Report of the Directors

The Board of Directors hereby submits to the shareholders the report of the directors and the audited financial statements of the Company and the Group for the year ended 31 December 2006. All the directors of the Company discharged their duties as assigned under the PRC Company Law and the Company's Articles of Association in a serious manner and carried out their work in a proactive and efficient manner on the basis of the principle of honesty, good faith, diligence and initiative and in the greatest interests of the Company and its shareholders.

Daily work of the Board of Directors

Board meetings held and the resolution passed

(1) The 2006 first Board meeting of the Company was convened on 25 April 2006. The announcement of resolutions passed at the meeting was published on China Securities Journal, Shanghai Securities News, Singtao Daily and The Standard (in English) on 26 April 2006.

(2) The 2006 second Board meeting of the Company was convened on 27 April 2006 which considered and approved the First Quarterly Report for 2006.

(3) The 2006 third Board meeting of the Company was convened on 29 May 2006 to determine matters relating to appointment of accountants.

(4) The 2006 fourth Board meeting of the Company was convened on 28 August 2006 which considered and approved the Interim Report.

(5) The 2006 fifth Board meeting of the Company was convened on 26 October 2006 which considered and approved the Third Quarterly Report for 2006.

(6) The 2006 sixth Board meeting of the Company was convened on 3 November 2006. The announcement of resolutions passed at the meeting was published on China Securities Journal, Shanghai Securities News, Singtao Daily and The Standard (in English) on 6 November 2006.

The Company's position in the industry and its major products

The Company is the place of origin for one of three great float glass production methods "Luoyang Float Glass". The Company is the largest producer and distributor of float glass in the PRC. The Company mainly engages in production and sale of float flat glass.

MANAGEMENT DISCUSSION AND ANALYSIS

I. The overall operations during the reporting period

Year 2006, the difficult and complicated year with barriers overcome, witnessed the ignition for commencing production of three new lines, the re-construction and stop of the second line of the float glass plant, the re-construction for minor cold repair and resumption of production of Longfei lines, self-help for power outage accident on 1 July 2006, the continuous production of Bada Company, the Share Reform of the Company, the settlement of funds appropriation by substantial shareholders, the cooperation with the Group to boost reorganization of China National Building Material Company Limited. Besides, we conquered difficulties including extreme shortage of funds, and strived for maintaining the normal implementation of production and operation activities

II. During 2006, the Company mainly carried out the following implementations:

1. Strengthening management of funds, promote the Company reform and keep costs down as well as enhance economic benefits

(1) The Company ensured effective provision of the corporate fund and satisfied the need for production and operation.

(2) The Company actively consummated major work such as the Share Reform, settlement of funds appropriation by substantial shareholders, cooperation with China National Building Material Company Limited and continuation of production of Bada Company. The Company respectively completed the two important tasks related to long-term growth of the Company including the Share Reform in April 2006 and settlement of funds appropriation by substantial shareholders in December 2006, and essentially created good conditions for long and medium-term growth of the Company. Since September 2006, we proactively cooperated with the parent for reganization, provided lots of supporting information for the cooperation with China National Building Material Company Limited to ensure the smooth execution of the cooperation negotiation, and had the cooperation framework agreement concluded on 18 December 2006. In addition, with a view to a series of troublesome problems including the consecutive loss of the subsidiary (i.e. Bada Company) and the lawsuit on electric power resulting in great difficulty in maintaining the operation at a loss, we completed the assets acquisition of Bada Company through the judicial practice, ensured it was not re-constructed and stopped, and created conditions for the ongoing assets reorganization through the external lease and operation so as to regain the Company's creditor's rights to Bada Company.

(3) The Company strengthened special daily management, improved management achievement, reduced the corporate cost and increased revenue. At first, the Company strengthened the purchase management of materials and rationally grasped the purchase opportunity by exactly judging a large amount of the tendency for raw materials prices. Furthermore, it implemented the dynamic management of suppliers, and executed the elimination mechanism for unqualified suppliers, and 34 suppliers were eliminated and 39 new suppliers were introduced in the whole year. Besides, it enhanced the purchase by bidding, and processed wasted materials. Then, it earnestly focused on the claim settlement for the power outage accident on 1 July 2006 to maximally retrieve the economic loss. Finally, it optimised the after-sales service of products, and accepted 203 complaints from customers, and handled 180 complaints and settled the claim of 154 ones in the whole year. Among them, there were 69 complaints of below 2mm thin glass, ultra thin glass of which 66 complaints were handled and 54 ones for claims were settled.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

II. During 2006, the Company mainly carried out the following implementations: *(Continued)*

2. Speeding up production management and restructuring of its roduct mix and optimising resource allocation to maximally address the market demand

(1) The Company speeded up the commencement of production of new lines, fulfilled the production targets, put more efforts in adjustment to the product mix to maximally satisfy the marketing demands. Firstly, the Company smoothly completed the work of ignition for commencing production, Longhai Line, the second line of Longhao, Longxiang Line and Longfei Line to make the Company rapidly expand the production and the product resource more diversified, and the category structure more reasonable. Secondly, in view of the fund situation, the Company actively re-constructed and stop the second line of the float glass plant according to the glass market condition at the beginning of the year; meanwhile, Longfei Line was shutdown for minor cold repair and ignited for commencing production on 11 November 2006. Thirdly, the Company carefully focused on the accomplishment of production targets after commencement of production of new lines. So far, the ultra thin line of Longhai has effected the long-term steady production of 1.1mm and 0.7mm ultra thin glass by ways of tackling key technological problems. The production was becoming steady after the second line of Longhao Company and Longxiang Line commenced production. Fourthly, based on the market need, the Company speeded up the restructuring of its product resource integration, and improved the capability of production system of addressing the market change. The Company beefed up the ultra thin glass production, especially the significant improvement of production capacity of ultra thin glass after commencement of production of Longhai ultra thin line. It speeded up the conversion of colour glass and changed the colour for 10 times in the whole year, and the float coating plant has changed colour for 7 times. It increased the production of ultra thick glass and the product quality met the market requirement and expanded the production of on-line coating glass. Fifthly, according to the need for the corporate growth, the Company completed technical upgrade of on-line coating equipment of the float coating plant and the order and manufacture work of the new on-line coating equipment.

(2) The Company deeply executed the refined management and strived for carrying out the saving corporate activities.

(3) The Company completed the basic work of safety in a meticulous and practical manner by firmly establishing the policy of "Safety First, Prevention Focused and Comprehensive Governance". Firstly, the Company carried out the production self-help for the power outage accident on 1 July 2006 and ensured the troubleshooting was in good order and minimized the economic loss according to the emergency plan on production accidents prepared beforehand. Secondly, the Company continuously completed the emergency plan, and organized the emergency rescue, anti-accident drilling in the whole company to significantly enhance the capability of resisting emergencies like power outage. Thirdly, the Company beefed up the check of major hidden threat against safety and governance and completed the rectification of various hidden threat within the designated time.

3. Accelerating the marketing system reform, strengthening the marketing strategy planning, capturing market opportunities to maximise the current economic benefits

(1) The Company enhanced the grasp of markets, carried out a flexible marketing strategy, and expanded the product promotion to increase its economic benefits. Firstly, based on the market analysis, the Company captured the favourable opportunity of the market resilience in March, April and September, and timely adopted the flexible price strategy, stably brought up selling prices and expanded the sales. Secondly, the Company expanded the sales in Henan by capitalizing on the regional edge according to the marketing strategy of ?Basing itself on Henan and Consolidating Circumjacent Regions. Thirdly, it sought to maintain the traditional market share in East China and South China through the market differentiation strategy and the category structure advantage. Fourthly, it grasped the market opportunity and speeded up the inventories processing. Fifthly, it actively implemented the fund operation with customers whose funds were substantial and product demand was large, and realized the mutual benefit and win-win by the way of advances from customers, making-to-order and joint profit to stably improve sales and alleviate the corporate fund pressure. Sixthly, it enthusiastically promoted the operation of ?Integration of Production, Supply and Sale in Longbo Company and Longhai Company, integrated the ultra thin glass resource, improved the operation efficiency to make production directly face the market and customers for closing the connection of production and sale and boosting the sale of ultra thin glass.

(2) Based on the market demand, the Company put more efforts in adjustment in sales categories and promotion of high value-added products.

(3) The Company expanded the product export, relieved the domestic sale pressure to improve economic benefits.

4. Strengthening training of talents to improve employees' skills and quality

Possible changes in accounting policy, accounting estimation, and the impact on the Company's financial position and operation results following the implementation of the Accounting Standard for New Enterprise

The Company has executed the Accounting Standards for Business Enterprises ("new accounting standards") promulgated by the Ministry of Finance in 2006 since 1 January 2007. It has been currently appraising the impact of the new accounting standards on the Group's consolidated financial position, consolidated operation results and consolidated cash flow. Following further appraising and prudently considering the further explanation made by the Ministry of Finance in respect of implementation of the new accounting standards, the Company may adjust relevant accounting policies or significant recognitions adopted in preparing Consolidated Shareholders' Funds Reconciliation between New and Old Accounting Standards (the "Reconciliation") when preparing the 2007 financial report. Therefore, there may be a difference between the consolidated shareholders' funds as at 1 January 2007 (under new accounting standards), as presented in the above Reconciliation, and the corresponding data to be presented in the financial report for 2007.

Statement of the principal operations by industries and products

By sector or product	Income from principal operations (Rmb'000)	Cost from principal operations (Rmb'000)	Principal operating profit margin (%)	Increase/ (decrease) of income from principal operations as compared to last year (%)	Increase/ (decrease) of cost from principal operations as compared to last year (%)	Increase/ (decrease) of principal operations' profit margin as compared to last year (%)
Flat float glass	1,195,989	1,315,416	(9.98)	15.90	40.32	A decrease of 19.14 percentage points
Including: Connected Transactions	12,552	13,805	(9.98)	(15.73)	2.01	A decrease of 19.14 percentage points

Pricing policy for connected transactions	Based on market prices available to ordinary customers
Explanation on necessity and continuity of connected transactions	Viewing from the perspective of product chain, these transactions are necessary and of continuity nature, since products of the Company are upstream products to connected parties.

Including: During the reporting period, the connected transaction in relation to the sale of products and provision of services by the Company to the controlling shareholders and its subsidiaries amounted to Rmb12,552,000.

Principal operations in different regions

Regions	Income from principal operations *(Rmb'000)*	Increase/ (decrease) of income from principal operations as compared to last year *(%)*
Domestic	1,101,116	19.75
Exports	94,873	(15.57)

Information on suppliers and customers

Total volume of purchase from the top five suppliers	Rmb11,018,000	Percentage in the Company's total purchase volume	74%
Total volume of sales to the top five customers	Rmb12,171,000	Percentage in the Company's total sales volume	48%

During the reporting period, none of the directors, supervisors, senior management and their respective associates or any shareholders who held 5% or more of the Company's share capital were interested in the said suppliers and customers.

Reasons for the material changes in the principal operations' profitability (gross profit margin) as compared to the preceding year

Gross profit margin in 2006 was -9.99%, representing a decrease of 19.15 percentage points as compared with that of 9.16% of last year. This was mainly attributable to low selling prices of products as a result of the wider gap between supply and demands in the market and the intensified disordered competition in the industry with the operation of new production lines in tandem. Meanwhile, cost of product manufacturing increased noticeably from the corresponding period last year due to the surging prices of major production materials, leading to a significant decrease in gross profit margin of the Company.

Analysis of the reasons for .changes incurred in the operating results and contribution to profit as compared with that of last year

The Company recorded a net loss of Rmb317,480,000 during the year, representing a year-on-year decrease of profit of Rmb322,430,000, which was mainly attributable to the low selling prices of products resulting in a decrease of profit of over 114,560,000, and the rising costs resulting in a decrease of profit of over Rmb92,780,000. In accordance with its accounting policy, the Company made considerable provision for assets impairment with a view to the loss in gross profit from major products, resulting in a decrease of profit of Rmb53,000,000. The Company's loss was further broadened by the share of loss of nearly Rmb42,000,000 from its associated companies including the glass processing company and the ore company which incurred significant loss due to assets audit and verification.

Analysis of the reasons for material changes incurred in the overall financial condition as compared with that of last year

In 2006, under the strong leadership of the Board and the team of managers of the Company, together with the combined efforts of all staff, the Company, focusing on its operating plan, continued to optimise its product mix, innovate marketing systems, explore domestic and overseas markets and carry out financial activities and capital operation, thus securing the smooth production and operation, under the strategy of "high v.s. low", "strong v.s. weak" and "new v.s. special". However, the Company still recorded a significant loss from principal operations, due to the over rapid growth of new capacities in the industry, the imbalanced supply and demand of glass and the intensified disordered market competition, which stood in contrast to the high prices of production materials leading to rising costs of products and declining selling prices. The Company's major indicators of debt repayment and operation were violently weakened. Viewing from debt repayment ability, the liquidity ratio of 2006 was 0.38, a decrease of 0.28 as compared with 0.66 of 2005. This was mainly due to the considerable decrease of 29.91% in current assets in 2006 as compared with 2005 while Current liabilities increasing significantly by 20.57% over 2005. The liquidity ratio of 2006 was 0.19, decreasing by 0.25 from 0.44 of 2005. This was principally a mixed result from the substantial decrease of 47.78% in quick assets and the sizeable increase of 20.57% in quick liabilities as compared with those of 2005 respectively. With respect to the operation ability, the inventory turnover was 86.48 days in 2006 and 93.67 days in 2005. The inventory turnover had prolonged by 11.03 days for 2006 over 2005, which was mainly due to the fact that the average rate of increase in inventory was faster than the rate of increase in the cost from principal operations. For analysis of profitability, in spite of an increase in both income and cost from principal operations for 2006, the profitability of the Company's principal operations further shrank as the growth in cost from principal operations was wide r than that in income from principal operations.

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

GuangDong HengXin Delu Certified Public Accountants Company Limited presented its auditors' report with an explanatory paragraph but without qualifying for the 2006 operating results of the Company. Particulars of the explanatory paragraph are as follows:

“Besides, we would draw the attention of the users of financial statements to the disclosures made in note 2 on the financial statements, that the Company had accumulated losses amounted to Rmb1,122,133,000 and net current liabilities amounted to Rmb1,083,198,000 as at 31 December 2006 in its consolidated financial statements. Notwithstanding the measures taken by the Company’s management to address this situation as set out in note 2 on the financial statements, there exists fundamental uncertainty which may cast significant doubt about the Group’s ability to continue as a going concern. This explanatory paragraph does not affect the audit opinion made.”

Appendix: Note 2 on the financial statements: Basis of preparation

Notwithstanding that the Company had accumulated losses of Rmb1,122,133,000 and net current liabilities amounted to Rmb1,083,198,000 at 31 December 2006 in its consolidated financial statements, the directors of the Company are of the opinion that the Group are able to continue as a going concern and to meet their obligations, as and when they fall due, having regard to the following:

(i) agreements obtained from financial institutions for renewal of loan facilities totalling approximately Rmb720,600,000 to the Company upon their expiry in 2007;

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

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

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

As referred to the explanatory paragraph presented by the auditors, the Company recorded net current liabilities of Rmb1,083,198,000 as at 31 December 2006, under the PRC accounting rules and regulations. This is mainly attributable to operating loss for the year, mainly due to a significant decrease in selling prices from intensified market competition, considerable increase in costs of major production materials and a number of necessary provisions made in accordance with relevant accounting policies. The increased bank loans were due to reduction in cash inflow and changes in receivables. The Group's operation was affected by the net current liabilities to a certain extent. However, in the opinion of the Board, cash inflow status will be improved with the gradual effect from optimisation of the Group's product mix, which will in turn significantly reduce the reliance on bank loans for its operation. Furthermore, the Company may obtain financial support, if necessary, from its controlling company and other financial institutions to cope with the potential financing difficulties.

Liquidity and source of capital (under IFRS)

At the end of 2006, the Group had cash and cash equivalents of Rmb58,414,000 decreased by Rmb86,241,000 from Rmb144,655,000 as at the end of 2005. Net cash generated from operating activities was used to finance borrowing and investment activities.

As at 31 December 2006, the total loans of the Group were Rmb990,450,000 including a foreign currency loan Rmb7,229,000 (original amount: EURD704,000). The Group did not enter into any financial instruments as hedging vehicle. As at 31 December 2006, the gearing ratio (the total loan / shareholders' funds) of the Group was 406.08%, up 292.23% compared to that of 2005.

Investment of the Company

(1) Use of proceeds

There had been no use of proceeds during the reporting period nor use of proceeds commenced before the period which has been extended to the period.

Operations and results of major controlling companies and investee companies

As at 31 December 2006, information on the Group's major subsidiaries is as follows:

Name of company	Registered capital *(Rmb'000)*	Direct attributable equity interest	Assets scale *(Rmb'000)*	Principal activities	Net profit *(Rmb'000)*
CLFG Longmen Glass Co. Ltd. ("Longmen")	20,000	79.06%	195,185	Manufacture of float sheet glass	(59,201)
Chenzhou Bada Glass Co. Ltd. ("Bada")	150,000	72.65%	199,589	Manufacture of float sheet glass	(30,085)
CLFG Long Fei Glass Co. Ltd. ("Longfei")	74,080	54.00%	167,625	Manufacture of float sheet glass	(43,899)
Xiangfang Luoshen Auto Glass Co. Ltd. ("Luoshen")	30,000	66.67%	23,447	Manufacture of auto glass	(10,902)
Yinan Mineral Products Co. Ltd ("Yinan")	28,000	52.00%	44,516	Exploration of minerals	149
CLFG Long Hai Electronic Glass Co. Ltd. ("Longhai")	60,000	80.00%	335,552	Manufacture of float sheet glass	(40,075)
CLFG Long Hao Glass Co. Ltd. ("Longhao")	50,000	80.00%	327,335	Manufacture of float sheet glass	(22,454)

Operations and results of major controlling companies and investee companies *(Continued)*

As at 31 December 2005, information on the associated companies of the Group and the Company is as follows:

Name of company	Registered capital *(Rmb'000)*	Direct attributable equity interest *(%)*	Assets scale *(Rmb'000)*	Principal activities	Net (loss)/profit *(Rmb'000)*
Luoyang Jingxin Ceramic Co. Ltd ("Jingxin")	41,945	49.00%	131,473	Manufacture of ceramic wall tiles	(5,837)
CLFG Financial Company of Limited Liabilities ("CLFC")	300,000	37.00%	430,393	Provision of financial services	732
CLFG Processed Glass Co. Ltd ("CPGC")	181,496	49.09%	310,324	Production and sale of vehicle safety reprocessed glass	(84,421)

Plan of the Board of Directors for profit appropriation or transfer of statuting surplus resume to capital for this year

In accordance with the international accounting standards, the Company recorded a net loss of Rmb12,991,000 for the year 2006. Based on the loss of Rmb164,286,000 recovered by using surplus reserve and the accumulated losses of Rmb927,542,000 at the beginning of the year, the Company's accumulated losses amounted to Rmb750,265,000. Therefore, the Company did not propose to distribute profit for 2006 or convert capital reserve to shares.

In accordance with the PRC accounting standards, the Company recorded a net loss of Rmb317,482,000 for the year 2006. Based on the loss of Rmb164,286,000 recovered by using surplus reserve and the accumulated losses of Rmb968,937,000 at the beginning of the year, the Company's accumulated losses amounted to Rmb1,122,133,000. Therefore, the Company did not propose to distribute profit for 2006 or convert capital reserve to shares.

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

Reason for profit during the reporting period of the Company without forwarding proposal of cash profit distribution	Plan and usage of undistributed profit of the Company
For compensation of losses	Supplementary to current capital of the Company

Loans (Under IFRS)

As of 31 December 2006, the total loans of the Group amounted to Rmb990,450,000, representing an increase of Rmb8,645,000 over 2005.

Capital commitment

As of 31 December 2006, the total loans of the Group amounted to Rmb7,687,000, representing an increase of Rmb65,362,000 over 2005.

Gearing ratio

Gearing ratio in the period was 747.35%; gearing ratio last year was 128.20%. (Under IFRS)

Pledge of assets of the Group

As at 31 December 2006, an amount of Rmb100,000,000 (2005: Rmb70,000,000) in fixed deposits and an amount of Rmb41,870,000 (2005: Rmb41,873,000) in current deposits were pledged for the short-term loans and bills payables for the Group.

As at 31 December 2006, the balance of Rmb6,429,000 (2005: Rmb8,238,000) in fixed assets were pledged for the short-tern loans.

Contingent liabilities

Nil

Fixed Assets

Movements in the fixed assets during the year are set out in notes to the financial statements prepared under IFRS.

Reserves

Movements in the reserves during the year are set out in notes to the financial statements prepared under IFRS.

Bank and Other Loans

The bank and other loans of the Group as at 31 December 2006 are stated in notes to the financial statements prepared under IFRS.

Five-year Financial Highlight

The results, assets and liabilities of the Group for the five years ended 31 December 2006 as prepared under IFRS are summarised below:

Operating Results

	2006 *Rmb'000*	2005 *Rmb'000*	2004 *Rmb'000*	2003 *Rmb'000*	2002 *Rmb'000*
Turnover	**1,195,193**	1,028,976	1,128,554	975,816	822,804
Profit/(loss) before share of net loss/profit of associates	**(4,483)**	29,343	83,482	(308,788)	(396,900)
Share of (loss)/profit of associated companies	**(38,419)**	(20,751)	1,678	(28,817)	9,030
Profit/(loss) before taxation	**(42,902)**	8,592	85,160	(337,605)	(387,870)
Taxation	**0**	(1,950)	(4,493)	(2,172)	(200)
Profit/(loss) after taxation	**(42,902)**	6,642	80,667	(339,777)	(388,070)
Profit/(loss) attributable to minority interests	**(55,893)**	(3,022)	(18,927)	(244)	45,621
Profit/(loss) attributable to shareholders	**12,991**	9,664	61,740	(340,021)	(342,449)

Assets & Liabilities

	2006 *Rmb'000*	2005 *Rmb'000*	2004 *Rmb'000*	2003 *Rmb'000*	2002 *Rmb'000*
Fixed assets	**1,877,597**	1,700,121	1,523,887	1,519,683	927,674
Construction in progress	**5,550**	265,271	2,323	4,535	8,682
Interest in associates	**111,105**	154,919	174,476	186,843	254,232
Long-term investments	**32,000**	32,297	32,983	35,739	75,979
Non-current assets	**1,430,288**	1,569,852	1,208,129	1,309,553	1,745,750
Net current liabilities	**(1,063,686)**	(530,657)	(215,548)	(349,055)	(438,741)
Long-term liabilities	**(65,104)**	(95,163)	(74,059)	(120,849)	(146,328)
Shareholders' funds	**243,908**	862,366	851,216	789,476	1,129,497
Minority interests	**57,590**	81,666	67,306	50,173	31,184

Capitalisation of interests

Capitalisation of interests of the Group during the year is set out in notes to the financial statements prepared under IFRS.

Report of the Directors *(Continued)*

Charity and other donations

During the year, there is no charity and other donations made by the Group.

Transactions with related parties

The material related party transactions of the Company for the year ended 31 December 2006 are set out in notes to the financial statements prepared under IFRS.

Employees' retirement benefits

Particulars of the defined contribution retirement plan of the Group are set out in notes to the financial statements prepared under IFRS.

Directors' and Supervisors' interests in subscription for shares or debentures

At no time during the year was the Company or its subsidiaries a party to any arrangement to enable the directors or supervisors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporation.

Five individuals with highest emoluments

During the year, the five individuals with highest emoluments were either the Company's directors, supervisors or senior management.

Service contracts of directors and supervisors

Each of the directors and supervisors has entered into a service agreement with the Company. These service agreements all commenced from 10 April 2006 with a term of office for three years. Same as aforementioned, the Company or any of its subsidiaries or fellow subsidiaries has not entered into or will enter into any service agreement with any director or supervisor.

Directors and supervisors' interest in contracts

Apart from the abovementioned service contracts, no contract of significance in relation to the business of the Company, to which the Company or any of its subsidiaries or fellow subsidiaries was a party and any of the directors and supervisors of the Company had a material interest, subsisting at the end of the year or at any time during the year.

Compliance of Code on Corporate Governance Practice

The Group has complied with the Code on Corporate Governance Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules"), save for that the Luoyang Longhai Electronic Glass Company Limited float line project and Longhao Glass Company Limited float line project jointly established by the Company and the Parent have not obtained the approval of independent shareholders prior to such investment.

Model Code for Securities Transactions by Directors of Listed Issuers

Directors of the Company confirmed that, the Company has adopted the model code as set out in the Model Code for Securities Transactions by Directors of Listed Issuers under Appendix 10 to the Listing Rules.

Purchase, sale and redemption of shares of the Company

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

Major subsidiaries and associated companies

Details of the Company's subsidiaries and associated companies are set out in notes to the financial statements prepared under IFRS.

Pre-emptive rights

In accordance with the Articles of Association of the Company and the laws of the PRC, there is no provision of pre-emptive rights requiring the Company to offer shares to the existing shareholders in proportion to their respective shareholdings.

Public float

On the basis of public and available information, as far as the directors are aware, the Company has complied with the public float stipulated in Listing Rules and approved by the Stock Exchange of Hong Kong Limited as at the end of the reporting period.

Auditors

As KPMG Huazhen and KPMG, the former auditors of the Company, could not reach an agreement on the audit fees of the Company for the year of 2006, Ting, Ho, Kwan & Chan, Certified Public Accountants (practising) and GuangDong HengXin Delu Certified Accountants Company Limited were appointed as internation PRC and international auditors of the Company respectively for the year of 2006 at the fourth extraordinary general meeting of 2006 of the Company. The Company has performed the necessary procedures as required by regulatory authorities and provisions of the Articles of Association of the Company. The auditors have reviewed the accompanying financial reports.

During the reporting period, annual audit fees paid by the Company to paid GuangDong HengXin Delu Certified Accountants Company Limited and Ting Ho Kwan & Chan, Certified Public Accountants (practising) are as follows: no other fees.

	GuangDong HengXin Delu Certified Accountants Company Limited	Ting Ho Kwan & Chan, Certified Public Accountants (practising)
Audit fee for 2006	Rmb1,050,000	HK$1,100,000
Travelling expenses	Borne by the firm	Borne by the firm

BUSINESS OUTLOOK

I. ADVERSE FACTORS

1. Total glass demand still trends to increase. Firstly, the acceleration in the building of the new countryside opened up new glass market space with huge potential which is likely to become the focus of the future glass market. Secondly, with the robust growth of the motorcar market, the motorcar industry is expected to still grow at a high speed in 2007, and thus the top-grade glass demand will increase significantly. Thirdly , the increase rate of fixed assets investment is continuously high, especially, the acceleration of economic development in nearby provinces of Henan and the construction of cities in the province is speeded up, which will drive the increase in glass demand. Fourthly, the State strengthens the popularization and application of energy-saving buildings, the energy-saving schedule of buildings is put forward to by 2010, 1/3 of new buildings all over the country are to reach the objective of 50% energy-saving and the additional energy-saving glass per annum is to be approximately 120,000,000¢FT. Fifthly, the construction of Beijing Olympics Stadium will almost be completed, and thus the glass demand will increase. Meanwhile, the driving effect of the Olympics and the World Expo on the real estate industry in Beijing, Shanghai and their nearby regions will be more obvious, which is also an uncommon commercial opportunity for the glass industry.

2. International oil price has become significantly low, and heavy oil price has been significantly reduced, which will relieve the pressure of glass manufacture cost. Moreover, many glass enterprises have broken through in respect of substitution of raw materials, which has promoted the decrease in manufacture cost. For example, our company has had initial success with respects such as the project of the gas producer production line, the substitution of urban gas for coal tar, the substitution of oil-coke slurry for heavy oil, which has abated the pressure of the rise in the heavy oil price to some extent.

3. The glass export market still maintains the momentum of steady increase. From the demand situation of foreign glass markets, the demand for LOW-E sealed insulating glass and toughened safety glass in some developed countries in Europe and America is increasing. As for regions such as Asia and Africa, the demand for the glass sheet market still has a very large increase space.

4. The Company trends to stabilize after commencing production of new production lines, and the advantage and potential are expected to reveal in 2007. Besides, except the first line of the float glass plant and the production line of the float coating plant, other production lines are in the best production period with conditions including stability, top quality, high efficiency and low consumption. As long as we can fully exert the advantages of all production lines and control cost, quality and yield, the production will provide strong support for marketing.

II. FAVORABLE FACTORS

1. The over growth of the production capacity will bring a major pressure on the glass market.

2. The problem of funds is the significant shackle perplexing the corporate survival and growth. In 2006, the Company's production and operation made a large loss. If the glass market continues to be depressed, the shortage of funds will become the principal problem to restrict the survival of the Company.

3. The industrial competition situation is continuously changed. Merger and reconstruction in the industry become faster and faster, and the competition situation in the industry is changed in a world-shaking manner, and the competition environment becomes crueller and crueller, and fiercer and fiercer.

4. The Company's product quality is weakening. With the successive ignition for commencing production of new production lines, the proportion of low-end products in the Company is increasing, together with many reasons including pressures of the forced reduction of production cost or failure of production to enter the steady period and ineffective management, the product quality is unsteady sometimes and complaints and claims are increasing accordingly, which has made an impact on the credibility of the products and impaired the brand image of "CLFG". Furthermore, there is a relatively significant distance between the quality stability of the ultra thin glass and Japanese products. Lacking strong competitiveness, we are still required to make more endeavours so as to explore and enter the high-end electronic glass market.

Report of the Directors *(Continued)*

BUSINESS OUTLOOK *(Continued)*

III. POSSIBLE CHANGES IN ACCOUNTING POLICY, ACCOUNTING ESTIMATION, AND THE IMPACT ON THE COMPANY's FINANCIAL POSITION AND OPERATION RESULTS FOLLOWING THE IMPLEMENTATION OF THE ACCOUNTING STANDARD FOR NEW ENTERPRISE

The Company has executed the Accounting Standards for Business Enterprises ("new accounting standards") promulgated by the Ministry of Finance in 2006 since 1 January 2007. It has been currently appraising the impact of the new accounting standards on the Group's consolidated financial position, consolidated operation results and consolidated cash flow. Following further appraising and prudently considering the further explanation made by the Ministry of Finance in respect of implementation of the new accounting standards, the Company may adjust relevant accounting policies or significant recognitions adopted in preparing Consolidated Shareholders' Funds Reconciliation between New and Old Accounting Standards (the "Reconciliation") when preparing the 2007 financial report. Therefore, there may be a difference between the consolidated shareholders' funds as at 1 January 2007 (under new accounting standards), as presented in the above Reconciliation, and the corresponding data to be presented in the financial report for 2007.

IV. IN 2007, THE COMPANY WILL FOCUS ON THE FOLLOWING WORK

1. The Company will execute the refined management in an overall, deep and solid manner, and seek benefits from management actively and vigorously

2. The Company will beef up the product mix adjustment, stabilize yield, optimize quality, reduce cost, and increase the corporate benefits.

3. The Company will exert the advantages of resources to inaugurate the new situation of marketing work.

4. The Company will enhance the employee training, explore for establishing a new performance evaluation system, and strive for improve the internal operation vigour of the enterprise.

By order of the Board
Chairman
Liu Baoying

25 April 2007