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 44 to 79 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 Hong Kong Standards on Auditing 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, the controlling shareholder of the ultimate holding company and the 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 2005 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, 25 April 2006

Consolidated income statement

For the year ended 31 December 2005
(Prepared in accordance with International Financial Reporting Standards)
(Expressed in Renminbi)

	Note	2005 Rmb'000	2004 Rmb'000 (restated)
Turnover	5	**1,028,976**	1,128,554
Cost of sales		**(946,387)**	(877,054)
Gross profit		**82,589**	251,500
Other operating income	6	**119,698**	51,091
Other operating expenses		**(3,179)**	(988)
Selling expenses		**(36,725)**	(33,435)
Administrative expenses		**(92,238)**	(137,201)
Profit from operations		**70,145**	130,967
Net finance costs	7(a)	**(43,708)**	(48,329)
Investment income	7(b)	**2,906**	844
Share of net (losses)/profits of associates		**(20,751)**	1,678
Profit before taxation	7	**8,592**	85,160
Income tax expense	10(a)	**(1,950)**	(4,493)
Profit for the year		**6,642**	80,667
Attributable to:			
Equity shareholders of the Company	11, 33	**9,664**	61,740
Minority interests		**(3,022)**	18,927
Profit for the year		**6,642**	80,667
Basic earnings per share (in Rmb: Yuan)	13	**0.01**	0.09

The notes on pages 50 to 79 form part of these financial statements.

Consolidated balance sheet

At 31 December 2005
(Prepared in accordance with International Financial Reporting Standards)
(Expressed in Renminbi)

	Note	**2005** **Rmb'000**	2004 Rmb'000 (restated)
Non-current assets			
Property, plant and equipment	14	**959,352**	865,049
Construction in progress	15	**265,271**	2,323
Intangible assets	16	**16,633**	6,005
Lease prepayments	17	**79,285**	81,138
Interest in associates	19	**154,919**	174,476
Investments	20	**32,297**	32,983
Other receivables	21	**26,441**	10,501
Deposits with a non-bank financial institution	26	**35,654**	35,654
		1,569,852	1,208,129
Current assets			
Income tax recoverable		**2,243**	1,739
Other receivables	21	**315,851**	323,439
Inventories	22	**275,663**	205,474
Trade and bills receivables	23	**88,086**	61,550
Deposits with banks and non-bank financial institutions	24	**118,947**	170,233
Cash and cash equivalents	25	**144,655**	127,039
		945,445	889,474
Current liabilities			
Income tax payable		**—**	512
Trade and bills payables	27	**251,259**	110,282
Accrued expenses and other payables	28	**329,736**	181,712
Bank and other loans	29	**895,107**	812,516
		1,476,102	1,105,022
Net current liabilities		**(530,657)**	(215,548)
Total assets less current liabilities		**1,039,195**	992,581
Non-current liabilities			
Bank and other loans	29	**86,698**	71,342
Long-term payables		**2,927**	2,717
Deferred income		**5,538**	—
		95,163	74,059
Net assets		**944,032**	918,522
Capital and reserves			
Share capital	30	**700,000**	700,000
Share premium	31	**969,988**	969,988
Reserves	32	**119,921**	118,202
Accumulated losses	33	**(927,543)**	(936,974)
Total equity attributable to equity shareholders of the Company		**862,366**	851,216
Minority interests		**81,666**	67,306
Total equity		**944,032**	918,522

Approved and authorised for issue by the Board of Directors on 25 April 2006

Liu Baoying
Chairman

Zhu Leibo
Director

The notes on pages 50 to 79 form part of these financial statements.

Balance sheet

At 31 December 2005
(Prepared in accordance with International Financial Reporting Standards)
(Expressed in Renminbi)

	Note	**2005** *Rmb'000*	2004 *Rmb'000*
Non-current assets			
Property, plant and equipment	14	**355,694**	395,663
Construction in progress	15	**8,582**	1,494
Lease prepayments	17	**32,942**	33,795
Interest in subsidiaries	18	**369,015**	233,152
Interest in associates	19	**154,095**	174,005
Investments	20	**32,297**	32,983
Other receivables	21	**6,441**	10,501
Deposits with a non-bank financial institution	26	**35,654**	35,654
		994,720	917,247
Current assets			
Other receivables	21	**287,192**	299,281
Inventories	22	**149,620**	117,225
Trade and bills receivables	23	**109,888**	49,946
Deposits with banks and non-bank financial institutions	24	**96,947**	170,233
Cash and cash equivalents	25	**105,216**	99,105
		748,863	735,790
Current liabilities			
Trade and bills payables	27	**124,557**	45,966
Accrued expenses and other payables	28	**80,191**	67,370
Bank and other loans	29	**669,975**	655,637
		874,723	768,973
Net current liabilities		**(125,860)**	(33,183)
Total assets less current liabilities		**868,860**	884,064
Non-current liabilities			
Bank and other loans	29	**6,698**	36,342
Long-term payables		**2,750**	2,717
		9,448	39,059
Net assets		**859,412**	845,005
Capital and reserves			
Share capital	30	**700,000**	700,000
Share premium	31	**969,988**	969,988
Reserves	32	**106,547**	106,547
Accumulated losses	33	**(917,123)**	(931,530)
Total equity		**859,412**	845,005

Approved and authorised for issue by the Board of Directors on 25 April 2006

Liu Baoying
Chairman

Zhu Leibo
Director

The notes on pages 50 to 79 form part of these financial statements.

Consolidated statement of changes in equity

For the year ended 31 December 2005
(Prepared in accordance with International Financial Reporting Standards)
(Expressed in Renminbi)

	Attributable to equity shareholders of the Company						
	Share Capital	Share premium	Reserves	Accumulated losses	Total	Minority interests	Total equity (restated)
	Rmb'000 (Note 30)	*Rmb'000 (Note 31)*	*Rmb'000 (Note 32)*	*Rmb'000 (Note 33)*	*Rmb'000*	*Rmb'000*	*Rmb'000*
At 1 January 2004	700,000	969,988	117,125	(997,637)	789,476	50,173	839,649
Profit for the year	—	—	—	61,740	61,740	18,927	80,667
Distribution to minority shareholders	—	—	—	—	—	(1,794)	(1,794)
Appropriation	—	—	1,077	(1,077)	—	—	—
At 31 December 2004	700,000	969,988	118,202	(936,974)	851,216	67,306	918,522
At 1 January 2005	700,000	969,988	118,202	(936,974)	851,216	67,306	918,522
Profit for the year	—	—	—	9,664	9,664	(3,022)	6,642
Capital contributions from minority shareholders	—	—	—	—	—	22,000	22,000
Arising from additional investment in a subsidiary (Note 18(ii))	—	—	1,507	—	1,507	(4,199)	(2,692)
Appropriation	—	—	233	(233)	—	—	—
Disposal of a subsidiary	—	—	(21)	—	(21)	(419)	(440)
At 31 December 2005	700,000	969,988	119,921	(927,543)	862,366	81,666	944,032

The notes on pages 50 to 79 form part of these financial statements.

Consolidated cash flow statement

For the year ended 31 December 2005
(Prepared in accordance with International Financial Reporting Standards)
(Expressed in Renminbi)

	Note	**2005** *Rmb'000*	2004 *Rmb'000*
Cash flows from operating activities			
Cash generated from operations	(a)	**285,109**	213,704
Interest paid		**(50,273)**	(51,879)
Income tax paid		**(2,966)**	(6,660)
Net cash from operating activities		**231,870**	155,165
Cash flows from investing activities			
Interest and investment income received		**11,423**	9,620
Capital expenditure			
– Property, plant and equipment		**(11,220)**	(15,430)
– Construction in progress		**(293,511)**	(11,803)
Cash outflow from increase in shareholding in a subsidiary		**(2,692)**	—
Cash inflow from disposal of a subsidiary	(c)	**16**	—
Proceeds from disposal of property, plant and equipment		**335**	8,186
Net cash used in investing activities		**(295,649)**	(9,427)
Cash flows from financing activities			
(Increase)/decrease in pledged deposits		**(28,873)**	22,899
Distribution to minority shareholders		**—**	(1,794)
Proceeds from bank and other loans		**1,165,592**	972,281
Repayment of bank and other loans		**(1,066,324)**	—
Capital contributions received from minority shareholders		**11,000**	(1,078,465)
Net cash from/(used in) financing activities		**81,395**	(85,079)
Net increase in cash and cash equivalents		**17,616**	60,659
Cash and cash equivalents at 1 January		**127,039**	66,380
Cash and cash equivalents at 31 December	25	**144,655**	127,039

The notes or pages 50 to 79 form part of these financial statements.

Notes to the consolidated cash flow statement

For the year ended 31 December 2005
(Prepared in accordance with International Financial Reporting Standards)
(Expressed in Renminbi)

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

	Note	2005 Rmb'000	2004 Rmb'000
Profit before taxation		**8,592**	85,160
Share of net losses/(profits) of associates		**20,751**	(1,678)
Loss on disposal of a subsidiary		**55**	—
Amortisation and depreciation		**86,394**	92,927
Interest income		**(7,823)**	(5,061)
Dividend income		**(3,600)**	(3,600)
Interest expense		**49,005**	51,530
Impairment loss on unlisted available-for-sales equity securities		**686**	2,756
Impairment for doubtful debts		**805**	29,387
Waiver of debts	(b)	**(1,716)**	(25,731)
Write off of other payables		**(3,439)**	(1,311)
Net write-down/(decrease in write-down) of inventories		**9,008**	(5,209)
Net loss/(gain) on disposal of property, plant and equipment		**219**	(5,515)
Foreign exchange (gain)/loss		**(1,342)**	742
Increase in inventories		**(79,477)**	(15,313)
(Increase)/decrease in trade and bills receivables		**(26,988)**	13,079
(Increase)/decrease in other receivables		**(9,505)**	151,109
Decrease/(increase) in time deposits with original maturity more than three months		**80,159**	(77,233)
Increase/(decrease) in trade and bills payables		**140,497**	(64,112)
Increase/(decrease) in accrued expenses and other payables		**17,290**	(8,223)
Increase in deferred income		**5,538**	—
Cash generated from operations		**285,109**	213,704

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

	2005 Rmb'000	2004 Rmb'000
Waiver of debts	1,716	25,731
Capital contributions by minority shareholders in the form of intangible assets	**11,000**	—

(c) Disposal of a subsidiary:

During 2005, the Group disposed of all of its interest in Shenzhen Luobo Trading Co., Ltd. for Rmb467,000 satisfied in cash.

	2005 Rmb'000
Property, plant and equipment	14
Inventories	280
Trade receivables	413
Other receivables	374
Cash and cash equivalents	451
Accrued expenses and other payables	(591)
Minority interests	(419)
	522
Loss on disposal	(55)
Cash consideration received	467
Less: Cash of the subsidiary disposed of	(451)
Net cash inflow in respect of the disposal of a subsidiary	16

Notes on the financial statements

For the year ended 31 December 2005
(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 ("the Group"), engaged in the production and sales of float sheet glass.

2 Significant accounting policies

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs") which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards ("IAS") and Interpretations promulgated by the International Accounting Standards Board ("IASB"). These financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). A summary of the significant accounting policies adopted by the Group is set out below.

The Company also prepares a set of financial statements which complies with the PRC Accounting Rules and Regulations. A reconciliation of the Group's and the Company's profits and total equity attributable to equity shareholders of the Company prepared under IFRSs and the PRC Accounting Rules and Regulations is presented on pages 126.

The IASB has issued a number of new and revised IFRSs that are effective for accounting periods beginning on or after 1 January 2005. Information on the changes in accounting policies resulting from initial application of these new and revised IFRSs for the current and prior accounting periods reflected in these financial statements is provided in note 3.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2005 comprise the Group and the Group's interest in associates.

The financial statements are presented in Renminbi, rounded to the nearest thousand. The measurement basis used in the preparation of the financial statements is historical cost.

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of IFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next financial year are discussed in note 40.

Notwithstanding that the Company and the Group had net current liabilities as at 31 December 2005, 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 Rmb861,050,000 to the Company upon their expiry in 2006; and

(ii) continuing financial support received from China Luoyang Float Glass Group Company Limited ("CLFG"), the ultimate holding company, together with the controlling shareholder of 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.

2 Significant accounting policies *(continued)*

(c) Basis of consolidation

(i) Subsidiaries

A subsidiary is a company directly or indirectly controlled by the Company. Subsidiaries are considered to be controlled if the Company has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from its activities.

A subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date control ceases.

Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Minority interests at the balance sheet date, being the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the Company, whether directly or indirectly through subsidiaries, are presented in the consolidated balance sheet and statement of changes in equity within equity, separately from equity attributable to the equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the Company.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (see note 2(t)), unless the investment is classified as held for sale.

(ii) Associates

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the associate's net assets, unless it is classified as held for sale. The consolidated income statement includes the Group's share of the post-acquisition, post-tax results of the associates for the year, including any impairment loss on goodwill relating to the investment in associates recognised for the year (see note 2(t)).

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate. For this purpose, the Group's interest in the associate is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate.

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associate, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

In the Company's balance sheet, its investment in associates is stated at cost less impairment losses (see note 2(t)), unless it is classified as held for sale.

(d) Property, plant and equipment

(i) Property, plant and equipment, which consist of buildings, plant, machinery, equipment and motor vehicles, are stated at cost less accumulated depreciation (see below) and impairment losses (see note 2(t)). The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to the present working condition and location for its intended use, the cost of borrowed funds used during the period of construction (see note 2(u)) and, when relevant, the costs of dismantling and removing the items and restoring the site in which they are located, and changes in the measurement of existing liabilities recognised for these costs resulting from changes in the timing or outflow of resources required to settle the obligation or from changes in the discount rate.

The Group recognises in the carrying value of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. All the cost is recognised as an expense in the income statement in the period in which it is incurred.

(ii) Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

2 Significant accounting policies *(continued)*

(d) Property, plant and equipment *(continued)*

(iii) Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

Buildings	30 to 50 years
Plant, machinery and equipment	4 to 28 years
Motor vehicles	6 to 12 years

(e) Construction in progress

Construction in progress is stated at cost less impairment losses (note 2(t)). Cost comprises the direct cost of materials and borrowing costs capitalised (see note 2(u)) during the period of construction.

Capitalisation of these costs ceases and the construction in progress is transferred to property, plant and equipment when substantially all the activities necessary to prepare the asset for its intended use are completed. No depreciation is provided in respect of construction in progress until it is substantially completed and ready for its intended use.

(f) Lease prepayments

Lease prepayments represent land use rights paid to the PRC's land bureau. Land use rights are carried at cost less accumulated amortisation and impairment losses (see note 2(t)).

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

(g) Intangible assets

Intangible assets are stated in the balance sheet at cost less accumulated amortisation and impairment losses (see note 2(t)).

Amortisation of intangible assets is charged to profit or loss on a straight-line basis over the assets' estimated useful lives unless such lives are indefinite. Intangible assets represent trademark and non-patented technical know-how, which are amortised over their estimated useful lives of 10 to 20 years.

(h) Investments in equity securities

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the balance sheet at cost less impairment losses (see note 2(t)).

(i) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(j) Inventories

Inventories, other than spare parts and consumables, are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(k) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts (see note 2(t)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts (see note 2(t)).

(l) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in profit or loss over the period of the borrowings using the effective interest method.

(m) Trade and other payables

Trade and other payables are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

2 Significant accounting policies *(continued)*

(n) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(o) Employee benefits

Salaries, annual bonuses, paid annual leave, contributions to defined contribution plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(p) Revenue recognition

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

(i) Sales of goods

Revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(ii) Dividend income

Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

(iii) Interest income

Interest income is recognised as it accrues using the effective interest method.

(iv) Commission income

Commission income is recognised when service is rendered.

(v) Government grants

Government grants are recognised in the balance sheet initially as deferred income when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are recognised in profit and loss as revenue on a systematic basis over the useful life of the asset.

(q) Translation of foreign currencies

Foreign currency transactions during the year are translated into Renminbi at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Renminbi at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in profit and loss.

(r) Repairs and maintenance expenses

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

(s) Research and development expenses

Expenditure on research and development activities is recognised as an expense in the period in which it is incurred.

2 Significant accounting policies *(continued)*

(t) Impairment of assets

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

Investments in equity securities and other current and non-current receivables that are stated at cost or are classified as available-for-sale equity securities are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, any impairment loss is determined and recognised as follows:

– For available-for-sale securities and current receivables that are carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the discounting is material. Impairment losses for current receivables are reversed if in a subsequent period the amount of the impairment loss decreases. Impairment losses for equity securities are not reversed.

– For financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets).

  If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

– For available-for-sale securities, the cumulative loss that had been recongised directly in equity is removed from equity and is recognised in profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

  Impairment losses recognised in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised directly in equity.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment;

– construction in progress;

– intangible assets;

– lease prepayments; and

– investments in subsidiaries and associates.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

– Calculation of recoverable amount

  The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

- Recognition of impairment losses

  An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

- Reversals of impairment losses

  An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

  A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

2 Significant accounting policies *(continued)*

(u) Borrowing costs

Borrowing costs are expensed in profit and loss in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(v) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the income statement except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  – the same taxable entity; or

  – different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(w) Related parties

For the purposes of these financial statements, 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 (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals.

2 Significant accounting policies *(continued)*

(x) Segment reporting

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

3 Changes in accounting policies

The IASB has issued a number of new and revised IFRSs that are effective for accounting periods beginning on or after 1 January 2005.

The accounting policies of the Group and/or Company after the adoption of these new and revised IFRSs have been summarised in note 2. The following sets out information on the significant changes in accounting policies for the current and prior accounting periods reflected in these financial statements.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 43).

The adoption of revised IAS 1, Presentation of financial statements and IAS 27, Consolidated and separate financial statements has resulted in a change in presentation of minority interests in the financial statements:

In prior years, minority interests at the balance sheet date were presented in the consolidated balance sheet separately from liabilities and as a deduction from net assets. Minority interests in the results of the Group for the year were also separately presented in the income statement as a deduction before arriving at the profit attributable to the equity shareholders of the Company.

With effect from 1 January 2005, in order to comply with IAS 1 and IAS 27, the Group has changed its accounting policy relating to presentation of minority interests. Under the new policy, minority interests are presented as part of equity, separately from interests attributable to the equity shareholders of the Company. Further details of the new policy are set out in note 2(c)(i). These changes in presentation have been applied retrospectively with comparatives restated as showed.

As a result of the adoption of revised IAS 24, Related party disclosures, the definition of related parties as disclosed in note 2(w) has been expanded such that state-controlled entities are included. The revised IAS 24 also requires the compensation of key management personnel to be disclosed. The Group has included these disclosures in the financial statements.

With effect from 1 January 2005, the Group recognises and measures its financial assets and financial liabilities in accordance with the requirements of IAS 39, Financial instruments: recognition and measurement. As a result of the adoption of the revised IAS 39, bills discounted with financial institutions with recourse were not de-recognised from the balance sheet, and the related bills receivables and advance from financial institutions were reported under "bills receivable" and "secured loans" respectively. Further details of the new policy are set out in notes 2(k) and (m). This new policy has been adopted prospectively. There were no discounted bills as at 31 December 2004.

4 Segment reporting

The Group's turnover and operating results are almost entirely generated from the production and sales of float sheet glass. Accordingly, no business segment information is provided. In presenting information on the basis of geographical segments, segment turnover is based on the geographical location of customers. The Group's assets and liabilities are almost entirely situated in the PRC and accordingly, no information on segment assets and liabilities 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	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004
	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	**916,613**	1,048,118	**75,871**	35,994	**10,918**	18,977	**13,761**	16,679	**11,813**	8,786	**1,028,976**	1,128,554
Segment results	**36,164**	212,079	**6,549**	2,679	**942**	1,412	**1,188**	1,242	**1,020**	653	**45,863**	218,065
Unallocated income/(expenses)											**24,282**	(87,098)
Profit from operations											**70,145**	130,967
Net financing costs											**(43,708)**	(48,329)
Investment income											**2,906**	844
Share of net (losses)/profits of associates											**(20,751)**	1,678
Income tax expense											**(1,950)**	(4,493)
Profit for the year											**6,642**	80,667

5 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.

6 Other operating income

	2005 Rmb'000	2004 Rmb'000
Waiver of debts	**1,716**	25,731
Reversal of impairment losses on:		
–amount due from a fellow subsidiary	**16,110**	—
–amount due from an associate	**34,300**	—
–other receivables	**28,821**	—
–trade receivables	**31**	—
Gain on disposal of racks	**5,995**	7,450
Net gain on disposal of property, plant and equipment	**—**	5,515
Government grants (Note)	**13,945**	5,353
Profit on sales of raw materials	**4,547**	2,774
Write off of other creditors	**3,439**	1,311
Commission income	**6,705**	—
Others	**4,089**	2,957
	119,698	51,091

Note:

According to a notice from the Luoyang Municipal Finance Bureau, the Company received a government grant of Rmb10,000,000 during the year (2004:Rmb Nil).

According to notices from the Mianchi Municipal Finance Bureau, Chenzhou Municipal Finance Bureau and Xiang Fan Municipal Finance Bureau, certain subsidiaries of the Company received government grants totalling Rmb3,483,000 during the year (2004:Rmb5,353,000).

According to a notice from the Yanshi Municipal Finance Bureau and Henan Province Finance Bureau, a government grant of Rmb6,000,000 was awarded to Luobo Group Longmen Glass Company Ltd. ("Longmen"), a subsidiary of the Company, for the construction of a production plant. Such grant is recognised in the consolidated income statement over the useful life of the respective assets, of which Rmb462,000 has been recognised in 2005 (2004:RmbNil).

7 Profit before taxation

Profit before taxation is arrived at after (charging)/crediting:

		2005 Rmb'000	2004 Rmb'000
(a)	Net financing costs:		
	Interest on bank loans and other borrowings repayable within five years	**(51,132)**	(51,530)
	Less: borrowing costs capitalised into construction in progress*	**2,127**	—
		(49,005)	(51,530)
	Interest income	**7,823**	5,061
	Net foreign exchange loss	**(348)**	(893)
	Bank charges	**(2,178)**	(967)
		(43,708)	(48,329)

* The borrowing costs have been capitalised at a rate of 5.58% to 6.98% per annum (2004:Nil).

		2005 Rmb'000	2004 Rmb'000
(b)	Investment income:		
	Dividend income	**3,600**	3,600
	Impairment loss on unlisted investments	**(686)**	(2,756)
	Loss on disposal of a subsidiary	**(55)**	—
	Others	**47**	—
		2,906	844

7 Profit before taxation *(continued)*

Profit before taxation is arrived at after (charging)/crediting *(continued)*:

		2005 *Rmb'000*	2004 *Rmb'000*
(c)	Staff costs:		
	Wages and salaries #	**(50,133)**	(67,251)
	Contributions to defined contribution plan #	**(15,939)**	(11,469)
		(66,072)	(78,720)
(d)	Other items:		
	Cost of inventories (note 22)#	**(946,387)**	(877,054)
	Depreciation #	**(84,169)**	(90,702)
	Impairment losses		
	– trade receivables	**(771)**	(5,038)
	– other receivables	**(34)**	(24,349)
	– unlisted available-for-sales securities	**(686)**	(2,756)
	Auditors' remuneration	**(3,800)**	(2,600)
	Research and development expenses#	**—**	(7,429)
	Amortisation of intangible assets	**(372)**	(372)
	Amortisation of lease prepayments	**(1,853)**	(1,853)
	Share of associates' taxation	**—**	(570)
	Insurance compensation	**2,000**	—

\# Cost of inventories includes Rmb111,807,000 (2004:Rmb128,088,000) relating to staff costs, depreciation and research and development expenses, which amount is also included in the respective total amounts disclosed separately above for each of these types of expenses.

8 Directors' and supervisors' remuneration

Directors' and supervisors' remuneration disclosed pursuant to the disclosure requirement of the Listing Rules is as follows:

	Fees *Rmb'000*	**Bonuses** *Rmb'000*	**Salaries, allowances and benefits in kind** *Rmb'000*	**Contributions to defined contribution plan** *Rmb'000*	**2005 Total** *Rmb'000*
Executive directors					
Liu Baoying	—	—	—	—	—
Zhu Leibo	—	—	—	—	—
Ding Jianluo	—	—	149	11	160
Wang Jie	—	—	120	12	132
Zhang Shaojie	—	—	—	—	—
Zhu Liuxin	—	—	—	—	—
Jiang Hong	—	—	—	—	—
Independent directors					
Dai Zhiliang	20	—	—	—	20
Zong Pengrong	20	—	—	—	20
Xi Shengyang	20	—	—	—	20
Dong Chao	20	—	—	—	20
Supervisors					
Tao Shanwu	—	—	—	—	—
Song Fei	—	—	—	—	—
Cheng Rongfa	—	—	128	12	140
Independent Supervisors					
Li Jingyi	6	—	—	—	6
Gu Meifeng	6	—	—	—	6
	92	—	397	35	524

8 Directors' and supervisors' remuneration (continued)

Directors' and supervisors' remuneration disclosed pursuant to the disclosure requirement of the Listing Rules is as follows (continued):

	Fees *Rmb'000*	Bonuses *Rmb'000*	Salaries, allowances and benefits in kind *Rmb'000*	Contributions to defined contribution plan *Rmb'000*	2004 Total *Rmb'000*
Executive directors					
Liu Baoying	—	—	—	—	—
Zhu Leibo	—	—	—	—	—
Ding Jianluo	—	—	145	2	147
Wang Jie	—	—	137	4	141
Zhang Shaojie	—	—	—	—	—
Zhu Liuxin	—	—	—	—	—
Jiang Hong	—	—	—	—	—
Independent directors					
Dai Zhiliang	20	—	—	—	20
Zong Pengrong	20	—	—	—	20
Xi Shengyang	20	—	—	—	20
Dong Chao	20	—	—	—	20
Supervisors					
Tao Shanwu	16	—	—	—	16
Song Fei	6	—	—	—	6
Cheng Rongfa	—	—	62	4	66
Independent Supervisors					
Li Jingyi	6	—	—	—	6
Gu Meifeng	6	—	—	—	6
	114	—	344	10	468

9 Individuals with highest emoluments

Of the five individuals with the highest emoluments, two (2004: three) are directors or supervisors, whose emoluments are disclosed in note 8. The aggregate of the emoluments in respect of the other three (2004: two) individuals are as follows:

	2005 ***Rmb'000***	2004 *Rmb'000*
Salaries and other emoluments	**407**	93
Contribution to defined contribution plan	**38**	26
	445	119

The emoluments of the three (2004: two) individuals with the highest emoluments are within the following band:

	No. of individuals	
Hong Kong dollars	**2005**	2004
Nil – HK$1,000,000	**3**	2

10 Income tax in the consolidated income statement

(a) Taxation in the consolidated income statement represents:

	2005 Rmb'000	2004 Rmb'000
Provision for the year	**1,950**	4,493

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. In 2004, a subsidiary of the Company, which was disposed of in 2005, was 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.

Reconciliation between tax expense and accounting profit at applicable tax rate:

	2005 Rmb'000	2004 Rmb'000
Profit before tax	**8,592**	85,160
Notional PRC income tax using the Company's tax rate of 33%	**2,835**	28,103
Tax effect of non-deductible expenses	**1,996**	8,559
Tax effect of tax exempt revenue	**(850)**	(4,777)
Tax effect of tax loss utilised	**(6,346)**	(42,226)
Tax losses not recognised for deferred tax	**4,315**	14,834
Actual tax expense	**1,950**	4,493

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

	2005 Rmb'000	2004 Rmb'000
Tax losses	**255,000**	249,562
Lease prepayments	**27,113**	27,834
	282,113	277,396

The deferred tax asset has not been recognised as it is not certain whether the potential taxation benefit will be realised in the foreseeable future. The tax losses represent the maximum benefit from unutilised tax losses, which can be carried forward up to five years from the year in which the loss was originated to offset against future taxable profits. The above tax losses are expiring between 2006 to 2010 but tax losses amounting to Rmb64,760,000 (2004:RmbNil) are to be approved by the relevant tax authorities.

11 Profit attributable to equity shareholders of the Company

The consolidated profit attributable to equity shareholders of the Company includes a profit of Rmb14,407,000 (2004:Rmb31,946,000) which has been dealt with in the financial statements of the Company.

12 Dividends

The board of directors of the Company does not recommend the payment of a dividend in respect of the year ended 31 December 2005 (2004: RmbNil).

13 Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of Rmb9,664,000 (2004: Rmb61,740,000) and 700,000,000 (2004: 700,000,000) shares in issue during the year.

No diluted earnings per share are calculated as there are no dilutive potential shares for the two years ended 31 December 2005.

14 Property, plant and equipment

The Group

	Buildings *Rmb'000*	Plant, machinery and equipment *Rmb'000*	Motor vehicles *Rmb'000*	Total *Rmb'000*
Cost:				
At 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 15)	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
Cost:				
At 1 January 2005	457,592	1,046,467	19,828	1,523,887
Additions	671	8,096	2,453	11,220
Transfer from construction in progress (note 15)	65,236	103,111	—	168,347
Disposals	—	(1,427)	(1,906)	(3,333)
At 31 December 2005	523,499	1,156,247	20,375	1,700,121
Accumulated depreciation and impairment:				
At 1 January 2005	120,448	526,988	11,402	658,838
Charge for the year	14,484	68,118	1,567	84,169
Written back on disposal	—	(962)	(1,276)	(2,238)
At 31 December 2005	134,932	594,144	11,693	740,769
Net book value:				
At 31 December 2005	388,567	562,103	8,682	959,352

14 Property, plant and equipment *(continued)*

The Company

	Buildings *Rmb'000*	Plant, machinery and equipment *Rmb'000*	Motor vehicles *Rmb'000*	Total *Rmb'000*
Cost:				
At 1 January 2004	223,809	633,466	5,011	862,286
Additions	—	2,221	959	3,180
Transfer from construction in progress (note 15)	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
Cost:				
At 1 January 2005	222,705	630,084	2,784	855,573
Additions	—	5,906	447	6,353
Transfer from construction in progress (note 15)	—	198	—	198
Disposals	—	(646)	(1,019)	(1,665)
At 31 December 2005	222,705	635,542	2,212	860,459
Accumulated depreciation and impairment:				
At 1 January 2005	71,884	387,227	799	459,910
Charge for the year	6,981	38,499	450	45,930
Written back on disposal	—	(551)	(524)	(1,075)
At 31 December 2005	78,865	425,175	725	504,765
Net book value:				
At 31 December 2005	143,840	210,367	1,487	355,694

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

(b) At 31 December 2005, buildings held by a subsidiary with net book value of Rmb8,238,000 (31 December 2004: RmbNil) were pledged for certain short-term loans.

15 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		The Company	
	2005	2004	**2005**	2004
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
At 1 January	**2,323**	4,535	**1,494**	2,749
Additions	**431,295**	11,803	**7,286**	1,301
	433,618	16,338	**8,780**	4,050
Transfer to property, plant and equipment (note 14)	**(168,347)**	(14,015)	**(198)**	(2,556)
At 31 December	**265,271**	2,323	**8,582**	1,494

16 Intangible assets

The Group

	2005	2004
	Rmb'000	*Rmb'000*
Cost:		
At 1 January	**7,400**	7,400
Additions through injection by minority interests	**11,000**	—
At 31 December	**18,400**	7,400
Accumulated amortisation:		
At 1 January	**1,395**	1,023
Charge for the year	**372**	372
At 31 December	**1,767**	1,395
Net book value:		
At 31 December	**16,633**	6,005

Intangible assets represent trademark, non-patented technical know-how obtained by certain subsidiaries. They are amortised on a straight-line basis over 10 to 20 years. The amortisation charge for the year is included in administrative expenses in the consolidated income statement.

17 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 17 to 59 years. At 31 December 2005, the Group was in the process of application for the relevant land use rights certificate of a piece of land with a carrying value of Rmb32,807,000.

As at 31 December 2005, the Group's land use rights with net book value of Rmb3,019,000 (2004: RmbNil) have been pledged for certain short-term loans.

18 Interest in subsidiaries

The Company

	2005	2004
	Rmb'000	*Rmb'000*
Unlisted equity interest, at cost	**292,098**	202,006
Amounts due from subsidiaries	**201,720**	167,197
	493,818	369,203
Less: impairment losses	**(124,803)**	(136,051)
	369,015	233,152

Details of the Company's principal subsidiaries at 31 December 2005, all of which are incorporated and operated in the PRC, are set out below.

Name of company	Registered capital	Direct attributable equity interest	Principal activities	Note
Longmen	Rmb20,000,000	79.06%	Manufacture of float sheet glass	(i)
Chenzhou Bada Glass Co. Ltd. ("Bada")	Rmb150,000,000	65.82%	Manufacture of float sheet glass	(ii)
CLFG Long Fei Glass Co. Ltd. ("Long Fei") (formerly known as 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)
CLFG Long Hai Electronic Glass Limited ("Long Hai")	Rmb60,000,000	80.00%	Manufacture of float sheet glass	(iii),(iv)
CLFG Long Hao Glass Limited ("Long Hao")	Rmb50,000,000	80.00%	Manufacture of float sheet glass	(iii),(iv)

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 or entitle to any right to vote for Bada. As at 31 December 2005, redeemable equity of Rmb12,000,000 has been overdued (2004: Rmb6,000,000). In accordance with IAS 32, the equity interest held by Hua Rong has been presented as an other loan (see note 29) in the balance sheet.

On 17 August 2005, the Company increased its shareholding in Bada from 52.25% to 65.82% at a cash consideration of Rmb2,692,000.

(iii) These subsidiaries are limited liability companies.

(iv) During 2005, the Company set up two subsidiaries in the PRC with CLFG as the minority equity holders and injected capital of Rmb88,000,000 into these subsidiaries. In accordance with the Listing Rules, the above investments constitute major and connected transactions which were subject to the approval of independent shareholders of the Company. The required approval of independent shareholders was obtained in an extraordinary general meeting held on 27 February 2006.

19 Interest in associates

	The Group 2005 Rmb'000	The Group 2004 Rmb'000	The Company 2005 Rmb'000	The Company 2004 Rmb'000
Unlisted equity interest, at cost	**—**	—	**220,649**	220,649
Share of net assets	**154,627**	175,378	**—**	—
	154,627	175,378	**220,649**	220,649
Amounts due from associates	**38,471**	72,766	**37,185**	71,477
Amounts due to associates	**(1,002)**	(2,191)	**(641)**	(1,697)
	192,096	245,953	**257,193**	290,429
Less: impairment losses	**(37,177)**	(71,477)	**(103,098)**	(116,424)
	154,919	174,476	**154,095**	174,005

Details of the associates, which are unlisted corporate entities, incorporated and operated in the PRC, are as follows:

Name of company	Form of business structure	Registered capital 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 associates are subsidiaries of CLFG. As at 31 December 2004, the amounts due from associates included Rmb71,477,000 receivable from Jingxin, of which full impairment had been made. During 2005, the Company collected Rmb34,300,000 in relation to the amounts due from Jingxin, of which Rmb20,000,000 was financed by a loan from a subsidiary of CLFG, and impairment losses of Rmb34,300,000 was reversed accordingly. Based on the assessment of recent development of Jingxin, the directors have maintained a full impairment for the remaining balance of Rmb37,177,00, which 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 2005, was Rmb66,022,000 (2004: Rmb45,271,000). The Group has not recognised losses relating to Jingxin totalling Rmb15,769,000 (2004: Rmb13,408,000) of which Rmb2,361,000 was applicable to the current financial year (2004: Rmb5,576,000). The Group has no obligation in respect of those losses.

Summary financial information on associates

	Assets Rmb'000	Liabilities Rmb'000	Equity Rmb'000	Revenues Rmb'000	(Loss) / profit Rmb'000
2005					
100 per cent	867,765	(478,272)	389,493	158,108	(42,123)
Group's effective interest	368,886	(214,259)	154,627	75,160	(20,751)
2004					
100 per cent	919,898	(476,923)	442,975	155,036	4,884
Group's effective interest	395,084	(219,706)	175,378	74,444	1,678

20 Investments

	The Group		The Company	
	2005	2004	**2005**	2004
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Unlisted available-for-sale investment securities, at cost	**68,957**	68,957	**62,067**	62,067
Less: impairment loss	**(36,660)**	(35,974)	**(29,770)**	(29,084)
	32,297	32,983	**32,297**	32,983

Unlisted available-for-sale investment securities include a non-consolidated subsidiary that does not significantly affect the results nor financial position of the Group and, therefore, it is not consolidated nor equity accounted for.

21 Other receivables

	The Group		The Company	
	2005	2004	**2005**	2004
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Non-current assets				
Other receivables	**26,441**	10,501	**6,441**	10,501

	The Group		The Company	
	2005	2004	**2005**	2004
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Current assets				
Amounts due from ultimate holding company	**140,693**	159,525	**130,692**	151,882
Amounts due from fellow subsidiaries	**336,478**	353,820	**333,308**	350,723
Advance payments, other receivables and prepayments	**118,265**	134,576	**79,870**	81,400
	595,436	647,921	**543,870**	584,005
Less: impairment losses on doubtful debts	**(279,585)**	(324,482)	**(256,678)**	(284,724)
	315,851	323,439	**287,192**	299,281

As at 31 December 2004, the receivables due from Qingdao Taiyang Glass Industries Company Limited ("Taiyang"), a fellow subsidiary, amounted to Rmb229,796,000 (including interest receivable of Rmb45,008,000), of which full impairment had been made. During 2005, Taiyang repaid Rmb16,110,000. The directors have assessed the recoverability of the remaining balance of Rmb213,686,000 due from Taiyang as at 31 December 2005 and have considered them irrecoverable. The Company 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 repayment, except for an amount of Rmb10,500,000 (2004:Rmb11,000,000) due from a fellow subsidiary which is interest-bearing at the prevailing market interest rate.

22 Inventories

	The Group		The Company	
	2005	2004	**2005**	2004
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Raw materials	**192,184**	157,858	**111,957**	88,106
Work in progress	**14,576**	11,160	**6,197**	5,804
Finished goods	**86,740**	45,285	**45,448**	31,196
	293,500	214,303	**163,602**	125,106
Less: write-down	**(17,837)**	(8,829)	**(13,982)**	(7,881)
	275,663	205,474	**149,620**	117,225

22 Inventories *(continued)*

The analysis of the amount of inventories recognised as an expense is as follows:

The Group

	2005 *Rmb'000*	2004 *Rmb'000*
Carrying amount of inventories sold	**937,379**	882,263
Write-down of inventories	**11,721**	800
Write-down of inventories utilised during the year	**(2,713)**	(6,009)
	946,387	877,054

23 Trade and bills receivables

	The Group		The Company	
	2005 *Rmb'000*	2004 *Rmb'000*	**2005** *Rmb'000*	2004 *Rmb'000*
Trade receivables				
– third parties	**83,907**	69,784	**58,575**	55,216
– ultimate holding company	**83,889**	84,133	**83,826**	84,070
– fellow subsidiaries	**5,866**	6,866	**2,651**	2,651
	173,662	160,783	**145,052**	141,937
Less: impairment losses on doubtful debts	**(143,026)**	(142,286)	**(129,782)**	(129,681)
	30,636	18,497	**15,270**	12,256
Bills receivable	**57,450**	43,053	**94,618**	37,690
	88,086	61,550	**109,888**	49,946

The ageing analysis of trade and bills receivables, net of impairment losses on doubtful debts, is as follows:

	The Group		The Company	
	2005 *Rmb'000*	2004 *Rmb'000*	**2005** *Rmb'000*	2004 *Rmb'000*
Within one year	**87,107**	60,265	**109,663**	49,584
Between one and two years	**648**	622	**140**	140
Between two and three years	**331**	663	**85**	222
	88,086	61,550	**109,888**	49,946

Debts are normally due within 30 days from the date of billing. The ageing analysis above is prepared in accordance with invoice dates.

Included in the Group's bills receivable are commercial bills of Rmb1,000,000 (2004:Rmb Nil) received from a fellow subsidiary which were 100% with recourse. The Group continues to recognise the asset and the associated liability.

Included in the Company's bills receivable are commercial bills received from a subsidiary and a fellow subsidiary of Rmb50,000,000 (2004: Rmb Nil) and Rmb1,000,000 (2004: Rmb Nil) respectively which were 100% with recourse. The Company continues to recognise the asset and the associated liability.

Included in trade and bills receivables are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	The Group		The Company	
	2005 *000*	2004 *000*	**2005** *000*	2004 *000*
United States Dollars	**USD1,104**	USD1,641	**USD1,104**	USD1,641

24 Deposits with banks and non-bank financial institutions

	The Group		The Company	
	2005	2004	**2005**	2004
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Deposits with banks and non-bank financial institutions	**118,947**	170,233	**96,947**	170,233
Include: Pledged deposits	**111,873**	83,000	**89,873**	83,000

At 31 December 2005, time deposits with banks and non-bank financial institutions totalling Rmb70,000,000 (2004: Rmb80,000,000) were pledged to secure loans granted to the Company (see note 29).

At 31 December 2005, deposits with banks and non-bank financial institutions of Rmb41,873,000 (2004: Rmb3,000,000) were pledged to secure bills payable of the Group.

At 31 December 2005, deposits with banks and non-bank financial institutions of Rmb19,873,000 (2004: Rmb3,000,000) were pledged to secure bills payable of the Company.

25 Cash and cash equivalents

	The Group		The Company	
	2005	2004	**2005**	2004
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Cash in hand	**143**	425	**20**	259
Deposits with banks and non-bank financial institutions with an original maturity within three months	**144,512**	126,614	**105,196**	98,846
Cash and cash equivalents	**144,655**	127,039	**105,216**	99,105

Included in cash and cash equivalents in the balance sheets are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	The Group		The Company	
	2005	2004	**2005**	2004
	000	*000*	***000***	*000*
Hong Kong Dollars	**HKD 6,898**	HKD6,898	**HKD6,898**	HKD6,898
United States Dollars	**USD1,635**	USD86	**USD1,635**	USD86

26 Deposits with a non-bank financial institution

The balances at 31 December 2005 represent the overdue time deposits at Guangzhou International Trust & Investment Corporation ("GZITIC"), after a 75% impairment made. GZITIC is in the process of a corporate restructuring. Based on an assessment of the recent development, the directors are of the opinion that a 75% impairment is adequate. No interest has been accrued in respect of the deposits.

For the year ended 31 December 2005
(Prepared in accordance with International Financial Reporting Standards)
(Expressed in Renminbi)

27 Trade and bills payables

	The Group		The Company	
	2005	2004	**2005**	2004
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Trade payables				
- third parties	**172,413**	101,901	**88,781**	38,442
- fellow subsidiaries	**3,246**	3,337	**2,476**	2,480
	175,659	105,238	**91,257**	40,922
Bills payable	**75,600**	5,044	**33,300**	5,044
	251,259	110,282	**124,557**	45,966

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

	The Group		The Company	
	2005	2004	**2005**	2004
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Due within 1 month or on demand	**251,259**	109,935	**124,557**	45,619
Due after 1 month but within 3 months	**—**	347	**—**	347
	251,259	110,282	**124,557**	45,966

28 Accrued expenses and other payables

	The Group		The Company	
	2005	2004	**2005**	2004
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Amounts due to ultimate holding company	**5,737**	8,386	**4,719**	7,270
Amounts due to fellow subsidiaries	**315**	1,294	**130**	1,256
Accrued expenses, other payables and receipts in advance	**323,684**	172,032	**75,342**	58,844
	329,736	181,712	**80,191**	67,370

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

At the balance sheet date, retention monies totalling Rmb45,198,000 (2004:Rmb Nil) in respect of certain construction in progress included in other payables are expected to be settled after more than one year.

Included in accrued expenses and other payables are the following amounts denominated in a currency other than the functional currency of the entity to which they are relate:

	The Group		The Company	
	2005	2004	**2005**	2004
	000	*000*	***000***	*000*
United States Dollars	USD256	USD360	USD256	USD360

29 Bank and other loans

The Group

	Interest rate	Interest type	2005 Rmb'000	2004 Rmb'000
Secured bank loans	2.50% - 7.53%	Fixed	**680,643**	594,278
Unsecured loans from the ultimate holding Company	5.58% - 6.42%	Fixed	**65,662**	144,080
Secured loans from an associate	5.22% - 5.58%	Fixed	**66,500**	64,000
Unsecured loans from an associate	5.35% - 6.70%	Fixed	**59,000**	51,500
Secured loans from a non-bank financial Institution	5.76%	Fixed	**80,000**	—
Unsecured loans from a non-bank financial Institution	Nil	—	**30,000**	30,000
			981,805	883,858

The Company

	Interest rate	Interest type	2005 Rmb'000	2004 Rmb'000
Secured bank loans	2.50% - 6.70%	Fixed	**602,243**	580,049
Unsecured loans from the ultimate holding Company	6.03%	Fixed	**7,930**	47,930
Secured loans from an associate	5.22% - 5.58%	Fixed	**66,500**	64,000
			676,673	691,979

Included in loans from banks of the Company are loans amounting to Rmb70,000,000 (2004: Rmb80,000,000) which are secured by time deposits (see note 24). The remaining balances are guaranteed by the ultimate holding company and carry interest at the prevailing market rates.

Included in unsecured loans from a non-bank financial institution to a subsidiary of Rmb12,000,000 (2004: Rmb6,000,000) has become overdue for payment.

The bank and other loans are repayable as follows:

The Group

	2005 Rmb'000	2004 Rmb'000
Within one year		
- short-term loans	**839,632**	767,650
- current portion of long-term loans	**55,475**	44,866
	895,107	812,516
Between one and two years	**28,215**	51,567
Between two and five years	**53,964**	13,910
After five years	**4,519**	5,865
	86,698	71,342
	981,805	883,858

29 **Bank and other loans** *(continued)*

The Company

	2005 Rmb'000	2004 Rmb'000
Within one year		
- short-term loans	**661,500**	635,000
- current portion of long-term loans	**8,475**	20,637
	669,975	655,637
Between one and two years	**545**	28,567
Between two and five years	**1,634**	1,910
After five years	**4,519**	5,865
	6,698	36,342
	676,673	691,979

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 2005 Rmb'000	The Group 2004 Rmb'000	The Company 2005 Rmb'000	The Company 2004 Rmb'000
Secured bank loans						
Due in 2005	7.14%	Fixed	—	229	—	—
Euro denominated:						
Payable semi-annually in 2005	2.50%	Fixed	—	637	—	637
Payable semi-annually in 2006	2.50%	Fixed	**545**	637	**545**	637
Payable semi-annually from 2007 through 2019	2.50%	Fixed	**6,698**	7,775	**6,698**	7,775
			7,243	9,278	**7,243**	9,049
Unsecured loans from an associate						
Due in 2005	5.49%-6.34%	Fixed	—	12,000	—	—
Due in 2006	5.49%-6.04%	Fixed	**17,000**	17,000	—	—
			17,000	29,000	—	—
Unsecured loans from the ultimate holding company						
Due in 2005	6.03%	Fixed	—	20,000	—	20,000
Due in 2006	6.03%	Fixed	**7,930**	27,930	**7,930**	27,930
			7,930	47,930	**7,930**	47,930
Secured loans from a non-bank financial institution						
Due in 2007	5.76%	Fixed	**27,670**	—	—	—
Due in 2008	5.76%	Fixed	**52,330**	—	—	—
			80,000	—	—	—

29 Bank and other loans *(continued)*

Repayment terms and last payment date	Interest rate	Interest type	The Group 2005 Rmb'000	The Group 2004 Rmb'000	The Company 2005 Rmb'000	The Company 2004 Rmb'000
Unsecured loans from a non-bank financial institution						
Payable semi-annually from 2001 through 2008 (note 18(ii))	—	—	**30,000**	30,000	**—**	—
Total long-term loans			**142,173**	116,208	**15,173**	56,979
Less: Current portion repayable within one year			**(55,475)**	(44,866)	**(8,475)**	(20,637)
Long-term portion of long-term loans			**86,698**	71,342	**6,698**	36,342

Included in bank loans are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	The Group 2005 Rmb'000	The Group 2004 Rmb'000	The Company 2005 Rmb'000	The Company 2004 Rmb'000
Euros	**EUR756**	EUR803	**EUR756**	EUR803

Short-term loans

The weighted average interest rates on short-term loans for the Group and the Company were 6.02% and 5.86% per annum respectively (2004: 5.65% and 5.58% per annum respectively).

Details of the Group's liquidity management policy are set out in note 38(b).

30 Share capital

	2005 Rmb'000	2004 Rmb'000
Registered, issued and paid-up capital:		
400,000,000 state-owned legal person 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 shares rank pari passu in all material respects.

31 Share premium

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

32 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))	Capital reserve Rmb'000 (note (e))	Total Rmb'000
At 1 January 2004	58,078	55,232	110,764	(106,949)	—	117,125
Appropriation (note 33)	718	359	—	—	—	1,077
At 31 December 2004	58,796	55,591	110,764	(106,949)	—	118,202

	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))	Capital reserve Rmb'000 (note (e))	Total Rmb'000
At 1 January 2005	58,796	55,591	110,764	(106,949)	—	118,202
Appropriation (note 33)	155	78	—	—	—	233
Arising from additional investment in a subsidiary	—	—	—	—	1,507	1,507
Disposal of a subsidiary	(14)	(7)	—	—	—	(21)
At 31 December 2005	58,937	55,662	110,764	(106,949)	1,507	119,921

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 (note (e))
At 1 January and 31 December 2004	51,366	51,366	110,764	(106,949)	106,547
At 1 January and 31 December 2005	51,366	51,366	110,764	(106,949)	106,547

Notes:

(a) According to the Company's and its subsidiaries' Articles of Association, the Company and its subsidiaries are required to transfer 10% of their respective profit after taxation, as determined in accordance with the PRC Accounting Rules and Regulations, to statutory surplus reserve until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before the distribution of a dividend to shareholders. Statutory surplus reserve can be used to make good previous years' losses, if any, and for capitalisation issue provided that the balance after such issue is not less than 25% of the registered capital.

(b) 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.

(c) The transfer to this reserve from the income statement is at the discretion of the Company's directors.

(d) Effective 1 January 2002, land use rights which are included in lease prepayments are carried at historical cost. Accordingly, the surplus on the revaluation of land use rights was reversed to shareholders' funds.

(e) During 2005, the Company increased its shareholding in a subsidiary. The acquisition gave rise to an excess of interest in net fair value of the identifiable assets, liabilities and contingent liabilities over cost. As the Company had control on the subsidiary prior to the additional investment, the additional investment was considered as an equity transaction and the excess amount was credited to the reserve directly.

33 Accumulated losses

	The Group		The Company	
	2005	2004	**2005**	2004
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
At 1 January	**(936,974)**	(997,637)	**(931,530)**	(963,476)
Profit attributable to equity shareholders of the Company	**9,664**	61,740	**14,407**	31,946
Appropriations (note 32)	**(233)**	(1,077)	**—**	—
At 31 December	**(927,543)**	(936,974)	**(917,123)**	(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 IFRSs. As at 31 December 2005, there was no reserve available for distribution (2004: RmbNil).

34 Related party transactions

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

Other subsidiaries of CLFG are considered to be related parties as they are subject to common control of CLFG.

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

	Note	**2005** ***Rmb'000***	2004 *Rmb'000*
Ancillary and social services	(i)	**2,037**	5,325
Research and development assistance	(ii)	**—**	6,520
Provision of utilities	(iii)	**775**	674
Interest paid and payable		**7,104**	12,300
Guarantees issued by CLFG to the banks in favour of the Group		**144,000**	195,400
Indirect guarantees	(iv)	**388,000**	336,000
Guarantees issued by CLFG to the Group in favour of fellow subsidiaries		**110,594**	111,361

Notes:

(i) The Company has entered into a three-year agreement with CLFG effective 3 August 2001, which was renewed for another three years expiring on 3 August 2007. In accordance with the agreement, CLFG provides certain social welfare and support services, such as education, property management, medical care and transportation services to the staff of the Company. The amount charged by CLFG is based on a reasonable cost incurred in providing such services plus respective tax charge.

(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. The agreement was terminated on 1 January 2005.

(iii) The Company has entered into a three-year agreement with CLFG effective 3 August 2001, which was 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 entities under common control of the controlling shareholder of CLFG return for guarantees issued by the entities under common control of the controlling shareholder of CLFG to banks in favour of the Group.

34 Related party transactions *(continued)*

(b) Transactions between the Group and fellow subsidiaries were as follows:

	Note	**2005** **Rmb'000**	2004 *Rmb'000*
Sales		**14,896**	23,308
Proceeds from disposal of property, plant and equipment		**—**	5,686
Proceeds from sale of racks and scrap materials		**256**	9,626
Ancillary and social services	(i)	**4,650**	5,823
Provision of utilities	(ii)	**15,657**	12,450
Purchase of raw materials	(iii)	**9,278**	17,836
Other purchases		**—**	29,039
Interest paid and payable		**5,874**	7,139
Interest received and receivable		**600**	597
Rental income	(iv)	**580**	580

Notes:

(i) The Company has entered into a three-year agreement with a CLFG's subsidiary, CLFG Xinxing Co. ("Xinxing") effective 3 August 2001 by which Xinxing provides certain social welfare and support services, such as education, property management, medical care and transportation services to the staff of the Company. The agreement is supplementary amended on 22 July 2002 and renewed for another three years expiring on 3 August 2007. 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 Ltd.("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 agreement for another three years expiring on 3 August 2007 with Xinxing and Jingwei. New Illuminating, Jinghua and Luoyang Luobo Hotel have ceased operation 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 charges.

(iii) The Company entered into a three-year agreement with a CLFG's subsidiary, CLFG Minerals 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 Company at market prices.

(iv) The Company has entered into a five-year agreement with an associate, CPGC, effective 1 January 2003 by which the Company sub-leases a portion of land use rights of land located in the PRC to CPGC at the market rental.

The Company is in the process of application to the Stock Exchange of Hong Kong Limited for a waiver of strict compliance with the requirements of Chapter 14A of the Listing Rules on all of the above continuing connected transactions.

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

In addition, the Group and the Company has made the following impairment losses on the amounts due from related parties as at 31 December 2005:'

	The Group		**The Company**	
	2005 **Rmb'000**	2004 *Rmb'000*	**2005** **Rmb'000**	2004 *Rmb'000*
Impairment losses on amounts due from the ultimate holding company	**95,031**	95,275	**94,968**	95,212
Impairment losses on amounts due from fellow subsidiaries (including associates which are also fellow subsidiaries of the Company)	**259,313**	310,662	**255,542**	305,892

34 Related party transactions *(continued)*

(c) Key management personnel remuneration

Remuneration for key management personnel, including amounts paid to the Company's directors as disclosed in note 8 is as follows:

	2005	2004
	Rmb'000	*Rmb'000*
Short-term employee benefits	**672**	317
Contribution to defined contribution plan	**61**	57
	733	374

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

(d) Transactions with other state-owned enterprises

The Group is a state-owned entity and operates in an economic regime currently predominated by state-owned entities. Apart from transactions with CLFG and its affiliates, the Group conducts a majority of its business activities with entities directly or indirectly owned or controlled by the PRC government and numerous government authorities and agencies (collectively referred to as "state-owned entities") in the ordinary course of business. These transactions, which include sales and purchase of goods and ancillary materials, rendering and receiving services, purchase of property, plant and equipment and obtaining finance, are carried out at terms similar to those that would be entered into with non-state-owned entities and have been reflected in the financial statements. The management believes that it has provided meaningful disclosure of related party transactions as summarised above.

(e) Contribution to retirement benefits plans

The Group participates in various defined contribution retirement benefits plans organised by local authorities for its employees. Further details of the Group's retirement benefits plans are disclosed in note 37.

35 Capital commitments

Capital commitments outstanding at 31 December 2005 not provided for in the financial statements were as follows:

	The Group		**The Company**	
	2005	2004	**2005**	2004
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Contracted for				
- construction project	**43,085**	—	**3,299**	—
Authorised but not contracted for				
- construction project	**29,964**	—	**—**	—
	73,049	—	**3,299**	—

36 Contingent liabilities

At 31 December 2005, contingent liabilities were as follows:

	The Group		**The Company**	
	2005	2004	**2005**	2004
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Guarantees issued to banks in favour of subsidiaries	**—**	—	**26,200**	14,000
Guarantees issued to CLFC and CLFG in favour of subsidiaries	**—**	—	**75,000**	147,650
Guarantees issued to Hua Rong in favour of a subsidiary	**—**	—	**30,000**	30,000
	—	—	**131,200**	191,650

37 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% (2004: 22% to 25%) 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.

Notes on the financial statements *(Continued)*

For the year ended 31 December 2005
(Prepared in accordance with International Financial Reporting Standards)
(Expressed in Renminbi)

38 Financial instruments

Financial assets of the Group include cash and cash equivalents, investments, trade receivables, other receivables, deposits with banks and non-bank financial institutions. Financial liabilities of the Group include bank and other loans, trade and bills payables, accrued expenses and other payables. The Group does not hold nor issue financial instruments for trading purposes.

(a) Credit risk

The carrying amounts of cash and cash equivalents, deposits with banks and non-bank financial institutions, trade and bills receivables and other receivables represent the Group's maximum exposure to credit risk in relation to these financial assets. Substantially all of the Group's cash and cash equivalents are held in major financial institutions located in the PRC, which management believes are of high credit quality. The Group performs ongoing credit evaluations of its customers' financial condition and generally does not require collateral on trade and bills receivables. Impairment losses on bad and doubtful accounts have been within management's expectations.

(b) Liquidity risk

As at 31 December 2005, the Group's net current liabilities amounted to Rmb530,657,000 (2004: Rmb215,548,000). For the year ended 31 December 2005, the Group recorded a net cash inflow from operating activities of Rmb231,870,000 (2004: Rmb155,165,000), a net cash outflow from investing activities and financing activities of Rmb214,254,000 (2004: Rmb94,506,000) and an increase in cash and cash equivalents of Rmb17,616,000 (2004: Rmb60,659,000).

In 2006 and thereafter, the liquidity of the Group is primarily dependent on its ability to maintain cash inflow from operations, on its ability to renew the credit facility and to obtain additional external finance, and on the continuing financial support received from the ultimate holding company and the controlling shareholder of the ultimate holding company. The Group has obtained firm commitments from its principal bankers to renew its short-term bank loans outstanding at 31 December 2005 amounting to Rmb861,050,000 when they fall due during 2006.

The directors of the Company have carried out a detailed review of the cash flow forecast of the Group for the twelve months ending 31 December 2006. Based on such forecast, the directors have determined that adequate liquidity exists to finance the working capital and capital expenditure requirements of the Group and to meet its debt obligations as they fall due during that period. In preparing the cash flow forecast, the directors have considered historical cash requirements of the Group as well as other key factors, including the availability of the above-mentioned loan finance which may impact the operations of the Group during the next twelve-month period. The directors are of the opinion that the assumptions and sensitivities which are included in the cash flow forecast are reasonable. However, as with all assumptions in regard to future events, these are subject to inherent limitations and uncertainties and some or all of these assumptions may not be realised.

(c) Interest rate risk

The interest rates and maturity information of the Group's bank and other loans are disclosed in note 29.

(d) Foreign currency risk

Except for export sales which are transacted in U.S. dollars, all of the revenue-generating operations of the Group are transacted in Renminbi, which is not fully convertible into foreign currencies. On 1 January 1994, the PRC government abolished the dual rate system and introduced a single rate of exchange as quoted by the People's Bank of China ("PBOC"). However, the unification of the exchange rate does not imply convertibility of Renminbi into Hong Kong Dollars or other foreign currencies. All foreign exchange transactions must take place through the PBOC or other institutions authorised to buy and sell foreign exchange. Approval of foreign currency payments by the PBOC or other institutions requires submitting a payment application form together with supplier's invoices, shipment documents and signed contracts.

In respect of receivables and payables held in currencies other than the functional currency of the operations to which they relate, the Group ensures that the net exposure is kept to an acceptable level, by buying and selling foreign currencies at spot rates where necessary to address short-term imbalances.

38 Financial instruments *(continued)*

(e) Fair value

(i) Non-current investments represent unquoted available-for-sale equity securities of companies established in the PRC. There was no quoted market price for such equity securities and accordingly a reasonable estimate of the fair value cannot be measured reliably.

(ii) Most of the amounts due from ultimate holding company, associates and amounts due from/to fellow subsidiaries are unsecured, interest-free and have no fixed terms of repayment. Given these terms, it is not meaningful to disclose fair values of these balances.

(iii) Other financial instruments are carried at amounts not materially different from their fair values as at 31 December 2005 and 2004 due to their short maturities except the following:

The Group

	2005		2004	
	Carrying amount ***Rmb'000***	**Fair value** ***Rmb'000***	Carrying amount *Rmb'000*	Fair value *Rmb'000*
Non-current bank and other loans	**98,698**	**94,265**	71,342	55,220

The Company

	2005		2004	
	Carrying amount ***Rmb'000***	**Fair value** ***Rmb'000***	Carrying amount *Rmb'000*	Fair value *Rmb'000*
Non-current bank and other loans	**6,698**	**5,148**	36,342	32,867

The fair value has been estimated by applying a discounted cash flow approach using interest rates available to the Group for similar indebtedness.

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

39 Parent and ultimate holding company

The directors consider the parent and ultimate holding company at 31 December 2005 to be CLFG, a state-owned enterprise established in the PRC. This entity does not produce financial statements available for public use.

40 Accounting estimates and judgements

The Group's financial condition and results of operations are sensitive to accounting methods, assumptions and estimates that underlie the preparation of the financial statements. The Group bases the assumptions and estimates on historical experience and on various other assumptions that the Group believes to be reasonable and which form the basis for making judgements about matters that are not readily apparent from other sources. On an on-going basis, management evaluates its estimates. Actual results may differ from those estimates such as facts, circumstances and conditions change.

The selection of critical accounting policies, the judgements and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing the financial statements. The principal accounting policies are set forth in note 2. The Group believes the following critical accounting policies involve the most significant judgements and estimates used in the preparation of the financial statements.

Impairments

In considering the impairment losses that may be required for of the Group's long-lived assets (see note 2(t)(ii)), recoverable amount of the asset needs to be determined. The recoverable amount is the greater of the net selling price and the value in use. It is difficult to precisely estimate selling price because quoted market prices for these assets may not be readily available. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to items such as level of sale volume, selling price and amount of operating costs. The Group uses all readily available information in determining an amount that is reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of items such as sale volume, selling price and amount of operating costs.

(Expressed in Renminbi)

40 Accounting estimates and judgements *(continued)*

Depreciation

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual value. The Group reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

Impairment loss for doubtful accounts

The Group maintains an impairment loss on doubtful accounts for estimated losses resulting from the inability of debtors to make the required payments. The Group bases the estimates of future cash flows on the ageing of trade receivables balance, the debtors' credit-worthiness and the historical write-off experiences. If the financial condition of the debtors were to deteriorate, actual write-offs would be higher than estimated.

41 Post balance sheet events

Subsequent to the balance sheet date, the Company announced the plan for the reform of state-owned non-circulating shares on 30 March 2006. The plan aims at converting state-owned non-circulating shares held by CLFG to circulating A shares. In this connection, an extraordinary general meeting for A share shareholders was held on 24 April 2006, during which the above plan was approved. No share would be granted to nor any general meeting would be called for H share shareholders in this regard.

According to the plan, CLFG shall grant 21,000,000 shares (4.2 A shares for every 10 A shares) to existing A share shareholders which shall be treated as consideration for existing A share shareholders to approve the reform proposed by CLFG. In addition, CLFG should not sell the circulating A share within twelve months from the date when the reform is complete. Within the twelve months and twenty-four months after the one-year non-sale period, CLFG should not dispose of more than 5% and 10% of its interest in the Company, respectively.

42 Comparative figures

Certain comparative figures have been reclassified as a result of the changes in accounting policies. Further details are disclosed in note 3. Besides, certain comparative figures have been reclassified to conform with current year's presentation.

43 Possible impact of amendments, new standards and interpretations issued but not yet effective for the annual accounting period ended 31 December 2005

Up to the date of issue of these financial statements, the IASB has issued the following amendments, new standards and interpretations which are not yet effective for the accounting period ended 31 December 2005 and which have not been adopted in these financial statements:

	Effective for accounting periods beginning on or after
IFRS 6, Exploration for and evaluation of mineral resources	1 January 2006
IFRS 7, Financial instruments: disclosure	1 January 2007
IFRIC 4, Determining whether an arrangement contains a lease	1 January 2006
IFRIC 5, Rights to interests arising from decommissioning, restoration environmental rehabilitation funds	1 January 2006
IFRIC 6, Liabilities arising from participating in a specific market - Waste electrical and electronic equipment	1 December 2005
IFRIC 7, Applying the restatement approach under IAS 29, Financial reporting in hyperinflationary economies	1 March 2006
IFRIC 8, Scope of IFRS 2	1 May 2006
IFRIC 9, Reassessment of embedded derivatives	1 June 2006
Amendments to IAS 1, Presentation of financial statements - capital disclosures	1 January 2007
Amendments to IAS 19, Employee benefits - actuarial gains and losses, group plans and disclosures	1 January 2006
Amendments to IAS 39, Financial instruments: recognition and measurement -Cash flow hedge accounting of forecast intragroup transactions -The fair value option	1 January 2006
Amendments to IAS 39, Financial instruments: recognition and measurement, and IFRS 4, Insurance contracts -Financial guarantee contracts	1 January 2006
Amendment to IAS 21, The Effects of changes in foreign exchange rates -Net investment in a foreign operation	1 January 2006
Amendments to IFRS 1, First-time adoption	1 January 2006

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of these amendments and new standards and new interpretations in future periods is unlikely to have a significant impact on the Group's results of operations and financial position.

Report of the PRC Auditors

KPMG

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 2005, and the consolidated income and profit appropriation statement, income 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 2005, 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 Rmb968,937,000 and net current liabilities amounted to Rmb497,756,000 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.

KPMG Huazhen

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

Peng Qing
Chen Yueling

25 April 2006

Consolidated balance sheet

As at 31 December 2005
(Prepared under the PRC Accounting Rules and Regulations)
(Expressed in Renminbi)

	Note	2005 Rmb'000	2004 Rmb'000
Assets			
Current assets			
Cash at banks and on hand	5	**263,602**	297,272
Short-term investments	6	**10,500**	11,000
Bills receivable	7	**57,450**	43,053
Interest receivables	8	**—**	—
Trade receivables	9	**31,744**	19,600
Other receivables	10	**271,259**	280,322
Prepayments	11	**12,114**	8,152
Inventories	12	**275,663**	205,474
Deferred expenses	13	**24,780**	25,890
Total current assets		**947,112**	890,763
Long-term investments			
Long-term equity investments	14	**186,924**	208,361
Total long-term investments		**186,924**	208,361
Fixed assets			
Fixed assets, at cost		**1,700,121**	1,523,887
Less: Accumulated depreciation		**(740,769)**	(658,838)
Net book value of fixed assets	15	**959,352**	865,049
Construction materials	16	**1,852**	2,029
Construction in progress	17	**263,419**	294
Total fixed assets		**1,224,623**	867,372
Intangible assets and other assets			
Intangible assets	18	**178,165**	171,489
Other long-term receivables	10	**62,095**	46,155
Total intangible assets and other assets		**240,260**	217,644
Total assets		**2,598,919**	2,184,140

Consolidated balance sheet *(Continued)*

As at 31 December 2005
(Prepared under the PRC Accounting Rules and Regulations)
(Expressed in Renminbi)

	Note	2005 Rmb'000	2004 Rmb'000
Liabilities and shareholders' funds			
Current liabilities			
Short-term loans	19	**839,632**	767,650
Bills payable	20	**75,600**	5,044
Trade payables	21	**176,249**	106,837
Receipts in advance	21	**67,021**	50,455
Accrued payroll		**2**	3,729
Staff welfare payable		**4,631**	4,464
Taxes payable	4(c)	**21,011**	29,885
Other payables	22	**632**	559
Other creditors	21	**229,024**	89,979
Accrued expenses	23	**5,591**	3,745
Current portion of long-term loans	24	**25,475**	32,866
Total current liabilities		**1,444,868**	1,095,213
Long-term liabilities			
Long-term loans	24	**86,698**	53,342
Long-term payables		**2,927**	2,717
Total long-term liabilities		**89,625**	56,059
Total liabilities		**1,534,493**	1,151,272
Minority interests		**113,346**	97,306
Shareholders' funds			
Share capital	25	**700,000**	700,000
Capital reserve	26	**994,654**	984,068
Surplus reserves	27	**225,363**	225,151
(including: statutory public welfare fund)		**55,662**	55,591
Accumulated losses		**(968,937)**	(973,657)
Total shareholders' funds		**951,080**	935,562
Total liabilities and shareholders' funds		**2,598,919**	2,184,140

These financial statements have been approved by the Board of Directors on 25 April 2006.

Liu Baoying	**Ding Jianluo**	**Cao Mingchun**
Legal Representative	**General Manager**	**Financial Controller**

The notes on pages 92 to 125 form part of these financial statements.

Balance sheet

As at 31 December 2005
(Prepared under the PRC Accounting Rules and Regulations)
(Expressed in Renminbi)

	Note	**2005** **Rmb'000**	2004 Rmb'000
Assets			
Current assets			
Cash at banks and on hand	5	**202,163**	269,338
Short-term investments	6	**230,000**	144,398
Bills receivable	7	**94,618**	37,690
Interest receivables	8	**—**	—
Trade receivables	9	**15,270**	12,256
Other receivables	10	**291,399**	289,114
Prepayments	11	**2,572**	2,928
Inventories	12	**149,620**	117,225
Deferred expenses	13	**21,032**	24,417
Total current assets		**1,006,674**	897,366
Long-term investments			
Long-term equity investments	14	**363,739**	291,884
Total long-term investments		**363,739**	291,884
Fixed assets			
Fixed assets, at cost		**860,459**	855,573
Less: Accumulated depreciation		**(504,765)**	(459,910)
Net book value of fixed assets	15	**355,694**	395,663
Construction materials	16	**1,248**	1,421
Construction in progress	17	**7,334**	73
Total fixed assets		**364,276**	397,157
Intangible assets and other assets			
Intangible assets	18	**115,190**	118,141
Other long-term receivables	10	**42,095**	46,155
Total intangible assets and other assets		**157,285**	164,296
Total assets		**1,891,974**	1,750,703

Balance sheet *(Continued)*

As at 31 December 2005
(Prepared under the PRC Accounting Rules and Regulations)
(Expressed in Renminbi)

-	Note	**2005** **Rmb'000**	2004 Rmb'000
Liabilities and shareholders' funds			
Current liabilities			
Short-term loans	19	**661,500**	635,000
Bills payable	20	**33,300**	5,044
Trade payables	21	**91,716**	42,296
Receipts in advance	21	**99,935**	28,881
Staff welfare payable		**3,751**	2,543
Taxes payable	4(c)	**1,764**	1,176
Other payables	22	**50**	48
Other creditors	21	**26,786**	38,764
Accrued expenses	23	**4,169**	1,693
Current portion of long-term loans	24	**8,475**	20,637
Total current liabilities		**931,446**	776,082
Long-term liabilities			
Long-term loans	24	**6,698**	36,342
Long-term payables		**2,750**	2,717
Total long-term liabilities		**9,448**	39,059
Total liabilities		**940,894**	815,141
Shareholders' funds			
Share capital	25	**700,000**	700,000
Capital reserve	26	**994,654**	984,068
Surplus reserves	27	**213,496**	213,496
(including: statutory public welfare fund)		**51,366**	51,366
Accumulated losses		**(957,070)**	(962,002)
Total shareholders' funds		**951,080**	935,562
Total liabilities and shareholders' funds		**1,891,974**	1,750,703

These financial statements have been approved by the Board of Directors on 25 April 2006.

Liu Baoying	**Ding Jianluo**	**Cao Mingchun**
Legal Representative	**General Manager**	**Financial Controller**

The notes on pages 92 to 125 form part of these financial statements.

Consolidated income statement and profit appropriation statement

For the year ended 31 December 2005
(Prepared under the PRC Accounting Rules and Regulations)
(Expressed in Renminbi)

		Note	2005 Rmb'000	2004 Rmb'000
Income from principal operations		29	**1,031,859**	1,133,886
Less:	Cost of sales	30	**(937,379)**	(869,625)
	Business tax and surcharges	31	**(2,883)**	(5,332)
Profit from principal operations			**91,597**	258,929
Add:	Other operating profit	32	**19,482**	12,191
Less:	Operating expenses		**(36,725)**	(33,435)
	Administrative expenses		**(55,772)**	(146,728)
	Financial expenses	33	**(44,308)**	(48,926)
Operating (loss)/profit			**(25,726)**	42,031
Add:	Investment income	34	**17,055**	3,119
	Subsidy income	35	**13,483**	5,353
	Non-operating income	36	**1,637**	8,825
Less:	Non-operating expenses	37	**(2,961)**	(1,996)
Total profit			**3,488**	57,332
Less:	Income tax expense	4(b)/38	**(1,950)**	(4,493)
	Minority interests		**3,415**	(6,737)
Net profit for the year			**4,953**	46,102
Add:	Accumulated losses brought forward		**(973,657)**	(1,018,682)
Less:	Transfer to surplus reserves	27/28	**(233)**	(1,077)
Accumulated losses carried forward			**(968,937)**	(973,657)

These financial statements have been approved by the Board of Directors on 25 April 2006.

Liu Baoying	**Ding Jianluo**	**Cao Mingchun**
Legal Representative	**General Manager**	**Financial Controller**

The notes on pages 92 to 125 form part of these financial statements.

Income statement and profit appropriation statement

For the year ended 31 December 2005
(Prepared under the PRC Accounting Rules and Regulations)
(Expressed in Renminbi)

		Note	2005 Rmb'000	2004 Rmb'000
Income from principal operations		29	**629,413**	688,132
Less:	Cost of sales	30	**(591,304)**	(542,322)
	Business tax and surcharges	31	**(857)**	(2,453)
Profit from principal operations			**37,252**	143,357
Add:	Other operating profit	32	**19,885**	9,447
Less:	Operating expenses		**(25,713)**	(23,836)
	Administrative expenses		**(36,813)**	(76,574)
	Financial expenses	33	**(32,972)**	(39,787)
Operating (loss)/profit			**(38,361)**	12,607
Add:	Investment income	34	**33,155**	3,215
	Subsidy income	35	**10,000**	—
	Non-operating income	36	**319**	6,902
Less:	Non-operating expenses	37	**(181)**	(1,283)
Total profit			**4,932**	21,441
Less:	**Income tax expense**	4(b)/38	**—**	—
Net profit for the year			**4,932**	**21,441**
Add:	Accumulated losses brought forward		**(962,002)**	(983,443)
Accumulated losses carried forward			**(957,070)**	(962,002)

These financial statements have been approved by the Board of Directors on 25 April 2006.

Liu Baoying	**Ding Jianluo**	**Cao Mingchun**
Legal Representative	**General Manager**	**Financial Controller**

The notes on pages 92 to 125 form part of these financial statements.

Consolidated cash flow statement

For the year ended 31 December 2005
(Prepared under the PRC Accounting Rules and Regulations)
(Expressed in Renminbi)

	Note	2005 RMB'000
Cash flows from operating activities:		
Cash received from sale of goods and rendering of services		1,253,003
Refund of taxes		5,702
Cash received in relation to other operating activities		17,749
Sub-total of cash inflows		1,276,454
Cash paid for purchases of goods and provision of services		(923,646)
Cash paid to and on behalf of employees		(77,939)
Taxes paid		(49,371)
Cash paid in relation to other operating activities		(72,034)
Sub-total of cash outflows		(1,122,990)
Net cash flow from operating activities	(i)	153,464
Cash flows from investing activities:		
Cash received from disposal of investments		42,800
Cash received from disposal of a subsidiary		16
Cash received from return of investments		11,423
Net proceeds from disposal of fixed assets		335
Cash settlement received from a fellow subsidiary - CLFG Qingdao Taiyang Glass Industrial Co. Ltd. (note 10)		13,720
Sub-total of cash inflows		68,294
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets		(304,731)
Cash paid for acquisition of investments		(10,692)
Sub-total of cash outflows		(315,423)
Net cash flow from investing activities		(247,129)
Cash flows from financing activities:		
Cash received from minority shareholders		11,000
Proceeds from loans		1,165,592
Sub-total of cash inflows		1,176,592
Repayment of loans		(1,066,324)
Cash paid for interest payment		(50,273)
Increase in pledged deposits		(28,873)
Sub-total of cash outflows		(1,145,470)
Net cash flow from financing activities		31,122
Net decrease in cash	(ii)	(62,543)

The notes on pages 92 to 125 form part of these financial statements.

Notes to the consolidated cash flow statement

For the year ended 31 December 2005
(Prepared under the PRC Accounting Rules and Regulations)
(Expressed in Renminbi)

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

	2005 *RMB'000*
Net profit for the year	4,953
Add: Reversal of bad debt provision	(44,157)
Provision for diminution in value of inventories	9,008
Depreciation of fixed assets	84,169
Amortisation of intangible assets	4,324
Decrease in deferred expenses	1,110
Increase in accrued expenses	3,114
Loss on disposal of fixed assets	219
Financial expenses	41,782
Exchange loss	348
Investment income	(17,055)
Increase in inventories	(79,478)
Increase in operating receivables	(3,291)
Increase in operating payables	151,833
Minority interests	(3,415)
Net cash flow from operating activities	153,464

(ii) Net decrease in cash:

	2005 *RMB'000*
Cash at the end of the year	151,729
Less: Cash at the beginning of year	(214,272)
Net decrease in cash	(62,543)

These financial statements have been approved by the Board of Directors on 25 April 2006.

Liu Baoying	**Ding Jianluo**	**Cao Mingchun**
Legal Representative	**General Manager**	**Financial Controller**

The notes on pages 92 to 125 form part of these financial statements.

Cash flow statement

For the year ended 31 December 2005
(Prepared under the PRC Accounting Rules and Regulations)
(Expressed in Renminbi)

	Note	2005 Rmb'000
Cash flows from operating activities:		
Cash received from sale of goods and rendering of services		822,980
Refund of taxes		2,569
Cash received in relation to other operating activities		10,098
Sub-total of cash inflows		835,647
Cash paid for purchase of goods and provision of services		(632,000)
Cash paid to and on behalf of employees		(49,262)
Taxes paid		(15,775)
Cash paid in relation to other operating activities		(41,715)
Sub-total of cash outflows		(738,752)
Net cash flow from operating activities	(i)	96,895
Cash flows from investing activities:		
Cash received from disposal of investments		172,066
Cash received from disposal of a subsidiary		467
Cash received from return of investments		21,436
Net proceeds from disposal of fixed assets		706
Cash settlement received from a fellow subsidiary - CLFG Qingdao Taiyang Glass Industrial Co. Ltd. (note 10)		13,720
Sub-total of cash inflows		208,395
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets		(15,928)
Cash paid for acquisition of investments		(303,191)
Sub-total of cash outflows		(319,119)
Net cash flow from investing activities		(110,724)
Cash flows from financing activities:		
Proceeds from loans		816,500
Sub-total of cash inflows		816,500
Repayment of loans		(830,485)
Cash paid for interest payment		(39,361)
Increase in pledged deposits		(6,873)
Sub-total of cash outflows		(876,719)
Net cash flow from financing activities		(60,219)
Net decrease in cash	(ii)	(74,048)

The notes on pages 92 to 125 form part of these financial statements.

Notes to the cash flow statement

For the year ended 31 December 2005
(Prepared under the PRC Accounting Rules and Regulations)
(Expressed in Renminbi)

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

	2005 *RMB'000*
Net profit for the year	4,932
Add: Reversal of bad debt provision	(27,946)
Provision for diminution in value of inventories	6,101
Depreciation of fixed assets	45,930
Amortisation of intangible assets	2,951
Decrease in deferred expenses	3,385
Increase in accrued expenses	2,476
Gain on disposal of fixed assets	(117)
Financial expenses	31,398
Exchange loss	348
Investment income	(33,155)
Increase in inventories	(38,496)
Increase in operating receivables	(45,223)
Increase in operating payables	144,311
Net cash flow from operating activities	96,895

(ii) Net decrease in cash:

	2005 *RMB'000*
Cash at the end of the year	112,290
Less: Cash at the beginning of the year	(186,338)
Net decrease in cash	(74,048)

These financial statements have been approved by the Board of Directors on 25 April 2006.

Liu Baoying	**Ding Jianluo**	**Cao Mingchun**
Legal Representative	**General Manager**	**Financial Controller**

The notes on pages 92 to 125 form part of these financial statements.

Details of the provision for assets

As at 31 December 2005
(Prepared under the PRC Accounting Rules and Regulations)
(Expressed in Renminbi)

The Group

Items	Balance at 1 January 2005 *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 2005 *Rmb'000*
1 Bad debt provisions :					
Trade receivables	142,286	771	(31)	—	143,026
Other receivables	424,682	220	(45,117)	—	379,785
Interest receivables	46,980	—	—	—	46,980
Sub-total	613,948	991	(45,148)	—	569,791
2 Provision for diminution in value of inventories:					
Inventories	8,829	11,721	—	(2,713)	17,837
Sub-total	8,829	11,721	—	(2,713)	17,837
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	35,974	686	—	—	36,660
Sub-total	35,974	686	—	—	36,660
Total provision for assets	693,051	13,398	(79,448)	(2,713)	624,288

The Company

Items	Balance at 1 January 2005 *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 2005 *Rmb'000*
1 Bad debt provisions :					
Trade receivables	129,846	101	—	—	129,947
Other receivables	384,924	15	(28,062)	—	356,877
Interest receivables	46,980	—	—	—	46,980
Sub-total	561,750	116	(28,062)	—	533,804
2 Provision for diminution in value of inventories:					
Inventories	7,881	8,814	—	(2,713)	13,982
Sub-total	7,881	8,814	—	(2,713)	13,982
3 Provision for impairment of short-term investments:					
Short-term investments	45,168	—	(45,168)	—	—
Sub-total	45,168	—	(45,168)	—	—
4 Provision for impairment of long-term equity investments:					
Long-term equity investments	29,084	686	—	—	29,770
Sub-total	29,084	686	—	—	29,770
Total provision for assets	643,883	9,616	(73,230)	(2,713)	577,556

The notes on pages 92 to 125 form part of these financial statements.

Notes on the Financial Statements

For the year ended 31 December 2005
(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 state-owned legal person shares of Rmb1.00 each which was paid up in kind by CLFG by way of transfer of its principal business undertakings and subsidiaries together with the relevant assets and liabilities.

On 29 June 1994, 250,000,000 'H' shares were issued at HK$3.65 per share. The 'H' shares were listed on the Stock Exchange of Hong Kong Limited on 8 July 1994.

According to the plan disclosed in the 'H' shares prospectus and with the approval from the China Securities Regulatory Commission, the Company issued 40,000,000 ordinary 'A' shares to the public in the PRC and 10,000,000 ordinary 'A' shares to the employees of the Company on 29 September 1995 at Rmb5.03 each. The 40,000,000 public 'A' shares and 10,000,000 internal employee 'A' shares were subsequently listed on the Shanghai Stock Exchange on 30 October 1995 and 10 May 1996 respectively.

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 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 expiries 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 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.

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(1)).

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(1)). 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 28 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 10-64 years.

Intangible assets include land use rights, trademark and non-patented technical know-how.

Land use rights

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

Trademark and non-patented technical know-how

The values of trademark and non-patented technical know-how are amortised on a straight-line basis over estimated beneficial period of 10-20 years.

3 Significant accounting policies *(continued)*

(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 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.

(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.

3 Significant accounting policies *(continued)*

(r) Repairs and maintenance expenses

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

(s) Environmental protection expenses

Environmental protection expenses incurred arising from current or past businesses are recognised in the income statement.

(t) 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 investors' equity in the balance sheet.

(u) 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 contributions are charged to the income statement on an accrual basis. After the payment of the contributions under the retirement plan, the Group does not have any other obligations in this respect.

(v) Related parties

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

4 Taxation

(a) 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 is 33% (2004: 33%).

(c) Taxes payable

The Group

	2005 **Rmb'000**	2004 Rmb'000
(Prepayment)/income tax payable	**(2,243)**	512
VAT payable	**20,983**	26,968
VAT surcharges payable	**278**	952
Others	**1,993**	1,453
Total	**21,011**	29,885

The Company

	2005 **Rmb'000**	2004 Rmb'000
VAT payable	**765**	262
VAT surcharges payable	**218**	170
Others	**781**	744
Total	**1,764**	1,176

(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.

5 Cash at banks and on hand

The Group

	2005			2004		
	Original currency *('000)*	**Exchange rate**	**Rmb/ Rmb equivalent *('000)***	Original currency *('000)*	Exchange rate	Rmb/ Rmb equivalent *('000)*
Cash						
- Renminbi			**143**			425
Current deposits						
Deposits at banks						
- Renminbi			**79,616**			104,567
- US Dollars	**1,635**	**8.0702**	**13,191**	86	8.2765	714
- HK Dollars	**98**	**1.0403**	**102**	98	1.0637	104
Deposits at non-bank financial institutions						
- Renminbi			**51,603**			21,229
Time deposits						
Time deposits at banks						
- Renminbi			**—**			27,233
- HK Dollars	**6,800**	**1.0403**	**7,074**			—
Time deposits at non-bank financial institutions						
- Renminbi			**—**			60,000
Sub-total			**151,729**			214,272
Pledged current deposits						
- Renminbi			**41,873**			3,000
Pledged time deposits						
- Renminbi			**70,000**			80,000
Sub-total			**111,873**			83,000
Total			**263,602**			297,272

At 31 December 2005, time deposits of Rmb70,000,000 (2004: Rmb80,000,000) and current deposits of Rmb41,873,000 (2004: Rmb3,000,000) were pledged as security for the Group's short-term loans and bills payable respectively.

5 Cash at banks and on hand *(continued)*

The Company

	2005 Original currency ('000)	2005 Exchange rate	2005 Rmb/Rmb equivalent ('000)	2004 Original currency ('000)	2004 Exchange rate	2004 Rmb/Rmb equivalent ('000)
Cash						
- Renminbi			20			259
Current deposits						
Deposits at banks						
- Renminbi			55,081			83,415
- US Dollars	1,635	8.0702	13,191	86	8.2765	714
- HK Dollars	98	1.0403	102	98	1.0637	104
Deposits at non-bank financial institutions						
- Renminbi			36,822			14,613
Time deposits						
Time deposits at bank						
- Renminbi			—			27,233
- HK Dollars	6,800	1.0403	7,074			—
Time deposits at non-bank financial institution						
- Renminbi			—			60,000
Sub-total			112,290			186,338
Pledged current deposits						
- Renminbi			19,873			3,000
Pledged time deposits						
- Renminbi			70,000			80,000
Sub-total			89,873			83,000
Total			202,163			269,338

At 31 December 2005, time deposits of Rmb70,000,000 (2004: Rmb80,000,000) and current deposits of Rmb19,873,000 (2004: Rmb3,000,000) were pledged as security for the Company's short-term loans and bills payable respectively.

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				
- Associates	34,300	—	(34,300)	—
- Fellow subsidiaries	11,000	8,000	(8,500)	10,500
Sub-total	45,300	8,000	(42,800)	10,500
Less: Provision	(34,300)	—	34,300	—
Total	11,000	8,000	(8,500)	10,500

6 Short-term investments *(continued)*

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	144,266	204,500	(129,266)	219,500
- Associates	34,300	—	(34,300)	—
- Fellow subsidiaries	11,000	8,000	(8,500)	10,500
Sub-total	189,566	212,500	(172,066)	230,000
Less: Provision	(45,168)	—	45,168	—
Total	144,398	212,500	(126,898)	230,000

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 were designated loans receivable from an associate, Luoyang Jingxin Ceramics Co., Ltd. ("Jingxin") amounted to Rmb34,300,000. Full provision has been made for the amount in prior year. In 2005, the whole amount due from Jingxin has been repaid , of which Rmb20,000,000 was financed by a loan from a subsidiary of CLFG, and the corresponding provision has been fully written back.

The Company provides designated loans to its subsidiary Luobo Group Longmen Glass Company ("Longmen") as working capital to support it as a going concern. At 31 December 2005, designated loans receivable from Longmen was Rmb142,000,000 (2004: Rmb81,500,000). In view that Longmen had net liabilities of Rmb10,868,000 at 31 December 2004, the Company had made provision amounted to Rmb10,868,000 for designated loans receivable from Longmen. As Longmen has net assets at 31 December 2005, the Company reversed the provision amounted to Rmb10,868,000 made in prior year for designated loans receivable from Longmen.

7 Bills receivable

The Group

	2005 ***Rmb'000***	2004 *Rmb'000*
Bank acceptance bills	**51,013**	43,053
Customer acceptance bills	**6,437**	—
Total	**57,450**	43,053

The Company

	2005 ***Rmb'000***	2004 *Rmb'000*
Bank acceptance bills	**38,181**	37,690
Customer acceptance bills	**56,437**	—
Total	**94,618**	37,690

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

	2005 ***Rmb'000***	2004 *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 2005, interest receivables due from CLFG and other fellow subsidiaries amounted to Rmb46,980,000 (2004: 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.

9 Trade receivables

Ageing analysis of trade receivables is as follows:

The Group

	2005 Amount Rmb'000	2005 % of total trade receivables %	2005 Bad debt provision Rmb'000	2005 % of provision on gross amount %	2004 Amount Rmb'000	2004 % of total trade receivables %	2004 Bad debt provision Rmb'000	2004 % of provision on gross amount %
Within 1 year	**30,765**	**18**	**—**	**—**	18,315	12	—	—
After 1 year but within 2 years	**1,100**	**1**	**452**	**41**	683	—	61	9
After 2 years but within 3 years	**650**	**—**	**319**	**49**	1,998	1	1,662	83
Over 3 years	**142,255**	**81**	**142,255**	**100**	140,890	87	140,563	100
Total	**174,770**	**100**	**143,026**	**82**	161,886	100	142,286	88

The Company

	2005 Amount Rmb'000	2005 % of total trade receivables %	2005 Bad debt provision Rmb'000	2005 % of provision on gross amount %	2004 Amount Rmb'000	2004 % of total trade receivables %	2004 Bad debt provision Rmb'000	2004 % of provision on gross amount %
Within one year	**15,045**	**10**	**—**	**—**	11,894	8	—	—
After 1 year but within 2 years	**276**	**—**	**136**	**49**	200	—	60	30
After 2 years but within 3 years	**172**	**—**	**87**	**51**	1,810	1	1,588	88
Over 3 years	**129,724**	**90**	**129,724**	**100**	128,198	91	128,198	100
Total	**145,217**	**100**	**129,947**	**89**	142,102	100	129,846	91

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

The Group

	2005 Rmb'000	2004 Rmb'000
Balance at the beginning of the year	**142,286**	138,830
Add: Charge for the year	**771**	5,038
Less: Reversal during the year	**(31)**	—
Write off during the year	**—**	(1,582)
Balance at the end of the year	**143,026**	142,286

The Company

	2005 Rmb'000	2004 Rmb'000
Balance at the beginning of the year	**129,846**	130,034
Add: Charge for the year	**101**	—
Less: Write off during the year	**—**	(188)
Balance at the end of the year	**129,947**	129,846

In 2005, the Group and the Company had no individually significant trade receivables which were fully or substantially provided for.

In 2005, the Group and the Company had no individually significant write back of bad and doubtful debts, which were fully or substantially provided for in the prior years.

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

9 Trade receivables *(continued)*

Analysis of provision for bad and doubtful debts is as follows: *(continued)*

Name of entity	Period of original debts	Particulars	Amount *Rmb'000*
Suzhou Industrial Zone HuaGuang Glass Product Delivery Co. Ltd.	2005	Purchase of goods	**5,133**
Sanmenxia Kangyao Electronics Co. Ltd.	2005	Purchase of goods	**2,633**
Guangzhou MingFeng Glass Product Co. Ltd.	2005	Purchase of goods	**2,069**
Landson Alliance	2005	Purchase of goods	**1,739**
Token ITO Wuhu Co., Ltd	2005	Purchase of goods	**1,058**
Total			**12,632**

At 31 December 2005, the five largest trade receivables (after bad debt provision) accounted for 40% of the Group's total trade receivables (after bad debt provision) (2004: 40%).

10 Other receivables

The Group

	2005 *Rmb'000*	2004 *Rmb'000*
Amount due from the holding company	**138,721**	157,554
Amount due from associates	**318,340**	335,175
Others	**256,078**	258,430
Sub-total	**713,139**	751,159
Less: Bad debts provision	**(379,785)**	(424,682)
Total	**333,354**	326,477
Including:		
Current assets	**271,259**	280,322
Non-current assets	**62,095**	46,155

The Company

	2005 *Rmb'000*	2004 *Rmb'000*
Amount due from subsidiaries	**41,738**	28,178
Amount due from the holding company	**128,720**	149,910
Amount due from associates	**314,971**	331,892
Others	**204,942**	210,213
Sub-total	**690,371**	720,193
Less: Bad debt provision	**(356,877)**	(384,924)
Total	**333,494**	335,269
Including:		
Current assets	**291,399**	289,114
Non-current assets	**42,095**	46,155

Analysis of bad debt provision is as follows:

The Group

	2005 *Rmb'000*	2004 *Rmb'000*
Balance at the beginning of the year	**424,682**	400,686
Add: Charge for the year	**220**	24,349
Less: Reversal during the year	**(45,117)**	—
Write off during the year	**—**	(353)
Balance at the end of the year	**379,785**	424,682

10 Other receivables *(continued)*

The Company

	2005 *Rmb'000*	2004 *Rmb'000*
Balance at the beginning of the year	**384,924**	385,145
Add: Charge for the year	**15**	132
Less: Reversal during the year	**(28,062)**	—
Write off during the year	**—**	(353)
Balance at the end of the year	**356,877**	384,924

Ageing analysis of other receivables is as follows:

Current assets

The Group

	2005				2004			
	Amount *Rmb'000*	**% of total other receivables** %	**Bad debt provision** *Rmb'000*	**% of provision on gross amount** %	Amount *Rmb'000*	% of total other receivables %	Bad debt provision *Rmb'000*	% of provision on gross Amount %
Within 1 year	**33,812**	**7**	**171**	**1**	50,822	9	17,590	35
Over 1 year but within 2 years	**1,211**	**—**	**337**	**28**	6,244	1	2,209	35
Over 2 years but within 3 years	**4,849**	**1**	**1,743**	**36**	1,710	—	401	23
Over 3 years	**463,992**	**92**	**230,354**	**50**	499,048	90	257,302	52
Total	**503,864**	**100**	**232,605**	**46**	557,824	100	277,502	50

The Company

	2005				2004			
	Amount *Rmb'000*	**% of total other receivables** %	**Bad debt provision** *Rmb'000*	**% of provision on gross amount** %	Amount *Rmb'000*	% of total other receivables %	Bad debt provision *Rmb'000*	% of provision on gross Amount %
Within 1 year	**38,001**	**8**	**—**	**—**	23,160	4	—	—
Over 1 year but within 2 years	**101**	**—**	**—**	**—**	965	—	—	—
Over 2 years but within 3 years	**851**	**—**	**—**	**—**	1,007	—	—	—
Over 3 years	**462,143**	**92**	**209,697**	**45**	501,726	96	237,744	47
Total	**501,096**	**100**	**209,697**	**42**	526,858	100	237,744	45

10 Other receivables *(continued)*

Non-current assets

The Group and the Company

	2005				2004			
	Amount *Rmb'000*	**% of total other receivables** *%*	**Bad debt provision** *Rmb'000*	**% of provision on gross amount** *%*	Amount *Rmb'000*	% of total other receivables *%*	Bad debt provision *Rmb'000*	% of provision on gross Amount *%*
Within 1 year	**20,000**	**10**	**—**	**—**	—	—	—	—
Over 3 years	**189,275**	**90**	**147,180**	**78**	193,335	100	147,180	76
Total	**209,275**	**100**	**147,180**	**70**	193,335	100	147,180	76

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 (2004: 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 associate, Jingxin, amounting to Rmb37,177,000 (2004: Rmb37,177,000). Full provision has been made in prior years.

At 31 December 2004, the receivables due from Qingdao Taiyang Glass Industrial Co., Ltd. ("Taiyang"), a fellow subsidiary, amounted to Rmb229,796,000 (including interest receivable of Rmb45,008,000), out of which full provision had been made. During the year, Taiyang repaid Rmb16,110,000. Therefore, the Company reversed a provision amounted to Rmb16,110,000 made for Taiyang in prior year. The directors have assessed the recoverability of the remaining balance of Rmb213,686,000 due from Taiyang at 31 December 2005. Since Taiyang has no fixed assets for its business operations and could not generate operating income, full provision has been maintained in this regard. 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.

At 31 December 2004, included in other receivables was an amount receivable from Henan Yinji Property Development Company Limited ("Yinji Property") amounted to Rmb11,952,000. Full provision had been made in prior years. During 2005, the Company has received the amount from Yinji Property in full and reversed the provision made in prior years.

At 31 December 2004, an amount of Rmb17,055,000 receivable from a shareholder of one of the Company's subsidiaries was included in other receivables under current assets. That shareholder had 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 was the borrower of those loans, it was responsible for settling the loan principals and interest thereon. Accordingly, in 2004, the Group had recognised the aggregate amount of Rmb17,055,000 (including accumulated loan interest amounted to approximately Rmb4,055,000 at 31 December 2004) as liabilities and receivables from that shareholder. At 31 December 2004, those loans had been overdue and that shareholder had not repaid the bank loans nor had repayment schedule. The Group had made full provision in this regard. During 2005, that shareholder has repaid the above-mentioned aggregate amount. Therefore, the provision made in prior years for the aggregate amount receivable has been reversed in full.

During 2005, one of the Company's subsidiaries has the plan to set up, with third parties, a new company known as CLFG Long Xiang Glass Co., Ltd ("Longxiang"). At 31 December 2005, that subsidiary has paid investment deposit amounted to Rmb20,000,000 and no relevant investment agreements have been entered into by the counter parties.

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

The five largest other receivables (after bad debt provision) at 31 December 2005 are as follows:

Name of entity	**Period of original debts**	**Particulars**	**Amount** *Rmb'000*
CLFG	1997 - 2005	Payment on behalf	**129,551**
CLFG Jingwei Glass Fibre Co., Ltd.	2003 - 2005	Payment on behalf	**54,896**
GZITIC	1997 - 2003	Overdue deposit	**35,655**
Longxiang	2005	Investment deposit	**20,000**
CLFG Luoyang Hoisting Machinery Co., Ltd.	2001 - 2003	Refund of deposit	**18,018**
Total			**258,120**

At 31 December 2005, the five largest other receivables (after bad debt provision) accounted for 77% of the Group's total other receivables (after bad debt provision) (2004: 84%).

11 Prepayments

Ageing analysis of prepayments is as follows:

The Group

	2005 Amount Rmb'000	2005 Percentage %	2004 Amount Rmb'000	2004 Percentage %
Within 1 year	**9,176**	**76**	5,564	68
Over 1 year but within 2 years	**618**	**5**	10	—
Over 2 years but within 3 years	**10**	**—**	408	5
Over 3 years	**2,310**	**19**	2,170	27
	12,114	**100**	8,152	100

The Company

	2005 Amount Rmb'000	2005 Percentage %	2004 Amount Rmb'000	2004 Percentage %
Within 1 year	**202**	**8**	613	21
Over 1 year but within 2 years	**55**	**2**	5	—
Over 2 years but within 3 years	**5**	**—**	359	12
Over 3 years	**2,310**	**90**	1,951	67
	2,572	**100**	2,928	100

The five largest prepayments at 31 December 2005 are as follows:

Name of entity	Period of prepayments	Particulars	Amount Rmb'000
Linyi Hengrun Chemical Co., Ltd	2005	Purchase of raw material	**2,653**
Zibo Wufa Jingmao Co., Ltd	2005	Purchase of raw material	**2,200**
Hainan Yuzhou Metallurgy Material Import & Export Company	2005	Purchase of raw material	**895**
Zhanjiang Mazhang District Yuefu Sales Center	2005	Purchase of raw material	**337**
China Waiyun Henan Co., Ltd Luoyang Branch	2005	Purchase of raw material	**250**
Total			**6,335**

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

12 Inventories

The Group

	2005 **Rmb'000**	2004 Rmb'000
Raw materials	**192,184**	157,858
Work in progress	**14,576**	11,160
Finished goods	**86,740**	45,285
Sub-total	**293,500**	214,303
Less: provision for diminution in value of inventories	**(17,837)**	(8,829)
Total	**275,663**	205,474

The Company

	2005 **Rmb'000**	2004 Rmb'000
Raw materials	**111,957**	88,106
Work in progress	**6,197**	5,804
Finished goods	**45,448**	31,196
Sub-total	**163,602**	125,106
Less: provision for diminution in value of inventories	**(13,982)**	(7,881)
Total	**149,620**	117,225

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

Provision for diminution in value of inventories:

The Group

	2005				2004			
	Raw materials Rmb'000	**Work in progress Rmb'000**	**Finished goods Rmb'000**	**Total Rmb'000**	Raw materials Rmb'000	Work in progress Rmb'000	Finished goods Rmb'000	Total Rmb'000
Balance at the beginning of the year	**5,168**	**—**	**3,661**	**8,829**	10,377	—	3,661	14,038
Add: Provision made during the year	**2,583**	**—**	**9,138**	**11,721**	800	—	—	800
Less: Transfer out due to sales	**—**	**—**	**(2,713)**	**(2,713)**	(6,009)	—	—	(6,009)
Balance at the end of the year	**7,751**	**—**	**10,086**	**17,837**	5,168	—	3,661	8,829

The Company

	2005				2004 (Rmb'000)			
	Raw materials *Rmb'000*	**Work in progress *Rmb'000***	**Finished goods *Rmb'000***	**Total *Rmb'000***	Raw materials *Rmb'000*	Work in progress *Rmb'000*	Finished goods *Rmb'000*	Total *Rmb'000*
Balance at the beginning of the year	**5,168**	**—**	**2,713**	**7,881**	10,377	—	2,713	13,090
Add: Provision made during the year	**2,584**	**—**	**6,230**	**8,814**	800	—	—	800
Less: Transfer out due to sales	**—**	**—**	**(2,713)**	**(2,713)**	(6,009)	—	—	(6,009)
Balance at the end of the year	**7,752**	**—**	**6,230**	**13,982**	5,168	—	2,713	7,881

12 Inventories *(continued)*

The Group

	2005 **Rmb'000**	2004 Rmb'000
Cost of inventories charged to costs and expenses in the income statement	**949,100**	870,425

The Company

	2005 **Rmb'000**	2004 Rmb'000
Cost of inventories charged to costs and expenses in the income statement	**600,118**	543,122

13 Deferred expenses

The Group

	2005 **Rmb'000**	2004 Rmb'000
Packing racks	**20,385**	24,762
Others	**4,395**	1,128
Total	**24,780**	25,890

The Company

	2005 **Rmb'000**	2004 Rmb'000
Packing racks	**20,180**	24,157
Others	**852**	260
Total	**21,032**	24,417

14 Long-term equity investments

The Group

	Investment in associates Rmb'000	**Other equity investments** Rmb'000	**Total** Rmb'000
Cost of investment			
Balance at the beginning of the year	175,378	68,957	244,335
Disposals during the year	(20,751)	—	(20,751)
Balance at the end of the year	154,627	68,957	223,584
Less: Provision for impairment			
Balance at the beginning of the year	—	(35,974)	(35,974)
Additions during the year	—	(686)	(686)
Balance at the end of the year	—	(36,660)	(36,660)
Net book value:			
At the end of the year	**154,627**	**32,297**	**186,924**
At the beginning of the year	175,378	32,983	208,361

14 Long-term equity investments *(continued)*

The Company

	Investment in subsidiaries *Rmb'000*	Investment in associates *Rmb'000*	Other equity investments *Rmb'000*	Total *Rmb'000*
Cost of investment				
Balance at the beginning of the year	83,523	175,378	62,067	320,968
Additions during the year	97,838	—	—	97,838
Disposals during the year	(4,546)	(20,751)	—	(25,297)
Balance at the end of the year	176,815	154,627	62,067	393,509
Less: Provision for impairment				
Balance at the beginning of the year	—	—	(29,084)	(29,084)
Additions during the year	—	—	(686)	(686)
Balance at the end of the year	—	—	(29,770)	(29,770)
Net book value:				
At the end of the year	176,815	154,627	32,297	363,739
At the beginning of the year	83,523	175,378	32,983	291,884

(a) Interest in subsidiaries

At 31 December 2005, details of the Company's subsidiaries are as follows:

Name of investee enterprise	Country of incorporation	Legal representative	Registered capital *Rmb'000*	Direct attributable equity interest *%*	Initial investment cost *Rmb'000*	Principal activities	Note
Longmen	the PRC	Ding Jianluo	20,000	79.06%	64,146	Manufacture of float sheet glass	(i)
Chenzhou Bada Glass Co. Ltd. ("Bada")	the PRC	Zhang Shaojie	150,000	65.82%	66,899	Manufacture of float sheet glass	(ii)
CLFG Long Fei Glass Co. Ltd. ("Longfei") (formerly known as CLFG Yang Shao Glass Co. Ltd.)	the PRC	Zhang Shaojie	74,080	54.00%	40,000	Manufacture of float sheetglass	(iii)
Xiangfan Luoshen Auto Glass Co. Ltd. ("Luoshen")	the PRC	Zhu Leibo	30,000	66.67%	20,000	Manufacture of auto glass	(iii)
Yinan Mineral Products Co. Ltd. ("Yinan")	the PRC	Ding Jianluo	28,000	52.00%	14,560	Exploration of minerals	(iii)
CLFG Long hai Electronic Glass Limited ("Longhai")	the PRC	Ding Jianluo	60,000	80.00%	48,000	Manufacture of float sheet glass	(iii), (iv)
CLFG Long hao Glass Limited ("Longhao")	the PRC	Zhang Shaojie	50,000	80.00%	40,000	Manufacture of float sheet glass	(iii), (iv)

14 Long-term equity investments *(continued)*

(a) Interest in subsidiaries *(continued)*

At 31 December 2005, interest in subsidiaries of the Company are as follows:

	Longmen Rmb'000	Bada Rmb'000	Longfei Rmb'000	Luoshen Rmb'000	Yinan Rmb'000	Longhai Rmb'000	Longhao Rmb'000	Luobo Trading Rmb'000	Total Rmb'000	Note
Balance at the beginning of the year	—	16,169	46,456	14,560	5,660	—	—	678	83,523	
Addition during the year	—	4,199	—	—	—	48,000	40,000	—	92,199	
Share of the results under equity method	15,394	(8,027)	1,556	(1,083)	(718)	—	(5,351)	—	1,771	
Less: Dividend received	—	—	—	—	—	—	—	(124)	(124)	
Disposal during the year	—	—	—	—	—	—	—	(554)	(554)	(v)
Balance at end of the year	**15,394**	**12,341**	**48,012**	**13,477**	**4,942**	**48,000**	**34,649**	**—**	**176,815**	

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; Rmb6,000,000 annually from 2005 to 2008.

At 31 December 2005, overdue redeemable capital amounted to Rmb12,000,000 (2004: Rmb6,000,000).

(iii) These subsidiaries are limited liability companies.

(iv) During the year, the Company set up two subsidiaries in the PRC with CLFG as the minority equity holder.

During the year, the Company has injected a total of Rmb88,000,000 into these subsidiaries as capital. In accordance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"), the above investments constitute major and connected transactions and have been approved by shareholders in an extraordinary general meeting held on 27 February 2006.

(v) During the year, the Company sold all of its interest in Shenzhen Luobo Trading Co., Ltd ("Luobo Trading") to a third party.

14 Long-term equity investments *(continued)*

(b) Interest in associates

At 31 December 2005, details of the associates 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 Class Company Limited ("CPGC")	181,496	49.09%	89,096	Reprocessed glass

At 31 December 2005, analysis of the associates 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	—	111,709	63,669	175,378
Share of the results of associates under equity method	—	223	(20,974)	(20,751)
Balance at the end of the year	—	111,932	42,695	154,627

(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 2005, 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 2005 *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	497	(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 2005, 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 (2004: 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 2005, the total carrying amount of the Group's short-term and long-term investments represented 21% (2004: 23%) of its net assets.

At 31 December 2005, the total carrying amount of the Company's short-term and long-term investments represented 62% (2004: 47%) of its net assets.

Notes on the Financial Statements *(Continued)*

For the year ended 31 December 2005
(Prepared under the PRC Accounting Rules and Regulations)
(Expressed in Renminbi)

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	457,592	1,046,467	19,828	1,523,887
Additions	671	8,096	2,453	11,220
Transfer from construction in progress (note 17)	65,236	103,111	—	168,347
Disposals	—	(1,427)	(1,906)	(3,333)
Balance at the end of the year	523,499	1,156,247	20,375	1,700,121
Accumulated depreciation				
Balance at the beginning the year	120,448	526,988	11,402	658,838
Charge for the year	14,484	68,118	1,567	84,169
Written back on disposal	—	(962)	(1,276)	(2,238)
Balance at the end of the year	134,932	594,144	11,693	740,769
Net book value				
At the end of the year	**388,567**	**562,103**	**8,682**	**959,352**
At the beginning of the year	337,144	519,479	8,426	865,049

At 31 December 2005, the original cost of fully depreciated fixed assets in use was Rmb152,874,000 (2004: Rmb49,593,679).

At 31 December 2005, included in the net book value of fixed assets was Rmb8,238,000 (2004: nil) pledged for short-term loans.

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	222,705	630,084	2,784	855,573
Additions	—	5,906	447	6,353
Transfer from construction in progress (note 17)	—	198	—	198
Disposals	—	(646)	(1,019)	(1,665)
Balance at the end of the year	222,705	635,542	2,212	860,459
Accumulated depreciation				
Balance at the beginning of the year	71,884	387,227	799	459,910
Charge for the year	6,981	38,499	450	45,930
Written back on disposal	—	(551)	(524)	(1,075)
Balance at the end of the year	78,865	425,175	725	504,765
Net book value				
At the end of the year	**143,840**	**210,367**	**1,487**	**355,694**
At the beginning of the year	150,821	242,857	1,985	395,663

At 31 December 2005, the original cost of fully depreciated fixed assets in use was Rmb150,190,000 (2004: Rmb42,633,490).

16 Construction materials

At 31 December 2005, 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	294
Additions for the year	431,472
Transfer to fixed assets for the year (note 15)	(168,347)
Balance at the end of the year	263,419

The Company

	Rmb'000
Balance at the beginning of the year	73
Additions for the year	7,459
Transfer to fixed assets for the year (note 15)	(198)
Balance at the end of the year	7,334

The capitalisation rate used to determine the borrowing costs to be capitalised was 5.19% (2004: nil).

At 31 December 2005, major construction in progress of the Group are as follows:

Construction projects	Budgeted amount *(Rmb'000)*	Balance at the beginning of the year *(Rmb'000)*	Additions for the year *(Rmb'000)*	Transfer to fixed assets for the year *(Rmb'000)*	Balance at the end of the year *(Rmb'000)*	Cost incurred to date to budgeted amount	Source of fund	Interest expense capitalised *(Rmb'000)*
Plant and production lines of Longhai	254,129	—	203,118	—	203,118	80%	Paid-in capital and specified loans	1,152
Plant and production lines of Longhao	239,754	—	220,296	167,575	52,721	92%	Paid-in capital and specified loans	975

18 Intangible assets

The Group

	Land use rights *Rmb'000*	Trademark and non-patented technical know-how *Rmb'000*	Total *Rmb'000*
Cost			
At the beginning of the year	199,420	7,400	206,820
Additions during the year	—	11,000	11,000
Balance at the end of the year	199,420	18,400	217,820
Accumulated amortization			
Balance at the beginning of the year	33,936	1,395	35,331
Charge for the year	3,952	372	4,324
Balance at the end of the year	37,888	1,767	39,655
Net book value			
At the end of the year	161,532	16,633	178,165
At the beginning of the year	165,484	6,005	171,489

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	23,921
Charge for the year	2,951
Balance at the end of the year	26,872
Net book value	
At the end of the year	115,190
At the beginning of the of the year	118,141

(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 17 to 59 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 and non-patented technical know-how of subsidiaries of the Company are invested by CLFG and remaining useful lives range from 10 to 15 years.

(iii) The additions to intangible assets during the year have been valued by Luoyang Jingye Certified Public Accountants Company Limited in accordance with the discounted value of future profits. Valuation reports have been issued in this regard.

19 Short-term loans

(a) The Group

	2005 *Rmb'000*	2004 *Rmb'000*
Bank loans	**673,400**	585,000
Loans from holding company	**57,732**	96,150
Loans from an associate	**108,500**	86,500
	839,632	767,650

The Company

	2005 *Rmb'000*	2004 *Rmb'000*
Bank loans	**595,000**	571,000
Loans from an associate	**66,500**	64,000
	661,500	635,000

Except for the loans due to the 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 2005 *Rmb'000*
Bank loans			
Luoyang City Commercial Bank	Guaranteed	6.26% - 6.70%	40,000
China Construction Bank	Guaranteed	5.58% - 6.08%	129,000
China Everbright Bank	Guaranteed	5.58%	20,000
Bank of China	Guaranteed	6.14% - 6.42%	177,000
Bank of Communications	Loans of Rmb63,000,000 were secured by deposits of Rmb70,000,000/ Rmb19,000,000 were guaranteed by the holding company/ Rmb142,000,000 were guaranteed by a third party	5.58% - 6.14%	224,000
Luoyang Rural Credit cooperatives	Guaranteed	6.36%	5,000
			595,000
Loans from an associates	Loans of Rmb50,000,000 were secured by Rmb50,000,000 customer acceptance bills/ Rmb16,500,000 were guaranteed by the holding company	5.22% - 5.58%	66,500
Short-term loans (the Company)			661,500
Bank loans			
Agricultural Bank of China	Loans ofRmb2,000,000 were secured by land use right with net book value of Rmb3,019,000 and buildings with net book value of Rmb8,238,000	6.70% - 7.53%	28,400
Luoyang Rural Credit Cooperatives	Guaranteed	7.04%	30,000
Luoyang City Commercial Bank	Guaranteed	6.42% - 6.70%	20,000
Loans from the holding company	—	5.58% - 6.42%	57,732
Loans from an associated company	Guaranteed	5.35% - 6.70%	42,000
			178,132
Short-term loans (the Group)			839,632

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 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 amounts due to the holding company are set out in note 39.

At 31 December 2005, 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	2005 Rmb'000	2004 Rmb'000
Education surcharge	3% on VAT	**546**	499
Others		**86**	60
Total		**632**	559

The Company

	Tax rate and basis	2005 Rmb'000	2004 Rmb'000
Education surcharge	3% on VAT	**50**	48

23 Accrued expenses

The Group

	2005 Rmb'000	2004 Rmb'000
Audit fee	**3,948**	1,500
Interest expenses	**272**	1,540
Others	**1,371**	705
Total	**5,591**	3,745

The Company

	2005 Rmb'000	2004 Rmb'000
Audit fee	**3,948**	1,500
Others	**221**	193
Total	**4,169**	1,693

24 Long-term loans

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

2005

Lenders	Guaranteed or secured	Maturity date	Contracted annual interest rate in 2005	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 2005 *Rmb'000*
Holding company	—	2006	6.03%	Rmb7,930	—	7,930	—	7,930
Bank loans								
— Bank of China	Guaranteed	2006 - 2019	2.50%	Euro756	9.5797	545	6,698	7,243
Long-term loans (the Company)						8,475	6,698	15,173
Loans from an associate								
— CLFC	—	2006	6.04%	Rmb10,000	—	10,000	—	10,000
— CLFC	—	2006	5.49%	Rmb7,000	—	7,000	—	7,000
						17,000	—	17,000
Loans from non-bank financial institutions	Guaranteed	2007 - 2008	5.76%	Rmb80,000	—	—	80,000	80,000
						17,000	80,000	97,000
Long-term loans (the Group)						25,475	86,698	112,173

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*
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	11.2627	637	8,412	9,049
Long-term loans (the Company)						20,637	36,342	56,979
Loans from an associate								
— 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

24 Long-term loans *(continued)*

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

The Group

	2005 *Rmb'000*	2004 *Rmb'000*
After 1 year but within 2 years	**28,215**	45,567
After 2 years but within 3 years	**52,875**	637
After 3 years but within 5 years	**1,089**	1,273
After 5 years	**4,519**	5,865
	86,698	53,342

The Company

	2005 *Rmb'000*	2004 *Rmb'000*
After 1 year but within 2 years	**545**	28,567
After 2 years but within 3 years	**545**	637
After 3 years but within 5 years	**1,089**	1,273
After 5 years	**4,519**	5,865
	6,698	36,342

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

25 Share capital

	2005 *Rmb'000*	2004 *Rmb'000*
Registered, issued and paid-up capital:		
Unlisted shares		
400,000,000 state-owned legal person shares of Rmb1.00 each	**400,000**	400,000
Listed shares		
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 capitals 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 state-owned legal person, 'A' and 'H' shares rank pari passu in all material respects.

26 Capital reserve

Capital reserve of the Company and the Group are set out as follows:

	Balance at the beginning of the year *Rmb'000*	**Increase during the year** *Rmb'000*	**Decrease during the year** *Rmb'000*	**Balance at the end of the year** *Rmb'000*
Capital premium	907,466	—	—	907,466
Reserve for equity investment	13,712	7,147	—	20,859
Waiver of debts	—	3,439	—	3,439
Others	62,890	—	—	62,890
Total	984,068	10,586	—	994,654

27 Surplus reserves

Movements in surplus reserves are as follow:

	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	58,796	55,591	110,764	225,151
Profit appropriations	155	78	—	233
Decrease on disposal of a subsidiary	(14)	(7)	—	(21)
Balance at the end of the year	58,937	55,662	110,764	225,363
The Company				
Balance at the 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 set out in the Company Law of the PRC, Longfei, a subsidiary of the Company, made appropriation for surplus reserve for 2005 as follows:

(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 2005, revenue from sales to top five customers was Rmb103,281,000 (2004: Rmb145,827,000) which accounted for 10% (2004: 13%) 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	2005 *Rmb'000*	2004 *Rmb'000*
City construction tax	5% - 7% on VAT	**2,018**	3,693
Education surcharge	3% on VAT	**865**	1,639
Total		**2,883**	5,332

The Company

	Tax rate and basis	2005 *Rmb'000*	2004 *Rmb'000*
City construction tax	7% on VAT	**600**	1,717
Education surcharge	3% on VAT	**257**	736
Total		**857**	2,453

32 Other operating profit

The Group

	2005 Income Rmb'000	2005 Cost Rmb'000	2005 Profit Rmb'000	2004 Income Rmb'000	2004 Cost Rmb'000	2004 Profit Rmb'000
Sales of raw materials	**10,146**	**(5,599)**	**4,547**	14,973	(12,199)	2,774
Sales of racks	**9,827**	**(3,832)**	**5,995**	17,531	(10,081)	7,450
Sales commission	**6,955**	**(250)**	**6,705**	—	—	—
Others	**4,331**	**(2,096)**	**2,235**	4,743	(2,776)	1,967
Total	**31,259**	**(11,777)**	**19,482**	37,247	(25,056)	12,191

The Company

	2005 Income Rmb'000	2005 Cost Rmb'000	2005 Profit Rmb'000	2004 Income Rmb'000	2004 Cost Rmb'000	2004 Profit Rmb'000
Sales of raw materials	**58,737**	**(53,459)**	**5,278**	42,893	(41,442)	1,451
Sales of racks	**8,222**	**(3,832)**	**4,390**	16,380	(8,990)	7,390
Sales commission	**6,955**	**(250)**	**6,705**	—	—	—
Others	**5,483**	**(1,971)**	**3,512**	2,811	(2,205)	606
Total	**79,397**	**(59,512)**	**19,885**	62,084	(52,637)	9,447

33 Financial expenses

The Group

	2005 Rmb'000	2004 Rmb'000
Interest expenses	**(51,132)**	(51,530)
Less: interest capitalised	**2,127**	—
Net interest expenses	**(49,005)**	(51,530)
Interest income	**7,223**	4,464
Net exchange losses	**(348)**	(893)
Other financial expenses	**(2,178)**	(967)
Total	**(44,308)**	(48,926)

The Company

	2005 Rmb'000	2004 Rmb'000
Interest expenses	**(38,056)**	(41,643)
Less: Capitalised interest	**—**	—
Net interest expenses	**(38,056)**	(41,643)
Interest income	**6,658**	3,621
Net exchange losses	**(348)**	(893)
Other financial expenses	**(1,226)**	(872)
Total	**(32,972)**	(39,787)

34 Investment income

The Group

	2005 Rmb'000	2004 Rmb'000
Investment income/(loss) from long-term equity investments		
- under cost method	**3,600**	3,600
- under equity method	**(20,751)**	1,678
Loss on disposal of long-term equity investment	**(55)**	—
Provision for impairment loss on long-term equity investments	**(686)**	(2,756)
Reversal of provision for diminution in value of short-term investments	**34,300**	—
Interest income from designated loans	**600**	597
Others	**47**	—
Total	**17,055**	3,119

The Company

	2005 Rmb'000	2004 Rmb'000
Investment income/(loss) from long-term equity investments		
- under cost method	**3,600**	3,600
- under equity method	**(24,621)**	3,897
Loss on disposal of long-term equity investment	**(55)**	—
Provision for impairment loss on long-term equity investments	**(686)**	(2,204)
Reversal of provision/(provision) for diminution in value of short-term investments	**45,168**	(10,868)
Interest income from designated loans	**9,749**	8,790
Total	**33,155**	3,215

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

35 Subsidy income

The Group

	2005 Rmb'000	2004 Rmb'000
Subsidy income	**13,483**	5,353

The Company

	2005 Rmb'000	2004 Rmb'000
Subsidy income	**10,000**	—

According to notices from Luoyang Finance Bureau, Mianchi Finance Bureau, Chenzhou Finance Bureau and Xiangfan Finance Bureau, the Company and its subsidiaries received subsidy income of Rmb10,000,000 (2004: nil) and Rmb3,483,000 (2004: Rmb5,353,000) respectively.

For the year ended 31 December 2005
(Prepared under the PRC Accounting Rules and Regulations)
(Expressed in Renminbi)

36 Non-operating income

The Group

	2005 Rmb'000	2004 Rmb'000
Gain on disposal of fixed assets	**239**	6,523
Write off of receipts in advance	**—**	1,311
Others	**1,398**	991
Total	**1,637**	8,825

The Company

	2005 Rmb'000	2004 Rmb'000
Gain on disposal of fixed assets	**221**	5,732
Write off of receipts in advance	**—**	182
Others	**98**	988
Total	**319**	6,902

37 Non-operating expenses

The Group

	2005 Rmb'000	2004 Rmb'000
Loss on disposal of fixed assets	**(458)**	(1,008)
Others	**(2,503)**	(988)
	(2,961)	(1,996)

The Company

	2005 Rmb'000	2004 Rmb'000
Loss on disposal of fixed assets	**(104)**	(763)
Others	**(77)**	(520)
	(181)	(1,283)

38 Income tax expense

The Group

	2005 Rmb'000	2004 Rmb'000
Provision for income tax for the year	**(1,950)**	(4,493)

At 31 December 2005, 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	:	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.

Details of the Company's subsidiaries are set out in note 14.

(b) Related parties without controlling interest:

Name of enterprise	Relationship with the Company
China Luoyang Float Glass Group Financial Company of Limited Liabilities	Associate
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	Associate
Luoyang Luobo Hotel	Fellow subsidiary
CLFG Mineral Products Co. Ltd.	Fellow subsidiary
Luoyang Jingxin Ceramic Co. Ltd.	Associate
CLFG Xinxing Co. Ltd.	Fellow subsidiary
CLFG Haitian Trading Company Ltd.	Fellow subsidiary
CLFG Longman Sugang Company Ltd.	Fellow subsidiary
Guangdong Nanhai Junxiong Glass Screen Co., Ltd.	Fellow subsidiary
Shenzhen Guanghua Zhongkong Glass Company Ltd.	Fellow subsidiary

(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	**2005** *Rmb'000*	2004 *Rmb'000*
Ancillary and social services	(i)	**2,037**	5,325
Technical services	(ii)	**—**	6,520
Provision of utilities	(iii)	**775**	674
Interest paid and payable		**7,104**	12,300
Guarantees issued by CLFG to banks in favour of the Group		**144,000**	195,400
Indirect guarantees	(iv)	**388,000**	336,000
Guarantees issued by CLFG to the Company in favour of other fellow subsidiaries		**110,594**	111,361

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)*

Notes:

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

(ii) The Company has entered into a three-year agreement with CLFG effective 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. During 2005, the Company and CLFG agreed to cancel the agreement.

(iii) The Company has entered into a three-year agreement with CLFG effective from 3 August 2001 which has been renewed for another three years expiring on 3 August 2007, for provision of utilities such as water 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 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	**2005** *Rmb'000*	2004 *Rmb'000*
Sales		**14,896**	23,308
Ancillary and social services	(i)	**4,650**	5,823
Provision of utilities	(ii)	**15,657**	12,450
Purchase of raw materials	(iii)	**9,278**	17,836
Other purchases		**—**	5,313
Sales of racks		**256**	—
Interest paid and payable		**5,874**	7,139
Interest received and receivable		**600**	597
Rental income	(iv)	**580**	580

Notes:

(i) The Company has entered into a three-year agreement with a CLFG's subsidiary, CLFG Xinxing Co. ("Xinxing") effective from 3 August 2001 by which Xinxing provides certain social welfare and support services, such as education, property management, medical care and transportation services to the staff of the Company. The agreement was supplementary amended on 22 July 2002 and renewed for another 3 years on 3 August 2004. The amount charged by Xinxing is based on a reasonable cost incurred in providing such services plus respective tax charge.

(ii) The Company has entered into three-year agreements with CLFG's subsidiaries, Xinxing and CLFG Jingwei Glass Fibre Co. Ltd. ("Jingwei") effective from 3 August 2001. During 2004, the Company has renewed the agreements with Xinxing and Jingwei for another three years expiring on 3 August 2007. In accordance with these agreements, the Company provides utilities such as water and electricity to these subsidiaries. The amounts charged to these group companies are based on reasonable costs incurred in providing such services plus respective tax charge.

(iii) The Company has entered into a three-year agreement with a CLFG's subsidiary, CLFG Mineral Product Co., Ltd ("Mineral Co"), effective from 3 August 2001 which has been renewed for another three years expiring on 3 August 2007, by which Mineral Co. supplies certain raw materials to the Company at market prices.

(iv) The Company has entered into a five-year agreement with an associate, CPGC, effective from 1 January 2003 by which the Company sub-lease a portion of land use rights on lands located in the PRC at market rate.

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.

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)*

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

The Group

	CLFG		Fellow subsidiaries	
	2005	2004	**2005**	2004
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Assets				
Cash at non-bank financial institution	**—**	—	**27,280**	81,229
Short-term investments	**—**	—	**10,500**	11,000
Trade receivables	**—**	—	**1,296**	1,372
Bills receivable	**—**	—	**6,437**	—
Other receivables	**129,551**	148,384	**109,714**	110,419
Liabilities				
Short-term loans	**57,732**	96,150	**83,500**	86,500
Trade payables	**—**	—	**3,837**	4,936
Receipts in advance	**958**	1,044	**370**	877
Other payables	**4,779**	7,342	**364**	1,007
Long-term loans	**7,930**	47,930	**17,000**	29,000

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

The Group

	2005	2004
	Rmb'000	*Rmb'000*
Provision for amounts due from the holding company	**95,031**	95,275
Provision for amounts due from fellow subsidiaries	**259,313**	310,662

40 Commitments

(a) Capital commitments

At 31 December 2005, capital commitments of the Group and the Company are summarised as follows:

The Group

	2005	2004
	Rmb'000	*Rmb'000*
Contracted for but not provided for — construction project	**43,085**	—
Authorised but not contracted for — construction project	**29,964**	—
Total	**73,049**	—

The Company

	2005	2004
	Rmb'000	*Rmb'000*
Contracted for but not provided for - construction project	**3,299**	—

(b) Operating lease commitments

At 31 December 2005, the Group and the Company had no material operating lease commitments.

41 Contingent liabilities

At 31 December 2005, the contingent liabilities of the Group and the Company are summarised as follows:

	The Group		The Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Guarantees issued to banks in favour of subsidiaries	**—**	—	**26,200**	14,000
Guarantees issued to CLFC in favour of subsidiaries	**—**	—	**69,000**	51,500
Guarantees issued to CLFG in favour of subsidiaries	**—**	—	**6,000**	96,150
Guarantees issued to Hua Rong in favour of a subsidiary	**—**	—	**30,000**	30,000
Total	**—**	—	**131,200**	191,650

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

	2005	2004
	Rmb'000	*Rmb'000*
Non-recurring items for the year		
Designated loan interest income	**600**	597
Subsidy income	**13,483**	5,353
Non-operating income	**1,637**	8,825
Non-operating expenses	**(2,961)**	(1,996)
Reversal of bad debt provision made in prior years	**45,148**	—
Reversal of provision for diminution in value of short-term investments	**34,300**	—
Sub-total	**92,207**	12,779
Less: Tax effect of the above items	**—**	—
Total	**92,207**	12,779

The Company

	2005	2004
	Rmb'000	*Rmb'000*
Non-recurring items for the year		
Designated loan interest income	**9,749**	8,790
Subsidy income	**10,000**	—
Non-operating income	**319**	6,902
Non-operating expenses	**(181)**	(1,283)
Reversal of bad debt provision made in prior years	**28,062**	—
Reversal of provision for diminution in value of short-term investments	**45,168**	—
Sub-total	**93,117**	14,409
Less: Tax effect of the above items	**—**	—
Total	**93,117**	14,409

43 Post balance sheet events

Subsequent to the balance sheet date, the Company announced the plan for the reform of state-owned non-circulating shares on 30 March 2006. The plan aims at converting state-owned non-circulating shares held by CLFG to circulating A Shares, In this connection, an extraordinary general meeting for A share shareholders was held on 24 April 2006, during which the above plan was approved. No share would be granted to nor any general meeting would called for H share shareholders in this regard.

According to the plan, CLFG shall, grant 21,000,000 shares (4.2 A shares for every 10 A shares) to existing A share shareholders which shall be treated as consideration for existing A share shareholders to approve the reform proposed by CLFG. In addition, CLFG should not sell the circulating A share within twelve months from the date when the reform is complete . Within the twelve months and twenty four months after the one-year non-sale period, CLFG should not dispose of more than 5% and 10% of its interest in the Company, respectively.

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:

2005

	PRC *Rmb'000*	**Asia** *Rmb'000*	**America** *Rmb'000*	**Oceania** *Rmb'000*	**Others** *Rmb'000*	**Total** *Rmb'000*
Income from principal operations	919,496	75,871	10,918	13,761	11,813	1,031,859
Cost of sales	(848,611)	(59,938)	(8,625)	(10,872)	(9,333)	(937,379)
Business tax and surcharges	(2,883)	—	—	—	—	(2,883)
Operating expenses	(22,828)	(9,384)	(1,350)	(1,702)	(1,461)	(36,725)
Administrative expenses	(48,701)	(4,774)	(687)	(866)	(744)	(55,772)
Financial expenses	(38,422)	(3,974)	(572)	(721)	(619)	(44,308)
Loss from principal operations	(41,949)	(2,199)	(316)	(400)	(344)	(45,208)

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

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 ("IFRSs")

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

	The Group		The Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Profit attributable to shareholders under the PRC Accounting Rules and Regulations	**4,953**	46,102	**4,932**	21,441
Differences:				
— Amortisation of revaluation of land use rights (i)	**2,098**	2,098	**2,098**	2,098
— Waiver of debts (ii)	**4,336**	13,540	**3,439**	—
— Results of subsidiaries (iii)	**—**	—	**4,161**	9,115
— Results of associates (iii)	**—**	—	**(223)**	(708)
— Pre-operating expenditure (iv)	**(2,088)**	—	**—**	—
— Government grants (v)	**365**	—	**—**	—
Profit attributable to equity shareholders of the Company under IFRSs	**9,664**	61,740	**14,407**	31,946

(2) Reconciliation of shareholders' funds of the Group and the Company prepared in accordance with the PRC Accounting Rules and Regulations and IFRSs are summarised below:

	The Group		The Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Shareholders' funds under the PRC Accounting Rules and Regulations	**951,080**	935,562	**951,080**	935,562
Differences:				
— Revaluation of land use rights (i)	**(82,248)**	(84,346)	**(82,248)**	(84,346)
— Waiver of debts (ii)	**—**	—	**(14,977)**	(14,080)
— Results of subsidiaries (iii)	**—**	—	**10,199**	7,545
— Results of associates (iii)	**—**	—	**101**	324
— Pre-operating expenditure (iv)	**(2,088)**	—	**—**	—
— Government grants (v)	**(4,378)**	—	**(4,743)**	—
Total equity attributable to equity shareholders of the Company	**862,366**	851,216	**859,412**	845,005

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 IFRSs. The major differences are:

(i) Effective 1 January 2002, land use rights are carried at historical cost base under IFRSs. 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 2005, certain creditors have waived the debts due by subsidiaries. Under the PRC Accounting Rules and Regulations, these waived debts are credited to capital reserves. Under IFRSs, they are included as other operating income.

(iii) Under IFRSs, interests in subsidiaries and associates are stated in the Company's balance sheet at cost less impairment losses. Under PRC Accounting Rules and Regulations, results of the subsidiaries and associates are equity accounted for.

(iv) Under IFRSs, expenditure on start-up activities are recognized as an expense when they are incurred. Under the PRC Accounting Rules and Regulations, expenditure incurred during the start-up period are aggregated in long-term deferred expenses and charged to income statement when operations commerce.

(v) Under IFRSs, government grant related to assets is presented in the balance sheet either by setting up the grant as deferred income or by deducting the grant in arriving the carrying amount of the asset. The deferred income is recognised as income on a systematic basis over the useful life of the asset. Under the PRC Accounting Rules and Regulations, the grant is included as long-term payable and is transferred to capital reserve when the related assets are acquired.

The financial statements prepared under IFRSs were audited by KPMG, which was an overseas organisation.