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)

SUMMARY OF 2007 INTERIM REPORT

1 IMPORTANT NOTICE

1.1 The Board of the Company, the Supervisory Committee, supervisors and senior management warrant that there are no false representation and misleading statement in or material omission from this report and jointly and severally accept responsibilities for the truthfulness, accuracy and completeness of the content contained herein.

This interim report summary is extracted from the interim report, the full text of which has been published on the website of Shanghai Securities Exchange (http://www.sse.com.cn). Investors should carefully read the full text of the interim report for details.

1.2 All directors of the Company attended Board meetings.

1.3 The interim financial statements of the Company have not been audited but have been reviewed and approved by Independent Audit Committee.

1.4 Mr. Zhu Leibo, the Vice Chairman, Mr. Gao Tianbao, the General Manager, Mr. Cao Mingchun, the Chief Financial Officer and Ms. Hai Sumin, the Head of Financial Department, warrant the authenticity and completeness of the financial statements set out in the interim report.

2 COMPANY PROFILE

2.1 Basic information

Stock abbreviation	Luoyang Glass	Luoyang Glass
Stock Code	600876	1108
Place of listing	Shanghai Stock Exchange	The Stock Exchange of Hong Kong Limited
	Secretary to the Board	Securities affairs representative
Name	Cao Mingchun	
Correspondence address	Secretary Office of the Board of Luoyang Glass Company Limited, No. 9, Tang Gong Zhong Lu, Xigong District, Luoyang City, Henan Province, the PRC	
Telephone	86-379-63908588	
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2.2 Major financial data and indicators (unaudited)

2.2.1 Major Accounting Data and Financial Indicators

Prepared in accordance with the PRC Accounting Rules and Regulations: (RMB'000)

	As at 30 June 2007	As at 31 December 2006 After adjustment	As at 31 December 2006 Before adjustment	Increase/decrease at the end of this reporting period from the end of the last year *(%)*
Total assets	2,043,400	2,189,293	2,189,298	(6.66)
Shareholders' interests	249,784	313,659	313,659	(20.36)
Net assets per share *(RMB)*	0.5	0.63	0.63	(20.36)

	Reporting period (January-June)	Corresponding period of last year After adjustment	Before adjustment	Increase/ decrease for this reporting period from the corresponding period of the last year *(%)*
Operating profit	(64,156)	(190,962)	(183,219)	66.4
Total profit	(61,551)	(191,049)	(186,733)	67.78
Net profit	(63,875)	(156,786)	(145,192)	59.26
Net (loss)/profit after non-recurring items	(66,495)	(169,891)	(158,297)	60.86
Earnings per Share-basic *(RMB)*	(0.13)	(0.22)	(0.21)	40.91
Earnings per Share-diluted *(RMB)*	(0.13)	(0.22)	(0.21)	40.91
Return on net assets *(%)*	(25.57)	(19.73)	(18.25)	decrease 5.84 ppt
Net cash flow from operating activities	48,649	95,106	95,106	(48.85)
Net cash flow from operating activities per share	0.10	0.19	0.14	(47.37)

Note 1: From the reporting period to the date of disclosure of the report there were no changes on the share capital of the Company.

2. Non-recurring items

☑ Applicable ☐ Not applicable

Items of non-recurring profit or loss	**Amount** *RMB*
Profit or loss from disposal of non-current assets	58
Other operating income and expenses	2,547
Profit or loss of entrusted investment	5
Effect of non-recurring profit or loss on minority interest	10
Total	2,620

3. Differences between the PRC Accounting Standards and IFRSs

Unit:RMB

	PRC Accounting Standards	**IFRSs**
Net profit	(63,875)	(68,302)
Net assets	249,784	175,606

Explanation on the difference	Please refer to the section headed (Significant differences between the financial statements of the Group prepared accordance with the PRC Accounting Rules and Regulations and International Financial Reporting Standards ("IFRS"))

3 CHANGES IN SHARE CAPITAL AND SHAREHOLDERS

3.1 Changes in Share Capital

☐ Applicable ☑ Not applicable

3.2 Particulars of the top ten shareholders, top ten holders of circulating shares and top ten holders of shares not subject to trading moratorium

Total number of shareholders There are 19,665 shareholders in total, including 83 holders of H shares and 19,582 holders of A shares.

Shareholdings of the top 10 shareholders

Name of shareholder	Nature of shareholder	Shareholding percentage (%)	Number of shares held as at 30 June 2007	Number of shares subject to trading moratorium held	Number of shares pledged or frozen
China Luoyang Float Glass (Group) Company Limited	State-owned shareholder	35.80	179,018,242	179,018,242	0
HKSCC Nominees Limited	Foreign shareholder (H Share)	49.32	246,594,998	0	Unknown
Changjiang Securities Co., Ltd.	Others	0.67	3,350,018	0	Unknown
Li Xuefang	Others	0.20	1,020,000	0	Unknown
Wang Changgen		0.19	963.100	0	Unknown
Yuan Qingmin		0.16	811,448	0	Unknown
Zhang Baojuan		0.12	616,598	0	Unknown
Hu Youchen		0.12	616,000	0	Unknown
HSBC NOMINEES (HONG KONG) LIMITED	Others	0.11	570,000	0	Unknown
CHUK YER MEN LIZA	Foreign shareholder (H Share)	0.074	374,000	0	Unknown

Shareholdings of the top 10 holders of circulating shares or shareholders 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 (A,B,H Share or others)
HKSCC Nominees Limited	246,594,998	H share
Changjiang Securities Co., Ltd.	3,350,018	A share
Li Xuefang	1,020,000	A share
Wang Changgen	963.100	A share
Yuan Qingmin	811,448	A share
Zhang Baojuan	616,598	A share
Hu Youchen	616,000	A share
HSBC NOMINEES (HONG KONG) LIMITED	570,000	H share
CHUK YER MEN LIZA	374,000	H share
Zenghui	324,600	A share

There is no connected relationship or action 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）among the top ten shareholders of the Company, including CLFG and shareholders of circulating shares. The Company is not aware of any parties acting in concert or any connected relationship among the top ten holders of circulating shares.

Note:

1. HKSCC Nominees Limited held shares on behalf of its clients and the Company has not been notified by HKSCC Nominees Limited that there were any shareholders of H shares who held 10% or above of the total share capital in the Company.

2. Save as disclosed above, as at 30 June 2007, the Board is not aware of any person who has any interests or in short position in any shares or equity derivatives in the underlying shares of the Company or any of its associated corporation that is recorded in the register kept under section 336 of the Securities and Futures Ordinance.

3. There was no change in the Company's controlling shareholder during the period.

3.3 Changes in controlling shareholder and de facto controller

☐ Applicable ☑ Not applicable

4 DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

4.1 Changes in shareholdings of directors, supervisors and senior management

☐ Applicable ☑ Not applicable

4.2 Equity interests held by directors, chief executives and supervisors during the reporting period

Number of A shares held in the interest of individuals

Name	Position	Shareholdings at the beginning of the year (share)	Shareholdings at the end of the year (share)
Liu Baoying	Chairman (Resigned on 7 June 2007)	2,840	2,840
Zhu Leibo	Vice Chairman	2,840	2,840
Zhang Shaojie	Director	2,414	2,414
Zhu Liuxin	Director	2,414	2,414
Jiang Hong	Director	2,556	2,556
Wang Heping	Deputy General Manager	1,700	2,414

Note: Save as disclosed above, as at 30 June 2007, none of the Directors, Supervisors and chief executive 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 Hong Kong Ordinance)) which was required to be entered in the register of interest maintained by the Company pursuant to section 352 of the Securities and Futures Ordinance; or required to be notified to the Company or the Stock Exchange pursuant to the Model Code on Securities Transactions by Directors of Listed Issuers

5. REPORT OF THE BOARD OF DIRECTORS

Business Review

The Company is the place of origin for one of three great float glass production methods "Luoyang Float Glass". With ten production lines of float glass, the Company is one of the largest manufacturers and distributors of float glass in glass industry in the PRC.

In the first half of 2007, the Company was impacted by series of unfavourable factors such as market changes, over-investment in the early stage, exceeding gearing rate, long capital turnover days, and shortage of capital. Meanwhile, the existing system is difficult to follow the market change, the corporate governance is under-standards and the internal control system exist defects. Although the operating situation tended to be better in the second quarter and production and sale volume increased with rising selling price in a certain degree, turnaround in operating profit and effective control in various expenses, the Company still recorded operating loss.

5.1 Principal operations by industry and product

As the Group's turnover and operating results were mainly generated from the manufacture and sales of float sheet glass, no segment report by business type was provided.

By Industry or product	Operating income	operating cost	Gross profit margin	Increase / (decrease) in operating income as compared with the corresponding period last year	Increase / (decrease) in operating cost as compared with the corresponding period last year	Increase/ (decrease) in gross profit margin as compared with the corresponding period of last year
			(%)	*(%)*	*(%)*	*(%)*
Float sheet glass	665,794	629,446	5.46%	50.11	20.86	Increase of 22.88 percentage points

Of which, during the period, the connected transaction in relation to the sale of products and provision of services by the Company to its controlling shareholders and its subsidiaries amounted to RMB2,370,000.

5.2 Principal operations in different regions

Region	Operating income	Increase/(decrease) in operating income as compared with the corresponding period last year *(%)*
Domestic	642,520	56.05
Overseas	23,274	(26.81)

5.3 Reasons for material changes incurred in principal operation and its structure

☐ Applicable ☑ Not applicable

5.4 Major changes in profitability (gross profit margin) of principal operations as compared with that of last year and the reasons.

☑ Applicable ☐ Not applicable

5.5 Analysis of the reasons for major changes in profit constituents as compared with last year

☑ Applicable ☐ Not applicable

It was primarily due to the RMB100 million year-on year increase in principal profit resulted from rise in selling price of products and increase in selling volume. It is also attributable the strict expenses control by the Company, which decreased the period expenses as compared with the same period of last year.

5.6 Use of proceeds

5.6.1 Utilisations of raised proceeds

☐ Applicable ☑ Not applicable

5.6.2 Change in the projects

☐ Applicable ☑ Not applicable

5.7 Amendments to the Board's operating plan for the 2nd half of the year

☐ Applicable ☑ Not applicable

5.8 Warning and explanation of any estimated loss in retained profit from the beginning of the year to the end of the next reporting period or significant changes from the corresponding period last year

☐ Applicable ☑ Not applicable

5.9 The explanation of the Board on the "non-standard opinion" issued by auditors during the reporting period

☐ Applicable ☑ Not applicable

5.10 The explanation of the Board on the "non-standard opinion" issued by auditors in previous year

☑ Applicable ☐ Not applicable

For the matters involved in the "non-standard audited report" given by auditors in previous year, the Director of the Company has adopted relevant measures to maintain the Company's continuous operation during the reporting period.

5.11 Liquidity and source of capital (prepared under IFRS)

As at 30 June 2007, the Group had cash and cash equivalents of RMB71,570,000 including US dollar deposits of 1,362,000 (2006: USD2,803,000) and HK dollar deposits of 2,891,000(2006: 5,935,000), representing an increase of RMB13,156,000 from RMB58,414,000 as at the end of 2006. Net cash outflow generated from operating activities was used to finance borrowing and investment activities.

5.12 Loans (prepared under IFRS)

As at 30 June 2007, the total loans due from the Group were RMB895,281,000, including a foreign currency loan of RMB6,941,000 (original amount: Euro678,000). All loans bear interest rates based on floating rates determined by Organisation for Economic Co-operation and Development and China statutory current assets loan interest rate from time to time. The Group did not contract for any financial instrument as hedging vehicle. As at 30 June 2007, debts to equity ratio of the Group was 509.82% (which is calculated by dividing total loans over total equity attributable to equity holders), up by 103.74% as compared with last year.

5.13 Capital commitment (prepared under IFRS)

The Group's capital commitment as at 30 June 2007 was RMB363,000 .

5.14 The gearing ratio for the period was 990.68¢H while that of last year was 747.35¢H. (prepared under IFRS).

5.15 Pledge of assets of the Group (prepared under IFRS)

As at 30 June 2007, the Group has pledged its bank deposits of RMB155,750,000 (31 December 2006:
RMB214,545,000) for bills payables and short term loans

5.16 Contingent liability (prepared under IFRS)

During the reporting period, the Group had no contingent liability.

BUSINESS OUTLOOK

According to the current situation in the glass market and PRC micro economy trend, the selling price is expected to stay at relative high level in the second half of the year since it is traditional peak season. For the purpose of turnaround, the Company is smoothing its management and operating system and improving internal control system. The restructuring of the controlling shareholder is coming to an end. As the de facto controller of the Company in future, China National Building Material Group Corporation ("CNBMG") will provide comprehensive supports from the perspective of policies, management, capital and technology development.CNBMG targets to build the Company to be a leading company in the industry by consolidating glass markets in the middle area and enlarging and strengthening the Company's influences in glass industry. Leveraging the favourable conditions, the Company aims to make profit in 2007 by seizing the opportunity and taking the following measures:

I. Adopt open-minded and flexible ways to improve operating efficiency

Based on the demand for standardized corporate governance, the Company made reasonable adjustments to the existing organization and managers at middle level to speed up the transformation of operating mechanism enhance internal vitality and motivate the enthusiasms. Subsequent to the restructuring, the cascade of the management was highlighted while the rights and responsibilities are clearer. Meanwhile, the subsidiaries of the Company achieved an integrated operation in respect of the production, supply and sales. Accordingly, the management rights and personnel administration power were transferred to the lower level. New management system and operating mechanism require "unified right and responsibility, high efficient operation, smooth coordination and comprehensive optimization".

(I) In respect of the subsidiaries, the Company aims to focus on both the management and service as well as supervision by clarifying the scope of responsibility for each subsidiary and make corresponding adjustment while formulating concrete proposals and measure. Guided by the principle of "to emphasize profit and make appropriate quantification", the Company plans to amend and improve the target responsibility documents for the administration departments.

(II) The Company will revise and improve the "Measures on Remuneration Administration" and "Culling Measures for Managers at Middle Level" as soon as practicable to optimize the management team.

(III) To smooth the relationships between centralization of power, authorization and decentralization of power in daily administration of the Company, the Company will adjust its organizations by setting up 3 headquarters focused on production, technology and marketing respectively to strengthen the unified guidance, management and service by the headquarters to the subsidiaries, building a resources optimization configuration platform. In particular:

1. The Company will coordinate the product sales and transportation of subsidiaries on a unified basis by setting up market headquarters to strengthen research, forecast and analysis on marketing as well as formulating marketing strategy. Whereby, the Company aims to achieve the balance between the production and sales of the products at high price level in line with the market and maximize profit.

2. The Company set to enhance the research, analysis and prediction on raw material market by setting up production headquarters. Meanwhile, it will organize and hold procurement bidding meeting, audit and supervise the implementation of procurement planning and price to leverage the advantages of procurement resources optimization and integration platform and lower the purchasing costs of the Company.

3. The technology headquarters will be responsible for the technology research and management on glass raw material, production and packaging techniques, management on technique principles, physical and chemical analysis on glass and its raw material, standardized management and quality audit.

II. Strengthen management, pass-through operating pressure, and finalise turnaround

The new management system attaches great importance on the unification of power and responsibilities. The integrity of production, supply and sales of subsidiaries and their due responsibilities which shall be standardized and defined by signing responsibility document are equally regarded. The managers in each subsidiary will get due rewards and punishment to activate their enthusiasm and build up their sense of responsibility.

III. Put efforts on production, supply and sales control and fully increase efficiency by tapping potentials

The Company will proactively implement the measures of "Three RMB1" to make turnaround. First, "RMB1 increase in sales price of products", that is, the sales price of glass per square increases RMB1 during the product selling; second,"RMB1 decrease in purchasing cost", that is, the purchasing cost of glass per square reduce RMB1 during the purchase of materials; and third, "RMB1 saving in production cost", that is, the cost of glass per square reduces RMB1 during the production (The price of loaded container are calculated based on 5mm).

1. "RMB1 increase in sales price of products" In accordance with the requirement on RMB1 increase in the sales price of glass per square, together with different types and structure, the average price hike of RMB4/LC is expected. The market headquarter will enhance the research on glass market, effectively formulate and implement feasible price hike plan, well control the pace of price increase, ensure the steady and orderly rise in selling price of glass, and strive for dominating the sales price in the regional market.

2. "RMB1 decrease in purchasing cost" In accordance with the requirement of RMB1 decrease in the purchasing cost of per square glass, the production headquarter effectively formulate and implement the price decrease plan. First, The Company will strengthen the research on material market, explore risk purchase, enhance bidding purchase and comparative price purchase, and increase the direct proportion of direct purchase and local purchase; second, it aims to develop and increase more customers; and third, it will pay more attention on each step of material purchase and try to satisfy customers for the purpose of reducing price.

3. "RMB1 saving in production cost" In accordance with the requirement of RMB1 saving in the production cost of per square glass, each subsidiary is expected to develop more channels with broadened vision and innovative methods to expand the room and potential for cost reducing. The Company will put more efforts on application of new methods and new technology, proactively and steadily develop new material instead of original material, strive for reducing more cost by virtue of technology, save energy and reduce consumption on a creative manner. The Company will focus on solid production, increase total finished product ratio, reduce energy consumption, cut cost, and tackle key problems in research to achieve the maximized benefits. Each production unit is required to stress energy saving and consumption reduction and fulfil relevant indices.

IV. Grasp market demand precisely, improve product mix, accelerate cash recovery and realize profit

1. Based on the market analysis and forecast, together with actual conditions of float glass production line III, the Company will change the production colour of float glass production line III from modern grey to emerald green so as to increase the production-sales ratio and added value.

2. The Company will improve the production mix of Longbo Company and Longhai Company by increasing the production and sales volume of profitable products. Firstly, Longbo Company should carefully study orientation of profitable products and alternative measures for lowering down the cost of fuels and sand. Based on stabilized production of 1.1mm products, Longhai Company will increase the production and sales volume of 0.7mm and 0.5mm products. Meanwhile, Longhai Company will take advantage of the gap for product mix adjustment to arrange the production of high grade 3mm products, to improve the production stability and enhance market competitiveness.

3. Market headquarter and sales department should strength the market analysis and judgement, make flexible and effective marketing measures to enhance the promotion of the new products and speed up the inventory recovery for loss reduction.

V. Advance campaigns on labour competition and reasonable suggestions to boost the turnaround activities

Each unit should focus on turnaround according to its appointed indicators and target to the advanced indicator for catching up. Efforts will be made on labour competition, to refresh record in a continuous manner and improve the indicators consistently. During the labour competition campaign, the enthusiasms of the staff in production and work will be motivated. Meanwhile, the intelligence and wisdom of the staff should be fully exerted by advancing campaigns for reasonable suggestions to push the staff contributing their ideas for turnaround.

VI. Implement assets restructuring in due course, optimize assets quality and lay a solid foundation for turnaround

6. SIGNIFICANT EVENTS

6.1 Acquisition, disposal and reorganisation of assets

6.1.1 Acquisition of assets

☐ Applicable ☑ Not applicable

6.1.2 Disposal of assets

☐ Applicable ☑ Not applicable

6.1.3 Progress and influences on operating results and financial position for the reporting period following the publishing of report of asset reorganisation or announcement of assets acquired or disposed

☐ Applicable ☑ Not applicable

6.2 Guarantees

☑ Applicable ☐ Not applicable

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

Name of guaranteed parties	**Date of occurrence (Signature date of agreement)**	**Amount of guarantee**	**Type of guarantee**	**Term of guarantee**	**Whether implementation has been completed**	**Whether a guarantee for an connected party**
Nil						
Total amount of guarantee during reporting period			—			
Balance of guarantee at the end of the reporting period (A)			—			
Guarantee provided by the Company to its controlling subsidiaries						
Total amount of guarantee granted to subsidiaries during reporting period			79,500,000			
Balance of guarantee granted to subsidiaries at the end of the reporting period(B)			101,500,000			
Total amount of guarantee provided by the Company (including guarantee to controlling subsidiaries)						
Total amount of guarantee (A+B)				101,500,000		
Total amount of guarantee as a percentage to the Company's net assets				40.64%		
Including: 公司違規擔保情況						
Amount of guarantee provided to shareholders, the de facto controller and its connected parties (C)						
Amount of debt guarantee directly or indirectly provided to parties with gearing ratio over 70%(D)						
Total amount of guarantee over 50% of the net assets (E)						
Total amount of the said 3 guarantees (C+D+F)						

6.3 Non-operating debts due to or from connected parties

☐ Applicable ☑ Not applicable

6.4 Material litigation and arbitration

☐ Applicable ☑ Not applicable

6.5 Other significant events and analysis on their effects and solutions

☑ Applicable ☐ Not applicable

6.5.1 Shares and securities issued by other listed companies held by the Company

☐ Applicable ☑ Not applicable

6.5.2 Shareholding in non-listed enterprises or enterprises to be listed held by the Company

☑ Applicable ☐ Not applicable

Name of investee	Initial investment cost *(RMB'000)*	Number of shares held	Shareholding in the share capital of the investee *(%)*	Book value as at the 30 June 2007 *(RMB'000)*
China Luoyang Float Glass Group Financial Company	111,000		37	116,342
Yanxi Long Xin She	200		0.33	200
Sub-total	111,200		—	116,542

6.5.3 Other significant events

1. China Luoyang Float Glass (Group) Company Limited ("CLFG"), the largest shareholder of the Company is being acquired, the process is as follows:

   On 18 December 2006, China National Building Material Group Corporation ("CNBMG"), Luoyang Municipal Government and Luoyang State-owned Assets Operation Company entered into the Framework Agreement on Strategic Cooperation and Share Transfer with CLFG, pursuant to which Luoyang State owned Assets shall transfer its 70% equity interest in CLFG to CNBMG at nil consideration.

   CLFG is currently the controlling shareholder of the Company, holding 179,018,242 shares of Luoyang Glass, representing 35.80% of the total share capital thereof. In accordance with the provisions of Securities Law of the People's Republic of China and the Management Methods on Takeover of Listed Companies, the transfer of equity interest in CLFG at nil consideration will result in the shift of the controlling power in the Company, whereby CNBMG will become the controller of the Company, indirectly holding 35.80% of the state-owned shares of the Company through CLFG. On 2 April 2007, CNBMG and Luoyang State-owned Assets entered into the State-owned Share Transfer Agreement.

   On 22 June 2007, the State-owned Assets Supervision and Administration Commission of the State Council issued "Reply and Approval in relation to the Transfer at Nil consideration of State-owned Shares in China Luoyang Float Glass (Group) Company Limited" (No.552 (2007) Guo Zi Chan Quan) and approved the transfer of 70% shares in CLFG held by Luoyang State-owned Assets Operation Company to China National Building Material Group Corporation ("CNBMG") at nil consideration. As China National Building Material Group Corporation will indirectly held 35.80% equity interests in the Company through China Luoyang Float Glass (Group) Company Limited after the present transfer of state-owned shares at nil consideration, CNBMG shall perform the acquisition procedures of listed companies and shall obtain China Securities Regulatory Commission's approval of "Acquisition Report on Luoyang Glass Company Limited" without objection and its waiver of China National Building Material Group Corporation from performance of the obligations in the general offer in accordance with the "Administrative Measures for Acquisitions of Listed Companies".

Up to date, CNBMG has not been granted the waiver from acquisition obligation in general offer by China Securities Regulatory Commission.

Being a large comprehensive building material enterprise in the PRC, CNBMG directly belongs to State-owned Assets Supervision and Administration Commission of the State Council. CNBMG will restructure the domestic glass industry according to policies with a view to rapidly developing the glass business into its mainstay industry, thus consolidating its advantageous position in the building material sector with complete product varieties.

Through the acquisition of the Company, CNBMG aims to make best of its advantages in capital, technology and human resources to improve the capital and technology strengths and market competitiveness of the Company, thus eventually making the Company as the platform for development for its own glass business.

2. Suspension of H shares of the Company

The H shares of the Company suspended on 31 October 2006 due to significant matters to be disclosed. After the disclosure of significant matters, the Stock Exchange of Hong Kong postponed the resumption of trading in the H shares of the Company for continuous breaches of Listing Rules due to uncompleted internal system and poor implementation, explicitly disclaiming that the Stock Exchange will consider the resumption of trading until the company meet the major conditions as follows:

1. Appoint independent professional advisor to give advice on and review the internal control of the company; 2. Appoint qualified advisor for a term of two years; 3. Submit the information of working and financial status of the company; and change the situation of overlapping in the members of the Board.

Currently, the company has satisfy the requirements from the Stock Exchange for resumption of trading of H shares, and has made concrete time schedule for implementing remedial solutions in response of independent professional advisor's suggestion. The Board hereby make apologizes to all shareholders.

6.6 The Company will not propose dividend for the first half of 2007 nor transfer capital reserve into share capital.

6.7 Ting Ho Kwan & Chan and Guang Dong HengXin Delu Certified Accountants Company Limited were reappointed as PRC and international auditors of the Company respectively for the year of 2007 at the annual general meeting of 2006 of the Company

6.8 During the reporting period, there was no occurrence of custody of fund, nor were there any occurrence of custody of fund which had extended to this reporting period.

6.9 Overdue deposits

Other receivables in non-current assets include an overdue deposit of RMB50,000,000 due from Guangzhou International Trust & Investment Corporation ("GZITIC"). The original amount was RMB145,657,113 and 75% provision had been made in prior years. GZITIC is in the process of corporate restructuring. After being informed the latest progress of the restructuring, the Board of Directors believes there was no need for additional provision for bad debts during this period. No interest has been accrued in respect of this deposit.

Save as above deposits, the Company did not have any other overdue deposits as at 30 June 2007.

6.10 Unified income tax and cancellation of tax rebate of local government

The Company did not enjoy tax preferential policy for the previous years.

6.12 Risks of exchange rate fluctuations

Since the Group's assets, liabilities and transactions were principally denominated in Renminbi, exchange rate fluctuations did not have any material impact on the Group.

6.13.Independent Audit Committee

The independent audit committee, management and external auditor have reviewed the accounting principles and regulations and discussed matters relating to financial statements including reviewing in accordance with the Interim Financial Report of International Financial Standard Preparation.

6.14.Code on Corporate Governance Practice

The directors of the Company are of view that the Group has complied with the Code on Corporate Governance Practice set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited throughout any period ended 30 June 2007.

The Company had not appointed a qualified accountant as required by Rule 3.24 the Listing Rules. The Company is seeking to retain a qualified accountant under Rule 3.24 the Listing Rules.

6.15 Purchase, sale and redemption of shares

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

6.16. Compliance with the Model Code for Securities Transactions by Directors of Listed Issuers

Having made enquires to all directors, the Company confirmed all Directors have complied with the Model Code for Securities Transactions by Directors of Listed Issuers under Appendix 10 to the Listing Rules throughout the six months ended 30 June 2007. In respect of the securities transactions by the directors of the Company, the code of conduct adopted by the Company is no less looser than the Model Code for Securities Transactions by Directors of Listed Issuers.

7 FINANCIAL REPORT

7.1 Auditors' Opinion

Financial report ☑ unaudited ☐ audited

7.2 Financial statements (prepared under PRC accounting rules and regulations)

7.2.1 Consolidated Balance Sheet, Income Statement, Cashflow Statement and Statement of Changes in Equity of the Company and the Parent company

CONSOLIDATED BALANCE SHEET

As at 30 June 2007

Unit: RMB'000

Assets	*Note*	**As at 30 June 2007**	As at 31 December 2006 (audited)
Current assets			
Cash at banks and on hand		**227,320**	272,959
Bills receivable		**28,190**	45,399
Trade receivables		**26,069**	25,609
Prepayments		**17,927**	12,203
Other receivables		**10,230**	17,611
Inventories		**309,073**	299,801
Other current assets		**365**	171
Total current assets		**619,174**	673,753

Non-current assets			
Long-term equity investments		**116,542**	148,208
Fixed assets		**1,114,410**	1,174,615
Construction in progress		**6,169**	3,965
Construction materials		**2,300**	1,585
Intangible assets		**134,805**	137,167
Other non-current assets		**50,000**	50,000
Total non-current assets		**1,424,226**	1,515,540
Total assets		**2,043,400**	2,189,293

Liabilities and shareholders' funds	*Note*	**As at 30 June 2007**	As at 31 December 2006 (audited)
Current liabilities			
Short-term loans		**807,340**	902,220
Bills payable		**162,620**	171,390
Trade payables		**449,889**	400,622
Receipts in advance		**77,578**	85,985
Accrued payroll		**22,015**	20,790
Taxes payable		**2,805**	1,807
Interests payable		**233**	47
Other creditors		**109,773**	139,680
Non-current liabilities due within 1 year		**29,200**	28,202
Other current liabilities		**9,941**	3,707
Total current liabilities		**1,671,394**	1,754,450

Non-current liabilities		
Long-term loans	**58,741**	60,027
Provisions	**2,503**	2,503
Total non-current liabilities	**61,244**	62,530
Total liabilities	**1,732,638**	1,816,980
Shareholders' funds		
Share capital	**500,018**	500,018
Capital reserve	**914,179**	914,179
Surplus reserves	**61,075**	61,075
Accumulated losses	**(1,225,488)**	(1,161,613)
Total shareholders' fund attributable to the parent	**249,784**	313,659
Minority interests	**60,978**	58,654
Total shareholders' funds	**310,762**	372,313
Total liabilities and shareholders' funds	**2,043,400**	2,189,293

BALANCE SHEET

As at 30 June 2007

Unit: RMB'000

Assets	*Note*	**As at 30 June 2007**	As at 31 December 2006 (audited)
Current assets			
Cash at banks and on hand		**161,844**	220,040
Bills receivable		**14,337**	65,351
Trade receivables		**5,912**	9,914
Prepayments		**68**	275
Other receivables		**38,160**	50,636
Inventories		**145,197**	146,032
Other current assets			
Total current assets		**365,518**	492,317
Non-current assets			
Held to maturity investments		**296,340**	354,600
Long-term equity investments		**184,502**	216,168
Fixed assets		**330,327**	366,541
Construction in progress		**—**	73
Intangible assets		**108,256**	109,719
Other non-current assets		**50,000**	50,000
Total non-current assets		**969,425**	1,097,101
Total assets		**1,334,943**	1,589,418

Liabilities and shareholders' funds	*Note*	**As at 30 June 2007**	As at 31 December 2006 (audited)
Current liabilities			
Short-term loans		**670,300**	766,980
Bills payable		**85,900**	98,690
Trade payables		**224,498**	212,707
Receipts in advance		**37,986**	50,868
Accrued payroll		**13,403**	12,372
Taxes payable		**3,174**	6,088
Other creditors		**36,153**	73,080
Non-current liabilities due within 1 year		**530**	532
Other current liabilities		**6,166**	2,233
Total current liabilities		**1,078,110**	1,223,550
Non-current liabilities			
Long-term loans		**6,411**	6,697
Provisions		**2,503**	2,503
Total non-current liabilities		**8,914**	9,200
Total liabilities		**1,087,024**	1,232,750
Shareholders' funds			
Share capital		**500,018**	500,018
Capital reserve		**914,179**	914,179
Surplus reserves		**51,366**	51,366
Accumulated losses		**(1,217,644)**	(1,108,895)
Total shareholders' funds		**247,919**	356,668
Total liabilities and shareholders' funds		**1,334,943**	1,589,418

CONSOLIDATED INCOME STATEMENT(UNAUDITED)

For the six months ended 30 June 2007

Unit: RMB'000

Item	*Note*	**For the six months ended 30 June 2007**	For the six months ended 30 June 2006
Operating income		**689,827**	474,934
Less: Operating cost		**(649,305)**	(539,224)
Business tax and surcharges		**(1,478)**	(183)
Selling expenses		**(18,838)**	(19,195)
Administrative expenses		**(53,893)**	(66,576)
Financing costs		**(33,084)**	(35,300)
Impairment loss of Assets		**(19,583)**	(3,507)
Add: Gain(loss) from change in fair value		**—**	—
Investment income (loss)		**22,198**	(1,911)
Including: income(loss) from investment on associates and jointly venture		**134**	(2,906)
Operating profit (loss)		**(64,156)**	(190,962)
Add: Non-operating income		**2,834**	1,508
Less: Non-operating expenses		**(229)**	(1,595)
Including: loss from non-current asset disposal		**—**	(235)
Total profit (loss)		**(61,551)**	(191,049)
Less: income tax expense		**—**	—
Net profit (loss)		**(61,551)**	(191,049)

Including: Net profit attributable to the shareholders of the parent		**(63,875)**	(156,786)
Profit and loss of minority interests		**2,324**	(34,263)
Earnings per share			
(1) Basic earnings per share (RMB/share)		**(0.13)**	(0.22)
(1) Diluted earnings per share (RMB/share)		**(0.13)**	(0.22)

INCOME STATEMENT

For the six months ended 30 June 2007

Unit: RMB'000

Item	*Note*	**For the six months ended 30 June 2007**	For the six months ended 30 June 2006
Operating income		**283,694**	334,639
Less: Operating cost		**(284,198)**	(346,162)
Business tax and surcharges		**(479)**	(109)
Selling expenses		**(9,050)**	(10,762)
Administrative expenses		**(34,909)**	(34,489)
Financing costs		**(22,391)**	(21,062)
Impairment loss of Assets		**(80,075)**	7,336
Add: Gain(loss) from change in fair value		**—**	—
Investment income (loss)		**36,082**	(77,012)
Including: income(loss) from investment in associates and joint venture		**134**	(2,906)
Operating profit / (loss)		**(111,326)**	(147,621.00)
Add: Non-operating income		**2,599**	258
Less: Non-operating expenses		**(22)**	(903)

Including: loss from non-current assets disposal	**—**	—
Total profit (loss)	**(108,749)**	(148,266.00)
Less: income tax expenses	**—**	—
Net profit (loss)	**(108,749)**	(148,266.00)

CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2007

Unit: RMB'000

Item	Consolidated cash flow statement Supplementary Information	For the six months ended 30 June 2007
Cash flows from operating activities:		
Cash received from sale of goods and rendering of services		382,893
Refund of taxes		1,437
Cash received in relation to other operating activities		95,447
Sub-total of cash inflows from operating activities		479,777

Cash paid for purchases of goods and provision of services		(283,990)
Cash paid to and on behalf of employees		(38,248)
Taxes paid		(26,912)
Cash paid in relation to other operating activities		(81,978)
Sub-total of cash outflows from operating activities		(431,128)
Net cash flow from operating activities	(i)	48,649
Cash flows from investing activities:		
Cash received from disposal of investments		34,100
Cash received from return of investments		22,041
Net proceeds from disposal of fixed assets, intangible assets and other long-term assets		4
Cash received in relation to other investing activities		59
Sub-total of cash inflows from investing activities		56,204
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets		(5,592)
Cash paid in relation to other investing activities		(42)
Sub-total of cash outflows from investing activities		(5,634)
Net cash flow from investing activities		50,570
Cash flows from financing activities:		
Proceeds from loans		459,185

Sub-total of cash inflows from financing activities		459,185
Repayment of loans		(516,326)
Cash paid for distribution of dividends, profits or interest payment		(31,218)
Cash paid in relation to other financing activities		(879)
Sub-total of cash outflows from financing activities		(548,423)
Net cash flow from financing activities		(89,238)
Effect on cash and cash equivalents arising from change in exchange rate		(124)
Net increase (decrease) in cash and cash equivalent	(ii)	9,857
Add: balance of cash and cash equivalent at the beginning of the year		58,414
Balance of cash and cash equivalent at the end of period		68,271

SUPPLEMENTARY INFORMATION TO THE CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2007

Unit: RMB'000

Item	For the six months ended 30 June 2007
(i) Reconciliation of net profit to cash flows from operating activities:	
Net profit for the year	(61,551)
Add: Provision for assets impairment	(3,635)
Depreciation of fixed assets	56,774
Amortisation of intangible assets	2,362
Loss (gain) on disposal of fixed assets, intangible assets and other long-term assets	(96)
Financial expenses	32,550
Investment loss (income)	(22,198)
Decrease(increase) in inventories	(16,540)
Decrease(increase) in operating receivables	(90,633)
Increase(decrease) in operating payables	151,616
Net cash flow from operating activities	48,649
(ii) Net changes in cash and cash equivalent	
Balance of cash and cash equivalent at the end of the period	68,271
Less: balance of cash and cash equivalent at the beginning of year	(58,414)
Net increase (decrease) in cash and cash equivalent	9,857

CASH FLOW STATEMENT

For the six months ended 30 June 2007

Unit: RMB'000

Item	Consolidated cash flow statement Supplementary Information	For the six months ended 30 June 2007
Cash flows from operating activities:		
Cash received from sale of goods and rendering of services		190,787
Refund of taxes		1,437
Cash received in relation to other operating activities		47,361
Sub-total of cash inflows from operating activities		239,585
Cash paid for purchase of goods and provision of services		(173,614)
Cash paid to and on behalf of employees		(20,294)
Taxes paid		(10,277)
Cash paid in relation to other operating activities		(19,047)
Sub-total of cash outflows from operating activities		(223,232)
Net cash flow from operating activities	(i)	
Cash flows from investing activities:		
Cash received from disposal of investments		208,100
Cash received from return of investments		35,948
Net proceeds from disposal of fixed assets, intangible assets and other long-term assets.		4

Sub-total of cash inflows from operating activities	244,052
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets	(716)
Cash paid for investment	(177,000)
Sub-total of cash outflows from investing activities	(177,716)
Net cash flow from investing activities	66,336
Cash flows from financing activities:	
Proceeds from loans	314,000
Sub-total of cash inflows from financing activities	314,000
Repayment of loans	(360,946)
Cash paid for distribution of dividends, profit or interest payment	(22,420)
Sub-total of cash outflows from financing activities	(383,366)
Net cash flow from financing activities	(69,366)

Effects on cash and cash equivalent arising from change in exchange rate		(124)
Net increase (decrease) in cash and cash equivalent	(ii)	13,199
Add: cash and cash equivalent balance at the beginning of year		43,195
cash and cash equivalent balance at the end of period		56,394

SUPPLEMENTARY INFORMATION TO THE CASH FLOW STATEMENT

For the six months ended 30 June 2007

Unit: RMB'000

Item	**For the six months ended 30 June 2007**
(i) Reconciliation of net profit to cash flows from operating activities:	
Net profit for the year	(108,749)
Add: Provision for assets impairment	61,259
Depreciation of fixed assets	22,168
Amortisation of intangible assets	1,462
Loss (gain) on disposal of fixed assets, intangible assets and other long-term assets.	(4)
Financial expenses	22,522
Investment loss(income)	(36,082)
Decrease (increase) in inventories	3,186
Decrease (increase) in operating receivables	(114,333)
Increase(decrease) in operating payables	164,924
Net cash flow from operating activities	16,353
(ii): Net changes in cash and cash equivalents	
Balance of cash and cash equivalent at the end of the period	56,394
Less: balance of cash and cash equivalents at the beginning of the year	(43,195)
Net increase (decrease) in cash and cash equivalent.	13,199

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the six months ended 30 June 2007

Unit: RMB'000

	For the six months ended 30 June 2007					
	Shareholders' equity attributable to the parent				Minority interests	Total Shareholders' equity
Item	Share capital	Capital reserve	Surplus reserve	Retained profit		
I. At the end of last year	500,018	914,179	61,075	(1,161,613)	58,654	372,313
Add: Changes in accounting policies						—
Errors correction in the previous period						—
II. At the beginning of the year	500,018	914,179	61,075	(1,161,613)	58,654	372,313
III. Increase/decrease in amounts during the period	—	—	—	(63,875)	2,324	(61,551)
(I) Net profit	—	—	—	(63,875)	2,324	(61,551)
Profit and loss directly included in shareholders' equity	—	—	—	—	—	—
1. Net changes in fair value of available for-sale financial assets						
2. Effect on changes in other shareholders' equity of investees under equity method						

3. Effect of income tax relating to shareholders' equity						
4. Others						
Subtotal of (I) and (II) above	—	—	—	(63,875)	2,324	(61,551)
(III) Capital invested in and decreased by shareholders	—	—	—	—	—	—
1. Capital invested by shareholders						
2. Amount of shares-based payment recorded in shareholders equity						
3. Others						
(IV) profit distribution	—	—	—	—	—	—
1. Provision for surplus reserve						
2. Withdrawal of risk reserve						
3. Distribution to shareholders						
4. Others						
(V) Internal carry over in shareholders' equity	—	—	—	—	—	—
1. Transfer capital reserve into share capital						
2. Transfer surplus reserve into share capital						
3. Surplus reserve setoff losses						
4. Others						
IV. At the end of the period	500,018	914,179	61,075	(1,225,488)	60,978	310,762

I. At the end of last year	700,000	994,655	225,361	(968,937)	113,348	1,064,427
Add: Changes in accounting policies						—
Errors correction in the previous period						—
II. At the beginning of the year	700,000	994,655	225,361	(968,937)	113,348	1,064,427
III. Increase/decrease in amounts during the period	—	230	(162,130)	5,525	(34,263)	(190,638)
(I) Net profit	—	—	—	(156,786)	(34,263)	(191,049)
Profit and loss directly included in shareholders' equity	—	230	—	181	—	411
1. Net changes in fair value of available for-sale financial assets						
2. Effect on changes in other shareholders' equity of investees under equity method						
3. Effect of income tax relating to shareholders' equity						
4. Others		230		181		411
Subtotal of (I) and (II) above	—	230	—	(156,605)	(34,263)	(190,638)
(III) Capital invested in and decreased by shareholders	—	—	—	—	—	—
1. Capital invested by shareholders						
2. Amount of share-based payment recorded in shareholders' equity						
3. Others						

(IV) profit distribution	—	—	—	—	—	—
1. Provision for surplus reserve						
2. Withdrawal of risk reserve						
3. Distribution to shareholders						
4. Others						
(IV) Inner carry over in shareholders' equity	—	—	(162,130)	162,130	—	—
1. Transfer capital reserve into share capital						
2. Transfer surplus reserve into share capital			(162,130)	162,130		
3. Surplus reserve setoff losses						
4. Others						
IV. At the end of the period	700,000	994,885	63,231	(963,412)	79,085	873,789

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the six months ended 30 June 2007

Unit: RMB'000

	For the six months ended 30 June 2007				
Item	**Share capital**	**Capital reserve**	**Surplus reserve**	**Retained profit**	**Total Shareholders' equity**
I. At the end of last year	500,018	914,179	51,366	(1,108,895)	356,668
Add: Changes in accounting policies					—
Errors correction in the previous period					—
II. At the beginning of the year	500,018	914,179	51,366	(1,108,895)	356,668
III. Increase/decrease in amounts during the period	—	—	—	(108,749)	(108,749)
(I) Net profit	—	—	—	(108,749)	(108,749)
Profit and loss directly recorded as shareholders' equity	—	—	—	—	—
1. Net changes in fair value of available for-sale financial assets					
2. Effect on changes in other shareholders' equity of investeesunder equity method					
3. Effect of income tax relating to shareholders' equity					
4. Others					
Subtotal of (I) and (II) above	—	—	—	(108,749)	(108,749)

(III) Capital invested in and decreased by shareholders	—	—	—	—	—
1. Capital invested by shareholders					
2. Amount of share-based payment recorded in shareholders' equity					
3. Others					
(IV) Profit distribution	—	—	—	—	—
1. Provision for Surplus reserve					
2. Distribution to shareholders					
3. Others					
(V) Internal carry over in shareholders' equity	—	—	—	—	—
1. Transfer capital reserve into share capital					
2. Transfer surplus reserve into share capital					
3. Surplus reserve setoff losses					
4. Others					
IV. At the end of the period	500,018	914,179	51,366	(1,217,644)	247,919

I. At the end of last year	700,000	994,655	213,495	(957,071)	951,079
Add: Changes in accounting policies					
Errors correction in the previous period					
II. At the beginning of the year	700,000	994,655	213,495	(957,071)	951,079
III. Increase/decrease in amounts during the period	—	230	(162,129)	13,863	(148,036)
(I) Net profit	—			(148,266)	(148,266)
Profit and loss directly included in shareholders' equity	—	230			230
1. Net changes in fair value of available-for-sale financial assets					
2. Effect of changes of shareholders' equity in investees under equity method					
3. Effect of income tax relating to shareholders' equity					
4. Others		230			230
Subtotal of (I) and (II) above	230			(148,266)	(148,036)
(III) Capital invested in and decreased by shareholders					
1. Capital invested by shareholders					
2. Amount of share-based payment recorded in shareholders' equity					

3. Others					
(IV) Profit distribution					
1. Provision for Surplus reserve					
2. Distribution to shareholders					
3. Others					
(V) Inner carry over in shareholders' equity			(162,129)	162,129	
1. Transfer capital reserve into share capital					
2. Transfer surplus reserve into share capital			(162,129)	162,129	
3. Surplus reserve setoff losses					
4. Others					
IV. At the end of the period	700,000	994,885	51,366	(943,208)	803,043

7.3 Notes to the financial statements

7.3.1 In case of changes in accounting policies or estimation basis or correction to material accounting errors, explain reason and influence.

☐ Applicable ☑ Not applicable

The Group started to adopt the new Accounting Standards for Business Enterprises on 1 January 2007. Therefore, corresponding adjustments were made to the figures at the beginning of the year and that of the same period last year in the comparable balance sheet and income statement in this report according to the new Accounting Standards for Business Enterprises. In addition, as stated in the 2006 Interim Report, the Group retroactively adjusted the non-deductible value-added tax checked by tax authorities for tax repayment for the previous years and errors in provisions for bad debts and that in depreciation of fixed assets of branches and subsidiaries of the Group for the previous years. The retroactive adjustment in the income statement for the same period last year is reversed in this report, due to no retroactive adjustment in the material accounting errors in the 2006 Annual Report for the slight effect of the above-mentioned retroactive adjustment

1. Net Profit Reconciliation between New and Old Accounting Standards for the Six Months Ended 30 June 2006

Unit: RMB'000

Item	**Group**	**Parent**
Net profit for the six months ended 30 June 2006 (under old accounting standards)	(145,192)	(145,192)
Total amounts affected by retroactive adjustment	(45,857)	(3,074)
Including: Add: Unrecognised investment loss adjustment under the old accounting standards	(7,634)	
Operating cost	(3,254)	(310)
Investment income		(2,764)
Impairment losses of assets	(1,062)	
Minority interests	(33,907)	
Net profit reconciliation for the six months ended 30 June 2006 (new accounting standards)	(191,049)	(148,266)
Including: Net profit attributable to the parent	(156,786)	(148,266)
Pro forma information assuming the execution of the new accounting standards		
Total amounts affected by other items		80,621
Including: Investment income-subsidiaries accounted for using cost method		80,621
Imitative net profit for the six months ended 30 June 2006	(191,049)	(67,645)
Including: Imitative net profit attributable to the parent	(156,786)	(67,645)

2 Net Profit Reconciliation between New and Old Accounting Standards for 2006

Unit: RMB'000

Item	Group	Parent
Net profit for 2006 (old accounting standards)	(317,483)	(313,954)
Total amounts affected by retroactive adjustment	(96,044)	
Including: Add: Unrecognised investment loss adjustment under the old accounting standards	(39,479)	
Minority interests	(56,565)	
Net profit for 2006 (new accounting standards)	(413,527)	(313,954)
Including: Net profit attributable to the shareholders of the parent	(356,962)	(313,954)
Pro forma information assuming the execution of the new accounting standards		
Total amounts affected by other items		118,370
Including: Investment income-subsidiaries accounted for using cost method		118,370
Imitative net profit for 2006	(413,527)	(195,584)
Including: Imitative net profit attributable to the parent	(356,962)	(195,584)

3 Statement of Adjustment in Shareholders' equity as at 1 January 2006

Unit: RMB'000

Item	**Before adjustment**	**After adjustment**
Share capital	700,000	700,000
Capital reserve	994,655	994,655
Surplus reserve	225,361	225,361
Retained profit	(968,937)	(968,937)
Shareholders' equity attributable to the parent	951,079	951,079
Minority interests		113,348
Total Shareholders' equity	951,079	1,064,427

7.3.2 In case of material change in scope of financial statement consolidation, explain the reason and influence.

☐ Applicable ☑ Not applicable

7.3.3 Notes to relevant events for any non-standard non-qualified opinion

☐ Applicable ☑ Not applicable

7.4. FINANCIAL STATEMENTS (PREPARED UNDER IRFS, UNAUDITED)

7.4.1 CONSOLIDATED INCOME STATEMENT (UNAUDITED)

For the six months ended 30 June 2007

(Expressed in Renminbi)

	Note	**Six months ended 30 June 2007** *Rmb'000*	Six months ended 30 June 2006 *Rmb'000*
Turnover	4	**664,316**	443,357
Cost of sales		**(634,890)**	(526,666)
Gross profit/(loss)		**29,426**	(83,309)
Other operating income	5	**27,098**	46,782
Other operating expenses		**(20,088)**	(22,609)
Selling expenses		**(18,838)**	(19,195)
Administrative expenses		**(72,641)**	(71,391)
Loss from operations		**(55,043)**	(149,722)
Net finance costs	6 (a)	**(33,085)**	(34,570)
Investment income/(loss)	6 (b)	**22,064**	(178)
Share of net profit/(loss) of associates		**134**	(2,463)
Loss before taxation	6 (c)	**(65,930)**	(186,933)
Income tax expenses	7	**—**	—
Loss for the period		**(65,930)**	(186,933)

Attributable to:			
Equity shareholders of the Company		**(68,302)**	(156,351)
Minority interests		**2,372**	(30,582)
Loss for the period		**(65,930)**	(186,933)
Basic Loss per share (in Rmb: Yuan)	9	**(0.136)**	(0.223)

7.4.2 CONSOLIDATED BALANCE SHEET (UNAUDITED)

At 30 June 2007

(Expressed in Renminbi)

	Note	At 30 June 2007 *Rmb'000*	At 31 December 2006 (audited) *Rmb'000*
Non-current assets			
Property, plant and equipment		**1,114,411**	1,174,616
Construction in progress		**8,469**	5,550
Intangible assets		**14,483**	15,219
Lease payments		**41,221**	41,798
Interests in associates		**117,604**	111,105
Other investments		**200**	32,000
Deposits with a non-bank financial institution	10	**50,000**	50,000
		1,346,388	1,430,288
Current assets			
Other receivables	11	**48,565**	58,970
Inventories		**297,882**	291,019
Trade and bills receivables	12	**52,861**	68,853
Income tax recoverable		**2,243**	2,249
Deposits with banks and non-bank financial institutions		**155,750**	214,545
Cash and cash equivalents		**71,570**	58,414
		628,871	694,050

Current liabilities			
Trade and bills payables	13	**636,637**	566,527
Accrued expenses and other payables		**202,927**	260,786
Bank and other loans	14	**836,540**	930,423
		1,676,104	1,757,736
Net current liabilities		**(1,047,233)**	(1,063,686)
Total assets less current liabilities		**299,155**	366,602

CONSOLIDATED BALANCE SHEET (UNAUDITED)

At 30 June 2007

(Expressed in Renminbi)

	Note	At 30 June 2007 *Rmb'000*	At 31 December 2006 (audited) *Rmb'000*
Non-current liabilities			
Bank and other loans	14	**58,741**	60,027
Deferred income		**4,846**	5,077
		63,587	65,104
Net assets		**235,568**	301,498
Capital and reserves			
Share capital	15	**500,018**	500,018
Share premium		**540,028**	540,028
Reserves	16	**(45,873)**	(45,873)
Accumulated losses	16	**(818,567)**	(750,265)
Total equity attributable to equity shareholders of the Company		**175,606**	243,908
Minority interests		**59,962**	57,590
Total equity		**235,568**	301,498

7.4.3 CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the six months ended 30 June 2007

(Expressed in Renminbi)

	Attributable to equity shareholders of the Company						
	Share capital	Share premium	Reserves	Accumulated losses	Total	Minority interests	Total equity
	Rmb'000	*Rmb'000*	*Rmb'000*	*Rmb'000*	*Rmb'000*	*Rmb'000*	*Rmb'000*
At 1 January 2006	700,000	969,988	119,921	(927,543)	862,366	81,666	944,032
Appropriation	—	—	(162,130)	162,130	—	—	—
Loss for the period	—	—	—	(152,391)	(152,391)	(30,226)	(182,617)
At 30 June 2006	700,000	969,988	(42,209)	(917,804)	709,975	51,440	761,415
At 1 January 2007	**500,018**	**540,028**	**(45,873)**	**(750,265)**	**243,908**	**57,590**	**301,498**
Loss for the period	**—**	**—**	**—**	**(68,302)**	**(68,302)**	**2,372**	**(65,930)**
At 30 June 2007	**500,018**	**540,028**	**(45,873)**	**(818,567)**	**175,606**	**59,962**	**235,568**

7.4.4 CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

For the six months ended 30 June 2007

(Expressed in Renminbi)

	Six months ended 30 June 2007	Six months ended 30 June 2006
	Rmb'000	*Rmb'000*
Net cash flows from operating activities	**34,171**	44,492
Net cash flows from/(used in) investing activities	**15,359**	(41,027)
Net cash flows (used in)/from financing activities	**(36,374)**	4,927
Net increase in cash and cash equivalents	**13,156**	8,392
Cash and cash equivalents at 1 January	**58,414**	144,655
Cash and cash equivalents at 30 June	**71,570**	153,047

NOTES ON THE INTERIM FINANCIAL REPORT (UNAUDITED)

For the six months ended 30 June 2007

(Expressed in Renminbi)

1 Basis of preparation

This interim financial report is unaudited, but has been reviewed by the Audit Committee of Luoyang Glass Company Limited ("the Company"). It was authorised for issuance on 27 August 2007.

The interim financial report has been prepared in accordance with the applicable disclosure provision of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard ("IAS") 34 "Interim financial reporting" adopted by the International Accounting Standards Board ("IASB").

The preparation of an interim financial report in conformity with IAS 34 requires management to make judgments , estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and operating results of the Company and its subsidiaries ("the Group") since 31 December 2006. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with International Financial Reporting Standards ("IFRSs"). IFRSs include IASs and interpretations.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2006 annual financial statements.

The financial information relating to the financial year ended 31 December 2006 that is included in the interim financial report as previously reported information does not constitute the Group's annual financial statements for that financial year but is derived from those financial statements. The Group's annual financial statements for the year ended 31 December 2006 are available from the Company's registered office. The auditors have expressed an unqualified opinion with an explanatory paragraph in respect of the fundamental uncertainty about going concern assumption on those financial statements in their report dated 25 April 2007.

Notwithstanding that the Group had net liabilities at 30 June 2007, the directors of the Company are of the opinion that the Group is able to continue as a going concern and to meet their obligations as and when they fall due having regard to the following:

(i) agreements obtained from financial institutions for renewal of loan facilities to the Group upon their expiry in 2007; and

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

The directors believe that 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 Group fail to continue as a going concern.

2 New and revised IFRSs

The IASB has issued a number of new and revised IFRSs that are effective or available for early adoption for the accounting period of the Group beginning on or after 1 January 2007. The Board of Directors has determined the accounting policies to be adopted in the preparation of the Group's annual financial statements prepared under IFRSs for the year ending 31

December 2007, on the basis of IFRSs currently in issue.

The IFRSs that will be effective or are available for voluntary early adoption in the annual financial statements prepared under IFRSs for the year ending 31 December 2007 may be affected by the issue of additional interpretation(s) or other changes announced by the IASB subsequent to the date of issuance of this interim financial report. Therefore the policies that will be applied in the Group's financial statements for that period cannot be determined with certainty at the date of issuance of this interim financial report.

The adoption of these new and revised IFRSs did not result in significant changes to the Group's accounting policies applied in this interim financial report for the periods presented.

3 Segment reporting

The Group's turnover and operating results are almost entirely generated from the manufacture and sales of float sheet glass. Accordingly, no business segment information is provided. The analysis of the geographical location of the operations of the Group during the financial period is as follows:

	Six months ended 30 June 2007	Six months ended 30 June 2006
	Rmb'000	*Rmb'000*
Turnover		
China	641,042	411,559
Asia	11,850	17,840
America	1,244	6,066
Oceania	3,179	7,489
Others	7,001	403
	664,316	443,357

4 Turnover

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

5 Other operating income

	Six months ended 30 June 2007	Six months ended 30 June 2006
	Rmb'000	*Rmb'000*
Profit on sales of raw materials	**15,321**	22,035
Gain on disposal of racks	**257**	5,427
Commission income	**—**	1,028
Reversal of impairment losses on		
— trade receivables	**—**	1,475
— other receivables	**—**	4,694
— inventories	**—**	8,590
Write off of long term payables	**—**	231
Government grants	**231**	331
Net gain on disposal of property, plant and equipment	**58**	1,396
Others	**11,231**	1,575
	27,098	46,782

6 Loss before taxation

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

	Six months ended 30 June 2007 *Rmb'000*	Six months ended 30 June 2006 *Rmb'000*
(a) Net finance costs:		
Interest income	**(2,193)**	(2,806)
Interest on borrowings	**31,737**	35,736
Net foreign exchange loss	**571**	970
Other financing charges	**2,970**	670
	33,085	34,570
(b) Investment (income)/loss:		
Return of surplus assets upon winding up of an investee company	**(22,059)**	—
Impairment loss on unlisted investments	**—**	443
Others	**(5)**	(265)
	(22,064)	178

(c) Other items:

Cost of inventories	**629,446**	523,412
Depreciation	**56,774**	50,189
Impairment losses on		
— trade receivables	**5**	419
— other receivables	**—**	982
— property, plant and equipment	**14,144**	1,516
— inventories	**5,444**	14,468
Reversal of impairment losses on		
— trade receivables	**—**	(1,475)
— other receivables	**—**	(4,694)
— inventories	**—**	(8,590)
Amortisation of intangible assets	**736**	813
Amortisation of lease prepayments	**577**	927
Net loss on disposal of lease prepayments	**—**	810
Net (gain) /loss on disposal of property, plant and equipment	**(58)**	1,246

7 Income tax expense

No provision for PRC income tax has been made as the Group have made losses for taxation purposes during the period ended 30 June 2007.

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

8 Dividends

The Board of Directors does not recommend the payment of an interim dividend in respect of the six months ended 30 June 2007 (2006: Nil).

9 Basic loss per share

The calculation of basic loss per share is based on the loss attributable to equity shareholders of the company for the six months ended 30 June 2007 of RMB68,302,000 (2006: RMB156,351,000) and 500,018,000 (2006: 700,000,000) shares in issue during the period.

No diluted earnings per share is calculated as there are no dilutive potential shares for the period from 1 January 2006 to 30 June 2007.

10 Deposits with a non-bank financial institution

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

11 Other receivables

	At 30 June 2007	At 31 December 2006 (audited)
	Rmb'000	*Rmb'000*
Current assets		
Advance payments, other receivables an prepayments	**104,554**	114,803
Less: Impairment losses on doubtful debts	**55,989**	55,833
	48,565	58,970

12 Trade and bill receivables

	At 30 June 2007 *Rmb'000*	At 31 December 2006 (audited) *Rmb'000*
Trade receivables		
— third parties	**70,453**	66,949
— a subsidiary of the controlling shareholder	**236**	1,421
	70,689	68,370
Less: impairment losses on doubtful debts	**46,017**	44,916
	24,672	23,454
Bills receivable	**28,189**	45,399
	52,861	68,853

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

	At 30 June 2007 *Rmb'000*	At 31 December 2006 (audited) *Rmb'000*
Within one year	**52,004**	66,372
Between one and two years	**735**	1,650
Between two and three years	**122**	831
	52,861	68,853

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

13 Trade and bills payables

	At 30 June 2007 Rmb'000	At 31 December 2006 (audited) Rmb'000
Trade payables		
— third parties	**403,601**	385,154
— controlling shareholder	**1,272**	1,214
— a subsidiary of the controlling shareholder	**69,144**	8,769
	474,017	395,137
Bills payable	**162,620**	171,390
	636,637	566,527

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

	At 30 June 2007 Rmb'000	At 31 December 2006 (audited) Rmb'000
Due within 1 month or on demand	**636,637**	566,527

14 Bank and other loans

	At 30 June 2007 Rmb'000	At 31 December 2006 (audited) Rmb'000
Secured bank loans	**699,541**	754,910
Unsecured loans from a controlling shareholder	**12,940**	31,540
Secured loans from an associate	**39,800**	50,000
Unsecured loans from an associate	**63,000**	63,000
Secured loans from a non-bank financial institution	**80,000**	80,000
Unsecured loans from a non-bank financial institution	**—**	11,000
	895,281	990,450

Rmb3,100,000 (2006: Rmb3,100,000) included in secured bank loans of the Group is secured by the land use rights and buildings amounting to Rmb2,913,000 (2006: Rmb2,948,000) and Rmb6,235,000 (2006: Rmb6,429,000) respectively.

Included in secured loans from a non-bank financial institution to a subsidiary of Rmb33,700,000 (2006: Rmb20,400,000) has become overdue for payment.

The bank and other loans are repayable as follows:

	At 30 June 2007 Rmb'000	At 31 December 2006 (audited) Rmb'000
Within one year		
— short-term loans	**807,340**	902,221
— current protion of long term loans	**29,200**	28,202

	836,540	930,423
Between one and two years	**53,374**	53,862
Between two and five years	**1,596**	1,596
After five years	**3,771**	4,569
	58,741	60,027
	895,281	990,450

15 Share capital

	At 30 June 2007		At 31 December 2006 (audited)	
	Shares'000	***Rmb'000***	*Shares'000*	*Rmb'000*
Registered, issued and paid-up capital:				
State-owned legal person shares of Rmb1.00 each				
At the beginning of the period/year	**179,018**	**179,018**	400,000	400,000
Decrease as a result of Revised Share Reform	**—**	**—**	(21,000)	(21,000)
Cancellation upon repurchase of own shares	**—**	**—**	(199,982)	(199,982)
At the end of period/year	**179,018**	**179,018**	179,018	179,018

Domestic listed shares ("A Shares") of Rmb1.00 each				
At the beginning of the period/year	**71,000**	**71,000**	50,000	50,000
Increase as a result of Revised Share Reform	**—**	**—**	21,000	21,000
At the end of period/year	**71,000**	**71,000**	71,000	71,000
Overseas listed shares ("H Shares") of Rmb 1.00 each				
At the beginning and the end of the period/year	**250,000**	**250,000**	250,000	250,000
	500,018	**500,018**	500,018	500,018

16 Reserves

	Statutory surplus reserve	Statutory public welfare fund	Discretionary surplus reserve	Excess over share capital	Capital reserve	Accumulated losses	Total
	Rmb'000	*Rmb'000*	*Rmb'000*	*Rmb'000*	*Rmb'000*	*Rmb'000*	*Rmb'000*
At 1 January 2006	58,937	55,662	110,764	(106,949)	1,507	(927,543)	(807,622)
Loss for the period	—	—	—	—	—	(152,391)	(152,391)
Transfer from(to) reserves	55,662	(55,662)	—	—	—	—	—
Transfer to accumulated losses	(51,366)	—	(110,764)	—	—	162,130	—
At 30 June 2006	63,233	—	—	(106,949)	1,507	(917,804)	(960,013)
At 1 January 2007	**61,076**	**—**	**—**	**(106,949)**	**—**	**(750,265)**	**(796,138)**
Loss for the period	**—**	**—**	**—**	**—**	**—**	**(68,302)**	**(68,302)**
At 30 June 2007	**61,076**	**—**	**—**	**(106,949)**	**—**	**(818,567)**	**(864,440)**

17 Capital commitments

At 30 June 2007, the Group had the following capital commitments:

	At 30 June 2007	At 31 December 2006 (audited)
	Rmb'000	*Rmb'000*
Contracted for		
— construction project	**363**	—
Authorised but not contracted for		
— construction project	**—**	7,687
	363	7,687

18 Related party transactions

(a) Details of the related party transactions are presented in explanatory note VII of the interim financial report prepared under PRC Accounting Rules and Regulations. The financial data presented are the same as those prepared under IFRSs.

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

The key management personnel remuneration are as follows:

	Six months ended 30 June 2007 *Rmb'000*	Six months ended 30 June 2006 *Rmb'000*
Directors and supervisors	**90**	94
Senior management	**108**	104
	198	198

(b) Transactions with other state-owned enterprises

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

19 Post balance sheet events

Up to the date of this report, the Group and the Company had no material post balance sheet events after the balance sheet date.

SIGINIICANT DIFFERENCES BETWEEN THE FINANCIAL STATEMENTS OF THE GROUP PREPARED IN ACCORDANCE WITH THE PRC ACCOUNTING RULES AND REGULATIONS AND INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS") - (UNAUDITED)

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

	Six months ended 30 June 2007 *Rmb'000*	Six months ended 30 June 2006 *Rmb'000*
Loss attributable to shareholdres under the PRC Accounting Rules and Regulations	**(63,875)**	(156,786)
Differences:		
— Amortisation of revaluation of land use rights	**1,049**	1,049
— Waiver of debts	**—**	230
— Pre-operating expenditure	**—**	2,088
— Government grants	**182**	182
— Difference in accounting for consolidation	**—**	(3,114)
— Difference in accounting for reuse packing materials	**(5,658)**	—
Loss attributable to equity shareholdres of the Company under IFRSs	**(68,302)**	(156,351)

SIGINIICANT DIFFERENCES BETWEEN THE FINANCIAL STATEMENTS OF THE GROUP PREPARED IN ACCORDANCE WITH THE PRC ACCOUNTING RULES AND REGULATIONS AND INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") - (UNAUDITED)

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

	At 30 June 2007	At 31 December 2006 (audited)
	Rmb'000	*Rmb'000*
Shareholders' funds under the PRC Accounting Rules and Regulations	**249,784**	313,660
Differences:		
— Amortisation of revaluation of land use rights	**(79,101)**	(80,150)
— Government grants	**(3,830)**	(4,012)
— Difference in accounting for consolidation	**3,653**	3,653
— Difference in accounting for reuse packing materials	**5,100**	10,757
Total equity attributable to equity shareholders of the Company under IFRSs	**175,606**	243,908

By order of the Board
Luoyang Glass Company Limited
Cao Mingchun
Secretary to the Board

Luoyang, the PRC
27 August 2007

As at the date of this announcement, the Board comprises five executive Directors: Mr. Zhu Leibo, Mr. Zhang Shaojie, Mr. Zhu Liuxin, Mr. Jiang Hong and Mr. Ding Jianluo, and four independent non-executive Directors: Mr. Zhang Zhanying, Mr. Guo Aimin, Mr. Xi Shengyang and Mr. Dong Chao.