Report of the Directors

The Board of Directors hereby submits to the shareholders the report of the directors and the audited financial statements of the Company and the Group for the year ended 31 December 2004. All the directors of the Company discharged their duties as assigned under the PRC Company Law and the Company's Articles of Association in a serious manner and carried out their work in a proactive and efficient manner on the basis of the principle of honesty, good faith, diligence and initiative and in the greatest interests of the Company and its shareholders.

Day-to-day work of the Board of Directors

During the reporting period, 5 Board of Directors' meetings were held and the major resolutions passed were as follows:

I. On 6 April 2004, a Board of Directors' meeting of the Company was held, at which the following resolutions were passed: work report of General Manager; Resolution in relation to the authorisation of power to the Chairman and resolution in relation to the changes in Company structure.

II. On 22 April 2004, a Board of Directors' meeting of the Company was held, at which the audited financial report of the Company for the year ended 31 December 2003; the 2003 Annual Report of the Company and its summary and the 2003 profit appropriation proposal were considered and approved; the re-appointment of KPMG Huazhen and KPMG as the domestic and international auditors of the Company respectively for 2004 were approved, and the Board of Directors was authorised to fix their remunerations; management declaration letter was submitted to KPMG Huazhen and KPMG which confirmed the truthfulness, completeness ad validity of the contents of auditors' reports and authorized Chairman Liu Bao Ying and Vice Chairman Zhu Lei Bo to sign on it; resolution in relation to amendment of Articles of Association; consented on the resignation of Mr. Wang Yongxin as Vice Chairman and director of the Company, the dismissal of Mr. Gao Tianbo as the Chief Financial Officer and Mr. Cao Mingchun as Deputy General Manager of the Company; the election of Mr. Zhu Leibo as Vice Chairman of the Company; the appointment of Mr. Cao Mingchun as the Chief Financial Officer of the Company; the nomination of Mr. Ding Jianluo as candidate for director of the Company; the Rectification Report worked out in accordance with notice of issues discovered from the inspection conducted by Henan Regional Office of China Securities Regulatory Commission was approved; explanation on the unqualified auditors' report with explanations statement attached for the operating results of 2003 given by the KPMG Huazhen and KPMG was approved; report in relation to matter of provision for asset impairment issued by the General Manger was approved. The convening of the 2003 Annual General Meeting to be held on 10 June 2004 were considered and approved. The convening of 2002 Annual General Meeting to be held on 17 June 2003 was approved. The announcements of the resolutions passed at this Board of Directors' meeting was published in China Securities Journal, Shanghai Securities News, Sing Tao Daily and The Standard (an English newspaper) on 30 April 2003.

III. On 26 April 2004, a Board of Directors' meeting was held, at which the 2004 first quarterly report of the Company was approved.

IV. On 27 August 2004, a Board of Directors' meeting was held, at which the 2004 interim report of the Company and its summary were considered and approved. It was resolved not to distribute dividend for the interim period of 2004.

V. On 28 October 2004, a Board of Directors' meeting was held, at which the third quarterly report for 2004 was considered and approved; it was resolved that executive director Mr. Liu Baoying would not take up the position of committee member of the audit committee, while independent director Mr. Dai Zhiliang would be supplemented as the committee member of the audit committee.

The Company's position in the industry and its major products

The Company is the place of origin for one of three great float glass production methods "Luoyang Float Glass". The Company has six production lines of float glass and is the largest producer and distributor of float glass in the PRC. The Company mainly engages in production and sale of float flat glass and reprocessed glass.

Discussion and analysis of the overall operations during the reporting period

In 2004, despite significantly increased in prices of domestic heavy oil and soda ash, and the difficulties in production and operation arising from tightened power supply and railway transportation, various tasks of the Company focused on market and benefit. Internally, the Company strived to strengthen specialized management and enhance product mix adjustment and technological renovation to actively embrace changes in the market. Externally, the Company leveraged the opportunity in the glass market and price leverages through marketing strategies to strengthen promotion of high-benefit and high value-added products, thus maximizing the then economic benefits. In 2004, the output of float glass amounted to 14.05 million weighted cases, and the sales volume amounted to 14.37 million weighted cases. Principal operating revenue amounted to RMB1,133.89 million, with production and selling rate of 99.77%. Profit totalled RMB57.33 million.

During the reporting period, we did the following work:

I. The Company enhanced corporate management and further organisational and mechanism reform, aiming at a better vigour

1. The Company enhanced the basic and specialized management so as to build up a simple, efficient, and rational internal operation system. To cater for development needs of the Company, we cancelled two sections and merged three sections. We streamlined and repositioned certain employees, aligned the responsibilities of certain entities and innovated the accountability mechanism for function departments and offices, thus noticeably promoting work efficiency. We speeded up perfection and regulation of all basic and specialised management to ensure one-off approval of external audit on ISO9000 quality system. With implementation of financial audit and officers' tenure audit system, we improved the standardisation and transparency of financial management and officers' sense of responsibility. With more efforts on after-service management, we accepted 142 users' complaints and handled 138 complaints. The complaint handling rate for the then year was 97.18%.

2. We tapped the internal potential to maximize income with the lowest costs. In accordance with the amended Management Methods for Bidding and the Management Methods for Waste Materials, we separated decision-making power from execution power in material procurement and smoothened bidding management procedures. We carried out a market simulating audit on production entities for the first time, to promote their awareness of pennies pinching and fixed three kinds of expenses by year, which was credited into the piece wages. Hence, the enthusiasm of contracting entities was improved and costs were reduced. In view of increasing selling prices of heavy oil, we increased the proportion of direct purchases of heavy oil. We made dynamic assessment on substantial suppliers and implemented the mechanism regarding access and exit of substantial suppliers. In 2004, 25 suppliers exited with new 26 suppliers, which optimised the suppliers' team.

3. To further mechanism and system reform, the Company speeded up innovations. In accordance with the Management Methods for Subsidiaries, we adopted the quarterly assessment instead of the year-end assessment on subsidiaries' operating results, so as to enhance procedural control and timely guide them to solve problems once they are found. We pushed the initial trial of the allocation system reform for the relevant entities to actively broaden the gap between key posts and supporting posts, demonstrating a preference to key posts and personnel. In addition, the Company streamlined and repositioned 460 persons, thus saving over RMB5.00 million per annum.

II. Relying on financial management, the Company carried out capital operation to reduce expenses

1. Based on production targets and the market, the Company analysed all levels to reason out the cost indices to cut down expenses.

2. The Company improved fund management and capital operation to minimize capital costs. First, the Company strengthened collection of accounts receivable. Collected debt due from Qingdao Taiyang Glass Industries Company Limited and other loans due from and to of approximately RMB190,000,000 effectively alleviated the pressure of fund. Secondly, the Company actively settled bank acceptance to minimize capital costs. During the year, the Company dealt with bank acceptance totalling RMB65 million, saving interest expenses. Thirdly, the Company enforced the macro-control on fund management so as to determine the expenditure based on income. Based on ensuring rigid expenditure, the Company leveraged national credit policies to reduce capital operating costs. Lastly, it put more efforts in collection of loans entrusted to the subsidiaries. During the year, loans entrusted to the subsidiary reduced by RMB36 million, thus effectively minimizing financial risks.

III. The Company speeded up product mix restructuring and strengthened technological renovations to address the changing market demands

1. The Company optimized the product mix and the link between production and sale with a market-oriented approach to maximize the overall cost-effectiveness. The Company expanded the production of high value-added products like extra thin glass, large glass and ultra-thin glass, and reduced the production of products with rapidly falling prices, excessive market supply and low profit margin. To address market demands, the Company increased the production of ultra-thin glass and achieved an output of 1.1-1.3mm ultra-thin glass in 0.31 million weighted cases, representing 21.85% of the total output in 2004. Facing the changing market and the oversupply and weak sale in the white glass market, the Company shifted to production of F green glass to win the market share, thus keeping the selling prices steady. The Company focused on the market to satisfy customers' specialised demands. It audited and estimated the orders from special customers and arranged precedent production for those with benefit potential. During the year, we carried out 13 audits on specialised contracts involving output of 0.75 million weighed cases and contract amount of RMB54.85 million, which satisfied the market demands.

Discussion and analysis of the overall operations during the reporting period *(continued)*

III. The Company speeded up product mix restructuring and strengthened technological renovations to address the changing market demands *(continued)*

2. The Company attached importance to tacking key technological problems with emergence of new products and techniques and technologies, and technological innovation was in the course of vigorous development. In light of the guidelines "production for another success and further enhancement", we continued to summarise and refine our ultra-thin glass technologies and achieve a new record in consecutive and steady production. The highest single-time output reached 0.07 million weighted cases with acceptance quality level of 81.05%. Through years of technological preparations and optimization of technical parameters, the 1.1mm ultra-thin glass met the STN grade quality standard. In addition, we developed 0.75mm and 0.7mm ultra-thin glass to fill up the domestic gap, achieving another significant leap of Luoyang Float Glass in production of ultra-thin glass. By the full drag approach, the Company mass-produced 19mm ultra-thick glass with viewfinder-grade rate of 85.45% and gross ratio of finished products of 50.89%. The single-time production cost of 19mm ultra-thick glass was reduced by over RMB0.30 million, laying a foundation for speeding up the commercialization of ultra-thick glass. Thanks to elaborate planning and thorough implementation, our production lines of Shaobo Company succeeded in the experiment on using coal tar to replace heavy oil, which could reduce production cost of RMB0.25 million. From the commencement of production in August till the end of December, a total of over RMB1.00 million was decreased. This was a new way to cut down production cost for the Company's float glass production lines. Through key technology development, we set out on online plated glass process to accomplish the production of single plated glass production exceeding 12 hours, achieving a breakthrough in single production not exceeding time limit of 6-8 hours.

IV. With fast speed in the reform in its marketing system and more efforts in the implementation of marketing strategies, the Company seized more market opportunities for cost-effectiveness

1. Speeding up the marketing system and mechanism reform, the Company restructured the float glass market to take full advantage of the Company's marketing networks. Based on demand and distribution of glass resources in the PRC, the Company integrated 12 original regional business departments into 8 regional business departments to avoid competition in obtaining customers and resources as a result of excessive market segmentation. 41 sales personnel were streamlined to improve the internal operation efficiency, thus considerably cutting down sales expenses. With sale tasks assigned to individuals in the business department, the Company implemented an assessment system linking individual income with sales volume, revenue recognised in accounts and selling prices. The Access and Exit System for Luobo Customers and the Management Methods was formulated to exercise A, B and C dynamic management on customers. The assessment system for agents' access and exit was also set up to grant preferential policies to those key agents with good faith, large sales volume and high selling prices. Leveraging preferential creditability policies, the Company adopted quarterly evaluation and dynamic management based on quarterly sales volume, duration of accounts receivable and creditability.

2. The Company beefed up marketing planning for smooth integration into markets, ensuring the realisation of the then economic benefits. Based on the marketing strategy of "Footed on Henan, expanding surrounding areas and reasonably narrowing remote areas", the Company conducted different strategies for regional markets to optimize resource allocation. In line with the principle of "primacy on high prices, outright and cash", the Company guaranteed product inclined to the selling market. The accumulated sales volume of glass sold to northwest areas and Henan was 2.98 million weighted cases, representing 20.74% of the total sales volume. According to the changing market, the Company improved its response toward markets and conducted price updating strategies to achieve effectiveness, steady price and quick shipment. With upward adjustment to the selling prices for 12 times, the Company timely seized the market opportunities for cost-effectiveness. With emphasis on self-delivery sales, the delivery pressure on railway delivery was alleviated. The self-delivery sales volume amounted to 3.58 million weighted cases. Furthermore, the Company capitalized on market opportunities to strengthen promotion of overdue stocked glass, transferring foreign trade to internal sale of glass, and the specified glass. The Company accomplished accumulated sales volume of 3,136 racks (cases) without declined selling prices, thus covering a great economic loss.

3. The Company attached importance to developing high value-added products and key customers for promoting product consolidated selling prices. Under an interest ally agreement entered into the Company and key ultra-thin glass customers, the Company established a steady long-term supply relationship with its customers to increase sales volume of ultra-thin glass. The Company recorded a total sale volume of 4,455,100m^2 in 1.1mm glass in 2004, representing a year-on-year increase of 2,161,100m^2. Meanwhile, the Company promoted 544,700m^2 stock, with an year-on-year increase of over RMB15.00 million in the profit of ultra-thin glass. With more efforts on expanding the 0.7mm glass market, the Company sold 2,314 m^2 glass. Currently, the Company is strengthening product promotion to explore new customers, thus realizing bulk sales. With stress on sales of thick sheets, the sales volume of over 12mm thick sheet glass for the Company's three production lines aggregated to 3.13 million weighted cases. Profit increased by over RMB1.40 million as compared with the same period of last year. More efforts were put in exploring customers of processed glass. As such, the Company achieved the sales to customers of processed glass totalling 2.38 million weighted cases, representing an increase of 0.10 million weighted cases. Following the drop in selling prices of F green glass original sheet, the Company produced and sold 0.09 million weighted cases of on-line plating products. Through allocating sources in reasonable manner to expand export of its products, the Company generated a foreign currency revenue of US$11.34 million by exporting 0.89 million weighted cases to overseas markets in 2004.

Statement of the principal operations by industries and products

By industry or products	Income from principal operations *RMB'000*	Cost of sales *RMB'000*	Gross profit margin %	Increase/ (decrease) of income from principal operations as compared to last year %	Increase/ (decrease) of cost of sales as compared to last year %	Increase/ (decrease) of gross profit margin as compared to last year %
Float sheet glass	1,133,886	869,625	23.31	15.84	4.06	8.68
Of which:						
Connected transactions	23,308	17,875	23.31	(33.31)	(40.09)	8.68

Pricing policy for connected transactions

Based on market prices available to ordinary customers

Explanation on necessity and continuity of connected transactions

Viewing from the perspective of product chain, these transactions are necessary and of continuity nature, since products of the Company are upstream products to connected parties.

Including: During the reporting period, the connected transaction in relation to the sale of products and provision services by the Company to the controlling shareholders and its subsidiaries amounted to RMB23.31 million.

Principal operations in different regions

Regions	Income from principal operations *RMB'000*	Increase/(decrease) of income from principal operations as compared to last year %
Domestic	1,053,450	23.98
Overseas	80,436	(37.70)

Information on suppliers and customers

Total volume of purchase from the top five suppliers (RMB'000)	339,510	Percentage in the Company's total purchase volume	57.90%
Total volume of sales to the top five customers (RMB'000)	145,827	Percentage in the Company's total sales volume	12.86%

Reasons for the material changes in the principal operations' profitability (gross profit margin) as compared to the preceding year

Gross profit margin in 2004 was 23.31%, representing an increase of 8.68 percentage point or 59.33% as compared with that of 14.63% of last year. The main reasons were that the Company strengthened the adjustment in product structure and persisted in flexible product strategy, developing in the direction of high and new technology for floating glass which created a new road for the Company to make a turnaround to profit from loss. The average selling of products in the year increased approximately by 10% as compared with the same period over last year. Although cost increased to a certain extent, the increasing degree was lowered than that of the selling price, resulting in the significant upsurge in the profitibility (gross profit percentage) of the principle operation of the Company over last year.

Analysis of the reasons for material changes incurred in the operating results and contribution to profit as compared with that of last year

The Company had turned losses into profit during the year, achieving profit of RMB57.33 million over losses of RMB340.22 million of last year. Profit increased by RMB397.55 million over last year, mainly attributable to the fact that the increase of income of principle operation led to an increase in profit by RMB155.00 million over last year owing to the increase in selling price of products of the Company. Secondly, the external sale of parts of raw materials and racks in clearing of and beneficial to stock resulted in increase in profit from other operations by RMB11.30 million over last year. Thirdly, the decrease in management fee during the year resulted in the increase in profit of RMB181.60 million over last year. This was mainly attributable to the fact that as the amount of provisions of bad debt for previous year is large, the Company had strengthened the management and recovering of account receivables. In accordance with the accounting principle of the Company, the provisions of the year decreased significantly as effective control on expenses was implemented. Fourthly, as revenue from investments resulted in increase in profit by RMB72.00 million over last year, mainly attributable to the fact that the provisions of impairment in short-term investment of RMB34.30 million led to losses in investing revenue of RMB69.00 million of last year. The Company realized profit from revenue of investment totaled RMB3.10 million.

Analysis of the reasons for material changes incurred in the overall financial condition as compared with that of last year.

In 2004, under the strong leadership of the Board and the team of leaders of the Company, together with deepening reforms and strengthened management, the Company continued to implement flexible product strategy by introducing innovation in sales and marketing as a way to grasp market opportunities and overcome various adverse impact posed by the rise in prices of production materials, realizing significant improvement in economic effectiveness of the Company; significant increase in the income from principle operation and profit level; turning of losses into profit; continuous increase in profitability; effectiveness in control of cost expenses; further improvements in financial status; increase in loans repayment ability; strengthening in operating ability; and creation of good conditions for continuous profit and development.

Specific achievements were: (1) viewing from the perspective of the analysis on debt repayment ability, the liquidity ratio of 2004 was 0.81 and slightly increased as compared with 0.74 of 2003. The main reasons were: there were decreases in current asset and current liabilities as compared with last year. However, the rate of decrease was lower as far as current asset was concerned when compared with current liabilities, resulting in the increase in liquidity ratio. Quick liquidity ratio of 2004 was 0.60 and slightly increased as compared with 0.56 of 2003. Quick asset and quick liability decreased as compared with last year. The rate of decrease in quick asset was slower than current liabilities, leading to the increase quick ratio. (2) With respect to the analysis on operation ability, the inventory turnover was 80.81 days in 2004 and 79.68 days in 2003. The inventory turnover had prolonged by 1.14 days for 2004 over 2003 and the reasons were that: the average rate of increase in inventory was faster than the rate of increase in the cost of principal operation, leading to the lengthening of inventory turnover. The account receivables turnover was 8.70 days for 2004 and 12.96 days for 2003. The turnover of account receivables in 2004 contracted by 4.25 days as compared with that of 2003. The main reasons were: the decrease in average account receivables in 2004 fell significantly as compared with that of 2003. Meanwhile, the income from principal operation in 2004 increased significantly as compared with that of 2003. With the hastened pace in the turnover of account receivables, profitability increased accordingly. (3)For the analysis of profitability, with a view to the changes in income from principal operations and cost, the income and cost of principal operations both recorded increases, while the increase in the income from principal operation was larger than that of cost of principal operation, reflecting the enhancement in profitability of principal operation. The rate of return on net assets of 2004 was 4.93% and -39.10% in 2003. The main reasons for the increase were: the rate of increase in net profit was faster than that of owner's equity, resulting in the increase in rate of return in asset. (4) For the analysis on the changes in asset structure, viewing from an overall perspective, the increase in current asset is slower than that of the income from principal operations, while the profitability of asset increased. Therefore, as compared with 2003, the structure of asset improved. The liabilities of the Company decreased significantly, while debt pressure released substantially.

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

KPMG and KPMG Huazhen presented their auditors' reports with an explanatory paragraph but without qualifying for the 2004 operating results of the Company. Particulars of the explanatory paragraph are as follows:

"Besides, we would draw the attention of the users of financial statements to the disclosures made in note 2 on the financial statements, that the Company had accumulated losses amounted to RMB973,657,000 and net current liabilities amounted to RMB204,450,000 million at 31 December 2004 in its consolidated financial statements. Notwithstanding the measures taken by the Company's management to address this situation as set out in note 2 on the financial statements, there exists fundamental uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. This explanatory paragraph does not affect the audit opinion made."

Appendix: Note 2 to financial statements: Preparation basis for financial statements

Notwithstanding that the Company had accumulated losses of RMB973.66 million and net current liabilities amounted to RMB204.45 million at 31 December 2004 in its consolidated financial statements, 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 RMB525.00 million to the Company upon their expiries in 2005; 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 needs. Accordingly, the financial statements have been prepared on a going concern basis. If the Company and the Group fail to continue as a going concern, adjustments will have to be made to reduce the value of its assets to their realisable value, to provide for any possible liabilities which might arise, and to reclassify long-term liabilities as current liabilities.

As referred to the explanatory paragraph presented by the auditors, the Company recorded net current liabilities of RMB204.45 million as at 31 December 2004, under the PRC accounting rules and regulations. This is mainly attributable to operating loss and increased bank loans due to reduction in cash inflow and changes in receivables. (The Company recorded a continuous loss of RMB687.20 million for 2002 and 2003, mainly attributable to a significant decrease in selling prices resulting from intensified market competition, a number of necessary provisions). The Group's operation was affected by the net current liabilities to a certain extent. However, the Group had recorded net profit of RMB46.10 million during 2004, and in the opinion of the Board, cash inflow status will be improved with the gradual effect from optimisation of the Group's product mix, which will in turn significantly reduce the reliance on bank loans for its operation. Furthermore, the Company may obtain financial support, if necessary, from its controlling company and other financial institutions to cope with the potential financing difficulties. In addition, the Company will take economic and legal actions to recover receivables which will be used for repayment of bank loans. In such a case, a reduction in net current liabilities, even a balance of net current assets will be achieved.

Financial status of the Company

Based on the Group's financial statements for the year 2004 prepared under PRC Accounting Rules and Regulations, the Group's total asset amounted to RMB2,184.40 million, representing a decrease of 6.00% from the previous year, which was attributable to the recovery of the loans of RMB 129.82 million from Qingdao Taiyang Glass Industry Co. Ltd., the other subsidiary of the ultimate controlling company, during the year. Shareholders' equity amounted to RMB935.56 million, representing an increase of 6.81% as compared with the previous year, which was caused by the profit of RMB46.10 million incurred for the year and the transfer to the surplus reserve of RMB1.08 million; long-term liabilities amounted to RMB56.06 million, representing a decline of 42.12% , which was mainly due to the decrease in the amount of loan advanced in the year; profit from principal operations amounted to RMB258.93 million, representing a surge of 84.76% over last year, which was mainly because of the adjustment in product mix and the rise in the sales of products with high-added value and a relatively significant increase in average selling prices as compared with the previous year, which led to a relatively significant increase in profit from principal operations; net profit amounted to RMB46.10 million, representing an increase of net profit of RMB388.62 million as compared with net loss of RMB342.51 million in the previous year, mainly attributable to flourishing sales and production of production operation, significant increase in income and profit from principal operations, effective control on costs and expenses and further improvement in financial conditions during the year; the net increase of cash and cash equivalents amounted to RMB137.89 million, mainly attributable to the significant increase in the cash received from operation during the year which enhanced the stability of cash inflow from operating activities of the Company.

Liquidity and source of capital (under IFRS)

At the end of 2004, the Group had cash and cash equivalents of RMB1,300.39 million, increased by RMB477.60 million from RMB822.79 million as at the end of 2003. Net cash generated from operating activities was used to finance borrowing and investment activities.

As at 31 December 2004, the total loans of the Group were RMB883.86 million, including a foreign currency loan RMB90.49 million, (original amount: EURD0.80 million). All loans bear interest rates based on rates determined by OECD from time to time. The Group did not enter into any financial instruments as hedging vehicle. As at 31 December 2004, the gearing ratio (the total loan / shareholders' funds) of the Group was 103.8%, up fall 24.3% compared to that of 2003.

Loans (Under IFRS)

As of 31 December 2004, the total loans of the Group amounted to RMB883.86 million, representing a decrease of RMB127.66 million over 2003.

Capital commitment

Nil

Gearing ratio

Gearing ratio in the period was 138.5%; gearing ratio last year was 176.7%; (Under IFRS)

Pledge of assets of the Group

As at 31 December 2004, an amount of RMB80.00 million3: RMB90.00 million) in fixed deposits and an amount of RMB3.00 million (2003: RMB15.90 million) in current deposits were pledged for the short-term loans and bills payables for the Group.

Contingent liabilities

Nil

Risk to fluctuations of foreign exchange rate

The assets, liabilities and transactions are mainly calculated in Renminbi. Therefore, fluctuations in foreign exchange rate do not have material impacts on the Group.

Investment of the Company

(1) Use of proceeds

There had been no use of proceeds during the reporting period nor use of proceeds commenced before the period which has been extended to the period.

(2) Other investments (non-publicly raised fund)

The Company had no other material investment during the reporting period.

Operations and results of major controlling companies and investee companies

As at 31 December 2004, information on the Group's major subsidiaries is as follows:

Name of company	Registered capital *RMB'000*	Direct attributable equity interest	Asset scale *RMB'000*	Principal activities	Net profit/ (loss) *RMB'000*
Luobo Group Longmen Glass Company Ltd. ("Longmen")	20,000	79.06%	226,976	Manufacture of float sheet glass	2,693
Chenzhou Bada Glass Co. Ltd. ("Bada")	150,000	52.25%	243,305	Manufacture of float sheet glass	18,529
Luoyang Glass Group Yangshao Glass Co. Ltd. ("Yangshao")	74,080	54.00%	143,720	Manufacture of float sheet glass	7,393
Xiangfang Luoshen Auto Glass Co. Ltd. ("Luoshen")	30,000	66.67%	24,925	Manufacture of auto glass	(6,385)
Yinan Mineral Products Co. Ltd ("Yinan")	28,000	52.00%	47,464	Exploration of minerals	(5,258)
Shenzhen Luobo Trading Co. Ltd	1,000	60.00%	1,846	Selling of float sheet glass	(116)

As at 31 December 2004, information on the associated companies of the Group and the Company is as follows:

Name of company	Registered capital *RMB'000*	Direct attributable equity interest	Asset scale *RMB'000*	Principal activities	Net profit/ (loss) *RMB'000*
Luoyang Jingxin Ceramic Co. Ltd ("Jingxin")	41,945	49.00%	134,765	Manufacture of ceramic wall tiles	(11,379)
China Luoyang Float Glass Group Financial Company of Limited Liabilities ("CLFC")	300,000	37.00%	468,291	Provision of financial services	2,304
China Luoyang Float Glass (Group) Processed Glass Company Limited ("CPGC")	181,496	49.09%	449,107	Production and sale of vehicle safety reprocessed glass	80

Plan of the Board of Directors for profit appropriation or transfer of statuting surplus resume to capital for this year

In accordance with the PRC Accounting Standards, the Company recorded net profit amounting to RMB46.10 million for the year of 2004. After transferring to surplus reserve of RMB1.08 million and adding net loss amounting to RMB1,018.68 million at the beginning of the year, the accumulated loss amounted to RMB973.66 million. In accordance with IFRS, the Company recorded net loss amounting to RMB61.74 million for the year of 2004. After transferring to surplus reserve of RMB1.08 million and adding net loss amounting to RMB997.64 million at the beginning of the year, the accumulated loss at the end of the year amounted to RMB936.97 million. Accordingly, the Company resolved not to make any profit appropriation for the year 2004 nor transfer any reserves to increase the share capital of the Company.

Profit during the reporting period of the Company without forwarding proposal of cash profit distribution

Reason for profit during the reporting period of the Company without forwarding proposal of cash profit distribution	Plan and usage of undistributed profit of the Company
For compensation of losses	Suplementary to current capital of the Company

Fixed Assets

Movements in the fixed assets during the year are set out in note 13 of notes to the financial statements prepared under IFRS.

Reserves

Movements in the reserves during the year are set out in note 30 of notes to the financial statements prepared under IFRS.

Bank and Other Loans

The bank and other loans of the Group as at 31 December 2004 are stated in note 27 of notes to the financial statements prepared under IFRS.

Five-year Financial Highlight

The results, assets and liabilities of the Group for the five years ended 31 December 2004 as prepared under IFRS are summarised below:

Operating Results

	2004	2003	2002	2001	2000
	RMB'000	***RMB'000***	*RMB'000*	*RMB'000*	*RMB'000*
Turnover	**1,128,554**	975,816	822,804	813,385	896,169
Profit/(loss) before share of net loss of associated companies	**83,482**	(308,788)	(396,900)	11,486	93,392
Share of profit/(loss) of associated companies	**1,678**	(28,817)	9,030	(3,398)	(3,952)
Profit/(loss) before taxation	**85,160**	(337,605)	(387,870)	8,088	89,440
Taxation	**(4,493)**	(2,172)	(200)	—	—
Profit/(loss) after taxation	**80,667**	(339,777)	(388,070)	8,088	89,440
Profit/(loss) attributable to minority interests	**(18,927)**	(244)	45,621	1,780	(23,449)
Profit/(loss) attributable to shareholders	**61,740**	(340,021)	(342,449)	9,868	65,991

Assets & Liabilities

	2004	2003	2002	2001	2000
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Fixed assets	**865,049**	938,228	927,674	1,123,181	1,051,381
Construction in progress	**2,323**	4,535	8,682	14,758	13,260
Interest in associated companies	**174,476**	186,843	254,232	167,391	111,031
Long-term investments	**32,983**	35,739	75,979	86,817	128,984
Non-current assets	**1,208,129**	1,309,553	1,745,750	1,902,195	406,060
Net current assets	**(215,548)**	(349,055)	(438,741)	(146,780)	(95,973)
Long-term liabilities	**(74,059)**	(120,849)	(146,328)	(206,664)	(17,522)
Shareholders' funds	**851,216**	789,476	1,129,497	1,471,946	1,597,221
Minority interests	**67,306**	50,173	31,184	76,805	44,505

Capitalisation of interests

During the year, there is no capitalisation of interest to the Group.

Charity and other donations

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

Transactions with related parties

The material related party transactions of the Company for the year ended 31 December 2004 are set out in note 32 of notes to the financial statements prepared under IFRS.

Employees retirement benefits

Particulars of the defined contribution retirement plan of the Group are set out in note 35 of notes to the financial statements prepared under IFRS.

Directors' and Supervisors' interests in subscription for shares or debentures

At no time during the year was the Company or its subsidiaries a party to any arrangement to enable the directors or supervisors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporation.

Five individuals with highest emoluments

During the year, the five individuals with highest emoluments were either the Company's directors, supervisors or senior management.

Service contracts of directors and supervisors

Each of the directors and supervisors has entered into a service agreement with the Company. These service agreements all commenced from 28 March 2003 with a term of office for three years. Same as aforementioned, the Company or any of its subsidiaries or fellow subsidiaries has not entered into or will enter into any service agreement with any director or supervisor.

Directors and supervisors' interest in contracts

Apart from the abovementioned service contracts, no contract of significance in relation to the business of the Company, to which the Company or any of its subsidiaries or fellow subsidiaries was a party and any of the directors and supervisors of the Company had a material interest, subsisting at the end of the year or at any time during the year.

Compliance of Code of Best Practice

The Directors and Supervisors of the Company have complied throughout the reporting period with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited. (the "Listing Rules")

Purchase, sale and redemption of shares of the Company

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

Major subsidaries and associated companies

Details of the Company's subsidiaries and associated companies are set out in notes 17 and 18 of notes to the financial statements prepared under IFRS.

Pre-emptive rights

In accordance with the Articles of Association of the Company and the laws of the PRC, there is no provision of pre-emptive rights requiring the Company to offer shares to the existing shareholders in proportion to their respective shareholdings.

Structure of share capital and change in share capital of the Company during the reporting period: (Expressed in number of shares)

	Before change *shares*	Increase / (decrease) Right issue *shares*	Bonus issue *shares*	Share converted from reserves *shares*	New issue *shares*	Others *shares*	Sub-total *shares*	After change *shares*
I. Unlisted non-circulating shares								
1. Promoter's shares including:								
State-owned shares	—	—	—	—	—	—	—	—
Domestic legal person shares	400,000,000	—	—	—	—	—	—	400,000,000
Overseas legal person shares	—	—	—	—	—	—	—	—
Others	—	—	—	—	—	—	—	—
2. Legal person shares	—	—	—	—	—	—	—	—
3. Employee shares	—	—	—	—	—	—	—	—
4. Preference shares or others	—	—	—	—	—	—	—	—
Total unlisted non-circulating shares	400,000,000	—	—	—	—	—	—	400,000,000
II. Listed circulating shares								
1. Renminbi ordinary shares	50,000,000	—	—	—	—	—	—	50,000,000
2. Domestic listed foreign shares	—	—	—	—	—	—	—	—
3. Overseas listed foreign shares	250,000,000	—	—	—	—	—	—	250,000,000
Others	—	—	—	—	—	—	—	—
Total listed circulating shares	300,000,000	—	—	—	—	—	—	300,000,000
III. Total number of shares	700,000,000	—	—	—	—	—	—	700,000,000

Number of shareholders

As at 31 December 2004, there were 23,595 shareholders, including 1 legal person shareholder, 23,508 holders of 'A' Shares and 87 holders of 'H' Shares.

Issue and listing of shares

The Company has not issued any shares during the three years ended 31 December 2004.

Shareholdings of substantial shareholders

The total number of shareholders at the end of the year

At 31 December 2004, there were at the end of the year: 23,595 shareholders in the Company, including 1 state-owned legal person shareholder, 23,508 shareholders of 'A' Shares and 87 shareholders of 'H' Shares.

Shareholdings of the top ten shareholders

Name of shareholder	Increase / (decrease) during the year	Number of shares held at the end of the year	Percentage (%)	Type of shares (circulating/ non-circulating)	Nature of Number of shares pledged or frozen	Nature of shareholders (State-owned or foreign shareholders)
China Luoyang Float Glass (Group) Company Limited ("CLFG")	—	400,000,000	57.143	Non-circulating	Nil	State-owned shareholders
HKSCC (Nominees) Company Limited	(312,000)	246,912,998	35.273	Circulating	Unknown	Foreigen shareholders
HSBC Nominees (Hong Kong) Limited	—	570,000	0.081	Circulating	Unknown	Foreigen shareholders
Liang Jieyun	—	458,042	0.065	Circulating	Unknown	"A" shares shareholders
Chuk Yee Men Liza	—	374,000	0.053	Circulating	Unknown	Foreigen shareholders
Wong Sing To	—	200,000	0.029	Circulating	Unknown	Foreigen shareholders
Feng Zongxian	—	198,630	0.028	Circulating	Unknown	"A" shares shareholders
Zheng Qinghui	—	197,499	0.028	Circulating	Unknown	"A" shares shareholders
Xu Erguan	—	192,161	0.027	Circulating	Unknown	"A" shares shareholders
Tam Chow Hing	—	180,000	0.026	Circulating	Unknown	Foreigen shareholders

Explanations on connected relationship and action in concert among the top ten shareholders

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

Shareholdings of the top ten major shareholders of circulating shares

Name of shareholder	Number of circulating shares held at the end of the year	Types of shares (A, B, H or other)
HKSCC (Nominees) Company Limited	246,912,998	H
HSBC NOMINEES (HONG KONG) LIMITED	570,000	H
Liang Jieyun	458,042	A
Chuk Yee Men Liza	374,000	H
Wong Sing To	200,000	H
Feng Zongxian	198,630	A
Zheng Qinghui	197,499	A
Xu Erguan	192,161	A
Tam Chow Hing	180,000	H
Xu Zhifang	155,218	A

Explanations on connected relationship or action in content among the top ten shareholders

The Company does not aware of any connected relationship among the top ten shareholders of circulating shares.

1. Legal person shareholder holding more than 5% of shares

CLFG held 400,000,000 State-owned legal person shares, representing 57.14% of the total share capital. During the period, there was no change in the number of shares held by it, nor pledge or frozen of shares was undertaken.

The number of H shares of the Company held by HKSCC Nominees Limited at the end of the period was 246,912,998, accounting for 35.27% of the total share capital of the Company. HKSCC Nominees Limited is a participant of Hong Kong Central Clearing and Settlement System providing securities registration and custody services for its customers.

2. Specific information about the controlling shareholder and the other actual controllers

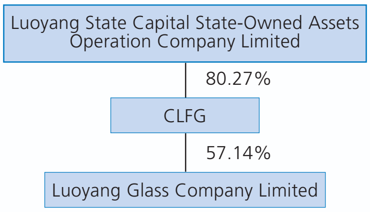
CLFG was established in April 1991 and its legal representative is Liu Baoying. Its registered capital is RMB1,286.74 million and its shareholders include Luoyang Assets Management Company, China Hua Rong Assets Management Company, China Changcheng Assets Management Company, China Dongfang Assets Management Company, China Xinda Assets Management Company and China Xinxing Construction Material (Group) Company holding 80.27%, 8.55%, 5.44%, 3.10%, 1.94% and 0.70% of shares respectively. Its principal activities include production of glass and related materials, manufacturing of assembly equipment and intensive glass processing. Import, export and domestic sales of glass, processing technology, design and sub-contracting of engineering works, labour export, provision of industrial production materials (excluding those under control of the state), technological services, consultation service and goods transportation.

There were no changes in controlling shareholdings during the reporting period.

3. Information on the actual controller of the Company

洛陽市國資國有資產經營有限公司(Luoyang State Capital State Owned Assets Operation Company Limited) was established on 26 October 2001. Its legal representative is Sun Juan and registered capital amounted to RMB236.00 million. It is a state owned sole proprietorship limited liability company and was granted the right to operate state-owned asset.

4. Figure of equity interests and controlling relationship between the Company and actual controllers.



5. Save as disclosed above, as of 31 December 2004, the Board of Directors is not aware of any persons or their associates have any interests or short positions in shares or underlying shares of the Company and is required to be recorded according to Section 336 of SFO.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name	Position	Gender	Age	Terms of office	Shareholdings at the beginning of the year *(shares)*	Shareholdings at the end of the year *(shares)*	Reasons for change
Liu Baoying	Chairman	M	51	2003.3.28 to 2006.3.28	2,000	2,000	No Change
Zhu Leibo	Vice chairman	M	42	2003.3.28 to 2006.3.28 (term of Director) 2004.4.22 to 2006.3.28 (term of vice chairman)	2,000	2,000	No Change
Zhang Shaojie	Director	M	43	2003.3.28 to 2006.3.28	1,700	1,700	No Change
Zhu Liuxin	Director	M	51	2003.3.28 to 2006.3.28	1,700	1,700	No Change
Jiang Hong	Director	M	42	2003.3.28 to 2006.3.28	1,800	1,800	No Change
Ding Jianluo	Managing Director	M	43	2003.6.17 to 2006.3.28 (term of General Manager) 2004.6.10 to 2006.3.28 (term of Director)	—	—	No Change
Wang Jie	Director & Secretary to the Board	M	42	2003.3.28 to 2006.3.28	2,000	2,000	No Change
Dai Zhiliang	Independent Director	M	64	2003.3.28 to 2006.3.28	—	—	No Change
Zong Pengrong	Independent Director	M	50	2003.3.28 to 2006.3.28	—	—	No Change
Xi Shengyang	Independent Director	M	50	2003.3.28 to 2006.3.28	—	—	No Change
Dong Chao	Independent Director	M	38	2003.3.28 to 2006.3.28	—	—	No Change
Tao Shanwu	Chairman of Supervisory Committee	M	51	2003.3.28 to 2006.3.28	—	—	No Change
Cheng Rongfa	Supervisor	M	55	2003.3.28 to 2006.3.28	—	—	No Change
Song Feng	Supervisor	F	41	2003.3.28 to 2006.3.28	—	—	No Change
Li Jingyi	Independent Supervisor	F	52	2003.3.28 to 2006.3.28	—	—	No Change
Gu Meifeng	Independent Supervisor	F	40	2003.3.28 to 2006.3.28	—	—	No Change
Xie Jun	Deputy General Manager	M	38	2003.6.17 to 2006.3.28	—	—	No Change
Ma Shixin	Deputy General Manager	M	54	2003.6.17 to 2006.3.28	—	—	No Change
Wang Heping	Deputy General Manager	M	53	2003.3.28 to 2006.3.28	1,700	1,700	No Change
Cao Mingchun	Financial Controller	M	41	2003.6.17 to 2006.3.28	—	—	No Change

Note: Same as disclosed above, none of the Directors, supervisors or senior management of the Company or any of their respective associates held any beneficial interests in shares (whether beneficially or non-beneficially owned) of the Company or any of its respective associated companies as defined in Securities (Disclosure of Interests) Ordinance of Hong Kong ("SDI Ordinance") as at 31 December 2004.

Information on Directors and supervisors holding position in corporate shareholders

Name	Name of the corporate shareholder	Position held in corporate shareholder	Term of office	Whether they received remunerations and allowances from the corporate shareholder (Yes/No)
Liu Baoying	CLFG	Chairman, Party Secretary to Committee	May 2002 — present	Yes
Zhu Leibo	CLFG	Director, General Manager and a member of Standing Committee of the Party Committee	August 2001 — present	Yes
				Yes
Zhang Shaojie	CLFG	Director, Deputy General Manager	August 2001 — present	Yes
Zhu Liuxin	CLFG	Director, Deputy General Manager	June 2003 — present	Yes
Jiang Hong	CLFG	Director, Deputy General Manager	June 2003 — present	Yes
Tao Shanwu	CLFG	Chairman of the Supervisory Committee, Secretary to the Disciplinary Committee	August 2001 — present	Yes
Cheng Rongfa	CLFG	Supervisor	August 2001 — present	No
Song Fei	CLFG	Head of Financial Department	July 2003 — present	Yes

Annual remuneration of Directors, supervisors and senior management

Total remuneration for the year	RMB521,000
Total remuneration of the three highest paid Directors	RMB151,000
Total remuneration of the three highest paid senior management staff	RMB193,000
Allowances of Independent Directors	RMB20,000 / person
Other benefits provided to Independent Directors	Nil
Name of Directors and supervisors who did receive remuneration were not paid from the Company	Directors: Liu Baoying, Zhu Leibo, Zhang Shaojie, Zhu Liuxin, Jiang Hong Supervisors: Tao Shanwu, Song Feng, Li Jingyi, Gu Meifeng
Remuneration in the following bands:	Number of persons
Below RMB100,000	20
RMB100,000 to RMB300,000	—
Above RMB300,000	—

Changes in Directors, Supervisors and Senior management during the reporting period.

The meeting of the Board of Directors was held on 22 April 2004, which consented on the resignation of Mr. Wang Yongxin as Vice Chairman and director of the Company, the dismissal of Mr. Gao Tianbo as the Chief Financial Officer and Mr. Cao Mingchun as Deputy General Manager of the Company; the election of Mr. Zhu Leibo as Vice Chairman of the Company; the appointment of Mr. Cao Mingchun as the Chief Financial Officer of the Company; the nomination of Mr. Ding Jianluo as candidate for director of the Company. The 2003 AGM approved the resolution in relation to the additional appointment of Mr. Ding Jianluo as director.

Employees

As at 31 December 2004, the Company had 3,057 employees, of which 2,099 are production workers, 172 are sales personnel, 200 are technicians, 65 are financial personnel, 482 are administrative personnel and 34 are other staff members. Among them, 244 employees graduated from colleges or universities, representing 7% of the staff 882 employees graduated from professional training colleges, representing 28.8% of the staff.

Auditors

Approved by the Company's 2003 Annual General Meeting, the Company re-appointed KPMG Huazhen and KPMG as the Company's PRC and international auditors for the year 2004.

The resolution to re-appoint KPMG Huazhen and KPMG as the PRC and international auditors of the Company respectively for the year 2005, is to be proposed at the forthcoming Annual General Meeting. The Company paid the following audit expenses to KPMG Huazhen and KPMG. No other payment was made.

	KPMG Huazhen	KPMG
Audit fee for 2004	HK$1.3 million (partially paid)	HK$1.3 million (partially paid)
Audit fee for 2003	HK$1.2 million (paid)	HK$1.2 million (paid)
Travelling expenses	Borne by the firm	Borne by the firm

KPMG has been appointed as international auditors of the Company for provision of auditing services in accordance with IFRS for eleven consecutive years.

KPMG Huazhen has been appointed as PRC auditors of the Company for provision of auditing services in accordance with the PRC Accounting Rules and Regulations for nine consecutive years and the registered accountant who signed for the Company was not subjected to alteration.

Litigation and arbitration of significant importance

Material litigation of the Group during the reporting period.

On 30 December 1998 the Company placed a deposit in the sum of RMB23.00 million with Yinji local branch of Zhengzhou branch of Guandong Development Bank (which had been upgraded to Yinji sub-branch of Zhengzhou branch of Guangdong Development Bank on 28 December 1999) for a fixed term of one year commencing from 30 December 1998 to 30 December 1999 at an annual interest rate of 3.78%. The Yinji local branch of Zhengzhou branch of Guangdong Development Bank issued an Account Opening Certificate of Fixed Deposit. Subsequently, a dispute occurring when the Company made withdrawal of such deposit upon its maturity. The Yinji sub-branch of Zhengzhou branch of Guangdong Development Bank rejected the Company's withdrawal on the ground of the defaulted repayment by Henan Yinji Property Development Company limited of the outstanding loan in the sum of RMB21.85 million for which the Company provided a guarantee in favour of Shangcheng branch of Guangdong Development Bank in December 1998 and that the Company should perform its obligations as the guarantor. In 2001, the Company initiated legal proceedings in Henan High People's Court and lost its case, but the Company appealed to the People's Supreme Court. During the reporting period, the outstanding loan was fully provided. In February 2004, the Supreme People's Court finally ruled in favour of the Company that the above guarantee be voided. As the Company is in default in the provision of guarantee for the loan, the Company demanded the Yinji sub-branch of Zhengzhou branch of Guangdong Development Bank to make refund of the half amount of the loan and the interest thereon and demanded Henan Yinji Property Development Company Limited for the remaining half amount of the loan. Currently, the Company had received half of the deposit from Yinji local branch of Zhengzhou branch of Guangdong Development Bank. The interest had not been received yet. The chasing for payment of another half of the deposit (interest included) by the Company to Henan Yinji Property Development Company Limited are still in processing. Except for the above, the Group did not have other material litigation case during the year.

During the year, the Company was not involved in any arbitration.

Business outlook

In analysing the market situation in 2005, the Group considers: First, the state's reduction of the investment scale and strengthened macro-control will curb the market demands to some extent. Especially, the national control on the development of the real estate industry will directly lead to a decrease in growth of glass demand. In addition, the fast growing additional production capacity will further reduce the profit of glass market. In 2004, 22 new production lines of float glass have joined in the market competition while another 17 new production lines are expected to put into operation in 2005, which will further shrink the glass market share for the Company. Particularly, the numerous, large-scale and low-cost production lines which were newly put into operation around Henen will bring considerable impact on the Company.

Second, the increasing prices of raw fuels will hinder the control on glass cost. The high cost of soda ash has resulted in a rapid increase in soda ash prices, which may keep soaring in 2005. In addition, the declining heat value of heavy oil arising from the advanced oil extraction technology, together with dropping heavy oil production and undersupply in the heavy oil market, will result in increasing heavy oil prices. The increase will also be seen in prices for power and raw materials, which will considerably affect the production cost for enterprises. In turn, glass prices will further rise or the profit of glass will be noticeably reduced. The Company will still be exposed to fierce competition.

Third, the Renminbi faces great pressure in appreciation. If the appreciation in Renminbi occurs, it will result in more difficulty in glass export.

Fourth, the bottleneck in transportation will still be an important factor imposing limitation to product sales.

Faced by such critical challenges in 2005, the Company will take initiatives as follows:

I. With adjustments to product mix and efforts in research of manufacturing technology for safe and effective production, the Company will improve products' core competitiveness to secure steady profits.

1. Speeding up optimization and upgrading of its product mix, the Company will bring the potential of existing product varieties into full play to better address market demands. Firstly, the Company will adopt full-edge roller method for steady and bulk production of over 15mm thick glass plate, aiming at commercialization of 19mm ultra-thick glass in terms of production, sale, quality and transportation with increasing monthly production and sales volume as well as improving efficiency. As to technology reserve of 25mm glass, the Company will promote technical innovations to find out a low-cost and fast production method to cater for the changing market. Secondly, the Company will take full use of the production capacity of the backup production line. Based on the safe operation of smelting kiln, the Company will strive to maximise the utilisation ratio for steady production to supplement the front production line. Thirdly, the float platingplant will put more efforts in kiln safety. On the basis of kiln safety, the plant will tap on its production capacity to maximise output, and develop new on-line platingglass products according to market demands, with increasing monthly production and sales volume as well as improving efficiency. Fourthly, the Company will elaborate its advantages in ultra-thin product and increase its percentage in total production. By reviewing and enhancing the production techniques and management, the Company expects to speed up improving technique of 0.7mm glass, and bring 0.7mm products into commercial operation in terms of production, sales, quality and quantity, aiming at one production batch every two months with 100% production-sales ration. Meanwhile, the Company will prepare technological plan for 0.55mm glass products, aiming to take the lead in the PRC in developing and manufacturing qualified products by tackling technology problems. Fifthly, Yangshao Glass Company will improve the controlling techniques on coal tar burning, increase steadiness of production and focus on product quality to minimise claims of customers. Sixthly, Bada Glass Company will take use of its market geographical advantages to speed up response to the changing market, and manufacture marketable products on a timely basis to best satisfy market demands. Seventhly, Yinan Mineral Products Company will tap on its internal potential to increase total production with increasing quality, laying a foundation for market expansion.

2. The Company will establish a swift reaction mechanism against production accidents to effectively address the production problems and minimize the economic loss.

Business outlook *(continued)*

I. With adjustments to product mix and efforts in research of manufacturing technology for safe and effective production, the Company will improve products' core competitiveness to secure steady profits. *(continued)*

3. With more efforts in kiln safety and management of product reserves, the Company will speed up establishment of sourcing bases and enhance product advantages, laying a foundation for its sustainable growth. To begin with, the Company will enhance the daily kiln safety with specific measures to ensure the safe operation of three lines of smelting kilns until the set time for film emission. With enhanced scientific research, the Company will also actively tap potentials in development of new products, taking the lead to develop several varieties of new colour and making preparations for plating test. At the same time, it will further improve production techniques for ultra-thin and ultra-thick glass, making good preparations for development of technology for 0.55mm ultra-thin glass and new colour on-line plating glass. Furthermore, the Company will improve technique of replacing heavy oil by coal tar to expedite the promotion of coal tar technique for float plating glass plants. In addition, it will accelerate the replacement test for major raw materials, replacing the high-cost materials by low-cost ones to cut down the glass production cost. Aiming at a reasonable layout of material supply bases, the Company will also speed up establishment of major sourcing bases in Luoyang and the peripheral areas, thus securing sufficient resources and cost advantages for its further growth and utilizing raw materials at the location and nearest areas instead of making conditions for use.

4. The Company will strengthen implementation of the fume control project at the front up to the emission standards of Luoyang City with least investment.

II. Through marketing innovation together with an improved response capability to the market, the Company will carry out flexible promotion strategies to increase the sales volume of high value-added products, hence maximizing the economic efficiency for 2005

1. The Company will capitalize on flexible marketing strategies to bring into play the product advantages for a maximized economic efficiency. Under the more rigorous glass market in 2005, the Company will continue its marketing innovation. To begin with, the Company will carry out a market repositioning and layout for its products to optimize the key selling sectors by products to avoid the overlaps between the Company's and its subsidiaries' products. With more research on market movements, the Company will make full use of the differences in product shortage and selling prices in regional markets, thereby capturing the optimal opportunity in the regional market to maximize the economic efficiency for 2005. Furthermore, the Company will extend the strategy of differentiating products and distinguishing regions to give full scope to the advantages from a large variety of product types, specifications, grades and series, thus securing more customers in new fields. At the same time, it will reinforce the promotion incentive and restriction for high value-added products to motivate the salesmen, thus achieving sales volumes of 0.7mm ultra-thin sheet glass,1.1mm ultra-thin glass, ultra-thick glass of over 15mm on-line plating glass amounting to over 140,000,000 m^2, over 4,360,000m^2, over 0.33 million weighted cases and 0.2 million weighted cases respectively. In addition to the marketing networks, the Company will take all approaches to enhance product sale for a noticeable increase in direct sales volume and a simple direct sale to customers of extensive processing products. New customers will be developed with the stable existing customer base. The Company will use and cut down the creditability amount on a reasonable basis and shorten the collection period of trade receivables, to unload its burden from fund for less exposure to operating risks. In coordinating product transportation, the Company will introduce all channels for more train wagons to ensure timely export while prompting more self-picking by customers with policies to alleviate the conflict between delivery and transportation. Last, the Company will enhance the link and coordination between production and sale for the smooth access to the market information and a reasonable production order for product varieties to minimize losses from changing product varieties.

2. The Company will explore more international markets to increase the export of products and economic efficiency. Since the beginning of the year, due to the dramatic decrease in internal selling prices, in which no favorable turn has seen so far, as compared with the relatively stable international selling prices, profit from external sales is higher than that from internal sales. Therefore, we are progressively increasing the export. Throughout 2005, we will properly allocate the resources for internal and external sales in line with the principal of efficiency primacy to secure the maximum then sales revenue. Meanwhile, with consolidated traditional export markets including South Korea, Africa and Southeast Asia, we will enlarge the South African market and expand the rising Russian and eastern European markets, so as to diversify export regions. Emphasis will be put on development of international markets for such high value-added products as ultra-thin glass and on-line plating glass thus gradually transiting from traditional products to products with technological content for a higher profit from product export.

3. Various channels and ways will be utilized in purchase of goods and materials for a minimal procurement cost. In 2005, we will carefully study the price movements of heavy oil, soda ash and other materials to improve our recognition of and swift response to the market changes, thus determining the procurement amount according to the rising prices and shortened period. To improve procurement efficiency, it will innovate the bidding procurement by introducing new competition mechanisms to end the long monopolization by certain suppliers. Capitalising on its intensive procurement advantage, the Company will include bulk procurement of its subsidiaries into the scope of the integrated procurement control and consolidate its control on the retailed purchase prices for its subsidiaries. It will take efforts in implementation of "nil storage" procurement and performance assessment for procurement staff and boosting the capital utilization efficiency. In addition, various means will be employed to extend the procurement channels. Through proper use of e-business, it will expand the procurement scope and consider the feasibility of importing materials based on the price movements of heavy oil, soda ash and other materials.

4. The Company will reinforce the payoff of debts and after-sale services.

III. The company will align management of the controlling Company on subsidiaries to better the operation of the system and the production order, thus updating the management towards a new level.

1. The Company will update the internal special management towards a new level.

2. The Company will enhance the services, guidance, supervision and checking on its subsidiaries and build harmonious relations with them.

3. The Company will take more efforts in cultivating talents to meet demands from its production and operation and development.

By order of the Board
Liu Baoying
Chairman

25 April 2005