

# Report of the International Auditors



To the Shareholders of  
**Luoyang Glass Company Limited**  
*(Incorporated in the People's Republic of China with limited liability)*

We have audited the financial statements on pages 29 to 51 which have been prepared in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board.

## Respective responsibilities of directors and auditors

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently, that judgements and estimates are made which are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements 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.

## Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

## Fundamental uncertainty

In forming our opinion, we have considered the adequacy of the disclosures made in note 2(b) on the financial statements concerning the adoption of the going concern basis in the preparation of the financial statements, the validity of which depends upon the continuing financial support of the ultimate holding company and financial institutions. 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 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. We consider that the fundamental uncertainty has been adequately accounted for and disclosed in the financial statements and our opinion is not qualified in this respect.

## Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2003 and of the Group's loss and cash flows for the year then ended and have been properly prepared in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG  
Certified Public Accountants  
Hong Kong, China  
22 April 2004

# Consolidated Income Statement

For the year ended 31 December 2003  
(Prepared in accordance with International Financial Reporting Standards)  
(Expressed in Renminbi)

|  | Note | 2003<br>Rmb'000  | 2002<br>Rmb'000 |
|--|------|------------------|-----------------|
| <b>Turnover</b>                                      | 4    | <b>975,816</b>   | 822,804         |
| Cost of sales  |      | <b>(840,202)</b> | (797,006)       |
| Gross profit   |      | <b>135,614</b>   | 25,798          |
| Other operating income                               | 5    | <b>9,409</b>     | 5,864           |
| Other operating expenses                             | 6    | <b>(9,905)</b>   | (59,497)        |
| Selling expenses                                     |      | <b>(39,447)</b>  | (36,999)        |
| Administrative expenses                              |      | <b>(356,036)</b> | (277,628)       |
| <b>Loss from operations</b>                          |      | <b>(260,365)</b> | (342,462)       |
| Net financing costs                                  | 7(a) | <b>(41,898)</b>  | (46,454)        |
| Investment loss                                      | 7(b) | <b>(6,525)</b>   | (7,984)         |
| Share of net (losses) /gains of associated companies |      | <b>(28,817)</b>  | 9,030           |
| <b>Loss from ordinary activities before taxation</b> | 7    | <b>(337,605)</b> | (387,870)       |
| Income tax expense                                   | 9(a) | <b>(2,172)</b>   | (200)           |
| <b>Loss from ordinary activities after taxation</b>  |      | <b>(339,777)</b> | (388,070)       |
| Minority interests                                   |      | <b>(244)</b>     | 45,621          |
| <b>Loss attributable to shareholders</b>             | 10   | <b>(340,021)</b> | (342,449)       |
| <b>Basic loss per share (in Rmb: Yuan)</b>           | 11   | <b>(0.49)</b>    | (0.49)          |

The notes on pages 35 to 51 form part of these financial statements.

# Consolidated balance sheet

At 31 December 2003  
(Prepared in accordance with International Financial Reporting Standards)  
(Expressed in Renminbi)

|   | Note | 2003<br>Rmb'000  | 2002<br>Rmb'000  |
|---|------|------------------|------------------|
| <b>Non-current assets</b>                               |      |                  |                  |
| Property, plant and equipment                           | 12   | 938,228          | 927,674          |
| Construction in progress                                | 13   | 4,535            | 8,682            |
| Intangible asset  | 14   | 6,377            | 6,749            |
| Lease prepayments                                       | 15   | 82,991           | 39,275           |
| Interest in associated companies                        | 17   | 186,843          | 254,232          |
| Investments   | 18   | 35,739           | 75,979           |
| Other receivables                                       | 19   | 19,186           | 397,505          |
| Deposits with non-bank financial institution            | 24   | 35,654           | 35,654           |
| <b>Total non-current assets</b>                         |      | <b>1,309,553</b> | <b>1,745,750</b> |
| <b>Current assets</b>                                   |      |                  |                  |
| Income tax recoverable                                  |      | 439              | 1,043            |
| Other receivables                                       | 19   | 478,028          | 393,484          |
| Inventories   | 20   | 184,952          | 201,695          |
| Trade receivables                                       | 21   | 79,667           | 126,316          |
| Deposits with banks and non-bank financial institutions | 22   | 100,000          | 125,516          |
| Cash and cash equivalents                               | 23   | 82,279           | 152,554          |
| <b>Total current assets</b>                             |      | <b>925,365</b>   | <b>1,000,608</b> |
| <b>Current liabilities</b>                              |      |                  |                  |
| Income tax payable                                      |      | 1,379            | -                |
| Trade payables  | 25   | 174,394          | 240,592          |
| Accrued expenses and other payables                     |      | 205,396          | 230,528          |
| Bank and other loans                                    | 26   | 893,251          | 968,229          |
| <b>Total current liabilities</b>                        |      | <b>1,274,420</b> | <b>1,439,349</b> |
| <b>Net current liabilities</b>                          |      | <b>(349,055)</b> | <b>(438,741)</b> |
| <b>Total assets less current liabilities</b>            |      | <b>960,498</b>   | <b>1,307,009</b> |
| <b>Non-current liabilities</b>                          |      |                  |                  |
| Bank and other loans                                    | 26   | 118,269          | 141,154          |
| Long-term payables                                      |      | 2,580            | 5,174            |
| <b>Total non-current liabilities</b>                    |      | <b>120,849</b>   | <b>146,328</b>   |
| <b>Minority interests</b>                               |      | <b>50,173</b>    | <b>31,184</b>    |
| <b>Net assets</b>                                       |      | <b>789,476</b>   | <b>1,129,497</b> |
| <b>Shareholders' funds</b>                              |      |                  |                  |
| Share capital   | 27   | 700,000          | 700,000          |
| Share premium   | 28   | 969,988          | 969,988          |
| Reserves  | 29   | 117,125          | 116,857          |
| Accumulated losses                                      | 30   | (997,637)        | (657,348)        |
|   |      | <b>789,476</b>   | <b>1,129,497</b> |

Approved and authorised for issue by the Board of Directors on 22 April 2004

**Liu Baoying**  
Chairman

**Zhu Leibo**  
Director

The notes on pages 35 to 51 form part of these financial statements.

# Balance sheet

At 31 December 2003  
(Prepared in accordance with International Financial Reporting Standards)  
(Expressed in Renminbi)

|   | Note | 2003<br>Rmb'000  | 2002<br>Rmb'000  |
|---|------|------------------|------------------|
| <b>Non-current assets</b>                               |      |                  |                  |
| Property, plant and equipment                           | 12   | 443,586          | 477,739          |
| Construction in progress                                | 13   | 2,749            | 6,468            |
| Lease prepayments                                       | 15   | 34,647           | 307              |
| Interest in subsidiaries                                | 16   | 272,644          | 214,608          |
| Interest in associated companies                        | 17   | 187,939          | 256,842          |
| Investments   | 18   | 35,187           | 75,979           |
| Other receivables                                       | 19   | 19,186           | 397,505          |
| Deposits with non-bank financial institution            | 24   | 35,654           | 35,654           |
| <b>Total non-current assets</b>                         |      | <b>1,031,592</b> | <b>1,465,102</b> |
| <b>Current assets</b>                                   |      |                  |                  |
| Other receivables                                       | 19   | 439,526          | 352,901          |
| Inventories   | 20   | 99,066           | 130,162          |
| Trade receivables                                       | 21   | 51,735           | 108,811          |
| Deposits with banks and non-bank financial institutions | 22   | 100,000          | 120,000          |
| Cash and cash equivalents                               | 23   | 57,476           | 135,749          |
| <b>Total current assets</b>                             |      | <b>747,803</b>   | <b>847,623</b>   |
| <b>Current liabilities</b>                              |      |                  |                  |
| Trade payable   | 25   | 90,833           | 178,408          |
| Accrued expenses and other payables                     |      | 86,521           | 121,932          |
| Bank and other loans                                    | 26   | 730,250          | 795,169          |
| <b>Total current liabilities</b>                        |      | <b>907,604</b>   | <b>1,095,509</b> |
| <b>Net current liabilities</b>                          |      | <b>(159,801)</b> | <b>(247,886)</b> |
| <b>Total assets less current liabilities</b>            |      | <b>871,791</b>   | <b>1,217,216</b> |
| <b>Non-current liabilities</b>                          |      |                  |                  |
| Bank and other loans                                    | 26   | 56,152           | 75,294           |
| Long-term payables                                      |      | 2,580            | 5,043            |
| <b>Total non-current liabilities</b>                    |      | <b>58,732</b>    | <b>80,337</b>    |
| <b>Net assets</b>                                       |      | <b>813,059</b>   | <b>1,136,879</b> |
| <b>Shareholders' funds</b>                              |      |                  |                  |
| Share capital   | 27   | 700,000          | 700,000          |
| Share premium   | 28   | 969,988          | 969,988          |
| Reserves  | 29   | 106,547          | 106,547          |
| Accumulated losses                                      | 30   | (963,476)        | (639,656)        |
|   |      | <b>813,059</b>   | <b>1,136,879</b> |

Approved and authorised for issue by the Board of Directors on 22 April 2004

**Liu Baoying**  
Chairman

**Zhu Leibo**  
Director

The notes on pages 35 to 51 form part of these financial statements.

# Consolidated cash flow statement

For the year ended 31 December 2003  
(Prepared in accordance with International Financial Reporting Standards)  
(Expressed in Renminbi)

|   | Note | 2003<br>Rmb'000 | 2002<br>Rmb'000 |
|---|------|-----------------|-----------------|
| <b>Cash flows from operating activities</b>                 |      |                 |                 |
| Cash generated from operations                              | (a)  | 145,947         | 21,866          |
| Interest paid   |      | (63,095)        | (62,277)        |
| Income tax (paid)/refunded                                  |      | (189)           | 186             |
| <b>Net cash from/(used in) operating activities</b>         |      | <b>82,663</b>   | <b>(40,225)</b> |
| <b>Cash flows from investing activities</b>                 |      |                 |                 |
| Interest and investment income received                     |      | 16,711          | 11,447          |
| Capital expenditure   |      |                 |                 |
| — Property, plant and equipment                             |      | (41,624)        | (26,753)        |
| — Construction in progress                                  |      | (32,611)        | (10,031)        |
| Cash inflow from newly consolidated subsidiaries            | (b)  | 1,099           | —               |
| Proceeds from disposal of property, plant and equipment     |      | 2,846           | 10,597          |
| <b>Net cash used in investing activities</b>                |      | <b>(53,579)</b> | <b>(14,740)</b> |
| <b>Cash flows from financing activities</b>                 |      |                 |                 |
| Proceeds from bank and other loans                          |      | 882,549         | 879,800         |
| Repayment of bank and other loans                           |      | (981,908)       | (809,684)       |
| Proceeds from long-term payables                            |      | —               | 2,268           |
| Repayment of long-term payables                             |      | —               | (2,202)         |
| <b>Net cash (used in)/from financing activities</b>         |      | <b>(99,359)</b> | <b>70,182</b>   |
| <b>Net (decrease)/increase in cash and cash equivalents</b> |      | <b>(70,275)</b> | <b>15,217</b>   |
| <b>Cash and cash equivalents at 1 January</b>               |      | <b>152,554</b>  | <b>137,337</b>  |
| <b>Cash and cash equivalents at 31 December</b>             | 23   | <b>82,279</b>   | <b>152,554</b>  |

The notes on pages 35 to 51 form part of these financial statements.

# Notes to the Consolidated Cash Flow Statement

For the year ended 31 December 2003  
(Prepared in accordance with International Financial Reporting Standards)  
(Expressed in Renminbi)

## (a) Reconciliation of loss from ordinary activities before taxation to cash flows from operations

|  | 2003<br>Rmb'000 | 2002<br>Rmb'000 |
|--|-----------------|-----------------|
| Loss from ordinary activities before taxation                              | (337,605)       | (387,870)       |
| Share of net losses/(gains) of associated companies                        | 28,817          | (9,030)         |
| Share of accumulated losses from newly consolidated subsidiaries           | 3,781           | —               |
| Amortisation and depreciation  | 80,302          | 82,580          |
| Interest income  | (20,485)        | (19,732)        |
| Dividend income  | (3,300)         | (2,854)         |
| Interest expense   | 58,920          | 62,305          |
| Provision for diminution in value of other unlisted investments            | 6,044           | 10,838          |
| Provision for deposits with non-bank financial institution                 | —               | 37,175          |
| Provision for amount due from an associated company                        | 38,730          | 32,747          |
| Provision for other bad and doubtful debts                                 | 234,070         | 94,806          |
| Write-off of other payables  | (6,839)         | —               |
| Write-off of trade receivables, other receivables and prepayments          | —               | 19,132          |
| (Write back of)/provision for inventories                                  | (797)           | 4,491           |
| Impairment loss on property, plant and equipment                           | —               | 11,269          |
| Loss on disposal of property, plant and equipment                          | 7,028           | 46,064          |
| Foreign exchange loss  | 1,496           | —               |
| Decrease in inventories  | 25,289          | 37,996          |
| Decrease/(increase) in trade and other receivables                         | 95,987          | (39,741)        |
| Decrease in time deposits with original maturity more than three months    | 25,516          | 22,484          |
| (Decrease)/increase in trade payables, accrued expenses and other payables | (91,007)        | 19,206          |
| <b>Cash generated from operations</b>                                      | <b>145,947</b>  | <b>21,866</b>   |

## (b) Newly consolidated subsidiaries

The consolidation of the results of two subsidiaries (note 16) had the following effect on the Group's assets and liabilities.

|  | 2003<br>Rmb'000 |
|--|-----------------|
| Property, plant and equipment  | 45,973          |
| Construction in progress   | 1,117           |
| Lease prepayments  | 10,386          |
| Trade receivables  | 6,345           |
| Other receivables  | 8,495           |
| Inventories  | 7,749           |
| Investments  | 552             |
| Cash and cash equivalents  | 1,099           |
| Trade payables   | (2,239)         |
| Accrued expenses and other payables                                  | (9,765)         |
| Bank and other loans   | (20,000)        |
| Minority interests   | (18,745)        |
| Net identifiable assets and liabilities                              | 30,967          |
| Share of accumulated losses from newly consolidated subsidiaries     | 3,781           |
| Cost transferred from unlisted investments                           | (34,748)        |
| Cash of newly consolidated subsidiaries                              | 1,099           |
| <b>Net cash inflow in respect of newly consolidated subsidiaries</b> | <b>1,099</b>    |

The notes on pages 35 to 51 form part of these financial statements.

# Consolidated statement of changes in shareholders' funds

For the year ended 31 December 2003  
(Prepared in accordance with International Financial Reporting Standards)  
(Expressed in Renminbi)

|                     | Share<br>capital<br><i>Rmb'000</i> | Share<br>premium<br><i>Rmb'000</i> | Reserves<br><i>Rmb'000</i> | Retained<br>profits<br><i>Rmb'000</i> | Total<br><i>Rmb'000</i> |
|---------------------|------------------------------------|------------------------------------|----------------------------|---------------------------------------|-------------------------|
| At 1 January 2002   | 700,000                            | 969,988                            | 116,857                    | (314,899)                             | 1,471,946               |
| Loss for the year   | —                                  | —                                  | —                          | (342,449)                             | (342,449)               |
| At 31 December 2002 | 700,000                            | 969,988                            | 116,857                    | (657,348)                             | 1,129,497               |
| At 1 January 2003   | 700,000                            | 969,988                            | 116,857                    | (657,348)                             | 1,129,497               |
| Loss for the year   | —                                  | —                                  | —                          | (340,021)                             | (340,021)               |
| Appropriations      | —                                  | —                                  | 268                        | (268)                                 | —                       |
| At 31 December 2003 | 700,000                            | 969,988                            | 117,125                    | (997,637)                             | 789,476                 |

The notes on pages 35 to 51 form part of these financial statements.

# Notes on the Financial Statements

For the year ended 31 December 2003  
(Prepared in accordance with International Financial Reporting Standards)  
(Expressed in Renminbi)

## 1 Background of the Company

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

## 2 Significant accounting policies

### (a) Statement of compliance

The accompanying financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") promulgated by the International Accounting Standards Board. IFRS includes International Accounting Standards ("IAS") and related interpretations.

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.

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 and the Company's results and shareholders' funds prepared under IFRS and the PRC Accounting Rules and Regulations is presented on page 86.

### (b) Basis of preparation

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 except for the carrying amount of certain property, plant and equipment (note 12(b)). The accounting policies have been consistently applied by the Group and are consistent with those used in the previous years.

Notwithstanding that the Company and the Group incurred loss for the year and had net current liabilities as at 31 December 2003, the directors of the Company are of the opinion that the Company and the Group are able to continue as a going concern and to meet their obligations as and when they fall due having regard to the following:

- (i) agreements obtained from financial institutions for renewal of loan facilities totalling approximately Rmb444,000,000 to the Company upon their expiry in 2004; and
- (ii) continuing financial support received from the ultimate holding company.

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

The preparation of the financial statements in accordance with IFRS required management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates.

### (c) Basis of consolidation

#### (i) Subsidiaries

Subsidiaries are those entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The results of subsidiaries are included in the consolidated income statement from the date that control effectively commences until the date that control effectively ceases, and the share attributable to minority interests is deducted from or added to profit or loss from ordinary activities after taxation.

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.

Losses attributable to the minority shareholders in a consolidated subsidiary are restricted to their equity interests in the subsidiary. If the subsidiary subsequently reports profits, the Group is allocated all such profits until the minority shareholders' 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 any impairment losses (see note 2(s)), unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Company, in which case, it is stated at fair value with changes in fair value recognised in the income statement as they arise.

#### (ii) Associated companies

Associated companies are those enterprises in which the Group has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Group's share of the total recognised gains and losses of associated companies on an equity accounted basis, from the date that significant influence effectively commences until the date that significant influence effectively ceases. When the Group's share of losses exceeds the carrying amount of the associated companies, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred obligations in respect of the associated companies.

Unrealised profits and losses resulting from transactions between the Group and its associated companies are eliminated to the extent of the Group's interest in the associated company, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in the income statement.

In the Company's balance sheet, an investment in an associated company is stated at cost less any impairment losses (see note 2(s)), unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions that significantly impair its ability to transfer funds to the investor, in which case, it is stated at fair value with changes in fair value recognised in the income statement as they arise.



# Notes on the Financial Statements (Continued)

For the year ended 31 December 2003  
(Prepared in accordance with International Financial Reporting Standards)  
(Expressed in Renminbi)

## 2 Significant accounting policies (continued)

### (d) Property, plant and equipment

- (i) Property, plant and equipment are stated at cost or valuation (note 12) less accumulated depreciation (see below) and impairment losses (note 2(s)). The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to working condition and location for its intended use. Expenditure incurred after the asset has been put into operation is capitalised only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is charged to the income statement in the period in which it is incurred.
- (ii) Gains or losses arising from the retirement or disposal of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised as income or expense in the income statement on the date of retirement or disposal.
- (iii) Depreciation is provided to write off the cost or valuation where appropriate of each asset over its estimated useful life on a straight-line basis, after taking into account its estimated residual value, 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 represents buildings, various plant and equipment under construction and pending installation, and is stated at cost less impairment losses (note 2(s)).

Cost comprises direct costs of construction as well as interest charges, and foreign exchange differences on related borrowed funds to the extent that they are regarded as an adjustment to interest charges, during the construction period.

Capitalisation of the above costs ceases and the construction in progress is transferred to property, plant and equipment when the asset is substantially ready for its intended use.

No depreciation is provided in respect of construction in progress.

### (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 (see below) and impairment losses (note 2(s)).

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

### (g) Intangible assets

Intangible assets are stated at cost less accumulated amortisation (see below) and impairment losses (note 2(s)). Amortisation is provided on a straight-line basis over the estimated useful life of the asset.

### (h) Investments

Investments in unlisted equity securities are stated at cost less impairment losses (note 2(s)).

### (i) Cash and cash equivalents

Cash and cash equivalents consist of cash in hand and balances with banks and other non-bank financial institutions with an original maturity within three months. Cash equivalents are stated at cost, which approximates fair value.

### (j) Inventories

Inventories, other than spare parts and consumables, are carried at the lower of cost and net realisable value. Cost includes the cost of purchase computed using the weighted average method and, in the case of work in progress and finished goods, direct labour and an appropriate proportion of production overheads based on normal operating capacity. 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, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

Spare parts and consumables are included in raw materials and stated at cost less any provision for obsolescence.

### (k) Trade and other receivables

Trade and other receivables are stated at cost less allowance for doubtful debts. An allowance for doubtful accounts is provided based upon the evaluation of the recoverability of these accounts at the balance sheet date.

### (l) Trade and other payables

Trade and other payables are stated at cost.

### (m) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group 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. When 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.

# Notes on the Financial Statements (Continued)

For the year ended 31 December 2003  
(Prepared in accordance with International Financial Reporting Standards)  
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## 2 Significant accounting policies (continued)

### (n) Revenue recognition

Revenue associated with the sales of goods is recognised when the customer accepts the goods and the significant risks and rewards of ownership and title have been transferred to the buyer and no significant uncertainties remain regarding recovery of the consideration due, associated costs or the possible return of goods.

Interest and dividends arising from the use by others of the Group's resources are recognised when it is probable that the economic benefits associated with the transaction will flow to the Group and the revenue can be measured reliably. Interest income is accrued on a time-apportioned basis on the principal outstanding and at the rate applicable unless collectibility is in doubt. Dividend income is recognised when the shareholder's right to receive payment is established.

### (o) Translation of foreign currencies

Foreign currency transactions 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. Foreign currency exchange differences are dealt with in the income statement other than those eligible for capitalisation as construction in progress (note 2(e)).

### (p) Repairs and maintenance expenses

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

### (q) Research and development expenses

Research and development expenses are recognised as expenses in the period in which they are incurred.

### (r) Retirement benefits

The contributions payable under the Group's retirement plans are recognised as an expense in the income statement according to the contribution determined by the plans. Further information is set out in note 34.

### (s) Impairment

The carrying amounts of the Group's assets, other than trade and other receivables (note 2(k)), inventories (note 2(j)) and deferred tax assets (note 2(u)), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. For intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

#### (i) Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing the 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 the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

#### (ii) 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.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

### (t) Borrowing costs

Borrowing costs are expensed in the income statement in the period in which they are incurred, except to the extent that they are capitalised as being attributable to the construction of an asset which necessarily takes a period of time to get ready for its intended use.

### (u) Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is 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 is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

The tax value of losses expected to be available for utilisation against future taxable income is set off against the deferred tax liability within the same legal tax unit and jurisdiction to the extent appropriate, and is not available for set-off against the taxable profit of another legal tax unit.

### (v) Related parties

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or entities.

# Notes on the Financial Statements (Continued)

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## 3 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 are almost entirely situated in the PRC and accordingly, no information on segment assets is provided.

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

|   | China   |          | Asia    |         | America |         | Oceania |         | Others  |         | Consolidated |           |
|---|---------|----------|---------|---------|---------|---------|---------|---------|---------|---------|--------------|-----------|
|   | 2003    | 2002     | 2003    | 2002    | 2003    | 2002    | 2003    | 2002    | 2003    | 2002    | 2003         | 2002      |
|   | 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  | 846,697 | 745,176  | 75,495  | 55,502  | 27,748  | 11,133  | 19,129  | 7,137   | 6,747   | 3,856   | 975,816      | 822,804   |
| Segment results                                     | 86,756  | (16,654) | 5,502   | 3,898   | 2,023   | 782     | 1,394   | 502     | 492     | 271     | 96,167       | (11,201)  |
| Unallocated expenses                                |         |          |         |         |         |         |         |         |         |         | (356,532)    | (331,261) |
| Loss from operations                                |         |          |         |         |         |         |         |         |         |         | (260,365)    | (342,462) |
| Net financing costs                                 |         |          |         |         |         |         |         |         |         |         | (41,898)     | (46,454)  |
| Investment loss                                     |         |          |         |         |         |         |         |         |         |         | (6,525)      | (7,984)   |
| Share of net (losses)/gains of associated companies |         |          |         |         |         |         |         |         |         |         | (28,817)     | 9,030     |
| Income tax expense                                  |         |          |         |         |         |         |         |         |         |         | (2,172)      | (200)     |
| Minority interests                                  |         |          |         |         |         |         |         |         |         |         | (244)        | 45,621    |
| Loss attributable to shareholders                   |         |          |         |         |         |         |         |         |         |         | (340,021)    | (342,449) |

## 4 Turnover

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

## 5 Other operating income

|                             | 2003<br>Rmb'000 | 2002<br>Rmb'000 |
|-----------------------------|-----------------|-----------------|
| Write-off of other payables | 6,839           | —               |
| Rack deposits forfeited     | —               | 2,485           |
| Others                      | 2,570           | 3,379           |
|                             | 9,409           | 5,864           |

## 6 Other operating expenses

|   | 2003<br>Rmb'000 | 2002<br>Rmb'000 |
|---|-----------------|-----------------|
| Loss on disposal of property, plant and equipment | (7,028)         | (46,064)        |
| Impairment loss on property, plant and equipment  | —               | (11,269)        |
| Others  | (2,877)         | (2,164)         |
|   | (9,905)         | (59,497)        |

## 7 Loss from ordinary activities before taxation

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

|  | 2003<br>Rmb'000 | 2002<br>Rmb'000 |
|--|-----------------|-----------------|
| (a) Net financing costs:   |                 |                 |
| Interest on bank loans and other borrowings repayable within five years        | (58,920)        | (62,305)        |
| Interest income  | 20,485          | 19,732          |
| Net foreign exchange loss  | (1,684)         | (1,252)         |
| Bank charges   | (1,779)         | (2,629)         |
|  | (41,898)        | (46,454)        |
| (b) Investment loss:   |                 |                 |
| Provision for diminution in value of unlisted investments                      | (6,044)         | (10,838)        |
| Dividend received  | 3,300           | 2,854           |
| Share of accumulated losses from newly consolidated subsidiaries (note 16(iv)) | (3,781)         | —               |
|  | (6,525)         | (7,984)         |

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## 7 Loss from ordinary activities before taxation (continued)

|   | 2003<br>Rmb'000 | 2002<br>Rmb'000 |
|---|-----------------|-----------------|
| (c) Personnel expenses:                             |                 |                 |
| Wages and salaries #                                | (58,661)        | (58,620)        |
| Retirement benefit costs #                          | (14,665)        | (15,953)        |
|   | <b>(73,326)</b> | <b>(74,573)</b> |
| (d) Other items:                                    |                 |                 |
| Cost of inventories #                               | (840,202)       | (797,006)       |
| Depreciation #                                      | (78,540)        | (81,341)        |
| Provision for amounts due from associated companies | (38,730)        | (32,747)        |
| Provision for other bad and doubtful debts          | (234,070)       | (94,806)        |
| Auditors' remuneration                              | (2,200)         | (2,200)         |
| Research and development expenses                   | (5,330)         | (4,183)         |
| Amortisation of intangible assets                   | (372)           | (372)           |
| Amortisation of lease prepayments                   | (1,390)         | (867)           |

The number of employees at 31 December 2003 was 5,358 (2002: 5,681).

# Cost of inventories includes personnel expenses and depreciation, the amounts of which are also included in the respective total amounts disclosed separately above for each of these types of expenses.

## 8 Directors' and supervisors' remuneration

Directors' remuneration is as follows:

|                                 | 2003<br>Rmb'000 | 2002<br>Rmb'000 |
|---------------------------------|-----------------|-----------------|
| Salaries and other emoluments   | 242             | 150             |
| Retirement scheme contributions | 2               | 10              |
|                                 | <b>244</b>      | <b>160</b>      |

Supervisors' remuneration is as follows:

|                                 | 2003<br>Rmb'000 | 2002<br>Rmb'000 |
|---------------------------------|-----------------|-----------------|
| Salaries and other emoluments   | 46              | 29              |
| Retirement scheme contributions | 2               | 2               |
|                                 | <b>48</b>       | <b>31</b>       |

Included in the directors' and supervisors' remuneration were fees of Rmb92,000 paid to independent non-executive directors and supervisors for the year ended 31 December 2003 (2002: Rmb Nil).

The five highest paid individuals in the Group were all directors and supervisors, the remuneration of the directors and supervisors is within the following band:

| Hong Kong dollars | No. of directors<br>and supervisors |      |
|-------------------|-------------------------------------|------|
|                   | 2003                                | 2002 |
| 0 - HK\$1,000,000 | 16                                  | 14   |

## 9 Income tax

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

|   | 2003<br>Rmb'000 | 2002<br>Rmb'000 |
|---|-----------------|-----------------|
| Provision for current year                | 1,430           | —               |
| Under-provision in respect of prior years | 742             | 200             |
|   | <b>2,172</b>    | <b>200</b>      |

Provision for PRC income tax has been made as certain subsidiaries of the Group have made profits for taxation purposes during the year ended 31 December 2003. The provision for PRC income tax is calculated at 33% of the estimated assessable profits in accordance with the relevant income tax rules and regulations of the PRC, except for a subsidiary of the Company, which is taxed at a preferential rate of 15%.

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

# Notes on the Financial Statements (Continued)

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## 9 Income tax (continued)

### (a) Income tax expense in the consolidated income statement represents: (continued)

The reconciliation of income tax calculated at the Company's applicable tax rate with actual expense for the year is as follows:

|   | 2003<br>Rmb'000 | 2002<br>Rmb'000 |
|---|-----------------|-----------------|
| Loss from ordinary activities before taxation               | (337,605)       | (387,870)       |
| Expected PRC income tax using the Company's tax rate of 33% | (111,409)       | (127,997)       |
| Non-deductible expenses                                     | 14,664          | 7,528           |
| Tax exempt revenue  | (2,376)         | (1,208)         |
| Differential tax rate on a subsidiary's profit              | (52)            | —               |
| Tax losses not recognised for deferred tax                  | 100,603         | 121,677         |
| Under-provision in respect of prior years                   | 742             | 200             |
|   | 2,172           | 200             |

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

|                   | 2003<br>Rmb'000 | 2002<br>Rmb'000 |
|-------------------|-----------------|-----------------|
| Tax losses        | 270,537         | 182,091         |
| Lease prepayments | 28,526          | 29,218          |
|                   | 299,063         | 211,309         |

The deferred tax asset has 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 five years from the year in which the loss was originated to offset against future taxable profits. The above tax losses are yet to be confirmed by the relevant tax authorities.

## 10 Loss attributable to shareholders

The loss attributable to shareholders includes a loss of Rmb323,820,000 (2002: Rmb405,418,000) which has been dealt with in the financial statements of the Company.

## 11 Basic loss per share

The calculation of basic loss per share is based on the loss attributable to shareholders of Rmb340,021,000 (2002: Rmb342,449,000) and 700,000,000 (2002: 700,000,000) shares in issue during the year.

No diluted loss per share is calculated as there are no dilutive potential shares for the two years ended 31 December 2003.

## 12 Property, plant and equipment

### The Group

|   | Buildings<br>Rmb'000 | Plant,<br>machinery<br>and<br>equipment<br>Rmb'000 | Motor<br>vehicles<br>Rmb'000 | Total<br>Rmb'000 |
|---|----------------------|--|------------------------------|------------------|
| <b>Cost or valuation:</b>                               |                      |  |                              |                  |
| At 1 January 2003                                       | 409,475              | 1,003,655  | 14,270                       | 1,427,400        |
| Additions:  |                      |  |                              |                  |
| - in respect of newly consolidated subsidiaries         | 27,588               | 21,592   | 5,859                        | 55,039           |
| - others  | 8,257                | 8,412  | 4,112                        | 20,781           |
| Reclassification  | 7,095                | (7,095)  | —                            | —                |
| Transfer from construction in progress (note 13)        | 7,284                | 30,591   | —                            | 37,875           |
| Disposals   | (3,798)              | (15,437)   | (2,177)                      | (21,412)         |
| At 31 December 2003                                     | 455,901              | 1,041,718  | 22,064                       | 1,519,683        |
| <b>Representing:</b>                                    |                      |  |                              |                  |
| Cost  | 348,810              | 736,463  | 22,064                       | 1,107,337        |
| Valuation -1994   | 107,091              | 305,255  | —                            | 412,346          |
|   | 455,901              | 1,041,718  | 22,064                       | 1,519,683        |
| <b>Accumulated depreciation and impairment:</b>         |                      |  |                              |                  |
| At 1 January 2003                                       | 90,925               | 398,320  | 10,481                       | 499,726          |
| Additions in respect of newly consolidated subsidiaries | 2,788                | 4,268  | 2,010                        | 9,066            |
| Charge for the year                                     | 12,934               | 64,223   | 1,383                        | 78,540           |
| Reclassification  | (505)                | 505  | —                            | —                |
| Written back on disposal                                | (791)                | (4,229)  | (857)                        | (5,877)          |
| At 31 December 2003                                     | 105,351              | 463,087  | 13,017                       | 581,455          |
| <b>Net book value:</b>                                  |                      |  |                              |                  |
| At 31 December 2003                                     | 350,550              | 578,631  | 9,047                        | 938,228          |
| At 31 December 2002                                     | 318,550              | 605,335  | 3,789                        | 927,674          |

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## 12 Property, plant and equipment (continued)

### The Company

|   | Buildings<br><i>Rmb'000</i> | Plant,<br>machinery<br>and<br>equipment<br><i>Rmb'000</i> | Motor<br>vehicles<br><i>Rmb'000</i> | Total<br><i>Rmb'000</i> |
|---|-----------------------------|---|-------------------------------------|-------------------------|
| <b>Cost or valuation:</b>                           |                             |   |                                     |                         |
| At 1 January 2003                                   | 218,577                     | 632,667   | 3,747                               | 854,991                 |
| Additions   | 889                         | 557   | 3,057                               | 4,503                   |
| Transfer from construction<br>in progress (note 13) | 5,388                       | 4,251   | —                                   | 9,639                   |
| Disposals   | (1,045)                     | (4,009)   | (1,793)                             | (6,847)                 |
| At 31 December 2003                                 | 223,809                     | 633,466   | 5,011                               | 862,286                 |
| <b>Representing:</b>                                |                             |   |                                     |                         |
| Cost  | 116,718                     | 328,211   | 5,011                               | 449,940                 |
| Valuation - 1994                                    | 107,091                     | 305,255   | —                                   | 412,346                 |
|   | 223,809                     | 633,466   | 5,011                               | 862,286                 |
| <b>Accumulated depreciation and impairment:</b>     |                             |   |                                     |                         |
| At 1 January 2003                                   | 59,914                      | 315,160   | 2,178                               | 377,252                 |
| Charge for the year                                 | 5,919                       | 38,020  | 409                                 | 44,348                  |
| Written back on disposal                            | (537)                       | (1,675)   | (688)                               | (2,900)                 |
| At 31 December 2003                                 | 65,296                      | 351,505   | 1,899                               | 418,700                 |
| <b>Net book value:</b>                              |                             |   |                                     |                         |
| At 31 December 2003                                 | 158,513                     | 281,961   | 3,112                               | 443,586                 |
| At 31 December 2002                                 | 158,663                     | 317,507   | 1,569                               | 477,739                 |

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

(b) The Company was established in the PRC on 6 April 1994 as a joint stock limited company as part of the restructuring of China Luoyang Float Glass Group Company of Limited Liability ("CLFG"). On the same date, the principal business undertakings and subsidiaries of CLFG together with the relevant assets and liabilities were taken over by the Company. As required by the relevant PRC Rules and Regulations with respect to the reorganisation, the property, plant and equipment, including the land use rights of the Group at 26 April 1994 were valued for each asset class by independent valuers registered in the PRC, Zhong Zhou Certified Public Accountants and reflected in the financial statements on this basis. This valuation was an one-off exercise which established the deemed cost of the property, plant and equipment taken over by the company.

## 13 Construction in progress

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

### The Group

|   | 2003<br><i>Rmb'000</i> | 2002<br><i>Rmb'000</i> |
|---|------------------------|------------------------|
| At 1 January  | 8,682                  | 14,758                 |
| Additions:  |                        |                        |
| - in respect of newly consolidated subsidiaries     | 1,117                  | —                      |
| - others  | 32,611                 | 10,031                 |
|   | 42,410                 | 24,789                 |
| Transfer to property, plant and equipment (note 12) | (37,875)               | (16,107)               |
| At 31 December                                      | 4,535                  | 8,682                  |

### The Company

|   | 2003<br><i>Rmb'000</i> | 2002<br><i>Rmb'000</i> |
|---|------------------------|------------------------|
| At 1 January  | 6,468                  | 13,633                 |
| Additions for the year                              | 5,920                  | 3,233                  |
|   | 12,388                 | 16,866                 |
| Transfer to property, plant and equipment (note 12) | (9,639)                | (10,398)               |
| At 31 December                                      | 2,749                  | 6,468                  |

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## 14 Intangible asset

### The Group

|                                  | 2003<br>Rmb'000 | 2002<br>Rmb'000 |
|----------------------------------|-----------------|-----------------|
| <b>Cost:</b>                     |                 |                 |
| At 1 January and 31 December     | 7,400           | 7,400           |
| <b>Accumulated amortisation:</b> |                 |                 |
| At 1 January                     | 651             | 279             |
| Charge for the year              | 372             | 372             |
| At 31 December                   | 1,023           | 651             |
| <b>Net book value:</b>           |                 |                 |
| At 31 December                   | 6,377           | 6,749           |

The intangible asset represents a trademark obtained by a subsidiary. The trademark is amortised on a straight-line basis over 20 years.

## 15 Lease prepayments

Lease prepayments represent the land use rights on land located in the PRC. The remaining periods of the land use rights are from 18 to 50 years. The certificate of land use rights amounted to Rmb34,720,000 is in the process of application.

## 16 Interest in subsidiaries

### The Company

|                                   | 2003<br>Rmb'000 | 2002<br>Rmb'000 |
|-----------------------------------|-----------------|-----------------|
| Unlisted equity interest, at cost | 202,006         | 166,846         |
| Amounts due from subsidiaries     | 205,163         | 171,450         |
|                                   | 407,169         | 338,296         |
| Less: impairment loss             | (134,525)       | (123,688)       |
|                                   | 272,644         | 214,608         |

Details of the Company's principal subsidiaries at 31 December 2003, all of which are incorporated and operated in the PRC, are set out below:

| Name of company                                   | Registered capital | Direct attributable equity interest | Principal activities             | Note        |
|---|--------------------|-------------------------------------|----------------------------------|-------------|
| Luobo Group Longmen Glass Company                 | Rmb20,000,000      | 79.06%                              | Manufacture of float sheet glass | (i)         |
| Chenzhou Bada Glass Co. Ltd. ("Bada")             | Rmb150,000,000     | 52.25%                              | Manufacture of float sheet glass | (ii)        |
| CLFG Yang Shao Glass Co. Ltd.                     | Rmb74,080,000      | 54.00%                              | Manufacture of float sheet glass | (iii)       |
| Xiangfang Luoshen Auto Glass Co. Ltd. ("Luoshen") | Rmb30,000,000      | 66.67%                              | Manufacture of auto glass        | (iii), (iv) |
| Yinan Mineral Products Co. Ltd. ("Yinan")         | Rmb28,000,000      | 52.00%                              | Exploration of minerals          | (iii), (iv) |
| Shenzhen Luobo Trading Co. Ltd.                   | Rmb1,000,000       | 60.00%                              | Selling of float sheet glass     | (iii), (v)  |

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## 16 Interest in subsidiaries (continued)

Notes:

- (i) This subsidiary is a collective joint enterprise.
- (ii) This subsidiary is a joint stock limited liability company.

Bada originally had a loan of Rmb84,800,000 due to China Hua Rong Assets Management Company ("Hua Rong"). During 2001, Bada, Hua Rong and the Company entered into an agreement under which Rmb30,000,000 out of the total amount due to Hua Rong mentioned above was converted to equity; consequently, the registered capital of Bada increased from Rmb120,000,000 to Rmb150,000,000.

According to the agreement, the equity interest held by Hua Rong will be required to be redeemed in full by instalments from 2002 to 2008 and Hua Rong will not share any profit or loss of Bada. In accordance with IAS 32, the equity interest held by Hua Rong has been classified as a long-term loan (note 26).

- (iii) These subsidiaries are limited liability companies.
- (iv) In prior years, the results of these two subsidiaries were not consolidated as the directors consider that the operations of these subsidiaries were immaterial to the Group. Commencing from 1 January 2003, the results of these subsidiaries are consolidated into the Group's financial statements. The Group's share of the subsidiaries' accumulated post-acquisition losses have been recognised in the current year's consolidated income statement.
- (v) This subsidiary was newly set up in 2003.

## 17 Interest in associated companies

|                                       | The Group |          | The Company |          |
|---------------------------------------|-----------|----------|-------------|----------|
|                                       | 2003      | 2002     | 2003        | 2002     |
|                                       | Rmb'000   | Rmb'000  | Rmb'000     | Rmb'000  |
| Unlisted equity interest, at cost     | —         | —        | 220,649     | 220,649  |
| Share of net assets                   | 174,659   | 203,476  | —           | —        |
|                                       | 174,659   | 203,476  | 220,649     | 220,649  |
| Amounts due from associated companies | 83,661    | 83,503   | 83,725      | 85,080   |
|                                       | 258,320   | 286,979  | 304,374     | 305,729  |
| Less: impairment loss                 | (71,477)  | (32,747) | (116,435)   | (48,887) |
|                                       | 186,843   | 254,232  | 187,939     | 256,842  |

Details of the associated companies, which are incorporated and operated in the PRC, are as follows:

| Name of company   | Form of business structure            | Registered capital<br>Rmb'000 | Direct attributable equity interest | Principal activities                                    |
|---|---------------------------------------|-------------------------------|-------------------------------------|---|
| Luoyang Jingxin Ceramic Co. Ltd ("Jingxin")                                       | Sino-foreign equity joint venture     | 41,945                        | 49.00%                              | Manufacture of ceramic wall tiles                       |
| China Luoyang Float Glass Group Financial Company of Limited Liabilities ("CLFC") | Limited liability company             | 300,000                       | 37.00%                              | Provision of financial services                         |
| China Luoyang Float Glass (Group) Processed Glass Company Limited ("CPGC")        | Joint stock limited liability company | 181,496                       | 49.09%                              | Production and sale of vehicle safety reprocessed glass |

The associated companies are subsidiaries of the ultimate holding company. Included in the amounts due from associated companies are Rmb34,300,000 receivable from Jingxin. Based on the assessment of recent development of Jingxin, the directors have made full provision for the amount due. The remaining amounts are unsecured, interest-free and have no fixed terms of repayment.



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## 18 Investments

### The Group

|                               | 2003<br>Rmb'000 | 2002<br>Rmb'000 |
|-------------------------------|-----------------|-----------------|
| Unlisted investments, at cost | 68,957          | 102,965         |
| Less: impairment loss         | (33,218)        | (26,986)        |
|                               | <b>35,739</b>   | <b>75,979</b>   |

### The Company

|                               | 2003<br>Rmb'000 | 2002<br>Rmb'000 |
|-------------------------------|-----------------|-----------------|
| Unlisted investments, at cost | 62,067          | 96,627          |
| Less: impairment loss         | (26,880)        | (20,648)        |
|                               | <b>35,187</b>   | <b>75,979</b>   |

Unlisted investment includes a non-consolidated subsidiary that does not significantly affect the results or assets of the Group and, therefore, it is not consolidated or equity accounted for.

## 19 Other receivables

|   | The Group       |                 | The Company     |                 |
|---|-----------------|-----------------|-----------------|-----------------|
|   | 2003<br>Rmb'000 | 2002<br>Rmb'000 | 2003<br>Rmb'000 | 2002<br>Rmb'000 |
| <b>Non-current assets</b>                           |                 |                 |                 |                 |
| Amount due from a fellow subsidiary                 | —               | 346,195         | —               | 346,195         |
| Advance payments, other receivables and prepayments | 19,186          | 51,310          | 19,186          | 51,310          |
|   | <b>19,186</b>   | <b>397,505</b>  | <b>19,186</b>   | <b>397,505</b>  |
|   |                 |                 |                 |                 |
|   | The Group       |                 | The Company     |                 |
|   | 2003<br>Rmb'000 | 2002<br>Rmb'000 | 2003<br>Rmb'000 | 2002<br>Rmb'000 |
| <b>Current assets</b>                               |                 |                 |                 |                 |
| Amounts due from ultimate holding company           | 146,359         | 129,118         | 138,715         | 123,220         |
| Amounts due from fellow subsidiaries                | 485,813         | 179,920         | 483,521         | 175,258         |
| Advance payments, other receivables and prepayments | 146,342         | 181,071         | 102,236         | 138,457         |
|   | <b>778,514</b>  | <b>490,109</b>  | <b>724,472</b>  | <b>436,935</b>  |
| Provision for bad and doubtful debts                | (300,486)       | (96,625)        | (284,946)       | (84,034)        |
|   | <b>478,028</b>  | <b>393,484</b>  | <b>439,526</b>  | <b>352,901</b>  |

The amount due from Qingdao Taiyang Glass Industries Company Limited ("Taiyang"), a fellow subsidiary, of Rmb314,608,000 (2002: Rmb314,608,000) and related interest receivable of Rmb45,008,000 (2002: Rmb31,587,000) are secured by a specific charge on Taiyang's property, plant and equipment. The balance is charged at the prevailing market interest rate. The directors have assessed the recoverability of the debts and have made a provision of Rmb229,763,000 against the receivables. The balance has been reclassified from non-current to current as the directors consider that the recoverable amount will be settled in 2004.

The amounts due from the ultimate holding company and other fellow subsidiaries are unsecured, interest-free and have no fixed terms of repayments.

## 20 Inventories

|                       | The Group       |                 | The Company     |                 |
|-----------------------|-----------------|-----------------|-----------------|-----------------|
|                       | 2003<br>Rmb'000 | 2002<br>Rmb'000 | 2003<br>Rmb'000 | 2002<br>Rmb'000 |
| Raw materials         | 153,612         | 138,178         | 88,364          | 89,831          |
| Work in progress      | 11,249          | 11,715          | 4,109           | 3,516           |
| Finished goods        | 34,129          | 66,637          | 19,683          | 51,650          |
|                       | <b>198,990</b>  | <b>216,530</b>  | <b>112,156</b>  | <b>144,997</b>  |
| Less: impairment loss | (14,038)        | (14,835)        | (13,090)        | (14,835)        |
|                       | <b>184,952</b>  | <b>201,695</b>  | <b>99,066</b>   | <b>130,162</b>  |

At 31 December 2003, the carrying amount of the Group's and the Company's inventories carried at net realisable value amounted to Rmb2,999,000 (2002: Rmb2,959,000).

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## 21 Trade receivables

|                                    | The Group |           | The Company |           |
|------------------------------------|-----------|-----------|-------------|-----------|
|                                    | 2003      | 2002      | 2003        | 2002      |
|                                    | Rmb'000   | Rmb'000   | Rmb'000     | Rmb'000   |
| Trade receivables                  |           |           |             |           |
| - third parties                    | 78,259    | 98,040    | 55,687      | 75,629    |
| - ultimate holding company         | 84,786    | 84,994    | 84,723      | 84,959    |
| - fellow subsidiaries              | 9,987     | 11,865    | 3,707       | 11,853    |
|                                    | 173,032   | 194,899   | 144,117     | 172,441   |
| Less: allowance for doubtful debts | (138,830) | (112,468) | (129,755)   | (103,711) |
|                                    | 34,202    | 82,431    | 14,362      | 68,730    |
| Bills receivable                   | 45,465    | 43,885    | 37,373      | 40,081    |
|                                    | 79,667    | 126,316   | 51,735      | 108,811   |

The ageing analysis of trade receivables, after allowance for doubtful debts, is as follows:

|                             | The Group |         | The Company |         |
|-----------------------------|-----------|---------|-------------|---------|
|                             | 2003      | 2002    | 2003        | 2002    |
|                             | Rmb'000   | Rmb'000 | Rmb'000     | Rmb'000 |
| Within one year             | 73,140    | 95,644  | 47,991      | 80,376  |
| Between one and two years   | 2,225     | 4,170   | 1,308       | 5,830   |
| Between two and three years | 4,302     | 26,502  | 2,436       | 22,605  |
|                             | 79,667    | 126,316 | 51,735      | 108,811 |

Debts are normally due within 60 to 90 days from the date of billing. The ageing analysis above is prepared in accordance with invoice dates.

## 22 Deposits with banks and non-bank financial institutions

At 31 December 2003, time deposits with banks and non-bank financial institutions amounted to Rmb90,000,000 (2002: Rmb90,000,000) have been pledged to secure loans granted to the Company (note 26).

## 23 Cash and cash equivalents

|   | The Group |         | The Company |         |
|---|-----------|---------|-------------|---------|
|   | 2003      | 2002    | 2003        | 2002    |
|   | Rmb'000   | Rmb'000 | Rmb'000     | Rmb'000 |
| Cash in hand  | 715       | 133     | 38          | 65      |
| Deposits with banks and non-bank financial institutions with an original maturity within three months | 81,564    | 152,421 | 57,438      | 135,684 |
| Cash and cash equivalents   | 82,279    | 152,554 | 57,476      | 135,749 |

At 31 December 2003, deposits with banks and non-bank financial institutions with an original maturity within three months of the Group amounted to Rmb15,899,000 (2002: Rmb63,379,000) have been pledged to secure bills payable of the Group (note 25).

At 31 December 2003, deposits with banks and non-bank financial institutions with an original maturity within three months of the Company amounted to Rmb12,186,000 (2002: Rmb61,179,000) have been pledged to secure bills payable of the Company (note 25).

## 24 Deposits with non-bank financial institution

The balances at 31 December 2003 represent the overdue time deposits at Guangzhou International Trust & Investment Corporation ("GZITIC"), after a 75% provision made. GZITIC is in the process of corporate restructuring. Based on the assessment of recent development, the directors are of the opinion that a 75% provision is adequate. No interest has been accrued in respect of the deposits.

## 25 Trade payables

|                       | The Group |         | The Company |         |
|-----------------------|-----------|---------|-------------|---------|
|                       | 2003      | 2002    | 2003        | 2002    |
|                       | Rmb'000   | Rmb'000 | Rmb'000     | Rmb'000 |
| Trade payables        |           |         |             |         |
| - third parties       | 114,633   | 98,543  | 38,822      | 50,457  |
| - fellow subsidiaries | 3,108     | 6,779   | 2,858       | 4,081   |
|                       | 117,741   | 105,322 | 41,680      | 54,538  |
| Bills payable         | 56,653    | 135,270 | 49,153      | 123,870 |
|                       | 174,394   | 240,592 | 90,833      | 178,408 |

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## 25 Trade payables (continued)

The ageing analysis of trade payables is as follows:

|  | The Group      |                | The Company   |                |
|--|----------------|----------------|---------------|----------------|
|  | 2003           | 2002           | 2003          | 2002           |
|  | Rmb'000        | Rmb'000        | Rmb'000       | Rmb'000        |
| Due within 1 month or on demand        | 174,394        | 100,770        | 90,833        | 54,538         |
| Due after 1 month but within 3 months  | —              | 4,969          | —             | 2,000          |
| Due after 3 months but within 6 months | —              | 134,853        | —             | 121,870        |
|  | <b>174,394</b> | <b>240,592</b> | <b>90,833</b> | <b>178,408</b> |

## 26 Bank and other loans

|  | The Group        |                  | The Company      |                  |
|--|------------------|------------------|------------------|------------------|
|  | 2003             | 2002             | 2003             | 2002             |
|  | Rmb'000          | Rmb'000          | Rmb'000          | Rmb'000          |
| Loans from banks                           | 577,320          | 675,833          | 577,320          | 675,833          |
| Loans from the ultimate holding company    | 241,380          | 264,730          | 241,380          | 264,730          |
| Loans from an associated company           | 118,000          | 93,000           | 118,000          | 93,000           |
| Loans from non-bank financial institutions | 74,820           | 75,820           | 74,820           | 75,820           |
|  | <b>1,011,520</b> | <b>1,109,383</b> | <b>1,011,520</b> | <b>1,109,383</b> |
|  |                  |                  |                  |                  |
|  | The Group        |                  | The Company      |                  |
|  | 2003             | 2002             | 2003             | 2002             |
|  | Rmb'000          | Rmb'000          | Rmb'000          | Rmb'000          |
| Loans from banks                           | 562,842          | 646,833          | 562,842          | 646,833          |
| Loans from the ultimate holding company    | 139,560          | 159,630          | 139,560          | 159,630          |
| Loans from an associated company           | 84,000           | 64,000           | 84,000           | 64,000           |
|  | <b>786,402</b>   | <b>870,463</b>   | <b>786,402</b>   | <b>870,463</b>   |

Included in loans from banks of the Company are loans amounting to Rmb90,000,000 (2002: Rmb90,000,000) which are secured by time deposits of the same amount (note 22). The remaining balances are unsecured and carry interest at the prevailing market rates.

Included in loans from non-bank financial institutions of one of the subsidiaries of Rmb10,960,000 has become overdue for payment.

The bank and other loans are repayable as follows:

|                                      | The Group        |                  | The Company    |                |
|--------------------------------------|------------------|------------------|----------------|----------------|
|                                      | 2003             | 2002             | 2003           | 2002           |
|                                      | Rmb'000          | Rmb'000          | Rmb'000        | Rmb'000        |
| Within one year                      |                  |                  |                |                |
| - Short-term loans                   | 846,910          | 893,780          | 709,630        | 774,700        |
| - Current portion of long-term loans | 46,341           | 74,449           | 20,620         | 20,469         |
|                                      | <b>893,251</b>   | <b>968,229</b>   | <b>730,250</b> | <b>795,169</b> |
| Between one and two years            | 40,076           | 29,449           | 20,620         | 20,469         |
| Between two and five years           | 73,069           | 85,997           | 30,408         | 49,337         |
| After five years                     | 5,124            | 25,708           | 5,124          | 5,488          |
|                                      | <b>118,269</b>   | <b>141,154</b>   | <b>56,152</b>  | <b>75,294</b>  |
|                                      | <b>1,011,520</b> | <b>1,109,383</b> | <b>786,402</b> | <b>870,463</b> |

# Notes on the Financial Statements (Continued)

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## 26 Bank and other loans (continued)

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

| Repayment terms and last payment date                      | Interest rate | Interest type | The Group       |                 | The Company     |                 |
|--|---------------|---------------|-----------------|-----------------|-----------------|-----------------|
|  |               |               | 2003<br>Rmb'000 | 2002<br>Rmb'000 | 2003<br>Rmb'000 | 2002<br>Rmb'000 |
| Bank loans   |               |               |                 |                 |                 |                 |
| Due in 2004  | 7.14%         | Fixed         | 241             | —               | —               | —               |
| Due in 2005  | 7.14%         | Fixed         | 237             | —               | —               | —               |
| Euro denominated:  |               |               |                 |                 |                 |                 |
| Payable semi-annually in 2004                              | 2.5% (note)   | Floating      | 620             | 469             | 620             | 469             |
| Payable semi-annually from 2005 through 2019               | 2.5% (note)   | Floating      | 8,222           | 7,364           | 8,222           | 7,364           |
|  |               |               | 9,320           | 7,833           | 8,842           | 7,833           |
| Loans from an associated company                           |               |               |                 |                 |                 |                 |
| Due in 2003  | 6.039%-6.53%  | Fixed         | —               | 14,000          | —               | —               |
| Due in 2004  | 6.04%-6.534%  | Fixed         | 14,000          | 2,000           | —               | —               |
| Due in 2005  | 5.49%         | Fixed         | 5,000           | —               | —               | —               |
|  |               |               | 19,000          | 16,000          | —               | —               |
| Loans from the ultimate holding company                    |               |               |                 |                 |                 |                 |
| Due in 2003  | 6.03%         | Fixed         | —               | 50,000          | —               | 20,000          |
| Due in 2004  | 6.03%         | Fixed         | 20,000          | 20,000          | 20,000          | 20,000          |
| Due in 2005  | 6.03%         | Fixed         | 20,000          | 20,000          | 20,000          | 20,000          |
| Due in 2006  | 6.03%         | Fixed         | 27,930          | 27,930          | 27,930          | 27,930          |
|  |               |               | 67,930          | 117,930         | 67,930          | 87,930          |
| Loans from non-bank financial institutions                 |               |               |                 |                 |                 |                 |
| Due in 2003  | 2.26%         | Fixed         | —               | 5,480           | —               | —               |
| Due in 2004  | 2.26%         | Fixed         | 5,480           | 5,480           | —               | —               |
| Due in 2005  | 2.26%         | Fixed         | 8,220           | 8,220           | —               | —               |
| Due in 2006  | 2.26%         | Fixed         | 8,220           | 8,220           | —               | —               |
| Due in 2007  | 2.26%         | Fixed         | 8,220           | 8,220           | —               | —               |
| Due in 2008  | 2.26%         | Fixed         | 8,220           | 8,220           | —               | —               |
| Payable semi-annually from 2004 through 2008 (note 16(ii)) | —             | —             | 30,000          | 30,000          | —               | —               |
|  |               |               | 68,360          | 73,840          | —               | —               |
| Less: Current portion repayable within one year            |               |               | (46,341)        | (74,449)        | (20,620)        | (20,469)        |
| Long-term portion of long-term loans                       |               |               | 118,269         | 141,154         | 56,152          | 75,294          |

Note: The interest rate fluctuates based on the prevailing interest rate of the Organisation for Economic Co-operation and Development.

### Short-term loans

The weighted average interest rates on short-term loans for the Group and the Company were 5.40% and 5.33% per annum respectively (2002: 5.46% and 5.38% per annum respectively).

## 27 Share capital

|   | 2003<br>Rmb'000 | 2002<br>Rmb'000 |
|---|-----------------|-----------------|
| Registered, issued and paid up capital:                   |                 |                 |
| 400,000,000 domestic state-owned A shares of Rmb1.00 each | 400,000         | 400,000         |
| 250,000,000 overseas listed H shares of Rmb1.00 each      | 250,000         | 250,000         |
| 50,000,000 domestic listed A shares of Rmb1.00 each       | 50,000          | 50,000          |
|   | 700,000         | 700,000         |

All the A and H shares rank pari passu in all material respects.

## 28 Share premium

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

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## 29 Reserves

### The Group

|                                   | Statutory<br>surplus<br>reserve<br><i>Rmb'000</i><br><i>(note (a))</i> | Statutory<br>public<br>welfare<br>fund<br><i>Rmb'000</i><br><i>(note (b))</i> | Discretionary<br>surplus<br>reserve<br><i>Rmb'000</i><br><i>(note (c))</i> | Excess<br>Over<br>share<br>capital<br><i>Rmb'000</i><br><i>(note (d))</i> | Total<br><i>Rmb'000</i> |
|-----------------------------------|--|---|--|---|-------------------------|
| At 1 January and 31 December 2002 | 57,900   | 55,142  | 110,764  | (106,949)   | 116,857                 |
| At 1 January 2003                 | 57,900   | 55,142  | 110,764  | (106,949)   | 116,857                 |
| Appropriations (Note 30)          | 178  | 90  | —  | —   | 268                     |
| At 31 December 2003               | 58,078   | 55,232  | 110,764  | (106,949)   | 117,125                 |

### The Company

|                                   | Statutory<br>surplus<br>reserve<br><i>Rmb'000</i><br><i>(note (a))</i> | Statutory<br>public<br>welfare<br>fund<br><i>Rmb'000</i><br><i>(note (b))</i> | Discretionary<br>surplus<br>reserve<br><i>Rmb'000</i><br><i>(note (c))</i> | Excess<br>Over<br>share<br>capital<br><i>Rmb'000</i><br><i>(note (d))</i> | Total<br><i>Rmb'000</i> |
|-----------------------------------|--|---|--|---|-------------------------|
| At 1 January and 31 December 2002 | 51,366   | 51,366  | 110,764  | (106,949)   | 106,547                 |
| At 1 January and 31 December 2003 | 51,366   | 51,366  | 110,764  | (106,949)   | 106,547                 |

Notes:

- 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.
- According to the Company's and its subsidiaries' Articles of Association, the Company and its subsidiaries are required to transfer 5-10% of their respective profit after taxation, as determined in accordance with the PRC Accounting Rules and Regulations, to statutory public welfare fund, which is established for the purpose of providing employee facilities and other collective benefits to the Company's employees.
- The transfer to this reserve from the income statement is at the discretion of the Company's directors.
- Effective 1 January 2002, land use rights which are included in lease prepayments are carried at historical cost base. Accordingly, the surplus on the revaluation of land use rights was reversed to shareholders' funds.

## 30 Accumulated losses

|                                   | The Group<br><i>Rmb'000</i> | The Company<br><i>Rmb'000</i> |
|-----------------------------------|-----------------------------|-------------------------------|
| At 1 January 2002                 | (314,899)                   | (234,238)                     |
| Loss attributable to shareholders | (342,449)                   | (405,418)                     |
| At 31 December 2002               | (657,348)                   | (639,656)                     |
| Loss attributable to shareholders | (340,021)                   | (323,820)                     |
| Appropriations (Note 29)          | (268)                       | —                             |
| At 31 December 2003               | (997,637)                   | (963,476)                     |

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 IFRS. As at 31 December 2003, there was no reserve available for distribution (2002: Rmb Nil).

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## 31 Related party transactions

CLFG is considered to be a related party as it has the ability to exercise significant influence over the Group in making financial and operating decision.

Other subsidiaries of CLFG are considered to be related parties as they are subject to the common significant influence of CLFG.

Transactions between the Group and CLFG were as follows:

|   | Note  | 2003<br>Rmb'000 | 2002<br>Rmb'000 |
|---|-------|-----------------|-----------------|
| Ancillary and social services                                     | (i)   | 2,917           | 3,065           |
| Provision of utilities  | (ii)  | 422             | 385             |
| Interest paid and payable   |       | 16,444          | 15,001          |
| Interest received and receivable                                  |       | 1,972           | 8,320           |
| Guarantees issued by CLFG to the suppliers in favour of the Group |       | —               | 90,000          |
| Guarantees issued by CLFG to banks in favour of the Group         |       | 170,000         | 254,000         |
| Indirect guarantees   | (iii) | 294,000         | 464,763         |

Notes:

- (i) The Company has entered into a three-year agreement with CLFG effective 3 August 2001. In accordance with the agreement, CLFG provides certain social welfare and support services, such as education, property management, medical care and transportation services to the staff of the Company. The amount charged by CLFG is based on a reasonable cost incurred in providing such services plus respective tax charge.
- (ii) The Company has entered into a three-year agreement with CLFG effective 3 August 2001 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.
- (iii) Guarantees have been issued by CLFG, in respect of bank loans to independent third parties in return for guarantees issued by the independent third parties to banks and suppliers in favour of the Group.

Transactions between the Group and fellow subsidiaries were as follows:

|                                  | Note  | 2003<br>Rmb'000 | 2002<br>Rmb'000 |
|----------------------------------|-------|-----------------|-----------------|
| Sales                            |       | 34,948          | 12,153          |
| Ancillary and social services    | (i)   | 5,303           | 4,850           |
| Provision of utilities           | (ii)  | 11,960          | 10,348          |
| Purchase of raw materials        | (iii) | 18,879          | 35,560          |
| Other purchases                  |       | 4,609           | 10,634          |
| Interest paid and payable        |       | 7,069           | 7,310           |
| Interest received and receivable |       | 14,069          | 17,259          |

Notes:

- (i) The Company has entered into a three-year agreement with a CLFG's subsidiary, CLFG Xinxing Co. ("Xinxing") effective 3 August 2001 by which Xinxing provides certain social welfare and support services, such as education, property management, medical care and transportation services to the staff of the Company. The agreement is supplementary amended on 22 July 2002. The amount charged by Xinxing is based on a reasonable cost incurred in providing such services plus respective tax charge.
- (ii) The Company has entered into three-year agreements with certain CLFG's subsidiaries, including Xinxing, CLFG New Illuminating Source Company Limited, CLFG Jingwei Glass Fibre Co. Ltd., CLFG Jinghua Industrial Co. Ltd. and Luoyang Luobo Hotel effective 3 August 2001. 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 charges.
- (iii) The Company has entered into three-year agreements with a CLFG's subsidiary, CLFG Mineral Product Co. ("Mineral Co") effective 3 August 2001 by which Mineral Co. supply certain raw materials to the Company at market prices.

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

In addition, the Company has made the following provision for bad debts against the amounts due from related parties:

|   | 2003<br>Rmb'000 | 2002<br>Rmb'000 |
|---|-----------------|-----------------|
| Provision for amounts due from the ultimate holding company | 93,532          | 60,560          |
| Provision for amounts due from fellow subsidiaries          | 306,122         | 40,989          |

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## 32 Capital commitments

At 31 December 2003, the Group and the Company had the following capital commitments:

|                                   | The Group       |                 |
|-----------------------------------|-----------------|-----------------|
|                                   | 2003<br>Rmb'000 | 2002<br>Rmb'000 |
| Contracted but not provided for   |                 |                 |
| - overhaul project                | —               | 13,397          |
| - construction project            | 177             | —               |
| Authorised but not contracted for |                 |                 |
| - overhaul project                | —               | 16,121          |
| - construction project            | 861             | —               |
| Total                             | 1,038           | 29,518          |
|                                   | The Company     |                 |
|                                   | 2003<br>Rmb'000 | 2002<br>Rmb'000 |
| Contracted but not provided for   |                 |                 |
| - construction project            | 177             | —               |
| Authorised but not contracted for |                 |                 |
| - construction project            | 861             | —               |
| Total                             | 1,038           | —               |

## 33 Contingent liabilities

At 31 December 2003, contingent liabilities were as follows:

|   | The Group       |                 | The Company     |                 |
|---|-----------------|-----------------|-----------------|-----------------|
|   | 2003<br>Rmb'000 | 2002<br>Rmb'000 | 2003<br>Rmb'000 | 2002<br>Rmb'000 |
| Guarantees issued to banks in favour of subsidiaries  | —               | —               | 20,000          | 69,320          |
| Guarantees issued to CLFC and CLFG in favour of subsidiaries  | —               | —               | 117,820         | —               |
| Guarantees issued to banks and non-bank financial institutions in favour of independent third parties | 14,500          | 16,500          | 14,500          | 16,500          |
|   | 14,500          | 16,500          | 152,320         | 85,820          |

## 34 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 a rate from 23% to 28% (2002: 28%) 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.

## 35 Financial instruments

Financial assets of the Group include cash and cash equivalents, deposits with banks and non-bank financial institutions, investments, trade receivables, advance payments, prepayments, amounts due from ultimate holding company, fellow subsidiaries and associated companies, and other receivables. Financial liabilities of the Group include bank and other loans, trade payables, amounts due to fellow subsidiaries and associated companies, and other creditors. The Group does not hold or issue financial instruments for trading purposes.

### (a) Interest rate risk

The interest rate risks and terms of repayment of loans of the Group are disclosed in note 26.

### (b) Credit risk

Credit risks on trade and other receivables and deposits with non-bank financial institution (non-current assets) are limited as receivables and deposits are shown net of provision for bad and doubtful debts.

# Notes on the Financial Statements (Continued)

For the year ended 31 December 2003  
(Prepared in accordance with International Financial Reporting Standards)  
(Expressed in Renminbi)

## 35 Financial instruments (continued)

### (c) Fair value

The fair value of unlisted investments could not be reasonably estimated without incurring excessive costs as these investments are unquoted equity securities and there is no quoted market price for such securities in the PRC.

The fair values of cash, deposits with banks and financial institutions, trade and other receivables, trade and other payables and current portion of bank and other loans are not materially different from their carrying amounts.

Due to the related party nature, it is not practical to estimate the fair value of the amounts due from ultimate holding company, associated companies and amounts due from/to fellow subsidiaries.

The fair values of the Group's non-current bank and other loans as estimated by applying a discounted cash flow using current market interest rates for similar financial instruments, are summarised as follows:

|                                     | 2003                          |                       | 2002                          |                       |
|-------------------------------------|-------------------------------|-----------------------|-------------------------------|-----------------------|
|                                     | Carrying<br>amount<br>Rmb'000 | Fair value<br>Rmb'000 | Carrying<br>amount<br>Rmb'000 | Fair value<br>Rmb'000 |
| Non-current bank and<br>other loans | 118,269                       | 101,126               | 141,154                       | 129,779               |

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

## 36 Ultimate holding company

The directors consider the ultimate holding company at 31 December 2003 to be CLFG, a state-owned enterprise established in the PRC.

## 37 Comparative figures

Certain comparative figures have been reclassified to conform with the current year's presentation.



# Report of the PRC Auditors



**To the shareholders of  
Luoyang Glass Company Limited ("the Company"):**

We have audited the accompanying Company's consolidated balance sheet and balance sheet at 31 December 2003, and the consolidated income and profit appropriation statement, income and profit appropriation statement, consolidated cash flow statement and cash flow statement for the year then ended. The preparation of these financial statements is the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with China's Independent Auditing Standards of the Certified Public Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement. An audit includes examination, on a test basis, of evidence supporting the amounts and disclosures in the financial statements, and assessment of the accounting principles used and significant estimates made by the Company's management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the above-mentioned financial statements comply with the relevant requirements of the Accounting Standards for Business Enterprises and the Accounting Regulations for Business Enterprises issued by the Ministry of Finance of the People's Republic of China and present fairly, in all material respects, the Company's consolidated financial position and financial position at 31 December 2003, and the consolidated results of operations, the results of operations, consolidated cash flows and cash flows for the year then ended.

Besides, we would draw the attention of the users of financial statements to the disclosures made in note 2 on the financial statements, that the Group had net loss amounted to Rmb342,513,000 for the year, accumulated losses amounted to Rmb1,018,682,000 and net current liabilities amounted to Rmb330,871,000 at 31 December 2003. Notwithstanding the steps taken by the management to address this situation as set out in Note 2 on the financial statements, there exists a fundamental uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. The expressed audit opinion is not affected thereby.

KPMG Huazhen

Certified Public Accountants  
Registered in the People's Republic of China

**Hu Qiong  
Ling Yun**

22 April 2004

8/F, Office Tower E2  
Oriental Plaza  
No.1, East Chang An Ave.  
Beijing, The People's Republic of China  
Post Code: 100738

# Consolidated Balance Sheet

As at 31 December 2003  
(Prepared under the PRC Accounting Rules and Regulations)  
(Expressed in Renminbi)

|  | Note | 2003<br>Rmb'000  | 2002<br>Rmb'000  |
|--|------|------------------|------------------|
| <b>Assets</b>                                    |      |                  |                  |
| <b>Current assets</b>                            |      |                  |                  |
| Cash at banks and in hand                        | 5    | 182,279          | 278,070          |
| Short-term investments                           | 6    | 11,000           | 45,300           |
| Interest receivables                             | 7    | —                | 39,906           |
| Bills receivable                                 | 8    | 45,465           | 43,885           |
| Trade receivables                                | 9    | 35,226           | 82,431           |
| Other receivables                                | 10   | 417,909          | 287,388          |
| Advance payments                                 | 11   | 21,056           | 38,511           |
| Inventories                                      | 12   | 184,952          | 201,695          |
| Deferred expenses                                | 13   | 41,955           | 61,896           |
| <b>Total current assets</b>                      |      | <b>939,842</b>   | <b>1,079,082</b> |
| <b>Long-term investments</b>                     |      |                  |                  |
| Long-term equity investments                     | 14   | 210,398          | 279,455          |
| <b>Total long-term investments</b>               |      | <b>210,398</b>   | <b>279,455</b>   |
| <b>Fixed assets</b>                              |      |                  |                  |
| Fixed assets, at cost                            | 17   | 1,519,683        | 1,427,400        |
| Less: Accumulated depreciation                   | 17   | (581,455)        | (499,726)        |
| Net book value of fixed assets                   |      | 938,228          | 927,674          |
| Construction materials                           | 18   | 3,297            | 3,062            |
| Construction in progress                         | 19   | 1,238            | 5,620            |
| <b>Total fixed assets</b>                        |      | <b>942,763</b>   | <b>936,356</b>   |
| <b>Intangible assets and other assets</b>        |      |                  |                  |
| Intangible assets                                | 20   | 175,812          | 134,564          |
| Advance payments                                 | 11   | —                | 32,124           |
| Other long-term receivables                      | 10   | 54,840           | 374,117          |
| <b>Total intangible assets and other assets</b>  |      | <b>230,652</b>   | <b>540,805</b>   |
| <b>Total assets</b>                              |      | <b>2,323,655</b> | <b>2,835,698</b> |
| <b>Liabilities and shareholders' funds</b>       |      |                  |                  |
| <b>Current liabilities</b>                       |      |                  |                  |
| Short-term loans                                 | 21   | 846,910          | 893,780          |
| Bills payable                                    | 22   | 56,653           | 135,270          |
| Trade payables                                   | 23   | 118,950          | 105,692          |
| Receipts in advance                              | 23   | 65,148           | 54,727           |
| Accrued payroll                                  |      | 3,884            | 3,194            |
| Staff welfare payables                           |      | 2,416            | 2,120            |
| Taxes payable                                    | 4(c) | 31,582           | 21,276           |
| Other payables                                   | 23   | 269              | 127              |
| Other creditors                                  | 23   | 91,807           | 140,326          |
| Accrued expenses                                 | 24   | 12,753           | 9,188            |
| Long-term loans repayable within one year        | 25   | 40,341           | 69,949           |
| <b>Total current liabilities</b>                 |      | <b>1,270,713</b> | <b>1,435,649</b> |
| <b>Long-term liabilities</b>                     |      |                  |                  |
| Long-term loans                                  | 25   | 94,269           | 115,654          |
| Long-term payables                               |      | 2,580            | 5,174            |
| <b>Total long-term liabilities</b>               |      | <b>96,849</b>    | <b>120,828</b>   |
| <b>Total liabilities</b>                         |      | <b>1,367,562</b> | <b>1,556,477</b> |
| <b>Minority interests</b>                        |      | <b>80,173</b>    | <b>61,184</b>    |
| <b>Shareholders' funds</b>                       |      |                  |                  |
| Share capital                                    | 26   | 700,000          | 700,000          |
| Capital reserve                                  | 27   | 970,528          | 970,132          |
| Surplus reserves                                 | 28   | 224,074          | 223,806          |
| (Including: statutory public welfare fund)       |      | 55,232           | 55,142           |
| Accumulated deficits                             |      | (1,018,682)      | (675,901)        |
| <b>Total shareholders' funds</b>                 |      | <b>875,920</b>   | <b>1,218,037</b> |
| <b>Total liabilities and shareholders' funds</b> |      | <b>2,323,655</b> | <b>2,835,698</b> |

These financial statements have been approved by the board of directors on 22 April 2004.

**Liu Baoying**  
Legal Representative

**Ding Jianluo**  
General Manager

**Cao Mingchun**  
Financial controller

The notes on pages 62 to 85 form part of these financial statements.

# Balance Sheet

As at 31 December 2003  
(Prepared under the PRC Accounting Rules and Regulations)  
(Expressed in Renminbi)

|  | Note | 2003<br>Rmb'000  | 2002<br>Rmb'000  |
|--|------|------------------|------------------|
| <b>Assets</b>                                    |      |                  |                  |
| <b>Current assets</b>                            |      |                  |                  |
| Cash at banks and in hand                        | 5    | 157,476          | 255,749          |
| Short-term investments                           | 6    | 191,567          | 179,800          |
| Interest receivables                             | 7    | —                | 42,515           |
| Bills receivable                                 | 8    | 37,373           | 40,081           |
| Trade receivables                                | 9    | 15,386           | 73,812           |
| Other receivables                                | 10   | 426,839          | 284,913          |
| Advance payments                                 | 11   | 8,027            | 35,177           |
| Inventories                                      | 12   | 99,066           | 130,162          |
| Deferred expenses                                | 13   | 39,112           | 58,515           |
| <b>Total current assets</b>                      |      | <b>974,846</b>   | <b>1,100,724</b> |
| <b>Long-term investments</b>                     |      |                  |                  |
| Long-term equity investments                     | 14   | 279,176          | 322,613          |
| <b>Total long-term investments</b>               |      | <b>279,176</b>   | <b>322,613</b>   |
| <b>Fixed assets</b>                              |      |                  |                  |
| Fixed assets, at cost                            | 17   | 862,286          | 854,991          |
| Less: Accumulated depreciation                   | 17   | (418,700)        | (377,252)        |
| Net book value of fixed assets                   |      | 443,586          | 477,739          |
| Construction materials                           | 18   | 2,676            | 2,420            |
| Construction in progress                         | 19   | 73               | 4,048            |
| <b>Total fixed assets</b>                        |      | <b>446,335</b>   | <b>484,207</b>   |
| <b>Intangible and other assets</b>               |      |                  |                  |
| Intangible assets                                | 20   | 121,091          | 88,847           |
| Advance payments                                 | 11   | —                | 32,124           |
| Other long-term receivables                      | 10   | 54,840           | 374,117          |
| <b>Total intangible assets and other assets</b>  |      | <b>175,931</b>   | <b>495,088</b>   |
| <b>Total assets</b>                              |      | <b>1,876,288</b> | <b>2,402,632</b> |
| <b>Liabilities and shareholders' funds</b>       |      |                  |                  |
| <b>Current liabilities</b>                       |      |                  |                  |
| Short-term loans                                 | 21   | 709,630          | 774,700          |
| Bills payable                                    | 22   | 49,153           | 123,870          |
| Trade payables                                   | 23   | 42,871           | 55,210           |
| Receipts in advance                              | 23   | 39,546           | 43,103           |
| Accrued payroll                                  |      | —                | (538)            |
| Staff welfare payable                            |      | 197              | 71               |
| Taxes payable                                    | 4(c) | 790              | 1,229            |
| Other payables                                   | 23   | —                | 5                |
| Other creditors                                  | 23   | 53,025           | 78,055           |
| Accrued expenses                                 | 24   | 1,683            | 1,734            |
| Long-term loans repayable within one year        | 25   | 20,620           | 20,469           |
| <b>Total current liabilities</b>                 |      | <b>917,515</b>   | <b>1,097,908</b> |
| <b>Long-term liabilities</b>                     |      |                  |                  |
| Long-term loans                                  | 25   | 56,152           | 75,294           |
| Long-term payables                               |      | 2,580            | 5,043            |
| <b>Total long-term liabilities</b>               |      | <b>58,732</b>    | <b>80,337</b>    |
| <b>Total liabilities</b>                         |      | <b>976,247</b>   | <b>1,178,245</b> |
| <b>Shareholders' funds</b>                       |      |                  |                  |
| Share capital                                    | 26   | 700,000          | 700,000          |
| Capital reserve                                  | 27   | 969,988          | 969,988          |
| Surplus reserves                                 | 28   | 213,496          | 213,496          |
| (Including: statutory public welfare fund)       |      | 51,366           | 51,366           |
| Accumulated deficits                             |      | (983,443)        | (659,097)        |
| <b>Total shareholders' funds</b>                 |      | <b>900,041</b>   | <b>1,224,387</b> |
| <b>Total liabilities and shareholders' funds</b> |      | <b>1,876,288</b> | <b>2,402,632</b> |

These financial statements have been approved by the board of directors on 22 April 2004.

Liu Baoying  
Legal Representative

Ding Jianluo  
General Manager

Cao Mingchun  
Financial controller

The notes on pages 62 to 85 form part of these financial statements.

# Consolidated Income Statement and Profit Appropriation Statement

For the year ended 31 December 2003  
(Prepared under the PRC Accounting Rules and Regulations)  
(Expressed in Renminbi)

|   | Note | 2003<br>Rmb'000    | 2002<br>Rmb'000 |
|---|------|--------------------|-----------------|
| <b>Income from principal operations</b>     | 29   | <b>978,846</b>     | 825,194         |
| Less: Cost of sales                         |      | <b>(835,670)</b>   | (788,332)       |
| Business tax and surcharges                 | 30   | <b>(3,030)</b>     | (2,390)         |
| <b>Profit from principal operations</b>     |      | <b>140,146</b>     | 34,472          |
| Less: Operating expenses                    |      | <b>(39,447)</b>    | (36,999)        |
| Administrative expenses                     |      | <b>(328,364)</b>   | (288,400)       |
| Financial expenses                          | 31   | <b>(42,485)</b>    | (48,342)        |
| <b>Operating loss</b>                       |      | <b>(270,150)</b>   | (339,269)       |
| Add: Investment (loss) / income             | 32   | <b>(69,055)</b>    | 2,934           |
| Non-operating income                        |      | <b>8,892</b>       | 5,612           |
| Less: Non-operating expenses                | 33   | <b>(9,905)</b>     | (59,497)        |
| <b>Loss before taxation</b>                 |      | <b>(340,218)</b>   | (390,220)       |
| Less: Income tax                            | 4(b) | <b>(2,172)</b>     | (200)           |
| Minority interests                          |      | <b>(123)</b>       | 45,729          |
| <b>Net loss</b>                             |      | <b>(342,513)</b>   | (344,691)       |
| Less: Transfer to surplus reserve           |      | <b>(268)</b>       | —               |
| Add: Accumulated deficits brought forward   |      | <b>(675,901)</b>   | (331,210)       |
| <b>Accumulated deficits carried forward</b> |      | <b>(1,018,682)</b> | (675,901)       |

The notes on pages 62 to 85 form part of these financial statements.

# Income Statement and Profit Appropriation Statement

For the year ended 31 December 2003  
(Prepared under the PRC Accounting Rules and Regulations)  
(Expressed in Renminbi)

|   | Note | 2003<br>Rmb'000  | 2002<br>Rmb'000 |
|---|------|------------------|-----------------|
| <b>Income from principal operations</b>     | 29   | <b>692,426</b>   | 634,375         |
| Less: Cost of sales                         |      | <b>(595,374)</b> | (588,924)       |
| Business tax and surcharges                 | 30   | <b>(1,748)</b>   | (1,549)         |
| <b>Profit from principal operations</b>     |      | <b>95,304</b>    | 43,902          |
| Less: Operating expenses                    |      | <b>(30,093)</b>  | (27,019)        |
| Administrative expenses                     |      | <b>(297,866)</b> | (242,626)       |
| Financial expenses                          | 31   | <b>(30,147)</b>  | (34,219)        |
| <b>Operating loss</b>                       |      | <b>(262,802)</b> | (259,962)       |
| Less: Investment loss                       | 32   | <b>(65,414)</b>  | (69,898)        |
| Add: Non-operating income                   |      | <b>8,073</b>     | 4,556           |
| Less: Non-operating expenses                | 33   | <b>(4,058)</b>   | (12,893)        |
| <b>Loss before taxation</b>                 |      | <b>(324,201)</b> | (338,197)       |
| Less: Income tax                            | 4(b) | <b>(145)</b>     | —               |
| <b>Net loss</b>                             |      | <b>(324,346)</b> | (338,197)       |
| Add: Accumulated deficits brought forward   |      | <b>(659,097)</b> | (320,900)       |
| <b>Accumulated deficits carried forward</b> |      | <b>(983,443)</b> | (659,097)       |

The notes on pages 62 to 85 form part of these financial statements.

# Consolidated Cash Flow Statement

For the year ended 31 December 2003  
(Prepared under the PRC Accounting Rules and Regulations)  
(Expressed in Renminbi)

|  | Note to the cash<br>flow statement | 2003<br>Rmb'000    | 2002<br>Rmb'000 |
|--|------------------------------------|--------------------|-----------------|
| <b>Cash flows from operating activities</b>  |                                    |                    |                 |
| Cash received from sale of goods and rendering of services                                       |                                    | 1,186,537          | 958,212         |
| Cash received relating to other operating activities   |                                    | 10,141             | 22,095          |
| <b>Sub-total of cash inflows</b>   |                                    | <b>1,196,678</b>   | 980,307         |
| Cash paid for goods and services   |                                    | (846,029)          | (673,585)       |
| Cash paid to and on behalf of employees  |                                    | (79,474)           | (67,414)        |
| Cash paid for various taxes  |                                    | (46,632)           | (39,836)        |
| Cash paid relating to other operating activities   |                                    | (104,301)          | (173,280)       |
| <b>Sub-total of cash outflows</b>  |                                    | <b>(1,076,436)</b> | (954,115)       |
| <b>Net cash flows from operating activities</b>  | (i)                                | <b>120,242</b>     | 26,192          |
| <b>Cash flows from investing activities</b>  |                                    |                    |                 |
| Cash received from return of investment  |                                    | 16,711             | 2,854           |
| Net cash received from disposal of fixed assets,<br>intangible assets and other long-term assets |                                    | 2,846              | 10,597          |
| Cash inflow from newly consolidated subsidiaries   |                                    | 1,099              | —               |
| <b>Sub-total of cash inflows</b>   |                                    | <b>20,656</b>      | 13,451          |
| Cash paid for acquisition of fixed assets,<br>intangible assets and other long-term assets       |                                    | (74,235)           | (37,549)        |
| Cash paid for acquisition of investments   |                                    | —                  | (17,200)        |
| <b>Sub-total of cash outflows</b>  |                                    | <b>(74,235)</b>    | (54,749)        |
| <b>Net cash flows from investing activities</b>  |                                    | <b>(53,579)</b>    | (41,298)        |
| <b>Cash flows from financing activities</b>  |                                    |                    |                 |
| Cash received from borrowings  |                                    | 882,549            | 879,800         |
| Decrease in pledged deposits   |                                    | 47,480             | —               |
| <b>Sub-total of cash inflows</b>   |                                    | <b>930,029</b>     | 879,800         |
| Cash repayments of borrowings  |                                    | (981,908)          | (809,684)       |
| Cash paid for interest expenses  |                                    | (63,095)           | (62,277)        |
| Increase in pledged deposits   |                                    | —                  | (12,879)        |
| <b>Sub-total of cash outflows</b>  |                                    | <b>(1,045,003)</b> | (884,840)       |
| <b>Net cash flows from financing activities</b>  |                                    | <b>(114,974)</b>   | (5,040)         |
| <b>Net decrease in cash</b>  | (iii)                              | <b>(48,311)</b>    | (20,146)        |

The notes on pages 62 to 85 form part of these financial statements.

# Notes to the Consolidated Cash Flow Statement

For the year ended 31 December 2003  
(Prepared under the PRC Accounting Rules and Regulations)  
(Expressed in Renminbi)

**(i) Reconciliation of net loss to cash flows from operating activities:**

|   | 2003<br>Rmb'000 | 2002<br>Rmb'000 |
|---|-----------------|-----------------|
| Net loss  | (342,513)       | (344,691)       |
| Add: Provision for diminution in value of assets                  | 237,703         | 180,488         |
| Write-off of trade receivables, other receivables and prepayments | —               | 19,132          |
| Write-off of other creditors and receipts in advance              | (6,839)         | —               |
| Depreciation of fixed assets                                      | 78,540          | 81,341          |
| Amortisation of intangible assets                                 | 3,858           | 3,337           |
| Decrease in deferred expenses                                     | 20,527          | 9,161           |
| Loss on disposal of fixed assets                                  | 7,028           | 46,064          |
| Investment loss / (income)  | 69,055          | (1,046)         |
| Minority interests  | 123             | (45,729)        |
| Financial expenses  | 39,210          | 62,305          |
| Exchange loss   | 1,496           | —               |
| Decrease in inventories   | 25,289          | 37,996          |
| Decrease/(increase) in operating receivables                      | 48,366          | (57,141)        |
| (Decrease)/increase in operating payables                         | (61,601)        | 34,975          |
| Net cash flows from operating activities                          | 120,242         | 26,192          |

**(ii) Investing and financing activities not requiring the use of cash:**

|  | 2003<br>Rmb'000 | 2002<br>Rmb'000 |
|--|-----------------|-----------------|
| Injection of fixed assets to an associated company | —               | 89,095          |

**(iii) Net decrease in cash:**

|   | 2003<br>Rmb'000 | 2002<br>Rmb'000 |
|---|-----------------|-----------------|
| Cash at the end of the year             | 76,380          | 124,691         |
| Less: Cash at the beginning of the year | (124,691)       | (144,837)       |
| Net decrease in cash                    | (48,311)        | (20,146)        |

The net decrease in cash has included the cash inflow from the newly consolidated subsidiaries.

The notes on pages 62 to 85 form part of these financial statements.

# Cash Flow Statement

For the year ended 31 December 2003  
(Prepared under the PRC Accounting Rules and Regulations)  
(Expressed in Renminbi)

|  | Note to the cash<br>flow statement | 2003<br>Rmb'000  | 2002<br>Rmb'000  |
|--|------------------------------------|------------------|------------------|
| <b>Cash flows from operating activities</b>  |                                    |                  |                  |
| Cash received from sale of goods and rendering of services                                       |                                    | 831,795          | 722,524          |
| Cash received relating to other operating activities   |                                    | 19,885           | 17,520           |
| <b>Sub-total of cash inflows</b>   |                                    | <b>851,680</b>   | <b>740,044</b>   |
| Cash paid for goods and services   |                                    | (610,696)        | (530,455)        |
| Cash paid to and on behalf of employees  |                                    | (56,560)         | (37,390)         |
| Cash paid for various taxes  |                                    | (31,929)         | (27,317)         |
| Cash paid relating to other operating activities   |                                    | (90,359)         | (82,603)         |
| <b>Sub-total of cash outflows</b>  |                                    | <b>(789,544)</b> | <b>(677,765)</b> |
| <b>Net cash flows from operating activities</b>  | (i)                                | <b>62,136</b>    | <b>62,279</b>    |
| <b>Cash flows from investing activities</b>  |                                    |                  |                  |
| Cash received from return of investment  |                                    | 27,486           | 2,858            |
| Net cash received from disposal of fixed assets,<br>intangible assets and other long-term assets |                                    | 1,116            | 8,031            |
| <b>Sub-total of cash inflows</b>   |                                    | <b>28,602</b>    | <b>10,889</b>    |
| Cash paid for acquisition of fixed assets,<br>intangible assets and other long-term assets       |                                    | (11,023)         | (17,668)         |
| Cash paid for acquisition of investments   |                                    | (46,067)         | (86,200)         |
| <b>Sub-total of cash outflows</b>  |                                    | <b>(57,090)</b>  | <b>(103,868)</b> |
| <b>Net cash flows from investing activities</b>  |                                    | <b>(28,488)</b>  | <b>(92,979)</b>  |
| <b>Cash flows from financing activities</b>  |                                    |                  |                  |
| Cash received from borrowings  |                                    | 848,630          | 774,700          |
| Decrease in pledged deposits   |                                    | 46,293           | —                |
| <b>Sub-total of cash inflows</b>   |                                    | <b>894,923</b>   | <b>774,700</b>   |
| Cash repayment of borrowings   |                                    | (934,187)        | (700,083)        |
| Cash paid for interest expenses  |                                    | (46,364)         | (50,437)         |
| Increase in pledged deposits   |                                    | —                | (13,777)         |
| <b>Sub-total of cash outflows</b>  |                                    | <b>(980,551)</b> | <b>(764,297)</b> |
| <b>Net cash flows from financing activities</b>  |                                    | <b>(85,628)</b>  | <b>10,403</b>    |
| <b>Net decrease in cash</b>  | (iii)                              | <b>(51,980)</b>  | <b>(20,297)</b>  |

The notes on pages 62 to 85 form part of these financial statements.



# Notes to the Cash Flow Statement

For the year ended 31 December 2003  
(Prepared under the PRC Accounting Rules and Regulations)  
(Expressed in Renminbi)

## (i) Reconciliation of net loss to cash flows from operating activities:

|   | 2003<br>Rmb'000 | 2002<br>Rmb'000 |
|---|-----------------|-----------------|
| Net loss  | (324,346)       | (338,197)       |
| Add: Provision for diminution in value of assets                  | 233,766         | 163,808         |
| Write-off of trade receivables, other receivables and prepayments | —               | 19,132          |
| Write-off of other creditors and receipts in advance              | (6,839)         | —               |
| Depreciation of fixed assets                                      | 44,348          | 50,753          |
| Amortisation of intangible assets                                 | 2,476           | 2,184           |
| Loss/(gain) on disposal of fixed assets                           | 2,831           | (334)           |
| Financial expenses  | 27,337          | 50,437          |
| Exchange loss   | 1,496           | —               |
| Decrease in deferred expenses                                     | 19,403          | 5,798           |
| Investment loss   | 65,414          | 78,488          |
| Decrease in inventories   | 32,841          | 22,197          |
| Decrease/(increase) in operating receivables                      | 74,507          | (43,613)        |
| (Decrease)/increase in operating payables                         | (111,098)       | 51,626          |
| Net cash flows from operating activities                          | 62,136          | 62,279          |

## (ii) Investing and financing activities not requiring the use of cash:

|  | 2003<br>Rmb'000 | 2002<br>Rmb'000 |
|--|-----------------|-----------------|
| Injection of fixed assets to an associated company | —               | 89,095          |

## (iii) Net decrease in cash:

|   | 2003<br>Rmb'000 | 2002<br>Rmb'000 |
|---|-----------------|-----------------|
| Cash at the end of the year             | 55,290          | 107,270         |
| Less: Cash at the beginning of the year | (107,270)       | (127,567)       |
| Net decrease in cash                    | (51,980)        | (20,297)        |

The notes on pages 62 to 85 form part of these financial statements.

# Details of the Provision for Assets

As at 31 December 2003  
(Prepared under the PRC Accounting Rules and Regulations)  
(Expressed in Renminbi)

## The Group

| Items   | Balance at<br>1 January<br>2003<br>Rmb'000 | Increase<br>during the<br>year<br>Rmb'000 | Write back<br>during<br>the year<br>Rmb'000 | Write off<br>during the<br>year<br>Rmb'000 | Balance at<br>31 December<br>2003<br>Rmb'000 |
|---|--|---|---|--|--|
| <b>1 Provision for bad debts:</b>                                       |  |   |   |  |  |
| Trade receivables   | 112,468                                    | 29,872                                    | —   | (3,510)                                    | 138,830                                      |
| Other receivables   | 239,376                                    | 186,425                                   | (24,777)                                    | (338)                                      | 400,686                                      |
| Interest receivables  | —  | 46,980                                    | —   | —  | 46,980                                       |
| <b>Sub-total</b>  | <b>351,844</b>                             | <b>263,277</b>                            | <b>(24,777)</b>                             | <b>(3,848)</b>                             | <b>586,496</b>                               |
| <b>2 Provision for diminution in value of inventories:</b>              |  |   |   |  |  |
| Inventories   | 14,835                                     | 1,403                                     | (2,200)                                     | —  | 14,038                                       |
| <b>Sub-total</b>  | <b>14,835</b>                              | <b>1,403</b>                              | <b>(2,200)</b>                              | <b>—</b>                                   | <b>14,038</b>                                |
| <b>3 Provision for impairment loss on short-term investments:</b>       |  |   |   |  |  |
| Short-term investments  | —  | 34,300                                    | —   | —  | 34,300                                       |
| <b>Sub-total</b>  | <b>—</b>                                   | <b>34,300</b>                             | <b>—</b>                                    | <b>—</b>                                   | <b>34,300</b>                                |
| <b>4 Provision for impairment loss on long-term equity investments:</b> |  |   |   |  |  |
| Long-term equity Investments  | 26,986                                     | 6,232                                     | —   | —  | 33,218                                       |
| <b>Sub-total</b>  | <b>26,986</b>                              | <b>6,232</b>                              | <b>—</b>                                    | <b>—</b>                                   | <b>33,218</b>                                |
| <b>Total provision for assets</b>                                       | <b>393,665</b>                             | <b>305,212</b>                            | <b>(26,977)</b>                             | <b>(3,848)</b>                             | <b>668,052</b>                               |

## The Company

| Items   | Balance at<br>1 January<br>2003<br>Rmb'000 | Increase<br>during the<br>year<br>Rmb'000 | Write back<br>during<br>the year<br>Rmb'000 | Write off<br>during the<br>year<br>Rmb'000 | Balance at<br>31 December<br>2003<br>Rmb'000 |
|---|--|---|---|--|--|
| <b>1 Provision for bad debts:</b>                                       |  |   |   |  |  |
| Trade receivables   | 103,711                                    | 29,833                                    | —   | (3,510)                                    | 130,034                                      |
| Other receivables   | 226,785                                    | 183,475                                   | (24,777)                                    | (338)                                      | 385,145                                      |
| Interest receivables  | —  | 46,980                                    | —   | —  | 46,980                                       |
| <b>Sub-total</b>  | <b>330,496</b>                             | <b>260,288</b>                            | <b>(24,777)</b>                             | <b>(3,848)</b>                             | <b>562,159</b>                               |
| <b>2 Provision for diminution in value of inventories:</b>              |  |   |   |  |  |
| Inventories   | 14,835                                     | 455                                       | (2,200)                                     | —  | 13,090                                       |
| <b>Sub-total</b>  | <b>14,835</b>                              | <b>455</b>                                | <b>(2,200)</b>                              | <b>—</b>                                   | <b>13,090</b>                                |
| <b>3 Provision for impairment loss on short-term investments:</b>       |  |   |   |  |  |
| Short-term investments  | —  | 34,300                                    | —   | —  | 34,300                                       |
| <b>Sub-total</b>  | <b>—</b>                                   | <b>34,300</b>                             | <b>—</b>                                    | <b>—</b>                                   | <b>34,300</b>                                |
| <b>4 Provision for impairment loss on long-term equity investments:</b> |  |   |   |  |  |
| Long-term equity Investments  | 20,648                                     | 6,232                                     | —   | —  | 26,880                                       |
| <b>Sub-total</b>  | <b>20,648</b>                              | <b>6,232</b>                              | <b>—</b>                                    | <b>—</b>                                   | <b>26,880</b>                                |
| <b>Total provision for assets</b>                                       | <b>365,979</b>                             | <b>301,275</b>                            | <b>(26,977)</b>                             | <b>(3,848)</b>                             | <b>636,429</b>                               |

# Notes on the Financial Statements

For the year ended 31 December 2003  
(Prepared under the PRC Accounting Rules and Regulations)  
(Expressed in Renminbi)

## 1 Company status

Luoyang Glass Company Limited ("the Company") was established in the People's Republic of China ("the PRC") as a joint stock limited company.

The Company was established as part of the restructuring of a state-owned enterprise known as China Luoyang Float Glass Group Company of Limited Liability ("CLFG"). Pursuant to approvals granted by various PRC authorities including the State Restructuring Commission and the National Administrative Bureau of State-Owned Assets, CLFG underwent a corporate reorganisation whereby the Company was established on 6 April 1994 with CLFG as its sold promoter. At the time of its establishment, the Company had a registered capital of Rmb400,000,000 divided into 400,000,000 'A' 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 Securities Exchange on 30 October 1995 and 10 May 1996 respectively.

The principal activities of the Company and its principal subsidiaries ("the Group") are the manufacturing and selling of float sheet glass.

## 2 Basis of preparation

Notwithstanding that the Company and the Group incurred loss for the year and had net current liabilities as at 31 December 2003, the directors of the Company are of the opinion that the Company and the Group are able to continue as a going concern and to meet their obligations as and when they fall due having regard to the following:

- (i) agreements obtained from financial institutions for renewal of loan facilities totaling approximately Rmb444,000,000 to the Company upon their expiry in 2004; and
- (ii) continuing financial support received from the ultimate holding company.

The directors believe that the Company and the Group will have sufficient cash resources to satisfy its future working capital and other operating 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.

## 3 Significant accounting policies

The significant accounting policies adopted by the Group and the Company in the preparation of the financial statements are in conformity with the Accounting Standards for Business Enterprises and the Accounting Regulations for Business Enterprises.

### (a) Accounting year

The accounting year of the Group is from 1 January to 31 December.

### (b) Basis of consolidation

The Group prepared the consolidated financial statements according to the Accounting Standards for Business Enterprises and Cai Kuai Zi [1995] No.11 "Provisional regulations on consolidated financial statements" issued by the Ministry of Finance.

The consolidated financial statements include the financial statements of the Company and all of its principal subsidiaries. Subsidiaries are those entities in which the Company holds, directly or indirectly, more than 50% of the share capital, or where the Company holds less than 50% of the share capital but the Company has the power to govern the financial and operating policies of the enterprise. The consolidated income statement of the Company only includes the results of the subsidiaries during the period when such control effectively commences until the date that control effectively ceases. Minority interests on equity and profit/loss attributable to minority interests are separately stated in the consolidated financial statements. For those subsidiaries whose assets and results of operation are not significant and have no significant effect on the Group's consolidated financial statements, the Company does not consolidate these subsidiaries, but include them in the long-term investments and equity accounted for. Details of subsidiaries included in the consolidated financial statements have been disclosed in note 15.

Where the accounting policies adopted by the subsidiaries are different from the policies adopted by the Company, the financial statements of the subsidiaries have been adjusted in accordance with the accounting policies adopted by the Company on consolidation. All significant inter-company balances and transactions, including any unrealised gains arising from inter-company transactions, have been eliminated on consolidation.

### (c) Basis of preparation and measurement basis

The financial statements of the Group have been prepared on an accrual basis. Unless otherwise stated, the measurement basis used is historical cost.

### (d) Reporting currency

The Group's reporting currency is Renminbi.

### (e) Translation of foreign currencies

Foreign currency transactions during the year are translated into Renminbi at the exchange rates quoted by the People's Bank of China ("PBOC rates") prevailing on the transaction dates. Foreign currency monetary assets and liabilities are translated into Renminbi at the PBOC rates ruling at the balance sheet date. Exchange differences, other than those noted below, are recognised as income or expenses in the income statement.

Exchange differences arising from the additions of fixed assets included foreign currency loans used to finance the additions of fixed assets before they are ready for their intended use are capitalised.

### (f) Cash equivalents

Cash equivalents are short-term and highly liquid investments which are readily convertible into known amounts of cash, and which are subject to an insignificant risk of change in value.

# Notes on the Financial Statements (Continued)

For the year ended 31 December 2003  
(Prepared under the PRC Accounting Rules and Regulations)  
(Expressed in Renminbi)

## 3 Significant accounting policies (continued)

### (g) Provision for bad debts

Trade receivables showing signs of uncollectibility are identified individually and provision is then made based on the probability of being uncollectible. In respect of other trade receivables, provision is made with reference to the ageing analysis and management's estimation based on past experience. The corresponding percentage of provision for bad debts is as follows:

| Ageing                      | Percentage of provision for bad debts |
|-----------------------------|---------------------------------------|
| Between one and two years   | 30%                                   |
| Between two and three years | 50%                                   |
| More than three years       | 100%                                  |

Provision for other receivables are determined based on the nature and corresponding collectibility.

### (h) Inventories

Inventories are carried at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs. Inventories are measured at their actual cost upon acquisition. The cost of inventories is calculated using the weighted average method. In addition to the purchase cost of raw materials, work in progress and finished goods include direct labour and an appropriate allocation of manufacturing overheads. Any excess of the cost over the net realisable value of each class of inventories is recognised as provision for diminution in value of inventories. Net realisable value is the estimated selling price in the normal course of business less the estimated costs to completion and the estimated expenses and related taxes.

Low value consumables, packaging and other materials are amortised in full when received for use.

Inventories are recorded by perpetual method.

### (i) Investments

#### (i) Short-term investments

Short-term investments are carried at the lower of cost and market value. The cost of a short-term investment is the total price paid on acquisition of the investment. However, it does not include cash dividends which have been declared but unpaid or unpaid interest on debentures which has been accrued at the time of acquisition.

Provision for diminution in value of short-term investments which states the investments at the lower of cost and market value is determined on an item by item basis.

Except cash dividends which have been declared but unpaid and interest on debentures which is due but not yet drawn at the time of acquisition, cash dividends and interest are set off against the carrying value of the short-term investments when received by the Company. Upon disposal of short-term investments, the difference between the carrying value of the short-term investments and the proceeds received is recognised as profit or loss for the current period.

#### (ii) Long-term investments

Long-term investments are stated at the lower of the amortised cost and the recoverable amount. A provision for impairment which is determined on an item by item basis is made on the difference between the amortised cost and the recoverable amount if the latter is lower.

Long-term equity investments

A long-term equity investment in an investee enterprise in which the Company has the power to control or exercise significant influence over is accounted for under the equity method of accounting whereby the investment is initially recorded at cost and adjusted thereafter for any post-acquisition change in the Company's share of net assets of the enterprise.

In the Group's consolidated financial statements and the Company's financial statements, investments in associated companies are accounted for under the equity method.

A long-term equity investment in an investee enterprise in which the Company does not control, jointly control or exercise significant influence over is accounted for under the cost method. Investment income is recognised when an investee enterprise declares a cash dividend or distributes profits.

Upon disposal or transfer of long-term equity investments, the difference between the proceeds received and the carrying value of the investments is recognised in the income statement.

### (j) Fixed assets

Fixed assets represent the assets held by the Group for production of products and administrative purpose with useful lives over 1 year and comparatively high unit values.

Fixed assets are stated in the balance sheet at cost or valuation less accumulated depreciation and impairment losses (note 3(m)).

Gains or losses arising from the retirement or disposal of fixed assets are determined as the difference between the net disposal proceeds and the carrying amount of the assets and are recognised as income or expenses in the period when they are incurred.

Expenditure incurred after the asset has been put into operation is capitalised only when it increases the future economic benefits attributable to the Group. All other expenditure is charged to the income statement in the period when it is incurred.

Fixed assets are depreciated over their estimated useful lives using the straight-line method. The respective estimated useful lives and the estimated rate of residual values adopted for fixed assets are as follows:

|                         | Depreciation life | Rate of residual value |
|-------------------------|-------------------|------------------------|
| Plant and buildings     | 30 to 50 years    | 5%                     |
| Machinery and equipment | 4 to 28 years     | 5%                     |
| Motor vehicles          | 6 to 12 years     | 5%                     |

# Notes on the Financial Statements (Continued)

For the year ended 31 December 2003  
(Prepared under the PRC Accounting Rules and Regulations)  
(Expressed in Renminbi)

## 3 Significant accounting policies (continued)

### (k) Construction in progress

Construction in progress represents plant, buildings and equipment under construction and is stated in the balance sheet at cost less impairment losses (note 3(m)).

Cost of construction represents all direct and indirect costs related to the acquisition or construction of fixed assets which are incurred before the related asset is ready for its intended use, including the interest charges (and the related exchange gains or losses) on specified borrowings incurred during the construction period.

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

### (l) Intangible assets

Intangible assets are carried in the balance sheet at cost or revalued amount less accumulated depreciation and impairment losses. The cost or revalued amount of the intangible assets is amortised on a straight-line basis over the contracted beneficial period of 10-60 years.

Intangible assets include land use rights and trademark.

#### *Land use rights*

The values of land use rights are amortised on a straight-line basis over the respective periods of the grants.

#### *Trademark*

The values of trademark are amortised on a straight-line basis over 20 years.

### (m) Impairment of assets

The carrying amounts of the Group's assets (including long-term investments, fixed assets, construction in progress, intangible assets and other assets), other than trade receivables, inventories and short-term investments (notes 3(g), 3(h) and 3(i)(i)), are reviewed regularly in order to assess whether the recoverable amounts have declined below the carrying amount. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to the recoverable amount. The recoverable amount is the greater of the net selling price and the value in use. In determining the value in use, expected future cash flows generated by the asset are discounted to their present value. The provision for impairment loss is recognised in the income statement of the current period.

If there is any indication that an impairment loss recognised for an asset in prior years may no longer exist, or if there has been a change in the estimates used to determine the recoverable amount by which the impairment loss is reduced, the provision for impairment loss is reversed and the reversed amount is recognised in the income statement of the current period.

### (n) Repairs and maintenance expenses

Repairs and maintenance expenses are expensed as incurred.

### (o) Research and development costs

Research and development costs are expensed as incurred.

### (p) Revenue recognition

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

#### (i) *Sale of goods*

Sales revenue is recognised when the significant risks and rewards of the ownership of goods have been transferred to the buyers. No revenue is recognised if there are significant uncertainties regarding the recovery of the consideration due, the possible return of goods, or when the amount of revenue and the costs incurred or to be incurred in respect of the transaction cannot be measured reliably.

#### (ii) *Interest income*

Interest income is recognised on a time-apportioned basis on the principal outstanding and at the applicable rate.

### (q) Income tax

Income tax is recognised using the tax effect accounting method. It comprises current and deferred tax.

Current tax is calculated at the applicable tax rate on taxable income.

Deferred tax is provided under the liability method, for timing differences between the accounting profit before tax and the taxable income arising from the differences in the accounting and tax treatment of income and expenses or losses. When the tax rates change or new types of tax are levied, adjustments should be made to the amounts originally recognised for the timing differences. The current tax rates are used in arriving at the reversal amounts when the timing differences are reversed.

Deferred tax assets arising from the tax value of losses, which are expected to be utilised against future taxable income within the same jurisdiction, are set off against the deferred tax liabilities of the same taxpayer. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

### (r) Retirement benefits

The contributions payable under the Group's retirement plans are charged to the income statement when the contribution becomes due in accordance with the terms of the plan. Other details have been disclosed in note 37.

# Notes on the Financial Statements (Continued)

For the year ended 31 December 2003  
(Prepared under the PRC Accounting Rules and Regulations)  
(Expressed in Renminbi)

## 3 Significant accounting policies (continued)

### (s) Dividends appropriation

Dividends appropriated to the investors are recognised in the income and profit appropriation statement when approved. Dividends approved after the balance sheet date but before the date on which the financial statements are authorised for issue are separately disclosed in the investors' equity in the balance sheet.

### (t) Related parties

If the Group has the power, directly or indirectly, to control, jointly control or exercise significant influence over another party, or vice versa, or where the Group and one or more parties are subject to common control from another party, they are considered to be related parties. Related parties may be individuals or enterprises.

## 4 Taxation

### (a) Major taxes relating to sales of goods applicable to the Group includes value added tax ("VAT") and surcharges.

|                       |   |           |
|-----------------------|---|-----------|
| VAT                   | : | 17%       |
| City Construction Tax | : | 7% on VAT |
| Education Surcharges  | : | 3% on VAT |

### (b) Income tax

The Company and its subsidiaries, Luobo Group Longmen Glass Company, Chenzhou Bada Glass Co. Ltd., CLFG Yang Shao Glass Co. Ltd., Xiangfang Luoshen Auto Glass Co. Ltd. and Yinan Mineral Products Co. Ltd. are subject to an income tax rate of 33% on assessable profits.

The Company's subsidiary that enjoys tax benefit is listed as follows:

| Name                            | Preferential tax rate | Reason for the tax benefit |
|---------------------------------|-----------------------|----------------------------|
| Shenzhen Luobo Trading Co. Ltd. | 15%                   | Special Economic Zone      |

Income tax expense in the income statement represents:

#### The Group

|   | 2003<br>Rmb'000 | 2002<br>Rmb'000 |
|---|-----------------|-----------------|
| Income tax for the year                   | 1,430           | —               |
| Under-provision in respect of prior years | 742             | 200             |
|   | <b>2,172</b>    | <b>200</b>      |

#### The Company

|   | 2003<br>Rmb'000 | 2002<br>Rmb'000 |
|---|-----------------|-----------------|
| Under-provision in respect of prior years | 145             | —               |

Provision for PRC income tax has been made as certain subsidiaries of the Group have made profits for taxation purposes during the year ended 31 December 2003.

### (c) Tax payable

#### The Group

|                                | 2003<br>Rmb'000 | 2002<br>Rmb'000 |
|--------------------------------|-----------------|-----------------|
| Accrued/prepaid PRC income tax | 1,379           | (1,043)         |
| VAT payable                    | 28,471          | 21,751          |
| VAT and surcharges payable     | 791             | 201             |
| Others                         | 941             | 367             |
| Tax payable                    | <b>31,582</b>   | <b>21,276</b>   |

#### The Company

|                        | 2003<br>Rmb'000 | 2002<br>Rmb'000 |
|------------------------|-----------------|-----------------|
| VAT payable            | —               | 537             |
| VAT surcharges payable | 312             | 16              |
| Others                 | 478             | 676             |
| Tax payable            | <b>790</b>      | <b>1,229</b>    |

### (d) Deferred tax assets

No provision for deferred taxation has been made as the Group and the Company have net deferred tax assets in respect of tax losses brought forward. The deferred tax assets have not been recognised as it is not probable that the Group and the Company will be able to utilise these tax losses in the foreseeable future.

# Notes on the Financial Statements (Continued)

For the year ended 31 December 2003  
(Prepared under the PRC Accounting Rules and Regulations)  
(Expressed in Renminbi)

## 5 Cash at banks and in hand

### The Group

|                          | Original<br>currency<br>'000 | 2003<br>Exchange<br>Rate | Rmb/<br>Rmb<br>equivalent<br>'000 | Original<br>currency<br>'000 | 2002<br>Exchange<br>rate | Rmb/<br>Rmb<br>equivalent<br>'000 |
|--------------------------|------------------------------|--------------------------|-----------------------------------|------------------------------|--------------------------|-----------------------------------|
| Cash                     |                              |                          |                                   |                              |                          |                                   |
| - Renminbi               |                              |                          | 715                               |                              |                          | 133                               |
| Current deposits         |                              |                          |                                   |                              |                          |                                   |
| - Renminbi               |                              |                          | 58,054                            |                              |                          | 62,812                            |
| - US Dollars             | 10.6                         | 8.2767                   | 88                                | 1,614.4                      | 8.2773                   | 13,363                            |
| - HK Dollars             | 6,981.3                      | 1.0657                   | 7,440                             | 12,052.0                     | 1.0611                   | 12,788                            |
| - Euro                   | —                            | —                        | —                                 | 0.6                          | 8.636                    | 5                                 |
| - Pound Sterling         | 5.6                          | 14.7118                  | 83                                | 5.6                          | 13.268                   | 74                                |
| Time deposits            |                              |                          |                                   |                              |                          |                                   |
| - Renminbi               |                              |                          | 10,000                            |                              |                          | 35,516                            |
| Sub-total                |                              |                          | 76,380                            |                              |                          | 124,691                           |
| Pledged current deposits |                              |                          |                                   |                              |                          |                                   |
| - Renminbi               |                              |                          | 15,899                            |                              |                          | 63,379                            |
| Pledged time deposits    |                              |                          |                                   |                              |                          |                                   |
| - Renminbi               |                              |                          | 90,000                            |                              |                          | 90,000                            |
| Sub-total                |                              |                          | 105,899                           |                              |                          | 153,379                           |
| Total                    |                              |                          | 182,279                           |                              |                          | 278,070                           |

At 31 December 2003, time deposits of Rmb90,000,000 (2002: Rmb90,000,000) and current deposits of Rmb15,899,000 (2002: Rmb63,379,000) were pledged to secure the Group's short-term loans and bills payable respectively.

### The Company

|                          | Original<br>currency<br>'000 | 2003<br>Exchange<br>Rate | Rmb/<br>Rmb<br>equivalent<br>'000 | Original<br>currency<br>'000 | 2002<br>Exchange<br>rate | Rmb/<br>Rmb<br>equivalent<br>'000 |
|--------------------------|------------------------------|--------------------------|-----------------------------------|------------------------------|--------------------------|-----------------------------------|
| Cash                     |                              |                          |                                   |                              |                          |                                   |
| - Renminbi               |                              |                          | 38                                |                              |                          | 65                                |
| Current deposits         |                              |                          |                                   |                              |                          |                                   |
| - Renminbi               |                              |                          | 37,641                            |                              |                          | 50,975                            |
| - US Dollars             | 10.6                         | 8.2767                   | 88                                | 1,614.4                      | 8.2773                   | 13,363                            |
| - HK Dollars             | 6,981.3                      | 1.0657                   | 7,440                             | 12,052.0                     | 1.0611                   | 12,788                            |
| - Euro                   | —                            | —                        | —                                 | 0.6                          | 8.636                    | 5                                 |
| - Pound Sterling         | 5.6                          | 14.7118                  | 83                                | 5.6                          | 13.268                   | 74                                |
| Time deposits            |                              |                          |                                   |                              |                          |                                   |
| - Renminbi               |                              |                          | 10,000                            |                              |                          | 30,000                            |
| Sub-total                |                              |                          | 55,290                            |                              |                          | 107,270                           |
| Pledged current deposits |                              |                          |                                   |                              |                          |                                   |
| - Renminbi               |                              |                          | 12,186                            |                              |                          | 58,479                            |
| Pledged time deposits    |                              |                          |                                   |                              |                          |                                   |
| - Renminbi               |                              |                          | 90,000                            |                              |                          | 90,000                            |
| Sub-total                |                              |                          | 102,186                           |                              |                          | 148,479                           |
| Total                    |                              |                          | 157,476                           |                              |                          | 255,749                           |

At 31 December 2003, time deposits of Rmb90,000,000 (2002: Rmb90,000,000) and current deposits of Rmb12,186,000 (2002: Rmb58,479,000) were pledged to secure the Company's short-term loans and bills payable respectively.

# Notes on the Financial Statements (Continued)

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## 6 Short-term investments

### The Group

|                        | Balance at 1<br>January 2003<br>Rmb'000 | Increase<br>during the<br>year<br>Rmb'000 | Decrease<br>during the<br>year<br>Rmb'000 | Balance at 31<br>December<br>2003<br>Rmb'000 |
|------------------------|---|---|---|--|
| Designated loans       |   |   |   |  |
| - Associated companies | 34,300                                  | —   | —   | 34,300                                       |
| - Fellow subsidiaries  | 11,000                                  | —   | —   | 11,000                                       |
| Sub-total              | 45,300                                  | —   | —   | 45,300                                       |
| Less: Provision        | —                                       | (34,300)                                  | —   | (34,300)                                     |
| Total                  | 45,300                                  | (34,300)                                  | —   | 11,000                                       |

### The Company

|                        | Balance at 1<br>January 2003<br>Rmb'000 | Increase<br>during the<br>year<br>Rmb'000 | Decrease<br>during the<br>year<br>Rmb'000 | Balance at 31<br>December<br>2003<br>Rmb'000 |
|------------------------|---|---|---|--|
| Designated loans       |   |   |   |  |
| - Subsidiaries         | 134,500                                 | 53,067                                    | (7,000)                                   | 180,567                                      |
| - Associated companies | 34,300                                  | —   | —   | 34,300                                       |
| - Fellow subsidiaries  | 11,000                                  | —   | —   | 11,000                                       |
| Sub-total              | 179,800                                 | 53,067                                    | (7,000)                                   | 225,867                                      |
| Less: Provision        | —                                       | (34,300)                                  | —   | (34,300)                                     |
| Total                  | 179,800                                 | 18,767                                    | (7,000)                                   | 191,567                                      |

Short-term investments of the Company are the designated loans due from related parties. Respective interest income has been accrued in the income statement for the period according to the loan agreements. As at 31 December 2003, included in short-term investments are designated loans due from an associated company, Luoyang Jingxin Ceramics Co. Ltd. ("Jingxin"), amounted to Rmb 34,300,000. Based on the assessment of recent financial position of Jingxin, the directors have made full provision for the amount. The Company has ceased accrual of interest income in respect of these designated loans.

## 7 Interest receivables

### The Group

|                          | 2003<br>Rmb'000 | 2002<br>Rmb'000 |
|--------------------------|-----------------|-----------------|
| Interest receivables     |                 |                 |
| - Fellow subsidiaries    | 46,980          | 39,906          |
| Less: Bad debt provision | (46,980)        | —               |
| Total                    | —               | 39,906          |

### The Company

|                          | 2003<br>Rmb'000 | 2002<br>Rmb'000 |
|--------------------------|-----------------|-----------------|
| Interest receivables     |                 |                 |
| - Subsidiaries           | —               | 2,609           |
| - Fellow subsidiaries    | 46,980          | 39,906          |
|                          | 46,980          | 42,515          |
| Less: Bad debt provision | (46,980)        | —               |
| Total                    | —               | 42,515          |

## 8 Bills receivable

Bills receivable represent mainly the bills of acceptance issued by banks for sales of goods and products.



# Notes on the Financial Statements (Continued)

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## 9 Trade receivables

The ageing analysis of trade receivables is as follows:

### The Group

|                             | Amount<br>Rmb'000 | 2003<br>Percentage<br>of total<br>trade<br>receivables<br>% | Bad debt<br>provision<br>Rmb'000 | Amount<br>Rmb'000 | 2002<br>Percentage<br>of total<br>trade<br>receivables<br>% | Bad debt<br>provision<br>Rmb'000 |
|-----------------------------|-------------------|---|----------------------------------|-------------------|---|----------------------------------|
| Within one year             | 28,699            | 16  | —                                | 49,714            | 26  | —                                |
| Between one and two years   | 2,786             | 2   | 561                              | 6,326             | 3   | 110                              |
| Between two and three years | 5,625             | 3   | 2,475                            | 43,285            | 22  | 16,784                           |
| Over three years            | 136,946           | 79  | 135,794                          | 95,574            | 49  | 95,574                           |
|                             | <b>174,056</b>    | <b>100</b>  | <b>138,830</b>                   | <b>194,899</b>    | <b>100</b>  | <b>112,468</b>                   |

### The Company

|                             | Amount<br>Rmb'000 | 2003<br>Percentage<br>of total<br>trade<br>receivables<br>% | Bad debt<br>provision<br>Rmb'000 | Amount<br>Rmb'000 | 2002<br>Percentage<br>of total<br>trade<br>receivables<br>% | Bad debt<br>provision<br>Rmb'000 |
|-----------------------------|-------------------|---|----------------------------------|-------------------|---|----------------------------------|
| Within one year             | 11,642            | 8   | —                                | 40,039            | 23  | —                                |
| Between one and two years   | 1,869             | 1   | 561                              | 5,534             | 3   | —                                |
| Between two and three years | 4,872             | 4   | 2,436                            | 42,551            | 24  | 14,312                           |
| Over three years            | 127,037           | 87  | 127,037                          | 89,399            | 50  | 89,399                           |
|                             | <b>145,420</b>    | <b>100</b>  | <b>130,034</b>                   | <b>177,523</b>    | <b>100</b>  | <b>103,711</b>                   |

Except for the amount due from the ultimate holding company, there is no amount due from shareholders who hold 5% or more shareholdings of the Company included in the balance of trade receivables.

During the year, the Group and the Company had no individually significant write-back of bad debts which had been fully or substantially provided for in prior years.

The five largest trade receivables (after bad debt provision) at 31 December 2003 are as follows:

| Name of entity  | Period of<br>original debts | Particulars       | Amount<br>Rmb'000 |
|---|-----------------------------|-------------------|-------------------|
| Landson Alliance  | 2003                        | Purchase of goods | 6,307             |
| China Luoyang Float Glass (Group)<br>Processed Glass Company Limited ("CPGC") | 2003                        | Purchase of goods | 1,024             |
| Changsha Jianhui Glass Co. Ltd.   | 2002~2003                   | Purchase of goods | 757               |
| Luobo New Era Company   | 2003                        | Purchase of goods | 582               |
| Brazil Temper Vidros  | 2003                        | Purchase of goods | 425               |

## 10 Other receivables

The ageing analysis of other receivables is as follows:

### Current assets

### The Group

|                             | Amount<br>Rmb'000 | 2003<br>Percentage<br>of total<br>other<br>receivables<br>% | Bad debt<br>provision<br>Rmb'000 | Amount<br>Rmb'000 | 2002<br>Percentage<br>of total<br>other<br>receivables<br>% | Bad debt<br>provision<br>Rmb'000 |
|-----------------------------|-------------------|---|----------------------------------|-------------------|---|----------------------------------|
| Within one year             | 21,797            | 3   | 2,244                            | 21,114            | 6   | 2,298                            |
| Between one and two years   | 6,332             | 1   | 1,126                            | 49,759            | 13  | 4,388                            |
| Between two and three years | 47,325            | 7   | 675                              | 32,329            | 8   | 8,007                            |
| Over three years            | 595,961           | 89  | 249,461                          | 280,813           | 73  | 81,934                           |
|                             | <b>671,415</b>    | <b>100</b>  | <b>253,506</b>                   | <b>384,015</b>    | <b>100</b>  | <b>96,627</b>                    |

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## 10 Other receivables (continued)

### Current assets (continued)

#### The Company

|                             | Amount<br>Rmb'000 | 2003<br>Percentage<br>of total<br>other<br>receivables<br>% | Bad debt<br>provision<br>Rmb'000 | Amount<br>Rmb'000 | 2002<br>Percentage<br>of total<br>other<br>receivables<br>% | Bad debt<br>provision<br>Rmb'000 |
|-----------------------------|-------------------|---|----------------------------------|-------------------|---|----------------------------------|
| Within one year             | 16,041            | 2   | —                                | 30,082            | 8   | —                                |
| Between one and two years   | 19                | —   | —                                | 48,171            | 13  | 3,961                            |
| Between two and three years | 43,952            | 7   | —                                | 34,042            | 9   | 6,736                            |
| Over three years            | 604,792           | 91  | 237,965                          | 256,654           | 70  | 73,339                           |
|                             | 664,804           | 100   | 237,965                          | 368,949           | 100   | 84,036                           |

### Non-current assets

#### The Group and the Company

|                             | Amount<br>Rmb'000 | 2003<br>Percentage<br>of total<br>other<br>receivables<br>% | Bad debt<br>provision<br>Rmb'000 | Amount<br>Rmb'000 | 2002<br>Percentage<br>of total<br>other<br>receivables<br>% | Bad debt<br>provision<br>Rmb'000 |
|-----------------------------|-------------------|---|----------------------------------|-------------------|---|----------------------------------|
| Within one year             | —                 | —   | —                                | —                 | —   | —                                |
| Between one and two years   | —                 | —   | —                                | 1,153             | —   | —                                |
| Between two and three years | —                 | —   | —                                | 20,055            | 4   | —                                |
| Over three years            | 202,020           | 100   | 147,180                          | 495,658           | 96  | 142,749                          |
|                             | 202,020           | 100   | 147,180                          | 516,866           | 100   | 142,749                          |

Included in other receivables under current assets is an amount receivable from Guangzhou International Trust and Investment Corporation ("GZITIC") amounted to Rmb35,655,000 (2002: Rmb35,655,000). The original amount was Rmb145,657,000 and 75% provision had been made in prior years. GZITIC is in the process of corporate restructuring. Based on the assessment of recent restructuring developments, the directors are of the opinion that no further provision is required. No interest has been accrued in respect of this balance.

Included in 2002 under non-current assets is an amount receivable from a fellow subsidiary, Qingdao Taiyang Glass Industrial Co. Ltd. ("Taiyang"), amounted to Rmb314,608,000 (2002: Rmb314,608,000) and interest receivable amounted to Rmb45,008,000 (2002: Rmb31,587,000), which is secured by a special charge on Taiyang's fixed assets. As the fixed assets have been disposed of in March 2004 and the proceeds from the disposal will be used to repay the receivable of the Company shortly, the amount receivable has been reclassified from non-current assets to current assets during the year. Based on the assessment of the recoverability of the amount receivable, the directors are of the opinion that an additional provision for other receivable and interest receivable of Rmb198,196,000, resulting in a total of Rmb 229,783,000 (2002: Rmb31,587,000) is adequate. The balance is charged at the prevailing market interest rate.

In addition, included in other receivables under non-current assets is an amount receivable from an associated company, Jingxin, amounted to Rmb37,177,000 (2002: Rmb37,415,000). Provision amounted to Rmb32,747,000 has been made in prior years. Based on the assessment of Jingxin's recent financial position, the directors have made an additional provision amounted to Rmb4,430,000, resulting in a total of Rmb37,177,000 for the amount. The other shareholder of Jingxin is CLFG.

The five largest other receivables (after bad debt provision) at 31 December 2003 are as follows:

| Name of entity                        | Period of<br>original debts | Particulars       | Amount<br>Rmb'000 |
|---------------------------------------|-----------------------------|-------------------|-------------------|
| CLFG                                  | 1997 - 2003                 | Payment on behalf | 137,466           |
| Taiyang                               | 1996 - 2003                 | Payment on behalf | 129,833           |
| GZITIC                                | 1997 - 2003                 | Overdue deposit   | 35,655            |
| Luoyang Hi-tech Development Committee | 2001 - 2003                 | Refund of deposit | 19,186            |
| Guangdong Development Bank            | 2001 - 2003                 | Overdue deposit   | 12,000            |

Except for the amount due from the ultimate holding company, there are no balances due from shareholders who hold 5% or more shareholdings of the Company included in the balance of other receivables.

# Notes on the Financial Statements (Continued)

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## 11 Advance payments

The ageing analysis of advance payments is as follows:

### Current assets

#### The Group

|                             | Amount<br>Rmb'000 | 2003<br>Percentage<br>% | Amount<br>Rmb'000 | 2002<br>Percentage<br>% |
|-----------------------------|-------------------|-------------------------|-------------------|-------------------------|
| Within one year             | 12,700            | 60                      | 32,958            | 86                      |
| Between one and two years   | 890               | 4                       | 3,744             | 10                      |
| Between two and three years | 941               | 4                       | 133               | —                       |
| Over three years            | 6,525             | 32                      | 1,676             | 4                       |
|                             | <b>21,056</b>     | <b>100</b>              | <b>38,511</b>     | <b>100</b>              |

#### The Company

|                             | Amount<br>Rmb'000 | 2003<br>Percentage<br>% | Amount<br>Rmb'000 | 2002<br>Percentage<br>% |
|-----------------------------|-------------------|-------------------------|-------------------|-------------------------|
| Within one year             | 5,474             | 68                      | 30,223            | 86                      |
| Between one and two years   | 602               | 7                       | 3,146             | 9                       |
| Between two and three years | 293               | 4                       | 132               | —                       |
| Over three years            | 1,658             | 21                      | 1,676             | 5                       |
|                             | <b>8,027</b>      | <b>100</b>              | <b>35,177</b>     | <b>100</b>              |

### Non-current assets

Included in 2002 advance payments under non-current assets of the Group and the Company is an amount of Rmb32,124,000, which is paid to Luoyang Hi-tech Development District Holdings Co., for the acquisition of land use rights. The advance payment has been transferred to intangible assets in 2003.

The five largest advance payments at 31 December 2003 are as follows:

| Name of entity  | Period of<br>advance payments | Particulars              | Amount<br>Rmb'000 |
|---|-------------------------------|--------------------------|-------------------|
| Sinopec Luoyang Company                                   | 2003                          | Purchase of raw material | 4,592             |
| Xupu Silicon Chemical Co. Ltd.                            | 2003                          | Purchase of raw material | 1,242             |
| Zhanjiang Mazhang Yuefu Sales Company                     | 2003                          | Purchase of raw material | 1,155             |
| Hainan Yuzhou Metallurgy Material Import & Export Company | 2003                          | Purchase of raw material | 895               |
| Jiangsu Donghai Shiliu Manufacturing Company              | 2003                          | Purchase of raw material | 707               |

Except for the amount due from the ultimate holding company, there are no balances due from shareholders who hold 5% or more shareholdings of the Company included in the balance of advance payments.

## 12 Inventories

### The Group

|  | 2003<br>Rmb'000 | 2002<br>Rmb'000 |
|--|-----------------|-----------------|
| Raw materials  | 153,612         | 138,178         |
| Work in progress                                       | 11,249          | 11,715          |
| Finished goods   | 34,129          | 66,637          |
|  | <b>198,990</b>  | <b>216,530</b>  |
| Less: provision for diminution in value of inventories | <b>(14,038)</b> | <b>(14,835)</b> |
| Total  | <b>184,952</b>  | <b>201,695</b>  |

### The Company

|  | 2003<br>Rmb'000 | 2002<br>Rmb'000 |
|--|-----------------|-----------------|
| Raw materials  | 88,364          | 89,831          |
| Work in progress                                       | 4,109           | 3,516           |
| Finished goods   | 19,683          | 51,650          |
|  | <b>112,156</b>  | <b>144,997</b>  |
| Less: provision for diminution in value of inventories | <b>(13,090)</b> | <b>(14,835)</b> |
| Total  | <b>99,066</b>   | <b>130,162</b>  |

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## 12 Inventories (continued)

Provision for diminution in value of inventories:

### The Group

|                         | 2003                     |                             |                           |                  | 2002                     |                             |                           |                  |
|-------------------------|--------------------------|-----------------------------|---------------------------|------------------|--------------------------|-----------------------------|---------------------------|------------------|
|                         | Raw materials<br>Rmb'000 | Work in progress<br>Rmb'000 | Finished goods<br>Rmb'000 | Total<br>Rmb'000 | Raw materials<br>Rmb'000 | Work in progress<br>Rmb'000 | Finished goods<br>Rmb'000 | Total<br>Rmb'000 |
| Balance at 1 January    | 9,922                    | —                           | 4,913                     | 14,835           | 9,922                    | —                           | 422                       | 10,344           |
| Addition for the year   | 455                      | —                           | 948                       | 1,403            | —                        | —                           | 4,491                     | 4,491            |
| Write back for the year | —                        | —                           | (2,200)                   | (2,200)          | —                        | —                           | —                         | —                |
| Balance at 31 December  | 10,377                   | —                           | 3,661                     | 14,038           | 9,922                    | —                           | 4,913                     | 14,835           |

All the above inventories are either purchased or manufactured by the Group.

### The Company

|                         | 2003                     |                             |                           |                  | 2002                     |                             |                           |                  |
|-------------------------|--------------------------|-----------------------------|---------------------------|------------------|--------------------------|-----------------------------|---------------------------|------------------|
|                         | Raw materials<br>Rmb'000 | Work in progress<br>Rmb'000 | Finished goods<br>Rmb'000 | Total<br>Rmb'000 | Raw materials<br>Rmb'000 | Work in progress<br>Rmb'000 | Finished goods<br>Rmb'000 | Total<br>Rmb'000 |
| Balance at 1 January    | 9,922                    | —                           | 4,913                     | 14,835           | 9,922                    | —                           | 422                       | 10,344           |
| Addition for the year   | 455                      | —                           | —                         | 455              | —                        | —                           | 4,491                     | 4,491            |
| Write back for the year | —                        | —                           | (2,200)                   | (2,200)          | —                        | —                           | —                         | —                |
| Balance at 31 December  | 10,377                   | —                           | 2,713                     | 13,090           | 9,922                    | —                           | 4,913                     | 14,835           |

All the above inventories are either purchased or manufactured by the Company.

### The Group

|   | 2003<br>Rmb'000 | 2002<br>Rmb'000 |
|---|-----------------|-----------------|
| Cost of inventories charged to costs and expenses in the income statement | 835,670         | 788,332         |

### The Company

|   | 2003<br>Rmb'000 | 2002<br>Rmb'000 |
|---|-----------------|-----------------|
| Cost of inventories charged to costs and expenses in the income statement | 595,374         | 588,924         |

## 13 Deferred expenses

### The Group

|               | 2003<br>Rmb'000 | 2002<br>Rmb'000 |
|---------------|-----------------|-----------------|
| Packing racks | 39,587          | 58,134          |
| Others        | 2,368           | 3,762           |
|               | 41,955          | 61,896          |

### The Company

|              | 2003<br>Rmb'000 | 2002<br>Rmb'000 |
|--------------|-----------------|-----------------|
| Packing rack | 38,157          | 55,667          |
| Others       | 955             | 2,848           |
|              | 39,112          | 58,515          |

# Notes on the Financial Statements (Continued)

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## 14 Long-term equity investments

Details of long-term equity investments are as follows:

### The Group

|  | 2003<br>Rmb'000 | 2002<br>Rmb'000 |
|--|-----------------|-----------------|
| Interest in associated companies (note 15) | 174,659         | 203,476         |
| Other equity investments (note 16)         | 68,957          | 102,965         |
| Less: Impairment loss                      | (33,218)        | (26,986)        |
| Total other equity investments             | 35,739          | 75,979          |
| Total                                      | 210,398         | 279,455         |

### The Company

|  | 2003<br>Rmb'000 | 2002<br>Rmb'000 |
|--|-----------------|-----------------|
| Interest in subsidiaries (note 15)         | 69,330          | 43,158          |
| Interest in associated companies (note 15) | 174,659         | 203,476         |
| Other equity investments (note 16)         | 62,067          | 96,627          |
| Less: Impairment loss                      | (26,880)        | (20,648)        |
| Total other equity investments             | 35,187          | 75,979          |
| Total                                      | 279,176         | 322,613         |

## 15 Interest in subsidiaries and associated companies

### Interest in subsidiaries

#### The Company

|   | Cost<br>Rmb'000 | Share of the results of<br>subsidiaries under<br>equity method<br>Rmb'000 | Total<br>Rmb'000 |
|---|-----------------|---|------------------|
| At 1 January 2003                         | 166,846         | (123,688)   | 43,158           |
| Additions during the year                 | 600             | (9,176)   | (8,576)          |
| Newly consolidated subsidiaries (note 16) | 34,560          | 188   | 34,748           |
| Total                                     | 202,006         | (132,676)   | 69,330           |

At 31 December 2003, details of the Group's principal subsidiaries are as follows:

| Name of company                       | Legal representative/<br>Chairman | Registered capital<br>Rmb'000 | Direct attributable equity interest<br>% | Initial investment cost<br>Rmb'000 | Principal activities             | Note        |
|---------------------------------------|-----------------------------------|-------------------------------|--|------------------------------------|----------------------------------|-------------|
| Luobo Group Longmen Glass Company     | Wang Yongxin                      | 20,000                        | 79.06%                                   | 64,146                             | Manufacture of float sheet glass | (i)         |
| Chenzhou Bada Glass Co. Ltd. ("Bada") | Wang Yongxin                      | 150,000                       | 52.25%                                   | 62,700                             | Manufacture of float sheet glass | (ii)        |
| CLFG Yang Shao Glass Co. Ltd.         | Li Jinrang                        | 74,080                        | 54.00%                                   | 40,000                             | Manufacture of float sheet glass | (iii)       |
| Xiangfang Luoshen Auto Glass Co. Ltd. | Zhu Leibo                         | 30,000                        | 66.67%                                   | 20,000                             | Manufacture of auto glass        | (iii), (iv) |
| Yinan Mineral Products Co. Ltd.       | Wang Yongxin                      | 28,000                        | 52.00%                                   | 14,560                             | Exploration of minerals          | (iii), (iv) |
| Shenzhen Luobo Trading Co. Ltd.       | Gao Tianbao                       | 1,000                         | 60.00%                                   | 600                                | Selling of float sheet glass     | (iii), (v)  |

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## 15 Interest in subsidiaries and associated companies (continued)

Notes:

- (i) This subsidiary is a collective joint enterprise.
- (ii) This subsidiary is a joint stock limited liability company.

During 2000, China Merchant Bank has transferred its loan of Rmb84,800,000 that originally granted to Bada to China Hua Rong Assets Management Company ("Hua Rong"). During 2001, Bada, Hua Rong and the Company entered into an agreement under which Rmb30,000,000 out of the above loan was converted into equity. Consequently, the registered capital of Bada increased from Rmb120,000,000 to Rmb150,000,000. The increase in the registered capital has been approved by relevant government authorities and shareholders of Bada.

As the equity interest held by Hua Rong will be required to be redeemed in full by instalments and Hua Rong will not share any profit or loss of Bada, the registered capital of Rmb30,000,000 has been classified as preference shares.

At 31 December 2003, overdue, redeemable capital amounted to Rmb4,500,000 (2002: Rmb3,000,000).

- (iii) These subsidiaries are limited liability companies.
- (iv) In prior years, the results of Luoshen and Yinan were not consolidated as the directors consider that the operations of the subsidiaries were immaterial to the Group. Commencing 1 January 2003, the results of these subsidiaries are consolidated into the Group's financial statements. The Group's share of the subsidiaries' accumulated post-acquisition losses have been recognised in the current year's consolidated income statement.
- (v) This subsidiary was newly set up in 2003.

### Interest in associated companies

#### The Group and the Company

|                           | Cost<br>Rmb'000 | Share of the results of<br>associated companies<br>under equity method<br>Rmb'000 | Total<br>Rmb'000 |
|---------------------------|-----------------|---|------------------|
| At 1 January 2003         | 220,649         | (17,173)  | 203,476          |
| Additions during the year | —               | (28,817)  | (28,817)         |
| Total                     | 220,649         | (45,990)  | 174,659          |

At 31 December 2003, details of the associated companies of the Group and the Company are as follows:

| Name of company  | Registered<br>capital<br>Rmb'000 | Direct<br>attributable<br>equity interest<br>% | Initial<br>investment cost<br>Rmb'000 | Principal activities              |
|--|----------------------------------|--|---------------------------------------|-----------------------------------|
| Jingxin  | 41,945                           | 49.00%   | 20,553                                | Manufacture of ceramic wall tiles |
| China Luoyang Float<br>Glass Group Financial<br>Company of Limited<br>Liabilities ("CLFC") | 300,000                          | 37.00%   | 111,000                               | Provision of financial services   |
| CPGC   | 181,496                          | 49.09%   | 89,096                                | Processed glass                   |

## 16 Other equity investments

Other equity investments included long-term equity investments for which the Company has no control, jointly control nor exercise significant influence.

|  | 2003<br>Rmb'000 |
|--|-----------------|
| At 1 January 2003                                    | 102,965         |
| Add: Additions during the year                       | 552             |
| Less: Transfer to interest in subsidiaries (note 15) | (34,560)        |
| Sub-total  | 68,957          |
| Less: Provision for impairment loss                  | —               |
| At 1 January 2003                                    | (26,986)        |
| Add: Additions during the year                       | (6,232)         |
| Sub-total  | (33,218)        |
| At 31 December 2003                                  | 35,739          |

# Notes on the Financial Statements (Continued)

For the year ended 31 December 2003  
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## 17 Fixed assets

### The Group

|   | Buildings<br>Rmb'000 | Plant,<br>machinery<br>and<br>equipment<br>Rmb'000 | Motor<br>vehicles<br>Rmb'000 | Total<br>Rmb'000 |
|---|----------------------|--|------------------------------|------------------|
| <b>Cost</b>   |                      |  |                              |                  |
| At 1 January 2003                                       | 409,475              | 1,003,655  | 14,270                       | 1,427,400        |
| Additions:  |                      |  |                              |                  |
| - in respect of newly consolidated subsidiaries         | 27,588               | 21,592   | 5,859                        | 55,039           |
| - others  | 8,257                | 8,412  | 4,112                        | 20,781           |
| Reclassification  | 7,095                | (7,095)  | —                            | —                |
| Transfer from construction in progress (note 19)        | 7,284                | 30,591   | —                            | 37,875           |
| Disposals   | (3,798)              | (15,437)   | (2,177)                      | (21,412)         |
| At 31 December 2003                                     | 455,901              | 1,041,718  | 22,064                       | 1,519,683        |
| <b>Accumulated depreciation</b>                         |                      |  |                              |                  |
| At 1 January 2003                                       | 90,925               | 398,320  | 10,481                       | 499,726          |
| Additions in respect of newly consolidated subsidiaries | 2,788                | 4,268  | 2,010                        | 9,066            |
| Charge for the year                                     | 12,934               | 64,223   | 1,383                        | 78,540           |
| Reclassification  | (505)                | 505  | —                            | —                |
| Written back on disposal                                | (791)                | (4,229)  | (857)                        | (5,877)          |
| At 31 December 2003                                     | 105,351              | 463,087  | 13,017                       | 581,455          |
| <b>Net book value</b>                                   |                      |  |                              |                  |
| At 31 December 2003                                     | 350,550              | 578,631  | 9,047                        | 938,228          |
| At 31 December 2002                                     | 318,550              | 605,335  | 3,789                        | 927,674          |

### The Company

|  | Buildings<br>Rmb'000 | Plant,<br>machinery<br>and<br>equipment<br>Rmb'000 | Motor<br>vehicles<br>Rmb'000 | Total<br>Rmb'000 |
|--|----------------------|--|------------------------------|------------------|
| <b>Cost</b>                                      |                      |  |                              |                  |
| At 1 January 2003                                | 218,577              | 632,667  | 3,747                        | 854,991          |
| Additions  | 889                  | 557  | 3,057                        | 4,503            |
| Transfer from construction in progress (note 19) | 5,388                | 4,251  | —                            | 9,639            |
| Disposals  | (1,045)              | (4,009)  | (1,793)                      | (6,847)          |
| At 31 December 2003                              | 223,809              | 633,466  | 5,011                        | 862,286          |
| <b>Accumulated depreciation</b>                  |                      |  |                              |                  |
| At 1 January 2003                                | 59,914               | 315,160  | 2,178                        | 377,252          |
| Charge for the year                              | 5,919                | 38,020   | 409                          | 44,348           |
| Written back on disposal                         | (537)                | (1,675)  | (688)                        | (2,900)          |
| At 31 December 2003                              | 65,296               | 351,505  | 1,899                        | 418,700          |
| <b>Net book value</b>                            |                      |  |                              |                  |
| At 31 December 2003                              | 158,513              | 281,961  | 3,112                        | 443,586          |
| At 31 December 2002                              | 158,663              | 317,507  | 1,569                        | 477,739          |

## 18 Construction materials

At 31 December 2003, construction materials of the Group and the Company mainly represent the materials to be used for construction projects.

# Notes on the Financial Statements (Continued)

For the year ended 31 December 2003  
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## 19 Construction in progress

Construction in progress comprises expenditure incurred during the construction of buildings, plant, machinery and equipment not yet completed at 31 December 2003.

### The Group

|   | Rmb'000 |
|---|---------|
| At 1 January 2003                               | 5,620   |
| Additions                                       |         |
| - in respect of newly consolidated subsidiaries | 1,117   |
| - others  | 32,376  |
|   | 39,113  |
| Transfer to fixed assets (note 17)              | 37,875  |
| At 31 December 2003                             | 1,238   |

### The Company

|                                    | Rmb'000 |
|------------------------------------|---------|
| At 1 January 2003                  | 4,048   |
| Additions                          | 5,664   |
|                                    | 9,712   |
| Transfer to fixed assets (note 17) | 9,639   |
| At 31 December 2003                | 73      |

## 20 Intangible assets

### The Group

|   | Land use rights<br>Rmb'000 | Trademark<br>Rmb'000 | Total<br>Rmb'000 |
|---|----------------------------|----------------------|------------------|
| <b>Cost</b>                                     |                            |                      |                  |
| At 1 January 2003                               | 152,991                    | 7,400                | 160,391          |
| Additions                                       |                            |                      |                  |
| - in respect of newly consolidated subsidiaries | 11,709                     | —                    | 11,709           |
| - additions during the year                     | 34,720                     | —                    | 34,720           |
| At 31 December 2003                             | 199,420                    | 7,400                | 206,820          |
| <b>Less: Accumulated amortisation</b>           |                            |                      |                  |
| At 1 January 2003                               | 25,176                     | 651                  | 25,827           |
| Additions                                       |                            |                      |                  |
| - in respect of newly consolidated subsidiaries | 1,323                      | —                    | 1,323            |
| - additions during the year                     | 3,486                      | 372                  | 3,858            |
| At 31 December 2003                             | 29,985                     | 1,023                | 31,008           |
| <b>Net book value</b>                           |                            |                      |                  |
| At 31 December 2003                             | 169,435                    | 6,377                | 175,812          |
| At 31 December 2002                             | 127,815                    | 6,749                | 134,564          |



# Notes on the Financial Statements (Continued)

For the year ended 31 December 2003  
(Prepared under the PRC Accounting Rules and Regulations)  
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## 20 Intangible assets (continued)

### The Company

|                                       | Land use rights<br>Rmb'000 |
|---------------------------------------|----------------------------|
| <b>Cost</b>                           |                            |
| At 1 January 2003                     | 107,342                    |
| Additions                             | 34,720                     |
| At 31 December 2003                   | 142,062                    |
| <b>Less: Accumulated amortisation</b> |                            |
| At 1 January 2003                     | 18,495                     |
| Charge for the year                   | 2,476                      |
| At 31 December 2003                   | 20,971                     |
| <b>Net book value</b>                 |                            |
| At 31 December 2003                   | 121,091                    |
| At 31 December 2002                   | 88,847                     |

- (i) The terms of the Group's land use rights range from 23 to 60 years, in which Rmb107,342,000 is invested by CLFG and Rmb92,078,000 is purchased from third parties. The remaining useful lives range from 18 to 50 years. The certificate of land use rights amounted to Rmb34,720,000 is in the process of application. The Group has commenced to use the land.
- (ii) Trademark of a subsidiary of the Company is invested by CLFG and is amortised over 20 years.

## 21 Short-term loans

### (a) The Group

|  | 2003<br>Rmb'000 | 2002<br>Rmb'000 |
|--|-----------------|-----------------|
| Bank loans   | 568,000         | 668,000         |
| Loans from ultimate holding company                  | 173,450         | 146,800         |
| Loans from associated companies                      | 99,000          | 77,000          |
| Loans from non-bank financial institutions (overdue) | 6,460           | 1,980           |
|  | <b>846,910</b>  | <b>893,780</b>  |

### The Company

|                                     | 2003<br>Rmb'000 | 2002<br>Rmb'000 |
|-------------------------------------|-----------------|-----------------|
| Bank loans                          | 554,000         | 639,000         |
| Loans from ultimate holding company | 71,630          | 71,700          |
| Loans from associated companies     | 84,000          | 64,000          |
|                                     | <b>709,630</b>  | <b>774,700</b>  |

Except for the amount due from the ultimate holding company, there are no loans due from shareholders who hold 5% or more shareholdings of the Company included in the balance of short-term loans.

# Notes on the Financial Statements (Continued)

For the year ended 31 December 2003  
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## 21 Short-term loans (continued)

(b) The Group's and the Company's short-term loans are set out as follows:

| Lenders  | Secured or guaranteed   | Contracted interest rate per annum | Original currency | At 31 December 2003<br>Rmb'000 |
|--|---|------------------------------------|-------------------|--------------------------------|
| <b>Bank loans</b>                              |   |                                    |                   |                                |
| Luoyang City Commercial Bank                   | Guaranteed  | 5.04%                              | —                 | 20,000                         |
| China Construction Bank                        | Guaranteed  | 5.31%                              | —                 | 100,000                        |
| China Everbright Bank                          | Loans of Rmb30,000,000 were secured by deposits of the same amount/ loans of Rmb30,000,000 were guaranteed by a third party   | 5.31%                              | —                 | 60,000                         |
| Bank of China                                  | Guaranteed  | 5.31%                              | —                 | 199,000                        |
| Bank of Communications                         | Loans of Rmb60,000,000 were secured by deposits of the same amount/ loans of Rmb55,000,000 were guaranteed by a third party/ Rmb60,000,000 guaranteed by ultimate holding company | 5.04% ~ 5.31%                      | —                 | 175,000                        |
|  |   |                                    |                   | <b>554,000</b>                 |
| <b>Loans from the ultimate holding company</b> | —   | 5.310% ~ 5.841%                    | —                 | <b>71,630</b>                  |
| <b>Loans from associated companies</b>         | Guaranteed  | 5.31% ~ 5.49%                      | —                 | <b>84,000</b>                  |
| <b>Short-term loans (the Company)</b>          |   |                                    |                   | <b>709,630</b>                 |
| <b>Bank loans</b>                              |   |                                    |                   |                                |
| Agricultural Bank of China                     | Guaranteed  | 7.02%                              | —                 | 14,000                         |
| <b>Loans from ultimate holding company</b>     | —   | 5.310% ~ 5.841%                    | —                 | <b>101,820</b>                 |
| <b>Loans from associated companies</b>         | Guaranteed  | 5.840% ~ 5.841%                    | —                 | <b>15,000</b>                  |
| <b>Hua Rong (overdue)</b>                      | Guaranteed  | 2.26%                              | —                 | <b>6,460</b>                   |
|  |   |                                    |                   | <b>137,280</b>                 |
| <b>Short-term loans (the Group)</b>            |   |                                    |                   | <b>846,910</b>                 |

## 22 Bills payable

Bills payable primarily represent the bank accepted bills for the purchase of raw materials, goods and products. The repayment term normally ranges from one to six months.

There are no amounts due to shareholders who hold 5% or more shareholdings of the Company included in the balance of bills payable.

## 23 Trade and other payables

Trade and other payables included trade creditors, receipts in advance, other payables and other creditors. Except for the ultimate holding company, there are no balances due to shareholders who hold 5% or more shareholdings of the Company included in trade and other payables. The details of the amount due to the ultimate holding company are set out in note 34.

At 31 December 2003, the Group and the Company had no individually significant trade payables, other payables and other creditors aged over three years. Also, the Group and the Company had no individually significant receipts in advance aged over 1 year.

# Notes on the Financial Statements (Continued)

For the year ended 31 December 2003  
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## 24 Accrued expenses

### The Group

|                       | 2003<br>Rmb'000 | 2002<br>Rmb'000 |
|-----------------------|-----------------|-----------------|
| Water and electricity | 4,446           | —               |
| Audit fee             | 1,500           | 1,500           |
| Interest expenses     | 4,736           | 3,567           |
| Others                | 2,071           | 4,121           |
|                       | <b>12,753</b>   | <b>9,188</b>    |

### The Company

|           | 2003<br>Rmb'000 | 2002<br>Rmb'000 |
|-----------|-----------------|-----------------|
| Audit fee | 1,500           | 1,500           |
| Others    | 183             | 234             |
|           | <b>1,683</b>    | <b>1,734</b>    |

## 25 Long-term loans

### (a) The Company's and the Group's long-term loans are set out as follows:

| Lenders                                   | Guaranteed or secured | Maturity date | Contracted annual interest rate in 2003 | Original currency '000 | Exchange rate | Amount with maturity within 1 year Rmb'000 | Amount with maturity over 1 year Rmb'000 | Balance at 31 December 2003 Rmb'000 |
|---|-----------------------|---------------|---|------------------------|---------------|--|--|-------------------------------------|
| Ultimate holding company                  | —                     | 2004 - 2006   | 6.03%                                   | Rmb67,930              | —             | 20,000                                     | 47,930                                   | 67,930                              |
| Bank loans<br>- Bank of China             | Guaranteed            | 2004 - 2019   | 2.5% (i)                                | Euro855                | 10.3383       | 620  | 8,222                                    | 8,842                               |
| <b>Long-term loans (the Company)</b>      |                       |               |   |                        |               | 20,620                                     | 56,152                                   | 76,772                              |
| Non-bank financial institutions           | Guaranteed            | 2004 - 2008   | 2.26%                                   | Rmb38,360              | —             | 5,480                                      | 32,880                                   | 38,360                              |
| Loans from associated companies<br>- CLFC | Guaranteed            | 2004          | 6.534%                                  | Rmb2,000               | —             | 2,000                                      | —  | 2,000                               |
| - CLFC                                    | —                     | 2004          | 6.04%                                   | Rmb12,000              | —             | 12,000                                     | —  | 12,000                              |
| - CLFC                                    | Guaranteed            | 2005          | 5.49%                                   | Rmb5,000               | —             | —  | 5,000                                    | 5,000                               |
|   |                       |               |   |                        |               | 14,000                                     | 5,000                                    | 19,000                              |
| Bank loans<br>- Commercial Bank of China  | Guaranteed            | 2004 - 2005   | 7.14%                                   | Rmb478                 | —             | 241  | 237                                      | 478                                 |
|   |                       |               |   |                        |               | 19,721                                     | 38,117                                   | 57,838                              |
| <b>Long-term loans (the Group)</b>        |                       |               |   |                        |               | 40,341                                     | 94,269                                   | 134,610                             |

(i) Interest rate fluctuates based on prevailing interest rate of the Organisation for Economic Co-operation and Development.

# Notes on the Financial Statements (Continued)

For the year ended 31 December 2003  
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## 25 Long-term loans (continued)

(b) The repayment terms of long-term loans repayable over one year are set out as follows:

### The Group

|                              | 2003<br>Rmb'000 | 2002<br>Rmb'000 |
|------------------------------|-----------------|-----------------|
| Between one and two years    | 34,076          | 27,949          |
| Between two and three years  | 36,770          | 28,689          |
| Between three and five years | 18,299          | 45,308          |
| Over five years              | 5,124           | 13,708          |
|                              | <b>94,269</b>   | <b>115,654</b>  |

### The Company

|                              | 2003<br>Rmb'000 | 2002<br>Rmb'000 |
|------------------------------|-----------------|-----------------|
| Between one and two years    | 20,619          | 20,469          |
| Between two and three years  | 28,550          | 20,469          |
| Between three and five years | 1,859           | 28,868          |
| Over five years              | 5,124           | 5,488           |
|                              | <b>56,152</b>   | <b>75,294</b>   |

Except for the amount due to the ultimate holding company, there are no loans due to shareholders who hold 5% or more shareholdings of the Company included in the balance of long-term loans.

## 26 Share capital

|  | 2003<br>Rmb'000 | 2002<br>Rmb'000 |
|--|-----------------|-----------------|
| <b>Registered, issued and paid up capital:</b>     |                 |                 |
| <i>Unlisted shares</i>                             |                 |                 |
| 400,000,000 State-owned 'A' shares of Rmb1.00 each | 400,000         | 400,000         |
| <i>Listed shares</i>                               |                 |                 |
| 250,000,000 'H' shares of Rmb1.00 each             | 250,000         | 250,000         |
| 50,000,000 'A' shares of Rmb1.00 each              | 50,000          | 50,000          |
|  | <b>300,000</b>  | <b>300,000</b>  |
|  | <b>700,000</b>  | <b>700,000</b>  |

All the 'A' and 'H' shares rank pari passu in all material respects.

## 27 Capital reserve

|                                      | 2003<br>Rmb'000 | 2002<br>Rmb'000 |
|--------------------------------------|-----------------|-----------------|
| <b>The Group</b>                     |                 |                 |
| Balance at 1 January                 | 970,132         | 969,988         |
| Addition: Waiver of debts            | 396             | 144             |
| Balance at 31 December               | <b>970,528</b>  | <b>970,132</b>  |
| <b>The Company</b>                   |                 |                 |
| Balance at 1 January and 31 December | <b>969,988</b>  | <b>969,988</b>  |

# Notes on the Financial Statements (Continued)

For the year ended 31 December 2003  
(Prepared under the PRC Accounting Rules and Regulations)  
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## 28 Surplus reserves

Movements in surplus reserves comprise:

|  | Statutory<br>surplus<br>reserve<br>Rmb'000 | Statutory<br>public<br>welfare<br>fund<br>Rmb'000 | Discretionary<br>surplus<br>reserve<br>Rmb'000 | Total<br>Rmb'000 |
|--|--|---|--|------------------|
| <b>The Group</b>                               |  |   |  |                  |
| Balance at 1 January 2003                      | 57,900                                     | 55,142  | 110,764  | 223,806          |
| Appropriations                                 | 178  | 90  | —  | 268              |
| Balance at 31 December 2003                    | 58,078                                     | 55,232  | 110,764  | 224,074          |
| <b>The Company</b>                             |  |   |  |                  |
| Balance at 1 January 2003 and 31 December 2003 | 51,366                                     | 51,366  | 110,764  | 213,496          |

The transfer of distributable profits to the above reserves is made in accordance with the requirements of the PRC Company Law, the Company's and its subsidiaries' Articles of Association.

## 29 Income from principal operations

Income from principal operations represents the invoiced value of goods sold to customers.

For the year ended 31 December 2003, revenue from sales to top five customers amounted to Rmb111,054,000 (2002: Rmb91,570,000) which accounted for 11% (2002: 11%) of income from principal operations of the Group.

## 30 Business tax and surcharges

### The Group

|                       | Tax rate and basis | 2003<br>Rmb'000 | 2002<br>Rmb'000 |
|-----------------------|--------------------|-----------------|-----------------|
| City Construction Tax | 1% - 7% on VAT     | 2,029           | 1,673           |
| Education Surcharge   | 3% - 5% on VAT     | 1,001           | 717             |
|                       |                    | 3,030           | 2,390           |

### The Company

|                       | Tax rate and basis | 2003<br>Rmb'000 | 2002<br>Rmb'000 |
|-----------------------|--------------------|-----------------|-----------------|
| City Construction Tax | 7% on VAT          | 1,224           | 1,084           |
| Education Surcharge   | 3% on VAT          | 524             | 465             |
|                       |                    | 1,748           | 1,549           |

## 31 Financial expenses

### The Group

|                          | 2003<br>Rmb'000 | 2002<br>Rmb'000 |
|--------------------------|-----------------|-----------------|
| Interest expenses        | (58,920)        | (62,305)        |
| Interest income          | 19,898          | 17,844          |
| Net exchange losses      | (1,684)         | (1,252)         |
| Other financial expenses | (1,779)         | (2,629)         |
|                          | (42,485)        | (48,342)        |

### The Company

|                          | 2003<br>Rmb'000 | 2002<br>Rmb'000 |
|--------------------------|-----------------|-----------------|
| Interest expenses        | (46,176)        | (50,438)        |
| Interest income          | 19,027          | 17,606          |
| Net exchange losses      | (1,684)         | (1,252)         |
| Other financial expenses | (1,314)         | (135)           |
|                          | (30,147)        | (34,219)        |

# Notes on the Financial Statements (Continued)

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## 32 Investment (loss)/income

### The Group

|  | 2003<br>Rmb'000 | 2002<br>Rmb'000 |
|--|-----------------|-----------------|
| Investment income from other long-term investments             |                 |                 |
| - under cost method  | 3,300           | 2,854           |
| - under equity method  | (28,817)        | 9,030           |
| Provision for impairment loss on other long-term investments   | (6,044)         | (10,838)        |
| Provision for diminution in value on short-term investments    | (34,300)        | —               |
| Interest income from designated loans                          | 587             | 1,888           |
| Share of accumulated losses of newly consolidated subsidiaries | (3,781)         | —               |
|  | <b>(69,055)</b> | <b>2,934</b>    |

### The Company

|  | 2003<br>Rmb'000 | 2002<br>Rmb'000 |
|--|-----------------|-----------------|
| Investment income from other long-term investments           |                 |                 |
| - under cost method  | 3,300           | 2,854           |
| - under equity method  | (37,993)        | (63,802)        |
| Provision for impairment loss on other long-term investments | (6,044)         | (10,838)        |
| Provision for diminution in value on short-term investments  | (34,300)        | —               |
| Interest income from designated loans                        | 9,623           | 1,888           |
|  | <b>(65,414)</b> | <b>(69,898)</b> |

## 33 Non-operating expenses

### The Group

|   | 2003<br>Rmb'000 | 2002<br>Rmb'000 |
|---|-----------------|-----------------|
| Loss on disposal of fixed assets              | (7,028)         | (46,064)        |
| Provision for impairment loss on fixed assets | —               | (11,269)        |
| Others  | (2,877)         | (2,164)         |
|   | <b>(9,905)</b>  | <b>(59,497)</b> |

### The Company

|   | 2003<br>Rmb'000 | 2002<br>Rmb'000 |
|---|-----------------|-----------------|
| Loss on disposal of fixed assets              | (2,831)         | —               |
| Provision for impairment loss on fixed assets | —               | (11,269)        |
| Others  | (1,227)         | (1,624)         |
|   | <b>(4,058)</b>  | <b>(12,893)</b> |

## 34 Related party transactions

### (a) Related party with controlling interest:

|                                |   |
|--------------------------------|---|
| Name of enterprise             | : China Luoyang Float Glass Group Company of Limited Liabilities ("CLFG")   |
| Economic status                | : Limited liability company (Solely owned by the State)   |
| Registered capital             | : Rmb1,286,740,000  |
| Legal representative           | : Liu Baoying   |
| Relationship with the Group    | : Ultimate holding company  |
| Principal activities           | : Production of glass, related raw materials and equipment, import, export and domestic sales of glass, processing technology, design and sub-contracting of engineering works, labour export, provision of industrial production material (excluding those under control of the State), technological service, consultation service and goods transportation |
| Equity interest in the Company | : 57.14%  |

There is no movement in the above registered capital during the year.

# Notes on the Financial Statements (Continued)

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## 34 Related party transactions (continued)

### (b) Related parties without controlling interest:

| Name of Enterprise   | Relation with the Company         |
|--|-----------------------------------|
| China Luoyang Float Glass Group Financial Company of Limited Liabilities | Associated company of the Company |
| CLFG Luoyang Hoisting Machinery Co. Ltd.                                 | Fellow subsidiary of CLFG         |
| CLFG New Illuminating Source Co. Ltd.                                    | Fellow subsidiary of CLFG         |
| CLFG Jingwei Glass Fibre Co. Ltd.  | Fellow subsidiary of CLFG         |
| CLFG Luoyang Jingjiu Glass Container Co. Ltd.                            | Fellow subsidiary of CLFG         |
| Luoyang Jingbao Decoration Glass Co. Ltd.                                | Fellow subsidiary of CLFG         |
| CLFG Qingdao Taiyang Glass Industrial Co. Ltd.                           | Fellow subsidiary of CLFG         |
| CLFG Luoyang Jingrun Coating Glass Co. Ltd.                              | Fellow subsidiary of CLFG         |
| CLFG Luoyang Jinghua Industrial Co. Ltd.                                 | Fellow subsidiary of CLFG         |
| Luoyang Xiangyu Industrial Co.   | Fellow subsidiary of CLFG         |
| Luoyang Technology Glass Company   | Fellow subsidiary of CLFG         |
| CLFG New Era Export Limited Liability Co. Ltd.                           | Fellow subsidiary of CLFG         |
| China Luoyang Float Glass (Group) Processed Glass Company Limited        | Associated company of the Company |
| Luoyang Luobo Hotel  | Fellow subsidiary of CLFG         |
| CLFG Mineral Products Co. Ltd.   | Fellow subsidiary of CLFG         |
| Luoyang Jingxin Ceramic Co. Ltd.   | Associated company of the Company |
| CLFG Xinxing Co. Ltd.  | Fellow subsidiary of CLFG         |

### (c) The amounts of related party transactions of the Group during the year and the balances of the current account items are summarised as follows:

Transactions between the Group and CLFG were as follows:

|   | Note  | 2003<br>Rmb'000 | 2002<br>Rmb'000 |
|---|-------|-----------------|-----------------|
| Ancillary and social services                                     | (i)   | 2,917           | 3,065           |
| Provision of utilities  | (ii)  | 422             | 385             |
| Interest paid and payable   |       | 16,444          | 15,001          |
| Interest received and receivable                                  |       | 1,972           | 8,320           |
| Guarantees issued by CLFG to the suppliers in favour of the Group |       | —               | 90,000          |
| Guarantees issued by CLFG to banks in favour of the Group         |       | 170,000         | 254,000         |
| Indirect guarantees   | (iii) | 294,000         | 464,763         |

Notes:

- The Company has entered into a three-year agreement with CLFG effective 3 August 2001. 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.
- The Company has entered into a three-year agreement with CLFG effective 3 August 2001 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.
- 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 banks and suppliers in favour of the Company.

Transactions between the Group and fellow subsidiaries were as follows:

|                                  | Note  | 2003<br>Rmb'000 | 2002<br>Rmb'000 |
|----------------------------------|-------|-----------------|-----------------|
| Sales                            |       | 34,948          | 12,153          |
| Ancillary and social services    | (i)   | 5,303           | 4,850           |
| Provision of utilities           | (ii)  | 11,960          | 10,348          |
| Purchase of raw materials        | (iii) | 18,879          | 35,560          |
| Other purchases                  |       | 4,609           | 10,634          |
| Interest paid and payable        |       | 7,069           | 7,310           |
| Interest received and receivable |       | 14,069          | 17,259          |

# Notes on the Financial Statements (Continued)

For the year ended 31 December 2003  
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## 34 Related party transactions (continued)

- (c) The amounts of related party transactions of the Group during the year and the balances of the current account items are summarised as follows: (continued)

Notes:

- (i) The Company has entered into a three-year agreement with a CLFG's subsidiary, CLFG Xinxing Co. Ltd. ("Xinxing"), effective 3 August 2001 by which Xinxing provides certain social welfare and support services such as education, property management, medical care and transportation services to the staff of the Company. The agreement is supplementary amended on 22 July 2002. The amount charged by Xinxing is based on a reasonable cost incurred in providing such services plus respective tax charge.
- (ii) The Company has entered into three-year agreements with certain CLFG's subsidiaries, including Xinxing, CLFG New Illuminating Source Co. Ltd., CLFG Jingwei Glass Fibre Co. Ltd., CLFG Jinghua Industrial Co. Ltd. and Luoyang Luobo Hotel effective 3 August 2001. In accordance with these agreements, 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.
- (iii) The Company has entered into a three-year agreements with CLFG's subsidiary, CLFG Mineral Product Co. Ltd. ("Mineral Co"), effective 3 August 2001 by which Mineral Co supplies certain raw materials to the Company at market prices.

In addition, the Company has made the following provision for bad debts against the amounts due from related parties.

|   | 2003<br>Rmb'000 | 2002<br>Rmb'000 |
|---|-----------------|-----------------|
| Provision for amounts due from the ultimate holding company | 93,532          | 60,560          |
| Provision for amounts due from fellow subsidiaries          | 306,122         | 40,989          |

Included in the following balance sheet captions are balances with the ultimate holding company and fellow subsidiaries:

### The Group

|  | 2003<br>Rmb'000 | CLFG<br>2002<br>Rmb'000 | Fellow subsidiaries<br>2003<br>Rmb'000 | 2002<br>Rmb'000 |
|--|-----------------|-------------------------|--|-----------------|
| <b>Assets</b>                          |                 |                         |  |                 |
| Cash at non-bank financial institution | —               | —                       | 27,244                                 | 40,499          |
| Short-term investments                 | —               | —                       | 11,000                                 | 45,300          |
| Trade receivables                      | 63              | 29,097                  | 8,765                                  | 3,622           |
| Advance payments                       | —               | —                       | —                                      | 4,386           |
| Other receivables                      | 137,550         | 124,457                 | 255,867                                | 533,413         |
| <b>Liabilities</b>                     |                 |                         |  |                 |
| Short-term loans                       | 173,450         | 146,800                 | 99,000                                 | 77,000          |
| Trade creditors                        | —               | —                       | 4,316                                  | 6,779           |
| Receipts in advance                    | 1,428           | 876                     | 2,060                                  | 4,138           |
| Other payables                         | 7,279           | 27,953                  | 4,828                                  | 9,853           |
| Long-term loans                        | 67,930          | 117,930                 | 19,000                                 | 16,000          |

Included in the following balance sheet captions are balances with the ultimate holding company and fellow subsidiaries:

### The Company

|  | 2003<br>Rmb'000 | CLFG<br>2002<br>Rmb'000 | Fellow subsidiaries<br>2003<br>Rmb'000 | 2002<br>Rmb'000 |
|--|-----------------|-------------------------|--|-----------------|
| <b>Assets</b>                          |                 |                         |  |                 |
| Cash at non-bank financial institution | —               | —                       | 18,338                                 | 39,555          |
| Short-term investments                 | —               | —                       | 11,000                                 | 45,300          |
| Trade receivables                      | —               | 29,062                  | 2,485                                  | 3,611           |
| Advance payments                       | —               | —                       | —                                      | 3,711           |
| Other receivables                      | 129,906         | 118,557                 | 253,388                                | 521,995         |
| <b>Liabilities</b>                     |                 |                         |  |                 |
| Short-term loans                       | 71,630          | 71,700                  | 84,000                                 | 64,000          |
| Trade creditors                        | —               | —                       | 3,850                                  | 4,081           |
| Receipts in advance                    | 470             | 601                     | 1,980                                  | 3,410           |
| Other payables                         | 7,165           | 27,249                  | 4,810                                  | 9,378           |
| Long-term loans                        | 67,930          | 87,930                  | —                                      | —               |



# Notes on the Financial Statements (Continued)

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## 35 Commitments

Capital commitments

At 31 December 2003, the Group and the Company had the following capital commitments:

### The Group

|                                   | 2003<br>Rmb'000 | 2002<br>Rmb'000 |
|-----------------------------------|-----------------|-----------------|
| Contracted but not provided for   |                 |                 |
| - overhaul project                | —               | 13,397          |
| - construction project            | 177             | —               |
| Authorised but not contracted for |                 |                 |
| - overhaul project                | —               | 16,121          |
| - construction project            | 861             | —               |
| Total                             | 1,038           | 29,518          |

### The Company

|                                   | 2003<br>Rmb'000 | 2002<br>Rmb'000 |
|-----------------------------------|-----------------|-----------------|
| Contracted but not provided for   |                 |                 |
| - construction project            | 177             | —               |
| Authorised but not contracted for |                 |                 |
| - construction project            | 861             | —               |
| Total                             | 1,038           | —               |

## 36 Contingent liabilities

At 31 December 2003, contingent liabilities were as follows:

|  | The Group       |                 | The Company     |                 |
|--|-----------------|-----------------|-----------------|-----------------|
|  | 2003<br>Rmb'000 | 2002<br>Rmb'000 | 2003<br>Rmb'000 | 2002<br>Rmb'000 |
| Guarantees issued to banks in favour of subsidiaries                                     | —               | —               | 20,000          | 69,320          |
| Guarantees issued to CLFC in favour of subsidiaries                                      | —               | —               | 34,000          | —               |
| Guarantees issued to CLFG in favour of subsidiaries                                      | —               | —               | 83,820          | —               |
| Guarantees issued to bank and non-bank financial institutions in favour of third parties | 14,500          | 16,500          | 14,500          | 16,500          |
|  | 14,500          | 16,500          | 152,320         | 85,820          |

## 37 Retirement benefits

As stipulated by the regulations of the PRC, the Group has participated in defined contribution retirement plans organised by the local authority for its employees. Under this arrangement, the Group is required to make contributions to the retirement plans at a rate from 23% to 28% (2002: 28%) 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/her basic salary at the retirement date. The Group has no material obligation for the payment of pension benefits other than its annual contributions.

## 38 Comparative figures

Certain comparative figures have been reclassified to conform with the current year's presentation.

# Notes on the Financial Statements (Continued)

For the year ended 31 December 2003  
(Prepared under the PRC Accounting Rules and Regulations)  
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## 39 Segmental report

The Group's turnover and operating result are almost entirely generated from the manufacture and sales of float sheet glass. Accordingly, no business segment information is provided. Segmental revenue is based on the geographical location of customers. The Group's assets are almost entirely situated in the PRC and no segment assets are provided.

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

### 2003:

|                                  | PRC<br>Rmb'000 | Asia<br>Rmb'000 | America<br>Rmb'000 | Oceania<br>Rmb'000 | Others<br>Rmb'000 | Total<br>Rmb'000 |
|----------------------------------|----------------|-----------------|--------------------|--------------------|-------------------|------------------|
| Income from principal operations | 849,727        | 75,495          | 27,748             | 19,129             | 6,747             | 978,846          |
| Cost of sales                    | (732,020)      | (60,604)        | (22,274)           | (15,356)           | (5,416)           | (835,670)        |
| Business tax and surcharges      | (3,030)        | —               | —                  | —                  | —                 | (3,030)          |
| Operating expenses               | (23,389)       | (9,389)         | (3,451)            | (2,379)            | (839)             | (39,447)         |
| Administrative expenses          | (282,395)      | (26,269)        | (9,851)            | (6,567)            | (3,282)           | (328,364)        |
| Financial expenses               | (36,537)       | (3,399)         | (1,275)            | (850)              | (424)             | (42,485)         |
| Loss from principal operations   | (227,644)      | (24,166)        | (9,103)            | (6,023)            | (3,214)           | (270,150)        |

### 2002:

|                                  | PRC<br>Rmb'000 | Asia<br>Rmb'000 | America<br>Rmb'000 | Oceania<br>Rmb'000 | Others<br>Rmb'000 | Total<br>Rmb'000 |
|----------------------------------|----------------|-----------------|--------------------|--------------------|-------------------|------------------|
| Income from principal operations | 747,566        | 55,502          | 11,133             | 7,137              | 3,856             | 825,194          |
| Cost of sales                    | (727,210)      | (43,701)        | (8,766)            | (5,619)            | (3,036)           | (788,332)        |
| Business tax and surcharges      | (2,390)        | —               | —                  | —                  | —                 | (2,390)          |
| Operating expenses               | (25,946)       | (7,903)         | (1,585)            | (1,016)            | (549)             | (36,999)         |
| Administrative expenses          | (261,270)      | (19,398)        | (3,891)            | (2,494)            | (1,347)           | (288,400)        |
| Financial expenses               | (43,794)       | (3,251)         | (652)              | (418)              | (227)             | (48,342)         |
| Loss from principal operations   | (313,044)      | (18,751)        | (3,761)            | (2,410)            | (1,303)           | (339,269)        |

# Significant Differences Between the Financial Statements of the Group and the Company Prepared in Accordance With the PRC Accounting Rules and Regulations and International Financial Reporting Standards ("IFRS")

Other than the differences in the classification of certain financial statement assertions and the accounting treatment of the items described below, there are no material differences between the financial statements of the Group and the Company prepared in accordance with the PRC Accounting Rules and Regulations and IFRS. The major differences are:

- (i) Effective 1 January 2002, land use rights are carried at historical cost base under IFRS. Accordingly, the surplus on the revaluation of land use rights was reversed from shareholders' funds. Under the PRC Accounting Rules and Regulations, land use rights are carried at revalued amount.
- (ii) During 2003, certain creditors have waived the debts due by the subsidiaries. Under the PRC Accounting Rules and Regulations, these waived debts are credited to capital reserves. Under IFRS, they are included as other operating income.
- (iii) Under IFRS, interests in subsidiaries and associated companies are stated in the Company's balance sheet at cost less impairment losses. Under PRC Accounting Rules and Regulations, results of the subsidiaries and associated companies are equity accounted for.

Reconciliation of the loss attributable to shareholders and shareholders' funds of the Group and the Company prepared in accordance with the PRC Accounting Rules and Regulations and IFRS are summarised below:

|  | The Group |           | The Company |           |
|--|-----------|-----------|-------------|-----------|
|  | 2003      | 2002      | 2003        | 2002      |
|  | Rmb'000   | Rmb'000   | Rmb'000     | Rmb'000   |
| Loss attributable to shareholders under the PRC Accounting Rules and Regulations | (342,513) | (344,691) | (324,346)   | (338,197) |
| Differences:   |           |           |             |           |
| - Amortisation of revaluation of land use rights (i)                             | 2,096     | 2,098     | 2,096       | 2,098     |
| - Gains from debts waived (ii)   | 396       | 144       | —           | —         |
| - Results of subsidiaries (iii)  | —         | —         | (1,570)     | (44,149)  |
| - Results of associated companies (iii)  | —         | —         | —           | (25,170)  |
| Loss attributable to shareholders under IFRS                                     | (340,021) | (342,449) | (323,820)   | (405,418) |

  

|  | The Group |           | The Company |           |
|--|-----------|-----------|-------------|-----------|
|  | 2003      | 2002      | 2003        | 2002      |
|  | Rmb'000   | Rmb'000   | Rmb'000     | Rmb'000   |
| Shareholders' funds under the PRC Accounting Rules and Regulations | 875,920   | 1,218,037 | 900,041     | 1,224,387 |
| Differences:   |           |           |             |           |
| - Revaluation of land use rights (i)                               | (86,444)  | (88,540)  | (86,444)    | (88,540)  |
| - Results of subsidiaries (iii)                                    | —         | —         | (1,570)     | —         |
| - Results of associated companies (iii)                            | —         | —         | 1,032       | 1,032     |
| Shareholders' funds under IFRS                                     | 789,476   | 1,129,497 | 813,059     | 1,136,879 |

The notes on pages 12 to 49 form part of these financial statements.