difference of the present value of future cash flows below its carry amount. Account receivables individually insignificant or without impairment after standalone test, based on relevant information such as financial position and cash flows of the debtors, are classified into certain groups based on the risk features. Based on actual loss ratio of accounts receivable groups that are the same as or similar to them with similar risk features in prior year, provision is made for the bade debts based on the following percentages: No provision for bad debts if aging is within 1 year (include 1 year, the same as below); 30% provision is made if aging is 1 to 2 years; 50% provision is made if aging is 2 to 3 years; 100% provision is made if aging is above 3 years. After testing, the amount written down is recognised as impairment loss and included into current profit or loss.

Upon recognition of the impairment loss, if there is an objective evidence showing that the value of the financial assets has been restored which objectively relates to the events incurred upon the recognition of loss, the impairment loss initially recognised will be reversed through profit and loss, yet the carrying value so reversed will not exceed the amortised cost of the financial assets on the date of reversal as if no provisions for impairment has been made.

Impairment of Available-for-sale financial assets

If there is a significant decrease (20 % or above) in fair value of available-for-sale financial assets, or it is predicated that such decrease is not temporary (generally refers to the circumstance that the fair value of such assets constantly lower than its cost in or above 6 month), such available-for-sale financial assets are impaired. Even the financial assets are not derecognised, the accumulated loss arising from the decrease in fair value which is initially directly included in owner's equity will be transferred out through profit and loss.

Any impairment loss on equity instrument investment classified as available-for-sale financial assets, once recognised, the reversed amount will be included in the owner's equities. Upon recognition of the impairment loss on debt Instrument classified as available-for-sale financial assets, if there is a rise in fair value which objectively relates to the events incurred upon the recognition of loss, the impairment loss initially recognised will be reversed through profit and loss.

Impairment losses arising from the equity instrument investments for which there is no quotation in the active market and whose fair value cannot be measured reliably, and the derivative financial assets which are connected with the said equity instrument and must be settled by delivering the said equity instrument and the long-term equity investment that does not do control, common control or does not have significant influences on the invested entity, and has no offer in the active market and its fair value cannot be reliably measured shall not be reversed.

(iii) Derecognition of financial assets

Where the Group has transferred nearly all of the risks and rewards related to the ownership of the financial asset to the transferee, it shall stop recognising the financial asset. If a substantial change takes places in the Group's exposure after the transfer of financial asset as a result of the fluctuations in the net present value of future cash flows and the spread over time, then it represents substantially all the risks and rewards of ownership of the financial assets had been transferred to another party.

In the event that the Group neither transfers nor retains substantially all the risks and rewards of the ownership of financial assets, and the Group relinquishes the control over such financial asset, then the financial assets should be derecognised. Providing the Group does not relinquish the control over such financial asset, the financial asset concerned will be recognised to the extent of continued involvement in the transferred financial assets, where liabilities will be recognised accordingly.

4 Significant accounting policies and accounting estimates *(continued)*

(10) Inventories

Inventories are stated at the lower of cost and net realisable value.

Inventory cost comprises costs of purchase, costs of processing and other costs. Inventories are accounted for at actual cost upon acquisition. Cost of inventories delivered is determined using the weighted average method. Save as purchase cost of raw materials, work in progress and finished goods comprise direct labour and production and manufacture expenses distributed under appropriate proportion.

If the costs measured at single inventory item are higher than net realisable value, the difference between the two is accounted into provision for diminution in value of inventories. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs to completion and the estimated expenses and the related taxes necessary to make the sale.

Low-value consumables acquired may be measured at one-off write-off method. Packaging materials and other materials for turnover use are measured at equal-split amortisation method.

The Group adopts perpetual inventory record policy.

(11) Investment property

Investment property is held to earn rentals or for capital appreciation or both, including leased land use rights, land use rights held for sale after appreciation, leased buildings, etc.

Investment property is initially measured at cost. Subsequent expenditures related to an investment property shall be included to cost of investment property only when the economic benefits associated with the asset will likely flow to the Group and its cost can be measured reliably. All other expenditure on investment property shall be included in current profit and loss when occurred.

Cost method is adopted for subsequent measurement of investment property, which is depreciated or amortised using the policy same as that for fixed assets and intangible assets.

When an investment property is sold, transferred, retired or damaged, the amount of any proceeds on disposal of the property net of the carrying amount and related tax and surcharges is recognised in profit or loss for the current period.

Provision for impairment of investment property by the Group (refer to note 4(17)).

(12) Long-term equity investment

Long-term equity investment is classified into investment in subsidiaries, investment in joint-controlled entities, investment in associated companies and equity investment (other equity investments) without control, common control or significant influence over the investees, and is not quoted in an active market and its fair value cannot be reliably measured.

(i) Initial measurement of long-term equity investments

Initial measurement of long-term equity investments due from business consolidation: As for long-term equity investments through business consolidation under common control, it shall, on consolidation date, regard the share of the book value of the owner's equity of the consolidated enterprise as the initial investment cost and the direct expenses incurred due to business consolidation are recognised in current profit or loss upon occurrence; As for long-term equity investments through business consolidation not under common control, it shall, on consolidation date, take the share of fair value of identifiable assets, liabilities and contingent liabilities of acquired party as the initial investment cost.

Initial measurement of long-term equity investments due from other ways other than business consolidation: For a long-term equity investment acquired by cash payment, the initial investment cost shall be the actual purchase price that has been paid. Initial investment cost also includes those costs, taxes and other necessary expenditures directly attributable to the acquisition of the long-term equity investment; For a long-term equity investment acquired by the issue of equity securities, the initial investment cost shall be the fair value of the securities issued; For a long-term equity investment contributed by investor, the initial investment cost shall be the value, if not being unfair, as agreed by the contract or agreement governing the investment; As for long-term equity investments acquired by non-monetary asset exchange, should the non-monetary asset exchange has commercial substance and the fair value of the assets received or surrendered can be measured reliably, the initial investment cost shall be the fair value and related taxes of the assets received or surrendered and the difference between the fair value and the carrying value of the asset surrendered shall be recorded into the profit or loss of the current period; Should the non-monetary asset exchange don't have the above two conditions at the same time, the initial investment cost shall be carrying value and related taxes of the assets surrendered; for a long-term equity investment acquired by debt rearrangement, the initial investment cost shall be the fair value of long-term equity investment acquired and the difference between initial investment cost and carrying value of debt rearrangement is recognised in profit or loss for the current period.

4 Significant accounting policies and accounting estimates *(continued)*

(12) Long-term equity investment *(continued)*

(ii) Subsequent measurement of long-term equity investments

Cost method is used to account for a long-term equity investment where the investor can exercise control over the investee or does not have common control or significant influence over the investee, and the investment is not quoted in an active market and its fair value cannot be reliably measured; long-term equity investment with common control or significant influence on the investee is accounted for using equity method. Long-term equity investment without control or common control or significant influence with a fair value which can be reliably measured is accounted for as available-for-sale financial assets.

Long-term equity investment under cost method is measured at its initial investment cost, and cash dividend or profit declared by the investee is recognised as investment income for the period. The amount of investment income recognised is limited to the amount distributed out of accumulated net profits of the investee that has arisen after the investment was made. The amount of profits or cash dividends declared by the investee in excess of the above threshold is treated as return of investment cost, and the carrying amount of the investment is reduced accordingly.

For the long-term equity investment under equity method, the initial investment cost of long-term equity investment which is greater than its share of fair value of the investee's identifiable net assets is stated without adjustment. The initial investment cost of long-term equity investment which is less than its share of fair value of the investee's identifiable net assets is stated with adjustment.

The investment income or loss from long-term equity investment under equity method for the period shall be the share of net profit or loss of the investee recognised for the year. The investor's share of the investee's net profit and loss is recognised based on the fair value of identifiable net assets of the investee upon acquisition of the investment, subject to an adjustment to the investee's net profit in accordance with the Group's accounting policies and period. Changes in shareholders' equity other than the share of the investee's net profit and loss are accounted for with an adjustment to the carrying amount of the long-term equity investment and included into shareholders' equity.

Unless the Group has the obligation to afford additional loss of investees, the net loss from the investment in investee is reorganised to the extent that the carrying amount of the investment and other long-term interest in substance in the investee are written down till nil; If the investee realises net profits in subsequent periods, the carrying amount of the investment is resumed by the excess of the company's attributable share of profits over the share of unrecognised losses.

(iii) Disposal of long-term equity investments

On disposal of a long-term investment, the difference between the carrying amount of the investment and the actual consideration paid is recognised in current profit or loss. Where the equity method is adopted, the amount attributable to the long-term equity investment previously included shareholders' equity shall be transferred to current profit or loss on a pro-rata basis.

Provision for impairment of long-term equity investments is made by the Group, as set out in note 4(17).

4 Significant accounting policies and accounting estimates *(continued)*

(13) Fixed assets and construction in progress

Fixed assets are tangible assets that are held by the Group for using the production or supply of goods or services, for rental to others, or for administrative purposes, and have useful lives more than one accounting year.

Fixed assets are initially measured at cost, taking into consideration of the estimated disposal expenses. Depreciation is provided over their estimated useful lives from the month after they have reached the working condition for their intended use using the straight-line method. The useful life, estimated residual value of each category of fixed assets are as follows:

	Useful life	Estimated net residual ratio
Buildings	30-50 years	3%-5%
Plant and machinery	4-28 years	3%-5%
Transportation instruments	6-12 years	3%-5%

Estimated net residual value of a fixed asset is the estimated amount that the Group would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

Save as subsequent costs incurred on an asset upon its initial recognition are recognised as addition to the asset provided that economic benefits associated with the item will likely flow to the Group and the costs can be reliably measured, upon which the carrying amount of the replaced part is derecognised, any other subsequent costs are charged to current profit or loss when incurred.

The Group reviews the useful life and estimated net residual value of a fixed asset and the depreciation method applied at least at each financial year-end, any change of which is accounted for as a change in an accounting estimate.

When a fixed asset is sold, transferred, retired or damaged, the amount of any proceeds on disposal of the asset net of the carrying amount and related tax and surcharges is recognised in profit or loss for the current period.

Cost of construction in progress is recognised based on the actual construction cost, and when construction in progress has reached the working condition for its intended use, the cost are transferred into fixed assets based on the entire actual cost. All direct or indirect cost occurred before the assets related to construction reaching the working condition for its intended use and relevant to construction of fixed assets, including borrowing costs incurred from construction using borrowings during the construction period (including exchange differences between principal and interests), are all capitalised into construction in progress.

Provision for impairment of fixed assets and construction in progress by the Group (refer to note 4(17)).

(14) Intangible Assets

An intangible asset is an identifiable non-monetary asset possessed or controlled by the Group which have no physical shape, including land use right, trademark, patent and non-patent technology.

Intangible assets are measured initially at cost. Expenditures related to an intangible asset shall be included to cost of intangible asset only when the economic benefits associated with the asset will likely flow to the Group and its cost can be measured reliably. All other expenditure on an intangible item shall be included in current profit and loss. Expenditure for internal research and development project occurred in research stage and before project approval was recorded in the profit and loss of the current period at occurrence. Upon the project approval, expenses occurred in the development stage may be capitalised when they satisfy the capitalising conditions, otherwise recognised as current profit and loss. If expenses cannot be identified either as expenses occurred in the research phase or expenses occurred in the development phase, all such expenses were recorded in the profit and loss of the current period at occurrence.

Intangible assets with finite useful life should be amortised evenly over the estimated useful life with the straight-line method commencing from their being available for use. The Company should not amortise intangible asset with an indefinite useful life, but review the useful life of such intangible asset in each accounting period. If there is evidence indicating that the useful life of such intangible asset is finite, the Company should estimate its useful life and amortise it evenly over the estimated useful life with the straight-line method.

The Group makes a provision for intangible asset impairment (see note 4(17)).

4 Significant accounting policies and accounting estimates *(continued)*

(15) Goodwill

Goodwill refers to the difference between equity investment costs and the investor's interest in the fair value of the invested unit on the date of investment or the difference between business combination costs and the acquirer's interest in the fair value the acquiree's identified net assets at the date of acquisition during the business combination not under common control.

Goodwill arising from business combination is presented separately in consolidated financial statements. At least an impairment test should be carried out for goodwill arising from business combination. In the impairment test, the carrying amount of goodwill should be amortised to the beneficial asset groups or set of asset groups according to the synergy effect of the business combination. As for the impairment of asset groups or set of asset groups (refer to note 4(17)). Goodwill at the end of the period should be presented with the net amount after deducting accumulated impairment losses from cost.

(16) Long-term Prepaid Expenses

Long-term prepaid expenses are expenses with an estimated benefit period of more than one year and amortised evenly over the estimated benefit period.

(17) Impairment of non-financial assets

The carrying amount of the Group's assets (including investment properties, long-term investment in equity, fixed assets, construction in progress, intangible assets with definite useful life and other assets) are reviewed regularly to determine whether their recoverable amounts are less than their carrying amounts. If any sign shows possible impairment of such assets, an impairment text for a single asset or asset groups will be carried out. If the estimated recoverable amount is lower than the carrying amount, the Company should make an asset impairment provision at the difference between the recoverable amount and the carrying amount and included the impairment loss in the current profit and loss.

No matter whether there is any sign of possible assets impairment, an impairment test shall be carried out for goodwill acquired in the business combination and intangible assets with indefinite useful period at each year-end. While carrying out goodwill impairment test, the carrying amount should be reasonably allotted to asset groups or set of asset groups that can benefit from the synergy effect of business combination; and then an impairment test for such asset groups or set of asset groups allotted with goodwill should be carried out at each year-end. If the recoverable amount of the asset groups or set of asset groups is less than the carrying amount, the impairment loss will firstly be charged to the carrying amount of goodwill allocated to the asset groups or sets of asset groups, and then be charged to the carrying amount of other asset groups or sets of asset groups proportionally based on the percentage of the carrying amount of such other assets in the asset groups or set of asset groups.

The recoverable amount of an asset is the higher of its fair value less costs of disposal and the present value of the future cash flows expected to be derived from the asset. If the recoverable amount of a single asset cannot be estimated, the recoverable amount of such asset should be estimated on the basis of recoverable amount of asset groups or set of asset groups in which such asset falls.

The Group recognises impairment loss with the difference between the recoverable amount of the abovementioned asset and their carrying amount at the end of the period. Once the recognition is made, it shall not be reversed in the subsequent accounting periods.

(18) Financial liabilities

Financial liabilities, which mainly includes payables, loans, payable bonds and derivative financial liability, are divided into financial liability at fair value through profit or loss and other financial liabilities at initial measurement.

Financial liabilities at fair value through profit or loss

Financial liability at fair value through profit or loss, including financial liability held for trading and financial liabilities designated as at fair value through profit and loss, are subsequently measured at fair value through profit and loss.

Financial liability held for trading and financial liability designated as at fair value through profit and loss meet the same condition as that for the designated financial assets.

Other financial liabilities

Other financial liabilities are subsequently measured by amortized cost using the effective interest method according to the difference between the net amount received and the amount to be repaid on the date of maturity. The gain or loss arising from discontinuing recognition or amortisation is included in current profit and loss.

4 Significant accounting policies and accounting estimates *(continued)*

(19) Employee compensation

Employee compensation refers to all kinds of payment and other relevant expenditures given by the Group in exchange of the services offered by the employees. For the accounting period in which an employee has offered services to the Group, the Group recognises the employee compensation payable (except the retirement benefit) as a liability and makes corresponding increase in assets costs or current expenses.

According to relevant PRC laws and regulations, the Group participates in social security systems required by the government and pay for employees the payments of social security contributions, including contributions on pension insurance, medical insurance, housing funds unemployment Insurance, work injury insurance, maternity insurance and etc. Such expenses are recorded into current profit and loss on an accrual basis.

When the Group terminates the labour relationship with employees before the end of the employment contracts or offers a compensation to encourage employees to accept voluntary redundancy, if the Group has a formal plan for termination of employment relationship or has made an offer for voluntary redundancy, which will be implemented immediately, and the Group cannot unilaterally withdraw from the termination plan or the redundancy offer, the contingent liability arising from compensation for termination of employment relationship with employees shall be recognised and charged to the profit or loss for the current period.

Internal union retirement plan adopts the same principles of benefits above. The Company includes the salary payable to an employee subject to internal union retirement plan and social security fees payable, which are calculated from the date that the employee stops offering services to the date that the employee would retire normally, in the current profits or loss (retirement benefit) when they are qualified for recognition of accrued liabilities.

(20) Share-based Payments

Share-based payment refers to a transaction in which an enterprise grants equity instruments or undertakes equity-instrument-based liabilities in return for services from employee or other parties. The share-based payments shall consist of equity-settled share-based payments and cash-settled share-based payments.

The Equity-settled Share-based Payments

The equity-settled share-based payment in return for employee services shall be measured at the fair value of the equity instruments granted to the employees as at the date of grant. Subject to that the right may not be exercised until the vesting period comes to an end or until the specified performance conditions are met, and based on the best estimate of the amount of vested exercisable equity instruments, the fair value amount should be calculated with the straight-line method, included into relevant cost or expenses, and added correspondingly in the capital reserve.

The Cash-settled Share-based Payments

The cash-settled share-based payments are measured at the fair value of liabilities identified on the basis of shares or other equity instruments undertaken by the Company. If the right is exercisable upon the grant, the fair value of such liabilities, on the date of the grant, should be included in relevant cost or expenses and added correspondingly in liabilities. If the right may not be exercised until the vesting period comes to an end or until the specified performance conditions are met, on each balance sheet date within the vesting period, the services obtained in the current period shall, based on the best estimate of the information about the exercisable right, be included in the relevant costs or expenses and added correspondingly in the liabilities at the fair value of the liabilities undertaken by the Company.

The Company shall, on each balance sheet date and on each account date prior to the settlement of the relevant liabilities, re-measure the fair values of the liabilities and include the changes in the current profit and loss.

(21) Estimated liabilities and contingent liabilities

If the Group has present obligations, the performance of which is likely to cause an outflow of economic benefits and the relevant amount of which can be estimated reliably, due to contingent events as a result of past transactions or events, the Group shall make a provision of estimated liabilities for such obligations.

If the performance of the abovementioned obligations is unlikely to cause an outflow of economic benefits or the relevant amount cannot be estimated reliably, or the obligations are potential obligations as a result of past transactions or events, then such obligations should be disclosed as contingent liabilities.

(22) Offset of Financial Assets and Financial Liabilities

If the company owns the legitimate rights of offsetting the recognised financial assets and financial liabilities, which are enforceable currently, and the company plans to realise the financial assets or to clear off the financial liabilities by net amount method, the amount of the offsetting financial assets and financial liabilities shall be reported in the balance sheep. Otherwise, financial assets and financial liabilities are presented separately in the balance sheet without offsetting.

4 Significant accounting policies and accounting estimates *(continued)*

(23) Equity instruments

An equity instrument is a contract that evidences a residual interest in the Company's assets after deducting all the liabilities. Transaction fees arising from the issue of equity instrument in business combination shall be reduced in the premium income; if premium income is insufficient to be written off, retained revenue shall be written off. As for other equity instrument, consideration received from the issue should be added to the shareholders' equity interests after deduction of the transaction fees. If the Company repurchase the equity instrument, the consideration and transaction fees should be reduced in the shareholders' equity interests. No profits or losses will be recognised for issuing, repurchasing, selling or cancelling equity instrument.

The distribution (excluding the dividend) to the equity instrument holders by the company shall reduce the shareholder's equity. The company shall not recognise the changes of the equity instruments' fair value.

(24) Revenue recognition

(i) Revenue from sales of goods

Revenue from sales of goods shall be recognised when the Company has transferred to the buyer the significant risks and rewards of ownership of the goods, retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold; when a reliable measurement can be made to the amount of the revenue and the relevant costs incurred or to be incurred and when relevant economic benefits are likely to flow into the Group.

(ii) Interest income

Interest income shall be measured based on the length of time for which the Group's cash is used by others and the applicable interest rate.

(iii) Revenue from rendering of services

Revenue from rendering of services is recognised when the outcome of a transaction involving the rendering of services can be estimated reliably and the economic benefits associated with the transaction may flow into the Group. When the outcome of rendering of services cannot be estimated reliably, revenue shall be recognised only to the extent of the costs incurred that are recoverable and the cost of labour services shall be carried forward at the same amount. If the service costs incurred are expected not to be recovered, the cost incurred shall be included in the current profits and losses, and no revenue is recognised.

(iv) Revenue from abalienating the right to use assets

Revenue from abalienating the right to use assets shall be recognised when the amount of the revenue can be measured reliably and relevant economic benefits are likely flow into the Group.

(25) Governmental grant

Government grants are transfer of monetary assets or non-monetary assets from the government to the Company at no consideration, excluding capital considerations from the government as an owner of the Company to the Company. Government grants are classified into government grants related to assets and government grants related to income. Government grant shall be recognised when, and only when the conditions are met.

The government grant in the form of a transfer of a monetary asset shall be measured at the amount received or receivable. If a government grant is in the form of a transfer of a non-monetary asset, the item shall be measured at fair value. If fair value is not reliably determinable, the item shall be measured at a nominal amount and recognised immediately in profit or loss for the current period.

A government grant related to an asset shall be recognised as deferred income, and evenly amortised to profit or loss over the useful life of the related asset. A government grant related to income shall be accounted for as follows: if the grant is a compensation for related expenses or losses to be incurred by the enterprise in subsequent periods, the grant shall be recognised as deferred income, and recognised in profit or loss over the periods in which the related costs are recognised; if the grant is a compensation for related expenses or losses already incurred by the enterprise, the grant shall be recognised immediately in profit or loss for the current period.

Repayment of a government grant already recognised shall be accounted for as follows: if there is any related deferred income, the repayment shall be offset against the carrying amount of the deferred income, and any excess shall be recognised in profit or loss for the current period; If there is no related deferred income, the repayment shall be recognised immediately in profit or loss for the current period.

4 Significant accounting policies and accounting estimates *(continued)*

(26) Borrowing costs

Borrowing costs include interest incurred on borrowings, amortisation of discounts or premiums, ancillary costs incurred in connection with the arrangement of borrowings, and exchange differences arising from foreign currency borrowings. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset, before such asset getting ready for its intended use or sale, shall be capitalised according to the recognition criterion for capitalised amount of borrowing costs and included into the cost of that asset. Other borrowing costs are charged to the current profit and loss when they are incurred.

As for specifically borrowed loans, the to-be-capitalised amount of interests shall be determined in light of the actual cost incurred of the specially borrowed loan at the present period minus the income of interests earned on the unused borrowing loans as a deposit in the bank or as a temporary investment. The to-be-capitalised amount of interests on the general borrowing shall be determined by multiplying the weighted average value of the accumulative expenditures to asset minus the specific borrowing by the weighted average interest rate of the general borrowing.

(27) Income taxes

Income taxes refer to the total amount of the income taxes of the current period and deferred income tax.

The income tax of the current period is the current amount of income tax payable calculated at the taxable income of the current period. The taxable income is calculated subject to adjustments to the accounting profit before taxation for the year in accordance with the relevant tax laws.

Deferred income tax is the expected payable or recoverable taxes arising from the difference between the carrying amount of assets or liabilities set out in the financial statement and the tax bases for taxable income. The balance sheet liability method is applied for accounting of deferred income tax. All deferred income tax liability arising from taxable temporary difference shall be recognised. Deferred income tax assets shall be recognised to the extent that the future taxable income is available to offset temporary difference. If the temporary difference arises from the initial recognition of goodwill or from the initial recognition of assets and liabilities arising from a transaction neither affecting the accounting profits nor affecting the taxable amount, relevant deferred income tax assets and liabilities shall not be recognised.

As for the taxable temporary differences arising from the long-term equity investments of subsidiaries, associated enterprises and joint venture enterprises, the Company shall recognise corresponding deferred income tax liabilities, but if the Company can control the time of the reverse of such temporary differences and the temporary differences are unlikely to be reversed in the excepted future, corresponding deferred income tax liabilities shall not be recognised.

The Group shall review the carrying out of deferred income tax at the end of the reporting period. If it is unlikely to obtain sufficient amount of taxable income tax in future to reverse partial or all deferred income tax assets, the carrying amount of the deferred income tax assets shall be reduced for those unable to reverse. Where it is likely to obtain sufficient taxable income taxes, the reduced amount shall be reversed.

Deferred income tax is calculated using the applicable tax rate for the expected period to recover relevant assets or settle relevant liabilities. If relevant transaction is directly charged to the owner's equity item, relevant deferred income taxes shall also be charged to the owner's equity item. Deferred income tax arising from merger of business is applied to adjust the carrying amount of goodwill. Other deferred income tax shall be recognised immediately in profit or loss for the current period.

Deferred income tax assets and liabilities can be mutually offset only that relevant income taxes are levied by one same tax authority and that the Group plans to settle the current income tax assets and liabilities at balances.

(28) Business combinations

Business combinations are classified into the business combinations under common control and the business combinations not under common control.

Business combinations under common control

A business combination under common control is a business combination in which all of the combining enterprises are ultimately controlled by the same party or parties both before and after the combination, and that control is not transitory.

Assets and liabilities that are obtained by the absorbing party in a business combination are measured at their carrying amounts at the combination date as recorded by the party being absorbed. The difference between the carrying amount of the net assets obtained on a pro rata basis and the carrying amount of the consideration paid for the combination is adjustment to capital reserve. If the capital reserve is not sufficient to absorb the difference, any excess shall be adjusted against retained earnings.

The cost of a combination incurred by the absorbing party includes any costs directly attributable to the combination is recognised as expenses when incurred.

4 Significant accounting policies and accounting estimates *(continued)*

(28) Business combinations *(continued)*

Business combinations not under common control and Goodwill

A business combination not under common control is a business combination in which all of the combining enterprises are not ultimately controlled by the same party or parties before and after the combination.

Business combinations not under common control are accounted for using the purchase method. Acquisition cost includes the transferred assets, the assumed liabilities, and total amount of the issued equity instrument for acquiring the control right of the acquiree (acquirees) on the acquisition date as well as all relevant direct expenses incurred for the business combination. All identifiable assets, liabilities and contingent liability acquired from the acquiree (acquirees) which meet recognition conditions are recognised on the acquisition date at its fair value.

Where the acquisition cost exceeds the acquirer's share of the fair value of the acquiree's identifiable assets, liabilities and contingent liabilities on a pro rata basis, the difference shall be recognised as goodwill. Where the acquirer's share of the fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the acquisition cost, the difference shall be recognised immediately in profit or loss for the current period.

(29) Exchange of non-monetary assets

Exchange of non-monetary assets refers to the exchange between the parties of the transaction with non-monetary assets including but not limited to inventories, fixed assets, intangible assets and long-term equity investment. Such exchange does not involve or only involve a few of monetary assets (boot).

If non-monetary assets transaction is commercial in nature and the fair value of the assets received or the assets surrendered can be reliably measured, the fair value of the assets surrendered (unless there are clear evidences showing the fair value of the assets surrendered is more reliable) and relevant taxes payable are recognised as cost of the assets received. The difference between the fair value and the carrying amount of the assets surrendered are included into the current profit or loss. Where any non-monetary assets transaction does not meet such conditions, the carrying amount and relevant payable taxes of the assets surrendered shall be the cost of the assets received and no profit or loss is recognised.

(30) Debt restructuring

The term "debt restructuring" refers to an event in which the terms of a debt are given in as a result of a mutual agreement between a debtor and a creditor or a judgment of a court when the debtor gets into a financial problem.

Obligations to record debt restructuring as debtor

When a debt is liquidated by cash, the debtor shall include the difference between the book value of the debt to be restructured and the actual payment into the current profits and losses. When a debt is liquidated by a non-cash asset, the debtor shall include the difference between the book value of the debt to be restructured and the fair value of the non-cash asset transferred into the current profits and losses. The difference between fair value of the non-cash asset transferred and its book value shall be included in the current profits and losses. When a debt is converted into capital, the debtor shall include the difference between the book value of the debt to be restructured and the fair value of shares to which the creditor becomes entitled for waiver of the credit into the current profits and losses. Where other terms of a debt are modified, the debtor shall regard the post-modification fair value of the debt as the entry value of the restructured debt, and shall include the difference between the book value of the debt to be restructured and the book value of the restructured debt in the current profits and losses. Where a debt restructuring is made by a combination of several methods, the debtor shall offset, one by one, the cash paid, the fair value of the non-cash asset transferred, and the fair value of the shares to which the creditor becomes entitled, against the book value of the debt to be restructured, then handle it in accordance with the aforesaid provisions of modification of other terms of a debt.

Obligations to record debt restructuring as creditor

When a debt is liquidated by cash, the creditor shall include the difference between the book balance of the debt to be restructured and the cash received in the current profits and losses. When a debt is liquidated by cash, the creditor shall include the difference between the book balance of the debt to be restructured and the fair value of the non-cash asset received in the current profits and losses. When a debt is converted into capital, the creditor shall include the difference between the fair value of the shares to which it becomes entitled as investment to the debtor and the book balance of the debt to be restructured into the current profits and losses. Where other terms of a debt are modified, the creditor shall regard the post-modification fair value of the debt as the entry value of the restructured debt, and shall include the difference between the book balance of the debt to be restructured and the book value of the restructured debt in the current profits and losses. Where a debt restructuring is made by a combination of several methods, the debtor shall offset, one by one, the cash received, the fair value of the non-cash asset received, and the fair value of the shares to which the creditor becomes entitled, against the book balance of the debt to be restructured, then handle it in accordance with the aforesaid provisions of modification of other terms of a debt.

If the creditor has made provision for the impairment of the debt to be restructured, it shall first offset the aforesaid difference against the impairment provision, and then include the shortfall in the current profits and losses.

4 Significant accounting policies and accounting estimates *(continued)*

(31) Lease

A finance lease is a lease that transfers substantially all the risks and rewards incident to ownership of an asset. The ownership may (not) be transferred. All other leases are classified as operating leases.

The Group as lessee under operating leases

Lease payments under operating leases are recognised as an expense in the income statement on a straight-line basis over the lease term. Initial direct costs incurred by the lessee shall be charged to profit and loss for the current period. Contingent rents shall be charged to profit or loss in the period in which they are actually incurred.

The Group as lessor under operating leases

Lease payments under operating leases are recognised as an expense in the income statement on a straight-line basis over the lease term. Substantial initial direct costs shall be capitalized when incurred, and be included in the current profits and losses on the same basis with recognising lease income over its life; Other unsubstantial initial direct costs incurred shall be included in the profits and losses of the current period. Contingent rents shall be charged to profit or loss in the period in which they are actually incurred.

The Group as lessee under finance leases

On the lease beginning date, the lower one of the fair value of the leased asset and the present value of the minimum lease payments on the lease beginning date shall be recorded as the entering value in an account, recognise the amount of the minimum lease payments as the book value of long-term account payable, and treat the balance between the recorded amount of the leased asset and the long-term account payable as unrecognised financing charges. In addition, initial direct costs attributable to the leased item incurred during the process of lease negotiating and signing the leasing agreement shall be recorded in the asset value. The balance of minimum lease payments net of unrecognised financing charges is to be carried in long-term liabilities and long-term liabilities due within one year.

In the case of the unrecognised financing charge, the effective interest rate method shall be adopted to calculate and recognise the financing charge in the current period. Contingent rents shall be charged to profit or loss in the period in which they are actually incurred.

The Group as lessor under finance leases

On the beginning date of the lease term, a lessor shall recognise the sum of the minimum lease receipts on the lease beginning date and the initial direct costs as the entering value in an account of the finance lease values receivable, and record the unsecured residual value at the same time. The balance between the sums of the minimum lease receipts, the initial direct costs and the unsecured residual value, and the sum of their present values shall be recognised as unrealised financing income. The balance of finance lease values receivable net of unrealised financing income is to be carried in long-term credit and long-term credit due within one year.

In respect of the unrealised financing income, the effective interest rate method shall be adopted for recognising current financing income during the lease term. Contingent rents shall be charged to profit or loss in the period in which they are actually incurred.

(32) Dividends Distribution

Cash dividend and share dividend shall be recognised as liabilities or converted into capital immediately after approval by General Meeting.

4 Significant accounting policies and accounting estimates *(continued)*

(33) Preparation methods for consolidated financial statements

The consolidated financial statements of the Group have been prepared in accordance with Accounting Standards for Enterprises No. 33-Consolidated Financial Statements issued by the Ministry of Finance.

Recognition of the consolidation scope of the consolidated financial statements based on control. The term "control" means that the Group has the power to decide an enterprise's financial and operating policy, pursuant to which, the Group can get the power to obtain benefits from its operating activities.

The Company recognise the date when control of subsidiaries was substantially transferred as the date of acquisition or disposal. For disposal of subsidiaries, operating results and cash flows of such subsidiaries from the period beginning to the date of disposal are included into the consolidated income statement and consolidated cash flow statement; for disposal of subsidiaries during the reporting period, no adjustment shall be made to the opening balance of the consolidated balance sheet. For those subsidiaries acquired not controlled by the same parent, the operating results and cash flows after the acquisition date have been properly included in the consolidated income statements and consolidated cash flow statements. No adjustments shall be made to the opening balance of the consolidated balance sheet and the comparative consolidated financial statements amount. For those subsidiaries acquired or disposed controlled by the same parent company, the operating results and cash flows from the opening of the consolidation period to the consolidation date are also presented in the consolidated income statement and the consolidated cash flow statements. The comparative consolidated financial statements amount is also adjusted respectively.

If the accounting policy applied by the subsidiary is different from that of the Company, the financial statements of the subsidiary will be adjusted respectively according to the Company's accounting policy, when preparing the consolidated financial statements.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation. Owner's equity of subsidiaries other than parent company's share is identified as minority interests, and shall be presented as "Minority Interests" under net profits in the consolidated income statements. The share of minority interests in net profit or loss shall be presented as "Minority Interests" under net profits in the consolidated income statements. In case that loss applicable to the minority exceeds the share of owner's equity in such subsidiary, offset minority interest (if the minority is obligatory as stipulated by Article of Association and is able to compensate for such loss), otherwise, offset owner's equity of the parent. All of the subsidiary's profits in the future shall be attributable to the shareholder's equity of parent prior to covering losses borne by shareholders' equity of the parent and attributable to minority shareholders.

(34) Connected party

A party under control or common control or significant influence exercised by or with control or common control or significant influence on the Company, or in concert with the Company under control or common control or significant influence exercised by another party is deemed as a related party. A related party can be a natural person or a corporate entity.

(Expressed in Renminbi)

5 Foundation of the identification of significant accounting policies and the key assumptions and uncertainties adopted in accounting estimates

In adopting accounting policies as set out in note 4, as uncertainties exist in operation activities, the Group need to make judgement, estimates and assumption to items which can not be accurately recorded. These judgements, estimates and assumptions are made on the basis of previous experience of the Group's management and other relevant factors. Actual results of which may differ from these estimations.

Such judgements, estimates and assumptions are reviewed regularly on the basis of continuous operation. Influence by changes of accounting estimates which is only applicable to current period shall be recognised in current period; Those of influence on current period and the future shall be recognised in current period and in the future.

6 Taxes

(1) Taxation applicable to product sales of the Group is Value Added Tax and surcharge.

Value Added Tax	:	13%-17%
City Maintenance Tax	:	5%-7% of Value Added Tax paid
Education surcharges	:	3% of Value Added Tax paid

(2) Income taxes

The applicable enterprise income tax for the Company and its subsidiaries is 33% (2006: 33%). In obedience to Enterprise Income Tax Law of the People's Republic of China ("new income tax law") published on 16 March 2007, the Group paid 25% income tax under new income tax law since 1 January 2008.

(3) Deferred income tax assets

Deferred income tax assets of the Group and the Company are principally deductible loss and temporary difference. As potential tax assets are subject to future confirmation, no deferred income tax assets are recognised during the reporting period.

7 Scope of Consolidated Financial Statements

Name of subsidiaries	Country of Incorporation	Legal representative	Organization code	Nature of business	Registered capital Currency	Registered capital Amount	The Cost of Investment of the Company Direct	The Cost of Investment of the Company Indirect	Shareholding held by the Company (%) Direct	Shareholding held by the Company (%) Indirect	Voting rights held by Company (%)	*Notes*
CLFG Longmen Glass Co. Ltd ("Longmen")	China	Gao Tianbao	706542258	Manufacture of float sheet glass	RMB	20,000	64,513	—	79.06%	—	79.06%	(i), (iv)
CLFG Long Fei Glass Co. Ltd ("Long Fei")	China	Gao Tianbao	721838225	Manufacture of float sheet glass	RMB	74,080	40,000	—	54%	—	54%	(iii), (iv)
Xiangfang Luoshen Auto Glass Ltd ("Luoshen")	China	Zhu Leibo	179409075	Manufacture of auto glass	RMB	10,000	20,000	—	66.67%	—	66.67%	(iii), (iv)
Yinan Mineral Products Ltd ("Yinan")	China	Zhu Liuxin	614023573	Exploration of minerals	RMB	28,000	14,560	—	52%	—	52%	(iii), (iv)
CLFG Long Hai Electronic Glass Limited ("LongHai")	China	Gao Tianbao	776503385	Manufacture of float sheet glass and electronic glass	RMB	60,000	48,000	—	80%	—	80%	(iii), (iv)
CLFG Long Hao Glass Limited ("Long Hao")	China	Zhu Liuxin	776516215	Manufacture of float sheet glass	RMB	50,000	40,000	—	80%	—	80%	(iii), (iv)
CLFG Warehousing & Logistics Company Limited ("Logistics Company")	China	JI Xiaoxing	66722781X	Warehousing and logistics service	RMB	10,000	71,074	—	100%	—	100%	(v)
CLFG Longxiang Glass Co. Ltd ("Longxiang")	China	Gao Tianbao	174849944	Manufacture of float sheet glass	RMB	50,000	—	20,000	—	40%	73%	(ii), (iv)
Dengfeng CLFG Silicon Company Limited ("Silicon Company")	China	Sun Guoan	66886639X	Silica sand sales	RMB	1,000	—	510	—	51%	51%	(vi)

7 Scope of Consolidated Financial Statements *(continued)*

Notes:

(i) This subsidiary is a collective joint enterprise.

(ii) In 2006, CLFG Long Fei Glass Co., Ltd and its labour committee ("LFLC"), Shaoyang Huaxin Construction Materials Ltd, Hunan Huaihua Hezhong Developing Ltd, Henan Jinsan Chemical Ltd, Hubei Yijun Trading Ltd, Changzhou Daming Glass Ltd, Guangzhou Yuntong Materials Ltd, Ningbo Shuangning Construction Glass Ltd, Yuncheng Yanhu District Western Shengli Glass Shop, Zheng Qinghong, Wang Qiuping, Xue Jiankui and Yan Jun etc invested together in order to set up Long Xiang that the authorized capital is Rmb50,000,000 included Long Fei invested Rmb20,000,000 which it is 40% of authorised capital and LFLC invested Rmb16,500,000 which it is 33% of authorized capital. LFLC has authorised CLFG as representative of shareholder's rights that all details state at No. 3 of "Luoyang Group Long Fei Glass Co., Ltd Constitution" (Included allocated director's right, excluded dividend and transfer shareholdings), also authorised CLFG to allocate the representatives of Long Xiang shareholders' meeting to use voting rights. As all details mentioned above, although CLFG Long Fei Glass Co., Ltd does not have the majority of voting rights of Long Xiang by itself, it actually control Long Xiang that has over 50% of voting rights as the representative on behalf of LFLC. It is the reason that Long Xiang is treated as the indirect subsidiary of CLFG and included in consolidated financial reports.

(iii) These subsidiaries are limited liability companies.

(iv) The companies are directly or indirectly controlled by CLFG as subsidiaries. According to Interpretation No.1 to the Accounting Standards for Enterprises, as at the date of adopting new standard, retroactive adjustments were made to long-term investments to subsidiaries in financial statement of parent company, treating such subsidiaries as adopted cost method initially.

(v) The subsidiary was incorporated by investment of the Company in October 2007, all shares of which were transferred to CLFG from the Company. However, principal terms of the share transfer contract had not been completed in 2007, therefore, Logistic Company was consolidated into financial statement of the Company in 2007.

(vi) Longmen, a subsidiary of the Company, and Guoan Silica Sand Company Limited ("Dengfeng Guoan") jointly established Silicon Company with a registered capital of Rmb1,000,000. Among the total investment, Longhai accounted for Rmb510,000 (51% of the registered capital) and Dengfeng Guoan accounted for Rmb490,000 (49% of the registered capital). Silicon Company was consolidated in 2007 financial statement of the Company as a subsidiary indirectly controlled by Longhai (a subsidiary of the Company).

(vii) Save for the consolidation of newly established Logistic Company and Silicon Company, no change was made to the consolidation scope compared with last year.

8 Bank balances and cash

	31 December 2007			31 December 2006		
	Original amount *('000)*	**Exchange rate**	**Rmb'000 (equivalent)**	Original amount *('000)*	Exchange rate	Rmb'000 (equivalent)
Cash						
— Renminbi	—	—	**335**	—	—	294
Current deposits						
Deposits at banks						
— Renminbi	—	—	**14,326**	—	—	9,453
— US Dollars	**389**	**7.3046**	**2,841**	359	7.8087	2,803
— HK Dollars	**219**	**0.9364**	**205**	5,907	1.0047	5,935
Deposits at non-bank financial institutions						
— Renminbi	—	—	**56,117**	—	—	39,929
Sub-total			**73,489**			58,120
Pledged current deposits						
— Renminbi	—	—	**107,302**	—	—	114,545
Pledged time deposits						
— Renminbi	—	—	**60,000**	—	—	100,000
Sub-total	—	—	**167,302**	—	—	214,545
Total			**241,126**			272,959

At 31 December 2007, time deposits of Rmb60,000,000 (2006: Rmb100,000,000) and current deposits of Rmb107,302,000 (2006: Rmb114,545,000) were pledged as security for the Group's short-term loans and bills payable respectively.

9 Bills receivable

	31 December 2007 *('000)*	31 December 2006 *('000)*
Bank acceptance notes	**55,461**	44,399
Customer acceptance notes	—	1,000
Total	**55,461**	45,399

As at 31 December 2007, no notes receivable is due from a shareholder who holds 5% or more of the voting shares of the Company.

As at 31 December 2007, details of pledged bills receivable are as follows:

Issued by:	**Date of issue**	**Due date**	**Amount** *('000)*
Shaoxing Fuchang Glass Sales Company Limited	2007.08.27	2008.02.27	100
Shaoxing Fuchang Glass Sales Company Limited	2007.09.04	2008.03.04	100
Henan Huaqi Glass Company Limited	2007.11.20	2008.02.20	200
Henan Huaqi Glass Company Limited	2007.09.24	2008.03.24	200
Zhengzhou construction material market Jitong Glass Firm	2007.10.24	2008.04.24	80
Zhengzhou construction material market Jitong Glass Firm	2007.09.28	2008.03.28	100
Luoyang Xinchuang Glass Company Limited	2007.09.24	2008.03.24	100
Zhengzhou Zhongchu Nanyangzhai Warehouse	2007.09.13	2008.03.12	1,000
Zhengzhou Zhongchu Nanyangzhai Warehouse	2007.09.07	2008.03.07	500
Zhengzhou Zhongchu Nanyangzhai Warehouse	2007.09.29	2008.03.29	300
Luoyang Xigonglingkong Safety Glass Factory	2007.09.26	2008.03.26	300
CLFG New Era Export&Import Co., Ltd.	2007.09.27	2008.03.27	100
Luoyang Tongchun Resources Company Limited	2007.08.23	2008.02.23	100
Luoyang Tongchun Resources Company Limited	2007.09.04	2008.03.04	100
Luoyang Tongchun Resources Company Limited	2007.10.26	2008.04.26	106
Luoyang Tongchun Resources Company Limited	2007.07.30	2008.01.30	120
Luoyang Zaixiandumo Float Glass Company Limited	2007.09.28	2008.03.28	200
Shanghai Shunsheng Glass Company Limited	2007.09.05	2008.03.05	100
Changsha Ronghao Construction Material Trading Company Limited	2007.07.17	2008.01.17	100
Changsha Furong district Jiufeng Glass Firm	2007.09.28	2008.03.28	300
Guangzhou Yuntong Resources Company Limited	2007.12.10	2008.03.07	326
Luancheng Supply and Marketing Cooperative Company	2007,08.02	2008.02.02	300
CLFG Jingwei Glass Fibre Co., Ltd.	2007.10.24	2008.04.24	250
Total			5,082

Undue notes with endorsement as at 31 December 2007 amounted to Rmb369,831,000, being due within 2 January 2008 to 28 June 2008.

10 Accounts receivable

Accounts receivable comprised:

	31 December 2007			31 December 2006		
	Carrying amount *('000)*	**Percentage**	**Provision for bad debt *('000)***	Carrying amount *('000)*	Percentage	Provision for bad debt *('000)*
Individually significant amounts	**—**	**—**	**—**	—	—	—
Individually insignificant amounts but subject to considerable risks as a group based on credit risk profile	**46,104**	**63%**	**45,861**	45,175	63%	44,440
Other insignificant amounts	**27,210**	**37%**	**—**	26,128	37%	1,254
Total	**73,314**	**100%**	**45,861**	71,303	100%	45,694

Ageing analysis:

	31 December 2007			31 December 2006		
	Carrying amount *('000)*	**Percentage**	**Provision for bad debt *('000)***	Carrying amount *('000)*	Percentage	Provision for bad debt *('000)*
Within 1 year	**27,288**	**37%**	**—**	23,129	33%	—
Over 1 year but within 2 years	**1,233**	**2%**	**1,075**	2,356	3%	707
Over 2 years but within 3 years	**703**	**1%**	**696**	1,662	2%	831
Over 3 years	**44,090**	**60%**	**44,090**	44,156	62%	44,156
Total	**73,314**	**100%**	**45,861**	71,303	100%	45,694

As at 31 December 2007, no accounts receivable is due from a shareholder who holds 5% or more of the voting shares of the Company.

The five largest accounts receivable at 31 December 2007 are as follows:

Name of entity	**Amount *('000)***	**Ageing**	**Percentage of total accounts receivable**
Zhengzhou Yijun Company Limited	6,076	Within 1 year	8%
Qingdao Nokelai Industry and Trading Company Limited	4,020	Within 1 year	5%
Australia CAMDENLUOYANG GLASS	3,015	Over 3 years	4%
CLFG Qingdao JV	2,796	Over 3 years	4%
Henna Provincial Construction Material Company	2,549	Over 3 years	3%
Total	18,456		24%

Among accounts receivable, the following are denominated in foreign currencies:

	31 December 2007			31 December 2006		
	Original amount *('000)*	**Exchange rate**	**Rmb'000 (equivalent)**	Original amount *('000)*	Exchange rate	Rmb'000 (equivalent)
US Dollars	**532**	**7.3046**	**3,883**	1,198	7.8087	9,355
Total			**3,883**			9,355

11 Prepaid expenses

Ageing analysis:

	31 December 2007		31 December 2006	
	Carrying amount (’000)	**Percentage**	Carrying amount (’000)	Percentage
Within 1 year	**11,806**	**84%**	11,493	94%
Over 1 year but within 2 years	**2,290**	**16%**	680	6%
Over 2 years but within 3 years	**40**	**—**	17	—
Over 3 years	**—**	**—**	13	—
Total	**14,136**	**100%**	12,203	100%

As at 31 December 2007, no substantial prepayment had an ageing more than 1 year.

Save for CLFG, prepaid expenses was made to a shareholder who holds 5% or more of the voting shares of the Company.

12 Other receivables

Other receivables comprised:

	31 December 2007			31 December 2006		
	Carrying amount (’000)	**Percentage**	**Provision for bad debt (’000)**	Carrying amount (’000)	Percentage	Provision for bad debt (’000)
Individually significant amounts	**10,809**	**15%**	**10,809**	11,153	15%	10,809
Individually insignificant amounts but subject to considerable risks as a group based on credit risk profile	**46,387**	**65%**	**45,986**	48,637	66%	44,711
Other insignificant amounts	**14,564**	**20%**	**477**	13,829	19%	317
Total	**71,760**	**100%**	**57,272**	73,619	100%	55,837

Ageing analysis:

	31 December 2007			31 December 2006		
	Carrying amount (’000)	**Percentage**	**Provision for bad debt (’000)**	Carrying amount (’000)	Percentage	Provision for bad debt (’000)
Within 1 year	**11,363**	**16%**	**1,405**	25,716	35%	9,492
Over 1 year but within 2 years	**14,610**	**20%**	**10,888**	3,462	5%	2,359
Over 2 years but within 3 years	**3,031**	**4%**	**2,422**	1,581	2%	1,488
Over 3 years	**42,756**	**60%**	**42,557**	42,860	58%	42,498
	71,760	**100%**	**57,272**	73,619	100%	55,837

Other accounts receivable of a substantial amount

Name of entity	**Amount (’000)**	**Provision percentage**	**Reason**
China Construction Bank, Zhengzhou Xili Branch	10,809	100%	Called but estimated uncollectible
Total	10,809		

12 Other receivables *(continued)*

As at 31 December 2007, no other accounts receivable is due from a shareholder who holds 5% or more of the voting shares of the Company.

The five largest accounts receivable at 31 December 2007 are as follows:

Name of entity	**Outstanding amount *('000)***	**Nature or content**	**Ageing**	**Percentage of accounts receivable**
Construction bank Zhengzhou Xili Branch	10,809	Time deposits	Over 3 years	15%
Zhuge town government	9,857	Borrowings	Over 3 years	14%
Land plan administration of Luoyang High-Tech Industry Development Zone	5,000	Land payment refund	Within 1 year	7%
Chenzhou Bada Glass Co., Ltd.	4,832	Lending	Over 1 year but within 2 years	7%
Shenzhen Xinxiya Industrial Company Limited	4,600	Time deposits	Over 3 years	6%
Total	35,098			49%

13. Inventories

Inventories comprised:

	31 December 2007		31 December 2006	
	Carrying amount *('000)*	**Provision for diminution in value *('000)***	Carrying amount *('000)*	Provision for diminution in value *('000)*
Raw materials	**178,335**	**12,100**	200,047	25,120
Work in progress	**10,984**	**—**	17,717	—
Commodity inventories	**106,260**	**4,084**	103,936	13,571
Circulation materials	**14,820**	**39**	16,792	—
Total	**310,399**	**16,223**	338,492	38,691

Provision for diminution in value of inventories

	As at 31 December 2006 *('000)*	**Provision for the period *('000)***	**Decrease in the period**		**As at 31 December 2007 *('000)***
			Reversal *('000)*	**Write-off *('000)***	
Raw materials	25,120	5,272	(288)	(18,004)	**12,100**
Commodity inventories	13,571	788	(885)	(9,390)	**4,084**
Circulation materials	—	39	—	—	**39**
Total	38,691	6,099	(1,173)	(27,394)	**16,223**

14 Long-term Equity Investment

	31 December 2007		31 December 2006	
	Amount **(’000)**	**Impairment provision** **(’000)**	Amount (’000)	Impairment provision (’000)
Investment in associates	**118,403**	**—**	116,208	—
Other equity investment	**27,314**	**26,904**	58,904	26,904
Total	**145,717**	**26,904**	175,112	26,904

Investment in associates:

Name of investee	**Initial investment (’000)**	**Additional investment (’000)**	**31 December 2006 (’000)**	**Increase/decrease of the equity in the year: Net loss adjusted under equity method (’000)**	**Cash dividend declared (’000)**	**Other changes in equity (’000)**	**31 December 2007 (’000)**
Luoyang Jingxin Ceramic Co. Ltd.	20,553	—	—	—	—	—	—
CLFG Finance Company Limited	111,000	—	114,955	3,448	—	—	118,403
CLFG Processed Glass Fibre Company limited.	89,096	—	1,253	(1,253)	—	—	—
CLFG Mineral Products Company Limited	12,475	—	—	—	—	—	—
Total			116,208	2,195	—	—	118,403

Name of investee	**Country of incorporation**	**Nature of business**	**Shareholding held by the Company**	**Percentage of the Company’s voting rights in investee**	**Total net assets at the end of the year (’000)**	**Total operating income for the year (’000)**	**Net profit for the year (’000)**
Luoyang Jingxin Ceramics Company Limited	the PRC	Production of inner wall tile	49%	49%	(45,828)	117	(5,323)
CLFG Finance Company Limited	the PRC	Financial Services	37%	37%	320,007	21,621	8,593
CLFG Processing Glass Fibre Company limited.	the PRC	Further processing of glass	49.09%	49.09%	(28,188)	110,676	(33,331)
CLFG Mineral Products Company Limited	the PRC	Silica sand and refractory materials	40.29%	40.29%	(7,389)	30,123	(2,041)

14 Long-term Equity Investment *(continued)*

Other equity investment:

Name of investee	Shareholding percentage	Original amount *('000)*	31 December 2006 *('000)*	Increase in the year *('000)*	Decrease in the year *('000)*	31 December 2007 *('000)*
Yanlian Petroleum Co Ltd.*(Note 4)*	7.47%	31,800	31,800	—	(31,800)	—
CLFG Hoisting Machinery Company limited*(Note 1)*	36.68%	5,000	5,000	—	—	5,000
CLFG Jingwei Glass Fibre Co., Ltd.*(Note 1)*	35.90%	4,000	4,000	—	—	4,000
CLFG Luoyang Jingjiu Products Company limited*(Note 1)*	31.08%	1,500	1,500	—	—	1,500
CLFG New Lighting Company limite*(Note 1)*	29.45%	2,291	2,291	—	—	2,291
Hunan Chenzhou Bada Glass Co. Ltd.*(Note 2)*	72.65%	75,892	13,561	—	—	13,561
Yanshi Rural Credit Union	0.67%	410	200	210	—	410
Xiangfang Jingyue Chemical Construction Material Company*(Note 3)*	100%	552	552	—	—	552
Total			58,904	210	(31,800)	27,314

Note 1: The abovementioned companies are subsidiaries of CLFG, the first major shareholder of the Company, and the Company's shareholding percentage in such investees is above 20%, but the Directors believe that the Company have no significant impact on them, so investment in them is classified as other equity investment and accounted for using the cost method.

Note 2: The Company held 72.65% equity interest in Bada as at 31 December 2007, but the Directors are of the view that the Company had no control or significant impact on them, so investment in Bada is classified as other equity investment and accounted for using the cost method.

Note 3: It is a company invested by Luoshen Company, one subsidiary of the Company, and is currently in liquidation.

Note 4: Liquidation had been conducted for it and the Company recovered the investment in January 2007, realising an investment income of Rmb22.059 million.

Provision for impairment of long-term investment:

Name of investee	31 December 2006 *('000)*	Increase in the year *('000)*	Decrease in the year *('000)*	31 December 2007 *('000)*	Reason for provision
CLFG Hoisting Machinery Co. Ltd.	5,000	—	—	5,000	Note
CLFG Jingwei Glass Fibre Co., Ltd.	4,000	—	—	4,000	Note
CLFG Luoyang Jingjiu Products Company Limited	1,500	—	—	1,500	Note
CLFG New Lighting Company Limited.	2,291	—	—	2,291	Note
Hunan Chenzhou Bada Glass Co. Ltd.	13,561	—	—	13,561	Note
Xiangfang Jingyue Chemical Construction Material Company	552	—	—	552	Note
Total	26,904	—	—	26,904	

Note: The actual financial status of such companies is deteriorating, and the Group had made full amount provision in the previous year. After estimating the financial status of such companies as at 31 December 2007, Directors maintain full amount provision for long-term equity investment in such companies.

15 Investment property

	31 December 2006 *('000)*	Increase in the year *('000)*	Decrease in the year *('000)*	31 December 2007 *('000)*
Original amount				
Buildings	3,227	—	—	**3,227**
Land use rights	18,282	—	—	**18,282**
Total	21,509	—	—	**21,509**
Accumulated depreciation or accumulated amortisation				
Buildings	994	88	—	**1,082**
Land use rights	1,750	175	—	**1,925**
Total	2,744	263	—	**3,007**
Carrying amount				
Buildings	2,233	(88)	—	**2,145**
Land use rights	16,532	(175)	—	**16,357**
Total	18,765	(263)	—	**18,502**

As at 31 December 2007, no recoverable amount of investment property had been found less than the carrying amount, so no provision for impairment was made.

Among investment properties, the building ownership certificate of the rental housing located at No. 9 Tang Gong Zhong Lu and the land use right certificate of the leasing land located in the development zone of Luoyang are still in the process of application as at 31 December 2007. As for relevant details, pleaser refer to note 16 and note 19.

16 Fixed assets

	Buildings *('000)*	Machinery and equipment *('000)*	Transportation equipment *('000)*	Total *('000)*
Cost				
Balance at the beginning of the year	725,037	1,117,376	31,956	1,874,369
Increase in the year	4,420	11,995	485	16,900
Construction-in-progress transferred *(Note 17)*	216	14,915	—	15,131
Decrease in the year	(9,138)	(3,548)	(2,000)	(14,686)
Balance at the end of the year	720,535	1,140,738	30,441	1,891,714
Accumulated depreciation				
Balance at the beginning of the year	248,981	421,741	18,729	689,451
Increase in the year	25,653	84,646	2,093	112,392
Decrease in the year	(1,233)	(2,213)	(1,394)	(4,840)
Balance at the end of the year	273,401	504,174	19,428	797,003
Net amount				
Balance at the end of the year	447,134	636,564	11,013	1,094,711
Balance at the beginning of the year	476,056	695,635	13,227	1,184,918
Impairment provision				
Balance at the beginning of the year	36	12,500	—	12,536
Increase in the year	—	17,154	—	17,154
Balance at the end of the year	36	29,654	—	29,690
Net amount				
Balance at the end of the year	447,098	606,910	11,013	1,065,021
Balance at the beginning of the year	476,020	683,135	13,227	1,172,382

16 Fixed assets *(continued)*

The Company bought the fixed assets under the auction of Hunan Chenzhou Bada Glass Co. Ltd. with Rmb55,150,000 in 2006. According to the Assets Restructuring Framework Agreement signed by Guangzhou Shengnan Company (Shengnan), Bada and the Company in 2006 and the memorandum made in March 2007, Shengnan can carry out assets leasing prior to the implementation of assets restructuring, so the Company has not attained relevant leasing income since it acquired the assets in 2006. According to the actual use of the asset, Shengnan's previous quotations for it and other factors, the Company made an additional impairment provision of Rmb17,150,000.

The Company's buildings located at No. 9 Tang Gong Zhong Lu, Luoyang with an original value of Rmb204,249,000 and a net value of Rmb140,756,000 were invested by CLFG as contribution for the establishment of the Company; and relevant registration for the change of property ownership is still in progress as at 31 December 2007.

In December 2007, the Company's Line 2 fixed assets located at No. 9 Tang Gong Zhong Lu, Luoyang with a book value of Rmb8,777,000 were sold to Ruyang County Arts and Crafts Fuli Plant ("Fuli Plant") in an auction at the successful bidding price of Rmb35,000,000. Fuli Plant had paid 30% of the consideration of Rmb10,500,000 by December 2007 according to the contract, under which an overhaul for the Line 2 fixed asset will be carried out upon Fuli Plant's full payment of the consideration. The assets will be delivered at the Company's registered address after they pass the overhaul. As at the date hereof, as Fuli Plant has not paid the remaining consideration, such assets have not be actually delivered.

Fixed assets used for pledge as at 31 December 2007 are disclosed as follows:

	Original carrying amount *('000)*	Accumulated depreciation *('000)*	Impairment provision *('000)*	Net carrying amount *('000)*
Machinery and equipment	249,470	198,896	—	50,574
Buildings	9,128	3,330	—	5,798
Total	258,598	202,226	—	56,372

17 Construction in Progress

Name of Projects	Budget *('000)*	Opening balance *('000)*	Increase in the year *('000)*	Decrease in the year: Transfer to fixed assets *('000)*	Decrease in the year: Other decrease *('000)*	Closing balance *('000)*	Resource of fund	Percentage of project investment in budget
Equipment to be installed	—	3,965	1,050	(1,271)	(612)	3,132	Self-financing	—
Sporadic Project	—	—	602	(216)	—	386	Self-financing	—
Auxiliary facilities for Longfei No. 1 Line	2,110	—	2,110	(2,110)	—	—	Self-financing	100%
Float glass of Longxiang	11,534	—	11,534	(11,534)	—	—	Self-financing	100%
Gas reformation of Longxiang	2,800	—	2,611	—	—	2,611	Self-financing	92%
Waste heat generation of Longhao	35,000	—	146	—	—	146	Self-financing	0.4%
Mine road project of Silicon Company	500	—	102	—	—	102	Self-financing	20%
Total		3,965	18,155	(15,131)	(612)	6,377		

The Group had no capitalised loan interest in the year.

18 Constructive materials

As at 31 December 2007, the Group's constructive materials mainly refer to the actual cost of unused constructive materials.

19 Intangible Assets

	31 December 2006 ('000)	Increase in the year ('000)	Decrease in the year ('000)	31 December 2007 ('000)
Original value				
Land use rights	136,292	2,994	(7,038)	**132,248**
Trademark and non-patent technology	18,400	—	—	**18,400**
Total	154,692	2,994	(7,038)	**150,648**
Accumulated amortization				
Land use rights	30,875	2,626	(798)	**(32,703)**
Trademark and non-patent technology	3,181	1,472	—	**(4,653)**
Total	34,056	4,098	(798)	**(37,356)**
Carrying amount				
Land use rights	105,417	368	(6,240)	**99,545**
Trademark and non-patent technology	15,219	(1,472)	—	**13,747**
Total	120,636	(1,104)	(6,240)	**113,292**

Among the Group's intangible assets and land use rights cost of investment property as at 31 December 2007, Rmb104,890,000 is invested by CLFG and Rmb27,358,000 is purchased from third parties. The remaining useful lives are ranging from 36 to 49 years.

Among the Group's intangible assets and investment properties as at 31 December 2007, the land use right certificate for a piece of land located in the development zone of Luoyang with a carrying value of Rmb27,681,000 is in the process of application; and the land currently occupied by CLFG for residential use with a carrying value of Rmb9,416,000 will be swapped with part of CLFG'S land located at No 9 Tang Gong Zhong Lu, Luoyang on the basis of their fair value by September 2008 as promised by CLFG, according to the minutes of the special meeting regarding land swapping between CLFG and the Company held on 13 December 2007.

Trademark and non-patented technical know-how of subsidiaries of the Company are invested by CLFG and remaining useful lives are ranging from 8 to 13 years.

As for details of the pledge of intangible assets as at 31 December 2007, please refer to note 23.

20 Goodwill

Name of investee	Original amount ('000)	31 December 2006 ('000)	Change in the year ('000)	31 December 2007 ('000)	Provision for impairment ('000)
CLFG Warehousing & Logistics Company Limited	710	—	710	**710**	710
Total	710	—	710	**710**	710

The Company established a logistics company, a wholly-owned subsidiary, with an investment of Rmb71,074,000 (including a bank balance and cash of Rmb3,000,000, a land use right of an estimated value of Rmb67,364,000, and an investment transaction fee of Rmb710,000) in October 2007, and transferred its entire equity interest in the logistic company to CLFG in December 2007.The consideration for the equity transfer was Rmb70,364,000 as approved by the Company's independent shareholders and confirmed by both parties. Goodwill arising from the difference of Rmb710,000 between the fair value of identifiable assets of the logistic company and the Company's investment in it is presented in the consolidated financial statements, in which a full amount impairment provision has been made for it.

21 Other non-current assets

Item	Nature or content	As at 31 December 2007 ('000)	As at 31 December 2006 ('000)
Other receivables (Guangzhou International Trust & Investment Corporation)	Note 1	**35,000**	50,000
Other receivables (CLFG)	Note 2	**35,000**	—
Total		**70,000**	50,000

Note 1: overdue deposits under non-current assets is an amount receivable from Guangzhou International Trust and Investment Corporation ("GZITIC") amounting to Rmb35,000,000 (31 December 2006: Rmb50,000,000). The original amount was Rmb145,657,000 and Rmb of 95,657,000 of provision had been made in prior years. After the preliminary negotiation with GZITIC for recovery of the said creditor's rights in 2006, GZITIC intended to compensate with certain real estates. According to the reference then market price of the assets of GZITIC proposed for repayment of debts, the recoverable amount of the creditor's right was expected to be no less than Rmb50,000,000. In 2007, through further understanding of the Company in 2007, the title rights of properties in the debt repayment plan was restricted and certain certificates were pledged. Taking in account of the drop of regional prices of properties in Guangdong at different levels in the second half of 2007, and with reference to the acquisition price offered by Sun Kian Ip Holding Company Limited in its letter to the Company in respect of the claims on 8 June 2007, the Board of the Company considered that the recoverable amount of this claim of GZITIC was Rmb35,000,000, also taking in account the provisions for bad debt amounting to Rmb15,000,000. The Company has not accrued interest in respect of the deposits.

Note 2: the Company signed an agreement with CLFG to acquire 50% equity interests in Luoyang Longxin Glass Company Limited held by CLFG in December 2007. Upon confirmation of independent shareholders of the Company and both parties, the acquisition price of the equity interests was Rmb35,000,000, and the Company paid up such acquisition price of the equity interests in December 2007. The administrative registration for equity settlement and shareholder change concerning such transaction was not fulfilled as at 31 December 2007, and therefore the prepayment of Rmb35,000,000 for such acquisition was classified to other non-current assets.

22 Provisions for assets impairment

Summary of impairment of assets of the Company as at 31 December 2007 is as below:

	As at 31 December 2006 ('000)	Provisions for the period ('000)	Decrease in the period Reversal ('000)	Decrease in the period Transferral ('000)	As at 31 December 2007 ('000)
Provisions for bad debts	101,531	2,394	(792)	—	**103,133**
Provision for diminution in value of inventory	38,691	6,099	(1,173)	(27,394)	**16,223**
Provision for impairment of long-term investment	26,904	—	—	—	**26,904**
Provision for assets impairment	12,536	17,154	—	—	**29,690**
Provision for impairment of constructive materials	943	—	—	—	**943**
Provisions for impairment of goodwill	—	710	—	—	**710**
Provisions for bad debts of other non-current assets	95,657	15,000	—	—	**110,657**
Total	276,262	41,357	(1,965)	(27,394)	**288,260**

23 Assets under restricted ownership

	Carrying amount as at 31 December 2006 *('000)*	**Increase in the year *('000)***	**Decrease in the year *('000)***	**Carrying amount as at 31 December 2007 *('000)***
Assets for guarantee				
Bank balance and cash	214,545	—	(47,243)	**167,302**
Fixed assets	6,429	49,943	—	**56,372**
Intangible assets	2,948	—	(70)	**2,878**
Total	223,922	49,943	(47,313)	**226,552**

The ownership of such assets is restricted due to the fact that they are used for pledge or other guarantee for application to financial institutions for loans or bank acceptance by the Company.

24 Short-term loans

	As at 31 December 2007 *('000)*	As at 31 December 2006 *('000)*
Pledge loan	**54,000**	91,880
Mortgage loan	**1,900**	3,100
Guaranty loan	**853,300**	757,240
Discount of commercial acceptance bill	**—**	50,000
Total	**909,200**	902,220

As at 31 December 2007, there was no short-term loan obtained from the shareholder holding 5% or more of shares carrying voting rights of the Company.

25 Notes payable

	As at 31 December 2007 *('000)*	As at 31 December 2006 *('000)*
Bank acceptance	**141,002**	171,390
Total	**141,002**	171,390

Notes payable are mainly bank acceptances issued by the Group for purchase of materials, commodities or products with the repayment term of 1-6 months.

There is no acceptance payable to shareholders holding 5% or more of shares carrying voting rights of the Company in the balance of the notes payable.

26 Accounts payable

Payables include account payables, prepayments and other payables. There are no payables to shareholders holding 5% or more of shares carrying voting rights of the Company in the balance of the payables other than CLFG. Details of payables to CLFG are set out in note 54.

As at 31 December 2007, the Group had no payables with significant ageing of more than one year.

As at 31 December 2007, prepayments include the following balance of foreign currencies:

	As at 31 December 2007			As at 31 December 2006		
	Amount of original currency *('000)*	**Exchange rate**	**Equivalent to *Rmb'000***	Amount of original currency *('000)*	Exchange rate	Equivalent to *Rmb'000*
US$	**153**	**7.3046**	**1,124**	417	7.8087	3,249

27 Staff remuneration payables

	As at 31 December 2006 *('000)*	**Increase in the year *('000)***	**Payment in the year *('000)***	**As at 31 December 2007 *('000)***
Salary, bonus, allowance and subsidy	1,344	75,051	(67,297)	**9,098**
Staff's welfare	8,641	1,816	(7,561)	**2,896**
Social insurance premium	6,635	35,918	(40,978)	**1,575**
Including: 1. medical insurance premium	282	4,684	(4,404)	**562**
2. basic medical insurance premium	5,559	27,115	(31,861)	**813**
3. Unemployment insurance premium	605	2,435	(2,891)	**149**
4. Work injury insurance premium	59	1,125	(1,146)	**38**
5. Maternity insurance premium	130	559	(676)	**13**
Housing accumulation fund	1,775	5,432	(4,876)	**2,331**
Labour-union expenses and staff's education expenses	4,265	3,828	(3,045)	**5,048**
Compensation due to cancellation of labour relation	1,944	—	(650)	**1,294**
Total	24,604	122,045	(124,407)	**22,242**

28 Taxes payable

	As at 31 December 2007 *('000)*	As at 31 December 2006 *('000)*
Value-added tax	**15,411**	(952)
Urban maintenance and construction tax	**400**	765
Business tax	**248**	1,942
Enterprise income tax	**1,169**	(2,249)
Individual income tax	**18**	3
Land-use tax	**2,893**	1,047
Property tax	**988**	587
Stamp tax	**135**	23
Resource tax	**30**	(20)
Educational surtax	**259**	402
Compensation tax for mineral resources	**241**	221
Flood-prevention and safety fund	**30**	26
Local educational surtax	**13**	12
Total	**21,835**	1,807

29 Interest payable

	As at 31 December 2007 *('000)*	As at 31 December 2006 *('000)*
Loan interest	**600**	—
Total	**600**	—

30 Long-term loans

31 December 2007

Creditor	Guaranty or mortgage	Date of maturity	Stated annual interest rate for 2007	Currency	Amount of original currency *('000)*	Exchange rate	Amount due within one year *('000)*	Amount due over one year *('000)*	Total *('000)*
Bank loans									
Bank of China	Guarantee	From 2007 to 2019	2.5%	Euro	652	10.6669	553	6,406	6,959
Loan at non-bank financial institutions Zhongyuan Trust Co., Ltd.	Guarantee	From 2007 to 2008	7.56%	RMB	52,330	—	52,330	—	52,330
Loan at non-bank financial institution Xiaodian Credit Cooperative of Ruyang County (汝陽縣小店信用社)	Credit	2008	10.44%	—	1,000	—	1,000	—	1,000
Total							53,883	6,406	60,289

31 December 2006

Creditor	Guaranty or mortgage	Date of maturity	Stated annual interest rate for 2006	Currency	Amount of original currency *('000)*	Exchange rate	Amount due within one year *('000)*	Amount due over one year *('000)*	Total *('000)*
Bank loans									
Bank of China	Guarantee	From 2007 to 2019	2.5%	Euro	704	10.2665	532	6,697	7,229
Loan at non-bank financial institution Zhongyuan Trust Co., Ltd.	Guarantee	From 2007 to 2008	6.03%	RMB	80,000	—	27,670	52,330	80,000
Loan at non-bank financial institutions Xiaodian Credit Cooperative of Ruyang County	Credit	2008	10.44%	—	1,000	—	—	1,000	1,000
Total							28,202	60,027	88,229

There was no long-term loan obtained from the shareholder holding 5% or more of shares carrying voting rights of the Company in the closing balance of the long-term loans.

31 Estimated liabilities

	As at 31 December 2007 *('000)*	As at 31 December 2006 *('000)*
Payment to be fulfilled for equity transfer	**2,503**	2,503
	2,503	2,503

32 Share capital

	As at 31 December 2007 ('000)	As at 31 December 2006 ('000)
Circulating shares subject to trading moratorium		
179,018,242 shares are state-owned legal person shares of Rmb1.00 each	**179,018**	179,018
Circulating shares not subject to trading moratorium		
250,000,000 shares are state-owned legal person shares of Rmb1.00 each	**250,000**	250,000
71,000,000 shares are public shares of Rmb1.00 each	**71,000**	71,000
Subtotal circulating shares not subject to trading moratorium	**321,000**	321,000
Total	**500,018**	500,018

Such issue and paid-up share capital has been verified by KPMG Huazhen, with a capital verification report issued on 5 May 1994, 29 August 1994 and 23 October, 1995 respectively.

In accordance with provisions of Administrative Measures on the Share Reform of Listed Companies（上市公司股權分置改革管理辦法）of China Securities Regulatory Committee and provisions of Guidance Opinions on Share Reform of the Listed Companies（上市公司股權分置改革業務操作指引）of Shanghai Stock Exchange, China Luoyang Float Glass (Group) Company Limited obtained the circulation right of shares of the Company at a consideration of paying Rmb21 million to holders of the circulating A shares upon approval by the general meeting of the Company and Approval [2006] No. 1232 [Shang Zi Pi.] of Ministry of Commerce of the People's Republic of China. Upon completion of the Share Reform, the shares of the Company held by CLFG were changed to 379,000,000 shares.

According to the Judgment (2007) [Luo Zhi Zi No.18-32] of the Intermediate People's Court of Luoyang, Henan Province, on 30 November 2006, debts of Rmb629,942,543 due to the Company was compensated with 199,981,758 A shares of the Company held by CLFG were compulsorily cancelled. China Securities Registration & Clearing Company Shanghai Branch handled the relevant registration for change in shares, and the shares held by CLFG were changed to 179,018,242 shares on 6 December 2006, and total share capital of the Company was changed to 500,018,242 shares.

Change in the share capital arising from such Share Reform and the debt-for-equity swap by CLFG was verified by GuangDong HengXin Delu Certified Public Accountants Co., Ltd, with a capital verification report issued on 20 June 2007.

All state-owned legal person shares, public A Shares and H Shares rank pari passu in all aspects with each other.

33 Capital reserve

Details of capital reserve of the Group as follows:

	as at 31 December 2006 ('000)	Increase in the year ('000)	Decrease in the year ('000)	as at 31 December 2007 ('000)
Share premium	827,321	—	—	**827,321**
Other capital reserve	100,419	—	—	**100,419**
Total	927,740			**927,740**

34 Surplus reserve

	as at 31 December 2006 ('000)	Increase in the year ('000)	Decrease in the year ('000)	as at 31 December 2007 ('000)
Statutory surplus reserve	51,366	—	—	**51,366**
Total	51,366	—	—	**51,366**

35 Minority interests

	As at 31 December 2007 *('000)*	As at 31 December 2006 *('000)*
Minority interests of Long Xiang Company	**31,109**	19,618
Minority interests of Luo Shen Company	**2,391**	3,105
Minority interests of Yinan Company	**3,860**	4,633
Minority interests of Long Fei Company	**22,110**	23,142
Minority interests of Long Hao Company	**11,034**	4,171
Minority interests of Long Hai Company	**7,210**	3,985
Minority interests of Dengfeng Silicon Company	**352**	—
Total	**78,066**	58,654

36 Operating income

	2007 *('000)*	2006 *('000)*
Income from principal operations	**1,449,959**	1,195,989
Other operating income	**58,797**	51,349
Total	**1,508,756**	1,247,338

The Group's income from sales to the top 5 customers:

	2007 *('000)*	2006 *('000)*
Total sales to the top 5 customers	**199,659**	455,193
Percentage in total sales (%)	**13%**	36%

The Group's income from principal operations refers to the income from glass sales. Geographical segment information of the Group is set out in note 52.

37 Cost of operations

	2007 *('000)*	2006 *('000)*
Cost of principal operations	**(1,305,638)**	(1,315,418)
Other operating cost	**(45,294)**	(28,632)
Total	**(1,350,932)**	(1,344,050)

The Group's cost of principal operations refers to the cost from glass sales. Geographical segment information of the Group is set out in note 52.

38 Business tax and surcharges

	2007 **('000)**	2006 ('000)
Sales tax	**(3)**	—
Tax on city maintenance and construction	**(2,651)**	(453)
Educational surtax	**(1,926)**	(414)
Resources tax	**(801)**	—
Local educational surtax	**(15)**	(9)
Others	**(28)**	(3)
Total	**(5,424)**	(879)

39 Finance expenses

	2007 **('000)**	2006 ('000)
Interest expense	**(66,549)**	(69,896)
Interest income	**3,146**	26,459
Net exchange loss	**(1,522)**	(2,726)
Other finance expenses	**(7,666)**	(5,210)
Total	**(72,591)**	(51,373)

40 Assets impairment losses

	2007 **('000)**	2006 ('000)
Bad debt losses	**(16,602)**	6,982
Loss from inventory impairments	**(4,926)**	(19,657)
Losses from impairment of long term equity investment	—	(13,560)
Fixed asset impairments	**(17,154)**	(11,020)
Goodwill impairment	**(710)**	—
Total	**(39,392)**	(37,255)

41 Investment income

	2007 **('000)**	2006 ('000)
Interest income from designated deposit	**5**	789
Share of net profit or loss of investees under equity method	**2,194**	(38,916)
Dividend declared by investees under cost method	—	3,600
Income from disposal of long-term equity investment	**22,059**	—
Others	—	265
Total	**24,258**	(34,262)

The Group has no significant restriction on remitting investment income.

42 Non-operating income

	2007 **('000)**	2006 *('000)*
Income from disposal of fixed assets	**164**	11,143
Income from disposal of intangible assets	**12,000**	—
Income from amercement	**257**	216
Profits from debt restructuring	**252**	—
Governmental subsidy	**2,695**	—
Unclaimed debt write-off	**2,588**	—
Others	**61**	408
Total	**18,017**	11,767

Income from disposal of intangible assets was due to sales of partial land in development area of Luoyang of the Company.

Government subsidy for the year was from retirement pension of Rmb2,695,000 by Luoyang Municipal Finance Bureau in November 2007 in accordance with the executive meeting minutes, [2007] No. 39, of Luoyang People's Municipal Government.

43 Non-operating expenses

	2007 **('000)**	2006 *('000)*
Losses from disposal of fixed assets	**(3,266)**	(3,156)
Amercement outlay	**(124)**	(8,812)
Donation outlay	**(10)**	(51)
Others	**(400)**	(1,388)
Total	**(3,800)**	(13,407)

44 Income tax expenses

	2007 **('000)**	2006 *('000)*
Income tax expenses of this period	**3,412**	—
Total	**3,412**	—

Deferred income tax assets of the Group was mainly from the deductible losses and deductible temporary difference. The potential tax interest is uncertain to be available in following years, therefore, deferred income tax assets are not confirmed in the accounts for the Reporting Period. Meanwhile, deferred income tax liabilities are not confirmed, therefore, no deferred income tax expenses occurred at the end of the reporting period.

(Expressed in Renminbi)

45 Return on net assets and earnings per share

Return on net assets and earnings per share for 2007

Item	Return on net assets *(%)* Fully diluted	Weighted average	Earnings per share *(RMB)* Basic earning per share	Diluted earnings per share
Net profit attributable to shareholders of the company	**(44.06)**	**(36.11)**	**(0.19)**	**(0.19)**
Net profit attributable to shareholders of the Company after deducting extraordinary items	**(50.92)**	**(41.73)**	**(0.22)**	**(0.22)**

Return on net assets and earnings per share for 2006

Item	Return on net assets *(%)* Fully diluted	Weighted average	Earnings per share *(RMB)* Basic earning per share	Diluted earnings per share
Net profit attributable to shareholders of the company	(119.49)	(48.21)	(0.53)	(0.53)
Net profit attributable to shareholders of the Company after deducting extraordinary items	(117.71)	(47.49)	(0.52)	(0.52)

Notes: The above return on net assets and earnings per share are calculated as follows:

Fully diluted return on net assets (%)=$P \div E$

Weighted average return on net assets = $P \div (E_0 + NP \div 2 + E_i \times M_i \div M_0 — E_j \times M_j \div M_0 \pm E_k \times M_k \div M_0)$

Among the above: P respectively represents net profit attributable to holders of ordinary shares of the Company and the net profit attributable to holders of ordinary shares of the Company after extraordinary items; NP represents net profit attributable to holders of ordinary shares of the Company; E represents net assets attributable to holders of ordinary shares of the Company at the end of the reporting period; E_0 represents net assets attributable to holders of ordinary shares of the Company at the beginning of the reporting period; E_i represents the increase in net assets attributable to holders of ordinary shares of the Company, arising from new issue of shares or debt-for-equity swap during the reporting period; E_j represents the decrease in net assets attributable to holders of ordinary shares of the Company, arising from share repurchase or cash dividend during the reporting period; M_0 represents the year and month; M_i represents the months from the next month of the increase of assets to the end of the reporting period for the year; M_j represents the months from the next month of the decrease of assets to the end of the reporting period for the year; "Ek" represents the increase or decrease of net assets arising from other transactions or matters; M_k represents the months from the next month of the increase or decrease of other assets to the end of the reporting period for the year;.

Basic earning per share = P÷(S0+ S1 + Si × Mi ÷ M0°–Sj × Mj ÷ M0—Sk)

Diluted earnings per share=P+(The interests of the diluted potential ordinary shares determined to be expenses in the current period—Conversion expenses)×(1-Income tax ratio)/(S0+ S1 + Si× Mi÷ M0—Sj× Mj ÷M0—Sk +The weighted average number of ordinary shares, increased from subscription warrant, share option and convertible bond)

Among the above: "P" represents net profit attributable to holders of ordinary shares of the Company or the net profit after extraordinary items attributable to holders of ordinary shares of the Company; "S" represents the weighted average of outstanding ordinary shares; "S_0" represents total number of shares at the beginning of the reporting period; "S_1" represents shares increased from Conversion of Reserve into Capital or share dividend distribution; "S_i" represents shares increased from annual issue of new shares or debt to equity, etc; "S_j" represents the reduced shares arising from annual repurchase; "S_k" represents the number of reduced shares for the year; "M_0" represents the year and month; "M_i" represents the months from the next month of the increase of shares to the end of the reporting period for the year; "M_j" represents the months from the next month of the decrease of shares to the end of the reporting period for the year.

46 Non-recurring profit and loss items

Non-recurring profit and loss items of the Group as follows:

	2007 ('000)	2006 ('000)
Government subsidies accounted for as current profits and losses	**2,695**	100
Profit and loss of disposal of non-current assets	**8,897**	7,125
Gains/losses from debt restructuring	**252**	—
Gains from entrusted investment	**5**	789
Gains and losses from estimated liabilities without relation to principal operations	**—**	(4,446)
Other net non-operating revenue and expenditure	**2,372**	(8,865)
Impact by income tax of extraordinary items	**(48)**	—
Impact by minority interest of extraordinary items	**670**	(248)
Total	**14,843**	(5,545)

47 Cash and cash equivalents

	As at 31 December 2007 ('000)	As at 31 December 2006 ('000)
Bank balance and cash in the balance sheet	**241,126**	272,959
Less: Bank balance and cash with restricted purpose	**(167,302)**	(214,545)
Balance of cash and cash equivalents	**73,824**	58,414
Including: Cash on hand	**335**	294
Current deposit available for payment at any time	**73,489**	58,120

48 Supplementary information of consolidated cash flow statement

Supplementary Information	**2007 ('000)**	2006 ('000)
1. Reconciliation of net profit to cash flows from operating activities:		
Net profit	**(76,421)**	(429,032)
Add: Provision for assets impairment	**11,997**	38,717
Depreciation of fixed assets, oil gas assets, and productive biological assets	**112,480**	115,401
Amortisation of intangible assets	**4,667**	6,029
Amortisation of long-term prepaid expenses	**—**	18,689
Losses from disposal of fixed assets, intangible assets and other long-term assets (income)	**(16,192)**	(8,648)
Losses on scrapping of fixed assets	**378**	1,515
Finance expenses	**72,591**	51,373
Investment gain/(loss)	**(24,258)**	34,262
Decrease (Increase) in inventories	**27,803**	(87,141)
Decrease in operating receivables (increase)	**95,378**	249,949
Increase (decrease) in operating payables	**(219,144)**	3,602
Others	**—**	(2,267)
Net cash flow from operating activities	**(10,721)**	(7,551)
2. Net changes in cash and cash equivalents:		
Closing balance of cash and cash equivalents	**73,824**	58,414
Opening balance of cash and cash equivalents	**(58,414)**	(151,729)
Net increase in cash and cash equivalents	**15,410**	(93,315)

49 Other cash flow relating to operating activities

	2007 ('000)	2006 ('000)
Receipt of other cash flow relating to operating activities		
Current accounts	**76,810**	231,825
Non-operating income	**119**	32
Contingent funds	**425**	1,561
Finance expenses	**7,721**	5,835
Total	**85,075**	239,253
Payment of other cash relating to operating activities		
Current accounts	**(50,048)**	(358,969)
Expenses	**(56,380)**	(58,871)
Non-operating expenses	**(169)**	(2,019)
Contingent funds	**(229)**	(153)
Total	**(106,826)**	(420,012)

50 Other cash flow relating to investment activities

	2007 ('000)	2006 ('000)
Receipt of other cash flow relating to investment activities		
Cash received from Guangdong Development Bank, Yinji Branch	**—**	23,000
Fund from sales of land in development area	**13,417**	—
Others	**—**	1,806
Total	**13,417**	24,806
Payment of other cash flow relating to investment activities		
Cash paid to Guangdong Development Bank, Yinji Branch	**—**	(23,000)
Unconsolidated decrease of Chenzhou Bada at the end of the year	**—**	(6,762)
Others	**(161)**	(228)
Total	**(161)**	(29,990)

51 Other cash flow relating to financing activities

	2007 ('000)	2006 ('000)
Receipt of other cash flow relating to financing activities		
Finance expenses	**190**	31
Total	**190**	31
Payment of other cash flow relating to financing activities		
Finance expenses	**(1,527)**	(1,972)
Total	**(1,527)**	(1,972)

52 Segment information

The turnover and operating results of the Group are mainly from the manufacture and sales of flat float glass, therefore, relevant report based on business segment is not provided. Segment income is listed according to the location of customer. The Group's assets are mainly in China, therefore, no assets segment report based on region is provided.

Operation segment report of the Company based on region is listed as follows:

2007

	Domestic ('000)	Asia ('000)	America ('000)	Oceania ('000)	Other region ('000)	Total ('000)
Operating income	**1,467,025**	**24,418**	**1,650**	**5,996**	**9,667**	**1,508,756**
Operating cost	**(1,313,566)**	**(21,864)**	**(1,477)**	**(5,369)**	**(8,656)**	**(1,350,932)**
Business tax and surcharges	**(5,273)**	**(88)**	**(6)**	**(22)**	**(35)**	**(5,424)**
Operating expense	**(38,667)**	**(644)**	**(43)**	**(158)**	**(255)**	**(39,767)**
Administrative expense	**(109,032)**	**(1,815)**	**(123)**	**(446)**	**(718)**	**(112,134)**
Finance expenses	**(70,584)**	**(1,175)**	**(79)**	**(288)**	**(465)**	**(72,591)**
Assets impairment loss	**(38,302)**	**(638)**	**(43)**	**(157)**	**(252)**	**(39,392)**
Total operating losses	**(108,399)**	**(1,806)**	**(121)**	**(444)**	**(714)**	**(111,484)**

2006

	Domestic ('000)	Asia ('000)	America ('000)	Oceania ('000)	Other region ('000)	Total ('000)
Operating income	1,152,465	45,256	17,106	16,266	16,245	1,247,338
Operating cost	(1,241,821)	(48,765)	(18,432)	(17,527)	(17,505)	(1,344,050)
Business tax and surcharges	(879)	—	—	—	—	(879)
Operating expense	(45,195)	(1,775)	(670)	(638)	(637)	(48,915)
Administrative expense	(145,979)	(5,732)	(2,167)	(2,060)	(2,058)	(157,996)
Finance expenses	(47,466)	(1,864)	(704)	(670)	(669)	(51,373)
Assets impairment loss	(34,421)	(1,352)	(511)	(486)	(485)	(37,255)
Total operating losses	(363,295)	(14,232)	(5,379)	(5,115)	(5,109)	(393,130)

53 Notes to major items of financial statements

a Trade receivables

Constitution of trade receivables:

	As at 31 December 2007			As at 31 December 2006		
	Carrying amount *('000)*	**Percentage**	**Provisions for bad debts *('000)***	Carrying amount *('000)*	Percentage	Provisions for bad debts *('000)*
Individually significant amounts	—	—	—	—	—	—
Individually insignificant amounts but subject to considerable risks as a group based on credit risk profile	**42,921**	**83%**	**42,914**	42,731	81%	42,731
Other insignificant amounts	**8,891**	**17%**	**—**	9,919	19%	5
Total	**51,812**	**100%**	**42,914**	52,650	100%	42,736

Ageing analysis:

	As at 31 December 2007			As at 31 December 2006		
	Carrying amount *('000)*	**Percentage**	**Provisions for bad debts *('000)***	Carrying amount *('000)*	Percentage	Provisions for bad debts *('000)*
Within 1 year	**8,891**	**17%**	**—**	9,905	18%	—
After 1 year but within 2 year	**—**	**—**	**—**	14	1%	5
After 2 year but within 3 year	**14**	**1%**	**7**	—	—	—
Over 3 years	**42,907**	**82%**	**42,907**	42,731	81%	42,731
Total	**51,812**	**100%**	**42,914**	52,650	100%	42,736

As at 31 December 2007, there was no arrearage by shareholding company without over 5% shares of the Company with voting rights (including 5%) in trade receivables.

53 Notes to Major items of financial statements

a Trade receivables *(continued)*

Five largest debt amounts in trade receivables as at 31 December 2007:

Company name	**Debt amount *('000)***	**Ageing**	**Percentage of total trade receivables**
Australia CAMDENLUOYANG GLASS	3,015	Over 3 years	6%
CLFG Qingdao JV	2,796	Over 3 years	5%
Henan Province Construction Material Company	2,549	Over 3 years	5%
China Railway Resources Ltd (Guangzhou)	1,893	Within 1 year	4%
Wujin Jiulong Material Company Limited	1,527	Over 3 years	3%
Total	11,780		23%

Trade receivables include the following balance in foreign currency:

	As at 31 December 2007			As at 31 December 2006		
	Amount of original currency *('000)*	**Exchange rate**	**In *Rmb('000)***	Amount of original currency *('000)*	Exchange rate	In *Rmb('000)*
US$	**532**	**7.3046**	**3,883**	1,198	7.8087	9,355

b Other receivables

Constitution of other receivables:

	As at 31 December 2007			As at 31 December 2006		
	Carrying amount *('000)*	**Percentage**	**Provisions for bad debts *('000)***	Carrying amount *('000)*	Percentage	Provisions for bad debts *('000)*
Individually significant amounts	**44,015**	**58%**	**25,809**	51,914	60%	10,809
Individually insignificant amounts but subject to considerable risks as a group based on credit risk profile	**24,368**	**32%**	**24,369**	27,136	32%	24,118
Other insignificant amounts	**7,991**	**10%**	**4**	6,582	8%	—
Total	**76,374**	**100%**	**50,182**	85,632	100%	34,927

Ageing analysis:

	As at 31 December 2007			As at 31 December 2006		
	Carrying amount *('000)*	**Percentage**	**Provisions for bad debts *('000)***	Carrying amount *('000)*	Percentage	Provisions for bad debts *('000)*
Within 1 year	**9,251**	**12%**	**299**	21,687	25%	3,853
1-2 years	**5,176**	**7%**	**5,176**	950	1%	38
2-3 years	**338**	**1%**	**38**	54	—	54
Over 3 years	**61,609**	**80%**	**44,669**	62,941	74%	30,982
Total	**76,374**	**100%**	**50,182**	85,632	100%	34,927

As at 31 December 2007, there was no arrearage by shareholding company without over 5% shares of the Company with voting rights (including 5%) in other trade receivables.

53 Notes to Major items of financial statements *(continued)*

b Other receivables *(continued)*

Other significant single receivables

Company name	Debt amount *('000)*	Percentage of provision	Reason
Zhengzhou Xili Branch of Construction Bank	10,809	100%	Called but estimated uncollectible
Yinan Mineral Products Co. Ltd	33,206	75%	Estimated partially uncollectible based on judgement

As at 31 December 2007, there was no arrearage by shareholding company without over 5% shares of the Company with voting rights (including 5%) in other trade receivables.

As at 31 December 2007, five largest other trade receivables:

Company name	Debt amount *('000)*	Nature or contents	Period of debt	Percentage of total other trade receivables
Yinan Mineral Products Co. Ltd	33,206	Borrowings	Over 3 years	43%
Zhengzhou Xili Branch of Construction Bank	10,809	Time deposits	Over 3 years	14%
Luoyang High-Tech Industry Development Zone Land Planning and Management Bureau	5,000	Land premium refund	Within 1 year	7%
Chenzhou Bada Glass Co. Ltd	4,832	Lending	1-2 years	6%
Shenzhen Cynthia Industrial Co., Ltd.	4,600	Time deposits	Over 3 years	6%
Total	58,447			76%

53 Notes to Major items of financial statements *(continued)*

c Long-term equity investments

	As at 31 December 2007 Amount ('000)	**As at 31 December 2007 Provision for impairment ('000)**	As at 31 December 2006 Amount ('000)	As at 31 December 2006 Provision for impairment ('000)
Investments in subsidiaries	**298,148**	**84,514**	227,074	78,305
Investments in associates	**118,403**	**—**	116,208	—
Other equity investments	**88,683**	**88,683**	120,483	88,683
Total	**505,234**	**173,197**	463.765	166,988

Investments in subsidiaries:

Basic information on subsidiaries is set out in note 7, investment cost for subsidiaries is set out in the following:

Name of invested companies	**Percentage**	**Initial Amount ('000)**	**As at 31 December 2006 ('000)**	**Increase for the year ('000)**	**Decrease for the year ('000)**	**As at 31 December 2007 ('000)**
Longmen	79.06%	64,514	64,514	—	—	64,514
Long Fei	54%	40,000	40,000	—	—	40,000
Luoshen	66.67%	20,000	20,000	—	—	20,000
Yinan	52%	14,560	14,560	—	—	14,560
Long Hai	80%	48,000	48,000	—	—	48,000
Long Hao	80%	40,000	40,000	—	—	40,000
Logistics	100%	71,074	—	71,074	—	71,074
Total			227,074	71,074	—	298,148

Details of investments in associates are set in note 14

53 Notes to Major items of financial statements *(continued)*

c Long-term equity investments *(continued)*

Other equity investments:

Name of invested companies	Percentage	Initial Amount *('000)*	As at 31 December 2006 *('000)*	Increase for the year *('000)*	Decrease for the year *('000)*	As at 31 December 2007 *('000)*
Yanlian Petroleum Co Ltd *(note)*	7.47%	31,800	31,800	—	(31,800)	**—**
CLFG Luoyang Hoisting Machinery Co Ltd.*(note)*	36.68%	5,000	5,000	—	—	**5,000**
CLFG Jingwei Glass fibre Co Ltd *(note)*	35.90%	4,000	4,000	—	—	**4,000**
CLFG Luoyang Jingjiu Glass Container Co. Ltd. *(note)*	31.08%	1,500	1,500	—	—	**1,500**
CLFG New Illuminating Source Co. Ltd. *(note)*	29.45%	2,291	2,291	—	—	**2,291**
Hunan Chenzhou Bada Glass Co. Ltd. *(note)*	72.65%	75,892	75,892	—	—	**75,892**
Total			120,483	—	(31,800)	**88,683**

Note: Details of related information on the companies are set in note 14

Provision for impairment of long-term equity investments:

Name of invested companies	As at 31 December 2006 *('000)*	Increase for the year *('000)*	Decrease for the year *('000)*	As at 31 December 2007 *('000)*	Reason for provision
CLFG Luoyang Hoisting Machinery Co., Ltd.	5,000	—	—	5,000	Note 1
CLFG Jingwei Glass Fibre Co., Ltd.	4,000	—	—	4,000	Note 1
CLFG Luoyang Jingjiu Glass Container Co. Ltd.	1,500	—	—	1,500	Note 1
CLFG New Illuminating Source Co. Ltd.	2,291	—	—	2,291	Note 1
Longmen	64,514	—	—	64,514	Note 2
Luoshen	13,791	6,209	—	20,000	Note 2
Hunan Chenzhou Bada Glass Co. Ltd.	75,892	—	—	75,892	Note 1
Total	166,988	6,209	—	173,197	

Note 1: Details of reasons of impairment provision for the companies are set in note 14.

Note 2: Longmen and Luoshen are subsidiaries of the Company with significant going concern problems due to incapacity in operation and financial difficulty. Accordingly, the Company made full provision for impairment of the long-term equity investment in the two companies in accordance with the principle of prudence.

53 Notes to Major items of financial statements *(continued)*

d Income from operations

	2007 ('000)	2006 ('000)
Income from principal operations	**553,558**	532,969
Other operating income	**47,199**	204,547
Total	**600,757**	737,516

The Company's revenue from sales to top five customers:

	2007 ('000)	2006 ('000)
Total amount from sales to top five customers	**137,222**	86,332
Percentage in total revenue from sales	**25%**	16%

The Company's income from principal operations represent income generated from sales of glass products.

e Operating cost

	2007 ('000)	2006 ('000)
Cost of principal operations	**(553,716)**	(599,262)
Other operating cost	**(25,302)**	(177,072)
Total	**(579,018)**	(776,334)

The Company's cost of principal operations represent income generated from sales of glass products.

f Investment income

	2007 ('000)	2006 ('000)
Share of net profit or loss of investees under equity method	**2,194**	(38,915)
Dividend declared by investees under cost method	**—**	3,600
Profit from transfer of long-term equity investment	**22,059**	—
Interest income from designated loans	**29,475**	18,808
Others	**—**	265
Total	**53,728**	(16,242)

There is no significant restriction on the transfer of investment income to the Company.

54 Relationship and transactions of connected parties

(1) Connected parties

Information of the largest company

Name of enterprise	:	China Luoyang Float Glass Group Company of Limited ("CLFG")
Types of legal entity	:	Limited liability company (Solely owned by the State)
Registered address	:	Luoyang China
Registered capital	:	Rmb1,286,740,000
Legal representative	:	Liu Baoying
Code of entity	:	16995844-1
Relationship with the Company	:	The largest company
Principal activities	:	Production of glass, related raw materials and equipment, import export and domestic sales of glass, processing technology, design and sub-contracting of engineering works, labour export, provision of industrial production material (excluding those under control of the State), technological service, consultation service and goods transportation.
Equity interest in the Company	:	35.80%

There is no change in the registered capital of CLFG and equity interest held by CLFG during the year.

Information of the controlling shareholder of the largest company

Name of enterprise	:	China National Building Material Group Corporation ("CNBMG").
Types of legal entity	:	State-owned enterprise
Registered address	:	Beijing China
Registered capital	:	Rmb3,723,038,000
Legal representative	:	Song Zhiping
Code of entity	:	10000048-9
Relationship with the Company	:	The controlling shareholder of the largest company
Principal activities	:	Production of construction material and raw materials; the development, wholesale and retail of technology equipment

There is no change in the registered capital of CNBMG during the year

Basic information of the Company's subsidiaries are set out in note7.

Other connected parties

Name of enterprise	Relationship with the Company
China Luoyang Float Glass Group Financial Company Limited	Associate
CLFG Luoyang Hoisting Machinery Co Ltd	Fellow subsidiary of CLFG
CLFG New Illuminating Source Co. Ltd.	Fellow subsidiary of CLFG
CLFG Jingwei Glass fibre Co Ltd	Fellow subsidiary of CLFG
CLFG Luoyang Jingjiu Glass Container Co. Ltd.	Fellow subsidiary of CLFG
Luoyang Jingbao Decoration Glass Co. Ltd.	Fellow subsidiary of CLFG
CLFG Qingdao Taiyang Glass Industrial Co. Ltd.	Fellow subsidiary of CLFG
CLFG Luoyang Jinyun Coating Glass Co.	Fellow subsidiary of CLFG
CLFG Jinhua Industrial Technology Glass Co.	Fellow subsidiary of CLFG
Luoyang Xiangyu Industrial Co.	Fellow subsidiary of CLFG
Luoyang Technology Glass Company	Fellow subsidiary of CLFG
China Luoyang Float Glass (Group) Processed Glass Company Limited	Associate
Luoyang Luobo Hotel	Fellow subsidiary of CLFG
CLFG Mineral Products Co. Ltd.	Fellow subsidiary of CLFG
Luoyang Jingxin Ceramic Co. Ltd.	Associate
CLFG Xinxing Co. Ltd.	Fellow subsidiary of CLFG
CLFG Haitian Trading Company Ltd.	Fellow subsidiary of CLFG
CLFG Longman Sugang Company Ltd.	Fellow subsidiary of CLFG
Guangdong Nanhai Junxiong Glass Screen Co., Ltd.	Fellow subsidiary of CLFG
Shenzhen Guanghua Zhongkong Glass Company Ltd.	Fellow subsidiary of CLFG

54 Relationship and transactions of connected parties *(continued)*

(2) The amounts of related party transactions of the Company during the reporting period and the balances of the current account items are summarized as follows:

Transactions between the Group and CLFG are summarized as follows:

	Note	**2007** **('000)**	2006 ('000)
Receipt of ancillary and social services	(i)	**4,414**	4,403
Provision of utilities	(ii)	**1,013**	915
Interest paid and payable		**1,142**	2,928
Guarantees issued by CLFG to banks in favour of the Group for borrowings		**163,830**	151,500
Indirect guarantees	(iii)	**499,750**	473,600

Notes:

(i) The Company has entered into a three-year agreement with CLFG effective from 3 August 2004 and which has been renewed for another three years expiring on 3 August 2007. In accordance with the agreement, CLFG provides certain social welfare and support services, such as education, property management, medical care and transportation services to the staff of the Company. The amount charged by CLFG is based on a reasonable cost incurred in providing such services plus respective tax charge.

(ii) The Company has entered into a three-year agreement with CLFG effective from 3 August 2001 which has been renewed for another three years expiring on 3 August 2007, for provision of utilities such as water, electricity, steam and plant and fixed assets to CLFG. The amount charged to CLFG is based on a reasonable cost incurred in providing such services plus respective tax charge.

(iii) Guarantees have been issued by CLFG, in respect of bank loans to independent third parties in return for guarantees issued by the independent third parties to bank in favour of the Group.

The directors of the Company are of the opinion that the above transactions with related parties were conducted in the ordinary course of business and on normal commercial terms or in accordance with the agreements governing such transactions. and these have been reviewed and confirmed by the independent non-executive directors.

As at 31 December 2007, CNBMG, a controlling shareholder of CLFG(the largest shareholder of the Company) provided a guarantee of Rmb150,000,000 to the bank for the loan of the Company.

54 Relationship and transactions of connected parties *(continued)*

(2) The amounts of related party transactions of the Company during the reporting period and the balances of the current account items are summarized as follows: *(continued)*

Material transactions between the Group and fellow subsidiaries are summarised as follows:

	Note	**2007 *('000)***	2006 *('000)*
Sales		**7,824**	12,552
Ancillary and social services	(i)	**5,313**	4,288
Provision of utilities	(ii)	**21,110**	17,455
Purchase of raw materials	(iii)	**11,143**	12,205
Sales of racks		**574**	—
Interest paid and payable		**4,814**	4,108
Interest received and receivable		**236**	83
Rental income	(iv)	**581**	580

Notes:

(i) The Company has entered into a three-year agreement with a CLFG's subsidiary, CLFG Xinxing Co. ("Xinxing") effective from 3 August 2001 by which Xinxing provides certain social welfare and support services, such as education, property management, medical care and transportation services to the staff of the Company. The agreement was supplementary amended on 22 July 2002 and renewed for another 3 years on 3 August 2004. The amount charged by Xinxing is based on a reasonable cost incurred in providing such services plus respective tax charge.

(ii) The Company has entered into a three-year agreement with a CLFG's subsidiary, Xinxing and CLFG Jingwei Glass Fiber Co., Ltd ("Jingwei") effective from 3 August 2001. During2004, the company has renewed the agreements with Xinxing and Jingwei for another three years expiring on 3 August 2007. In accordance with these agreements, the Company provides utilities such as water and electricity to these subsidiaries. The amounts charged to these group companies are based on reasonable costs incurred in providing such services plus respective tax charge.

(iii) The Company has entered into a three-year agreement with a CLFG's subsidiary, CLFG Mineral product Co., Ltd ("Mineral Co"), effective from 3 August 2001 which has been renewed for another three years expiring on 3 August 2007, by which Mineral Co. supplies certain raw materials to the Company at market prices.

(iv) The Company has entered into a five-year agreement with an associate, CPGC, effective from 1 January 2003 by which the Company sub-lease a portion of land use rights on lands located in the PRC at market rate.

The directors of the Company are of the opinion that the above transactions with related parties were conducted in the ordinary course of business and on normal commercial terms or in accordance with the agreements governing such transactions, and these have been reviewed and confirmed by the independent non-executive directors.

54 Relationship and transactions of connected parties *(continued)*

(2) The amounts of related party transactions of the Company during the reporting period and the balances of the current account items are summarized as follows: *(continued)*

Included in the following balance sheet captions of the Group are balances with the holding company and fellow subsidiaries (net of bad debt provision):

	CLFG		Fellow subsidiaries	
	As at 31 December 2007 ('000)	As at 31 December 2006 ('000)	**As at 31 December 2007 ('000)**	As at 31 December 2006 ('000)
Assets				
Cash at non-bank financial institutions	**—**	—	**56,117**	39,929
Trade receivables	**—**	—	**1,369**	2,366
Bills receivables	**—**	—	**3,135**	2,008
Prepayments	**1,272**	2,623	**476**	476
Other receivables	**—**	—	**920**	815
Other non-current assets	**35,000**	—	**—**	—
Liabilities				
Short-term loans	**—**	31,540	**63,000**	113,000
Bills payables	**—**	—	**—**	1,200
Trade payables	**—**	1,214	**4,996**	2,687
Receipts in advance	**875**	875	**779**	2,922
Other payables	**19,514**	8,275	**2,563**	3,940

In addition, the Company has made the following provision for bad debt against the amounts due from related parties as follows:

	As at 31 December 2007 ('000)	As at 31 December 2006 ('000)
Provision for amounts due from CLFG	**—**	—
Provision for amounts due from fellow subsidiaries	**—**	782

55 Commitments

a Capital commitments

At 31 December 2007, capital commitments of the Group are summarised as follows:

	As at 31 December 2007 ('000)	As at 31 December 2006 ('000))
Contracted for but not provided for		
— construction project	**1,468**	—
Authorised but not contracted for		
— construction project	**—**	7,687
Total	**1,468**	7,687

b Operating lease commitments

At 31 December 2007, the Group had no material operating lease commitments.

56 Contingent liabilities

At 31 December 2007, the contingent liabilities of the Group and the Company are summarised as follows:

	The Group		The Company	
	As at 31 December 2007 ('000)	As at 31 December 2006 ('000)	**As at 31 December 2007 ('000)**	As at 31 December 2006 ('000)
Guarantees issued to banks in favour of subsidiaries	**—**	—	**47,700**	75,000
Guarantees issued to financial companies in favour of subsidiaries	**—**	—	**41,500**	41,500
Total	**—**	—	**89,200**	116,500

57 Post balance sheet events

The Company and CLFG signed the Logistics Equity Transfer Contract (物流股權轉讓合同) in December 2007. The Company transferred 100% equity of Logistic Company to CLFG at the consideration of Rmb70,364,000. CLFG pre-paid 30% of total consideration to the Company in December 2007 and the rest (70% of the consideration) will be paid to the Company on 7 March 2008 in total. The business registration of the above-mentioned equity transfer was completed on 29 January 2008.

As at the date of approving this financial statement, there have been no material post-balance sheet events which would require disclosure or adjustment to the 31 December 2007 Financial Statements.

58 Other significant events

There have been no other significant matters in the Group which would require representation as at 31 December 2007.

59 Initial Implementation of Accounting Standards for Enterprises

Pursuant to Accounting Standards for Business Enterprises and Official Replies on Standards of Information Disclosure for Public Company No.7-Preparation And Disclosure of Comparative Financial Accounting for Transition Period on Old and New Accounting Standards promulgated by CSRC (Zheng Jian Kuai Ji Zi [2007] No.10), Related comparatives of comparable year were adjusted retrospectively in accordance with Accounting Standards for Business Enterprises No.38 - Initial Implementation of Accounting Standards for Enterprises and other relative rules, the impacts of which are set out as follows.

a 2006 Consolidated Net Profit Reconciliation

Item	Amount ('000)
2006 Consolidated net profit (presented under original accounting standards and systems)	(317,482)
Total amount impacted by retrospective adjustments	(111,550)
Including: Adjustment to investment loss unrecognised under old standard	(39,479)
Retrospective adjustments on retirement benefit of internally retired workers	(1,943)
Retrospective adjustment to provision for impairment of long-term equity investments in subsidiaries	(13,563)
Minority interests	(56,565)
2006 Consolidated Net Profit (presented under Accounting Standards for Business Enterprises)	(429,032)
Including: Net profit attributable to shareholders of parent company	(372,467)
Pro forma information assuming implementing new accounting standards	
Unclaimed debt write-off	1,569
2006 simulative consolidated net profit	(427,463)
Including: Simulative net profit attributable to shareholders of parent company	(370,898)

59 Initial Implementation of Accounting Standards for Enterprises *(continued)*

b Consolidated Shareholders' Funds Reconciliation as at 1 January 2006 and 31 December 2006

Item	1 January 2006 Consolidated Shareholders' Funds *('000)*	31 December 2006 Consolidated Shareholders' Funds *('000)*
Amount presented according to original accounting standards and systems	951,080	313,659
minority interests	113,348	58,654
Retrospective adjustments on retirement benefit of internally retired workers	—	(1,943)
Amount presented under Accounting Standards for Business Enterprises	1,064,428	370,370

c Comparison and disclosure statement of consolidated Shareholders' Funds Reconciliation between New and Old Accounting Standards

Item	Amount disclosed in 2007 AR *('000)*	Original amount disclosed in 2006 AR *('000)*	Difference *('000)*	Explanations for difference
Consolidated Shareholders' Funds as at 31 December 2006 (under original accounting standards and systems)	**313,659**	313,660	(1)	Rounding difference
Minority interests	**58,654**	58,657	(3)	Rounding difference
Retrospective adjustments on retirement benefit of internally retired workers	**(1,943)**	—	(1,943)	Revaluation of impact from retirement benefit of internally retired workers
Consolidated Shareholders' Funds as at 1 January 2007 (Accounting Standards for Business Enterprises)	**370,370**	372,317	(1,947)	

60 Comparatives

Certain items of the comparative financial statements have been reclassified according to the presentation manner adopted in the financial statements of this year.

61 Approval of Financial Statements

The financial statement were approved by the Board of the Company on 27 March 2008.

Luoyang Glass Company Limited

27 March 2008

Significant differences between the financial statements of the Group prepared in accordance with the PRC Accounting Rules and Regulations and International Financial Reporting Standards ("IFRSs")

(1) Reconciliation of the (loss)/profit attributable to the Group prepared in accordance with the PRC Accounting Rules and Regulations and IFRSs is summarised below:

	2007 *Rmb'000*	2006 *Rmb'000*
Loss attributable to shareholders under the PRC Accounting Rules and Regulations	**(95,343)**	(372,467)
Differences:		
— Amortisation of revaluation of land use rights	**2,098**	2,098
— Waiver of debts	**—**	1,767
— Pre-operating expenditure	**—**	2,088
— Government grants	**365**	365
— Reversal of impairment losses on receivables	**—**	347,574
— Removal compensation	**—**	1,126
— Difference in accounting for consolidation	**—**	17,739
— Difference in accounting for reused packing materials	**(2,270)**	10,757
— Others	**(4,939)**	1,944
(Loss)/profit attributable to equity shareholders of the Company under IFRSs	**(100,089)**	12,991

(2) Reconciliation of shareholders' funds of the Group prepared in accordance with the PRC Accounting Rules and Regulations and IFRSs is summarised below:

	2007 *Rmb'000*	2006 *Rmb'000*
Shareholders' funds under the PRC Accounting Rules and Regulations	**216,373**	311,716
Differences:		
— Amortisation of revaluation of land use rights	**(78,052)**	(80,150)
— Government grants	**(3,647)**	(4,012)
— Difference in accounting for consolidation	**3,653**	3,653
— Difference in accounting for reused packing materials	**8,487**	10,757
— Others	**(2,995)**	1,944
Total equity attributable to equity shareholders of the Company under IFRSs	**143,819**	243,908

Documents available for inspection

1. Original copy of the financial statements signed and sealed by the Chairman, the General Manager and the Chief Financial Officer.

2. Original copy, of the auditors' report stamped by GuangDong HengXin Delu Certified Public Accountants Company Limited and signed by PRC certified public accountants; original copy of the financial statements prepared under the PRC Accounting Rules and Regulations; and the auditors' report signed by Ting Ho Kwan & Chan, Certified Public Accountants (practising) and prepared under International Financial Reporting Standards.

3. All original copies of the Company's announcements as disclosed on the newspapers in the PRC and Hong Kong during the reporting period.

Written Confirmation of Directors and Senior Management

In accordance with the relevant requirements of Securities Law of the People's Republic of China and Administration Measures on Information Disclosure of Listed Companies of China Securities Regulatory Commission, upon diligent review of the annual report 2007 of the Company, directors and senior management of Luoyang Glass Company Limited were of the opinion that the report reflected the actual situation of the Company truthfully, accurately and completely, and that there were no false statements, misrepresentations or material omissions contained herein, and the audit and preparation procedures of the annual report complied with the laws, administrative regulations and requirements of China Securities Regulatory Commission.

Signature of Directors and Senior Management

Executive Directors

Zhu Leibo	Gao Tianbao	Zhu Liuxin	
Xie Jun	Cao Mingchun		

Non- executive Directors

Shen Anqin	Yang Weiping		

Independent Non-executive Directors

Ge Tieming (represented by Guo Aimin)	Guo Aimin	Xi Shengyang	Zhang Zhanying

Senior Management

Song Jianming

27 March 2008

In case any discrepancy found between the Chinese and English version of this annual report, the Chinese version shall prevail.