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If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult a licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Luoyang Glass Company Limited (the “Company”), you should at once hand this circular with the accompanying form of proxy to the purchaser(s) or transferee(s), or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

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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)

**MAJOR AND CONNECTED TRANSACTIONS
FORMATION OF JOINT VENTURES**

**Independent financial adviser to the independent board committee
and the independent H shares' shareholders of the Company**

GD Guangdong Securities Limited

A letter from the independent board committee of the Company is set out on pages 21 to 22 of this circular. A letter from Guangdong Securities Limited, the independent financial adviser, containing its advice to the independent board committee and the independent H shares' shareholders of the Company is set out on pages 23 to 45 of this circular.

A notice convening the extraordinary general meeting (the “EGM”) of the Company to be held at in the conference room on the 4th Floor of the Company at No. 9 Tang Gong Zhong Lu, Xigong District Luoyang Municipal, Henan Province, the People's Republic of China on 27 February 2006 at 9:00 a.m. is set out on pages 141 to 142 of this circular. Whether or not you are able to attend the EGM in person, please complete and return the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Company's share registrar and transfer office for H shares of the Company in Hong Kong, HKSCC Registrars Limited at Rooms 1901-5, Hopewell Centre, 19th Floor, 183 Queen's Road East, Hong Kong as soon as practicable but in any event not less than 24 hours before the time appointed for the holding of the EGM. Completion and return of the accompanying form of proxy will not preclude you from attending and voting at the EGM should you so wish.

10 January 2006

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DEFINITIONS

In this circular, the following expressions have the following meanings, unless the context otherwise requires:—

“A Shares”	Renminbi denominated domestic shares of nominal value of RMB1.00 each in the ordinary share capital of the Company
“associates”	has the same meaning as ascribed to it under the Listing Rules
“Board”	the board of Directors
“CLFG”	中國洛陽浮法玻璃集團有限責任公司 (China Luoyang Float Glass (Group) Company Limited), the controlling shareholder of the Company
“Company”	洛陽玻璃股份有限公司 (Luoyang Glass Company Limited), a joint stock limited company incorporated in the PRC with limited liability, the Shares of which are listed on the Stock Exchange and the Shanghai Stock Exchange
“Director(s)”	director(s) of the Company
“EGM”	an extraordinary meeting of the Company to consider and approve, among others, the Long Hai Agreement and Long Hao Agreement and the transactions contemplated thereunder
“Group”	the Company and its subsidiaries
“Guangdong Securities”	Guangdong Securities Limited, which is a licensed corporation under the SFO permitted to carry out types 1, 4 and 6 regulated activities (as defined in the SFO) and the independent financial adviser to the Independent Board Committee and the Independent H Shares’ Shareholders
“H Shares”	overseas listed foreign shares in the ordinary share capital of the Company, with a nominal value of RMB1.00 each, which are listed on the Stock Exchange
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“Independent Board Committee”	an independent board committee, comprising independent non-executive Directors, namely Dai Zhiliang, Zhong Pengrong, Xi Shengyang and Dong Chao
“Independent Shareholders”	Shareholders other than CLFG and its associates (as defined in the Listing Rules and in the Shanghai Listing Rules)
“Independent H Shares’ Shareholders”	H Shares’ Shareholders other than CLFG and its associates (as defined in the Listing Rules)

DEFINITIONS

“Latest Practicable Date”	6 January 2006, being the latest practicable date prior to the printing of this circular for ascertaining certain information for inclusion in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Long Hai”	洛陽龍海電子玻璃有限公司 (Luoyang Long Hai Electronic Glass Limited), jointly established by the Company and CLFG in the PRC on 13 June 2005 with limited liability
“Long Hao”	洛玻集團龍昊玻璃有限公司 (CLFG Group Long Hao Glass Limited), jointly established by the Company and CLFG in the PRC on 20 June 2005 with limited liability
“Long Hai Agreement”	the agreement dated 26 May 2005 entered into by and between the Company and CLFG, relating to the establishment of Long Hai
“Long Hao Agreement”	the agreement dated 26 May 2005 entered into by and between the Company and CLFG, relating to the establishment of Long Hao
“Long Hai Project”	the development and operation of Long Hai pursuant to the Long Hai Agreement
“Long Hao Project”	the development and operation of Long Hao pursuant to the Long Hao Agreement
“PDA”	an acronym for Personal Digital Assistant
“PRC”	the People’s Republic of China
“RMB”	Renminbi, the lawful currency of the PRC
“Shanghai Listing Rules”	The Rules Governing the Listing of Securities on the Shanghai Stock Exchange
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“STN-LCD”	an acronym for Supertwisted Nematic Liquid Crystal Display
“TN-LCD”	an acronym for Twisted Nematic Liquid Crystal Display
“Transactions”	the transactions contemplated under the Long Hai Agreement and Long Hao Agreement

In this circular, unless otherwise stated, certain amounts denominated in RMB have been converted (for information only) into HK\$ using an exchange rate of HK\$1.00: RMB1.04

LETTER FROM THE BOARD



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)

Executive Directors:

Mr. Liu Baoying (*Chairman*)

Mr. Ding Jianluo

Mr. Zhu Leibo

Mr. Zhang Shaojie

Mr. Zhu Liuxin

Mr. Jiang Hong

Mr. Wang Jie

Registered office:

No. 9 Tang Gong Zhong Lu

Xigong District

Luoyang Municipal, Henan Province
the PRC

Independent non-executive Directors:

Mr. Dai Zhiliang

Mr. Zhong Pengrong

Mr. Xi Shengyang

Mr. Dong Chao

10 January 2006

To the Shareholders

Dear Sir / Madam,

MAJOR AND CONNECTED TRANSACTIONS FORMATION OF JOINT VENTURES

INTRODUCTION

In the announcements of the Company dated 27 May 2005, 17 June 2005, 11 July 2005, 29 August 2005, 30 September 2005 and 31 October 2005 respectively, the Board announced that on 26 May 2005, the Company entered into the Long Hai Agreement and Long Hao Agreement with CLFG, the controlling shareholder of the Company for the purposes of setting up (i) Long Hai in order to, inter alia, engage in the production and sale of float flat glass, electronic glass, flat display panel and their materials and glass and materials processing; and (ii) Long Hao to engage in the production and sale of float glass and material processing, sale of raw materials and minerals processed glass and the provision of related consultancy and technical services.

LETTER FROM THE BOARD

The registered capital of Long Hai is RMB60 million (approximately HK\$57.69 million), of which RMB48 million (approximately HK\$46.15 million) (constituting approximately 80% thereof) has been contributed by the Company and RMB12 million (approximately HK\$11.54 million) (constituting approximately 20% thereof) has been fully contributed by CLFG. The total investment including the registered capital for Long Hai Project is currently estimated to amount to RMB300 million (approximately HK\$288.46 million).

The registered capital of Long Hao is RMB50 million (approximately HK\$48.08 million), of which RMB40 million (approximately HK\$38.46 million) (constituting approximately 80% thereof) has been contributed by the Company and RMB10 million (approximately HK\$9.62 million) (constituting approximately 20% thereof) has been contributed by CLFG. The total investment including the registered capital for Long Hao Project is currently estimated to amount to RMB250 million (approximately HK\$240.38 million).

The Transactions contemplated under the Long Hai Agreement and Long Hao Agreement constitute major transactions for the Company under Rules 14.33, 14A.18 and 14A.19 of the Listing Rules as the Company's total capital commitment of RMB440 million (approximately HK\$423.08 million) under the Long Hai Agreement and Long Hao Agreement exceed 25% of the average market capitalization of the Company for the five business days immediately preceding the date of the Long Hai Agreement and Long Hao Agreement. CLFG is the controlling shareholder (as defined in the Listing Rules and the Shanghai Listing Rules) of the Company and is interested in approximately 57.14% of the issued share capital of the Company. As stated in the announcement of the Company dated 27 May 2005, pursuant to Rule 14A.13(6) of the Listing Rules, the Transactions described above also constitute connected transactions of the Company under the Listing Rules. Therefore, The transactions contemplated under the Long Hai Agreement and Long Hao Agreement are subject to the reporting, announcement requirements and the Independent H Share's Shareholders' approval at the EGM by way of poll. The Transactions contemplated under the Long Hai Agreement and Long Hao Agreement exceed RMB30 million and are subject to the requirement of Rule 10.2.5 of the Shanghai Listing Rules which requires the Company to obtain the Independent Shareholders' approval at a general meeting and under the same rule, the Company shall also engage professionals with relevant qualifications to advise on securities or futures and commodities businesses to perform audit or valuation, if necessary. Hence, on behalf of the Company, CLFG engaged 洛陽敬業會計師事務所有限公司, an independent third party, to value the intangible assets contributed by CLFG as at 31 March 2005. As such, 洛陽敬業會計師事務所有限公司 adopted the income approach to value the intangible assets contributed by CLFG amounted to approximately RMB7.03 million (approximately HK\$6.76 million) and approximately RMB8.11 million (approximately HK\$7.80 million) for both Long Hai and Long Hao respectively. On the other hand, Vigers Appraisal and Consulting Limited adopted the relief from royalty method to value the intangible assets contributed by CLFG and reached the market value of approximately RMB7.4 million (approximately HK\$7.12 million) and approximately RMB5.6 million (approximately HK\$5.38 million).

In view of CLFG and its associates' interests in the Long Hai Agreement and Long Hao Agreement, CLFG and its associates shall abstain from voting at the EGM.

LETTER FROM THE BOARD

The Independent Board Committee has been appointed to advise the Independent H Shares' Shareholders as to the fairness and reasonableness of the Long Hai Agreement and Long Hao Agreement so far as the Independent H Shares' Shareholders are concerned and in the interest of the Company and the Independent H Shares' Shareholders. In addition, Guangdong Securities has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent H Shares' Shareholders as to the fairness and reasonableness of the Transactions and to advise shareholders on how to vote.

Pending the issuance of this circular and convening of the EGM by the Company, the Company had contributed a total investment of RMB88 million (approximately HK\$84.62 million) into Long Hai and Long Hao, which represented the total registered capital to be paid by the Company to the two joint ventures, on 6 June 2005 and 16 June 2005 respectively with the Group's internal resources. Long Hai and Long Hao have already obtained their respective business licenses on 13 June 2005 and 20 June 2005 respectively and commenced the construction of the manufacturing plants in July 2005. The Directors expect the trial production for Long Hai to begin in January 2006 and Long Hao has already commenced trial production in December 2005. Since prior approval has yet to be obtained from the Independent H Shares' Shareholders for approving the Transactions, this constitutes non-compliance to Rules 14.40 and 14A.17 of the Listing Rules in respect of prior approval from Independent H Shares' Shareholders. The Company will convene the EGM to, among other matters, approve the Transactions by the Independent H Shares' Shareholders as soon as practicable. The Company admitted its non-compliance of the Listing Rules and the Stock Exchange reserves its right to take disciplinary actions against the Company and its Board as it considers appropriate in respect of the non-compliance of the Listing Rules.

The purpose of this circular is to provide you information, among other things, (i) further details of the terms and conditions of the Long Hai Agreement and Long Hao Agreement; (ii) the recommendation from the Independent Board Committee in respect of the Long Hai Agreement and Long Hao Agreement to the Independent H Shares' Shareholders; (iii) the advice of Guangdong Securities to the Independent Board Committee and the Independent H Shares' Shareholders in respect of the Long Hai Agreement and Long Hao Agreement; and (iv) details in relation to the non-compliance of the Listing Rules and as well as to give you the notice of the EGM at which ordinary resolutions in relation to the Transactions will be ratified.

LETTER FROM THE BOARD

ESTABLISHMENT OF LONG HAI

The principal terms of the Long Hai Agreement are as follows:

Date 26 May 2005

Parties The Company and CLFG

Registered capital of Long Hai RMB60 million (approximately HK\$57.69 million), of which RMB48 million (approximately HK\$46.15 million) (representing 80% of the registered capital thereof) will be contributed by the Company in cash with the Group's internal resources and RMB12 million (approximately HK\$11.54 million) (representing 20% of the registered capital thereof) will be contributed by CLFG, of which RMB6 million in cash and the remaining RMB6 million in the form of the specialized usage right of 洛陽浮法玻璃工藝專有技術 (Luoyang Float Glass Patent Technology) and usage right of the "CLFG洛玻" registered trademark.

The Company has engaged Vigers Appraisal & Consulting Limited, an independent valuer, to evaluate the market value of the specialized usage right of 洛陽浮法玻璃工藝專有技術 (Luoyang Float Glass Patent Technology) and the usage right of the "CLFG洛玻" registered trademark as at 30 December 2005 to be contributed by CLFG as intangible assets. The valuation of specialized usage right of 洛陽浮法玻璃工藝專有技術 (Luoyang Float Glass Patent Technology) and the usage right of the "CLFG洛玻" registered trademark is approximately RMB7.4 million (approximately HK\$7.12 million) for the Long Hai Project as at 30 December 2005 on the basis of generally accepted valuation methodology, being the relief from royalty method, details of which are set out in Appendix III of this circular. The value of the intangible assets to be contributed by CLFG into Long Hai is determined as matter of commercial decision after arms length negotiation between the Company and CLFG and being 10% of the total registered capital of Long Hai contributed by the parties.

The registered capital contributed by the Company for Long Hai amounted to RMB48 million (approximately HK\$46.15 million) has been fully paid on 6 June 2005 in cash with the Group's internal resources and CLFG has also fully paid up its proportion of the registered capital on 1 June 2005 and 6 June 2005 respectively with the total amount of RMB12 million (approximately HK\$11.54 million).

LETTER FROM THE BOARD

Total amount of investment of the Long Hai Project	The total capital commitment including the amount contributed by the Company and CLFG for Long Hai Project is currently estimated at RMB300 million (approximately HK\$288.46 million) inclusive of registered capital of RMB60 million (approximately HK\$57.69 million), which is based on the estimated amount of capital investment and the general working capital required by Long Hai Project. Save for the total registered capital contributed by CLFG and the Company amounted to RMB60 million (approximately HK\$57.69 million) for the Long Hai Project, the Directors estimated that approximately RMB 212.2 million (approximately HK\$204.04 million) is applied mainly for factory construction, installation of plant and machinery, purchase of raw material and ancillary products with approximately RMB 155.2 million (approximately HK\$149.23 million) paid in 2005, approximately RMB 42.75 million (approximately HK\$41.11 million) paid in 2006 and approximately RMB14.25 million (approximately HK\$13.70 million) paid in 2007 which shall be fully contributed by Long Hai. However, there is currently no timetable for the contribution of the remaining amount of approximately RMB27.80 million (approximately HK\$26.73 million). Save as disclosed in this circular, there is no other capital commitment, guarantee or indemnity required from the Group under the Long Hai Agreement.
Business scope	Principally engaged in the production and sale of float flat glass, electronic glass, flat display panel and their materials and glass and materials processing.
Board representation	The board of Long Hai shall comprise seven directors, of which, the Company shall nominate five directors and chairman of the board of Long Hai and CLFG shall nominate the remaining two directors of Long Hai. All the directors have been nominated as at the Latest Practicable Date
Supervisory committee	The supervisory committee of Long Hai shall comprise three supervisors, of which the Company shall nominate two supervisors and CLFG shall nominate the remaining one supervisor. The term of supervisory committee is three years for each term and all supervisors shall be entitled for re-nomination upon expiry of their terms. All the supervisors have been nominated as at the Latest Practicable Date

LETTER FROM THE BOARD

Profit sharing	The Company and CLFG shall share the profit and loss of Long Hai in accordance with their respective equity interest in Long Hai. Long Hai will be treated as a subsidiary of the Company.
Pre-emptive right	Upon the formation of Long Hai, if any party intends to transfer its equity interest in Long Hai, it has to obtain the prior consent of the other party and on the same terms and conditions, the other party shall have the pre-emptive option to purchase the party's interest in Long Hai.

ESTABLISHMENT OF LONG HAO

The principal terms of the Long Hao Agreement are as follows:

Date	26 May 2005
Parties	The Company and CLFG
Registered capital of Long Hao	RMB50 million (approximately HK\$48.08 million), of which RMB40 million (approximately HK\$38.46 million) (representing 80% of the registered capital thereof) will be contributed by the Company in cash with the Group's internal resources and RMB10 million (approximately HK\$9.62 million) (representing 20% of the registered capital thereof) will be contributed by CLFG of which RMB5 million in cash and the remaining RMB5 million in the form of contribution of CLFG's specialized usage right of 洛陽浮法玻璃工藝專有技術 (Luoyang Float Glass Patent Technology) and usage right of the "CLFG洛玻" registered trademark.

The Company has engaged Vigers Appraisal & Consulting Limited, an independent valuer, to evaluate the market value of the specialized usage right of 洛陽浮法玻璃工藝專有技術 (Luoyang Float Glass Patent Technology) and the usage right of the "CLFG洛玻" registered trademark as at 30 December 2005 to be contributed by CLFG as intangible assets. The valuation of specialized usage right of 洛陽浮法玻璃工藝專有技術 (Luoyang Float Glass Patent Technology) and the usage right of the "CLFG洛玻" registered trademark is RMB5.6 million (approximately HK\$5.38 million) for the Long Hao Project as at 30 December 2005 on the basis of generally accepted valuation methodology, being the relief from royalty method, details of which are set out in the Appendix III of this circular. The value of the intangible assets to be contributed by CLFG into Long Hao is determined as matter of commercial decision after arms length negotiation between the Company and CLFG and being 10% of the total registered capital of Long Hao contributed by the parties

LETTER FROM THE BOARD

The registered capital contributed by the Company for Long Hao amounted to RMB40 million (approximately HK\$38.46 million) has been fully paid on 16 June 2005 with cash from the Group's internal resources and CLFG has also fully paid up its proportion of the registered capital on 1 June 2005 and 16 June 2005 respectively with the total amount of RMB10 million (approximately HK\$9.62 million).

Total amount of
investment of the
Long Hao Project

The total capital commitment including the amount contributed by the Company and CLFG as registered capital for Long Hao Project is currently estimated at RMB250 million (approximately HK\$240.38 million) inclusive of registered capital of RMB50 million (approximately HK\$48.08 million), which is based on the estimated amount of capital investment and the general working capital required by Long Hao Project. Save for the total registered capital contributed by CLFG and the Company amounted to RMB50 million (approximately HK\$48.08 million) for the Long Hao Project, the Directors estimated that approximately RMB203.96 million (approximately HK\$196.12 million) is applied mainly for factory construction, installation of plant and machinery, purchase of raw material and ancillary products with approximately RMB115.14 million (approximately HK\$110.71 million) paid in 2005, approximately RMB76.95 million (approximately HK\$73.99 million) paid in 2006 and approximately RMB11.87 million (approximately HK\$11.41 million) paid in 2007 which shall be fully contributed by Long Hao. However there is currently no timetable for the contribution of the remaining amount of approximately RMB46.04 million (approximately HK\$44.27 million).

Save as disclosed in this circular, there is no other capital commitment, guarantee or indemnity required from the Group under the Long Hao Agreement.

Business scope

Principally engaged in the production and sale of float flat glass, glass and material processing, sale of raw materials and minerals for processed glass and provision of related consultancy and technical services

Board representation

The board of Long Hao shall comprise seven directors, of which the Company shall nominate five directors and chairman of the board of Long Hao and CLFG shall nominate the remaining two directors of Long Hao. All the directors have been nominated as at the Latest Practicable Date.

LETTER FROM THE BOARD

Supervisory committee	The supervisory committee of Long Hao shall comprise three supervisors, of which the Company shall nominate two supervisors and CLFG shall nominate the remaining one supervisor. The term of supervisory committee is three years for each term and all supervisors shall be entitled for re-nomination upon expiry of their terms. All the supervisors have been nominated as at the Latest Practicable Date.
Profit sharing	The Company and CLFG shall share the profit and loss of Long Hao in accordance with their respective equity interest in Long Hao. Long Hao will be treated as a subsidiary of the Company.
Pre-emptive right	Upon the formation of Long Hao, if any party intends to transfer its equity interest in Long Hao, it has to obtain the prior consent of the other party and on the same terms and conditions, the other party shall have the pre-emptive option to purchase the party's interest in Long Hao.

REASONS FOR THE ESTABLISHMENT OF LONG HAI AND LONG HAO

Reasons for the establishment of Long Hai

At present, ultra-thin glass with thickness less than 1 mm used in the PRC are imported from overseas which incur higher costs and the establishment of Long Hai to manufacture 0.55 mm to 2 mm float flat glass (including ultra-thin glass of thickness less than 1.1 mm) in commercialize mass production can capture the first mover advantage in manufacturing the ultra-thin glass in the PRC market. The Directors also consider that Long Hai can base on the experience of 洛玻集團龍門玻璃有限責任公司 (Luobo Group Longmen Glass Company), the non-wholly owned subsidiary of the Company to manufacture the ultra-thin glass since 洛玻集團龍門玻璃有限責任公司 (Luobo Group Longmen Glass Company) has successfully manufactured the 1.1 mm ultra-thin glass in 2001 for the production of TN-LCD display panels with the use of the 洛陽浮法玻璃工藝專有技術 (Luoyang Float Glass Patent Technology).

Also, the market potential for the ultra-thin glass in the PRC is enormous. Under the tenth five-year plan of the PRC government in 2001, the state strongly supports the development of the photoelectric industry in the PRC. The ultra-thin glass is one of the major raw materials used in the production of TN-LCD display panels and STN-LCD display panels apply mainly in PDA, mobile phones and etc.

LETTER FROM THE BOARD

Demand for ultra-thin glass

The PRC has been heavily relied on imported ultra-thin glass prior to 2002 due to the lack of technical skills and technology to produce ultra-thin glass with thickness of less than or equal to 1 mm. The PRC glass producers have improved their glass producing skills and technology from the introduction and establishment of sino-foreign joint ventures of glass producing enterprises in the recent years which have induced the rapid growth of ultra-thin glass producing market in the PRC. According to the information released by the Ministry of Information Industry, the production of mobile handsets in the PRC has expanded during the past few years, with approximately 120 million sets, approximately 186 million sets, approximately 233 million sets and approximately 178 million sets produced in the years 2002, 2003, 2004 and for the eight months period up to August 2005, respectively, representing a growth of approximately 94.2% from 2002 to 2004. Hence, riding on this trend the PRC production of mobile handsets will exhibit continuous growth. On the other hand, the ultra-thin glass applied in PDAs are widely used among one third of the 1,036 white collar workers being interviewed in Beijing, Shanghai, Nanjing and Guangzhou according to a survey by Market-Expert (Shanghai) Company Limited, a leading marketing consulting company, which is one of the most famous marketing consulting companies in China. By way of modern scientific methodology and analytic technology, it provides the client with marketing research, marketing strategic plan, marketing service and management consulting, and is also an independent third party. Hence, the demand for PDA shall increase in the foreseeable future given the increase in the gross domestic product per capita from US\$3,600 in 1999 to US\$5,600 in 2004 and such increase is anticipated to sustain in the near future given the robust economic growth in the PRC.

Reasons for the establishment of Long Hao

The newly established Long Hao production lines will make use of coal purchased from independent third parties extracted from 汝陽縣 (Ruyang County) in the PRC to generate coal gas by Long Hao itself as fuel for its production of float sheet glass. This energy source will substitute the more expensive heavy oil which the Group currently used in the other production lines of the Group. Also, the state council of Ruyang County has agreed to support Long Hao with favourable governmental policies like provision of basic infrastructure to the plant of Long Hao, government subsidies and preferential tax treatment to assist Long Hao for the establishment of the two new production lines in Ruyang County. With the use of cheaper raw materials and the support from the local government, Long Hao's cost to produce float flat glass can be reduced.

Moreover, for the past three years, the PRC government has launched a total of 36 new government-backed major projects with a total investment cost of more than RMB600 billion (approximately HK\$576.92 billion) in the western region of the PRC. Float flat glass is an important raw material for property development purpose. As such, the Directors consider that the float flat glass market in the western region of the PRC has huge demand.

LETTER FROM THE BOARD

The Directors also consider that Long Hao enjoys geographical advantage to establish at Ruyang County. The Long Hao production lines is located at the north-eastern part of the 洛界公路 (Luojie Expressway), south-eastern part of 汝安路 (Ruan Lu) and south-western part of 焦枝鐵路 (Jiaozhi Railway) in the Ruyang County which provide Long Hao efficient transportation network to deliver the finished products to different regions in the PRC. Ruyang County is also a region with abundant natural resources which are the source of raw materials used for the production of float flat glass.

Demand for float flat glass

The float flat glass, with thickness in the range of 3mm to 15mm which shall be produced by Long Hao target mainly the construction and automobile industries in the PRC. The construction industry in the PRC is highly dependent on the flat glass industry due to rapid urbanization growth, increasing urban populations and the enlarged scale of real estates development in the PRC. According to the National Statistical Bureau in the PRC, the percentage of China's urban population increased from 26.4% in 1990 to 41.8% in 2004 and the investment in real estates development has increased from approximately RMB490.2 billion (approximately HK\$471.35 billion) in 2000 to approximately RMB1,315.8 billion (approximately HK\$1,265.19 billion) in 2004. The automobile industry in the PRC showed a rapid growth in terms of the number of vehicles manufactured. According to the National Statistical Bureau of the PRC, the PRC has manufactured 2.34 million vehicles in 2001 and jumped to 5.07 million vehicles in 2004, representing a growth rate of 117% during this period. The continual growth and development of these two industries shall be the driving force for the demand of float flat glass produced by Long Hao.

The Directors including all the independent non-executive Directors take the view that the establishment of Long Hai and Long Hao with CLFG has been made in the ordinary and usual course of business of the Company, on normal commercial terms and on terms which are fair and reasonable to and are in the best interest of the Company and its Shareholders taken as a whole having taken into account of the establishment of Long Hai and Long Hao. Apart from the capital contribution of the Company and CLFG as stated above, both the Company and CLFG have no other future capital commitment under the Long Hai Agreement and Long Hao Agreement.

LETTER FROM THE BOARD

FUNDING FOR THE PROJECTS

For the estimated total amount of investment of approximately RMB300 million (approximately HK\$288.46 million) and RMB250 million (approximately HK\$240.38 million) for the Long Hai Project and Long Hao Project respectively, save as the registered capital contribution of Long Hai Project and Long Hao Project by the Company with cash from the Group's internal resources and CLFG of RMB11 million (approximately HK\$10.58 million) with cash and the remaining RMB11 million in the form of contribution of CLFG's specialized usage right of 洛陽浮法玻璃工藝專利技術 (Luoyang Float Glass Patent Technology) and usage right of the "CLFG洛玻" registered trademarks, the remaining amount of the total costs incurred for both projects amounted to RMB440 million (approximately HK\$423.08 million) shall be funded by (1) borrowings from banks by Long Hai and Long Hao themselves which are secured by their own assets and/or guaranteed by the shareholders or their associates in proportion to their respective shareholdings in Long Hai and Long Hao; (2) loans from respective shareholders of Long Hai and Long Hao in proportion to their respective shareholdings in Long Hai and Long Hao; (3) the profits generated from Long Hai and Long Hao themselves; and (4) other financial borrowings, government subsidy and/or capital market fund raising activities under the name of Long Hai and Long Hao.

Based on the management account of Long Hai as at 30 November 2005, Long Hai has obtained long-term borrowings of RMB80 million (approximately HK\$76.92 million) from 中原信託投資有限公司, an independent financial company. Based on the management account of Long Hao as at 30 November 2005, Long Hao has short-term borrowings of approximately RMB64 million (approximately HK\$61.54 million), out of which RMB35 million (approximately HK\$33.65 million) was borrowed from China Luoyang Float Glass Group Financial Company of Limited Liabilities ("CLFC"), an 37% owned associated company of the Company and the remaining interest are owned by CLFG, the remaining approximately RMB29 million (approximately HK\$27.88 million) was provided by CLFG. CLFG and CLFC have both provided guarantees to Long Hai for the long-term borrowings of RMB80 million (approximately HK\$76.92 million) whereas the Company has provided guarantee for the short-term borrowings of RMB25 million (approximately HK\$24.04 million) of Long Hao. However, no guarantee was required for the remaining approximately RMB39 million (approximately HK\$37.5 million) of the short-term borrowings of Long Hao. As CLFC and CLFG are both connected persons of the Company under Chapter 14A of the Listing Rules, the financial assistance in the form of borrowings amounted to RMB35 million provided by CLFC and approximately RMB29 million provided by CLFG to Long Hao and guarantees provided by CLFG and CLFC to Long Hai in respect of the RMB80 million borrowing as mentioned above constituted connected transactions but are exempted from reporting, announcement and independent shareholders' approval requirements under Rule 14A.65(4) since the financial assistance are provided for the benefit of the Company (and Long Hai and Long Hao) on normal commercial terms or better terms where no security over the assets of the Company is granted in respect of the financial assistance. On the other hand, out of the RMB64 million borrowings of Long Hao, RMB25 million are guaranteed by the Company not in proportion to the respective equity interest of the Company and CLFG in Long Hao and therefore constituted financial assistance provided by the Company for the benefit of CLFG. As the financial assistance provided by the Company amounted to RMB5 million, representing the 20% proportional guarantee to be borne by CLFG for the RMB25 million borrowing, under Rule 14A.66(2) of the Listing Rules, this connected transaction is exempted from the independent H Shares' shareholders approval requirements and only subject to the reporting and announcement requirements as set out in Rules 14A.45 to 14A.47 of the Listing Rules.

LETTER FROM THE BOARD

The Company and CLFG have provided and may further provide finance/guarantee for outside borrowings of Long Hai and Long Hao in accordance to their respective equity interest in Long Hai and Long Hao, if required in the future. If other capital commitment, guarantee or indemnity are required from the Company and/or CLFG in the future and shall constitute notifiable and/or connected transactions under the requirements of the Listing Rules, the Company shall comply with the relevant requirements under Rule 14.15(2) and Chapter 14A of the Listing Rules. As provided under Rule 14.15(2) of the Listing Rules, the Stock Exchange for the purpose of determining the value of the consideration will aggregate the Company's total capital commitment and any guarantee or indemnity provided in connection with the establishment of Long Hai and Long Hao.

GENERAL

The Company is principally engaged in the production and sale of float flat glass and reprocessed automobile glass.

CLFG is a registered company with limited liability incorporated in the PRC and its registered address is No.9, Tang Gong Zhong Lu, Xigong District, Luoyang Municipal, Henan Province. Its legal representative is Mr. Liu Baoying and its controlling beneficial owner is 洛陽市國資國有資產經營有限公司 (Luoyang State Capital State-Owned Assets Operation Company Limited). The business of CLFG includes, inter alia, the production of glass, related raw materials and equipment, import, export and domestic sales of glass, processing technology, design and sub-contracting of engineering works, labour export, provision of industrial production material (excluding those under control of the state), technological service, consultation service and goods transportation. The ultimate beneficial owner of CLFG and the Company is the Luoyang State Capital State-Owned Assets Operation Company Limited.

The Company cooperates with CLFG because CLFG is one of the first batch of fifty-five enterprise groups in the PRC and it is also one of the twenty-two enterprises categorized by the State as special planning unit. The Directors having considered that the business operations of the other 54 enterprise groups in the PRC and the other 21 enterprises categorized by the State as special planning unit are different from that of the Company, the Company has decided to collaborate with CLFG because CLFG has the same business line as the Company. Also, 河南省玻璃工程技術研究中心 (Henan Province Float Glass Technical Engineering Research Centre), a wholly owned subsidiary of CLFG which is principally engaged in the research, design and manufacture of float flat glass and 河南省玻璃工程技術研究中心 (Henan Province Float Glass Technical Engineering Research Centre) can provide technical support to the Long Hai Project and Long Hao Project. Finally, Long Hai and Long Hao shall make use of the 洛陽浮法玻璃工藝專有技術 (Luoyang Float Glass Patent Technology) owned by CLFG to manufacture the float flat glass and sell the float glass manufactured by Long Hai and Long Hao under the trademark of “CLFG洛玻” registered trademark.

LETTER FROM THE BOARD

洛陽玻璃工藝 (Luoyang Float Glass Technology) was named by 中國科學技術委員會 (the China Science and Technology Commission) and was presented State award in 1981 for this innovation. The Luoyang Float Glass Technology including 洛陽浮法超薄玻璃工藝技術 (The Craft of Luoyang Ultra-thin Float Glass Technology) and the related registered patent technology is registered and owned by CLFG.

As advised by 河南九都律師事務所, the PRC legal adviser of the Company, it is legally feasible for CLFG to contribute the specialized usage right of 洛陽浮法玻璃工藝專有技術 (Luoyang Float Glass Patent Technology) and the usage right of the “CLFG洛玻” registered trademark into both Long Hai and Long Hao. The specialized usage right of 洛陽浮法玻璃工藝專有技術 (Luoyang Float Glass Patent Technology) and the usage right of the “CLFG洛玻” registered trademark contributed into both Long Hai and Long Hao are not exclusively granted to Long Hai and Long Hao and shall not affect their continual usage by other companies and CLFG itself.

FINANCIAL AND TRADING PROSPECTS OF THE GROUP

As mentioned in annual report of the Company for the year ended 31 December 2004, the Group recorded an audited profit attributable to the shareholders of approximately RMB61.7 million (approximately HK\$59.33 million) for the year 2004 compared to the audited loss attributable to shareholders of approximately RMB340.0 million (approximately HK\$326.92 million) for the year 2003. The Group's audited profit attributable to the shareholders recorded an increase by approximately RMB401.7 million (approximately HK\$386.25 million) during 2004. The strong rebound in performance of the Group in 2004 as compared to 2003 was mainly attributable to the improved market condition for the products of the Group coupled with effective cost control and debt recovery policies.

Going forward, the Directors consider that the fast growing additional production capacity provided by other market players of the float flat glass market in the PRC will exert pressure on the profit margin of the Group since the Group may face intensifying price competitions. Accordingly, the Company is making efforts to improve its product mix, to develop safe and effective manufacturing technology, to carry out flexible promotion strategies to increase the sales volume of high value-added products and to improve its internal management system so as to improve its operational efficiency. With enhanced production capacity and new products launch to the market, the Directors are of the view that the Group is well positioned to combat future challenges.

LETTER FROM THE BOARD

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL POSITIONS AND OPERATIONS OF LONG HAI AND LONG HAO

1. Overview

Long Hai and Long Hao were established in the PRC in June 2005 and obtained their respective Business Licenses on 13 June 2005 and 20 June 2005 respectively. The principal activities of Long Hai are the production and sale of float flat glass, electronic glass, flat display panel and their materials and glass and materials processing and Long Hao is principally engaged in the production and sale of float flat glass, glass and material processing, sale of raw materials and minerals for processed glass and provision of related technical consultancy services. Both Long Hai and Long Hao have mostly completed the manufacturing plant construction and machinery installation as the Latest Practicable Date. The Directors expect the trial production for Long Hai to begin in January 2006 and Long Hao has already commenced trial production in December 2005. Details of the future capital investments and expected sources of funding are detailed in the paragraph headed “Funding for the Projects” in the “Letter from the Board” of this circular.

2. Capital structure, liquidity and financial resources

Long Hai and Long Hao received cash of RMB 48 million (approximately HK\$46.15 million) and RMB 40 million (approximately HK\$38.46 million) from the Company in the form of registered share capital and applied the funds mainly into construction works, purchase of facilities and materials. Based on the management accounts as at 30 November 2005, Long Hai has long-term borrowings of RMB80 million (approximately HK\$76.92 million) and Long Hao has short-term borrowings of approximately RMB64 million (approximately HK\$61.54 million). Currently, Long Hai has long-term borrowings of RMB80 million (approximately HK\$76.92 million) from 中原信托投资有限公司, an independent financial company and Long Hao has short-term borrowings of RMB35 million (approximately HK\$33.65 million) from China Luoyang Float Glass Group Financial Company Limited (“CLFC”), an associated company of the Company, the remaining approximately RMB29 million (approximately HK\$27.88 million) was provided by CLFG. CLFG and CLFC have both provided guarantees to Long Hai for the long-term borrowings of RMB80 million (approximately HK\$76.92 million) whereas the Company has provided guarantee for the short-term borrowings of RMB25 million (approximately HK\$24.04million) of Long Hao. However, no guarantee was required for the remaining approximately RMB39 million (approximately HK\$37.5 million) of the short-term borrowings of Long Hao. These borrowings make up part of the outstanding total capital investment of RMB440 million (approximately HK\$423.08 million). Hence, the gearing ratios (as measured by total borrowings over shareholders’ funds) for both Long Hai and Long Hao are approximately 133.33% and 128.46% respectively.

LETTER FROM THE BOARD

3. Others

Both Long Hai and Long Hao have no major investments, acquisitions or disposals. Long Hai and Long Hao currently employed about 410 staff and 620 staff respectively, majority of them are production workers. There are no formal treasury policy adopted, pledge of assets or exposure to fluctuations in exchange rates and related hedges by Long Hai and Long Hao. Both Long Hai and Long Hao had no contingent liabilities as at the Latest Practicable Date.

4. Prospects

Ultra-thin glass has a wide application in the photoelectric industry including the production of TN-LCD, STN-LCD display panels. Currently, all the demand for ultra-thin glass with thickness of less than 1 mm in the PRC were filled up by the import of ultra-thin glass with comparatively higher price than domestically manufactured. There is a good potential for Long Hai to tap into the market and to capitalize on its position as a domestic producer of ultra-thin glass with thickness of less than 1.1 mm.

The PRC has been heavily relied on imported ultra-thin glass prior to 2002 due to the lack of technical skills and technology to produce ultra-thin glass with thickness of less than or equal to 1 mm. The PRC glass producers have improved their glass producing skills and technology from the introduction and establishment of sino foreign joint ventures of glass producing enterprises in the recent years which have induced the rapid growth of ultra-thin glass producing market in the PRC. According to the information released by the Ministry of Information Industry, the production of mobile handsets in the PRC has expanded during the past few years, with approximately 120 million sets, approximately 186 million sets, approximately 233 million sets and approximately 178 million sets produced in the years 2002, 2003, 2004 and for the eight months period up to August 2005, respectively, representing a growth of approximately 94.2% from 2002 to 2004. Hence, riding on this trend the PRC production of mobile handsets will exhibit continuous growth. On the other hand, the ultra-thin glass applied in PDAs are widely used among one third of the 1,036 white collar workers being interviewed in Beijing, Shanghai, Nanjing and Guangzhou according to a survey by Market-Expert (Shanghai) Company Limited, a leading marketing consulting company, which is one of the most famous marketing consulting companies in China. By way of modern scientific methodology and analytic technology, it provides the client with marketing research, marketing strategic plan, marketing service and management consulting, and is also an independent third party. Hence, the demand for PDA shall increase in the foreseeable future given the increase in the gross domestic product per capita from US\$3,600 in 1999 to US\$5,600 in 2004 and such increase is anticipated to sustain in the near future given the robust economic growth in the PRC.

LETTER FROM THE BOARD

In general, it is expected that the continual growth of the glass industry in the PRC will be fuelled by the robust and continual growth in the gross domestic product in the PRC, the expansion of construction industry and the automotive industry as well as the growing concern in safety, noise attenuation and the response to the growing need for energy conservation. With the commissioning of new manufacturing equipments which adopt the latest manufacturing technologies, coupled with less expensive energy sources and efficient supply of materials, together with the favourable geographical location and transportation network, Long Hao is positioned to benefit from its competitive edge and the development of the glass industry in the PRC.

The float flat glass, with thickness in the range of 3 mm to 15 mm which shall be produced by Long Hao target mainly the construction and automobile industries in the PRC. The construction industry in the PRC is highly dependent on the flat glass industry due to rapid urbanization growth, increasing urban populations and the enlarged scale of real estates development in the PRC. According to the National Statistical Bureau in the PRC, the percentage of China's urban population increased from 26.4% in 1990 to 41.8% in 2004 and the investment in real estates development has increased from approximately RMB490.2 billion (approximately HK\$471.35 billion) in 2000 to approximately RMB1,315.8 billion (approximately HK\$1,265.19 billion) in 2004. The automobile industry in the PRC showed a rapid growth in terms of the number of vehicles manufactured. According to the National Statistical Bureau of the PRC, the PRC has manufactured 2.34 million vehicles in 2001 and jumped to 5.07 million vehicles in 2004, representing a growth rate of 117% during this period. The continual growth and development of these two industries shall be the driving force for the demand of float flat glass produced by Long Hao.

FINANCIAL EFFECTS OF THE LONG HAI AGREEMENT AND LONG HAO AGREEMENT

The Board considers that the entering into the Long Hai Agreement and Long Hao Agreement shall not bring about any immediate and significant effect on the earnings, assets and liabilities of the Company for the following reasons:

- (a) financing of the Company's capital contribution has been satisfied by internal resources of the Company;
- (b) Long Hai and Long Hao are yet to complete the construction works and will not commence operation immediately;

LETTER FROM THE BOARD

- (c) the difference between the total investment amount and the amount of registered capital will be met by (1) borrowings from banks by Long Hai and Long Hao themselves which are secured by their own assets and/or guaranteed by the shareholders or their associates in proportion to their respective shareholdings in Long Hai and Long Hao; (2) loans from respective shareholders of Long Hai and Long Hao in proportion to their respective shareholdings in Long Hai and Long Hao; (3) the profits generated from Long Hai and Long Hao themselves; and (4) other financial borrowings, government subsidy and/or capital market fund raising activities under the name of Long Hai and Long Hao. Long Hai and Long Hao have been accounted for as the subsidiaries of the Company in the interim report of the Company for 2005, the liabilities of the Company will further increase after consolidating the financial information of Long Hai and Long Hao; and
- (d) it is intended that the Company and CLFG will contribute their share of the capital contribution in proportion to their respective equity interests in Long Hai and Long Hao and if required by Long Hai and Long Hao, will provide guarantees to the banks in respect of the loan in proportion to their respective equity interests in Long Hai and Long Hao.

NON-COMPLIANCE OF THE LISTING RULES

Prior to the issuance of this circular and convening of the EGM by the Company, the Company had contributed a total investment of RMB88 million (approximately HK\$84.62 million) into Long Hai and Long Hao, which represented the total registered capital to be paid by the Company to the two joint ventures, on 6 June 2005 and 16 June 2005 respectively from the Group's internal resources. Long Hai and Long Hao had already obtained their respective business licenses on 13 June 2005 and 20 June 2005 respectively and also had commenced the construction of the manufacturing plants in July 2005. The Directors expect the trial productions for Long Hai and Long Hao to begin in January 2006 and December 2005 respectively.

The Company's decision to proceed with the investments in Long Hai and Long Hao prior to, inter alia, obtaining the Independent H Shares' Shareholders' approval for the Transactions. Such decision were based on commercial interests of the Company since (i) Long Hai could have missed the business opportunities for being the first mover to produce the ultra-thin glass with thickness of less than 1 mm if the Company waited for obtaining the Independent H Shares' Shareholders approval; and (ii) as for Long Hao, the Directors consider that given its current comparative advantage with lower production cost, the early operation of Long Hao will generate higher margins to the Company and hence will contribute to the overall performance of the Group. The Directors also considered that as it might take certain period of time to prepare the circular and to obtain Independent H Shares' Shareholders' approval at the EGM, the Group would not be able to capture the market share in a timely manner. Though the Directors' decisions are made after considering the interests of the Company as a whole, since prior approval has yet to be obtained from the Independent H Shares' Shareholders for approving the Transactions, this constitutes non-compliance to the Listing Rules.

LETTER FROM THE BOARD

The PRC legal advisers of the Company (河南九都律師事務所) have confirmed that, (i) according to 中華人民共和國公司法 (the Company Law of the PRC) currently implemented in the PRC, there is no specific law or regulation requiring the Company to obtain shareholders' approval prior to entering into the Transactions and governing the situation when the Company makes an investment which has not been approved by the shareholders at a general meeting; and (ii) under Rule 10.2.5 of the Shanghai Listing Rules, the Company shall convene the general meeting as soon as possible for approving the Transactions. The PRC legal advisers of the Company further advised that pursuant to section 22 of 中華人民共和國公司登記管理條例 (the Administrative Regulations on Business Registration in the PRC) currently implemented in the PRC, after the business registration of the company is approved by the business registration authorities, and the business license is issued, a company is formally established. After the establishment of the company, it is deemed to be lawfully in continual existence. Unless otherwise there are legal situations arisen such as a company uses counterfeited documents or by means of deception to obtain the business license, i.e. the company is in breach of the requirements of the above regulations, its business registration will be revoked or the company may choose to voluntarily cancel its business registration.

Since prior approval has yet to be obtained from the Independent H Shares' Shareholders for approving the Transactions, the Company shall convene the EGM to, among other matters, approve the Transactions by the Independent H Shares' Shareholders as set out in the paragraph headed "EGM" below. In the event that the resolutions in relation to the Transactions are objected by the Independent H Shares' Shareholders at the EGM, the Company agrees to sell its equity interests in Long Hai and Long Hao to CLFG and to discharge its obligation as guarantor for any loan to Long Hai and Long Hao. Moreover, the Company has obtained a written undertaking from CLFG dated 26 August 2005 agreeing that CLFG will purchase all the equity interests held by the Company in Long Hai and Long Hao in cash at a consideration equivalent to the total investment which the Company would have invested upon convening of the EGM. As at Latest Practicable Date, the Company has contributed RMB88 million (approximately HK\$84.62 million) in cash for both Long Hai and Long Hao representing the Company's portion of the entire registered capital contribution. As such, the Directors consider that the interests of H Shares' Shareholders of the Company will not be deprived. Should this remedial measure need to be implemented, the Company shall make further announcement pursuant to the relevant provisions under Chapters 14 and/or 14A of the Listing Rules including the anticipated terms in this regard. Meanwhile, the EGM still provides a forum in which the Independent H Shares' Shareholders can voice their views on the Transactions and the terms of the Long Hai Agreement and the Long Hao Agreement.

CLFG and its associates are required to abstain from voting at the EGM to be held by the Company for, among other matters, approving the Transactions. CLFG and its associates are interested in approximately 57.14% in the registered capital of the Company and they have control or are entitled to exercise control over the voting rights of such interest. Under Rule 14A.52 of the Listing Rules, any vote-taking at the EGM by the Independent H Shares' Shareholders must be conducted by way of poll in the manner prescribed in the Listing Rules. Further announcement will be made by the Company in relation to the poll results of the EGM.

LETTER FROM THE BOARD

In order to avoid the recurrence of similar breach in the future, the Company will appoint experienced independent non-executive Directors and qualified accountant in Hong Kong so as to provide guidance to the Board on the compliance of Listing Rules and also to enroll all Directors to attend external corporate trainings to enhance corporate governance and understanding of the Listing Rules. Moreover, The Company will seek professional advise from the legal counsels in both Hong Kong and the PRC and other professionals as well as prior advise from the Stock Exchange on any future transactions with Listing Rules implications as soon as practicable to ensure the compliance of the Listing Rules so that no such similar breach will occur in the future.

The Stock Exchange has stated that it reserves its right to take disciplinary actions against the Company and its Board as it considers appropriate in respect of the non-compliance of the Listing Rules.

EGM

A notice of the EGM to be held in the conference room on the 4th Floor of the Company at No.9 Tang Gong Zhong Lu, Xigong District, Luoyang Municipal, Henan Province, the PRC on 27 February 2006 at 9:00 a.m. for which relevant resolutions will be proposed to, among other matters, approve the Long Hai Agreement and Long Hao Agreement and the Transactions contemplated thereunder. Pursuant to the Listing Rules, any vote of shareholders taken at the EGM to approve the resolutions proposed must be taken on a poll.

A form of proxy for use at the EGM is enclosed. Whether or not you are able to attend the EGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch share registrar and transfer office for H shares of the Company in Hong Kong, HKSCC Registrars Limited at Rooms 1901-5, 19th Floor Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not later than 24 hours before the time appointed for any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting in person at the EGM or any adjourned meeting should you so wish.

PROCEDURES TO DEMAND A POLL AT GENERAL MEETING

Pursuant to article 87 of the articles of association of the Company, at any general meeting, a resolution put to the vote at the meeting shall be voted by show of hands unless a poll is demanded by the following person before or after any vote by show of hands:

- (1) the chairman of the meeting;
- (2) at least two shareholders present in person or by proxy for the time being entitled to vote at the meeting and
- (3) by any shareholder or shareholders (including proxy) holding individually or holding in aggregate at 10% or more of the shares carrying the right to vote at the meeting.

LETTER FROM THE BOARD

RECOMMENDATION

The Directors are of the opinion that the Transactions are: (i) in terms negotiated at arm's length basis and on normal commercial terms and no less favourable to the Company than terms available to and from independent third parties; (ii) entered into by the Company in its ordinary and usual course of businesses; and (iii) fair and reasonable and in the interests of the Company and its Shareholders as a whole. Accordingly, the Independent Board Committee recommend the Independent H Shares' Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to, among other matters, approve the Transactions.

ADDITIONAL INFORMATION

Your attention is drawn to the letter of advice from the Independent Board Committee, the letter from Guangdong Securities containing its recommendations to the Independent Board Committee and the Independent H Shares' Shareholders and additional information set out in the Appendices to this circular.

On behalf of the Board
Luoyang Glass Company Limited
Liu Baoying
Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



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)

10 January 2006

To the Independent Shareholders

Dear Sir/Madam,

**MAJOR AND CONNECTED TRANSACTIONS
FORMATION OF JOINT VENTURES**

We refer to the circular dated 10 January 2006 of the Company (the “Circular”) of which this letter forms part. Terms defined in the Circular shall have the same meanings herein unless the context otherwise requires.

We have been appointed to form the Independent Board Committee to consider and to advise the Independent Shareholders as to whether, in our opinion, the terms of the Transactions are fair and reasonable so far as the Independent Shareholders are concerned. Guangdong Securities Limited has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent H Shares’ Shareholders in respect of the terms of the Transactions.

We wish to draw your attention to the “Letter from the Board” set out on pages 1 to 20 of the Circular which contains, inter alia, information of the Transactions, as well as the letter from Guangdong Securities set out on pages 23 to 45 of the Circular which contains its advice in respect of the terms of the Transactions.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Having taken into account the advice of Guangdong Securities, we consider that the terms of the Transactions are fair and reasonable so far as the Independent H Shares' Shareholders are concerned and are in the interests of the Company and the Independent Shareholders as a whole to enter into the same. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM in respect of the terms of the Transactions.

Yours faithfully,

For and on behalf of

Independent Board Committee

Luoyang Glass Company Limited

Mr. Dai Zhiliang Mr. Zhong Pengrong

Mr. Xi Shengyang Mr. Dong Chao

Independent non-executive Directors

LETTER FROM GUANGDONG SECURITIES

The following is the text of the letter of advice given by Guangdong Securities Limited in relation to the JV Agreements for inclusion in this circular.



Guangdong Securities Limited
Unit 2505-06
25/F Low Block
Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

10 January 2006

To the Independent Board Committee and
the Independent H Shares' Shareholders of
Luoyang Glass Company Limited

Dear Sirs,

MAJOR AND CONNECTED TRANSACTION FORMATION OF JOINT VENTURES

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent H Shares' Shareholders in respect of the Long Hai Agreement and Long Hao Agreement (collectively the "JV Agreements"), details of which are contained in the Letter from the Board in the circular issued to the Independent H Shares' Shareholders dated 10 January 2006 (the "Circular"), of which this letter forms part. Terms used in this letter shall have the same respective meanings as defined in the Circular unless the context requires otherwise.

The Board announced that on 27 May 2005, 17 June 2005, 11 July 2005, 29 August 2005, 30 September 2005 and 31 October 2005 respectively, the Company entered into the JV Agreements with CLFG, the controlling shareholder of the Company, for the purpose of setting up Long Hai to engage in the production and the sale of float flat glass, electronic glass, flat display panel and their materials and glass and materials processing and Long Hao to engage in the production and sale of float glass and material processing, sale of raw materials and minerals processed glass and the provision of related consultancy and technical support services.

LETTER FROM GUANGDONG SECURITIES

The Transactions contemplated under the Long Hai Agreement and Long Hao Agreement constitute major transactions for the Company under Rules 14.33, 14A.18 and 14A.19 of the Listing Rules as the Company's total capital commitment of RMB440 million (approximately HK\$423.08 million) under the Long Hai Agreement and Long Hao Agreement exceeds 25% of the average market capitalization of the Company for the five business days immediately preceding the date of the Long Hai Agreement and Long Hao Agreement. CLFG is the controlling shareholder (as defined in the Listing Rules and the Shanghai Listing Rules) of the Company and is interested in approximately 57.14% of the issued share capital of the Company. As stated in the announcement of the Company dated 27 May 2005 and 31 October 2005 respectively, pursuant to Rule 14A.13(6) of the Listing Rules, the Transactions described above also constitute connected transactions of the Company under the Listing Rules. Therefore, the transactions contemplated under the Long Hai Agreement and Long Hao Agreement would have been subject to the reporting, announcement requirements and the Independent H Shares' Shareholders' approval at the EGM by way of poll.

The Transactions contemplated under the Long Hai Agreement and Long Hao Agreement exceed RMB30 million and would have been subject to the requirement of Rule 10.2.5 of the Shanghai Listing Rules which requires the Company to obtain the Independent Shareholders' approval at a general meeting and under the same rule, the Company shall also engage professionals with relevant qualifications to advise on securities or futures and commodities businesses to perform audit or valuation, if necessary. Hence, on behalf of the Company, CLFG has engaged 洛陽敬業會計師事務所有限公司, an independent third party, to value the intangible assets contributed by CLFG as at 31 March 2005. As such, 洛陽敬業會計師事務所有限公司 ("the PRC Valuer") has adopted the income approach to value the intangible assets contributed by CLFG amounted to approximately RMB7.03 million (approximately HK\$6.76 million) and approximately RMB8.11 million (approximately HK\$7.80 million) for both Long Hai and Long Hao respectively. On the other hand, based on the asset valuation reports on 30 December 2005 prepared by Vigers Appraisal and Consulting Limited, an independent valuer in Hong Kong ("Independent Valuer"), the Independent Valuer has adopted the relief from royalty method to value the intangible assets contributed by CLFG and reached the market value of approximately RMB7.4 million (approximately HK\$7.12 million) and approximately RMB5.6 million (approximately HK\$5.38 million) respectively. Although the intangible assets of Long Hao valued by Independent Valuer is RMB5.6 million which is significantly lower than the valuation estimated by the PRC Valuer of RMB8.11 million, the value of RMB5.6 million is still above CLFG's contribution of its share of registered capital of RMB5 million in Long Hao.

In view of CLFG and its associates' interests in the Long Hai Agreement and Long Hao Agreement, CLFG and its associates shall abstain from voting at the EGM. CLFG and its associates are interested in approximately 57.14% in the registered capital of the Company and they have control or are entitled to exercise control over the voting rights of such interest.

LETTER FROM GUANGDONG SECURITIES

The Independent Board Committee, comprising Dai Zhiliang, Zhong Pengrong, Xi Shengyang and Dong Chao, all of whom are independent non-executive Directors, has been established to advise the Independent H Shares' Shareholders as to whether the terms of the JV Agreements are fair and reasonable so far as the Independent H Shares' Shareholders are concerned and whether the JV Agreements are in the interests of the Company and the Independent H Shares' Shareholders as a whole.

In formulating our opinions, we have performed our work in accordance with the requirements stipulated under the Listing Rules and we have relied on the information and representations contained in the Circular, which have been provided by the Directors and the management of the Company and we have assumed that all information and representations contained or referred to in the Circular are true and accurate in all material respects. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the management of the Company and the Directors and have been advised by the management of the Company and the Directors that no material facts have been omitted from the information provided and referred to in the Circular. We believe that we have reviewed sufficient information to reach an informed view, to justify our reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our advice. We have not, however, conducted an independent investigation into the business and affairs or the future prospects of the Group.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendation to the Independent Board Committee and the Independent H Shares' Shareholders relating to the fairness and reasonableness of the terms of the JV Agreements, we have taken into consideration, inter alia, the following principal factors and reasons:

1. Reasons for the establishment of joint venture companies

General information

The Company is principally engaged in the production and the sale of float flat glass and the reprocessing automobile glass.

CLFG is a registered company with limited liability incorporated in the PRC and its registered address is No.9, Tang Gong Zhong Lu, Xigong District, Luoyang Municipal, Henan Province. Its legal representative is Mr. Liu Baoying and its controlling beneficial owner is 洛陽市國資國有資產經營有限公司 (Luoyang State Capital State-Owned Assets Operation Company Limited). The business of CLFG includes, inter alia, the production of glass and related raw materials and equipment; the import, the export and the domestic sales of glass; the processing of technology, the design and the sub-contracting of engineering works and labour export; and the provision of industrial production material (excluding those under control of the state), technological service, consultation service and goods transportation. The ultimate beneficial owner of CLFG and the Company is the Luoyang State Capital State-Owned Assets Operation Company Limited. The Company cooperates with CLFG because CLFG is one of the first batch of fifty-five enterprise groups in the PRC and it is also one of the twenty-two enterprises categorized by the State as special planning unit.

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Having considered (1) the business operations of the other 54 enterprise groups in the PRC among which these companies are mainly engaged in automobile manufacturing, machinery and equipment manufacturing and electronics machinery manufacturing; (2) that the other 21 enterprises categorized by the State as special planning unit are different from that of the company; and (3) that CLFG has the same business line as the Company, the Directors have decided to collaborate with CLFG. Also, 河南省玻璃工程技術研究中心 (Henan Province Float Glass Technical Engineering Research Centre), a wholly owned subsidiary of CLFG which is principally engaged in the research, design and manufacture of float sheet glass and 河南省玻璃工程技術研究中心 (Henan Province Float Glass Technical Engineering Research Centre) can provide technical support to the Long Hai Project and the Long Hao Project respectively. According to a written confirmation issued by CLFG dated 30 November 2005, CLFG will not charge Long Hai and Long Hao for using the related technology and trademark for the life of the Long Hai Project and Long Hao Project respectively.

Currently, there is no transaction entered into between 河南省玻璃工程技術研究中心 (Henan Province Float Glass Technical Engineering Research Centre), Long Hai and Long Hao. If there is any transaction entered into in the future, such transaction will be treated as continuing connected transaction in according with Chapter 14A of the Listing Rules. Long Hai and Long Hao shall make use of the 洛陽浮法玻璃工藝專有技術 (Luoyang Float Glass Patent Technology) owned by CLFG to manufacture the float flat glass and sell the float flat glass manufactured by themselves under the registered trademark of "CLFG(洛玻)". The Directors have confirmed that the Company, three non-wholly owned subsidiaries of the Company, namely, 洛玻集團龍門有限責任公司 (Luobo Group Longmen Glass Company) which manufactures 1.1mm ultra-thin glass and below 3mm float flat colourless glass, 郴州八達玻璃股份有限公司 (Chezhou Beda Glass Co., Ltd.) which manufactures 3mm - 5mm float flat glass in green, and 洛玻集團仰韶玻璃有限公司 (CLFG Yang Shao Glass Co. Ltd.) which manufactures 3mm - 12mm float flat glass in different colour as well as 洛陽龍新玻璃有限公司 (Luoyang Longxin Glass Co. Ltd), a non-wholly owned subsidiary of CLFG which manufactures 3mm - 12mm float flat glass in colourless and in green are all the companies employing the CLFG's 洛陽浮法玻璃工藝專有技術 (Luoyang Float Glass Patent Technology) and using the CLFG's registered trademark of "CLFG洛玻" at no cost.

Establishment of Long Hai

As stated in the Letter from the Board, ultra-thin glass has a wide application in such photoelectric industry as TN-LCD, and STN-LCD display panels production which are used mainly in PDA, mobile phones and etc. At present, most glass with thickness less than 1.1 mm used in the PRC are imported from overseas which incur higher costs. As a result, currently, majority of demand for ultra-thin glass in the PRC are filled up by the import of ultra-thin glass with comparatively higher price than that manufactured domestically. There is a good potential for Long Hai to enter into the market by positioning itself as a domestic producer of ultra-thin glass with thickness of 0.55 mm to 1.1 mm.

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Glass with thickness less than 1.1 mm used in the PRC are imported from overseas and incurring higher costs and the Directors believe that the establishment of Long Hai to manufacture 0.55 mm to 2 mm float flat glass (including ultra-thin glass of thickness less than 1.1 mm) in commercialize mass production can capture the first mover advantage in the ultra-thin glass market. The Directors also consider that Long Hai can base on the experience of 洛玻集團龍門有限責任公司 (Luobo Group Longmen Glass Company), the non-wholly owned subsidiary of the Company, which shareholding are 79.06% as to the Company, 12.921% as to 偃師諸葛鎮政府 and 8.019% as to 偃師昌黎實業有限公司, both of which are independent third parties to the Company, to manufacture the ultra-thin glass since 洛玻集團龍門有限責任公司 (Luobo Group Longmen Glass Company) has successfully manufactured the 1.1 mm ultra-thin glass in 2001 for the production of TN-LCD display panels with the use of the 洛玻浮法玻璃工藝專有技術 (Luoyang Float Glass Patent Technology). The annual production capacity of 洛玻集團龍門有限責任公司 (Luobo Group Longmen Glass Company) is approximately 1,000,000 weighted case which has been fully utilized. The Directors considered that Long Hai can manufacture the ultra-thin glass with the use of the 洛玻浮法玻璃工藝專有技術 (Luoyang Float Glass Patent Technology) at lower cost (inter alia lower labour and transportation cost).

In this regard, we have reviewed the feasibility study on internal production plan of Long Hai prepared by the Company and understand that the unit price of the ultra-thin glass through commercialized massive production by Long Hai will be ranging from RMB85 to RMB1,088 per weighted case depending on the thickness of the glass ranging from 0.55 mm to 2 mm, which is lower than the current market price of the ultra-thin glass imported from overseas ranging from RMB293 to RMB1,304 per weighted case as provided by the customers of the Company and the CLFG. Therefore, we concur with the Directors' belief that Long Hai can enjoy a lower cost advantage as compared to the overseas imports of ultra-thin glass with thickness less than 1.1 mm.

As stated in the Letter from the Board, the Directors believe that the market potential for the ultra-thin glass in the PRC is enormous. Under the tenth five-year plan for the period from 2001 to 2005 of the PRC government, the state strongly supports the development of the photoelectric industry including the production of TN-LCD, and STN-LCD display panels which are used mainly in PDA, mobile phones and etc. in the PRC. The ultra-thin glass is one of the major raw materials used in the production of these photoelectric products. As mentioned in the feasibility study on internal production plan of Long Hai, there will be one production lines set up in Long Hai with total annual capacity of approximately 1,553,000 weighted cases while as confirmed by the Directors, the aggregate annual capacity of the six production lines of the Group is approximately 13,500,000 weighted cases. We understand from the Directors that CLFG currently owns the Luoyang Float Glass Patent Technology (洛陽浮法玻璃工藝專有技術) to produce float flat glass with thickness less than 2 mm which includes ultra-thin glass with thickness less than 1.1 mm.

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The Directors further added that the ultra-thin glass with thickness less than 1.1 mm can be widely applied to different types of light and portable photoelectric products (e.g. LCD display panels, PDA and etc) while float flat glass with thickness between 1.1mm to 2mm will be used in the automobile industry. Products of these two industries are highly demanded in the PRC. The Directors expected that approximately seventy percent of revenue of Long Hai will be generated from and thirty eight percent of production capacity of Long Hai will be used for manufacturing ultra-thin glass with thickness less than 1.1 mm.

As stated in the Letter from the Board, PDAs which the ultra-thin glass applied to, are widely used among one third of the 1,036 white collar workers being interviewed in Beijing, Shanghai, Nanjing and Guangzhou according to a survey by Market-Expert (Shanghai) Company Limited issued in 2005, being an independent third party, a leading marketing consulting company and one of the most famous marketing consulting companies in China. By way of modern scientific methodology and analytic technology, it provides the client with marketing research, marketing strategic plan, marketing service and management consulting. Further, the estimated output for PDA in 2003 will move slightly upwards to 4.73 million units. The demand for PDA is expected to increase in the foreseeable future given the sustainable increase in the gross domestic product per capita of approximately 9% for each year from 2000 to 2004 (2000: US\$3,976; 2001: US\$4,020; 2002: US\$4,580; 2003: US\$5,000; and 2004: US\$5,600) and that such increase in the gross domestic product per capita is anticipated to sustain in the near future given the robust economic growth in the PRC. On the other hand, according to the information released by the Ministry of Information Industry, the production of mobile handsets in the PRC has expanded rapidly during the past few years, with approximately 120 million sets, approximately 186 million sets, approximately 233 million sets and approximately 178 million sets produced in the years 2002, 2003, 2004 and for the eight months period up to August 2005, respectively, representing a growth of approximately 94.2% from 2002 to 2004. Hence, riding on this trend, the PRC production of mobile handsets exhibits continuous growth.

We understand from the Directors that the float flat glass with less than 2 mm can be used in the automobile industries in the PRC. The automobile industry in the PRC showed a rapid growth in terms of the number of vehicles manufactured and the statistics can be referred to the paragraph under the sub-section “Establishment of Long Hao” below. Therefore, we concur with the Directors’ belief that there is a significant potential demand for the above mentioned ultra-thin glass market in the PRC.

Based on the above facts and representations by the Directors and the advices of the Directors that the products manufactured by the joint ventures can generate higher profit margins compared to the current products of the Group and can improve the Group’s product mix, we are of the opinion that the establishment of Long Hai is fair and reasonable and is in the interests of Independent H Shares’ Shareholders and the Company as a whole.

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Establishment of Long Hao

As stated in the Letter from the Board, it is expected that the continual growth of the glass industry in the PRC will be fuelled by the robust and continual growth in the gross domestic product in the PRC, the expansion of construction industry and the automotive industry as well as the growing concern in safety, noise attenuation and the response to the growing need for energy conservation. Given Long Hao commissions new manufacturing equipments which adopt the latest manufacturing technologies, coupled with less expensive energy sources by using coal as fuels and efficient supply of materials, together with the favourable geographical location and transportation network, Long Hao will be positioned to benefit from its competitive edges and the development of the glass industry in the PRC. The newly established Long Hao production lines will make use of coal purchased from the independent third parties and extracted from Ruyang County (汝陽縣) in the PRC to generate coal gas as fuel for its production of float flat glass.

As mentioned in the feasibility study on internal production plan of Long Hao, there will be two production lines set up in Long Hao by using coal as fuels with total annual capacity of approximately 4,780,000 weighted cases. This energy source will substitute the more expensive heavy oil which the Group has currently used in the other production lines. We have analyzed the relevant cost of two listed companies manufacturing glass namely, the China Glass Holding Limited and Zhejiang Glass Company, Limited and estimated that the average cost of using oil as fueling source ranging from RMB18 to RMB26 per weighted case of their products manufactured in 2004. In this regards, we concur with the Directors that the average cost of using oil as fueling source was approximately RMB22 per weighted case of the products manufactured by the Group for the year 2004. Long Hao will produce float flat glass products different from the products manufactured by the Company, targeting at different customers and manufacturing at a lower cost by using coal as fuel compared to the Company. In this regard, we have discussed with the Directors and understand that Ruyang County is a region with abundant supply of coal of which Long Hao production lines can use for the production of float flat glass. We have also reviewed the feasibility study on internal production plan of Long Hao, performed calculation based on the information provided by the Directors and note that the cost of energy consumption by using coal in the production of float flat glass is approximately RMB11 per weighted case of float flat glass produced, which is approximately RMB11 per weighted case lower than the cost of energy consumption of the production lines using oil in the production process by the Group. Based on the above, we concur with the Directors that the use of coal to produce float flat glass for Long Hao production lines can reduce the cost of production as compared to the use of oil in the other production lines of the Group.

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The Directors have also confirmed that the state council of Ruyang County has agreed to support Long Hao with favourable governmental policies including the provision of basic infrastructure for the plant of Long Hao, government subsidies and preferential tax treatments to assist Long Hao for the establishment of the two new production lines in Ruyang County. The Directors stated that Ruyang Government aimed at (1) attracting the investment in the county in order to enlarge the employment opportunities and enhance the prosperity of the economy of its county; (2) assisting the local stated owned enterprise to develop; and (3) supporting the industry emphasized in the tenth five year plan. Therefore, Ruyang Government has committed to provide the following infrastructure facilities to Long Hai and Long Hao with no specified time frame restriction: (1) to set up the infrastructure for their electricity supply system without charge; (2) to guarantee the supply of 24 hours of electricity; (3) to charge Long Hai and Long Hao the electricity fee at the lowest standard basis or to provide the government subsidy for the difference; (4) to set up the infrastructure for their water supply system and sewage system without charge; (5) to set up the infrastructure for the telecommunication system without charge; and (6) to set up infrastructure of highway, railway and road and to coordinate any difficulties arisen from the usage of railway and any transportation. Moreover, the National Development and Reform Commission (國家發展和改革委員會) has committed to support the Long Hai Project for an aggregate amount of RMB27,540,000 in cash as subsidy to Long Hai. The county government will also provide preferential tax treatments to Long Hao as follows: (1) fully exempt the provincial corporate tax of Long Hao for four years commencing from the year when Long Hao commences making profit; (2) exempt half of the county corporate tax of Long Hao for the next successive two years after (1); (3) exempt one-third of the value-added tax after Long Hao commences from the normal business operation; and (4) exempt half of the value-added tax commencing from one year after (3). With the use of cheaper raw materials and the support from the county government, the Directors believe that Long Hao's cost to produce float flat glass can be reduced.

As also stated in the Letter from the Board, for the past three years, the PRC government has launched a total of 36 new government-backed major projects with a total investment cost of more than RMB600 billion (approximately HK\$576.92 billion) in the western region of the PRC. We have discussed with the Directors and note that these projects include infrastructure, electricity, property development and other industrial projects where float flat glass can be used as one of the raw materials for these projects.

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As stated in the Letter from the Board, the float flat glass which shall be produced by Long Hao target mainly at the construction and automobile industries in the PRC. The construction industry in the PRC is highly dependent on the float flat glass industry due to rapid urbanization growth, increasing urban populations and the enlarged scale of real estates development in the PRC. According to the National Statistical Bureau in the PRC, the percentage of China's urban population increased from 26.4% in 1990 to 41.8% in 2004 and the investment in real estates development has been kept increasing at 27% each year in average from 2000 to 2004 (2000: RMB490.2 billion (approximately HK\$471.4 billion); 2001: RMB624.5 billion (approximately HK\$600.5 billion); 2002: RMB773.6 billion (approximately HK\$743.8 billion); 2003: RMB1,010.6 billion (approximately HK\$971.7 billion); and 2004: RMB1,315.8 billion (approximately HK\$1,265.2 billion)). The automobile industry in the PRC showed a rapid growth in terms of the number of vehicles manufactured. According to the National Statistical Bureau of the PRC, the PRC has manufactured 2.34 million vehicles in 2001, 3.25 million vehicles in 2002, 4.44 million vehicles in 2003, and 5.07 million vehicles in 2004, representing an average annual growth rate of approximately 30% during this period. The continual growth and development of these two industries shall be the driving force for the demand for float flat glass produced by Long Hao.

Accordingly, we concur with the Directors' belief that the float flat glass market in the western region of the PRC has huge demand.

In addition, the Directors also consider that Long Hao enjoys a geographical advantage to establish at Ruyang County. The Long Hao production line is located at the north-eastern part of the 洛界公路 (Luojie Expressway), south-eastern part of 汝安路 (Ruan Lu) and south-western part of 焦枝鐵路 (Jiaozhi Railway). We have discussed with the Directors and are acknowledged that the time required for traveling from Long Hao to these major roads and railway nearby is within half an hour. Since such location is in the transportation hub of the infrastructure network of Ruyang County, we concur with the Directors' belief that Long Hao, through this efficient transportation network, can efficiently deliver the finished products to other different regions such as Anhui Province, Guangdong Province, Hebei Province, Jiangsu Province and Zhejiang Province, where most of the factories of manufacturers located in the PRC.

Based on the above facts and representations by the Directors of the Company, we are of the opinion that the establishment of Long Hao is fair and reasonable and is in the interests of the Independent H Shares' Shareholders and the Company as a whole.

2. Principal terms

Capital contributions and profit distribution

Pursuant to the JV Agreements, the equity interests of the Company and CLFG in Long Hai and Long Hao will be 80% and 20%, respectively. Accordingly, the respective capital contributions to be provided by the Company and CLFG will be in accordance with their respective equity interests, which we consider is fair and reasonable.

In addition, according to the JV Agreements, any distribution of profits and losses to the Company and CLFG will be allocated in proportion to their respective interests in the registered capital of Long Hai and Long Hao. We consider that such arrangement is made on a fair and reasonable basis.

Board representation and Supervisory Committee

Pursuant to the JV Agreements, both board of directors of Long Hai and Long Hao shall comprise seven directors, of which, the Company shall nominate five directors and chairman of the board and CLFG shall nominate the remaining two directors. Pursuant to the articles of association of both Long Hai and Long Hao, the quorum of board meetings of Long Hai and Long Hao shall be more than one-half of the total number of directors and the chairman of the board of directors of Long Hai and Long Hao shall have a casting vote at the board meetings of Long Hai and Long Hao, respectively. The supervisory committee of Long Hai and Long Hao shall comprise three supervisors, of which the Company shall nominate two supervisors and CLFG shall nominate the remaining one supervisor. In view of the majority number of the directors and the chairman of the board of Long Hai and Long Hao and the majority number of supervisors of the supervisory committee of Long Hai and Long Hao shall be nominated by the Company, we consider such arrangement on the board representation and supervisory committee in Long Hai and Long Hao is fair and reasonable.

As at the Latest Practicable Date, the Company has nominated five directors (including chairman of the board), and CLFG has nominated the remaining two directors to the board of directors of Long Hai and Long Hao in accordance with the JV Agreements. The Company has also nominated two supervisors and CLFG has nominated the remaining one supervisor to the supervisory committee of Long Hai and Long Hao in accordance with the JV Agreements.

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Total investments and registered capital

As stated in the Letter from the Board, the total investment amounts including the registered capital of Long Hai Project and Long Hao Project are estimated to be RMB300 million (approximately HK\$288.46 million) and RMB250 million (approximately HK\$240.38 million), respectively. The registered capital of Long Hai and Long Hao are RMB60 million (approximately HK\$57.69 million) and RMB50 million (approximately HK\$48.08 million), respectively. As confirmed by the Directors, save for the aggregate registered capital of Long Hai and Long Hao amounted to RMB110 million (approximately HK\$105.77 million), the remaining total costs incurred for both projects amounted to RMB440 million (approximately HK\$423.08 million) will be financed by ways of: (1) borrowings from banks by Long Hai and Long Hao themselves which are secured by their own assets and/or guaranteed by the shareholders or their associates in proportion to their respective shareholdings in Long Hai and Long Hai; (2) loans from respective shareholders of Long Hai and Long Hao in proportion to their respective shareholdings in Long Hai and Long Hai; (3) the profits generated from Long Hai and Long Hao themselves; and (4) other financial borrowings, government subsidies and/or capital market fund raising activities under the name of Long Hai and Long Hao.

As confirmed by the Directors, the total amounts of investment in Long Hai Project and Long Hao Project are based on the demand for products manufactured by the respective projects, the estimated amount of capital investment and the general working capital requirements of the respective projects. We have also discussed with the Directors about the budgeted capital investment to be required and we concurred with the Directors that the respective capital investment amounts are based on the future demands of products manufactured by the respective joint venture companies which target customers in the industries of PDAs, mobile phone and other photoelectric products manufacturing, construction and automobiles and the budgeted production capacity of the respective joint venture companies. In addition, the Directors have also confirmed that, save for the total capital commitments disclosed above, there is no other capital commitment, guarantee or indemnity required from the respective projects. Based on the investment plans and the production capacity of the respective joint venture companies, we consider that the total investment amounts for Long Hai Project and Long Hao Project are fair and reasonable.

We note that the amounts of the registered capital of Long Hai (i.e.RMB60 million) and Long Hao (i.e.RMB50 million) are 20% on the total investment amounts of Long Hai Project (i.e.RMB300 million) and Long Hao Project (i.e.RMB250 million), respectively. As confirmed by the Directors, the registered capitals of Long Hai and Long Hao (20% respective total investment) are arrived at after arm's length negotiation at the beginning between the Company and CLFG and were determined at the amount to be used for the payment of the first installment of factory building for commencing the construction of infrastructure of Long Hai and Long Hao. As at the Latest Practicable Date, the total amounts of registered capital of Long Hai and Long Hao were fully utilized for paying the first installment of factory buildings of Long Hai and Long Hao respectively. In this regard, we consider that the amounts of registered capital of Long Hai and Long Hao are fair and reasonable.

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Pursuant to the Long Hai Agreement, the capital contribution of RMB6 million, representing about 10% of the registered capital of Long Hai has been contributed by CLFG in the form of the specialized usage right of 洛玻浮法玻璃工藝專有技術 (Luoyang Float Glass Patent Technology) and the usage right of the “CLFG洛玻” registered trademark. Pursuant to the Long Hao Agreement, the capital contribution of RMB5 million, representing about 10% of the registered capital of Long Hao has been contributed by CLFG in the form of the specialized usage right of 洛玻浮法玻璃工藝專有技術 (Luoyang Float Glass Patent Technology) and the usage right of the “CLFG洛玻” registered trademark.

Based on the asset valuation reports on 30 December 2005 prepared by the Independent Valuer, the total value of the specialized usage right of “Luoyang Float Glass Patent Technology” and the usage right of the registered trademark of “CLFG洛玻” (collectively defined as the “Intangible Assets”) for Long Hai Project and Long Hao Project as at 30 December 2005 are approximately RMB7.4 million (approximately HK\$7.12 million) and RMB5.6 million (approximately HK\$5.38 million, respectively (“Valuation”)).

To ascertain the fairness, reasonableness and completeness of the bases and assumptions underlying in the Valuation, we and South China Capital Limited (“SCCL”) have reviewed the methodology, bases, inputs (including the profit forecast) and assumptions employed in the Valuation.

There are three internationally recognized valuation methodologies namely, the (i) market approach, (ii) cost approach and (iii) income approach.

We noted that in determining the fair market value of the Intangible Assets, the Independent Valuer has adopted the relief from royalty method as under the class of income approach. The method determines the value of a project through calculating the present value of all cash flow that is expected to be derived from the project based on a series of forecast of revenue and cost stream over the operational period.

We concur with the Independent Valuer that the income method is the most appropriate approach in evaluating the fair value of Intangible Assets since (i) the rights for the use of technology and the patents have unique value and there is limited information in the market referring to the rights for the use of technology and the patents, therefore, market approach is not appropriate to evaluate the fair value of the project; (ii) the replacement value of the cost of the compatible Intangible Assets is not traceable in the current market and the original cost for development of the Intangible Asset cannot reflect the true value of the economic benefits to be generated from the Intangible Assets, therefore, cost approach is not appropriate to evaluate the fair value of the project; and (iii) the relief from royalty method as under the class of income approach is able to capture the future growth potential which is specific to the manufacturing glass industry; and therefore, the income approach is the most appropriate to be used to evaluate the fair value of the project.

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Following the inquiries to the Independent Valuer, we understand the valuations of both the technology and trademark are prepared on the basis of the generally accepted valuation methodology, being the relief from royalty method, which is considered to be one of the common valuation approaches in determining the appraised values of the Intangible Assets. As advised by the Independent Valuer, this method estimates the relief from hypothetical royalty or rental payment, that is, the amount of royalty or rental payment that the technology or trademark user would be willing to pay to a third party in order to obtain the use of and the rights to use the subject technology and trademark. Income derived from these notional royalties, which represents the periodic benefits to the owner of the asset, is capitalized at an appropriate capitalization rate. As the capitalization method assumed a steady state for long term operation, the capitalization rate used shall be a long term growth estimate and the operating performance shall be stable. The market value of the technology and trademark is the present value of the economic income discounted by an appropriate capitalization rate. For further details of the assumptions and bases of the valuations, please refer to Appendix III of the circular.

Independent Valuer derived the capitalization rate by reference to the capital asset pricing model ("CAPM"), which derives the required return rate by adding an appropriate market risk premium for the assets to the risk-free rate and the unsystematic risk where appropriate. We understand that Independent Valuer has adopted a capitalization rate of approximately 9.4% in its valuation. The capitalization rate derived from CAPM and adopted in the valuation of the subject technology and trademark was determined after taking into account of relevant factors, including the yield of Treasury Bills and Bonds in United States, the market return in the stock market of United States and the return on equity of listed companies engaging in glass manufacturing or similar line of business in PRC, the specific risk of the asset and the country specified risk as well as the long term growth rate, 3%, of the Long Hao Project and Long Hao Project as advised by the Directors. As confirmed by the Independent Valuer, the yields of long term Treasury Bills and Bonds in the US as an appropriate risk-free factor is due to the following factors: (1) the PRC market is not a efficient market due to the fact that (i) the PRC market is still not open enough for any updated news to be disseminated on time; (ii) relatively more restrictions are imposed on the PRC investment environment ; and (iii) restriction is imposed on capital flow out of the PRC; (2) the equity market risks of United States and industry factors are set in determining the market risk premium in the model; and (3) the country risk, political risk and firm specific risk are set as unsystematic risk for manufacturing glass in the PRC in the model, so we agree with the Independent Valuer that using the yield of Treasury Bills and Bonds in the US as the risk-free factor is appropriate and is fair and reasonable in applying it to the glass industry in PRC market. Further, in view of the PRC consumption of photoelectric products of annual growth rate over 5% in the 2004 (ultra-thin glass is the main component in the photoelectric products) in photoelectric products as extracted from 中國光學光電子行業協會 (China Optics and Optoelectronics Manufactures Association); an independent photoelectric society, the average growth rate of China's GDP ranging from 7%-9.8% over last ten years and the demand for glass in various high growing industries as stated in the above relevant content in this letter such as the expected increase in demand for PDA, the growth of production of mobile handsets in PRC of approximately 94.2% from 2002 to 2004, the rapid urban population growth from 26.4% in 1990 to 41.8% in 2004, the increase of investment in real estates development at 27% each year in average from 2000 to 2004 and an average annual growth rate of approximately 30% in number of vehicles manufactured, we consider that the Independent Valuer and the Directors adopt a conservative manner in assessing the 3% growth rate for Long Hao and Long Hai and is fair and reasonable.

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The current interest rate environment in the PRC (for example, one year short term lending rate of 5.58% as quoted by Bank of Communication as at the Latest Practicable Date) and Hong Kong (for example, prime rate of 7.75% per annum as quoted by the Hongkong and Shanghai Banking Corporation Limited as at the Latest Practicable Date), which in our opinion, gives substantial margin. We are of the view that the capitalization rate used by Independent Valuer in arriving at the valuation of the Intangible Assets is fair and reasonable.

We are advised by Independent Valuer that in valuing the subject technology and trademark, it has taken into account the relief of hypothetical royalty or rental payment, that is, the amount of royalty or rental payment that the technology or trademark user would be willing to pay to a third party in order to obtain the use of and the rights to use the subject technology and trademark. We noted that Independent Valuer has used a royalty rate of 5% and 3% to the net profits of Long Hai and Long Hao respectively for estimating the royalty payments, representing 0.57% and 0.21% to their respective revenue. We have reviewed the information of three listed companies as set out in the table below and noted that the market royalty rates general ranges from 0.3% to 3.8% to the revenue and details of which are as follows.

Company (Stock code)	Industry type	Nature of transaction	Reference date	Basis of royalties fees
China Resources Logic Limited (1193)	Manufacturing of semiconductor, compressor and office furniture	Use of technologies in manufacture	22 October 2001	0.3% to 2% of sales amount
Logic International Holdings Limited (Currently named as China Resources Logic Limited) (1193)	Manufacturing of semiconductor, compressor and office furniture	Use of technologies in manufacture	8 November 2000	0.5% to 3.8% of sales amount
Hop Hing Holdings Limited (47)	Production and sales of edible oils and food related business	Use of trademark	24 May 2000	0.5% to 1.5% of sales amount
TCL International Holdings Limited (1070)	Manufacturing and sales of audio-visual, personal computer and peripheral products	Use of trademark	31 May 2004	0.5% to 2% of sales amount

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We noted that the royalty rates for these comparables are in the basis of royalty to sales while Long Hai and Long Hao are in the basis of royalty to profit. We note that there will be no difference in the results of Valuation of adopting royalty to sales or royalty to profit as the royalty rate for Long Hai and Long Hao which are 5% and 3% to the net profit representing 0.57% and 0.21% to their respective revenue. In addition, these royalty rates fall within and below the range of market royalty rates respectively and are in favour of the Company. Therefore, we are of the view that these royalty rates are fair and reasonable for the valuation of Long Hai and Long Hao respectively.

We noted that Independent Valuer believed that the information and projections on profit forecast for the year ending 31 December 2006 provided to them are reasonable. To ascertain the fairness, reasonableness and completeness of the bases and assumptions underlying the valuation, we have reviewed and discussed with Independent Valuer, SCCL and the Directors on the key bases and assumptions made in respect of the projections of sales and the profit forecast. Based on the projected sales of Long Hai and Long Hao, the Directors then projected the revenues discounted on perpetual basis with reference to the capacity of the production facility and unit price of different classes of glass. We have assessed the projections of sales based on (i) the production capacity of Long Hai and Long Hao as mentioned in the feasibility studies of Long Hai and Long Hao; and (ii) the market demand of ultra-thin glass and float flat glass, details of which can be referred to the paragraph under sub-section headed “Reasons for establishment of Long Hai” and “Reasons for establishment of Long Hao” of section headed “Reasons for the establishment of Long Hai and Long Hao” in this letter.

For the perpetual basis adopted in the Valuation, we review the calculation of the Valuation and note that the Independent Valuer assesses the Valuation on perpetual basis on the ground of the following: (1) as confirmed by the Directors, Long Hai, Long Hao, the Company and CLFG will implement appropriate and necessary measures to prevent the technology know how from possible leakage of; (2) the research cost in terms of amounts and time is high or in order words, there is a high entry barrier to the glass industry; and (3) perpetual base is one of the prevailing bases for assessing the fair value of intangible assets. After discussion with the Independent Valuer, we consider that the assessment of the Valuation on perpetual basis is fair and reasonable.

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The major assumptions of the profit forecast are that (i) the Directors anticipate that Long Hai will be able to commence production in January 2006; (ii) the Directors anticipates that Long Hao will be able to commence production in December 2005; (iii) the growth rates of profit for Long Hao and Long Hai are 3%. Since the techniques of manufacturing ultra-thin glass and float flat glass have been mastered skillfully in the operation of 洛玻集團龍門有限責任公司 (Luobo Group Longmen Glass Company) and 洛陽龍新玻璃有限公司 (Longyang Longxin Glass Co. Ltd.) respectively in recent years and the manufacturing plant construction and machinery installations of both Long Hai and Long Hao have been almost completed as at the Latest Practicable Date, we consider that the assumptions stated in (i) and (ii) are fair and reasonable. Further, as mentioned above, in view of the PRC consumption of photoelectric products of annual growth rate over 5% in the 2004 (ultra-thin glass is the main component in the photoelectric products) in photoelectric products as extracted from 中國光學光電子行業協會 (China Optics and Optoelectronics Manufactures Association); and an average annual growth rate of approximately 30% and 27% for the automobile industry from 2001 to 2004 and for the investment in real estates development from 2000 to 2004 respectively, we consider that the assumption stated in (iii) is fair and reasonable.

The growth rates used in the Valuation Report can also be increased and decreased 1% with range from 2% to 4% for enhanced prudence within a sensitivity analysis performed by the Independent Valuer. The lower growth rate is used to represent the risk of occurrence of unexpected events that are difficult to predict or quantify, such as future competition, economic shocks or other negative factors. We note that given the growth rate is decreased from 3% to 2% in the sensitivity analysis of the Valuation Report which results the capitalization rates increased from 9.4% to 10.4%, the valuation of the Intangible Assets of Long Hai and Long Hao will be decreased to approximately RMB6.7 million and RMB5.1 million respectively which are still above the CLFG's contribution of its share of registered capital in Long Hai and Long Hao of RMB6 million and RMB5 million respectively. As such, we are of the view that the growth rate assumptions for Long Hao and Long Hai are fair and reasonable.

After reviewing and discussion with Independent Valuer, SCCL and the Directors, we consider that there is no reason to doubt that such information regarding to the Valuation and the profit forecast ending 31 December 2006 is incomplete, untrue, inaccurate, misleading or omits a material fact and that the bases and assumptions of the Valuation and the profit forecast ending 31 December 2006 are fair, reasonable and complete so far as the Independent H Shares' Shareholders are concerned.

Independent Valuer confirmed that the Valuation is based on the accepted valuation procedures and practices, and the underlying assumptions adopted in Valuation Report and the relief of royalty income under the class of income approach are fair and reasonable and should reasonably reflect the market values of the Intangible Assets. In the course of our discussions, we have not identified any major factors which lead us to cast doubt on the fairness, reasonableness and completeness of the principal bases and assumptions used in arriving at the valuation. Accordingly, we are of the view that the capital contributions of RMB6 million and RMB5 million, which will be provided by CLFG in the form of the Intangible Assets for Long Hai Project and Long Hao Project, respectively, are fair and reasonable so far as the Independent H Shares' Shareholders are concerned.

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Payment Terms

Pursuant to the Long Hai Agreement and the Long Hao Agreement, the registered capital contributed by the Company for Long Hai and Long Hao amounted to RMB48 million (approximately HK\$46.15 million) and RMB40 million (approximately HK\$38.46 million) respectively which should be subject to the approval from the Independent H Shares' Shareholder, has been fully paid on 1 June 2005 in cash with the Group's internal resources and CLFG has also fully paid up its proportion of the registered capital of Long Hai and Long Hao with the total amount of RMB12 million (approximately HK\$11.54 million) on 6 June 2005 and RMB10 million (approximately HK\$9.62 million) on 16 June 2005 respectively. Relevant business licences have been applied and obtained on 13 June 2005 and 20 June 2005 respectively.

In addition, we note that, save for the total registered capital contributions contributed by the Company and CLFG amounted to RMB60 million (approximately HK\$57.69 million) and RMB50 million (approximately HK\$48.08 million) for Long Hai and Long Hao, respectively, the remaining capital investment of approximately RMB240 million (approximately HK\$230.77 million) and RMB200 million (approximately HK\$192.31 million) shall be fully invested into the Long Hai and Long Hao respectively within the year 2007. As the contribution depends on the progress of the projects, the Directors view that the total investments will be totally invested in the respective projects by the end of the year 2007. There is currently no timetable for the contributions of the remaining amount of investments to finance the respective joint venture companies which shall depend on the progress of the projects.

Having discussed with the Directors, save for the total registered capital contributed by CLFG and the Company amounted to RMB60 million (approximately HK\$57.69 million) and RMB50 million (approximately HK\$48.08 million) for the Long Hai and Long Hao respectively, the balance amounted to approximately RMB212.2 million (approximately HK\$204.04 million) and approximately RMB203.96 million (approximately HK\$196.12 million) for the Long Hai and Long Hao respectively, are applied mainly for factory construction, installation of plant and machinery, purchase of raw material and ancillary products of which approximately RMB155.2 million (approximately HK\$149.23 million) and approximately RMB115.14 million (approximately HK\$110.72 million) for the Long Hai and Long Hao respectively, to be paid in 2005, approximately RMB42.75 million (approximately HK\$41.11 million) and approximately RMB76.95 million (approximately HK\$73.99 million) for the Long Hai and Long Hao respectively, to be paid in 2006 and approximately RMB14.25 million (approximately HK\$13.70 million) and approximately RMB11.87 million (approximately HK\$11.41 million) for the Long Hai and Long Hao respectively, to be paid in 2007. There is currently no timetable for the contribution of the remaining amount of approximately RMB27.80 million (approximately HK\$26.73 million) and approximately RMB46.04 million (approximately HK\$44.27 million) for the Long Hai and Long Hao respectively.

In view of the feasibility study on internal production plan of the respective projects and the nature of capital investments budgeted, we concur with the Directors' view that the total investments will be totally invested in the respective projects by the end of year 2007.

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Current Status

Long Hai and Long Hao were established in the PRC in June 2005 and obtained their respective business licenses on 13 June 2005 and 20 June 2005 respectively. Both Long Hai and Long Hao have mostly completed manufacturing plant construction and machinery installations as the Latest Practicable Date. The Directors expect the trial productions for Long Hai to begin in January 2006 and Long Hao has already commenced trial production in December 2005 respectively.

Long Hai and Long Hao received cash of RMB 48 million and RMB 40 million from the Company in the form of registered share capital and applied the funds mainly into construction works, purchase of facilities and materials. Based on the management account as at 30 November 2005, Long Hai had long term bank borrowings of approximately RMB80 million (approximately HK\$76.92 million) from 中原信託投資有限公司, an independent financial company and Long Hao had short-term bank borrowings of approximately RMB64 million (approximately HK\$61.54 million), out of which RMB35 million (approximately HK\$33.65 million) was borrowed from China Luoyang Float Glass Group Financial Company of Limited Liabilities (“CLFC”) an 37% owned associated company of the Company and the remaining interest are owned by CLFG, the remaining approximately RMB29 million (approximately HK\$27.88 million) was provided by CLFG. CLFG and CLFC have both provided guarantees to Long Hai for the long-term borrowings of RMB80 million (approximately HK\$76.92 million) whereas the Company has provided guarantee for the short-term borrowings of RMB25 million (approximately HK\$24.04 million) of Long Hao. However, no guarantee was required for the remaining approximately RMB39 million (approximately HK\$37.5 million) of the short-term borrowings of Long Hao. Hence, the gearing ratios (as measured by total borrowings over shareholders’ funds) for both Long Hai and Long Hao are approximately 133.33% and 128.46% respectively.

As CLFC and CLFG are both connected persons of the Company under Chapter 14A of the Listing Rules, the financial assistance in the form of borrowings amounted to RMB35 million provided by CLFG and approximately RMB29 million provided by CLFG to Long Hao and guarantees provided by CLFG and CLFC to Long Hai in respect of the RMB80 million borrowing constituted connected transactions. However, these transactions are exempted from reporting, announcement and independent shareholders’ approval requirements under Rule 14A.65(4) since the financial assistance are provided for the benefit of the Company (and Long Hai and Long Hao) on normal commercial terms or better terms where no security over the assets of the Company is granted in respect of the financial assistance. On the other hand, out of the RMB64 million borrowed from CLFC, RMB25 million borrowings are guaranteed by the Company not in proportion to the respective equity interest of the Company and CLFG in Long Hao and therefore constituted financial assistance provided by the Company for the benefit of CLFG. As the financial assistance provided by the Company amounted to RMB5 million, representing the 20% proportional guarantee to be borne by CLFG for the RMB25 million borrowing, under Rule 14A.66(2) of the Listing Rules, this connected transaction is exempted from the independent H Shares’ shareholders approval requirements and only subject to the reporting and announcement requirements as set out in Rules 14A.45 to 14A.47.

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Both Long Hai and Long Hao have no major investment, acquisition or disposal. Long Hai and Long Hao employed about 410 staff and 620 staff respectively at the Latest Practicable Date, majority of them are production workers. There are no formal treasury policy adopted, pledge of assets or exposure to fluctuation in exchange rates and related hedges by Long Hai and Long Hao. Both Long Hai and Long Hao had no contingent liabilities as at the Latest Practicable Date.

Pursuant to Rule 14A.13(6) of the Listing Rules, the transactions described above also constitute connected transactions of the Company under the Listing Rules. Therefore, the transactions contemplated under the Long Hai Agreement and Long Hao Agreement would have been subject to the reporting, announcement requirements and the Independent H Shares' Shareholders' approval at the EGM by way of poll. Moreover, the Independent H Shares' Shareholders are advised to pay attention to the Company's breach of Listing Rules 14.40 and 14A.17 in respect of prior approval from Independent H Shares' Shareholders and the potential disciplinary actions against the Company by the Stock Exchange related to this Transaction.

In the event that the resolutions in relation to the Transactions are objected by the Independent H Shares' Shareholders at the EGM, the Company agrees to sell its equity interests in Long Hai and Long Hao to CLFG and to discharge its obligation as guarantor for any loan to Long Hai and Long Hao. Moreover, the Company has obtained a written undertaking from CLFG dated 26 August 2005 agreeing that CLFG will purchase all the equity interests held by the Company in Long Hai and Long Hao in cash at a consideration equivalent to the total investment which the Company would have invested upon convening of the EGM. As at Latest Practicable Date, the Company has contributed RMB88 million (approximately HK\$84.62 million) in cash for both Long Hai and Long Hao representing the Company's portion of the entire registered capital contribution. As such, the Directors consider that the interests of H Shares' Shareholders of the Company will not be undermined. If this remedial measure were to be implemented, the Company shall make further announcement stating the detail terms pursuant to Chapters 14 and/or 14A of the Listing Rules in this regard. Meanwhile, the EGM will provide a forum in which the Independent H Shares' Shareholders can have a dialogue between the Directors and raise question(s) on the Transactions and the terms of the Long Hai Agreement and the Long Hao Agreement. In this regard, we together with the Directors consider that the Company will not suffer any significant financial loss pursuant to the purchase arrangement to made by CLFG as mentioned before and we together with the Directors consider that if the Company did not invest in Long Hai and Long Hao, the Company would miss these opportunities to expand its business in the markets where Long Hai and Long Hao will participate.

3. Financial effects

The Independent H Shares' Shareholders should recognize that there are various factors affecting the establishment of Long Hai and Long Hao, in particular, the following financial effects on the Group:

(i) Net assets value

According to the unaudited pro forma balance sheet of the Group stated in Appendix II in this Circular, the consolidated net asset value attributable to equity holders of the parent and the minority shareholders of the Group increased from RMB918,522,000 to RMB940,522,000 upon completion of the Company's registered capital contribution of RMB60 million (approximately HK\$57.69 million) and RMB50 million (approximately HK\$48.08 million), in Long Hai and Long Hao respectively.

(ii) Gearing ratio

According to the Group's unaudited financial information for the 6 months period ended 30 June 2005 extracted from the Company's published interim report of 2005 ("Interim Report"), the total bank borrowings and other loans of the Group amounted to approximately RMB887.4 million (approximately HK\$853.3 million), and the cash and cash equivalents amounted to approximately RMB267.6 million (approximately HK\$257.3 million). In light of the current cash position of the Group, if the joint venture projects are financed by the Group or Long Hai and Long Hao themselves through bank borrowings and other financial borrowings, the liabilities of the Group will increase. Immediately before the completion of investment amount contributed to Long Hai and Long Hao of RMB240 million and RMB200 million respectively, based on the Group's unaudited financial information for the 6 months period ended 30 June 2005 extracted from the Interim Report, the gearing ratio (as measured by total debts over shareholders' funds) of the Group was about 1.03.

On the same calculation basis, the Directors have confirmed that the gearing ratio (as measured by total debts over shareholders' funds) after completion of the investment amount contributed to Long Hai and Long Hao, the joint venture companies, of RMB240 million and RMB200 million respectively, would be increased to about 1.55. As such, we notice that there is inevitably a liquidity risk associated with such a significant increase in gearing ratio of the Group and such liquidity risk is set out in the section headed "Risks associated with the establishment of Long Hai and Long Hao" below.

4. Risks associated with the establishment of Long Hai and Long Hao

(i) Liquidity risk

According to the Group's unaudited financial information for the 6 months period ended 30 June 2005 extracted from the Interim Report, the Group had net current liabilities of approximately RMB185.7 million (approximately HK178.5 million), the majority of which were loans of approximately RMB887.4 million (approximately HK\$853.3 million). If the joint venture projects are financed by the Group or themselves through bank borrowings and other financial borrowings, the net current liabilities of the Group will be increased to RMB585.7 million (approximately HK\$563.7 million), of which the loans will be increased to approximately RMB1,287.4 million (approximately HK\$1,237.9 million). As advised by the Directors, CLFG, the controlling shareholder of the Company, will provide financial support to the Group at an appropriate time (which could be resulted in a connected transaction. If this is the case, it could be subject to reporting, announcement or Independent H Shares' Shareholders' approval required in accordance with the Listing Rules). Although CLFG will provide financial support to the Group and the Group will also utilize different financial methods, including bank borrowings, other financial borrowings or/and capital market fund raising to help improve the Group's liquidity position, there is no guarantee that the Group will be able to pay the current liabilities as they fall due. The Directors advised that the principal bankers of the Group so far support the financial needs of the Group well. However, we viewed that there is no assurance that the bankers will continue to support the Group and the joint venture projects financially and the Company's reporting auditors adopted the going concern basis in the preparation of the financial statements; and the validity of which depends upon the continuing financial support of the ultimate holding company and financial institutions, we considered that the financial position of the Group may be adversely affected.

(ii) Sales of ultra-thin glass and float flat glass in the PRC

The success of Long Hai and Long Hao depends heavily on the demand for ultra-thin glass and float flat glass in the PRC market. Notwithstanding the fact that the Directors are optimistic on the demand for the products manufactured by the joint venture companies, it is uncertain that both Long Hai and Long Hao could secure the demand from customers in the futures, which in turn will depend heavily on the demand for photoelectric products and property market in the PRC. Accordingly, the demand for the products of Long Hai and Long Hao will be sensitive to general economic conditions and factors beyond the control of the Company. In the event that there is any future downturn in the demand for float flat glass especially photoelectric products in the PRC, the sales volume and prices of products manufactured by Long Hai and Long Hao will be reduced, thereby adversely affecting the revenues and profits of the Group.

(iii) Non-exclusive use of patent technology

Although the specialized usage right of Luoyang Float Glass Patent Technology (洛陽浮法玻璃工藝專有技術) and the usage right of the “CLFG (洛玻)” registered trademark are contributed by CLFG to Long Hai and Long Hao, such rights are not exclusively granted to Long Hai and Long Hao and shall not be restricted to the other companies. The Directors confirmed that the Company, three non-wholly owned subsidiaries of the Company, namely, 洛玻集團龍門有限責任公司 (Luobo Group Longmen Glass Company), 郴州八達玻璃股份有限公司 (Chezhou Beda Glass Co., Ltd.), and 洛玻集團仰韶玻璃有限公司 (CLFG Yang Shao Glass Co. Ltd.) as well as 洛陽龍新玻璃有限公司 (Longyang Longxin Glass Co. Ltd.), a non-wholly owned subsidiary of CLFG and CLFG itself have been using the patent technology and the trademark. The use of such rights by other group companies and CLFG or its associates for similar products in the PRC may adversely affect the business or profitability of Long Hai and Long Hao in the future.

Accordingly, we would like to point out that there are potential risks and benefits associated with the establishment of Long Hai and Long Hao. The business and financial benefits obtained by the Group from the joint venture projects may not be performed as projected, which in turn may significantly affect the Group’s business and financial position. The H Shares’ Independent H Shares’ Shareholders should evaluate the potential risks and benefits associated with the formation of joint venture projects carefully.

Nevertheless, we noted that (1) the demand for the products manufactured by Long Hai and Long Hao are high in the PRC in future; (2) the future prospects of Long Hai and Long Hao and the manufacturing of glass business in the PRC are good; (3) the terms of the respective agreements under the JV Agreements are made after reasonable care and enquiry by the Directors; and (4) it is beneficial to form the joint venture projects given the expected higher profit margin of the products manufactured by the joint venture projects and the enhancement of product mix to the Group which should outweigh the risk factors mentioned above. We therefore are of the view that the formation of joint venture companies and the terms contained in the JV agreements are in the interest of the Company and Shareholders as a whole.

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RECOMMENDATION

Given the risk factors, especially the liquidity risk referring to the financial supports from the financial instruction and the ultimate shareholder of the Company as stated above, the Independent H Shares' Shareholders should carefully evaluate potential risks and benefits associated with the formation of joint ventures in determining whether to vote for this resolution. Nevertheless, having considered the above principal factors and reasons and the associated risk factors as mentioned in the section headed "Risks associated with the establishment of Long Hai and Long Hao" before, we consider that the entering into the JV Agreements is in the interests of the Company and the Independent H Shares' Shareholders as a whole, that in the Company's ordinary and usual course of business on normal commercial terms, and that the terms of the JV Agreements are fair and reasonable as far as the Company and the Independent H Shares' Shareholders are concerned and that are in the interests of the Group as a whole. Accordingly, we advise the Independent Board Committee to recommend to the Independent H Shares' Shareholders to vote in favor of the ordinary resolution approving the JV Agreements at the EGM.

Yours faithfully,

For and on behalf of

GUANGDONG SECURITIES LIMITED

C. K. Poon

Managing Director and

Head of Corporate Finance Department

I. THREE YEARS FINANCIAL SUMMARY

Set out below is a summary of the audited consolidated profit and loss accounts for each of the three years ended 31 December 2002, 2003 and 2004 and the audited consolidated balance sheets as at 31 December 2002, 31 December 2003 and 31 December 2004 as extracted from the Company's audited financial statement for each of the three years ended 31 December 2002, 2003 and 2004.

The Company's auditors have issued unqualified opinion with explanatory paragraph in respect of the fundamental uncertainty over the going concern assumption on the financial statements for each of the three years ended 31 December 2002, 2003 and 2004.

	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Turnover	1,128,554	975,816	822,804
Cost of sales	(877,054)	(840,202)	(797,006)
Gross profit	251,500	135,614	25,798
Other operating income	51,091	9,409	5,864
Other operating expenses	(988)	(9,905)	(59,497)
Selling expenses	(33,435)	(39,447)	(36,999)
Administrative expenses	(137,201)	(356,036)	(277,628)
Profit/(loss) from operations	130,967	(260,365)	(342,462)
Net financing costs	(48,329)	(41,898)	(46,454)
Investment income/(loss)	844	(6,525)	(7,984)
Share of profit/(loss) of associated companies	1,678	(28,817)	9,030
Profit/(loss) from ordinary activities before taxation	85,160	(337,605)	(387,870)
Income tax expense	(4,493)	(2,172)	(200)
Profit/(loss) from ordinary activities after taxation	80,667	(339,777)	(388,070)
Minority interests	(18,927)	(244)	45,621
Profit/(loss) attributable to shareholders	61,740	(340,021)	(342,449)
Basic profit/(loss) per share (in RMB: Yuan)	0.09	(0.49)	(0.49)

APPENDIX I
FINANCIAL INFORMATION OF THE GROUP

	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Non-current assets			
Property, plant and equipment	865,049	938,228	927,674
Construction in progress	2,323	4,535	8,682
Intangible asset	6,005	6,377	6,749
Lease prepayments	81,138	82,991	39,275
Interest in associated companies	174,476	186,843	254,232
Investments	32,983	35,739	75,979
Other receivables	10,501	19,186	397,505
Deposits with a non-bank financial institution	35,654	35,654	35,654
Total non-current assets	1,208,129	1,309,553	1,745,750
Current assets			
Income tax recoverable	1,739	439	1,043
Other receivables	323,439	478,028	393,484
Inventories	205,474	184,952	201,695
Trade and bills receivables	61,550	79,667	126,316
Deposits with banks and non-bank financial institutions	167,233	100,000	125,516
Cash and cash equivalents	130,039	82,279	152,554
Total current assets	889,474	925,365	1,000,608
Current liabilities			
Income tax payable	512	1,379	—
Trade and bills payables	110,282	174,394	240,592
Accrued expenses and other payables	181,712	205,396	230,528
Bank and other loans	812,516	893,251	968,229
Total current liabilities	1,105,022	1,274,420	1,439,349
Net current liabilities	(215,548)	(349,055)	(438,741)
Total assets less current liabilities	992,581	960,498	1,307,009
Non-current liabilities			
Bank and other loans	71,342	118,269	141,154
Long-term payables	2,717	2,580	5,174
Total non-current liabilities	74,059	120,849	146,328
Minority interests	67,306	50,173	31,184
Net assets	851,216	789,476	1,129,497
Shareholders' funds			
Share capital	700,000	700,000	700,000
Share premium	969,988	969,988	969,988
Reserves	118,202	117,125	116,857
Accumulated losses	(936,974)	(997,637)	(657,348)
	851,216	789,476	1,129,497

II. AUDITED FINANCIAL INFORMATION FOR THE YEAR ENDED 31 DECEMBER 2004

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2004

(Prepared in accordance with International Financial Reporting Standards)

		2004	2003
	Note	RMB'000	RMB'000
Turnover	4	1,128,554	975,816
Cost of sales		<u>(877,054)</u>	<u>(840,202)</u>
Gross profit		251,500	135,614
Other operating income	5	51,091	9,409
Other operating expenses	6	(988)	(9,905)
Selling expenses		(33,435)	(39,447)
Administrative expenses		<u>(137,201)</u>	<u>(356,036)</u>
Profit/(loss) from operations		130,967	(260,365)
Net financing costs	7(a)	(48,329)	(41,898)
Investment income/(loss)	7(b)	844	(6,525)
Share of profit/(loss) of associated companies		<u>1,678</u>	<u>(28,817)</u>
Profit/(loss) from ordinary activities before taxation	7	85,160	(337,605)
Income tax expense	9(a)	<u>(4,493)</u>	<u>(2,172)</u>
Profit/(loss) from ordinary activities after taxation		80,667	(339,777)
Minority interests		<u>(18,927)</u>	<u>(244)</u>
Profit/(loss) attributable to shareholders	10	<u>61,740</u>	<u>(340,021)</u>
Basic profit/(loss) per share (in RMB: Yuan)	12	<u>0.09</u>	<u>(0.49)</u>

The notes on pages 57 to 96 form part of these financial statements.

CONSOLIDATED BALANCE SHEET*As at 31 December 2004**(Prepared in accordance with International Financial Reporting Standards)*

		2004	2003
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
Non-current assets			
Property, plant and equipment	13	865,049	938,228
Construction in progress	14	2,323	4,535
Intangible asset	15	6,005	6,377
Lease prepayments	16	81,138	82,991
Interest in associated companies	18	174,476	186,843
Investments	19	32,983	35,739
Other receivables	20	10,501	19,186
Deposits with a non-bank financial institution	25	35,654	35,654
Total non-current assets		1,208,129	1,309,553
Current assets			
Income tax recoverable		1,739	439
Other receivables	20	323,439	478,028
Inventories	21	205,474	184,952
Trade and bills receivables	22	61,550	79,667
Deposits with banks and non-bank financial institutions	23	167,233	100,000
Cash and cash equivalents	24	130,039	82,279
Total current assets		889,474	925,365
Current liabilities			
Income tax payable		512	1,379
Trade and bills payables	26	110,282	174,394
Accrued expenses and other payables		181,712	205,396
Bank and other loans	27	812,516	893,251
Total current liabilities		1,105,022	1,274,420
Net current liabilities		(215,548)	(349,055)
Total assets less current liabilities		992,581	960,498

CONSOLIDATED BALANCE SHEET (CONTINUED)*As at 31 December 2004**(Prepared in accordance with International Financial Reporting Standards)*

		2004	2003
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
Non-current liabilities			
Bank and other loans	27	71,342	118,269
Long-term payables		2,717	2,580
Total non-current liabilities		74,059	120,849
Minority interests		67,306	50,173
Net assets		851,216	789,476
Shareholders' funds			
Share capital	28	700,000	700,000
Share premium	29	969,988	969,988
Reserves	30	118,202	117,125
Accumulated losses	31	(936,974)	(997,637)
		851,216	789,476

Approved and authorised for issued by the Board of Directors on 25 April 2005.

Liu Baoying

Chairman

Zhu Leibo

Director

The notes on pages 57 to 96 form part of these financial statements.

BALANCE SHEET*As at 31 December 2004**(Prepared in accordance with International Financial Reporting Standards)*

		2004	2003
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
Non-current assets			
Property, plant and equipment	13	395,663	443,586
Construction in progress	14	1,494	2,749
Lease prepayments	16	33,795	34,647
Interest in subsidiaries	17	233,152	272,644
Interest in associated companies	18	174,005	187,939
Investments	19	32,983	35,187
Other receivables	20	10,501	19,186
Deposits with non-bank financial institution	25	35,654	35,654
Total non-current assets		917,247	1,031,592
Current assets			
Other receivables	20	299,281	439,526
Inventories	21	117,225	99,066
Trade and bills receivables	22	49,946	51,735
Deposits with banks and non-bank financial institutions	23	167,233	100,000
Cash and cash equivalents	24	102,105	57,476
Total current assets		735,790	747,803
Current liabilities			
Trade and bills payables	26	45,966	90,833
Accrued expenses and other payables		67,370	86,521
Bank and other loans	27	655,637	730,250
Total current liabilities		768,973	907,604
Net current liabilities		(33,183)	(159,801)
Total assets less current liabilities		884,064	871,791

BALANCE SHEET (CONTINUED)*As at 31 December 2004**(Prepared in accordance with International Financial Reporting Standards)*

		2004	2003
	<i>Note</i>	RMB'000	<i>RMB'000</i>
Non-current liabilities			
Bank and other loans	27	36,342	56,152
Long-term payables		2,717	2,580
Total non-current liabilities		39,059	58,732
Net assets		845,005	813,059
Shareholders' funds			
Share capital	28	700,000	700,000
Share premium	29	969,988	969,988
Reserves	30	106,547	106,547
Accumulated losses	31	(931,530)	(963,476)
		845,005	813,059

Approved and authorised for issued by the Board of Directors on 25 April 2005.

Liu Baoying
Chairman

Zhu Leibo
Director

The notes on pages 57 to 96 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' FUNDS*For the year ended 31 December 2004**(Prepared in accordance with International Financial Reporting Standards)*

	Share capital <i>RMB'000</i>	Share premium <i>RMB'000</i>	Accumulated Reserves <i>RMB'000</i>	deficits <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2003	700,000	969,988	116,857	(657,348)	1,129,497
Loss for the year	—	—	—	(340,021)	(340,021)
Appropriation	—	—	268	(268)	—
At 31 December 2003	<u>700,000</u>	<u>969,988</u>	<u>117,125</u>	<u>(997,637)</u>	<u>789,476</u>
At 1 January 2004	700,000	969,988	117,125	(997,637)	789,476
Profit for the year	—	—	—	61,740	61,740
Appropriation	—	—	1,077	(1,077)	—
At 31 December 2004	<u>700,000</u>	<u>969,988</u>	<u>118,202</u>	<u>(936,974)</u>	<u>851,216</u>

The notes on pages 57 to 96 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT*For the years ended 31 December 2004**(Prepared in accordance with International Financial Reporting Standards)*

		2004	2003
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cash flows from operating activities			
Cash generated from operations	(a)	223,704	145,947
Interest paid		(51,879)	(63,095)
Income tax paid		(6,660)	(189)
Net cash from operating activities		165,165	82,663
Cash flows from investing activities			
Interest and investment income received		9,620	16,711
Capital expenditure			
— Property, plant and equipment		(15,430)	(41,624)
— Construction in progress		(11,803)	(32,611)
Cash inflow from newly consolidated subsidiaries	(c)	—	1,099
Proceeds from disposal of property, plant and equipment		8,186	2,846
Net cash used in investing activities		(9,427)	(53,579)
Cash flows from financing activities			
Dividend paid to a minority shareholder		(1,794)	—
Proceeds from bank and other loans		972,281	882,549
Repayment of bank and other loans		(1,078,465)	(981,908)
Net cash used in financing activities		(107,978)	(99,359)
Net increase/(decrease) in cash and cash equivalents		47,760	(70,275)
Cash and cash equivalents at 1 January		82,279	152,554
Cash and cash equivalents at 31 December	24	130,039	82,279

The notes on pages 57 to 96 form part of these financial statements.

NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2004

(Prepared in accordance with International Financial Reporting Standards)

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

	2004 RMB'000	2003 RMB'000
Profit/(loss) from ordinary activities before taxation	85,160	(337,605)
Share of (profit)/loss of associated companies	(1,678)	28,817
Share of accumulated losses from newly consolidated subsidiaries	—	3,781
Amortisation and depreciation	92,927	80,302
Interest income	(5,061)	(20,485)
Dividend income	(3,600)	(3,300)
Interest expense	51,530	58,920
Provision for diminution in value of other unlisted investments	2,756	6,044
Provision for amount due from an associated company	—	38,730
Allowance for doubtful debts	29,387	234,070
Waiver of debts	(25,731)	—
Write off of other payables	(1,311)	(6,839)
Provision/(write back of provision) for inventories	800	(797)
(Net gain)/loss on disposal of property, plant and equipment	(5,515)	7,028
Foreign exchange loss	742	1,496
(Increase)/decrease in inventories	(21,322)	25,289
Decrease in trade and bills receivables	13,079	22,098
Decrease in other receivables	151,109	73,889
(Increase)/decrease in time deposits with original maturity more than three months	(67,233)	25,516
Decrease in trade and bills payables	(64,112)	(62,776)
Decrease in accrued expenses and other payables	(8,223)	(28,231)
Cash generated from operations	223,704	145,947

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

	2004 RMB'000	2003 RMB'000
Waiver of debts	25,731	—

NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)*For the year ended 31 December 2004**(Prepared in accordance with International Financial Reporting Standards)***(c) Newly consolidated subsidiaries**

The consolidation of the results of two subsidiaries had the following effect on the Group's assets and liabilities.

	2003 RMB'000
Property, plant and equipment	45,973
Construction in progress	1,117
Lease prepayments	10,386
Trade and bills receivables	6,345
Other receivables	8,495
Inventories	7,749
Investments	552
Cash and cash equivalents	1,099
Trade and bills payables	(2,239)
Accrued expenses and other payables	(9,765)
Bank and other loans	(20,000)
Minority interests	(18,745)
Net identifiable assets and liabilities	30,967
Share of accumulated losses from newly consolidated subsidiaries	3,781
Cost transferred from unlisted investments	(34,748)
Cash of newly consolidated subsidiaries	1,099
Net cash inflow in respect of newly consolidated subsidiaries	<u><u>1,099</u></u>

NOTES ON THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

(Prepared in accordance with International Financial Reporting Standards)

1 Background of the Company

Luoyang Glass Company Limited (“the Company”) is a company incorporated in the People’s Republic of China (“the PRC”) as a joint stock limited company that, together with its subsidiaries (herewithafter collectively referred to as “the Group”), engaged in the production and sales of float flat glass.

2 Significant accounting policies**(a) Statement of compliance**

The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) promulgated by the International Accounting Standards Board (“IASB”). IFRS includes International Accounting Standards (“IAS”) and related interpretations.

These financial statements also comply with the disclosure requirements of 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 (“Listing Rules”).

A summary of the significant accounting policies adopted by the Group is set out below. The Company also prepares a set of financial statement which complies with the PRC Accounting Rules and Regulations.

IASB has issued a number of new and revised IFRS which are effective for accounting periods beginning on or after 1 January 2005. The Group has already commenced an assessment of the impact of these new IFRS but is not yet in a position to state whether these new IFRS would have a significant impact on its results of operations and financial position.

(b) Basis of preparation

The financial statements are presented in Renminbi, rounded to the nearest thousand, and are prepared on the historical cost basis other than the valuation of certain property, plant and equipment taken over by the Company on its formation (note 13(b)). The accounting policies have been consistently applied by the Group and are consistent with those used in the previous year.

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2004

(Prepared in accordance with International Financial Reporting Standards)

2 Significant accounting policies (continued)**(b) Basic of preparation (continued)**

Notwithstanding that the Company and the Group had net current liabilities as at 31 December 2004, the directors of the Company are of the opinion that the Company and the Group are able to continue as a going concern and to meet their obligations as and when they fall due having regard to the following:

- (i) agreements obtained from financial institutions for renewal of loan facilities totalling approximately RMB525,000,000 to the Company upon their expiry in 2005; and
- (ii) continuing financial support received from the ultimate holding company.

The directors believe that the Company and the Group will have sufficient cash resources to satisfy its future working capital and other financing requirements. Accordingly, it is appropriate that these financial statements should be prepared on a going concern basis and do not include any adjustments that would be required should the Company and the Group fail to continue as a going concern.

The preparation of the financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates.

NOTES ON THE FINANCIAL STATEMENTS (*CONTINUED*)*For the year ended 31 December 2004**(Prepared in accordance with International Financial Reporting Standards)***2 Significant accounting policies (*continued*)****(c) Basis of consolidation****(i) Subsidiaries**

Subsidiaries are those entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The results of subsidiaries are included in the consolidated income statement from the date that control effectively commences until the date that control effectively ceases, and the share attributable to minority interests is deducted from or added to profit or loss from ordinary activities after taxation.

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.

Losses attributable to the minority shareholders in a consolidated subsidiary are restricted to their equity interests in the subsidiary. If the subsidiary subsequently reports profits, the Group is allocated all such profits until the minority shareholders' 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 any impairment losses (see note 2(s)), unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Company, in which case, it is stated at fair value with changes in fair value recognised in the income statement as they arise.

NOTES ON THE FINANCIAL STATEMENTS (*CONTINUED*)*For the year ended 31 December 2004**(Prepared in accordance with International Financial Reporting Standards)***2 Significant accounting policies (*continued*)****(c) Basis of consolidation (*continued*)****(ii) Associated companies**

Associated companies are those enterprises in which the Group has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Group's share of the total recognised gains and losses of associated companies on an equity accounted basis, from the date that significant influence effectively commences until the date that significant influence effectively ceases. When the Group's share of losses exceeds the carrying amount of the associated companies, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred obligations in respect of the associated companies.

Unrealised profits and losses resulting from transactions between the Group and its associated companies are eliminated to the extent of the Group's interest in the associated company, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in the income statement.

In the Company's balance sheet, an investment in an associated company is stated at cost less any impairment losses (see note 2(s)), unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions that significantly impair its ability to transfer funds to the investor, in which case, it is stated at fair value with changes in fair value recognised in the income statement as they arise.

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)*For the year ended 31 December 2004**(Prepared in accordance with International Financial Reporting Standards)***2 Significant accounting policies (continued)****(d) Property, plant and equipment**

- (i) Property, plant and equipment are stated at cost less accumulated depreciation (see below) and impairment losses (note 2(s)). The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to working condition and location for its intended use. Expenditure incurred after the asset has been put into operation is capitalised only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is charged to the income statement in the period in which it is incurred.
- (ii) Gains or losses arising from the retirement or disposal of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised as income or expense in the income statement on the date of retirement or disposal.
- (iii) Depreciation is provided to write off the cost where appropriate of each asset over its estimated useful life on a straight-line basis, after taking into account its estimated residual value, as follows:

Buildings	30 to 50 years
Plant, machinery and equipment	4 to 25 years
Motor vehicles	6 to 12 years

(e) Construction in progress

Construction in progress represents buildings, various plant and equipment under construction and pending installation, and is stated at cost less impairment losses (note 2(s)).

Cost comprises direct costs of construction as well as interest charges, and foreign exchange differences on related borrowed funds to the extent that they are regarded as an adjustment to interest charges, during the construction period.

Capitalisation of the above costs ceases and the construction in progress is transferred to property, plant and equipment when the asset is substantially ready for its intended use.

No depreciation is provided in respect of construction in progress.

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)*For the year ended 31 December 2004**(Prepared in accordance with International Financial Reporting Standards)***2 Significant accounting policies (continued)****(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 (see below) and impairment losses (note 2(s)).

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

(g) Intangible assets

Intangible assets are stated at cost less accumulated amortisation (see below) and impairment losses (note 2(s)).

Amortisation is provided on a straight-line basis over the estimated useful life of the asset.

(h) Investments

Investments in unlisted equity securities are stated at cost less impairment losses (note 2(s)).

(i) Cash and cash equivalents

Cash and cash equivalents consist of cash in hand and balances with banks and other non-bank financial institutions with an original maturity within three months. Cash equivalents are stated at cost, which approximates fair value.

(j) Inventories

Inventories, other than spare parts and consumables, are carried at the lower of cost and net realisable value. Cost includes the cost of purchase computed using the weighted average method and, in the case of work in progress and finished goods, direct labour and an appropriate proportion of production overheads based on normal operating capacity. 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.

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)*For the year ended 31 December 2004**(Prepared in accordance with International Financial Reporting Standards)***2 Significant accounting policies (continued)****(j) Inventories (continued)**

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, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

Spare parts and consumables are included in raw materials and stated at cost less any provision for obsolescence.

(k) Trade and other receivables

Trade and other receivables are stated at cost less allowance for doubtful debts. An allowance for doubtful accounts is provided based upon the evaluation of the recoverability of these accounts at the balance sheet date.

(l) Trade and other payables

Trade and other payables are stated at cost.

(m) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group 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. When 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.

NOTES ON THE FINANCIAL STATEMENTS (*CONTINUED*)*For the year ended 31 December 2004**(Prepared in accordance with International Financial Reporting Standards)***2 Significant accounting policies (*continued*)****(n) Revenue recognition***(i) Goods sold*

Revenue associated with the sales of goods is recognised when the customer accepts the goods and the significant risks and rewards of ownership and title have been transferred to the buyer and no significant uncertainties remain regarding recovery of the consideration due, associated costs or the possible return of goods.

(ii) Interest and dividend income

Interest and dividends arising from the use by others of the Group's resources are recognised when it is probable that the economic benefits associated with the transaction will flow to the Group and the revenue can be measured reliably. Interest income is accrued on a time-apportioned basis on the principal outstanding and at the rate applicable unless collectibility is in doubt. Dividend income is recognised when the shareholder's right to receive payment is established.

(iii) Government grants

An unconditional government grant is recognised in the income statement as revenue when the grant becomes receivable. Any other government grant is recognised in the balance sheet initially as deferred income when there is reasonable assurance that it will be received and that the Group will comply with the conditions attaching to it. Grants that compensate the Group for expenses incurred are recognised as revenue in the income statement on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are recognised in the income statement as revenue on a systematic basis over the useful life of the asset.

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)*For the year ended 31 December 2004**(Prepared in accordance with International Financial Reporting Standards)***2 Significant accounting policies (continued)****(o) Translation of foreign currencies**

Foreign currency transactions 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. Foreign currency exchange differences are dealt with in the income statement other than those eligible for capitalisation as construction in progress (note 2(e)).

(p) Repairs and maintenance expenses

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

(q) Research and development expenses

Research and development expenses are recognised as expenses in the period in which they are incurred.

(r) Retirement benefits

The contributions payable under the Group's retirement plans are recognised as an expense in the income statement according to the contribution determined by the plans. Further information is set out in note 35.

(s) Impairment

The carrying amounts of the Group's assets, other than trade and other receivables (note 2(k)), inventories (note 2(j)) and deferred tax assets (note 2(u)), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. For intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

NOTES ON THE FINANCIAL STATEMENTS (*CONTINUED*)*For the year ended 31 December 2004**(Prepared in accordance with International Financial Reporting Standards)***2 Significant accounting policies (*continued*)****(s) Impairment (*continued*)****(i) Calculation of recoverable amount**

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing the 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 the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(ii) 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.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

(t) Borrowing costs

Borrowing costs are expensed in the income statement in the period in which they are incurred, except to the extent that they are capitalised as being attributable to the construction of an asset which necessarily takes a period of time to get ready for its intended use.

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2004

(Prepared in accordance with International Financial Reporting Standards)

2 Significant accounting policies (continued)**(u) Income tax**

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is 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 is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

The tax value of losses expected to be available for utilisation against future taxable income is set off against the deferred tax liability within the same legal tax unit and jurisdiction to the extent appropriate, and is not available for set-off against the taxable profit of another legal tax unit.

(v) Related parties

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or entities.

NOTES ON THE FINANCIAL STATEMENTS (*CONTINUED*)

For the year ended 31 December 2004

(Prepared in accordance with International Financial Reporting Standards)

2 Significant accounting policies (*continued*)**(w) Segment reporting**

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

3 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 are almost entirely situated in the PRC and accordingly, no information on segment assets is provided.

The analysis of the geographical location of the operations of the Group during the financial year is as follows:

	China		Asia		America		Oceania		Others		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	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	1,048,118	846,697	35,994	75,495	18,977	27,748	16,679	19,129	8,786	6,747	1,128,554	975,816
Segment results	212,079	86,756	2,679	5,502	1,412	2,023	1,242	1,394	653	492	218,065	96,167
Unallocated expenses											(87,098)	(356,532)
Profit/(loss) from operations											130,967	(260,365)
Net financing costs											(48,329)	(41,898)
Investment income/(loss)											844	(6,525)
Share of profit/(loss) of associated companies											1,678	(28,817)
Income tax expense											(4,493)	(2,172)
Minority interests											(18,927)	(244)
Profit/(loss) attributable to shareholders											61,740	(340,021)

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)*For the year ended 31 December 2004**(Prepared in accordance with International Financial Reporting Standards)***4 Turnover**

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

5 Other operating income

	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>
Waiver of debts	25,731	—
Gain on disposal of racks	7,450	—
Net gain on disposal of property, plant and equipment	5,515	—
Government grants	5,353	—
Profit on sales of raw materials	2,774	—
Write off of other creditors	1,311	6,839
Others	2,957	2,570
	<u>51,091</u>	<u>9,409</u>

6 Other operating expenses

	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>
Net loss on disposal of property, plant and equipment	—	(7,028)
Others	(988)	(2,877)
	<u>(988)</u>	<u>(9,905)</u>

NOTES ON THE FINANCIAL STATEMENTS (*CONTINUED*)

For the year ended 31 December 2004

(Prepared in accordance with International Financial Reporting Standards)

7 Profit/(loss) from ordinary activities before taxation

Profit/(loss) from ordinary activities before taxation is arrived at after (charging)/crediting:

	2004 RMB'000	2003 RMB'000
(a) Net financing costs:		
Interest on bank loans and other borrowings		
Repayable within five years	(51,530)	(58,920)
Interest income	5,061	20,485
Net foreign exchange loss	(893)	(1,684)
Bank charges	(967)	(1,779)
	<u>(48,329)</u>	<u>(41,898)</u>
(b) Investment income/(loss):		
Dividend income	3,600	3,300
Impairment loss on unlisted investments	(2,756)	(6,044)
Share of accumulated losses from newly consolidated subsidiaries	—	(3,781)
	<u>844</u>	<u>(6,525)</u>
(c) Personnel expenses # :		
Wages and salaries	(67,251)	(58,661)
Contributions to defined contribution plan	(11,469)	(14,665)
	<u>(78,720)</u>	<u>(73,326)</u>

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2004

(Prepared in accordance with International Financial Reporting Standards)

7 Profit/(loss) from ordinary activities before taxation (continued)

	2004 RMB'000	2003 RMB'000
(d) Other items:		
Cost of inventories #	(877,054)	(840,202)
Depreciation #	(90,702)	(78,540)
Provision for amounts due from associated companies	—	(38,730)
Allowance for doubtful debts	(29,387)	(234,070)
Auditors' remuneration	(2,600)	(2,200)
Research and development expenses	(7,429)	(5,330)
Amortisation of intangible assets	(372)	(372)
Amortisation of lease prepayments	(1,853)	(1,390)

The number of employees at 31 December 2004 was 5,898 (2003: 5,358).

- # Cost of inventories includes personnel expenses and depreciation, the amounts of which are also included in the respective total amounts disclosed separately above for each of these types of expenses.

8 Directors' and supervisors' remuneration

Directors' remuneration is as follows:

	2004 RMB'000	2003 RMB'000
Salaries and other emoluments	362	242
Contributions to defined contribution plan	6	2
	<u>368</u>	<u>244</u>

Supervisors' remuneration is as follows:

	2004 RMB'000	2003 RMB'000
Salaries and other emoluments	96	46
Contributions to defined contribution plan	4	2
	<u>100</u>	<u>48</u>

Included in the directors' and supervisors' remuneration were fees of RMB114,000 paid to independent non-executive directors and supervisors for the year ended 31 December 2004 (2003: RMB92,000).

NOTES ON THE FINANCIAL STATEMENTS (*CONTINUED*)

For the year ended 31 December 2004

(Prepared in accordance with International Financial Reporting Standards)

8 Directors' and supervisors' remuneration (*continued*)

The five highest paid individuals in the Group were all directors and supervisors. The remuneration of all the directors and supervisors is within the following band:

	No. of directors and supervisors	
	2004	2003
Hong Kong dollars		
0 - HK\$1,000,000	<u>16</u>	<u>16</u>

9 Income tax expense**(a) Income tax expense in the consolidated income statement represents:**

	2004	2003
	RMB'000	RMB'000
Current year	4,493	1,430
Adjustments for prior years	<u>—</u>	<u>742</u>
	<u>4,493</u>	<u>2,172</u>

Provision for PRC income tax has been made as certain subsidiaries of the Group have made profits for taxation purposes during the year ended 31 December 2004. The provision for PRC income tax is calculated at 33% of the estimated assessable profits in accordance with the relevant income tax rules and regulations of the PRC, except for a subsidiary of the Company, which is taxed at a preferential rate of 15%.

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

The reconciliation of income tax calculated at the Company's applicable tax rate with actual expense for the year is as follows:

	2004	2003
	RMB'000	RMB'000
Profit/(loss) before tax	85,160	(337,605)
Expected PRC income tax using the Company's tax rate of 33%	28,103	(111,409)
Non-deductible expenses	8,559	14,664
Tax exempt revenues	(4,777)	(2,376)
Differential tax rate on a subsidiary's profit	—	(52)
Effect of tax loss utilised	(42,226)	—
Tax losses not recognised for deferred tax	14,834	100,603
Under provided in prior years	<u>—</u>	<u>742</u>
	<u>4,493</u>	<u>2,172</u>

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)*For the year ended 31 December 2004**(Prepared in accordance with International Financial Reporting Standards)***9 Income tax expense (continued)****(b) Major components of unrecognised deferred tax assets are as follows:**

	2004 RMB'000	2003 RMB'000
Tax losses	249,562	270,537
Lease prepayments	27,834	28,526
	<u>277,396</u>	<u>299,063</u>

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 five years from the year in which the loss was originated to offset against future taxable profits. The above tax losses are yet to be confirmed by the relevant tax authorities.

10 Profit/(loss) attributable to shareholders

The profit/(loss) attributable to shareholders includes a profit of RMB31,946,000 (2003: loss of RMB323,820,000) which has been dealt with in the financial statements of the Company.

11 Dividend

The board of directors of the Company does not recommend the payment of a dividend in respect of the year ended 31 December 2004 (2003: RMB: Nil).

12 Basic profit/(loss) per share

The calculation of basic profit/(loss) per share is based on the profit attributable to shareholders of RMB61,740,000 (2003: loss of RMB340,021,000) and 700,000,000 (2003: 700,000,000) shares in issue during the year.

No diluted profit/(loss) per share is calculated as there are no dilutive potential shares for the two years ended 31 December 2004.

NOTES ON THE FINANCIAL STATEMENTS (*CONTINUED*)

For the year ended 31 December 2004

(Prepared in accordance with International Financial Reporting Standards)

13 Property, plant and equipment**The Group**

	Buildings	Plant, machinery and equipment	Motor vehicles	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cost:				
At 1 January 2004	455,901	1,041,718	22,064	1,519,683
Additions	86	4,269	1,824	6,179
Transfer from construction in progress (note 14)	2,903	10,772	340	14,015
Disposals	(1,298)	(10,292)	(4,400)	(15,990)
	<u>457,592</u>	<u>1,046,467</u>	<u>19,828</u>	<u>1,523,887</u>
At 31 December 2004	457,592	1,046,467	19,828	1,523,887
Accumulated depreciation and impairment:				
At 1 January 2004	105,351	463,087	13,017	581,455
Charge for the year	15,542	72,918	2,242	90,702
Written back on disposal	(445)	(9,017)	(3,857)	(13,319)
	<u>120,448</u>	<u>526,988</u>	<u>11,402</u>	<u>658,838</u>
At 31 December 2004	120,448	526,988	11,402	658,838
Net book value:				
At 31 December 2004	<u>337,144</u>	<u>519,479</u>	<u>8,426</u>	<u>865,049</u>
At 31 December 2003	<u>350,550</u>	<u>578,631</u>	<u>9,047</u>	<u>938,228</u>

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2004

(Prepared in accordance with International Financial Reporting Standards)

13 Property, plant and equipment (continued)

The Company

	Buildings RMB'000	Plant, machinery and equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
Cost:				
At 1 January 2004	223,809	633,466	5,011	862,286
Additions	—	2,221	959	3,180
Transfer from construction in progress (note 14)	62	2,494	—	2,556
Disposals	(1,166)	(8,097)	(3,186)	(12,449)
At 31 December 2004	222,705	630,084	2,784	855,573
Accumulated depreciation and impairment:				
At 1 January 2004	65,296	351,505	1,899	418,700
Charge for the year	6,902	43,021	1,719	51,642
Written back on disposal	(314)	(7,299)	(2,819)	(10,432)
At 31 December 2004	71,884	387,227	799	459,910
Net book value:				
At 31 December 2004	150,821	242,857	1,985	395,663
At 31 December 2003	158,513	281,961	3,112	443,586

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

(b) The Company was established in the PRC on 6 April 1994 as a joint stock limited company as part of the restructuring of China Luoyang Float Glass Group Company of Limited Liability ("CLFG"). On the same date, the principal business undertakings and subsidiaries of CLFG together with the relevant assets and liabilities were taken over by the Company. As required by the relevant PRC Rules and Regulations with respect to the reorganisation, the property, plant and equipment, including the land use rights of the Group at 26 April 1994, were valued for each asset class by independent valuers registered in the PRC, Zhong Zhou Certified Public Accountants, and reflected in the financial statements on this basis. This valuation was an one-off exercise which established the deemed cost of the property, plant and equipment taken over by the Company.

NOTES ON THE FINANCIAL STATEMENTS (*CONTINUED*)*For the year ended 31 December 2004**(Prepared in accordance with International Financial Reporting Standards)***14 Construction in progress**

Construction in progress comprises expenditure incurred on the construction of buildings, plant, machinery and equipment not yet completed at 31 December.

The Group

	2004 RMB'000	2003 RMB'000
At 1 January	4,535	8,682
Additions:		
— in respect of newly consolidated subsidiaries	—	1,117
— others	11,803	32,611
	16,338	42,410
Transfer to property, plant and equipment (note 13)	(14,015)	(37,875)
At 31 December	2,323	4,535

The Company

	2004 RMB'000	2003 RMB'000
At 1 January	2,749	6,468
Additions for the year	1,301	5,920
	4,050	12,388
Transfer to property, plant and equipment (note 13)	(2,556)	(9,639)
At 31 December	1,494	2,749

NOTES ON THE FINANCIAL STATEMENTS (*CONTINUED*)

For the year ended 31 December 2004

(Prepared in accordance with International Financial Reporting Standards)

15 Intangible asset**The Group**

	2004	2003
	RMB'000	RMB'000
<i>Cost:</i>		
At 1 January and 31 December 2004	7,400	7,400
<i>Accumulated amortisation:</i>		
At 1 January	1,023	651
Charge for the year	372	372
At 31 December	1,395	1,023
<i>Net book value:</i>		
At 31 December	6,005	6,377

The intangible asset represents a trademark obtained by a subsidiary. The trademark is amortised on a straight-line basis over 20 years.

16 Lease prepayments

Lease prepayments represent the land use rights on land located in the PRC. The remaining periods of the land use rights are from 18 to 60 years. The certificate of land use rights with a carrying value of RMB33,636,000 at 31 December 2004 is in the process of application.

17 Interest in subsidiaries**The Company**

	2004	2003
	RMB'000	RMB'000
Unlisted equity interest, at cost	202,006	202,006
Amounts due from subsidiaries	167,197	205,163
	369,203	407,169
Less: impairment loss	(136,051)	(134,525)
	233,152	272,644

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)*For the year ended 31 December 2004**(Prepared in accordance with International Financial Reporting Standards)***17 Interest in subsidiaries (continued)**

Details of the Company's principal subsidiaries at 31 December 2004, all of which are incorporated and operated in the PRC, are set out below:

Name of company	Registered capital	Direct equity interest	Principal activities	Note
Luobo Group Longmen Glass Company Ltd.	RMB20,000,000	79.06%	Manufacture of float sheet glass	(i)
Chenzhou Bada Glass Co. Ltd. ("Bada")	RMB150,000,000	52.25%	Manufacture of float sheet glass	(ii)
CLFG Yang Shao Glass Co. Ltd.	RMB74,080,000	54.00%	Manufacture of float sheet glass	(iii)
Xiangfang Luoshen Auto Glass Co. Ltd. ("Luoshen")	RMB30,000,000	66.67%	Manufacture of auto glass	(iii)
Yinan Mineral Products Co. Ltd. ("Yinan")	RMB28,000,000	52.00%	Exploration of minerals	(iii)
Shenzhen Luobo Trading Co. Ltd.	RMB1,000,000	60.00%	Selling of float sheet glass	(iii)

Notes:

- (i) This subsidiary is a collective joint enterprise.
- (ii) This subsidiary is a joint stock limited liability company.

Bada originally had a loan of RMB84,800,000 due to China Hua Rong Assets Management Company ("Hua Rong"). During 2001, Bada, Hua Rong and the Company entered into an agreement under which RMB30,000,000 out of the total amount due to Hua Rong mentioned above was converted to equity; consequently, the registered capital of Bada increased from RMB120,000,000 to RMB150,000,000.

According to the agreement, the equity interest held by Hua Rong will be required to be redeemed in full by instalments from 2001 to 2008 and Hua Rong will not share any profit or loss of Bada. As at 31 December 2004, redeemable equity of RMB6,000,000 (2003: RMB4,500,000) has been overdue. In accordance with IAS 32, the equity interest held by Hua Rong has been classified as a long-term loan (note 27).

- (iii) These subsidiaries are limited liability companies.

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2004

(Prepared in accordance with International Financial Reporting Standards)

18 Interest in associated companies

	The Group		The Company	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Unlisted equity interest, at cost	—	—	220,649	220,649
Share of net assets	175,378	174,659	—	—
	175,378	174,659	220,649	220,649
Amounts due from associated companies	71,477	83,661	71,477	83,725
Amounts due to associated companies	(902)	—	(1,697)	—
	245,953	258,320	290,429	304,374
Less: impairment loss	(71,477)	(71,477)	(116,424)	(116,435)
	174,476	186,843	174,005	187,939

Details of the associated companies, which are incorporated and operated in the PRC, are as follows:

Name of company	Form of business structure	Registered capital RMB'000	Direct equity interest	Principal activities
Luoyang Jingxin Ceramic Co. Ltd. ("Jingxin")	Sino-foreign equity joint venture	41,945	49%	Manufacture of ceramic wall tiles
China Luoyang Float Glass Group Financial Company of Limited Liabilities ("CLFC")	Limited liability company	300,000	37%	Provision of financial services
China Luoyang Float Glass (Group) Processed Glass Company Limited ("CPGC")	Joint stock limited liability company	181,496	49.09%	Production and sale of vehicle safety reprocessed glass

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)*For the year ended 31 December 2004**(Prepared in accordance with International Financial Reporting Standards)***18 Interest in associated companies (continued)**

The associated companies are subsidiaries of the ultimate holding company. Included in the amounts due from associated companies are RMB34,300,000 receivable from Jingxin. Based on the assessment of recent development of Jingxin, the directors have made full provision for the amount. The remaining amounts are unsecured, interest-free and have no fixed terms of repayment.

The Group's share of post-acquisition total recognised losses in the above associates for the year ended 31 December 2004 was RMB45,271,000 (2003: RMB45,990,000). The Group has not recognised losses relating to Jingxin totaling RMB13,408,000 (2003: RMB7,832,000) of which RMB5,576,000 was applicable to the current financial year (2003: RMB6,527,000). The Group has no obligation in respect of these losses.

19 Investments**The Group**

	2004 RMB'000	2003 RMB'000
Unlisted investments, at cost	68,957	68,957
Less: impairment loss	(35,974)	(33,218)
	<u>32,983</u>	<u>35,739</u>

The Company

	2004 RMB'000	2003 RMB'000
Unlisted investments, at cost	62,067	62,067
Less: impairment loss	(29,084)	(26,880)
	<u>32,983</u>	<u>35,187</u>

Unlisted investment includes a non-consolidated subsidiary that does not significantly affect the results or assets of the Group and, therefore, it is not consolidated or equity accounted for.

NOTES ON THE FINANCIAL STATEMENTS (*CONTINUED*)

For the year ended 31 December 2004

(Prepared in accordance with International Financial Reporting Standards)

20 Other receivables

	The Group		The Company	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
<i>Non-current assets</i>				
Other receivables	<u>10,501</u>	<u>19,186</u>	<u>10,501</u>	<u>19,186</u>
<i>Current assets</i>				
Amounts due from ultimate				
holding company	159,525	146,359	151,882	138,715
Amounts due from fellow subsidiaries	353,820	485,813	350,723	483,521
Advance payments, other receivables				
and prepayments	<u>134,576</u>	<u>146,342</u>	<u>81,400</u>	<u>102,236</u>
	647,921	778,514	584,005	724,472
Less: allowance for doubtful debts	<u>(324,482)</u>	<u>(300,486)</u>	<u>(284,724)</u>	<u>(284,946)</u>
	<u>323,439</u>	<u>478,028</u>	<u>299,281</u>	<u>439,526</u>

As at 31 December 2003, the receivables due from Qingdao Taiyang Glass Industries Company Limited ("Taiyang"), a fellow subsidiary, amounted to RMB359,616,000 (including interest receivable of RMB45,008,000), out of which a provision of RMB229,763,000 had been made. During the year, Taiyang repaid RMB129,820,000 after they have disposed of their pledged fixed assets. The directors have assessed the remaining receivable balances of RMB229,796,000 due from Taiyang as at 31 December 2004 and have considered them irrecoverable. Full provision has been maintained in this regard. During the year, the Company has ceased to accrue interest on the amount due from Taiyang.

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

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2004

(Prepared in accordance with International Financial Reporting Standards)

21 Inventories

	The Group		The Company	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
Raw materials and consumables	157,858	153,612	88,106	88,364
Work in progress	11,160	11,249	5,804	4,109
Finished goods	45,285	34,129	31,196	19,683
	214,303	198,990	125,106	112,156
Less: impairment loss	(8,829)	(14,038)	(7,881)	(13,090)
	205,474	184,952	117,225	99,066

At 31 December 2004, the carrying amount of the Group's and the Company's inventories carried at net realisable value amounted to RMB705,000 (2003: RMB2,999,000).

22 Trade and bills receivables

	The Group		The Company	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables				
— third parties	69,784	78,259	55,216	55,687
— ultimate holding company	84,133	84,786	84,070	84,723
— fellow subsidiaries	6,866	9,987	2,651	3,707
	160,783	173,032	141,937	144,117
Less: allowance for doubtful debts	(142,286)	(138,830)	(129,681)	(129,755)
	18,497	34,202	12,256	14,362
Bills receivable	43,053	45,465	37,690	37,373
	61,550	79,667	49,946	51,735

NOTES ON THE FINANCIAL STATEMENTS (*CONTINUED*)

For the year ended 31 December 2004

(Prepared in accordance with International Financial Reporting Standards)

22 Trade and bills receivables (*continued*)

The ageing analysis of trade and bills receivables, after allowance for doubtful debts, is as follows:

	The Group		The Company	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
Within one year	60,265	73,140	49,584	47,991
Between one and two years	622	2,225	140	1,308
Between two and three years	663	4,302	222	2,436
	61,550	79,667	49,946	51,735

Debts are normally due within 60 to 90 days from the date of billing. The ageing analysis above is prepared in accordance with invoice dates.

23 Deposits with banks and non-bank financial institutions

At 31 December 2004, time deposits with banks and non-bank financial institutions amounted to RMB80,000,000 (2003: RMB90,000,000) have been pledged to secure loans granted to the Company (note 27).

NOTES ON THE FINANCIAL STATEMENTS (*CONTINUED*)*For the year ended 31 December 2004**(Prepared in accordance with International Financial Reporting Standards)***24 Cash and cash equivalents**

	The Group		The Company	
	2004	2003	2004	2003
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cash in hand	425	715	259	38
Deposits with banks and non-bank financial institutions with an original maturity within three months	129,614	81,564	101,846	57,438
Cash and cash equivalents	<u>130,039</u>	<u>82,279</u>	<u>102,105</u>	<u>57,476</u>

At 31 December 2004, deposits with banks and non-bank financial institutions with an original maturity within three months of the Group amounted to RMB3,000,000 (2003: RMB15,899,000) have been pledged to secure bills payable of the Group.

At 31 December 2004, deposits with banks and non-bank financial institutions with an original maturity within three months of the Company amounted to RMB3,000,000 (2003: RMB12,186,000) have been pledged to secure bills payable of the Company.

25 Deposits with a non-bank financial institution

The balances at 31 December 2004 represent the overdue time deposits at Guangzhou International Trust & Investment Corporation (“GZITIC”), after a 75% provision made. GZITIC is in the process of corporate restructuring. Based on the assessment of recent development, the directors are of the opinion that a 75% provision is adequate. No interest has been accrued in respect of the deposits.

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2004

(Prepared in accordance with International Financial Reporting Standards)

26 Trade and bills payables

	The Group		The Company	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables				
— third parties	101,901	114,633	38,442	38,822
— fellow subsidiaries	3,337	3,108	2,480	2,858
	<u>105,238</u>	<u>117,741</u>	<u>40,922</u>	<u>41,680</u>
Bills payable	5,044	56,653	5,044	49,153
	<u>110,282</u>	<u>174,394</u>	<u>45,966</u>	<u>90,833</u>

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

	The Group		The Company	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
Due within 1 month or on demand	109,935	174,394	45,619	90,833
Due after 1 month but within 3 months	347	—	347	—
	<u>110,282</u>	<u>174,394</u>	<u>45,966</u>	<u>90,833</u>

27 Bank and other loans

The Group

	2004	2003
	RMB'000	RMB'000
Secured bank loans	594,278	577,320
Unsecured loans from the ultimate holding company	144,080	241,380
Secured loans from an associated company	64,000	106,000
Unsecured loans from an associated company	51,500	12,000
Secured loans from a non-bank financial institution	—	44,820
Unsecured loans from a non-bank financial institution	30,000	30,000
	<u>883,858</u>	<u>1,011,520</u>

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2004

(Prepared in accordance with International Financial Reporting Standards)

27 Bank and other loans (continued)

The Company

	2004 RMB'000	2003 RMB'000
Secured bank loans	580,049	562,842
Unsecured loans from the ultimate holding company	47,930	139,560
Secured loans from an associated company	64,000	84,000
	<u>691,979</u>	<u>786,402</u>

Included in loans from banks of the Company are loans amounting to RMB80,000,000 (2003: RMB90,000,000) which are secured by time deposits of the same amount (note 23). The remaining balances are guaranteed by the ultimate holding company and carry interest at the prevailing market rates.

Included in loans from a non-bank financial institution to a subsidiary of RMB6,000,000 (2003: RMB10,960,000) has become overdue for payment.

The bank and other loans are repayable as follows:

The Group

	2004 RMB'000	2003 RMB'000
Within one year		
— short-term loans	767,650	846,910
— current portion of long-term loans	<u>44,866</u>	<u>46,341</u>
	<u>812,516</u>	<u>893,251</u>
Between one and two years	51,567	40,076
Between two and five years	13,910	73,069
After five years	<u>5,865</u>	<u>5,124</u>
	<u>71,342</u>	<u>118,269</u>
	<u>883,858</u>	<u>1,011,520</u>

NOTES ON THE FINANCIAL STATEMENTS (*CONTINUED*)

For the year ended 31 December 2004

(Prepared in accordance with International Financial Reporting Standards)

27 Bank and other loans (*continued*)

The Company

	2004 RMB'000	2003 RMB'000
Within one year		
— short-term loans	635,000	709,630
— current portion of long-term loans	20,637	20,620
	<u>655,637</u>	<u>730,250</u>
Between one and two years	28,567	20,620
Between two and five years	1,910	30,408
After five years	5,865	5,124
	<u>36,342</u>	<u>56,152</u>
	<u>691,979</u>	<u>786,402</u>

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

Repayment terms and last payment date	Interest rate	Interest type	The Group		The Company	
			2004	2003	2004	2003
			RMB'000	RMB'000	RMB'000	RMB'000
<i>Secured bank loans</i>						
Due in 2004	7.14%	Fixed	—	241	—	—
Due in 2005	7.14%	Fixed	229	237	—	—
Euro denominated:						
Payable semi-annually in 2004	2.5% (Note)	Fixed	—	620	—	620
Payable semi-annually in 2005	2.5% (Note)	Fixed	637	620	637	620
Payable semi-annually from 2006 through 2019	2.5% (Note)	Fixed	8,412	7,602	8,412	7,602
			<u>9,278</u>	<u>9,320</u>	<u>9,049</u>	<u>8,842</u>
<i>Unsecured loans from an associated company</i>						
Due in 2004	6.04%-6.53%	Fixed	—	12,000	—	—
Due in 2005	6.04%-6.34%	Fixed	12,000	—	—	—
Due in 2006	6.04%-6.34%	Fixed	17,000	—	—	—
			<u>29,000</u>	<u>12,000</u>	<u>—</u>	<u>—</u>

NOTES ON THE FINANCIAL STATEMENTS (*CONTINUED*)

For the year ended 31 December 2004

(Prepared in accordance with International Financial Reporting Standards)

27 Bank and other loans (*continued*)

Repayment terms and last payment date	Interest rate	Interest type	The Group		The Company	
			2004	2003	2004	2003
			RMB'000	RMB'000	RMB'000	RMB'000
<i>Secured loans from an associated company</i>						
Due in 2004	6.04%-6.53%	Fixed	—	2,000	—	—
Due in 2005	5.49%	Fixed	—	5,000	—	—
			<u>—</u>	<u>7,000</u>	<u>—</u>	<u>—</u>
<i>Unsecured loans from the ultimate holding company</i>						
Due in 2004	6.03%	Fixed	—	20,000	—	20,000
Due in 2005	6.03%	Fixed	20,000	20,000	20,000	20,000
Due in 2006	6.03%	Fixed	27,930	27,930	27,930	27,930
			<u>47,930</u>	<u>67,930</u>	<u>47,930</u>	<u>67,930</u>
<i>Secured loans from a non-bank financial institution</i>						
Due in 2004	2.26%	Fixed	—	5,480	—	—
Due in 2005	2.26%	Fixed	—	8,220	—	—
Due in 2006	2.26%	Fixed	—	8,220	—	—
Due in 2007	2.26%	Fixed	—	8,220	—	—
Due in 2008	2.26%	Fixed	—	8,220	—	—
			<u>—</u>	<u>38,360</u>	<u>—</u>	<u>—</u>
<i>Unsecured loans from a non-bank financial institution</i>						
Payable semi-annually from 2001 through 2008 (note 17(ii))	—	—	30,000	30,000	—	—
Total long term loans			116,208	164,610	56,979	76,772
Less: Current portion repayable within one year			<u>(44,866)</u>	<u>(46,341)</u>	<u>(20,637)</u>	<u>(20,620)</u>
Long-term portion of long-term loans			<u>71,342</u>	<u>118,269</u>	<u>36,342</u>	<u>56,152</u>

Note: The interest rate fluctuates based on the prevailing interest rate of the Organisation for Economic Co-operation and Development.

Short-term loans

The weighted average interest rates on short-term loans for the Group and the Company were 5.65% and 5.58% per annum respectively (2003: 5.40% and 5.33% per annum respectively).

NOTES ON THE FINANCIAL STATEMENTS (*CONTINUED*)

For the year ended 31 December 2004

(Prepared in accordance with International Financial Reporting Standards)

28 Share capital

	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>
Registered, issued and paid up capital:		
400,000,000 domestic state-owned A shares of RMB1.00 each	400,000	400,000
250,000,000 overseas listed H shares of RMB1.00 each	250,000	250,000
50,000,000 domestic listed A shares of RMB1.00 each	50,000	50,000
	700,000	700,000

All the A and H shares rank pari passu in all material respects.

29 Share premium

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

30 Reserves**The Group**

	Statutory surplus reserve <i>RMB'000</i> (note (a))	Statutory public welfare fund <i>RMB'000</i> (note (b))	Discretionary surplus reserve <i>RMB'000</i> (note (c))	Excess over share capital <i>RMB'000</i> (note (d))	Total <i>RMB'000</i>
At 1 January 2003	57,900	55,142	110,764	(106,949)	116,857
Appropriation (note 31)	178	90	—	—	268
At 31 December 2003	58,078	55,232	110,764	(106,949)	117,125
At 1 January 2004	58,078	55,232	110,764	(106,949)	117,125
Appropriation (note 31)	718	359	—	—	1,077
At 31 December 2004	58,796	55,591	110,764	(106,949)	118,202

NOTES ON THE FINANCIAL STATEMENTS (*CONTINUED*)

For the year ended 31 December 2004

(Prepared in accordance with International Financial Reporting Standards)

30 Reserves (continued)**The Company**

	Statutory surplus reserve RMB'000 (note (a))	Statutory public welfare fund RMB'000 (note (b))	Discretionary surplus reserve RMB'000 (note (c))	Excess over share capital RMB'000 (note (d))	Total RMB'000
At 1 January and 31 December 2003	<u>51,366</u>	<u>51,366</u>	<u>110,764</u>	<u>(106,949)</u>	<u>106,547</u>
At 1 January and 31 December 2004	<u>51,366</u>	<u>51,366</u>	<u>110,764</u>	<u>(106,949)</u>	<u>106,547</u>

Notes:

- (a) According to the Company's and its subsidiaries' Articles of Association, the Company and its subsidiaries are required to transfer 10% of their respective profit after taxation, as determined in accordance with the PRC Accounting Rules and Regulations, to statutory surplus reserve until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before the distribution of a dividend to shareholders. Statutory surplus reserve can be used to make good previous years' losses, if any, and for capitalisation issue provided that the balance after such issue is not less than 25% of the registered capital.
- (b) According to the Company's and its subsidiaries' Articles of Association, the Company and its subsidiaries are required to transfer 5-10% of their respective profit after taxation, as determined in accordance with the PRC Accounting Rules and Regulations, to statutory public welfare fund, which is established for the purpose of providing employee facilities and other collective benefits to the Company's employees.
- (c) The transfer to this reserve from the income statement is at the discretion of the Company's directors.
- (d) Effective 1 January 2002, land use rights which are included in lease prepayments are carried at historical cost base. Accordingly, the surplus on the revaluation of land use rights was reversed to shareholders' funds.

31 Accumulated losses

	The Group RMB'000	The Company RMB'000
At 1 January 2003	(657,348)	(639,656)
Loss attributable to shareholders	(340,021)	(323,820)
Appropriations (note 30)	<u>(268)</u>	<u>—</u>
At 31 December 2003	<u>(997,637)</u>	<u>(963,476)</u>
At 1 January 2004	(997,637)	(963,476)
Profit attributable to shareholders	61,740	31,946
Appropriations (note 30)	<u>(1,077)</u>	<u>—</u>
At 31 December 2004	<u>(936,974)</u>	<u>(931,530)</u>

NOTES ON THE FINANCIAL STATEMENTS (*CONTINUED*)

For the year ended 31 December 2004

(Prepared in accordance with International Financial Reporting Standards)

31 Accumulated losses (*continued*)

According to the Company's Articles of Association, the reserve available for distribution is the lower of the amount determined under PRC Accounting Rules and Regulations and the amount determined under IFRS. As at 31 December 2004, there was no reserve available for distribution (2003: RMB: Nil).

32 Related party transactions

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

Other subsidiaries of and entities which are significantly influenced by CLFG are considered to be related parties as they are subject to the common significant influence of CLFG.

Transactions between the Group and CLFG were as follows:

	<i>Note</i>	2004 RMB'000	2003 RMB'000
Ancillary and social services	(i)	5,325	1,401
Research and development assistance	(ii)	6,520	1,516
Provision of utilities	(iii)	674	422
Interest paid and payable		12,300	16,444
Interest received and receivable		—	1,972
Guarantees issued by CLFG to banks in favour of the Group		195,400	170,000
Indirect guarantees	(iv)	336,000	294,000
Guarantees issued by CLFG to the Company in favour of other fellow subsidiaries		111,361	101,381

Notes:

- (i) The Company has entered into a three-year agreement with CLFG effective 3 August 2001 which has renewed for another three years expiring on 3 August 2007. In accordance with the agreements, CLFG provides certain social welfare and support services, such as education, property management, medical care and transportation services to the staff of the Company. The amount charged by CLFG is based on a reasonable cost incurred in providing such services plus respective tax charge.
- (ii) The Company has entered into a three-year agreement with CLFG effective 1 September 2003. In accordance with the agreement, CLFG provides research and development assistance and consultancy services to the Company. The amount charged by CLFG is based on a reasonable cost incurred in providing such services plus respective tax charge.
- (iii) The Company has entered into a three-year agreement with CLFG effective 3 August 2001 which has renewed for another three years expiring on 3 August 2007, for provision of utilities such as water and electricity to CLFG. The amount charged to CLFG is based on a reasonable cost incurred in providing such services plus respective tax charge.
- (iv) Guarantees have been issued by CLFG, in respect of bank loans to independent third parties in return for guarantees issued by the independent third parties to banks and suppliers in favour of the Group.
- (v) The Company is in the process of applying to the Stock Exchange of Hong Kong Limited for a waiver on strict compliance with the requirements of Chapter 14A of the Listing Rules on certain of the above continuing connected transactions.

NOTES ON THE FINANCIAL STATEMENTS (*CONTINUED*)

For the year ended 31 December 2004

(Prepared in accordance with International Financial Reporting Standards)

32 Related party transactions (*continued*)

Transactions between the Group and fellow subsidiaries/entities under common significant influence were as follows:

		2004	2003
	<i>Note</i>	RMB'000	RMB'000
Sales		23,308	34,948
Ancillary and social services	(i)	5,823	5,303
Provision of utilities	(ii)	12,450	11,960
Purchase of raw materials	(iii)	17,836	18,879
Other purchases		29,039	4,609
Interest paid and payable		7,139	7,069
Interest received and receivable		597	14,069
Rental income	(iv)	580	580
Proceeds from disposal of property, plant and equipment		5,686	—
Proceeds from sales of racks and scrap materials		9,626	—

Notes:

- (i) The Company has entered into a three-year agreement with a CLFG's subsidiary, CLFG Xinxing Co. ("Xinxing") effective 3 August 2001 by which Xinxing provides certain social welfare and support services, such as education, property management, medical care and transportation services to the staff of the Company. The agreement was supplementary amended on 22 July 2002 and renewed for another 3 years on 3 August 2004. The amount charged by Xinxing is based on a reasonable cost incurred in providing such services plus respective tax charge.
- (ii) The Company has entered into three-year agreements with certain CLFG's subsidiaries, including Xinxing, CLFG New Illuminating Source Company Limited ("New Illuminating"), CLFG Jingwei Glass Fibre Co. Ltd. ("Jingwei"), CLFG Jinghua Industrial Co. Ltd. ("Jinghua") and Luoyang Luobo Hotel effective 3 August 2001. During 2004, the Company has renewed the agreements with Xinxing and Jingwei for another three year expiring on 3 August 2007. New Illuminating, Jinghua and Luoyang Luobo Hotel have ceased operations during the year and there were no renewal of the respective agreements. In accordance with these agreements, the Company provides utilities such as water and electricity to these subsidiaries. The amounts charged to these group companies are based on reasonable costs incurred in providing such services plus respective tax charge.
- (iii) The Company entered into a three-year agreement with a CLFG's subsidiary, CLFG Mineral Product Co. ("Mineral Co"), effective 3 August 2001 which has been renewed for another three years expiring on 3 August 2007, by which Mineral Co. supplies certain raw materials to the Group at market prices.
- (iv) The Company has entered into a five-year agreement with an associated company, CPGC, effective 1 January 2003 by which the Company sub-leases a portion of land use rights on land located in the PRC to CPGC at market rate.
- (v) The Company is in the process of applying to the Stock Exchange of Hong Kong Limited for a waiver on strict compliance with the requirements of Chapter 14A of the Listing Rules on certain of the above continuing connected transactions.

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)*For the year ended 31 December 2004**(Prepared in accordance with International Financial Reporting Standards)***32 Related party transactions (continued)**

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

In addition, the Group has made the following provision for bad debts against the amounts due from related parties:

	2004	2003
	RMB'000	RMB'000
Provision for amounts due from the ultimate holding company	95,275	93,532
Provision for amounts due from fellow subsidiaries	310,662	306,122

33 Capital commitments

At 31 December 2004, the Group and the Company had the following capital commitments:

The Group

	2004	2003
	RMB'000	RMB'000
Contracted but not provided for		
— construction project	—	177
Authorised but not contracted for		
— construction project	—	861
Total	—	1,038

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2004

(Prepared in accordance with International Financial Reporting Standards)

33 Capital commitments (continued)**The Company**

	2004 RMB'000	2003 RMB'000
Contracted but not provided for		
— construction project	—	177
Authorised but not contracted for		
— construction project	—	861
	<u>—</u>	<u>861</u>
Total	<u>—</u>	<u>1,038</u>

34 Contingent liabilities

At 31 December 2004, contingent liabilities were as follows:

	The Group		The Company	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Guarantees issued to banks				
in favour of subsidiaries	—	—	14,000	20,000
Guarantees issued to CLFC and				
CLFG in favour of subsidiaries	—	—	147,650	117,820
Guarantees issued to Hua Rong				
in favour of subsidiary	—	—	30,000	30,000
Guarantees issued to bank in favour				
of independent third parties	—	14,500	—	14,500
	<u>—</u>	<u>14,500</u>	<u>191,650</u>	<u>182,320</u>

35 Employee retirement benefits

As stipulated by the regulations of the PRC, the Group has participated in defined contribution retirement plans organised by the local authorities for its employees. Under this arrangement, the Group is required to make contributions to the retirement plans at a rate from 22% to 25% (2003: 23% to 28%) on the basic salary, bonus and certain allowances of its employees. Each employee is entitled to an annual pension equal to a fixed proportion of his basic salary at the retirement date. The Group has no material obligation for the payment of pension benefits beyond its annual contributions.

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)*For the year ended 31 December 2004**(Prepared in accordance with International Financial Reporting Standards)***36 Financial instruments**

Financial assets of the Group include cash and cash equivalents, deposits with banks and non-bank financial institutions, investments, trade and bills receivables, advance payments, prepayments, amounts due from ultimate holding company, fellow subsidiaries and associated companies, and other receivables. Financial liabilities of the Group include bank and other loans, trade payables, amounts due to fellow subsidiaries and associated companies, and other creditors. The Group does not hold or issue financial instruments for trading purposes.

(a) Interest rate risk

The interest rate risks and terms of repayment of loans of the Group are disclosed in note 27.

(b) Credit risk

The Group requests most of its customers to pay cash or bills in full prior to delivery of goods. The Group performs ongoing credit evaluations of its customers' financial condition and generally does not require collateral on trade and bills receivables. Credit risks on trade and other receivables and deposits with non-bank financial institution (non-current assets) are limited as receivables and deposits are shown net of provision for doubtful debts.

(c) Foreign currency risk

The Group's has exposure to foreign currency as certain loans and cash and cash equivalents are denominated in foreign currencies, principally Euro and U.S. dollars. Changes in exchange rates of Renminbi against foreign currencies may affect the Group's financial position and results of operations.

(d) Fair value

The fair value of unlisted investments could not be reasonably estimated without incurring excessive costs as these investments are unquoted equity securities and there is no quoted market price for such securities in the PRC.

The fair values of cash, deposits with banks and financial institutions, trade and other receivables, trade and other payables and current portion of bank and other loans are not materially different from their carrying amounts.

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)*For the year ended 31 December 2004**(Prepared in accordance with International Financial Reporting Standards)***36 Financial instruments (continued)****(d) Fair value (continued)**

Due to the related party nature, it is not practical to estimate the fair value of the amounts due from ultimate holding company, associated companies and amounts due from/to fellow subsidiaries. The fair values of the Group's non-current bank and other loans as estimated by applying a discounted cash flow using current market interest rates for similar financial instruments, are summarised as follows:

	2004		2003	
	Carrying amount <i>RMB'000</i>	Fair value <i>RMB'000</i>	Carrying amount <i>RMB'000</i>	Fair value <i>RMB'000</i>
Non-current bank and other loans	<u>71,342</u>	<u>55,220</u>	<u>118,269</u>	<u>101,126</u>

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

37 Ultimate holding company

The directors consider the ultimate holding company at 31 December 2004 to be CLFG, a state-owned enterprise established in the PRC.

III. UNAUDITED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2005

CONSOLIDATED INCOME STATEMENT (UNAUDITED)

For the six months ended 30 June 2005

(Prepared under International Accounting Standard 34 - Interim Financial Reporting)

		Six months ended 30 June 2005	Six months ended 30 June 2004 (Note 2)
	Note	RMB'000	RMB'000
Turnover	4	511,238	528,644
Cost of sales		(429,181)	(395,430)
Gross profit		82,057	133,214
Other operating income	5	23,246	8,386
Other operating expenses		(744)	(857)
Selling expenses		(18,778)	(14,645)
Administrative expenses		(41,533)	(58,154)
Profit from operations		44,248	67,944
Net financing costs	6	(21,294)	(26,866)
Investment income	6	3,280	3,048
Share of net (loss)/profit of associated companies		(13,385)	1,026
Profit from ordinary activities before taxation	6	12,849	45,152
Income tax	7	(3,077)	(4,719)
Profit for the period		9,772	40,433
Attributable to			
Equity holders of the parent		5,360	35,172
Minority interests		4,412	5,261
Profit for the period		9,772	40,433
Basic earnings per share (in RMB: Yuan)	9	0.008	0.050

The notes on pages 102 to 115 form part of this interim financial report.

CONSOLIDATED BALANCE SHEET (UNAUDITED)*As at 30 June 2005**(Prepared under International Accounting Standard 34 - Interim Financial Reporting)*

		At 30 June 2005	At 31 December 2004 (audited) (Note 2)
	Note	RMB'000	RMB'000
Non-current assets			
Property, plant and equipment		824,532	865,049
Construction in progress		4,062	2,323
Intangible asset		16,818	6,005
Lease prepayments		80,218	81,138
Interest in associated companies		161,932	174,476
Investments		32,663	32,983
Other receivables	11	7,501	10,501
Deposits with non-bank financial institution	10	35,654	35,654
Total non-current assets		1,163,380	1,208,129
Current assets			
Income tax recoverable		1,739	1,739
Other receivables	11	393,753	323,439
Inventories		213,969	205,474
Trade and bills receivables	12	94,214	61,550
Deposits with banks and non-bank financial institutions		77,233	167,233
Cash and cash equivalents		267,563	130,039
Total current assets		1,048,471	889,474
Current liabilities			
Income tax payable		—	512
Trade and bills payables	13	174,399	110,282
Accrued expenses and other payables		196,980	181,712
Bank and other loans	14	862,759	812,516
Total current liabilities		1,234,138	1,105,022
Net current liabilities		(185,667)	(215,548)
Total assets less current liabilities		977,713	992,581

The notes on pages 102 to 115 form part of this interim financial report.

CONSOLIDATED BALANCE SHEET (UNAUDITED) (CONTINUED)*As at 30 June 2005**(Prepared under International Accounting Standard 34 - Interim Financial Reporting)*

		At 30 June 2005	At 31 December 2004
			<i>(audited)</i>
	<i>Note</i>	<i>RMB'000</i>	<i>(Note 2)</i>
			<i>RMB'000</i>
Non-current liabilities			
Bank and other loans	14	24,654	71,342
Long-term payables		2,765	2,717
Total non-current liabilities		27,419	74,059
Net assets		950,294	918,522
Capital and reserves			
Share capital		700,000	700,000
Share premium		969,988	969,988
Reserves	15	118,202	118,202
Accumulated losses		(931,614)	(936,974)
Total equity attributable to equity holders of the parent		856,576	851,216
Minority interests		93,718	67,306
Total equity		950,294	918,522

Approved and authorised for issue by the Board of Directors on 26 August 2005.

Liu Baoying
Chairman

Zhu Leibo
Director

The notes on pages 102 to 115 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)*For the six months ended 30 June 2005**(Prepared under International Accounting Standard 34 - Interim Financial Reporting)*

	Share capital RMB'000	Share premium RMB'000	Attributable to equity holders of the parent			Minority interests RMB'000	Total equity RMB'000
			Reserves RMB'000	Accumulated losses RMB'000	Total RMB'000		
At 1 January 2004 (Note 2)	700,000	969,988	117,125	(997,637)	789,476	50,173	839,649
Profit for the period	—	—	—	35,172	35,172	5,261	40,433
Dividends paid to minority interests	—	—	—	—	—	(1,794)	(1,794)
At 30 June 2004 (Note 2)	<u>700,000</u>	<u>969,988</u>	<u>117,125</u>	<u>(962,465)</u>	<u>824,648</u>	<u>53,640</u>	<u>878,288</u>
At 1 January 2005 (Note 2)	700,000	969,988	118,202	(936,974)	851,216	67,306	918,522
Arising from newly set up subsidiaries	—	—	—	—	—	22,000	22,000
Net profit for the period	—	—	—	5,360	5,360	4,412	9,772
At 30 June 2005	<u>700,000</u>	<u>969,988</u>	<u>118,202</u>	<u>(931,614)</u>	<u>856,576</u>	<u>93,718</u>	<u>950,294</u>

The notes on pages 102 to 115 form part of this interim financial report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)*For the six months ended 30 June 2005**(Prepared under International Accounting Standard 34 - Interim Financial Reporting)*

	Six months ended 30 June 2005 RMB'000	Six months ended 30 June 2004 RMB'000
Cash flows from operating activities	88,343	116,378
Cash flows used in/(from) investing activities	36,877	(66,521)
Cash flows used in/(from) financing activities	12,304	(8,822)
Increase in cash and cash equivalents	137,524	41,035
Cash and cash equivalents at 1 January	130,039	82,279
Cash and cash equivalents at 30 June	<u>267,563</u>	<u>123,314</u>

The notes on pages 102 to 115 form part of this interim financial report.

NOTES ON THE INTERIM FINANCIAL REPORT (UNAUDITED)

For the six months ended 30 June 2005

(Prepared under International Accounting Standard 34 - Interim Financial Reporting)

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 26 August 2005.

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 judgements, 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 performance of the Company and its subsidiaries (“the Group”) since the 2004 annual financial statements. 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 2004 annual financial statements, except for the change in presentation of financial statements arising from the changes of IFRSs that is expected to be reflected in the 2005 annual financial statements. Details of the changes are set out in note 2.

The financial information relating to the financial year ended 31 December 2004 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 2004 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 2005.

NOTES ON THE INTERIM FINANCIAL REPORT (UNAUDITED) (CONTINUED)

For the six months ended 30 June 2005

(Prepared under International Accounting Standard 34 - Interim Financial Reporting)

1 Basis of preparation (continued)

Notwithstanding that the Group had net liabilities at 30 June 2005, 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 2005; and
- (ii) continuing financial support received from the ultimate holding company.

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 accounting periods beginning on or after 1 January 2005. The Board of Directors has determined the accounting policies to be adopted in the preparation of the Group's annual financial statements prepared under IFRS for the year ending 31 December 2005, 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 for the year ending 31 December 2005 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 revised IAS 1, Presentation of financial statements and IAS 27, Consolidated and separate financial statements has resulted in a change in presentation of minority interests in the financial statements:

NOTES ON THE INTERIM FINANCIAL REPORT (UNAUDITED) (CONTINUED)*For the six months ended 30 June 2005**(Prepared under International Accounting Standard 34 - Interim Financial Reporting)***2 New and revised IFRSs (continued)**

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

With effect from 1 January 2005, in order to comply with IAS 1 and IAS 27, minority interests at the balance sheet date are presented in the consolidated balance sheet within equity, separately from the equity attributable to the equity holders of the parent, and minority interests in the results of the Group for the period are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the period between the minority interests and the equity holders of the parent.

The presentation of minority interests in the consolidated balance sheet, income statement and statement of changes in equity for the comparative period has been restated accordingly.

3 Segment reporting

The Group's turnover and operating result are almost entirely generated from the manufacture and sales of float sheet glass. Accordingly, no business segment information 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	
	2005	2004
	RMB'000	RMB'000
Turnover		
PRC	448,516	491,867
Asia	45,667	16,081
America	3,786	10,680
Oceania	7,260	8,393
Others	6,009	1,623
	511,238	528,644

NOTES ON THE INTERIM FINANCIAL REPORT (UNAUDITED) (CONTINUED)*For the six months ended 30 June 2005**(Prepared under International Accounting Standard 34 - Interim Financial Reporting)***4 Turnover**

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

5 Other operating income

	Six months ended 30 June	
	2005	2004
	RMB'000	RMB'000
Write-back of allowance for doubtful debts	9,720	—
Government grant	3,589	2,988
Commission income	2,545	—
Gain on disposal of racks	2,162	2,674
Waiver of debts	1,716	49
Profit on sales of raw materials	1,712	—
Others	1,802	2,675
	23,246	8,386

NOTES ON THE INTERIM FINANCIAL REPORT (UNAUDITED) (CONTINUED)*For the six months ended 30 June 2005**(Prepared under International Accounting Standard 34 - Interim Financial Reporting)***6 Profit from ordinary activities before taxation**

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

	Six months ended 30 June	
	2005	2004
	RMB'000	RMB'000
Interest income	(4,605)	(1,635)
Interest on borrowings	24,725	27,759
Net exchange loss	67	56
Other financing charges	1,107	686
Net financing costs	21,294	26,866
Depreciation #	40,089	44,180
Amortisation of intangible asset	186	186
Amortisation of lease prepayments	920	927
Net gain on disposal of property, plant and equipment	(124)	(283)
Provision/(write-back) of provision for inventories	977	(61)
Cost of inventories #	429,181	395,430
Provision for other receivables	—	5,587
Dividend income	(3,600)	(3,600)
Impairment loss on unlisted investments	320	552
Investment income	(3,280)	(3,048)

Cost of inventories includes depreciation, which amount is also included in the respective total amount disclosed separately above.

NOTES ON THE INTERIM FINANCIAL REPORT (UNAUDITED) (CONTINUED)*For the six months ended 30 June 2005**(Prepared under International Accounting Standard 34 - Interim Financial Reporting)***7 Income tax expense**

Income tax expense in the consolidated income statement represents:

	Six months ended 30 June	
	2005	2004
	RMB'000	RMB'000
Provision for PRC income tax for the period	2,326	4,280
Underprovision for PRC income tax in respect of prior years	751	439
	<u>3,077</u>	<u>4,719</u>

Provision for PRC income tax has been made as certain subsidiaries of the Group have made profits for taxation purposes during the period ended 30 June 2005. The provision for PRC income tax is calculated at 33% of the estimated assessable profits in accordance with the relevant income tax rules and regulations of the PRC, except for a subsidiary of the Company, which is taxed at a preferential rate of 15%.

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

8 Dividends

The Board of Directors does not recommend the payment of an interim dividend for the six months ended 30 June 2005 (2004: Nil).

9 Earnings per share**(a) Basic earnings per share**

The calculation of basic earnings per share is based on the profit attributable to equity holders of the parent for the six months ended 30 June 2005 of RMB5,360,000 (2004: RMB35,172,000) and 700,000,000 (2004: 700,000,000) shares in issue during the period.

(b) Diluted earnings per share

No diluted earnings per share is calculated as there are no dilutive potential shares for the period from 1 January 2004 to 30 June 2005.

NOTES ON THE INTERIM FINANCIAL REPORT (UNAUDITED) (CONTINUED)*For the six months ended 30 June 2005**(Prepared under International Accounting Standard 34 - Interim Financial Reporting)***10 Deposits with non-bank financial institution**

The balance represents the overdue time deposits at Guangzhou International Trust & Investment Corporation (“GZITIC”), after a 75% provision made. GZITIC is in the process of corporate restructuring. Based on the assessment of recent development, the directors are of the opinion that 75% provision is adequate. No interest has been accrued in respect of the deposits.

11 Other receivables

	At 30 June 2005 RMB'000	At 31 December 2004 (audited) RMB'000
Non-current assets		
Advance payments, other receivables and prepayments	<u>7,501</u>	<u>10,501</u>
Current assets		
Amount due from ultimate holding company	138,845	159,525
Amounts due from fellow subsidiaries	351,124	353,820
Advance payments, other receivables and prepayments	<u>218,461</u>	<u>134,576</u>
	708,430	647,921
Less: Provision for bad and doubtful debts	<u>(314,677)</u>	<u>(324,482)</u>
	<u>393,753</u>	<u>323,439</u>

As at 31 December 2004, the receivables due from Qingdao Taiyang Glass Industries Company Limited (“Taiyang”), a fellow subsidiary, amounted to RMB229,796,000 (including interest receivable of RMB45,008,000), for which full provision had been made. During the period, Taiyang repaid RMB5,234,000 and provision of the same amount was written back. The directors have assessed the remaining receivable balances of RMB224,562,000 due from Taiyang as at 30 June 2005 and have considered them irrecoverable. Full provision has been maintained in this respect.

NOTES ON THE INTERIM FINANCIAL REPORT (UNAUDITED) (CONTINUED)*For the six months ended 30 June 2005**(Prepared under International Accounting Standard 34 - Interim Financial Reporting)***11 Other receivables (continued)**

The amounts due from ultimate holding company and other fellow subsidiaries are unsecured, interest-free and have no fixed repayment terms. These amounts are mainly generated from trade debts collected by ultimate holding company on the Group's behalf and operating expenses paid by the Group on behalf of fellow subsidiaries in prior years. In accordance with Yu Zheng Jian Fa [2005] No. 183 "Notice on resolving the issues for listed companies relating to the use of funds by controlling shareholders and the improper provision of guarantees" issued jointly on 23 June 2005 by China Securities Regulatory Commission Henan Regulatory Bureau, China Banking Regulatory Commission Henan Regulatory Bureau and the Henan Office of State-owned Assets Supervision and Administration Commission of the State Council, listed issuers are required to propose and implement remedial actions with the aim to resolve the funds occupied by shareholders within a reasonable period. The Company is in the process of discussing with the relevant Government Authorities on the funds occupied by the ultimate holding company.

12 Trade and bills receivables

	At 30 June 2005 <i>RMB'000</i>	At 31 December 2004 (audited) <i>RMB'000</i>
Trade receivables		
— third parties	116,649	69,784
— ultimate holding company	83,889	84,133
— fellow subsidiaries	6,038	6,866
	<u>206,576</u>	<u>160,783</u>
Less: allowance for doubtful accounts	<u>(142,372)</u>	<u>(142,286)</u>
	64,204	18,497
Bills receivable	30,010	43,053
	<u>94,214</u>	<u>61,550</u>

NOTES ON THE INTERIM FINANCIAL REPORT (UNAUDITED) (CONTINUED)*For the six months ended 30 June 2005**(Prepared under International Accounting Standard 34 - Interim Financial Reporting)***12 Trade and bills receivables (continued)**

The ageing analysis of trade and bills receivables, after allowance for doubtful debts, is as follows:

	At 30 June 2005 <i>RMB'000</i>	At 31 December 2004 (audited) <i>RMB'000</i>
Within one year	93,256	60,265
Between one and two years	33	622
Between two and three years	925	663
	<u>94,214</u>	<u>61,550</u>

Debts are normally due within 60 to 90 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 2005 <i>RMB'000</i>	At 31 December 2004 (audited) <i>RMB'000</i>
Trade accounts		
— third parties	139,362	101,901
— fellow subsidiaries	2,102	3,337
	<u>141,464</u>	<u>105,238</u>
Bills payable	32,935	5,044
	<u>174,399</u>	<u>110,282</u>

NOTES ON THE INTERIM FINANCIAL REPORT (UNAUDITED) (CONTINUED)*For the six months ended 30 June 2005**(Prepared under International Accounting Standard 34 - Interim Financial Reporting)***13 Trade and bills payables (continued)**

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

	At 30 June 2005	At 31 December 2004 (audited)
	<i>RMB'000</i>	<i>RMB'000</i>
Due within 1 month or on demand	141,559	109,935
Due after 1 month but within 3 months	15,000	347
Due over 3 months but within 6 months	17,840	—
	<u>174,399</u>	<u>110,282</u>

14 Bank and other loans

	At 30 June 2005	At 31 December 2004 (audited)
	<i>RMB'000</i>	<i>RMB'000</i>
Secured bank loans	620,923	594,278
Unsecured loans from the ultimate holding company	120,990	144,080
Secured loans from an associated company	64,000	64,000
Unsecured loans from an associated company	51,500	51,500
Unsecured loans from a non-bank financial institution	30,000	30,000
	<u>887,413</u>	<u>883,858</u>

NOTES ON THE INTERIM FINANCIAL REPORT (UNAUDITED) (CONTINUED)*For the six months ended 30 June 2005**(Prepared under International Accounting Standard 34 - Interim Financial Reporting)***14 Bank and other loans (continued)**

Included in loans from banks of the Group are loans amounting to RMB70,000,000 (31 December 2004: RMB80,000,000) which are secured by time deposits of the same amount. The remaining balances are guaranteed by the ultimate holding company and carry interest at the prevailing market rates.

Included in loans from a non-bank financial institution to a subsidiary of RMB9,000,000 (31 December 2004: RMB6,000,000) has become overdue for payment.

The bank and other loans are repayable as follows:

	At 30 June 2005 RMB'000	At 31 December 2004 (audited) RMB'000
Within one year		
— short term loans	791,560	767,650
— current portion of long-term loans	71,199	44,866
	<u>862,759</u>	<u>812,516</u>
Between one and two years	6,665	51,567
Between two and five years	12,494	13,910
After five years	5,495	5,865
	<u>24,654</u>	<u>71,342</u>
	<u><u>887,413</u></u>	<u><u>883,858</u></u>

15 Reserves

No transfers were made to the statutory surplus reserve, the statutory public welfare fund nor the discretionary surplus reserve for the period (2004: Nil).

NOTES ON THE INTERIM FINANCIAL REPORT (UNAUDITED) (CONTINUED)*For the six months ended 30 June 2005**(Prepared under International Accounting Standard 34 - Interim Financial Reporting)***16 Significant investments**

During the six months ended 30 June 2005, the Company set up two subsidiaries in the PRC with China Luoyang Float Glass Group Company of Limited Liability (“CLFG”), the ultimate holding company, as the minority equity holder.

Details of these subsidiaries which are limited liability companies incorporated in the PRC are set out below:

Name of company	Registered capital	Direct equity interest	Principal activities
Luoyang Long Hai Electronic Glass Limited	RMB60,000,000	80%	Manufacture of float sheet glass
Luoyang Long Hao Glass Limited	RMB50,000,000	80%	Manufacture of float sheet glass

At 30 June 2005, the Company has injected capital of RMB88,000,000 into these subsidiaries. In accordance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the above investments constitute major and connected transactions which are subject to the approval of shareholders of the Company. As at the date of this report, the required shareholders’ approval has not been obtained.

17 Loan default

A subsidiary of the Company originally had a loan of RMB84,800,000 due to China Hua Rong Assets Management Company (“Hua Rong”). During 2001, the subsidiary, Hua Rong and the Company entered into an agreement under which RMB30,000,000 out of the total amount due to Hua Rong mentioned above was converted to equity. According to the agreement, the equity interest held by Hua Rong will be required to be redeemed in full by instalments from 2001 to 2008 and Hua Rong will not share any profit or loss of the subsidiary. The equity interest held by Hua Rong has been classified as other loans under non-current liabilities. As at 30 June 2005, redeemable equity of RMB9,000,000 (31 December 2004: RMB6,000,000) has been overdue.

NOTES ON THE INTERIM FINANCIAL REPORT (UNAUDITED) (CONTINUED)*For the six months ended 30 June 2005**(Prepared under International Accounting Standard 34 - Interim Financial Reporting)***18 Capital commitments**

At 30 June 2005, the Group had the following capital commitments:

	At 30 June 2005 <i>RMB'000</i>	At 31 December 2004 (audited) <i>RMB'000</i>
Contracted but not provided for		
— construction projects and purchased equipment	<u>186,174</u>	<u>—</u>

19 Related party transactions

- (a) Details of the related party transactions are presented in note 38 of the interim financial report prepared under PRC Accounting Rules and Regulations. The financial data presented are the same as those prepared under IFRS.

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

The key management personnel compensations are as follows:

	Six months ended 30 June 2005 <i>RMB'000</i>	2004 <i>RMB'000</i>
Short-term employee benefits	86	85
Post-employment benefits	<u>24</u>	<u>21</u>
	<u>110</u>	<u>106</u>
Directors and supervisors	35	34
Senior management	<u>75</u>	<u>72</u>
	<u>110</u>	<u>106</u>

NOTES ON THE INTERIM FINANCIAL REPORT (UNAUDITED) (CONTINUED)*For the six months ended 30 June 2005**(Prepared under International Accounting Standard 34 - Interim Financial Reporting)***19 Related party transactions (continued)****(b) Transactions with other state-owned enterprises**

The Company is part of a larger group of companies under CLFG, which itself is owned by the PRC government. The Group also conducts business with other enterprises directly or indirectly owned or controlled by the PRC government (“State-owned enterprises”). The Group considers that the transactions with these state-owned enterprises are conducted in the ordinary course of business and under normal commercial terms and as such the Group has not disclosed such activities as related party transactions.

20 Post balance sheet events

On 21 July 2005, the People’s Bank of China announced that the PRC government reformed the exchange rate regime by moving into a managed floating exchange rate based on market supply and demand with reference to a basket of foreign currencies. In particular, the exchange rate of US dollar against Renminbi was adjusted upward to Renminbi 8.11 per US dollar with effect from the close of business on 21 July 2005. The directors are of the opinion that the above appreciation of Renminbi would not have significant adverse financial impacts to the Group for the year ending 31 December 2005.

IV. INDEBTEDNESS

As at the close of business on 30 November 2005, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of the Circular, the Group had outstanding bank and other borrowings of approximately RMB969 million of which bank and other borrowings amounted to approximately RMB658 million were guaranteed by CLFG and other third parties.

At the close of business on 30 November 2005, the Group had pledged bank deposit of RMB63 million to secure the bank loans granted to the Group. As at 30 November 2005, bank loans amounted to approximately RMB3 million are secured by the land use rights and buildings of the Group.

At the close of business on 30 November 2005, the Group had capital commitments relating to construction projects and purchases of equipment of approximately RMB190 million.

Save as aforesaid and apart from intra-group liabilities, the Group did not have outstanding liabilities or any mortgages, charges, debentures, loan capital, bank overdrafts, loans, liabilities under acceptance or other similar indebtedness, hire purchase obligations or any guarantees or other material contingent liabilities at the close of business on 30 November 2005.

V. WORKING CAPITAL

The Director are of the opinion that taking into account the Group's available facilities from financial institutions and internal resources, the Group has sufficient working capital for the next twelve months from the date of the Circular.

VI. MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2004, being the date up to which the latest published audited financial statements of the Group were made.

I. REPORT ON UNAUDITED PRO FORMA BALANCE SHEET OF THE GROUP

The following is the text of a report, prepared for the sole purpose of inclusion in this circular received from the independent reporting accountants, KPMG, Certified Public Accountants, Hong Kong. As described in the section headed “Documents available for inspection” in Appendix V, a copy of the following report is available for inspection.



8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

10 January 2006

The Directors
Luoyang Glass Company Limited
No.9, Tang Gong Zhong Lu
Xigong District
Luoyang, Henan
People's Republic of China

Dear Sirs,

We report on the unaudited pro forma balance sheet of the Group (the Listed Group (as defined herein) together with the Joint Ventures (as defined herein)) at 31 December 2004 (the “Unaudited Pro Forma Balance Sheet”) set out on pages 120 to 122 in Appendix II to the shareholders’ circular of Luoyang Glass Company Limited (the “Company”, and together with its subsidiaries are referred to as the “Listed Group”) dated 10 January 2006, which has been prepared by the Company solely for illustrative purposes to provide information about how the formation of the Joint Ventures (the “Major and Connected Transaction”) as described in the introduction to the Unaudited Pro Forma Balance Sheet might have affected the historical amounts in the Unaudited Pro Forma Balance Sheet of the Group.

CLFG Long Hai Electronic Glass Limited and CLFG Long Hao Glass Limited (the “Joint Ventures”) are both engaged in the production and sale of float sheet glass products.

The historical financial information is derived from the audited historical financial information of the Listed Group as set out in Appendix I. The basis of preparation of the Unaudited Pro Forma Balance Sheet is set out in the introduction and notes to the Unaudited Pro Forma Balance Sheet of the Group.

Responsibilities

It is the sole responsibility of the directors of the Company to prepare the Unaudited Pro Forma Balance Sheet in accordance with Paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

It is our responsibility to form an opinion, as required by the Listing Rules, on the Unaudited Pro Forma Balance Sheet and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Balance Sheet beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of Opinion

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards and Bulletin 1998/8 “Reporting on Pro Forma Financial Information pursuant to the Listing Rules” issued by the Auditing Practices Board in the United Kingdom, where applicable.

Our work consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Balance Sheet with the directors of the Company.

Our work did not constitute an audit or review made in accordance with the Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants, and accordingly, we do not express any such audit or review assurance on the Unaudited Pro Forma Balance Sheet.

The Unaudited Pro Forma Balance Sheet is for illustrative purposes only, based on the directors’ judgements and assumptions, and because of its nature, it does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position or result of:

- the Group had the Major and Connection Transaction actually completed as at the date indicated therein; or
- the Group at any future date or for any future periods.

Opinion

In our opinion:

- (a) the accompanying Unaudited Pro Forma Balance Sheet has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Company; and
- (c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Balance Sheet as disclosed pursuant to Paragraph 29 (1) of Chapter 4 of the Listing Rules.

Yours faithfully,

KPMG

Certified Public Accountants

Hong Kong

II. UNAUDITED PRO FORMA BALANCE SHEET**INTRODUCTION TO THE UNAUDITED PRO FORMA BALANCE SHEET**

The unaudited pro forma balance sheet has been prepared to illustrate the effect of the formation of CLFG Long Hai Electronic Glass Limited ("Long Hai") and CLFG Long Hao Glass Limited ("Long Hao") (the "Joint Ventures"). Details of the formation of the Joint Ventures are set out in the Letter from the Board.

The unaudited pro forma balance sheet has been prepared on the assumption that the formation of the Joint Ventures had taken place at 31 December 2004. As the injection of capital into Long Hai and Long Hao had been reflected in the financial statements of the Group as at 30 June 2005, the balance sheet of the Group as at 31 December 2004 has been selected to show the proforma effect.

The unaudited pro forma balance sheet was prepared for illustrative purpose only and because of its nature, it may not give a true picture of the financial position of the Group (Luoyang Glass Company Limited (the "Company")) and its subsidiaries (the "Listed Group") together with the Joint Ventures) at any dates.

The unaudited pro forma balance sheet has been prepared based on the audited consolidated balance sheet of the Listed Group which is set out in Appendix I to the Circular and after making certain pro forma adjustments as set out below. The unaudited pro forma balance sheet should be read in conjunction with the historical financial information of the Listed Group and other financial information included elsewhere in this Circular.

Unaudited Pro Forma Balance Sheet

The Listed Group as at 31 December 2004			Pro forma adjustments			Pro forma
Historical			Long Hai	Long Hao	Total	balances
RMB'000	Note		RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets						
Property, plant and equipment	865,049					865,049
Construction in progress	2,323					2,323
Intangible asset	6,005	2	6,000	5,000	11,000	17,005
Lease prepayments	81,138					81,138
Interest in associated companies	174,476					174,476
Investments	32,983					32,983
Other receivables	10,501					10,501
Deposits with non-bank financial institution	35,654					35,654
Total non-current assets	1,208,129					1,219,129
Current assets						
Income tax recoverable	1,739					1,739
Other receivables	323,439					323,439
Inventories	205,474					205,474
Trade and bills receivables	61,550					61,550
Deposits with banks and non-bank financial institutions	167,233					167,233
Cash and cash equivalents	130,039	3	54,000	45,000	99,000	141,039
		1	(48,000)	(40,000)	(88,000)	
Total current assets	889,474					900,474
Current liabilities						
Income tax payable	512					512
Trade and bills payables	110,282					110,282
Accrued expenses and other payables	181,712					181,712
Bank and other loans	812,516					812,516
Total current liabilities	1,105,022					1,105,022
Net current liabilities	(215,548)					(204,548)
Total assets less current liabilities	992,581					1,014,581

Unaudited Pro Forma Balance Sheet (*continued*)

The Listed Group as at 31 December 2004		Pro forma adjustments			Pro forma
Historical		Long Hai	Long Hao	Total	balances
RMB'000	Note	RMB'000	RMB'000	RMB'000	RMB'000
Non-current liabilities					
Bank and other loans					71,342
Long-term payables					2,717
Total non-current liabilities					74,059
Net assets					940,522
Capital and reserves					
Share capital	2,3	60,000	50,000	110,000	700,000
	4	(60,000)	(50,000)	(110,000)	
Share premium					969,988
Reserves					118,202
Accumulated losses					(936,974)
Total equity attributable to equity holders of the parent					851,216
Minority interest	4	12,000	10,000	22,000	89,306
Total equity					940,522

Notes:

- 1 To record the cash contributions made by the Company as the registered capital of Long Hai and Long Hao.
- 2 To record the intangible assets in the form of the specialised usage right of Luoyang Float Glass Patent Technology and usage right of the “CLFG 洛玻” registered trademark injected by CLFG as registered capital into Long Hai and Long Hao in accordance with the Long Hai Agreement and Long Hao Agreement, respectively.
- 3 To record cash injected by the Company and CLFG into Long Hai and Long Hao as registered capital.
- 4 To eliminate the capital invested by the Company and CLFG in Long Hai and Long Hao.

Vigers Appraisal & Consulting Limited

International Assets Appraisal Consultants

10th Floor, The Grande Building

398 Kwun Tong Road

Kowloon

Hong Kong

10 January 2006

The Directors

Luoyang Glass Company Limited

No. 9 Tang Gong Zhong Lu, Xigong District

Luoyang Minicipal, Henan Province,

PRC

Dear Sirs / Madams,

Valuation of usage right of 洛陽浮法玻璃工藝專有技術 (Luoyang Float Glass Patent Technology) and the usage right of the registered Trademark “CLFG洛玻”

In accordance with the instruction from Luoyang Glass Company Limited (the “Company”), we have carried out a valuation of the market value of the usage right of 洛陽浮法玻璃工藝專有技術 (Luoyang Float Glass Patent Technology) and the usage right of the registered Trademark “CLFG洛玻” (the “Technology” and “Trademark”) as of 30 December 2005 (the “Valuation Date”). We understand that the appraisal will be used in relation to the major and connected transactions entered by the Company. This letter summarizes the principal conclusions of our opinion of valuation.

BACKGROUND

On 26 May 2005, the Company entered into the Long Hai Agreement and Long Hao Agreement to form two joint ventures (the “Joint Ventures”), Long Hai and Long Hao, with China Luoyang Float Glass (Group) Company Limited, the controlling shareholder of the Company (the “CLFG”).

The registered capital of Long Hai is RMB60 million, of which RMB12 million will be contributed by CLFG. Amongst the RMB6 million of the capital contributed by CLFG will be in the form of cash and the remaining RMB 6 million, is in the form of the specialized usage of the Technology and the usage right of the Trademark. Long Hai is principally engaged in (i) the production and sale of ultra-thin glass with thickness ranging from 0.55 mm to 2 mm, and (ii) processing raw materials for the production of glass related products. The ultra-thin glass is one of the major raw materials used in the production of electronic products such as TN-LCD display panels, STN-LCD display panels and PDA.



The registered capital of Long Hao is RMB50 million, of which RMB10 million will be contributed by CLFG. Amongst the RMB5 million of the capital contributed by CLFG will be in the form of cash and the remaining RMB 5 million, is in the form of the specialized usage Technology and the usage right of the Trademark. Long Hao is principally engaged in (i) the production and sale of float glass and (ii) the provision of related consultancy and technical support services. Float sheet glass is an important raw material for property development and demonstrated huge growth potential. Long Hao mainly focuses on the float sheet glass market in the western region of the PRC.

Luoyang Float Glass Patent Technology represents one of the top tiers float glass technologies in the world. The float glass technology offers lower production cost in plate glass manufacturing without comprising to the quality. Float glass is made by molten glass and a thin layer is fed from the glass furnace into a tank of molten tin. The molten glass, which is chemically insoluble with the molten tin, will flat out and form a perfectly smooth glossy surface with even thickness. The flatten glass is then leaving the bath of molten tin and cooling down gradually to pass to an annealing chamber, at where the glass is cooled steadily with the control of temperature.

BASIS AND METHODOLOGY OF VALUATION

We have been asked to evaluate the market value of the Technology and Trademark being injected into Long Hai and Long Hao. Market Value is defined as the estimated amount for which an asset should be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

Information Reviewed

As part of our analysis, we are furnished with information prepared by the Company that includes background of the Technology and Trademark, financial and operational information for Long Hai and Long Hao. We have also discussed with the management of the Company in relation to the market position of the company, competitive advantage of the technology and trademark. We have relied to a considerable extent on such information in arriving at our opinion of value.

Valuation of the Technology and Trademark requires consideration of all relevant factors affecting the operation of the business that related to the Technology and Trademark, competitive advantage of the Technology as well as the ability of the Technology and Trademark to generate future economic profits. Factors considered in the valuation included, but were not limited to, the following:

- Nature of the business and its operating environment in the market;
- Financial conditions of the business and the economic outlook in general;
- Feasibility studies of Long Hai and Long Hao dated 28 February 2005;

- Profit forecast of Long Hai and Long Hao for the financial year of 2006 (the “Profit forecast”) provided by the Company;
- Impact on the business with or without the Technology and Trademark;
- Target market of Long Hai and Long Hao and the risk in associated with; and
- Market information in relation to the franchise of technology and trademark.

We have made discussion with the Directors in relation to the assumptions adopted in profit forecast as provided by the Company, we perceived no evidence to suspect that such information in relation to the profit forecast is incomplete, untrue, inaccurate, misleading or omits a material fact. We thus assumed the accuracy and reasonableness of the information provided and relied to a considerable extent on such information in arriving at our opinion of value.

Valuation Method

In this valuation, the market value of the Technology and Trademark was developed through the relief from royalty method. This method estimate the relief from hypothetical royalty or rental payment, that is, the amount of royalty or rental payment that the technology or trademark user would be willing to pay to a third party in order to obtain the use of and the rights to the subject technology and trademark. Income derived from these notional royalties, which represented the periodic benefits to the owner of the asset, is capitalized at an appropriate capitalization rate. The discount rate used in the analysis is developed to reflect all business risks including intrinsic and extrinsic uncertainties in relation to the particular technologies. The market value of the technology and trademark is the present value of the economic income discounted by an appropriate capitalization rate. The direct capitalization method can be referred to in the HKIS valuation Standards on Trade-related Business Assets and Business Enterprises (First Edition 2004) published by the Hong Kong Institute of Surveyors.

A royalty rate can be considered as the payment of a bundle of rights which granted by the licensor to use its intellectual properties. These intellectual properties can be technology, production know-how, marketing-related intellectual properties such as trademarks, management skill or distribution channels. There are numerous forms of royalty rate arrangement, which can be an up-front fee payment in a lump sum or in installments, a running fee which is based on a percentage of revenue, net income or number of units sold, etc. The licensee receives the economic benefits contributed by these intellectual properties at the cost of royalty rate. Thus, a royalty rate is an appropriate one if the sum of economic benefits in future due to the use of the intellectual properties worth equal to or more than the royalty rate to be paid out.

Having said the above, it is reasonable to observe a higher royalty rate in industries involved complex technologies and inaccessible know-how which provides competitive advantages in the existing market. Second, technology and trademark that covered use of intellectual properties in wider geographical areas usually associates with higher royalty rate because of better efficiency, higher market penetration and recognition. Third, a longer agreement period of use on the technology and trademark results a higher up-front fee as a lump sum of payment but has less impact on the running fee.

In the consideration of the Technology and Trademark, we noted the following features:

- The transfer of the use of intellectual properties covers the Technology and the use of the Trademark “CLFG洛玻”. The CLFG is one of the global glass manufacturers had developed its own floating glass technology, while the Trademark has established its prominent market position in glass manufacturing in the PRC¹.
- Products manufactured under the Technology and Trademark have the competitive advantages over or the capability to differentiate its pricing from the competitors. For the products manufactured by Long Hai, it is recognized as high technology in China glass industry and the Company is currently the only manufacturer who is able to produce the ultra-thin glass². For the products manufactured by Long Hao, the products, sheet glass with thickness ranging from 3 mm to 15 mm, focus on the niche market in property industry. The 15 mm sheet glass has its absolute advantage in terms of quality.
- Use of Trademarks applies to the PRC market. As per discussion with the CLFG, the usage period can be renewed and is reasonably expected to run into indefinite future since management explicitly considers all possible means to protect this technology know how into indefinite future and huge investments formed substantial entry barrier to the development of these technologies. As the trademark has been established its strong market position in the industry, the JVs will remain enjoy benefit from the trademark in future.

Notes:

1. China Building Materials News 2004-9-6; Luoyang TV 2005-10-6; China Architectural and Industrial Glass Association 2005-6-7.
2. China Building Materials News 2004-9-6; Luoyang TV 2005-10-6.

Researches conducted by Rose Ann Dabek and Gordon V. Smith³ reported royalty rate on the use of technology and trademark in various industries including aerospace, automotive, computer, pharmaceuticals, etc. Their studies suggested that the royalty rates on Trademark and technology in chemical industry, or commercial products, is ranging from 2% to 5% of the profit. Technology and trademark covered the use of complex technology, such as Aerospace or Pharmaceuticals, could up to 10% of profit. For these industries with large number of competitors or less complex technology reported a royalty rate on the lower side, ranging from 2% - 5% of profit. These researches are not dedicative to the glass industry in PRC, nor the trademark or patent in China, but represent general researches which should be applicable to various industries in mature market, where the standard of market value should rely on. We have also conducted researches on royalties in Hong Kong and it can be observed that most of royalties was determined on the basis of a percentage to turnover.

Company	Industry type	Nature	Announcement date	Royalties
Egana Jewellery & Pearls Limited (926)	Design, manufacturing, distribution and trading of jewellery products	Use of trademark	21 Aug 2001	5% of sales
China Resources Logic Limited (1193)	Manufacturing of semiconductor, compressor and office furniture	Use of technologies in manufacture	22 Oct 2001	0.3% to 2% of sales
Logic International Holdings Limited (1193) (Renamed to China Resource Logic Limited)	Manufacturing of semiconductor, compressor and office furniture	Use of technologies in manufacture	8 Nov 2000	0.5% - 3.8% of sales
Hop Hing Holdings Limited (47)	Production and sales of edible oils and food related business	Use of trademark	24 May 2000	0.5% - 1.5% of sales
TCL International Holdings Limited (1070)	Manufacturing and sales of audio-visual, personal computer and peripheral products	Use of trademark	31 May 2004	0.5% - 2% of sales

³ "Valuation of Technology", Rose Ann Dabek, 1999, Procter & Gamble, Intellectual Property Licensing Seminar; Trademark Valuation, Gordon V. Smith, John Wiley & Sons, Inc., 1997.

Royalties observed in Hong Kong in relation to the use of technology and trademark is ranging from 0.5% to 3.8% of turnover. In translating the percentage to sales into percentage to net profit. We consider result suggested by Hong Kong sample is relative higher than the survey done by Rose and Gordon. Second, due to the limited number of transaction observed in Hong Kong, it is considered the sample might not be representative enough to reflect a reasonable market royalties. In this regards, reference to Rose and Gordon became important as these research could indicate a reasonable market royalties reported by practitioner. Given the majority applied a range of 2% - 5%, the average would be approximately stated as 3%. In addition, ultra thin glass represented the high end technology current exist in PRC. It is warrant to receive high royalty rate given its complexity, huge investment and time spent on research and development. Thus it is justifiable to use the high end of the market rage, 5%, as the approximation of the royalty rate to this technology and its related use of trademark. Taking account of the market royalty rate, the characteristic of the Technology and Trademark, we consider a hypothetical royalty rate of 5% and 3% to net profit would be appropriated for the valuation of Long Hai and Long Hao respectively.

Our basis of the estimate of net profit has relied on the company's profit forecast for the year ending of 31 December 2006. The hypothetical royalty income which could be obtained by the owner of the Technology and Trademark is then based on the hypothetical royalty rate deduced above, as a percentage to the net profit. The Market Value of the Technology and Trademark thus can be approximated under the capitalization method with the use of the hypothetical royalty income at an appropriate capitalization rate to be determined below.

In the determination of the capitalization rate, we have made reference to the Capital Asset Pricing Model ("CAPM") to estimate the cost of equity to the owner of the Technology and Trademark. Choosing the CAPM is an appropriate basis of capitalization rate estimation since the income stream, which measure by relief from royalty method, shared the same risk as in the glass manufacturing industry. The cost of equity for the glass manufacturer, is given by:

Cost of equity = Risk Free Rate + Estimated Beta x Market Risk Premium + unsystematic risk

In applying the CAPM to estimate the discount rate, we have made reference, but not limited to, the followings in our estimation:

- i. The yield of the Treasury Bills and Bonds in United States;
- ii. The market return in the stock market of United States and the return on equity of listed company which engaged in glass manufacturing or similar line of business;
- iii. The specific risk of the asset.

The determination of discount rate has made reference to the US market in view of the China market is being considered as less efficient on reflecting market information than the US. This is due to the China market was comparatively weak on information dissemination, existing certain restrictions on investment market and having hindrance on capital flow. With the consistent set of estimates on risk free rate and the market return of the US market, we can derive the cost of equity before any adjustment of unsympathetic risk. In translating the estimation derived from the US market into an estimate for the China market, we have included the country risk factor in the unsystematic risk adjustment. Second, the cost of required rate of return on equity estimated by CAPM can only explains a portion of the total risk, that is, the systematic risk of an equity investment. We have further considered appropriate adjustments to be made on the unsystematic risk, such as country risk stated before, political risk and firm specified risk, which might affect the value of the asset being evaluated. Based on the above consideration, discount rate deduced from the CAPM is founded to be 12.4%.

The capitalization rate is given by:

Capitalization Rate = Required rate of return - Growth Rate (in long run)

Though the growth on quantity of glass product in China, which is 15.2% 2005 Jan - Sept against last year and the China's average growth on GDP over last ten years was 9%, we consider 3% growth is more reasonable in the long run for the Company. Having considered the above, we estimated a capitalization rate of 9.4% would appropriately reflect the risk in associated with the asset being evaluated.

MAJOR ASSUMPTIONS

Assumptions considered to have significant sensitivity effects in this valuation were evaluated and validated in order to provide a more accurate and reasonable basis for arriving at our assessed value. Based on our experience in valuing asset of similar nature, we consider the assumptions made in this valuation report to be reasonable.

- We have assumed there will be no material change in existing political, legal, technological, fiscal or economic condition, which will adversely affect the businesses under concern.
- We have assumed the Company, or the Joint Ventures, will retain its key management, competent personnel and technical staff to support the ongoing operation.
- We have assumed competitive advantages of the Technology and Trademark do not change significantly during the valuation period. We also assume no competitor will develop technology in short term which could effectively substitute the technology being valued, nor any substitutes can be developed in short term which could result adverse effect on the demand of the Joint Ventures' products.
- It is assumed that the market trend and conditions for the glass manufacturing industry in the PRC will not deviate significantly from the economic forecasts in general.
- The valuation is grounded on the assumption that the Joint Ventures will operate in accordance with the technical specification and business plan as stated in the feasibility studies or profit forecast. It is also assumed that the operations of Long Hai and Long Hao will run in future indefinitely.

- In accordance with the opinion from the Company’s legal advisor, the technology is not patented and the continuity of the technologies’ competitive advantage rely on the protection of the know how from possible leakage. We assume the Company will implement appropriate and necessary measures to prevent confidential information in relation to the technologies from disclosure. We also assume the technologies know how can only be accessed by the key management and no person could access the know how without the consent of the management.
- In accordance with the opinion from the Company’s legal advisor, CLFG legally and financially wholly-owned the technology being valued. We assume the reasonableness of the opinion and no contradiction to the jurisdiction in the PRC.
- We have only considered a collection of operating income and related expenses such as direct costs, management costs and taxes. We have not made provision for non-operating cash flow items such as interest income, exchange rate gain/loss, etc. in the valuation model.

The directors of the Company have prepared the forecasted profits attributable to the shareholders of Long Hai and Long Hao on basis consistent in all material respects with the accounting policies adopted by the Company and on the following principal assumptions:

- the directors of the Company anticipate that Long Hai will be able to commence production in January 2006. The production techniques of production of ultra-thin glass have been mastered skillfully in the operations of 洛玻集團龍門有限責任公司(Luobo Group Longmen Glass Company) in recent years. The directors of the Company expect that in the first and second quarter of the year 2006, production will be at the preliminary stage and the finished-product rate of products during the period will gradually improve from a lower level. Starting from the second quarter of 2006, production will be able to reach normal operation level and the finished-product rate will remain at a high level;
- the directors of the Company anticipate that Long Hao will be able to commence production in December 2005. The glass production techniques have been mastered skillfully in the operations of 洛陽龍新玻璃有限公司(Luoyang Longxin Glass Co.) in recent years. The directors of the Company expect that in the first and second quarter of the year 2006, production will be at the preliminary stage and the finished-product rate of products during the period will gradually improve from a lower level. Starting from the second quarter of 2006, production will be able to reach normal operation level and the finished-product rate will remain at a high level;
- there will be no material changes in the existing political, legal (including legislation, rules and regulations), financial and economic conditions or the macro-control policies of the PRC during the forecast period;
- there will be no material changes in the basis or rate of taxation or other taxes incurred in operations and exports (including tariffs and relevant taxes);

- there will be no material difference in inflation rate, interest rate or foreign currency exchange rate during the forecast period from those currently prevailing;
- the production operations of Long Hai will not be adversely affected by fuel crisis/disputes, the interruption of supply of raw materials (mainly soda ash and silica), labour disputes and other factors beyond the control of the Company and Long Hai (including but not limited to acts of god or calamities), epidemics or serious accidents;
- the production operations of Long Hai will not be seriously affected by the abnormal functioning of the production capacity of major machinery and equipment;
- the directors of the Company, principal members of senior management and other principal staff members and technical personnel will stay in office and are able to continuously participate in the operations and development of Long Hai during the forecast period; and
- no material matters of extraordinary or special nature will arise, including material litigation originating from customers for quality problems of glass that would seriously affect the operation of Long Hai during the forecast period;

SENSITIVITY ANALYSIS

We have tested the impact of capitalization rate on the opinion of value of the Subject. The sensitivity analysis demonstrated here served as a reference on the effect of a change of capitalization and by no means indicating the boundary of our opinion of value.

Capitalization Rate	Opinion of Value of Technology and Trademark for Long Hai	Opinion of Value of Technology and Trademark for Long Hao
	<i>RMB</i>	<i>RMB</i>
8.4%	8,300,000	6,300,000
9.4%	7,400,000	5,600,000
10.4%	6,700,000	5,100,000

OPINION OF VALUE

In conclusion, based on our aforesaid investigation, analysis and valuation methodology employed, it is our opinion that as of the Valuation Date, the market value of the Technology and Trademark being injected to Long Hai and Long Hao are reasonably stated as only at RMB Seven Million Four Hundred Thousand and RMB Five Million Six Hundred Thousand respectively.

Joint Venture	Market Value of Technology and Trademark
Long Hai	RMB7,400,000
Long Hao	RMB5,600,000

The opinion of value is based on accepted valuation procedures and practices that rely substantially on the use of numerous assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained. While the assumptions and consideration of such matters are considered to be reasonable, they are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the control of the Company. This valuation is prepared in line with the standard and guidelines as contained in the Hong Kong Business Valuation Forum Business Valuation Standards.

We have not investigated the title to nor any liabilities against the Technology valued. We hereby certify that we have neither present nor prospective interests in the Company or value reported.

In accordance with our standard practice, this report is for the use of the party to whom it is addressed and no responsibility is accepted to any third party for the whole or any part of the contents of this report.

Yours faithfully,

For and on behalf of

VIGERS APPRAISAL & CONSULTING LTD.

Raymond Ho Kai Kwong

Registered Professional Surveyor

Registered Business Valuer

MRICS, MHKIS, MSc (e-com)

Executive Director

Favian Kam Man Yin

Registered Business Valuer

CFA

Manager

Note: Raymond K. K. Ho, Chartered Surveyor, MRICS, MHKIS, MSc (e-com) has Eighteen years experience in undertaking valuation of properties, business and intangible assets in Hong Kong, Macau and the PRC and has extensive experience in business valuation in the Greater China region since 1993. Favian M. Y. Kam, CFA, has over nine years experience in business, intangible and financial assets valuation in Hong Kong and PRC.

A. LETTER FROM KPMG

8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

10 January 2006

The Directors
Luoyang Glass Company Limited
South China Capital Limited

Dear Sirs,

We have reviewed the accounting policies and calculations adopted in arriving at the forecasts (the "Forecasts") of the net profits attributable to shareholders of CLFG Long Hai Electronic Glass Limited ("Long Hai") and CLFG Long Hao Glass Limited ("Long Hao"), respectively, for the year ending 31 December 2006, for which the directors (the "Directors") of Luoyang Glass Company Limited (the "Company") are solely responsible.

In our opinion, so far as the accounting policies and calculations are concerned, the Forecasts have been properly compiled on the bases and assumptions made by the Directors and are presented on a basis consistent in all material respects with the accounting policies adopted by the Company, the text of which is set out in Appendix I to the Circular.

Yours faithfully,
KPMG
Certified Public Accountants
Hong Kong

B. LETTER FROM SOUTH CHINA CAPITAL LIMITED

10 January 2006

The board of directors
Luoyang Glass Company Limited
No.9 Tang Gong Zhong Lu
Xigong District
Luoyang Municipal, Henan Province

Dear Sirs,

We refer to the forecasts (the “Forecasts”) of the net profits attributable to shareholders of Long Hai and Long Hao, respectively, for the year ending 31 December 2006 and the report of valuation prepared by Vigers Appraisal & Consulting Limited (“Vigers”) in relation to the appraisal of the market value of the usage right of 洛陽浮法玻璃工藝專有技術(Luoyang Float Glass Patent Technology) and the usage right of the registered trademark “CLFG洛玻”as at 30 December 2005 (the “Valuation”) as set out in Appendix III of the circular (“Circular”) dated 10 January 2006.

We have reviewed the Forecasts upon which the Valuation has been made for which you as the directors of the Company are responsible and discussed with you the information and documents provided by you which formed part of the bases and assumptions upon which Forecasts has been prepared. We have also considered the letter from KPMG dated 10 January 2006 addressed to yourselves as set out in Section A of Appendix IV to this circular.

On the basis of the foregoing, we are of the opinion that the Forecasts upon which the Valuation has been made, for which you as the directors of the Company are solely responsible, has been made after due and careful enquiry by you.

Your faithfully,
For and on behalf of
South China Capital Limited
Richard Howard Gorges
Managing Director

RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with respect to the Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular 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 will make any statement herein misleading.

DISCLOSURE OF INTERESTS**Directors' Interests**

As at the Latest Practicable Date, the interests and short positions of the Directors, supervisors (the “**Supervisors**”)(as if the requirements applicable to Directors under the Securities and Futures Ordinance (the “**SFO**”) (Chapter 571 of the Laws of Hong Kong) had applied to the Supervisors), chief executives of the Company and their associates had any interests in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, to be notified to the Company and the Stock Exchange were as follows :

Name of Director	Type of Interest	Capacity	Number of Shares held (Note)
<i>A Shares</i>			
<i>Director</i>			
Liu Baoying	Personal	Beneficial owner	2,000 (L)
Zhu Leibo	Personal	Beneficial owner	2,000 (L)
Wang Jie	Personal	Beneficial owner	2,000 (L)
Zhang Shaojie	Personal	Beneficial owner	1,700 (L)
Zhu Liuxin	Personal	Beneficial owner	1,700 (L)
Jiang Hong	Personal	Beneficial owner	1,800 (L)
<i>Cheif executive of the Company</i>			
Wang Heping	Personal	Beneficial owner	1,700 (L)

Note: The letter “L” represents the long positions in the shares of the Company.

Save as disclosed above, none of the Directors, Supervisors and chief executives of the Company nor their respective associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules as at the Latest Practicable Date.

As at the Latest Practicable Date, none of the Directors, Supervisors or chief executives of the Company or their spouses or children under 18 years of age were granted or had exercised any right to subscribe for any equity or debt securities of the Company or any of its associated corporations (within the meaning of Part XV of the SFO).

None of the Directors has any interest, direct or indirect, in any assets which have been acquired or disposed of by, or leased to any member of the Group, or are proposed to be acquired or disposed of by, or leased to any member of the Group since 31 December 2004, the date to which the latest published audited financial statement of the Group was made up.

None of the Directors is materially interested in any contract or arrangement entered into by the Company or any of its subsidiaries which contract or arrangement is subsisting at the Latest Practicable Date and which is significant in relation to the business of the Group taken as a whole.

Substantial Shareholders' Interests

As at the Latest Practicable Date, so far as is known to, or can be ascertained after reasonable enquiry by, the Directors, Supervisors (as if the requirements applicable to the Directors under the SFO had applied to the Supervisors) or chief executives of the Company, the following persons/entities (other than the Directors, Supervisors or chief executives of the Company) had interests or short positions in the shares or underlying shares (including options) of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at the general meetings of any member of the Group:

Name of Shareholder	Company/ Subsidiary	Nature of Interest	Number of class of securities (Note 1)	Approximate percentage of interest in the total issued share capital of the Company
CLFG	the Company	Beneficial owner	400,000,000 (L) domestic Shares	57.14%
Luoyang State Capital State Owned Assets Operation Company Limited	the Company	Interest in controlled corporation	400,000,000 (L) domestic Shares (Note 2)	57.14%

Note 1: The letter “L” represents the entities’ long positions in the Shares.

Note 2: These 400,000,000 domestic Shares are registered and owned by CLFG. The major shareholder of CLFG is Luoyang State Capital State Owned Assets Operation Company Limited which owns 80.27% of the registered capital in CLFG. Luoyang State Capital State Owned Assets Operation Company Limited is therefore deemed to be interested in 400,000,000 domestic Shares held by CLFG under the SFO.

Save as disclosed above, there is no other person, so far as is known to the Directors, Supervisors or chief executives of the Company, who, as at the Latest Practicable Date, had an interest or a short position in the shares or underlying shares (including options) of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, had, directly or indirectly, interested in 10% or more of nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any member of the Group.

SHARE CAPITAL

The authorised and issued share capital of the Company as at the Latest Practicable Date are as follows :

Authorised:	Number of Shares	RMB
ordinary Shares of RMB 1 each	700,000,000	700,000,000
Issued and fully paid :		
Domestic Shares of RMB 1 each	400,000,000	400,000,000
A Shares of RMB 1 each	50,000,000	50,000,000
H Shares of RMB 1 each	250,000,000	250,000,000
Total	700,000,000	700,000,000

DIRECTORS’ SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered or was proposing to enter into a service contract with the Company or any of its subsidiaries which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

EXPERTS

- (a) The following is the qualification of the experts who have been named in this circular or have given opinions or advice contained in this circular:

Name	Qualification
Guangdong Securities	a deemed licensed corporation under the SFO
KPMG	Certified Public Accountants
South China Capital Limited (“ South China ”)	a deemed licensed corporation under the SFO
Vigers Appraisal & Consulting Limited (“ Vigers ”)	Professional valuer

- (b) As at the Latest Practicable Date, each of Guangdong Securities, KPMG, South China and Vigers does not have any shareholding in any member of the Group, nor does it have any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.
- (c) each of Guangdong Securities, KPMG, South China and Vigers has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name and letter in the form and context in which they appear.
- (d) The letter and recommendation given by each of Guangdong Securities, KPMG, South China and Vigers are given as of the date of this circular for incorporation herein.
- (e) Each of Guangdong Securities, KPMG, South China and Vigers has, or has had, no direct or indirect interest in any assets which have been acquired or disposed of by, or leased to, any member of the Group or are proposed to be acquired or disposed of by, or leased to, any member of the Group since 31 December 2004, the date to which the latest published audited financial statement of the Group was made up.

LITIGATION

On 30 December 1998, the Company placed a deposit (the “**Deposit**”) in the sum of RMB23,000,000 with Yinji local branch of Zhengzhou branch of Guangdong Development Bank (the “**Local Branch**”, which had been upgraded to Yinji sub-branch of Zhengzhou branch of Guangdong Development Bank (the “**Sub-branch**”) on 28 December 1999 as approved by the People’s Bank of China, Jinan branch for a fixed term of one year commencing from 30 December 1998 to 30 December 1999 at an annual interest rate of 3.78%. The Local Branch issued an Account Opening Certificate of Fixed Deposit. Subsequently, a dispute occurred when the Company withdrew the Deposit from the Sub-branch upon its maturity. The Sub-branch rejected the Company’s withdrawal on the ground of the defaulted repayment by Henan Yinji Property Development Company Limited (“**Yinji Property**”) of the outstanding loan (the “**Loan**”) in the sum of RMB21,850,000 for which the Company provided a guarantee in favour of Shangcheng branch of Guangdong Development Bank in December 1998 and that the Company should perform its obligations as the guarantor of the Loan. In 2001, the Company initiated legal proceedings in Henan High People’s Court. The Company lost the case. The Company then appealed to the People’s Supreme Court. The Supreme Court made a ruling in February 2004 in favour of the Company, which determined the above guarantee as void. As the Company was not eligible to provide the guarantee in relation to the Loan, the Local Branch was required to repay the Company half of the amount of the Deposit and the interest thereon by the end of April 2004; for another half of the amount of the Deposit and the interest thereon, the Company shall claim such amount from Yinji Property. The Company has received half of the amount of the Deposit from the Local Branch but the interest thereon is still outstanding. The Company is in the process of claiming another half of the amount of the Deposit and the interest thereon from Yinji Property.

Save as disclosed above, as at the Latest Practicable Date, neither the Company nor any of its subsidiaries is engaged in any litigation or arbitration of material importance and no litigation or arbitration or claim of material importance is known to the Directors to be pending or threatened by or against any member of the Group.

MATERIAL CONTRACTS

As at the Latest Practicable Date, save for the Long Hai Agreement and the Long Hao Agreement, no material contracts (not being contracts entered into in the ordinary course of business) were entered into by the Group within the two years immediately preceding the date of this circular.

GENERAL

- (a) The secretary of the Company is Mr. Wang Jie.
- (b) The registered and principal office of the Company is at No. 9, Tang Gong Zhong Lu, Xigong District, Luoyang Municipal, Henan Province, the PRC.
- (c) The share registrar and transfer office of the Company in Hong Kong is HKSCC Registrars Limited at Rooms 1901-05, 19/F., Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (d) The Company has not yet appointed the qualified accountant pursuant to Rule 3.24 of the Listing Rules. Please refer to the announcement dated 31 October 2005.
- (e) In the event of inconsistency, the English text of this circular shall prevail over the Chinese text.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours up to and including 25 January 2006 at the offices of Li & Partners, at 22nd Floor, World Wide House, Central, Hong Kong and at the EGM:

- (a) the articles of association of the Company;
- (b) the annual report of the Company for the two years ended 31 December 2004;
- (c) the interim report of the Company for the six months ended 30 June 2005;
- (d) the Long Hai Agreement and the Long Hao Agreement;
- (e) the letter of opinion from the Independent Board Committee dated 10 January 2006, the text of which is set out on pages 21 to 22 of this circular;
- (f) the letter of advice from Guangdong Securities dated 10 January 2006, the text of which is set out on pages 23 to 45 of this circular;
- (g) the letter of opinion from KPMG and South China dated 10 January 2006, the text of which is set out in Appendix IV of this circular;
- (h) the report prepared by KPMG on the unaudited pro forma balance sheet of the Group;
- (i) the valuation report prepared by Vigers dated 30 December 2005, the text of which is set out in Appendix III of this circular;
- (j) the written consent referred to in the paragraph headed "Experts" above; and
- (k) this circular.

NOTICE OF EGM



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)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the “EGM”) of Luoyang Glass Company Limited (the “**Company**”) will be held in the conference room on the 4th Floor of the Company at No. 9, Tang Gong Zhong Lu, Xigong District, Luoyang Municipal, Henan Province, the People's Republic of China on 27 February 2006 at 9:00 a.m. for the purpose of considering and, if thought fit, passing the following resolutions as ordinary resolutions:

ORDINARY RESOLUTIONS

“THAT:

- (A) the terms and conditions of the Long Hai Agreement and the Long Hao Agreement (both as defined in the circular of the Company dated 10 January 2006, copies of which have been produced to the EGM marked “**A**” and “**B**” respectively and signed by the chairman of the meeting for the purposes of identification), be and are hereby approved and confirmed; and
- (B) the Directors be authorised for and on behalf of the Company, among other matters, to sign, execute, perfect, deliver or to authorise signing, executing, perfecting and delivering all such documents and deeds, to do or authorise doing all such acts, matters and things as they may in their discretion consider necessary, expedient or desirable to give effect to and implement the Long Hai Agreement and the Long Hao Agreement respectively and to waive compliance from or make and agree such variations of a non-material nature to any of the terms of any of the Long Hai Agreement and the Long Hao Agreement respectively as they may in their discretion consider to be desirable and in the interests of the Company and all the Directors' acts as aforesaid be hereby approved, ratified and confirmed.”

By order of the Board
Luoyang Glass Company Limited
Liu Baoying
Chairman

Luoyang, the PRC, 10 January 2006

NOTICE OF EGM

Notes:

1. The register of members of the Company will be temporarily closed from 27 January 2006 to 27 February 2006 (both days inclusive) during which no transfer of Shares will be registered in order to determine the list of Shareholders for attending the EGM. Shareholders whose names appear on the register of members of the Company on 26 January 2006 will be entitled to attend and vote at the EGM. In order to be entitled to attend and vote at the EGM, all transfer of H Shares accompanied by the relevant share certificates must be lodged with the share registrar of the Company in Hong Kong, HKSCC Registrars Limited, at Rooms 1901-05, 19/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:00 p.m. on 26 January 2006.
2. Each Shareholder having the rights to attend and vote at the EGM is entitled to appoint one or more proxies (whether a Shareholder or not) to attend and vote on his behalf. Should more than one proxy be appointed by one Shareholder, such proxy shall only exercise his voting rights on a poll. A proxy need not be a member of the Company.
3. Shareholders can appoint a proxy by an instrument in writing (i.e. by using the Proxy Form enclosed). The Proxy Form shall be signed by the person appointing the proxy or an attorney authorised by such person in writing. If the Proxy Form is signed by an attorney, the power of attorney or other documents of authorisation shall be notarially certified. To be valid, the Proxy Form and the notarially certified power of attorney or other documents of authorisation must be delivered to the Company's share registrar in Hong Kong, HKSCC Registrars Limited, at Rooms 1901-05, 19/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong in not less than 24 hours before the time scheduled for the holding of the EGM or any adjournment.
4. Shareholders or proxies who intend to attend the EGM are requested to deliver the reply slip for attendance duly completed and signed to the Company in person, by post or by facsimile on or before 7 February 2006.
5. Shareholders or their proxies shall present proofs of their identities upon attending the EGM. Should a proxy be appointed, the proxy shall also present the Proxy Form.
6. The EGM is expected to last for less than one day. The Shareholders and proxies attending the EGM shall be responsible for their own travelling and accommodation expenses.
7. The Company's registered address is as follows:

No. 9, Tang Gong Zhong Lu,
Xigong District,
Luoyang Municipal,
Henan Province,
the PRC
Postal Code : 471009
Telephone : 86-379-63908588
Facsimile : 86-379-63251984
8. Completion and return of the Proxy Form will not preclude Shareholders from attending and voting in person at the EGM or any adjournment should he so desire.
9. As at the date of this notice, the executive directors of the Company are Mr. Liu Baoying, Mr. Ding Jianluo, Mr. Zhu Leibo, Mr. Zhang Shaojie, Mr. Zhu Liuxin, Mr. Jiang Hong and Mr. Wang Jie, and the independent non-executive directors of the Company are Mr. Dai Zhiliang, Mr. Zhong Pengrong, Mr. Xi Shengyang and Mr. Dong Chao.