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洛阳玻璃股份有限公司

LUOYANG GLASS COMPANY LIMITED

(a joint stock limited company incorporated in the People's Republic of China with limited liability)

(Stock Code: 1108)

RESULTS ANNOUNCEMENT AND SUMMARY ANNUAL REPORT OF 2008

1 IMPORTANT NOTICE

1.1 The Board of Directors (the "Board"), the Supervisory Committee, the directors, supervisors and senior management of Luoyang Glass Company Limited (the "Company") warrant that there are no false representation and misleading statement in or material omission from in this report and jointly and severally accepts responsibilities for the truthfulness, accuracy and completeness of the content contained herein. This summary of the annual report is extracted from the full text of the annual report. Investors should read the full text of the annual report for a thorough understanding of its content.

1.2 All directors attended the Board meeting.

1.3 The financial statements were prepared in accordance with the People's Republic of China ("PRC") Accounting Rules and Regulations and International Financial Reporting Standards and audited by Daxin Certified Public Accountants Co., Ltd. and PKF Certified Public Accountants respectively. The auditors have issued auditors' reports with explanatory paragraphs and non-qualified opinions. Detailed explanations were also given by the Board and the Supervisory Committee of the Company in the 2008 Annual report of the Company; investors are advised to take note in reading this summary.

1.4 Mr. Gao Tianbao, the Chairman, Ms. Song Fei, the Chief Financial Controller and Ms. Hai Sumin, the Head of Finance Department, warrant the authenticity and completeness of the financial statements set out in the annual report.

2 COMPANY PROFILE

2.1 Basic Information

Stock name	Luoyang Glass	Luoyang Glass
Stock code	600876	1108
Place of listing	Shanghai Stock Exchange	The Stock Exchange of Hong Kong Limited
Registered address and office address	No.9, Tang Gong Zhong Lu, Xigong District, Luoyang Municipal, Henan Province, the PRC	
Postal code	471009	
International website of the Company	http://www.zhglb.com	
E-mail	gfbgs@clfg.com	

2.2 Contact person and method

	Company Secretary	Securities Affairs Representative
Name	Ms. Song Fei	Mr. Zhang Kefeng
Correspondence Address	Secretary Office of the Board, Luoyang Glass Company Limited, No.9, Tang Gong Zhong Lu, Xigong District, Luoyang Municipal, Henan Province	Secretary Office of the Board, Luoyang Glass Company Limited, No.9, Tang Gong Zhong Lu, Xigong District, Luoyang Municipal, Henan Province
Telephone number	86-379-63908588, 63908507	86-379-63908629
Facsimile number	86-379-63251984	86-379-63251984
E-mail	lbjtsf@163.com	lyzkf@163.com

3 SUMMARY OF ACCOUNTING DATA AND FINANCIAL INDICATORS

3.1 Major Accounting Data (Unless otherwise stated, the following figures are prepared in accordance with the Accounting Standards for Enterprises issued by the Ministry of Finance of the People's Republic of China ("PRC Accounting Standards"))

Unit: RMB

	2008	2007	Increase/ (decrease) of the year over last year *(%)*	2006
Operating income	1,322,532,854.82	1,508,756,180.44	(12.34)	1,247,337,711.19
Loss for the year	(37,209,125.73)	(73,009,423.96)	(49.04)	(429,031,589.40)
Profit/(loss) attributable to shareholders of the listed company	12,783,782.14	(95,343,480.67)	N/A	(372,466,837.52)
Profit less extraordinary profit or (loss) attributable to equity shareholders the Company	(245,984,788.36)	(110,186,360.07)	(123.24)	(366,922,000.00)
Net cash out flow from operating activities	(47,722,300.79)	(10,720,925.72)	(345.13)	(7,550,394.26)

	As at 31 December 2008	As at 31 December 2007	Percentage change over last year	As at 31 December 2006
Total assets	2,003,149,707.07	2,039,580,095.59	(1.79)	2,189,293,094.26
Shareholders' equity	229,156,045.71	216,372,263.57	5.91	311,715,744.24

3.2 Major Financial Indicators

	2008	2007	Increase/ (decrease) of the year over last year *(%)*	2006
Basic earnings/(loss) per share *(RMB)*	0.03	(0.19)	N/A	(0.53)
Diluted earnings/(loss) per share *(RMB)*	0.03	(0.19)	N/A	(0.53)
Basic earnings/loss per share less extraordinary profit or loss *(RMB)*	(0.49)	(0.22)	(122.73)	(0.52)
Return on net assets fully amortized *(%)*	5.58	(44.06)	Increased by 49.64 percentage points	(119.49)
Weighted average return on net assets *(%)*	5.74	(36.11)	Increased by 41.85 percentage points	(48.21)
Return on net assets fully amortized less extraordinary profit or loss *(%)*	(107.34)	(50.92)	Decreased by 56.42 percentage points	(117.71)
Weighted return on net assets fully amortized less extraordinary profit or loss *(%)*	(110.42)	(41.73)	Decreased by 68.69 percentage points	(47.49)
Net operating cash flow per share *(RMB)*	(0.10)	(0.02)	(400.00)	(0.02)

	As at 31 December, 2008	As at 31 December, 2007	Percentage change over last year	As at 31 December, 2006
Net assets per share attributable to shareholders of the listed company *(RMB)*	0.46	0.43	6.98	0.62

Non-recurring items

✓ Applicable ☐ Not applicable

Non-recurring items	**Amount** *(RMB)*
Gain on disposal of non-current assets	233,884,733.31
Government subsidies through profit or loss	21,989,800.00
Gain from debt reorganisation	9,000.00
Other non-operating income and expenses	1,114,006.17
One-off adjustment to profit or loss for in current period (in accordance with the requirements of tax revenue, accounting standards and regulations)	2,721,732.84
Effect of non-recurring profit or loss on income tax	
Effect of non-recurring profit or loss on minority interest	(950,701.82)
Total	258,768,570.50

Items accounted at fair value

☐ Applicable ✓ Not applicable

3.3 Differences between the PRC and overseas accounting standards

☑ Applicable ☐ Not applicable

	PRC Accounting Standards	International Financial Reporting Standards
Net profit attributable to equity shareholders of the Company	12,783,782.14	54,040,000.00
Equity attributable to the equity shareholders of the Company	229,156,045.71	197,859,000.00

Description of differences: Please refer to the following for details of the significant differences between the annual financial report of the Group prepared in accordance with the PRC Accounting Rules and Regulations and International Financial Reporting Standards.

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

	2008 *RMB'000*	**2007** *RMB'000*
Profit/(loss) attributable to shareholders under the PRCAccounting Rules and Regulations	12,783	(95,343)
Differences:		
- Gain on disposal of land use rights	34,657	—
- Gain on disposal of a subsidiary	15,834	—
- Amortisation of revaluation of land use rights	1,500	2,098
- Government grants	461	365
- Difference in accounting for reused packing materials	(7,616)	(2,270)
- Others	(3,579)	(4,939)
Profit/(loss) attributable to equity shareholders of the Company under IFRSs	54,040	(100,089)

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

	2008	**2007**
	RMB'000	*RMB'000*
Shareholders' funds under the PRC Accounting Rules and Regulations	229,156	216,373
Differences:		
- Gain on disposal of land use rights	34,657	—
- Gain on disposal of a subsidiary	15,834	—
- Amortisation of revaluation of land use rights	(76,552)	(78,052)
- Government grants	(3,186)	(3,647)
- Difference in accounting for consolidation	3,653	3,653
- Difference in accounting for reused packing materials	871	8,487
- Others	(6,574)	(2,995)
Total equity attributable to equity shareholders of the Company under IFRSs	197,859	143,819

4 CHANGES IN SHARE CAPITAL AND PARTICULARS OF SHAREHOLDERS

4.1 Changes in share capital

Unit: Share

	Before change		Change (+/-)					After change	
Item	Number	Percentage	Issue of new shares	Bonus issue	Shares converted from public reserve	Others	Sub-total	Number	Percentage
I. Share subject to trading moratorium	179,018,242	35.80%	—	—	—	—	—	179,018,242	35.80%
1. State-owned shares									
2. State-owned legal person shares	179,018,242	35.80%	—	—	—	—	—	179,018,242	35.80%
3. Other domestic shares									
Including: shares held by domestic legal persons	—	—	—	—	—	—	—	—	—
Shares held by domestic natural persons	—	—	—	—	—	—	—	—	—
4. Foreign invested shares									
Including: shares held by overseas legal persons	—	—	—	—	—	—	—	—	—
Shares held by overseas natural persons	—	—	—	—	—	—	—	—	—
II. Circulating shares not subject to trading moratorium	321,000,000	64.20%	—	—	—	—	—	321,000,000	64.20%
1. Ordinary shares denominated in RMB	71,000,000	14.20%	—	—	—	—	—	71,000,000	14.20%
2. Domestic listed foreign invested shares	—	—	—	—	—	—	—	—	—
3. Overseas listed foreign invested shares	250,000,000	50%	—	—	—	—	—	250,000,000	50%
4. Others									
III. Total number of shares	500,018,242	100%	—	—	—	—	—	500,018,242	100%

Changes in shares subject to trading moratorium

Name of shareholders	Number of shares subject to trading moratorium at the beginning of the year	Number of shares with trading moratorium released in the year	Number of additional shares subject to trading moratorium in the year	Number of shares subject to trading moratorium at the end of the year	Reason for trading moratorium	Expiry date of trading moratorium
China Luoyang Float Glass (Group) Company Limited	179,018,242	—	—	179,018,242	Share reform	Nil

4.2 Particulars of the top ten shareholders and top ten holders of circulating shares

Unit: share

Total number of shareholders	As at 31 December 2008, there were 18,948 shareholders, including 1 state-owned legal person shareholder, 18,866 shareholders of A shares and 81 shareholders of H shares.

Shareholdings of the top 10 shareholders

Name of shareholder	Nature of shareholder	Shareholding percentage	Total number of shares held	Number of shares subject to trading moratorium held	Number of shares pledged or frozen
China Luoyang Float Glass (Group) Company Limited	Holder of state-owned shares	35.80%	179,018,242	179,018,242	179,018,242
HKSCC Nominees Limited	Foreign shareholder	49.40%	246,998,998	—	Nil
Ma Li	Individual shareholder	0.117%	584,549	—	Nil
Cao Hongtao	Individual shareholder	0.104%	518,280	—	Nil
Li Linxuan	Individual shareholder	0.101%	503,080	—	Nil
Hu Shijie	Individual shareholder	0.089%	444,107	—	Nil
Jiang Zhongshan	Individual shareholder	0.088%	438,100	—	Nil
Wang Congliang	Individual shareholder	0.078%	388,997	—	Nil
Liu Shengli	Individual shareholder	0.076%	381,800	—	Nil
Chuk Yee Men Liza	Foreign shareholder	0.075%	374,000	—	Nil

Shareholdings of the top 10 holders of shares not subject to trading moratorium

Name of shareholder	Number of shares not subject to trading moratorium held	Type of shares
HKSCC Nominees Limited	246,998,998	Overseas listed foreign shares
Ma Li	584,549	Ordinary shares denominated in RMB
Cao Hongtao	518,280	Ordinary shares denominated in RMB
Li Linxuan	503,080	Ordinary shares denominated in RMB
Hu Shijie	444,107	Ordinary shares denominated in RMB
Jiang Zhongshan	438,100	Ordinary shares denominated in RMB
Wang Congliang	388,997	Ordinary shares denominated in RMB
Liu Shengli	381,800	Ordinary shares denominated in RMB
Chuk Yee Men Liza	374,000	Overseas listed foreign shares
Nan Zhengang	331,100	Ordinary shares denominated in RMB

Explanation of connected relationship or action acting in concert among the aforesaid shareholders	There are no connected parties or persons acting in concert as defined by Regulations for Disclosure of Changes in Shareholding of Listed Companies (上市公司股東持股變動信息披露管理辦法) published by the Shanghai Stock Exchange among the top ten shareholders of the Company, including China Luoyang Float Glass (Group) Company Limited and other shareholders of circulating shares. The Company is not aware of any parties acting in concert or any connected relationship among other holders of circulating shares.

Note: Nature of shareholder includes state-owned shareholder, foreign shareholder and others. Type of shares includes ordinary shares denominated in RMB, domestic listed foreign shares, overseas listed foreign shares and others.

4.3 Controlling shareholders and de facto controller

4.3.1 Changes of controlling shareholders and de facto controller

☐ Applicable ☑ Not applicable

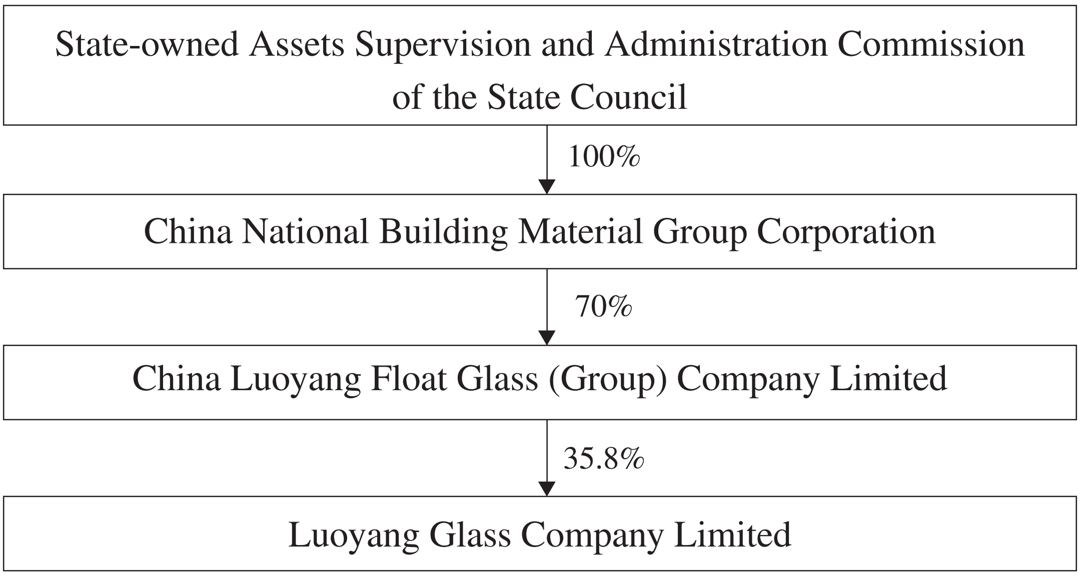
4.3.2 Particulars of the controlling shareholder and de facto controller

China Luoyang Float Glass (Group) Company Limited ("CLFG"), the controlling shareholder, was established in April 1991 and its legal representative is Zhu Leibo. Its registered capital is RMB1,286.74 million and its shareholders include China National Building Material Group Corporation ("CNBMG"), Luoyang Assets Management Company, China Hua Rong Assets Management Company, China Changcheng Assets Management Company, China Dongfang Assets Management Company, China Xinda Assets Management Company and China Xinxing Construction Material (Group) Company holding 70%, 10.27%, 8.55%, 5.44%, 3.10%,1.94% and 0.7% of shares respectively. Its principal activities include production and sales of float glass, imports and exports of processing technology of glass and internal business, design and subcontracting of engineering works, labour export and other businesses.

Information of the de facto controller of the Company

CNBMG was established in 1984 and its legal representative is Song Zhiping. Its registered capital is RMB3,723,038,000. The Company is principally engaged in the development, wholesale and retail of construction material (including steel products and wood products, but only purchased by and supplied to those enterprises which are directly under and supplied by the system), raw materials and productive technology equipment as well as the supply of sedan in the plan of the system; undertaking designs and construction of housing, factory and decoration involving new construction materials.

4.3.3 Illustration of shareholding and controlling relationship between the Company and its de facto controller



5 Directors, Supervisors, Senior Management

5.1 Changes in shareholdings and remuneration of directors, supervisors and senior Management

Number of A shares held in the interest of individuals

Name	Position	Sex	Age	Date of Appointment	Date of cessation	Shareholding at the beginning of the year *(share)*	Shareholding at the end of the year *(share)*	Reason of changes	Total remuneration received from the Company during the reporting period *(RMB0'000)*	Whether they received remuneration from corporate shareholders or other connected parties
Zhu Leibo	Previous Chairman	M	46	2006-04-10(Director) 2007-9-12 (Chairman)	2008-04-14	2,840	2,840	Nil	11.3	No
Zhu Liuxin	Previous Executive Director Deputy General Manager	M	56	2006-04-10(Direcotr) 2007-07-24 (Deputy General Manager)	2008-04-14	2,414	2,414	Nil	9.3	No
Gao Tianbao	Chairman	M	50	2007-09-10(Director)	2009-04-10	—	—	Nil	21.6	No
Cao Mingchun	Executive Director General Manager	M	45	2007-09-10(Director) 2008-04-14 (General Manager)	2009-04-10	—	—	Nil	16.2	No
Xie Jun	Executive Director Deputy General Manager	M	43	2007-09-10 (Director) 2007-07-24 (Deputy General Manager)	2009-04-10	—	—	Nil	10.5	No

Song Fei	Executive Director Chief Financial Controller Secretary to the Board	F	45	2008-04-14 (Financial Controller) 2008-06-30(Director) 2008-12-11 (Secretary to the Board)	2009-04-10	—	—	Nil	5.8	No
Song Jianming	Executive Director Deputy General Manager	M	52	2007-07-24 (Deputy General Manager) 2008-06.30 (Director)	2009-04-10	—	—	Nil	10.5	No
Shen Anqin	Non-executive director	M	59	2007-09-10	2009-04-10	—	—	Nil	4	No
Yang Weiping	Non-executive director	M	50	2007-09-10	2008-12-11	—	—	Nil	4	No
Xi Shengyang	Independent Director	M	53	2006-04-10	2009-04-10	—	—	Nil	4	No
Guo Aimin	Independent Director	M	53	2006-04-10	2009-04-10	—	—	Nil	4	No
ZhangZhanying	Independent Director	M	50	2006-04-10	2009-04-10	—	—	Nil	4	No
Ge Tieming	Independent Director	M	63	2007-09-10	2009-04-10	—	—	Nil	4	No
Ren Zhenduo	Chairman of the Supervisory Committee	M	44	2007-09-10 (Supervisory) 2007-9-12 (Chairman of the Supervisory Committee)	2009-04-10	—	—	Nil	4.7	No
Li Jingyi	Independent Supervisor	F	55	2006-04-10	2009-04-10	—	—	Nil	2	No
He Baofeng	Independent Supervisor	M	37	2007-09-10	2009-04-10	—	—	Nil	2	No
Yao Wenjun	Supervisor	F	40	2007-09-10	2009-04-10	—	—	Nil	2	No
Lu Junfend	Supervisor from staff representative	M	40	2007-09-10	2009-04-10	—	—	Nil	4.1	No
Wong Yiu Hung	Company Secretary and qualified accountant	M	52	2007-10-08	2008-08-06	—	—	Nil	HK$322,000	No
Ip Pui-Sum	Company Secretary	M	49	2008-08-06	2009-04-10	—	—		HK$50,000	
To Wai Kum	Qualified accountant	F	45	2008-08-06	2009-04-10	—	—		HK$65,000	
Cheng Zonghui	Deputy General Manager	M	46	2007-07-24	2009-04-10	—	—	Nil	10.5	No

Note: (1) Save as disclosed above, as at 31 December 2008, none of the Directors, Supervisors and senior management of the Company had any interest nor short position in the underlying shares or debentures in the shares, equity derivatives of the Company or its associated corporations (within the meaning as defined in Part XV of the "Securities and Futures Ordinance" (Chapter 571 of the Laws of Hong Kong)) which was required to be entered in the register of interest kept by the Company pursuant to section 352 of the "Securities and Futures Ordinance"; or required to be notified to the Company or Hong Kong Exchange pursuant to the "Model Code for Securities Transactions by Directors of Listed Companies".

(2) As of 31 December 2008, none of the Directors, supervisors or their spouses or children under the age of eighteen was granted right to purchase shares or debentures of the Company or any of its respective associated companies.

(3) Total remuneration above amounted to approximately RMB1.73 million under the PRC Accounting Standards.

(4) The Company has not implemented any share incentive schemes during the reporting period.

6 REPORT OF THE DIRECTORS

6.1 Management Discussion and Analysis

Business Review

The Company is the place of origin for one of three major float glass manufacturing methods - "Luoyang Float Glass". The Company is one of the largest manufacturers and distributors of float glass in glass industry in the PRC. The Company is mainly engaged in the manufacturing and sales of float sheet glass. Capable of producing float glass of 0.55mm - 25mm, the Company holds a leading position in terms of the production technology of ultra-thin and ultra-thick glass.

Overall operation of the Company during the reporting period

2008 was the most difficult year in the Company's operating history. Under the impact of volatile domestic and international economies, raw materials and fuel prices were prone to great fluctuations. Sales of products were dampened, prices went flat and supply of funding was tightened as a result of natural disasters and weaker market demands during the year. With the full support of CNBMG and CLFG (洛玻集團公司) and Luoyang Municipal government and under the supervision of the Board, the Company reformed itself by implementing effective measures such as constraining loss from production and operation and reorganizing assets and boosting profit, hence successfully achieving its target of a turnaround.

In 2008, according to the PRC Accounting Standards, the revenue of the Group was approximately RMB1,322,532,800, representing a decrease of 12.34% from the corresponding period last year. Loss before tax totaled approximately RMB37,209,100, representing an increase of 49.04% over the corresponding period last year. Net profit attributable to shareholders of the Company was approximately RMB12,783,800 (the net loss attributable to shareholders of the Company in 2007 was RMB95,343,500) which represented a turnaround. Basic earnings per share was RMB0.03 (Basic loss attributable to shareholders of the Company in 2007 was RMB0.19).

According to the International Financial Reporting Standards, the profit before tax of the Group totaled RMB3,142,000 in 2008 (Loss before tax for the corresponding period in 2007 was RMB77,658,000). Net profit attributable to shareholders of the Company amounted to RMB54,040,000 (Net loss for the corresponding period in 2007 was RMB100,000,000). Basic earnings attributable to shareholders of the Company in 2008 was RMB0.11 (Basic loss attributable to shareholders of the Company in 2007 was RMB0.20).

The Board recommended not to distribute final dividend or increase share capital by the transfers of capital reserve.

In light of the global financial crisis and the downturn in the glass industry in 2008, the Company adopted a series of effective measures to realise profits. First, the Company reorganized, disposed or realized part of its assets to increase cash gains. Second, it innovated new management and control modes to boost synergies in operation. To such end, it established a centralized management platform whereby the Company integrated the sales of products, the management of capital and the bulk procurement of raw materials which enhanced economies of scale and synergies. Third, it clearly defined its market positioning so as to go from strength to strength in Henan market. Fourth, it adjusted product structure, improved product packaging, promoted nude kit and reduced cost. Fifth, it timely closed and suspended the operation of production lines which might require cold maintenance or upgrading, including production line No.3, Longbo Production Line, Float Sheet Glass Line and Longfei Production Line which helped reducs loss. Sixth, the Company increased funding to commence trade finance through various channels which guaranteed the Company's capital demand for production and operation. Seven, the Company reinforced its fundamental management which reduced cost expenses.

The following discussion and analysis should be read in conjunction with the audited financial statements of the Group and the notes thereon prepared in accordance with the PRC Accounting Rules and Regulations set out in other sections of this report (Unless otherwise stated).

6.2 Statement of the principal operations by industries and products (Prepared in accordance with the PRC Accounting Standards)

By industry or products	Operating Income *(RMB)*	Cost of operation *(RMB)*	Profit margin of operations *(%)*	Increase/ decrease of income from operations as compared to last year *(%)*	Increase/ decrease of cost of operations as compared to last year *(%)*	Increase/ decrease of operating profit margin as compared to last year *(%)*
Float glass	1,130,084,696.77	1,151,119,535.64	-1.86	-22.06	-11.83	Decreased by 11.81 percentage points

6.3 Principal operations by regions (Prepared in accordance with the PRC Accounting Standards)

Regions	**Operating income** *(RMB)*	**Increase/(decrease) of operating income as compared to last year** *(%)*
Domestic	1,101,676,405.91	(21.77)
Exports	28,408,290.86	(31.93)

6.4 Top 5 Suppliers and Top 5 Customers (Prepared in accordance with the PRC Accounting Standards)

Total purchase from top 5 suppliers *(RMB)*	331,953,606.07	**Percentage in total purchase**	35.81%
Total sales to the top 5 customers *(RMB)*	296,973,181.57	**Percentage in total sales**	22.46%

None of the Company's directors, supervisors and their respective associates and any shareholders (whom as far as the directors are aware holds 5% or more of equity interests in the Company's share capital) had any interest of the aforesaid suppliers and customers.

6.5 Composition of cash flow

According to the PRC Accounting Standards, the Company's net cash outflow from operating activities amounted to RMB47,722,300.79 for the year, representing an increase of 345.13% over the corresponding period of last year, mainly attributable to the increase in the volume of bills settlement in conjunction with the sale of goods. Net cash inflow from investment activities amounted to RMB175,164,710.65, representing an increase of 181.88% as compared to last year, which was mainly attributable to the disposals of land use right and the buildings erected thereon in the factory area and the equity interest in the logistics company. Net cash outflow from financing activities amounted to RMB137,296,038.43, representing an increase of 284.29% over the corresponding period last year. This was primarily due to the increase in repayment for borrowings due within one year, increased interest expenses due to surging interest rate, and note financing. Net decrease of cash and cash equivalents was RMB9,245,065.68 in 2008 (net increase of cash and cash equivalents in 2007 was RMB15,410,313.07).

According to the International Financial Reporting Standards ("IFRSs"), the Company's net cash inflow from operating activities amounted to RMB856,000 (2007: RMB43,506,000). Net cash inflow from investment activities amounted to RMB169,923,000 (2007: RMB13,023,000). Net cash outflow from financing activities amounted to RMB180,025,000 (2007: RMB41,119,000). Reasons for the changes in these figures are the same as aforesaid.

6.6 Analysis on items of accounts with movements over 30% (Prepared in accordance with the PRC Accounting Standards)

(1) Bills receivables decreased by 86.59% from the beginning of the reporting period to the end of the same, mainly due to the discount of bills receivables.

(2) Accounts receivable increased by 235.64% from the beginning of the reporting period to the end of the same, mainly due to the sales of raw materials.

(3) Prepayment increased by 47.25% from the beginning of the reporting period to the end of the same, mainly due to the increase in prepayment for goods.

(4) Other receivables increased by 906.03% from the beginning of the reporting period to the end of the same, mainly due to the outstanding proceeds of RMB120,000,000.00 payable by Luoyang Land Reserves Coordination Centre in respect of the disposal of land and buildings erected thereon.

(5) Construction in progress increased by 1,615.39% from the beginning of the reporting period to the end of the same, mainly due to the implementation of the melting furnace operation of CLFG Longfei Glass Company Limited ("Longfei") and the project of technical upgrade of CLFG Longmen Glass Company Limited's ("Longmen") facilities transferred from fixed assets.

(6) Construction materials decreased by 89.27 % from the beginning of the reporting period to the end of the same, mainly due to the more usage of such materials.

(7) Intangible assets decreased by 47.57% from the beginning of the reporting period to the end of the same, mainly due to the disposal of land and equity interest in logistics company.

(8) Notes payable increased by 52.98% from the beginning of the reporting period to the end of the same, mainly due to the increased use of notes by the Company for settling bills.

(9) Taxes payable decreased by 74.31% from the beginning of the reporting period to the end of the same, mainly due to lower revenue for the year.

(10) Non-current liabilities due within one year decreased by 99.07% from the beginning of the reporting period to the end of the same, mainly due to the decrease in borrowings due within one year.

(11) Minority interests decreased by 60.64% from the beginning of the reporting period to the end of the same, mainly due to share of loss incurred by subsidiaries.

(12) Other operating income for the period increased by 227.31% over the corresponding period last year, mainly due to the sales of raw materials.

(13) Other operating cost for the period increased by 298.19% over the corresponding period last year, mainly due to the sales of raw materials.

(14) Tax and surcharge of principal operations for the period decreased by 32.74% over the corresponding period last year, mainly due to lower sales during the year.

(15) Investment gains for the period decreased by 75.77% over the corresponding period last year, mainly attributable to the income from disposal of equity interest in Yanlian Petroleum Co Ltd. last year.

(16) Operating loss for the period increased by 237.29% over the corresponding period last year, mainly due to the decrease in other operating profit and investment income.

(17) Non-operating income for the period increased by 1,332.82% over the corresponding period last year, mainly due to the disposal of land and buildings erected thereon as well as government subsidy.

(18) Non-operating expenses for the period decreased by 69.70% over the corresponding period last year, mainly due to the loss from scrapping of fixed assets during last year.

(19) Loss for the period decreased by 49.04% over the corresponding period last year, mainly due to the disposal of land and buildings erected thereon and government subsidy attributed to non-operating income.

(20) Income tax credit for the period was RMB2,651,438.67 (2007: income tax expenses for the period was RMB3,412,035.710), mainly due to the approval for exemption from 2007 enterprise income tax issued by Tax Bureau of Luoyang Province and received by CLFG Luoyang Longhao Glass Company Limited ("Longhao").

(21) Net loss for the period decreased by 54.78% over the corresponding period last year, mainly due to the increase in non-operating income and decrease in income tax expenses.

6.7 Analysis of the operation results of the major subsidiaries and investee companies (Prepared in accordance with the PRC Accounting Standards)

Company name	Nature of business	Major products	Registered capital (RMB)	Total assets (RMB)	Net assets (RMB)	Net profit (RMB)
Longmen	Production and sales	Ultra thin glass	20,000,000.00	152,524,841.33	-127,455,572.61	-51,030,852.45
CLFG Longhai Electronic Glass Co., Ltd. ("Longhai")	Production and sales	Ultra thin glass	60,000,000.00	328,679,165.80	18,949,049.41	-17,098,598.73
Longhao	Production and sales	Float glass	50,000,000.00	365,874,417.77	37,238,473.47	-17,929,219.61
Longfei	Production and sales	Float glass	74,080,000.00	171,258,750.09	16,451,062.52	-31,613,462.15
CLFG Longxiang Glass Co., Ltd. ("Longxiang")	Production and sales	Float glass	50,000,000.00	136,192,552.08	18,525,870.27	-32,889,022.28
Yinan Mineral Products Co., Ltd.	Production and sales	Silica sand raw materials	28,000,000.00	44,329,944.97	7,616,936.41	-425,190.13
Xiangfang Luoshen Auto Glass Co., Ltd.	Production and sales	Automobile glass	10,000,000.00	13,273,523.47	7,888,950.44	714,915.70
Luoyang Luobo Industrial Co., Ltd.	Sales	Glass and raw materials and fuel	5,000,000.00	30,782,146.86	4,419,156.00	-580,844.00
Dengfeng CLFG Silicon Co., Ltd.	Production and sales	Silica sand raw materials	1,000,000.00	695,073.71	695,073.71	-72,482.45
CLFG Processed Glass Co., Ltd.	Production and sales	Processing glass	181,495,607.50	491,989,922.17	-35,836,020.62	-39,314,055.19

CLFG Financial Company of Limited Liabilities ("CLFC")	Non-bank financial institution	Finance Service	300,000,000.00	354,934,946.41	327,104,339.51	15,858,443.48
Luoyang Jingxin Ceramic Co., Ltd.	Production and sales	Inner wall tile	41,945,000.00	127,667,598.09	53,03,782.64	-5,296,264.89
CLFG Minerals Products Co., Ltd.	Production and sales	Silica sand raw materials	30,960,055.81	32,103,494.04	-8,009,622.35	-526,763.24

6.8 Use of the proceeds from share issue

☐ Applicable ☑ Not applicable

Change of projects

☐ Applicable ☑ Not applicable

6.9 Projects not funded by proceeds from share issue

☐ Applicable ☑ Not applicable

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

☑ Applicable ☐ Not applicable

Daxin Certified Public Accountants Co., Ltd. presented their auditors' reports with an explanatory paragraph but without qualifying for the 2008 financial statements (prepared under the PRC Accounting Standards) of the Company. Particulars of the explanatory paragraph are as follows:

"Besides, 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 Group and the Company were prepared on assumption that the Group and Company would continue as a going concern during the period from the end of the reporting period to 31 December 2009. The Group had accumulated uncovered losses amounting to RMB1,249,967,485.76, with current liabilities exceeding current assets by RMB941,320,286.68 as at 31 December 2008. Notwithstanding the Company's management has justified the going concern basis in preparing the above financial statements as set out in note 2 to the financial statements, there exists fundamental uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. This explanatory paragraph does not affect the audit opinion made."

PKF Certified Public Accountants also presented their auditors' reports with an explanatory paragraph but without qualifying the 2008 financial statements (prepared under the International Financial Reporting Standards) of the Company. The auditors draw their attention to the Company's and Group's assumption of going concern as the basis in preparing the financial statements and considered the validity of which depends on certain factors.

"Notwithstanding that the Group had accumulated uncovered losses of RMB1,249,967,485.76, with current liabilities exceeding current assets by RMB941,320,286.68 at 31 December 2008 under the PRC Accounting Standards, 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:

(1) as at 31 December 2008, credit facilities of approximately RMB717,767,000.00 granted by banks to the Group were utilized in full. As such loans will fall due within one year after the balance sheet date, the Directors are negotiating with banks for their continual support.

(2) continuing financial support will be obtained from its holding company - CLFG and the holding company's parent - CNBMG.

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

According to the Statement on Emphasis set out in the audit report presented by the above accountant, the Company considered the net current liabilities were attributable to the operating loss for the year, mainly due to a significant decrease in selling prices from intensified market competition and the significantly increased cost of major capital goods as well as a number of necessary provisions. The increased bank loans were due to reduction in cash inflow and changes in receivables. The Group's operation was affected by the net current liabilities to a certain extent.

In the opinion of the Board, cash inflow status will be improved with the gradual effect from optimisation of the Group's product mix, which will in turn significantly reduce the reliance on bank loans for its operation. Furthermore, the Company may obtain financial support, if necessary, from its controlling company and other financial institutions to cope with the potential financing difficulties.

6.11 Plan of the Board of Directors for profit appropriation or transfer of statutory surplus reserve to capital for this year

According to the PRC Accounting Standards, the net profit attributable to owners of the parent company in 2008 was RMB12.78 million. Taking into account the net loss of RMB1,262.75 million in the beginning of the year, accumulated loss was RMB1,249.97 million. As a result, the Company does not recommend profit distribution for 2008 or any transfer of capital reserve to share capital

According to the International Accounting Standards, the net profit attributable to owners of the parent company for 2008 was RMB54.04 million. Taking into account loss of RMB850.35 million in the beginning of the year, accumulated loss was RMB796.31 million. As a result, the Company does not recommend profit distribution for 2008 or any transfer of capital reserve to share capital.

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

☐ Applicable ☑ Not applicable

Future Development Prospect

1. Environment analysis

   Glass market is expected to face significant uncertainty in 2009. Economic depression is likely to continue or even escalate in the first half year. However, when the stimulus packages to boost domestic demand and encourage growth start to take effect in the second half, positive changes are likely to emerge in late third and fourth quarters. Analysis is as follows:

   Negative factors

   (1) Inadequate demand. Hit by financial crisis, downstream enterprises like real estate, and automobile industry and export are sliding downward, dragging demand significantly.

   (2) Intensified market competition.

   Given the sluggish market conditions, glass producers are suffering from capital shortage and operating loss. Most of them are resorting to stiff price competition to realise cash so as to stay in business. Due to irrational competition from certain glass producers, the industry becomes more chaotic. Due to the impact from reverse movements of cost and price last year, over 40 production lines had been shut down in China. However, there are still 23 in production to date, and the construction of another 19 is being planned. If glass price recovers, some shut down lines will resume production. Any irrational growth in capacity is likely to send the industry again into oversupply and malign competition.

   (3) The Company is faced by capital shortage and expected rise in obsolete assets and increasing lay-offs of staff in the coming year.

Positive factors

(1) The PRC government has implemented a series of measures to sustain growth, boost domestic consumption and promote restructuring. The revival plan for ten industries is to play a vital role in the recovery of glass market. The government also adopted the slogan of "supporting the large and repressing the small" and "protection and restriction" and policies against high energy consumption and pollution to discourage the continuation of construction of facilities with low capacity. Pragmatic fiscal policies and more lenient monetary policies accompanied by the decrease of benchmark rate and deposit-reserve ratio are helping to lower financial costs.

(2) Prices of raw materials and fuel for the Company are to drop as a whole compared with 2008.

(3) The Company boasts an unparalleled and stable team of employees in the industry, backed by CLFG, the controlling shareholder, CNBMG, de facto controller, and Luoyang municipal government, which can provide strong capital support and favorable policy to ensure sustainable operation of the Company.

(4) Gradual shut down of glass production line is conducive to restructuring. It is estimated that more domestic production lines are to be shut down in the first half of the year. As competition polarizes, the glass industry is entering a promising period of restructuring and consolidation. We are to become one of the beneficiaries of industry consolidation by virtue of the platform advantages built by CNBMG.

2. Business Plan for 2009

The business target of the Company in 2009 is to increase consolidated revenue, so as to maintain a net profit of the Company. In terms of financial indicators, a the Company targets to achieve a healthy level of current assets turnover ratio and return on net assets, striving to reach 100% in production and sales ratio and reduce energy consumption.

3. As countermeasures to offset adverse impact, we are to:

(1) Seek opportunity in crisis by carrying out system reform

1) Pursue flat organization, streamline operation process and be more responsive to market conditions with a view to enhancing organizational structure, reallocating job functions, improving business cycles and raising efficiency.

2) In the "three system" reform, amend and complete incentive restriction policy; KPL evaluation is to be implemented. Focus on key indicators to operate the system in a simple and easy way.

3) Learn from private operations, promote better use of human resource and introduce distribution mechanism reform. Salary and profit link shall be established without setting any ceilings but at the same time the lowest salaries sufficient to cover basic living requirements only. Supporting roles are to be minimized and staff should be all-around. The transformation to privatized mode is to increase sales income and operate efficiently and profitability.

4) Actively and prudently implement human resource restructuring policies to reallocate the 1,000-1,500 employees to appropriate positions, which is expected to save expenses of RMB10,575,200 annually and improve the structure of the working team and optimize our labour force.

(2) Introduce innovative marketing strategies to expand and enhance our presence in Henan

1) Clear positioning of our market and products

Market targeting: enhance presence in Henan and expand to neighbouring cities. Focus on the development of markets in second class cities of Henan. Intensify marketing and extend sales network to increase volume. Ordinary glass market share in Henan shall reach 70% or higher. Develop markets in Anhui and Northwest China in which we will sell 35-40 truck loads per month presently and is expected to reach 65 truck loads per month.

Product targeting:

White glass: Longxiang and Longhao, cost leader strategy

Ultra thin glass: Longhai, “maximizing market share” strategy

Package and logistics shall change according to market and product positioning. Increase package other than wooden and increase road transportation.

2) Promote the idea of large scale sales and avoid conservative management thinking

Marketing departments shall eradicate conservative marketing ideas, be innovative in market forecast and pricing mechanism, react promptly to price and optimise market strategy to establish a leading position in the market.

3) Build up excellent marketing team and exist mechanism

We are to enhance marketing training to improve overall quality of our marketing team. A dedicated, knowledgeable, enthusiastic, compromising and outstanding marketing team will be built. Strengthen incentive mechanism and implement performance evaluation on a three month basis. Establish exit mechanism and select better sales personnel from the entire team.

(3) Increase investment in technology innovation to sharpen our edge

1) Increase technology investment. Even under tight capital condition, investment in research and hardware which help to improve quality or reduce cost shall be increased. Defect detectors are to be purchased to improve quality and to meet the needs of further processing of auto industry. New models of on-line plating equipment are to be purchased to develop high-end plating products with higher added value.

2) Focus on basic research to develop new products. In order to tackle the pending problem of production line quality fluctuations caused by unknown reasons, basic researches relating to output, quality, energy saving and raw material substitution shall be prioritized and develop production process control software and management software. We are to develop new products for technological knowhow of the Company.

3) Optimize technology resources allocation. Best technology personnel are to be transferred from various teams to cooperate in research and problem tackling. The team is to respond quickly to production techniques analysis, research and problem solving. This encourages subsidiaries to resolve their technical problems.

(4) Strengthen management, unleash potential and reduce cost

We are to focus on identifying substitutes in the purchasing, production energy saving, product quality, selling for cash and better management.

1. Identifying substitutes in purchasing: to explore substitutes in raw material and fuel while securing better purchase prices and to use tenders to make purchases to control cost.

2. Production energy saving : to take rigid measures to save the consumption of coal, oil, raw material and power. Longhao has reduced coal consumption to 20 kg per weighted case. Longxiang is to substitute gas by heavy oil to save fuel cost. New technology and new equipment are to be promoted to save power, water and coal. Energy consumption per RMB10,000 production in 2009 is to reach 2.20 tonne standard coal.

3. Product quality improvement: to upgrade quality by 2-3 percentage points, rate of finished products increase by 3 percentage points and reduce ineffective working hours by 50% from 2008.

4. Selling for cash: marketing centres must strive to sell goods for cash. Evaluation is to be intensified for inventory over 3 months to reduce stock and loss.

5. Better management: to strengthen cost awareness for all levels of management. Auditing of different categories of goods, promoting weekly cost management and strengthening control before and during the process. We are to unify financial policy, system, standard and measure for subsidiaries and enforce standard cost management. In 2009, the enforcement of detailed cost control is to be strictly carried out. Discipline inspection commission and auditing department will form supervisory teams to inspect implementation of cost control measures in all departments. We are to control the major expenses as well as minor ones. Every drop of water, piece of paper and every kilowatt-hour are to be saved. By rigid control on non-productive expense, management cost is to reduce by 10% from 2008.

(5) Improve package, lower storage loss and reduce loss

The Company will increase the bare package, and expand production and sales volume of rack containers and composite wooden cases. In 2009, 80% of the thin white glass sheets will be packed in non-wood cases. It is expected that 75% of thick sheets will be packed in non-wood cases in the first half of 2009 and 90% for the second half. More than 70% of emerald green and sea blue glasses will be packed in non-wood cases. For products sold in Henan and surrounding markets, the Company strives to entirely use bare package or rack container package, which expected to reduce cost by RMB18,000,000.

At the same time, the Company will unify and optimize the storage management with less outdoor storage, so as to lower storage loss rate and maintain it at below 1%. In addition, it will strengthen the unified management in vehicles and trains by which products are transported, integrate the existing road transportation management, improve the existing loading and delivering work, and try to promote the transportation of products in bare package by train.

(6) Carry out investigation and study, optimize proposals and push forward projects

The Company will proactively push forward Longbo ultra-thin and ultra-white glass production renovation project, Longhao and Longxin waste heat power-generating project, fuel replacement project, and No.1 and No.2 line relocation project, aiming to achieve periodic results.

(7) Standardize corporate governance, strengthen coordination and facilitate resumption of trading

(1) The Company is to speed up the approval progress in respect of the resumption of trading of the Company's H shares and continuing connected transactions. Meanwhile, it will strive to operate in compliance with regulations, eliminate violations and improve the Company's external image.

(2) The Company will dispose idle assets, optimize assets structure, replace non-performing assets, improve assets quality and strengthen owner's profitability.

4. Fund required for future development strategy, application plan and sources

Approximately RMB130,000,000 is needed for resumption of production of the Company's No. 1 Line , Longbo ultra-white glass renovation project and Longfei cold repair and renovation project. It will be mainly financed by: 1) additional bank loans; 2) proceeds from selling land ; 3) introduction of partners.

5. All risk factors which may pose adverse impact on the realisation of future development strategies and operational targets:

During the production and operation, the Group proactively adopts various measures to avoid all kinds of risks. However, in actual circumstances, the operation is still exposed to various risks and uncertainties.

(1) Risks arising from macro policies: Though the state has launched a series of policies and measures to sustain economic growth, boost domestic demand and adjust industrial structure, glass industry would recover at a lower pace. Affected by appreciation of Renminbi and worldwide economic crisis, the international market demand will be suppressed and exports of products are expected to remain difficult.

(2) Market risks:

Currently, demands in flat sheet glass market are rather sluggish. Although China recently launched a series of measures to boost domestic demand, glass market is unlikely to turn around quickly in a short time due to the still depressing property industry and declining exports. Afflicted by higher-than-cost price in 2008, about 40 production lines suspended production in China. However, according to statistics from the industry association, in 2009, there are still 23 production lines under construction and 19 production lines to be constructed in the glass industry in China. As soon as the market turns around slightly, production would be spurred again. Excessive production capacity is still threatening the glass producers. As for raw materials and fuel, the purchasing returned to a more reasonable level due to slowdown in macroeconomic growth and sharp decrease in raw materials and fuel demand. However, as coal is the major fuel of the Company and no sharp fall was incurred in price of thermal coal, the Company will still confront heavy cost pressure. These uncertainties will hinder the Company from achieving its operating targets for 2009.

(3) Financial Risks:

1) As the Company's indebted operation is conditional upon regular payment of interests and repayment of principal upon expiry, in case that the Company's investment, production and operation through debts are unable to obtain expected gains, the Company will inevitably face risks of insolvency, which in turn will lead to financial strain of the Company and affect the Company's credibility.

2) The Company's gear ratio has reached 87.03%, surpassing the warning levels. As a result, the Company was caught in liquidity difficulties.

3) With weak solvency positions, the Company's current liabilities exceeded current assets by RMB941,320,000. Suppliers sometimes come to the Company for debt collection.

(4) Technological risks:

"Float Glass Technology of Luoyang Glass" is one of the top three float glass technology in the world. The manufacturing technology of ultra thin glass attained the State Scientific and Technological Award (Level 1) (國家科學技術進步一等獎). The Company boasts advanced production technology, but in-between the stage of melting furnace operation of certain production lines and post-production become more difficult to control. Production management should be reinforced to ensure stable production and high efficiency.

(5) Exchange rate risks:

Foreign exchange earnings decreased as influenced by exchange rate and shrinking exports. However, given the Group's small export volume, exchange rate fluctuations do not have material impact on the Group.

7. Significant Events

7.1 Acquisition of assets

☐ Applicable ☑ Not applicable

7.2 Disposal of assets

☑ Applicable ☐ Not applicable

Counterparty	Assets disposed	Date of disposal	Consideration	Net profit contributed by the asset to the Company since the beginning of the year to the date of disposal	Profit (loss) from the disposal	Whether a connected transaction (if so, state the basis of pricing)	Whether entitlement of assets concerned are completely transferred	Whether the creditors' and debtors' concerned are completely transferred
Luoyang Land Reserves Coordination Centre	land use right and buildings and ancillary structures	24 October 2008	RMB250 million		RMB175,341,212.51	No	Yes	Yes

7.3 Material guarantees (Prepared in accordance with the PRC Accounting Standards)

☑ Applicable ☐ Not applicable

Unit: RMB

Guarantees provided by the Company (excluding guarantees to controlling subsidiaries)

Guarantee provided	Date of occurrence (agreement execution date)	Amount of guarantee	Type of guarantee	Performance term of guarantee	Whether completed or not	Whether related party guarantee
Nil						

Total amount of guarantees provided by the Company	Nil
Balance of guarantees at the end of the reporting period	Nil

Guarantees provided by the Company to its controlling subsidiaries

Total amount of guarantees provided by the Company to its controlling subsidiaries	154,000,000.00
Balance of guarantees provided by the Company to its controlling subsidiaries at the end of the reporting period	98,000,000.00

Total guarantees provided by the Company (including guarantees to controlling subsidiaries)

Total amount of guarantees	98,000,000.00
Total amount of guarantees as a percentage to the Company's net assets *(%)*	42.77
Including:	
Amount of guarantees provided to shareholders, the de facto controller and its related parties	—
Debt guarantee directly or indirectly provided to parties with gearing ratio over 70%	—
Total amount of guarantee over 50% of the net assets	—
Total amount of above 3 guarantees	—

7.4 Material related parties transactions (Prepared in accordance with the Listing Rules of Shanghai Stock Exchange)

7.4.1 Related parties transactions relating to day-to-day operations

☑ Applicable ☐ Not applicable

Related party	Sale of products to related parties: Amount of transactions *RMB*	Sale of products to related parties: Percentage to similar type of transactions in terms of amount *(%)*	Provision of services to related parties: Amount of transactions *RMB*	Provision of services to related parties: Percentage to similar type of transactions in terms of amount *(%)*	Purchase of products from related parties: Amount of transactions *RMB*	Purchase of products from related parties: Percentage to similar type of transactions in terms of amount *(%)*	Receiving services from related parties: Amount of transactions *RMB*	Receiving services from related parties: Percentage to similar type of transactions in terms of amount *(%)*
CLFG (comprehensive services, water, electricity, gas)	—	—	432,269.75	2.14	—	—	4,023,190.60	48.98
Subsidiaries of CLFG (comprehensive services, water, electricity, gas)	—	—	18,748,918.61	92.69	—	—	4,190,000.00	51.02
Subsidiaries of CLFG (Glass)	5,804,956.44	0.51	—	—	56,325,922.86	11.40	—	—
Subsidiaries of CLFG (Raw materials)	137,101,090.39	24.76	—	—	12,634,637.22	18.96	—	—
Other related parties (Glass)	18,904,030.85	1.67	—	—	—	—	—	—

7.4.2 Creditor rights and debts with related parties (Prepared in accordance with the Listing Rules of Shanghai Stock Exchange)

☐ Applicable ☑ Not applicable

7.5 Designated financial management

☐ Applicable ☑ Not applicable

7.6 Performance of undertakings

☑ Applicable ☐ Not applicable

CLFG undertook when the Company conducted the Share Reform in 2006: the shares in the Company held by CLFG shall be subject to a moratorium for trading within 12 months since they are eligible for listing; upon expiration of undertaking period, the ratio of the original non-circulating shares trading in the stock exchange in the total shares of the Company shall not exceed 5% within 12 months, and shall not exceed 10% within 24 months; It has complied with its undertaking during the reporting period.

In the reporting period, CNBMG, the de facto controller of the Company has complied with the undertaking set out in the (Acquisition Report on Luoyang Glass Company Limited) to “avoid competition among the industry and reduce and restrict connected transactions”.

7.7 Material litigation and arbitration

☑ Applicable ☐ Not applicable

Please see note “Share Price Sensitive Information”

7.8 Explanations on other significant events and influence therefrom and solution thereon

7.8.1 Securities investment

☐ Applicable ☑ Not applicable

7.8.2 Particulars of the Company's shareholding in other listed companies

☐ Applicable ☑ Not applicable

7.8.3 The Company's shareholding in non-listed financial enterprises (Prepared in accordance with the PRC Accounting Standards)

☑ Applicable ☐ Not applicable

Name of investee	Initial investment cost *(RMB)*	Shareholding percentage *(%)*	Book value at the end of the period *(RMB)*	Earnings for the period *(RMB)*	Accounting item	Source of shares
Yanshi Credit and Cooperatives (偃師市信用合作聯社)	410,000.00	0.67	410,000.00	11,047.00	Investment income	
Sanmenxia Urban Credit and Cooperatives (三門峽市城市信用合作社)	7,000,000.00	4.99	7,000,000.00	—	N/A	
CLFG Finance Company Limited (中國洛陽浮法玻璃集團財務有限責任公司)	111,000,000.00	37	121,212,879.48	5,867,624.09	Investment income	

7.8.4 Trading of securities of other listed companies

☐ Applicable ☑ Not applicable

7.9 Suspension of Trading in H shares of the Company

The Company has submitted the announcement on resumption of trading in H Shares to the Hong Kong Stock Exchange Limited. Currently, the Company is in the progress of rectification as further required by Hong Kong Stock Exchange Limited.

7.10 Repurchase, sale and redemption of shares

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

7.11 Overdue deposits

As at 31 December 2008, overdue deposits due from Guangzhou International Trust & Investment Corporation ("GZITIC") was RMB35,000,000.00 with the original amount of RMB145,657,113.55, for which the Company had made RMB110,657,113.55 of provision for bad debt in previous years. In 2007, Sun Kian Ip Holding Company Limited (「新建業集團有限公司」) sent a letter to the Company to request for purchasing the creditor's rights by tender offer. On 3 December of the year, the Company reached the intent for further transfer of creditor's rights with Macau Sun Kian Ip Holding, pursuant to which the transfer consideration of the creditor's rights shall not exceed RMB40,000,000.00. The Company's Directors believe that the recoverable amount of the creditor's rights for GZITIC was nearly RMB40,000,000.00.

7.12 Pre-emptive Rights

Neither the Articles of Association of the Company nor the relevant laws of the PRC has listed terms on pre-emptive rights.

7.13 Public Float

Based on public information and the information available for the Company, to the best knowledge of Directors, the Company has maintained a public float in compliance with the Listing Rules and such public float has been approved by the Stock Exchange of Hong Kong Limited.

7.14 Audit Committee

In accordance with internal compliance and Rule 3.21 of the Listing Rules, the Company has established an audit committee ("Audit Committee"), comprising three independent non-executive directors. The Audit Committee has reviewed the consolidated financial statements of the Company for the year ended 31 December 2008.

7.15 Final Dividends

The Board did not recommend a declaration of final dividend (2007: nil) for the year ended 31 December 2008 on the meeting held on 25 March 2009.

7.16 Compliance with the (Code on Corporate Governance Practices)

The Company has been in compliance with the provisions of the (Code on Corporate Governance Practices) throughout year 2008.

7.17 POST BALANCE SHEET EVENTS

7.17.1 In August 2008, Longfei, which is a subsidiary of the Company, entered into a share transfer agreement with the independent shareholders of Longxiang, a 40% indirectly owned subsidiary of the Company, for the acquisition of remaining 60% equity interest in Longxiang at a total consideration of RMB38,016,000. Part of the total consideration amounted RMB5,430,000 was paid before 31st December, 2008. The transaction was completed after the balance sheet date.

7.17.2 In December 2008, the Company entered into a share transfer agreement with an independent third party for the disposal of 66.67% equity interest in Luoshen Glass at a total consideration of RMB4,500,000. The transaction was completed after the balance sheet date.

7.17.3 In January 2009, the Company and CLFG entered into a share transfer agreement with two independent third parties, Zhenglong Coal Company Limited ("Zhenglong Coal") and Yongcheng Coal and Electricity Holdings Group Company Limited ("Yongcheng Coal"). Pursuant to the agreement, the Company agreed to dispose of its 37% equity interest in CLFC to Zhenglong Coal at a total consideration of RMB140,112,000 and CLFG agreed to dispose of its 63% equity interest in CLFC to Yongcheng Coal at a total consideration of RMB238,569,000.

8 REPORT OF THE SUPERVISORY COMMITTEE

8.1 Work of the Supervisory Committee

1) The Supervisory Committee of the Company held the 2008 first meeting on 27 March 2008, at which the 2007 Annual Report and its summary were reviewed and analysed.

2) The Supervisory Committee of the Company held the 2008 second meeting on 24 April 2008, at which the First Quarterly Report for 2008 was reviewed and analysed.

3) The Supervisory Committee of the Company held the 2008 third meeting on 23 August 2008, at which the 2008 Interim Report and its summary were reviewed and analysed.

4) The Supervisory Committee of the Company held the 2008 fifth meeting on 24 October 2008, at which the Third Quarterly Report for 2008 was reviewed and analysed.

The Supervisory Committee attended the board meetings and general meetings as non-voting participants and exercised effective supervision over the compliance of such meetings and whether they were in the interest of shareholders.

8.2 The Supervisory Committee provided independent opinions on the following issues.

1) Opinions of the Supervisory Committee on the Company's compliance of relevant laws and regulations

During the reporting period, the Supervisory Committee, following the laws and regulations, supervised the convening procedures of general meetings and board meetings, resolutions, the Board's implementation of the general meeting's resolutions, senior management's performance of their duties and the Company's internal control. The Supervisory Committee is of the opinion that the Board of Directors has normalized operation in accordance with the PRC Company Law, Articles of Associations of the Company and relevant laws and regulations. Directors and senior management executed their duties within their terms of reference. No violation of any laws, regulations and the Articles of Association of the Company or action detrimental to the Company's interests were found.

2) Opinions of the Supervisory Committee on the Company's financial status

The Supervisory Committee concurs with auditors' reports issued by Daxin Certified Public Accountants Co., Ltd. and PKF Certified Public Accountants prepared under the PRC Accounting Standards and Regulations and IFRS respectively. The Supervisory Committee is of opinion that the auditors' reports are objective and fair, and the Company's financial statements give a true, objective, complete and accurate view of the financial position and operating results of the Company.

3) Opinions of the Supervisory Committee on actual utilisation of the latest raised proceeds

Not applicable for the Company as to utilisation of raised proceeds during the reporting period

4) Opinions of the Supervisory Committee on the Company's assets acquisition and disposal

During the reporting period, the transaction consideration for assets acquisition and disposal of the Company were reasonable. No inside trading, indication of damage of shareholders' rights and interests or runoff of the Company's assets has been found.

5) ***Opinion of the Supervisory Committee on connected transaction***

The Supervisory Committee is of opinion that relevant connected transactions were arrived at on normal commercial terms and had no adverse impact on the interests of the Company;

6) ***Opinions of the Supervisory Committee on non-standard auditors' report issued by auditors***

Daxin Certified Public Accountants Co., Ltd. issued their auditors' reports with an explanatory paragraph for the 2008 financial statements of the Company. Particulars of the explanatory paragraph are as follows:

"We would draw the attention of the users of the financial statements, as stated in note 2 to the financial statements, that the financial statements of the Group and the Company were prepared on assumption that the Group and Company would continue as a going concern during the period from the end of the reporting period to 31 December 2009. The Group had accumulated losses amounting to RMB1,249,967,485.76 and net current liabilities of RMB941,320,286.68 at 31 December 2008. Notwithstanding the Company's management has justified the going concern basis in preparing the above financial statements as set out in note 2 to the financial statements, there exists fundamental uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. This explanatory paragraph does not affect the audit opinion made.

Notwithstanding that the Company had accumulated losses of RMB1,249,967,485.76 and net current liabilities RMB 941,320,286.68 as shown in its consolidated financial statements as at 31 December 2008, 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 perform their obligations as and when they fall due, having regard to the following:

(1) As at 31 December 2008, the Group has fully utilized its loan facilities of approximately RMB717,767,000.00 provided by banks. Such loans will expire within a year after the balance sheet date. Directors of the Company are negotiating with the banks for their continuing support.

(2) Continuing unconditional financial supports will be received from the controlling shareholder, CLFG, and its parent company, CNBMG.

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

In respect of the above explanatory paragraph in the auditors' report, the Company believes that the net current liabilities is mainly attributable to operating loss for the year, mainly due to a significant decrease in selling prices from intensified market competition and the significantly increased cost of major capital goods as well as a number of necessary provisions in accordance with relevant provisions of accounting policies of the Company. The increased bank loans were due to reduction in cash inflow and changes in receivables. The Group's operation was affected by the net current liabilities to a certain extent.

However, in the opinion of the Supervisory Committee of the Company, cash inflow status will be improved with the gradual effect from optimisation of the Group's product mix, which will in turn significantly reduce the reliance on bank loans for its operation. Furthermore, the Company may obtain financial support, if necessary, from its controlling company, the de facto controller and other financial institutions to cope with the potential financing difficulties.

9. Financial Report

9.1 Domestic Auditors' Report

Financial Report	☐ Unaudited	☑ Audited
Auditors' Opinion	☐ Standard unqualified opinions	☑ Non-standard opinion

Fully Text of Auditors' Opinion

Auditors' Report

Da Xin Shen Zi [2009] No. 2-0215

To the shareholders of Luoyang Glass Company Limited:

We have audited the financial statements of Luoyang Glass Company Limited (the "Company") and its subsidiaries (the "Group"), including consolidated balance sheet and balance sheet as at 31 December 2008, and the consolidated income statement, income statement, consolidated cash flow statement and cash flow statement, statement of changes in equity, consolidated statement of changes in equity and notes to the financial statements for the year then ended.

I. Senior Management's responsibility for the financial statements

The Company's and the Group'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.

II. 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 consider 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.

III. Auditors' opinion

In our opinion, the above-mentioned financial statements of the Company and the Group comply with the requirements of the Accounting Standards for Business Enterprises and the Accounting Regulations for Business Enterprises issued by the Ministry of Finance of the People's Republic of China and present fairly, in all material respects, the consolidated financial position and financial position of the Company and the Group as at 31 December 2008 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.

IV. 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 and the Group was prepared on assumption that the Company and the Group will continue as a going concern during the period from the end of the reporting period to 31 December 2008. The Group had accumulated uncovered losses of RMB1,249,967,485.76 and net current liabilities of RMB941,320,286.68 at 31 December 2008. Notwithstanding the Company's management has justified the going concern basis in preparing the above financial statements as set out in note 2 to the financial statements, there exists fundamental uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. This explanatory paragraph does not affect the audit opinion made.

Daxin Certified Public Accountants Co., Ltd — the PRC certified public accountant: Wang Zhixian

Wuhan, PRC — the PRC certified public accountant: Qiao Guanfang

25 March 2009

Note 2 to financial statements: Preparation basis for financial statements

Notwithstanding that the Group had accumulated losses of RMB1,262,751,000, and net current liabilities RMB1,089,394,000 as shown in its consolidated financial statements as at 31 December 2008, 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 perform their obligations as and when they fall due, having regard to the following:

(1) As at 31 December 2008, the Group has fully utilised the loan facilities of approximately RMB717,767,000.00 provided by banks. Such loans will expire within a year after the balance sheet date. Directors of the Company are negotiating with the banks for their continuing support.

(2) Continuing unconditional financial supports will be received from the controlling shareholder, CLFG, and its parent company, CNBMG.

The directors of the Company believe that the Company will have sufficient cash resources to satisfy its future working capital and other operating needs.

In our audit, we have paid great attention to the Company's 2008 consolidated financial statements and the reasonableness of the ongoing operation preparation basis for such financial statements, and believe that such preparation basis is reasonable.

9.2 Consolidated and the Company's balance sheets and income statements, presented for comparison, and cash flow statements for the year prepared under the PRC Accounting Standards.

For details please refer to the A share annual report dated 26 March, 2009 which was published on the web site of the Shanghai Stock Exchange.

9.3 Specific explanations on changes in accounting policies, accounting estimations and accounting methods as compared with the annual report last year.

☐ Applicable ☑ Not applicable

9.4 Significant accounting errors, amount of correction, the reason and impact

☐ Applicable ☑ Not applicable

9.5 Specific explanation on changes in consolidation scope as compared with the annual report last year.

☐ Applicable ☑ Not applicable

9.6 Audited financial statements prepared under the IFRSs

Consolidated Income Statement

For the year ended 31st December, 2008

(Expressed in Renminbi)

	Note	2008	2007
		RMB'000	*RMB'000*
Turnover	3	1,314,946	1,444,535
Cost of sales		(1,334,633)	(1,310,420)
Gross (loss)/profit		(19,687)	134,115
Other operating income	4	243,892	32,608
Other operating expenses		(10,288)	(7,422)
Selling expenses		(40,359)	(39,247)
Administrative expenses		(160,881)	(149,379)
Profit/(loss) from operations		12,677	(29,325)
Net finance costs		(85,791)	(72,591)
Net investment income		70,388	22,064
Share of net profit of an associate		5,868	2,194
Profit/(loss) before income tax	5	3,142	(77,658)
Income tax credit/(expense)	6	2,651	(3,412)
Profit/(loss) for the year		5,793	(81,070)
Attributable to:—			
Equity shareholders of the Company	7	54,040	(100,089)
Minority interests		(48,247)	19,019
Profit/(loss) for the year		5,793	(81,070)
Basic earnings/(loss) per share *(in RMB : Yuan)*	9	0.11	(0.20)

Consolidated Balance Sheet

As at 31st December, 2008

(Expressed in Renminbi)

	Note	2008 RMB'000	2007 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		923,256	1,067,166
Construction in progress		11,761	7,113
Intangible assets		12,370	13,747
Lease prepayments		34,004	34,854
Interests in associates		120,906	116,922
Other investments		7,410	410
Investment deposit		40,430	35,000
Deposits with a non-bank financial institution		35,000	35,000
		1,185,137	1,310,212
CURRENT ASSETS			
Inventories		252,016	283,303
Trade and bills receivables	10	99,581	81,588
Other receivables		160,667	48,360
Income tax recoverable		4,481	—
Pledged deposits with banks and non-bank financial institutions		201,636	167,302
Cash and bank balances		64,578	73,824
Restricted bank balances		9,809	—
		792,768	654,377

CURRENT LIABILITIES			
Trade and bills payables	11	627,266	516,013
Other payables		220,107	252,386
Income tax payable		—	1,169
Bank and other loans		894,411	963,083
		1,741,784	1,732,651
NET CURRENT LIABILITIES		(949,016)	(1,078,274)
TOTAL ASSETS LESS CURRENT LIABILITIES		236,121	231,938
NON-CURRENT LIABILITIES			
Bank and other loans		5,256	6,405
Deferred income		4,154	4,615
		9,410	11,020
NET ASSETS		226,711	220,918
CAPITAL AND RESERVES			
Share capital		500,018	500,018
Share premium		540,028	540,028
Reserves		(45,873)	(45,873)
Accumulated losses		(796,314)	(850,354)
TOTAL EQUITY ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY		197,859	143,819
MINORITY INTERESTS		28,852	77,099
TOTAL EQUITY		226,711	220,918

1. 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 ("IFRIC") 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 IASB has issued a number of new and revised IFRSs that are effective for accounting periods beginning on or after 1st January, 2008. 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 2(b).

(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 31st December, 2008, 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) the banking facilities of approximately RMB717,767,000 available to the Group granted by various banks at 31st December, 2008 were fully utilised at 31st December, 2008. These banking facilities will expire one year after the balance sheet date. The directors of the Company are in ongoing negotiations with the Group's bankers to seek their ongoing support to the Group.

(ii) continuing financial support received from CNBMG, the holding company of CLFG and CLFG to achieve its objective, which is to continue its operation.

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.

(c) Basis of consolidation

(i) Subsidiaries and minority interests

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that 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 represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Company, whether directly or indirectly through subsidiaries, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Minority interests are presented in the consolidated balance sheet 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 1(l)), 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 1(l)).

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 1(l)), 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 1(l)). 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 1(u)) and, when relevant, the costs of dismantling and removing the items and restoring the site in which they are located, and changes in the measurement of existing liabilities recognised for these costs resulting from changes in the timing or outflow of resources required to settle the obligation or from changes in the discount rate.

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

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

(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 1(l)). Cost comprises the direct cost of materials and borrowing costs capitalised (see note 1(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 1(l)).

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 1(l)).

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 securities

The Group's and the Company's policies for investments in equity securities, other than investments in subsidiaries and associates, are as follows:

Investments in equity securities are initially stated at cost, which is their transaction price unless fair value can be more reliably estimated using valuation techniques whose variables include only data from observable markets. Cost includes attributable transaction costs, except where indicated otherwise below. These investments are subsequently accounted for as follows, depending on their classification.

Investments in securities held for trading are classified as current assets. Any attributable transaction costs are recognised in profit or loss as incurred. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised in profit or loss. The net gain or loss recognised in profit or loss does not include any dividends or interest earned on these investments as these are recognised in accordance with the policies set out in note 1(q).

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the balance sheet at cost less impairment losses (see note 1(l)).

Investments in securities which do not fall into any of the above categories are classified as available-for-sale securities. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised directly in equity, except foreign exchange gains or losses resulting from changes in the amortised cost of monetary items such as debt securities which are recognised directly in profit or loss. Dividend income from these investments is recognised in profit or loss in accordance with the policy set out in note 1(q)(ii) and, where these investments are interest-bearing, interest calculated using the effective interest method is recognised in profit or loss in accordance with the policy set out in note 1(q)(iii). When these investments are derecognised or impaired (see note 1(l)), the cumulative gain or loss previously recognised directly in equity is recognised in profit or loss.

Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire.

(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. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

(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 allowance for impairment of bad and doubtful debts (see note 1(l)), 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 allowance for impairment of bad and doubtful debts (see note 1(l)).

(l) Impairment of assets

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

Investments in equity securities other than investments in subsidiaries and associates (see note 1(l)(ii)) 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. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

— significant financial difficulty of the debtor;

— a breach of contract, such as a default or delinquency in interest or principal payments;

— it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

— a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:—

— For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities are not reversed.

— For trade and other current receivables and other 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), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

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 recognised 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.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade receivables included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade receivables directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(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.

— 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.

(m) 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 the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

Interest-bearing borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liabilities for at least 12 months after the balance sheet date.

(n) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with note 1(o)(i), trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(o) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 1(o)(iii) if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

(ii) Contingent liabilities acquired in business combinations

Contingent liabilities acquired as part of a business combination are initially recognised at fair value, provided the fair value can be reliably measured. After their initial recognition at fair value, such contingent liabilities are recognised at the higher of the amount initially recognised, less accumulated amortisation where appropriate, and the amount that would be determined in accordance with note 1(o)(iii). Contingent liabilities acquired in a business combination that cannot be reliably fair valued are disclosed in accordance with note 1(o)(iii).

(iii) Other provisions and contingent liabilities

Provisions are recognised for other 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.

(p) 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.

(q) Revenue recognition

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

(i) Sales of goods

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

(ii) Dividend income

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

(iii) Interest income

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

(iv) Commission income

Commission income is recognised when service is rendered.

(v) Government grants

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

(vi) Rental income

Rental income is recognised on a straight-line basis over the terms of the relevant leases.

(vii) Water, electricity and steam income

Water, electricity and steam income is recognised when service is rendered.

(viii) Technical service income

Technical service income is recognised when service is rendered.

(ix) Composite service income

Composite service income is recognised when service is rendered.

(x) Transportation income

Transportation income is recognised when service is rendered.

(r) 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.

(s) Repairs and maintenance expenses

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

(t) Research and development expenses

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

(u) Borrowing costs

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

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

(v) Income tax

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

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

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

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

The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

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

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

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

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

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

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

— the same taxable entity; or

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

(w) Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group;

(iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

(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.

2. RECENTLY ISSUE ACCOUNTING STANDARDS

(a) Initial application of new and revised IFRSs

In the current year, the Group initially applied the following IFRSs issued by the IASB:

IAS 39 and IFRS 7 (Amendments)	Reclassification of Financial Assets
IFRIC 11	IFRS 2 - Group and Treasury Share Transactions
IFRIC 12	Service Concession Arrangements
IFRIC 14	IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The initial application of these new and revised IFRSs does not necessitate material changes in the Group's accounting policies or retrospective adjustments of the comparatives presented.

(b) IFRSs in issue but not yet effective

The Group has not early applied the following new and revised IFRSs that have been issued but are not yet effective.

IAS 1 (Revised)	Presentation of Financial Statements [1]
IAS 23 (Revised)	Borrowing Costs [1]
IAS 27 (Revised)	Consolidated and Separate Financial Statements [2]
IAS 32 and 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation [1]
IAS 39 (Amendment)	Eligible Hedged Items [2]
IFRS 1 and IAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate [1]
IFRS 2 (Amendments)	Vesting Conditions and Cancellations [1]
IFRS 3 (Revised)	Business Combinations [2]
IFRS 8	Operating Segments [1]
IFRIC 13	Customer Loyalty Programmes [3]
IFRIC 15	Agreements for the Construction of Real Estate [1]
IFRIC 16	Hedges of a Net Investment in a Foreign Operation [4]
IFRIC 17	Distributions of Non-cash Assets to Owners [2]
IFRIC 18	Transfers of Assets from Customers [2]

Apart from the above, the IASB has issued Improvements to IFRSs* which sets out amendments to a number of IFRSs primarily with a view to removing inconsistencies and clarifying wording, except for the amendments to IFRS 5 which is effective for annual periods on or after 1st July, 2009, other amendments are effective for annual periods beginning on or after 1st January, 2009 although there are separate transitional provisions for each standard.

1 Effective for annual periods beginning on or after 1st January, 2009

2 Effective for annual periods beginning on or after 1st July, 2009

3 Effective for annual periods beginning on or after 1st July, 2008

4 Effective for annual periods beginning on or after 1st October, 2008

* Improvements to IFRSs contains amendments to IFRS 5, IFRS 7, IAS 1, IAS 8, IAS 10, IAS 16, IAS 18, IAS 19, IAS 20, IAS 23, IAS 27, IAS 28, IAS 29, IAS 31, IAS 34, IAS 36, IAS 38, IAS 39, IAS 40 and IAS 41.

The Group is in the process of making an assessment of the impact of these new and revised IFRSs upon initial application. So far, it has concluded that while the adoption of IFRS 8 and IAS 1 (Revised) may result in new or amended disclosures and the adoption of IFRS 3 (Revised) and IAS 27 (Revised) may result in changes in accounting policies, these new and revised IFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

3. TURNOVER

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

4. OTHER OPERATING INCOME

	2008	**2007**
	RMB'000	***RMB'000***
Waiver of debts	22	252
Government grants *(note i)*	22,451	3,157
Gain on disposal of property, plant and equipment *(note ii)*	33,982	—
Gain on disposal of lease prepayments *(note ii)*	180,000	12,000
Profit on sales of raw materials	4,434	9,209
Compensation income *(note iii)*	809	—
Write off of long term payables	828	2,588
Commission income	—	4,301
Others	1,366	1,101
	243,892	32,608

Notes:

(i) According to notices from the Yanshi Municipal Finance Bureau, a government grant of RMB1,229,800 (2007: Nil) was awarded to Longhai, a subsidiary of the Company, for the achievements of Longhai. The total amount has been recognised during the year.

According to notices from the Mianchi Municipal Finance Bureau, a government grant of RMB760,000 (2007: Nil) was awarded to Longxiang, a subsidiary of the Company, for the technology innovation of the Company. The total amount has been recognised during the year.

According to a routine conference summary from the Luoyang Municipal Finance Bureau, the Company received a government grant of RMB20,000,000 during the year (2007: RMB2,695,000). The total amount has been recognised during the year.

According to notices from the Yanshi Municipal Finance Bureau and Henan Province Finance Bureau, a government grant of RMB6,000,000 was awarded in 2005 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 (2007: RMB461,500).

(ii) During the year, the Group disposed of certain leased land and ancillary property, plant and equipment with net book values of Nil and RMB40,002,000 to the government at the total consideration of RMB180,000,000 and RMB70,000,000 respectively. As a result, the Group derived gain on disposal of leased land and ancillary property, plant and equipment of RMB180,000,000 and RMB29,998,000 respectively.

Besides, the Group also disposed of certain property, plant and equipment with net book value of RMB5,049,000 at a total consideration of approximately RMB9,033,000. As a result, the Group derived a gain on disposal of property, plant and equipment of approximately RMB3,984,000 (2007: Nil).

(iii) On 28th December, 2007, the Group entered into a contract with Ruyang Country Arts and Crafts Fu Li Plant ("Fu Li Plant") regarding the disposal of certain idle production equipment and auxiliary equipment to Fu Li Plant at a total consideration of RMB35,000,000. Fu Li Plant made 30% of the consideration as initial payment on 29th December, 2007 but the Group did not receive the remaining balance on the agreed date in accordance with the contract. Pursuant to the contract, if Fu Li Plant fails to pay the consideration, the Group will be entitled to terminate the contract. Under these circumstances, the Group issued a written notice to Fu Li Plant on 6th June, 2008 to terminate the contract and obtained the overdue payment penalty of RMB809,000.

5. Profit/(loss) before income tax is arrived at after (charging)/crediting:

	2008	**2007**
	RMB'000	***RMB'000***
(a) Net finance costs:		
Interest on bank loans and other borrowings repayable within 5 years	(75,870)	(67,890)
Interest income	6,918	3,042
Net foreign exchange loss	(277)	(1,522)
Bank charges	(16,562)	(6,221)
	(85,791)	(72,591)

	2008	2007
	RMB'000	*RMB'000*

(b) Net investment income:

Return of surplus assets upon winding up of an investee company	—	22,059
Gain on disposal of interest in a subsidiary	70,377	—
Dividend income from other investments	11	—
Others	—	5
	70,388	22,064

	2008	2007
	RMB'000	*RMB'000*
(c) Share of net profit of an associate	5,868	2,194

	2008	2007
	RMB'000	*RMB'000*

(d) Staff costs (including directors' remuneration):

Wages and salaries	(71,246)	(66,120)
Contributions to defined contribution plan	(20,297)	(21,181)
	(91,543)	(87,301)

	2008	2007
	RMB'000	*RMB'000*
(e) Other items:		
Cost of inventories sold	(1,334,633)	(1,310,420)
Depreciation	(100,606)	(112,481)
(Allowances for)/reversal of impairment of		
— inventories, net	(34,521)	22,468
— trade receivables	597	(946)
— other receivables	(44)	(1,448)
— property, plant and equipment	(8,130)	(17,154)
— construction in progress	(121)	—
Loss on disposal of property, plant and equipment	—	(3,160)
Auditors' remuneration	(2,100)	(2,150)
Amortisation of intangible assets	(1,477)	(1,472)
Amortisation of lease prepayments	(850)	(704)

6. INCOME TAX (CREDIT)/EXPENSE

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

	2008 *RMB'000*	2007 *RMB'000*
Provision for the year	—	3,412
Over-provision in previous year	(2,651)	—
Income tax (credit)/expense	(2,651)	3,412

On 16th March, 2007, the People's Republic of China promulgated the Law of People's Republic of China on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On 6th December, 2007, the State Council issued Implementation Regulation of the New Law. The New Law and Implementation Regulation changed the tax rate to 25% from 1st January, 2008 onwards.

The provision for PRC income tax is calculated at 25% (2007: 33%) of the estimated assessable profits in accordance with the relevant income tax rules and regulations of the PRC.

The Group did not carry on business overseas and therefore no provision has been made for overseas profits tax.

Reconciliation between income tax (credit)/expense and accounting profit/(loss) at applicable tax rate:

	2008	2007
	RMB'000	*RMB'000*
Profit/(loss) before income tax	3,142	(77,658)
Notional PRC income tax using the Company's tax rate of 25% (2007: 33%)	786	(25,627)
Tax effect of tax exempt revenue	(35,266)	(29,234)
Tax effect of non-deductible expenses	18,155	52,810
Tax effect of tax loss utilised	(13,649)	(4,932)
Tax losses not recognised for deferred tax	29,974	10,395
Over-provision in previous year	(2,651)	—
Income tax (credit)/expense	(2,651)	3,412

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

	2008	2007
	RMB'000	*RMB'000*
Provisions	76,937	—
Lease payments	7,237	12,341
Tax loss	67,814	320,083
Total	151,988	332,424

The deferred tax assets have not been recognised as it is not certain whether the potential taxation benefit will be realised in the foreseeable future. The tax losses represent the maximum benefit from unutilised tax losses, which can be carried forward up to 5 years from the year in which the loss was originated to offset against future taxable profits. Also, no deferred tax liability has been recognised at the balance sheet date.

7. PROFIT/(LOSS) ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The net profit/(loss) attributable to equity shareholders of the Company includes a profit of RMB109,713,000 (2007: loss of RMB149,555,000) which has been dealt with in the financial statements of the Company.

8. DIVIDENDS

The board of directors of the Company does not recommend the payment of a dividend in respect of the year ended 31st December, 2008 (2007: Nil).

9. BASIC EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of RMB54,040,000 (2007: loss of RMB100,089,000) and 500,018,000 (2007: 500,018,000) shares in issue during the year.

No diluted earnings per share are calculated as there are no dilutive potential shares for the 2 years ended 31st December, 2008 and 31st December, 2007.

10. TRADE AND BILLS RECEIVABLES

	2008	2007
	RMB'000	*RMB'000*
Trade receivables		
- third parties	72,806	71,824
- subsidiaries of the controlling shareholder company	64,603	165
	137,409	71,989
Less: Allowances for impairment of doubtful debts	45,265	45,862
	92,144	26,127
Bills receivable	7,437	55,461
	99,581	81,588

The directors consider that the carrying amounts of the trade and bills receivables approximate to their fair values.

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

	2008	2007
	RMB'000	*RMB'000*
Within 1 month	79,892	75,525
Between 1 month and 1 year	19,016	5,873
Between 1 and 2 years	630	85
Between 2 and 3 years	43	105
	99,581	81,588

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

The amounts within 1 month presented in the ageing analysis above represented the trade and bills receivables that are neither past due nor impaired.

At 31st December, 2008, the Group's and the Company's trade and bills receivables of RMB19,689,000 (2007: RMB6,063,000) and RMB12,667,000 (2007: RMB1,808,000) respectively were past due but not impaired. These receivables relate to a number of independent customers that have a good track record with the Group and the Company. Based on past experience, the directors believe that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

At 31st December, 2008, the Group's and the Company's trade and bills receivables of RMB45,265,000 (2007: RMB45,862,000) and RMB42,576,000 (2007: RMB42,914,000) respectively were individually determined to be fully impaired. The individually impaired receivables related to customers that were in financial difficulties and the directors assessed that such debts were not expected to be recovered. The Group does not hold any collateral over these balances. The ageing analysis of these trade and bills receivables is as follows:

	2008	**2007**
	RMB'000	*RMB'000*
Between 1 and 2 years	436	1,050
Between 2 and 3 years	769	722
More than 3 years	44,060	44,090
	45,265	45,862

The movements in the allowances for impairment of doubtful debts during the year are as follows:

	2008	2007
	RMB'000	*RMB'000*
At 1st January	45,862	44,916
Impairment loss (reversed)/recognised	(597)	946
At 31st December	45,265	45,862

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:

	2008	2007
	RMB'000	*RMB'000*
United States Dollars	1,069	532

11. TRADE AND BILLS PAYABLES

	2008	2007
	RMB'000	*RMB'000*
Trade payables		
- third parties	408,452	373,180
- subsidiaries of the controlling shareholder company	3,114	1,831
	411,566	375,011
Bills payable	215,700	141,002
	627,266	516,013

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

	2008 *RMB'000*	2007 *RMB'000*
Due within 1 month or on demand	627,266	516,013

12. 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 mainly situated in the PRC and accordingly, no information on segment assets and liabilities are 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		Total	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
	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	1,286,538	1,402,955	26,193	24,330	604	1,644	501	5,974	1,110	9,632	1,314,946	1,444,535
Segment results	649	(33,185)	11,714	2,258	130	153	(35)	555	219	894	12,677	(29,325)
Unallocated income											—	—
Profit/(loss) from operations											12,677	(29,325)
Net finance costs											(85,791)	(72,591)
Net investment income											70,388	22,064
Share of net profits of an associate											5,868	2,194
Income tax credit/(expense)											2,651	(3,412)
Profit/(loss) for the year											5,793	(81,070)

13. POST BALANCE SHEET EVENTS

(a) In August 2008, Longfei entered into a share transfer agreement with the independent shareholders of Longxiang, a 40% indirectly owned subsidiary of the Company, for the acquisition of 60% equity interest in Longxiang at a total consideration of RMB38,016,000. Part of the total consideration of RMB5,430,000 was paid before 31st December, 2008. The transaction was completed after the balance sheet date.

(b) In December 2008, the Company entered into a share transfer agreement with an independent third party for the disposal of 66.67% equity interest in Luoshen at a total consideration of RMB4,500,000. The transaction was completed after the balance sheet date.

(c) In January 2009, the Company and CLFG entered into a share transfer agreement with two independent third parties, Zhenglong Coal Company Limited ("Zhenglong Coal") and Yongcheng Coal and Electricity Holdings Group Company Limited ("Yongcheng Coal"). Pursuant to the agreement, the Company agreed to dispose of its 37% equity interest in CLFC to Zhenglong Coal at a total consideration of RMB140,112,000 and CLFG agreed to dispose of its 63% equity interest in CLFC to Yongcheng Coal at a total consideration of RMB238,569,000.

By order of the Board
Luoyang Glass Company Limited
Gao Tianbao
Chairman

Luoyang, the PRC
26 March 2009

As at the date of this announcement, the Board comprises five executive Directors: Mr. Gao Tianbao, Mr. Xie Jun, Mr. Cao Mingchun, Mr. Song Jianming and Ms. Song Fei, one non-executive Director: Mr. Shen Anqin, and four independent non-executive Directors: Mr. Zhang Zhanying, Mr. Guo Aimin, Mr. Xi Shengyang and Mr. Ge Tieming.

Price Sensitive Information

The following information is disclosed pursuant to Rule 13.09 of the Rules Governing the Listing of Securities ("Listing Rules")on The Stock Exchange of Hong Kong Limited.

The board of directors (the "Board") of the Company collectively and individually accept full responsibility for the accuracy of the information contained in this announcement and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

1. Litigation and arbitration

1.1 Hongyu Chemical Co., Ltd. in Wenxi County v. the Company over payment for fuel oil

Hongyu Chemical Co., Ltd. in Wenxi County and the Company entered into 12 contracts for fuel oil supply in 2008. After executing the contracts, Hongyu Chemical Co., Ltd. in Wenxi County began to supply fuel oil to the Company and the Company settled part of the payment for goods but then the parties ran into disputes. In October 2008, Hongyu Chemical Co., Ltd. in Wenxi County lodged a proceeding to the court in the PRC claiming payments and accrued interest for goods supplied of over RMB5,150,000 due from the Company. The Company submitted that Hongyu Chemical Co., Ltd. in Wenxi County breached the contract in the first place by not supplying the agreed amount of goods in accordance with the contract. More so, due to the hiking price of fuel oil, Hongyu Chemical Co., Ltd. in Wenxi County charged the Company an increased price for the goods supplied instead of the agreed price set out in the contract. Currently the case is under inquisition.

1.2 Luoyang Dayang Refractory Materials Company Limited v. CLFG, the Company, Longhai, Longhao over payment of construction materials

During preparation for establishment of Longhai and Longhao in 2005, Luoyang Dayang Refractory Materials Company Limited entered into a sale and purchase contract on refractory materials respectively with CLFG, the Company and Longhao. After executing the contracts, Luoyang Dayang Refractory Materials Company Limited began to supply goods but then the parties ran into disputes. In October 2008, Luoyang Dayang Refractory Materials Company Limited lodged a proceeding to the court in the PRC claiming (i) claiming payments for goods supplied of RMB3,107,871.00 due from Longhai and RMB1,371,624.00 due from Longhao, (ii) that CLFG and the Company should accept joint and several liabilities, (iii) the four defendants should jointly make the said payments for goods supplied and accrued interest (calculated based on the prevailing interest rate for overdue loan, including penalty interest, published by People's Bank of China), and accept overdue payment liabilities for compensating losses of RMB600,000.00. The Company submitted that the lawsuit was wrongful in that under the laws in the PRC, civil rights and obligations arising during the establishment of a company shall only be borne by the company after its establishment. Further, the Company claimed that there were discrepancies between the parties' financial records, and the plaintiff's claim for loss of interest lacked legal basis. The court has required the parties to check their accounts. Currently the case is under inquisition.

1.3 Luoyang Kaiyu Materials Company Limited ("Kaiyu") v. the Company over payment for goods

Sale and purchase contracts between Kaiyu and the Company are frequent and these legally binding contracts continued for a long term. In executing the contracts, the Company had partly settled the payments due by it but still owed a large sum under these contracts. After verifying against financial records of the parties, the Company acknowledged an outstanding debt of RMB1,901,492.92 (including RMB777,227.67 payable by the Company, RMB281,514.31 payable by Longmen, RMB238,813.14 payable by Longhai, RMB542,946.30 payable by Longfei, and RMB60,991.50 payable by CLFG Longxin Company Ltd). Kaiyu claims payments for the outstanding debt and accrued interests. The Company submitted that as the litigation did not involve only the Company itself but a number of other subject defendants with varying legal relationships, it objected to the jurisdiction of the court with a counterplea. In November 2008, Kaiyu changed its petition claiming RMB777,227.67 and accrued interest (for the period from the date of receipt of goods to the date when full settlement is made) be paid by the Company. Currently the case is under inquisition.

1.4 Luoyang Zhuoyuan Trading Company Limited ("Zhuoyuan") v. the Company over payment for goods

In May 2007, the Company failed to settle payment due upon delivery of coal by Zhuoyuan to the Company as agreed between the parties. On 8 October 2008, the Company produced an IOU for RMB2,360,482.31 to Kaiyu. In November 2008, Zhuoyuan filed a proceeding to the court in the PRC in respect of the unpaid sum of RMB2,360,482.31 and loss of accrued interest of RMB455,270.78. The Company submitted that Zhuoyuan erred in relation to the legal person system in the PRC in that a legal obligation cannot be imposed between different legal persons. The Company further submitted that Zhuoyuan's claim for loss of interest loss lacked factual and legal basis. Currently the case is under inquisition.

1.5 Shandong Linyi Hengrun Chemical Company ("Hengrun") v. the Company over payment for heavy oil

Supply of goods was frequent between Hengrun and the Company from 2007 to 2008. On 8 May 2008, the Company sent a letter to Hengrun requesting the latter to confirm an overdue sum of RMB7,480,341.29. Later Hengrun and the Company entered into five sale and purchase agreements. Hengrun duly fulfilled its obligations under these agreements. The Company had not settled payments due by it under these contracts. As such, Hengrun filed a proceeding to the court in the PRC on the basis that the Company signed five sale and purchase contracts with Hengrun but failed to settle payments of RMB7,480,341.29 while Hengrun had fulfilled its obligations under these contracts. The Company submitted that twelve sale and purchase contracts were signed between the Company and Hengrun from 2007 to 2008, but Hengrun defaulted to deliver pursuant to the contracts and should therefore firstly bear liabilities arising therefrom. The Company further submitted that the Company suffered losses as a result of defective goods supplied by Hengrun on 28th and 29th January 2008, and Hengrun only filed the lawsuit on the basis of five contracts - which was inadequate to prove the alleged sum owed by the Company. In November 2008, the Company lost at the first instance and payment of RMB7,480,341.29 and interest (for the period from 8 May 2008 to the date of ruling) were awarded to Hengrun. The Company is liable to pay legal expenses and preservation costs of RMB69,162. The Company has filed an appeal and the case is in appellate period.

2. In August 2008, Longfei, a subsidiary of the Company and an independent party entered into a share transfer agreement in relation to the acquisition by Longfei of a 60% equity interest in Longxiang. Prior to the acquisition, Longfei held a 40% equity interest in Longxiang. The total consideration for the transaction was RMB 38,016,000. Upon completion of the transaction, a 60% equity interest in Longxiang Glass will be transferred to Longfei and Longxiang will become a wholly-owned subsidiary of Longfei. The above transaction was completed after the balance sheet date on 31 December, 2008.

The above mentioned transaction constitutes a notifiable transaction within the meaning of chapter 14 of the Listing Rules. The Company has however failed to publish an announcement to shareholders containing certain details of the notifiable transaction as required by the Listing Rules. The Company intends to publish the requisite announcement in due course.

By order of the Board
Luoyang Glass Company Limited
Gao Tianbao
Chairman

Luoyang, the PRC
26 March 2009

As at the date of this announcement, the Board comprises five executive Directors: Mr. Gao Tianbao, Mr. Xie Jun, Mr. Cao Mingchun, Mr. Song Jianming and Ms. Song Fei, one non-executive Director: Mr. Shen Anqin, and four independent non-executive Directors: Mr. Zhang Zhanying, Mr. Guo Aimin, Mr. Xi Shengyang and Mr. Ge Tieming.