Report of the Directors

The Board of Directors hereby submits to the shareholders the report of the directors and the audited financial statements of the Company and the Group for the year ended 31 December 2005.All the directors of the Company discharged their duties as assigned under the PRC Company Law and the Company's Articles of Association in a serious manner and carried out their work in a proactive and efficient manner on the basis of the principle of honesty, good faith, diligence and initiative and in the greatest interests of the Company and its shareholders.

Daily work of the Board of Directors

(I) Board meetings held and the resolution passed

1. The 2005 first Board meeting of the Company was convened on 25 April 2005. The announcement of resolutions passed at the meeting was published on China Security Journal and Shanghai Security Daily , Singtao Daily and The Standard(English) on 26 April 2005.

2. The 2005 second Board meeting of the Company was convened on 28 April 2005 which considered and approved the First Quarterly Report for 2005.

3. The 2005 third Board meeting of the Company was convened on 26 May 2005. The announcement of resolutions passed at the meeting was published on China Security Journal and Shanghai Security Daily , Singtao Daily and The Standard(English) on 27 May 2005.

4. The 2005 fourth Board meeting of the Company was convened on 26 August 2005. The announcement of resolutions passed at the meeting was published on China Security Journal and Shanghai Security Daily , Singtao Daily and The Standard(English) on 29 August 2005.

5. The 2005 fifth Board meeting of the Company was convened on 26 October 2005 which considered and approved the Third Quarterly Report for 2005.

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

1. The overall operations during the reporting period

As affected by various unfavourable factors including State's macro-economic control, continual adoption of stringent policies, continual reduction of investments in fixed assets, additional production capacity of flat glass and fast increase in the prices of raw materials in 2005, numerous glass manufacturers were harassed by the complicated and drastic market environment. With few highlights and hotspots in the glass market in 2005, the production and operation policies mainly focused on reducing storage, increasing production and sales ratio, lowering cost and maintaining normal capital operation . Based in industry information, in view of a year-on-year increase of over 34% in the manufacturing cost, a year-on-year decrease of 25% in the selling prices of products and a loss reaching 90% in the domestic glass manufacturers in 2005, we experienced great pressure of cost control from the increasing prices of heavy oil, fuel oil, volatile soda, coal, water, electricity, as well as the capital flow difficulties under normal production and operation brought by the declining selling prices of products. Under such difficulties, in the two fields such as daily production and operation and advancement of newly established projects, the Company fully explored subjective initiative, actively tapped internal potentials and strived to overcome all unexpected difficulties, as well as realize its development targets and maximize its economic benefits.

The Company's position in the industry and its major products *(continued)*

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

2. ***During 2005, the Company mainly carried out the following implementations:***

I. *Strengthening special management and striving to reduce cost*

Firstly, with more efforts in financial management and innovative financing resources, the Company got through borrowings timely and made reasonable use of bank acceptance to ensure its normal capital operation . Facing the dual pressure of the tightening Monetary Policy and shrinking profitability of production and operation, the Company made various financing arrangements to satisfy the need of its production and operation and project development, such as the turnover amount of loans reaching RMB766,000,000, the repayment amount of loans reaching RMB830,000,000, and the contribution of RMB88,000,000 to Longhao Company and Longhai Company throughout the year. Secondly, with active assistance to its holding company in innovating financing resources, the Company smoothly proceeded the capital of RMB80,000,000 required for the construction of Longhai Project through issue of the trust of the ultra thin Production line II construction project, creating new resources for its key construction projects and teaching us learning capital operation using market tools to considerably cut down capital cost. Thirdly, with a number of bank acceptance used for foreign currency settlement in production and operation, the Company dealt with bank acceptance of RMB71,316,700 in aggregate to save capital cost of RMB2,230,000. Fourthly, beefing up its capital support for the production and operation of its subsidiaries, the Company provided accumulated turnover loans ofRMB326,000,000 to its subsidiaries, thus ensuring the normal capital operation of its subsidiaries. Fifthly, the Company put more efforts in controlling financial budget costs, strictly restricting various non-operating expenditures and making best use of limited capital, resulting in a decrease of RMB6,848,700 of the financial costs for the year as compared with the budgeted costs.

The Company used all means to cut down various costs and strived to improve the management level. Firstly, accelerating the popularization of replacement of heavy oil technology by fuel oil, the float coating plant, Bada Company and float glass company Production line II completed fuel oil replacement with reduction in cost. Secondly, the Company strengthened management on procurement of materials to minimize the expenses based on ensuring the need of its production. During the reporting period, with acute shortage of heavy oil and volatile soda, the hiking prices of heavy oil, even the situation with money but no fuel, and the surging prices of volatile soda with the highest selling price reaching RMB1,820 per tonne, the Company, through tapping new resources, ensured its supply resources and its procuring prices lower than the expected selling prices in the market for the need of its production. Thirdly, the Company reinforced the tender of other materials and reduced procurement cost through bidding.

The Company enhanced the technology and brand management. Firstly, the Company's drafted the PRC Standards for Liquid Crystal Display using Thin Float Glass passed the consideration of experts of the National Glass Standardized Committee and was welcomed by the glass industry and IT industry, securing its authority position in ultra thin glass technology sector. Secondly, the Company's electronic industry using 0.55mm and 0.7mm ultra thin float glass production techniques and product projects passed the appraisal of technological achievements in the glass industry, which was unanimously considered to reach the foreign leading level by the expert team. Thirdly, with stress on brand management, "Luobo" brand", the first famous brand passing the judicial appraisal in the domestic glass industry, was judicially appraised as the PRC famous brand in March, laying a foundation for striking out embezzlement of "Luobo" brand" and implementing judicial intellectual property protection. In September, the "Luobo" brand float glass of the Company was honoured as the "PRC famous branded product", improving its image in the market and creating favourable conditions for expanding its sales.

II. *Speeding up production management and restructure of its product mix and improving technological renovation to actively address the market demand*

Based on the market need, the Company speeded up the restructure of its product mix and strived to produce marketable products. Firstly, in accordance with segment accounting principals, the Company insisted on the link of varieties arrangement with selling prices and gross profit and endeavoured to produce profitable product varieties so as to improve its overall profitability. Secondly, the Company expanded its production of 15mm thick glass. Thirdly, the Company successfully produced 15,100 weighted cases of 19mm extra thick glass with high pass ratio and excellent quality. Fourthly, through tackling key technological problems, Longbo Company succeeded in batch yield of 0.7mm ultra thin glass with output of 5,429.41 weighted cases and development of 0.55mm ultra thin new variety, laying a foundation for its next development. Also with the increase in the production proportion of ultra thin glass, the Company produced a total of 283,600 weighted cases of 1.1mm ultra thin glass throughout the year.

III. *Overcoming the adverse impacts of market, actively capitalising on the opportunities of market to enlarge its sales volume, and strived to maximize economic benefits*

The Company implemented pertinent marketing strategies to improve its economic benefits. From 2005, the glass market demonstrated insufficient capacity, the declining selling prices and the weak market demand. As such, with more efforts in promoting high value-added products, the Company sold 233,100 weighted cases of 1.1mm ultra thin glass, 51,800 weighted cases of on-line coating glass and 260,000 weighted cases of over 15mm thick glass during the year. Secondly, with emphasis on after-sales services, the key largest customers' professional tracker services were provided for customers of ultra thin glass and customers' satisfaction was enhanced.

With more efforts in exploring international market, the Company made reasonable allocation of all resources and actively increase its export. Along with the drastic change of the domestic glass market, the profitability of internal sales for products was considerably compressed, while the prices of the internal glass market kept relatively stable. As such, we actively promoted external sales of products, such as the improvement of sales volume of the traditional markets like Australia, Japan, Kenya and Poland, and the active development of the emerging markets like Russia, Greece and Iran, thus achieving noticeable progress, for example, a year-on-year increase of over three times in the exports to Russia. During the year, the accumulated export volume of float glass reached 1,256,000 weighted cases, creating foreign exchange revenue of US$15,088,000.

The Company's position in the industry and its major products *(continued)*

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

2. *During 2005, the Company mainly carried out the following implementations:* *(continued)*

IV. Expediting the construction of key projects and ensuring the timely completion and operation of key construction projects to generate economic benefits as soon as possible

Year 2005, the fast development year, witnessed the simultaneous construction of four float lines of three projects in. Firstly, the Company introduced the mode of staff's shareholding in Longxiang Project according to the existing situation of Longfei Company, making an important step in such aspects including the diversification of investment main bodies and innovation of incentive mechanism. Secondly, in accordance with the requirements of three newly established projects, the Company actively provided strong supports in terms of personnel, finance and resources so as to secure the smooth progress of the three projects as scheduled. Thirdly, based on full investigation and study on market, the company accelerated the preparation for production of newly established projects and completed the orientation of the production varieties of Longhao, Longhai and Longxiang Company, target market, marketing area and customers, as well as the selection and location of various major raw materials and fuels. Currently, Longhao Company has commenced normal production of its production line I and trial operation of its production line II, and Longhai Company has also ignited for baking kilns.

V. New progress made by its subsidiaries and some difficulties faced by some subsidiaries

Longbo Company made a new breakthrough in development of varieties and accomplished new improvement in ultra thin technologies. By ways of tackling key technological problems, the company realized 0.7?P and 0.55?P batch yield with its manufacturing technologies and products having passed the appraisal of the industry technologies.

Overcoming adverse impacts like the extension of the effective term of smelting kiln, Longfei Company achieved satisfactory economic benefits in the intensified market competition through improving production organization and actively developing marketing. In addition, Longfei Company actively expanded development concepts and introduced diversified investment main bodies to speed up the construction of the second production line and divide redundant persons in production line I for improving its development potentials. During the year, the company achieved a profit of RMB2,370,000.

Facing various difficulties mainly due to the low selling prices as a result of the furious competition in South China market in 2005, Bada Company reduced its production cost due to adoption of the measure of replacing heavy oil by fuel oil with the assistance of the Company, but was difficult to realise profit in its production and operation. During the year, the company achieved a profit of RMB8,890,000.

Statement of the principal operations by industries and products

By sector or product	Income from principal operations (RMB'000)	Cost from principal operations (RMB'000)	Principal operations' profit margin (%)	Increase/(decrease) of income from principal operations as compared to last year (%)	Increase/(decrease) of cost from principal operations as compared to last year (%)	Increase/(decrease) of principal operations' profit margin as compared to last year (%)
Flat float glass	1,031,859	937,379	9.16	(9.00)	7.79	A decrease of 14.15 percentage points
Including: Connected Transactions	14,896	13,532	9.16	(36.09)	(24.30)	A decrease of 14.15 percentage points

Pricing policy for connected transactions	Based on market prices available to ordinary customers
Explanation on necessity and continuity of connected transactions	Viewing from the perspective of product chain, these transactions are necessary and of continuity nature, since products of the Company are upstream products to connected parties.

Including: During the reporting period, the connected transaction in relation to the sale of products and provision of services by the Company to the controlling shareholders and its subsidiaries amounted to RMB14,896,000.

Principal operations in different regions

Regions	Income from principal operations *(RMB'000)*	Increase/ (decrease) of income from principal operations as compared to last year *(%)*
Domestic	919,496	(12.72)
Exports	112,363	39.69

Information on suppliers and customers

Total volume of purchase from the top five suppliers (RMB'000)	RMB445,296,000	Percentage in the Company's total purchase volume	62.80%
Total volume of sales to the top five customers (RMB'000)	RMB98,837,000	Percentage in the Company's total sales volume	15.64%

During the reporting period, none of the directors, supervisors, senior management and their respective associates or any shareholders who held 5% or more of the Company's share capital were interested in the said suppliers and customers.

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

Gross profit margin in 2005 was 9.16%, representing a decrease of 14.15 percentage points as compared with that of 23.31% of last year. This was mainly attributable to the rapid decline in the selling prices of products as a result of the glass industry as affected by the State's macro-economic regulation and the noticeable decrease in the growth of domestic investments, together with the market impacted by the consequent operation of newly established float production lines with low price, as well as the considerable year-on-year rise in manufacturing cost of the Company's products resulting from the increasing prices of various raw materials.In addition, we suffered from the power outage during the reporting period, which directly lead to the stop of the third line of the Company for more than one month and had an impact on the first line and the second line of the Company.The mentioned reasons resulted in a decrease in the profitability (gross profit percentage) of the principle operations of the Company over last year .

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

The Company achieved a net profit of RMB4,950,000 during the year, representing a year-on-year decrease of profit of RMB41,150,000, which was mainly attributable to: firstly, the year-on-year decrease of profit of RMB102,030,000 owing to the decrease in income from principal operations as a result of the decrease in the selling prices of its products and sales volume; secondly, the year-on-year decrease of profit of over RMB67,750,000 owing to the increase in cost from principal operations as a result of the significant rise in unit cost of products resulting from the increasing prices of various raw materials; thirdly, the year-on-year increase of profit of over RMB90,960,000 owing to the decline in management fee, mainly due to the historical problems solved by strengthened management and recovering of accounts receivables; fourthly, the year-on-year increase of profit of over RMB8,130,000 owing to the increase in subsidy income, mainly due to the acceptance of the environment protection treatment subsidy granted by municipal government; fifthly, the year-on-year increase of profit of over RMB4,620,000 owing to the decline in financial costs, mainly due to the decrease in expenditures resulting from the restructure of loan structures and reasonable use of the leverage of bank acceptances; sixthly, the year-on-year increase of profit of over RMB13,940,000 owing to the rise in investing revenue, mainly due to the recovery of provision of impairment in short-term investment for the previous years.

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

In 2005, under the strong leadership of the Board and the team of managers of the Company, together with the combined efforts of all staff, the Company focused on its operating plan to put more efforts in restructure of its product mix, optimization of marketing reform, exploring market, strengthening capital operation, enhancing internal management, overcome the austere difficulties and challenges including the significant increase in the prices of raw materials, the underperformance of the glass market, the accident of power outrage, realizing its sustainable profitability. However, there was still a lap in 2005 as compared to last year.Specific achievements were: (1) viewing from the perspective of the analysis on debt repayment ability, the liquidity ratio of 2005 was 0.66 and slightly decreased by 0.15 as compared with 0.81 of 2004. The main reasons were: there were decreases in liquidity ratio resulting from the growth rate of current assets slower than the growth rate of current liabilities.Quick ratio of 2005 was 0.46 and slightly decreased by 0.17 as compared with 0.63 of 2004. The main reasons were: there were lower quick assets and unreasonable quick ratio.(2) with respect to the analysis on operation ability, the inventory turnover was 93.67 days in 2005 and 81.94 days in 2004. The inventory turnover had prolonged by 11.73 days for 2005 over 2004 and the reasons were that: the average rate of increase in inventory was faster than the rate of increase in the cost from principal operations, leading to the lengthening of inventory turnover.(3)For the analysis of profitability, with a view to the changes in income and cost from principal operations, the income from principal operations recorded decreases and the cost from principal operations recorded significant increases in 2005, reflecting the enhancement in profitability of principal operations. 4) For the analysis on the changes in asset structure, viewing from an overall perspective, the increase in current assets was faster than that of the income from principal operations, while the profitability of assets was not increased. Therefore, as compared with 2004, the quality of the structure of assets declined.

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

KPMG and KPMG Huazhen presented their auditors' reports with an explanatory paragraph but without qualifying for the 2005 operating results of the Company. Particulars of the explanatory paragraph are as follows:

"Besides, we would draw the attention of the users of financial statements to the disclosures made in note 2 on the financial statements, that the Company had accumulated losses amounted to RMB968,937,000 and net current liabilities amounted to RMB497,756,000 as at 31 December 2005 in its consolidated financial statements.Notwithstanding the measures taken by the Company's management to address this situation as set out in note 2 on the financial statements, there exists fundamental uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.This explanatory paragraph does not affect the audit opinion made."

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

Notwithstanding that the Company had accumulated losses of RMB968,937,000 and net current liabilities amounted to RMB497,756,000 at 31 December 2005 in its consolidated financial statements, the directors of the Company are of the opinion that the Group are able to continue as a going concern and to meet their obligations, as and when they fall due, having regard to the following:

(i) agreements obtained from financial institutions for renewal of loan facilities totalling approximately RMB861,050,000 to the Company upon their expiry in 2006; and

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

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

As referred to the explanatory paragraph presented by the auditors, the Company recorded net current liabilities of RMB497,756,000 as at 31 December 2005, under the PRC accounting rules and regulations.This is mainly attributable to operating loss for the year 2002 and 2003, mainly due to a significant decrease in selling prices from intensified market competition and a number of necessary provisions. The increased bank loans were due to reduction in cash inflow and changes in receivables.The Group's operation was affected by the net current liabilities to a certain extent.However, the Group had recorded net profit of RMB4,953,000 during 2005, and in the opinion of the Board, cash inflow status will be improved with the gradual effect from optimisation of the Group's product mix, which will in turn significantly reduce the reliance on bank loans for its operation.Furthermore, the Company may obtain financial support, if necessary, from its controlling company and other financial institutions to cope with the potential financing difficulties.In addition, the Company will take economic and legal actions to recover receivables which will be used for repayment of bank loans. In such a case, a reduction in net current liabilities, even a balance of net current assets will be achieved.

Based on the Group's financial statements for the year 2005 prepared under PRC Accounting Rules and Regulations, the Group's total asset amounted to RMB2,515,300,000, representing an increase of 15.16% from the previous year, which was attributable to the rise in total amount of fixed assets resulting from new establishment of two subsidiaries during the year; shareholders' equity amounted to RMB862,370,000, representing an increase of 1.31 % as compared with the previous year, which was caused by the profit incurred for the year; long-term liabilities amounted to RMB9,516,000, representing a rise of 28.50% over last year, which was mainly due to the increase in the amount of loan advanced in the year; profit from principal operations amounted to RMB82,590,000, representing a decrease of 67.16% over last year, which was mainly because of the considerable reduction in profit from principal operations resulting from the rise in the cost of products and a significant decrease in average selling prices in the year; net profit amounted to RMB9,660,000, representing a decrease of 84.35¢H as compared with net profit of RMB61,740,000 in the previous year; the net increase of cash and cash equivalents amounted to RMB17,620,000, representing an increase of 13.87% over last year, main reasons of which are set out in the discussion and analysis of the overall operations during the reporting period and Chapter IX "Analysis on Items of Accounts with Movements of over 30%".

Liquidity and source of capital (under IFRS)

At the end of 2005, the Group had cash and cash equivalents of RMB144,660,000 decreased by RMB17,670,000 from RMB127,040,000 as at the end of 2004. Net cash generated from operating activities was used to finance borrowing and investment activities.

As at 31 December 2005, the total loans of the Group were RMB981,810,000 including a foreign currency loan RMB7,240,000, (original amount: EURD756,000). The Group did not enter into any financial instruments as hedging vehicle. As at 31 December 2005, the gearing ratio (the total loan / shareholders' funds) of the Group was 113.85%, up 10.02% compared to that of 2004.

Investment of the Company

(1) Use of proceeds

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

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

Details are set out in XI Significant Events of the annual report.

Operations and results of major controlling companies and investee companies

As at 31 December 2005, information on the Group's major subsidiaries is as follows:

Name of company	Registered capital (RMB'000)	Direct attributable equity interest	Assets scale (RMB'000)	Principal activities	Net profit (RMB'000)
Luobo Group Longmen Glass Company Ltd. ("Longmen")	20,000	79.06%	312,669	Manufacture of float sheet glass	24,339
Chenzhou Bada Glass Co. Ltd. ("Bada")	150,000	65.82%	228,991	Manufacture of float sheet glass	(13,907)
Luobo Group Luoyang Glass Group Longfei Glass Co. Ltd. ("Longfei")	74,080	54.00%	179,732	Manufacture of float sheet glass	2,880
Xiangfang Luoshen Auto Glass Co. Ltd. ("Luoshen")	30,000	66.67%	29,367	Manufacture of auto glass	(1,624)
Yinan Mineral Products Co. Ltd ("Yinan")	28,000	52.00%	46,859	Exploration of minerals	(1,384)
Luoyang Longhai Electronic Glass Company Limited ("Longhai")	60,000	80.00%	161,477	Manufacture of float sheet glass	0
Luobo Group Longhao Glass Company Limited ("Longhao")	50,00	80.00%	157,078	Manufacture of float sheet glass	(6,689)

As at 31 December 2005, information on the associated companies of the Group and the Company is as follows:

Name of company	Registered capital (RMB'000)	Direct attributable equity interest (%)	Assets scale (RMB'000)	Principal activities	Net profit (RMB'000)
Luoyang Jingxin Ceramic Co. Ltd ("Jingxin")	41,945	49.00%	133,090	Manufacture of ceramic wall tiles	(4,818)
China Luoyang Float Glass Group Financial Company of Limited Liabilities ("CLFC")	300,000	37.00%	481,153	Provision of financial services	590
China Luoyang Float Glass (Group) Processed Glass Company Limited ("CPGC")	181,496	49.09%	425,823	Production and sale of vehicle safety reprocessed glass	(12,285)

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

In accordance with the PRC Accounting Rules and Regulations, the Company recorded net profit amounting to RMB4,950,000 for the year of 2005. After transferring to surplus reserve of RMB230,000 and adding net loss amounting to RMB973,660,000 at the beginning of the year, the accumulated loss amounted to RMB968,940,000. In accordance with IFRS, the Company recorded net loss amounting to RMB9,660,000 for the year of 2005. After transferring to surplus reserve of RMB230,000 and adding net loss amounting to RMB936,970,000 at the beginning of the year, the accumulated loss at the end of the year amounted to RMB927,540,000. Accordingly, the Company resolved not to make any profit appropriation for the year 2005 nor transfer any reserves to increase the share capital of the Company.

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

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

Loans (Under IFRS)

As of 31 December 2005, the total loans of the Group amounted to RMB981,810,000, representing an increase of RMB97,950,000 over 2004.

Capital commitment

Nil

Gearing ratio

Gearing ratio in the period was 182.20%; gearing ratio last year was 138.50%. (Under IFRS)

Pledge of assets of the Group

As at 31 December 2005, an amount of RMB70,000,000(2004: RMB80,000,000) in fixed deposits and an amount of RMB41,870,000 (2004: RMB3,000,000) in current deposits were pledged for the short-term loans and bills payables for the Group.

As at 31 December 2005, the balance of RMB8,240,000 (2004: nil) in fixed assets were pledged for the short-tern loans.

Contingent liabilities

Nil

Fixed Assets

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

Reserves

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

Bank and Other Loans

The bank and other loans of the Group as at 31 December 2005 are stated in notes to the financial statements prepared under IFRS.

Five-year Financial Highlight

The results, assets and liabilities of the Group for the five years ended 31 December 2005 as prepared under IFRS are summarised below:

Operating Results

	2005 *RMB'000*	2004 *RMB'000*	2003 *RMB'000*	2002 *RMB'000*	2001 *RMB'000*
Turnover	**1,028,976**	1,128,554	975,816	822,804	813,385
Profit/(loss) before share of net loss/profit of associates	**29,343**	83,482	(308,788)	(396,900)	11,486
Share of (loss)/profit of associated companies	**(20,751)**	1,678	(28,817)	9,030	(3,398)
Profit/(loss) before taxation	**8,592**	85,160	(337,605)	(387,870)	8,088
Taxation	**(1,950)**	(4,493)	(2,172)	(200)	-
Profit/(loss) after taxation	**6,642**	80,667	(339,777)	(388,070)	8,088
Profit/(loss) attributable to minority interests	**(3,022)**	(18,927)	(244)	45,621	1,780
Profit/(loss) attributable to shareholders	**9,664**	61,740	(340,021)	(342,449)	9,868

Assets & Liabilities

	2005 *RMB'000*	2004 *RMB'000*	2003 *RMB'000*	2002 *RMB'000*	2001 *RMB'000*
Fixed assets	**1,700,121**	1,523,887	1,519,683	927,674	1,123,181
Construction in progress	**265,271**	2,323	4,535	8,682	14,758
Interest in associates	**154,919**	174,476	186,843	254,232	167,391
Long-term investments	**32,297**	32,983	35,739	75,979	86,817
Non-current assets	**1,569,852**	1,208,129	1,309,553	1,745,750	1,902,195
Net current liabilities	**(530,657)**	(215,548)	(349,055)	(438,741)	(146,780)
Long-term liabilities	**(95,163)**	(74,059)	(120,849)	(146,328)	(206,664)
Shareholders' funds	**862,366**	851,216	789,476	1,129,497	1,471,946
Minority interests	**81,666**	67,306	50,173	31,184	76,805

Capitalisation of interests

Capitalisation of interests of the Group during the year is set out in notes to the financial statements prepared under IFRS.

Charity and other donations

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

Transactions with related parties

The material related party transactions of the Company for the year ended 31 December 2005 are set out in notes to the financial statements prepared under IFRS.

Employees' retirement benefits

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

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

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

Five individuals with highest emoluments

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

Service contracts of directors and supervisors

Each of the directors and supervisors has entered into a service agreement with the Company. These service agreements all commenced from 28 March 2004 with a term of office for three years. Same as aforementioned, the Company or any of its subsidiaries or fellow subsidiaries has not entered into or will enter into any service agreement with any director or supervisor.

Directors and supervisors' interest in contracts

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

Compliance of Code on Corporate Governance Practice

The Group has complied with the Code on Corporate Governance Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules"), save for that the Luoyang Longhai Electronic Glass Company Limited float line project and Longhao Glass Company Limited float line project jointly established by the Company and the Parent have not obtained the approval of independent shareholders prior to such investment.

Model Code for Securities Transactions by Directors of Listed Issuers

Directors of the Company confirmed that, the Company has adopted the model code as set out in the Model Code for Securities Transactions by Directors of Listed Issuers under Appendix 10 to the Listing Rules.

Purchase, sale and redemption of shares of the Company

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

Major subsidiaries and associated companies

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

Pre-emptive rights

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

Public float

On the basis of public and available information, as far as the directors are aware, the Company has complied with the public float stipulated in Listing Rules and approved by the Stock Exchange of Hong Kong Limited as at the end of the reporting period.

Auditors

Approved by the Company's 2004 Annual General Meeting, the Company re-appointed KPMG and KPMG Huazhen as the Company's international and PRC auditors for the year 2005.The audit expenses for 2005 payable by the Company to KPMG and KPMG Huazhen amounted to HK$3,800,000.KPMG and KPMG Huazhen has provided the consecutive auditing services to the Company for 10 years and 12 years respectively.

In 2005, the Company appointed, on behalf of the two subsidiaries jointly established by the Company and Luobo Group, KPMG as the PRC auditor of the major and connected transaction to provide the Company the financial audit and related services.In 2005, the Company paid audit expenses of HK$1,500,000 to KPMG therefore.

BUSINESS OUTLOOK

I. Adverse factors

1. The over growth of the production capacity of glass will bring a considerable pressure on total demands in the glass market. Since 2003, the domestic glass industry has experienced an upsurge in construction of float galss production lines. Apart from the nearly 50 new lines, it is expected that in 2006 over 5 production lines will be put into production. According to statistics, the number of float galss lines exceeded 140 in the PRC in 2005. The total domestic output of glass accounted for more than 40% of that in the world. The growth rate of production capacity for glass has far overpassed that of demands from the glass market. How to digest these new production capabilities is a serious challege to the glass market. To this end, it is inferred that in 2006 the glass market will witness a third distress since the middle 1990s and end of the 20th century.

2. The State's macroeconomic control policy and the economic growth rate will continue to affect the glass market. In 2005, the development of the real estate market was considerably affected by the macro control policy. In 2006, the growth rate of the PRC economy is expected to slow down while developmen of the real estate industry is still a key under the macro control policy, which will continue to impose a material impact on the glass demands.

3. The Company will be faced with an integrated pressure in terms of the internal prodution capacity, the market, marketing networks, purchase channels, human resources. In 2006, the Company will have 7 subsidiaries manufacturing float glass and with of 9 million weighted cases of new prodution capacities. How to accomplish the intensive management in a short period of time, to improve the utilisation rate of various resources, and to circumvent the competition among products of subsidiaries will have a substantial impact on the Company's exerting resources advantage.

4. The pressure of cost control for float glass will reamin tensional. In 2005, all major glass manufacturing enterprises recorded a significant decline in effeciency mainly due to the over growth of product costs as a result of the upsurging prices of raw materials and fuel. In 2006, the float glass enterprises will contine to scrabble for heavy oil, fuel oil and soda ash, which is difficult to be removed in a short period of time. The tight supply of various raw materials and fuel will remain and hence prices thereof may furhter increase.

II. FAVORABLE FACTORS

1. The overall demands in the glass market remain rising. In 2005, the glass market incurred a considerable decline as compared with 2004. Particularly, the selling prices of products lingered at a low level for a long time, some of which even went lower than costs. However, the information from the industry shows that an upsurging momentum was still seen in the total sales volume of the glass market and in the demands for glass in such related industries as construction, vehice and electronics. Therefore, we can conclude that such rising momentum for the total demands in the glass market will last till 2006.

2. The demands for glass will be noticeably driven by the state's various policies. Year 2006 is the opening year for the State's Eleventh Five-year Plan. In this year, to remain the domestic economic growth rate at a high level is an urgent target for both political and economic development. With the expected key stage in implementing the policies of prospering northeastern industrial bases, the mid China growth and the grand developemnt of the western areas, the economy will be more obviously driven by the released domestic demands. In particular, the "mid China growth" policy will directly bring us a scarce opportunity. Also the Beijing Olympic project and the International Exhibition Shanghai will commence their key construction, the direct need for glass arising from which will be increasing. Olympic economic and exhibition economic effects will come forth. With the speedyc urbanisation and construction of urbanizing townships, the delevelopemnt of the real estate industry remains rapid with a loose constrain by the State, which will result in a stable growth of demands for glass. With the more rapid growing key automible and electron industries under the Eleventh Five-year Plan, demands for electronic glass will be increasing considerably while those for vehice glass will be increasing steadily.

3. With a more reasonable product mix, the comprehensive competitiveness of the Company's products will be further enhanced. After the large-scale construction in 2005, production lines of the Company increased swiftly from 9 lines to 12 lines with significant increase in production capacity. This will complete product varieties with a more reasonable product mix. On the other hand, the new production lines of Longhao, Longhai and Longxiang companies are low-cost and high-quality. Products of such lines will be more competitive.

BUSINESS OUTLOOK *(continued)*

III. IN 2006, THE COMPANY WILL FOCUS ON THE FOLLOWING WORK

(I) Speeding up product mix adjustment and organizing production in a reasonable way for a long-term steady production.

The Company will put more efforts in adjustment to the product mix to actively satisfy the changing market demands. With the characteristic of its 12 production lines, the Company will rationalize the sequence of product varieties of each production lines and fully exert the capability of equipment of production lines to ensure the production steadiness and quality. The first line of the float glass plant will focus on 8 - 15mm high grade thick glass sheets whilst the second line will focus on 4 - 8mm medium grade glass. Longbo Company and Longhai Company will focus on below 3mm thin glass and ultra thin glass with emphasis on production of 1.1mm,0.7mm and 0.55mm verities. Longhao Company will focus on 4 - 15mm medium grade white glass. The float plating plant will focus on color glass and on-line plating glass products. Longfei Company, Longxiang Company and Bada Company will focus on production of different color glass and realise the simultaneous production of multi-color glass to satisfy the market demands for various grade glass. At the same time, the production and sales units should cooperate to identify for each production lines the dynamic standards of product specifications and product reserve based on the market demands, thereby improving the profitability of reserve products.

The Company will exert the advantages of each production lines for the long term high-quality and high-yield production. To begin with, the Company will make efforts in production achievement for new lines of Longhao Company, Longhai Company and Longxiang Company to realise the steady and high-quality prodution in the shortest period of time. Having been put into prodution, Longhai's ultra-thin glass line is expected to produce qualification ultra-thin glass products in the shortest period of time and make the products high-grade as soon as possible to meet the high grade STN application, hence paying way for the swift market occupation. Capitalising on the strengths of their new equipment, the new production lines are expected to improve indices of quality, output and gross ratio of finished products to amortise the manufacture cost, thereby fostering the product competitiveness. The float glass plant and Longfei Company are expected to strengthen the smelting kiln of the first, second and Longfei lines and ensure the safe operation of fusing kiln of the second line till the designated re-construction time of kiln. The float plating plant is expected to put more efforts in production of on-line plating glass with improved quality and stability to secure more sales. In addition, the Company will strengthen the communication between the Company and its subsidiaries in terms of mature technologies, operational know-how and management experience for their mutual study and improvement to stabiles all production lines. Lastly, the Company will beef up the construction of a new silicon line of the mine company and put it into production as soon as possible to enhance the development potential of the mine company.

Tapping its internal potential, the Company will cut down the production cost with advanced technologies and reasonable management to horn the competitive edge of its products. It will maintain the long term steady production to reduce the loss from fluctuating production and quality. It will strengthen the feasibility study on substitutable raw materials and fuel such as various colorants for glass production to reduce cost. To address the production demands, the Company will beef up the construction of various high quality raw material bases to cut down the transportation cost with a near location. In addition, it will focus on technology development for key problems that influence the steady production by solving the problems one by one, striving for actual efficiency and improved stability of production systems.

(II) Beefing up the adjustment to marketing strategies and exerting the strengths of product verities to cater for the new market competition

The Company will strengthen the sale of marketable products and the production scale of high value-added products to improve the comprehensive economic efficiency. Making use of the advantages of Longhao Company's lost cost products, the Company is expected to swifly occupy the advantageous markets around Hennan and in mid China, north China and the northwest areas. Capitalisin on the advantages of ultra thin series products, Longbo Company and Longhai Company will implement a comprehensive marketing strategy aiming at the high,medium and low end ultra thin glass markets. It will strengthen its ultra thin glass products and increase the market share for 1.1mm, 0.7mm and 0.55mm product varieties in the PRC, hence fostering new profit base. Making use of their advantages of simultaneous production¢XALongfei Company, Longxiang Company, Bada Company and the float plating plan will enhance the marketing for color glass to cater for the customer demands in this regard in a comprehensive way. With the advantages in thick sheets and quality of the first line of the float glass plant and Longhao Company, the Company aims to further increase the sales volome of 15?Pover thick sheets, hence taking the high end thick sheet market. To cater for the market demands, the Company will increase its sales volume of on-line plating glass. Meanwhile, it will augment the varieties and series of on-line platingglass products for new on-line plating glass equipment, so as to secure resources for enlarged sales of on-line plating glass products.

The Company will reinforce the interracial market exploration by increasing export of products with strengthened proportion of high value added products. While consolidating the sales in traditional export markets such as South Korea, Africa, Australia and Southeast Asia, the Company will put more and more efforts in such emerging markets as South America, Russia and East Europe and probe into the India and Middle East markets. In India, with the fast economic growth and large-scale infrastructure construction, the self-supply of its domestic glass resources is not satisfying. Hence, there should be a large market and considerable opportunities. The Company may increase agencies in these markets. In increasing export product varieties, the Company will actively promote sales of ultra thin glass, on-line platingglass and ultra thick glass to overseas customers to enrich the export product series and increase overall prices of its products.

The Company will expedite the materials procurement reform by exerting the advantage of the large-scale procurement and cutting down the purchase cost.

BUSINESS OUTLOOK *(continued)*

III. IN 2006, THE COMPANY WILL FOCUS ON THE FOLLOWING WORK *(continued)*

(III) Actively promoting various reforms by beefing up reforms of the accomodation, management member and personnel systems to set up an incentive mechanism and prompt the talents' initiatives, and putting more efforts in training of emloyees in various aspects to improved their integrity, so as to increase the core competitivess of the Company.

(IV) Positioning subsidiaries for a higher profitability

With the establishment of Longhao, Longhai and Longxiang companies, the Company currently manages 9 subsidiaries including 7 ones manufactuing float glass with 9 float glass lines in aggregation, far exceeding the three lines in the Company. Thereby, the Company's profit centre has shifted from the internal to its subsidiaries. In other words, the Company's furture profit will rely on these subsidiaries. In 2006, all subsidiaries will make efforts in the following work.

Longbo Company and Longhai Company will realise their production targets and stablise product quality as soon as possible. Longhai Company will achieve the production standards for its ultra thin production line within 3 months. Longbo Company is expected to put efforts in stablising production and improving the quality of 1.1?Pultra thin glass for a noticeable increase in the quality of 1.1?Pglass launching the market in future. Furthermore, Longhai Company will strengthen technology development for 0.7?P and 0.55?Pultra thin glass to realise the stable substantial production as soon as possible with the product quality up to international advanced standards for customers' recognition. The two companies will also speed up technology improvement for 0.7?P¢XB0.55?Pglass to drive the technology upgrading for 1.1?Pglass and cooperate with the sales department to strengthen the production of ultra thin glass, aiming at increased economic efficiency.

Longhao Company will complete the ending work for projects, transitting to normal production and operation from project construction. It will make efforts in trail runs of technologic equipment and strive to achieve the production targets in a short period of time, aiming at the long term stable produciton. Capitalsing on the advantage of low cost production lines and tapping potential from reduced cost, it will strive to maintain the advanced product cost in the industry, hence increasing its effiency.

Making full use of their experience in production and sale of color glass, Longfei Company and Longxiang Company will enhance the market exploration and foster characteristic production and sale to improve the influential strength of their products in the market. Furthermore, they will continue to reduce cost. On basis of kiln safety, Longfei Company will strive to maintain the safe operation till 2007.

Keeping abreast of the market and customers, Bada Company will reinforce market exploration by implementing more flexible marketing strategies to improve its viability. Meanwhile, it will cast around for reduced cost, for only when cost is cut down can the competitiveness and profitability of products be enhanced. In addition, it will strengthen the reseach on production technologies, for a steady production is the most direct and efficient way towards cost reduction. Besides, Bada Company will speed up system innovations and the pernonnel system reform to meet the demands from its development.

By order of the Board
Chairman
Liu Baoying

25 April 2006