Independent Auditor's Report

TO THE SHAREHOLDERS OF LUOYANG GLASS COMPANY LIMITED
(Incorporated in the People's Republic of China with limited liability)

We have audited the consolidated financial statements of Luoyang Glass Company Limited (the "Company") and its subsidiaries (the "Group"), set out on pages 44 to 80, which have been prepared in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board. These financial statements comprise the consolidated and Company balance sheets as at 31 December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit 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. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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 2006 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.

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 controlling shareholder company, the holding company of the controlling shareholder company, the financial institutions and other individuals (see note 2(b)(iii)). 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.

TING HO KWAN & CHAN
Certified Public Accountants (Practising)

Hong Kong, 25 April 2007

Consolidated income statement

For the year ended 31 December 2006
(Prepared in accordance with International Financial Reporting Standards)
(Expressed in Renminbi)

	Note	2006 Rmb'000	2005 Rmb'000
Turnover	5	**1,195,193**	1,028,976
Cost of sales	22	**(1,332,852)**	(946,387)
Gross (loss)/profit		**(137,659)**	82,589
Other operating income	6	**422,422**	119,698
Other operating expenses		**(32,866)**	(3,179)
Selling expenses		**(48,915)**	(36,725)
Administrative expenses		**(146,689)**	(92,238)
Profit from operations		**56,293**	70,145
Net finance costs	7(a)	**(51,373)**	(43,708)
Investment (loss)/income	7(b)	**(9,403)**	2,906
Share of net losses of associates		**(38,419)**	(20,751)
(Loss)/ profit before taxation	7	**(42,902)**	8,592
Income tax expense	10(a)	**—**	(1,950)
(Loss)/profit for the year		**(42,902)**	6,642
Attributable to:			
Equity shareholders of the Company	11, 33	**12,991**	9,664
Minority interests		**(55,893)**	(3,022)
(Loss)/profit for the year		**(42,902)**	6,642
Basic earnings per share (in Rmb: Yuan)	13	**0.02**	0.01

The notes on pages 49 to 80 are an integral part of these financial statements.

Consolidated balance sheet

At 31 December 2006
(Prepared in accordance with International Financial Reporting Standards)
(Expressed in Renminbi)

	Note	2006 Rmb'000	2005 Rmb'000
Non-current assets			
Property, plant and equipment	14	**1,174,616**	959,352
Construction in progress	15	**5,550**	265,271
Intangible assets	16	**15,219**	16,633
Lease prepayments	17	**41,798**	79,285
Interests in associates	19	**111,105**	154,919
Other investments	20	**32,000**	32,297
Other receivables	21	**—**	26,441
Deposits with a non-bank financial institution	26	**50,000**	35,654
		1,430,288	1,569,852
Current assets			
Other receivables	21	**58,970**	315,851
Inventories	22	**291,019**	275,663
Trade and bills receivables	23	**68,853**	88,086
Income tax recoverable		**2,249**	2,243
Deposits with banks and non-bank financial institutions	24	**214,545**	118,947
Cash and cash equivalents	25	**58,414**	144,655
		694,050	945,445
Current liabilities			
Trade and bills payables	27	**566,527**	251,259
Accrued expenses and other payables	28	**260,786**	329,736
Bank and other loans	29	**930,423**	895,107
		1,757,736	1,476,102
Net current liabilities		**(1,063,686)**	(530,657)
Total assets less current liabilities		**366,602**	1,039,195
Non-current liabilities			
Bank and other loans	29	**60,027**	86,698
Long-term payables		**—**	2,927
Deferred income	30	**5,077**	5,538
		65,104	95,163
Net assets		**301,498**	944,032
Capital and reserves			
Share capital	31	**500,018**	700,000
Share premium	32	**540,028**	969,988
Reserves	33	**(45,873)**	119,921
Accumulated losses	33	**(750,265)**	(927,543)
Total equity attributable to equity shareholders of the Company		**243,908**	862,366
Minority interests		**57,590**	81,666
Total equity		**301,498**	944,032

Approved and authorised for issue by the Board of Directors on 25 April 2007

Liu Baoying
Chairman

Zhu Leibo
Director

The notes on pages 49 to 80 are an integral part of these financial statements.

Balance sheet

At 31 December 2006
(Prepared in accordance with International Financial Reporting Standards)
(Expressed in Renminbi)

	Note	**2006 Rmb'000**	2005 Rmb'000
Non-current assets			
Property, plant and equipment	14	**366,540**	355,694
Construction in progress	15	**73**	8,582
Lease prepayments	17	**29,568**	32,942
Interests in subsidiaries	18	**411,313**	369,015
Interests in associates	19	**116,808**	154,095
Other investments	20	**31,800**	32,297
Other receivables	21	**—**	6,441
Deposits with a non-bank financial institution	26	**50,000**	35,654
		1,006,102	994,720
Current assets			
Other receivables	21	**46,232**	287,192
Inventories	22	**139,890**	149,620
Trade and bills receivables	23	**69,579**	109,888
Deposits with banks and non-bank financial institutions	24	**176,845**	96,947
Cash and cash equivalents	25	**43,195**	105,216
		475,741	748,863
Current liabilities			
Trade and bills payables	27	**294,425**	124,557
Accrued expenses and other payables	28	**130,130**	80,191
Bank and other loans	29	**767,513**	669,975
		1,192,068	874,723
Net current liabilities		**(716,327)**	(125,860)
Total assets less current liabilities		**289,775**	868,860
Non-current liabilities			
Bank and other loans	29	**6,697**	6,698
Long-term payables		**—**	2,750
		6,697	9,448
Net assets		**283,078**	859,412
Capital and reserves			
Share capital	31	**500,018**	700,000
Share premium	32	**540,028**	969,988
Reserves	33	**(55,583)**	106,547
Accumulated losses	33	**(701,385)**	(917,123)
Total equity		**283,078**	859,412

Approved and authorised for issue by the Board of Directors on 25 April 2007

Liu Baoying
Chairman

Zhu Leibo
Director

The notes on pages 49 to 80 are an integral part of these financial statements.

Consolidated statement of changes in equity

For the year ended 31 December 2006
(Prepared in accordance with International Financial Reporting Standards)
(Expressed in Renminbi)

	Attributable to equity shareholders of the Company						
	Share capital *Rmb'000* *(Note 31)*	**Share premium** *Rmb'000* *(Note 32)*	**Reserves** *Rmb'000* *(Note 33)*	**Accumulated losses** *Rmb'000* *(Note 33)*	**Total** *Rmb'000*	**Minority interests** *Rmb'000*	**Total equity** *Rmb'000*
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	—	—	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
At 1 January 2006	**700,000**	**969,988**	**119,921**	**(927,543)**	**862,366**	**81,666**	**944,032**
Profit for the year	**—**	**—**	**—**	**12,991**	**12,991**	**(55,893)**	**(42,902)**
Capital contributions from minority shareholders	**—**	**—**	**—**	**—**	**—**	**30,000**	**30,000**
Arising from additional investment in a subsidiary	**—**	**—**	**—**	**—**	**—**	**6,922**	**6,922**
Repurchase and cancellation of shares	**(199,982)**	**(429,960)**	**—**	**—**	**(629,942)**	**—**	**(629,942)**
Appropriation	**—**	**—**	**(162,130)**	**162,130**	**—**	**—**	**—**
Deconsolidation of a subsidiary	**—**	**—**	**(3,664)**	**2,157**	**(1,507)**	**(5,105)**	**(6,612)**
At 31 December 2006	**500,018**	**540,028**	**(45,873)**	**(750,265)**	**243,908**	**57,590**	**301,498**

The notes on pages 49 to 80 are an integral part of these financial statements.

Consolidated cash flow statement

For the year ended 31 December 2006
(Prepared in accordance with International Financial Reporting Standards)
(Expressed in Renminbi)

	Note	2006 Rmb'000	2005 Rmb'000
Cash flows from operating activities			
Cash generated from operations	34(a)	**177,290**	285,109
Interest paid		**(69,896)**	(50,273)
Income tax paid		**(6)**	(2,966)
Net cash from operating activities		**107,388**	231,870
Cash flows from investing activities			
Interest and investment income received		**7,952**	11,423
Capital expenditure			
— Property, plant and equipment		**(61,534)**	(11,220)
— Lease prepayments		**(703)**	—
— Construction in progress		**(112,073)**	(293,511)
Cash outflow from increase in shareholding in a subsidiary		**(10,500)**	(2,692)
Cash inflow from disposal of a subsidiary	34(c)	**—**	16
Cash outflow from deconsolidation of a subsidary	34(d)	**(6,762)**	—
Increase in other investments		**(200)**	—
Proceeds from disposal of property, plant and equipment		**2,721**	335
Cash inflow from disposal of lease prepayments		**998**	—
Net cash used in investing activities		**(180,101)**	(295,649)
Cash flows from financing activities			
Increase in pledged deposits		**(102,672)**	(28,873)
Proceeds from bank and other loans		**1,220,852**	1,165,592
Repayment of bank and other loans		**(1,161,708)**	(1,066,324)
Capital contributions received from minority shareholders		**30,000**	11,000
Net cash (used in)/from financing activities		**(13,528)**	81,395
Net (decrease)/increase in cash and cash equivalents		**(86,241)**	17,616
Cash and cash equivalents at 1 January		**144,655**	127,039
Cash and cash equivalents at 31 December	25	**58,414**	144,655

The notes on pages 49 to 80 are an integral part of these financial statements.

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 profits and total equity attributable to equity shareholders of the Company prepared under IFRSs and the PRC Accounting Rules and Regulations is presented on page 126.

The IASB has issued a number of new and revised IFRSs that are effective for accounting periods beginning on or after 1 January 2006. 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 comprise the Group and the Group's interests 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.

Judgements 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 2006, 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 Rmb720,600,000 to the Company upon their expiry in 2007;

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

(iii) According to the announcement made on 18 December 2006, CLFG had signed a strategic agreement with China National Building Material Group Corporation ("CNBMG"). Upon the approval of the State-owned Assets Supervision and Administration Commission of the State Council, CNBMG will become the ultimate holding company of the Group and will provide guarantees for procuring bank loans and for injecting capital contributions into the subsidiaries of the Company. (For details, please refer to the announcement)

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 any 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 any 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.

2 Significant accounting policies *(continued)*

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

(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.

(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 any 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 any 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 any 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 any 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) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

In prior years, financial guarantees issued by the Group were only disclosed as contingent liabilities and no provisions were made in respect of these guarantees unless it was more likely than not that the guarantee would be called upon. Upon the adoption of the Amendments to IAS 39 and IFRS 4, financial guarantees are accounted for as financial liabilities under IAS 39 and measured initially at fair value and subsequently stated at the higher of (i) the amount initially recognised less accumulated amortisation; and (ii) the amount of provision, if any, that should be recognised in accordance with IAS 37. The adoption of the Amendment did not have any material impact on the financial statements of the Group for the year ended 31 December 2006.

(ii) 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 applicable 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;

— lease prepayments;

— intangible assets; 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.

2 Significant accounting policies *(continued)*

(t) Impairment of assets *(continued)*

(ii) Impairment of other assets *(continued)*

— 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.

(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.

2 Significant accounting policies *(continued)*

(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.

(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 accounting policies adopted are consistent with those of the previous financial year except as follows:

The Group has adopted the following new and revised IFRSs and IFRIC interpretations during the year. Adoption of these revised standards and interpretations did not have any effect or give rise to additional disclosures on these financial statements.

- IAS 19 Amendment — Employee Benefits;
- IAS 21 Amendment — The Effects of Changes in Foreign Exchange Rates;
- IAS 39 Amendments — Financial Instruments: Recognition and Measurement;
- IFRIC 4 Determine whether an Arrangement contains a Lease;
- IFRIC 5 Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds; and
- IFRIC 6 Liabilities arising from Participating in a Specific Market — Waste Electrical and Electronic Equipment.

The principle effects of these changes are as follows:

(i) IAS 19 Employee Benefits

As of 1 January 2006, the Group adopted the amendments to IAS 19, which requires entities who participate in defined benefits plans to make additional disclosures providing information about trends in the assets and liabilities in the defined benefit plans and the assumptions underlying the components of the defined benefit cost. As the Company and its subsidiaries participate in statutory defined contribution retirement plans in their respective jurisdiction, this change did not have an effect on the financial statements.

(ii) IAS 21 The Effects of Changes in Foreign Exchange Rates

As of 1 January 2006, the Group adopted the amendments to IAS 21. As a result, all exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign operation are recognised in a separate component of equity in the consolidated financial statements regardless of the currency in which the monetary item is denominated. This change has had no significant impact as at 31 December 2006 or 31 December 2005.

(iii) IAS 39 Financial Instruments: Recognition and Measurement

Amendment for financial guarantee contracts (issued August 2005) — amended the scope of IAS 39 to require financial guarantee contracts that are not considered to be insurance contracts to be recognised initially at fair value and to be re-measured at the higher of the amount determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with IAS 18 Revenue.

This amendment did not have an effect on the financial statements. Amendment for the fair value option (issued June 2005) — amended IAS 39 to restrict the use of the option to designate any financial asset or any financial liability to be measured at fair value through the income statement. The Group had not previously used this option, hence the amendment did not have an effect on the financial statements. Amendment for hedges of forecast intragroup transactions (issued April 2005) — amended IAS 39 to permit the foreign currency risk of a highly probable intragroup forecast transaction to qualify as the hedged item in a cash flow hedge, provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and that the foreign currency risk will affect the consolidated income statement. As the Group currently has no such transactions, the amendment did not have an effect on the financial statements.

(iv) IFRIC 4 Determining Whether an Arrangement contains a Lease

The Group adopted IFRIC Interpretation 4 as of 1 January 2006, which provides guidance in determining whether arrangements contain a lease to which lease accounting must be applied. This change in accounting policy has not had a significant impact on the Group as at 31 December 2006 or 31 December 2005.

3 Changes in accounting policies (continued)

(v) IFRIC 5 Rights to Interests Arising from Decommissioning

Restoration and Environmental Rehabilitation Funds The Group adopted IFRIC Interpretation 5 as of 1 January 2006, which establishes the accounting treatment for funds established to help fi nance decommissioning for a companies assets. As the entity does not currently operate in a country where such funds exist, this interpretation has had no impact on the fi nancial statements.

(vi) IFRIC 6 Liabilities arising from Participating in a Specific Market- Waste Electrical and Electronic Equipment

The Group adopted IFRIC Interpretation 6 as of 1 January 2006, which established the recognition date for liabilities arising from the EU Directive relating to the disposal of Waste Electrical and Electronic Equipment. As the entity does not currently participate in this specific market nor have any operation in a jurisdiction that implements the EU Directive, this interpretation has had no impact on the financial statements.

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	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*	***Rmb'000***	*Rmb'000*	***Rmb'000***	*Rmb'000*	***Rmb'000***	*Rmb'000*	***Rmb'000***	*Rmb'000*
Turnover	**1,100,320**	916,613	**45,256**	75,871	**17,106**	10,918	**16,266**	13,761	**16,245**	11,813	**1,195,193**	1,028,976
Segment results	**(321,754)**	36,164	**(661)**	6,549	**(284)**	942	**(191)**	1,188	**(452)**	1,020	**(323,342)**	45,863
Unallocated income											**379,635**	24,282
Profit from operations											**56,293**	70,145
Net finance costs											**(51,373)**	(43,708)
Investment (loss)/income											**(9,403)**	2,906
Share of net losses of associates											**(38,419)**	(20,751)
Income tax expense											**—**	(1,950)
(Loss)/profit for the year											**(42,902)**	6,642

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

	2006 ***Rmb'000***	2005 *Rmb'000*
Waiver of debts	**1,088**	1,716
Reversal of impairment losses on:		
— amounts due from the ultimate holding company and the fellow subsidiaries *(note 31(b))*	**310,397**	16,110
— amount due from an associate *(note 31(b))*	**37,177**	34,300
— trade receivables	**—**	31
— other receivables	**71**	28,821
— deposit with a non-bank financial institution *(note 26)*	**14,346**	—
Gain on disposal of racks	**4,601**	5,995
Gain on deconsolidation of a subsidiary	**12,561**	—
Government grants *(note i below)*	**562**	13,945
Compensation for factory removal *(note ii below)*	**1,126**	—
Profit on sales of raw materials	**11,310**	4,547
Write off of long term payables	**732**	3,439
Gain on redemption of financial liabilities	**19,500**	—
Commission income	**7,901**	6,705
Others	**1,050**	4,089
	422,422	119,698

6 Other operating income *(continued)*

Notes:

i The Company did not receive government grant during the year (2005: Rmb10,000,000).

According to a notice from the Chenzhou Municipal Finance Bureau, a subsidiary of the Company received government grants totalling Rmb100,000 during the year (2005: Rmb3,483,000).

According to notices from the Yanshi Municipal Finance Bureau and Henan Province Finance Bureau, a government grant of Rmb6,000,000 was awarded to CLFG Longmen Glass Co. 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 Rmb461,500 has been recognised during the year (2005: Rmb461,500).

ii During the year, the Company received Rmb1,126,000 from the Luoyang Municipal Finance Bureau as the compensation for the factory removal (2005: Nil).

7 (Loss)/profit before taxation

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

		2006 *Rmb'000*	2005 *Rmb'000*
(a)	Net finance costs:		
	Interest on bank loans and other borrowings repayable within five years	**(70,794)**	(51,132)
	Less: borrowing costs capitalised into construction in progress*	**898**	2,127
		(69,896)	(49,005)
	Interest income	**26,917**	7,823
	Net foreign exchange loss	**(2,726)**	(348)
	Bank charges	**(5,668)**	(2,178)
		(51,373)	(43,708)

* The borrowing costs have been capitalised at a rate of 5.76% per annum (2005: 5.58% to 6.98% per annum).

		2006 *Rmb'000*	2005 *Rmb'000*
(b)	Investment (loss)/income:		
	Dividend income	**3,600**	3,600
	Impairment losses on unlisted available-for-sale securities	**(14,058)**	(686)
	Loss on disposal of a subsidiary	**—**	(55)
	Others	**1,055**	47
		(9,403)	2,906

		2006 *Rmb'000*	2005 *Rmb'000*
(c)	Staff costs:		
	Wages and salaries	**(64,023)**	(50,133)
	Contributions to defined contribution plan	**(22,371)**	(15,939)
		(86,394)	(66,072)

7 (Loss)/profit before taxation *(continued)*

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

	2006 Rmb'000	2005 Rmb'000
(d) Other items:		
Cost of inventories *(note 22)*	**(1,332,852)**	(946,387)
Depreciation	**(116,233)**	(84,169)
Impairment losses on		
— trade receivables	**(1,262)**	(771)
— other receivables	**(24,521)**	(34)
— property, plant and equipment	**(12,536)**	—
Loss on disposal of property, plant and equipment	**(1,414)**	—
Loss on disposal of lease prepayments	**(862)**	—
Auditors' remuneration		
— current year	**(2,150)**	(3,800)
— underprovision in prior year	**(2,639)**	—
Research and development expenses	**(144)**	—
Amortisation of intangible assets	**(1,414)**	(372)
Amortisation of lease prepayments	**(2,652)**	(1,853)
Goodwill arising from increase in investment in a subsidiary written off	**(6,922)**	—
Insurance compensation	**—**	2,000

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, allowance and benefits allowance in kind Rmb'000	Contributions to defined contribution plan Rmb'000	2006 Total Rmb'000
Executive directors					
Liu Baoying	—	—	—	—	—
Zhu Leibo	—	—	—	—	—
Ding Jianluo	—	—	93	10	103
Wang Jie*	—	—	—	—	—
Zhang Shaojie	—	—	—	—	—
Zhu Liuxin	—	—	—	—	—
Jiang Hong	—	—	—	—	—
Independent directors					
Dai Zhiliang*	—	—	—	—	—
Zong Pengrong*	—	—	—	—	—
Guo Aimin#	20	—	—	—	20
Zhang Zhanying#	20	—	—	—	20
Xi Shengyang	20	—	—	—	20
Dong Chao	20	—	—	—	20
Supervisors					
Tao Shanwu	—	—	—	—	—
Song Fei	—	—	—	—	—
Cheng Rongfa	—	—	—	—	—
Ma Shixin#	—	—	81	10	91
Independent Supervisors					
Li Jingyi	6	—	—	—	6
Gu Meifeng	6	—	—	—	6
	92	—	174	20	286

* his term of office expired on 10 April 2006
\# appointed on 10 April 2006

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, allowance and benefits allowance 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

9 Individuals with highest emoluments

Of the five individuals with the highest emoluments, two (2005: two) are directors or supervisors, whose emoluments are disclosed in note 8. The aggregate of the emoluments in respect of the other three (2005: three) individuals are as follows:

	2006 ***Rmb'000***	2005 *Rmb'000*
Salaries and other emoluments	**179**	407
Contribution to defined contribution plan	**27**	38
	206	445

The emoluments of the three (2005: three) individuals with the highest emoluments are within the following band:

Hong Kong dollars	**No. of individuals** **2006**	2005
Nil — HK$1,000,000	**3**	3

10 Income tax expense

(a) Taxation in the consolidated income statement represents:

	2006 **Rmb'000**	2005 *Rmb'000*
Provision for the year	—	1,950

Since the Group did not derive any assessable profits subject to PRC income tax during the year, no provision for PRC income tax was made (2005: 33%).

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 (loss)/profit at applicable tax rate:

	2006 **Rmb'000**	2005 *Rmb'000*
(Loss)/profit before taxation	**(42,902)**	8,592
Notional PRC income tax using the Company's tax rate of 33%	**(14,158)**	2,835
Tax effect of non-deductible expenses	**(71,512)**	1,996
Tax effect of tax exempt revenue	**112,042**	(850)
Tax effect of tax loss utilised	—	(6,346)
Tax losses not recognised for deferred tax	**(26,372)**	4,315
Actual tax expense	—	1,950

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

	2006 **Rmb'000**	2005 *Rmb'000*
Tax losses	**281,372**	255,000
Lease prepayments	**14,633**	27,113
	296,005	282,113

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.

11 Profit attributable to equity shareholders of the Company

The consolidated profit attributable to equity shareholders of the Company includes a profit of Rmb53,608,000 (2005: Rmb14,407,000) 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 2006 (2005: Nil).

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 Rmb12,991,000 (2005: Rmb9,664,000) and the weighted average number of 685,754,724 (2005: 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 2006.

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 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
Cost:				
At 1 January 2006	523,499	1,156,247	20,375	1,700,121
Reclassification	242,304	(257,240)	14,936	—
At 1 January 2006	765,803	899,007	35,311	1,700,121
Deconsolidation of a subsidiary	(112,384)	(81,941)	(5,809)	(200,134)
Additions	29,292	31,334	907	61,533
Transfer from construction in progress *(note 15)*	71,023	300,173	—	371,196
Disposals	(3,363)	(49,976)	(1,780)	(55,119)
At 31 December 2006	750,371	1,098,597	28,629	1,877,597
Accumulated depreciation and impairment:				
At 1 January 2006	134,932	594,144	11,693	740,769
Reclassification	170,553	(179,457)	8,904	—
At 1 January 2006	305,485	414,687	20,597	740,769
Deconsolidation of a subsidiary	(42,868)	(68,852)	(3,853)	(115,573)
Charge for the year	31,446	82,410	2,377	116,233
Impairment	11,056	1,480	—	12,536
Written back on disposal	(308)	(49,597)	(1,079)	(50,984)
At 31 December 2006	304,811	380,128	18,042	702,981
Net book value:				
At 31 December 2006	445,560	718,469	10,587	1,174,616

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 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
Cost:				
At 1 January 2006	222,705	635,542	2,212	860,459
Reclassification	215,780	(236,246)	20,466	—
At 1 January 2006	438,485	399,296	22,678	860,459
Additions	22,146	34,504	239	56,889
Transfer from construction in progress *(note 15)*	—	8,662	—	8,622
Disposals	(341)	(46,260)	(854)	(47,455)
At 31 December 2006	460,290	396,162	22,063	878,515
Accumulated depreciation and impairment:				
At 1 January 2006	78,865	425,175	725	504,765
Reclassification	152,426	(165,594)	13,168	—
At 1 January 2006	231,291	259,581	13,893	504,765
Charge for the year	17,164	22,972	1,492	41,628
Impairment	11,020	—	—	11,020
Written back on disposal	(262)	(44,798)	(378)	(45,438)
At 31 December 2006	259,213	237,755	15,007	511,975
Net book value:				
At 31 December 2006	201,077	158,407	7,056	366,540

Notes:

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

(b) At 31 December 2006, buildings held by a subsidiary with net book value of Rmb6,429,000 (2005: Rmb8,238,000) were pledged for certain short-term loans.

(c) Cost and accumulated depreciation of Rmb200,134,000 and Rmb115,573,000 respectively have excluded from property, plant and equipment in the consolidated balance sheet as a result of the deconsolidation of an ex-subsidiary - Chenzhou Bada Glass Co., Ltd. ("Bada"). The additions to the property, plant and equipment of the Company include those Rmb55,150,000 acquired from Bada through auction during the year.

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	
	2006	2005	**2006**	2005
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
At 1 January	**265,271**	2,323	**8,582**	1,494
Additions	**111,475**	431,295	**113**	7,286
	376,746	433,618	**8,695**	8,780
Transfer to property, plant and equipment *(note 14)*	**(371,196)**	(168,347)	**(8,622)**	(198)
At 31 December	**5,550**	265,271	**73**	8,582

16 Intangible assets

The Group

	2006	2005
	Rmb'000	*Rmb'000*
Cost:		
At 1 January	**18,400**	7,400
Additions	**—**	11,000
At 31 December	**18,400**	18,400
Accumulated amortisation:		
At 1 January	**1,767**	1,395
Charge for the year	**1,414**	372
At 31 December	**3,181**	1,767
Net book value:		
At 31 December	**15,219**	16,633

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

	The Group		The Company	
	2006	2005	**2006**	2005
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Cost:				
At 1 January	**106,683**	106,683	**51,422**	51,422
Additions	**703**	—	**—**	—
Disposals	**(2,452)**	—	**(2,452)**	—
Deconsolidation of a subsidary	**(40,999)**	—	**—**	—
At 31 December	**63,935**	106,683	**48,970**	51,422
Accumulated amortisation:				
At 1 January	**27,398**	25,545	**18,480**	17,627
Amortised for the year	**2,652**	1,853	**1,514**	853
Disposals	**(592)**	—	**(592)**	—
Deconsolidation of a subsidary	**(7,321)**	—	**—**	—
At 31 December	**22,137**	27,398	**19,402**	18,480
Net Book Value:				
At 31 December	**41,798**	79,285	**29,568**	32,942

17 Lease prepayments *(continued)*

Lease prepayments represent the land use rights on land located in the PRC. The remaining periods of the land use rights are from 16 to 58 years. At 31 December 2006, 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 Rmb31,980,000 (2005: Rmb32,807,000).

As at 31 December 2006, the Group's land use rights with net book value of Rmb2,948,000 (2005: Rmb3,019,000) have been pledged for certain short-term loans.

18 Interests in subsidiaries

The Company

	2006 **Rmb'000**	2005 Rmb'000
Unlisted equity interest, at cost	**226,706**	292,098
Amounts due from subsidiaries	**343,153**	201,720
	569,859	493,818
Less: impairment losses	**158,546**	124,803
	411,313	369,015

Details of the Company's principal subsidiaries at 31 December 2006, 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*
CLFG Longmen Glass Co. Ltd. ("Longmen")	Rmb20,000,000	79.06%	Manufacture of float sheet glass	(i)
CLFG Long Fei Glass Co. Ltd. ("Long Fei")	Rmb74,080,000	54.00%	Manufacture of float sheet glass	(ii)
Xiangfang Luoshen Auto Glass Co. Ltd. ("Luoshen")	Rmb30,000,000	66.67%	Manufacture of auto glass	(ii)
Yinan Mineral Products Co. Ltd. ("Yinan")	Rmb28,000,000	52.00%	Exploration of minerals	(ii)
CLFG Long Hai Electronic Glass Co. Ltd. ("Long Hai")	Rmb60,000,000	80.00%	Manufacture of float sheet glass	(ii)
CLFG Long Hao Glass Co. Ltd. ("Long Hao")	Rmb50,000,000	80.00%	Manufacture of float sheet glass	(ii)
CLFG LongXiang Glass Ço. Ltd. ("Long Xiang")	Rmb50,000,000	40.00% (Indirect held)	Manufacture of float sheet glass	(iii)

Notes:

(i) This subsidiary is a collective joint enterprise.

(ii) These subsidiaries are limited liability companies.

(iii) The Group indirectly, through Long Fei, held 40% shareholding in Long Xiang. Certain shareholders, who held 33% shareholding in Long Xiang, has authorised the Company to exercise their rights in Long Xiang. Accordingly, Long Xiang is the subsidiary of the Group since the Group has the power to govern the financial and operating policies of this subsidiary.

(iv) The Company's interest in the ex-subsidiary Chenzhou Bada Glass Co. Ltd. "Bada" has been reclassified as other investment *(note 20)*.

19 Interests in associates

	The Group		The Company	
	2006	2005	**2006**	2005
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Unlisted equity interest, at cost	**—**	—	**220,649**	220,649
Share of net assets	**116,208**	154,627	**—**	—
	116,208	154,627	**220,649**	220,649
Amounts due from associates	**3,445**	38,471	**1,825**	37,185
Amounts due to associates	**(7,766)**	(1,002)	**(1,225)**	(641)
	111,887	192,096	**221,249**	257,193
Less: impairment losses	**782**	37,177	**104,441**	103,098
	111,105	154,919	**116,808**	154,095

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	49.00%	Manufacture of ceramic wall tiles
CLFG Financial Company of Limited Liabilities ("CLFC")	Limited liability company	300,000	37.00%	Provision of financial services
CLFG Processed Glass Co. Ltd. ("CPGC")	Joint stock limited liability company	181,496	49.09%	Production and sale of vehicle safety reprocessed glass

The Group's share of post-acquisition total recognised losses in the above associates for the year ended 31 December 2006, was Rmb104,441,000 (2005: Rmb66,022,000). The Group has not recognised losses relating to Jingxin totalling Rmb18,629,000 (2005: Rmb15,769,000) of which Rmb2,860,000 was incurred in the current financial year (2005: Rmb2,361,000). The Group has no obligation in respect of those unrecognised losses.

Summarised financial information on associates

	Assets *Rmb'000*	Liabilities *Rmb'000*	Equity *Rmb'000*	Revenues *Rmb'000*	Losses *Rmb'000*
2006					
100 per cent	922,950	(649,015)	273,935	153,462	(90,568)
Group's effective interest	394,787	(278,579)	116,208	72,879	(38,419)
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)

20 Other investments

	The Group		The Company	
	2006	2005	**2006**	2005
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Unlisted available-for-sale investment securities, at cost	**82,718**	68,957	**75,628**	62,067
Less: impairment losses	**50,718**	36,660	**43,828**	29,770
	32,000	32,297	**31,800**	32,297

(i) 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.

(ii) 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. 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. As at 31 December 2006, all the equity interest held by Hua Rong had been redeemed.

On 31 December 2006, the Company entered into an agreement with Bada and an independent third party. Pursuant to the agreement, the Company agreed to entrust the business of Bada to the independent third party. Upon the agreement signed by all parties, the independent third party has controlled the assets and business operations of Bada. In accordance with the agreement, the Company no longer has the power to govern the financial and operating policies of Bada as at 31 December 2006. Thus, Bada had been deconsolidated and the carrying vallue in Bada amounting to Rmb13,561,000 has been reclassified as other investment.

The Company held 72.65% shareholding in Bada. In view of the continuing poor financial positions of Bada, full provision had been made regarding the investment. During the year, its main production equipment was sold to the Company through the court's auction, the proceeds of which were used to settle the balance due to the Company during the year. The rest of the assets of Bada are frozen by the court under the petition of other creditors.

21 Other receivables

	The Group		The Company	
	2006	2005	**2006**	2005
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Non-current assets				
Other receivables	—	26,441	—	6,441

	The Group		The Company	
	2006	2005	**2006**	2005
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Current assets				
Amounts due from ultimate holding company	—	140,693	—	130,692
Amounts due from fellow subsidiaries	—	336,478	—	333,308
Advance payments, other receivables and prepayments	**114,803**	118,265	**81,159**	79,870
	114,803	595,436	**81,159**	543,870
Less: impairment losses on doubtful debts	**55,833**	279,585	**34,927**	256,678
	58,970	315,851	**46,232**	287,192

For the year ended 31 December 2006
(Prepared in accordance with International Financial Reporting Standards)
(Expressed in Renminbi)

22 Inventories

	The Group		The Company	
	2006	2005	**2006**	2005
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Raw materials	**208,057**	192,184	**103,799**	111,957
Work in progress	**18,915**	14,576	**6,692**	6,197
Finished goods	**102,738**	86,740	**56,299**	45,448
	329,710	293,500	**166,790**	163,602
Less: write-down	**38,691**	17,837	**26,900**	13,982
	291,019	275,663	**139,890**	149,620

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

The Group

	2006	2005
	Rmb'000	*Rmb'000*
Carrying amount of inventories sold	**1,311,998**	937,379
Write-down of inventories	**24,365**	11,721
Write-down of inventories utilised during the year	**(3,511)**	(2,713)
	1,332,852	946,387

23 Trade and bills receivables

	The Group		The Company	
	2006	2005	**2006**	2005
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Trade receivables				
— third parties	**66,949**	83,907	**49,265**	58,575
— ultimate holding company	**—**	83,889	**—**	83,826
— fellow subsidiaries	**—**	5,866	**—**	2,651
— a subsidary of the controlling shareholder company	**1,421**	—	**1,171**	—
	68,370	173,662	**50,436**	145,052
Less: impairment losses on doubtful debts	**44,916**	143,026	**42,735**	129,782
	23,454	30,636	**7,701**	15,270
Bills receivable	**45,399**	57,450	**61,878**	94,618
	68,853	88,086	**69,579**	109,888

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

	The Group		The Company	
	2006	2005	**2006**	2005
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Within one year	**66,372**	87,107	**69,569**	109,663
Between one and two years	**1,650**	648	**10**	140
Between two and three years	**831**	331	**—**	85
	68,853	88,086	**69,579**	109,888

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

23 Trade and bills receivables *(Continued)*

Included in the Group's bills receivable in 2005, there was commercial bill of Rmb1,000,000 received from a fellow subsidiary with 100% recourse. The Group recognised the asset and the associated liability in 2005.

Included in the Company's bills receivable are commercial bills received from a subsidiary and a fellow subsidiary of Rmb50,000,000 (2005: Rmb50,000,000) and zero (2005: Rmb1,000,000) 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	
	2006	2005	**2006**	2005
	'000	*'000*	***'000***	*'000*
United States Dollars	**1,159**	1,104	**1,159**	1,104

24 Deposits with banks and non-bank financial institutions

	The Group		The Company	
	2006	2005	**2006**	2005
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Deposits with banks and non-bank financial institutions	**214,545**	118,947	**176,845**	96,947
Include: Pledged deposits	**214,545**	111,873	**176,845**	89,873

At 31 December 2006, time deposits with banks and non-bank financial institutions totalling Rmb100,000,000 (2005: Rmb70,000,000) were pledged to secure loans granted to the Company and the Group *(see note 29)*.

At 31 December 2006, deposits with banks and non-bank financial institutions of Rmb114,545,000 (2005: Rmb41,873,000) were pledged to secure bills payable of the Group.

At 31 December 2006, deposits with banks and non-bank financial institutions of Rmb76,845,000 (2005: Rmb19,873,000) were pledged to secure bills payable of the Company.

25 Cash and cash equivalents

	The Group		The Company	
	2006	2005	**2006**	2005
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Cash in hand	**294**	143	**42**	20
Deposits with banks and non-bank financial institutions with an original maturity within three months	**58,120**	144,512	**43,153**	105,196
Cash and cash equivalents	**58,414**	144,655	**43,195**	105,216

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	
	2006	2005	**2006**	2005
	'000	*'000*	***'000***	*'000*
Hong Kong Dollars	**5,935**	6,898	**5,935**	6,898
United States Dollars	**2,803**	1,635	**2,803**	1,635

26 Deposits with a non-bank financial institution

The balances at 31 December 2006 represent the overdue time deposits at Guangzhou International Trust & Investment Corporation ("GZITIC"), after a 65% (2005: 75%) impairment made. GZITIC is in the process of a corporate restructuring. A preliminary negotiation regarding the debt repayment has been undergoing between the two parties and GZITIC initially intended to repay with certain of its properties with estimated prevailing market value of not less than Rmb50,000,000. Accordingly, a reversal of impairment of Rmb14,346,000 has been made and no interest has been accrued in respect of this deposit recovered.

27 Trade and bills payables

	The Group		The Company	
	2006	2005	**2006**	2005
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Trade payables				
— third parties	**385,154**	172,413	**190,386**	88,781
— fellow subsidiaries	**—**	3,246	**—**	2,476
— controlling shareholder company	**1,214**	—	**—**	—
— a subsidiary of the controlling shareholder company	**8,769**	—	**5,349**	—
	395,137	175,659	**195,735**	91,257
Bills payable	**171,390**	75,600	**98,690**	33,300
	566,527	251,259	**294,425**	124,557

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

	The Group		The Company	
	2006	2005	**2006**	2005
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Due within 1 month or on demand	**566,527**	251,259	**294,425**	124,557

28 Accrued expenses and other payables

	The Group		The Company	
	2006	2005	**2006**	2005
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Amounts due to the ultimate holding company	**—**	5,737	**—**	4,719
Amounts due to fellow subsidiaries	**—**	315	**—**	130
Amount due to a subsidiary of the controlling shareholder company	**7,958**	—	**7,847**	—
Accrued expenses, other payables and receipts in advance	**252,828**	323,684	**122,283**	75,342
	260,786	329,736	**130,130**	80,191

The amount due to a subsidiary of a controlling shareholder company is unsecured, interest-free and have no fixed terms of repayment.

At the balance sheet date, retention monies totalling Rmb67,000 (2005: Rmb45,198,000) 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	
	2006	2005	**2006**	2005
	'000	*'000*	***'000***	*'000*
United States Dollars	**—**	256	**—**	256

29 Bank and other loans

The Group

	Interest rate	Interest type	2006 Rmb'000	2005 Rmb'000
Secured bank loans	2.50% - 8.57%	Fixed	**754,910**	680,643
Unsecured loans from a controlling shareholder company/ the ultimate holding company	6.12% - 7.04%	Fixed	**31,540**	65,662
Secured loans from an associate	6.98%	Fixed	**50,000**	66,500
Unsecured loans from an associate	5.58% - 7.65%	Fixed	**63,000**	59,000
Secured loans from a non-bank financial instituation	5.76%	Fixed	**80,000**	80,000
Unsecured loans from a non-bank financial instituation	7.34% - 10.44%	Fixed	**11,000**	30,000
			990,450	981,805

The Company

	Interest rate	Interest type	2006 Rmb'000	2005 Rmb'000
Secured bank loans	2.50% - 7.04%	Fixed	**702,710**	602,243
Unsecured loans from the ultimate holding company	N/A	Fixed	**—**	7,930
Secured loans from an associate	6.98%	Fixed	**50,000**	66,500
Unsecured loans from an associate	5.85% - 6.12%	Fixed	**21,500**	—
			774,210	676,673

Rmb3,100,000 included in secured bank loans of the Group is secured by the land use rights and buildings amounting to Rmb2,948,000 and Rmb6,429,000 respectively.

Included in loans from banks of the Company are loans amounting to Rmb91,880,000 (2005: Rmb70,000,000) which are secured by time deposits of Rmb100,000,000 (2005: Rmb70,000,000) *(see note 24)*. The remaining balances are guaranteed by a controlling shareholder company and carry interest at the prevailing market rates.

Included in secured loans from a non-bank financial institution to a subsidiary of Rmb20,400,000 (2005: Rmb12,000,000) has become overdue for payment.

The bank and other loans are repayable as follows:

The Group

	2006 Rmb'000	2005 Rmb'000
Within one year		
— short-term loans	**902,221**	839,632
— current portion of long-term loans	**28,202**	55,475
	930,423	895,107
Between one and two years	**53,862**	28,215
Between two and five years	**1,596**	53,964
After five years	**4,569**	4,519
	60,027	86,698
	990,450	981,805

29 Bank and other loans *(continued)*

The Company

	2006 *Rmb'000*	2005 *Rmb'000*
Within one year		
— short-term loans	**766,981**	661,500
— current portion of long-term loans	**532**	8,475
	767,513	669,975
Between one and two years	**532**	545
Between two and five years	**1,596**	1,634
After five years	**4,569**	4,519
	6,697	6,698
	774,210	676,673

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

Repayment terms and last repayment date	Interest rate	Interest type	The Group **2006** *Rmb'000*	The Group 2005 *Rmb'000*	The Company **2006** *Rmb'000*	The Company 2005 *Rmb'000*
Secured bank loans						
Euro denominated:						
Payable semi-annually in 2006	2.50%	Fixed	**—**	545	**—**	—
Payable semi-annually in 2007	2.50%	Fixed	**532**	545	**532**	545
Payable semi-annually from 2008 through 2019	2.50%	Fixed	**6,697**	6,153	**6,697**	6,698
			7,229	7,243	**7,229**	7,243
Unsecured loan from an associate						
Due in 2006	N/A	Fixed	**—**	17,000	**—**	—
			—	17,000	**—**	—
Unsecured loans from the ultimate holding company						
Due in 2006	N/A	Fixed	**—**	7,930	**—**	7,930
			—	7,930	**—**	7,930
Secured loans from a non-bank financial institution						
Due in 2007	5.76%	Fixed	**27,670**	27,670	**—**	—
Due in 2008	5.76%	Fixed	**52,330**	52,330	**—**	—
			80,000	80,000	**—**	—
Unsecured loans from a non-bank financial institutiion						
Payable semi-annual from 2001 through 2008 *(note 20(ii))*	N/A	N/A	**—**	30,000	**—**	—
Due in 2008	10.44%	Fixed	**1,000**	—	**—**	—
			1,000	30,000	**—**	—
Total long-term loans			**88,229**	142,173	**7,229**	15,173
Less: Current-portion repayable within one year			**28,202**	55,475	**532**	8,475
Long-term portion of long-term loans			**60,027**	86,698	**6,697**	6,698

29 Bank and other loans *(continued)*

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		The Company	
	2006	2005	**2006**	2005
	'000	*'000*	***'000***	*'000*
Euros	**704**	756	**704**	756

Short-term loans

The weighted average interest rates on short-term loans for the Group and the Company were 6.89% and 6.37 % per annum respectively (2005: 6.02% and 5.86% per annum respectively).

Details of the Group's liquidity management policy are set out in note 39(b).

30 Deferred income

According to notices from the Yanshi Municipal Finance Bureau and Henan Province Finance Bureau, a government grant of Rmb6,000,000 was awarded to 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 Rmb461,500 has been recognised during the year (2005: Rmb461,500).

31 Share capital

	2006		2005	
	Shares '000	***Rmb'000***	*Shares '000*	*Rmb'000*
Registered, issued and paid-up capital:				
State-owned legal person shares of Rmb1.00 each				
At the beginning of the year	**400,000**	**400,000**	400,000	400,000
Decrease as a result of Revised Share Reform *(note (a))*	**(21,000)**	**(21,000)**	—	—
Cancellation upon repurchase of own shares *(note (b))*	**(199,982)**	**(199,982)**	—	—
At the end of year	**179,018**	**179,018**	400,000	400,000
Domestic listed shares ("A Shares") of Rmb1.00 each				
At the beginning of the year	**50,000**	**50,000**	50,000	50,000
Increase as a result of Revised Share Reform *(note (a))*	**21,000**	**21,000**	—	—
At the end of year	**71,000**	**71,000**	50,000	50,000
Overseas listed shares ("H Shares") of Rmb1.00 each				
At the beginning and the end of the year	**250,000**	**250,000**	250,000	250,000
	500,018	**500,018**	700,000	700,000

Notes:

(a) In accordance with the revised share reform of the Company for the conversion of non-tradable A Shares to tradable A Shares ("Revised Share Reform"), the holder of the non-tradable A Shares, CLFG, which was also an immediate holding company of the Company, offered as consideration, 4.2 shares of non tradable A Shares of the Company for every 10 tradable A Shares held by A Shares shareholders as registered on the registration date in respect of the implementation of the Revised Share Reform. Upon the completion of the proposal, CLFG offered 21,000,000 non-tradable A Shares as condition to have trading right in the A Shares market.

(b) According to the judgement (2007) [Luo Zhi Zi No.18-32] of the Intermediate People's Court of Luoyang, Henan Province on 30 November 2006, 199,981,758 A shares of the Company held by CLFG were used to offset the debts and the interest thereof in the total sum of Rmb629,942,543, resulting a write back of provision for bad debt of Rmb347,574,000 by the Group during the year. The above 199,981,758 shares were cancelled from the account of CLFG which now only held 179,018,242 restricted circulating A shares of the Company and relevant registration procedure for such cancellation was carried out. Accordingly, the total number of shares of the Company became 500,018,242. The nominal value of the cancelled shares was deducted from the share capital and the excess amount approximately Rmb429,960,000 was paid out of the share premium.

32 Share premium

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

33 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)	Accumulated losses Rmb'000	Total Rmb'000
At 1 January 2005	58,796	55,591	110,764	(106,949)	—	(936,974)	(818,772)
Profit attributable to equity shareholders of the Company	—	—	—	—	—	9,664	9,664
Appropriation *(note (a))*	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	(927,543)	(807,622)
At 1 January 2006	**58,937**	**55,662**	**110,764**	**(106,949)**	**1,507**	**(927,543)**	**(807,622)**
Profit attributable to equity shareholders of the Company	**—**	**—**	**—**	**—**	**—**	**12,991**	**12,991**
Transfer to accumulated losses *(note (f))*	**(51,366)**	**—**	**(110,764)**	**—**	**—**	**162,130**	**—**
Transfer from / (to) reserves	**55,662**	**(55,662)**	**—**	**—**	**—**	**—**	**—**
Deconsolidation of a subsidiary	**(2,157)**	**—**	**—**	**—**	**(1,507)**	**2,157**	**(1,507)**
At 31 December 2006	**61,076**	**—**	**—**	**(106,949)**	**—**	**(750,265)**	**(796,138)**

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)	Accumulated losses Rmb'000	Total Rmb'000
At 1 January 2005 and	51,366	51,366	110,764	(106,949)	(931,530)	(824,983)
Profit attributable to equity shareholders of the Company	—	—	—	—	14,407	14,407
At 31 December 2005	51,366	51,366	110,764	(106,949)	(917,123)	(810,576)
At 1 January 2006	**51,366**	**51,366**	**110,764**	**(106,949)**	**(917,123)**	**(810,576)**
Profit attributable to equity shareholders of the Company	**—**	**—**	**—**	**—**	**53,608**	**53,608**
Transfer to accumulated losses *(note (f))*	**(51,366)**	**—**	**(110,764)**	**—**	**162,130**	**—**
Transfer from / (to) reserves	**51,366**	**(51,366)**	**—**	**—**	**—**	**—**
At 31 December 2006	**51,366**	**—**	**—**	**(106,949)**	**(701,385)**	**(756,968)**

33 Reserves *(continued)*

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) In previous years, 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. According to the "Company Law of the People's Republic of China (2005 revised)" that become effective on 1 January 2006 and the revised Articles of Associations of the Company and its subsidiaries, they do not make appropriation to the statutory public welfare fund commencing from 2006. The balance of this reserve as at 31 December 2005 was transferred to the statutory surplus reserve for administrative purposes.

(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) In 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.

(f) During the year, statutory surplus reserve and discretionary surplus reserve of the Company amounting to Rmb51.366 million and Rmb110.764 million respectively were used to make good the previous years' accumulated losses.

(g) 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 2006, there was no reserve available for distribution (2005: Nil).

34 Notes to the consolidated cash flow statement

(a) Reconciliation of (loss)/profit before taxation to cash generated from operations

	Note	**2006** **Rmb'000**	2005 Rmb'000
(Loss)/profit before taxation		**(42,902)**	8,592
Share of net losses of associates		**38,419**	20,751
Loss on disposal of a subsidiary		**—**	55
Gain on deconsolidation of a subsidiary		**(12,561)**	—
Amortisation and depreciation		**120,299**	86,394
Interest income		**(26,917)**	(7,823)
Dividend income		**(3,600)**	(3,600)
Interest expense		**69,896**	49,005
Impairment loss on unlisted available-for-sale securities		**14,058**	686
Impairment loss on property, plant and equipment		**12,536**	—
Impairment losses on receivables		**25,783**	805
Reversal of impairment losses on receivables		**(361,991)**	—
Waiver of debts	34(b)	**(1,088)**	(1,716)
Write off of long-term payables		**(732)**	(3,439)
Net written-down of inventories		**20,854**	9,008
Net loss on disposal of property, plant and equipment		**1,414**	219
Net loss on disposal of lease prepayments		**862**	—
Foreign exchange gain		**(2,726)**	(1,342)
Gain on redemption of financial liabilities		**(19,500)**	—
Goodwill arising from increase in investment in a subsidiary written off		**6,922**	—
Increase in inventories		**(71,336)**	(79,477)
Decrease/(increase) in trade and bills receivables		**96,038**	(26,988)
Increase in other receivables		**(69,056)**	(9,505)
Decrease in time deposits with original maturity more than three months		**7,074**	80,159
Increase in trade and bills payables		**347,451**	140,497
Increase in accrued expenses and other payables		**28,554**	17,290
(Decrease)/increase in deferred income		**(461)**	5,538
Cash generated from operations		**177,290**	285,109

34 Notes to the consolidated cash flow statement *(continued)*

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

	2006	2005
	Rmb'000	*Rmb'000*
Waiver of debts	**1,088**	1,716
Capital contributions by minority shareholders in the form of intangible assets	**—**	11,000
Repay debts by way of using shares	**629,942**	—

(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

(d) Deconsolidation of a subsidiary

	2006
	Rmb'000
Deconsolidation of assets	
Trade payables	(58,166)
Accrued expenses and other payables	(100,873)
Other loans	(20,499)
Dividend payable	(1,365)
Prepayment	1,807
Other receivables	1,894
Cash and cash equivalents	6,762
Trade receivables	24,088
Intangible assets	33,678
Inventories	38,779
Property, plant and equipement	92,561
Minority interests	(5,105)
	—
	13,561
Classified as other investment *(note 20)*	(13,561)
Release of unrecognised gain on inter-group transactions upon deconsolidation	11,054
Release of capital reserves upon deconsolidation	1,507
Gain on deconsolidation of a subsidiary *(note 6)*	12,561

34 Notes to the consolidated cash flow statement *(continued)*

(d) Deconsolidation of a subsidiary *(continued)*

Analysis of net cash flow from cash and cash equivalents of a deconsolidated subsidiary:

	2006 *Rmb'000*
Cash and cash equivalents upon deconsolidation	(6,762)

35 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	**2006** *Rmb'000*	2005 *Rmb'000*
Ancillary and social services	(i)	**4,403**	2,037
Provision of utilities	(ii)	**915**	775
Interest paid and payable		**2,928**	7,104
Guarantees issued by CLFG to the banks in favour of the Group		**151,500**	144,000
Indirect guarantees	(iii)	**473,600**	388,000
Guarantees issued by CLFG to the Group in favour of fellow subsidiaries		**—**	110,594

Notes:

(i) The Company has entered into a three-year agreement with CLFG effective 3 August 2004, which 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 3 August 2004, which 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.

(iii) Guarantees have been issued by CLFG, in respect of bank loans to third party entities in return for guarantees issued by such entities to banks in favour of the Company.

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

	Note	**2006** *Rmb'000*	2005 *Rmb'000*
Sales of goods		**12,552**	14,896
Proceeds from sale of racks and scrap materials		**—**	256
Ancillary and social services	(i)	**4,288**	4,650
Provision of utilities	(ii)	**17,455**	15,657
Purchase of raw materials	(iii)	**12,205**	9,278
Interest paid and payable		**4,108**	5,874
Interest received and receivable		**83**	600
Rental income	(iv)	**730**	580

35 Related party transactions *(continued)*

(b) Transactions between the Group and the subsidiaries of CLFG were as follows: *(continued)*

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 and CLFG Jingwei Glass Fibre Co. Ltd.("Jingwei"), effective 3 August 2004, which expiring on 3 August 2007 with Xinxing and Jingwei. In accordance with this agreement, the Company provides utilities such as water and electricity to these subsidiaries. The amounts charged to these companies are based on reasonable costs incurred in providing such services plus respective tax charges.

(iii) The Company entered into a three-year agreement with a CLFG's subsidiary, CLFG Minerals Products Co. Ltd.("Mineral Co"), effective from 3 August 2004, which 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:

	The Group		The Company	
	2006	2005	**2006**	**2005**
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Impairment losses on amounts due from the ultimate holding company	**—**	95,031	**—**	94,968
Impairment losses on amounts due from fellow subsidiaries (including associates which are also fellow subsidiaries of the Company)	**782**	259,313	**—**	255,542

(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:

	2006	2005
	Rmb'000	*Rmb'000*
Short-term employee benefits	**272**	672
Contribution to defined contribution plan	**37**	61
	309	733

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 38.

36 Capital commitments

Capital commitments outstanding at 31 December 2006 not provided for in the financial statements were as follows:

	The Group		The Company	
	2006	2005	**2006**	2005
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Contracted for				
— construction project	**—**	43,085	**—**	3,299
Authorised but not contracted for				
— construction project	**7,687**	29,964	**5,926**	—
	7,687	73,049	**5,926**	3,299

37 Contingent liabilities

At 31 December 2006, contingent liabilities were as follows:

	The Group		The Company	
	2006	2005	**2006**	2005
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Guarantees issued to banks in favour of subsidiaries	**—**	—	**75,000**	26,200
Guarantees issued to CLFC and CLFG in favour of subsidiaries	**—**	—	**41,500**	75,000
Guarantees issued to Hua Rong in favour of a subsidiary	**—**	—	**—**	30,000
	—	—	**116,500**	131,200

In opinion of the directors, the fair values of the liabilities in relation to the above guarantees given by the Company are insignificant as at 31 December 2006 and 31 December 2005.

38 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% (2005: 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.

39 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 2006, the Group's net current liabilities amounted to Rmb1,063,686,000 (2005: Rmb530,657,000) approximately. For the year ended 31 December 2006, the Group recorded a net cash inflow from operating activities of Rmb107,388,000 (2005: Rmb231,870,000) approximately, a net cash outflow from investing activities and financing activities of Rmb194,629,000 (2005: Rmb214,254,000) approximately and an decrease in cash and cash equivalents of Rmb86,241,000 (2005: an increase of Rmb17,616,000) approximately.

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 controlling shareholder company and the holding company of the controlling shareholder company. The Group has obtained firm commitments from its principal bankers to renew its short-term bank loans outstanding at 31 December 2006 amounting to Rmb31,540,000 when they fall due during 2007.

39 Financial instruments *(continued)*

(b) Liquidity risk *(continued)*

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.

(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 2006 and 2005 due to their short maturities except the following:

The Group

	2006		2005	
	Carrying amount ***Rmb'000***	**Fair value** ***Rmb'000***	Carrying amount *Rmb'000*	Fair value *Rmb'000*
Non-current bank and other loans	**60,027**	**54,763**	98,698	94,265

The Company

	2006		2005	
	Carrying amount ***Rmb'000***	**Fair value** ***Rmb'000***	Carrying amount *Rmb'000*	Fair value *Rmb'000*
Non-current bank and other loans	**6,697**	**5,064**	6,698	5,148

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.

(Expressed in Renminbi)

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.

Impairment

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.

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

Up to the date of issue of these financial statements, the Company and the Group had no material post balance sheet events after the balance sheet date.

42 Possible impact of amendments, new standards and interpretations issued but not yet effective for the annual accounting period ended 31 December 2006

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 annual accounting period ended 31 December 2006 and which have not been adopted in these financial statements:

	Effective for accounting period beginning on or after
IFRS 7, Financial Instruments: Disclosures	1 January 2007
Amendment to IAS 1, Presentations of Financial Statements: Capital Disclosures	1 January 2007
IFRS 8, Operating Segments	1 January 2008
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
IFRIC 10, Interim financial reporting and impairment	1 November 2006
IFRIC 11, IFRS 2 — Group and Treasury Share Transactions	1 March 2007
IFRIC 12, Service Concession Agreements	1 January 2009

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

Audit Report
Heng De Gan Shen Zi [2007] No.

To the shareholders of Luoyang Glass Company Limited:

We have audited the accompanying financial statements of Luoyang Glass Company Limited (the "Company"), which comprise the consolidated balance sheet and balance sheet as at 31 December 2006, and the consolidated income statement, the income statement, the consolidated cash flow statement and the cash flow statement for the year then ended, and notes to the financial statements.

1. MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Company's management is responsible for the preparation of these financial statements in accordance with 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. This responsibility includes: (1) designing, implementing and maintaining internal control relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error; (2) selecting and applying appropriate accounting policies; and (3) making accounting estimates that are reasonable in the circumstances.

2. REGISTERED CERTIFIED PUBLIC ACCOUNTANTS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with China's Auditing Standards for the Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the registered certified public accountants' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we considers internal control relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

3. AUDIT OPINION

In our opinion, the Company's 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 Company's consolidated financial position and financial position as at 31 December 2006 and the Company's consolidated results of operations, the results of operations, the consolidated cash flows and the cash flows for the year then ended.

4. STATEMENT ON EMPHASIS

We would draw the attention of the users of financial statements, as stated in note 2 to the financial statements, that the financial statements of the Company was prepared on assumption that the Company will continue as a going concern during the period from the end of the reporting period and 31 December 2007. The Company had accumulated losses amounting to Rmb1,122,133,000 and net current liabilities exceeding net assets by Rmb1,083,198,000 at 31 December 2006. Notwithstanding the disclosure made in note 2 to the financial statements that the above financial statements was prepared on the basis of the consumption of continuing as a going concern, there exists fundamental uncertainty which may cast significant doubt about the Company's ability to continue as a going concern. This explanatory paragraph does not affect the audit opinion made.

**GuangDong HengXin Delu Certified
Public Accountants Company Limited**

PRC Registered Accountant: **Li Wenzhi**

PRC Registered Accountant: **Wang Yanquan**

Zhuhai, the PRC 25 April 2007

Consolidated balance sheet

At 31 December 2006
(Prepared under the PRC Accounting Rules and Regulations)
(Expressed in Renminbi)

	Notes	**2006** **Rmb'000**	2005 Rmb'000
Assets			
Current assets			
Cash at banks and on hand	5	**272,959**	263,602
Short-term investments	6	**—**	10,500
Bills receivable	7	**45,399**	57,450
Interest receivables	8	**—**	—
Trade receivables	9	**25,609**	31,745
Other receivables	10	**17,616**	288,279
Prepayments	11	**12,203**	12,989
Inventories	12	**299,801**	275,663
Deferred expenses	13	**171**	24,780
Total current assets		**673,758**	965,008
Long-term investments			
Long-term equity investments	14	**148,208**	186,924
Total Long-term investments		**148,208**	186,924
Fixed assets			
Fixed assets, at cost		**1,877,597**	1,700,121
Less: Accumulated depreciation		**(690,445)**	(740,769)
Net book value of fixed assets		**1,187,152**	959,352
Less: Impairment loss		**(12,536)**	—
Net book value of fixed assets	15	**1,174,616**	959,352
Construction materials	16	**1,585**	1,852
Construction in progress	17	**3,966**	263,419
Total fixed assets		**1,180,167**	1,224,623
Intangible assets and other assets			
Intangible assets	18	**137,167**	178,165
Other long-term receivables	10	**50,000**	55,655
Total intangible assets and other assets		**187,167**	233,820
Total assets		**2,189,300**	2,610,375

The notes on pages 94 to 125 form part of these financial statements.

Consolidated balance sheet *(Continued)*

At 31 December 2006
(Prepared under the PRC Accounting Rules and Regulations)
(Expressed in Renminbi)

	Notes	**2006** **Rmb'000**	2005 Rmb'000
Liabilities and shareholders' funds			
Current liabilities			
Short-term loans	19	**902,220**	839,632
Bills payable	20	**171,390**	75,600
Trade payables	21	**400,621**	187,942
Receipts in advance	21	**85,985**	71,100
Accrued payroll		**879**	2
Staff welfare payable		**8,641**	4,631
Tax payabels	4(c)	**1,145**	21,011
Other payables	22	**662**	635
Other creditors	21	**150,955**	226,793
Accrued expenses	23	**3,753**	6,430
Provisions	24	**2,503**	
Current portion of long-term loans	25	**28,202**	25,475
Total current liabilities		**1,759,567**	1,459,251
Long-term liabilities			
Long-term loans	25	**60,027**	86,698
Total long-term liabilities		**60,027**	86,698
Total liabilities		**1,819,594**	1,545,949
Minority interests		**58,657**	113,347
Shareholder's funds			
Share capital	26	**500,018**	700,000
Capital reserve	27	**914,179**	994,655
Surplus reserves	28	**61,075**	225,361
Unrealised investment losses		**(39,479)**	—
Accumulated losses		**(1,122,133)**	(968,937)
Total shareholders' funds		**313,660**	951,079
Total liabilities and shareholders' funds		**2,189,300**	2,610,375

These financial statements have been approved by the Board of Directors on 25 April 2007.

Liu Baoying
Legal Representative
(Sign and chop)

Ding Jianluo
General Manager
(Sign and chop)

Cao Mingchun
Financial Controller
(Sign and Chop)

The notes on pages 94 to 125 form part of these financial statements.

Balance sheet

At 31 December 2006
(Prepared under the PRC Accounting Rules and Regulations)
(Expressed in Renminbi)

	Notes	**2006** **Rmb'000**	2005 *Rmb'000*
Assets			
Current assets			
Cash at banks and on hand	5	**220,040**	202,163
Short-term investments	6	**354,600**	230,000
Bills receivable	7	**65,351**	94,618
Interest receivables	8		—
Trade receivables	9	**9,914**	15,270
Other receivables	10	**50,636**	294,615
Prepayments	11	**275**	2,572
Inventories	12	**146,032**	149,620
Deferred expenses	13	**69**	21,032
Total current assets		**846,917**	1,009,890
Long-term investments			
Long-term equity investments	14	**216,168**	363,738
Total long-term investments		**216,168**	363,738
Fixed assets			
Fixed assets, at cost		**878,516**	860,459
Less Accumulated depreciation		**(500,955)**	(504,765)
Net book value of fixed assets		**377,561**	355,694
Less: Impairment loss		**(11,020)**	—
Net book value of fixed assets	15	**366,541**	355,694
Construction materials	16		1,248
Construction in progress	17	**73**	7,334
Total fixed assets		**366,614**	364,276
Intangible assets and other assets			
Intangible assets	18	**109,719**	115,190
Other long-term receivables	10	**50,000**	35,655
Total intangible assets and other assets		**159,719**	150,845
Total assets		**1,589,418**	1,888,749

The notes on pages 94 to 125 form part of these financial statements.

Balance sheet *(Continued)*

At 31 December 2006
(Prepared under the PRC Accounting Rules and Regulations)
(Expressed in Renminbi)

	Notes	**2006** **Rmb'000**	2005 Rmb'000
Liabilities and shareholders' funds			
Current liabilities			
Short-term loans	19	**766,980**	661,500
Bills payable	20	**98,690**	33,300
Trade payables	21	**212,707**	91,716
Receipt in advance	21	**50,868**	99,935
Staff welfare payable		**6,012**	3,751
Taxes payable	4(c)	**5,775**	1,764
Other payables	22	**313**	50
Other creditors	21	**79,440**	26,312
Accrued expenses	23	**2,233**	4,169
Provisions	24	**2,503**	
Current portion of long-term loans	25	**532**	8,475
Total current liabilities		**1,226,053**	930,972
Long-term liabilities			
Long-term loans	25	**6,697**	6,698
Total long-term payables		**6,697**	6,698
Total liabilities		**1,232,750**	937,670
Shareholders' funds			
Share capital	26	**500,018**	700,000
Capital reserve	27	**914,179**	994,655
Surplus reserves	28	**51,366**	213,495
Accumulated losses		**(1,108,895)**	(957,071)
Total shareholders' funds		**356,668**	951,079
Total liabilities and shareholders' funds		**1,589,418**	1,888,749

These financial statements have been approved by the Board of Directors on 25 April 2007.

Liu Baoying
Legal Representative
(Sign and chop)

Ding Jianluo
General Manager
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The notes on pages 94 to 125 form part of these financial statements.

Consolidated income statement and profit appropriation statement

For the year ended 31 December 2006
(Prepared under the PRC Accounting Rules and Regulations)
(Expressed in Renminbi)

	Notes	2006 Rmb'000	2005 Rmb'000
Income from principal operations	29	**1,195,989**	1,031,859
Less: Cost of sales	30	**(1,315,416)**	(937,379)
Business tax and surcharges	31	**(796)**	(2,883)
Profit from principal operations		**(120,223)**	91,597
Add: Other operating profit	32	**22,634**	19,481
Less: Operating expenses		**(48,915)**	(36,725)
Administrative expenses		**(167,211)**	(55,773)
Financial expenses	33	**(51,373)**	(44,308)
Operating (loss)/ profit		**(365,088)**	(25,728)
Add: Investment income	34	**(34,262)**	17,055
Subsidy income	35	**100**	13,483
Non-operating income	36	**11,667**	1,638
Less: Non-operating expenses	37	**(25,943)**	(2,961)
Total profit		**(413,526)**	3,487
Less: Income tax expense	4(b)/38		(1,950)
Minority interests		**56,565**	3,415
Unrealised investment losses		**39,479**	
Net profit for the year		**(317,482)**	4,952
Add: Accumulated losses brought forward		**(968,937)**	(973,656)
Add: Offset of accumulated losses with surplus reserves	28	**162,130**	
Add: Transfer to statutory surplus reserve at the beginning of year reserved		**2,156**	
Less: Transfer to statutory surplus reserve			(233)
Accumulated losses carried forward		**(1,122,133)**	(968,937)

These financial statements have been approved by the Board of Directors on 25 April 2007.

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The notes on pages 94 to 125 form part of these financial statements.

Income statement and profit appropriation statement

For the year ended 31 December 2006
(Prepared under the PRC Accounting Rules and Regulations)
(Expressed in Renminbi)

	Notes	**2006** **Rmb'000**	2005 *Rmb'000*
Income from principal operations	29	**532,968**	629,413
Less: Cost of sales	30	**(599,261)**	(591,304)
Business tax and surcharges	31	**(385)**	(857)
Profit from principal operations		**(66,678)**	37,252
Add: Other operating profit	32	**27,475**	19,885
Less: Operating expenses		**(24,986)**	(25,713)
Administrative expenses		**(78,450)**	(36,813)
Financial expenses	33	**(23,548)**	(32,971)
Operating loss		**(166,187)**	(38,360)
Add: Investment income	34	**(134,613)**	33,155
Subsidy income	35	**10,000**	
Non-operating income	36	**575**	319
Less: Non-operating expenses	37	**(13,729)**	(182)
Total profit		**(313,954)**	4,932
Less: Income tax expenses	4(b)/38		
Net profit for the year		**(313,954)**	4,932
Add: Accumulated losses brought forward		**(957,071)**	(962,003)
Add: Offset of accumulated losses with surplus reserves	28	**162,130**	
Accumultaed losses carried forward		**(1,108,895)**	(957,071)

These financial statements have been approved by the Board of Directors on 25 April 2007.

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The notes on pages 94 to 125 form part of these financial statements.

Consolidated cash flow statement

For the year ended 31 December 2006
(Prepared under the PRC Accounting Rules and Regulations)
(Expressed in Renminbi)

	Notes	2006 Rmb'000
Cash flows from operating activities:		
Cash received from sale of goods and rendering of services		908,945
Refund of taxes		11,773
Cash received in relation to other operating activities		239,254
Sub-total of cash inflows		1,159,972
Cash paid for purchases of goods and provision of services		(653,004)
Cash paid to and on behalf of employees		(73,311)
Tax paid		(21,195)
Cash paid in relation to other operating activities		(420,011)
Sub-total of cash outflows		(1,167,521)
Net cash flow from operating activities	(i)	(7,549)
Cash flows from investing activities		
Cash received from disposal of investments		64,500
Cash received from disposal of a subsidiary		
Cash received from return of investments		3,690
Net proceeds from disposal of fixed assets		1,098
Cash received from other investment activities		24,806
Sub-total of cash inflows		94,094
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets		(61,799)
Cash paid for acquisition of investments		(8,200)
Cash paid for other investment activities		(29,990)
Sub-total of cash outflows		(99,989)
Net cash flows from investing activities		(5,895)
Cash flows from financing activities:		
Cash received from minority shareholders		13,775
Proceeds from loans		1,128,926
Cash received from proceeds of other fund raising activities		31
Sub-total of cash inflows		1,142,732
Repayment of loans		(1,161,188)
Cash paid for interest payment		(59,135)
Cash paid for other financing activities		(1,974)
Sub-total of cash outflows		(1,222,297)
Net cash flow from financing activities		(79,565)
Effect on movement in exchange rate		(306)
Net decrease in cash	(ii)	93,315

The notes on pages 94 to 125 form part of these financial statements.

Notes to the consolidated cash flow statement

For the year ended 31 December 2006
(Prepared under the PRC Accounting Rules and Regulations)
(Expressed in Renminbi)

34 Notes to the consolidated cash flow statement

	2006 Rmb'000
(i) Reconciliation of net profit to cash flows from operating activities	
Net profit for the year	(317,482)
Add: Minority interests	(56,565)
Unrealised investment losses	(39,479)
Impairment loss of fixed assets	25,156
Depreciation of fixed assets	115,401
Amortisation of intangible assets	6,029
Amortisation in long time deferred expenses	18,689
Decrease in deferred expenses	22,884
Increase in accrued expenses	5,466
(Gain)/loss on disposal of fixed assets	(7,133)
Financial expenses	51,373
Loss on investments	34,262
Decrease/(increase) in inventories	(87,141)
Decrease in operating receivables	227,065
(Decrease)/increase in operating payables	(3,807)
Others	(2,267)
Net cash flow from operating activities	(7,549)
(ii) Net decrease in cash:	
Cash at the end of the year	58,414
Less: Cash at the beginning of year	(151,729)
Net decrease in cash	93,315

These financial statements have been approved by the Board of Directors on 25 April 2007.

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The notes on pages 94 to 125 form part of these financial statements.

Cash flow statement

For the year ended 31 December 2006
(Prepared under the PRC Accounting Rules and Regulations)
(Expressed in Renminbi)

	Notes	2006 Rmb'000
Cash flows from operating activities:		
Cash received from sale of goods and rendering of services		528,363
Refund of taxes		9,773
Cash received in relation to other operating activities		173,399
Sub-total of cash inflows		711,535
Cash paid for purchase of goods and provison of services		(362,571)
Cash paid to and on behalf of employees		(30,473)
Taxes paid		(9,590)
Cash paid in relation to other operating activities		(283,479)
Sub-total of cash outflows		(686,113)
Net cash flow from operating activities	(i)	25,422
Cash flows from investing activities		
Cash received from disposal of investments		223,532
Cash received from return of investments		23,475
Net proceeds from disposal of fixed assets		1,075
Cash received from investment activities		28,000
Sub-total of cash inflows		276,082
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets		(980)
Cash paid for acquisition of investment		(364,632)
Cash paid for other investment activities		(28,000)
Sub-total of cash outflows		(393,612)
Net cash flow from investing activities		(117,530)
Cash flows from financing activities		
Proceeds from loans raised		932,380
Sub-total of cash inflows		932,380
Repayment of loans		(865,556)
Cash paid for interest payment		(43,505)
Sub-total of cash outflows		(909,061)
Net cash flow from financing activities		23,319
Effect on movement in exchange rate		(306)
Net decrease in cash	(ii)	69,095

The notes on pages 94 to 125 form part of these financial statements.

Notes to the cash flow statement

For the year ended 31 December 2006
(Prepared under the PRC Accounting Rules and Regulations)
(Expressed in Renminbi)

	2006
	Rmb'000
(i) Reconciliation of net profit to cash flows from operating activities:	
Net profit for the year	(313,954)
Add: Impairment losses of fixed assets	4,879
Depreciation of fixed assets	41,628
Amortisation of intangible assets	3,612
Amortisation of long term deferred expenses	4,372
Decrease in deferred expenses	14,853
Increase in accrued expenses	(1,937)
Loss on disposal of fixed assets	2,087
Financial expenses	23,548
Investment income	134,612
Decrease/(increase) in inventories	(20,549)
Decrease in operating receivables	147,701
Increase/decrease in operating payables	(15,561)
Others	131
Net cash flow from operating activities	25,422
(ii) Net decrease in cashCash at the end of the year	43,195
Less: Cash at the beginning of the year	(112,290)
Net decrease in cash	69,095

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The notes on pages 94 to 125 form part of these financial statements.

Details of the provision for assets

At 31 December 2006
(Prepared under the PRC Accounting Rules and Regulations)
(Expressed in Renminbi)

The Group

Items	Balance at 1 January 2006 *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 2006 *Rmb'000*
1 Bad debt provisions:					
Trade receivables	143,329	1,262	(91,758)	(7,139)	45,694
Other receivables	379,784	49,345	(263,741)	(13,893)	151,495
Interest receivables	46,980	(46,980)	—		
Sub-total	570,093	50,607	(402,479)	(21,032)	197,189
2 Provision for diminution in value of inventories:					
Inventories	17,838	24,364	—	(3,511)	38,691
Sub-total	17,838	24,364	—	(3,511)	38,691
3 Provision for impairment of long-term equity investments:					
Long-term equity investments	17,434	13,561	—	(4,092)	26,903
Sub-total	17,434	13,561	—	(4,092)	26,903
4 Provision for impairment of fixed assets					
Fixed assets	—	12,536	—	—	12,536
Sub-total	—	12,536	—	—	12,536
Total provision for assets	605,365	101,068	(402,479)	(28,635)	275,319

The notes on pages 94 to 125 form part of these financial statements.

Details of the provision for assets *(Continued)*

At 31 December 2006
(Prepared under the PRC Accounting Rules and Regulations)
(Expressed in Renminbi)

The Company

Items	Balance at 1 January 2006 *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 2006 *Rmb'000*
1 Bad debt provisons:					
Trade receivables	129,947		(87,211)		42,736
Other receivables	356,877	37,448	(263,741)		130,584
Interest receivables	46,980		(46,980)		
Sub-total	533,804	37,448	(397,932)		173,320
2 Provision for diminution in value of inventories:					
Inventories	13,982	14,210	—	(1,292)	26,900
Sub-total	13,982	14,210	—	(1,292)	26,900
3 Provision for impairment of long-term equity investments:					
Long-term equity investments	12,791	13,561	—	—	26,352
Sub-total	12,791	13,561	—	—	26,352
4 BProvision for impairment of fixed assets					
Fixed assets		11,020	—	—	11,020
Sub-total		11,020	—	—	11,020
Total provision for assets	560,577	76,239	(397,932)	(1,292)	237,592

The notes on pages 94 to 125 form part of these financial statements.

Notes on the financial statements

For the year ended 31 December 2006
(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.

In June 2006, CLFG, the ultimate holding company, got the approval form the board and an "Approval and Reply in relation to the Transfer of Shares of Luoyang Glass Company Limited" (Shang Zi Pi [2006] No. 1232) from the Ministry of Commerce of the People's Republic of China offered 21,000,000 non-tradable A Shares as a condition to have trading right in the A Shares market. This reform is made in accordance with regulations of "Provisions on Management of Share Reform Proposals of Listed Companies" (《上市公司股權分置改革管理辦法》) issued by China Securities Regulatory Commission ("CSRC") and "Guidelines on Share Reform Proposals of Listed Companies" (《關於上市公司股權分置改革的指導皂意見》) issued by Shanghai Stock Exchange. Upon the completion of the reform, CLFG reduced its shareholding in the Company to 379,000,000 shares.

According to the judement (2007) [Luo Zhi Zi No. 18-32] of the intermediate People's Court of Luoyang, Henan Province on 30 November 2006, 199,981,758 A shares of the Company held by CLFG were used to offset the debts and the interest thereof in the total sum of RMB629,942,543. The transfer register and other related documents has been processed by Shanghai Securities Central Clearing and Registration Corporation on 6 December 2006. Upon the completion of the repayment, CLFG, would have to decreased its shareholding in the Company to 179,018,242 shares and the Company's total issued shares should then go down to 500,018,242 shares.

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 Rmb1,122,133,000 and net current liabilities amounted to Rmb 1,083,198,000 at 31 December 2006 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 Rmb720,600,000 to the Company upon their expiries in 2007; 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.

3 Significant accounting policies *(continued)*

(b) Basis of consolidation *(continued)*

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 unrealised 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.

(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 are expensed when consumed. Packaging and other materials are expensed based on 50/50 amortisation policy in which those packaging and other materials would amortise 50% on cost when they are being first used or last used.

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.

(Expressed in Renminbi)

3 Significant accounting policies *(continued)*

(i) Investments *(continued)*

(ii) Long-term equity investments *(continued)*

— 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)).

(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.

Trademarks and non-patented technical know-how

The values of trademarks 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 recognised 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 and surcharge tax	:	3% on VAT

(b) Income tax

The income tax rate of the Company and its subsidiaries is 33% (2005: 33%).

(c) Taxes payable

The Group

	2006 **Rmb'000**	2005 *Rmb'000*
(Prepayment)/income tax payable	**(2,249)**	(2,243)
(Prepayment)/VAT payable	**(952)**	20,946
VAT surcharges payable	**765**	671
Others	**3,581**	1,637
Total	**1,145**	21,011

The Company

	2006 **Rmb'000**	2005 *Rmb'000*
VAT payable	**2,481**	765
VAT surcharges payable	**730**	116
Others	**2,564**	883
Total	**5,775**	1,764

(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

	2006 Original currency ('000)	2006 Exchange Rate	2006 Rmb / Rmb equivalent ('000)	2005 Original currency ('000)	2005 Exchange Rate	2005 Rmb / Rmb equivalent ('000)
Cash						
— Renminbi	—	—	294	—	—	115
Current deposits						
Deposits at banks						
— Renminbi	—	—	9,453	—	—	80,003
— US Dollars	359	7.8087	2,803	1,635	8.0702	13,191
— HK Dollars	5,907	1.0047	5,935	98	1.0403	102
Deposits at non-bank financial institutions						
— Renminbi	—	—	39,929	—	—	51,244
Time deposits						
Time deposits at banks						
— HK Dollars	—	—	—	6,800	1.0403	7,074
Sub-total	—	—	58,414	—	—	151,729
Pledged current deposits						
— Renminbi	—	—	114,545	—	—	41,873
Pledged time deposits						
— Renminbi	—	—	100,000	—	—	70,000
Sub-total	—	—	214,545	—	—	111,873
Total	—	—	272,959	—	—	263,602

At 31 December 2006, time deposits of Rmb100,000,000 (2005: Rmb70,000,000) and current deposits of Rmb114,545,000 (2005: Rmb41,873,000) were pledged as security for the Group's short-term loans and bills payable respectively.

The Company

	2006 Original currency ('000)	2006 Exchange Rate	2006 Rmb / Rmb equivalent ('000)	2005 Original currency ('000)	2005 Exchange Rate	2005 Rmb / Rmb equivalent ('000)
Cash						
— Renminbi	—	—	42	—	—	20
Current deposits						
Deposits at banks						
— Renminbi	—	—	2,212	—	—	55,081
— US Dollars	359	7.8087	2,803	1,635	8.0702	13,191
— HK Dollars	5,907	1.0047	5,935	98	1.0403	102
Deposits at non-bank financial institutions						
— Renminbi	—	—	32,203	—	—	36,822
Time deposits						
Time deposits at banks						
— HK Dollars	—	—	—	6,800	1.0403	7,074
Sub-total	—	—	43,195	—	—	112,290
Pledged current deposits						
— Renminbi	—	—	76,845	—	—	19,873
Pledged time deposits						
— Renminbi	—	—	100,000	—	—	70,000
Sub-total	—	—	176,845	—	—	89,873
Total	—	—	220,040	—	—	202,163

At 31 December 2005, time deposits of Rmb 100,000,000 (2005: Rmb70,000,000) and current deposits of Rmb76,845,000 (2005: Rmb19,873,000) 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 loan receivable				
— Fellow subsidiaries	**10,500**	8,000	18,500	—
— Other companies				
Sub-total	**10,500**	8,000	18,500	—
Less: Provision	—	—	—	—
Total	**10,500**	8,000	18,500	—

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 loan receivable				
— Subsidiaries	**219,500**	356,632	221,532	**354,600**
— Associates	—			
— Fellow subsidiaries	**10,500**	8,000	18,500	—
Sub-total	**230,000**	364,632	240,032	**354,600**
Less: Provision	—			
Total	**230,000**	364,632	240,032	**354,600**

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.

7 Bills receivable

The Group

	2006 ***Rmb'000***	2005 *Rmb'000*
Bank acceptance bills	**44,399**	51,013
Customer acceptance bills	**1,000**	6,437
Total	**45,399**	57,450

The Company

	2006 ***Rmb'000***	2005 *Rmb'000*
Bank acceptance bills	14,351	38,181
Customer acceptance bills	51,000	56,437
Total	65,351	94,618

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

	2006 **Rmb'000**	2005 *Rmb'000*
Interest receivables		
— CLFG and other fellow subsidiaries	**—**	46,980
Less: Bad debt provision	**—**	(46,980)
Toal	**—**	—

At the beginning of the year, interest receivables due from CLFG and other fellow subsidiaries amounted to Rmb46,980,000. During the year, CLFG and its fellow subsidiaries (except for China Luoyang Float Glass (Group) Processed Glass Company Limited ("CPGC")) had repaid all their debts due to the Company by way of issuing shares of the Company to repay the debts due. Please refer to note 27 for details.

9 Trade receivables

Ageing analysis of trade receivables is as follow:

The Group

	2006				2005			
	Amount *Rmb'000*	**% of total trade receivable** %	**Bad debt provision** *Rmb'000*	**% of provision on gross amount** %	Amount *Rmb'000*	% of total trade receivable %	Bad debt provision *Rmb'000*	% of provision on gross amount %
Within 1 year	**23,129**	**33**	**—**		24,888	14	—	—
After 1 year but within 2 year	**2,356**	**3**	**707**	**30**	7,854	5	3,925	50
After 2 year but within 3 year	**1,662**	**2**	**831**	**50**	1,641	1	245	15
Over 3 years	**44,156**	**62**	**44,156**	**100**	140,691	80	139,159	99
Total	**71,303**	**100**	**45,694**	**64**	175,074	100	143,329	82

The Company

	2006				2005			
	Amount *Rmb'000*	**% of total trade receivable** %	**Bad debt provision** *Rmb'000*	**% of provision on gross amount** %	Amount *Rmb'000*	% of total trade receivable %	Bad debt provision *Rmb'000*	% of provision on gross amount %
Within 1 year	**9,905**	**18**	**—**	**—**	15,045	10	—	—
After 1 year but within 2 year	**14**	**1**	**5**	**29**	7	—	2	29
After 2 year but within 3 year	**—**	**—**	**—**	**—**	440	—	220	50
Over 3 years	**42,731**	**81**	**42,731**	**100**	129,725	90	129,725	100
Total	**52,650**	**100**	**42,736**	**81**	145,217	100	129,947	89

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

The Group

	2006 **Rmb'000**	2005 *Rmb'000*
Balance at the beginning of the year	**143,329**	142,560
Add: Charged for the year	**1,263**	1,554
Less: Reversed during the year	**(91,758)**	(785)
Less: Other reduction	**(7,139)**	
Balance at the end of the year	**45,694**	143,329

Other reduction represents the provision for bad and doubtful debt of Rmb 7,138,756.10 excluded the financial statements as a result of the deconsolidation of a subsidiary - Chenzhou Bada Glass Co. Ltd. ("Bada").

The Company

	2006 **Rmb'000**	2005 *Rmb'000*
Balance at the beginning of the year	**129,947**	129,846
Add: Charged for the year	**—**	887
Less: Reversed during the year	**(87,212)**	(786)
Balance at the end of the year	**42,736**	129,947

9 Trade receivables *(continued)*

In 2006, the Group and the Company had no individually significant trade receivables which were fully or substantially provided for.

During the year, CLFG and its fellow subsidiaries (except for China Luoyang Float Glass (Group) Processed Glass Company Limited("CPGC")) had repaid all their debts due to the Company by way of issuing shares of the Company to repay the debts due. Please refer to note 27 for details.

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

Analysis of the five largest trade receivables (after bad debt provision) is as follows:

Name of entity	Period of original debt	Particulars	Amount *Rmb'000*
Lebanon SHAMOUN	Within 1 year	Purchase of goods	3,144
Dong Feng Motor Corporation (Headquater)	After 1 year but within 2 year	Purchase of goods	2,775
China Luoyang Float Glass (Group) Processed Glass Company Limited ("CPGC")	After 1 year but within 2 year	Purchase of goods	2,356
Qingdao Shengge Banhan Glass Co. Ltd	Within 1 year	Purchase of goods	2,007
China Railway Resources Ltd (Guangzhou)	Within 1 year	Purchase of goods	1,889
Total			12,171

At 31 December 2006, the five largest trade receivables (after bad debt provision) accounted for 48% of the Group's total trade receivables (after bad debt provision) (2005: 40%).

10 Other receivables

The Group

	2006 ***Rmb'000***	2005 *Rmb'000*
Amount due from the subsidiaries	**—**	—
Amount due from the holding company	**—**	142,565
Amount due from associates	**819**	318,337
Others	**218,292**	262,816
Sub-total	**219,111**	723,718
Less: Bad debts provision	**(151,495)**	(379,784)
Total	**67,616**	343,934
Including:		
Current assets	**17,616**	288,279
Non-current assets	**50,000**	55,655

The Company

	2006 ***Rmb'000***	2005 *Rmb'000*
Amount due from the subsidiaries	**50,772**	41,738
Anount due from the holding company	**—**	132,564
Amount due from associates	**19**	314,975
Others	**180,429**	197,870
Sub-total	**231,220**	687,147
Less: Bad debts provision	**(130,584)**	(356,877)
Total	**100,636**	330,270
Including:		
Current assets	**50,636**	294,615
Non-current assets	**50,000**	35,655

10 Other receivables *(continued)*

Analysis of bad debt provision is as follows:

The Group

	2006 **Rmb'000**	2005 Rmb'000
Balance at the beginning of the year	**379,784**	418,215
Add: Charge for the year	**49,345**	15
Less: Reversal during the year	**(263,741)**	(38,447)
Less: Others reduction	**(13,893)**	
Balance at the end of the year	**151,495**	379,784

Other reduction represents bad debt provision of Rmb13,893,000 excluded from the financial statements as a result of the deconsolidation of a subsidiary - Chenzhou Bada Glass Co. Ltd. ("Bada").

The Company

	2006 **Rmb'000**	2005 Rmb'000
Balance at the beginning of the year	**356,877**	384,924
Add: Charge for the year	**37,448**	15
Less: Reversal during the year	**(263,741)**	(28,062)
Balance at the end of the year	**130,584**	356,877

Ageing analysis of other receivables is as follows:

Current assets

The Group

	2006				2005			
	Amount **Rmb'000**	**% of total other receivable** **%**	**Bad debt provision** **Rmb'000**	**% of provision on gross amount** **%**	Amount Rmb'000	% of total other receivable %	Bad debt provision Rmb'000	% of provision on gross amount %
Within 1 year	**25,550**	**35**	**9,493**	**37**	45,724	9	174	0
After 1 year but within 2 year	**3,462**	**5**	**2,359**	**68**	3,147	1	1,187	38
After 2 year but within 3 year	**1,581**	**2**	**1,488**	**94**	2,978	1	1,238	42
Over 3 years	**42,860**	**58**	**42,498**	**99**	469,034	89	230,006	49
Total	**73,454**	**100**	**55,838**	**76**	520,883	100	232,604	45

Current assets

The Company

	2006				2005			
	Amount **Rmb'000**	**% of total other receivable** **%**	**Bad debt provision** **Rmb'000**	**% of provision on gross amount** **%**	Amount Rmb'000	% of total other receivable %	Bad debt provision Rmb'000	% of provision on gross amount %
Within 1 year	**21,619**	**25**	**3,854**	**18**	34,270	7	—	—
After 1 year but within 2 year	**950**	**1**	**38**	**4**	65	—	—	—
After 2 year but within 3 year	**54**	**54**	**100**	**172**	—	—	—	
Over 3 years	**62,941**	**74**	**30,982**	**49**	469,805	93	209,698	45
Total	**85,563**	**100**	**34,927**	**41**	504,313	100	209,698	42

10 Other receivables *(continued)*

Non-current assets

The Group

	2006 Amount Rmb'000	2006 % of total other receivable %	2006 Bad debt provision Rmb'000	2006 % of provision on gross amount %	2005 Amount Rmb'000	2005 % of total other receivable %	2005 Bad debt provision Rmb'000	2005 % of provision on gross amount %
Within 1 year	**20,000**	**10**	**—**	**—**				
Over 3 year	**145,657**	**100**	**95,657**	**66**	182,834	90	147,179	80
Total	**145,657**	**100**	**95,657**	**66**	202,834	100	147,179	73

The Company

	2006 Amount Rmb'000	2006 % of total other receivable %	2006 Bad debt provision Rmb'000	2006 % of provision on gross amount %	2005 Amount Rmb'000	2005 % of total other receivable %	2005 Bad debt provision Rmb'000	2005 % of provision on gross amount %
Over 3 year	**145,657**	**100**	**95,657**	**66**	182,834	100	147,179	80
Total	**145,657**	**100**	**95,657**	**66**	182,834	100	147,179	80

Included in other receivables under non-current assets is an amount receivable from Guangzhou International Trust and Investment Corporation ("GZITIC") amounting to Rmb 50,000,000 (2005: 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. A preliminary negotiation regarding the debt repayment has been undergoing between the two parties and GZITIC initially intended to repay with certain of properties with estimated prevailing market value of not less than Rmb50,000,000. Accordingly, a reversal of bad debt provision of Rmb14,345,000 has been made and no interest has been accrued in respect of this balance recovered. The above-mentioned amount includes other receiviabels under non-current assets.

During the year, CLFG and its fellow subsidiaries (except for China Luoyang Float Glass (Group) Processed Glass Company Limited("CPGC")) had repaid all their debts due to the Company by way of issuing shares of the Company to repay the debts due. Please refer to note 27 for detail.

During 2005, one of the Company's subsidiaries CLFG Long Fei Glass Co. Ltd. ("Long Fei") has planned to set up, with a third party, a new company known as CLFG Long Xiang Glass Co., Ltd. ("Longxiang"). At 31 December 2005, Long Fei had paid investment deposit amounting to Rmb20,000,000 for the setup. During the year, Longxiang has been established and has registered capital amounted to Rmb50,000,000. Long Fei has reallocated the above-mentioned deposit to long term investment accordingly and is entitled to 40% shareholding of the newly established company.

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 2006 are as follows:

Name of entity	**Period of original debt**	**Particulars**	**Amount** *Rmb'000*
Guangzhou International Trust and Investment Corporation "GZITIC"	Over 3 years	Overdue time deposits	50,000
Ruyang Natioanl Finance Payment Centre	Within 1 year	Prepaid land lease	3,000
Chenzhou Bada Glass Co. Ltd	Within 1 year	Loan	2,300
Zhengzhou Tieluju(Ruyang station)	Within 1 year	Prepayment	842
China Everbright bank Zhengzhou wonhualu Branch	Within 1 year	Pledged time deposit	750
Total			56,892

At 31 December 2006, the five largest other receivables (after bad debt provision) accounted for 50% of the Group's total other receivables (after bad debt provision) (2005: 77%).

11 Prepayments

Ageing analysis of prepayments is as follows:

The Group

	2006		2005	
	Amount *Rmb'000*	**Percentage** %	Amount *Rmb'000*	Percentage %
Within 1 year	**11,493**	**94**	7,918	61
Over 1 year but within 2 years	**680**	**6**	1,660	13
Over 2 years but within 3 years	**17**	**—**	317	2
Over 3 years	**13**	**—**	3,094	24
Total	**12,203**	**100**	12,989	100

The Company

	2006		2005	
	Amount *Rmb'000*	**Percentage** %	Amount *Rmb'000*	Percentage %
Within 1 year	**270**	**98**	484	19
Over 1 year but within 2 years	**—**	**—**	55	2
Over 2 years but within 3 years	**—**	**—**	5	—
Over 3 years	**5**	**2**	2,028	79
Total	**275**	**100**	2,572	100

The five largest prepayment at 31 December 2006 are as follows:

Name of entity	**Period of prepayments**	**Particulars**	**Amount** *Rmb'000*
Yunnan Tin Co. (Wuhan)	Within 1 year	Purchase of raw material	3,051
CLFG Processed Glass Company Limited	Within 1 year	Purchase of raw material	3,050
CLFG Company of Limited Liability	Within 1 year	Purchase of raw material	2,623
Yanshi Electric Power Coperation (marketing department)	Over 1 year but within 2 years	Purchase of raw material	1,555
Yanshi Changli Paper Comapny	Within 1 year	Purchase of raw material	739
Total			11,018

At 31 December 2006, the five largest prepayment accounted for 70% of the Group's total prepayment (2005: 49%).

Except for CLFG, 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

	2006 *Rmb'000*	2005 *Rmb'000*
Raw materials	**216,839**	192,336
Work in progress	**18,915**	14,432
Finsihed goods	**102,738**	86,733
Sub-total	**338,492**	293,501
Less: provision for diminution in value of inventories	**(38,691)**	(17,838)
Total	**299,801**	275,663

The Company

	2006 *Rmb'000*	2005 *Rmb'000*
Raw materials	**109,942**	111,964
Work in progress	**6,692**	6,198
Finsihed goods	**56,298**	45,440
Sub-total	**172,932**	163,602
Less: provision for diminution in value of inventories	**(26,900)**	(13,982)
Total	**146,032**	149,620

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

12 Inventories *(continued)*

Provision for diminution in value of inventories:

The Group

	2006 Rmb'000				2005 Rmb'000			
	Raw materials	**Work in progress**	**Finished goods**	**Total**	Raw materials	Work in progress	Finished goods	Total
Balance at the beginning of the year	**7,752**	**—**	**10,086**	**17,838**	5,168	—	3,661	8,829
Add:Provision made during the year	**18,380**	**—**	**5,984**	**24,364**	2,584	—	9,138	11,722
Less:					—	—	—	—
— transfer out due to sales	**(1,292)**	**—**	**(2,219)**	**(3,511)**	—	—	(2,713)	(2,713)
Balance at the end of the year	**24,840**	**—**	**13,851**	**38,691**	—	—	10,086	17,838

The Company

	2006 Rmb'000				2005 Rmb'000			
	Raw materials	**Work in progress**	**Finished goods**	**Total**	Raw materials	Work in progress	Finished goods	Total
Balance at the beginning of the year	**7,752**	**—**	**6,230**	**13,982**	5,168	—	2,275	7,443
Add:Provision made during the year	**10,957**	**—**	**3,253**	**14,210**	2,584	—	6,668	9,252
Less:					—	—	—	—
— transfer out due to sales	**(1,292)**	**—**	**—**	**(1,292)**	—	—	(2,713)	(2,713)
Balance at the end of the year	**17,417**	**—**	**9,483**	**26,900**	7,752	—	6,230	13,982

The Group

	2006 ***Rmb'000***	2005 *Rmb'000*
Cost of inventories charged to costs and expenses in the income statement	1,230,355	949,100

The Company

	2006 ***Rmb'000***	2005 *Rmb'000*
Cost of inventories charged to costs and expenses in the income statement	**787,434**	600,118

13 Deferred expenses

The Group

	2006 ***Rmb'000***	2005 *Rmb'000*
Packing racks	—	20,385
Insurance expenses	**78**	436
Others	**93**	3,959
Total	**171**	24,780

The Company

	2006 ***Rmb'000***	2005 *Rmb'000*
Packing racks	—	20,180
Others	**69**	852
Total	**69**	21,032

14 Long-term equity investment

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	155,124	49,234	204,358
Addtions during the year	—	13,761	13,761
Disposals during the year	(38,916)	(4,092)	(43,008)
Balance at the end of the year	116,208	58,903	175,111
Less: Provision for impairment			
Balance at the beginning of the year	—	(17,434)	(17,434)
Addtions during the year	—	(13,561)	(13,561)
Disposals during the year	—	4,092	4,092
Balance at the end of the year	—	(26,903)	(26,903)
Net book value:			
At the end of the year	116,208	32,000	148,208
At the beginning of the year	155,124	31,800	186,924

The Company

	Investment in subsidaries *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	176,814	155,124	44,591	376,529
Addtions during the year	23,276	—	13,561	36,837
Disposals during the year	(131,930)	(38,916)	—	(170,846)
Balance at the end of the year	68,160	116,208	58,152	242,520
Less: Provision for impairment				
Balance at the beginning of the year	—	—	(12,791)	(12,791)
Addtions during the year			(13,561)	(13,561)
Balance at the end of the year			(26,352)	(26,352)
Net book value:				
At the end of the year	68,160	116,208	31,800	216,168
At the beginning of the year	179,814	155,124	31,800	363,738

14 Long-term equity investment *(continued)*

(a) Interest in subsidaries

At 31 December 2065, details of the Company's subsidiaries are as follows:

Name of investee enterprise	Country of incorporation	Legal representative	Registered capital *Rmb'000*	attributable equity interest	Direct Initial investment cost *Rmb'000*	Principal activities	Note
CLFG Longmen Glass Co. Ltd. ("Longmen")	the PRC	Ding Jianluo	20,000	79.06%	63,248	Manufacture of float sheet glass	(i)
Chenzhou Bada Glass Co. Ltd. ("Bada")	the PRC	Zhang Shaojie	150,000	72.65%	108,980	Manufacture of float sheet glass	(ii)
CLFG Long Fei Glass Co. Ltd. ("Long Fei") (formerly known as CLFG Yang Shao Glass Co. Ltd.	the PRC	Zhang Shaojie	74,080	54.00%	40,003	Manufacture of float sheet glass	(iii)
Xiangfang 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 ("Long?Hai")	the PRC	Ding Jianluo	60,000	80.00%	48,000	Manufacture of float sheet glass and electronic glass	(iii)
CLFG Long Hao Glass Limited ("Long Hao")	the PRC	Zhang Shaojie	50,000	80.00%	40,000	Manufacture of float sheet glass	(iii)

At 31 December 2006, analysis of interest in subsidiaries of the Company are as follows:

	Longmen *Rmb'000*	Bada *Rmb'000*	Longfei *Rmb'000*	Luoshen *Rmb'000*	Yinan *Rmb'000*	Longhao *Rmb'000*	Leobo Trading *Rmb'000*	Total *Rmb'000*
Balance at the beginning of the year	15,394	12,341	48,012	13,477	4,942	48,000	34,648	176,814
Add: Additions during the year	—	10,500	—	—	—	—	—	10,500
Add: Share of results under equity method	—							
Amount of audit adjustments	(15,394)	(9,280)	(23,705)	(7,268)	78	(32,060)	(17,964)	(105,593)
Less: Transfering out at cost	—	(13,561)	—	—	—	—	—	(13,561)
Balance at the end of the year	—	—	24,307	6,209	5,020	15,940	16,684	68,160

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, the Company had guaranteed Bada to redeem the shares of amount of Rmb 30,000,000 within the agreed period. At the beginning of 2006, the Company had redeemed the above-mentioned shares of amount of Rmb 30,000,000. After such shares redemption, the companies hold 72.65% equity interest of Bada. At 4 January 2006, Bada, Hua Rong and the Company entered into a share transfer agreement under which the Company had purchased Hua Rong's remaining 7,150,000 shares in Bada for the considerations of a cash payment of Rmb 2,502,500 at Rmb 0.35 per share; and of a dividend payment of Rmb 2,038,466.87 from its Bada's equity interest. The Company had paid part of the above mentioned cash payment of Rmb 300,000, and due to going concern problem of Bada, the Company considered that a potential loss is expected on the above mentioned cost of share transfer of amount of Rmb 2,502,500.

At 31 December 2006, the Company, Guangzhou ShengNum Glass Co. Ltd("Sheng Nam") and Bada entered into an Asset Reconstruction Provisional Agreement("provisional agreement"). Under the terms of such provisional agreement, the Company would assign its rights of operation from its equity interest of Bada, and transfer shares of not less than 51% of Bada's registered capital before 1 July 2007 to Shung Nam. According to such provisional agreement, the Company had lost its controlling interest on Bada as at 31 December 2006. Accordingly, such investment (previously treated as long term investment) would treated as other investment under cost method and the Company was excluded to be consolidated in the Group's financial statements. On the other hand, Bada has now been experiencing financial difficulties and numerious pending litigation, and is unable to repay the overdue loan amount from the Company and other parties, full provision for diminution in value has been made for such investment as at 31 December 2006.

(iii) These subsidiaries are limited liability companies.

14 Long-term equity investment *(continued)*

(b) Interest in associates

At 31 December 2006, interest in 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
Luoyang Jingxin Ceramic Co. Ltd. ("Jingxin")	41,945	49.00	20,553	Manufacture of ceramic wall tiles
China Luoyang Float Glass (Group) Processed Glass Company Limited ("CLFC")	300,000	37.00	111,000	Provision of financial services
China Luoyang Float Glass Group Company of Limited Liability ("CPGC")	181,496	49.09	89,096	Reprocessed glass
CLFG Mineral Products Co. Ltd ("CMPC")	30,964	40.29	12,475	Sand, fire-durable materials

At 31 December 2006, analysis of interest in associates of the Group and the Company are as follows:

The Group and the Company

	Jingxin *Rmb'000*	CLFC *Rmb'000*	CPGC *Rmb'000*	CMPC *Rmb'000*	Total *Rmb'000*
Balance at the beginning of the year	—	111,932	42,696	496	155,124
Share of the results of associates under equity method	—	3,023	(41,443)	(496)	(38,916)
Balance at the end of the year	—	114,955	1,253	—	116,208

(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 2006, other equity investments of the Group and the Company are as follows:

Name of the Company	Registered capital *Rmb'000*	Direct attributable equity interest *(%)*	Initial investment cost *Rmb'000*	Net book value at 31 December 2006 *Rmb'000*	Note
Yanlian Petroleum Co Ltd	425,703	7.47	31,800	31,800	
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)
Chenzhou Bada Glass Co. Ltd. ("Bada")	150,000	72.65	13,561	—	(iii)
Yanxi Long Xin She	60,000	0.33	200	200	

(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 2006, 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 (2005: 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.

(iii) In spite of the fact that the Company has 72.65% shareholding of Bada, the Company has lost its control over Bada at 31 December 2006. Therefore, the investment in Bada is classified as other equity investments and is accounted for using the cost method.(Note 14(a)ii)

At 31 December 2006, the total carrying amount of the Group's short-term and long-term investments represented 49.39% (2005: 20.76%) of its net assets.

At 31 December 2006, the total carrying amount of the Company's short-term and long-term investments represented 166.36% (2005: 62.34%) of its net assets.

15 Fixed assets

The Group

	Buildings *Rmb'000*	Plant, machinery and equipment *Rmb'000*	Motor vehicles *Rmb'000*	Total *Rmb'000*
Cost				
Balance at the beginning of the year	765,803	899,007	35,311	1,700,121
Additions	30,832	84,944	907	116,683
Transfer from construction in progress *(note17)*	71,023	300,174	—	371,197
Disposals	(117,287)	(185,527)	(7,590)	(310,404)
Balance at the end of the year	750,371	1,098,598	28,628	1,877,597
Accumulated depreciation				
Balance at the beginning of the year	305,485	414,687	20,597	740,769
Charge for the year	31,446	82,410	2,377	116,233
Written back on disposal	(43,176)	(118,449)	(4,932)	(166,557)
Balance at the end of the year	293,755	378,648	18,042	690,445
Net book value				
At the end of the year	456,616	719,950	10,586	1,187,152
At the beginning of the year	460,318	484,320	14,714	959,352
Provision for diminution in value				
Balance at the beginning of the year				
Charge for the year	11,056	1,480	—	12,536
Balance at the end of the year	11,056	1,480	—	12,536
Net book value				
At the end of the year	445,560	718,470	10,586	1,174,616
At the beginning of the year	460,318	484,320	14,714	959,352

At 31 December 2006, the original cost of fully depreciated fixed assets in use was Rmb245,870,414.90 (2005: Rmb152,874,000).

At 31 December 2006, included in the net book value of fixed assets was Rmb10,021,156.87 (2005: 8,238,000) pledged for short-term loans.

Rmb 152,963,000 and Rmb 61,000,000 have been taken away from cost and accumulated depreciation respectively because of the deconsolidation of a subsidiary - Chenzhou Bada Glass Co. Ltd. ("Bada"). The additions of the Company under fixed assets include those acquired fixed assets in the court auction of Bada.

15 Fixed assets *(continued)*

The Company

	Buildings *Rmb'000*	Plant, machinery and equipment *Rmb'000*	Motor vehicles *Rmb'000*	Total *Rmb'000*
Cost				
Balance at the beginning of the year	438,485	399,296	22,678	860,459
Additions	22,146	34,505	239	56,890
Transfer from construction in progress *(note 17)*	8,622	8,622		
Disposals	(341)	(46,260)	(854)	(47,455)
Balance at the end of the year	460,290	396,163	22,063	878,516
Accumulated depreciation				
Balance at the beginning of the year	231,291	259,581	13,893	504,765
Charge for the year	17,164	22,972	1,492	41,628
Written back on disposal	(262)	(44,798)	(378)	(45,438)
Balance at the end of the year	248,193	237,755	15,007	500,955
Net book value				
At the end of the year	212,097	158,408	7,056	377,561
At the beginning of the year	207,194	139,715	8,785	355,694
Provision for diminution in value				
Balance at the beginning of the year				
Charge for the year	11,020			11,020
Balance at the end of the year	11,020			11,020
Net book value				
At the end of the year	201,077	158,408	7,056	366,541
At the beginning of the year	207,194	139,715	8,785	355,694

At 31 December 2006, the original cost of fully depreciated fixed assets in use was Rmb245,870,000 (2005: Rmb150,190,000). The additions under fixed assets include those acquired fixed assets in the court auction of Bada.

16 Construction materials

At 31 December 2006, 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
Cost	
Balance at the beginning of the year	263,419
Additions for the year	148,247
Transfer to fixed assets for the year	(371,197)
Other utilisation during the year	(36,503)
Balance at the end of the year	3,966

The Company

	Rmb'000
Cost	
Balance at the beginning of the year	7,334
Additions for the year	1,409
Transfer to fixed assets for the year *(note 15)*	(8,622)
Other utilisation for the year	(48)
Balance at the end of the year	73

The capitalisation rate used to determine the borrowing costs to be capitalised was 5.8% (2005: 5.19%).

17 Construction in progress *(continued)*

At 31 December 2006, 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 *Rmb'000*	Interest expense capitalised *Rmb'000*
Power transformer and gas pipes of Longfei			2,621		2,621		Internal capital	

18 Intangible assets

The Group

	Land use rights *Rmb'000*	Trademark and non-patented technical know-how *Rmb'000*	Total *Rmb'000*
Cost			
Balance at the beginning of the year	197,322	18,400	215,722
Additions for the year	703	—	703
Disposals	(2,452)	—	(2,452)
Deconsolidation of a subsidiary	(40,999)	—	(40,999)
Balance at the end of the year	154,574	18,400	172,974
Accumulated amortisation			
Balance at the beginning of the year	35,790	1,767	37,557
Charge for the year	4,750	1,414	6,164
Written back of disposal	(593)	—	(593)
Deconsolidation of a subsidiary	(7,321)	—	(7,321)
Balance at the end of the year	32,626	3,181	35,807
Net book value			
Balance at the end of the year	121,948	15,219	137,167
Balance at the beginning of the year	161,532	16,633	178,165

The Company

	Land use rights *Rmb'000*
Cost	
Balance at the beginning of the year	142,062
Disposals	(2,452)
Balance at the end of the year	139,610
Accumulated amortisation	
Balance at the beginning of the year	26,872
Charge for the year	3,611
Written back on disposal	(592)
Balance at the end of the year	29,891
Net book value	
Balance at the end of the year	109,719
Balance at the beginning of the year	115,190

18 Intangible assets *(continued)*

(i) Rmb104,890,038 of the Group's land use rights is invested by CLFG and Rmb92,078,000 is purchased from third parties. The remaining useful lives are ranging from 16 to 58 years. 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 Rmb34,700,000 129 acres and 214 acres of the land are currently occupied by the Group and CLFG. It is agreed that CLFG would swap the 214 acres of the land, which is presently being used as living area of CLFG, with its part of its land at No 9 Tong Gong Zhong Lu, Luoyang before Oct 2007. The area of the No 9 Tong Gong Zhong Lu, Luoyang that used to swap the land would be calculated based on the fair value of the land. During the year, the Group has disposed of the land use right of the Wuxi warehouse at its cost and net book value amounted to Rmb 2,452,000 and Rmb1,860,000 respectively.

(ii) Trademark and non-patented technical know-how of subsidiaries of the Company are invested by CLFG and remaining useful lives are ranging from 9 to 14 years.

(iii) The cost and accumulated amortisation of intangible assets in Bada were excluded as a result of the deconsolidation of Bade in 2006.

19 Short-term loans

(a) The Group

	2006 *Rmb'000*	2005 *Rmb'000*
Bank loans	**747,680**	673,400
Loan from holding company	**31,540**	57,732
Loan from an associate	**113,000**	108,500
Loan from other company	**10,000**	
Total	**902,220**	839,632

The Company

	2006 *Rmb'000*	2005 *Rmb'000*
Bank loans	**695,480**	595,000
Loan from an associate	**71,500**	66,500
Loan from holding company	**—**	—
Total	**766,980**	661,500

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) Analysis of the Group's and the Company's short term loans are set out below:

Lenders	**Secured or guaranteed**	**Contracted interest rate per annum**	**Balance at 31 December 2006** *Rmb'000*
Bank loans			
Bank of China (Luoyang Xigong Branch)	Guaranteed	6.435%-7.02%	177,000
Bank of Communications (Luoyang Kaixi Branch)	Guaranteed and secured	5.850%-6.426%	195,000
China Everbright Bank (Zhengzhou Wenhualu Branch)	Guaranteed and secured	5.58%°A6.12%	57,880
China Construction Bank(Luoyang Branch)	Guaranteed	5.58%-6.732%	159,000
Commercial Bank (Kaidong Branch)	Guaranteed	7.344%	40,000
ICBC (Luoyang Branch)	Guaranteed	5.3675%-7.038%	66,600
			695,480
Loan from an associate	Loan of Rmb50,000,000 was secured by Customer acceptance bills amounting to Rmb50,000,000. Loan of Rmb21,500,000 was guaranteed by the holding company.	5.58%-6.12%	71,500
Loans from holding company			
Short-term loans (the Company)			766,980

19 Short-term loans *(continued)*

(b) Analysis of the Group's and the Company's short term loans are set out below: *(continued)*

Lenders	Secured or guaranteed	Contracted interest rate per annum	Balance at 31 December 2006 *Rmb'000*
Bank loans			
Bank of China(Luoyang Xigong Branch)	Guaranteed	6.435%-7.02%	177,000
Bank of Communications (Luoyang Kaixi Branch)	Guaranteed and secured	5.850%-6.426%	195,000
China Everbright Bank (Zhengzhou Wenhualu Branch)	Guaranteed and secured	5.58%°A6.12%	57,880
China Construction Bank(Luoyang Branch)	Guaranteed	5.58%-6.732%	159,000
Commercial Bank (Luoyang Kaidong Branch)	Guaranteed	7.344%	40,000
ICBC (Luoyang Branch)	Guaranteed	5.3675%-7.038%	66,600
Agricultural Bank of China(Yanshi Branch)	Guaranteed	8.262%	9,700
Rural Credit Cooperatives (Yanshi Branch)	Guaranteed	7.044%	9,400
Agricultural Bank of China(Suxian Branch)	Guaranteed	7.02%	10,000
Agricultural Bank of China (Xiangfan Erqi Branch)	Secured by land use right and building which has net book value of Rmb 2,984,000 and Rmb6,429,000 respectively	6.138%,6.732%	3,100
Commercial Bank(Luoyang Guocheng Branch	Guaranteed	6.696%°A7.254%	20,000
			747,680
Loan from holding company	Rmb500 million is being guaranteed	6.12%-7.0434%	31,540
Loan from an associate	Guaranteed	5.58%-7.65%	113,000
			144,540
Loan from other company			
Luoyang Tianxe Jinding Mine Corporation	Trust	7.34%	10,000
Short-term loans (the Group)			902,220

20 Bills payable

Bills payable primarily the bank accepted bills for the purchase of raw materials, goods and products. The repayment terms are normally ranging 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 include 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% 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 2006, 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 individual 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	2006 Rmb'000	2005 Rmb'000
Education surcharge	3% on VAT	**403**	591
Others		**259**	44
Total		**662**	635

The Company

	Tax rate and basis	2006 Rmb'000	2005 Rmb'000
Education surcharge	3% on VAT	**313**	50

23 Accrued expenses

The Group

	2006 Rmb'000	2005 Rmb'000
Audit fee	**1,950**	3,948
Interest expenses	**123**	1,113
Electricity fee	**1,045**	—
Others	**635**	1,369
	3,753	6,430

The Company

	2006 Rmb'000	2005 Rmb'000
Audit fee	**1,950**	3,948
Others	**283**	221
	2,233	4,169

24 Provisions

The Group and the Company

	2006 Rmb'000	2005 Rmb'000
Guaranteed amount for shares repurchasing	**2,503**	—
	2,503	—

Please refer to note 14.a.(ii) for details of the transfer from guaranteed amount for shares repurchasing to provisions.

25 Long-term loans

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

2006

Lenders	Guaranteed or secured	Maturity date	Contracted annual interest rate in 2006	Original currency	Amount *'000*	Exchange rate	Amount with maturity within 1 year *Rmb'000*	Amount with maturity after 1 year *Rmb'000*	Balance at 31 December 2006 *Rmb'000*
Bank loans									
Bank of China	Guaranteed	2007 — 2019	2.5%	Euro	704	10.2665	532	6,697	7,229
Long-term loans (the Company)							532	6,697	7,229
Loans from non-bank financial institutions	Guranteed	2007 — 2008	6.03%	Rmb	80,000	—	27,670	52,330	80,000
Bank loans									
Ruyang Rural Credit Cooperatives	Credit	2008	10.44%	1,000	1,000	1,000	—	1,000	1,000
Long-term loans (the Group)							28,202	60,027	88,229

2005

Lenders	Guaranteed or secured	Maturity date	Contracted annual interest rate in 2005	Original currency	Amount *'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*
Bank loan									
Bank of China	Guaranteed	2006 - 2019	2.5%	Euro	756	9.5797	545	6,698	7,243
Holding company	N/A	2006	6.03%	Rmb	7,930		7,930		7,930
Long-term loans (the Company)							8,475	6,698	15,173
Loans from non-bank finnaical institutions	Guaranteed	2007 - 2008	5.76%	Rmb	80,000	—		80,000	80,000
Loan from an associate									
CLFC	N/A	2006	6.04%	Rmb	10,000		10,000		10,000
CLFC	N/A	2006	5.49%	Rmb	7,000		7,000		7,000
							17,000	80,000	97,000
Long-term loans (the Group)							25,475	86,698	112,173

The Group

	2006 *Rmb'000*	2005 *Rmb'000*
After 1 year but within 2 years	**53,862**	28,215
After 2 years but within 3 years	**532**	52,875
After 3 years but within 5 years	**1,064**	1,089
After 5 years	**4,569**	4,519
	60,027	86,698

The Company

	2006 *Rmb'000*	2005 *Rmb'000*
After 1 year but within 2 years	**532**	545
After 2 years but within 3 years	**532**	545
After 3 years but within 5 years	**1,064**	1,089
After 5 years	**4,569**	4,519
	6,697	6,698

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.

26 Share capital

	2006	2005
	Rmb'000	*Rmb'000*
Registered, issued and paid-up capital		
Unlisted shares		
179,018,242 state-owned legal person shares of Rmb 1.00 each	**179,018**	400,000
Listed shares		
250,000,000 'H'shares of Rmb 1.00 each	**250,000**	250,000
71,000,000 'A' shares of Rmb 1.00 each	**71,000**	50,000
Sub-total	**321,000**	300,000
Total	**500,018**	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.

In June 2006, CLFG, the ultimate holding company, got the approval form the board and an "Approval and Reply in relation to the Transfer of Shares of Luoyang Glass Company Limited" (Shang Zi Pi [2006] No. 1232) from the Ministry of Commerce of the People's Republic of China offered 21,000,000 non-tradable A Shares as a condition to have trading right in the A Shares market. This reform is made in accordance with regulations of "Provisions on Management of Share Reform Proposals of Listed Companies" (《上市公司股權分置改革管理辦法》) issued by China Securities Regulatory Commission ("CSRC") and "Guidelines on Share Reform Proposals of Listed Companies" (《關於上市公司股權分置改革的指導意見》) issued by Shanghai Stock Exchange. Upon the completion of the reform, CLFG reduced its shareholding in the Company to 379,000,000 shares.

According to the judement (2007) [Luo Zhi Zi No. 18-32] of the intermediate People's Court of Luoyang, Henan Province on 30 November 2006, 199,981,758 A shares of the Company held by CLFG were used to offset the debts and the interest thereof in the total sum of RMB629,942,543. The transfer register and other related documents has been processed by Shanghai Securities Central Clearing and Registration Corporation on 6 December 2006. Upon the completion of the repayment, CLFG would have to decrease its shareholding in the Company to 179,018,242 shares and the Company's total issued shares should then go down to 500,018,242 shares.

The above mentioned share reform and share changes due to repay debt by using of shares by CLFG are pending for Shar Capital Certificate and the changes of shares holding.

All the state-owned legal person, 'A' and 'H' shares rank pari passu in all material respects.

27 Capital reserve

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

	Balance at the beginning of the year	**Increase during the year**	**Decrease during the year**	**Balance at the end of the year**
	Rmb'000	*Rmb'000*	*Rmb'000*	*Rmb'000*
Capital premium	907,466	(82,386)	825,080	
Reserve for equity investment	20,859	12,776	(13,561)	20,074
Others	66,330	2,695	69,025	
Total	994,655	15,471	(95,947)	914,179

According to the judgment (2007) [Luo Zhi Zi No.18-32] of the Intermediate People's Court of Luoyang, Henan Province on 30 November 2006, 199,981,758 A shares of the Company held by CLFG were used to offset the debts amounting to Rmb 629,942,543 (including principal and accrued interest of Rmb607,376,970 and Rmb 22,565,573 respectively). The above-mentioned debt has net book value of Rmb282,368,417 after netting off provision of Rmb347,574,126 (including accrued interest, account receivables and other receivables of Rmb46,979,794, Rmb 83,832,662 and Rmb216,761,670 respectively) made against the original debt amount of Rmb 629,942,543 in prior years. Thus, the repayment premium on net book value of the debt amounting to Rmb 82,386,659 has been transferred to capital reserve.

28 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	58,935	55,662	110,764	225,361
Offset of accumulated losses with surplus reserves	(51,366)	—	(110,764)	(162,130)
Reallocation of accounts	55,662	(55,662)	—	—
Transfer to statutory surplus reserve at the beginning of the year	(2,156)	—	—	(2,156)
Balance at the end of the year	61,075	—	—	61,075
The Company				
Balance at the beginning of the year	51,366	51,366	110,763	213,495
Offset of accumulated losses with surplus reserves	(51,366)	—	(110,763)	(162,129)
Reallocation of accounts	51,366	(51,366)	—	—
Balance at the end of the year	51,366	—	—	51,366

In accordance with the Company's 2006 the fifth directors' general meeting, the discussionary note 12 "Auditing the proposal about using the surplus reserve recuperate the loss", it was resolved to approve the use of discretionary surplus reserve and statutory surplus reserve of Rmb110,764,000 and Rmb51,366,000 respectively to compensate the accumulated losses of Rmb162,130,000. All statutory public welfare fund brought foward has been transferred to statutory surplus reserve and thereafter the company will no make transfer to statutory public welfare fund. All the reclassifications are made in accordance with the requirements of MOF. The reversal of transfer to statutory surplus reserve at the beginning of the year was due to the deconsolidation of Chenzhou Bada Glass Co. Ltd. in 2006.

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 2006, revenue from sales to top five customers was Rmb 455,193,000 (2005: Rmb 103,281,000) which accounted for 38.06% (2005: 10%) 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	**2006** ***Rmb'000***	2005 *Rmb'000*
City construction tax	5% - 7% on VAT	**(407)**	(2,018)
Education surcharge	3% on VAT	**(386)**	(865)
Others		**(3)**	
		(796)	(2,883)

The Company

	Tax rate and basis	**2006** ***Rmb'000***	2005 *Rmb'000*
City construction tax	7% on VAT	**(270)**	(600)
Education surcharge	3% on VAT	**(115)**	(257)
		(385)	(857)

32 Other operating profit

The Group

	2006 Income Rmb'000	2006 Cost Rmb'000	2006 Profit Rmb'000	2005 Income Rmb'000	2005 Cost Rmb'000	2005 Profit Rmb'000
Sales of raw materials	**33,963**	**(22,653)**	**11,310**	19,948	(16,509)	3,439
Sales of racks	**6,557**	**(1,956)**	**4,601**	6,784	(2,518)	4,266
Sales commission	**8,639**	**(738)**	**7,901**	4,550	(250)	4,300
Others	**2,190**	**(3,368)**	**(1,178)**	12,719	(5,243)	7,476
Total	**51,349**	**(28,715)**	**22,634**	44,001	(24,520)	19,481

The Company

	2006 Income Rmb'000	2006 Cost Rmb'000	2006 Profit Rmb'000	2005 Income Rmb'000	2005 Cost Rmb'000	2005 Profit Rmb'000
Sales of raw materials	**187,347**	**(172,363)**	**14,984**	57,450	(51,627)	5,823
Sales of racks	**6,557**	**(1,956)**	**4,601**	6,784	(2,518)	4,266
Sales commission	**8,639**	**(738)**	**7,901**	4,550	(250)	4,300
Others	**2,004**	**(2,015)**	**(11)**	10,613	(5,117)	5,496
Total	**204,547**	**(177,072)**	**27,475**	79,397	(59,512)	19,885

33 Financial expenses

The Group

	2006 Rmb'000	2005 Rmb'000
Interest expenses	**(70,794)**	(51,132)
Less: interest capitalised	**898**	2,127
Net interest expenses	**(69,896)**	(49,005)
Interest income	**26,459**	7,223
Net exchange losses	**(2,726)**	(348)
Other financial expenses	**(5,210)**	(2,178)
Total	**(51,373)**	(44,308)

The Company

	2006 Rmb'000	2005 Rmb'000
Interest expenses	**(43,697)**	(38,056)
Interest income	**25,896**	6,658
Net exchange losses	**(2,535)**	(348)
Other financial expenses	**(3,212)**	(12,256)
Total	**(23,548)**	(32,971)

34 Investment income

The Group

	2006	2005
	Rmb'000	*Rmb'000*
Investment income/(loss) from long term equity investments		
— under cost method	**3,600**	3,600
— under equity method	**(38,916)**	(20,751)
Loss on disposal of long-term equity investment	**—**	(55)
Provision for impairment loss on long-term equity investments	**—**	(686)
Reversal of provision for diminution in value of short-term investments	**—**	34,300
Interest income from designated loans	**789**	600
Others	**265**	47
Total	**(34,262)**	17,055

The Company

	2006	2005
	Rmb'000	*Rmb'000*
Investment income/(loss) from long term equity investments		
— under cost method	**3,600**	3,600
— under equity method	**(157,286)**	(24,621)
Loss on disposal of long-term equity investment	**—**	(55)
Provision for impairment loss on long-term equity investments	**—**	(686)
Reversal of provision for diminution in value of short-term investments	**—**	45,168
Interest income from designated loans	**18,808**	9,749
Others	**265**	—
Total	**(134,613)**	33,155

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

35 Subsidy income

The Group

	2006	2005
	Rmb'000	*Rmb'000*
Subsidy income	**100**	13,483
Total	**100**	13,483

According to notice from Chenzhou Finance Bureau, Bada has received subsidy income of Rmb100,000.

The Company

	2006	2005
	Rmb'000	*Rmb'000*
Subsidy income	**—**	10,000
Total	**—**	10,000

36 Non-operating income

The Group

	2006 *Rmb'000*	2005 *Rmb'000*
Gain on disposal of fixed assets	**11,143**	239
Others	**524**	1,399
Total	**11,667**	1,638

The Company

	2006 *Rmb'000*	2005 *Rmb'000*
Gain on disposal of fixed assets	**555**	221
Others	**20**	98
Total	**575**	319

37 Non-operating expenses

The Group

	2006 *Rmb'000*	2005 *Rmb'000*
Loss on disposal of fixed assets	**(3,156)**	(276)
Penalty	**(8,812)**	(979)
Provison of impairment loss on fixed assets	**(12,536)**	—
Others	**(1,439)**	(1,706)
Total	**(25,943)**	(2,961)

The Company

	2006 *Rmb'000*	2005 *Rmb'000*
Loss on disposal of fixed assets	**(1,780)**	(104)
Others	**(11,020)**	—
Total	**(929)**	(78)

38 Income tax expense

The Group

	2006 *Rmb'000*	2005 *Rmb'000*
Provision for income tax for the year	**—**	(1,950)

At 31 December 2006, the Company has unutilised tax losses, therefore, no provison 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 Lianilities ("CLFG")
Types of legal entity	:	Limited liability company (Solely owned by the State)
Registered capital	:	Rmb 1,286,740,000
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 techniligy, 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	:	35.80%

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 Liabilties	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 Jinyun Coating Glass Co.	Fellow subsidiary
CLFG Jinhua Shi Ye Ji Su Glass Co	Fellow subsidiary
Luoyang Xiangyu Industrial Co.	Fellow subsidiary
Luoyang Technology Glass Company	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 summarized as follows:

	Note	**2006** **Rmb'000**	2005 *Rmb'000*
Ancillary and social services	(i)	**4,403**	2,037
Provsion of utilities	(ii)	**915**	775
Interest paid and payable		**2,928**	7,104
Guarantees issued by CLFG to banks in favour of the Group		**151,500**	144,000
Indirect Guarantees	(iii)	**473,600**	388,000
Guarantees issued by CLFG to the Company in favour of other fellow subsidiaries		**—**	110,594

Notes:

(i) The Company has entered into a three-year agreement with CLFG effective from 3 August 2004 and 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 3 August 2001 which has been renewed for another three years expiring on 3 August 2007, for provision of utilities such as water, electricity, steam and plant and fixed assets 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 bank in favour of the Group.

39 Related party transactions *(continued)*

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

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

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

	Note	**2006** **Rmb'000**	2005 *Rmb'000*
Sales		**12,552**	14,896
Ancillary and social services	(i)	**4,288**	4,650
Provision of utilities	(ii)	**17,455**	15,657
Purchase of raw materials	(iii)	**12,205**	9,278
Sales of racks		**—**	256
Interest paid and payable		**4,108**	5,874
Interest received and receivable		**83**	600
Rental income	(iv)	**730**	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 a three-year agreement with a CLFG's subsidiary, Xinxing and CLFG Jingwei Glass Fibre Co., Ltd ("Jingwei") effective from 3 August 2001. During2004, 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 beem reviewed and confirmed by the independent non-executive directors.

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**	
	2006 **Rmb'000**	2005 *Rmb'000*	**2006** **Rmb'000**	2005 *Rmb'000*
Assets				
Cash at non-bank financial institutions	**—**	—	**39,929**	51,244
Short-term investment	**—**	—	**—**	10,500
Interest receivables	**—**	—	**—**	—
Trade receivables	**—**	63	**2,366**	502
Bills receivables	**—**	—	**2,008**	6,837
Prepayments	**2,623**	—	**476**	732
Other receivables	**—**	133,374	**815**	110,949
Liabilities				
Short-term loans	**31,540**	57,732	**113,000**	108,500
Bills payables	**—**	—	**1,200**	—
Trade payables	**1,214**	—	**2,856**	3,419
Receipts in advance	**875**	958	**2,922**	315
Other payables	**8,275**	3,384	**4,014**	921
Long-term loans	**—**	7,930	**—**	17,000

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

The Group

	2006 **Rmb'000**	2005 *Rmb'000*
Provision for amounts due from the holding company	**—**	95,031
Provision for amounts due from fellow subsidiaries	**782**	258,671

40 Commitments

(a) Capital commitments

At 31 December 2006, capital commitments of the Group and the Company are summarised as follows:

The Group

	2006 **Rmb'000**	2005 *Rmb'000*
Contracted for but not provided for		
— contruction project	—	43,085
Authorised but not contracted for		
— construction project	**7,687**	29,964
Total	**7,687**	73,049

The Company

	2006 **Rmb'000**	2005 *Rmb'000*
Contracted for but not provided for		
— contruction project	—	—
Authorised but not contracted for		
— construction project	**5,926**	3,299
Total	**5,926**	3,299

(b) Operating lease commitments

At 31 December 2006, the Group and the Company had no material operating lease commitments.

41 Contingent liabilities

At 31 December 2006, the contingent liabilities of the Group and the Company are summarised as follows:

	The Group		**The Company**	
	2006 **Rmb'000**	2005 *Rmb'000*	**2006** **Rmb'000**	2005 *Rmb'000*
Guarantees issued to banks in favour of subsidiaries	—	—	**75,000**	26,200
Guarantees issued to CLFC in favour of subsidiaries	—	—	**41,500**	69,000
Guarantees issued to CLFG in favour of subsidiaries	—	—	—	6,000
Guarantees issued to Hua Rong in favour of a subsidiary	—	—	—	30,000
Total	—	—	**116,500**	131,200

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

	2006 **Rmb'000**	2005 *Rmb'000*
Non-recurring items for the year		
Designated loan interest income	**789**	600
Subsidy income	**100**	13,483
Net non-operating expenses	**(14,276)**	(1,324)
Reversal of bad debt provision made in prior years	**4,547**	45,148
Reversal of provision for diminution in value of inventories made in prior years	**3,511**	34,300
Sub-total	**(5,329)**	92,207
Less: Effect on minority interests of the above items	**(2,447)**	—
Total	**(7,776)**	92,207

42 Non-recurring items *(continued)*

The Company

	2006 **Rmb'000**	2005 Rmb'000
Non-recurring items for the year		
Designated loan interest income	**18,808**	9,749
Subsidy income	**—**	10,000
Net non-operating revenue/expenses	**(13,154)**	138
Reversal of bad debt provision made in prior years	**—**	28,062
Reversal of provision for diminution in value of inventories made in prior years	**1,292**	45,168
Sub-total	**6,946**	93,117
Less: Tax effect of the above items	**—**	—
Total	**6,946**	93,117

43 Post balance sheet events

There have been no material post-balance sheet events which would require disclosure or adjustment to the 31 December 2006 Financial Statements.

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:

2006

	PRC Rmb'000	**Asia** Rmb'000	**America** Rmb'000	**Oceania** Rmb'000	**Others** Rmb'000	**Total** Rmb'000
Income from principal operations	1,101,116	45,256	17,106	16,266	16,245	1,195,989
Cost of sales	(1,231,319)	(40,116)	(15,163)	(14,418)	(14,400)	(1,315,416)
Business tax and surcharges	(796)	(796)				
Operating expenses	(45,037)	(1,849)	(699)	(665)	(665)	(48,915)
Administrative expenses	(153,951)	(6,321)	(2,391)	(2,274)	(2,274)	(167,211)
Financial expenses	(47,298)	(1,942)	(735)	(699)	(699)	(51,373)
Loss from principal operations	(377,285)	(4,972)	(1,882)	(1,790)	(1,793)	(387,722)

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)	(745)	(55,773)
Financial expenses	(38,422)	(3,974)	(572)	(721)	(619)	(44,308)
Loss from principal operations	(41,949)	(2,199)	(316)	(400)	(345)	(45,209)

45 Comparative figures

Certain comparatives amounts have been reclassified to conform to the current year's presentation.

Significant differences between the financial statements of the Group prepared in accordance with the PRC Accounting Rules and Regulations and International Financial Reporting Standards ("IFRSs")

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

	2006	2005
	Rmb'000	*Rmb'000*
(Loss)/profit attributable to shareholders under the PRC Accounting Rules and Regulations	**(317,482)**	4,952
Differences:		
— Amortisation of revaluation of land use rights	**2,098**	2,098
— Waiver of debts	**1,767**	4,336
— Pre-operating expenditure	**2,088**	(2,088)
— Government grants	**365**	366
— Reversal of impairment losses on receivables	**347,574**	—
— Removal compensation	**1,126**	—
— Difference in accounting for consolidation	**4,177**	—
— Difference in accounting for reused packing materials	**10,757**	—
— Unrecognised loss from subsidiaries	**(39,479)**	—
Profit attributable to equity shareholders of the Company under IFRSs	**12,991**	9,664

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

	2006	2005
	Rmb'000	*Rmb'000*
Shareholders' funds under the PRC Accounting Rules and Regulations	**313,660**	951,079
Differences:		
— Amortisation of revaluation of land use rights	**(80,150)**	(82,248)
— Pre-operating expenditure	**—**	(2,088)
— Government grants	**(4,012)**	(4,377)
— Difference in accounting for consolidation	**3,653**	—
— Difference in accounting for reused packing materials	**10,757**	—
Total equity attributable to equity shareholders of the Company	**243,908**	862,366