



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 31 to 55 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 Institute of Certified Public 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.

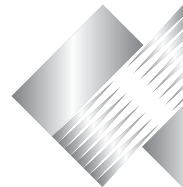
Opinion

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 2004 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants
Hong Kong, China, 25 April 2005

Consolidated income statement

For the year ended 31 December 2004
(Prepared in accordance with International Financial Reporting Standards)
(Expressed in Renminbi)



	Note	2004 RMB'000	2003 RMB'000
Turnover	4	1,128,554	975,816
Cost of sales		(877,054)	(840,202)
Gross profit		251,500	135,614
Other operating income	5	51,091	9,409
Other operating expenses	6	(988)	(9,905)
Selling expenses		(33,435)	(39,447)
Administrative expenses		(137,201)	(356,036)
Profit/(loss) from operations		130,967	(260,365)
Net financing costs	7(a)	(48,329)	(41,898)
Investment income/(loss)	7(b)	844	(6,525)
Share of profit/(loss) of associated companies		1,678	(28,817)
Profit/(loss) from ordinary activities before taxation	7	85,160	(337,605)
Income tax expense	9(a)	(4,493)	(2,172)
Profit/(loss) from ordinary activities after taxation		80,667	(339,777)
Minority interests		(18,927)	(244)
Profit/(loss) attributable to shareholders	10	61,740	(340,021)
Basic profit/(loss) per share (in RMB: Yuan)	12	0.09	(0.49)

The notes on pages 37 to 55 form part of these financial statements.

Consolidated balance sheet

As at 31 December 2004
(Prepared in accordance with International Financial Reporting Standards)
(Expressed in Renminbi)

	Note	2004 RMB'000	2003 RMB'000
Non-current assets			
Property, plant and equipment	13	865,049	938,228
Construction in progress	14	2,323	4,535
Intangible asset	15	6,005	6,377
Lease prepayments	16	81,138	82,991
Interest in associated companies	18	174,476	186,843
Investments	19	32,983	35,739
Other receivables	20	10,501	19,186
Deposits with a non-bank financial institution	25	35,654	35,654
Total non-current assets		1,208,129	1,309,553
Current assets			
Income tax recoverable		1,739	439
Other receivables	20	323,439	478,028
Inventories	21	205,474	184,952
Trade and bills receivables	22	61,550	79,667
Deposits with banks and non-bank financial institutions	23	167,233	100,000
Cash and cash equivalents	24	130,039	82,279
Total current assets		889,474	925,365
Current liabilities			
Income tax payable		512	1,379
Trade and bills payables	26	110,282	174,394
Accrued expenses and other payables		181,712	205,396
Bank and other loans	27	812,516	893,251
Total current liabilities		1,105,022	1,274,420
Net current liabilities		(215,548)	(349,055)
Total assets less current liabilities		992,581	960,498
Non-current liabilities			
Bank and other loans	27	71,342	118,269
Long-term payables		2,717	2,580
Total non-current liabilities		74,059	120,849
Minority interests		67,306	50,173
Net assets		851,216	789,476
Shareholders' funds			
Share capital	28	700,000	700,000
Share premium	29	969,988	969,988
Reserves	30	118,202	117,125
Accumulated losses	31	(936,974)	(997,637)
		851,216	789,476

Approved and authorised for issue by the Board of Directors on 25 April 2005.

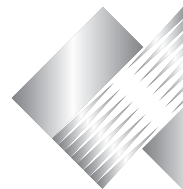
Liu Baoying
Chairman

Zhu Leibo
Director

The notes on pages 37 to 55 form part of these financial statements.

Balance sheet

As at 31 December 2004
(Prepared in accordance with International Financial Reporting Standards)
(Expressed in Renminbi)



	Note	2004 RMB'000	2003 RMB'000
Non-current assets			
Property, plant and equipment	13	395,663	443,586
Construction in progress	14	1,494	2,749
Lease prepayments	16	33,795	34,647
Interest in subsidiaries	17	233,152	272,644
Interest in associated companies	18	174,005	187,939
Investments	19	32,983	35,187
Other receivables	20	10,501	19,186
Deposits with non-bank financial institution	25	35,654	35,654
Total non-current assets		917,247	1,031,592
Current assets			
Other receivables	20	299,281	439,526
Inventories	21	117,225	99,066
Trade and bills receivables	22	49,946	51,735
Deposits with banks and non-bank financial institutions	23	167,233	100,000
Cash and cash equivalents	24	102,105	57,476
Total current assets		735,790	747,803
Current liabilities			
Trade and bills payables	26	45,966	90,833
Accrued expenses and other payables		67,370	86,521
Bank and other loans	27	655,637	730,250
Total current liabilities		768,973	907,604
Net current liabilities		(33,183)	(159,801)
Total assets less current liabilities		884,064	871,791
Non-current liabilities			
Bank and other loans	27	36,342	56,152
Long-term payables		2,717	2,580
Total non-current liabilities		39,059	58,732
Net assets		845,005	813,059
Shareholders' funds			
Share capital	28	700,000	700,000
Share premium	29	969,988	969,988
Reserves	30	106,547	106,547
Accumulated losses	31	(931,530)	(963,476)
		845,005	813,059

Approved and authorised for issue by the Board of Directors on 25 April 2005.

Liu Baoying
Chairman

Zhu Leibo
Director

The notes on pages 37 to 55 form part of these financial statements.

Consolidated statement of changes in shareholders' funds

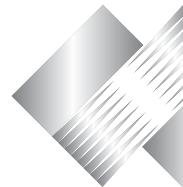
For the year ended 31 December 2004
(Prepared in accordance with International Financial Reporting Standards)
(Expressed in Renminbi)

	Share capital RMB'000	Share premium RMB'000	Reserves RMB'000	Accumulated deficits RMB'000	Total RMB'000
At 1 January 2003	700,000	969,988	116,857	(657,348)	1,129,497
Loss for the year	—	—	—	(340,021)	(340,021)
Appropriation	—	—	268	(268)	—
At 31 December 2003	700,000	969,988	117,125	(997,637)	789,476
At 1 January 2004	700,000	969,988	117,125	(997,637)	789,476
Profit for the year	—	—	—	61,740	61,740
Appropriation	—	—	1,077	(1,077)	—
At 31 December 2004	700,000	969,988	118,202	(936,974)	851,216

The notes on pages 37 to 55 form part of these financial statements.

Consolidated cash flow statement

For the year ended 31 December 2004
(Prepared in accordance with International Financial Reporting Standards)
(Expressed in Renminbi)



	Note	2004 RMB'000	2003 RMB'000
Cash flows from operating activities			
Cash generated from operations	(a)	223,704	145,947
Interest paid		(51,879)	(63,095)
Income tax paid		(6,660)	(189)
Net cash from operating activities		165,165	82,663
Cash flows from investing activities			
Interest and investment income received		9,620	16,711
Capital expenditure		(15,430)	(41,624)
— Property, plant and equipment		(11,803)	(32,611)
— Construction in progress		—	1,099
Cash inflow from newly consolidated subsidiaries	(c)	8,186	2,846
Proceeds from disposal of property, plant and equipment		(9,427)	(53,579)
Net cash used in investing activities		(9,427)	(53,579)
Cash flows from financing activities			
Dividend paid to a minority shareholder		(1,794)	—
Proceeds from bank and other loans		972,281	882,549
Repayment of bank and other loans		(1,078,465)	(981,908)
Net cash used in financing activities		(107,978)	(99,359)
Net increase/(decrease) in cash and cash equivalents		47,760	(70,275)
Cash and cash equivalents at 1 January		82,279	152,554
Cash and cash equivalents at 31 December	24	130,039	82,279

The notes on pages 37 to 55 form part of these financial statements.

Notes to the consolidated cash flow statement

For the year ended 31 December 2004
(Prepared in accordance with International Financial Reporting Standards)
(Expressed in Renminbi)

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

	2004 RMB'000	2003 RMB'000
Profit/(loss) from ordinary activities before taxation	85,160	(337,605)
Share of (profit)/loss of associated companies	(1,678)	28,817
Share of accumulated losses from newly consolidated subsidiaries	—	3,781
Amortisation and depreciation	92,927	80,302
Interest income	(5,061)	(20,485)
Dividend income	(3,600)	(3,300)
Interest expense	51,530	58,920
Provision for diminution in value of other unlisted investments	2,756	6,044
Provision for amount due from an associated company	—	38,730
Allowance for doubtful debts	29,387	234,070
Waiver of debts	(25,731)	—
Write off of other payables	(1,311)	(6,839)
Provision/(write back of provision) for inventories	800	(797)
(Net gain)/loss on disposal of property, plant and equipment	(5,515)	7,028
Foreign exchange loss	742	1,496
(Increase)/decrease in inventories	(21,322)	25,289
Decrease in trade and bills receivables	13,079	22,098
Decrease in other receivables	151,109	73,889
(Increase)/decrease in time deposits with original maturity more than three months	(67,233)	25,516
Decrease in trade and bills payables	(64,112)	(62,776)
Decrease in accrued expenses and other payables	(8,223)	(28,231)
Cash generated from operations	223,704	145,947

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

	2004 RMB'000	2003 RMB'000
Waiver of debts	25,731	—

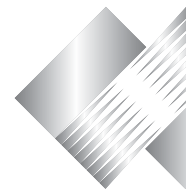
(c) Newly consolidated subsidiaries

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

	2003 RMB'000
Property, plant and equipment	45,973
Construction in progress	1,117
Lease prepayments	10,386
Trade and bills receivables	6,345
Other receivables	8,495
Inventories	7,749
Investments	552
Cash and cash equivalents	1,099
Trade and bills 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
Net cash inflow in respect of newly consolidated subsidiaries	1,099

Notes on the financial statements

For the year ended 31 December 2004
(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 sales of float sheet glass.

2 Significant accounting policies

(a) Statement of compliance

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

These financial statements also comply with the disclosure requirements of 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 ("Listing Rules").

A summary of the significant accounting policies adopted by the Group is set out below.

The Company also prepares a set of financial statements which complies with the PRC Accounting Rules and Regulations. A reconciliation of the Group's and the Company's results and the shareholders' funds under IFRS and the PRC Accounting Rules and Regulations is presented on page 97.

IASB has issued a number of new and revised IFRS which are effective for accounting periods beginning on or after 1 January 2005. The Group has already commenced an assessment of the impact of these new IFRS but is not yet in a position to state whether these new IFRS would have a significant impact on its results of operations and financial position.

(b) Basis of preparation

The financial statements are presented in Renminbi, rounded to the nearest thousand, and are prepared on the historical cost basis other than the valuation of certain property, plant and equipment taken over by the Company on its formation (note 13(b)). The accounting policies have been consistently applied by the Group and are consistent with those used in the previous year.

Notwithstanding that the Company and the Group had net current liabilities as at 31 December 2004, 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 RMB525,000,000 to the Company upon their expiry 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 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 conformity with IFRS requires management to make judgments, 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.

Notes on the financial statements *(Continued)*

For the year ended 31 December 2004
(Prepared in accordance with International Financial Reporting Standards)
(Expressed in Renminbi)

2 Significant accounting policies *(continued)*

(c) Basis of consolidation *(continued)*

(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.

(d) Property, plant and equipment

- (i) Property, plant and equipment are stated at cost 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 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 25 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

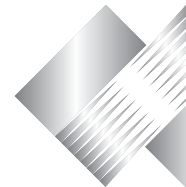
Investments in unlisted equity securities are stated at cost less impairment losses (note 2(s)).

(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.

Notes on the financial statements *(Continued)*

For the year ended 31 December 2004
(Prepared in accordance with International Financial Reporting Standards)
(Expressed in Renminbi)



2 Significant accounting policies *(continued)*

(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.

(n) Revenue recognition

(i) Goods sold

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.

(ii) Interest and dividend income

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.

(iii) Government grants

An unconditional government grant is recognised in the income statement as revenue when the grant becomes receivable. Any other government grant is recognised in the balance sheet initially as deferred income when there is reasonable assurance that it will be received and that the Group will comply with the conditions attaching to it. Grants that compensate the Group for expenses incurred are recognised as revenue in the income statement on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are recognised in the income statement as revenue on a systematic basis over the useful life of the asset.

(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 35.

Notes on the financial statements *(Continued)*

For the year ended 31 December 2004
(Prepared in accordance with International Financial Reporting Standards)
(Expressed in Renminbi)

2 Significant accounting policies *(continued)*

(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

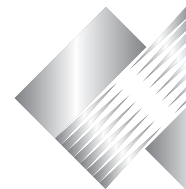
For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group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

(w) Segment reporting

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

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	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Turnover	1,048,118	846,697	35,994	75,495	18,977	27,748	16,679	19,129	8,786	6,747	1,128,554	975,816
Segment results	212,079	86,756	2,679	5,502	1,412	2,023	1,242	1,394	653	492	218,065	96,167
Unallocated expenses											(87,098)	(356,532)
Profit/(loss) from operations											130,967	(260,365)
Net financing costs											(48,329)	(41,898)
Investment income/(loss)											844	(6,525)
Share of profit/(loss) of associated companies											1,678	(28,817)
Income tax expense											(4,493)	(2,172)
Minority interests											(18,927)	(244)
Profit/(loss) attributable to shareholders											61,740	(340,021)

4 Turnover

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

5 Other operating income

	2004 RMB'000	2003 RMB'000
Waiver of debts	25,731	—
Gain on disposal of racks	7,450	—
Net gain on disposal of property, plant and equipment	5,515	—
Government grants	5,353	—
Profit on sales of raw materials	2,774	—
Write off of other creditors	1,311	6,839
Others	2,957	2,570
	51,091	9,409

6 Other operating expenses

	2004 RMB'000	2003 RMB'000
Net loss on disposal of property, plant and equipment	—	(7,028)
Others	(988)	(2,877)
	(988)	(9,905)

Notes on the financial statements (Continued)

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7 Profit/(loss) from ordinary activities before taxation

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

	2004 RMB'000	2003 RMB'000
(a) Net financing costs:		
Interest on bank loans and other borrowings		
Repayable within five years	(51,530)	(58,920)
Interest income	5,061	20,485
Net foreign exchange loss	(893)	(1,684)
Bank charges	(967)	(1,779)
	(48,329)	(41,898)
(b) Investment income/(loss):		
Dividend income	3,600	3,300
Impairment loss on unlisted investments	(2,756)	(6,044)
Share of accumulated losses from newly consolidated subsidiaries	—	(3,781)
	844	(6,525)
(c) Personnel expenses # :		
Wages and salaries	(67,251)	(58,661)
Contributions to defined contribution plan	(11,469)	(14,665)
	(78,720)	(73,326)
(d) Other items:		
Cost of inventories #	(877,054)	(840,202)
Depreciation #	(90,702)	(78,540)
Provision for amounts due from associated companies	—	(38,730)
Allowance for doubtful debts	(29,387)	(234,070)
Auditors' remuneration	(2,600)	(2,200)
Research and development expenses	(7,429)	(5,330)
Amortisation of intangible assets	(372)	(372)
Amortisation of lease prepayments	(1,853)	(1,390)

The number of employees at 31 December 2004 was 5,898 (2003: 5,358).

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:

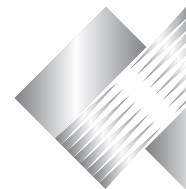
	2004 RMB'000	2003 RMB'000
Salaries and other emoluments	362	242
Contributions to defined contribution plan	6	2
	368	244

Supervisors' remuneration is as follows:

	2004 RMB'000	2003 RMB'000
Salaries and other emoluments	96	46
Contributions to defined contribution plan	4	2
	100	48

Notes on the financial statements (Continued)

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8 Directors' and supervisors' remuneration (continued)

Included in the directors' and supervisors' remuneration were fees of RMB114,000 paid to independent non-executive directors and supervisors for the year ended 31 December 2004 (2003: RMB92,000).

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

Hong Kong dollars	No. of directors and supervisors	
	2004	2003
0 - HK\$1,000,000	16	16

9 Income tax expense

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

	2004 RMB'000	2003 RMB'000
Current year	4,493	1,430
Adjustments for prior years	—	742
	4,493	2,172

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 2004. 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.

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

	2004 RMB'000	2003 RMB'000
Profit/(loss) before tax	85,160	(337,605)
Expected PRC income tax using the Company's tax rate of 33%	28,103	(111,409)
Non-deductible expenses	8,559	14,664
Tax exempt revenues	(4,777)	(2,376)
Differential tax rate on a subsidiary's profit	—	(52)
Effect of tax loss utilised	(42,226)	—
Tax losses not recognised for deferred tax	14,834	100,603
Under provided in prior years	—	742
	4,493	2,172

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

	2004 RMB'000	2003 RMB'000
Tax losses	249,562	270,537
Lease prepayments	27,834	28,526
	277,396	299,063

The deferred tax assets have not been recognised as it is not certain whether the potential taxation benefit will be realised in the foreseeable future. The tax losses represent the maximum benefit from unutilised tax losses, which can be carried forward up to 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 Profit/(loss) attributable to shareholders

The profit/(loss) attributable to shareholders includes a profit of RMB31,946,000 (2003: loss of RMB323,820,000) which has been dealt with in the financial statements of the Company.

Notes on the financial statements (Continued)

For the year ended 31 December 2004
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11 Dividend

The board of directors of the Company does not recommend the payment of a dividend in respect of the year ended 31 December 2004 (2003: RMB: Nil).

12 Basic profit/(loss) per share

The calculation of basic profit/(loss) per share is based on the profit attributable to shareholders of RMB61,740,000 (2003: loss of RMB340,021,000) and 700,000,000 (2003: 700,000,000) shares in issue during the year.

No diluted profit/(loss) per share is calculated as there are no dilutive potential shares for the two years ended 31 December 2004.

13 Property, plant and equipment

The Group

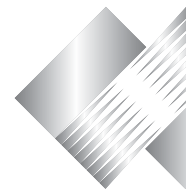
	Buildings RMB'000	Plant, machinery and equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
Cost:				
At 1 January 2004	455,901	1,041,718	22,064	1,519,683
Additions	86	4,269	1,824	6,179
Transfer from construction in progress (note 14)	2,903	10,772	340	14,015
Disposals	(1,298)	(10,292)	(4,400)	(15,990)
At 31 December 2004	457,592	1,046,467	19,828	1,523,887
Accumulated depreciation and impairment:				
At 1 January 2004	105,351	463,087	13,017	581,455
Charge for the year	15,542	72,918	2,242	90,702
Written back on disposal	(445)	(9,017)	(3,857)	(13,319)
At 31 December 2004	120,448	526,988	11,402	658,838
Net book value:				
At 31 December 2004	337,144	519,479	8,426	865,049
At 31 December 2003	350,550	578,631	9,047	938,228

The Company

	Buildings RMB'000	Plant, machinery and equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
Cost:				
At 1 January 2004	223,809	633,466	5,011	862,286
Additions	—	2,221	959	3,180
Transfer from construction in progress (note 14)	62	2,494	—	2,556
Disposals	(1,166)	(8,097)	(3,186)	(12,449)
At 31 December 2004	222,705	630,084	2,784	855,573
Accumulated depreciation and impairment:				
At 1 January 2004	65,296	351,505	1,899	418,700
Charge for the year	6,902	43,021	1,719	51,642
Written back on disposal	(314)	(7,299)	(2,819)	(10,432)
At 31 December 2004	71,884	387,227	799	459,910
Net book value:				
At 31 December 2004	150,821	242,857	1,985	395,663
At 31 December 2003	158,513	281,961	3,112	443,586

Notes on the financial statements (Continued)

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13 Property, plant and equipment (continued)

- (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.

14 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

	2004 RMB'000	2003 RMB'000
At 1 January	4,535	8,682
Additions:		
— in respect of newly consolidated subsidiaries	—	1,117
— others	11,803	32,611
	16,338	42,410
Transfer to property, plant and equipment (note 13)	(14,015)	(37,875)
At 31 December	2,323	4,535

The Company

	2004 RMB'000	2003 RMB'000
At 1 January	2,749	6,468
Additions for the year	1,301	5,920
	4,050	12,388
Transfer to property, plant and equipment (note 13)	(2,556)	(9,639)
At 31 December	1,494	2,749

15 Intangible asset

The Group

	2004 RMB'000	2003 RMB'000
Cost:		
At 1 January and 31 December 2004	7,400	7,400
Accumulated amortisation:		
At 1 January	1,023	651
Charge for the year	372	372
At 31 December	1,395	1,023
Net book value:		
At 31 December	6,005	6,377

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

16 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 60 years. The certificate of land use rights with a carrying value of RMB33,636,000 at 31 December 2004 is in the process of application.

Notes on the financial statements (Continued)

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17 Interest in subsidiaries

The Company

	2004 RMB'000	2003 RMB'000
Unlisted equity interest, at cost	202,006	202,006
Amounts due from subsidiaries	167,197	205,163
	369,203	407,169
Less: impairment loss	(136,051)	(134,525)
	233,152	272,644

Details of the Company's principal subsidiaries at 31 December 2004, all of which are incorporated and operated in the PRC, are set out below:

Name of company	Registered capital	Direct equity interest	Principal activities	Note
Luobo Group Longmen Glass Company Ltd.	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)
Yinan Mineral Products Co. Ltd. ("Yinan")	RMB28,000,000	52.00%	Exploration of minerals	(iii)
Shenzhen Luobo Trading Co. Ltd.	RMB1,000,000	60.00%	Selling of float sheet glass	(iii)

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 2001 to 2008 and Hua Rong will not share any profit or loss of Bada. As at 31 December 2004, redeemable equity of RMB6,000,000 (2003: RMB4,500,000) has been overdue. In accordance with IAS 32, the equity interest held by Hua Rong has been classified as a long-term loan (note 27).

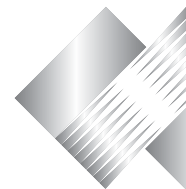
- (iii) These subsidiaries are limited liability companies.

18 Interest in associated companies

	The Group		The Company	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Unlisted equity interest, at cost	—	—	220,649	220,649
Share of net assets	175,378	174,659	—	—
	175,378	174,659	220,649	220,649
Amounts due from associated companies	71,477	83,661	71,477	83,725
Amounts due to associated companies	(902)	—	(1,697)	—
	245,953	258,320	290,429	304,374
Less: impairment loss	(71,477)	(71,477)	(116,424)	(116,435)
	174,476	186,843	174,005	187,939

Notes on the financial statements (Continued)

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18 Interest in associated companies (continued)

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 RMB'000	Direct equity interest	Principal activities
Luoyang Jingxin Ceramic Co. Ltd. ("Jingxin")	Sino-foreign equity joint venture	41,945	49%	Manufacture of ceramic wall tiles
China Luoyang Float Glass Group Financial Company of Limited Liabilities ("CLFC")	Limited liability company	300,000	37%	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. The remaining amounts are unsecured, interest-free and have no fixed terms of repayment.

The Group's share of post-acquisition total recognised losses in the above associates for the year ended 31 December 2004 was RMB45,271,000 (2003: RMB45,990,000). The Group has not recognised losses relating to Jingxin totaling RMB13,408,000 (2003: RMB7,832,000) of which RMB5,576,000 was applicable to the current financial year (2003: RMB6,527,000). The Group has no obligation in respect of these losses.

19 Investments

The Group

	2004 RMB'000	2003 RMB'000
Unlisted investments, at cost	68,957	68,957
Less: impairment loss	(35,974)	(33,218)
	32,983	35,739

The Company

	2004 RMB'000	2003 RMB'000
Unlisted investments, at cost	62,067	62,067
Less: impairment loss	(29,084)	(26,880)
	32,983	35,187

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.

20 Other receivables

	The Group		The Company	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Non-current assets				
Other receivables	10,501	19,186	10,501	19,186

Notes on the financial statements (Continued)

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20 Other receivables (continued)

	The Group		The Company	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Current assets				
Amounts due from ultimate holding company	159,525	146,359	151,882	138,715
Amounts due from fellow subsidiaries	353,820	485,813	350,723	483,521
Advance payments, other receivables and prepayments	134,576	146,342	81,400	102,236
	647,921	778,514	584,005	724,472
Less: allowance for doubtful debts	(324,482)	(300,486)	(284,724)	(284,946)
	323,439	478,028	299,281	439,526

As at 31 December 2003, the receivables due from Qingdao Taiyang Glass Industries Company Limited ("Taiyang"), a fellow subsidiary, amounted to RMB359,616,000 (including interest receivable of RMB45,008,000), out of which a provision of RMB229,763,000 had been made. During the year, Taiyang repaid RMB129,820,000 after they have disposed of their pledged fixed assets. The directors have assessed the remaining receivable balances of RMB229,796,000 due from Taiyang as at 31 December 2004 and have considered them irrecoverable. Full provision has been maintained in this regard. During the year, the Company has ceased to accrue interest on the amount due from Taiyang.

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

21 Inventories

	The Group		The Company	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Raw materials and consumables	157,858	153,612	88,106	88,364
Work in progress	11,160	11,249	5,804	4,109
Finished goods	45,285	34,129	31,196	19,683
	214,303	198,990	125,106	112,156
Less: impairment loss	(8,829)	(14,038)	(7,881)	(13,090)
	205,474	184,952	117,225	99,066

At 31 December 2004, the carrying amount of the Group's and the Company's inventories carried at net realisable value amounted to RMB705,000 (2003: RMB2,999,000).

22 Trade and bills receivables

	The Group		The Company	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Trade receivables				
— third parties	69,784	78,259	55,216	55,687
— ultimate holding company	84,133	84,786	84,070	84,723
— fellow subsidiaries	6,866	9,987	2,651	3,707
	160,783	173,032	141,937	144,117
Less: allowance for doubtful debts	(142,286)	(138,830)	(129,681)	(129,755)
	18,497	34,202	12,256	14,362
Bills receivable	43,053	45,465	37,690	37,373
	61,550	79,667	49,946	51,735

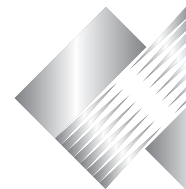
The ageing analysis of trade and bills receivables, after allowance for doubtful debts, is as follows:

	The Group		The Company	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Within one year	60,265	73,140	49,584	47,991
Between one and two years	622	2,225	140	1,308
Between two and three years	663	4,302	222	2,436
	61,550	79,667	49,946	51,735

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.

Notes on the financial statements (Continued)

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23 Deposits with banks and non-bank financial institutions

At 31 December 2004, time deposits with banks and non-bank financial institutions amounted to RMB80,000,000 (2003: RMB90,000,000) have been pledged to secure loans granted to the Company (note 27).

24 Cash and cash equivalents

	The Group		The Company	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
Cash in hand	425	715	259	38
Deposits with banks and non-bank financial institutions with an original maturity within three months	129,614	81,564	101,846	57,438
Cash and cash equivalents	130,039	82,279	102,105	57,476

At 31 December 2004, deposits with banks and non-bank financial institutions with an original maturity within three months of the Group amounted to RMB3,000,000 (2003: RMB15,899,000) have been pledged to secure bills payable of the Group.

At 31 December 2004, deposits with banks and non-bank financial institutions with an original maturity within three months of the Company amounted to RMB3,000,000 (2003: RMB12,186,000) have been pledged to secure bills payable of the Company.

25 Deposits with a non-bank financial institution

The balances at 31 December 2004 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.

26 Trade and bills payables

	The Group		The Company	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables				
— third parties	101,901	114,633	38,442	38,822
— fellow subsidiaries	3,337	3,108	2,480	2,858
	105,238	117,741	40,922	41,680
Bills payable	5,044	56,653	5,044	49,153
	110,282	174,394	45,966	90,833

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

	The Group		The Company	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
Due within 1 month or on demand	109,935	174,394	45,619	90,833
Due after 1 month but within 3 months	347	—	347	—
	110,282	174,394	45,966	90,833

27 Bank and other loans

The Group

	2004	2003
	RMB'000	RMB'000
Secured bank loans	594,278	577,320
Unsecured loans from the ultimate holding company	144,080	241,380
Secured loans from an associated company	64,000	106,000
Unsecured loans from an associated company	51,500	12,000
Secured loans from a non-bank financial institution	—	44,820
Unsecured loans from a non-bank financial institution	30,000	30,000
	883,858	1,011,520

Notes on the financial statements (Continued)

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27 Bank and other loans (continued)

The Company

	2004 RMB'000	2003 RMB'000
Secured bank loans	580,049	562,842
Unsecured loans from the ultimate holding company	47,930	139,560
Secured loans from an associated company	64,000	84,000
	691,979	786,402

Included in loans from banks of the Company are loans amounting to RMB80,000,000 (2003: RMB90,000,000) which are secured by time deposits of the same amount (note 23). The remaining balances are guaranteed by the ultimate holding company and carry interest at the prevailing market rates.

Included in loans from a non-bank financial institution to a subsidiary of RMB6,000,000 (2003: RMB10,960,000) has become overdue for payment.

The bank and other loans are repayable as follows:

The Group

	2004 RMB'000	2003 RMB'000
Within one year		
— short-term loans	767,650	846,910
— current portion of long-term loans	44,866	46,341
	812,516	893,251
Between one and two years	51,567	40,076
Between two and five years	13,910	73,069
After five years	5,865	5,124
	71,342	118,269
	883,858	1,011,520

The Company

	2004 RMB'000	2003 RMB'000
Within one year		
— short-term loans	635,000	709,630
— current portion of long-term loans	20,637	20,620
	655,637	730,250
Between one and two years	28,567	20,620
Between two and five years	1,910	30,408
After five years	5,865	5,124
	36,342	56,152
	691,979	786,402

Notes on the financial statements (Continued)

For the year ended 31 December 2004
(Prepared in accordance with International Financial Reporting Standards)
(Expressed in Renminbi)

27 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	
			2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Secured bank loans						
Due in 2004	7.14%	Fixed	—	241	—	—
Due in 2005	7.14%	Fixed	229	237	—	—
Euro denominated:						
Payable semi-annually in 2004	2.5% (Note)	Fixed	—	620	—	620
Payable semi-annually in 2005	2.5% (Note)	Fixed	637	620	637	620
Payable semi-annually from 2006 through 2019	2.5% (Note)	Fixed	8,412	7,602	8,412	7,602
			9,278	9,320	9,049	8,842
Unsecured loans from an associated company						
Due in 2004	6.04%-6.53%	Fixed	—	12,000	—	—
Due in 2005	6.04%-6.34%	Fixed	12,000	—	—	—
Due in 2006	6.04%-6.34%	Fixed	17,000	—	—	—
			29,000	12,000	—	—
Secured loans from an associated company						
Due in 2004	6.04%-6.53%	Fixed	—	2,000	—	—
Due in 2005	5.49%	Fixed	—	5,000	—	—
			—	7,000	—	—
Unsecured loans from the ultimate holding company						
Due in 2004	6.03%	Fixed	—	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
			47,930	67,930	47,930	67,930
Secured loans from a non-bank financial institution						
Due in 2004	2.26%	Fixed	—	5,480	—	—
Due in 2005	2.26%	Fixed	—	8,220	—	—
Due in 2006	2.26%	Fixed	—	8,220	—	—
Due in 2007	2.26%	Fixed	—	8,220	—	—
Due in 2008	2.26%	Fixed	—	8,220	—	—
			—	38,360	—	—
Unsecured loans from a non-bank financial institution						
Payable semi-annually from 2001 through 2008 (note 17(ii))	—	—	30,000	30,000	—	—
Total long term loans			116,208	164,610	56,979	76,772
Less: Current portion repayable within one year			(44,866)	(46,341)	(20,637)	(20,620)
Long-term portion of long-term loans			71,342	118,269	36,342	56,152

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 5.65% and 5.58% per annum respectively (2003: 5.40% and 5.33% per annum respectively).

Notes on the financial statements (Continued)

For the year ended 31 December 2004
(Prepared in accordance with International Financial Reporting Standards)
(Expressed in Renminbi)

28 Share capital

	2004 RMB'000	2003 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.

29 Share premium

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

30 Reserves

The Group

	Statutory surplus reserve RMB'000 (note (a))	Statutory public welfare fund RMB'000 (note (b))	Discretionary surplus reserve RMB'000 (note (c))	Excess over share capital RMB'000 (note (d))	Total RMB'000
At 1 January 2003	57,900	55,142	110,764	(106,949)	116,857
Appropriation (note 31)	178	90	—	—	268
At 31 December 2003	58,078	55,232	110,764	(106,949)	117,125
At 1 January 2004	58,078	55,232	110,764	(106,949)	117,125
Appropriation (note 31)	718	359	—	—	1,077
At 31 December 2004	58,796	55,591	110,764	(106,949)	118,202

The Company

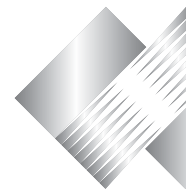
	Statutory surplus reserve RMB'000 (note (a))	Statutory public welfare fund RMB'000 (note (b))	Discretionary surplus reserve RMB'000 (note (c))	Excess over share capital RMB'000 (note (d))	Total RMB'000
At 1 January and 31 December 2003	51,366	51,366	110,764	(106,949)	106,547
At 1 January and 31 December 2004	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.

Notes on the financial statements (Continued)

For the year ended 31 December 2004
(Prepared in accordance with International Financial Reporting Standards)
(Expressed in Renminbi)



31 Accumulated losses

	The Group RMB'000	The Company RMB'000
At 1 January 2003	(657,348)	(639,656)
Loss attributable to shareholders	(340,021)	(323,820)
Appropriations (note 30)	(268)	—
At 31 December 2003	(997,637)	(963,476)
At 1 January 2004	(997,637)	(963,476)
Profit attributable to shareholders	61,740	31,946
Appropriations (note 30)	(1,077)	—
At 31 December 2004	(936,974)	(931,530)

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 2004, there was no reserve available for distribution (2003: RMB: Nil).

32 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 and entities which are significantly influenced by 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	2004 RMB'000	2003 RMB'000
Ancillary and social services	(i)	5,325	1,401
Research and development assistance	(ii)	6,520	1,516
Provision of utilities	(iii)	674	422
Interest paid and payable		12,300	16,444
Interest received and receivable		—	1,972
Guarantees issued by CLFG to banks in favour of the Group		195,400	170,000
Indirect guarantees	(iv)	336,000	294,000
Guarantees issued by CLFG to the Company in favour of other fellow subsidiaries		111,361	101,381

Notes:

- (i) The Company has entered into a three-year agreement with CLFG effective 3 August 2001 which has renewed for another three years expiring on 3 August 2007. In accordance with the agreements, 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 1 September 2003. In accordance with the agreement, CLFG provides research and development assistance and consultancy services to the Company. The amount charged by CLFG is based on a reasonable cost incurred in providing such services plus respective tax charge.
- (iii) The Company has entered into a three-year agreement with CLFG effective 3 August 2001 which has renewed for another three years expiring on 3 August 2007, for provision of utilities such as water and electricity to CLFG. The amount charged to CLFG is based on a reasonable cost incurred in providing such services plus respective tax charge.
- (iv) 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.
- (v) The Company is in the process of applying to the Stock Exchange of Hong Kong Limited for a waiver on strict compliance with the requirements of Chapter 14A of the Listing Rules on certain of the above continuing connected transactions.

Notes on the financial statements (Continued)

For the year ended 31 December 2004
(Prepared in accordance with International Financial Reporting Standards)
(Expressed in Renminbi)

32 Related party transactions (continued)

Transactions between the Group and fellow subsidiaries/entities under common significant influence were as follows:

	Note	2004 RMB'000	2003 RMB'000
Sales		23,308	34,948
Ancillary and social services	(i)	5,823	5,303
Provision of utilities	(ii)	12,450	11,960
Purchase of raw materials	(iii)	17,836	18,879
Other purchases		29,039	4,609
Interest paid and payable		7,139	7,069
Interest received and receivable		597	14,069
Rental income	(iv)	580	580
Proceeds from disposal of property, plant and equipment		5,686	—
Proceeds from sales of racks and scrap materials		9,626	—

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 was supplementary amended on 22 July 2002 and renewed for another 3 years on 3 August 2004. The amount charged by Xinxing is based on a reasonable cost incurred in providing such services plus respective tax charge.
- (ii) The Company has entered into three-year agreements with certain CLFG's subsidiaries, including Xinxing, CLFG New Illuminating Source Company Limited ("New Illuminating"), CLFG Jingwei Glass Fibre Co. Ltd. ("Jingwei"), CLFG Jinghua Industrial Co. Ltd. ("Jinghua") and Luoyang Luobo Hotel effective 3 August 2001. During 2004, the Company has renewed the agreements with Xinxing and Jingwei for another three year expiring on 3 August 2007. New Illuminating, Jinghua and Luoyang Luobo Hotel have ceased operations during the year and there were no renewal of the respective agreements. In accordance with these agreements, the Company provides utilities such as water and electricity to these subsidiaries. The amounts charged to these group companies are based on reasonable costs incurred in providing such services plus respective tax charge.
- (iii) The Company entered into a three-year agreement with a CLFG's subsidiary, CLFG Mineral Product Co. ("Mineral Co"), effective 3 August 2001 which has been renewed for another three years expiring on 3 August 2007, by which Mineral Co. supplies certain raw materials to the Group at market prices.
- (iv) The Company has entered into a five-year agreement with an associated company, CPGC, effective 1 January 2003 by which the Company sub-leases a portion of land use rights on land located in the PRC to CPGC at market rate.
- (v) The Company is in the process of applying to the Stock Exchange of Hong Kong Limited for a waiver on strict compliance with the requirements of Chapter 14A of the Listing Rules on certain of the above continuing connected transactions.

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

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

	2004 RMB'000	2003 RMB'000
Provision for amounts due from the ultimate holding company	95,275	93,532
Provision for amounts due from fellow subsidiaries	310,662	306,122

33 Capital commitments

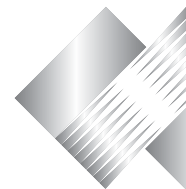
At 31 December 2004, the Group and the Company had the following capital commitments:

The Group

	2004 RMB'000	2003 RMB'000
Contracted but not provided for — construction project	—	177
Authorised but not contracted for — construction project	—	861
Total	—	1,038

Notes on the financial statements (Continued)

For the year ended 31 December 2004
(Prepared in accordance with International Financial Reporting Standards)
(Expressed in Renminbi)



33 Capital commitments (continued)

The Company

	2004 RMB'000	2003 RMB'000
Contracted but not provided for — construction project	—	177
Authorised but not contracted for — construction project	—	861
Total	—	1,038

34 Contingent liabilities

At 31 December 2004, contingent liabilities were as follows:

	The Group		The Company	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Guarantees issued to banks in favour of subsidiaries	—	—	14,000	20,000
Guarantees issued to CLFC and CLFG in favour of subsidiaries	—	—	147,650	117,820
Guarantees issued to Hua Rong in favour of subsidiary	—	—	30,000	30,000
Guarantees issued to bank in favour of independent third parties	—	14,500	—	14,500
	—	14,500	191,650	182,320

35 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 22% to 25% (2003: 23% to 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.

36 Financial instruments

Financial assets of the Group include cash and cash equivalents, deposits with banks and non-bank financial institutions, investments, trade and bills 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 27.

(b) Credit risk

The Group requests most of its customers to pay cash or bills in full prior to delivery of goods. The Group performs ongoing credit evaluations of its customers' financial condition and generally does not require collateral on trade and bills receivables. 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 doubtful debts.

(c) Foreign currency risk

The Group's has exposure to foreign currency as certain loans and cash and cash equivalents are denominated in foreign currencies, principally Euro and U.S. dollars. Changes in exchange rates of Renminbi against foreign currencies may affect the Group's financial position and results of operations.

(d) 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:

	2004		2003	
	Carrying amount RMB'000	Fair value RMB'000	Carrying amount RMB'000	Fair value RMB'000
Non-current bank and other loans	71,342	55,220	118,269	101,126

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.

37 Ultimate holding company

The directors consider the ultimate holding company at 31 December 2004 to be CLFG, a state-owned enterprise established in the PRC.



Report of the PRC Auditors



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

We have audited the accompanying consolidated balance sheet and balance sheet of the Company at 31 December 2004, and the consolidated income statement and profit appropriation statement, income statement and profit appropriation statement, consolidated cash flow statement and cash flow statement of the Company 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 for 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 from material misstatement. An audit includes examining, on a test basis of evidence supporting the amounts and disclosures in the financial statements, an assessment of the accounting policies used and significant estimates made by the Company's management in the preparation of the financial statements, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the above-mentioned financial statements comply with the requirements of the Accounting Standards for Business Enterprises and the Accounting Regulations for Business Enterprises issued by the Ministry of Finance of the People's Republic of China and present fairly, in all material respects, the consolidated financial position and financial position of the Company at 31 December 2004, and the consolidated results of operations, the results of operations, consolidated cash flows and cash flows of the Company 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 Company had accumulated losses amounted to RMB973,657,000 and net current liabilities amounted to RMB204,450,000 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.

KPMG Huazhen

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

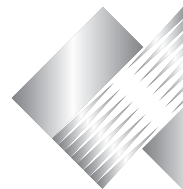
**Hu Qiong
Ling Yun**

25 April 2005

8th Floor, Office Tower E2
Oriental Plaza
1, East Chang An Avenue
Beijing, The People's Republic of China
Post Code: 100738

Consolidated balance sheet

As at 31 December 2004
(Prepared under the PRC Accounting Rules and Regulations)
(Expressed in Renminbi)



	Note	2004 RMB'000	2003 RMB'000
Assets			
Current assets			
Cash at banks and on hand	5	297,272	182,279
Short-term investments	6	11,000	11,000
Bills receivable	7	43,053	45,465
Interest receivables	8	—	—
Trade receivables	9	19,600	35,226
Other receivables	10	280,322	417,909
Prepayments	11	8,152	21,056
Inventories	12	205,474	184,952
Deferred expenses	13	25,890	41,955
Total current assets		890,763	939,842
Long-term investments			
Long-term equity investments	14	208,361	210,398
Total long-term investments		208,361	210,398
Fixed assets			
Fixed assets, at cost		1,523,887	1,519,683
Less: Accumulated depreciation		(658,838)	(581,455)
Net book value of fixed assets	15	865,049	938,228
Construction materials	16	2,029	3,297
Construction in progress	17	294	1,238
Total fixed assets		867,372	942,763
Intangible assets and other assets			
Intangible assets	18	171,489	175,812
Other long-term receivables	10	46,155	54,840
Total intangible assets and other assets		217,644	230,652
Total assets		2,184,140	2,323,655

Consolidated balance sheet (Continued)

As at 31 December 2004
(Prepared under the PRC Accounting Rules and Regulations)
(Expressed in Renminbi)

	Note	2004 RMB'000	2003 RMB'000
Liabilities and shareholders' funds			
Current liabilities			
Short-term loans	19	767,650	846,910
Bills payable	20	5,044	56,653
Trade payables	21	106,837	118,950
Receipts in advance	21	50,455	65,148
Accrued payroll		3,729	3,884
Staff welfare payable		4,464	2,416
Taxes payable	4(c)	29,885	31,582
Other payables	22	559	269
Other creditors	21	89,979	91,807
Accrued expenses	23	3,745	12,753
Current portion of long-term loans	24	32,866	40,341
Total current liabilities		1,095,213	1,270,713
Long-term liabilities			
Long-term loans	24	53,342	94,269
Long-term payables		2,717	2,580
Total long-term liabilities		56,059	96,849
Total liabilities		1,151,272	1,367,562
Minority interests			
		97,306	80,173
Shareholders' funds			
Share capital	25	700,000	700,000
Capital reserve	26	984,068	970,528
Surplus reserves	27	225,151	224,074
(including statutory public welfare fund)		55,591	55,232
Accumulated losses		(973,657)	(1,018,682)
Total shareholders' funds		935,562	875,920
Total liabilities and shareholders' funds		2,184,140	2,323,655

These financial statements have been approved by the Board of Directors on 25 April 2005.

Liu Baoying
Legal Representative

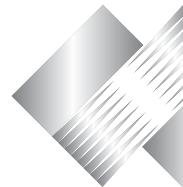
Ding Jianluo
General Manager

Cao Mingchun
Financial Controller

The notes on pages 68 to 96 form part of these financial statements.

Balance sheet

As at 31 December 2004
(Prepared under the PRC Accounting Rules and Regulations)
(Expressed in Renminbi)



	Note	2004 RMB'000	2003 RMB'000
Assets			
Current assets			
Cash at banks and on hand	5	269,338	157,476
Short-term investments	6	144,398	191,567
Bills receivable	7	37,690	37,373
Interest receivables	8	—	—
Trade receivables	9	12,256	15,386
Other receivables	10	289,114	426,839
Prepayments	11	2,928	8,027
Inventories	12	117,225	99,066
Deferred expenses	13	24,417	39,112
Total current assets		897,366	974,846
Long-term investments			
Long-term equity investments	14	291,884	279,176
Total long-term investments		291,884	279,176
Fixed assets			
Fixed assets, at cost		855,573	862,286
Less: Accumulated depreciation		(459,910)	(418,700)
Net book value of fixed assets	15	395,663	443,586
Construction materials	16	1,421	2,676
Construction in progress	17	73	73
Total fixed assets		397,157	446,335
Intangible assets and other assets			
Intangible assets	18	118,141	121,091
Other long-term receivables	10	46,155	54,840
Total intangible assets and other assets		164,296	175,931
Total assets		1,750,703	1,876,288

Balance sheet (Continued)

As at 31 December 2004
(Prepared under the PRC Accounting Rules and Regulations)
(Expressed in Renminbi)

	Note	2004 RMB'000	2003 RMB'000
Liabilities and shareholders' funds			
Current liabilities			
Short-term loans	19	635,000	709,630
Bills payable	20	5,044	49,153
Trade payables	21	42,296	42,871
Receipts in advance	21	28,881	39,546
Accrued payroll		—	—
Staff welfare payable		2,543	197
Taxes payable	4(c)	1,176	790
Other payables	22	48	—
Other creditors	21	38,764	53,025
Accrued expenses	23	1,693	1,683
Current portion of long-term loans	24	20,637	20,620
Total current liabilities		776,082	917,515
Long-term liabilities			
Long-term loans	24	36,342	56,152
Long-term payables		2,717	2,580
Total long-term liabilities		39,059	58,732
Total liabilities		815,141	976,247
Shareholders' funds			
Share capital	25	700,000	700,000
Capital reserve	26	984,068	969,988
Surplus reserves	27	213,496	213,496
(including statutory public welfare fund)		51,366	51,366
Accumulated losses		(962,002)	(983,443)
Total shareholders' funds		935,562	900,041
Total liabilities and shareholders' funds		1,750,703	1,876,288

These financial statements have been approved by the Board of Directors on 25 April 2005.

Liu Baoying
Legal Representative

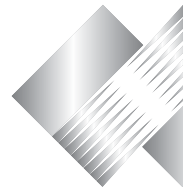
Ding Jianluo
General Manager

Cao Mingchun
Financial Controller

The notes on pages 68 to 96 form part of these financial statements.

Consolidated income statement and profit appropriation statement

For the year ended 31 December 2004
(Prepared under the PRC Accounting Rules and Regulations)
(Expressed in Renminbi)



	Note	2004 RMB'000	2003 RMB'000
Income from principal operations	29	1,133,886	978,846
Less: Cost of sales	30	(869,625)	(835,670)
Business tax and surcharges	31	(5,332)	(3,030)
Profit from principal operations		258,929	140,146
Add: Other operating profit	32	12,191	931
Less: Operating expenses		(33,435)	(39,447)
Administrative expenses		(146,728)	(328,364)
Financial expenses	33	(48,926)	(42,485)
Operating profit/(loss)		42,031	(269,219)
Add: Investment income/(loss)	34	3,119	(69,055)
Subsidy income	35	5,353	—
Non-operating income	36	8,825	7,961
Less: Non-operating expenses	37	(1,996)	(9,905)
Total profit/(loss)		57,332	(340,218)
Less: Income tax expense	4(b)/38	(4,493)	(2,172)
Minority interests		(6,737)	(123)
Net profit/(loss) for the year		46,102	(342,513)
Add: Accumulated losses brought forward		(1,018,682)	(675,901)
Less: Transfer to surplus reserves	28	(1,077)	(268)
Accumulated losses carried forward		(973,657)	(1,018,682)

These financial statements have been approved by the Board of Directors on 25 April 2005.

Liu Baoying
Legal Representative

Ding Jianluo
General Manager

Cao Mingchun
Financial Controller

The notes on pages 68 to 96 form part of these financial statements.

Income statement and profit appropriation statement

For the year ended 31 December 2004
(Prepared under the PRC Accounting Rules and Regulations)
(Expressed in Renminbi)

	Note	2004 RMB'000	2003 RMB'000
Income from principal operations	29	688,132	692,426
Less: Cost of sales	30	(542,322)	(595,374)
Business tax and surcharges	31	(2,453)	(1,748)
Profit from principal operations		143,357	95,304
Add: Other operating profit	32	9,447	1,219
Less: Operating expenses		(23,836)	(30,093)
Administrative expenses		(76,574)	(297,866)
Financial expenses	33	(39,787)	(30,147)
Operating profit/(loss)		12,607	(261,583)
Add: Investment income/(loss)	34	3,215	(65,414)
Non-operating income	36	6,902	6,854
Less: Non-operating expenses	37	(1,283)	(4,058)
Total profit/(loss)		21,441	(324,201)
Less: Income tax expense	4(b)/38	—	(145)
Net profit/(loss) for the year		21,441	(324,346)
Add: Accumulated losses brought forward		(983,443)	(659,097)
Accumulated losses carried forward		(962,002)	(983,443)

These financial statements have been approved by the Board of Directors on 25 April 2005.

Liu Baoying
Legal Representative

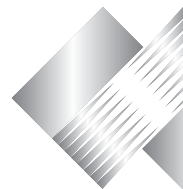
Ding Jianluo
General Manager

Cao Mingchun
Financial Controller

The notes on pages 68 to 96 form part of these financial statements.

Consolidated cash flow statement

For the year ended 31 December 2004
(Prepared under the PRC Accounting Rules and Regulations)
(Expressed in Renminbi)



	Note	2004 RMB'000
Cash flows from operating activities:		
Cash received from sale of goods and rendering of services		1,371,527
Cash received in relation to other operating activities		22,802
Sub-total of cash inflows		1,394,329
Cash paid for purchases of goods and provision of services		(937,312)
Cash paid to and on behalf of employees		(87,812)
Taxes paid		(91,090)
Cash paid in relation to other operating activities		(123,658)
Sub-total of cash outflows		(1,239,872)
Net cash flow from operating activities	(i)	154,457
Cash flows from investing activities:		
Cash received from return of investments		9,620
Net proceeds from the disposal of fixed assets		8,186
Cash settlement received from a fellow subsidiary — CLFG Qingdao Taiyang Glass Industrial Co. Ltd. (note 10)		129,820
Sub-total of cash inflows		147,626
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets		(27,233)
Sub-total of cash outflows		(27,233)
Net cash flow from investing activities		120,393
Cash flows from financing activities:		
Proceeds from loans		972,281
Decrease in pledged deposits		22,899
Sub-total of cash inflows		995,180
Repayment of loans		(1,078,465)
Cash paid for dividends and interest payment		(53,673)
Sub-total of cash outflows		(1,132,138)
Net cash flow from financing activities		(136,958)
Net increase in cash	(iii)	137,892

The notes on pages 68 to 96 form part of these financial statements.

Notes to the consolidated cash flow statement

For the year ended 31 December 2004
(Prepared under the PRC Accounting Rules and Regulations)
(Expressed in Renminbi)

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

	2004 RMB'000
Net profit for the year	46,102
Add: Bad debt provision	29,387
Provision for diminution in value of inventories	800
Write-off of other payables and receipts in advance	(1,311)
Depreciation of fixed assets	90,702
Amortisation of intangible assets	4,323
Decrease in deferred expenses	16,065
Decrease in accrued expenses	(5,812)
Gain on disposal of fixed assets	(5,515)
Financial expenses	47,066
Exchange loss	742
Investment income	(3,119)
Increase in inventories	(21,322)
Decrease in operating receivables	18,007
Decrease in operating payables	(68,395)
Minority interests	6,737
Net cash flow from operating activities	<u>154,457</u>

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

	2004 RMB'000
Waiver of debts	<u>13,540</u>

(iii) Net increase in cash:

	2004 RMB'000
Cash at the end of the year	214,272
Less: Cash at the beginning of the year	(76,380)
Net increase in cash	<u>137,892</u>

These financial statements have been approved by the Board of Directors on 25 April 2005.

Liu Baoying
Legal Representative

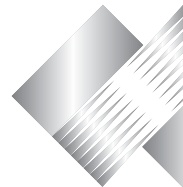
Ding Jianluo
General Manager

Cao Mingchun
Financial Controller

The notes on pages 68 to 96 form part of these financial statements.

Cash flow statement

For the year ended 31 December 2004
(Prepared under the PRC Accounting Rules and Regulations)
(Expressed in Renminbi)



	Note	2004 RMB'000
Cash flows from operating activities:		
Cash received from sale of goods and rendering of services		859,878
Cash received in relation to other operating activities		17,446
Sub-total of cash inflows		877,324
Cash paid for purchase of goods and provision of services		(633,072)
Cash paid to and on behalf of employees		(57,585)
Taxes paid		(43,113)
Cash paid in relation to other operating activities		(82,586)
Sub-total of cash outflows		(816,356)
Net cash flow from operating activities	(i)	60,968
Cash flows from investing activities:		
Cash received from investment capital		36,301
Cash received from return of investments		19,076
Net proceeds from disposal of fixed assets		6,986
Cash settlement received from a fellow subsidiary — CLFG Qingdao Taiyang Glass Industrial Co. Ltd. (note 10)		129,820
Sub-total of cash inflows		192,183
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets		(4,481)
Sub-total of cash outflows		(4,481)
Net cash flow from investing activities		187,702
Cash flows from financing activities:		
Proceeds from loans		841,630
Decrease in pledged deposits		19,186
Sub-total of cash inflows		860,816
Repayment of loans		(936,795)
Cash paid for dividends and interest payment		(41,643)
Sub-total of cash outflows		(978,438)
Net cash flow from financing activities		(117,622)
Net increase in cash	(iii)	131,048

The notes on pages 68 to 96 form part of these financial statements.

Notes to the cash flow statement

For the year ended 31 December 2004
(Prepared under the PRC Accounting Rules and Regulations)
(Expressed in Renminbi)

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

	2004 RMB'000
Net profit for the year	21,441
Add: Bad debt provision	132
Provision for diminution in value of inventories	800
Write-off of other payables and receipts in advance	(182)
Depreciation of fixed assets	51,642
Amortisation of intangible assets	2,950
Decrease in deferred expenses	14,695
Increase in accrued expenses	10
Gain on disposal of fixed assets	(4,969)
Financial expenses	38,022
Exchange loss	742
Investment income	(3,215)
Increase in inventories	(18,959)
Decrease in operating receivables	24,370
Decrease in operating payables	(66,511)
Net cash flow from operating activities	<u>60,968</u>

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

	2004 RMB'000
Waiver of debts	<u>14,080</u>

(iii) Net increase in cash:

	2004 RMB'000
Cash at the end of the year	186,338
Less: Cash at the beginning of the year	(55,290)
Net increase in cash	<u>131,048</u>

These financial statements have been approved by the Board of Directors on 25 April 2005.

Liu Baoying
Legal Representative

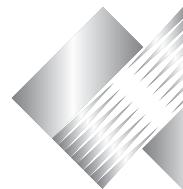
Ding Jianluo
General Manager

Cao Mingchun
Financial Controller

The notes on pages 68 to 96 form part of these financial statements.

Details of the provision for assets

As at 31 December 2004
(Prepared under the PRC Accounting Rules and Regulations)
(Expressed in Renminbi)



The Group

Items	Balance at 1 January 2004 RMB'000	Increase during the year RMB'000	Write back during the year RMB'000	Write off during the year RMB'000	Balance at 31 December 2004 RMB'000
1 Bad debt provisions :					
Trade receivables	138,830	5,038	—	(1,582)	142,286
Other receivables	400,686	24,349	—	(353)	424,682
Interest receivables	46,980	—	—	—	46,980
Sub-total	586,496	29,387	—	(1,935)	613,948
2 Provision for diminution in value of inventories:					
Inventories	14,038	800	—	(6,009)	8,829
Sub-total	14,038	800	—	(6,009)	8,829
3 Provision for impairment of short-term investments:					
Short-term investments	34,300	—	—	—	34,300
Sub-total	34,300	—	—	—	34,300
4 Provision for impairment of long-term equity investments:					
Long-term equity investments	33,218	2,756	—	—	35,974
Sub-total	33,218	2,756	—	—	35,974
Total provision for assets	668,052	32,943	—	(7,944)	693,051

The Company

Items	Balance at 1 January 2004 RMB'000	Increase during the year RMB'000	Write back during the year RMB'000	Write off during the year RMB'000	Balance at 31 December 2004 RMB'000
1 Bad debt provisions :					
Trade receivables	130,034	—	—	(188)	129,846
Other receivables	385,145	132	—	(353)	384,924
Interest receivables	46,980	—	—	—	46,980
Sub-total	562,159	132	—	(541)	561,750
2 Provision for diminution in value of inventories:					
Inventories	13,090	800	—	(6,009)	7,881
Sub-total	13,090	800	—	(6,009)	7,881
3 Provision for impairment of short-term investments:					
Short-term investments	34,300	10,868	—	—	45,168
Sub-total	34,300	10,868	—	—	45,168
4 Provision for impairment of long-term equity investments:					
Long-term equity investments	26,880	2,204	—	—	29,084
Sub-total	26,880	2,204	—	—	29,084
Total provision for assets	636,429	14,004	—	(6,550)	643,883

The notes on pages 68 to 96 form part of these financial statements.



Notes on the financial statements

For the year ended 31 December 2004
(Prepared under the PRC Accounting Rules and Regulations)
(Expressed in Renminbi)

1 Company status

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

The Company was established as part of the restructuring of a state-owned enterprise known as China Luoyang Float Glass Group Company of Limited Liability ("CLFG"). Pursuant to the approvals granted by various PRC authorities including the State Restructuring Commission and the National Administrative Bureau of State-Owned Assets, CLFG underwent a corporate reorganisation whereby the Company was established on 6 April 1994 with CLFG as its sold promoter. At the time of its establishment, the Company had a registered capital of RMB400,000,000 divided into 400,000,000 '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 Stock Exchange on 30 October 1995 and 10 May 1996 respectively.

The principal activities of the Company and its subsidiaries ("the Group") are the manufacturing and selling of float sheet glass. The scope of business includes the manufacturing of glass and relevant sophisticated processing goods, machineries, electric appliances, accessories and component parts, and the provision of technical consultancy services. The major products are the various types of float sheet glass and vehicle use glass, including transparent glass, grey glass, green glass, grey-coated glass and green-coated glass.

2 Basis of preparation

Notwithstanding that the Company had accumulated losses amounted to RMB973,657,000 and net current liabilities amounted to RMB204,450,000 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 totaling approximately RMB525,000,000 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 values, to provide for any possible liabilities which might arise, and to reclassify long-term liabilities as current liabilities.

3 Significant accounting policies

The significant accounting policies adopted by the Group and the Company in the preparation of the financial statements conform to the Accounting Standards for Business Enterprises and the Accounting Regulations for Business Enterprises issued by the Ministry of Finance of the PRC ("the MOF") and other relevant regulations.

(a) Accounting year

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

(b) Basis of consolidation

The Group's consolidated financial statements have been prepared in accordance with the Accounting Regulations for Business Enterprises and Cai Kuai Zi [1995] No.11 "Temporary regulations on consolidated financial statements" issued by the MOF.

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% (50% not inclusive) of the issued share capital, or has the power to control despite the issued share capital held by the Company is equal to or less than 50%. The results of the subsidiaries during the period in which the Company holds more than 50% of the issued share capital or the Company has the power to control despite the issued share capital held by the Company is equal to or less than 50%, are included in the consolidated income statement of the Company. The effect of minority interests on equity and profit/loss attributable to minority interests are separately stated in the consolidated financial statements. The Company does not consolidate those subsidiaries whose assets and results of operation are not significant or have no significant effect on the Company's consolidated financial statements, but includes them in the long-term investments and equity accounted for. Details of subsidiaries included in the consolidated financial statements have been disclosed in note 14.

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

(c) Accounting basis and measurement principle

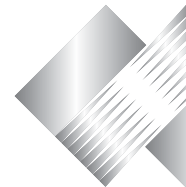
The financial statements of the Group have been prepared on an accrual basis. Unless otherwise stated, the measurement principle used is historical cost.

(d) Reporting currency

The Group's reporting currency is Renminbi.

Notes on the financial statements (Continued)

For the year ended 31 December 2004
(Prepared under the PRC Accounting Rules and Regulations)
(Expressed in Renminbi)



3 Significant accounting policies (continued)

(e) Translation of foreign currencies

Foreign currency transactions are translated into Renminbi at the exchange rates quoted by the People's Bank of China ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Renminbi at the exchange rate quoted by the People's Bank of China ruling at the balance sheet date. Exchange gains and losses on foreign currency translation, except for the exchange gains and losses directly relating to the construction of fixed assets (see note 3(j)), are dealt with in the income statement.

(f) Cash equivalents

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

(g) Bad debt provision

The provision for bad debt losses is estimated based on individual trade receivables which show signs of uncollectibility and ageing analysis. Provision for other receivables is determined based on their specific nature and management's estimate of their collectibility.

(h) Inventories

Inventories are carried at the lower of cost and net realisable value.

Costs comprise 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 costs and an appropriate allocation of manufacturing overheads.

Any excess of the cost over the net realisable value of each item of inventories is recognised as a provision for diminution in the 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 necessary to make the sale.

Low value consumables, packaging and other materials are expensed when being consumed.

The Group adopts a perpetual inventory system.

(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 which are unpaid or unpaid interest on debentures which was due at the time of acquisition.

Provision for diminution in value is made on an item-by-item basis for any shortfall of the market value over the cost of short-term investments.

With the exception of cash dividends which have been declared but which are unpaid at the time of acquisition and interest on debentures which is due but not yet paid at the time of acquisition, cash dividends and interest are applicable to set off against the carrying amount of the short-term investments when received. Upon the disposal of short-term investments, the difference between the carrying amount of the short-term investments and the proceeds received is recognised in the current period's income statement.

(ii) Long-term equity investments

Where the Company has the power to control, jointly control or exercise significant influence over an investee enterprise, the investment 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 the shareholders' equity in the investee enterprise.

Equity-investment difference, which is the difference between the initial investment cost and the Company's share of shareholders' equity in the investee enterprise, is accounted for as follows:

- Any excess of the initial investment cost over the Company's share of the investors' equity in the investee enterprise is amortised on a straight-line basis. The amortisation period is determined according to the investment period as stipulated in the relevant agreement, or a period of no more than 10 years if the investment period is not specified in the agreement. The unamortised balance is included in long-term equity investments at the year end.
- Any shortfall of the initial investment cost over the Company's share of the shareholders' equity in the investee enterprise is amortised on a straight-line basis over a period as stipulated in the relevant agreement or otherwise a period of no less than 10 years if the investment was acquired before the MOF's issuance of the "Questions and answers on implementing Accounting Regulations for Business Enterprises and related accounting standards (II)" (Cai Kuai Zi [2003] No. 10). The unamortised balance is included in long-term equity investments at the year end. Such shortfalls are recognised in the "Capital surplus - reserve for equity investment" if the investment was acquired after the issuance of Cai Kuai Zi [2003] No. 10.

Where the Group does not control, jointly control or exercise significant influence over an investee enterprise, the investment is accounted for under the cost method, stating it at the initial investment cost. Investment income is recognised when the investee enterprise declares a cash dividend or distributes profits.

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

The Group makes provision for impairment losses on long-term equity investments (see note 3(l)).

Notes on the financial statements (Continued)

For the year ended 31 December 2004
(Prepared under the PRC Accounting Rules and Regulations)
(Expressed in Renminbi)

3 Significant accounting policies (continued)

(i) Investments (continued)

(iii) Designated loans receivable

Designated loans receivable refer to the funds lent by the Group through financial institutions to designated borrowers with uses, amounts, terms, interest rates, etc., designated by the Group. The financial institution assists the Group to release the funds and collect the repayment on behalf of the Group.

Designated loans receivable are recorded at the amount lent out.

Interest income arising from designated loans receivable is calculated at the applicable rate on a time proportion basis and recognised in the income statement. Accrual of interest on designated loans receivable ceases when the interest is in default at the due date, and the interest previously accrued is reversed immediately in the income statement.

The Group makes provision for impairment losses on designated loans receivable (see note 3(l)). Designated loans receivable are stated in the balance sheet net of impairment losses. Designated loans receivable with terms equal to or less than one year are classified under short-term investments. Other designated loans receivable are classified under long-term investments.

(j) Fixed assets and construction in progress

Fixed assets are assets with comparatively high unit values held by the Group for use in the production of goods and for administrative purposes. They are expected to be used for more than one year.

Fixed assets are stated in the balance sheet at cost or revalued amount less accumulated depreciation and impairment losses (see note 3(l)). Construction in progress is stated in the balance sheet at cost less impairment losses (see note 3(l)). The revalued amount refers to the fixed assets value, which have been adjusted to the revalued amounts according to the fixed assets valuation carried out in accordance with the relevant rules and regulations.

All direct and indirect costs that are related to the construction of fixed assets and incurred before the assets are ready for their intended use are capitalised as construction in progress. Those costs include borrowing costs (including foreign exchange differences arising from the loan principal and the related interest) on specific borrowings for the construction of the fixed assets during the construction period.

Construction in progress is transferred to fixed assets when it is ready for its intended use. No depreciation is provided against construction in progress.

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

	Estimated useful life	Estimated rate of residual value
Buildings	30 to 50 years	3% - 5%
Plant, machinery and equipment	4 to 25 years	3% - 5%
Motor vehicles	6 to 12 years	3% - 5%

(k) Intangible assets

Intangible assets are stated in the balance sheet at cost or revalued amount less accumulated amortisation and impairment losses (see note 3(l)). The cost or revalued amount of the intangible assets is amortised on a straight-line basis over their estimated useful lives of 20 to 64 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 their respective periods of the grants.

Trademark

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

(l) Provision for impairment

The carrying amounts of assets (including designated loans receivable, long-term equity investments, fixed assets, construction in progress, intangible assets and other assets) are reviewed regularly at each balance sheet date to determine whether their recoverable amounts have declined below their carrying amounts. 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 amount by which the carrying amount is reduced is the impairment loss.

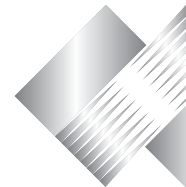
The recoverable amount is the greater of the net selling price and the present value of the estimated future cash flows arising from the continuous use of the asset and from the disposal of the asset at the end of its useful life.

Provision for impairment loss is calculated on an item by item basis and recognised as an expense in the income statement. However, when a deficit between the initial investment cost and the Company's share of the investors' equity of the investee enterprise has been credited to the capital reserve, any impairment losses for long-term equity investment are firstly set off against the difference initially recognised in the capital reserve relating to the investment and any excess impairment losses are then recognised in the income statement.

If there is an indication that there has been a change in the estimates used to determine the recoverable amount and as a result the estimated recoverable amount is greater than the carrying amount of the asset, the impairment loss recognised in prior years is reversed. Reversals of impairment losses are recognised in the income statement. Impairment losses are reversed to the extent of the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. In respect of the reversal of an impairment loss for a long-term equity investment, the reversal starts with the impairment losses that had previously been recognised in the income statement and then the impairment losses that had been charged to capital reserve.

Notes on the financial statements (Continued)

For the year ended 31 December 2004
(Prepared under the PRC Accounting Rules and Regulations)
(Expressed in Renminbi)



3 Significant accounting policies (continued)

(m) Income tax

Income tax is recognised using the tax effect accounting method. Income tax for the year comprises current tax paid and payable and movement of deferred tax assets and liabilities.

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

Deferred tax is provided using the liability method for the differences between the accounting profits and the taxable profits arising from the timing differences in recognising income, expenses or losses between the accounting and tax regulations. When the tax rate changes or a new type of tax is levied, adjustments are made to the amounts originally recognised for the timing differences under the liability method. The current tax rates are used in arriving at the reversal amounts when the timing differences are reversed.

Deferred tax assets arising from tax losses, which are expected to be utilised against future taxable profits, are set off against the deferred tax liabilities (only for the same taxpayer within the same jurisdiction). When it is not probable that the tax benefits of deferred tax assets will be realised, the deferred tax assets are reduced to the extent that the related tax benefits are expected to be realised.

(n) Provisions and contingent liabilities

Provisions are recognised when the Group has a present obligation as a result of a past event, provided it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made.

Where it is not probable that the settlement of the above obligation will cause an outflow of economic benefits, or the amount of the outflow cannot be estimated reliably, the obligation is disclosed as a contingent liability.

(o) Revenue recognition

When 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 according to the following methods:

(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 receipt of the consideration and the return of goods, or when the 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 proportion basis according to the principal outstanding and the applicable rate.

(iii) Subsidy income

Subsidy income is recognised in the income statement upon receipt of the subsidy.

(p) Research and development costs

Research and development costs are recognized in the income statement in the period in which they are incurred.

(q) Borrowing cost

Borrowing costs incurred on specific borrowings for the construction of fixed assets are capitalised into the cost of the fixed assets during the construction period until the fixed assets are ready for their intended uses.

Except for the above, other borrowing costs are recognised as financial expenses in the income statement when incurred.

(r) Repairs and maintenance expenses

Repairs and maintenance expenses (including major overhaul expenses) are recognised in the income statement when incurred.

(s) Dividends appropriation

Dividends appropriated to the shareholders are recognised in the income and profit appropriation statement when approved. Cash 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 shareholders' funds in the balance sheet.

(t) Retirement benefits

Pursuant to the relevant laws and regulations in the PRC, the Group has joined a defined contribution retirement plan for the employees arranged by a governmental organisation. The Group makes contributions to the retirement scheme at the applicable rate(s) based on the employees' salaries. The required contributions under the retirement plans are charged to the income statement when they are due.

(u) 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.

Notes on the financial statements (Continued)

For the year ended 31 December 2004
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4 Taxation

- (a) **The types of tax applicable to the Group's sale of goods include value added tax ("VAT"), city construction tax and education surcharges.**

VAT	:	17%
City construction tax	:	5% - 7% on VAT
Education surcharges	:	3% on VAT

- (b) **Income tax**

The income tax rate of the Company and its subsidiaries, Luobo Group Longmen Glass Company Ltd, Chenzhou Bada Glass Co., Ltd., CLFG Yang Shao Glass Co., Ltd., Xiangfang Luoshen Auto Glass Co., Ltd. and Yinan Mineral Products Co., Ltd. is 33% (2003: 33%).

The Company's subsidiary which enjoys preferential tax treatment is set out below:

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

- (c) **Taxes payable**

The Group

	2004 RMB'000	2003 RMB'000
Income tax payable	512	1,379
VAT payable	26,968	28,471
VAT surcharges payable	952	791
Others	1,453	941
Total	29,885	31,582

The Company

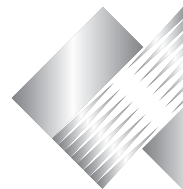
	2004 RMB'000	2003 RMB'000
VAT payable	262	—
VAT surcharges payable	170	312
Others	744	478
Total	1,176	790

- (d) **Deferred tax assets**

Deferred tax assets of the Group and the Company are arisen on deductible tax losses brought forward. The deferred tax assets have not been recognised as it is not certain whether 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 2004
(Prepared under the PRC Accounting Rules and Regulations)
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5 Cash at bank and on hand

The Group

	Original currency '000	2004 Exchange Rate	RMB/ RMB equivalent '000	Original currency '000	2003 Exchange rate	RMB/ RMB equivalent '000
Cash						
- Renminbi			425			715
Current deposits						
Deposits at banks						
- Renminbi			104,567			40,810
- US Dollars	86	8.2765	714	10.6	8.2767	88
- HK Dollars	98	1.0637	104	6,981.3	1.0657	7,440
- Pound Sterling	—	—	—	5.6	14.7118	83
Deposits at non-bank financial institutions						
- Renminbi			21,229			17,244
Time deposits						
Time deposits at banks						
- Renminbi			27,233			—
Time deposits at non-bank financial institutions						
- Renminbi			60,000			10,000
Sub-total			214,272			76,380
Pledged current deposits						
- Renminbi			3,000			15,899
Pledged time deposits						
- Renminbi			80,000			90,000
Sub-total			83,000			105,899
Total			297,272			182,279

At 31 December 2004, time deposits of RMB80,000,000 (2003: RMB90,000,000) and current deposits of RMB3,000,000 (2003: RMB15,899,000) were pledged as security for the Group's short-term loans and bills payable respectively.

The Company

	Original currency '000	2004 Exchange Rate	RMB/ RMB equivalent '000	Original currency '000	2003 Exchange rate	RMB/ RMB equivalent '000
Cash						
- Renminbi			259			38
Current deposits						
Deposits at banks						
- Renminbi			83,415			29,303
- US Dollars	86	8.2765	714	10.6	8.2767	88
- HK Dollars	98	1.0637	104	6,981.3	1.0657	7,440
- Pound Sterling	—	—	—	5.6	14.7118	83
Deposits at non-bank financial institutions						
- Renminbi			14,613			8,338
Time deposits						
Time deposits at banks						
- Renminbi			27,233			—
Time deposits at non-bank financial institutions						
- Renminbi			60,000			10,000
Sub-total			186,338			55,290
Pledged current deposits						
- Renminbi			3,000			12,186
Pledged time deposits						
- Renminbi			80,000			90,000
Sub-total			83,000			102,186
Total			269,338			157,476

At 31 December 2004, time deposits of RMB80,000,000 (2003: RMB90,000,000) and current deposits of RMB3,000,000 (2003: RMB12,186,000) were pledged as security for the Company's short-term loans and bills payable respectively.

Notes on the financial statements (Continued)

For the year ended 31 December 2004
(Prepared under the PRC Accounting Rules and Regulations)
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6 Short-term investments

The Group

	Balance at the beginning of the year RMB'000	Addition during the year RMB'000	Disposal during the year RMB'000	Balance at the end of the year RMB'000
Designated loans receivable				
- Associated companies	34,300	—	—	34,300
- Fellow subsidiaries	11,000	3,000	(3,000)	11,000
Sub-total	45,300	3,000	(3,000)	45,300
Less: Provision	(34,300)	—	—	(34,300)
Total	11,000	3,000	(3,000)	11,000

The Company

	Balance at the beginning of the year RMB'000	Addition during the year RMB'000	Disposal during the year RMB'000	Balance at the end of the year RMB'000
Designated loans receivable				
- Subsidiaries	180,567	31,566	(67,867)	144,266
- Associated companies	34,300	—	—	34,300
- Fellow subsidiaries	11,000	3,000	(3,000)	11,000
Sub-total	225,867	34,566	(70,867)	189,566
Less: Provision	(34,300)	(10,868)	—	(45,168)
Total	191,567	23,698	(70,867)	144,398

Short-term investments of the Company represent the designated loans lent to related companies through China Luoyang Float Glass Group Financial Company of Limited Liabilities ("CLFC"). Interest income is recognised in the income statement when incurred in accordance with the loan agreements.

At 31 December 2004, included in short-term investments are designated loans receivable from an associated company, Luoyang Jingxin Ceramics Co., Ltd. ("Jingxin") amounting to RMB34,300,000 (2003: RMB34,300,000). Full provision has been made for the amount in prior year. The Company did not recognise interest income from Jingxin since 2003. Since Jingxin has ceased business operation in prior years, the directors have maintained full provision for the amount after assessing Jingxin's financial position at 31 December 2004.

The Company provides designated loans to its subsidiary Luobo Group Longmen Glass Company Ltd. ("Longmen") as working capital to support it as a going concern. At 31 December 2004, designated loans receivable from Longmen amounted to RMB81,500,000. In view that Longmen has net liabilities of RMB10,868,000 at 31 December 2004, the Company has made provision for impairment for such designated loans receivable correspondingly.

7 Bills receivable

Bills receivable represent bank acceptance notes received for sales of goods and products.

No bills receivable is due from a shareholder who holds 5% or more of the voting shares of the Company.

8 Interest receivables

The Group and the Company

	2004 RMB'000	2003 RMB'000
Interest receivables		
- CLFG and other fellow subsidiaries	46,980	46,980
Less: Bad debt provision	(46,980)	(46,980)
Total	—	—

At 31 December 2004, interest receivables due from CLFG and other fellow subsidiaries amounted to RMB46,980,000 (2003: RMB46,980,000). Full provision has been made against the amount in prior year. The directors have maintained full provision for the amount after assessing the recoverability of these interest receivables.

Notes on the financial statements (Continued)

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9

Trade receivables

Ageing analysis of trade receivables is as follows:

The Group

	2004				2003			
	Amount RMB'000	% of total trade receivables %	Bad debt provision RMB'000	% of provision on gross amount %	Amount RMB'000	% of total trade receivables %	Bad debt provision RMB'000	% of provision on gross amount %
Within 1 year	18,315	12	—	—	28,699	16	—	—
After 1 year but within 2 years	683	—	61	9	2,786	2	561	20
After 2 years but within 3 years	1,998	1	1,662	83	5,625	3	2,475	44
Over 3 years	140,890	87	140,563	100	136,946	79	135,794	99
Total	161,886	100	142,286	88	174,056	100	138,830	80

The Company

	2004				2003			
	Amount RMB'000	% of total trade receivables %	Bad debt provision RMB'000	% of provision on gross amount %	Amount RMB'000	% of total trade receivables %	Bad debt provision RMB'000	% of provision on gross amount %
Within 1 year	11,894	8	—	—	11,642	8	—	—
After 1 year but within 2 years	200	—	60	30	1,869	1	561	30
After 2 years but within 3 years	1,810	1	1,588	88	4,872	4	2,436	50
Over 3 years	128,198	91	128,198	100	127,037	87	127,037	100
Total	142,102	100	129,846	91	145,420	100	130,034	89

Analysis of provision for bad and doubtful debts is as follows:

The Group

	2004 RMB'000	2003 RMB'000
Balance at the beginning of the year	138,830	112,468
Add: Charge for the year	5,038	29,872
Less: Write off during the year	(1,582)	(3,510)
Balance at the end of the year	142,286	138,830

The Company

	2004 RMB'000	2003 RMB'000
Balance at the beginning of the year	130,034	103,711
Add: Charge for the year	—	29,833
Less: Write off during the year	(188)	(3,510)
Balance at the end of the year	129,846	130,034

In 2004, the Group and the Company had no individually significant trade receivables which were fully or substantially provided for.

In 2004, the Group and the Company had not individually significant write back of bad and doubtful debts, which were fully or substantially provided for in the prior years.

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

The five largest trade receivables (after bad debt provision) at 31 December 2004 are as follows:

Name of entity	Period of original debts	Particulars	Amount RMB'000
Landson Alliance	2004	Purchase of goods	5,010
AL — GAWHARA	2004	Purchase of goods	1,052
Zhengzhou Xin Zhong Yuan			
Glass Product Co., Ltd.	2004	Purchase of goods	694
KGM Co., Ltd.	2004	Purchase of goods	642
AL — FATEH	2004	Purchase of goods	489
Total			7,887

At 31 December 2004, the five largest trade receivables (after bad debt provision) accounted for 40% of the Group's total trade receivables (after bad debt provision) (2003: 26%).

Notes on the financial statements (Continued)

For the year ended 31 December 2004
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10 Other receivables

The Group

	2004 RMB'000	2003 RMB'000
Amount due from the ultimate holding company	157,554	144,387
Amounts due from associated companies	335,175	480,435
Others	258,430	248,613
Sub-total	751,159	873,435
Less: Bad debts provision	(424,682)	(400,686)
Total	326,477	472,749
Including:		
Current assets	280,322	417,909
Non-current assets	46,155	54,840

The Company

	2004 RMB'000	2003 RMB'000
Amounts due from subsidiaries	28,178	32,185
Amount due from the ultimate holding company	149,910	136,743
Amounts due from associated companies	331,892	477,956
Others	210,213	219,940
Sub-total	720,193	866,824
Less: Bad debts provision	(384,924)	(385,145)
Total	335,269	481,679
Including:		
Current assets	289,114	426,839
Non-current assets	46,155	54,840

Analysis of bad debts provision is as follows:

The Group

	2004 RMB'000	2003 RMB'000
Balance at the beginning of the year	400,686	239,376
Add: Charge for the year	24,349	186,425
Less: Reversal during the year	—	(24,777)
Write off during the year	(353)	(338)
Balance at the end of the year	424,682	400,686

The Company

	2004 RMB'000	2003 RMB'000
Balance at the beginning of the year	385,145	226,785
Add: Charge for the year	132	183,475
Less: Reversal during the year	—	(24,777)
Write off during the year	(353)	(338)
Balance at the end of the year	384,924	385,145

Notes on the financial statements (Continued)

For the year ended 31 December 2004
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10 Other receivables (continued)

Aging analysis of other receivables is as follows:

Current assets

The Group

	2004				2003			
	Amount RMB'000	% of total other receivables %	Bad debt provision RMB'000	% of provision on gross amount RMB'000	Amount RMB'000	% of total other receivables %	Bad debt provision RMB'000	% of provision on gross amount RMB'000
Within 1 year	50,822	9	17,590	35	21,797	3	2,244	10
Over 1 year but within 2 years	6,244	1	2,209	35	6,332	1	1,126	18
Over 2 years but within 3 years	1,710	—	401	23	47,325	7	675	1
Over 3 years	499,048	90	257,302	52	595,961	89	249,461	42
Total	557,824	100	277,502	50	671,415	100	253,506	38

The Company

	2004				2003			
	Amount RMB'000	% of total other receivables %	Bad debt provision RMB'000	% of provision on gross amount RMB'000	Amount RMB'000	% of total other receivables %	Bad debt provision RMB'000	% of provision on gross amount RMB'000
Within 1 year	23,160	4	—	—	16,041	2	—	—
Over 1 year but within 2 years	965	—	—	—	19	—	—	—
Over 2 years but within 3 years	1,007	—	—	—	43,952	7	—	—
Over 3 years	501,726	96	237,744	47	604,792	91	237,965	39
Total	526,858	100	237,744	45	664,804	100	237,965	36

Non-current assets

The Group and the Company

	2004				2003			
	Amount RMB'000	% of total other receivables %	Bad debt provision RMB'000	% of provision on gross amount RMB'000	Amount RMB'000	% of total other receivables %	Bad debt provision RMB'000	% of provision on gross amount RMB'000
Over 3 years	193,355	100	147,180	76	202,020	100	147,180	73

Included in other receivables under non-current assets is an amount receivable from Guangzhou International Trust and Investment Corporation ("GZITIC") amounting to RMB35,655,000 (2003: 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.

In addition, included in other receivables under non-current assets is an amount receivable from an associated company, Jingxin, amounting to RMB37,177,000 (2003: RMB37,177,000). Full provision has been made in prior years.

At 31 December 2003, the receivables due from Qingdao Taiyang Glass Industrial Co., Ltd. ("Taiyang"), a fellow subsidiary, amounted to RMB359,616,000 (including interest receivable of RMB45,008,000), out of which a provision of RMB229,763,000 had been made. During the year, Taiyang repaid RMB129,820,000 after they have disposed of their pledged fixed assets. The directors have assessed the recoverability of the remaining balance of RMB229,796,000 due from Taiyang at 31 December 2004. Since Taiyang has had no fixed assets for its business operations and could not generate operating income, full provision has been maintained in this regard. During the year, the Company has ceased to accrue interest on the amount due from Taiyang. The amounts due from Taiyang are included in other receivables under current assets.

An amount of RMB17,055,000 receivable from a shareholder of one of the Company's subsidiary is included in other receivables under current assets. That shareholder has taken the funds drawn from bank loans of RMB13,000,000 from Agricultural Bank of China by the subsidiary of the Company. Since the subsidiary is the borrower of those loans, it is responsible for settling the loan principals and interest thereon. Accordingly, the Group has recognised the aggregate amount of RMB17,055,000 as liabilities and receivables from that shareholder. During the year, those loans have been overdue and, up to the date when these financial statements are being approved, that shareholder has not proposed any repayment plan. The directors, after assessing the recoverability of the respective amounts, have made full provision thereon.

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

Notes on the financial statements (Continued)

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10 Other receivables (continued)

The five largest other receivables (after bad debt provision) at 31 December 2004 are as follows:

Name of entity	Period of original debts	Particulars	Amount RMB'000
CLFG	1997 - 2004	Payment on behalf	149,088
CLFG Jingwei Glass Fibre Co., Ltd.	2003	Payment on behalf	55,654
GZITIC	1997 - 2003	Overdue deposit	35,655
CLFG Luoyang Hoisting Machinery Co., Ltd.	2001 - 2003	Refund of deposit	18,018
CLFG Luoyang Jingjiu Glass Container Co., Ltd.	2001 - 2003	Payment on behalf	14,376
Total			272,791

At 31 December 2004, the five largest other receivables (after bad debt provision) accounted for 84% of the Group's total other receivables (after bad debt provision) (2003: 71%).

11 Prepayments

Ageing analysis of advance payments is as follows:

The Group

	2004 Amount RMB'000	Percentage %	2003 Amount RMB'000	Percentage %
Within 1 year	5,564	68	12,700	60
Over 1 year but within 2 years	10	—	890	4
Over 2 years but within 3 years	408	5	941	4
Over 3 years	2,170	27	6,525	32
	8,152	100	21,056	100

The Company

	2004 Amount RMB'000	Percentage %	2003 Amount RMB'000	Percentage %
Within 1 year	613	21	5,474	68
Over 1 year but within 2 years	5	—	602	7
Over 2 years but within 3 years	359	12	293	4
Over 3 years	1,951	67	1,658	21
	2,928	100	8,027	100

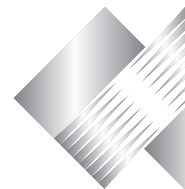
The five largest prepayments at 31 December 2004 are as follows:

Name of entity	Period of advance payments	Particulars	Amount RMB'000
Zhanjiang Mazhang Yuefu Sales Company	2004	Purchase of raw material	1,925
Hainan Yuzhou Metallurgy Material Import & Export Company	2004	Purchase of raw material	985
Yanshi Changli Paper Manufacturing Company Limited	2004	Purchase of raw material	662
Zhengzhou Lijie Trading Company Limited	2004	Purchase of raw material	365
Sinopec Luoyang Branch	2004	Purchase of raw material	214
Total			4,151

There are no amounts due from shareholders who hold 5% or more equity interests of the Company included in the balance of prepayments.

Notes on the financial statements (Continued)

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12 Inventories

The Group

	2004 RMB'000	2003 RMB'000
Raw materials	157,858	153,612
Work in progress	11,160	11,249
Finished goods	45,285	34,129
Sub-total	214,303	198,990
Less: Provision for diminution in value of inventories	(8,829)	(14,038)
Total	205,474	184,952

The Company

	2004 RMB'000	2003 RMB'000
Raw materials	88,106	88,364
Work in progress	5,804	4,109
Finished goods	31,196	19,683
Sub-total	125,106	112,156
Less: Provision for diminution in value of inventories	(7,881)	(13,090)
Total	117,225	99,066

All the above inventories are purchased from others or self-manufactured.

Provision for diminution in value of inventories:

The Group

	Raw materials RMB'000	2004 Work in progress RMB'000	Finished goods RMB'000	Total RMB'000	Raw materials RMB'000	2003 Work in progress RMB'000	Finished goods RMB'000	Total RMB'000
Balance at the beginning of the year	10,377	—	3,661	14,038	9,922	—	4,913	14,835
Add: Provision made during the year	800	—	—	800	455	—	948	1,403
Less:								
— Reversal due to recovery of value	—	—	—	—	—	—	(2,200)	(2,200)
— Transfer out due to sales	(6,009)	—	—	(6,009)	—	—	—	—
Balance at the end of the year	5,168	—	3,661	8,829	10,377	—	3,661	14,038

The Company

	Raw materials RMB'000	2004 Work in progress RMB'000	Finished goods RMB'000	Total RMB'000	Raw materials RMB'000	2003 Work in progress RMB'000	Finished goods RMB'000	Total RMB'000
Balance at the beginning of the year	10,377	—	2,713	13,090	9,922	—	4,913	14,835
Add: Provision made during the year	800	—	—	800	455	—	—	455
Less:								
— Reversal due to recovery of value	—	—	—	—	—	—	(2,200)	(2,200)
— Transfer out due to sales	(6,009)	—	—	(6,009)	—	—	—	—
Balance at the end of the year	5,168	—	2,713	7,881	10,377	—	2,713	13,090

Notes on the financial statements (Continued)

For the year ended 31 December 2004
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(Expressed in Renminbi)

12 Inventories (continued)

The Group

	2004 RMB'000	2003 RMB'000
Cost of inventories charged to costs and expenses in the income statement	870,425	834,873

The Company

	2004 RMB'000	2003 RMB'000
Cost of inventories charged to costs and expenses in the income statement	543,122	593,629

13 Deferred expenses

The Group

	2004 RMB'000	2003 RMB'000
Packing racks	24,762	39,587
Others	1,128	2,368
Total	25,890	41,955

The Company

	2004 RMB'000	2003 RMB'000
Packing racks	24,157	38,157
Others	260	955
Total	24,417	39,112

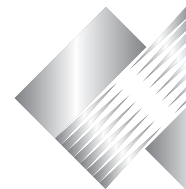
14 Long-term equity investments

The Group

	Investment in associated companies RMB'000	Other equity investments RMB'000	Total RMB'000
Cost of investment			
Balance at the beginning of the year	174,659	68,957	243,616
Addition for the year	1,678	—	1,678
Disposals for the year	(959)	—	(959)
Balance at the end of the year	175,378	68,957	244,335
Less: Provision for impairment			
Balance at the beginning of the year	—	(33,218)	(33,218)
Addition for the year	—	(2,756)	(2,756)
Balance at the end of the year	—	(35,974)	(35,974)
Net book value:			
At the end of the year	175,378	32,983	208,361
At the beginning of the year	174,659	35,739	210,398

Notes on the financial statements (Continued)

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14 Long-term equity investments (continued)

The Company

	Investment in subsidiaries RMB'000	Investment in associated companies RMB'000	Other equity investments RMB'000	Total RMB'000
Cost of investment				
Balance at the beginning of the year	69,330	174,659	62,067	306,056
Addition for the year	16,299	1,678	—	17,977
Disposals for the year	(2,106)	(959)	—	(3,065)
Balance at the end of the year	83,523	175,378	62,067	320,968
Less: Provision for impairment				
Balance at the beginning of the year	—	—	(26,880)	(26,880)
Addition for the year	—	—	(2,204)	(2,204)
Balance at the end of the year	—	—	(29,084)	(29,084)
Net book value:				
At the end of the year	83,523	175,378	32,983	291,884
At the beginning of the year	69,330	174,659	35,187	279,176

(a) Interest in subsidiaries

At 31 December 2004, details of the Company's subsidiaries are as follows:

Name of investee enterprise	Registered capital RMB'000	Direct attributable equity interest %	Initial investment cost RMB'000	Principal activities	Note
Longmen	20,000	79.06%	64,146	Manufacture of float sheet glass	(i)
Chenzhou Bada Glass Co., Ltd. ("Bada")	150,000	52.25%	62,700	Manufacture of float sheet glass	(ii)
CLFG Yang Shao Glass Co., Ltd. ("Yangshao")	74,080	54.00%	40,000	Manufacture of float sheet glass	(iii)
Xiangfang Luoshen Auto Glass Co., Ltd. ("Luoshen")	30,000	66.67%	20,000	Manufacture of auto glass	(iii)
Yinan Mineral Products Co., Ltd. ("Yinan")	28,000	52.00%	14,560	Exploration of minerals	(iii)
Shenzhen Luobo Trading Co., Ltd. ("Luobo Trading")	1,000	60.00%	600	Selling of float sheet glass	(iii)

At 31 December 2004, interest in subsidiaries of the Company are as follows:

	Longmen RMB'000	Bada RMB'000	Yangshao RMB'000	Luoshen RMB'000	Yinan RMB'000	Luobo Trading RMB'000	Total RMB'000
Cost of investment:							
Balance at the beginning of the year	—	—	41,372	18,816	8,394	748	69,330
Share of the results under equity method	—	16,169	7,190	(4,256)	(2,734)	(70)	16,299
Less: Dividend received	—	—	(2,106)	—	—	—	(2,106)
Balance at the end of the year	—	16,169	46,456	14,560	5,660	678	83,523

Notes on the financial statements (Continued)

For the year ended 31 December 2004
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14 Long-term equity investments (continued)

(a) Interest in subsidiaries (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 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.

According to the agreement among the companies, equity interest held by Hua Rong will be redeemed in full. The repayment schedule will be: RMB1,500,000 annually from 2001 to 2004; RMB6,00,000 annually from 2005 to 2008.

At 31 December 2004, overdue redeemable capital amounted to RMB6,000,000 (2003: RMB4,500,000).

As the equity interest held by Hua Rong will not share any profit or loss of Bada, the registered capital of RMB30,000,000 has been classified as preference shares.

- (iii) These subsidiaries are limited liability companies.

(b) Interest in associated companies

At 31 December 2004, details of the associated companies of the Group and the Company are as follows:

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

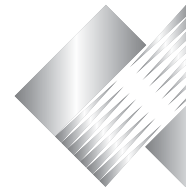
At 31 December 2004, analysis of the associated companies of the Group and the Company are as follows:

The Group and the Company

	Jingxin RMB'000	CLFC RMB'000	CPGC RMB'000	Total RMB'000
Cost of investment:				
Balance at the beginning of the year	—	110,466	64,193	174,659
Share of the results of associated companies under equity method	—	2,202 (959)	(524)	1,678 (959)
Less: Dividend	—	—	—	—
Balance at the end of the year	—	111,709	63,669	175,378

Notes on the financial statements (Continued)

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14 Long-term equity investments (continued)

(c) Other equity investments

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

At 31 December 2004, other equity investments of the Group and the Company are as follows:

Name of Company	Registered capital RMB'000	Direct attributable equity interest %	Initial investment cost RMB'000	Net book value at 31 December 2004 RMB'000	Note
Yanlian Petroleum Co., Ltd.	425,703	7.47%	31,800	31,800	
CLFG Mineral Products Co., Ltd.	30,964	40.29%	12,475	1,183	(i)
CLFG Luoyang Hoisting Machinery Co., Ltd.	13,631	36.68%	5,000	—	(i), (ii)
CLFG Jingwei Glass Fibre Co., Ltd.	11,142	35.90%	4,000	—	(i), (ii)

Notes:

- (i) As the above mentioned companies are also fellow subsidiaries of CLFG, the directors believe that the Company could not exercise significant influence over the financial and operational decisions of these companies, despite it holds 20% or above of the capital of these companies. Therefore, the investments in these companies are classified as other equity investments and are accounted for using the cost method.
- (ii) At 31 December 2004, long-term equity investments of the Company in CLFG Luoyang Hoisting Machinery Co., Ltd. and CLFG Jingwei Glass Fibre Co., Ltd. amounted to RMB9,000,000 (2003: RMB9,000,000). Full provision has been made for the investments in prior years. As they have ceased operation in prior years, after assessment of current financial position of these two companies, the directors have determined to maintain full provision in this regard.

At 31 December 2004, the total carrying amount of the Group's short-term and long-term investments represented 23% of its net assets.

At 31 December 2004, the total carrying amount of the Company's short-term and long-term investments represented 47% of its net assets.

15 Fixed assets

The Group

	Buildings RMB'000	Plant, machinery and equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
Cost				
Balance at the beginning of the year	455,901	1,041,718	22,064	1,519,683
Additions	86	4,269	1,824	6,179
Transfer from construction in progress (note 17)	2,903	10,772	340	14,015
Disposals	(1,298)	(10,292)	(4,400)	(15,990)
Balance at the end of the year	457,592	1,046,467	19,828	1,523,887
Accumulated depreciation				
Balance at the beginning of the year	105,351	463,087	13,017	581,455
Charge for the year	15,542	72,918	2,242	90,702
Written back on disposal	(445)	(9,017)	(3,857)	(13,319)
Balance at the end of the year	120,448	526,998	11,402	658,838
Net book value				
At the end of the year	337,144	519,479	8,426	865,049
At the beginning of the year	350,550	578,631	9,047	938,228

At 31 December 2004, the original cost of fully depreciated fixed assets in use was RMB49,593,679 (2003: RMB39,411,618).

Notes on the financial statements (Continued)

For the year ended 31 December 2004
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15 Fixed assets (continued)

The Company

	Buildings RMB'000	Plant, machinery and equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
Cost				
Balance at the beginning of the year	223,809	633,466	5,011	862,286
Additions	—	2,221	959	3,180
Transfer from construction in progress (note 17)	62	2,494	—	2,556
Disposals	(1,166)	(8,097)	(3,186)	(12,449)
Balance at the end of the year	222,705	630,084	2,784	855,573
Accumulated depreciation				
Balance at the beginning of the year	65,296	351,505	1,899	418,700
Charge for the year	6,902	43,021	1,719	51,642
Written back on disposal	(314)	(7,299)	(2,819)	(10,432)
Balance at the end of the year	71,884	387,227	799	459,910
Net book value				
At the end of the year	150,821	242,857	1,985	395,663
At the beginning of the year	158,513	281,961	3,112	443,586

At 31 December 2004, the original cost of fully depreciated fixed assets in use was RMB42,633,490 (2003: RMB31,679,818).

16 Construction materials

At 31 December 2004, construction materials of the Group and the Company mainly represent the materials to be used for construction projects.

17 Construction in progress

The Group

	RMB'000
Balance at the beginning of the year	1,238
Additions for the year	13,071
Transfer to fixed assets for the year (note 15)	(14,015)
Balance at the end of the year	294

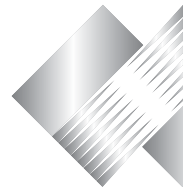
The Company

	RMB'000
Balance at the beginning of the year	73
Additions for the year	2,556
Transfer to fixed assets for the year (note 15)	(2,556)
Balance at the end of the year	73

During the year, the Group and the Company did not incur any financial expenses from loans specified for construction in progress which needed to be capitalised.

Notes on the financial statements (Continued)

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18 Intangible assets

The Group

	Land use rights RMB'000	Trademark RMB'000	Total RMB'000
Cost			
At the beginning and the end of the year	199,420	7,400	206,820
Accumulated amortization			
Balance at the beginning of the year	29,985	1,023	31,008
Charge for the year	3,951	372	4,323
Balance at the end of the year	33,936	1,395	35,331
Net book value			
At the end of the year	165,484	6,005	171,489
At the beginning of the year	169,435	6,377	175,812

The Company

	Land use rights RMB'000
Cost	
Balance at the beginning and the end of the year	142,062
Accumulated amortisation	
Balance at the beginning of the year	20,971
Charge for the year	2,950
Balance at the end of the year	23,921
Net book value	
At the end of the year	118,141
At the beginning of the year	121,091

Notes:

- (i) RMB107,342,000 of the Group's land use rights is invested by CLFG and RMB92,078,000 is purchased from third parties. The remaining useful lives range from 18 to 60 years. The certificate of land use rights amounted to RMB34,720,000 is in the process of application. However, the Group has actually been using the land.
- (ii) Trademark of a subsidiary of the Company is invested by CLFG and is amortised over 20 years.

Notes on the financial statements (Continued)

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19 Short-term loans

(a) The Group

	2004 RMB'000	2003 RMB'000
Bank loans	585,000	568,000
Loans from ultimate holding company	96,150	173,450
Loans from associated company	86,500	99,000
Loans from non-bank financial institution	—	6,460
	767,650	846,910

The Company

	2004 RMB'000	2003 RMB'000
Bank loans	571,000	554,000
Loans from ultimate holding company	—	71,630
Loans from associated company	64,000	84,000
	635,000	709,630

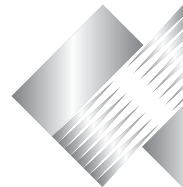
Except for the loans due from the ultimate holding company, no balance is due to a shareholder who holds 5% or more of the voting shares of the Company.

(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	At 31 December 2004 RMB'000
Bank loans			
Luoyang City Commercial Bank	Guaranteed	5.54% - 5.75%	50,000
China Construction Bank	Guaranteed	5.32% - 5.74%	129,000
China Everbright Bank	Secured by deposits of the same amount	5.32%	20,000
Bank of China	Guaranteed	5.29% - 5.86%	177,000
Bank of Communications	Loans of RMB60,000,000 were secured by deposits of the same amount/ loans of RMB15,000,000 were guaranteed by the ultimate holding company/ RMB120,000,000 were guaranteed by a third party	5.32% - 5.86%	195,000
			571,000
Loans from associated company	Guaranteed	5.32% - 5.50%	64,000
Short-term loans (the Company)			635,000
Bank loans			
Agricultural Bank of China	Guaranteed	7.02%	14,000
Loans from ultimate holding company	—	5.31% - 6.42%	96,150
Loans from associated company	—	5.84% - 6.34%	22,500
			132,650
Short-term loans (the Group)			767,650

Notes on the financial statements (Continued)

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20 Bills payable

Bills payable primarily represent the bank accepted bills for the purchase of raw materials, goods and products. The repayment terms normally range from 1 to 6 months.

No balance is due to a shareholder who holds 5% or more of the voting shares of the Company.

21 Trade payables and other creditors

Trade payables and other creditors included trade payables, receipts in advance and other creditors. Except for the amounts due to the ultimate holding company, no balance is due to a shareholder who holds 5% or more of the voting shares of the Company. The details of the amount due to the ultimate holding company are set out in note 39.

At 31 December 2004, no individually significant balance, aged over 3 years, was included in the Group's and the Company's trade payables and other creditors, and no individually significant balance, aged over 1 year, was included in the Group's and the Company's receipts in advance.

22 Other payables

The Group

	Tax rate and basis	2004 RMB'000	2003 RMB'000
Education surcharge	3% on VAT	499	265
Others		60	4
		559	269

The Company

	Tax rate and basis	2004 RMB'000	2003 RMB'000
Education surcharge	3% on VAT	48	—

23 Accrued expenses

The Group

	2004 RMB'000	2003 RMB'000
Audit fee	1,500	1,500
Interest expenses	1,540	4,736
Others	705	6,517
	3,745	12,753

The Company

	2004 RMB'000	2003 RMB'000
Audit fee	1,500	1,500
Others	193	183
	1,693	1,683

Notes on the financial statements (Continued)

For the year ended 31 December 2004
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24 Long-term loans

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

2004

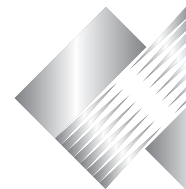
Lenders	Guaranteed or secured	Maturity date	Contracted annual interest rate in 2004	Original currency '000	Exchange rate	Amount with maturity within 1 year RMB'000	Amount with maturity after 1 year RMB'000	Balance at 31 December 2004 RMB'000
Ultimate holding company	—	2005 - 2006	6.03%	RMB47,930	—	20,000	27,930	47,930
Bank loans								
— Bank of China	Guaranteed	2005 - 2019	2.50%	Euro803	11.26	637	8,412	9,049
Long-term loans (the Company)						20,637	36,342	56,979
Loans from associated company								
— CLFC	—	2005	6.34%	RMB7,000	—	7,000	—	7,000
— CLFC	—	2006	6.04%	RMB10,000	—	—	10,000	10,000
— CLFC	—	2005 - 2006	5.49%	RMB12,000	—	5,000	7,000	12,000
						12,000	17,000	29,000
Bank loans								
— Industrial and Commercial Bank of China	Guaranteed	2005	7.14%	RMB229	—	229	—	229
						12,229	17,000	29,229
Long-term loans (the Group)						32,866	53,342	86,208

2003

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 after 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								
— Bank of China	Guaranteed	2004 - 2019	2.50%	Euro855	10.34	620	8,222	8,842
Long-term loans (the Company)						20,620	56,152	76,772
Non-bank financial institution	Guaranteed	2001 - 2008	2.26%	RMB38,360	—	5,480	32,880	38,360
Loans from associated company								
— CLFC	—	2004	6.53%	RMB2,000	—	2,000	—	2,000
— CLFC	—	2004	6.04%	RMB12,000	—	12,000	—	12,000
— CLFC	—	2005	5.49%	RMB5,000	—	—	5,000	5,000
						14,000	5,000	19,000
Bank loans								
— Industrial and Commercial Bank of China	Guaranteed	2004 - 2005	7.14%	RMB478	—	241	237	478
						19,721	38,117	57,838
Long-term loans (the Group)						40,341	94,269	134,610

Notes on the financial statements (Continued)

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24 Long-term loans (continued)

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

The Group

	2004 RMB'000	2003 RMB'000
After 1 year but within 2 years	45,567	34,076
After 2 years but within 3 years	637	36,770
After 3 years but within 5 years	1,273	18,299
After 5 years	5,865	5,124
	53,342	94,269

The Company

	2004 RMB'000	2003 RMB'000
After 1 year but within 2 years	28,567	20,619
After 2 years but within 3 years	637	28,550
After 3 years but within 5 years	1,273	1,859
After 5 years	5,865	5,124
	36,342	56,152

Except for the loans due to the ultimate holding company, no balance is due to a shareholder who holds 5% or more of the voting shares of the Company.

25 Share capital

	2004 RMB'000	2003 RMB'000
Registered, issued and paid up capital:		
<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
Sub-total	300,000	300,000
Total	700,000	700,000

The above issued and paid up capital have been verified by KPMG Huazhen. Capital verification reports have been issued on 5 May 1994, 29 August 1994 and 23 October 1995.

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

26 Capital reserve

	2004 RMB'000	2003 RMB'000
The Group		
Balance at the beginning of the year	970,528	970,132
Addition: Waiver of debts	13,540	396
Balance at the end of the year	984,068	970,528
The Company		
Balance at the beginning of the year	969,988	969,988
Addition: Waiver of debts	14,080	—
Balance at the end of the year	984,068	969,988

Capital reserve includes share premium of RMB907,466,000 (2003: RMB907,466,000).

Notes on the financial statements (Continued)

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27 Surplus reserves

Movements in surplus reserves are as follows:

	Statutory surplus reserve RMB'000	Statutory public welfare fund RMB'000	Discretionary surplus reserve RMB'000	Total RMB'000
The Group				
Balance at the beginning of the year	58,078	55,232	110,764	224,074
Profit appropriations	718	359	—	1,077
Balance at the end of the year	58,796	55,591	110,764	225,151
The Company				
Balance at beginning and end of the year	51,366	51,366	110,764	213,496

Transfers from the distributable profits to the above surplus reserves were made in accordance with the relevant rules and regulations set out in the Company Law of the PRC and the Articles of Association of the Company and its subsidiaries.

28 Profit appropriations

In accordance with the relevant rules and regulations of the Company Law of the PRC, Yangshao, a subsidiary of the Company, made appropriations for 2004 to the following surplus reserves:

(i) statutory surplus reserve	10%
(ii) statutory public welfare fund	5%

29 Income from principal operations

The Group's and the Company's income from principal operations represent income generated from sales of glass products. Segmental information is presented in note 44 on the financial statements.

During 2004, revenue from sales to top five customers was RMB145,827,000 (2003: RMB111,054,000) which accounted for 13% (2003: 11%) of total income from principal operations of the Group.

30 Cost of sales

The Group's and the Company's cost of sales represented cost incurred in relation to sales of glass products to customers. Segmental report is presented in note 44.

31 Business tax and surcharges

The Group

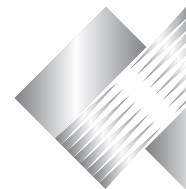
	Tax rate and basis	2004 RMB'000	2003 RMB'000
City construction tax	5% - 7% on VAT	3,693	2,029
Education surcharge	3% on VAT	1,639	1,001
		5,332	3,030

The Company

	Tax rate and basis	2004 RMB'000	2003 RMB'000
City construction tax	7% on VAT	1,717	1,224
Education surcharge	3% on VAT	736	524
		2,453	1,748

Notes on the financial statements (Continued)

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32 Other operating profit

The Group

	Income RMB'000	2004 Cost RMB'000	Profit RMB'000	Income RMB'000	2003 Cost RMB'000	Profit RMB'000
Sales of raw materials	14,973	(12,199)	2,774	4,002	(3,571)	431
Sales of racks	17,531	(10,081)	7,450	2,100	(1,496)	604
Others	4,743	(2,776)	1,967	4,357	(4,461)	(104)
Total	37,247	(25,056)	12,191	10,459	(9,528)	931

The Company

	Income RMB'000	2004 Cost RMB'000	Profit RMB'000	Income RMB'000	2003 Cost RMB'000	Profit RMB'000
Sales of raw materials	42,893	(41,442)	1,451	38,365	(37,484)	881
Sales of racks	16,380	(8,990)	7,390	1,801	(1,282)	519
Others	2,811	(2,205)	606	3,834	(4,015)	(181)
Total	62,084	(52,637)	9,447	44,000	(42,781)	1,219

33 Financial expenses

The Group

	2004 RMB'000	2003 RMB'000
Interest expenses	(51,530)	(58,920)
Interest income	4,464	19,898
Net exchange losses	(893)	(1,684)
Other financial expenses	(967)	(1,779)
Total	(48,926)	(42,485)

The Company

	2004 RMB'000	2003 RMB'000
Interest expenses	(41,643)	(46,176)
Interest income	3,621	19,027
Net exchange losses	(893)	(1,684)
Other financial expenses	(872)	(1,314)
Total	(39,787)	(30,147)

34 Investment income/(loss)

The Group

	2004 RMB'000	2003 RMB'000
Investment income from long-term equity investments		
— under cost method	3,600	3,300
— under equity method	1,678	(28,817)
Provision for impairment loss on long-term equity investments	(2,756)	(6,044)
Provision for diminution in value of short-term investments	—	(34,300)
Interest income from designated loans	597	587
Share of accumulated losses of newly consolidated subsidiaries	—	(3,781)
Total	3,119	(69,055)

Notes on the financial statements (Continued)

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34 Investment income/(loss) (continued)

The Company

	2004 RMB'000	2003 RMB'000
Investment income from long-term equity investments		
— under cost method	3,600	3,300
— under equity method	3,897	(37,993)
Provision for impairment loss on long-term equity investments	(2,204)	(6,044)
Provision for diminution in value of short-term investments	(10,868)	(34,300)
Interest income from designated loans	8,790	9,623
Total	3,215	(65,414)

There is no significant restriction on the transfer of investment income to the Group and the Company.

35 Subsidy income

The Group

	2004 RMB'000	2003 RMB'000
Subsidy income	5,353	—

According to a notice from Mianchi Province Finance Bureau, Yangshao, a subsidiary of the Company, received a subsidy income of RMB5,353,000 in 2004.

36 Non-operating income

The Group

	2004 RMB'000	2003 RMB'000
Gain on disposal of fixed assets	6,523	—
Write off of other creditors and receipts in advance	1,311	6,839
Others	991	1,122
Total	8,825	7,961

The Company

	2004 RMB'000	2003 RMB'000
Gain on disposal of fixed assets	5,732	—
Write off of other creditors and receipts in advance	182	6,839
Others	988	15
Total	6,902	6,854

37 Non-operating expenses

The Group

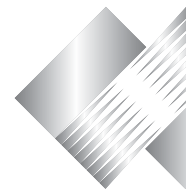
	2004 RMB'000	2003 RMB'000
Loss on disposal of fixed assets	(1,008)	(7,028)
Others	(988)	(2,877)
Total	(1,996)	(9,905)

The Company

	2004 RMB'000	2003 RMB'000
Loss on disposal of fixed assets	(763)	(2,831)
Others	(520)	(1,227)
Total	(1,283)	(4,058)

Notes on the financial statements (Continued)

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38 Income tax expense

The Group

	2004 RMB'000	2003 RMB'000
Provision for income tax for the year	(4,493)	(1,430)
Under-provision of income tax in respect of prior years	—	(742)
Total	(4,493)	(2,172)

The Company

	2004 RMB'000	2003 RMB'000
Under-provision of income tax in respect of prior years	—	(145)

At 31 December 2004, the Company has unutilized tax losses, therefore, no provision for income tax is required.

39 Related party transactions

(a) Related party with controlling interest:

Name of enterprise	: China Luoyang Float Glass Group Company of Limited Liabilities ("CLFG")
Types of legal entity	: 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 change in the registered capital of CLFG during the year.

(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
CLFG Luoyang Hoisting Machinery Co., Ltd.	Fellow subsidiary
CLFG New Illuminating Source Co., Ltd.	Fellow subsidiary
CLFG Jingwei Glass Fibre Co., Ltd.	Fellow subsidiary
CLFG Luoyang Jingjiu Glass Container Co., Ltd.	Fellow subsidiary
Luoyang Jingbao Decoration Glass Co., Ltd.	Fellow subsidiary
CLFG Qingdao Taiyang Glass Industrial Co., Ltd.	Fellow subsidiary
CLFG Luoyang Jingrun Coating Glass Co., Ltd.	Fellow subsidiary
CLFG Luoyang Jinghua Industrial Co., Ltd.	Fellow subsidiary
Luoyang Xiangyu Industrial Co.	Fellow subsidiary
Luoyang Technology Glass Company	Fellow subsidiary
CLFG New Era Export Limited Liability Co., Ltd.	Fellow subsidiary
China Luoyang Float Glass (Group) Processed Glass Company Limited	Associated company
Luoyang Luobo Hotel	Fellow subsidiary
CLFG Mineral Products Co., Ltd.	Fellow subsidiary
Luoyang Jingxin Ceramic Co., Ltd.	Associated company
CLFG Xinxing Co., Ltd.	Fellow subsidiary
CLFG Haitian Trading Company Ltd.	Fellow subsidiary
CLFG Longmen Sugang Company Ltd.	Fellow subsidiary
Guangdong Nanhai Junxiong Glass Screen Co., Ltd.	Fellow subsidiary
Shenzhen Guanghua Zhongkong Glass Company Ltd.	Fellow subsidiary

Notes on the financial statements (Continued)

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(Expressed in Renminbi)

39 Related party transactions (continued)

- (c) **The amounts of the Group's related party transactions during the year and its balances with the related parties at the year end are summarised as follows:**

Transactions between the Group and CLFG are summarised as follows:

	Note	2004 RMB'000	2003 RMB'000
Ancillary and social services	(i)	5,325	1,401
Technical services	(ii)	6,520	1,516
Provision of utilities	(iii)	674	422
Interest paid and payable		12,300	16,444
Interest received and receivable		—	1,972
Guarantees issued by CLFG to banks in favour of the Group		195,400	170,000
Indirect guarantees	(iv)	336,000	294,000
Guarantees issued by CLFG to the Company in favour of other fellow subsidiaries		111,361	101,381

Notes:

- (i) The Company has entered into a three-year agreement with CLFG effective from 3 August 2001 which has renewed for another three years expiring on 3 August 2007. In accordance with the agreements, CLFG provides certain social welfare and support services, such as education, property management, medical care and transportation services to the staff of the Company. The amount charged by CLFG is based on a reasonable cost incurred in providing such services plus respective tax charge.
- (ii) The Company has entered into a three-year agreement with CLFG effective from 1 September 2003. In accordance with the agreement, CLFG provides research and development assistance and consultancy services to the Company. The amount charged by CLFG is based on a reasonable cost incurred in providing such services plus respective tax charge.
- (iii) The Company has entered into a three-year agreement with CLFG effective from 3 August 2001 which has renewed for another three years expiring on 3 August 2007, for provision of utilities such as water and electricity to CLFG. The amount charged to CLFG is based on a reasonable cost incurred in providing such services plus respective tax charge.
- (iv) 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.

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.

Transactions between the Group and fellow subsidiaries are summarised as follows:

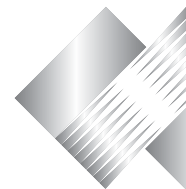
	Note	2004 RMB'000	2003 RMB'000
Sales		23,308	34,948
Ancillary and social services	(i)	5,823	5,303
Provision of utilities	(ii)	12,450	11,960
Purchase of raw materials	(iii)	17,836	18,879
Other purchases		5,313	4,609
Interest paid and payable		7,139	7,069
Interest received and receivable		597	14,069
Rental income	(iv)	580	580

Notes:

- (i) The Company has entered into a three-year agreement with a CLFG's subsidiary, CLFG Xinxing Co., Ltd. ("Xinxing") effective from 3 August 2001 by which Xinxing provides certain social welfare and support services, such as education, property management, medical care and transportation services to the staff of the Company. The agreement was supplementary amended on 22 July 2002 and renewed for another 3 years on 3 August 2004. The amount charged by Xinxing is based on a reasonable cost incurred in providing such services plus respective tax charge.
- (ii) The Company has entered into three-year agreements with certain CLFG's subsidiaries, including Xinxing, CLFG New Illuminating Source Co., Ltd. ("New Illuminating"), CLFG Jingwei Glass Fibre Co., Ltd. ("Jingwei"), CLFG Jinghua Industrial Co., Ltd. ("Jinghua") and Luoyang Luobo Hotel effective from 3 August 2001. During 2004, the Company has renewed the agreements with Xinxing and Jingwei for another three year expiring on 3 August 2007. New Illuminating, Jinghua and Luoyang Luobo Hotel have ceased operations during the year and there were no renewal of the respective agreements. In accordance with these agreements, the Company provides utilities such as water and electricity to these fellow subsidiaries. The amounts charged to these group companies are based on reasonable costs incurred in providing such services plus respective tax charge.
- (iii) The Company entered into a three-year agreement with a CLFG's subsidiary, CLFG Mineral Products Co., Ltd. ("Mineral Co"), effective from 3 August 2001 which has been renewed for another three years expiring on 3 August 2007, by which Mineral Co supplies certain raw materials to the Group at market prices.
- (iv) The Company has entered into a five-year agreement with an associated company, CPGC, effective from 1 January 2003 by which the Company sub-leases a portion of land use rights on land located in the PRC to CPGC at market rate.

Notes on the financial statements (Continued)

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39 Related party transactions (continued)

- (c) **The amounts of the Group's related party transactions during the year and its balances with the related parties at the year end are summarised as follows: (continued)**

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 and confirmed by the independent non-executive directors.

Included in the following balance sheet captions are balances with the ultimate holding company and fellow subsidiaries (net of bad debt provision):

The Group

	CLFG		Fellow subsidiaries	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Assets				
Cash at non-bank financial institution	—	—	81,229	27,244
Short-term investments	—	—	11,000	11,000
Trade receivables	—	63	1,372	8,765
Prepayments	—	—	—	—
Other receivables	148,384	137,550	110,419	255,867
Liabilities				
Short-term loans	96,150	173,450	86,500	99,000
Trade payables	—	—	4,936	4,316
Receipts in advance	1,044	1,428	877	2,060
Other payables	7,342	7,279	1,007	4,828
Long-term loans	47,930	67,930	29,000	19,000

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

The Group

	2004 RMB'000	2003 RMB'000
Provision for amounts due from the ultimate holding company	95,275	93,532
Provision for amounts due from fellow subsidiaries	310,662	306,122

40 Commitments

Capital commitments

At 31 December 2004, capital commitments of the Group and the Company are summarised as follows:

The Group and the Company

	2004 RMB'000	2003 RMB'000
Contracted for but not provided for — construction project	—	177
Authorised but not contracted for — construction project	—	861
Total	—	1,038

41 Contingent liabilities

At 31 December 2004, the contingent liabilities of the Group and the Company are summarised as follows:

	The Group		The Company	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Guarantees issued to banks in favour of subsidiaries	—	—	14,000	20,000
Guarantees issued to CLFC in favour of subsidiaries	—	—	51,500	34,000
Guarantees issued to CLFG in favour of subsidiaries	—	—	96,150	83,820
Guarantees issued to Hua Rong in favour of a subsidiary for redemption of preference shares	—	—	30,000	30,000
Guarantees issued to bank and non-bank financial institutions in favour of third parties	—	14,500	—	14,500
	—	14,500	191,650	182,320

Notes on the financial statements (Continued)

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42 Non-recurring items

In according with "Standard question and answers on the preparation of information disclosures by companies publicly issuing securities, No.1 - Non-recurring items" (2004 revised), the Group's non-recurring items are set out as follows:

The Group

	2004 RMB'000	2003 RMB'000
Non-recurring items for the year		
Designated loan interest income	597	587
Subsidy income	5,353	—
Non-operating income	8,825	7,961
Non-operating expenses	(1,996)	(9,905)
Sub-total	12,779	(1,357)
Less: Tax effect of the above items	—	(92)
Total	12,779	(1,449)

The Company

	2004 RMB'000	2003 RMB'000
Non-recurring items for the year		
Designated loan interest income	8,790	9,623
Non-operating income	6,902	6,854
Non-operating expenses	(1,283)	(4,058)
Sub-total	14,409	12,419
Less: Tax effect of the above items	—	—
Total	14,409	12,419

43 Post balance sheet events

To the date of this report, the Group has no significant events after the balance sheet date that needed to be disclosed.

44 Segmental reporting

The Group's turnover and operating result are almost entirely generated from the production 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.

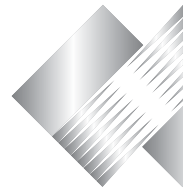
The analysis of the geographical location of the operations of the Group during the financial year is as follows:

2004	PRC RMB'000	Asia RMB'000	America RMB'000	Oceania RMB'000	Others RMB'000	Total RMB'000
Income from principal operations	1,053,450	35,994	18,977	16,679	8,786	1,133,886
Cost of sales	(806,081)	(28,435)	(14,992)	(13,176)	(6,941)	(869,625)
Business tax and surcharges	(5,332)	—	—	—	—	(5,332)
Operating expenses	(22,529)	(4,881)	(2,573)	(2,261)	(1,191)	(33,435)
Administrative expenses	(137,777)	(4,005)	(2,112)	(1,856)	(978)	(146,728)
Financial expenses	(44,275)	(2,081)	(1,097)	(965)	(508)	(48,926)
Profit/(loss) from principal operations	37,456	(3,408)	(1,797)	(1,579)	(832)	29,840
2003	PRC RMB'000	Asia RMB'000	America RMB'000	Oceania RMB'000	Others RMB'000	Total 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)

45 Comparative figures

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

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”)



(1) Reconciliation of the profit/(loss) attributable to the Group and the Company prepared in accordance with the PRC Accounting Rules and Regulations and IFRS are summarised below:

	The Group		The Company	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Profit/(loss) attributable to shareholders under the PRC Accounting Rules and Regulations	46,102	(342,513)	21,441	(324,346)
Differences:				
— Amortisation of revaluation of land use rights (i)	2,098	2,096	2,098	2,096
— Waiver of debts (ii)	13,540	396	—	—
— Results of subsidiaries (iii)	—	—	9,115	(1,570)
— Results of associated companies (iii)	—	—	(708)	—
Profit/(loss) attributable to shareholders under IFRS	61,740	(340,021)	31,946	(323,820)

(2) Reconciliation of the profit/(loss) attributable to shareholders 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	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Shareholders' funds under the PRC Accounting Rules and Regulations	935,562	875,920	935,562	900,041
Differences:				
— Revaluation of land use rights (i)	(84,346)	(86,444)	(84,346)	(86,444)
— Waiver of debts (ii)	—	—	(14,080)	—
— Results of subsidiaries (iii)	—	—	7,545	(1,570)
— Results of associated companies (iii)	—	—	324	1,032
Shareholders' funds under IFRS	851,216	789,476	845,005	813,059

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 2004, 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.

The financial statements prepared under IFRS were audited by KPMG, which was an overseas organization.