

## Chairman's Statement



董事長：郭曉寰先生  
Chairman: Mr. Guo Xiaohuan

### RESULTS IN 2000

I am pleased to submit the operating results of Luoyang Glass Company Limited ("the Company") and its subsidiaries ("the Group") for the year ended 31 December 2000 to all shareholders. Under the PRC Accounting Standards, the Group recorded income from principal operations of Rmb901,522,000 for the reporting year, representing an increase of 9.66% over last year; net profit of Rmb65,991,500, representing an increase of 26.55% over last year, earnings per share of Rmb0.094.

### BUSINESS REVIEW AND PROSPECTS

#### (1) The position of the Company in the industry:

The Company is the place of origin for one of three great float glass production methods "Luoyang Float Glass." The Company has five production lines of float glass and is the largest producer and distributor of float glass in the PRC. The Company is in a leading position as a listed company within the industry. During 2000, the Company produced 10,955,500 weighted cases of 2-19 MM high quality float glass in different brand, colours and specifications. The Company achieved sales income of Rmb901,552,000. The Company was in a leading position in the industry in terms of production volume and sales income.

Business review and prospects (continued)

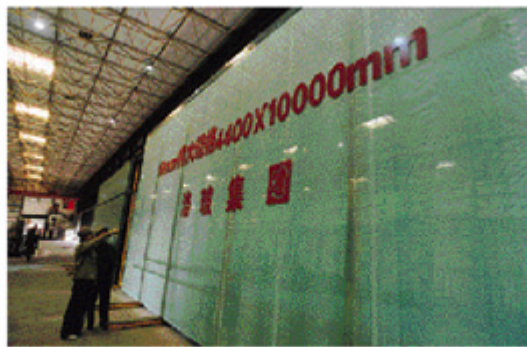
#### (2) Scope of principal business and its operations:

The Group is principally engaged in the manufacture of float sheet glass and processed glass. Float sheet glass accounts for 95% of the revenue from principal operations, contributing to 97% of the total principal operating profit whereas processed glass accounts for 5% of the revenue from principal operations, contributing 3% of the total principal operating profits.

The proportion of the Group's sales for each major region to the total amount of sales is as follows: approximately 13% in Huadong region, approximately 8% in Huabei region, approximately 37% in Huazhong region, approximately 6% in Northwestern region, approximately 10% in Southwestern region, approximately 22% in Huanan region and approximately 4% for export.

**(3) Operations and results of the Company major wholly-owned and controlling subsidiaries:**

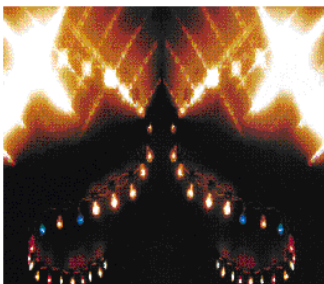
As the product mix in the domestic sheet glass market became rationalized and oversupply situation was improved, selling prices of products increased. The Company's controlling subsidiaries recorded profit during the year. According to the financial statements prepared under the PRC accounting regulations, CLFG Longmen Glass Company recorded net profit of Rmb13,601,000, increased by 154.75% from the previous year; and Chenzhou Bada Glass Co. Ltd, recorded net profit of Rmb29,420,000, increased by 2,027.26% from the previous year.



本公司生產的特大規格的19mm厚度的浮法玻璃 The unique 19mm-thick float glass produced by the Company

**(4) Internal and external problems and difficulties arisen within the Groups:**

- In 2000, the operating conditions of the glass industry were improving in view of the gradual implementation of the State's policies in strengthening domestic demand, encouraging economic growth, overall control over the production capacity of the glass industry, eliminating obsolete factories and regulating the market mechanism. However, construction of certain new factories and expansion projects of float glass production lines are completed and put into production. They entered into the market by lowering product prices. As a result, the equilibrium of the market was adversely affected. The fast growth in production capacity of the glass industry led to the problem of excess supply over demand again and intensified the competition in the market. The prices of glass products were decreasing and there were certain difficulties in the sale of glass products.



本公司入股的新光源公司的產品  
Products of New Illuminating Source,  
a subsidiary of the Company

- Due to the implementation of control over total production in industries such as heavy oil and soda ash, prices of raw materials and fuel such as heavy oil and soda ash were pushed up which directly increased the difficulties in control over production cost and reduced the profit margin of glass products.
- The balance of accounts receivable was still very significant which led to the tight cash flow for the Company.
- The transportation facilities by train were still overloaded. This increased the difficulties for the delivery of goods to customers on time.



世界領先的浮法玻璃生產線  
Float glass production lines with world leading position

**(5) The Company adopted the following measures:**

- The Company expedited the transformation of operating and sales system and mechanism, placed emphasis on operation and sales planning, enhanced the service quality, strengthened competitiveness in the market, standardised and refined the operating system for regional offices and strengthened the ability of control over the regional market. The Company completed the transformation of the system for 25 sale outlets and effectively reduced the selling expenses. The after-sale services were improved. The complaints from customers were properly resolved. The Company was able to established a good reputation in the market. The Company also established centres where the customers could take delivery of the goods themselves and implemented comprehensive services so that the customers could take delivery of goods by customers themselves within one hour after receiving the customer order. As a result, the sales volume in the local region increased significantly by 54.14% as compared with last year. The Company placed emphasis on market research and sales planning. The Company completed the information networks so that the Company could have a more accurate information about market trend in order to adopt the strategy of price differentiation, flexible pricing policies so that sales prices and volume could be increased and effectiveness could be enhanced.
- The Company expedited the technology renovation and continued to raise the technical performance. As a result of various measures in improving the technology, product quality of various float glass production lines reached the State's new standard of float glass products. The quality of the float glass products of the Company's float glass production line No. 1 reached the advanced standard of Sino-foreign joint venture enterprises so that the Company's products could satisfy the demand for refined glass products. At the same time, the Company adopted that strategy of product differentiation in view of the keen competition in the normal products such as 3MM, 5MM products. The Company increased the production volume of float glass with thicker specification and greater size. The quantity

produced for 8MM products reached 56.6% of total production volume. The Company also increased effectiveness by raising the technology content of the products, strengthening the management over equipment and technology, reducing the time for shifting production among different brands of products and reducing the loss for sub-standard products. The Company used the techniques of grinding by wet stick to replace the technique of dry grinding. Such arrangement enhanced the quality of silica and laid a good foundation for producing good quality glass products. The Company completed the compilation of the software for "Luoyang Float Glass" technology so that there was proper guidance over the production and the product quality was stabilised. The Company completed the repairs and renovation for No. 3 production line of float glass so that the energy consumption was reduced and product quality was improved.

- The Company adopted product differentiation strategies in line with market demand to fully develop its multi-line, multi-colour and multi-species advantages. To satisfy different customers' needs, the Company timely introduced the new product of green float glass. There was strong demand for this new product in the market so that the Company was able to increase the selling price of this product.
- The Company commenced the works in various ways to increase revenue and reduce expenditures, actively adopted the purchase of raw materials by tendering and increased the batch size for each purchase. This arrangement reduced purchasing expenses and achieved further reduction in various costs and expenses.
- The Company adopted effective measures to chase up the settlement of accounts receivable and prevent the accumulation of new overdue accounts receivable. The Company strengthened the efforts in collection of overdue debts and established aging analysis of accounts receivable. The Company also adopted a more active approach in taking legal actions to chase up the settlement of overdue debts.

**(6) Financial position of the Company:**

In accordance with the accounts for the year 2000 prepared under the PRC Accounting Regulations; the Group's total assets amounted to Rmb2,889,045,000; shareholders' fund amounted to Rmb1,552,716,000; long term liabilities amounted to Rmb17,522,000; profit from principal operating activities amounted to Rmb284,954,000; net profit amounted to Rmb65,991,000, representing an increase / (decrease) of 0.4%; 4.4%, (75%), 88% and 27% as compared with last year.

The above increase/(decrease) was mainly attributable to the improvement in the glass industry of the PRC during the year. The sale price of glass and the sale volume had increased, and as a consequence, leading to growth in the Group's total asset, shareholders' interests, profit from principal operations and net profit in varying extent as compared with the previous year. Due to the repayments of long-term liabilities, there was a greater reduction in long-term liabilities during the year when compared with the previous year.

## **(7) Investment of the Company:**

During the year, the Group's investment amounted to Rmb186,097,000; representing an increase of Rmb124,062,000(50%) as compared with last year. This was mainly because the Company acquired 40.29% equity interest in CLFG Mineral Co., Ltd., a wholly owned subsidiary of the ultimate holding company at a consideration of Rmb12,475,000. The consideration payable was set off against the same amount of the unsecured accounts receivable due by the ultimate holding company to the Company. In addition, the Company acquired 52% equity interest in Yinan Mineral Products Co. Ltd. which was held by Qingdao Taiyang Glass Industry Co., Ltd., ("Taiyang") a subsidiary of the ultimate holding company at a consideration of Rmb14,560,000. The consideration payable was set off against the same amount of the accounts receivable due by Qingdao Taiyang Glass Industry Co. Ltd. to the Company. Both companies, mentioned above are mainly engaged in the exploration, processing and marketing of silica and other mineral products.



本公司入股的晶緯公司的產品  
*Products of Jingwei Company,  
a subsidiary of the Company*

During the year, the Company did not raise any capital, and did not use any capital raised before the year.

During the year, there was no significant change in operating conditions and macro policies for the Company.

## **(8) Liquidity and Capital Structure**

The cash and cash equivalents at the end of the year amounted to Rmb111,777,000, including US\$3,310,450 (1999: 742,000) and HK\$5,251,852 (1999: HK\$6,867,000), representing a decrease of Rmb62,000 compared to Rmb11,839,000 in 1999. The net cash inflow from operating and financing activities are utilised to pay interest expenses of borrowings and finance investing activities.

During the year, the No. 3 production line underwent cold overhaul. In additions, the Group acquired some long term investments. It led to a net cash outflow from investing activities of Rmb63,665,000.

As at 31 December 2000, the borrowings of the Group totalled Rmb909,199,000 of which Rmb9,199,000 (FFR6,957,000) were borrowing in foreign currency. The interest rate of borrowings were fluctuated in accordance with prevailing interest rate of the Organisation for Economic Co-operation and Development and PRC nominal interest rate for working capital loans. The Group did not enter any financial instruments for hedging purpose. As at 31 December 2000, the gearing ratio (total interest bearing loans / shareholders' Fund) was 58.6%, representing an increase of 2.6% over 1999.



Capital expenditure of approximately Rmb146,354,000 is expected to be incurred in 2000 for renovation of Longmen production line.

The Company believes that budgeted capital expenditures can be funded from cash generated from operations and bank or government credit facilities available to the Company.

## **9. Planning for the year 2001**

Following the improvement in the macro-economic conditions in domestic market, the Group will have a good opportunity and prospect for steady development. The State will continue to implement policies to increase domestic demand, adopt active fiscal and monetary policies, speed up the development of the western region together with faster construction of the infrastructure and put more efforts on the development of residential properties. These measures will create a beneficial environment for the development of glass industry. The entry of China into WTO will help the Group to increase export of products and explore overseas markets. The State implemented the strategic adjustment on economic structure, eliminated the obsolete factories, controlled the overall production capacity of the industry and promoted the certification system. All these measures will have a positive impact on the standardisation and proper operation of the market. The Company will take thirteenth anniversary for invention of "Luoyang Float Glass" and the twentieth anniversary for passing the technology certification by the State as an opportunity to put more efforts in advertisement and enhance the reputation and brand image of the Company. The product quality of the float glass production line NO. 1 has remained stable for a long period and reached the advanced level similar to international standard. The production line of Longmen Glass Company commenced production. This will further improve the Group's competitive advantages in economies of scale, quality, product species and variety of colours so that the Group's competitiveness in the market will be enhanced.



安全玻璃公司生產線  
Production lines of Safety Glass Company

In 2001, the Company will place emphasis on the following works:

- The Company will standardise and refine the establishment of regional sales networks, strengthen services, place priority over operation and sales planning. The Company will strengthen the function of regional offices in order to enhance the ability to monitor and control regional market. The Company will standardise the management of service centre, strengthen the function of services department, market research and the collection of information. The Company will fully utilise the

advantage of networks to achieve the unified sales of the Group's products. The Company will strengthen the research and study of regional market and the operation and sales strategies adopted by the competitors in order to increase the market share. The Company will speed up the construction of infrastructure for export, actively explore the African and Australian markets, actively develop the sales through internet. The Company will implement appropriate measures for the development of e-commerce. The Company will put more efforts in chasing up settlement of overdue accounts receivable and adopt various measures to reduce the amount of accounts receivable.

- Based on the market demand, the Group will fully utilise its competitive advantage in multi-species and multi-specification. The Company will implement the strategy of product differentiation. The Company will adopt scientific production management to stabilise the product quality.
- The Group will speed up the technological improvement and introduction of new technology to create new technological advantages for the Group. Based on the foundation of float glass production line No. 1, the Company will fully enhance the level of "Luoyang Float Glass" technology. The Company will implement a series of works on improvement of product species and quality so that the product quality of float glass production line No.1 can reach the advanced level similar to international standard and has the capacity to produce 2MM-25MM float glass. The Company will actively monitor the progress of the technological renovation project for production of thin glass by the float glass production line of Longmen Glass Company. In addition, the Company will develop the product of thin glass less than 2MM in line with market demand so that it can become a new foundation of profit growth for the Company.
- The Company will take various measures to reduce cost and expenses. The Company will explore the opportunity of reducing cost by improvement in technology. The Company will place emphasis on application of the results of the research and development project for compound of purifier and technology of burning with sufficient supply of oxygen in industrial production. The Company will implement the bulk purchase of raw materials by tendering. The Company will reduce costs by way of bulk purchase. The Company will reduce the purchase and construction costs for construction projects by way of tendering for equipment, materials and construction works.
- The Company will commence the organisation of the activities for "Year of Quality". The Company will take every step to improve the quality of its works, products and services in order to establish a brand image of good quality and operate towards the direction of "Quality and Effectiveness".

**Guo Xiaohuan**  
Chairman

17 April 2001