LUOYANG GLASS COMPANY LIMITED

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

(Stock Code: 1108)

2008 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 is 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.

All Directors attended the Board meeting.

The financial statements were prepared in accordance with the People's Republic of China ("PRC") Accounting Rules and Regulations and International Financial Reporting Standards and audited by Daxin Certified Public Accountants Co., Ltd. and PKF Certified Public Accountants respectively. The auditors have issued auditors' reports with explanatory paragraphs and non-qualified opinions. Detailed explanations were also given by the Board and the Supervisory Committee of the Company in the 2008 Annual report of the Company; investors are advised to take note in reading this summary.

Mr. Gao Tianbao, the Chairman, Ms. Song Fei, the Chief Financial Controller and Ms. Hai Sumin, the Head of Finance Department, warrant the authenticity and completeness of the financial statements set out in the annual report.

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:	Gao Tianbao
3.	Secretary to the Board: Correspondence address: Telephone: Fax: Email: Securities representative: Correspondence address: Telephone: Fax: Email:	Song Fei Secretary office of the Board of Luoyang Glass Company Limited No. 9, Tang Gong Zhong Lu, Xigong District, Luoyang Municipal, Henan Province, the PRC 86-379-63908588,63908507 86-379-63251984 lbjtsf@163.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 86-379-63908629 86-379-63251984 lyzkf@163.com
4.	Registered address and office address: Postal code: Internet website: Corporate email:	No.9, Tang Gong Zhong Lu, Xigong District Luoyang Municipal, Henan Province, The People's Republic of China (the "PRC") 471009 http://www.zhglb.com/ gfbgs@clfg.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, http://www.hkexnews.hk Secretary 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 *ST Luoyang Glass The Stock Exchange of Hong Kong Limited 1108 Luoyang Glass
7.	Date of the First Registration of the Company: Place of the 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 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:	 Daxin Certified Public Accountants 7-8/F Blk. A-B, Golden Resources World Centre,1166 Zhongshan Ave, Wuhan China PKF Certified Public Accountants 26/F., Citicorp Centre, 18 Whitfield Road, Causeway Bay, Hong Kong
13.	Legal Advisors Legal advisor of the PRC: Address: Legal advisor of Hong Kong: Address:	 Henan Weizheng Law Office (河南魏征律師事務所) Room 402, Zhongshi Business Centre, Jiandong Road, Luoyang, Henan, the PRC Li & Partners Solicitors 21/F, World Wide House, Central, Hong Kong
14.	Custodian for the Company's Non-circulating Shares:	GUOSEN SECURITIES CO., LTD.
15.	Share Registrars and Transfer Office for H Shares:	Hong Kong Registrars Limited Rooms 1901-5, Hopewell Centre, 19th Floor, 183 Queen's Road East, Wanchai, Hong Kong

Summary of accounting and business data

(Unless stated otherwise, the figures disclosed in this sections (1) to (4) below are prepared in accordance with the Accounting Standards for Enterprises issued by the Ministry of Finance of the People's Republic of China ("PRC Accounting Standards")

(1) Major financial data in the reporting period

Items	**Amount** *(Rmb)*
Operating profit	(294,201,665.20)
Total profit	(37,209,125.73)
Net profit attributable to shareholders of the Company	12,783,782.14
Net profit after non-recurring items attributable to shareholders of the Company	(245,984,788.36)
Net cash flow from operating activities	(47,722,300.79)

(2) Net profit after non-recurring items

Non-recurring items	**Amount** *(Rmb)*
Profit or loss on disposal of non-current assets	233,884,733.31
Government subsidies through profit or loss for the reporting period	21,989,800.00
Profit or loss from reorganization of debt	21,949.98
Other non-operating income and expenses	1,101,056.19
One-off adjustment to current profit or loss (in accordance with laws and regulations of tax and accounting)	2,721,732.84
Effect of non-recurring profit or loss on income tax	
Effect of non-recurring profit or loss on minority interest	(950,701.82)
Total	258,768,570.50

(3) Differences between IFRSs and the PRC Accounting Standards

Unit: (Rmb)

	PRC accounting standards	**IFRSs**
Net profit attributable to shareholders of the Company	12,783,782.14	54,040,000.00
Equity attributable to shareholders of the Company	229,156,045.71	197,859,000.00
Explanations for difference	Significant differences between the annual financial reports of the Group for the year prepared under the PRC Accounting Standards and IFRSs are set out in this summary.	

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)

Principal financial indicators	2008	2007	Increase/ decrease as compared with last year (%)	2006
Operating revenue	**1,322,532,854.82**	1,508,756,180.44	-12.34	1,247,337,711.19
Total profit/(loss)	**(37,209,125.73)**	(73,009,423.96)	-49.04	(429,031,589.40)
Net profit attributable to shareholders of the listed company	**12,783,782.14**	(95,343,480.67)	N/A	(372,466,837.52)
Net profit after extraordinary profit or loss attributable to shareholders of the listed company	**(245,984,788.36)**	(110,186,360.07)	123.24	(366,922,000.00)
Net cash flow from operating activities	**(47,722,300.79)**	(10,720,925.72)	345.13	(7,550,394.26)
Total assets	**2,003,149,707.07**	2,039,580,095.59	1.79	2,189,293,094.26
Equity attributable to shareholders of the parent company	**229,156,045.71**	216,372,263.57	5.91	311,715,744.24
Basic earnings per share *(Rmb)*	**0.03**	(0.19)	N/A	(0.53)
Diluted earnings per share *(Rmb)*	**0.03**	(0.19)	N/A	(0.53)
Basic earning per share after extraordinary items *(Rmb)*	**(0.49)**	(0.22)	122.73	(0.52)
Return on net assets (fully diluted) *(%)*	**5.58**	(44.06)	Increased by 49.64 percentage points	(119.49)
Weighted average return on net assets *(%)*	**5.74**	(36.11)	Increased by 41.85 percentage points	(48.21)
Return on net assets after non-recurring items (fully diluted) *(%)*	**(107.34)**	(50.92)	Decreased by 56.42 percentage points	(117.71)
Weighted average return on net assets after non-recurring items *(%)*	**(110.42)**	(41.73)	Decreased by 68.69 percentage points	(47.49)
Net cash flow per share from operating activities *(Rmb)*	**(0.10)**	(0.02)	400.00	(0.02)
Net assets per share attributable to shareholders of the listed company *(Rmb)*	**0.46**	0.43	6.98	0.62

Change in share capital and shareholders

(Unless stated otherwise, the information of this section is prepared in accordance with the Listing Rules of Shanghai Stock Exchange)

(I) Share changes

Unit: Share

Items	Before change		Increase/(decrease)					After change	
	Number	Percentage	New share Issue	Bonus issue	Converted from capital reserve	Others	Sub-total	Number	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 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 Undertaking	Nil

(II) Issuance and Listing of Securities

1. For the three years before the end of the reporting period, the Company has not issued stocks, convertible corporate bond, 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 share during the reporting period.

(III) Shareholders and de facto controlling shareholder

1. Numbers and shareholding of shareholders

Unit: Share

Total number of shareholders	As at 31 December 2008, there were 18,948 shareholders, including 1 state-owned legal person shareholder, 18,866 shareholders of A shares and 81 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	179,018,242
HKSCC Nominees Limited	Foreign shareholder	49.40%	246,998,998	0	Nil
Ma Li	Individual shareholder	0.117%	584,549	0	Nil
Ma Hongtao	Individual shareholder	0.104%	518,280	0	Nil
Li Linxuan	Individual shareholder	0.101%	503,080	0	Nil
Hu Shijie	Individual shareholder	0.089%	444,107	0	Nil
Jiang Zhongshan	Individual shareholder	0.088%	438,100	0	Nil
Wang Chongliang	Individual shareholder	0.078%	388,997	0	Nil
Liu Shengli	Individual shareholder	0.076%	381,800	0	Nil
CHUK YEE MEN LIZA	Foreign shareholder	0.075%	374,000	0	Nil

(III) Shareholders and de facto controlling shareholder *(Continued)*

1. Numbers and shareholding of shareholders *(Continued)*

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

Name of shareholders	Number of shares not subject to trading moratorium held	Type of shares
HKSCC Nominees Limited	246,998,998	Overseas listed foreign shares
Ma Li	584,549	Ordinary shares denominated in Rmb
Ma Hongtao	518,280	Ordinary shares denominated in Rmb
Li Linxuan	503,080	Ordinary shares denominated in Rmb
Hu Shijie	444,107	Ordinary shares denominated in Rmb
Jiang Zhongshan	438,100	Ordinary shares denominated in Rmb
Wang Chongliang	388,997	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
Nan Zhengang	331,100	Ordinary shares denominated in Rmb

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 China Luoyang Float Glass (Group) Company Limited 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.

2. Information on Controlling Shareholder

Name of Controlling Shareholder:	China Luoyang Float Glass (Group) Company Limited
Legal Representative:	Zhu Leibo
Registered 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.

(III) Shareholders and de facto controlling shareholder *(Continued)*

3. Information on the de facto controlling shareholder of the Company

Name of the de facto controlling shareholder:	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 research and 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 sedan in the plan of the system; undertake the designs and construction of housing, factory and decoration with new construction materials, real estate operations with new materials and technology consultancy and information service in relation to principal and ancillary activities.

Details of other controller are set out as follows:

Name of shareholders	Shareholdings
China National Building Material Group Corporation	70%
Luoyang State-owned Assets Operation Company Limited	10.27%
China Huarong Asset Management Corporation	8.55%
China Great Wall Asset Management Corporation	5.44%
China Orient Asset Management Corporation	3.10%
China Cinda Asset Management Corporation	1.94%
China New Building Material Group Corporation	0.7%

4. Change in de facto controlling shareholder

There was no change during the reporting period.

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

Directors, supervisors, senior management and employees

1. General information, changes in shareholding for the year and remuneration of Directors, Supervisors, Senior Management (prepared in accordance with the Listing Rules of Shanghai Stock Exchange)

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 *(Rmb0'000)*	Whether they received remuneration from corporate shareholders or other connected parties
Zhu Leibo	Previous Chairman	M	46	2006-04-10 (Director) 2007-9-12 (Chairman)	2008-04-14	2,840	2,840	Nil	11.3	Yes
Zhu Liuxin	Previous Executive Director Deputy General Manager	M	56	2006-04-10 (Director) 2007-07-24 (Deputy General Manager)	2008-04-14	2,414	2,414	Nil	9.3	Yes
Gao Tianbao	Chairman	M	50	2007-09-10 (Director)	2009-04-10	0	0	Nil	21.6	No
Cao Mingchun	Executive Director General Manager	M	45	2007-09-10 (Director) 2008-04-14 (General Manager)	2009-04-10	0	0	Nil	16.2	No
Xie Jun	Executive Director Deputy General Manager	M	42	2007-09-10 (Director) 2007-07-24 (Deputy General Manager)	2009-04-10	0	0	Nil	10.5	No
Song Fei	Executive Director Chief Financial Officer Secretary to the Board	F	45	2008-04-14 (Chief Financial Officer) 2008-06-30 (Director) 2008-12-11 (Secretary to the Board)	2009-04-10	0	0	Nil	5.8	No
Song Jianming	Executive Director Deputy General Manager	M	52	2007-07-24 (Deputy General Manager) 2008-06-30 (Director)	2009-04-10	0	0	Nil	10.5	No
Shen Anqin	Non-executive Director	M	59	2007-09-10	2009-04-10	0	0	Nil	4	Yes
Yang Weiping	Non-executive Director	M	50	2007-09-10	2008-12-11	0	0	Nil	4	Yes
Xi Shengyang	Independent Director	M	53	2006-04-10	2009-04-10	0	0	Nil	4	No
Guo Aimin	Independent Director	M	53	2006-04-10	2009-04-10	0	0	Nil	4	No
Zhang Zhanying	Independent Director	M	50	2006-04-10	2009-04-10	0	0	Nil	4	No
Ge Tieming	Independent Director	M	63	2007-09-10	2009-04-10	0	0	Nil	4	No
Ren Zhenduo	Chairman of the Supervisory Committee	M	44	2007-09-10 (Supervisor) 2007-9-12 (Chairman of the Supervisory Committee)	2009-04-10	0	0	Nil	4.7	Yes
Li Jingyi	Independent Supervisor	F	55	2006-04-10	2009-04-10	0	0	Nil	2	No
He Baofeng	Independent Supervisor	M	37	2007-09-10	2009-04-10	0	0	Nil	2	No
Yao Wenjun	Supervisor	F	40	2007-09-10	2009-04-10	0	0	Nil	2	Yes
Lu Junfeng	Supervisor from staff represenative	M	40	2007-09-10	2009-04-10	0	0	Nil	4.1	No
Wong Yiu Hung	Previous Company Secretary and qualified accountant	M	52	2007-10-08	2008-08-06	0	0	Nil	HK$322,000	No
Ip Pui Sum	Company Secretary	M	49	2008-08-06	2009-04-10	0	0	Nil	HK$50,000	No
To Wai Kum	Qualified accountant	F		2008-08-06	2009-04-10	0	0	Nil	HK$65,000	No
Cheng Zonghui	Deputy General Manager	M	46	2007-07-24	2009-04-10	0	0	Nil	10.5	No

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

Note: (1) Save as disclosed above, as at 31 December 2008, none of the Directors, Supervisors and senior management of the Company had any interest or 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 2008, 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 of directors, supervisors and senior management of the Company amounted to Rmb1,730,000.

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

Executive Directors

Mr. Zhu Leibo, aged 46, Doctor of Engineering, Professor-grade Senior Engineer, Chairman, General Manager and deputy secretary to the Party Committee of CLFG. Mr. Zhu has served as general manager and deputy secretary to the Party Committee of CLFG since June 2003. In September 2007, he was appointed as the Chairman of the Company. He resigned as the Director and Chairman of the Company on 14 April 2008, and served as the Chairman of CLFG in April 2008. 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. Zhu Liuxin, aged 56, senior engineer, is currently Deputy General Manager of CLFG. Mr. Zhu has been the Deputy General Manager and Executive Director of the Company since June 2003. He resigned as executive director on 14 April 2008, and served as the Deputy General Manager of CLFG in April 2008, being in charge of production management. He has extensive theory and practice experience in production and technology management.

Mr. Gao Tianbao, aged 50, a senior accountant with a bachelor's degree, He is currently Executive Director and Chairman of the Company. He is also Chairman of CLFG Finance Company Limited. He had served as Financial Controller of the Company, Financial Controller of the Parent and General Manager of the Company. 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. Xie Jun, aged 42, Doctor, Professor-level 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 45, Postgraduate, Executive Director and General Manager of the Company. From 1994 he served as deputy general manager of Company's subsidiary Chenzhou Bada Glass Co., Ltd., manager of the Company's supplies department, Financial Controller and Secretary to the Board of the Company. He has profound practice experience in dealing with the Group's financial management, business of domestic and overseas listed companies and materials supply management.

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

Executive Directors: *(Continued)*

Ms. Song Fei, aged 45, a senior accountant and a senior certified consultant with a postgraduate qualification, is currently an executive Director, financial controller and Secretary to the Board of the Company. She joined CLFG in 1982 and successively held several positions including vice head of auditing department, vice head of planning and financial department of CLFG, financial controller of the processing company, head of planning and financial department of CLFG and assistant financial controller of CLFG. Ms. Song has relatively high theoretic level and rich practical experience in corporate financial management and internal auditing. Currently, she also holds the positions including a member of China Association of Chief Accountants, a director of Professional Building Materials Committee of China Accounting Society, a director of Henan Accounting Society, an assistant chief secretary of Henan Metallurgy and Building Materials Financial Society, a member of Henan Chief Accountants Association and a director of Luoyang Accounting Society.

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

Non-executive Directors:

Mr. Shen Anqin, aged 59, 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 50, an enterprise legal adviser and lawyer with master degree, previous Non-executive director of the Company. He is currently the head of Legal Affairs Department of CLFG. Mr. Yang has engaged in work concerning corporate 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 53, 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 53, 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 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 in-depth 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 51, 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 in-depth study in inorganic non-metal materials (glass) preparations, structure and performance.

Mr. Ge Tieming, aged 63, 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. Major work experience of Directors, Supervisors and Senior Management in past five years *(Continued)*

Supervisors

Mr. Ren Zhenduo, aged 44, holder of bachelor's degree. He is chairman of supervisory committee of the Company. He successively served as general manager of Longmen Glass Company Limited (a subsidiary of the Company), Director of No.2 Float Glass Plant, Secretary of Party Committee to No.3 Float Glass Plant and general manager of Luoyang Longxin Glass Co. Ltd. which is a subsidiary of the Group. Mr. Ren specialises in business management and has extensive experience on glass technology and corporate culture building.

Ms. Li Jingyi, aged 56, 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 37, 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 director and vice head of Luoyang Topchina CPA Ltd. and head of Luoyang Topchina tax agent. From 2001, Mr. He presided over and participated in 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 40, is a senior accountant with a bachelor's degree. She is currently the supervisor of the Company 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 40, 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 CLFG Luoyang 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 CLFG Luoyang Longhao Glass Company Limited, the holding subsidiary of the Company.

Senior Management

Mr. Wong Yiu Hung, male, aged 51, a Bachelor of Social Science of the Chinese University of Hong Kong, was the previous Company Secretary and qualified accountant and 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 such as 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. Ip Pui Sum, aged 49, graduated from the Hong Kong Polytechnic University with a MBA degree, is currently the Company Secretary. Mr. Ip is a certified public accountant in Hong Kong, a fellow member of the Institute of Chartered Accountants in England and Wales, and a member of the Hong Kong Institute of Certified Public Accountants, Chartered Institute of Management Accountants, ICSA and The Hong Kong Institute of Chartered Secretaries. Mr. Ip has served as the Company Secretary of several Hong Kong listed companies.

Ms. To Wai Kum, is currently the qualified accountant of the Company. She graduated from the Hong Kong Polytechnic University in 1987 with a diploma in Accounting. She obtained a master's degree in Accounting & Finance from Lancaster University in 1991. Currently, she is a fellow member of the Hong Kong Institute of Certified Public Accountants and a member of the Institute of Chartered Accountants in England and Wales.

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.

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.

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

Name	Position at the Company	Name of shareholders who hold positions	Position held in entity shareholder	Term of appointment	Whether receiving remuneration and allowance in entity shareholder or not (Yes/No)
Zhu Leibo	Former director	China Luoyang Float Glass (Group) Company Limited	Chairman, General manager and deputy secretary to the Party Committee	From April 2008 to September 2009	Receiving salary from entity shareholders after April 2008
Zhu Liuxin	Former director	China Luoyang Float Glass (Group) Company Limited	Deputy General Manager	From April 2008 to September 2009	Receiving salary from entity shareholders after April 2008
Shen Anqin	INED	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 14 April 2008, Mr. Zhu Leibo, previous Chairman, resigned as the Chairman and Director due to his other work arrangement; Mr. Zhu Liuxin resigned as the Executive Director and Deputy General Manager of the Company due to his other work arrangements.

On 14 April 2008, Mr. Gao Tianbao was elected as the Chairman with his position of General Manager removed; Mr. Cao Mingchun was appointed as the General Manager of the Company, with a term of office same as that of the members of the current Board; and his positions as Secretary to the Board, Deputy General Manager and CFO of the Company were removed; Ms. Song Fei was appointed as the CFO of the Company, with a term of office same as that of the members of the current Board.

On 30 June 2008, Ms. Song Fei and Mr. Song Jianming were elected as members of the fifth Board of the Company.

On 6 August 2008, Mr. Wong Yiu Hung, resigned as Company Secretary for personal reasons and Mr. Ip Pui Sum was appointed as Company Secretary on the same day.

On 11 December 2008, Mr. Yang Weiping resigned as the Director due to his other work arrangement.

Ms. Song Fei was appointed as Secretary to the Board on 11 December 2008.

6. Employees and Remuneration Policy

As at 31 December 2008, the Company had 3,489 employees, including 2,390 production workers, 67 sales personnel, 210 technicians, 30 financial personnel, 574 administrative personnel and 218 other staff members. Among them, 313 employees graduated from universities, representing 8.97% of the staff and 1,052 employees graduated from professional training colleges, representing 30.15% of the staff. The Company provided pensions to 1,707 retired employees.

We offer a comprehensive remuneration policy, which is reviewed by the management and the remuneration committee on a regular basis.

Corporate governance structure

1. Improvement in Corporate Governance

The Company is required to strictly comply with the Company Law and the Securities Law in the PRC, the Rules Governing the Listing of Securities on Shanghai Stock Exchange and the Rules Governing the Listing of Securities on the Stock Exchange in order 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 in Board meetings in the reporting period

Name of independent director	**Required attendance to the Board meetings during the year** (times)	**Attendance in person** (times)	**Attendance by proxy** (times)	**Absence** (times)	***Note***
Guo Aimin	9	9	0	0	
Xi Shengyang	9	9	0	0	
Zhang Zhanying	9	9	0	0	
Ge Tieming	9	9	0	0	

3. Independence of the Company from the Controlling Shareholder

1) 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.

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

3) 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.

4) 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 controlling shareholders and has independent function management department.

5) With respect to finance, the Company has its independent financial department and established an independent accounting and 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 2007, Shine Wing (HK) CPA Limited ("Shine Wing") was appointed as independent adviser of the Company. By adopting COSO model, Shine Wing 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 Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("Listing Rules") of the Company and its subsidiaries.

On 26 June 2007, Shine Wing reported to the management of the Company regarding the procedure and findings and made recommendations for improvement. In December 2007, Shine Wing conducted a follow up review on the progress of implementing the recommendations made. The period of the follow up review was from 1 May 2007 to 31 December 2007. Shine Wing issued a follow up review report ("Follow Up Review Report") on 15 January 2008.

During the reporting period, the Company rectified the problems discovered in the Follow Up Review Report (stated in the Company's 2007 Annual Report). The Company reappointed Shine Wing to review its internal control system of information disclosure. Problems relating to the Company's internal control system as identified by Shine Wing were as follows:

1. The Management Methods on Information Disclosure did not include the detailed work procedures for information disclosure on the Hong Kong Stock Exchange.

2. Though the Company engaged a permanent legal advisor in Hong Kong, there was no permanent legal advisory agreement to define its responsibilities as legal advisor and to ensure that the Company may require the advisor to participate in evaluating potential price sensitive information and preparing announcements in extremely short time notice when necessary.

3. The Company failed to put the Significant Information Internal Reporting System on its website.

4. The Company failed to correctly keep the record of speeches delivered to media or analysts at all occasions or failed to prepare the executive summary.

5. The Company failed to file the original of all announcements or approving records, in the form of electronic and physical documents upon completion of disclosure. There was no standard appointment procedure in place when seeking comments on content of discloseable information from external experts, nor written documents filed in respect of the discussed content or conclusions.

The Company has now completed rectifying the problems in its internal control system relating to information disclosure.

5. Corporate Governance Report

(1) In Compliance with the Code on Corporate Governance

The Group has complied with the Code on Corporate Governance Practice as set out in Appendix 14 of the Listing Rules.

(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 also governs the securities transactions of the senior management of the Company. Having made specific enquiry, all directors have confirmed that they have fully complied with the Model Code throughout the year of 2008.

(3) The Board of Directors

During the reporting period, the Board of the Company convened nine meetings.

Please refer to page 36 of the Report of Directors in this annual report for composition of the Board and attendance of directors at 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. The directors of the Company are responsible for preparing the accounts.

(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 of the Hong Kong Stock Exchange. 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. Corporate Governance Report *(Continued)*

(5) Chairman and Chief Executive Officer

The Chairman of the Company is Mr. Gao Tianbao and the Chief Executive Officer is Mr. Cao Mingchun. The Chairman and the Chief Executive Officer are two definitely different positions, and the Chairman 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) 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 Ms. Song Fei (member), which is in compliance with provisions under the Code on Corporate Governance. Since the establishment of Review and Remuneration Committee, there have been 4 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 Page 38 of the "Report of the directors" section in this annual report.

The remunerations paid or payable to directors, supervisors and senior management were RMB1.73 million in 2008.

(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.

5. Corporate Governance Report *(Continued)*

(8) Nomination of directors *(Continued)*

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 Page 39 of 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 Page 37 of the Report of the Directors in this annual report.

For the year ended 31 December, 2008, the amounts paid and payable in respect of audit and, non-audit services provided by the auditors to the Company were RMB2,100,000 and nil respectively.

(10) Shareholders and General Meetings

For details of the shareholders and the general meetings, please refer to the Brief notes 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 regard 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.

Brief notes on general meetings

1. 2007 Annual General Meeting of the Company

The 2007 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 30 June 2008, and was attended by 3 shareholders and proxies. At the meeting, the following matters were considered and approved by way of ordinary resolutions:

1) the report of the Board of Directors of the Company for the year 2007;

2) the report of the Supervisory Committee of the Company for the year 2007;

3) the financial report of the Company for the year 2007;

4) the Company's profit distribution plan for the year 2007;

5) the proposal of appointing Mr. Song Jianming as the Director of the fifth Board of the Company;

6) the proposal of appointing Ms. Song Fei as the Director of the fifth Board of the Company;

7) the proposed director remuneration of Mr. Song Jianming and Ms. Song Fei.

The "proposed amendments to certain articles of the Articles of Association of the Company" were considered and approved by way of special resolutions at the general meeting.

The announcements of the resolutions passed at the general meeting were published on the website of the Hong Kong Stock Exchange on 30 June 2008, which was also published on China Securities Journal and Shanghai Securities News in Mainland China on 1 July 2008.

2. The 2008 First Extraordinary General Meeting

The 2008 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 23 September 2008, and was attended by 2 shareholders and proxies. At the meeting, the following resolutions were considered and approved by way of ordinary resolutions:

1) the proposed appointment of PKF Certified Public Accountants as the international auditors of the Company for the year 2008, and authorisation to the Board to determine its remuneration.

2) the proposed appointment of Daxin Certified Public Accountants as the domestic auditors of the Company for the year 2008, and authorisation to the Board to determine its remunerations.

The announcements of the resolutions passed at the general meeting were published on the website of the Hong Kong Stock Exchange on 23 September 2008, which was also published on China Securities Journal and Shanghai Securities News on 24 September 2008.

3. The 2008 Second Extraordinary General Meeting

The 2008 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 19 December 2008, and was attended by 2 shareholders and proxies. At the meeting, the following resolutions were considered and approved by way of ordinary resolutions:

1) To approve and confirm the acquisition agreement entered into with Luoyang Land Reserve and Coordination Centre (the "Agreement") and terms and conditions thereof and the transaction contemplated thereunder and its performance;

2) To approve, ratify and confirm that any 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 Agreement and to waive compliance from or make and agree such variations of a non-material nature to any of the terms of the Agreement as they may in their discretion consider to be desirable and in the interests of the Company, and all the Directors' acts as aforesaid.

The announcements of the resolutions passed at the general meeting were published on the website of the Hong Kong Stock Exchange on 19 December 2008, which was also published on China Securities Journal and Shanghai Securities News on 20 December 2008.

Report of the directors

Management Discussion and Analysis

(I) Business Review

1. Position and major products of the Company in the industry

The Company is the place of origin for one of three major float glass manufacturing 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 is mainly engaged in the manufacturing and sales of float sheet glass. Capable of producing float glass of 0.55mm - 25mm, the Company holds absolute leading position in terms of the production technology of ultra-thin and ultra-thick glass.

2. Overall operation of the Company during the reporting period

2008 was the most difficult year in the Company's operating history. Under the impact of volatile domestic and international economies, raw materials and fuel prices were prone to great fluctuations. Sales of products were dampened, prices went flat and supply of funding was tightened as a result of natural disasters and weaker market demands during the year. With the full support of CNBMG and CLFG and Luoyang Municipal government and under the supervision of the Board, the Company reformed itself by implementing effective measures such as constraining loss from production and operation and reorganizing assets and boosting profit, hence successfully achieving its target of a turnaround.

In 2008, according to the PRC Accounting Standards, the revenue of the Group was RMB1,322,532,855, representing a decrease of 12.34% from the corresponding period last year. Loss before tax totaled RMB37,209,126, representing an increase of 49.04% over the corresponding period last year. Net profit attributable to shareholders of the Company was RMB12,783,782 (the net loss attributable to shareholders of the Company in 2007 was RMB95,343,481) which represented a turnaround. Basic earnings per share was RMB0.03 (Basic loss per share in 2007 was RMB0.19).

According to the International Financial Reporting Standards, the profit before tax of the Group totaled RMB3,142,000 in 2008 (Loss before tax for the corresponding period in 2007 was RMB77,658,000). Net profit attributable to shareholders of the Company amounted to RMB54,040,000 (Net loss for the corresponding period in 2007 was RMB100,089,000). Basic earnings per share attributable to shareholders of the Company in 2008 was RMB0.11 (Basic loss per share in 2007 was RMB0.20).

The Board of the Company recommended not to distribute final dividend or increase share capital by the transfers of capital reserve.

In light of the global financial crisis and the downturn in the glass industry in 2008, the Company adopted a series of effective measures to realise profits. First, the Company reorganized, disposed or realized part of its assets to increase cash gains. Second, it innovated in new management and control modes to boost synergies in operation. To such end, it established a centralized management platform whereby the Company integrated the sales of products, the management of capital and the bulk procurement of raw materials which enhanced economies of scale and synergies. Third, it clearly defined its market positioning so as to go from strength to strength in Henan market. Fourth, it adjusted product structure, improved product packaging, promoted nude kit and reduced cost. Fifth, it timely closed and suspended the over-time operation of production lines, including production line No.3, Longbo Company, Float Sheet Glass Line No.1 and Longfei Company which helped reduce loss. Sixth, the Company increased funding to commence trade finance through various channels which guaranteed the Company's capital demand for production and operation. Seven, the Company reinforced its fundamental management which reduced cost expenses.

3a. Statement of the principal operations (Prepared in accordance with IFRSs)

Principal operations by products

By industry or products	Operations income *(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 operations profit margin as compared to last year *(%)*
Float glass	1,314,946	1,334,633	(1.50)	(8.97)	1.85	Decreased by 10.78 percentage points

(I) Business Review *(Continued)*

3a. Principal business and operating status (Prepared in accordance with IFRSs) *(Continued)*

Principal operations by regions (Prepared in accordance with IFRSs)

Regions	Operations income *(Rmb'000)*	Increase/ (decrease) of operations income as compared to last year *(%)*
Domestic	1,286,538	(8.30)
Exports	28,408	(31.68)

3b. Principal business and operating status (Prepared in accordance with the PRC Accounting Standards)

Principal operations by products

By industry or products	Operations income *(Rmb)*	Cost of operations *(Rmb)*	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 operations profit margin as compared to last year *(%)*
Float glass	1,130,084,696.77	1,151,119,535.64	(1.86)	(22.06)	(11.83)	Decreased by 11.81 percentage points

Principal operations by regions

Regions	Operations income *(Rmb)*	Increase/ (decrease) of operations income as compared to last year *(%)*
Domestic	1,101,676,405.91	(21.77)
Exports	28,408,290.86	(31.93)

Top 5 Suppliers and Top 5 Customers

Purchase from the largest supplier	RMB100,629,529.53	Percentage in total purchase	10.86%
Sales to the largest customer	RMB57,119,445.53	Percentage in total sales	4.32%
Total purchase volume from top 5 suppliers	RMB331,953,606.07	Percentage in total purchase	35.81%
Total sales volume to the top 5 customers	RMB297,174,248.79	Percentage in total sales	22.47%

Save for disclosed above, none of the Company's Directors, Supervisors and their respective associates and any Shareholders (whom as far as the directors are aware holds 5% or more of equity interests in the Company's share capital) had any interest of the aforesaid suppliers and customers.

(I) Business Review (Continued)

4. Analysis on items of accounts with movements over 30% (Prepared in accordance with the PRC Accounting Standards)

(1) Bills receivables decreased by 86.59% from the beginning of the reporting period to the end of the same, mainly due to the discount of bills receivables.

(2) Accounts receivable increased by 87.42% from the beginning of the reporting period to the end of the same, mainly due to the sales of raw materials.

(3) Prepayment increased by 47.25% from the beginning of the reporting period to the end of the same, mainly due to the increase in prepayment for goods.

(4) Other receivables increased by 181.19% from the beginning of the reporting period to the end of the same, mainly due to the outstanding proceeds of RMB120,000,000.00 payable by Luoyang Land Reserves Coordination Centre in respect of the disposal of land and buildings erected thereon.

(5) Construction in progress increased by 1,615.39% from the beginning of the reporting period to the end of the same, mainly due to the implementation of the melting furnace operation of CLFG Longfei Glass Company Limited ("Longfei") and the project of technical upgrade of CLFG Longmen Glass Company Limited's ("Longmen") facilities transferred from fixed assets.

(6) Construction materials decreased by 89.27% from the beginning of the reporting period to the end of the same, mainly due to the more usage of such materials.

(7) Intangible assets decreased by 47.57% from the beginning of the reporting period to the end of the same, mainly due to the disposal of land and equity interest in logistics company.

(8) Notes payable increased by 52.98% from the beginning of the reporting period to the end of the same, mainly due to the increased use of notes by the Company for settling bills.

(9) Taxes payable decreased by 74.31% from the beginning of the reporting period to the end of the same, mainly due to lower revenue for the year.

(10) Non-current liabilities due within one year decreased by 99.07% from the beginning of the reporting period to the end of the same, mainly due to the decrease in borrowings due within one year.

(11) Minority interests decreased by 60.64% from the beginning of the reporting period to the end of the same, mainly due to share of loss incurred by subsidiaries.

(12) Other operating income for the period increased by 227.31% over the corresponding period last year, mainly due to the sales of raw materials.

(13) Other operating cost for the period increased by 298.19% over the corresponding period last year, mainly due to the sales of raw materials.

(14) Tax and surcharge of principal operations for the period decreased by 32.74% over the corresponding period last year, mainly due to lower sales during the year.

(15) Investment gains for the period decreased by 75.77% over the corresponding period last year, mainly attributable to the income from disposal of equity interest in Yanlian Petroleum Co Ltd. last year.

(16) Operating loss for the period increased by 237.29% over the corresponding period last year, mainly due to the decrease in other operating profit and investment income.

(I) Business Review *(Continued)*

4. Analysis on items of accounts with movements over 30% (Prepared in accordance with the PRC Accounting Standards) *(Continued)*

(17) Non-operating income for the period increased by 1,332.82% over the corresponding period last year, mainly due to the disposal of land and buildings erected thereon as well as government subsidy.

(18) Non-operating expenses for the period decreased by 69.70% over the corresponding period last year, mainly due to the loss from scrapping of fixed assets during last year.

(19) Loss for the period decreased by 49.04% over the corresponding period last year, mainly due to the disposal of land and buildings erected thereon and government subsidy attributed to non-operating income.

(20) Income tax credit for the period was RMB2,651,438.67 (2007: income tax expenses for the corresponding period was RMB3,412,035.71), mainly due to the approval for exemption from 2007 enterprise income tax issued by Tax Bureau of Luoyang Province and received by CLFG Luoyang Longhao Glass Company Limited ("Longhao").

(21) Net profit for the period increased by 54.78% over the corresponding period last year, mainly due to the increase in non-operating income and decrease in income tax expenses.

5. Cash flow

According to the PRC Accounting Standards, the Company's net cash outflow from operating activities amounted to RMB47,722,300.79 for the year, representing an increase of 345.13% over the corresponding period of last year, mainly attributable to the increase in the volume of bills settlement in conjunction with the sale of goods. Net cash inflow from investing activities amounted to RMB175,164,710.65, representing an increase of 181.88% as compared to last year, which was mainly attributable to the disposals of land use right and the buildings erected thereon in the factory area and the equity interest in the logistics company. Net cash outflow from financing activities amounted to RMB137,296,038.43, representing an increase of 284.29% over the corresponding period last year. This was primarily due to the increase in repayment for borrowings due within one year, increased interest expenses due to surging interest rate, and note financing. Net decrease of cash and cash equivalents was RMB9,245,065.68 in 2008 (net increase of cash and cash equivalents in 2007 was RMB15,410,313.07).

According to the International Financial Reporting Standards ("IFRSs"), the Company's net cash inflow from operating activities amounted to RMB856,000 (2007: RMB43,506,000). Net cash inflow from investing activities amounted to RMB169,923,000 (2007: RMB13,023,000). Net cash outflow from financing activities amounted to RMB180,025,000 (2007: RMB41,119,000). Reasons for the changes in these figures are the same as aforesaid.

The Board believes that cash flow 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.

6. Change in equipment and principal technicians of the Company

Five float glass production lines of the Company stopped production in February 2006, June 2008, July 2008, August 2008 due to expiry of operation or overtime 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 equipment and materials and thereafter resumes production). However, since three production lines are located at the Sui Tang ancient relic protection areas of Luoyang City, according to environment protection policy of Luoyang government and relic protection needs, the production line shall not resume production after its cold repair at the original place. Therefore, the equipment of the production line and the relevant assets have been idle. The Company is considering relocating or disposal of such assets. The other two production lines are to be undergone technology renovation to produce high value added new products.

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

(I) Business Review *(Continued)*

7. Analysis of the operation results of the major subsidiaries and investee companies (Prepared in accordance with the PRC Accounting Standards)

Company name	Nature of business	Major products	Registered capial *(RMB)*	Total assets *(RMB)*	Net assets/ (Net liabilities) *(RMB)*	Net profit/ (Net loss) *(RMB)*
CLFG Lougmen Glass Company Limited	Production and sales	Ultra thin glass	20,000,000.00	152,524,841.33	(127,455,572.61)	(51,030,852.45)
CLFG Luoyang Longhai Electric Glass Company Limited ("Longhai")	Production and sales	Ultra thin glass	60,000,000.00	328,679,165.80	18,949,049.41	(17,098,598.73)
CLFG Luoyang Longhao Glass Company Limited	Production and sales	Float glass	50,000,000.00	365,874,417.77	37,238,473.47	(17,929,219.61)
CLFG Longfei Glass Company Limited	Production and sales	Float glass	74,080,000.00	171,258,750.09	16,451,062.52	(31,613,462.15)
CLFG Luoyang Longxiang Glass Company Limited ("Longxiang")	Production and sales	Float glass	50,000,000.00	136,192,552.08	18,525,870.27	(32,889,022.28)
Yinan Mineral Products Co., Ltd.	Production and sales	Silica sand raw materials	28,000,000.00	44,329,944.97	7,616,936.41	(425,190.13)
Xiangfang Luoshen Auto Glass Co., Ltd.	Production and sales	Automobile glass	10,000,000.00	13,273,523.47	7,888,950.44	714,915.70
Luoyang Luobo Industrial Co., Ltd.	Sales	Glass and raw materials and fuel	5,000,000.00	30,782,146.86	4,419,156.00	(580,844.00)
Dengfeng CLFG Silicon Company Limited	Production and sales	Silica sand raw materials	1,000,000.00	695,073.71	695,073.71	(72,482.45)
CLFG Processed Glass Company Limited	Production and sales	Processing glass	181,495,607.50	492,505,701.34	(35,349,713.23)	(38,858,239.89)
CLFG Financial Company of Limited Liabilities ("CLFG")	Non-bank financial institution	Finance Service	300,000,000.00	354,934,946.41	327,104,339.51	15,858,443.48
Luoyang Jingxin Ceramic Co., Ltd.	Production and sales	Inner wall tile	41,945,000.00	127,667,598.09	(53,073,782.64)	(5,296,264.89)
CLFG Minerals Products Co., Ltd.	Production and sales	Silica sand raw materials	30,960,055.81	32,103,494.04	(8,009,622.35)	(527,048.34)

(I) Business Review *(Continued)*

8. Investment during the report period

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

(2) The Company has no major projects financed by non-raised fund during the reporting period.

9. The Board's explanation for non-standard opinion

Daxin Certified Public Accountants Co., Ltd. presented their auditors' reports with an explanatory paragraph but without qualifying for the 2008 financial statements of the Company. Particulars of the explanatory paragraph are as follows:

"Besides, 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 Group and the Company were prepared on assumption that the Group and Company would continue as a going concern during the period from the end of the reporting period to 31 December 2009. The Group had accumulated uncovered losses amounting to RMB1,249,967,485.76, with current liabilities exceeding current assets by RMB941,320,286.68 as at 31 December 2008. Notwithstanding the Company's management has justified the going concern basis in preparing the above financial statements 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 financial statements: Basis of preparation of financial statements

Notwithstanding that the Group had accumulated uncovered losses of RMB1,249,967,485.76, with current liabilities exceeding current assets by RMB941,320,286.68 at 31 December 2008 in the consolidated financial statement, 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:

(1) as at 31 December 2008, credit facilities of approximately RMB717,767,000.00 granted by banks to the Group were utilized in full. As such loans will fall due within one year after the balance sheet date, the Directors are negotiating with banks for their continual support.

(2) continuing financial support will be obtained from its holding company — CLFG and the holding company's parent — CNBMG.

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 Statement on Emphasis set out in the audit report presented by the above accountant, the Company considered the net current liabilities were 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.

(I) Business Review *(Continued)*

10. Cashflow, income and expenses

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

Turnover

The turnover decreased by 12.34% as compared with the corresponding period last year, which is principally because the price and sales of products decreased.

Operating expenditures

A slight increase 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.

Depreciation, impairment and amortisation

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

Selling expenses, general expenses and management cost

Selling expenses, general expenses and management cost increased as a relatively large amount of production line suspension cost was induced during the year.

Taxation other than income tax

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

Operating profit

Owing to the decrease in selling price and volume, the operating profit recorded a substantial year-on-year loss.

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 mainly due to the increase in financial charges resulting from the increased bill discount interest expenses and growth of interest rate.

Profit before taxation

As compared the corresponding period last year, profit before taxation increased as a result of land and asset disposal, and government subsidy.

Taxation

Taxation recorded a year-on-year decrease mainly due to lower income and income tax waivers.

(I) Business Review *(Continued)*

10. Cashflow, income and expenses *(Continued)*

Net profit

As compared with the corresponding period last year, net profit increased substantially as a result of land and asset disposal, and government subsidy.

Funding and treasury policies and objectives

Cash inflow of the Company was generated mainly from sales revenue, proceeds of disposal of assets and other financing activities during the year which was utilised as working capital and maintenance cost.

11. Five-year financial highlight

The results, assets and liabilities of the Group for the five years ended 31 December 2008 as prepared under IFRSs are summarised below:

Operating results

	2008	2007	2006	2005	2004
	Rmb'000	*Rmb'000*	*Rmb'000*	*Rmb'000*	*Rmb'000*
Turnover	**1,314,946**	1,444,535	1,195,193	1,028,976	1,128,554
Profit/(loss) of attributable to associated companies	**5,868**	2,194	(38,419)	(20,751)	1,678
Profit/(loss) before taxation	**3,142**	(77,658)	(42,902)	8,592	85,160
Taxation	**(2,651)**	3,412	0	1,950	4,493
Profit/(loss) after taxation	**5,793**	(81,070)	(42,902)	6,642	80,667
(Loss)/profit attributable to minority interests	**(48,247)**	19,019	(55,893)	(3,022)	18,927
Profit/(loss) attributable to shareholders of the Company	**54,040**	(100,089)	12,991	9,664	61,740

Assets and liabilities

	2008	2007	2006	2005	2004
	Rmb'000	*Rmb'000*	*Rmb'000*	*Rmb'000*	*Rmb'000*
Fixed assets	**923,256**	1,067,166	1,174,616	959,352	865,049
Construction in progress	**11,761**	7,113	5,550	265,271	2,323
Interest in associates	**120,906**	116,922	111,105	154,919	174,476
Other investments	**7,410**	410	32,000	32,297	32,983
Non-current assets	**1,185,137**	1,310,212	1,430,288	1,569,852	1,208,129
Net current liabilities	**949,016**	1,078,274	1,063,686	530,657	215,548
Long-term liabilities	**9,410**	11,020	65,104	95,163	74,059
Shareholders' funds	**197,859**	143,819	243,908	862,366	851,216
Minority interests	**28,852**	77,099	57,590	81,666	67,306

12. Others

Bank and other loans

Details of the bank and other loans of the Company and the Group for the year ended 31 December 2008 are set out in notes to the financial statements of this annual report prepared under IFRSs.

Capitalisation of interests

There was no capitalisation of interests of the Company and the Group as at 31 December 2008.

(I) Business Review (Continued)

12. Other (Continued)

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 IFRSs.

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 2008 are set out in notes to the financial statements of this annual report prepared under IFRSs.

Distributable reserves

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 31st December 2008, there was no reserve available for distribution (2007: Nil).

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 IFRSs.

Charity and other donations

During the year, there was no charity and other donations made by the Company and the Group.

Transactions with related parties

The material related party transactions of the Company for the year ended 31 December 2008 are set out in notes to the account of the financial report prepared under IFRSs.

Working capital and financial resources

As at 31 December 2008, the Group recorded net current liabilities amounted to RMB949 million (2007: RMB1,078 million) which is calculated by current assets minus current liabilities.

Gearing and liquidity ratio

The gearing ratio (being the ratio of total borrowings to total equity) of the Group was 3.97 as at 31 December 2008 (2007: 4.39).

Capital structure

As at 31 December 2008, total equity of the Group was RMB226,711,000 (2007: RMB220,918,000). Debt ratio, being the ratio of total liabilities divided by total assets, was 0.89 as at 31 December 2008 (2007: 0.89).

All the borrowings and cash and cash equivalents of the Company are denominated in Renminbi.

Contingent liabilities

Details of the contingent liabilities are set out in note 38 to the financial statements prepared under IFRSs.

Foreign currency exposure

The Directors consider that the Group has limited foreign currency exposure because our operations are mainly conducted in the PRC. Sales and purchases are mainly denominated in Renminbi and the foreign currency risk associated with export sales is not material. In view of the minimal foreign currency exchange risk, we monitored the exchange rate closely instead of entering into any foreign exchange hedge arrangement.

(II) Future Development Prospect

1. Business Environment analysis

Glass market is expected to face significant uncertainty in 2009. Economic depression is likely to continue or even escalate in the first half year. However, when the stimulus packages to boost domestic demand and encourage growth start to take effect in the second half, positive changes are likely to emerge in late third and fourth quarters. Analysis is as follows:

Negative factors

(1) Inadequate demand. Hit by financial crisis, downstream enterprises like real estate, and automobile industry and export are sliding downward, dragging demand significantly.

(2) Intensified market competition.

Given the sluggish market conditions, glass producers are suffering from capital shortage and operating loss. Most of them are resorting to stiff price competition to realise cash so as to stay in business. Due to irrational competition from certain glass producers, the industry becomes more chaotic. Due to the impact from reverse movements of cost and price last year, over 40 production lines had been shut down in China. However in 2009, there are still 23 in production to date, and the construction of another 19 is being planned. If glass price recovers, some shut down lines will resume production. Any irrational growth in capacity is likely to send the industry again into oversupply and malign competition.

(3) The Company is faced by capital shortage and rise in obsolete assets and increasing lay-offs of staff in the coming year.

Positive factors

(1) The PRC government has implemented a series of measures to sustain growth, boost domestic consumption and promote restructuring. The revival plan for ten industries is to play a vital role in the recovery of glass market. The government also adopted the slogan of "supporting the large and repressing the small" and "protection and restriction" and policies against high energy consumption and pollution to discourage the continuation of construction of facilities with low capacity. Pragmatic fiscal policies and more lenient monetary policies accompanied by the decrease of benchmark rate and deposit-reserve ratio are helping to lower financing costs.

(2) Prices of raw materials and fuel for the Company are to drop as a whole compared with 2008.

(3) The Company boasts an unparalleled and stable team of employees in the industry, backed by CLFG, the controlling shareholder, CNBMG, de facto controlling shareholder, and Luoyang municipal government, which can provide strong capital support and favorable policy to ensure sustainable operation of the Company.

(4) Gradual shut down of glass production line is conducive to restructuring. It is estimated that more domestic production lines are to be shut down in the first half of the year. As competition polarizes, the glass industry is entering a promising period of restructuring and consolidation. We are to become one of the beneficiaries of industry consolidation by virtue of the platform advantages built by CNBMG.

(II) Future Development Prospect (Continued)

2. Business Plan for 2009

(1) Business target

Consolidated revenue: RMB969,800,000

(2) Financial indicators

Cost to sales income ratio: 103.85%

Current assets turnover ratio: 1.2

Return on net assets: 2.32%

Production and sales ratio: 100%

(3) Energy consumption indicators

Calcined soda consumption per weighted case of float glass: 10.7KG

Standard coal consumption per weighted case of float glass: 0.0180 tonne

Comprehensive energy consumption per RMB10,000 production: 2.7 tonnes of standard coal

3. As for countermeasures to offset adverse impact, we are to:

(1) Seek opportunity in crisis by carrying out system reform

1) Pursue flat organization, streamline operation process and be more responsive to market conditions with a view to enhancing organizational structure, reallocating job functions, improving business cycles, cut down disputes and raising efficiency.

2) In the "three system" reform, amend and complete incentive restriction policy; KPI evaluation is to be implemented. Focus on key indicators to operate the system in a simple and easy way.

3) Learn from private operations, promote better use of human resource and introduce distribution mechanism reform. Salary and profit link shall be established without setting any ceilings but at the same time the lowest salaries sufficient to cover basic living requirements only. Supporting roles are to be minimized and staff should be all-around. The transformation to privatized mode is to increase sales income and operate efficiently and profitability.

4) Actively and prudently implement human resource restructuring policies to reallocate the 1,000-1,500 employees to appropriate positions, which is expected to save expenses and improve the structure of the working team and optimize our labour force.

(II) Future Development Prospect *(Continued)*

3. As for countermeasures to offset adverse impact, we are to: *(Continued)*

(2) Introduce innovative marketing strategies to expand and enhance our presence in Henan

1) Clear positioning of our market and products

Market positioning: enhance presence in Henan and expand to neighbouring cities. Focus on the development of markets in second class cities of Henan. Intensify marketing and extend sales network to increase volume. Ordinary glass market share in Henan shall reach 70% or higher. Develop markets in Anhui and Northwest China in which we will sell 35-40 truck loads per month presently and is expected to reach 65 truck loads per month.

Product positioning:

White glass: Longxiang and Longhao, cost leader strategy

Ultra thin glass: Longhai, "maximizing market share" strategy

Package and logistics shall change according to market and product positioning. Increase package other than wooden and increase road transportation.

2) Promote the idea of large scale sales and avoid conservative management thinking

Marketing departments shall eradicate conservative marketing ideas, be innovative in market forecast and pricing mechanism, react promptly to price and optimise market strategy to establish a leading position in the market.

3) Build up excellent marketing team and exist mechanism

We are to enhance marketing training to improve overall quality of our marketing team. A dedicated, knowledgeable, enthusiastic, compromising and outstanding marketing team will be built. Strengthen incentive mechanism and implement performance evaluation on a three-month basis. Establish exit mechanism and select better sales personnel from the entire team.

(3) Increase investment in technology innovation to sharpen our edge

1) Increase technology investment. Even under tight capital condition, investment in research and hardware which help to improve quality or reduce cost shall be increased. Defect detectors are to be purchased to improve quality and to meet the needs of further processing of auto industry. New models of on-line plating equipment are to be purchased to develop high-end plating products with higher added value.

2) Focus on basic research to develop new products. In order to tackle the pending problem of production line quality fluctuations caused by unknown reasons, basic researches relating to output, quality, energy saving and raw material substitution shall be prioritized and develop production process control software and management software. We are to develop new products for technological know-how of the Company.

3) Optimize technology resources allocation. Best technology personnel are to be transferred from various teams to cooperate in research and problem tackling. The team is to respond quickly to production techniques analysis, research and problem solving. This encourages subsidiaries to resolve their technical problems.

(II) Future Development Prospect *(Continued)*

3. As for countermeasures to offset adverse impact, we are to: *(Continued)*

(4) Strengthen management, unleash potential and reduce cost

We are to focus on identifying substitutes in the purchasing, production energy saving, product quality, selling for cash and better management.

Identifying substitutes in purchasing: to explore substitutes in raw material and fuel while securing better purchase prices and to use tenders to make purchases to control cost.

Production energy saving: to take rigid measures to save the consumption of coal, oil, raw material and power of subsidiaries. Longhao and Longxin have reduced coal consumption to 20 kg per weighted case. Longxiang is to substitute gas by heavy oil to save fuel cost. New technology and new equipment are to be promoted to save power, water and coal. Energy consumption per RMB10,000 production in 2009 is to reach 2.20 tonnes standard coal.

Product quality improvement: to upgrade quality by 2-3 percentage points, rate of finished products increase by 3 percentage points and reduce ineffective working hours by 50% from 2008.

Selling for cash: marketing centres must strive to sell goods for cash. Evaluation is to be intensified for inventory over 3 months to reduce stock and loss.

Better management: to strengthen cost awareness for all levels of management. Auditing of different categories of goods, promoting weekly cost management and strengthening control before and during the process. We are to unify financial policy, system, standard and measure for subsidiaries and enforce standard cost management. In 2009, the enforcement of detailed cost control is to be strictly carried out. Discipline inspection commission and auditing department will form supervisory teams to inspect implementation of cost control measures in all departments. We are to control the major expenses as well as minor ones. Every drop of water, piece of paper and every kilowatt-hour are to be saved. By rigid control on non-productive expense, management cost is to reduce by 10% from 2008.

(5) Improve package, lower storage loss and reduce loss

The Company will increase the bare package, and expand production and sales volume of rack containers and composite wooden cases. In 2009, 80% of the thin white glass sheets will be packed in non-wood cases. It is expected that 75% of thick sheets will be packed in non-wood cases in the first half of 2009 and 90% for the second half. More than 70% of emerald green and sea blue glasses will be packed in non-wood cases. For products sold in Henan and surrounding markets, the Company strives to entirely use bare package or rack container package, which expected to reduce cost.

At the same time, the Company will unify and optimize the storage management with less outdoor storage, so as to lower storage loss rate and maintain it at below. In addition, it will strengthen the unified management in vehicles and trains by which products are transported, integrate the existing road transportation management, improve the existing loading and delivering work, and try to promote the transportation of products in bare package by train.

(6) Carry out investigation and study, optimize proposals and push forward projects

The Company will proactively push forward Longbo ultra-thin and ultra-white glass production renovation project, Longhao and Longxin waste heat power generating project, fuel replacement project, and No.1 and No.2 line relocation project, aiming to achieve periodic results.

(7) Standardize corporate governance, strengthen coordination and facilitate resumption of trading

(1) The Company is to speed up the waiver approval progress in respect of the resumption of trading of the Company's H shares and continuing connected transactions. Meanwhile, it will strive to operate in compliance with regulations, eliminate violations and improve the Company's external image.

(2) The Company will dispose idle assets, optimize assets structure, replace non-performing assets, improve assets quality and strengthen owner's profitability.

(II) Future Development Prospect *(Continued)*

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

Approximately RMB80 million is needed for resumption of production of the Company, Longbo ultra-white glass renovation project and Longfei cold repair and renovation project. It will be mainly financed by: 1) additional bank loans; 2) proceeds from selling land; 3) introduction of partners.

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

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

(1) Risks arising from macro policies: Though the state has launched a series of policies and measures to sustain economic growth, boost domestic demand and adjust industrial structure, glass industry would recover at a lower pace. Affected by appreciation of Renminbi and worldwide economic crisis, the international market demand will be suppressed and exports of products are expected to remain difficult.

(2) Market risks: Currently, demands in flat sheet glass market are rather sluggish. Although China recently launched a series of measures to boost domestic demand, glass market is unlikely to turn around quickly in a short time due to the still depressing property industry and declining exports. Afflicted by cost higher than price in 2008, 44 production lines suspended production in China. However, according to statistics from the industry association, in 2009, there are still 23 production lines under construction and 19 production lines to be constructed in the glass industry in China. As soon as the market turns around slightly, production would be spurred again. Excessive production capacity is still threatening the glass producers. As for raw materials and fuel, the purchasing returned to a more reasonable level due to slowdown in macroeconomic growth and sharp decrease in raw materials and fuel demand. However, as coal is the major fuel of the Company and no sharp fall was incurred in price of thermal coal, the Company will still confront heavy cost pressure. These uncertainties will hinder the Company from achieving its operating targets for 2009.

(3) Financial Risks:

1) As the Company's indebted operation is conditional upon regular payment of interests and repayment of principal upon expiry, in case that the Company's investment, production and operation through debts are unable to obtain expected gains, the Company will inevitably face risks of insolvency, which in turn will lead to financial strain of the Company and affect the Company's credibility.

2) The Company's gear ratio has reached 87.03%, surpassing the warning levels. As a result, the Company was caught in liquidity difficulties.

3) With weak solvency positions, the Company's current liabilities exceeded current assets by RMB941,320,287. Suppliers sometimes come to the Company for debt collection.

(4) Technological risks:

"Float Glass Technology of Luoyang Glass" is one of the top three float glass technologies in the world. The manufacturing technology of ultra thin glass attained the State Scientific and Technological Award (Level 1) (國家科學技術進步一等獎). The Company boasts advanced production technology, but in-between the stage of melting furnace operation of certain production lines and post-production become more difficult to control. Production management should be reinforced to ensure stable production and high efficiency.

(5) Exchange rate risks:

Foreign exchange earnings decreased as influenced by exchange rate and shrinking exports. However, given the Group's small export volume, exchange rate fluctuations do not have material impact on the Group.

(III) Daily work of the Board

1. Board meetings held and the resolutions passed:

(1) The Company held the 19th meeting of the fifth Board on 27 March 2008.

The meeting considered and approved the following matters as resolutions:

1) Work Report of the Board of Directors of the Company for 2007;

2) Work Report of General Manger for 2007;

3) financial report of the Company for the year 2007;

4) the Company's profit distribution plan for the year 2007;

5) proposal for impairment provision for certain assets and relevant account treatment;

6) proposal for change or adjustment to relevant items and their opening balances in the previously disclosed balance sheet for 2007;

7) Special Statement on Non-standard Auditors' Report by the Board;

8) Annual Report for 2007 and its summary;

9) the proposed Internal Control System and Significant Information Reporting System of the Company;

10) the proposed Annual Work Report System of Independent Directors the Company;

11) the proposed Work Regulation on Annual Financial Report for Audit Committee of the Board of the Company;

12) the proposed amendments to certain articles of the Articles of Association.

The announcements of the resolutions were published on China Securities Journal and Shanghai Securities News in China on 28 March 2008.

(2) The Company held the 20th meeting of the fifth Board on 14 April 2008.

The meeting considered and approved the following matters as resolutions:

1) to agree that Mr. Zhu Leibo resigned as Director and Chairman of the Company, Mr. Zhu Liuxin resigned as Director and Deputy General Manager;

2) to elect Executive Director Mr. Gao Tianbao as Chairman of the Company and dismiss his duty as General Manager;

3) to appoint Mr. Cao Mingchun as the General Manager of the Company, with a term of office same as that of the members of the current Board; to dismiss his duty as Secretary to the Board, Deputy General Manager and Financial Controller;

4) to appoint Executive Director and General Manager Mr. Cao Mingchun as authorised representative of the Company and terminate the duty of Mr. Zhu Leibo as authorised representative of the Company;

5) to appoint Ms. Song Fei as the Financial Controller of the Company, with a term of office same as that of the members of the current Board;

6) to agree the nomination of Ms. Song Fei and Mr. Song Jianming as Director candidates and submit the same to the AGM for 2007 for consideration and approval;

(III) Daily work of the Board *(Continued)*

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

(2) The Company held the 20th meeting of the fifth Board on 14 April 2008. *(Continued)*

7) to accordingly adjust the members of special committees of the Board;

8) to authorise Chairman Mr. Gao Tianbao to execute on behalf of the Company any contracts or agreements on external investment, purchase or sale, contracting or outsourcing, bank loan, bank borrowing guarantee, bank acceptance or pledge with an amount below Rmb50 million during his office, all economic and legal liabilities arising out of which shall be borne by the Company;

9) to authorise General Manager Mr. Cao Mingchun to execute on behalf of the Company any contracts or agreements on external investment, purchase or sale, contracting or outsourcing, bank loan, bank borrowing guarantee, bank acceptance or pledge with an amount below Rmb30 million during his office, all economic and legal liabilities arising out of which shall be borne by the Company;

10) to authorise Financial Controller Ms. Song Fei to execute on behalf of the Company any contracts or agreements on external investment, purchase or sale, contracting or outsourcing, bank loan, bank borrowing guarantee, bank acceptance or pledge with an amount below Rmb20 million during his office, all economic and legal liabilities arising out of which shall be borne by the Company.

The announcements of the resolutions were published on China Securities Journal and Shanghai Securities News in Mainland China on 15 April 2008.

(3) The Company held the 21st meeting of the fifth Board on 24 April 2008. The meeting considered and approved First Quarterly Report for 2008. The announcements of the resolutions were published on China Securities Journal and Shanghai Securities News on 25 April 2008.

(4) The Company held the 22nd meeting of the fifth Board on 16 July 2008. The meeting considered and approved Summary Report of the Corporate Governance Rectification Movement of Luoyang Glass Company Limited. The announcements of the resolutions were published on China Securities Journal and Shanghai Securities News on 17 July 2008.

(5) The Company held the 23rd meeting of the fifth Board on 6 August 2008. The meeting considered and approved the following matters as resolutions:

1) organization restructure plan of the Company;

2) to appoint Mr. Ip Pui Sum as to the Board Secretary, effective since 6 August 2008 with a term of office same as that of the members of the current Board. Mr. Wong Yiu Hung resigned as Company Secretary, effective since 6 August 2008.

3) to appoint Ms. To Wai Kum as qualified accountant in Hong Kong, effective since 6 August 2008 with a term of office same as that of the members of the current Board. Mr. Wong Yiu Hung resigned as qualified accountant of the Company;

4) to appoint Anglo Chinese Corporate Finance, Limited as Compliance Advisor of the Company, effective since 6 August 2008 with a term of two years;

5) to adjust members of independent Compliance Committee of the Board;

6) to appoint Daxin Certified Public Accountants and PKF Certified Public Accountants respectively as domestic and international auditor of the Company for 2008;

The announcements of the resolutions were published on China Securities Journal and Shanghai Securities News on 7 August 2008.

(III) Daily work of the Board *(Continued)*

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

(6) ***The Company held the 24th meeting of the fifth Board on 23 August 2008. The meeting considered and approved Interim Report 2008 and its summary. The announcements of the resolutions were published on China Securities Journal and Shanghai Securities News on 25 August 2008.***

(7) ***The Company held the 25th meeting of the fifth Board on 24 October 2008. The meeting considered and approved the following matters as resolutions: Third Quarterly Report for 2008; the proposed entering of Luoyang State Owned Land Use Rights Acquisition Agreement by Company with Luoyang Land Reserves Coordination Centre, pursuant to which the Company agreed to sell the land use right for a piece of land of 218,658.30 square metres as well as the buildings and ancillary structures thereon at a total consideration of RMB250,000,000 to Luoyang Land Reserves Coordination Centre. Upon completion of the disposal, the Company is expected to recognise a gain of approximately RMB175,341,212.51. The Board authorised Chairman Mr. Gao Tianbao to sign the contract. The announcements of the resolutions were published on China Securities Journal and Shanghai Securities News on 25 October 2008.***

(8) ***The Company held the 26th meeting of the fifth Board on 11 November 2008. The meeting considered and approved the resolution to sell 66.67% equity of Xiangfang Luoshen Auto Glass Company Limited held by the Company to Gucheng Bada Mining Company Limited at a consideration of RMB4,500,000.***

(9) ***The Company held the 27th meeting of the fifth Board on 11 December 2008. The meeting considered and approved the proposal that Mr. Yang Weiping resigned as Director of the Company on 11 December 2008 and the nomination of director candidate Mr. Bao Wenchun by China Luoyang Float Glass (Group) Company Limited, the single majority shareholder of the Company. The announcements of the resolutions were published on China Securities Journal and Shanghai Securities News on 12 December 2008.***

In 2008, the Board of the Company has held 9 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**	**9** **Attendance**	**Attendance by proxy**
Zhu Leibo (resigned on 14 April 2008)	2	0
Zhu Liuxin (resigned on 14 April 2008)	2	0
Gao Tianbao *(Chairman)*	9	0
Xie Jun	9	0
Cao Mingchun	9	0
Song Fei	8	0
Song Jianming	8	0
Shen Anqin	9	0
Yang Weiping (resigned on 11 Decemebr 2008)	8	0
Guo Aimin	9	0
Xi Shengyang	9	0
Zhang Zhanying	9	0
Ge Tieming	9	0

(III) Daily work of the Board *(Continued)*

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 fulfil 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) discussed the proposal to sell the land use right for a piece of land of 218,658.30 square metres as well as the buildings and ancillary structures thereon at a total consideration of RMB250,000,000 to Luoyang Land Reserves Coordination Centre on 20 September 2008, which was considered to be an important step to make full use of assets, increase current working capital and turn profit so as to safeguard our listing status; 2) discussed the proposal to sell 66.67% equity of Xiangfang Luoshen Auto Glass Company Limited held by the Company to Gucheng Bada Mining Company Limited at a consideration of RMB4,500,000 on 25 October 2008, which was considered to be a effective measure to divest non-performing assets, and submitted the feasibility suggestions to the Board.

Attendance of individual members in 2008 Strategic Committee meetings

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

(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 annual report,2008 first quarterly report, 2008 interim report and 2008 third quarterly report. It should be noted that during the auditing on the 2008 annual report, the Audit Committee performed the following duties in accordance with "CSRC announcement [2008] No. 48" "Shanghai Stock Exchange Notice on Proper Preparation of Annual Reports for the Year 2008 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;

(III) Daily work of the Board *(Continued)*

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

(2) Audit Committee (Continued)

(4) Considered, after 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 Daxin Certified Public Accountants Co., Ltd. and PKF Certified Public Accountants followed the professional principles of independence, objectiveness and fairness. The 2008 annual report truly, accurately and comprehensively reflects the financial and operating conditions of the Company and shareholders' equity interest.

Attendance of individual members in 2008 Audit Committee meetings

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

(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 2008, 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 2008 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 2008

Number of meetings	**2**	
Name	**Attendance**	**Attendance by proxy**
Ge Tieming (Chief member)	2	0
Xi Shengyang	2	0
Song Fei	2	0

(III) Daily work of the Board *(Continued)*

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

(4) Nomination Committee

The Nomination Committee carefully performed its duties during the reporting period. The committee called two special meetings: 1) On 12 April 2008, the committee considered the eligibility of the two director candidates Ms. Song Fei and Mr. Song Jianming, and submitted its consent to the Board in respect of their eligibility. 2) On 10 December 2008, the Committee considered the eligibility of director candidate Mr. Bao Wenchun, and submitted its consent to the Board in respect of his eligibility.

Attendance of individual members in Nomination Committee meetings in 2008

Number of meetings Name	2 Attendance	Attendance by proxy
Zhu Leibo (resigned on 14 April 2008)	1	0
Gao Tianbao	1	0
Guo Aimin	2	0
Ge Tieming	2	0

(5) Compliance Committee

The Compliance Committee of the Company carefully performed its duties during the reporting period and called two special meetings: 1) On 10 October 2008, the Compliance Committee discussed the compliance operation of disposal of 200,000 square metres of idle land and submitted feasible plans to the Board. 2) On 4 November 2008, the Compliance Committee considered the content of the connected transaction of the Company and urged to carry out the approving process for seeking waiver as soon as practicable.

Attendance of Compliance Committee meetings in 2008

Number of meetings Name	2 Attendance	Attendance by proxy
Xi Shengyang	2	0
Lam Ka Wai, Graham	2	0
Yang Weiping	2	0
Ip Pui Sum	2	0
To Wai Kum	2	0

Profit Distribution Plan and Transfer of Capital Reserve to Share Capital for 2008

According to the International Accounting Standards, the net profit attributable to equity shareholders of the Company for 2008 was RMB54.04 million. Taking into account loss of RMB850.35 million in the beginning of the year, accumulated loss was RMB796.31 million. As a result, the Company does not recommend profit distribution for 2008 or any transfer of capital reserve to share capital.

According to the PRC Accounting Standards, the net profit attributable to owners of the parent company in 2008 was RMB12.78 million. Taking into account the loss of RMB1,262.75 million in the beginning of the year, accumulated loss was RMB1,249.97 million. As a result, the Company does not recommend profit distribution for 2008 or any transfer of capital reserve to share capital.

(III) Daily work of the Board *(Continued)*

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

Overdue Deposits

As at 31 December 2008, overdue deposits due from Guangzhou International Trust & Investment Corporation ("GZITIC") was RMB35,000,000.00 with the original amount of RMB145,657,113.55, for which the Company had made RMB110,657,113.55 of provision for bad debt in previous years. In 2007, Sun Kian Ip Holding Company Limited (新建業集團有限公司) sent a letter to the Company to request for purchasing the creditor's rights by tender offer. On 3 December of the year, the Company reached the intent for further transfer of creditor's rights with Macau Sun Kian Ip Holding, pursuant to which the transfer consideration of the creditor's rights shall not exceed RMB40,000,000.00. The Company's Directors believe that the recoverable amount of the creditor's rights for GZITIC was nearly RMB40,000,000.00.

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 information available to the Company and to the best knowledge and belief of the Directors, the Company has maintained a public float in compliance with the Listing Rules.

The Board of Directors
Luoyang Glass Company Limited
Chairman
Gao Tianbao

Report of the supervisory committee

(I) Work of the Supervisory Committee

1. The Supervisory Committee of the Company held the 2008 first meeting on 27 March 2008, at which the 2007 Annual Report and its summary were reviewed and analysed.

2. The Supervisory Committee of the Company held the 2008 second meeting on 24 April 2008, at which the First Quarterly Report for 2008 was reviewed and analysed.

3. The Supervisory Committee of the Company held the 2008 third meeting on 23 August 2008, at which the 2008 Interim Report and its summary were reviewed and analysed.

4. The Supervisory Committee of the Company held the 2008 fifth meeting on 24 October 2008, at which the Third Quarterly Report for 2008 was reviewed and analysed.

The Supervisory Committee attended the board meetings and general meetings as non-voting participants and exercised effective supervision over the compliance of such meetings and whether they were in the interest of shareholders.

(II) The Supervisory Committee provided independent opinions on the following issues:

1. Opinions of the Supervisory Committee on the Company's 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 has standardized operation in accordance with the PRC 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 action detrimental to the Company's interests were found.

2. Opinions of the Supervisory Committee on the Company's financial status

The Supervisory Committee concurs with auditors' reports issued by Daxin Certified Public Accountants Co., Ltd. and PKF Certified Public Accountants prepared under the PRC Accounting Standards and Regulations and IFRSs 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. Opinions of the Supervisory Committee on actual utilisation of the latest raised proceeds

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

4. Opinions of the Supervisory Committee on the Company's assets acquisition and disposal

During the reporting period, the transaction consideration for assets acquisition and disposal of the Company were reasonable. No inside trading, indication of damage of shareholders' rights and interests or runoff of the Company's assets has been found.

5. Opinion of the Supervisory Committee on connected transaction

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

(II) The Supervisory Committee provided independent opinions on the following issues: *(Continued)*

6. Opinions of the Supervisory Committee on non-standard auditors' report issued by auditors

Daxin Certified Public Accountants Co., Ltd. issued their auditors' reports with an explanatory paragraph for the 2008 financial statements of the Company. Particulars of the explanatory paragraph are as follows:

"We would draw the attention of the users of the financial statements, as stated in note 2 to the financial statements, that the financial statements of the Group and the Company were prepared on assumption that the Group and Company would continue as a going concern during the period from the end of the reporting period to 31 December 2009. The Group had accumulated losses amounting to Rmb1,249,967,485.76 and net current liabilities of Rmb941,320,286.68 at 31 December 2008. Notwithstanding the Company's management has justified the going concern basis in preparing the above financial statements 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: Preparation basis for financial statements as set out in Note 2 to financial statements:

Notwithstanding that the Company had accumulated losses of Rmb1,249,967,485.76 and net current liabilities Rmb 941,320,286.68 as shown in its consolidated financial statements as at 31 December 2008, 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 perform their obligations as and when they fall due, having regard to the following:

(1) As at 31 December 2008, the Group has fully utilized its loan facilities of approximately Rmb717,767,000.00 provided by banks. Such loans will expire within a year after the balance sheet date. Directors of the Company are negotiating with the banks for their continuing support.

(2) Continuing financial supports will be received from the controlling shareholder, CLFG, and its parent company, CNBMG.

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 realizable value, to provide for any possible liabilities which might arise, and to reclassify long-term liabilities as current liabilities.

In respect of the above explanatory paragraph in the auditors' report, the Company believes that the net current liabilities is mainly attributable to 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 in accordance with relevant provisions of accounting policies of the Company. 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.

However, in the opinion of the Supervisory Committee of the Company, cash inflow status will be improved with the gradual effect from optimization 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, the de facto controlling shareholder and other financial institutions to cope with the potential financing difficulties.

Continuing Connected Transactions

During the entire year ended 31 December 2008, the Company and its subsidiaries ("Group") entered into the following continuing connected transactions within the meaning of Chapter 14A of the Listing Rules. These transactions were entered into in order to secure the continuous supply of raw materials and energy needed for the Group's production. A summary of these transactions is set out below. (Please refer to the announcement of the Company dated 24 April 2009 for further details of these transactions.)

1. **Company Supply Agreement:** Since 1994, the Group supplied CLFG and its subsidiaries ("CLFG Group") with float flat glass products at the car-making level (汽車級) and the mirror-making level (制鏡級). The products were priced with reference to the prevailing market price at the time the products were supplied, and market price for supplying same or similar products to third parties. The price offered to CLFG Group would not be less than that offered to third party customers of the Group. During the 2008 fiscal year, the aggregate consideration for the supply of float flat glass products was RMB5.80 million. In 2008, CLFG was the Company's controlling shareholder and was therefore a connected person of the Company in terms of the Listing Rules.

2. **Provision of Water, Electricity and Steam Agreement:** The Company has since 1994 been supplying water, electricity and steam to CLFG Group at a price determined with reference to the prevailing market price that was in turn determined based on relevant PRC regulations from time to time. Total consideration amounted to RMB20.29 million during 2008. In 2008, CLFG was the Company's controlling shareholder and was therefore a connected person of the Company in terms of the Listing Rules

3. **CLFG Composite Services Agreement:** The Company had since 1994 obtained from CLFG various services for its day-to-day operations and production. These services included development of float flat glass technology services and relevant technology consultation services; licensing of patents; technology analysis and assessment; technology examination; technology proposal; technology information; products development; analysis test services; repairing of equipment and other technology services; training services; management of retired staff affairs; training of armed militiamen; civil air-raid shelters services; and advertising services. Pricing of these services were determined with reference to the applicable State Price or if there is no applicable State Price for the service in question, the market price. Prices for providing the same of similar services to third parties in Luoyang City or nearby areas will be taken into account in determining the market price. The price offered to the Company would not be higher than the price for providing the same or similar services to third party customers of the Group. Total consideration for the supply of services amounted to RMB4.02 million during 2008. In 2008, CLFG was the Company's controlling shareholder and was therefore a connected person of the Company in terms of the Listing Rules.

4. **Longhao Entrusted Loan Agreement:** Since 2006, the Company had provided entrusted loans to Longhao Glass for carrying out the latter's various work projects assigned by the Company. As the Company is not a licensed financial institution it is not authorised to conduct banking related businesses, including granting loans, in the PRC. The entrusted loan arrangements served to facilitate and finance the Company's subsidiaries in implementing work-related projects. Such loan was unsecured, interest bearing at a rate determined with reference to the relevant loan basic interest rates set by People's Bank of China and the permitted range of floating interest rates for financial institutes set by People's Bank of China at the time the loan was provided. These loans were repayable within one year**.** Based on the average month-end figures during 2008, the total amount of entrusted loan was RMB92.70 million. During 2008, Longhao Glass was an 80%-owned subsidiary of the Company. As CFLG, the Company's controlling shareholder, owned the remaining 20% interest in Longhao Glass, Longhao Glass was treated as a connected person of the Company.

5. **Longhai Entrusted Loan Agreement:** Since 2006, the Company had provided entrusted loans to Longhai Glass for carrying out the latter's various work projects assigned by the Company. As the Company is not a licensed financial institution it is not authorised to conduct banking related businesses, including granting loans, in the PRC. The entrusted loan arrangements served to facilitate and finance the Company's subsidiaries in implementing work-related projects. Such loan was unsecured, interest bearing at a rate determined with reference to the relevant loan basic interest rates set by People's Bank of China and the permitted range of floating interest rates for financial institutes set by People's Bank of China at the time the loan was provided. These loans were repayable within one year. Based on the average month-end figures during 2008, the total amount of entrusted loan was RMB136.71 million. During 2008, Longhai Glass was owned as to 80% by the Company and 20% by CFLG, the Company's controlling shareholder. As such, Longhai Glass was treated as a connected person of the Company.

Continuing Connected Transactions *(Continued)*

6. **Longfei Entrusted Loan Agreement:** Since 2000, the Company had provided entrusted loans to Longfei Glass for carrying out the latter's various work projects assigned by the Company. As the Company is not a licensed financial institution it is not authorised to conduct banking related businesses, including granting loans, in the PRC. The entrusted loan arrangements served to facilitate and finance the Company's subsidiaries in implementing work-related projects. Such loan was unsecured, interest bearing at a rate determined with reference to the relevant loan basic interest rates set by People's Bank of China and the permitted range of floating interest rates for financial institutes set by People's Bank of China at the time the loan was provided. These loans were repayable within one year. Based on the average month-end figures during 2008, the total amount of entrusted loan was RMB15.00 million. During 2008, Longfei Glass was owned as to 54% by the Company, 10% by CFLG, the Company's controlling shareholder, and 36% by an independent third party. As such, Longfei Glass was treated as a connected person of the Company.

7. **Longhao Guarantee Agreement:** The Company provided since 2005 a guarantee in respect of bank loans obtained by Longhao Glass (a subsidiary of the Company) and the latter also provided in favour of the Company counter-guarantees in respect of the guarantees given by the Company. The bank loans obtained by the subsidiaries of the Company were applied in implementing specific work-related projects assigned by the Company. In the course of implementing these projects, it is often necessary for the Company that had a stronger financial standing that its subsidiaries to provide the latter with guarantees in respect of bank loans obtained by the subsidiaries. Based on the maximum outstanding amounts during the 2008 financial year, the total consideration of the guarantee provided by the Company was RMB40.00 million. Longhao Glass was owned as to 80% by the Company and 20% by CLFG, the controlling shareholder of the Company. As such, Longhao Glass was regarded as a connected person of the Company.

8. **Longhai Guarantee Agreement:** The Company provided since 2005 a guarantee in respect of bank loans obtained by Longhai Glass (a subsidiary of the Company) and the latter also provided in favour of the Company counter-guarantees in respect of the guarantees given by the Company. The bank loans obtained by the subsidiaries of the Company were applied in implementing specific work-related projects assigned by the Company. In the course of implementing these projects, it is often necessary for the Company that had a stronger financial standing that its subsidiaries to provide the latter with guarantees in respect of bank loans obtained by the subsidiaries. Based on the maximum outstanding amounts during the 2008 financial year, the total consideration of the guarantee provided by the Company was RMB27.00 million. Longhai Glass was owned as to 80% by the Company and 20% by CLFG, the controlling shareholder of the Company. As such, Longhai Glass was regarded as a connected person of the Company.

9. **Longfei Guarantee Agreement:** The Company provided since 2000 a guarantee in respect of bank loans obtained by Longfei Glass (a subsidiary of the Company) and the latter also provided in favour of the Company counter-guarantees in respect of the guarantees given by the Company. The bank loans obtained by the subsidiaries of the Company were applied in implementing specific work-related projects assigned by the Company. In the course of implementing these projects, it is often necessary for the Company that had a stronger financial standing that its subsidiaries to provide the latter with guarantees in respect of bank loans obtained by the subsidiaries. Based on the maximum outstanding amounts during the 2008 financial year, the total consideration of the guarantee provided by the Company was RMB52.00 million. Longfei Glass was owned as to 54% by the Company and 10% by CLFG, the controlling shareholder of the Company. As such, Longfei Glass was regarded as a connected person of the Company.

10. **Longxiang Guarantee Agreement:** The Company provided since March 2008 a guarantee in respect of bank loans obtained by Longxiang Glass (a subsidiary of the Company) and the latter also provided in favour of the Company counter-guarantees in respect of the guarantees given by the Company. The bank loans obtained by the subsidiaries of the Company were applied in implementing specific work-related projects assigned by the Company. In the course of implementing these projects, it is often necessary for the Company that had a stronger financial standing that its subsidiaries to provide the latter with guarantees in respect of bank loans obtained by the subsidiaries. Based on the maximum outstanding amounts during the 2008 financial year, the total consideration of the guarantee provided by the Company was RMB21.00 million. During 2008, Longxiang Glass was owned as to 60% by the Company and 40% by Longfei Glass, a 54% owned subsidiary of the Company and in which CLFG, the controlling shareholder of the Company, owned a 10% interest. Longxiang Glass was considered to be a subsidiary of Longfei Glass since Longfei Glass had effective control over the composition of a majority of the board of directors of Longxiang Glass. As such, Longxiang Glass was treated as a connected person of the Company during 2008.

Continuing Connected Transactions *(Continued)*

11. **Longhao Raw Material Supply Agreement:** As part of the Group's centralised approach in sourcing raw materials for its production, the Company supplied since 2006 to Longhao Glass raw materials including alkali, oil, thenardite, silicon powder, dolomite powder, limestone powder, potassium feldspar powder and shattered glass. These raw materials were supplied at a price determined by reference to the prevailing market price of the raw materials at the time of each sale. Aggregate consideration was RMB208.84 million for 2008. Longhao Glass was treated as a connected person of the Company since Longhao Glass was owned as to 80% by the Company and 20% CLFG.

12. **Longfei Raw Material Supply Agreement:** As part of the Group's centralised approach in sourcing raw materials for its production, the Company supplied since 2007 to Longfei Glass (a subsidiary of the Company) raw materials including alkali, oil, thenardite, silicon powder, dolomite powder, limestone powder, potassium feldspar powder and shattered glass. These raw materials were supplied at a price determined by reference to the prevailing market price of the raw materials at the time of each sale. Aggregate consideration was RMB43.59 million for 2008. Longfei Glass was treated as a connected person of the Company since Longfei Glass was owned as to 54% by the Company and 10% CLFG.

13. **Longxiang Raw Material Supply Agreement:** As part of the Group's centralised approach in sourcing raw materials for its production, the Company supplied since March 2008 to Longxiang Glass (a subsidiary of the Company) raw materials including alkali, oil, thenardite, silicon powder, dolomite powder, limestone powder, potassium feldspar powder and shattered glass. These raw materials were supplied at a price determined by reference to the prevailing market price of the raw materials at the time of each sale. Aggregate consideration amounted to RMB76.35 million during 2008. During this year, Longxiang Glass was owned as to 60% by the Company and 40% by Longfei Glass, a 54%-owned subsidiary of the Company and in which CLFG, the controlling shareholder of the Company, owned a 10% interest. Longxiang Glass was therefore treated as a connected person of the Company.

14. **Longxin Raw Material Supply Agreement:** As part of the Group's centralised approach in sourcing raw materials for its production, the Company supplied since March 2008 to Longxin Glass (a subsidiary of the Company) raw materials including alkali, oil, thenardite, silicon powder, dolomite powder, limestone powder, potassium feldspar powder and shattered glass. These raw materials were supplied at a price determined by reference to the prevailing market price of the raw materials at the time of each sale. Aggregate consideration was RMB137.10 million for 2008. Longxin Glass was treated as a connected person of the Company since it was equally owned by the Company and CLFG.

15. ***Longhao Glass Supply Agreement:*** In order to achieve greater economies of scale and leverage on the Group's enlarged bargaining power with the customers, the Group adopted a centralised approach in selling its products whereby the Company would sell the products on behalf of its subsidiaries. Since 2006, the Company purchased from Longhao Glass (a subsidiary of the Company) float flat glass products for onward sale to customers. Total consideration for the purchases during 2008 was RMB246.50 million. Longhao Glass was owned as to 80% by the Company and 20% by CLFG. Accordingly, Longhao Glass was treated as a connected person of the Company.

16. **Longfei Glass Supply Agreement:** In order to achieve greater economies of scale and leverage on the Group's enlarged bargaining power with the customers, the Group adopted a centralised approach in selling its products whereby the Company would sell the products on behalf of its subsidiaries. Since 2000, the Company purchased from Longfei Glass (a subsidiary of the Company) float flat glass products for onward sale to customers at a price determined with reference to the prevailing market price at the time of each purchase. Total consideration for the purchases during 2008 was RMB18.44 million. Longfei Glass was owned as to 54% by the Company, 10% by CLFG and 36% by an independent third party. Accordingly, Longfei Glass was treated as a connected person of the Company.

17. **Longxiang Glass Supply Agreement:** In order to achieve greater economies of scale and leverage on the Group's enlarged bargaining power with the customers, the Group adopted a centralised approach in selling its products whereby the Company would sell the products on behalf of its subsidiaries. Since 2007, the Company purchased from Longhao Glass (a subsidiary of the Company) float flat glass products for onward sale to customers at a price determined with reference to the prevailing market price at the time of each purchase. Total consideration for the purchases during 2008 was RMB58.90 million. Longxiang Glass was owned as to 60% by the Company and 40% by Longfei Glass, which was in turn a subsidiary of the Company and in which CLFG had a 10% interest. Accordingly, Longxiang Glass was treated as a connected person of the Company.

18. **Longxin Glass Supply Agreement:** In order to achieve greater economies of scale and leverage on the Group's enlarged bargaining power with the customers, the Group adopted a centralised approach in selling its products whereby the Company would sell the products on behalf of its subsidiaries. Since 2004, the Company purchased from Longhao Glass (a subsidiary of the Company) float flat glass products for onward sale to customers at a price determined with reference to the prevailing market price at the time of each purchase. Total consideration for the purchases during 2008 was RMB56.33 million. Longxin Glass was equally owned by the Company and CLFG. Accordingly, Longxin Glass was treated as a connected person of the Company.

Continuing Connected Transactions *(Continued)*

19. **Huayi Glass Supply Agreement:** Longhai Glass, a subsidiary of the Company, has since 2007 been supplying super thin float flat glass to Huayi Glass. The sale price of the glass supplied was determined with reference to the prevailing market price at the time of each sale. Aggregate consideration for the sale of glass amounted to RMB18.90 million during 2008. Huayi Glass was a connected person of the Company during 2008 as it was an associate of CNBMG, the ultimate controlling shareholder of the Company.

20. **Silicon Powder Supply Agreement:** The Group has since 1994 purchased silicon powder from CLFG Mineral Company which manufactured it. It was agreed that the Group would purchase from CLFG Mineral Company at least 25 tonnes of silicon powder per annum. The Group had a priority over other third parties in purchasing silicon powder from CLFG Mineral Company. The purchase price was determined with reference to the prevailing market price at the time of each purchase. Prices of silicon powder were calculated based on dry silicon powder with a water content of below 6%, above which the purchase price would be lowered and in accordance with the market price. If the Group was likely to obtain a lower price or better quality silicon powder from other supplies, the Group may purchase the material from other suppliers provided the Group gave a 3 month prior written notice to CLFG Mineral Company. Total consideration for the purchases during 2008 was RMB12.64 million. CLFG Mineral Company was a connected person of the Company as it was a subsidiary of CLFG, the Company's controlling shareholder.

21. **Logistics Company Land Use Right Lease Agreement:** The Company leased from The Logistics Company, a subsidiary of CLFG, land use rights of a piece of land located at No. 9 Tang Gong Zhong Lu, Luoyang City (洛陽市唐宮中路9號) with a total floor area of approximately 79,444.9 square metres since February 2008. The land was occupied by the Company for its operations. The rental was determined with reference to the prevailing market rental for the same district and type of building. Annual rental was RMB1.00 million in 2008. As The Logistics Company was during 2008 a subsidiary of CLFG, the Company's controlling shareholder, The Logistics Company was a connected person of the Company.

22. **Luoyang Land Use Right Lease Agreement:** Since 1994, the Company leased to CLFG Group the land use rights of two pieces of land located at Luoyang City High and New Technology and Production Development District (洛陽市高新技術產業開發區) and No. 9 Tang Gong Zhong Lu, Luoyang City (洛陽市唐宮中路9號). The total floor area was approximately 113,000 square meters. The premises were used by CLFG Group for its operations. The rental was determined with reference to the prevailing market rental for the same district and type of building. Annual rent was around RMB471,000 in 2008. During the lease period, CLFG was the Company's controlling shareholder and was therefore a connected person of the Company.

23. **Longhao Composite Services Agreement:** The Company had since 2006 rendered various services to Longhao Glass, an 80%-owned subsidiary of the Company. These services were supplied to the subsidiaries of the Company in order to facilitate the research and operations of the subsidiaries. Services offered to Longhao Glass included technology usage and consultation services; establishment and organization of systems on production safety and environmental protection; implementation of glass colour change according to the need of the market; preparing software for glass technology to implement the technology operation; analytical services for defected glass; examination of oven and main equipments and preparation of repairing proposal; examination of production table and testing devices; assistance in restoration of production after serious accident; storage services; transportation services; training services for management; and brand management. The above services were provided at a price determined with reference to the prevailing market price at the time of the transaction. Total consideration for the services supplied during 2008 was RMB4.29 million. CLFG, the Company's controlling shareholder owned a 20% interest in Longhao Glass. As such, Longhao Glass was a connected person of the Company.

24. **Longhai Composite Services Agreement:** The Company had since 2005 rendered various services to Longhai Glass, a subsidiary of the Company. These services were supplied to the subsidiaries of the Company in order to facilitate the research and operations of the subsidiaries. Services offered to Longhai Glass were the same offered by the Company to Longhao Glass described above. The services were provided at a price determined with reference to the prevailing market price at the time of the transaction. Total consideration for the services supplied during 2008 was RMB695,000. During 2008, Longhai Glass was owned as to 80% by the Company and 20% by CFLG, the Company's controlling shareholder. As such, Longhai Glass was treated as a connected person of the Company.

Continuing Connected Transactions *(Continued)*

25. **Longfei Composite Services Agreement:** The Company had since 2006 rendered various services to Longfei Glass, a subsidiary of the Company. These services were supplied to the subsidiaries of the Company in order to facilitate the research and operations of the subsidiaries. Services offered to Longfei Glass were the same offered by the Company to Longhao Glass described above. The services were provided at a price determined with reference to the prevailing market price at the time of the transaction. Total consideration for the services supplied during 2008 was RMB1.01 million. CLFG, the Company's controlling shareholder owned a 10% interest in Longfei Glass. As such, Longfei Glass was a connected person of the Company.

26. **Longxiang Composite Services Agreement:** The Company had since 2006 rendered various services to Longxiang Glass, a subsidiary of the Company. These services were supplied to the subsidiaries of the Company in order to facilitate the research and operations of the subsidiaries. Services offered to Longfei Glass were the same offered by the Company to Longhao Glass described above. The services were provided at a price determined with reference to the prevailing market price at the time of the transaction. Total consideration for the services supplied during 2008 was RMB2.04 million. During 2008, Longxiang Glass was owned as to 60% by the Company and 40% by Longfei Glass, a 54% owned subsidiary of the Company and in which CLFG, the controlling shareholder of the Company, owned a 10% interest. Longxiang Glass was considered to be a subsidiary of Longfei Glass since Longfei Glass had effective control over the composition of a majority of the board of directors of Longxiang Glass. As such, Longxiang Glass was treated as a connected person of the Company during 2008.

27. **Longxin Composite Services Agreement:** The Company had since 2005 rendered various services to Longxin Glass, a subsidiary of the Company. These services were supplied to the subsidiaries of the Company in order to facilitate the research and operations of the subsidiaries. Services offered to Longxin Glass were the same offered by the Company to Longhao Glass described above. The services were provided at a price determined with reference to the prevailing market price at the time of the transaction. Total consideration for the services supplied during 2008 was RMB3.14 million. Longxin Glass was treated as a connected person of the Company since it was equally owned by the Company and CLFG.

28. **Community Services Agreement:** Since 1994, the Group purchased various community services from Luoyang Xinxing for the use by employees of the Group. These services comprised the provision of kindergarten, management of bicycle park and public bathroom, property management services including cleaning, environmental greening work, securities, dorm management, warming system management and maintenance of public facilities. The fees paid for the services were determined with reference to market rates and prices for supplying same or similar services to third parties in Luoyang. If there was no applicable market rate, the fees would be determined by adding a profit margin of up to 5% to the costs of providing the services. Aggregate consideration received during 2008 was RMB4.19 million. Luoyang Xinxing was a connected person of the Company as Luoyang Xinxing was an associate of CLFG, the Company's controlling shareholder.

    In 2008, the Company also conducted the following continuing connected transactions which have been terminated. Details of such transactions are as follows:

29. **Longfei Longxiang Loan Transaction:** Since 2006, Longfei Glass, a subsidiary of the Company granted an unsecured interest bearing loan of RMB14,000,000 to Longxiang Glass for the latter to carry out its operations. The interest charged on this loan was 6.696% per annum which was determined with reference to the relevant loan basic interest rates set by People's Bank of China and the permitted range of floating interest rates for financial institutions set by People's Bank of China at the time of providing the loan. These loans were repayable within one year. The loan amount was repaid in full in February 2008. During 2008, Longxiang Glass was owned as to 60% by the Company and 40% by Longfei Glass, a 54% owned subsidiary of the Company and in which CLFG, the controlling shareholder of the Company, owned a 10% interest. As such, Longxiang Glass was treated as a connected person of the Company during 2008.

Continuing Connected Transactions *(Continued)*

30. **Longhai Raw Material Supply Transaction:** the Group adopted a centralised approach in sourcing raw material whereby the Company sourced raw materials on behalf of its subsidiaries prior to 2008 which it provided raw materials included provide certain raw materials including alkali, oil, thenardite, silicon powder, dolomite powder, limestone powder, potassium feldspar powder and shattered glass to Longhai Glass since 2006. The price was determined with reference to the prevailing market price of such raw materials. The total consideration during 2008 was RMB54.9 million. During 2008, Longhai Glass was owned as to 80% by the Company and 20% by CFLG, the Company's controlling shareholder. As such, Longhai Glass was treated as a connected person of the Company.

31. **Longhai Glass Supply Transaction:** In order to achieve greater economies of scale and leverage on the enlarged bargaining power with the customers, the Group adopted a centralised approach in selling its products whereby the Company would sell the products on behalf of its subsidiaries. In particular, the Company had sine 2006 purchased from Longhao Glass float flat glass products for onward sale to customers. The purchase price was determined with reference to the prevailing market price of similar glass products. The total consideration during 2008 was RMB73.1 million. During 2008, Longhai Glass was owned as to 80% by the Company and 20% by CFLG, the Company's controlling shareholder. As such, Longhai Glass was treated as a connected person of the Company.

32. **Financial Services Transaction:** Since 1994, CLFG Finance Company, a non-bank finance company approved and regulated by the People's Bank of China and the China Banking Regulatory Commission, provided certain financial services including deposit taking services, entrusted loans services, loans services, guarantees services and settlement services (such settlement services were provided in the course of provision of the other financial services and hence no services fees was charged in relation to such services) to the Group. The interest rates for deposits were determined with reference to the relevant deposits basic interest rates set by PBOC from time to time when the transactions take place. The interest rates for loans were determined with reference to the relevant loan basic interest rates set by PBOC and the permitted range of floating interest rates for financial institutions set by PBOC at the time of providing the loans. The deposit amount and loan amount, calculated as the average month-end balance of 2008, was RMB11.13 million and RMB64.64 million respectively. The amount of guarantee, calculated as the maximum outstanding balance in 2008, was RMB840.17 million. During 2008, CLFG Finance Company was owned as to 63% by CLFG, the controlling shareholder of the Company, and 37% by the Company. As such, CLFG Finance Company was treated as a connected person of the Company during 2008.

    Some of the above continuing connected transactions were disclosed as related party transactions in note 36 to the 2008 audited consolidated financial statements of the Group.

The Board engaged PKF Certified Public Accountants, the auditors of the Company to perform certain agreed upon procedures in respect of the continuing connected transactions of the Group for the year ended 31 December 2008 in order to confirm if these transactions:

a. have received the approval from the Board;

b. were in accordance with the pricing policies of the Group where the transactions involve provision of goods and services by the Group;

c. have been entered into in accordance with the relevant agreements governing the transactions; and

d. have not exceeded the caps disclosed in the prospectus of the Company or other relevant announcements.

The board of directors of the Company acknowledged that the above connected transactions that would either continue or had been terminated, did not comply with the disclosure requirements under the Listing Rules. (Please refer to the announcement dated 24 April, 2009 for details of these non-compliances.

On 8th April, 2009, PKF Certified Public Accountants provided a letter to the Board (with a copy to the Listing Division of the Stock Exchange) confirming that the above mentioned continuing connected transactions of the Group numbered 1, 2, 11, 12, 13, 14, 19, 23, 24, 26, and 27 were in accordance with the pricing policies of the Group. PKF Certified Public Accountants reported that they were unable to confirm points a, c and d stated above.

Continuing Connected Transactions *(Continued)*

The independent non-executive Directors have reviewed the above mentioned continuing connected transactions that took place during the year ended 31 December 2008 and confirmed that these transactions were:

a. in the ordinary and usual course of business of the Group; and

b. on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties.

Since the Company did not until 24 April, 2009 enter into written agreements in respect of the above mentioned connected transactions, the independent Directors were unable to confirm if these transactions have been entered into in accordance with the relevant agreements governing them on terms which are fair and reasonable and in the interests of the shareholders of the Company as a whole in 2008.

Connected transactions exempted from independent shareholders' approval

The Group also conducted the following connected transactions the were exempted from the Independent Shareholders' approval requirement under Chapter 14A of the Listing Rules, comprising the Longmen Longhai Raw Material Transaction, the Longmen Longhao Raw Material Transaction and the Longhai Longmen Shattered Glass Transaction during 2008. Set out below is a summary of the Connected Transactions.

1. **Longmen Longhai Raw Material Transaction:** In order to improve the technology of its production line and to utilize its stock, in January 2008 Longmen Glass (a subsidiary of the Company) sold certain raw materials including fine coal, sulfur dioxide, steel band, oil, carbon powder and limestone to Longhai Glass at a consideration of approximately RMB6.3 million. The consideration was determined with reference to the prevailing market price of such raw materials at the time of the transaction. During 2008, Longhai Glass was owned as to 80% by the Company and 20% by CFLG, the Company's controlling shareholder. As such, Longhai Glass was treated as a connected person of the Company.1

2. **Longmen Longhao Raw Material Transaction:** In order to fully utilize its stock, in November, 2008, Longmen Glass (a subsidiary of the Company) sold certain raw materials including shattered glass and alkali to Longhao Glass at a consideration of approximately RMB1.9 million which was determined with reference to the prevailing market price of such raw materials at the time of the transaction. CLFG, the Company's controlling shareholder, owned a 20% interest in Longhao Glass. As such, Longhao Glass was a connected person of the Company.

3. **Longhai Longmen Shattered Glass Transaction:** In order to improve its cash flow and to utilize its stock, in March 2008 Longhai Glass sold shattered glass to Longmen Glass (a subsidiary of the Company) at a consideration of approximately RMB1.2 million which was determined with reference to the prevailing market price of shattered glass at the time of the transaction. During 2008, Longhai Glass was owned as to 80% by the Company and 20% by CFLG, the Company's controlling shareholder. As such, Longhai Glass was treated as a connected person of the Company.

Since each of the applicable percentage ratios for each of the abovementioned connected transactions was equal to or more than 0.1% but less than 2.5%, these transactions constituted connected transactions which were subject to reporting and announcement requirements but exempt from the Independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

The abovementioned connected transactions were not in compliance with the requirements to (i) enter into written agreement(s) pursuant to Rule 14A.04 of the Listing Rules; and (ii) make announcement(s) pursuant to Rule 14A.47 of the Listing Rules. Written agreement for each of the Connected Transactions was entered into on 24 April 2009 to rectify the non-compliance with Rule 14A.04 of the Listing Rules. The Board (including the independent non-executive Directors) confirms that the connected transactions were conducted in the ordinary course of business, the terms of the connected transactions were normal and commercial terms, fair and reasonable and in the interests of the Shareholders and the Company as a whole.

(I) Material litigation and arbitration

The Company was not involved in any litigation and arbitration of material importance as defined under the Listing Rules of Shanghai Stock Exchange during the year.

Please refer to note 38 of the financial statements prepared in accordance with IFRSs for details of the litigation of the Company and its subsidiaries.

(II) 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 *(Rmb)*	Shareholding percentage *(%)*	Book value at the end of the period *(Rmb)*	Revenue of the period *(Rmb)*	Accounting item	Source of Share
Yanshi Credit and Cooperatives (偃師市信用合作聯社)	410,000.00	0.67	410,000.00	11,047.00	Investment income	Original Investment
Sanmenxia Urban Credit and Cooperatives (三門峽市城市信用合作社)	7,000,000.00	4.99	7,000,000.00			Original Investment
CLFG Finance Company Limited	111,000,000.00	37	121,212,879.48	5,867,624.09	Investment income	Original Investment

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

1. Non-connected Transactions concerning Disposal of Assets

On 24 October 2008, the Company proposed to enter into the Luoyang State-Owned Land Use Rights Acquisition Contract with Luoyang Land Reserves Coordination Centre, pursuant to which the Company agreed to sell the land use right for a piece of land of 218,658.30 square metres as well as the buildings and ancillary structures thereon at a total consideration of Rmb250,000,000 to Luoyang Land Reserves Coordination Centre. Details are set out in the announcement on the Shanghai Stock Exchange's website and the announcement dated 24 October 2008 and the circular dated 3 November 2008 on the website of Hong Kong Stock Exchange. Upon completion of the disposal, the Company is expected to recognise a gain of approximately Rmb175,341,212.51. The Board authorised Chairman Mr. Gao Tianbao to sign the contract. On 19 December 2008, the transaction was approved at the 2nd EGM of the Company.

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.

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

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

(V) Material related party transactions occurred during the reporting period (Prepared in accordance with the Listing Rules of Shanghai Stock Exchange)

1. Material related party transactions relating to day-to-day operations

Unit: Rmb

Connected party	Sale of products to connected parties Amount of transactions	Sale of products to connected parties Percentage to similar type of transactions in terms of amount (%)	Provision of services to connected parties Amount of transactions	Provision of services to connected parties Percentage to similar type of transactions in terms of amount (%)	Purchase of products from connected parties Amount of transactions	Purchase of products from connected parties Percentage to similar type of transactions in terms of amount (%)	Receiving services from connected parties Amount of transactions	Receiving services from connected parties Percentage to similar type of transactions in terms of amount (%)
CLFG (comprehensive services, water, electricity, gas)			432,269.75	2.14			4,023,190.60	48.98
Subsidiaries of CLFG (comprehensive services, water, electricity, gas)			18,748,918.61	92.69			4,190,000.00	51.02
Subsidiaries of CLFG (glass)	5,804,956.44	0.51			56,325,922.86	11.40		
Subsidiaries of CLFG (raw materials)	137,101,090.39	24.76			12,634,637.22	18.96		
Subsidiaries of CLFG (raw materials)					127,203.54	40.73		
CLFG (asset use)			1,114,212.67	100				
Subsidiaries of CLFG (technical service)			3,141,515.20	26.17				
Subsidiaries of CLFG (cargo handling)			986,566.17	47.27				
Subsidiaries of CLFG (lease)			470,800.00	60.30				
Subsidiaries of CLFG (interest expenses)							15,277,290.41	20.00
Subsidiaries of CLFG (Interest income)			101,039.28	1.78				
Other connected parties (glass)	18,904,030.85	1.67						

2. Material related party transaction and connected transaction relating to assets acquisition and disposal completed during the reporting period

On 22 October 2007, the Company proposed to enter into an agreement for transfer of 100% equity interests in Luoyang CLFG Logistics Company Limited ("Logistics Company") to China Luoyang Float Glass (Group) Company Limited. The agreement was approved by independent shareholders at the EGM on 18 December 2007. Since the equity change registration was completed on 29 January 2008, profit from the disposal was recognised in first quarter of 2008 and was reflected in consolidated statements.

(V) Material related party transactions occurred during the reporting period (Prepared in accordance with the Listing Rules of Shanghai Stock Exchange) *(Continued)*

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

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

4. Creditor rights and debts between the Company and related parties

There was no creditor rights and debts between the Company and connected parties during the reporting period.

(VI) Implementation of material contracts within the definition of the Listing Rules of Shanghai Stock Exchange

(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

External guarantees provided by the Company

Guarantees provided	Date of occurrence (agreement execution date)	Amount of guarantee	Type of guarantee	Term of guarantee	Whether completed or not	Whether as related party guarantee
Nil						
Total amount of guarantee provided during the reporting period						
Balance of guarantee at the end of the reporting period						
Guarantee provided by the Company to its subsidiaries						
Total amount of guarantee provided by the Company to its controlling subsidiaries during the reporting period						154,000,000.00
Balance of guarantee provided by the Company to its controlling subsidiaries at the end of the reporting period						98,000,000.00
Guarantee provided by the Company (including guarantee to subsidiaries)						
Total amount of guarantee						98,000,000.00
Total amount of guarantees as a percentage to the Company's net assets (%)						42.77
Including:						
Default by the Company on guarantee						
Amount of guarantee provided to shareholders, the de facto controlling shareholder 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

(VI) Implementation of material contracts within the definition of the Listing Rules of Shanghai Stock Exchange *(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 within the meaning the Listing Rules of Shanghai Stock Exchange during the reporting period.

(VII) Performance of commitments

1. 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 it 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. It has complied with the undertaking during the reporting period.

2. In the reporting period, China National Building Material Group Corporation, the de facto controlling shareholder 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.

(VIII) Appointment or dismissal of certified public accountants

At the 23rd Meeting of the Fifth Board on 6 August 2008, Daxin Certified Public Accountants and PKF Certified Public Accountants were appointed as the domestic and international auditors of the Company for the year 2008 respectively.

Annual auditing expenses paid to Daxin Certified Public Accountants and PKF Certified Public Accountants by the Company during the reporting period are as follows:

	Daxin Certified Public Accountants	**PKF Certified Public Accountants**
Auditing expenses for 2008	Rmb1,000,000	Rmb1,100,000
Travel expenses	Undertaken by the Company	Undertaken by the Company

By the end of the reporting period, Daxin Certified Public Accountants and PKF Certified Public Accountants had provided auditing service for the Company for 1 year.

Ting Ho Kwan & Chan was the auditor of the Company for financial years ended 31 December of 2007 and 2006.

(IX) Sanction imposed on the Company, Directors, Supervisors, senior management, shareholders, de facto controlling shareholder 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 controlling shareholder or the acquisition party, nor sanction imposed by other authorities or stock exchanges' censure for being deemed as inappropriate candidates to their posts.

(X) Interests of Directors and chief executive of the Company

As at 31 December 2008, none of the Directors, Supervisors or chief executive of the Company has an interest or short position in any shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which is required to be (i) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors, Supervisors or chief executive of the Company was taken or deemed to have under such provisions of the SFO); or (ii) entered in the register kept by the Company pursuant to section 352 of the SFO; or (iii) notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

(XI) Interest of Substantial Shareholders' and other Shareholders

As at the latest practicable date, save as disclosed, so far as is known to the Directors or chief executive of the Company, no other person has an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or were required to be notified to the Company and the Stock Exchange pursuant to section 324 of the SFO, or, who is, directly or indirectly, interested in 10 per cent. (10%) or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any members of the Group.

Long position in the shares of the Company

Name of shareholder	Capacity	Number of Shares held	Approximate percentage of total issued share capital of the Company *(%)*
CLFG	Beneficial owner	179,018,242	35.80
CNBMG *(Note)*	Interest of controlled corporation	179,018,242	35.80

Note:

These 179,018,242 Shares are registered and owned by CLFG. The substantial shareholder of CLFG is CNBMG which owns 70% of the registered capital in CLFG. CNBMG is therefore deemed to be interested in 179,018,242 Shares held by CLFG under the SFO.

(XII) Directors' and Supervisors' interest in Contracts

No contracts of significance to which the Company, its subsidiaries, its fellow subsidiaries or its holding company was a party and in which a Director/ supervisor had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

(XIII) Pledge of Shares by the Controlling Shareholder

On 16 October 2008, CLFG and China National Building Material Group Corporation (CNBMG) who is the controlling shareholder of CLFG and the ultimate controlling person of the Company signed a share pledge contract. According to the contract, CLFG agreed that 179,018,242 shares (state-owned legal person shares) of the Company were pledged to CNBMG, and CNBMG provided guarantees to the total loans of Rmb690,000,000 borrowed by CLFG, its controlled enterprises and the Company.

(XIV) Independence of Independent Non-executive Directors

The Company has received from each of its independent non-executive directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and the Company considered all the independent non-executive directors to be independent.

(XV) Capitalisation of loan and borrowing interest

The amount of loan and borrowing interest capitalised during the financial year was nil (2007:nil).

(XVI) Details of material acquisitions and disposals of subsidiaries and associated companies

On 27 August 2008 and 4 September 2008, Longfei Glass, a subsidiary of the Company entered into 13 share acquisition agreements with certain vendors in order to acquire the remaining 60% equity interest of Longxiang Glass, a subsidiary of Longfei Glass. This transaction constituted a discloseable transaction which should be subject to notification and announcement requirements under the Listing Rules.

(XVI) Details of material acquisitions and disposals of subsidiaries and associated companies *(Continued)*

Vendors

All the 13 vendors, to the best of the directors' knowledge, information and belief and having made all reasonable enquiry, are third parties independent of the Company and connected persons of the Company which included:

(i) CLFG Longfei Glass Company Limited Labor Union (洛玻集團龍飛玻璃有限公司工會委員會), in respect of a 33% equity interest in Longxiang Glass;

(ii) Mr. Zheng Qinghong (鄭清洪), in respect of a 6% equity interest in Longxiang Glass;

(iii) Mr. Yan Jun (閆軍), in respect of a 4% equity interest in Longxiang Glass;

(iv) Ms. Huang Qiuping (王秋萍), in respect of a 2% equity interest in Longxiang Glass;

(v) Ningbo Shuangning Building Material and Glass Company Limited (寧波雙寧建材玻璃有限公司), in respect of a 2% equity interest in Longxiang Glass;

(vi) Henan Jinshan Chemical Company Limited (河南金山化工有限責任公司), in respect of a 2% equity interest in Longxiang Glass;

(vii) Changzhou Daming Glass Company Limited (常州市大明玻璃有限公司), in respect of a 2% equity interest in Longxiang Glass;

(viii) Hubei Yijun Trading Company Limited (湖北億鈞貿易有限公司), in respect of a 2% equity interest in Longxiang Glass;

(ix) Guangzhou Yuntong Material Company Limited (廣州市雲通物資有限公司), in respect of a 2% equity interest in Longxiang Glass;

(x) Yuncheng Yanhu District Xicheng Shengli Glass Company (運城市鹽湖區西城勝利玻璃店), in respect of a 2% equity interest in Longxiang Glass;

(xi) Mr. Xue Jiankui (薛建奎), in respect of a 1% equity interest in Longxiang Glass;

(xii) Hunan Huaihua Hezhong Development Company Limited (湖南懷化合眾發展有限公司), in respect of a 1% equity interest in Longxiang Glass; and

(xiii) Huaxing Building Material Company Limited (華星建築材料有限公司), in respect of 1% equity interest in Longxiang Glass.

Consideration and payments

Total consideration is RMB38,016,445, payable by Longfei Glass to CLFG Longfei Glass Company Limited Labor Union in cash amounting to RMB20,624,395 and the other vendors by way of set off mentioned below which involved a total amount of RMB17,392,050. Of the 33% equity interest owned by CLFG Longfei Glass Company Limited Labor Union, 0.982% was not paid up. The cash consideration was determined on a pro-rata basis after deducting this outstanding portion. Part of the cash consideration of RMB5,430,000 had been paid before 31 December 2008. The balance of cash consideration of RMB15,194,395 will be settled in three installments by 30 December 2011. The Board have confirmed that the consideration of RMB17,392,050 payable by Longfei Glass to the other vendors will be set off against the outstanding amounts owed by the respective vendors to Longfei Glass for goods supplied by Longfei Glass to the vendors by 31 December 2011.The aggregate consideration was determined with reference to the appraised net asset value of Longxiang Glass as at 31 December 2007 after deducting the unaudited net loss of Longxiang Glass for the period from 1 January 2008 to 30 April 2008.

(XVI) Details of material acquisitions and disposals of subsidiaries and associated companies *(Continued)*

Reasons for entering into this transaction

In order to streamline the corporate structure of Longxiang Glass which was held by numerous shareholders including the employees of Longfei Glass and in light of the loss position of Longfei Glass in 2008, the Company decided to acquire the remaining equity interests in Longxiang Glass not yet held by Longfei Glass from the other shareholders of Longxiang Glass to enhance the management and operation of Longxiang Glass. This transaction also provided an opportunity for Longfei Glass, as the sole shareholder of Longxiang Glass after the transaction, to leverage on its experience and expertise in the glass industry to develop and expand the business of Longxiang Glass and for the other shareholders including the employees of Longfei Glass to realise their investments in Longxiang Glass.

Completion

This transaction was completed in January 2009. Upon completion of this transaction, Longxiang Glass became a wholly-owned subsidiary of Longfei Glass.

(XVII) Other significant events

Suspension of Trading in H shares

On 31 October, 2006, trading in the Company's H shares was suspended at the request of the Company. On 25 March, 2009, the Company received a letter from the Stock Exchange requesting the Company to disclose the following outstanding conditions imposed by the Stock Exchange for resumption of trading in the Company's H shares:

1. disclosure of actions to address the issues pertaining to the suspension of trading in an announcement;

2. demonstrate that the Company has adequate financial reporting system and internal control procedures to enable the Company to meet its obligations under the Listing Rules; and

3. receipt by the Stock Exchange of a comfort letter from the auditors on the Directors' statement on sufficiency of working capital of the Company for at least 12 months from the date of resumption.

The Company has taken appropriate actions to satisfy the above conditions. Trading in the H shares of the Company will remain suspended until further notice. (Please refer to the Company's announcement dated 31 March, 2009 for further details of the background to the suspension of, and latest progress of resumption of, trading in the H shares of the Company.)

PKF
Accountants &
business advisers

大信梁學濂(香港)會計師事務所

26th Floor, Citicorp Centre
18 Whitfield Road
Causeway Bay
Hong Kong

香港
銅鑼灣
威非路道18號
萬國寶通中心26樓

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 59 to 106, 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 31st December, 2008, 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 CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated 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 the consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31st December, 2008 and of the Group's profit 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 consolidated financial statements concerning the adoption of the going concern basis in the preparation of the consolidated 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 and the financial institutions. 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.

PKF
Certified Public Accountants
Hong Kong, 26 March 2009

Consolidated income statement

For the year ended 31st December, 2008
(Prepared in accordance with International Financial Reporting Standards)
(Expressed in Renminbi)

	Note	**2008** **RMB'000**	2007 RMB'000
Turnover	5	**1,314,946**	1,444,535
Cost of sales		**(1,334,633)**	(1,310,420)
Gross (loss)/profit		**(19,687)**	134,115
Other operating income	6	**243,892**	32,608
Other operating expenses		**(10,288)**	(7,422)
Selling expenses		**(40,359)**	(39,247)
Administrative expenses		**(160,881)**	(149,379)
Profit/(loss) from operations		**12,677**	(29,325)
Net finance costs	7(a)	**(85,791)**	(72,591)
Net investment income	7(b)	**70,388**	22,064
Share of net profit of an associate	7(c)	**5,868**	2,194
Profit/(loss) before income tax	7	**3,142**	(77,658)
Income tax credit/(expense)	10(a)	**2,651**	(3,412)
Profit/(loss) for the year		**5,793**	(81,070)
Attributable to:			
Equity shareholders of the Company	11, 34	**54,040**	(100,089)
Minority interests		**(48,247)**	19,019
Profit/(loss) for the year		**5,793**	(81,070)
Basic earnings/(loss) per share *(in RMB: Yuan)*	13	**0.11**	(0.20)

The notes on pages 65 to 106 are an integral part of these financial statements.

Consolidated balance sheet

As at 31st December, 2008
(Prepared in accordance with International Financial Reporting Standards)
(Expressed in Renminbi)

	Note	**2008** **RMB'000**	2007 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**923,256**	1,067,166
Construction in progress	15	**11,761**	7,113
Intangible assets	16	**12,370**	13,747
Lease prepayments	17	**34,004**	34,854
Interests in associates	19	**120,906**	116,922
Other investments	20	**7,410**	410
Investment deposit	21	**40,430**	35,000
Deposits with a non-bank financial institution	22	**35,000**	35,000
		1,185,137	1,310,212
CURRENT ASSETS			
Inventories	23	**252,016**	283,303
Trade and bills receivables	24	**99,581**	81,588
Other receivables	25	**160,667**	48,360
Income tax recoverable		**4,481**	—
Pledged deposits with banks and non-bank financial institutions	26	**201,636**	167,302
Cash and bank balances	27	**64,578**	73,824
Restricted bank balances	27	**9,809**	—
		792,768	654,377
CURRENT LIABILITIES			
Trade and bills payables	28	**627,266**	516,013
Other payables	29	**220,107**	252,386
Income tax payable		**—**	1,169
Bank and other loans	30	**894,411**	963,083
		1,741,784	1,732,651
NET CURRENT LIABILITIES		**(949,016)**	(1,078,274)
TOTAL ASSETS LESS CURRENT LIABILITIES		**236,121**	231,938

The notes on pages 65 to 106 are an integral part of these financial statements.

Consolidated balance sheet *(Continued)*

As at 31st December, 2008
(Prepared in accordance with International Financial Reporting Standards)
(Expressed in Renminbi)

	Note	2008 RMB'000	2007 RMB'000
NON-CURRENT LIABILITIES			
Bank and other loans	30	**5,256**	6,405
Deferred income	31	**4,154**	4,615
		9,410	11,020
NET ASSETS		**226,711**	220,918
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	**(796,314)**	(850,354)
TOTAL EQUITY ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY		**197,859**	143,819
MINORITY INTERESTS		**28,852**	77,099
TOTAL EQUITY		**226,711**	220,918

APPROVED AND AUTHORISED FOR ISSUE BY THE BOARD OF DIRECTORS ON 26 MARCH 2009

Gao Tianbao
CHAIRMAN

Xie Jun
DIRECTOR

The notes on pages 65 to 106 are an integral part of these financial statements.

Balance sheet

As at 31st December, 2008
(Prepared in accordance with International Financial Reporting Standards)
(Expressed in Renminbi)

	Note	**2008 RMB'000**	2007 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**217,223**	297,595
Construction in progress	15	**16**	683
Lease prepayments	17	**22,367**	23,026
Interests in subsidiaries	18	**607,504**	394,355
Interests in associates	19	**111,253**	112,145
Investment deposit	21	**35,000**	35,000
Deposits with a non-bank financial institution	22	**35,000**	35,000
		1,028,363	897,804
CURRENT ASSETS			
Inventories	23	**48,941**	103,934
Trade and bills receivables	24	**84,118**	45,783
Other receivables	25	**134,705**	15,507
Pledged deposits with banks and non-bank financial institutions	26	**129,700**	133,502
Cash and bank balances	27	**33,358**	58,028
Restricted bank balances	27	**8,804**	—
		439,626	356,754
CURRENT LIABILITIES			
Trade and bills payables	28	**302,211**	194,401
Other payables	29	**158,575**	111,376
Bank and other loans	30	**758,711**	808,853
		1,219,497	1,114,630
NET CURRENT LIABILITIES		**(779,871)**	(757,876)
TOTAL ASSETS LESS CURRENT LIABILITIES		**248,492**	139,928
NON-CURRENT LIABILITY			
Bank and other loans	30	**5,256**	6,405
NET ASSETS		**243,236**	133,523
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	**(741,227)**	(850,940)
TOTAL EQUITY		**243,236**	133,523

APPROVED AND AUTHORISED FOR ISSUE BY THE BOARD OF DIRECTORS ON 26 MARCH 2009

Gao Tianbao	***Xie Jun***
CHAIRMAN	*DIRECTOR*

The notes on pages 65 to 106 are an integral part of these financial statements.

Consolidated statement of changes in equity

For the year ended 31st December, 2008
(Prepared in accordance with International Financial Reporting Standards)
(Expressed in Renminbi)

	Attributable to equity shareholders of the Company						
	Share capital *RMB'000*	**Share premium** *RMB'000*	**Reserves** *RMB'000*	**Accumulated losses** *RMB'000*	**Total** *RMB'000*	**Minority interests** *RMB'000*	**Total equity** *RMB'000*
At 1st 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 31st December, 2007 and at 1st January, 2008	**500,018**	**540,028**	**(45,873)**	**(850,354)**	**143,819**	**77,099**	**220,918**
Profit/(loss) for the year	**—**	**—**	**—**	**54,040**	**54,040**	**(48,247)**	**5,793**
At 31st December, 2008	**500,018**	**540,028**	**(45,873)**	**(796,314)**	**197,859**	**28,852**	**226,711**

The notes on pages 65 to 106 are an integral part of these financial statements.

Consolidated cash flow statement

For the year ended 31st December, 2008
(Prepared in accordance with International Financial Reporting Standards)
(Expressed in Renminbi)

	Note	**2008** **RMB'000**	2007 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	35(a)	**3,855**	43,500
Income tax (paid)/refunded		**(2,999)**	6
NET CASH GENERATED FROM OPERATING ACTIVITIES		**856**	43,506
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest and dividend income received		**6,929**	3,042
Purchase of property, plant and equipment		**(5,544)**	(16,900)
Increase in intangible assets		**(100)**	—
Increase in construction in progress		**(9,102)**	(16,694)
Dividend received from an associate		**3,057**	—
Decrease in amounts due to associates		**(1,173)**	—
Increase in investment deposit		**(5,430)**	(35,000)
Increase in other investments		**(7,000)**	(210)
Return received upon winding up of an investee company		**—**	53,859
Proceeds from disposal of property, plant and equipment		**79,033**	6,686
Proceeds from disposal of lease prepayments		**60,000**	18,240
Net cash inflow from disposal of interest in a subsidiary	35(c)	**49,253**	—
NET CASH GENERATED FROM INVESTING ACTIVITIES		**169,923**	13,023
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid		**(75,870)**	(67,890)
(Increase)/decrease in pledged deposits		**(34,334)**	47,243
Proceeds from bank and other loans		**938,110**	1,151,662
Repayment of bank and other loans		**(1,007,931)**	(1,172,624)
Capital contributions received from minority shareholders		**—**	490
NET CASH USED IN FINANCING ACTIVITIES		**(180,025)**	(41,119)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(9,246)**	15,410
CASH AND CASH EQUIVALENTS AT 1ST JANUARY		**73,824**	58,414
CASH AND CASH EQUIVALENTS AT 31ST DECEMBER	27	**64,578**	73,824
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**64,578**	73,824

The notes on pages 65 to 106 are an integral part of these financial statements.

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 ("IFRIC") 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 profit 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 171.

The IASB has issued a number of new and revised IFRSs that are effective for accounting periods beginning on or after 1st January, 2008. 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(a).

(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 31st December 2008, 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) the banking facilities of approximately RMB717,767,000 available to the Group granted by various banks at 31st December, 2008 were fully utilised at 31st December, 2008. These banking facilities will expire one year after the balance sheet date. The directors of the Company are in ongoing negotiations with the Group's bankers to seek their ongoing support to the Group.

(ii) continuing financial support received from China National Building Material Group Corporation ("CNBMG"), the holding company of China Luoyang Float Glass Group Company Limited ("CLFG") and CLFG to achieve its objective, which is to continue its operation.

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 *(Continued)*

(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 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.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(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)).

(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.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(l) Impairment of assets *(Continued)*

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

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.

(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.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(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.

(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.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(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.

(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.

(vi) Rental income

Rental income is recognised on a straight-line basis over the terms of the relevant leases.

(vii) Water, electricity and steam income

Water, electricity and steam income is recognised when service is rendered.

(viii) Technical service income

Technical service income is recognised when service is rendered.

(ix) Composite service income

Composite service income is recognised when service is rendered.

(x) Transportation income

Transportation income is recognised when service is rendered.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(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.

(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.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(v) Income tax *(Continued)*

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.

(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.

(Expressed in Renminbi)

3. RECENTLY ISSUE ACCOUNTING STANDARDS

(a) Initial application of new and revised IFRSs

In the current year, the Group initially applied the following IFRSs issued by the IASB:

IAS 39 and IFRS 7 (Amendments)	Reclassification of Financial Assets
IFRIC 11	IFRS 2 — Group and Treasury Share Transactions
IFRIC 12	Service Concession Arrangements
IFRIC 14	IAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The initial application of these new and revised IFRSs does not necessitate material changes in the Group's accounting policies or retrospective adjustments of the comparatives presented.

(b) IFRSs in issue but not yet effective

The Group has not early applied the following new and revised IFRSs that have been issued but are not yet effective.

IAS 1 (Revised)	Presentation of Financial Statements [1]
IAS 23 (Revised)	Borrowing Costs [1]
IAS 27 (Revised)	Consolidated and Separate Financial Statements [2]
IAS 32 and 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation [1]
IAS 39 (Amendment)	Eligible Hedged Items [2]
IFRS 1 and IAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate [1]
IFRS 2 (Amendments)	Vesting Conditions and Cancellations [1]
IFRS 3 (Revised)	Business Combinations [2]
IFRS 8	Operating Segments [1]
IFRIC 13	Customer Loyalty Programmes [3]
IFRIC 15	Agreements for the Construction of Real Estate [1]
IFRIC 16	Hedges of a Net Investment in a Foreign Operation [4]
IFRIC 17	Distributions of Non-cash Assets to Owners [2]
IFRIC 18	Transfers of Assets from Customers [2]

Apart from the above, the IASB has issued Improvements to IFRSs* which sets out amendments to a number of IFRSs primarily with a view to removing inconsistencies and clarifying wording, except for the amendments to IFRS 5 which is effective for annual periods on or after 1st July, 2009, other amendments are effective for annual periods beginning on or after 1st January, 2009 although there are separate transitional provisions for each standard.

[1] Effective for annual periods beginning on or after 1st January, 2009

[2] Effective for annual periods beginning on or after 1st July, 2009

[3] Effective for annual periods beginning on or after 1st July, 2008

[4] Effective for annual periods beginning on or after 1st October, 2008

* Improvements to IFRSs contains amendments to IFRS 5, IFRS 7, IAS 1, IAS 8, IAS 10, IAS 16, IAS 18, IAS 19, IAS 20, IAS 23, IAS 27, IAS 28, IAS 29, IAS 31, IAS 34, IAS 36, IAS 38, IAS 39, IAS 40 and IAS 41.

The Group is in the process of making an assessment of the impact of these new and revised IFRSs upon initial application. So far, it has concluded that while the adoption of IFRS 8 and IAS 1 (Revised) may result in new or amended disclosures and the adoption of IFRS 3 (Revised) and IAS 27 (Revised) may result in changes in accounting policies, these new and revised IFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

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 mainly situated in the PRC and accordingly, no information on segment assets and liabilities are 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	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007
	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	**1,286,538**	1,402,955	**26,193**	24,330	**604**	1,644	**501**	5,974	**1,110**	9,632	**1,314,946**	1,444,535
Segment results	**649**	(33,185)	**11,714**	2,258	**130**	153	**(35)**	555	**219**	894	**12,677**	(29,325)
Unallocated income											**—**	—
Profit/(loss) from operations											**12,677**	(29,325)
Net finance costs											**(85,791)**	(72,591)
Net investment income											**70,388**	22,064
Share of net profits of an associate											**5,868**	2,194
Income tax credit/(expense)											**2,651**	(3,412)
Profit/(loss) for the year											**5,793**	(81,070)

5. TURNOVER

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

6. OTHER OPERATING INCOME

	2008	2007
	Rmb'000	*Rmb'000*
Waiver of debts	**22**	252
Government grants *(note i)*	**22,451**	3,157
Gain on disposal of property, plant and equipment *(note ii)*	**33,982**	—
Gain on disposal of lease prepayments *(note ii)*	**180,000**	12,000
Profit on sales of raw materials	**4,434**	9,209
Compensation income *(note iii)*	**809**	—
Write off of long term payables	**828**	2,588
Commission income	**—**	4,301
Others	**1,366**	1,101
	243,892	32,608

Notes:

(i) According to notices from the Yanshi Municipal Finance Bureau, a government grant of RMB1,229,800 (2007: Nil) was awarded to CLFG Longhai Electronic Glass Co., Ltd. ("Longhai"), a subsidiary of the Company, for the achievements of Longhai. The total amount has been recognised during the year.

According to notices from the Mianchi Municipal Finance Bureau, a government grant of RMB760,000 (2007: Nil) was awarded to CLFG Longxiang Glass Co., Ltd. ("Longxiang"), a subsidiary of the Company, for the technology innovation of the Company. The total amount has been recognised during the year.

According to a routine conference summary from the Luoyang Municipal Finance Bureau, the Company received a government grant of RMB20,000,000 during the year (2007: RMB2,695,000). The total amount has been recognised during the year.

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 (2007: RMB461,500).

6. OTHER OPERATING INCOME (Continued)

Notes: (Continued)

(ii) During the year, the Group disposed of certain leased land and ancillary property, plant and equipment with net book values of Nil and RMB40,002,000 to the government at the total consideration of RMB180,000,000 and RMB70,000,000 respectively. As a result, the Group derived gain on disposal of leased land and ancillary property, plant and equipment of RMB180,000,000 and RMB29,998,000 respectively.

Besides, the Group also disposed of certain property, plant and equipment with net book value of RMB5,049,000 at a total consideration of approximately RMB9,033,000. As a result, the Group derived a gain on disposal of property, plant and equipment of approximately RMB3,984,000 (2007: Nil).

(iii) On 28th December, 2007, the Group entered into a contract with Ruyang Country Arts and Crafts Fu Li Plant ("Fu Li Plant") regarding the disposal of certain idle production equipment and auxiliary equipment to Fu Li Plant at a total consideration of RMB35,000,000. Fu Li Plant made 30% of the consideration as initial payment on 29th December, 2007 but the Group did not receive the remaining balance on the agreed date in accordance with the contract. Pursuant to the contract, if Fu Li Plant fails to pay the consideration, the Group will be entitled to terminate the contract. Under these circumstances, the Group issued a written notice to Fu Li Plant on 6th June, 2008 to terminate the contract and obtained the overdue payment penalty of RMB809,000.

7. PROFIT/(LOSS) BEFORE INCOME TAX

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

	2008 **Rmb'000**	2007 Rmb'000
(a) Net finance costs:		
Interest on bank loans and other borrowings repayable within 5 years	**(75,870)**	(67,890)
Interest income	**6,918**	3,042
Net foreign exchange loss	**(277)**	(1,522)
Bank charges	**(16,562)**	(6,221)
	(85,791)	(72,591)

	2008 **Rmb'000**	2007 Rmb'000
(b) Net investment income:		
Return of surplus assets upon winding up of an investee company	**—**	22,059
Gain on disposal of interest in a subsidiary *(Note 35(c))*	**70,377**	—
Dividend income from other investments	**11**	—
Others	**—**	5
	70,388	22,064

	2008 **Rmb'000**	2007 Rmb'000
(c) Share of net profit of an associate	**5,868**	2,194

	2008 **Rmb'000**	2007 Rmb'000
(d) Staff costs (including directors' remuneration):		
Wages and salaries	**(71,246)**	(66,120)
Contributions to defined contribution plan	**(20,297)**	(21,181)
	(91,543)	(87,301)

7. PROFIT/(LOSS) BEFORE INCOME TAX *(Continued)*

	2008 **Rmb'000**	2007 Rmb'000
(e) Other items:		
Cost of inventories sold	**(1,334,633)**	(1,310,420)
Depreciation	**(100,606)**	(112,481)
(Allowances for)/reversal of impairment of		
— inventories, net	**(34,521)**	22,468
— trade receivables	**597**	(946)
— other receivables	**(44)**	(1,448)
— property, plant and equipment	**(8,130)**	(17,154)
— construction in progress	**(121)**	—
Loss on disposal of property, plant and equipment	**—**	(3,160)
Auditors' remuneration	**(2,100)**	(2,150)
Amortisation of intangible assets	**(1,477)**	(1,472)
Amortisation of lease prepayments	**(850)**	(704)

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*	**2008 Total** *Rmb'000*
Executive directors					
Zhu Leibo*	—	—	107	6	113
Zhu Liuxin*	—	—	87	6	93
Gao Tianbao	—	—	197	19	216
Xie Jun	—	—	91	14	105
Cao Mingchun	—	—	144	18	162
Song Fei#	—	—	51	7	58
Song Jianming#	—	—	95	10	105
Non-executive directors					
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
Supervisors					
Ren Zhenduo	—	—	43	4	47
Yao Wenjun	20	—	—	—	20
Employee supervisor					
Lu Junfeng	—	—	32	9	41
Independent supervisors					
Li Jingyi	20	—	—	—	20
He Baofeng	20	—	—	—	20
	300	**—**	**847**	**93**	**1,240**

* Resigned on 14th April, 2008

** Resigned on 11th December, 2008

Appointed on 30th June, 2008

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*	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 10th September, 2007

** his term of office expired on 7th June, 2007

\# appointed on 10th September, 2007

\## appointed on 12th September, 2007

9. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the 5 individuals with the highest emoluments, 5 (2007: 5) are directors or supervisors, whose emoluments are disclosed in note 8.

10. INCOME TAX (CREDIT)/EXPENSE

(a) Income tax (credit)/expense in the consolidated income statement represents:

	2008	2007
	Rmb'000	*Rmb'000*
Provision for the year	**—**	3,412
Over-provision in previous year	**(2,651)**	—
Income tax (credit)/expense	**(2,651)**	3,412

On 16th March, 2007, the People's Republic of China promulgated the Law of People's Republic of China on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On 6th December, 2007, the State Council issued Implementation Regulation of the New Law. The New Law and Implementation Regulation changed the tax rate to 25% from 1st January, 2008 onwards.

The provision for PRC income tax is calculated at 25% (2007: 33%) of the estimated assessable profits in accordance with the relevant income tax rules and regulations of the PRC.

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

Reconciliation between income tax (credit)/expense and accounting profit/(loss) at applicable tax rate:

	2008	2007
	Rmb'000	*Rmb'000*
Profit/(loss) before income tax	**3,142**	(77,658)
Notional PRC income tax using the Company's tax rate of 25% (2007: 33%)	**786**	(25,627)
Tax effect of tax exempt revenue	**(35,266)**	(29,234)
Tax effect of non-deductible expenses	**18,155**	52,810
Tax effect of tax loss utilised	**(13,649)**	(4,932)
Tax losses not recognised for deferred tax	**29,974**	10,395
Over-provision in previous year	**(2,651)**	—
Income tax (credit)/expense	**(2,651)**	3,412

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

	2008	2007
	Rmb'000	*Rmb'000*
Provisions	**76,937**	—
Lease payments	**7,237**	12,341
Tax loss	**67,814**	320,083
Total	**151,988**	332,424

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. PROFIT/(LOSS) ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The net profit/(loss) attributable to equity shareholders of the Company includes a profit of RMB109,713,000 (2007: loss of RMB149,555,000) 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 31st December, 2008 (2007: Nil).

13. BASIC EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of RMB54,040,000 (2007: loss of RMB100,089,000) and 500,018,000 (2007: 500,018,000) 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 31st December, 2008 and 31st December, 2007.

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 1st January, 2007	750,371	1,098,597	28,629	1,877,597
Reclassification	(22,106)	18,779	3,327	—
At 1st 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 31st December, 2007	723,763	1,140,738	30,441	1,894,942
Accumulated depreciation and impairment:				
At 1st January, 2007	304,811	380,128	18,042	702,981
Reclassification	(54,800)	54,113	687	—
At 1st 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 31st December, 2007	274,520	533,828	19,428	827,776
Net book value:				
At 31st December, 2007	449,243	606,910	11,013	1,067,166

14. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The Group *(Continued)*

	Buildings *Rmb'000*	Plant, machinery and equipment *Rmb'000*	Motor vehicles *Rmb'000*	Total *Rmb'000*
Cost:				
At 1st January, 2008	723,763	1,140,738	30,441	1,894,942
Reclassification	(3,170)	3,170	—	—
At 1st January, 2008	720,593	1,143,908	30,441	1,894,942
Additions	1,072	3,463	1,009	5,544
Transfer from construction in progress *(note 15)*	881	3,452	—	4,333
Disposals	(91,566)	(35,944)	(763)	(128,273)
At 31st December, 2008	630,980	1,114,879	30,687	1,776,546
Accumulated depreciation and impairment:				
At 1st January, 2008	274,520	533,828	19,428	827,776
Reclassification	145	(145)	—	—
At 1st January, 2008	274,665	533,683	19,428	827,776
Charge for the year	20,884	77,892	1,830	100,606
Impairment	4,508	3,463	159	8,130
Written back on disposals	(42,614)	(40,016)	(592)	(83,222)
At 31st December, 2008	257,443	575,022	20,825	853,290
Net book value:				
At 31st December, 2008	373,537	539,857	9,862	923,256

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 1st January, 2007	460,290	396,162	22,063	878,515
Reclassification	(45,606)	45,606	—	—
At 1st 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 31st December, 2007	405,545	440,885	20,634	867,064
Accumulated depreciation and impairment:				
At 1st January, 2007	259,213	237,755	15,007	511,975
Reclassification	(44,326)	44,326	—	—
At 1st 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 31st December, 2007	219,467	334,685	15,317	569,469
Net book value:				
At 31st December, 2007	186,078	106,200	5,317	297,595

14. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The Company *(Continued)*

	Buildings *Rmb'000*	**Plant, machinery and equipment** *Rmb'000*	**Motor vehicles** *Rmb'000*	**Total** *Rmb'000*
Cost:				
At 1st January, 2008	405,545	440,885	20,634	867,064
Additions	—	568	197	765
Transfer from construction in progress *(note 15)*	—	1,761	—	1,761
Disposals	(91,566)	(35,224)	(566)	(127,356)
At 31st December, 2008	313,979	407,990	20,265	742,234
Accumulated depreciation and impairment:				
At 1st January, 2008	219,467	334,685	15,317	569,469
Charge for the year	11,864	21,922	1,058	34,844
Impairment	642	2,639	3	3,284
Written back on disposals	(42,615)	(39,456)	(515)	(82,586)
At 31st December, 2008	189,358	319,790	15,863	525,011
Net book value:				
At 31st December, 2008	124,621	88,200	4,402	217,223

Notes:

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

(b) At 31st December, 2008, buildings and plant, machinery and equipment with net book values of Nil (2007: RMB5,798,000) and RMB39,348,000 (2007: RMB50,574,000) respectively were pledged for certain short-term bank loans granted to the Company and the Group (note 30(i)).

(c) At 31st December, 2008, the certificates of buildings with net book value of RMB160,574,000 have not been obtained.

15. CONSTRUCTION IN PROGRESS

Construction in progress comprises expenditure incurred on the construction of buildings, plant, machinery and equipment not yet completed at 31st December, 2008.

	The Group		**The Company**	
	2008 ***Rmb'000***	2007 *Rmb'000*	**2008** ***Rmb'000***	2007 *Rmb'000*
At 1st January	**7,113**	5,550	**683**	73
Additions	**9,102**	16,694	**1,094**	683
	16,215	22,244	**1,777**	756
Transfer to property, plant and equipment *(note 14)*	**(4,333)**	(15,131)	**(1,761)**	(73)
Impairment	**(121)**	—	**—**	—
At 31st December	**11,761**	7,113	**16**	683

16. INTANGIBLE ASSETS

The Group

	2008 **Rmb'000**	2007 Rmb'000
Cost:		
At 1st January	**18,400**	18,400
Additions	**100**	—
At 31st December	**18,500**	18,400
Accumulated amortisation:		
At 1st January	**4,653**	3,181
Charge for the year	**1,477**	1,472
At 31st December	**6,130**	4,653
Net book value:		
At 31st December	**12,370**	13,747

Intangible assets represent trademark, non-patented technical know-how and exploration rights obtained by certain subsidiaries. They are amortised on a straight-line basis over 5 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	
	2008 **Rmb'000**	2007 Rmb'000	**2008** **Rmb'000**	2007 Rmb'000
Cost:				
At 1st January	**40,588**	63,935	**25,623**	48,970
Disposals	—	(23,347)	—	(23,347)
At 31st December	**40,588**	40,588	**25,623**	25,623
Accumulated amortisation:				
At 1st January	**5,734**	22,137	**2,597**	19,402
Amortised for the year	**850**	704	**659**	302
Written back on disposals	—	(17,107)	—	(17,107)
At 31st December	**6,584**	5,734	**3,256**	2,597
Net book value:				
At 31st December	**34,004**	34,854	**22,367**	23,026

Lease prepayments represent the land use rights on land located in the PRC. The remaining periods of the land use rights are from 35 to 48 years. At 31st December, 2008, 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 RMB24,792,000 (2007: RMB24,770,000). At 31st December, 2008, the Group's land use rights with net book value of Nil (2007: RMB2,878,000) were pledged for certain short-term bank loans granted to the Group (note 30(i)).

18. INTERESTS IN SUBSIDIARIES

The Company

	2008 **Rmb'000**	2007 *Rmb'000*
Unlisted equity interest, at cost	**231,706**	230,417
Less : Impairment losses	**110,217**	110,217
	121,489	120,200
Amounts due from subsidiaries	**623,625**	365,580
Less : Allowances for impairment of doubtful debts	**137,610**	91,425
	486,015	274,155
	607,504	394,355

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 31st December, 2008, all of which are incorporated and operated in the PRC, are set out below.

Name of company	**Registered capital**	**Attributable equity interest Direct**	**Attributable equity interest Indirect**	**Principal activities**	***Notes***
CLFG Longmen Glass Co., Ltd. ("Longmen")	RMB20,000,000	79.06%	—	Manufacture of float sheet glass	(i)
CLFG Longfei Glass Co., Ltd. ("Longfei")	RMB74,080,000	54.00%	—	Manufacture of float sheet glass	(ii)
Xiangfang Luoshen Auto Glass Co., Ltd. ("Luoshen")	RMB30,000,000	66.67%	—	Manufacture of auto glass	(ii), (iv)
Yinan Mineral Products Co., Ltd. ("Yinan")	RMB28,000,000	52.00%	—	Exploration of minerals	(ii)
CLFG Longhai Electronic Glass Co., Ltd. ("Longhai")	RMB60,000,000	80.00%	—	Manufacture of float sheet glass	(ii)
CLFG Longhao Glass Co., Ltd. ("Longhao")	RMB50,000,000	80.00%	—	Manufacture of float sheet glass	(ii)
CLFG Longxiang Glass Co., Ltd. ("Longxiang")	RMB50,000,000	—	40.00%	Manufacture of float sheet glass	(ii), (iii)
Dengfeng CLFG Silicon Co., Ltd. ("Dengfeng")	RMB1,000,000	—	51.00%	Exploration of minerals	(ii)
Luoyang Luobo Industrial Co., Ltd.	RMB5,000,000	100.00%	—	Sales of glass, processing of products, fuel, mechanical equipment, electrical and accessories and provision of technical advice and services	(ii)

18. INTERESTS IN SUBSIDIARIES *(Continued)*

Notes:

(i) This subsidiary is a collective joint enterprise.

(ii) These subsidiaries are limited liability companies.

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

(iv) This subsidiary was disposed of to an independent third party in February 2009 (note 42(b)).

19. INTERESTS IN ASSOCIATES

	The Group		The Company	
	2008	2007	**2008**	2007
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Unlisted equity interest, at cost	**—**	—	**233,124**	220,649
Share of net assets	**121,213**	118,402	**—**	—
	121,213	118,402	**233,124**	220,649
Amounts due from associates	**473**	5,029	**253**	1,329
Amounts due to associates	**(780)**	(6,509)	**—**	(184)
	120,906	116,922	**233,377**	221,794
Less : Impairment losses	**—**	—	**122,124**	109,649
	120,906	116,922	**111,253**	112,145

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")	Limited liability company	RMB181,496,000	49.09%	Production and sale of vehicle safety reprocessed glass
CLFG Mineral Products Co., Ltd. ("CMPC")	Limited liability company	RMB30,960,000	40.29%	Production of silicon and refractory materials

The Group's share of post-acquisition total recognised losses in the above associates for the year ended 31st December, 2008, was RMB108,853,000 (2007: RMB102,246,000). The Group has not recognised losses relating to Jingxin, CPGC and CMPC totalling RMB156,340,000 (2007: RMB36,434,000) of which RMB20,322,000 was incurred in the current financial year (2007: RMB17,805,000). The Group has no obligation in respect of those unrecognised losses.

19. INTERESTS IN ASSOCIATES *(Continued)*

Summarised financial information on associates:

	Assets *Rmb'000*	Liabilities *Rmb'000*	Equity *Rmb'000*	Revenues *Rmb'000*	Profits/(losses) *Rmb'000*
2008					
100 per cent	**1,006,696**	**(776,013)**	**230,683**	**254,592**	**(25,658)**
Group's effective interest	**448,335**	**(327,122)**	**121,213**	**119,476**	**5,868**
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

20. OTHER INVESTMENTS

	The Group		The Company	
	2008 ***Rmb'000***	2007 *Rmb'000*	**2008** ***Rmb'000***	2007 *Rmb'000*
Unlisted, available-for-sale securities, at cost	**39,314**	44,789	**31,352**	43,827
Less : Impairment losses	**31,904**	44,379	**31,352**	43,827
	7,410	410	**—**	—

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

(a) On 22nd October, 2007, the Company entered into a sales and purchases agreement with CLFG for the acquisition of 50% equity interest in CLFG Luoyang Longxin Glass Company Limited ("Longxin Glass") at a total 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.

(b) In August 2008, Longfei entered into a share transfer agreement with the independent shareholders of Longxiang, a 40% indirectly owned subsidiary of the Company, for the acquisition of 60% equity interest in Longxiang at a total consideration of RMB38,016,000. Part of the total consideration of RMB5,430,000 was paid before 31st December, 2008. The transaction was completed after the balance sheet date.

22. DEPOSITS WITH A NON-BANK FINANCIAL INSTITUTION

The balances at 31st December, 2008 represent the overdue time deposits at Guangzhou International Trust & Investment Corporation ("GZITIC"), after a 75% (2007: 75%) impairment made. During the year, an independent third party has signed a letter of intent to purchase the rights and interests of the overdue time deposits at a total amount of approximately RMB40,000,000. Hence, in the opinion of directors, no impairment is required to be made for the year. No interest revenue is recognised attributable to these deposits.

23. INVENTORIES

	The Group		The Company	
	2008	2007	**2008**	2007
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Raw materials	**164,793**	182,282	**62,203**	83,675
Work in progress	**15,773**	10,984	**2,274**	5,340
Finished goods	**122,194**	106,260	**7,944**	28,216
	302,760	299,526	**72,421**	117,231
Less : Impairment losses	**50,744**	16,223	**23,480**	13,297
	252,016	283,303	**48,941**	103,934

24. TRADE AND BILLS RECEIVABLES

	The Group		The Company	
	2008	2007	**2008**	2007
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Trade receivables				
— third parties	**72,806**	71,824	**60,265**	50,321
— subsidiaries of the controlling shareholder company	**64,603**	165	**62,642**	3,300
	137,409	71,989	**122,907**	53,621
Less: Allowances for impairment of doubtful debts	**45,265**	45,862	**42,576**	42,914
	92,144	26,127	**80,331**	10,707
Bills receivable	**7,437**	55,461	**3,787**	35,076
	99,581	81,588	**84,118**	45,783

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	
	2008	2007	**2008**	2007
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Within 1 month	**79,892**	75,525	**71,451**	43,975
Between 1 month and 1 year	**19,016**	5,873	**12,667**	1,801
Between 1 and 2 years	**630**	85	**—**	—
Between 2 and 3 years	**43**	105	**—**	7
	99,581	81,588	**84,118**	45,783

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.

24. TRADE AND BILLS RECEIVABLES *(Continued)*

At 31st December, 2008, the Group's and the Company's trade and bills receivables of RMB19,689,000 (2007: RMB6,063,000) and RMB12,667,000 (2007: RMB1,808,000) 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 31st December, 2008, the Group's and the Company's trade and bills receivables of RMB45,265,000 (2007: RMB45,862,000) and RMB42,576,000 (2007: RMB42,914,000) 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	
	2008	2007	**2008**	2007
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Between 1 and 2 years	**436**	1,050	**—**	—
Between 2 and 3 years	**769**	722	**—**	7
More than 3 years	**44,060**	44,090	**42,576**	42,907
	45,265	45,862	**42,576**	42,914

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

	The Group		The Company	
	2008	2007	**2008**	2007
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
At 1st January	**45,862**	44,916	**42,914**	42,735
Impairment loss (reversed)/recognised	**(597)**	946	**(338)**	179
At 31st December	**45,265**	45,862	**42,576**	42,914

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	
	2008	2007	**2008**	2007
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
United States Dollars	**1,069**	532	**413**	532

25. OTHER RECEIVABLES

	The Group		The Company	
	2008	2007	**2008**	2007
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Amount due from the controlling shareholder company	**1,904**	1,272	**932**	—
Amounts due from subsidiaries of the controlling shareholder company	**5,452**	4,879	**5,115**	4,879
Advance payments, accounts receivables and prepayments	**210,627**	99,481	**163,840**	45,810
	217,983	105,632	**169,887**	50,689
Less: Allowances for impairment of doubtful debts	**57,316**	57,272	**35,182**	35,182
	160,667	48,360	**134,705**	15,507

25. OTHER RECEIVABLES *(Continued)*

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 RMB57,316,000 (2007: RMB57,272,000) 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	
	2008	2007	**2008**	2007
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
At 1st January	**57,272**	55,833	**35,182**	34,927
Impairment loss recognised	**44**	1,448	**—**	255
Uncollectible amounts written off	**—**	(9)	**—**	—
At 31st December	**57,316**	57,272	**35,182**	35,182

26. PLEDGED DEPOSITS WITH BANKS AND NON-BANK FINANCIAL INSTITUTIONS

	The Group		The Company	
	2008	2007	**2008**	2007
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Deposits with banks and non-bank financial institutions (pledged)	**201,636**	167,302	**129,700**	133,502

At 31st December, 2008, time deposits with banks and non-bank financial institutions totalling RMB20,000,000 (2007: RMB60,000,000) were pledged to secure certain short-term bank loans granted to the Company and the Group (note 30(i)).

At 31st December, 2008, deposits with banks and non-bank financial institutions of RMB109,700,000 (2007: RMB73,502,000) and RMB181,636,000 (2007: RMB107,302,000) were pledged to secure bills payable of the Company and the Group respectively.

27. CASH AND BANK BALANCES AND RESTRICTED BANK BALANCES

	The Group		The Company	
	2008	2007	**2008**	2007
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Cash in hand	**677**	335	**79**	67
Deposits with banks and non-bank financial institutions with an original maturity within 3 months	**63,901**	73,489	**33,279**	57,961
Cash and bank balances	**64,578**	73,824	**33,358**	58,028
Restricted bank balances *(Note i)*	**9,809**	—	**8,804**	—
	74,387	73,824	**42,162**	58,028

Note:

(i) At 31st December, 2008, bank balances of the Group and the Company of RMB9,809,000 and RMB8,804,000 respectively were restricted by courts as there were numerous claims against the Group and the Company during the year (note 38).

27. CASH AND BANK BALANCES AND RESTRICTED BANK BALANCES *(Continued)*

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	
	2008	2007	**2008**	2007
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Hong Kong Dollars	**7**	219	**7**	219
United States Dollars	**202**	389	**202**	389
Euro	**9**	—	**9**	—

28. TRADE AND BILLS PAYABLES

	The Group		The Company	
	2008	2007	**2008**	2007
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Trade payables				
— third parties	**408,452**	373,180	**262,211**	118,774
— subsidiaries of the controlling shareholder company	**3,114**	1,831	**—**	725
	411,566	375,011	**262,211**	119,499
Bills payable	**215,700**	141,002	**40,000**	74,902
	627,266	516,013	**302,211**	194,401

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

	The Group		The Company	
	2008	2007	**2008**	2007
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Due within 1 month or on demand	**627,266**	516,013	**302,211**	194,401

29. OTHER PAYABLES

	The Group		The Company	
	2008	2007	**2008**	2007
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Amount due to the controlling shareholder company	**2**	20,332	**—**	—
Amounts due to subsidiaries of the controlling shareholder company	**5,878**	301	**2,878**	301
Accrued expenses, other payables and receipts in advance	**214,227**	231,753	**155,697**	111,075
	220,107	252,386	**158,575**	111,376

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

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

	Note	Interest Rate	Interest type	2008 Rmb'000	2007 Rmb'000
Secured bank loans	(a), (b)	2.50% - 10.80%	Fixed and floating	**713,767**	705,658
Unsecured bank loans		10.80%	Fixed	**4,000**	—
Unsecured loans from a controlling shareholder company	(c)	6.21% - 7.80%	Floating	**100,000**	100,000
Secured loans from an associate		5.04% - 9.34%	Fixed	**80,900**	21,500
Unsecured loans from an associate		7.65% - 10.44%	Fixed	**—**	71,500
Secured loans from a non-bank financial institution		6.03%	Floating	**—**	52,330
Unsecured loans from a non-bank financial institution		5.55%	Fixed	**1,000**	18,500
				899,667	969,488

The Company

	Note	Interest Rate	Interest type	2008 Rmb'000	2007 Rmb'000
Secured bank loans	(a)	2.50% - 8.96%	Fixed and floating	**622,067**	693,758
Unsecured loans from a controlling shareholder company	(c)	6.21% - 7.80%	Floating	**100,000**	100,000
Secured loans from an associate		5.04% - 7.47%	Fixed	**41,900**	21,500
				763,967	815,258

(a) The bank loans is secured by the followings:

(i) Assets

	The Group		The Company	
	2008 Rmb'000	2007 Rmb'000	2008 Rmb'000	2007 Rmb'000
Land use rights	**—**	2,878	**—**	—
Buildings	**—**	5,798	**—**	—
Plant, machinery and equipment	**39,348**	50,574	**39,348**	50,574
Pledged deposits with banks and a non-bank financial institution	**20,000**	60,000	**20,000**	60,000
Equity held in CLFG, at cost	**111,000**	—	**111,000**	—
	170,348	119,250	**170,348**	110,574

(ii) Corporate guarantees given by CNBMG, CLFG, CLFC and third parties.

(b) Included in secured bank loans to a subsidiary of RMB6,700,000 (2007: Nil) has become overdue for payment.

(c) Included in unsecured loans from a controlling shareholder company of the Company of RMB50,000,000 (2007: Nil) has become overdue for payment.

30. BANK AND OTHER LOANS *(Continued)*

The bank and other loans are repayable as follows:

	The Group	
	2008	2007
	Rmb'000	*Rmb'000*
Within 1 year		
— short-term loans	**893,910**	909,200
— current portion of long-term loans	**501**	53,883
	894,411	963,083
Between 1 and 2 years	**501**	582
Between 2 and 5 years	**1,502**	1,165
After 5 years	**3,253**	4,658
	5,256	6,405
	899,667	969,488

	The Company	
	2008	2007
	Rmb'000	*Rmb'000*
Within 1 year		
— short-term loans	**758,210**	808,300
— current portion of long-term loans	**501**	553
	758,711	808,853
Between 1 and 2 years	**501**	582
Between 2 and 5 years	**1,502**	1,165
After 5 years	**3,253**	4,658
	5,256	6,405
	763,967	815,258

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

			The Group		The Company	
Repayment terms and last repayment date	**Interest rate**	**Interest type**	**2008** ***Rmb'000***	2007 *Rmb'000*	**2008** ***Rmb'000***	2007 *Rmb'000*
Secured bank loans						
Euro denominated:						
Payable semi-annually in 2008	2.50%	Fixed	**—**	553	**—**	553
Payable semi-annually from 2009 through 2019	2.50%	Fixed	**—**	6,405	**—**	6,405
			—	6,958	**—**	6,958
Secured bank loans						
Euro denominated:						
Payable quarterly in 2009	2.50%	Fixed	**501**	—	**501**	—
Payable quarterly from 2010 through 2019	2.50%	Fixed	**5,256**	—	**5,256**	—
			5,757	—	**5,757**	—
Secured loans from a non-bank financial institution						
Due in 2008	6.03%	Floating	**—**	52,330	**—**	—
			—	52,330	**—**	—
Unsecured loans from a non-bank financial institution						
Due in 2008	10.44%	Fixed	**—**	1,000	**—**	—
			—	1,000	**—**	—
Total long-term loans			**5,757**	60,288	**5,757**	6,958
Less: Current-portion repayable within 1 year			**501**	53,883	**501**	553
Non-current portion of long-term loans			**5,256**	6,405	**5,256**	6,405

30. BANK AND OTHER LOANS *(Continued)*

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		The Company	
	2008	2007	**2008**	2007
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Euro	**596**	652	**596**	652

Short-term loans

The weighted average interest rates on short-term loans for the Group and the Company were 8.08% and 7.92% per annum respectively (2007: 8.03% and 9.52% 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 (2007: RMB461,500).

32. SHARE CAPITAL

	2008		2007	
	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 and end of the year	**179,018**	**179,018**	179,018	179,018
Domestic listed shares ("A Shares") of RMB1.00 each				
At beginning and 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

In accordance with the share pledge agreement signed between CLFG and CNBMG on 16th October, 2008, CLFG agreed to pledge 179,018,242 domestic shares of the Company (representing approximately 35.80% of the total issued share capital of the Company and 100% of the domestic shares held by CLFG) in favour of CNBMG to secure several entrusted loans and guarantees granted by CNBMG to CLFG and the Group.

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)	Excess over share capital RMB'000 Note (b)	Accumulated losses RMB'000	Total RMB'000
At 1st January, 2007	61,076	(106,949)	(750,265)	(796,138)
Loss attributable to equity shareholders of the Company	—	—	(100,089)	(100,089)
At 31st December, 2007 and at 1st January, 2008	61,076	(106,949)	(850,354)	(896,227)
Profit attributable to equity shareholders of the Company	—	—	54,040	54,040
At 31st December, 2008	**61,076**	**(106,949)**	**(796,314)**	**(842,187)**

The Company

	Statutory surplus reserve RMB'000 Note (a)	Excess over share capital RMB'000 Note (b)	Accumulated losses RMB'000	Total RMB'000
At 1st January, 2007	51,366	(106,949)	(701,385)	(756,968)
Loss attributable to equity shareholders of the Company	—	—	(149,555)	(149,555)
At 31st December, 2007 and at 1st January, 2008	51,366	(106,949)	(850,940)	(906,523)
Profit attributable to equity shareholders of the Company	—	—	109,713	109,713
At 31st December, 2008	**51,366**	**(106,949)**	**(741,227)**	**(796,810)**

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 1st 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 31st December, 2008, there was no reserve available for distribution (2007: Nil).

35. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit/(loss) before income tax to cash generated from operations:

	Note	2008 Rmb'000	2007 Rmb'000
Profit/(loss) before income tax		**3,142**	(77,658)
Share of net profits of associates		**(5,868)**	(2,194)
Amortisation and depreciation		**102,933**	114,657
Interest income		**(6,918)**	(3,042)
Dividend income from other investments		**(11)**	—
Interest expense		**75,870**	67,890
Impairment loss on deposits with a non-bank financial institution		**—**	15,000
Impairment loss on property, plant and equipment		**8,130**	17,154
Impairment loss on construction in progress		**121**	—
(Reversal of impairment loss)/ impairment losses on receivables		**(553)**	2,394
Waiver of debts		**(22)**	(252)
Write off of long-term payables		**(828)**	(2,588)
Net impairment loss of inventories		**34,521**	(22,468)
Net (gain)/loss on disposal of property, plant and equipment		**(33,982)**	3,160
Net gain on disposal of lease prepayments		**(180,000)**	(12,000)
Return of surplus assets upon winding up of an investee company		**—**	(22,059)
Compensation income		**(809)**	—
Foreign exchange loss		**—**	1,522
Gain on disposal of interest in a subsidiary		**(70,377)**	—
(Increase)/decrease in inventories		**(3,234)**	30,184
Increase in trade and bills receivables		**(17,396)**	(15,203)
Decrease in other receivables		**7,649**	6,796
Increase/(decrease) in trade and bills payables		**111,275**	(47,674)
Decrease in other payables		**(9,518)**	(9,657)
Decrease in deferred income		**(461)**	(462)
Increase in restricted bank balances		**(9,809)**	—
Cash generated from operations		**3,855**	43,500

(b) Non-cash items in investing activities:

	2008 RMB'000	2007 RMB'000
Proceeds receivable from disposal of lease prepayments	**120,000**	—

(c) Disposal of a subsidiary

In accordance with the share transfer agreement signed between the Company and CLFG on 22nd October, 2007, the Company agreed to transfer 100% equity interest of Luoyong CLFG Logistics Co., Ltd. ("Logistics Company") to CLFG at a total consideration of RMB70,363,000. The transaction was completed on 29th January, 2008, and the assets and liabilities arising from the disposal are as follows : -

	2008 RMB'000	2007 RMB'000
Cash and cash equivalents	**1**	—
Other payables	**(15)**	—
Net liabilities disposed	**(14)**	—
Gain on disposal of a subsidiary	**70,377**	—
Total consideration	**70,363**	—
Deposit received in previous year	**(21,109)**	—
Cash and cash equivalents disposed	**(1)**	—
Net cash inflow arising on disposal of a subsidiary	**49,253**	—

36. RELATED PARTY TRANSACTIONS

On 22nd 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 CNBMG at Nil consideration. On 11th September, 2007, CNBMG received a "Reply and Approval of the agreement on the announcement of CNBMG 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, CNBMG was agreed to control 179,018,242 shares (35.80% of the total issued 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 CNBMG become the de facto controlling shareholder of the Company.

CNBMG and CLFG is considered to be a related party as they have the ability to exercise significant influence over the Group in making financial and operating decision. Affiliates of CNBMG and CLFG are considered to be related parties as they are subject to common control of CNBMG and CLFG respectively.

Apart from the transactions as disclosed in notes 2(b)(ii), 19, 24, 25, 28, 29 and 30, the Group had the following transactions with its related parties during the year:

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

	Note	**2008** **Rmb'000**	2007 Rmb'000
Disposal of a subsidiary	35(c), (i)	**70,363**	—
Ancillary and social services	(ii)	**4,023**	4,414
Provision of utilities	(iii)	**1,546**	1,013
Interest paid and payable		**—**	1,142
Guarantees issued by CLFG to the banks in favour of the Group		**161,900**	163,830
Indirect guarantees	(iv)	**351,680**	499,750
Domestic shares pledged by CLFG to CNBMG in respect of entrusted loans and guarantees in favour of the Group	(v)	**550,000**	—

Notes:

(i) In accordance with the share transfer agreement signed between the Company and CLFG on 22nd October, 2007, the Company agreed to transfer 100% equity interest of Logistics Company to CLFG at a total consideration of RMB70,363,000.

(ii) The Company has entered into a 3-year agreement with CLFG effective from 3rd August, 2004, which is expired on 3rd 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.

(iii) The Company has entered into a 3-year agreement with CLFG effective from 3rd August, 2004, which is expired on 3rd 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.

(iv) 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.

(v) In accordance with the share pledge agreement signed between CLFG and CNBMG on 16th October, 2008, CLFG agreed to pledge 179,018,242 domestic shares of the Company (representing approximately 35.80% of the total issued share capital of the Company and 100% of the domestic shares held by CLFG) in favour of CNBMG to secure several entrusted loans and guarantees granted by CNBMG to CLFG and the Group.

36. RELATED PARTY TRANSACTIONS *(Continued)*

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

	Note	**2008** **Rmb'000**	2007 Rmb'000
Sales of goods		**24,708**	7,824
Sales of raw materials		**137,101**	—
Proceeds from sale of racks and scrap materials		**—**	574
Technical service income		**3,142**	—
Transportation income		**987**	—
Ancillary and social services	(i)	**4,190**	5,313
Provision of utilities	(ii)	**18,749**	21,110
Purchase of finished goods		**56,326**	—
Purchase of raw materials	(iii)	**12,762**	11,143
Interest paid and payable		**15,277**	4,814
Interest received and receivable		**101**	236
Rental income	(iv)	**471**	581
Rental expense	(v)	**1,000**	—

Notes:

(i) The Company has entered into a 3-year agreement with a CLFG's subsidiary, CLFG Xinxing Co. ("Xinxing") effective from 3rd 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 22nd July, 2002, which is expired on 3rd 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 3rd August, 2004, which is expired on 3rd 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 has entered into a 3-year agreement with a CLFG's subsidiary, CLFG Minerals Products Co., Ltd. ("Mineral Co"), effective from 3rd August, 2004, which is expired on 3rd 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 from 1st 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.

The Company has entered into a 10-year agreement with a CLFG's subsidiary, CLFG Jinghua Industrial Corporation (head office) ("CJIH"), effective from 1st August, 2007 by which the Company sub-leases a portion of land use rights of land located in the PRC to CJIH at the market rental.

(v) CLFG's subsidiary, Logistics Company leases a portion of land use rights of land located in the PRC to the Company at the market rental. Up to the date of this report, the contract has not been signed.

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.

36. RELATED PARTY TRANSACTIONS *(Continued)*

(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:

	2008	2007
	RMB'000	*RMB'000*
Short-term employee benefits	**1,238**	682
Contribution to defined contribution plan	**107**	81
	1,345	763

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

(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 CNBMB and CLFG and their 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-state-owned 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 31st December, 2008 not provided for in the financial statements were as follows:

	The Group		The Company	
	2008	2007	**2008**	2007
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Contracted for				
— construction project	**1,330**	1,468	**—**	1,468
— investment in a subsidiary *(note 42(a))*	**32,586**	—	**—**	—
	33,916	1,468	**—**	1,468

38. CONTINGENT LIABILITIES

At 31st December, 2008, contingent liabilities were as follows:

(1) Guarantee

	The Group		The Company	
	2008	2007	**2008**	2007
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Guarantees issued to banks in favour of subsidiaries	**—**	—	**59,000**	47,700
Guarantees issued to CLFC in favour of subsidiaries	**—**	—	**39,000**	41,500
	—	—	**98,000**	89,200

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 31st December, 2008 and 31st December, 2007.

38. CONTINGENT LIABILITIES (Continued)

(2) Litigation

At 31st December, 2008, the Group has received numerous claims from various suppliers of RMB20,249,000, being the total amount of outstanding principal of goods supplied, interest accrued and costs on indemnity basis. Up to the date of this report, these claims have not been finally judged by the court and no provision has been made in these financial statements.

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 2008, 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.

(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.

		2008			2007		
	Note	***US$'000***	***EUR'000***	***HK$'000***	*US$'000*	*EUR'000*	*HK$'000*
Assets							
Trade receivables	24	**1,069**	**—**	**—**	532	—	—
Cash and cash equivalents	27	**202**	**9**	**7**	389	—	219
Liability							
Bank loans	30	**—**	**(596)**	**—**	—	(652)	—
Exposure arising from recognised assets and liabilities		**1,271**	**(587)**	**7**	921	(652)	219

40. FINANCIAL RISK MANAGEMENT *(Continued)*

(I) Financial risk factors *(Continued)*

(a) ***Market risks*** (Continued)

(i) Foreign exchange risk *(Continued)*

(3) Sensitivity analysis

The following table indicates the approximate change in the Group's profit/(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.

	2008 Increase/ (decrease) in foreign exchange rates *in %*	**2008** Effect on Profit/ (loss) after tax and accumulated losses *Rmb'000*	**2008** Effect on other components of equity *Rmb'000*	2007 Increase/ (decrease) in foreign exchange rates *in %*	2007 Effect on Profit/ (loss) after tax and accumulated losses *Rmb'000*	2007 Effect on other components of equity *Rmb'000*
United States Dollars	**5%**	**415**	**—**	5%	336	—
	(5%)	**(415)**	**—**	(5%)	(336)	—
Euros	**5%**	**270**	**—**	5%	347	—
	(5%)	**(270)**	**—**	(5%)	(347)	—
Hong Kong Dollars	**5%**	**—**	**—**	5%	10	—
	(5%)	**—**	**—**	(5%)	(10)	—

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 2007.

(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:

	2008 Effective interest rate	**2008** *Rmb'000*	2007 Effective interest rate	2007 *Rmb'000*
Bank and other loans at fixed rate (included in non-current liabilities)	**2.50%**	**5,256**	2.50%	6,405
Bank and other loans at fixed rate (included in current liabilities)	**2.50%-10.80%**	**658,711**	5.70%-10.44%	684,953
Bank and other loans at floating rate (included in current liabilities)	**7.47%-8.26%**	**235,700**	6.03%-7.77%	278,130
Cash and -bank balances	**0.36%-0.72%**	**276,023**	0.72%-2.25%	241,126

40. FINANCIAL RISK MANAGEMENT *(Continued)*

(I) Financial risk factors *(Continued)*

(a) Market risks (Continued)

(ii) Interest rate risk *(Continued)*

(2) Sensitivity analysis

At 31st December, 2008, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would decrease/increase the Group's profit after tax for the year and increase/decrease of accumulated losses as at 31st December, 2008 by approximately RMB403,000 (2007: increase/decrease the Group's loss after tax and accumulated losses of approximately RMB37,000). Other components of equity would not be affected (2007: Nil) by the changes in interest rates.

(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 70% (2007: 24%) and 87% (2007: 71%) of the total trade receivables (after allowance for impairment) were due from the Group's largest customer and the 5 largest customers as at 31st December, 2008 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.

(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.

40. FINANCIAL RISK MANAGEMENT *(Continued)*

(I) Financial risk factors *(Continued)*

(c) *Liquidity risk* *(Continued)*

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:

	2008					
	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	**899,667**	**938,741**	**932,990**	**665**	**1,667**	**3,419**
Trade and bills payables	**627,266**	**627,266**	**627,266**	**—**	**—**	**—**
Other payables	**220,107**	**220,107**	**220,107**	**—**	**—**	**—**
	1,747,040	**1,786,114**	**1,780,363**	**665**	**1,667**	**3,419**

	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

(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.

40. FINANCIAL RISK MANAGEMENT *(Continued)*

(II) Capital risk management *(Continued)*

The net debt-to-capital ratios as at 31st December, 2008 and 2007 were as follows:

		The Group	
	Note	**2008** **Rmb'000**	2007 *Rmb'000*
Current liabilities			
Trade and bills payables	28	**627,266**	516,013
Other payables	29	**220,107**	252,386
Bank and other loans	30	**894,411**	963,083
		1,741,784	1,731,482
Non-current liability			
Bank and other loans	30	**5,256**	6,405
Total debts		**1,747,040**	1,737,887
Less: Cash and cash equivalents	27	**64,578**	73,824
Adjusted net debt		**1,682,462**	1,664,063
Total equity		**226,711**	220,918
Net debt-to-capital ratio		**742%**	753%

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

(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 31st December, 2008 and 2007 due to their short maturities except the following:

The Group

	2008		2007	
	Carrying amount **Rmb'000**	**Fair value** **Rmb'000**	Carrying amount *Rmb'000*	Fair value *Rmb'000*
Non-current bank and other loans	**5,256**	**4,954**	6,405	4,914

The Company

	2008		2007	
	Carrying amount **Rmb'000**	**Fair value** **Rmb'000**	Carrying amount *Rmb'000*	Fair value *Rmb'000*
Non-current bank and other loans	**5,256**	**4,954**	6,405	4,914

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.

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

(a) In August 2008, Longfei entered into a share transfer agreement with the independent shareholders of Longxiang, a 40% indirectly owned subsidiary of the Company, for the acquisition of 60% equity interest in Longxiang at a total consideration of RMB38,016,000. Part of the total consideration of RMB5,430,000 was paid before 31st December, 2008. The transaction was completed after the balance sheet date.

(b) In December 2008, the Company entered into a share transfer agreement with an independent third party for the disposal of 66.67% equity interest in Luoshen at a total consideration of RMB4,500,000. The transaction was completed after the balance sheet date.

(c) In January 2009, the Company and CLFG entered into a share transfer agreement with two independent third parties, Zhenglong Coal Company Limited ("Zhenglong Coal") and Yongcheng Coal and Electricity Holdings Group Company Limited ("Yongcheng Coal"). Pursuant to the agreement, the Company agreed to dispose of its 37% equity interest in CLFG Finance Company to Zhenglong Coal at a total consideration of RMB140,112,000 and CLFG agreed to dispose of its 63% equity interest in CLFG Finance Company to Yongcheng Coal at a total consideration of RMB238,569,000.

Independent auditors' report

Daxin Shen Zi [2009] No. 2-0215

To the Shareholders of Luoyang Glass Company Limited:

We have audited the accompanying financial statements of Luoyang Glass Company Limited (Hereinafter referred to as "the Company") and its subsidiaries (Hereafter collectively referred to as "the group"), including balance sheet and consolidated balance sheet as of December 31, 2008, income statement and consolidated income statement, statement of changes in equity and consolidated statement of changes in equity, cash flow statement and consolidated cash flow statement, and notes to the financial statements for the year then ended.

I. Management's responsibility for the financial statements

The Company's management is responsible for the preparation of the financial statements in accordance with the Accounting Standards for Business Enterprises issued by PRC Ministry of Finance. The responsibility includes: (1) designing, implementing and maintaining an internal control system for the preparation of the financial statements so that they are free from material misstatement due to frauds or errors; (2) choosing and applying appropriate accounting principles; (3) making reasonable accounting estimates.

II. Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audits in accordance with the Chinese Auditing Standards. Those standards require that we comply with professional ethics, plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit includes examining, on test basis, evidence supporting the amounts and disclosures in the financial statements. The testing methods and procedures are based on auditor's judgment, including the evaluation of the risk of material misstatement due to frauds or errors. When evaluating risk, we consider the internal control system in relating to financial statements in order to design auditing procedures, but not for the purpose of expressing an opinion on the system's effectiveness. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation.

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

III. Audit opinion

In our opinion, the Group and the Company's financial statements have been prepared in accordance with Accounting Standards for Business Enterprises issued by PRC Ministry of Finance, and they fairly present, in all material respects, the financial position of the Group and the Company as of December 31, 2008, and the results of its operations and its cash flows for year then ended.

IV. Emphasis matter

We remind users of the financial statements to the following matter: as mentioned in note II, the Group and the Company's financial statements are prepared on the basis of going-concern assumption; it means that the Group and the Company will continue operation until December 31, 2009. As at December 31, 2008, the accumulative unrecovered loss of the Group is RMB1,249,967,485.76, and current liabilities exceeds current assets by RMB941,320,286.68. The Company has disclosed the reason of preparing financial statements on the basis of going-concern assumption in note II, but there still exists a significant uncertainty to going-concern capability of the Company. This passage has no impact on the audit opinion published.

DaXin Certified Public
Accountants Co., Ltd.

Chinese Certified Public Accountant: Wang Zhixian

Chinese Certified Public Accountant: Qiao Guanfang

Wuhan, China

March 26, 2009

Consolidated balance sheet

As at 31 December 2008
(Prepared under the PRC Accounting Rules and Regulations)
(Expressed in Renminbi)

Made by:Luoyang Glass Company Limited   Dec 31,2008   *Monetary unit: RMB YUAN*

Item	*Notes*	**December 31, 2008**	January 1, 2008
Current assets			
Bank balance and cash	VII. 1	**276,023,329.72**	241,126,249.21
Notes receivable	VII. 2	**7,437,000.00**	55,460,900.84
Accounts receivable	VII. 3	**92,143,464.65**	27,452,699.77
Prepayments	VII. 4	**20,814,460.85**	14,135,628.24
Other receivables	VII. 5	**145,755,700.06**	14,488,236.72
Inventory	VII. 6	**252,015,659.05**	294,175,989.07
Total current assets		**794,189,614.33**	646,839,703.85
Non-current assets			
Long-term investment in equity	VII. 7	**128,622,879.48**	118,812,676.46
Investment properties	VII. 8	**16,180,876.53**	18,502,063.13
Fixed assets	VII. 9	**825,289,773.51**	1,065,020,682.90
Construction in progress	VII. 10	**109,387,420.73**	6,376,837.26
Construction materials	VII. 11	**79,022.74**	736,544.48
Intangible assets	VII. 12	**59,400,119.75**	113,291,587.51
Goodwill	VII. 13	**—**	—
Other non-current assets	VII. 14	**70,000,000.00**	70,000,000.00
Total non-current asset		**1,208,960,092.74**	1,392,740,391.74
Total assets		**2,003,149,707.07**	2,039,580,095.59

Corporate representative:	*Chief accountant:*	*Person in charge of accounting department:*
Gao Tianbao	**Song Fei**	**Hai Sumin**

Consolidated balance sheet *(Continued)*

As at 31 December 2008
(Prepared under the PRC Accounting Rules and Regulations)
(Expressed in Renminbi)

Made by:Luoyang Glass Company Limited   Dec 31,2008   *Monetary unit: RMB YUAN*

Item	*Notes*	**December 31, 2008**	January 1, 2008
Current liabilities			
Short-term borrowings	VII. 17	**892,910,000.00**	909,200,000.00
Notes payable	VII. 18	**215,700,000.00**	141,001,958.33
Accounts payables	VII. 19	**411,748,269.26**	380,760,472.08
Payments received in advance	VII. 20	**84,527,369.86**	76,274,056.31
Staff remuneration payables	VII. 22	**23,266,507.03**	22,242,458.93
Taxes payable	VII. 23	**5,608,385.22**	21,834,944.62
Interest payable	VII. 21	**—**	599,555.59
Other payables	VII. 24	**101,248,726.67**	130,437,425.74
Non-current liabilities due within one year		**500,642.97**	53,882,876.09
Total current liabilities		**1,735,509,901.01**	1,736,233,747.69
Non-current liabilities			
Long-term borrowing	VII. 25	**5,256,745.29**	6,405,600.07
Accrued liabilities		**2,502,500.00**	2,502,500.00
Total non-current liabilities		**7,759,245.29**	8,908,100.07
Total liabilities		**1,743,269,146.30**	1,745,141,847.76
Shareholders' equity			
Share capital	VII. 26	**500,018,242.00**	500,018,242.00
Capital reserve	VII. 27	**927,739,780.43**	927,739,780.43
Surplus reserve	VII. 28	**51,365,509.04**	51,365,509.04
Accumulated losses	VII. 29	**-1,249,967,485.76**	-1,262,751,267.90
Total equity attributable to the equity holders of the Company		**229,156,045.71**	216,372,263.57
Minority interests		**30,724,515.06**	78,065,984.26
Total shareholders' equity		**259,880,560.77**	294,438,247.83
Total liabilities and shareholders' equity		**2,003,149,707.07**	2,039,580,095.59

Corporate representative: **Gao Tianbao**   *Chief accountant:* **Song Fei**   *Person in charge of accounting department:* **Hai Sumin**

Balance sheet

As at 31 December 2008
(Prepared under the PRC Accounting Rules and Regulations)
(Expressed in Renminbi)

Made by:Luoyang Glass Company Limited Dec 31,2008 *Monetary unit: RMB YUAN*

Item	*Notes*	**December 31, 2008**	January 1, 2008
Current assets			
Bank balance and cash		**171,861,982.53**	191,530,262.65
Notes receivable		**3,787,000.00**	38,211,206.79
Accounts receivable	VIII.1	**248,966,845.36**	8,897,901.41
Prepayments		**20,989,627.07**	475,632.46
Other receivables	VIII.2	**223,126,820.82**	26,191,720.02
Inventory		**48,942,353.37**	108,539,545.92
Total current assets		**717,674,629.15**	373,846,269.25
Non-current assets			
Hold to maturity investment		**313,644,427.39**	296,175,279.84
Long-term investment in equity	VIII.3	**268,772,879.48**	332,036,846.17
Investment properties		**16,180,876.53**	18,502,063.13
Fixed assets		**216,963,105.47**	295,449,478.82
Construction in progress		**—**	678,650.00
Construction materials		**15,564.95**	3,980.00
Intangible assets		**35,392,861.07**	71,774,375.60
Other non-current assets		**70,000,000.00**	70,000,000.00
Total non-current asset		**920,969,714.89**	1,084,620,673.56
Total assets		**1,638,644,344.04**	1,458,466,942.81

Corporate representative:
Gao Tianbao

Chief accountant:
Song Fei

Person in charge of accounting department:
Hai Sumin

Balance sheet *(Continued)*

As at 31 December 2008
(Prepared under the PRC Accounting Rules and Regulations)
(Expressed in Renminbi)

Made by:Luoyang Glass Company Limited Dec 31,2008 *Monetary unit: RMB YUAN*

Item	*Notes*	**December 31, 2008**	January 1, 2008
Current liabilities			
Short-term borrowings		**758,210,000.00**	808,300,000.00
Notes payable		**142,200,000.00**	82,201,958.33
Accounts payables		**262,884,122.35**	146,252,689.17
Payments received in advance		**79,206,751.02**	30,151,738.21
Staff remuneration payables		**11,526,291.45**	14,618,904.20
Taxes payable		**11,287,492.88**	7,740,923.39
Other payables		**61,448,240.70**	64,505,252.83
Non-current liabilities due within one year		**500,642.97**	552,876.09
Total current liabilities		**1,327,263,541.37**	1,154,324,342.22
Non-current liabilities			
Long-term borrowing		**5,256,745.29**	6,405,600.07
Accrued liabilities		**2,502,500.00**	2,502,500.00
Total non-current liabilities		**7,759,245.29**	8,908,100.07
Total liabilities		**1,335,022,786.66**	1,163,232,442.29
Shareholders' equity			
Share capital		**500,018,242.00**	500,018,242.00
Capital reserve		**894,103,784.06**	894,103,784.06
Surplus reserve		**51,365,509.04**	51,365,509.04
Accumulated losses		**-1,141,865,977.72**	-1,150,253,034.58
Total shareholders' equity		**303,621,557.38**	295,234,500.52
Total liabilities and shareholders' equity		**1,638,644,344.04**	1,458,466,942.81

Corporate representative: **Gao Tianbao**

Chief accountant: **Song Fei**

Person in charge of accounting department: **Hai Sumin**

Consolidated income statement

For the year ended 31 December 2008
(Prepared under the PRC Accounting Rules and Regulations)
(Expressed in Renminbi)

Made by:Luoyang Glass Company Limited Dec 31,2008 *Monetary unit: RMB YUAN*

Item	Notes	2008	2007
Operating revenue			
Main operating income	VII. 30	**1,322,532,854.82**	1,508,756,180.44
Operating cost			
Operating cost	VII. 30	**1,331,474,442.76**	1,350,932,060.21
Business tax and surcharge		**3,647,893.13**	5,423,831.26
Selling expenses		**40,358,543.06**	39,767,249.51
Adminstrative expenses		**118,914,629.61**	112,133,831.48
Finance cost	VII. 31	**85,795,002.57**	72,591,183.39
Impairment losses	VII. 33	**42,422,679.99**	39,392,080.07
Investment gains (losses)	VII. 34	**5,878,671.09**	24,258,492.94
Investment gains (losses) in associate and joint ventures		**5,867,624.09**	2,194,415.14
Operating loss:		**(294,201,665.21)**	(87,225,562.54)
Add: Non-operating income	VII. 35	**258,144,028.25**	18,016,517.61
Less: Non-operating expenses	VII. 35	**1,151,488.77**	3,800,379.03
Including: Loss from disposal of non-current assets		**—**	3,266,445.86
Total losses		**(37,209,125.73)**	(73,009,423.96)
Less: Income taxes expenses	VII. 36	**(2,651,438.67)**	3,412,035.71
Net losses		**(34,557,687.06)**	(76,421,459.67)
Net profit attributable to parent company's shareholders		**12,783,782.14)**	(95,343,480.67)
Minority interests		**(47,341,469.20)**	18,922,021.00
Earings per share			
i) Basic earnings per share (RMB/share)		**0.026**	(0.191)
ii) Diluted earnings per share (RMB/share)		**0.026**	(0.191)

Corporate representative: **Gao Tianbao** *Chief accountant:* **Song Fei** *Person in charge of accounting department:* **Hai Sumin**

Income statement

For the year ended 31 December 2008
(Prepared under the PRC Accounting Rules and Regulations)
(Expressed in Renminbi)

Made by:Luoyang Glass Company Limited Dec 31,2008 *Monetary unit: RMB YUAN*

Item	Notes	2008	2007
Operating income	VIII.4	**1,338,389,872.64**	600,756,796.84
Less: Operating cost		**1,357,183,899.29**	579,018,155.99
Business tax and surcharge		**751,156.53**	2,245,064.01
Selling expenses		**12,343,459.13**	20,258,150.26
Adminstrative expenses		**82,328,803.59**	78,463,040.25
Finance cost		**60,337,080.40**	49,171,482.31
Impairment losses		**64,159,617.91**	135,331,383.72
Investment gains (losses)	VIII.5	**46,320,794.48**	53,728,478.06
Investment gains (losses) in associateand joint ventures		**5,867,624.09**	2,194,415.14
Operationing income		**-192,393,349.73**	-210,002,001.64
Add: Non-operating income		**200,842,038.39**	72,085,506.91
Less: Non-operating expenses		**61,631.80**	2,182,129.80
Including: Loss from disposal of non-current assets		**—**	1,973,344.94
Total income		**8,387,056.86**	-140,098,624.53
Less: Income taxes expenses		**—**	—
Net income		**8,387,056.86**	-140,098,624.53

Corporate representative:
Gao Tianbao

Chief accountant:
Song Fei

Person in charge of accounting department:
Hai Sumin

Consolidated cash flow statement

For the year ended 31 December 2008
(Prepared under the PRC Accounting Rules and Regulations)
(Expressed in Renminbi)

Made by:Luoyang Glass Company Limited Dec 31,2008 *Monetary unit: RMB YUAN*

Item	Notes	2008	2007
Cash flow from operating activities:			
Cash received from sale of goods and provision of services		**671,149,442.56**	834,278,533.12
Tax rebates		**1,048,822.47**	1,893,381.06
Other cash received from activities related to operation	VII. 38	**97,018,543.17**	85,074,517.86
Sub-total of cash inflow from operating activities		**769,216,808.20**	921,246,432.04
Cash paid for goods purchased and service rendered		**534,641,716.08**	663,724,723.73
Cash paid to and on behalf of employee		**90,859,403.97**	89,910,917.54
Taxes payments		**70,191,003.05**	71,506,215.92
Other cash paid for activities related to operation	VII. 38	**121,246,985.89**	106,825,500.57
Sub-total of cash outflow from operating activities		**816,939,108.99**	931,967,357.76
Net cash flow from operating activities		**-47,722,300.79**	-10,720,925.72
Cash flow from investment activities:			
Cash received from Withdraw investment		**—**	55,209,114.20
Cash received from return of investments		**3,057,421.07**	22,064,077.80
Net cash received from disposal of fixed assets, intangible assets and other long term assets		**138,687,030.00**	21,802,595.00
Net cash received from disposal of a subsidiary		**49,254,599.80**	—
Other cash received from activities related to investment		**—**	13,417,219.92
Sub-total of cash inflow from investment activities		**190,999,050.87**	112,493,006.92
Cash paid for acquisition of fixed assets, intangible assets and other long term assets		**8,604,340.22**	15,189,655.06
Cash paid for acquisition of investment		**7,230,000.00**	35,000,000.00
Other cash paid for activities related to investment		**—**	161,170.50
Sub-total of cash outflow from investment activities		**15,834,340.22**	50,350,825.56
Net cash flow from investment activities		**175,164,710.65**	62,142,181.36

Corporate representative: **Gao Tianbao**

Chief accountant: **Song Fei**

Person in charge of accounting department: **Hai Sumin**

Consolidated cash flow statement *(Continued)*

For the year ended 31 December 2008
(Prepared under the PRC Accounting Rules and Regulations)
(Expressed in Renminbi)

Made by:Luoyang Glass Company Limited   Dec 31,2008   *Monetary unit: RMB YUAN*

Item	*Notes*	**2008**	2007
Cash flow from financing activities:			
Cash received from investments by others		—	490,000.00
Including: cash received from subsidary company absorbing minority's investment		—	490,000.00
Proceeds from loans		**938,343,000.00**	1,147,750,000.00
Other cash received from activities related to financing		—	190,217.75
Sub-total of cash inflow from financing activities		**938,343,000.00**	1,148,430,217.75
Repayment of loans		**999,083,428.67**	1,119,002,200.76
Cash paid for dividends, profit, or interest payments		**74,751,658.32**	63,628,246.01
Other cash paid for financing-related activities		**1,803,951.44**	1,526,712.73
Sub-total of cash outflow from financing activities		**1,075,639,038.43**	1,184,157,159.50
Net cash flow from financing activities		**-137,296,038.43**	-35,726,941.75
Influence of foreign exchange rate changes on cash and cash equlavalents		**608,562.89**	-284,000.82
Net increase/(decrease) in cash and cash equivalents		**-9,245,065.68**	15,410,313.07
Add: beginning balance of cash and cash equivalents		**73,822,809.45**	58,413,977.81
Ending balance of cash and cash equivalents		**64,577,743.77**	73,824,290.88

Corporate representative: **Gao Tianbao**   *Chief accountant:* **Song Fei**   *Person in charge of accounting department:* **Hai Sumin**

Cash flow statement

For the year ended 31 December 2008
(Prepared under the PRC Accounting Rules and Regulations)
(Expressed in Renminbi)

Made by:Luoyang Glass Company Limited Dec 31,2008 *Monetary unit: RMB YUAN*

Item	*Notes*	**2008**	2007
Cash flow from operating activities:			
Cash received from sale of goods and provision of services		**571,879,893.27**	440,479,921.94
Tax rebates		**283,607.25**	1,890,237.18
Other cash received from activities related to operation		**118,071,582.24**	76,336,481.65
Sub-total of cash inflow from operating activities		**690,235,082.76**	518,706,640.77
Cash paid for goods purchased and service rendered		**510,111,118.27**	483,144,268.05
Cash paid to and on behalf of employee		**55,523,639.41**	48,863,404.56
Taxes payments		**22,239,319.96**	26,202,395.69
Other cash paid for activities related to operation		**177,209,985.87**	74,769,388.48
Sub-total of cash outflow from operating activities		**765,084,063.51**	632,979,456.78
Net cash flow from operating activities		**-74,848,980.75**	-114,272,816.01
Cash flow from investment activities:			
Cash received from disposal of investments		**306,600,000.00**	414,809,114.20
Cash received from return of investments		**44,221,047.17**	53,218,762.55
Net proceeds from disposal of fixed assets, intangible assets and other long term assets		**138,667,030.00**	21,781,595.00
Net cash received from disposal of a subsidiary		**49,254,599.80**	—
Other cash received from activities related to investment		**—**	13,416,500.00
Sub-total of cash inflow from investment activities		**538,742,676.97**	503,225,971.75
Cash paid for acquisition of fixed assets, intangible assets and other long term assets		**84,200.41**	132,363.85
Cash paid for acquisition investments		**376,600,000.00**	415,600,000.00
Sub-total of cash outflow from investment activities		**376,684,200.41**	415,732,363.85
Net cash flow from investing activities		**162,058,476.56**	87,493,607.90

Corporate representative:	Chief accountant:	Person in charge of accounting department:
Gao Tianbao	**Song Fei**	**Hai Sumin**

Cash flow statement *(Continued)*

For the year ended 31 December 2008
(Prepared under the PRC Accounting Rules and Regulations)
(Expressed in Renminbi)

Made by:Luoyang Glass Company Limited   Dec 31,2008   *Monetary unit: RMB YUAN*

Item	*Notes*	2008	2007
Cash flow from financing activities			
Proceeds from loans		**753,610,000.00**	928,300,000.00
Other cash received from activities related to financing		**—**	130,220.60
Sub-total of cash inflow from financing activities		**753,610,000.00**	928,430,220.60
Repanyment of loans		**805,160,428.67**	837,727,149.62
Cash paid for dividendsl, profit, or interest payment		**59,903,776.62**	48,806,233.13
Other cash paid for financing-related activities		**1,034,250.00**	—
Sub-total of cash outflow from financing activities		**866,098,455.29**	886,533,382.75
Net cash flow from financing activities		**-112,488,455.29**	41,896,837.85
Influence of foreign exchange rate changes on cash and cash equlavalents		**608,562.89**	-284,000.82
Net increase/(decrease) in cash and cash equivalents		**-24,670,396.59**	14,833,628.92
Add: beginning balance of cash and cash equivalents		**58,028,304.32**	43,194,675.40
Ending balance of cash and cash equivalents		**33,357,907.73**	58,028,304.32

Corporate representative:	*Chief accountant:*	*Person in charge of accounting department:*
Gao Tianbao	**Song Fei**	**Hai Sumin**

Consolidated statement of changes in equity

For the year ended 31 December 2008
(Prepared under the PRC Accounting Rules and Regulations)
(Expressed in Renminbi)

Made by:Luoyang Glass Company Limited Dec 31,2008 *Monetary unit: RMB YUAN*

2008

Item	Equity attributable to parent company's shareholders: Share capital	Capital reserve	Surplus reserves	Undistributions	Minority interest	Total equity
1. Ending balance of last year	**500,018,242.00**	**927,739,780.43**	**51,365,509.04**	**-1,262,751,267.90**	**78,065,984.26**	**294,438,247.83**
2. Beginning balance of the period	**500,018,242.00**	**927,739,780.43**	**51,365,509.04**	**-1,262,751,267.90**	**78,065,984.26**	**294,438,247.83**
3. Increase (decrease) for the period				**12,783,782.14**	**-47,341,469.20**	**-34,557,687.06**
(1) Net profit				**12,783,782.14**	**-47,341,469.20**	**-34,557,687.06**
(2) Gains and losses direct into equity						
Subtotal for (1) and (2)				**12,783,782.14**	**-47,341,469.20**	**-34,557,687.06**
4. Ending balance of the period	**500,018,242.00**	**927,739,780.43**	**51,365,509.04**	**-1,249,967,485.76**	**30,724,515.06**	**259,880,560.77**

2007

Item	Equity attributable to parent company's shareholders: Share capital	Capital reserve	Surplus reserves	Undistributions	Minority interest	Total equity
1. Ending balance of last year	500,018,242.00	914,179,131.42	61,075,077.60	-1,161,612,835.78		313,659,615.24
Add: Change in accounting policies		13,560,649.01	-9,709,568.56	-5,794,951.45	58,653,963.26	56,710,092.26
2. Beginning balance of the period	500,018,242.00	927,739,780.43	51,365,509.04	-1,167,407,787.23	58,653,963.26	370,369,707.50
3. Increase (decrease) for the period				-95,343,480.67	19,412,021.00	-75,931,459.67
(1) Net profit				-95,343,480.67	18,922,021.00	-76,421,459.67
(2) Gains and losses direct into equity						
Subtotal for (1) and (2)				-95,343,480.67	18,922,021.00	-76,421,459.67
4. Owners invest or reduce capital					490,000.00	490,000.00
(1) Owners invest capital					490,000.00	490,000.00
5. Ending balance of the period	500,018,242.00	927,739,780.43	51,365,509.04	-1,262,751,267.90	78,065,984.26	294,438,247.83

Corporate representative:	*Chief accountant:*	*Person in charge of accounting department:*
Gao Tianbao	**Song Fei**	**Hai Sumin**

Statement of changes in equity

For the year ended 31 December 2008
(Prepared under the PRC Accounting Rules and Regulations)
(Expressed in Renminbi)

Made by:Luoyang Glass Company Limited Dec 31,2008 *Monetary unit: RMB YUAN*

	2008				
Item	Share capital	Capital reserve	Surplus reserves	Undistributions	Total equity
1. Ending balance of last year	**500,018,242.00**	**894,103,784.06**	**51,365,509.04**	**-1,150,253,034.58**	**295,234,500.52**
2. Beginning balance of the period	**500,018,242.00**	**894,103,784.06**	**51,365,509.04**	**-1,150,253,034.58**	**295,234,500.52**
3. Increase (decrease) for the period				**8,387,056.86**	**8,387,056.86**
(1) Net profit				**8,387,056.86**	**8,387,056.86**
(2) Gains and losses direct into equity					
Subtotal for (1) and (2)				**8,387,056.86**	**8,387,056.86**
4. Ending balance of the period	**500,018,242.00**	**894,103,784.06**	**51,365,509.04**	**-1,141,865,977.72**	**303,621,557.38**

	2007				
Item	Share capital	Capital reserve	Surplus reserves	Undistributions	Total equity
1. Ending balance of last year\	500,018,242.00	914,179,131.42	51,365,509.04	-1,108,894,941.66	356,667,940.80
Add: Change in accounting policies		-20,075,347.36		98,740,531.61	78,665,184.25
2. Beginning balance of the period	500,018,242.00	894,103,784.06	51,365,509.04	-1,010,154,410.05	435,333,125.05
3. Increase (decrease) for the period				-140,098,624.53	-140,098,624.53
(1) Net profit				-140,098,624.53	-140,098,624.53
(2) Gains and losses direct into equity					
Subtotal for (1) and (2)				-140,098,624.53	-140,098,624.53
4. Ending balance of the period	500,018,242.00	894,103,784.06	51,365,509.04	-1,150,253,034.58	295,234,500.52

Corporate representative:	Chief accountant:	Person in charge of accounting department:
Gao Tianbao	**Song Fei**	**Hai Sumin**

(Expressed in Renminbi)

Note (2) Disposal of subsidiaries and other operting business:

Made by:Luoyang Glass Company Limited Dec 31,2008 *Monetary unit: RMB YUAN*

Items	Amount
The proceeding of disposal of subsidiaries and other operating business	70,363,714.00
Cash and cash equivalent received from disposal of subsidiaries and other operating business	70,363,714.00
Minus:cash and cash equivalent held by subsidiaries and operating business	1,444.10
Net cash received from disposal of subsidiaries and operating business	70,365,158.10

Note 3 (3) Cash and Cash equivalent:

Items	2008
Cash	74,386,951.08
Including: Cash on hand	676,952.72
Bank deposit available for payment at any time	73,709,998.36
Ending balance of cash and cash equivalent	74,386,951.08

Corporate representative:	*Chief accountant:*	*Person in charge of accounting department:*
Gao Tianbao	**Song Fei**	**Hai Sumin**

I. 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 reorganization 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 judgment (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.

II. Basis of preparation of financial statements

These financial statements have been prepared in accordance with The "Accounting Standards for Business Enterprises" and "Interpretation No. 1 to Accounting Standards for Business Enterprises" and "Interpretation No. 2 to Accounting Standards for Business Enterprises"issued by PRC Ministry of Finance in 2007.

The Company recorded an accumulative loss of RMB1,249,967,485.76 in the consolidated financial statements as at 31 December 2008, and current liabilities exceeded current assets by RMB941,320,286.68. However, the directors are of opinion that the Company and the Group are able to continue their operations and repay debts at maturity, because:

(1) As of December 31, 2008, credit line of RMB717,767,000.00 authorized by bank has been used entirely, these loans will be due within one year after the balance sheet date, directors are negotiating with bank for continuing support.

(2) The Company continues to obtain the financial support from the holding company - China Luoyang Float Glass Co., Ltd. and the holding company's parent company - China Building Materials Group Corporation.

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.

III. Declaration on compliance with the Accounting Standards for Business Enterprises

The financial statements of the Company for the year ended 31 December 2008 were prepared under the requirements of Accounting Standards for Business Enterprises, reflecting the Group and the Company's financial positions as of 31 December 2008, and operating results, cash flows and other relevant information for the year ended 31 December 2008 on a true and complete basis.

IV. Significant accounting policies and accounting estimates

(1) Accounting rules and regulations

The group adopts Accounting Standards for Business Enterprises

(2) Accounting year

Accounting year of the Group is the calendar year from January 1 to December 31.

(3) Measurement currency

The Group's reporting currency is the Renminbi.

(4) 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 realizable value, present value or fair value where such amounts can be obtained and reliably measured.

(5) Cash equivalents

"Cash equivalents" refer to short-term (expire within 3 months of the purchasing day), highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk on change in value.

(6) 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. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are restated into the reporting currency using the spot exchange rates at that date, any difference from exchange will recorded into current profit and loss. 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.

(7) Financial Instruments

i. Recognition and derecognizing of financial instruments

Financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Whenthe group becomes a party to a financial instrument, it shall recognize a financial asset or financial liability.

The financial asset should be considered for derecognizing when it meets one of the following two conditions: (1)when the right to collect the cash flow from a financial asset is termination; (2) The financial assets is transferred and conform to the termination condition of Accounting Standards for Business Enterprises No.23-transfer of financial asset.

All or part of the current obligation to the financial liabilities are terminated, and then derecognize financial liability or part of it.

IV. Significant accounting policies and accounting estimates *(Continued)*

(7) Financial Instruments *(Continued)*

ii. Classification of financial assets

Financial assets are divided into the following four categories when they are initially recognized at fair value:

(a) Financial assets at fair value through profit or loss

The financial assets which are measured at their fair values and the variation of which is recorded into the profits and losses of the current period, including available for sale financial assets and designed as at fair value through profit or loss. Available for sale financial assets comprise financial assets which can be sold in the short term and other derivatives. An enterprise shall make subsequent measurement on these financial assets according to their fair values and any realized and unrealized variation is recorded in the current profits and losses.

(b) 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. It adopts effective interest rate(πÍª⁄ßQ≤v™k) method and makes subsequent measurement based on the amortized cost. The gain or loss arising from discontinuing recognition, impairment or amortization is included in current profit or loss.

(c) 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.The subsequent measurement shall be made on these financial asset on the basis of the post-amortization costs by adopting the effective interest rate method, The gain or loss arising from discontinuing recognition, impairment or amortization is included in current profit or loss.

(d) Available-for-sale financial assets

It refers to 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. The subsequent measurement shall be made on these financial assets on the basis of fair value. Its premium discount using the effective interest method for amortization and recognized as interest income; its fair value changes recognized as capital reserve, in the termination of the investment or impairment happened, write off the equity corresponding part from the financial asset directly and recorded in current period profit and loss.

iii. Classification of financial liabilities

Financial liabilities are divided into the following two categories when they are initially recognized at fair value:

(a) Financial liabilities measured at fair value through profit and loss

The financial liabilities which are measured at their fair values and of which the variation is included in the current profits and losses, including available for sale financial liabilities and the designated as financial liabilities which are measured at their fair values and of which the variation is included in the current profits and losses. A subsequent measurement shall be made for the financial liabilities 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.

(b) Other financial liabilities

The subsequent measurement is made on these financial liabilities on the basis of the post-amortization costs by adopting the effective interest rate method 實際利率法.

IV. Significant accounting policies and accounting estimates *(Continued)*

(7) Financial Instruments *(Continued)*

iv. Transaction costs

Transaction costs with regard to financial assets or financial liabilities measured at fair value through profit and loss are directly recorded in the current period profit and loss account.Transaction costs related to other types of financial assets or financial liabilities are included in the amount of its initial recognition.

v. Determination of the fair value of financial assets and financial liabilities

As for the financial assets or financial liabilities for which there is an active market, the quoted prices in the active market shall be used to determine the fair values thereof.Where there is no active market for a financial instrument, the enterprise concerned shall adopt value appraisal techniques to determine its fair value. The value appraisal techniques mainly include the prices adopted by the parties, who are familiar with the condition, in the latest market transaction upon their own free will, the current fair value obtained by referring to other financial instruments of the same essential nature, the cash flow capitalization method and the option pricing model, etc.

vi. 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. The objective evidence that confirm the impairment has been taken place refers to the event actually occurred after the initial recognition, which has adverse effect on the future cash flow and the amount can be measured reliably.

An impairment test shall be made on the financial assets with significant single amounts. If there is objective evidence that is the impairment has been taken place, then recognize the impairment loss and recorded into profit and loss account in the current period.

(a) Financial asset carried at amortized cost

If there is objective evidence to confirm the impairment has been taken place, the carrying value of the financial asset will decrease to the present value of estimated future cash flow. The total decrease amount is recorded into the profit and loss account of the current period. Present value of estimated future cash flow is discounted by using the original effective interest rate 實際利率, and should be consider the value of relevant collateral.

If there is objective evidence confirm that the value of impaired financial assets is recovered, then the original recognized impairment loss should be reversed through profit and loss account in the current year. However, the carrying value after reversing impairment loss should not exceed the amount of amortized cost as if there is no impairment taken place.

(b) Financial asset carried at cost

If there is objective evidence confirm that the financial asset has been impaired, the difference between the book value of the financial asset and the present value of estimated future cash flow discounted at market rate of return at that time will be included in the current profits and loss.Once confirm the impairment loss, it shall not be reversed.

(c) Available for sale financial asset

If there is objective evidence confirm that the impairment of available for sale financial asset has been taken place, the accumulated loss from decreasing in the fair value which originally recorded in the owner's equity should be transferred into current period profit and loss. The transferred accumulated loss is the difference between the historical cost deducted receipt capital and amortized amount and the current fair value and the balance after deducting impairment loss which has been recorded into profit and loss account.

For recognized impairment loss of available for sale financial asset, increase in fair value in the subsequent accounting period ,the original recognized impairment loss can reversed into current profit and loss account. The impairment of available for sale equity instrument can not be reversed through profit and loss account.

IV. Significant accounting policies and accounting estimates *(Continued)*

(7) Financial Instruments *(Continued)*

vii. Transfer of financial assets

A transfer of financial assets refers to an entity transfers a financial assets to the other party (the transferee) other than the issuer of financial asset.

The company has transferred nearly all of the risks and rewards related to the ownership of the financial asset to the transferee, it shall derecognize the financial asset. If it retained nearly all of the risks and rewards related to the ownership of the financial asset, it shall not derecognize the financial asset.

The company does not transfer or retain nearly all of the risks and rewards related to the ownership of a financial asset, it shall deal with it according to the circumstances as follows, respectively: a. If it gives up its control over the financial asset, it shall stop recognizing the financial asset; b. If it does not give up its control over the financial asset, it shall, according to the extent of its continuous involvement in the transferred financial asset, recognize the related financial asset and recognize the relevant liability accordingly.

(8) Accounts receivable and bad debts

i. Account receivable without related party transaction

At the end of the period, impairment test shall be made on individual accounts receivable with significant amounts. If there is objective evidence that they have been impaired, bad debt loss shall be recognized and provision for bad debts shall be made base on the differences between book values and the present value of estimated future cash flows. For those individual accounts receivable without significant amounts at the end of the period, along with those accounts receivable that have been tested individually but not impaired, the Company classifies them in line with similar credit risk characteristics into several groups, and make a specific percentage of bad debts provision on the accounts receivable balances at balance sheet date. On the basis of the actual loss rate of receivable accounts, with same or similar credit risk characteristics of accounts receivable package in previous year, the Company also considers current situation and determine the percentage of bad debt provision.

ii. Here is the Company's bad debts provision policy:

Age	Proportion
Within 1 year	0%
1 year to 2 years	30%
2 years to 3 years	50%
Above 3 years	100%

For any well-established evidence shows that there exist obvious differences of recoverable of the receivables, provision of bad debt is recognized in individual method.

(9) Inventories

i. Inventories category: raw materials, work in progress, finished goods and other materials for turnover.

ii. Valuation methods of inventories: Inventories are accounted for at actual cost upon acquisition. Cost of inventories delivered is determined using the weighted average method.

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 amortization method.

iii. The Group adopts perpetual inventory record policy.

iv. If the costs measured at single inventory item are higher than net realizable value, the difference between the two is accounted into provision for diminution in value of inventories. Net realizable 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.

IV. Significant accounting policies and accounting estimates *(Continued)*

(10) 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. And cost method is adopted for subsequent measurement of investment property.

The group uses same depreciation or amortization method for fixed assets and intangible assets.

At the balance sheet date, where any evidence shows that there is possible impairment of investment property, should take impairment test and make provision for impairment loss individually.

(11) Fixed assets

i. Recognition of fixed assets and initial measurement

(a) 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.

The cost of an item of fixed assets shall be recognized as an asset if, and only if (a) it is probable that future economic benefits associated with the item will flow to the entity; and (b) the cost of the item can be measured reliably. The subsequent expense related with the fixed asset when it meet the character of recognition of fixed asset, it will be recorded in the cost of fixed asset, or it will be recorded as expense through current profit and loss.

(b) Fixed assets are measured at cost of acquisition.

For acquired asset, the cost of a fixed asset comprises its purchase price, related taxes and any costs directly attributable to bring the asset to the location and condition necessary for it to be capable of operating, such as transport fees and installation fees and etc. The cost of a self-constructed asset comprises any costs necessarily related to the construction prior to bring it to the condition for it to be capable of operating.

ii. Subsequent measurement

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	Estimate net residual ratio
Buildings	30-50 years	3%-5%
Plant and machinery	4-28 years	3%-5%
Transportation instruments	6-12 years	3%-5%

Fixed assets depreciated on a monthly basis. For increased asset in the current month, the depreciation of an asset begins from next month. For decreased asset in the current month, the depreciation of an asset terminates from next month.

The company, at least at the end of each year, has a review on the useful life, expected residual value and the depreciation method of the fixed assets, and adjusts them when necessary.

At the balance sheet date, there are signs that fixed assets impaired, according to the stated asset impairment method to make impairment provision of fixed assets.

IV. Significant accounting policies and accounting estimates *(Continued)*

(12) Construction in progress

Cost of construction in progress is recognized 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 capitalized into construction in progress.

Construction in progress is transferred to fixed assets when the project is substantially ready for its intended use.

For any evidence of impairment of the construction in progress at balance sheet date, the provision of impairment loss is made as the method used in fixed asset.

(13) Intangible Assets

i. Initial recognition

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.

ii. Subsequent measurement

The depreciable amount of intangible assets with finite useful lives shall be allocated on a systematic basis over its useful life and it is recorded into current period profit and loss. Unable to reasonably determine the expected way of realization, then using straight-line amortization method.

The company shall, at least at the end of each year, review the amortization period and the amortization method of the intangible assets with finite useful lives and adjust them when necessary.

Unforeseen economic benefits live of intangible assets as intangible assets with infinite useful lives.Intangible assets with indefinite useful lives shall not be amortized, but required an annual impairment review and review of useful lives.

For any evidence of impairment of the intangible asset at balance sheet date, the provision of impairment loss is made as the method used in fixed asset.

iii. The estimation of useful life

For intangible assets with finite useful lives, the Company shall consider the following factors normally when estimating its useful life:

(a) the life cycle of the product produced by the assets, getting the information of similar assets' life;

(b) estimation of technique, techniques and other aspects in the current and future trends;

(c) the demand of the market of product produced by the assets or services provided by the assets;

(d) expected action taken by current or potential competitors;

(e) expected maintenance costs for maintaining the economic benefits of the assets, and the company's expected payment ability to the costs;

(f) the relevant legal provisions or similar restrictions to the assets' controlling term, such as privileged using period and rental period;

(g) The relationship with the useful life of the company's other assets.

IV. Significant accounting policies and accounting estimates *(Continued)*

(13) Intangible Assets

iv. Research and development phase

Research and development expenses arising from internal project shall be recorded into current period profit and loss account.

An intangible asset arising from development phase of an internal project shall be recognized if, and only if, an entity can demonstrate all of the following:

(a) The technical feasibility of completing the intangible asset so that it will be available for use or sale.

(b) Its intention to completing the intangible asset and use or sell it.

(c) How the intangible asset will generate probable economic benefits. Among other things, the entity can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset.

(d) The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.

(e) Its ability to measure reliably the expenditure attributable to the intangible asset during its development.

(14) Impairment of non-financial assets

i. At the end of period, the Company should check carrying amounts of long-term equity investment, fixed assets, and construction in progress, intangible assets and goodwill, if there is objective evidence that the asset is impaired, recoverable amount shall be estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the Company shall determine the recoverable amount of the asset group to which the asset belongs.

ii. The recoverable amount should base on the higher value between fair value less disposal expense and present value of estimated cash flow in the future.

iii. The Company determines asset group based on whether cash flow generating from the asset group is independent with other assets or asset group.

iv. An impairment loss shall be recognized for a cash-generating unit (the smallest group of cash-generating units to which goodwill or a corporate assert has been allocated) if, and only if, the recoverable amount of the unit is les than the carrying amount of the unit (group of units) the impairment loss shall be allocated to reduce the carrying amount of the assets of the unit (group of units) in the following order:

(a) first, to reduce the carrying amount of any goodwill allocated to the cash-generating unit(group of units); and

(b) Then, to the other assets of the unit (group of units) pro rata on the basis of the carrying amount of each asset in the unit (group of units).

These reductions in carrying amounts shall be treated as impairment losses on individual assets.

If the impairment loss is recognized, it can not be recovered in the next accounting period.

IV. Significant accounting policies and accounting estimates *(Continued)*

(15) Long-term equity investment

i. Initial measurement of long-term equity investments

(a) Initial measurement of long-term equity investments due from business consolidationis recognized according to the terms of business combinations.

(b) The initial investment cost of a long-term equity investment acquired otherwise than through a business combination shall be determined as follows: for a long-term equity investment acquired by cash, the initial investment cost shall be the actual purchase price has been paid; 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 an investor, the initial investment cost shall be the value stipulated in the investment contract or agreement. For a long-term equity investment acquired though exchanging from non-monetary transaction, debt restructuring are recognized according to 'Enterprises Accounting Standard No.7-Non-monetary exchange of fixed assets' and' Enterprises Accounting Standard No.12-debt restructuring'.

ii. Subsequent measurement of long-term equity investments

a) The Company uses cost method for the following conditions: a long-term equity investment where the investing enterprise can exercise control over the investee, or the investing enterprise does not have joint control or significant influence over the investee, the investment is not quoted in an active market and its fair value can't be reliably measured.

The Company uses cost method for the investment of subsidiaries, and adjusts it according equity method when preparing consolidated financial statements. When using cost method, cash dividends or profit distributions declared by the investee shall be recognized as investment income in the current period. However, investment income recognized by the investing enterprise shall be limited to the amount distributed to it out of accumulated net profits of the investee arising after the investment was made. Any cash dividends or distributions received in excess of this amount shall be treated as a recovery of initial investment cost.

b) When an investing enterprise can exercise joint control or significant influence over the investee, a long-term equity investment shall be accounted for using the equity method. When using equity method, after the investing enterprise has acquired a long-term equity investment, it shall recognized its share of net profits or losses made by the investee as investment income or losses, and adjust the carrying amount of the investment accordingly. The carrying amount of the investment shall be reduced by the portion of any profit distributions or cash dividends declared by the investee that is attributed to the investing enterprise.

The net losses of the invested entity confirmed by the company, the book value of the long-term equity investment is extended to reduce to zero, except the company has the obligation to undertake extra losses. Any change to the owner's equity other than net profit or loss from invested entity, adjust the book value of the long-term equity investment and included in the owner's equity, and transfer to the profits and losses in the current period to the corresponding proportion when dispose long-term equity investment..

On disposal of a long-term investment, the difference between the carrying amount of the investment and the actual consideration paid is recognized in current profit or loss.

iii. Judgment of common control and significant influence

It can be recognized as common control in accordance with the contract and the consent of other investors of invested entity who perform important role in financial and operational decisions.

It can be recognized as significant influence when the company has the right to participate in financial and operational decision making. But it can not control or control with others to the decision.

IV. Significant accounting policies and accounting estimates *(Continued)*

(16) Business combination

i. Business combination involving enterprises under common control

For this kind of business combination, the Company adopts equity method. Assets and liabilities that are obtained by the absorbing party in a business combination shall be measured at their carrying amounts, excluding the adjustment of using different accounting policies, and not be recognized as goodwill. The difference between the carrying amount of the net assets obtained and the carrying amount of the consideration paid for the combination shall be adjusted to capital reserve. If the capital reserve is not sufficient to absorb the difference, any excess shall be adjusted against retained earnings. The net profit made by the party being absorbed before the combination shall be presented in the consolidated income statement.

ii. Business combination not involving enterprises under common control

Where the cost of a business combination exceeds the acquirer's interest in the fair value of the acquirer's identifiable net assets, the difference shall be recognized as goodwill, goodwill shall be measured at cost less accumulated impairment losses. Where the cost of combination is less than the acquiree's interest in the fair value of the acquiree's identifiable net assets, after reassessment, the difference shall be recognized in profit or loss for the current period.

The operation results of the acquiree shall be consolidated since the Company obtains the controlling rights, until the controlling rights are transferred from the Company.

(17) Borrowing costs

i. Borrowing cost refers to the interest and other related cost since making borrowing, it includes: interests from loan, amortization of premium and discount, assistant expenses and exchange difference due to foreign currency loan.

ii. The borrowing costs that are directly attributable to the acquisition or production of a qualifying asset are eligible for capitalization. Other borrowing cost should be recognized as expenses when incurred through profit and loss account. Qualifying assets are assets (fixed assets, investment property, inventories, etc.) that necessarily take a substantial period of time for acquisition, construction or production to get ready for their intended use or sale.

(a) The capitalization of borrowing costs as part of the cost of a qualifying asset shall commence when:

1 expenditures for the assets are being incurred;

2 borrowing costs are being incurred; and

3 activities that are necessary to prepare the asset for its intended use or sale are in progress.

(b) When the qualified asset under acquisition and construction or production is ready for the intended use or sale, the capitalization of the borrowing costs shall be ceased; then the borrowing costs incurred shall be recorded into the profits and losses of the current period.

Where the acquisition and construction or production of a qualified asset is interrupted abnormally and the interruption period lasts for more than 3 months, the capitalization of the borrowing costs shall be suspended. The borrowing costs incurred during such period shall be recognized as expenses, and shall be recorded into the profits and losses of the current period.

IV. Significant accounting policies and accounting estimates *(Continued)*

(17) Borrowing costs *(Continued)*

ii. The borrowing costs that are directly attributable to the acquisition or production of a qualifying asset are eligible for capitalization. Other borrowing cost should be recognized as expenses when incurred through profit and loss account. Qualifying assets are assets (fixed assets, investment property, inventories, etc.) that necessarily take a substantial period of time for acquisition, construction or production to get ready for their intended use or sale.*(Continued)*

(c) During the capitalization period, the amount of interest to be capitalized for each accounting period shall be determined as follows:

1 For a specific-purpose borrowing, the amount of interest to be capitalized shall be the actual interest expense incurred for the period less temporary deposits interest or investment income;

2 Where funds are borrowed under general-purpose borrowings, the Company shall determine the amount of interest to be capitalized by applying a capitalization rate to the weighted average of the excess amounts of cumulative expenditures on the asset over and above the amounts of specific-purpose borrowings. The capitalization rate shall be the weighted average of the interest rates applicable to the general-purpose borrowings.

(18) Contingent liability

the Group shall make a provision of estimated liabilities when meet the following conditions:

(a) An entity has a present obligation as a result of a past event;

(b) It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and

(c) A reliable estimate can be made of the amount of the obligation.

(19) Share-based Payments

i. 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.

ii. For equity-settled share-based payment transaction, the entity shall measure the goods or services received, and the corresponding increase in equity, directly, at the fair value of the goods or services received, unless that fair value cannot be estimated reliably. If the entity cannot estimate reliably the fair value of the goods or serviced, the entity shall measure their value, and the corresponding increase in equity, indirectly, by reference to the fair value of the equity instruments granted.

iii. For transactions measured by reference to the fair value of the fair value of the equity instruments granted, an entity shall measure the fair value of equity instruments granted at the measurement date, based on market prices if available, taking into account the terms and conditions upon which those equity instruments were granted.

If the market prices are not available, the entity shall estimate the fair value of the equity instruments granted using a valuation technique to estimate what the price of those equity instruments would have been on the measurement date in an arm's length transaction between knowledgeable, willing parties. The valuation technique shall be consistent with generally accepted valuation methodologies for pricing financial instruments, and shall incorporate all factors and assumptions that knowledgeable, willing market participants would consider in setting the price, such as discount cash flow and option pricing model.

IV. Significant accounting policies and accounting estimates *(Continued)*

(19) Share-based Payments *(Continued)*

iv. 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.

v. According to the latest vesting worker to make a best estimate of vested equity instruments.

(20) Revenue recognition

i. Revenue from sales of goods

Revenue from the sale of goods shall be recognized only when all of the following conditions are satisfied:

(a) the enterprise has transferred to the buyer the significant risks and rewards of ownership of the goods;

(b) the enterprise retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;

(c) the amount of revenue can be measured reliably;

(d) it is probable that the associated economic benefits will flow to the enterprise;

(e) The associated costs incurred or to be incurred can be measured reliably.

ii. Revenue from rendering of services

(a) when the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction shall be recognized by reference to the stage of completion of the transaction at the balance sheet date.

(b) at the balance sheet date when the outcome of the transaction cannot be estimated reliably. Nevertheless, it may be probable that the entity will recover thee transaction costs incurred. Therefore, revenue is recognized only to the extent of costs incurred that are expected to be recoverable. When the outcome of a transaction cannot be estimated reliably and it is not probable that the costs incurred will be recovered, revenue is not recognized and the costs incurred are recognized as an expense.

iii. Revenue from abalienating the right to use assets

a) it is probable that the associated economic benefits will flow to the enterprise;

b) the amount of revenue can be measured reliably.

iv. Interest income

Interest income shall be measured based on the length of time and actual interest rate of the company's money used by others. The revenue from others use is determined according to relevant contract or agreement.

(21) Income taxes

i. The balance sheet liability method is applied for accounting of income tax.

ii. Income taxes refer to the total amount of the income taxes of the current period and deferred income tax.

Current and deferred tax of an enterprise shall be recognized as income or an expense and included in profit or loss for the current period, except that: income tax arising from a business combination the Company shall adjust goodwill; income tax arising from a transaction or event which is recognized directly in owner's equity shall be charged in owner's equity.

IV. Significant accounting policies and accounting estimates *(Continued)*

(21) Income taxes *(Continued)*

iii. A deferred tax asset shall be recognized for deductible temporary differences to the extent that it is probable that taxable profits will be available against which the deductible temporary differences can be utilized, unless the deferred tax asset due to non-business combination transaction and the transaction affects neither accounting profit nor taxable profit.

A deferred tax asset shall be recognized for deductible temporary differences to the extent that it is probable that taxable profits will be available against which the deductible temporary differences can be utilized.

iv. 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.

(22) Government grants

Government grants shall be recognized at fair value on the conditions that the Company can receive the grant and comply with the conditions attaching to the grant. For a government grant related to income, if the grant is a compensation for related expenses or losses to be incurred by the Company in subsequent period, the grant shall be recognized as deferred income, and recognized in profit or loss over the periods in which the related costs are recognized. A government grant related to an asset shall be recognized as deferred income, and evenly amortized to profit or loss over the useful life of the related asset.

(23) Consolidated financial statement

Consolidated scope: all controlled subsidiaries

The consolidated financial statement is prepared by parent company, based on the financial statement of parent and subsidiaries and after adjusting long-term investment in subsidiary through equity method, in accordance with Accounting Standard for Business Enterprises No.33- Consolidated financial statement.

(24) Accounting policies, accounting estimates and error correction of previous years

None

V. 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 25%.

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 recognized during the reporting period.

(Expressed in Renminbi)

VI. Scope of consolidated financial statements

1. Basic situation of subsidiaries within the scope of consolidated Financial Statements

(1) There is no subsidiary arising from business combination.

(2) Subsidiaries arising from other ways other than business combination.

Name of	Registered	Code of	Legal	Principal	Registered capital		Cost of investment		Equity held by the Company		Voting right held by the Company	Note
					Currency	Amount	Direct	Indirect	Direct	Indirect		
CLFG Longmen Glass Co. Ltd ("Longmen")	Yanshi China	706542258	Ding Jianluo	Manufacture of float sheet glass	RMB	20,000,000.00	64,513,398.18		79.06%		79.06%	(ii)
CLFG Long Fei Glass Co. Ltd ("Long Fei")	Mianchi China	721838225	Gao Tianbao	Manufacture of float sheet glass	RMB	74,080,000.00	40,000,000.00		54%		54%	(ii)
Xiangfang Luoshen Auto Glass Ltd ("Luoshen")	Xiangfan China	179409075	Zhu Leibo	Manufacture of auto glass	RMB	10,000,000.00	20,000,000.00		66.67%		66.67%	(ii)
Yinan Mineral Products Ltd ("Yinan")	Yi'nan China	614023573	Ding Jianluo	Exploration of minerals	RMB	28,000,000.00	14,560,000.00		52%		52%	(ii)
CLFG Long Hai Electronic Glass Limited ("LongHai")	Yanshi China	776503385	Gao Tianbao	Manufacture of floatsheet glass and electronic glass	RMB	60,000,000.00	48,000,000.00		80%		80%	(ii)
CLFG Long Hao Glass Limited ("Long Hao")	Ruyang China	776516215	Zhang Shaojie	Manufacture of float sheet glass	RMB	50,000,000.00	40,000,000.00		80%		80%	(ii)
CLFG Longxiang Glass Co. Ltd ("Longxiang")	Mianchi China	174849944	Gao Tianbao	Manufacture of float sheet glass	RMB	50,000,000.00		20,000,000.00		40%	73%	(i)
Dengfeng CLFG Silicon Company Limited ("Silicon Company")	Dengfeng China	66886639X	Ren Hongcan	Silica sand sales	RMB	1,000,000.00		510,000.00		51%	51%	(iii)
Luoyang Glass Industrial Co.,	luoyang China	68177597-8	Cao Mingchun	Sale of glass and LTD raw material	RMB	5,000,000.00	5,000,000.00		100%		100%	(ii)

Note: (i) In 2006, CLFG Long Fei Glass Co., Ltd and its labor 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 authorized capital and LFLC invested Rmb16,500,000 which it is 33% of authorized capital. LFLC has authorized 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 authorized 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

(ii) The company is a limited liability company,Luoyang Glass Industrial Co., LTD is a wholly-owned subsidiary established in October 2008

(iii) Longhai, 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).

2. The consolidation scope doesn't include the subsidiary which the Company only holds half or less of its voting rights during the reporting period.

3. There is no subsidiary which the Company holds half or more of its voting rights but fails to control it during the reporting period.

VI. Scope of consolidated financial statements *(Continued)*

4. Change in the scope of consolidated financial statements

(1) New subsidiary added into the scope of consolidated financial statements

Luoyang Glass Industrial Co., LTD is a wholly-owned subsidiary established in 2008.

(2) Subsidiary which is no longer included in the scope of consolidated financial statements

On 29 January 2008, the Company disposed of its entire equity interests in its wholly-owned subsidiary, CLFG Warehousing & Logistics Company Limited ("Logistic Company") to its shareholder, China Luoyang Float Glass (Group) Company Limited.

5. Minority interest

Name of enterprise	Shareholding held by minority at balance sheet date (%)	Relationship with the Company	Minority shareholders bearing Equity	Minority shareholders bearing Loss or profit	Bearing excess loss belong to minority shareholders
CLFG Longmen Glass Co. Ltd ("Longmen")	20.94	Fellow subsidiary			(26,689,196.90)
CLFG Long Fei Glass Co. Ltd ("Long Fei")	46.00	Fellow subsidiary	1,776,488.03	(20,333,193.32)	
Xiangfang Luoshen Auto Glass Ltd ("Luoshen")	33.33	Fellow subsidiary	2,629,387.18	238,281.40	
Yinan Mineral Products Ltd ("Yinan")	48.00	Fellow subsidiary	3,656,129.48	(204,091.26)	
CLFG Long Hai Electronic Glass Limited ("LongHai")	20.00	Fellow subsidiary	3,758,707.40	(3,427,112.96)	
CLFG Long Hao Glass Limited ("Long Hao")	20.00	Fellow subsidiary	7,447,694.69	(3,585,843.92)	
CLFG Longxiang Glass Co. Ltd ("Longxiang")	60.00	Fellow subsidiary	11,115,522.16	(19,993,992.74)	
Dengfeng CLFG Silicon Company Limited ("Silicon Company")	49.00	Fellow subsidiary	340,586.12	(35,516.40)	
Total			30,724,515.06	(47,341,469.20)	(26,689,196.90)

VII. Notes to significant items of the consolidated financial statements

1. Bank balance and cash

Items	31 December 2008 Original amount	31 December 2008 Exchange rate	31 December 2008 Rmb'000 (equivalent)	31 December 2007 Original amount	31 December 2007 Exchange rate	31 December 2007 Rmb'000 (equivalent)
Cash			**676,952.72**			335,188.30
— Renminbi			**676,952.72**			335,188.30
Deposits at banks			**93,709,998.36**			73,489,102.58
— Renminbi			**92,233,807.10**			70,443,394.57
— US Dollars	**201,753.72**	**6.8346**	**1,378,908.36**	388,925.07	7.3046	2,840,933.22
— HK Dollars	**7,156.62**	**0.8819**	**6,311.35**	218,683.03	0.9364	204,774.79
— Euro Dollars	**9,418.32**	**9.6590**	**90,971.55**			
Other monetary funds			**181,636,378.64**			167,301,958.33
— Renminbi			**181,636,378.64**			167,301,958.33
Total			**276,023,329.72**			241,126,249.21

Note: At 31 December 2008, monetary funds of Rmb181,636,378.64 was pledged as security for the notes payable, time deposits of Rmb20,000,000.00 was pledged as security for the short-term loans, and there was monetary funds of Rmb9,809,207.31 with restriction of change in value due to freeze. Details of freezing matters refer to X.2.

(Expressed in Renminbi)

VII. Notes to significant items of the consolidated financial statements *(Continued)*

2. Notes receivable

Items	31 December 2008	1 January 2008
Bank acceptance notes	**7,437,000.00**	55,460,900.84
Customer acceptance notes	**—**	—
Total	**7,437,000.00**	55,460,900.84

Note: (1) As at 31 December 2008, undue notes amounted to Rmb176,214,624.28 had been discounted with maturity date from 2 January 2009 to 30 June 2009.

(2) As at 31 December 2008, notes receivable is decreased by 86.59% compared with that on 1 January 2008. It is mainly due to the discount of notes receivable.

3. Accounts receivable

Items	31 December 2008				1 January 2008			
	Carrying amount	Percentage (%)	Bad debt provision Amount	Bad debt provision Percentage (%)	Carrying amount	Percentage (%)	Bad debt provision Amount	Bad debt provision Percentage (%)
Individually significant amounts	**62,476,794.84**	**45.47**						
Individual insignificant amounts but subject to considerable risks as a group based credit risk profile	**44,060,761.56**	**32.07**	**44,060,761.56**	**97.34**	46,104,408.52	62.89	45,861,746.65	100.00
Other insignificant amounts	**30,871,281.83**	**22.47**	**1,204,612.02**	**2.66**	27,210,037.90	37.11		100.00
total	**137,408,838.23**	**100.00**	**45,265,373.58**	**100.00**	73,314,446.42	100.00	45,861,746.65	100.00

Note: (1) As at 31 December 2008, no accounts receivable is due from a shareholder who holds 5% or more of the voting shares of the Company.

(2) As at 31 December 2008, accounts receivable is increased by 87.42% compared with that on 1 January 2008. It is mainly due to open account transaction.

(3) The ending balance of the five largest accounts receivable is Rmb80,586,186.31 occupying 58.65% of total ending balance of accounts receivable.

(4) When the ending balance of individual accounts receivable occupying 5% or more of net assets, the individual accounts receivable is identified as individually significant amount. Individually insignificant accounts receivable with ages over 3 years or drawn full bad debt provision is identified as individual insignificant amounts but subject to considerable risks as a group based credit risk profile.

(5) Ageing analysis:

Ages	31 December 2008				1 January 2008			
	Carrying Amount	Percentage (%)	Percentage of drawing Bad debt (%)	Bad debt provision	Carrying Amount	Percentage (%)	Percentage of drawing Bad debt (%)	Bad debt provision
Within 1 year	**91,471,085.16**	**66.57**			27,287,865.68	37.22		—
1-2 years	**1,065,628.05**	**0.78**	**30.00**	**435,813.04**	1,233,525.90	1.68	30.00	1,075,871.10
2-3 years	**811,363.46**	**0.59**	**50.00**	**768,798.98**	702,862.90	0.96	50.00	695,683.61
Over 3 years	**44,060,761.56**	**32.07**	**100.00**	**44,060,761.56**	44,090,191.94	60.14	100.00	44,090,191.94
Total	**137,408,838.23**	**100.00**		**45,265,373.58**	73,314,446.42	100.00		45,861,746.65

(Expressed in Renminbi)

VII. Notes to significant items of the consolidated financial statements *(Continued)*

4. Prepaid expenses

Ages	31 December 2008 Carrying amount	31 December 2008 Percentage *(%)*	1 January 2008 Carrying amount	1 January 2008 Percentage *(%)*
Within 1 year	**18,682,229.01**	**89.76**	11,805,657.56	83.52
1-2 years	**693,972.49**	**3.33**	2,290,278.60	16.20
2-3 years	**1,438,259.35**	**6.91**	39,692.08	0.28
Over 3 years				
Total	**20,814,460.85**	**100.00**	14,135,628.24	100.00

Note: (1) The ending balance included prepayment amounted to Rmb971,697.79 to CLFG who holds 5% or more of the voting shares of the Company. Details refer to IX. Related party relationship and transactions.

(2) As at 31 December 2008, prepaid expenses is increased by 47.25% compared with that on 1 January 2008. It is mainly due to prepayment for purchasing goods.

(3) As at 31 December 2008, no substantial prepayment had an ageing more than 1 year.

5. Other receivables

Items	31 December 2008 Carrying amount	31 December 2008 Percentage *(%)*	31 December 2008 Bad debt provision Amount	31 December 2008 Bad debt provision Percentage *(%)*	1 January 2008 Carrying amount	1 January 2008 Percentage *(%)*	1 January 2008 Bad debt provision Amount	1 January 2008 Bad debt provision Percentage *(%)*
Individually significant amounts	**120,000,000.00**	**59.47**		**0.00**	10,808,704.00	15.06	10,808,704.00	18.87
Individual insignificant amounts but subject to considerable risks as a group based credit risk profile	**57,119,201.95**	**28.31**	**55,824,099.83**	**99.64**	46,387,388.19	64.64	45,985,603.37	80.29
Other insignificant amounts	**24,660,480.30**	**12.22**	**199,882.36**	**0.36**	14,564,160.38	20.30	477,708.48	0.83
total	**201,779,682.25**	**100.00**	**56,023,982.19**	**100.00**	71,760,252.57	100.00	57,272,015.85	100.00

Note: (1) As at 31 December 2008, no other receivables are due from a shareholder who holds 5% or more of the voting shares of the Company.

(2) As at 31 December 2008, other receivables is increased by 181.19% compared with that on 1 January 2008. It is mainly due to increase of disposal of land and buildings on the ground and not receiving remaining disposal fund Rmb120,000,000.00 from Luoyang City Land Arrangement and Reserve Center.

(3) The ending balance of the five largest other receivables is Rmb150,624,362.01 occupying 74.65% of total ending balance of other receivables.

(4) When the ending balance of individual other receivables occupying 5% or more of net assets, the individual other receivables is identified as individually significant amount. Individually insignificant other receivable with ages over 3 years or drawn full bad debt provision is identified as individual insignificant amounts but subject to considerable risks as a group based credit risk profile.

(Expressed in Renminbi)

VII. Notes to significant items of the consolidated financial statements *(Continued)*

5. Other receivables *(Continued)*

Note: (5) Ageing analysis:

	31 December 2008				1 January 2008			
Ages	Carrying Amount	Percentage (%)	Percentage of drawing Bad debt (%)	Bad debt provision	Carrying Amount	Percentage (%)	Percentage of drawing Bad debt (%)	Bad debt provision
Within 1 year	**136,690,215.14**	**67.74**		**248,834.11**	11,363,499.09	15.84		1,404,685.94
1-2 years	**5,934,786.92**	**2.94**	**30.00**	**671,183.57**	9,778,520.33	13.63	30.00	6,056,110.27
2-3 years	**8,785,739.50**	**4.35**	**50.00**	**5,439,508.82**	3,030,853.84	4.22	50.00	2,422,003.84
Over 3 years	**50,368,940.69**	**24.96**	**100.00**	**49,664,455.69**	47,587,379.31	66.31	100.00	47,389,215.80
Total	**201,779,682.25**	**100.00**		**56,023,982.19**	71,760,252.57	100.00		57,272,015.85

6. Inventories

Inventories comprised:

Items	31 December 2008	1 January 2008
Raw materials	**157,030,096.23**	178,335,075.32
Work in progress	**15,773,258.51**	10,984,441.54
Commodity inventories	**120,763,017.27**	106,259,520.53
Circulation materials	**9,193,843.52**	14,819,789.32
Total	**302,760,215.53**	310,398,826.71

Provision for diminution in value of inventories:

Items	1 January 2008	Increase in the period	Decrease in the period Reversal	Write-off	31 December 2008
Raw materials	12,099,778.38	16,417,831.69		200,256.20	**28,317,353.87**
Commodity inventories	4,084,429.22	18,918,940.45	613,737.93	1,059.17	**22,388,572.57**
Circulation materials	38,630.04				**38,630.04**
Total	16,222,837.64	35,336,772.14	613,737.93	201,315.37	**50,744,556.48**

7. Long-term equity investment

	1 January 2008				31 December 2008	
Items	Amount	Impairment Provision	Increase in the period	Decrease in the period	Amount	Impairment Provision
Investment in associates	118,402,676.46		5,867,624.09	3,057,421.07	**121,212,879.48**	
Other equity investment	89,644,821.82	89,234,821.82	7,000,000.00		**96,644,821.82**	**89,234,821.82**
Total	208,047,498.28	89,234,821.82	12,867,624.09	3,057,421.07	**217,857,701.30**	**89,234,821.82**

(Expressed in Renminbi)

VII. Notes to significant items of the consolidated financial statements (Continued)

7. Long-term equity investment (Continued)

(1) Details of long-term equity investment

Names	Shareholding percentage	Initial Investment	1 January 2008	Increase	Decrease	31 December 2008	Bonus
1. Measured with cost method							
CLFG Hoisting Machinery Company Limited Note (1)	36.68%	5,000,000.00	5,000,000.00	—	—	5,000,000.00	—
CLFG Jingwei Glass Fibre Co., Ltd. Note (1)	35.90%	4,000,000.00	4,000,000.00	—	—	4,000,000.00	—
CLFG Luoyang Jingjiu Glass Products Company limited Note (1)	31.08%	1,500,000.00	1,500,000.00	—	—	1,500,000.00	—
CLFG New Lighting Company limite Note (1)	29.45%	2,291,217.53	2,291,217.53	—	—	2,291,217.53	—
Hunan Chenzhou Bada Glass Co. Ltd. Note (2)	72.65%	75,892,000.00	75,892,000.00	—	—	75,892,000.00	—
Yanshi Rural Credit Union	0.67%	410,000.00	410,000.00	—	—	410,000.00	11,047.00
Xiangfang Jingyue Chemical Construction Material Company Note (3)	100.00%	551,604.29	551,604.29	—	—	551,604.29	—
Sanmenxia Credit Union		7,000,000.00		7,000,000.00	—	7,000,000.00	—
Sub-total		96,644,821.82	89,644,821.82	7,000,000.00		96,644,821.82	11,047.00
2. Measured with equity method							
Luoyang Jingxin Ceramic Co. Ltd.	49.00%	20,553,050.00	—	—	—	—	—
CLFG Finance Company Limited	37.00%	111,000,000.00	118,402,676.46	5,867,624.09	3,057,421.07	121,212,879.48	3,057,421.07
CLFG Processed Glass Company Limited	49.09%	89,095,600.00	—	—	—	—	—
CLFG Mineral Products Company Limited	40.29%	12,475,313.63	—	—	—	—	—
Sub-total		233,123,963.63	118,402,676.46	5,867,624.09	3,057,421.07	121,212,879.48	3,057,421.07
Total		329,768,785.45	208,047,498.28	12,867,624.09	3,057,421.07	217,857,701.30	3,068,468.07

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 has no significant impact on them, so investment in them is classified as other equity investment and accounted for using the cost method.

(2) The Company held 72.65% equity interest in Bada as at 31 December 2008, but the Directors are of the view that the Company has been no control or significant impact on them since 31 December 2006, so investment in Bada is classified as other equity investment and accounted for using the cost method.

(3) It is a company invested by Luoshen Company, one subsidiary of the Company, and is currently in liquidation.

(Expressed in Renminbi)

VII. Notes to significant items of the consolidated financial statements *(Continued)*

7. Long-term equity investment *(Continued)*

(2) Provision for impairment of long-term investment:

Names	1 January 2008	Increase in the period	Decrease in the period	31 December 2008
CLFG Luoyang Jingjiu Glass Products Company Limited	1,500,000.00	—	—	**1,500,000.00**
CLFG Jingwei Glass Fibre Co., Ltd.	4,000,000.00	—	—	**4,000,000.00**
CLFG New Lighting Company Limited	2,291,217.53	—	—	**2,291,217.53**
CLFG Hoisting Machinery Company Limited	5,000,000.00	—	—	**5,000,000.00**
Hunan Chenzhou Bada Glass Co. Ltd.	75,892,000.00	—	—	**75,892,000.00**
Xiangfang Jingyue Chemical Construction Material Company	551,604.29	—	—	**551,604.29**
Total	89,234,821.82			**89,234,821.82**

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 2008, Directors maintain full amount provision for long-term equity investment in such companies.

8. Investment property

Items	1 January 2008	Increase in the period	Decrease in the period	31 December 2008
I. Original amount	21,508,734.81	—	2,746,294.42	**18,762,440.39**
Buildings	3,227,230.62	—	2,746,294.42	**480,936.20**
Land use rights	18,281,504.19	—	—	**18,281,504.19**
II. Accumulated depreciation or accumulated amortization	3,006,671.68	505,330.81	930,438.63	**2,581,563.86**
Buildings	1,081,514.60	70,118.05	930,438.63	**221,194.02**
Land use rights	1,925,157.08	435,212.76	—	**2,360,369.84**
III. Carrying amount	18,502,063.13	—	—	**16,180,876.53**
Buildings	2,145,716.02	—	—	**259,742.18**
Land use rights	16,356,347.11	—	—	**15,921,134.35**

Note: (1) As at 31 December 2008, no recoverable amount of investment property had been found less than the carrying amount, so no provision for impairment was made.

(2) 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 2008.

(Expressed in Renminbi)

VII. Notes to significant items of the consolidated financial statements *(Continued)*

9. Fixed assets

Items	1 January 2008	Increase in the period	Decrease in the period	31 December 2008
I. Total of original value	1,891,714,563.66	16,416,964.76	317,041,602.69	**1,591,089,925.73**
Buildings	720,591,729.59	5,153,477.29	96,417,382.99	**629,327,823.89**
Machinery and equipment	1,140,677,417.46	10,255,082.12	219,861,449.74	**931,071,049.84**
Transportation equipment	30,440,316.61	1,008,405.35	762,769.96	**30,685,952.00**
Others	5,100.00	—	—	**5,100.00**
II. Total of accumulated depreciation	797,004,209.63	104,894,479.15	142,169,890.72	**759,728,798.06**
Buildings	273,463,805.43	25,003,042.38	45,976,179.49	**252,490,668.32**
Machinery and equipment	504,111,089.96	78,060,977.29	95,601,440.18	**486,570,627.07**
Transportation equipment	19,428,448.56	1,830,212.16	592,271.05	**20,666,389.67**
Others	865.68	247.32	—	**1,113.00**
III. Total of impairment provision	29,689,671.13	4,490,428.94	28,108,745.91	**6,071,354.16**
Buildings	35,639.04	1,122,050.89	—	**1,157,689.93**
Machinery and equipment	29,654,032.09	3,328,884.48	28,108,745.91	**4,874,170.66**
Transportation equipment	—	39,493.57	—	**39,493.57**
Others				
IV. Total of net carrying amount	1,065,020,682.90	—	—	**825,289,773.51**
Buildings	447,092,285.12	—	—	**375,679,465.64**
Machinery and equipment	606,912,295.41	—	—	**439,626,252.11**
Transportation equipment	11,011,868.05	—	—	**9,980,068.76**
Others	4,234.32	—	—	**3,987.00**

Note: (1) The Company's buildings located at No. 9 Tang Gong Zhong Lu, Luoyang with an original value of Rmb73,818,063.46 and a net value of Rmb51,403,092.19 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 2008.

(2) As at 31 December 2008, the Company has cancelled the contract regarding the Company's Line 2 fixed assets located at No. 9 Tang Gong Zhong Lu, Luoyang with a book value of Rmb8,771,511.90 sold to Ruyang County Arts and Crafts Benefit Factory ("Benefit Factory") at the consideration of Rmb35,000,000.00. Benefit Factory paid 30% of the consideration of Rmb10,500,000.00 by December 2007 according to the contract, and should pay 70% of the consideration of Rmb24,500,000.00 before 30 March 2008. As at the date hereof, as Benefit Factory was not capable to pay the remaining consideration, the contract was cancelled. According to the contract, the Company charged the penalty of Rmb808,500.00 from the deposit and refund RMB 9,691,500.00 to Benefit Factory.

(3) At the end of the year, total amount of fixed assets transferring from construction-in-progress was Rmb4,398,783.31.

(4) At the end of the year, the original amount of fixed assets that were made full depreciation but still in use was Rmb265,150,585.93.

(5) The Group carried out an inspection to the ending fixed assets and consigned assets evaluation agency to make an evaluation to the relevant assets. The Company made fixed assets impairment Rmb4,490,428.94 according to the valuation reports of Zhong He Yi Ping Bao (2009) No. 21006 and No. 21007 made by Beijing Zhong He Yi Assets Evaluation Co., Ltd.

(6) Fixed assets used for pledge as at 31 December 2008 are disclosed as follows:

	Original carrying amount	Accumulated depreciation	Impairment provision	Net carrying amount
Machinery and equipment	249,478,679.98	210,127,403.04	—	39,346,312.44
Total	249,478,679.98	210,127,403.04	—	39,346,312.44

(Expressed in Renminbi)

VII. Notes to significant items of the consolidated financial statements *(Continued)*

10. Construction in progress

Name of Projects	Budget	1 January 2008	Increase	Transfer to fixed assets	Other decrease	31 December 2008	Resource of Fund	Percentage of investment in budget (%)
Sporadic works of Yi'nan	—	84,553.73	1,292,605.67	1,377,159.40	—	—	Self-financing	—
Gas supplies reform of Longfei	—	1,180,626.00	731,671.08	278,415.91	—	1,633,881.17	Self-financing	—
Finished products warehouse of Longxiang	—	302,430.42	—	302,430.42	—	—	Self-financing	—
Septic pool of Longfei	—	—	300,000.00	300,000.00	—	—	Self-financing	—
Furnace of Longfei	—	—	8,656,696.72	—	—	8,656,696.72	Self-financing	—
Gas supplies reformed of Longxiang	2,800,000.00	2,610,531.51	189,681.89	—	539,265.00	2,260,948.40	Self-financing	—
Waste heat generation of Longhao	40,000,000.00	146,737.20	9,500.00	—	—	156,237.20	Self-financing	0.39
Mine road projects of Silica Sand Company	500,000.00	101,600.00	220,000.00	—	—	321,600.00	Self-financing	0.44
Smoke test project of Longhai	470,000.00	—	380,000.00	380,000.00	—	—	Self-financing	0.81
Equipment modification of Longmen	—	—	98,848,035.90	—	—	98,848,035.90	Self-financing	—
Sporadic works of Luoshen	—	1,271,708.40	—	—	—	1,271,708.40	Self-financing	—
Ammonia decomposition project of energy gas plant of the Company	950,000.00	678,000.00	1,196,217.80	1,201,217.80	673,000.00	—	Self-financing	—
Polluted source automatical detection project of the Company	470,000.00	650.00	442,909.78	443,559.78	—	—	Self-financing	—
Total	45,306,000.00	6,376,837.26	112,383,318.84	4,398,783.31	1,212,265.00	113,149,107.79		

Provision for impairment of construction in progress:

Items	1 January 2008	Increase: Drawing this year	Increase: Other increase	Decrease: Transferring back this year	Decrease: Other decrease	31 December 2008
Equipment modification of Longmen	—	3,639,253.46	—	—	—	**3,639,253.46**
Sporadic works of Luoshen	—	122,433.60	—	—	—	**122,433.60**
Total	—	3,761,687.06	—	—	—	**3,761,687.06**

Note: (1) As at 31 December 2008, construction in progress is increased by 1615.38% compared with that on 1 January 2008. It is mainly due to the implement of Furnace of Longfei and Equipment modification of Longmen which were transferred from fixed assets.

(2) There were no interest capitalization funds from loans this year.

(3) The Company carried out an inspection to the ending construction in progress and consigned assets evaluation agency to make an evaluation to the relevant assets. The Company made construction in progress impairment Rmb3,761,687.06 according to the valuation report of Zhong He Yi Ping Bao (2009) No. 21007 made by Beijing Zhong He Yi Assets Evaluation Co., Ltd.

(Expressed in Renminbi)

VII. Notes to significant items of the consolidated financial statements *(Continued)*

11. Constructive materials

Items	1 January 2008	Increase in the period	Decrease in the period	31 December 2008
Special material	645,910.00	—	645,910.00	**—**
Special equipment	90,634.48	600,977.45	612,589.19	**79,022.74**
Total	736,544.48	1,562,858.89	2,220,380.63	**79,022.74**

Note: As at 31 December 2008, the Group's constructive materials mainly refer to the actual cost of unused constructive materials.

12. Intangible assets

Items	1 January 2008	Increase in the period	Decrease in the period	31 December 2008
I. Total of original value	150,648,794.51	100,000.00	69,390,108.14	**81,358,686.37**
Land use rights	132,248,794.51	—	69,390,108.14	**62,858,686.37**
Trademark and non-patent technology	18,400,000.00	—	—	**18,400,000.00**
Prospecting right	—	100,000.00	—	**100,000.00**
II. Total of accumulated amortization	37,357,207.00	3,662,753.66	19,061,394.04	**21,958,566.62**
Land use rights	32,704,540.00	2,185,749.65	19,061,394.04	**15,828,895.61**
Trademark and non-patent technology	4,652,667.00	1,472,004.00	—	**6,124,671.00**
Prospecting right	—	5,000.01	—	**5,000.01**
IV. Total of carrying amount	113,291,587.51	—	—	**59,400,119.75**
Land use rights	99,544,254.51	—	—	**47,029,790.76**
Trademark and non-patent technology	13,747,333.00	—	—	**12,275,329.00**
Prospecting right	—	—	—	**94,999.99**

Note: (1) As at 31 December 2008, intangible assets is decreased by 47.57% compared with that on 1 January 2008. It is mainly due to disposal of land and sale of shares of CLFG Warehousing & Logistics Company Limited, Logistics Company was not been consolidated this yeas.

(2) Among the Group's intangible assets and investment properties as at 31 December 2008, the land use right certificate for a piece of land located in the development zone of Luoyang with a carrying value of Rmb27,681,230.64 is in the process of application; and the land currently occupied by CLFG for residential use with a carrying value of Rmb9,415,764.88 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.

According to the document of Luo Zheng Tu (2008) No. 316 issued by Luoyang Municipal People's Government in September 2008, Luoyang City Land Resources Bureau would recover CLFG'S land located at No. 9 Tang Gong Zhong Lu. So Land Resources Bureau would recover the land involving in the minutes of the special meeting regarding land swapping, the swap has not yet been carried out so far.

13. Goodwill

Item	1 January 2008 Original amount	1 January 2008 Provision for impairment	Increase in the period Original amount	Increase in the period Provision for impairment	Decrease in the period Original amount	Decrease in the period Provision for impairment	31 December 2008 Original amount	31 December 2008 Provision for impairment
CLFG Warehousing & Logistics Company Limited	710,455.71	710,455.71	—	—	710,455.71	710,455.71	—	—
Total	710,455.71	710,455.71	—	—	710,455.71	710,455.71	—	—

(Expressed in Renminbi)

VII. Notes to significant items of the consolidated financial stemements *(Continued)*

13. Goodwill *(Continued)*

Note: The Company established a logistics company, a wholly-owned subsidiary, with an investment of Rmb71,074,169.71 (including a bank balance and cash of Rmb3,000,000, a land use right of an estimated value of Rmb67,363,714.00, and an investment transaction fee of Rmb710,455.71) 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 Rmb70,363,714.00 as approved by the Company's independent shareholders and confirmed by both parties. Goodwill arising from the difference of Rmb710,455.71 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. The Company disposed of its entire 100% equity interests in its wholly-owned subsidiary, CLFG Warehousing & Logistics Company Limited ("Logistic Company"), to its shareholder, China Luoyang Float Glass (Group) Company Limited for the consideration of Rmb 70,363,714.00 and eliminated the goodwill accordingly.

14. Other non-current assets

Items	1 January 2008	Increase in the period	Decrease in the period	31 December 2008
Other receivables (Guangzhou International Trust & Investment Corporation)	35,000,000.00	—	—	**35,000,000.00**
Other receivables (CLFG)	35,000,000.00	—	—	**35,000,000.00**
Total	70,000,000.00	—	—	**70,000,000.00**

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. The original amount was Rmb145,657,113.55 and Rmb of 110,657,113.55 of provision had been made in prior years. In 2007, Sun Kian Ip Holding Company Limited sent the letter for the acquisition of the above creditor's right. On 3 December 2008, the Company and Sun Kian Ip Holding Company Limited came to the agreement of transferring the creditor's right. The transferring price of the creditor's right was less than Rmb40,000,000, the Board of the Company considered that the recoverable amount of this claim of GZITIC was approximate to Rmb40,000,000. The Company has not accrued interest in respect of the deposits.

(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 2008.

15. Provisions for assets impairment

Items	1 January 2008	Provision for the period	Decrease in the period Reversal	Decrease in the period Transferal	31 December 2008
Provisions for bad debts	103,133,762.50	455,225.03	2,299,631.76	—	**101,289,355.77**
Provision for diminution in value of inventory	16,222,837.64	35,336,772.14	613,737.93	201,315.37	**50,744,556.48**
Provision for impairment of long-term investment	89,234,821.82	—	—	—	**89,234,821.82**
Provision for fixed assets impairment	29,689,671.13	4,490,428.94	—	28,108,745.91	**6,071,354.16**
Provision for impairment of construction in progress	—	3,761,687.06	—	—	**3,761,687.06**
Provision for impairment of construction materials	943,451.44	—	—	—	**943,451.44**
Provisions for impairment of goodwill	710,455.71	—	—	710,455.71	**—**
Others	110,657,113.55	—	—	—	**110,657,113.55**
Total	350,592,113.79	44,044,113.17	2,913,369.69	29,020,516.99	**362,702,340.28**

(Expressed in Renminbi)

VII. Notes to significant items of the consolidated financial stemements *(Continued)*

16. Assets under restricted ownership

Items	1 January 2008	Increase in the period	Decrease in the period	31 December 2008
Assets for guarantee				
Bank balance and cash	167,301,958.33	44,143,627.62	—	**211,445,585.95**
Fixed assets	56,371,841.10	—	17,025,528.66	**39,346,312.44**
Intangible assets	2,877,514.04	—	2,877,514.04	—
Total	226,551,313.47	44,143,627.62	19,903,042.70	**250,791,898.39**

Note: 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.

17. Short-term loans

Items	31 December 2008	1 January 2008
Credit loan	**4,000,000.00**	
Mortgage loan		1,900,000.00
Guaranty loan	**689,910,000.00**	853,300,000.00
Pledged loan	**18,000,000.00**	54,000,000.00
Guaranty and mortgage loan	**181,000,000.00**	—
Total	**892,910,000.00**	909,200,000.00

Note:

(1) As at 31 December 2008, the details of assets used for mortgage and pledge refer to VII. 1. Bank balance and cash and 9. Fixed assets.

(2) The mature but outstanding loans include: Shuangyushu branch of Beijing Bank, the amount is Rmb50,000,000.00, the maturity date is 15 February 2008; Yanshi City Branch of Agricultural Bank of China, the amount is Rmb6,700,000.00, the maturity date is 9 October 2007. The extension procedure is still in progress.

(3) As at 31 December 2008, the Guaranty loan included: CLFG who holds 5% or more of the voting shares of the Company provided guaranty for the Company, details refer to IX. Related party relationship and transactions 3. (3).

18. Notes payable

Items	31 December 2008	1 January 2008
Bank acceptance	**215,700,000.00**	141,001,958.33
Total	**215,700,000.00**	141,001,958.33

Note:

(1) There is no acceptance payable to shareholders holding 5% or more of the voting rights of the Company in the balance of the notes payable.

(2) As at 31 December 2008, notes payable is increased by 52.98% compared with that on 1 January 2008. It is mainly due to using more notes to settlement.

(3) 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.

(Expressed in Renminbi)

VII. Notes to significant items of the consolidated financial stemements *(Continued)*

19. Accounts payable

Item	31 December 2008 Carrying amount	31 December 2008 Percentage	1 January 2008 Carrying amount	1 January 2008 Percentage
Within 1 year	**363,762,993.94**	**88.35%**	331,950,533.85	87.18%
1-2 years	**22,647,112.01**	**5.50%**	45,588,015.13	11.97%
2-3 years	**24,887,531.91**	**6.04%**	2,398,832.29	0.63%
Over 3 years	**450,631.40**	**0.11%**	823,090.81	0.22%
Total	**411,748,269.26**	**100%**	380,760,472.08	100.00%

Note:

(1) Details of ending accounts payable owned by shareholders who hold 5% or more of the voting rights of the Company refer to IX. Related party relationship and transactions 3. (4).

(2) As at 31 December 2008, the Group had no accounts payable with significant ageing of more than one year.

20. Payments received in advance

Item	31 December 2008 Carrying amount	31 December 2008 Percentage (%)	1 January 2008 Carrying amount	1 January 2008 Percentage (%)
Within 1 year	**80,556,121.02**	**95.30**	73,282,806.76	96.08
1-2 years	**2,471,226.50**	**2.92**	1,887,859.62	2.48
2-3 years	**983,134.35**	**1.16**	422,560.45	0.55
Over 3 years	**516,887.99**	**0.61**	680,829.48	0.89
Total	**84,527,369.86**	**100.00**	76,274,056.31	100.00

Note:

(1) Details of ending payments received in advance owned by shareholders who hold 5% or more of the voting rights of the Company refer to IX. Related party relationship and transactions 3. (4).

(2) As at 31 December 2008, the Group had no payments received in advance with significant ageing of more than one year.

21. Other payables

Item	31 December 2008 Carrying amount	31 December 2008 Percentage (%)	1 January 2008 Carrying amount	1 January 2008 Percentage (%)
Within 1 year	**57,439,646.58**	**56.73**	69,177,868.53	53.04
1-2 years	**40,011,476.62**	**39.52**	56,442,929.18	43.27
2-3 years	**1,103,198.91**	**1.09**	470,919.66	0.36
Over 3 years	**2,694,404.56**	**2.66**	4,345,708.37	3.33
Total	**101,248,726.67**	**100.00**	130,437,425.74	100.00

Note:

(1) As at 31 December 2008, no other payables are due from a shareholder who holds 5% or more of the voting shares of the Company.

(2) As at 31 December 2008, the Group had no other payables with significant ageing of more than one year.

(Expressed in Renminbi)

VII. Notes to significant items of the consolidated financial stemements *(Continued)*

22. Staff remuneration payables

Items	1 January 2008	Increase in the period	Payment in the period	31 December 2008
Salary, bonus, allowance and subsidy	9,098,374.30	58,702,143.07	57,697,958.03	**10,102,559.34**
Staff's welfare	2,896,154.94	4,345,606.47	7,195,427.53	**46,333.88**
Social insurance premium	1,574,334.76	37,760,617.35	38,300,585.03	**1,034,367.08**
Housing accumulation fund	2,330,574.38	6,898,629.78	4,195,595.21	**5,033,608.95**
Labor-union expenses and staff's education expenses	5,048,847.55	1,969,234.00	1,262,616.77	**5,755,464.78**
Compensation due to cancellation of labor relation	1,294,173.00	13,800.00	13,800.00	**1,294,173.00**
Others		315,259.40	315,259.40	
Total	22,242,458.93	110,005,290.07	108,981,241.97	**23,266,507.03**

23. Tax payable

Items	31 December 2008	1 January 2008
Value-added tax	**6,085,229.70**	15,410,593.19
Urban maintenance and construction tax	**384,745.36**	400,106.76
Business tax	**224,447.03**	248,298.91
Enterprise income tax	**-4,480,591.76**	1,168,507.26
Individual income tax	**14,447.44**	18,294.15
Land-use tax	**1,883,999.85**	2,893,323.50
Property tax	**1,049,035.01**	987,792.24
Stamp tax	**22,986.10**	134,698.90
Resource tax	**-64,754.39**	29,663.41
Educational surtax	**180,112.94**	259,317.08
Compensation tax for mineral resources	**251,350.35**	241,350.35
Flood-prevention and safety fund	**37,572.88**	30,202.41
Local educational surtax	**14,217.51**	12,796.46
Vehicle and vessel usage tax	**5,587.20**	
Total	**5,608,385.22**	21,834,944.62

Note:

(1) The calculation standards and tax rates of main taxes refer to V. Taxation.

(2) As at 31 December 2008, tax payable is decreased by 74.31% compared with that on 1 January 2008. It is mainly due to paying tax.

24. Non-current liabilities due within one year

Categories:

Items	31 December 2008	1 January 2008
Credit loan	—	1,000,000.00
Mortgage loan	—	—
Guaranty loan	**500,642.97**	52,882,876.09
Pledged loan	—	—
Total	**500,642.97**	53,882,876.09

(Expressed in Renminbi)

VII. Notes to significant items of the consolidated financial stemements *(Continued)*

24. Non-current liabilities due within one year *(Continued)*

Details of loan are as follows:

Creditor	Beginning date of loan	Termination date of loan	31 December 2008 Interest rate	Currency	Amount of original currency	Rmb (equivalent)	1 January 2008 Interest rate	Currency	Amount of original currency	Rmb (equivalent)
Bank of China	Apr. 1989	Feb. 2019	2.50%	Euro Dollars	51,831.76	500,642.97	2.50%	Euro Dollars	51,831.00	552,876.09
Zhongyuan Trust & Investment Ltd.		Sep. 2008	—	—	—	—	7.47%	Renminbi	—	52,330,000.00
Ruyang County Xiaodian credit cooperatives		In 2008	—	—	—	—	10.44%	Renminbi	—	1,000,000.00
Total						500,642.97				53,882,876.09

25. Long-term loans

Categories:

Items	Currency	31 December 2008	1 January 2008
Guaranty loan	Renminbi	**5,256,745.29**	6,405,600.07
Total	Renminbi	**5,256,745.29**	6,405,600.07

Details of loan are as follows:

Creditor	Beginning date of loan	Termination date of loan	31 December 2008 Interest rate	Currency	Amount of original currency	Rmb (equivalent)	1 January 2008 Interest rate	Currency	Amount of original currency	Rmb (equivalent)
Bank of China	9 Apr. 1989	15 Feb. 2019	2.50%	Euro Dollars	544,232.87	5,256,745.29	2.5%	Euro Dollars	600,511.87	6,405,600.07

Note:

(1) As at 31 December 2008, no long-term loan is obtained from the shareholder who holds 5% or more of voting shares of the Company.

(2) Details of guaranty to long-term loans refer to IX. Related party relationship and transactions 3.(3).

26. Share capital

		1 January 2008 Shares	Percentage	Changes in this year (+,-)	31 December 2008 Shares	Percentage
1	Unlisted shares					
	state-owned legal person shares	179,018,242.00	35.80%		**179,018,242.00**	**35.80%**
2	Listed shares					
	A share	71,000,000.00	14.20%		**71,000,000.00**	**14.20%**
	H share	250,000,000.00	50.00%		**250,000,000.00**	**50.00%**
3	Total shares	500,018,242.00	100.00%		**500,018,242.00**	**100.00%**

(Expressed in Renminbi)

VII. Notes to significant items of the consolidated financial stemements (Continued)

26. Share capital (Continued)

Note: On 16 October 2008, CLFG and China National Building Material Group Corporation (CNBM) who is the controlling shareholder of CLFG and the ultimate controlling person of the Company signed a share pledge contract. According to the contract, CLFG agreed that 179,018,242 shares (state-owned legal person shares) of the Company were pledged to CNBM, and CNBM provided guarantees to the total loans of Rmb690,000,000 borrowed by CLFG, its controlled enterprises and the Company.

27. Capital reserve

Items	1 January 2008	Increase in the period	Payment in the period	31 December 2008
Share premium	827,321,459.44	—	—	**827,321,459.44**
Other capital reserve	100,418,320.99	—	—	**100,418,320.99**
Total	927,739,780.43	—	—	**927,739,780.43**

28. Surplus reserve

Items	1 January 2008	Increase in the period	Payment in the period	31 December 2008
Statutory surplus reserve	51,365,509.04	—	36,552.97	**51,328,956.07**
Special reserve	—	36,552.97	—	**36,552.97**
Total	51,365,509.04	—	—	**51,365,509.04**

29. Undistributed profits

Items	Amount
Balance on 1 January 2008	(1,262,751,267.90)
Increase in the period	12,783,782.14
Including: net profit attribute to shareholder of parent company this year	12,783,782.14
Others	
Decrease in the period	
Balance on 31 December 2008	(1,249,967,485.76)

30. Operating income and operating cost

Items	2008	2007
Income from principal operations	**1,130,084,696.77**	1,449,959,152.93
Other operating income	**192,448,158.05**	58,797,027.51
Total	**1,322,532,854.82**	1,508,756,180.44

(1) Business segments

Items	Operating income 2008 (Rmb Yuan)	Operating income 2007 (Rmb Yuan)	Operating cost 2008 (Rmb Yuan)	Operating cost 2007 (Rmb Yuan)	Gross profit 2008 (Rmb Yuan)	Gross profit 2007 (Rmb Yuan)
Income from principal operations	**1,130,084,696.77**	1,449,959,152.93	**1,151,119,535.64**	1,305,637,941.06	**-21,034,838.87**	144,321,211.87
Other operating income	**192,448,158.05**	58,797,027.51	**180,354,907.12**	45,294,119.15	**12,093,250.93**	13,502,908.36
Total	**1,322,532,854.82**	1,508,756,180.44	**1,331,474,442.76**	1,350,932,060.21	**-8,941,587.94**	157,824,120.23

Note: The Group's income from principal operations refers to the income from glass sales. The Group's cost of principal operations refers to the cost from glass sales.

(Expressed in Renminbi)

VII. Notes to significant items of the consolidated financial stemements *(Continued)*

30. Operating income and operating cost *(Continued)*

(2) Geographical segments

	Operating income		Operating cost		Gross profit	
	2008 (Rmb Yuan)	2007 (Rmb Yuan)	**2008 (Rmb Yuan)**	2007 (Rmb Yuan)	**2008 (Rmb Yuan)**	2007 (Rmb Yuan)
Domesti	**1,294,124,563.96**	1,467,025,180.44	**1,315,092,215.32**	1,313,566,060.21	**-20,967,651.36**	153,459,120.23
Asia	**26,192,612.38**	24,418,000.00	**14,478,885.62**	21,864,000.00	**11,713,726.76**	2,554,000.00
America	**604,455.40**	1,650,000.00	**474,391.75**	1,477,000.00	**130,063.65**	173,000.00
Oceania	**501,381.51**	5,996,000.00	**536,679.27**	5,369,000.00	**-35,297.76**	627,000.00
Other region	**1,109,841.57**	9,667,000.00	**892,270.80**	8,656,000.00	**217,570.77**	1,011,000.00
Total	**1,322,532,854.82**	1,508,756,180.44	**1,331,474,442.76**	1,350,932,060.21	**-8,941,587.94**	157,824,120.23

(3) The five largest clients are as follows:

Items	2008	2007
Total sale income of the five largest clients	**297,174,248.79**	199,658,943.37
Percentage of occupying total sale income	**22.46%**	13.23%

31. Business tax and surcharges

Items	2008	2007
Urban maintenance and construction tax	**1,524,028.39**	2,650,610.35
Educational surtax	**1,189,744.68**	1,926,070.13
Business tax	**1,950.00**	2,403.87
Local educational surtax	**24,787.06**	15,259.24
Dike maintenance costs	**9,641.20**	
Resource tax	**897,181.80**	801,293.70
Others	**560.00**	28,193.97
Total	**3,647,893.13**	5,423,831.26

32. Financial expenses

Items	2008	2007
Interest expense	**85,429,566.04**	66,548,746.23
Less: interest income	**5,672,490.70**	3,145,639.24
Exchange loss	**314,768.05**	1,522,281.23
Less: exchange income	**39,255.05**	—
Commission charge expense	**4,260,095.58**	
Other finance expenses	**1,502,318.65**	7,665,795.17
Total	**85,795,002.57**	72,591,183.39

33. Assets impairment losses

Items	2008	2007
Bad debt losses	**-552,470.22**	16,601,634.66
Losses from inventory impairments	**34,723,034.21**	4,926,443.60
Losses from fixed asset impairments	**4,490,428.94**	17,153,546.10
Losses from construction in progress	**3,761,687.06**	
Total	**42,422,679.99**	39,392,080.07

(Expressed in Renminbi)

VII. Notes to significant items of the consolidated financial stemements (Continued)

34. Investment income

Items	2008	2007
Interest income from designated loans	—	5,077.80
Share of net profit or loss of investees under equity method	**5,867,624.09**	2,194,415.14
Dividend declared by investees under cost method	**11,047.00**	
Income from disposal of long-term equity investment	—	22,059,000.00
Others		
Total	**5,878,671.09**	24,258,492.94

Note:

(1) The Group has no significant restriction on remitting investment income.

(2) As at 31 December 2008, interest income is decreased by75.77% compared with that on 1 January 2008. It is mainly due to receiving investment income from disposing shares of Yanlian Petroleum and Chemical Co., Ltd. last year.

35. Non-operating income and non-operating expenses

	2008	2007
Gain on disposal of fixed assets	**34,038,217.33**	163,552.35
Gain on disposal of intangible assets	**199,886,181.29**	12,000,254.23
Income from amercement	**14,460.80**	256,686.73
Income from debt restructuring	**21,949.98**	252,350.10
Government subsidy	**21,989,800.00**	2,694,548.56
Write-off unable paid debts	—	2,588,077.63
Others	**2,193,418.85**	61,048.01
Total of non-operating incom	**258,144,028.25**	18,016,517.61
Losses from disposal of fixed assets		3,266,445.86
Amercement outlay	**42,209.92**	124,135.19
Donation outlay	—	10,000.00
Others	**1,109,278.85**	399,797.98
Total of non-operating expenses	**1,151,488.77**	3,800,379.03

Note: Gain on disposal of fixed assets and intangible assets represented gain on disposal of some land and buildings located at No. 9 Tang Gong Zhong Lu and machinery and equipment, and gain on disposal of a land use right of a wholly-owned subsidiary, CLFG Warehouse & Logistics Company Limited.

Details of governmental subsidy:

Items	2008	2007	Source of income (Category)
Relocation subsidy *Note (1)*	**20,000,000.00**	2,694,548.56	Production line relocation grant funds
Encouragement for investment introduction *Note (2)*	**1,000,000.00**	—	Financial allocation
Special encouragement for transformation of scientific and technological achievements *Note (3)*	**229,800.00**	—	Free allocation of non-monetary assets
Technological innovation fund *Note (4)*	**760,000.00**	—	Financial allocation
Total	**21,989,800.00**	2,694,548.56	

(Expressed in Renminbi)

VII. Notes to significant items of the consolidated financial stemements *(Continued)*

35. Non-operating income and non-operating expenses *(Continued)*

Note:

(1) According to the letter of approval about "request on allocation subsidy for production line relocation of Luoyang Glass Company Limited" made by Luoyang Municipal Government, in December 2008, Luoyang City Financial Bureau gave production line relocation grant funds of Rmb20,000,000 to Luoyang Glass Company Limited. The funds were allocated through special account of state-owned enterprise reform in Luoyang and used for livelihood of workers during the production line relocation.

(2) According to Yan Zheng [2006] No.50, Yanshi County People's Government gave investment encouragement fund of Rmb1,000,000.00 to Long Hai Electronic Glass Co., Ltd. Yanshi for making positive contributions to the adjustment of Yanshi industrial structure.

(3) The government grant received during the current period came from the special reward of a motor vehicle (amounting to Rmb229,800.00) to CLFG Long Hai Electronic Glass Co., Ltd. for important technical development project granted by Yanshi County Government under the County Government Yan Announcement [2008] No. 34.

(4) Mianchi County People's Government appropriated technical innovation fund of Rmb760,000 to CLFG LongXiang Glass Co., Ltd. according to Mian Cai Yu Zi [2008] No. 248.

36. Income tax expenses

At 31 December 2008, the Company and subsidiaries have unutilized tax losses, therefore no provision for income tax is required. The amount of income tax expenses incurred this year is Rmb-2,651,438.67, it is due to that Longhao Company is free of enterprise income tax of Rmb2,651,438.67 in 2007 according to the document of Yu Luo Guo Shui Han (2008) No. 74 issued by Luoyang City National Tax Bureau on 28 May 2008. The matter is dealt this year, so the amount of income tax expenses incurred this year is Rmb-2,651,438.67

37. Earnings per share

	2008	2007
Net profit attributable to common shareholders of the company	**12,783,782.14**	-95,343,480.67
Outstanding ordinary shares at the beginning of the year	**500,018,242.00**	500,018,242.00
Basic earnings per share	**0.0260**	-0.1907
Net profit attributable to common shareholders after adjusted	**12,783,782.14**	-95,343,480.67
Weighted average of outstanding ordinary shares after diluted	**500,018,242.00**	500,018,242.00
Diluted earnings per share	**0.0260**	-0.1907

(Expressed in Renminbi)

VII. Notes to significant items of the consolidated financial stemements *(Continued)*

38. Information of cash flow statement

(1) Larger amounts of cash flow statement

Items	2008	2007
I. Cash received relating to other operating activities:		
Government subsidy	**20,000,000.00**	—
Shelf deposit	**10,627,690.33**	—
Interest income	**5,672,490.70**	7,720,191.13
Jingmen City New Energy Development Ltd.	**4,000,000.00**	—
CLFG Longxin Glass Ltd.	**3,000,000.00**	—
Collecting social security fund on behalf of associated companies	**1,696,524.76**	—
Jiaozuo City Feihong Safety Glass Ltd.	**1,643,500.00**	—
Rent	**1,600,000.00**	—
Maoming City Xionghai Trading Co., Ltd.	**1,500,000.00**	—
Non-operating income	**2,229,829.63**	118,596.03
Other current accounts	**45,048,507.75**	—
Current accounts	**—**	76,810,627.73
Contingent funds	**—**	425,102.97
Total	**97,018,543.17**	85,074,517.86

Items	2008	2007
II. Cash paid relating to other operating activities:		
Consultation and audit, assessment, legal fees, bulletin fees	**13,773,214.22**	—
Transportation costs	**11,258,704.48**	—
Water and electricity charge	**9,842,267.45**	—
Henan Zhongyuan Railway Logistics Ltd.	**8,490,000.00**	—
Handling charges	**4,305,381.47**	—
Commission charge expense	**4,260,095.58**	—
Travel expense	**3,351,852.13**	—
Financial advisor fees	**2,520,000.00**	—
Zhengzhou New Zhongyuan glass Ltd.	**2,000,000.00**	—
Business Hospitality	**1,842,217.70**	—
Sewage charges	**1,160,552.97**	—
Propagandize fee	**1,098,348.09**	—
Office expenses	**934,624.93**	—
Repairs	**854,871.71**	—
Insurance	**402,992.16**	—
Other expenses	**24,250,366.90**	—
Other current accounts	**29,848,911.03**	—
Non-operating expenses	**1,052,585.07**	168,926.15
Expenses	**—**	56,379,891.56
Expenses contingent funds	**—**	229,181.44
Current accounts	**—**	50,047,501.42
Total	**121,246,985.89**	106,825,500.57

(Expressed in Renminbi)

VII. Notes to significant items of the consolidated financial stemements *(Continued)*

38. Information of cash flow statement *(Continued)*

(2) Supplementary information of cash flow statement

Items	2008	2007
1. Net profit	**-34,557,687.06**	-76,421,459.67
Add: Provision for assets impairment	**42,422,679.99**	11,997,366.13
Depreciation of fixed assets	**100,997,969.17**	112,479,820.85
Amortization of intangible assets	**3,279,519.37**	4,666,672.15
Amortization of long-term prepaid expenses	**—**	—
Decrease in deferred and prepaid expenses	**44,453.95**	—
Losses from disposal of fixed assets, intangible assets and other long-term assets	**-235,373,792.89**	-16,191,555.30
Losses on scrapping of fixed assets	**—**	377,508.51
Finance expenses	**81,775,655.66**	72,591,183.39
Investment losses	**-5,867,624.09**	-24,258,492.94
Decrease in inventories	**18,660,364.96**	27,803,299.69
Decrease in operating receivables	**-88,052,226.29**	95,378,023.40
Increase in operating payables	**68,948,386.44**	-219,143,291.93
Others	**—**	—
Net cash flow from operating activities	**-47,722,300.79**	-10,720,925.72
2. Net changes in cash and cash equivalents:		
Closing balance of cash and cash equivalents	**64,577,743.77**	73,824,290.88
Less: Opening balance of cash and cash equivalents	**73,822,809.45**	58,413,977.81
Net increase in cash and cash equivalents	**-9,245,065.68**	15,410,313.07

(3) Cash and cash equivalents

Items	2008	2007
1. Cash	**64,577,743.77**	73,824,290.88
Including: Cash on hand	**676,952.72**	335,188.30
Bank deposit available for payment at any time	**63,900,791.05**	73,489,102.58
Other monetary funds available for payment at any time		
2. cash equivalents		
3. Cash and cash equivalents at the end of year	**64,577,743.77**	73,824,290.88
Including: restricted cash and cash equivalents of parent company and its subsidiaries	**—**	—
Note: reason of restriction		

(Expressed in Renminbi)

VIII. Notes to significant items of the parent company's financial statements

1. Accounts receivable

	31 December 2008				1 January 2008			
			Bad debt provision				Bad debt provision	
Items	Carrying amount	Percentage (%)	Amount	Percentage (%)	Carrying amount	Percentage (%) Amount	Amount	Percentage (%)
Individually significant amounts	**218,784,012.11**	**75.04%**						
Individual insignificant amounts but subject to considerable risks as a group based credit risk profile	**42,575,479.60**	**14.60%**	**42,575,479.60**	**100.00%**	42,921,244.53	82.84%	42,914,065.25	100.00%
Other insignificant amounts	**30,182,833.25**	**10.35%**			8,890,722.13	17.16%		
Total	**291,542,324.96**	**100.00%**	**42,575,479.60**	**100.00%**	51,811,966.66	100.00%	42,914,065.25	100.00%

Note:

(1) As at 31 December 2008, no accounts receivable is due from a shareholder who holds 5% or more of the voting shares of the Company.

(2) As at 31 December 2008, accounts receivable is increased by 462.69% compared with that on 1 January 2008. It is mainly due to open account transaction.

(3) The ending balance of the five largest accounts receivable is Rmb227,847,967.26 occupying 78.15% of total ending balance of accounts receivable.

(4) When the ending balance of individual accounts receivable occupying 5% or more of net assets, the individual accounts receivable is identified as individually significant amount. Individually insignificant accounts receivable with ages over 3 years or drawn full bad debt provision is identified as individual insignificant amounts but subject to considerable risks as a group based credit risk profile.

(5) Ageing analysis:

	31 December 2008				1 January 2008			
Ages	Carrying amount	Percentage (%)	Percentage of drawing Bad debt (%)	Bad debt provision	Carrying amount	Percentage (%)	Percentage of drawing Bad debt (%)	Bad debt provision
Within 1 year	**248,966,845.36**	**85.40**	**—**	**—**	8,890,722.13	17.16	—	—
1-2 years	**—**	**—**	**30.00**	**—**	—	—	30.00	—
2-3 years	**—**	**—**	**50.00**	**—**	14,358.57	0.03	50.00	7,179.29
Over 3 years	**42,575,479.60**	**14.60**	**100.00**	**42,575,479.60**	42,906,885.96	82.81	100.00	42,906,885.96
Total	**291,542,324.96**	**100.00**	**—**	**42,575,479.60**	51,811,966.66	100.00	—	42,914,065.25

(Expressed in Renminbi)

VIII. Notes to significant items of the parent company's financial statements *(Continued)*

2. Other receivables

Items	31 December 2008 Carrying amount	Percentage (%)	Bad debt provision Amount	Bad debt provision Percentage(%)	1 January 2008 Carrying amount	Percentage (%) Amount	Bad debt provision Amount	Percentage (%)
Individually significant amounts	**224,813,144.17**	**82.26**	**15,000,000.00**	**29.89**	44,014,378.71	57.63	25,808,704.00	51.43
Individual insignificant amounts but subject to considerable risks as a group based credit risk profile	**35,475,163.85**	**12.98**	**35,182,763.85**	**70.11**	24,369,059.85	31.91	24,369,059.85	48.56
Other insignificant amounts	**13,021,276.65**	**4.76**	**—**	**—**	7,991,045.31	10.46	5,000.00	0.01
total	**273,309,584.67**	**100.00**	**50,182,763.85**	**100.00**	76,374,483.87	100.00	50,182,763.85	100.00

Note:

(1) As at 31 December 2008, no other receivables are due from a shareholder who holds 5% or more of the voting shares of the Company.

(2) As at 31 December 2008, other receivables is increased by 257.85% compared with that on 1 January 2008. It is mainly due to increase of disposal of land and buildings on the ground and not receiving remaining disposal fund Rmb120,000,000.00 from Luoyang City Land Arrangement and Reserve Center.

(3) The ending balance of the five largest other receivables is Rmb235,621,848.17 occupying 86.21% of total ending balance of other receivables.

(4) When the ending balance of individual other receivables occupying 5% or more of net assets, the individual other receivables is identified as individually significant amount. Individually insignificant other receivable with ages over 3 years or drawn full bad debt provision is identified as individual insignificant amounts but subject to considerable risks as a group based credit risk profile.

(5) Ageing analysis:

Ages	31 December 2008 Carrying amount	Percentage (%)	Percentage of drawing Bad debt (%)	Bad debt provision	1 January 2008 Carrying amount	Percentage (%)	Percentage of drawing Bad debt (%)	Bad debt provision
Within 1 year	**202,134,934.62**	**73.96**	**0**	**—**	9,250,786.32	12.11%	0	300,000.00
1-2 years	**5,045,427.50**	**1.85**	**30**	**300,000.00**	344,356.00	0.45%	30	344,356.00
2-3 years	**46,161.96**	**0.02**	**50**	**344,356.00**	338,033.77	0.44%	50	38,033.77
Over 3 years	**66,083,060.59**	**24.18**	**100**	**49,538,407.85**	66,441,307.78	86.99%	100	49,500,374.08
Total	**273,309,584.67**	**100.00**	**—**	**50,182,763.85**	76,374,483.87	100.00%	—	50,182,763.85

3. Long-term equity investment

Items	1 January 2008 Amount	Impairment Provision	Increase in the period	Decrease in the period	31 December 2008 Amount	Impairment Provision
Investment in subsidiaries	298,147,558.89	84,513,389.18	5,000,000.00	71,074,169.71	**232,073,389.18**	**84,513,389.18**
Investment in associates	118,402,676.46	—	5,867,624.09	3,057,421.07	**121,212,879.48**	**—**
Other equity investment	88,683,217.53	88,683,217.53	—	—	**88,683,217.53**	**88,683,217.53**
Total	505,233,452.88	173,196,606.71	10,867,624.09	74,131,590.78	**441,969,486.19**	**173,196,606.71**

(Expressed in Renminbi)

VIII. Notes to significant items of the parent company's financial statements *(Continued)*

3. Long-term equity investment *(Continued)*

(1) *Details of long-term equity investment*

Names	Shareholding percentage	Initial Investment	1 January 2008	Increase	Decrease	31 December 2008	Bonus
Subsidiaries:	8						
CLFG Longmen Glass Co. Ltd.	79.06	64,513,389.18	64,513,389.18	—	—	**64,513,389.18**	—
CLFG Long Fei Glass Co. Ltd.	54.00	40,000,000.00	40,000,000.00	—	—	**40,000,000.00**	—
CLFG Long Hai Electronic Glass Limited	80.00	48,000,000.00	48,000,000.00	—	—	**48,000,000.00**	—
CLFG Long Hao Glass Limited	80.00	40,000,000.00	40,000,000.00	—	—	**40,000,000.00**	—
Xiangfang Luoshen Auto Glass Ltd.	66.67	20,000,000.00	20,000,000.00	—	—	**20,000,000.00**	—
Yinan Mineral Products Ltd.	52.00	14,560,000.00	14,560,000.00	—	—	**14,560,000.00**	—
CLFG Warehousing & Logistics Company Limited	100.00	71,074,169.71	71,074,169.71	—	71,074,169.71	**—**	—
CLFG Industry Ltd.	100.00	5,000,000.00	—	5,000,000.00	—	**5,000,000.00**	—
Sub-total		303,147,558.89	298,147,558.89	5,000,000.00	71,074,169.71	**232,073,389.18**	—
Associates:							
Luoyang Jingxin Ceramic Co. Ltd.	49.00	20,553,050.00	—	—	—	**—**	—
CLFG Finance Company Limited	37.00	111,000,000.00	118,402,676.46	5,867,624.09	3,057,421.07	**121,212,879.48**	3,057,421.07
CLFG Processed Glass Company Limited	49.09	89,095,600.00	—	—	—	**—**	—
CLFG Mineral Products Company Limited	40.29	12,475,313.63	—	—	—	**—**	—
Sub-total		233,123,963.63	118,402,676.46	5,867,624.09	3,057,421.07	**121,212,879.48**	3,057,421.07
Other equity investment:							
CLFG Hoisting Machinery Company Limited	36.68	5,000,000.00	5,000,000.00	—	—	**5,000,000.00**	—
CLFG Jingwei Glass Fibre Co., Ltd.	35.90	4,000,000.00	4,000,000.00	—	—	**4,000,000.00**	—
CLFG Luoyang Jingjiu Glass Products Company Limited	31.08	1,500,000.00	1,500,000.00	—	—	**1,500,000.00**	—
CLFG New Lighting Company Limited	29.45	2,291,217.53	2,291,217.53	—	—	**2,291,217.53**	—
Hunan Chenzhou Bada Glass Co. Ltd.	72.65	75,892,000.00	75,892,000.00	—	—	**75,892,000.00**	—
Sub-total		88,683,217.53	88,683,217.53	—	—	**88,683,217.53**	—
Total		624,954,740.05	505,233,452.88	10,867,624.09	74,131,590.78	**441,969,486.19**	3,057,421.07

Note: Details refer to VII.7.

(2) *Provision for impairment of long-term investment:*

Names	1 January 2008	Increase in the period	Decrease in the period	31 December 2008
CLFG Longmen Glass Co. Ltd	64,513,389.18	—	—	**64,513,389.18**
Xiangfang Luoshen Auto Glass Ltd.	20,000,000.00	—	—	**20,000,000.00**
CLFG Luoyang Jingjiu Glass Products Company Limited	1,500,000.00	—	—	**1,500,000.00**
CLFG Jingwei Glass Fibre Co., Ltd.	4,000,000.00	—	—	**4,000,000.00**
CLFG New Lighting Company Limited	2,291,217.53	—	—	**2,291,217.53**
CLFG Hoisting Machinery Company Limited	5,000,000.00	—	—	**5,000,000.00**
Hunan Chenzhou Bada Glass Co. Ltd.	75,892,000.00	—	—	**75,892,000.00**
Total	173,196,606.71	—	—	**173,196,606.71**

Note: 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. Details of reasons of impairment provision for the other companies refer to VII.7

(Expressed in Renminbi)

VIII. Notes to significant items of the parent company's financial statements *(Continued)*

4. Operating income and operating cost

Items	2008	2007
Income from principal operations	**725,796,120.15**	553,557,756.36
Other operating income	**612,593,752.49**	47,199,040.48
Total	**1,338,389,872.64**	600,756,796.84

(1) Business segments

Items	Operating income 2008 (Rmb Yuan)	Operating income 2007 (Rmb Yuan)	Operating cost 2008 (Rmb Yuan)	Operating cost 2007 (Rmb Yuan)	Gross profit 2008 (Rmb Yuan)	Gross profit 2007 (Rmb Yuan)
Income from principal operations	**725,796,120.15**	553,557,756.36	**768,612,752.42**	553,716,309.49	**-42,816,632.27**	725,796,120.15
Other operating income	**612,593,752.49**	47,199,040.48	**588,571,146.87**	25,301,846.50	**24,022,605.62**	612,593,752.49
Total	**1,338,389,872.64**	600,756,796.84	**1,357,183,899.29**	579,018,155.99	**-18,794,026.65**	1,338,389,872.64

Note: The Group's income from principal operations refers to the income from glass sales. The Group's cost of principal operations refers to the cost from glass sales

(2) The five largest clients are as follows:

Items	2008	2007
Total sale income of the five largest clients	**294,104,224.79**	137,222,001.75
Percentage of occupying total sale income	**40.52%**	24.79%

5. Investment income

Items	2008	2007
Interest income from designated loans	**41,163,626.10**	29,475,062.92
Share of net profit or loss of investees under equity method	**5,867,624.09**	2,194,415.14
Dividend declared by investees under cost method		
Income from disposal of long-term equity investment	**710,455.71**	22,059,000.00
Others		
Total	**46,320,794.48**	53,728,478.06

Note: There is no significant restriction on the transfer of investment income to the Company.

IX. Related party relationship and transactions

1. Related party cognizance

According to "Enterprises Accounting Standards No.36 - related party disclosures", when a party controls, jointly controls or exercises significant influence over another party, or when two or more parties are under the control, joint control or significant influence of the same party, the affiliated party relationships are constituted.

According to "management practices for information disclosure of listed companies" (China Securities Regulatory Commission Order No. 40), associated natural and legal persons under specific circumstances will be identified as related parties.

(Expressed in Renminbi)

IX. Related party relationship and transactions (Continued)

2. Related party relationship

(1) Parent company and ultimate controller

Name of enterprise	Relationship with the Company	Types of legal entity	Registered address	Legal representative	Code of entity	Registered capital	Principal activities	Equity interest in the Company	Voting share in the Company
China Luoyang Float Glass Group Company of Limited ("CLFG")	Parent company and the largest shareholder	Limited liability company (Solely owned by the State)	Luoyang China	Zhu Leibo	16995844-1	Production of glass, related raw materials and equipment	1,286,740,000.00	35.80%	35.80%
China National Building Material Group Corporation ("CNBMG")	Controller of parent company and ultimate controller	State-owned enterprise	Beijing China	Song Zhiping	10000048-9	Production of construction material and raw materials; the development, wholesale and retail of technology equipment	3,723,038,000.00		

(2) Subsidiaries

Details refer to Note VI. 1.

(3) Associates

Name of enterprise	Types of legal entity	Legal representative	Registered address	Code of entity	Principal activities
China Luoyang Float Glass Group Financial Company Limited	Limited liability company	Gao Tianbao	Luoyang China	17110824-3	Deposit and loan business for members
CLFG Processed Glass Company Limited	Limited liability company	Zhu Liuxin	Luoyang China	71562208-1	Deep processing of flat glass
Luoyang Jingxin Ceramic Co. Ltd.	Joint ventures (Hong Kong)	Guo Xiaohuan	Luoyang China	61483173-0	Production and sale of Glazed ceramic tiles and ceramic
CLFG Luoyang Hoisting Machinery Co Ltd	Limited liability company	Jin Yushun	Luoyang China	17107162-0	Design and procudtion of hoisting machinery and glass machinery
CLFG New Lighting Company Limited	Limited liability company	Li Jianxing	Luoyang China	17107290-6	Production and sale of lighting equipment and source materials
CLFG Jingwei Glass Fibre Co Ltd	Limited liability company	Li Shaotang	Luoyang China	X1480002-5	Production and sale of glass fibers and products
CLFG Luoyang Jingjiu Glass Products Co. Ltd.	Limited liability company	Sun Jigang	Luoyang China	87107235-X	Production and sale of glass products
CLFG Mineral Products Company Limited	Limited liability company	Zhu Liuxin	Luoyang China	71562129-X	Production and sale of Silica materials and products

(Expressed in Renminbi)

IX. Related party relationship and transactions *(Continued)*

2. Related party relationship *(Continued)*

(3) *Associates* *(Continued)*

Name of enterprise	Registered capital	Equity interest in the Company	Voting share in the Company	Total assets on 31 Dec. 2008	Total operating income in 2008	Net profit in 2008
China Luoyang Float Glass Group Financial Company Limited	300,000,000.00	37.00%	37.00%	354,934,946.411	23,950,131.23	15,858,443.48
CLFG Processed Glass Company Limited	181,495,600.00	49.09%	49.09%	491,989,922.17	201,009,043.86	-39,314,055.19
Luoyang Jingxin Ceramic Co. Ltd.	41,945,000.00	49.00%	49.00%	127,667,598.09		-5,296,264.89
CLFG Luoyang Hoisting Machinery Co Ltd	15,664,000.00	36.68%	36.68%	100,875,170.95	135,530,367.32	595,864.47
CLFG New Lighting Company Limited	7,780,500.00	29.45%	29.45%	16,459,346.00	39,745.29	-1,918,924.54
CLFG Jingwei Glass fibre Co Ltd	11,141,700.00	35.90%	35.90%	114,668,621.73	91,249,461.00	1,415,191.27
CLFG Luoyang Jingjiu Glass Products Co. Ltd.	4,826,400.00	31.08%	31.08%	24,045,357.43		-1,337,947.80
CLFG Mineral Products Company Limited	30,960,000.00	40.29%	40.29%	32,103,494.04	29,632,485.14	-526,763.24

(4) *Other related parties*

Name of enterprise	Code of entity	Relationship with the Company
Luoyang Longxin Glass Company Limited	75389012-4	Fellow subsidiary of CLFG
CLFG International Engineering Company	67236379-5	Fellow subsidiary of CLFG
CLFG Luoyang Jinrun Coating Glass Co.	61480816-X	Fellow subsidiary of CLFG
Luoyang New Jinrun Engineering Glass Co., Ltd.	67006782-9	Fellow subsidiary of CLFG
CLFG Luoyang Glass Engineering Design and Research Co.,Ltd.	74577378-8	Fellow subsidiary of CLFG
Luoyang Jiayuan Property Co.,Ltd.	71672508-2	Fellow subsidiary of CLFG
CLFG Warehousing & Logistics Company Limited	6672781-X	Fellow subsidiary of CLFG
Luoyang Xiangyu Industry Company	17109279-8	Fellow subsidiary of CLFG
Luoyang Xinxing Property Management Ltd.	78805717-5	Fellow subsidiary of CLFG
Luoyang Zhicheng Construction Supervision Ltd.	72183978-9	Fellow subsidiary of CLFG
CLFG Longmen Sugang Co., Ltd.	17140008-4	Fellow subsidiary of CLFG
CLFG jinghua Industry Company	17120093-9	Fellow subsidiary of CLFG
Anhui Bengbu Huayi Conductive Film Glass Co., Ltd.	61035990X	With same ultimate controller
Henan Zhonglian Glass Co., Ltd.	788068050	With same ultimate controller

(Expressed in Renminbi)

IX. Related party relationship and transactions (Continued)

3. Related party transactions

(1) *Sale of goods and raw materials*

Name of related party	Amount	Accumulated amount this year percentage	Pricing policy
CLFG Processed Glass Company Limited	4,203,719.11	0.32%	Market pricing
Luoyang New Jinrun Engineering Glass Co.Ltd.	1,488,789.55	0.11%	Market pricing
CLFG Luoyang Jinrun Coating Glass Co.	112,447.78	0.01%	Market pricing
Anhui Bengbu Huayi Conductive Film Glass Co., Ltd.	18,904,030.85	1.43%	Market pricing
Luoyang Longxin Glass Company Limited	137,101,090.39	10.37%	Market pricing
Total	161,810,077.68	12.23%	—

(2) *Purchase of commodities and raw materials*

Name of related party	Amount	Accumulated amount this year percentage	Pricing policy
Luoyang Longxin Glass Company Limited	56,453,126.40	3.48%	Market pricing
CLFG Mineral Products Company Limited	12,634,637.22	0.78%	Market pricing
Total	69,087,763.62	4.26%	—

Note: 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 2004, expiring on 3 August 2007, by which Mineral Co. supplies certain raw materials to the Company at market prices.

(3) *Related party providing guarantees*

As at 31 December 2008, CLFG has provided guarantee amounted to Rmb161,900,000.00 for the Company's borrowings; China Luoyang Float Glass Group Financial Company Limited has provided guarantee amounted to Rmb30,000,000.00 for the Company's borrowings; China National Building Material Group Corporation ("CNBMG") has provided guarantee amounted to Rmb285,000,000.00 for the Company's borrowings.

(4) *Indirect guarantees*

As at 31 December 2008, 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 favor of the Group, the amount is Rmb351,680,000.00.

(5) *Equity transfer*

On 22 October 2007, the Company and CLFG signed an equity transfer agreement, the Company transferred 100% equity of CLFG Warehousing & Logistics Company Limited to CLFG at the price of Rmb70,363,000.00.

(Expressed in Renminbi)

IX. Related party relationship and transactions *(Continued)*

3. Related party transactions *(Continued)*

(6) Unsettled account

	31 December 2008		
	Amount	percentage	Bad debt
Accounts receivable	64,437,898.04	46.90%	—
Luoyang Longxin Glass Company Limited	64,437,898.04	46.90%	—
Other receivables	1,825,511.34	0.90%	—
Henan Zhonglian Glass Co., Ltd.	1,000,000.00	0.50%	—
CLFG Longmen Sugang Co., Ltd.	330,324.61	0.16%	248,834.11
Luoyang Longxin Glass Company Limited	421,024.97	0.21%	—
China Luoyang Float Glass Group Financial Company Limited	2,870.84	0.00%	—
CLFG Jingwei Glass Fibre Co., Ltd.	66,303.61	0.03%	—
Luoyang Xinxing Property Management Ltd.	4,987.31	0.00%	—
Prepaid expenses	971,697.79	4.67%	—
CLFG	971,697.79	4.67%	—
Accounts payable	4,053,271.51	0.98%	—
CLFG Longmen Sugang Co., Ltd.	55,470.68	0.01%	—
CLFG Processed Glass Company Limited	487,757.40	0.12%	—
Luoyang Longxin Glass Company Limited	259,077.30	0.06%	—
CLFG Mineral Products Company Limited	2,854,459.23	0.69%	—
CLFG Luoyang Hoisting Machinery Co Ltd	396,506.90	0.10%	—
Payments received in advance	1,488,616.80	1.77%	—
Anhui Bengbu Huayi Conductive Film Glass Co., Ltd.	485,759.44	0.57%	—
CLFG	875,000.00	1.04%	—
CLFG Luoyang Jinrun Coating Glass Co.	80,935.92	0.10%	—
Luoyang New Jinrun Engineering Glass Co. Ltd.	16,224.13	0.02%	—
CLFG Processed Glass Company Limited	30,697.31	0.04%	—
Other payables	7,284,594.00	7.91%	—
CLFG Luoyang Glass Engineering Design and Research Co., Ltd.	93,339.50	0.09%	—
CLFG Processed Glass Company Limited	1,060,666.97	1.05%	—
CLFG Luoyang Jinrun Coating Glass Co.	2,317.51	0.00%	—
Luoyang Xinxing Property Management Ltd.	1,097,866.62	1.79%	—
Luoyang Jiayuan Property Co., Ltd.	6,300.00	0.01%	—

(Expressed in Renminbi)

IX. Related party relationship and transactions *(Continued)*

3. Related party transactions *(Continued)*

(6) Unsettled account (Continued)

	31 December 2008		
	Amount	percentage	Bad debt
Luoyang Longxin Glass Company Limited	3,098,176.40	3.06%	—
CLFG Warehousing & Logistics Company Limited	1,000,000.00	0.99%	—
Luoyang Xiangyu Industry Company	555,279.00	0.55%	—
Luoyang New Jinrun Engineering Glass Co.Ltd.	56,000.00	0.06%	—
CLFG Luoyang Hoisting Machinery Co Ltd	274,648.00	0.27%	—
Luoyang Zhicheng Construction Supervision Ltd.	40,000.00	0.04%	—

(7) Other Related party transactions

a. Designated loans

As at 31 December 2008, the Company consigned China Luoyang Float Glass Group Financial Company Limited to provide loan amounted to Rmb441,100,000.00 to the Company's subsidiaries; China National Building Material Group Corporation ("CNBMG") consigned Shuangyushu branch of Beijing Bank to provide loan amounted to Rmb100,000,000.00 to the Company. The Company paid interest Rmb5,726,151.02 this year.

b. Receipt of ancillary and social services

Name of company providing services	Amount of accepting services
CLFG	4,023,190.60
Luoyang Xinxing Property Management Ltd.	4,190,000.00
Total	8,213,190.60

Note:

(1) 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.

(2) 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.

(Expressed in Renminbi)

IX. Related party relationship and transactions (Continued)

3. Related party transactions (Continued)

(7) Other Related party transactions (Continued)

c. Provision of utilities-using assets

Name of company accepting services	Amount of providing services
CLFG	1,114,212.67

Note: 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.

d. Provision of utilities-using water, electricity and steam

Name of company accepting services	Amount of providing services
CLFG Jingwei Glass Fibre Co., Ltd.	15,194,603.93
Luoyang Xinxing Property Management Ltd.	2,843,144.29
China Luoyang Float Glass Group Financial Company Limited	49,129.18
CLFG Processed Glass Company Limited	339.85
CLFG	432,269.75
CLFG Sugang Company	526,442.83
CLFG jinghua Industry Company	135,258.53
Total	19,181,188.36

Note:

(1) 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.

(2) 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.

(3) On 20 April 2008, CLFG Longmen Glass Co., Ltd.(Longmen) has entered an agreement with CLFG Longmen Sugang Co., Ltd. (Sugang), Longmen provides utilities such as water, electricity and steam to Sugang. Price as follows: electricity by 0.58 Yuan / KWH (excluding tax), water by 1.20 Yuan / Du (excluding tax), steam by the number of radiators.

(Expressed in Renminbi)

IX. Related party relationship and transactions *(Continued)*

3. Related party transactions *(Continued)*

(7) Other Related party transactions *(Continued)*

e. Technical service revenue

Name of company accepting services	Amount of providing services
Luoyang Longxin Glass Company Limited	3,141,515.20

Note: The Company has entered into a three-year agreement with Luoyang Longxin Glass Co., Ltd. effective from 1 January 2007 by which the Company provides service of management skills and expertise to Luoyang Longxin Glass Co., Ltd. The fee is 0.8 Yuan / box according to the output of Luoyang Longxin Glass Co., Ltd.

f. Handling charges revenue

Name of company accepting services	Amount of providing services
Luoyang Longxin Glass Company Limited	975,766.17
CLFG Processed Glass Company Limited	10,800.00
Total	986,566.17

Note: On 31 December 2007, the Company has entered into a one-year agreement with Luoyang Longxin Glass Co., Ltd. by which the Company provides general service to Luoyang Longxin Glass Co., Ltd. In accordance with the principles of market economy, linking with actual loading and unloading costs, the Company provides service at the price of 1,800 Yuan / car.

g. Rent

Tenant	Rent in this year
CLFG Processed Glass Company Limited	470,000.00
CLFG jinghua Industry Company	800.00
Total	470,800.00

Note: The Company has entered into a three-year agreement with a CLFG's subsidiary, Processed Glass Company, effective from 1 January 2008 by which the Company sub-lease a portion of land use rights to Processed Glass Company.

The Company has entered into a ten-year agreement with a CLFG's subsidiary, Jinghua Company, effective from 1 August 2007 by which the Company sub-lease a portion of land use rights to Jinghua Company.

h. Deposits at associate — China Luoyang Float Glass Group Financial Company Limited which is non-bank financial institution

As at 31 December 2008, the balance of deposits is Rmb2,610,798.34.

i. Borrowings from associate — China Luoyang Float Glass Group Financial Company Limited which is non-bank financial institution

As at 31 December 2008, the balance of borrowings is Rmb80,900,000.00.

(Expressed in Renminbi)

IX. Related party relationship and transactions *(Continued)*

3. Related party transactions *(Continued)*

(7) Other Related party transactions *(Continued)*

j. Deposits' interest income at associate - China Luoyang Float Glass Group Financial Company Limited which is non-bank financial institution

As at 31 December 2008, the balance of interest income is Rmb101,039.28.

k. Interest expense to associate - China Luoyang Float Glass Group Financial Company Limited which is non-bank financial institution
As at 31 December 2008, the balance of interest expense is Rmb15,277,290.41

l. Share pledge

On 16 October 2008, CLFG and China National Building Material Group Corporation (CNBM) who is the controlling shareholder of CLFG and the ultimate controlling person of the Company signed a share pledge contract. According to the contract, CLFG agreed that 179,018,242 shares (state-owned legal person shares) of the Company were pledged to CNBM, and CNBM provided guarantees to the total loans of Rmb690,000,000 borrowed by CLFG, its controlled enterprises and the Company.

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 Exchange Listing Rules on all of the above continuing connected transactions as reflected above.

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, but some transactions are not entered into agreements.

Related party transaction of last year

The amounts of related party transactions of the Company during last year and the balances of the current account items are summarized as follows:

1. Transactions between the Group and CLFG are summarized as follows:

	2007
Receipt of ancillary and social service	4,413,834.58
Provision of utilities	1,012,696.23
Interest paid and payable	1,141,528.54
Guarantees issued by CLFG to banks in favor of the Group for borrowings	163,830,000.00
Indirect guarantees	499,750,000.00

2. Material transactions between the Group and fellow subsidiaries are summarized as follows:

	2007
Sales	7,824,382.28
Ancillary and social services	5,313,334.20
Provision of utilities	21,109,608.77
Purchase of raw materials	11,143,385.00
Shelf sale income	574,000.00
Interest paid and payable	4,814,005.16
Interest received and receivable	236,260.58
Rental income	580,800.00

(Expressed in Renminbi)

IX. Related party relationship and transactions *(Continued)*

3. Related party transactions *(Continued)*

(7) Other Related party transactions *(Continued)*

I. Share pledge *(Continued)*

3. 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 As at 31 December 2007	Fellow subsidiaries As at 31 December 2007
Assets		
Cash at non-bank financial institutions	—	56,117,163.82
Accounts receivable	—	1,368,591.77
Notes receivable	—	3,135,281.56
Prepayments	1,271,697.79	476,578.30
Other receivables	—	919,903.28
Other non-current assets	35,000,000.00	—
Liabilities		
Short-term loans	—	63,000,000.00
Notes payable	—	—
Accounts payable	—	4,995,566.40
Receipts in advance	875,000.00	779,464.89
Other payables	19,513,724.82	2,562,739.85

In addition, the Company has made the following provision for bad debt against the amounts due from related parties as follows:

	31 December 2007
Provision for amounts due from CLFG	
Provision for amounts due from fellow subsidiaries	

X. Contingent liabilities

At 31 December 2008, the contingent liabilities of the Group and the Company are summarized as follows:

1. As at 31 December 2008, the Company provided guarantees to banks in favor of subsidiaries amounted to Rmb59,000,000.00, and to financial companies in favor of subsidiaries amounted to Rmb39,000,000.00

2. Main litigation matters

(1) Wenxi Hongyu Chemical Co., Ltd. prosecuted the Company for fuel oil fund dispute case

Wenxi Hongyu Chemical Co., Ltd. signed 12 copies of fuel oil supply contracts with the Company in 2008. After signing the contracts, Wenxi Hongyu Chemical Co., Ltd. supplied fuel oil and the Company paid for the goods. Then there was a dispute between two parties and Wenxi Hongyu Chemical Co., Ltd. prosecuted the Company for payment in arrears Rmb5,150,000, and asked the Company to repay payment for goods and overdue interest. The Company advanced that firstly, Wenxi Hongyu Chemical Co., Ltd. didn't supply full goods in accordance with the contract; secondly, because fuel oil prices were rising, the settlement price used by Wenxi Hongyu Chemical Co., Ltd. was higher than contract price. At present, the case is still in process.

X. Contingent liabilities *(Continued)*

2. Main litigation matters *(Continued)*

(2) Luoyang Dayang Refractory Material Co., Ltd. prosecuted CLFG, the Company, CLFG Long Hai Electronic Glass Limited and CLFG Long Hao Glass Limited for engineering materials dispute case

During start-up period of CLFG Long Hai Electronic Glass Limited and CLFG Long Hao Glass Limited, Luoyang Dayang Refractory Material Co., Ltd. signed refractory material marketing contracts with CLFG and CLFG Long Hao Glass Limited respectively. After signing the contracts Luoyang Dayang Refractory Material Co., Ltd. began to supply goods. Then there was a dispute. In October 2008, Luoyang Dayang Refractory Material Co., Ltd. prosecuted CLFG Long Hai Electronic Glass Limited and CLFG Long Hao Glass Limited for payment in arrears Rmb3,107,871.00 and Rmb1,371,624.00 respectively, and asked CLFG and the Company undertake joint liability, and required above four companies to pay relevant interest and loss Rmb600,000.00. The Company argued that civil rights and obligations formed during start-up period should be undertaken by established company and there was difference between both parties' accounts. At present, the case is still in process.

(3) Luoyang Kaiyu Material Co., Ltd. (hereinafter referred to as "Kaiyu Company") prosecuted the Company for payment dispute case

Kaiyu Company signed sale contracts with the Company many times, the Company paid for part goods but there is still substantial payment in arrears. Through financial check, the Company admitted payment in arrears Rmb1,901,492.92, including: the Company's arrearage Rmb777,227.67, CLFG Longmen's arrearage Rmb281,514.31, CLFG Longhai's arrearage Rmb238,813.14, CLFG Longfei's arrearage Rmb542,946.30, CLFG Longxin's arrearage Rmb60,991.50. Because the above companies do not belong to same litigation subject and legal relation, so Kaiyu Company required the Company to repay Rmb777,227.67 and relevant interest in November 2008. At present, the case is still in process.

(4) Luoyang Zhuoyuan Commerce Co., Ltd. (hereinafter referred to as "Zhuoyuan Company") prosecuted the Company for payment dispute case

In May 2007, Zhuoyuan Company and the Company agreed that Zhuoyuan Company provided coal to the Company and Longxin Company, but the Company didn't pay for the goods when receiving the goods. On 8 October 2008, the Company produced evidence showing that payment in arrears was Rmb2,360,482.31. Because of unpaid debts, in November 2008, Zhuoyuan Company appealed to court and required the Company to repay Rmb2,360,482.31 and interest loss Rmb455,270.78. The Company argued that Zhuoyuan Company confused different legal person systems, different legal persons should not set up obligations to other legal person; and there was no legal basis for interest loss. At present, the case is still in process.

(5) Shandong Linyi Hengrun Chemical Co., Ltd. (hereinafter referred to as "Hengrun Company") prosecuted the Company for heavy oil payment dispute case

From 2007 to 2008, Hengrun Company carried out many trade transactions with the Company. On 8 May 2008, the Company sent confirmation letter to Hengrun Company and confirmed payment in arrears Rmb7,480,341.29. Then Hengrun Company appealed to court for the reason that Hengrun Company signed 5 sale contracts with the Company and fulfilled the obligations, but the Company failed to repay Rmb7,480,341.29. The Company argued that from 2007 to 2008 the Company signed 12 sale contracts with Hengrun Company totally, but Hengrun Company didn't fulfill the delivery obligation completely, and unqualified goods supplied on 28 and 28 January 2008 let the Company undertake loss; the lawsuit of Hengrun Company was only based on 5 sale contracts, it can't prove that the Company owed. In November 2008, after hearing of the case, the Company failed the first trial, the court required the Company to pay for goods Rmb7,480,341.29 and relevant fees Rmb69,162. The Company has lodged an appeal, at present, the case is in appealing process.

(Expressed in Renminbi)

X. Contingent liabilities *(Continued)*

2. Main litigation matters *(Continued)*

(5) *Shandong Linyi Hengrun Chemical Co., Ltd. (hereinafter referred to as "Hengrun Company") prosecuted the Company for heavy oil payment dispute case* *(Continued)*

At 31 December 2007, the contingent liabilities of the Group and the Company are summarized as follows:

	The group as at 31 December 2007	The Company as at 31 December 2007
Guarantees issued to banks in favor of subsidiaries	—	47,700,000.00
Guarantees issued to financial companies in favor of subsidiaries	—	41,500,000.00
Total	—	89,200,000.00

XI. Capital commitments

At 31 December 2008, capital commitments of the Company are summarized as follows:

	31 December 2008	31 December 2007
Contracted for but not provided for		
— construction project	**1,330,000.00**	1,468,000.00
— investment to subsidiary	**32,586,000.00**	—

XII. Post balance sheet events

In August 2008, Labor Union of Luoyang Longfei Glass Co., Ltd., Zheng Qinghong, Xue Jiankui, Hunan Huaihua Hezhong Development Co., Ltd., Guangzhou Yuntong Material Co., Ltd., Henan Jinshan Chemical Co., Ltd., Hubei Yijun Trading Co., Ltd., Ningbo Shuangning Building Materials Glass Co., Ltd., Changzhou Daming Glass Co., Ltd., Wang Qiuping, Wang Chunyun, Yan Jun, Huaxing Building Materials Co., Ltd. signed a share transfer contract with CLFG Longfei Glass Co., Ltd., and transferred CLFG Longxiang Glass Co., Ltd.'s equity of 33%, 6%, 1%, 1%, 2%, 2%, 2%, 2%, 2%, 2%, 2%, 4%, 1% to Longfei Company respectively. The total price is Rmb38,016,444.70. After either legal representatives or authorized representatives signed and sealed the contract and finished share transfer, the contract came into force. The change of business registration involving in above-mentioned share transfer was completed on 15 January 2009.

In December 2008, the Company and Valley County Bada Mining Co., Ltd. (hereinafter referred to as "Bada Mining") signed a share transfer contract, the Company would transfer Luoshen Company's equity of 66.67% held by the Company and its relevant benefits, obligations and responsibilities to Bada Mining at the price of Rmb4,500,000. At the same month, the Company received the share transfer fund. The change of business registration involving in above-mentioned share transfer was completed on 19 February 2009.

In January 2009, the Company and CLFG signed a share sale contract with Zhenglong Coal and Yongcheng Coal. The Company sold equity of 37% of China Luoyang Float Glass Group Financial Company Limited to Zhenglong Coal, CLFG sold equity of 63% of China Luoyang Float Glass Group Financial Company Limited to Yongcheng Coal. The share transfer would be carried out simultaneously. The Company sold the equity at the price of Rmb140,111,937.64 and would be paid in cash. The Company would pay for the debt to China Luoyang Float Glass Group Financial Company Limited firstly. After either legal representatives or authorized representatives signed and sealed the contract and finished share transfer, the contract came into existence, and after the target companies obtaining the approval of bank supervision department, the contract came into force. The contract is valid until finish the transfer matters and fulfill both parties' obligations.

As at the date of approving this financial statement, except above events, there have been no other material post-balance sheet events which would require disclosure or adjustment to the 31 December 2008 Financial Statements.

XIII. Other significant events

There have been no other significant matters in the Group which would require representation as at 31 December 2008.

(Expressed in Renminbi)

XIV. Supplementary information

1. Return on net assets and earnings per share

	Return on net assets		Earnings per share	
	Fully diluted (%)	Weighted average (%)	Basic earning per share (Yuan)	Diluted earnings per share (Yuan)
Net profit attributable to shareholders of the compan	5.58	5.74	0.026	0.026
Net profit attributable to shareholders of the Company after deducting extraordinary items	-107.34	-110.42	-0.492	-0.492

2. Extraordinary profit and loss

Items	Amount	Impact of income tax	Net amount
Profit or loss on disposal of non-current assets	233,884,733.31	-12,941.21	233,897,674.52
Government subsidies accounted for as current profits and losses	21,989,800.00	595,560.00	21,394,240.00
Profit or loss of debt restructuring	21,949.98	4,140.00	4,860.00
Impact to current profit or loss because of current profit or loss's adjustment according to tax, accounting and other laws	2,721,732.84	564,028.93	2,157,703.91
Net balance of other non-operating income and expenses except above items	1,101,056.19	-200,085.90	1,314,092.07
Total	259,719,272.32	950,701.82	258,760,570.50

Note: Profit on disposal of non-current assets is due to sale of some land and buildings located at No. 9 Tang Gong Zhong Lu and machinery and equipment, and disposal of a land use right of a wholly-owned subsidiary, CLFG Warehouse & Logistics Company Limited.

XV. Difference reconciliation statement prepared in accordance with the PRC Accounting Standards and IFRSs

The main difference is summarized below:

	Net assets		Net profit	
	Consolidation	Parent company	Consolidation	Parent company
As prepared under IFRS	226,709,654.00	243,235,760.00	5,792,616.00	109,713,740.00
As prepared under PRC Accounting Standards	259,880,560.77	303,621,557.38	-34,557,687.06	8,387,056.86

Note: (1) PKF Certified Public Accountants is the international auditor of the Company in 2008.

(2) The reason of main difference: the land use right disclosed under PRC Accounting Standards includes is measured by fair value, that includes land value-added part through assessment and the land is allocated by the holding company. But for this matter, IFRS would adopt cost model to measure, so causing cost difference and amortization difference. Under PRC Accounting Standards, the land value-added part will be reflected as shareholder equity, but IFRS would not confirm the land value-added part or record this as shareholder equity or others.

Luoyang Glass Company Limited
26 March 2009

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 profit/(loss) attributable to the Group prepared in accordance with the PRC Accounting Rules and Regulations and IFRSs is summarised below:-

	2008 *RMB'000*	2007 *RMB'000*
Profit/(loss) attributable to shareholders under the PRC Accounting Rules and Regulations	**12,783**	(95,343)
Differences:-		
— Gain on disposal of land use rights	**34,657**	—
— Gain on disposal of a subsidiary	**15,834**	—
— Amortisation of revaluation of land use rights	**1,500**	2,098
— Government grants	**461**	365
— Difference in accounting for reused packing materials	**(7,616)**	(2,270)
— Others	**(3,579)**	(4,939)
Profit/(loss) attributable to equity shareholders of the Company under IFRSs	**54,040**	(100,089)

(2) Reconciliation of shareholders' funds of the Group prepared in accordance with the PRC Accounting Rules and Regulations and IFRSs is summarised below:-

	2008 *RMB'000*	2007 *RMB'000*
Shareholders' funds under the PRC Accounting Rules and Regulations	**229,156**	216,373
Differences:-		
— Gain on disposal of land use rights	**34,657**	—
— Gain on disposal of a subsidiary	**15,834**	—
— Amortisation of revaluation of land use rights	**(76,552)**	(78,052)
— Government grants	**(3,186)**	(3,647)
— Difference in accounting for consolidation	**3,653**	3,653
— Difference in accounting for reused packing materials	**871**	8,487
— Others	**(6,574)**	(2,995)
Total equity attributable to equity shareholders of the Company under IFRSs	**197,859**	143,819

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 Daxin Certified Public Accountants and signed by PRC certified public accountants, and the financial statements prepared under the PRC Accounting Rules and Regulations; text of the auditors' report signed by PKF Certified Public Accountants, and the financial statements 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 2008 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

Gao Tianbao	Xie Jun	Cao Mingchun
Song Fei	Song Jianming	

Non-executive Director

Shen Anqin	Yang Weiping

Independent Non-executive Directors

Guo Aimin	Xi Shengyang	Zhang Zhanying	Ge Tieming

Senior Management

Cheng Zonghui

26 March 2009

In case any discrepancy found between the Chinese and English version of this annual report, the Chinese version shall prevail.