

Corporate Governance Report

Below is the Company's implementation of the provisions under the Code on Corporate Governance Practices for listed companies ("Code on Corporate Governance") to allow the shareholders' assessment on such implementation:

1. CORPORATE GOVERNANCE

The codes on corporate governance currently adopted by Luoyang Glass Company Limited (the "Company") include, but not limited to the following documents:

1. Articles of Association of Luoyang Glass Company Limited
2. Rules of Procedures for the Board of Director's Meeting of Luoyang Glass Company Limited
3. Rules of Procedures for the Supervisory Committee's Meeting of Luoyang Glass Company Limited
4. Rules of Procedures for the Annual General Meeting of Luoyang Glass Company Limited
5. Work System for Independent Non-executive Directors of Luoyang Glass Company Limited
6. Rules of Duties for Secretary of the Board of Directors of Luoyang Glass Company Limited
7. Implementation Rules of the Strategic Committee under the Board of Directors of Luoyang Glass Company Limited ("Implementation Rules of the Strategic Committee")
8. Implementation Rules of the Nomination Committee under the Board of Directors of Luoyang Glass Company Limited ("Implementation Rules of the Nomination Committee")
9. Implementation Rules of the Audit or Review Committee under the Board of Directors of Luoyang Glass Company Limited ("Implementation Rules of Audit Committee")
10. Articles of Implementation for the Remuneration and Review Committee under the Board of Directors of Luoyang Glass Company Limited
11. Regulations for Financial Management of Luoyang Glass Company Limited

The board (the "Board") of directors (the "Directors") of the Company has reviewed the relevant corporate governance documents adopted by the Company, and is of the opinion that the documents contain all the provisions of the Code on Corporate Governance of the Rules Governing the Listing of Securities on Hong Kong Stock Exchange (the "Listing Rules").

2. CODES ON CORPORATE GOVERNANCE

The Company has fully complied with requirement under the Code on Corporate Governance during the year under review. However, the independent shareholders had not given their approval on the float sheet glass projects of CLFG Longhao Glass Company Limited and the float sheet glass projects of CLFG Longhai Glass Company Limited jointly invested and constructed by the Company and CLFG before the investment were made.

3. SECURITIES TRANSACTIONS OF THE DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules, which requires the securities transactions of the Directors to be conducted in accordance with the Model Code. The Model Code which is also applicable to the senior management of the Company. After making specific enquiries, all Directors have confirmed that they have fully complied with the Model Code during the reporting period.

Corporate Governance Report *(Continued)*

4. SHAREHOLDING INTERESTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Number of A Shares belonging to personal interest

Name	Position	shareholding at the beginning of the year (shares)	shareholding at the end of the year (shares)
Liu Baoying	Chairman	2,000	2,000
Zhu Leibo	Vice Chairman	2,000	2,000
Zhang Shaojie	Executive Director	1,700	1,700
Zhu Liuxin	Executive Director	1,700	1,700
Jiang Hong	Executive Director	1,800	1,800
Ding Jianluo	Executive Director and General Manager	0	0
Wang Jie	Director and Secretary to the Board of Directors	2,000	2,000
Dai Zhiliang	Independent Non-executive Director	0	0
Zhong Pengrong	Independent Non-executive Director	0	0
Xi Shengyang	Independent Non-executive Director	0	0
Dong Chao	Independent Non-executive Director	0	0
Tao Shanwu	Chairman of the Supervisory Committee	0	0
Cheng Rongfa	Supervisor	0	0
Song Fei	Supervisor	0	0
Li Jingyi	Independent Supervisor	0	0
Gu Meifeng	Independent Supervisor	0	0
Xie Jun	Deputy general manager	0	0
Ma Shixin	Deputy general manager	0	0
Wang Heping	Deputy general manager	1,700	1,700
Cao Mingchun	Financial controller	0	0

Note:

- (1) Save as disclosed above, as at 31 December 2005, none of the Directors, Supervisors and senior management of the Company had any interest nor short position in the underlying shares or debentures in the shares, equity derivatives of the Company or its associated corporations (within the meaning as defined in Part XV of the "Securities and Futures Ordinance" (Chapter 571 of the Hong Kong Ordinance)) which was required to be entered in the register of interest maintained by the Company pursuant to section 352 of the "Securities and Futures Ordinance"; or required to be notified to the Company or Hong Kong Exchange pursuant to the "Model Code for Securities Transactions by Directors of Listed Companies".
- (2) As at 31 December 2005, the Company did not grant the Directors, Supervisors or their spouses or children under 18 with any right to subscribe for the shares or debentures of the Company or any of its associated corporations.

Corporate Governance Report *(Continued)*

5. BOARD OF DIRECTORS

The composition and other information on the Board are listed as follows:

The Board comprises 11 directors, including 7 executive Directors, 4 independent non-executive Directors, 1 chairman and 1 vice chairman. The relevant detailed biographies are set out in the chapter headed "Directors, Supervisors, Senior Management Members and Staff" of the annual report.

Name	Position in the Company	Gender	Age	Term of office	Whether receiving remuneration in the Company	Whether receiving remuneration in shareholders' unit or other connected units
Liu Baoying	Chairman	M	52	2003.3.28 to 2006.3.28 Re-elected as Director on 10 April 2006 with the term of three years	No	Yes
Zhu Leibo	Vice Chairman	M	43	2003.3.28 to 2006.3.28 (Director) 2004.4.22 to 2006.3.28 (Vice Chairman) Re-elected as Director on 10 April 2006 with the term of three years	No	Yes
Zhang Shaojie	Director	M	44	2003.3.28 to 2006.3.28 Re-elected as Director on 10 April 2006 with the term of three years	No	Yes
Zhu Liuxin	Director	M	52	2003.3.28 to 2006.3.28 Re-elected as Director on 10 April 2006 with the term of three years	No	Yes
Jiang Hong	Director	M	44	2003.3.28 to 2006.3.28 Re-elected as Director on 10 April 2006 with the term of three years	No	Yes
Ding Jianluo	Director and General manager	M	44	2003.6.17 to 2006.3.28 (General Manager) 2004.6.10 to 2006.3.28 (Director) Re-elected as Director on 10 April 2006 with the term of three years	No	Yes
Wang Jie	Director and Secretary to the Board of Directors	M	43	2003.3.28 to 2006.3.28	Yes	No
Dai Zhiliang	Independent Director	M	65	2003.3.28 to 2006.3.28	Yes	No
Zhong Pengrong	Independent Director	M	51	2003.3.28 to 2006.3.28	Yes	No
Xi Shengyang	Independent Director	M	51	2003.3.28 to 2006.3.28 Re-elected as Director on 10 April 2006 with the term of three years	Yes	No
Dong Chao	Independent Director	M	39	2003.3.28 to 2006.3.28 Re-elected as Director on 10 April 2006 with the term of three years	Yes	No

The Board is a standing decision-making body and all Directors are required to act in the best interests of the Company. All members of the Board acknowledge that they are jointly and severally liable to all shareholders with regards to matters of management, supervision and operation of the Company.

The Board is primarily responsible for making decisions on the following:

1. formulating strategies of the Company;
2. ensuring the objectives of the management;
3. supervising the performance of the management; and
4. ensuring that the Company implements a prudent and effective control system, so as to assess and manage risks.

The Board is responsible for preparing the financial statements for each financial year to give a true and fair view of the financial position of the Company and its results and cash flow for the relevant period. In preparing the financial statements for the year ended 31 December 2005, the Board has adopted and applied the appropriate accounting policies in arriving at a prudent, fair and reasonable judgment and estimates, and has prepared the financial statements on a going concern basis. The Board is responsible for duly maintaining accounting records which disclose the financial position of the Company reasonably and accurately at any time.

The Board shall hold meetings at least quarterly and when major decisions are required. A 14 days' prior notice and a draft agenda of a regular Board meeting shall be dispatched to each of the Directors.

The Company Secretary should ensure that the operation of the Board is in compliance with the relevant procedures and providing suggestions to the Board with regard to matter of corporate governance and compliance with regulations. The Company Secretary is also responsible for maintaining and keeping the minutes of meetings of the Board and the Committees, delivering it to each Director in a proper time following conclusion of each meeting, and providing it to the directors and members of the committees under the Board for their inspection.

Corporate Governance Report *(Continued)*

5. BOARD OF DIRECTORS *(continued)*

Any director who is involved in a conflict of interests shall abstain from voting at the meeting of the Board.

In 2005, the Board convened five meetings, all of which were held by the fourth Board of Directors. The attendance of each director is set out as follows:

Number of meetings	5	
Name	Number of attendance	Number of entrusted attendance
Liu Baoying (Executive Director)	5	0
Zhu Leibo (Executive Director)	4	0
Zhang Shaojie (Executive Director)	4	0
Zhu Liuxin (Executive Director)	4	0
Jiang Hong (Executive Director)	4	0
Ding Jianluo (Executive Director)	5	0
Wang Jie (Executive Director)	5	0
Dai Zhiliang (Independent Non-executive Director)	5	0
Zhong Pengrong (Independent Non-executive Director)	5	0
Xi Shengyang (Independent Non-executive Director)	5	0
Dong Chao (Independent Non-executive Director)	5	0

From 28 March 2003 to present, the Board of Directors (including four independent non-executive directors, of which one independent non-executive Director Mr. Dong Chao is the PRC Certified Public Accountant) has been in compliance with the Rule 3.10(1) of the Listing Rules, which requires a company to maintain at least three independent non-executive Directors, and with the Rule 3.10(2) of the Listing Rules, which requires one of those independent non-executive Directors to possess professional qualifications or to be specialised in accounting or relevant financial management.

Pursuant to the requirements of the Hong Kong Stock Exchange, the Company has conducted verifications on its independent non-executive Directors in respect of their independence as follows: the Company has accepted the written confirmation of each of the independent non-executive directors ascertaining that they are in compliance with Rule 3.13 of the Listing Rules in respect of their independence. The Company is of the opinion that all of the independent non-executive Directors are independent.

Other than their working relationships with the Company, none of the Directors, supervisors or the senior management has any financial, business or family relationships or any relationships in other material aspects with each other members.

Other than the service contract entered into by each of them, none of the Directors or the supervisors has any personal and substantial interests, direct or indirect, in the material contracts entered into by the Company or any of its subsidiaries during 2005.

6. CHAIRMAN AND CHIEF EXECUTIVE

The Chairman and the Chief Executive of the Company are Mr. Liu Baoying and Mr. Ding Jianluo respectively. The roles of the Chairman and the Chief Executive are distinctively separated. The Chairman shall not be the Chief Executive of the Company concurrently and their respective duties are clearly defined in writing. The Chairman is responsible for managing the operation of the Board and procuring each Director to earnestly perform their duties and support each other. The Chairman is also responsible for determining and approving the agenda of each Board meeting, whereas the Chief Executive is responsible for business operations. The articles of association of the Company (the "Article of Association") sets out in detail the respective duties of the Chairman and the Chief Executive. The senior management other than the Directors and the supervisors of the Company are responsible for the daily business operations.

7. SPECIAL COMMITTEES UNDER THE BOARD

The Board has established four special committees, namely, the strategic committee (the "Strategic Committee"), the nomination committee (the "Nomination Committee"), audit or review committee (the "Audit Committee") and the remuneration and review Committee (the "Remuneration and Review Committee"), and specified their rules and procedures including terms of reference and power.

1. The Strategic Committee under the Board

(1) Members of the Strategic Committee

The Strategic Committee consists of five Directors, of whom one is independent non-executive Director and four are executive Directors. Mr. Liu Baoying as executive Director is chairman of the Strategic Committee, and the other four members include Mr. Zhu Leibo, Mr. Zhang Shaojie, Mr. Jiang Hong as executive Director and Mr. Zhong Pengrong as independent non-executive Director. The Strategic Committee considers it is proper to seek external expert consultant's assistance or opinion if necessary.

Corporate Governance Report *(Continued)*

7. SPECIAL COMMITTEES UNDER THE BOARD *(continued)*

1. The Strategic Committee under the Board *(continued)*

(2) *Main Duties and Functions of the Strategic Committee*

To conduct research and submit proposals regarding the long-term development strategies of the Company; to conduct research and submit proposals regarding and material investment plans which require approval from the Board in accordance with Articles of Association; to conduct research and submit proposals regarding material capital operations and assets operation projects required to be approved by the Board pursuant to Articles of Association; to conduct research and submit proposals regarding other material matters that may affect the Company's development; to carry out examination on the implementation of the above matters; and to perform other matters authorised by the Board.

Implementation Rules of the Strategic Committee has been published on the designated website for information disclosure of the Company.

(3) *Meetings of the Strategic Committee*

Attendance of individual members of the 2005 Strategic Committee

Number of meetings	2	
Name	Attendance	Attendance by proxy
Liu Baoying	2	0
Zhu Leibo	2	0
Zhang Shaojie	2	0
Jiang Hong	2	0
Zhong Pengrong	2	0

(4) *Work of the Strategic Committee during the year*

During the year, the Strategic Committee mainly discussed matters regarding the establishment of CLFG Longhao Glass Company Limited and CLFG Longhai Glass Company Limited, assisted and supervised the implementation of the project.

2. Remuneration and Review Committee

(1) *Members of the Remuneration and Review Committee*

The Remuneration and Review Committee consists of three Directors, of whom two are independent non-executive Directors and one is executive Director. Mr. Dai Zhiliang as independent non-executive Director is chairman of this committee, and the other two members include Mr. Liu Baoying as executive Director and Mr. Sheng Yang as independent non-executive Director. The Committee considers it is proper to seek external expert consultant's assistance or opinion on relevant matters if necessary.

(2) *Main Duties and Functions of the Remuneration and Review Committee*

The principal duties of the Remuneration and Review Committee are to formulate and review compensation policies and plans for the Directors and senior management, to formulate appraisal standards for the directors and senior management and to carry out appraisal thereof. Implementation Rules of the Remuneration and Review Committee has been published on the designated website for information disclosure of the Company.

(3) *Meetings of the Remuneration and Review Committee*

Attendance of individual members of the 2005 Remuneration and Review Committee

Number of meetings	2	
Name	Attendance	Attendance by proxy
Dai Zhiliang	2	0
Liu Baoying	2	0
Xi Shengyang	2	0

(4) *Decision Procedure and Determination Basis for the Remuneration of the Directors and Senior Management*

The Remuneration and Review Committee shall submit relevant proposals based on Director's work performance, emolument levels in other listed companies in the industry and development level of local economy, and upon its approval by the Board and at general meeting, shall determine emolument of directors. In addition, the Remuneration and Review Committee carries out annual performance appraisal of senior management and determines their emolument according to appraisal results.

Corporate Governance Report *(Continued)*

7. SPECIAL COMMITTEES UNDER THE BOARD *(continued)*

3. The Nomination Committee

(1) *Members of the Nomination Committee*

The Nomination Committee consists of two independent non-executive Directors and one executive Director. Mr. Sheng Yang as independent non-executive Director is chairman of this committee, and the other two members include Mr. Liu Baoying as executive Director and Mr. Zhong Pengrong as independent non-executive Director.

(2) *Main Duties and Functions of the Nomination Committee:*

To submit proposals to the Board regarding its scale and composition on the basis of the Company's operation, asset range and equity structure; to study and submit proposal to the Board regarding standard for selection of directors and manager; to carry out wide search for qualified candidates for directors and managers; to review director candidates and managers and submit relevant proposals; to review other senior management for subject to appointment of the Board and submit relevant proposals; in addition, shareholders and supervisory committee of the Company shall nominate director candidates according to stipulations in Articles of Association. Written notice of the intention to nominate director candidates and their consent to accept the nomination shall be lodged with the Company no earlier than the date of delivery of notice of the general meeting and no later than seven days before holding of the meeting, and terms of nomination and acceptance of the nomination shall be not less than seven days.

The Nomination Committee reports to the Board and its proposals are to be submitted to the Board for consideration and approval; without adequate or reliable proof, controlling shareholders shall respect fully suggestions of the Nomination Committee otherwise no alternative candidate for directors or managers could be proposed. Implementation Rules of the Nomination Committee has been published on the designated website for information disclosure of the Company.

(3) *Meetings of the Nomination Committee*

Attendance of individual members of the Nomination Committee in 2005

Number of meetings

2

Name	Attendance	Attendance by proxy
Liu Baoying	2	0
Xi Shengyang	2	0
Zhong Pengrong	2	0

(4) *Work of the Nomination Committee during the year*

The Nomination Committee has reviewed and submitted proposal regarding appointment of certain senior management.

4. Audit Committee

(1) *Role and Functions of the Audit Committee*

Major duties of the Audit Committee include: to submit proposals to the Board regarding appointment and dismissal of external auditor, remuneration and appointment terms; to supervise and implement internal audit system of the Company; to review the Company's financial information and its disclosure, including examining the completeness of financial statements and annual reports, interim reports as well as quarterly reports of the Company, reviewing statements and reporting material discoveries regarding financial reporting; to review financial control and risk management system of the Company and to audit material connected transactions. Implementation Rules of the Audit Committee has been published on the designated website for information disclosure of the Company.

Corporate Governance Report *(Continued)*

7. SPECIAL COMMITTEES UNDER THE BOARD *(continued)*

4. Audit Committee *(continued)*

(2) Members of the Audit Committee

The committee consists of three independent non-executive Directors. Mr. Dong Chao is the chairman and members are Mr. Dai Zhiliang and Mr. Xi Shengyang.

(3) Meetings of the Audit Committee

Attendance of individual members of the Audit Committee in 2005

Number of meetings 4

Name	Attendance	Attendance by proxy
Dai Zhiliang	4	0
Dong Chao	4	0
Xi Shengyang	4	0

(4) Work of the Audit Committee during the year

The Audit Committee has reviewed the management accounting principles and standards adopted by the Company, and has discussed matters regarding audit, internal control and financial reporting, including reviewing the audited annual report for twelve months ended 31 December 2004 and connected transactions during the reporting period.

8. REMUNERATION TO AUDITORS

As approved in the Company's 2004 annual general meeting, KPMG and KPMG Huazhen were re-appointed as the international and the PRC auditors of 2005, respectively. The Company should pay HK\$3,800,000 as audit fee for appointments of auditors in this regard. KPMG has been the Company's international auditors for twelve consecutive years while KPMG Huazhen has been the Company's PRC auditors for ten consecutive years.

During 2005, the Company set up two subsidiaries in the PRC with CLFG. KPMG was appointed as reporting accountants in connection with such major and connected transactions to provide the corresponding services. The professional service fee thereon payable to KPMG will be HK\$1,500,000.

9. INTERESTS OF SHAREHOLDERS

The Board and senior management of the Company deeply understand their roles as representatives for interests of shareholders as a whole, and take it as the priority to maximize shareholder's interests. The Company has put great emphasis on keeping favorable relations with shareholder, and principle communication channels include: general meetings, website and e-mail box of the Company, facsimile and telephone of the Company's secretary office, for shareholders to express their opinions or perform their rights. Please refer to Articles of Association published on website of Shanghai Security Stock for documents of relevant procedures of general meetings, votes of shareholders and proxies.

10. AMENDMENTS TO ARTICLES OF ASSOCIATION

On 14 June 2005, upon approval from the 2004 general meeting, amendments were made to Articles of Association. Please refer to announcement of general meeting published on China Securities, Shanghai Securities News, Sing Dao Daily and Hong Kong Standard for details thereof.

11. INTERNAL CONTROL

The Board is committed to the continuous improvement of internal control system of the Company and has been making efforts to enhance control process, aiming to elevate operating efficiency and decrease risk thereof. The Audit Committee under the Board has reviewed the efficiency of relevant system, thus to control overall risk through financial regulation of the Company. Meanwhile, the Company appointed external auditors from the holding company of the Company to review the internal control system of the Company in order to ensure its prudent and proper operation and to safeguard interests of shareholders and safety of assets of the Company. Besides, specific personnel has been organized to supervise and review on major sectors of manufacturing, operation and development of the Company, including material procurement, product sales, human resources and information, and key phase of relevant business.