

IV. BUSINESS REVIEW AND PROSPECTS

1. PRINCIPAL ACTIVITIES OF THE COMPANY DURING THE PERIOD

The Group is principally engaged in the manufacture of float sheet glass and re-processed glass. Float sheet glass accounts for 96.73% of the revenue from principal operations, contributing to 101.24% of the total principal operating profits whereas re-processed glass accounts for 3.27% of the revenue from principal operation, contributing (-1.24)% of the total principal operating profits.

Since 2000, the price of glass in the market of the PRC increased steadily and the profitability of enterprise improved. As motivated by economic benefit, a new wave of reconstruction was formed in the PRC that there were altogether ten float glass production lines established during the period between the second half of last year and June this year. As a consequence, the amount of output and inventories increased resulting in a downward trend in price as well as profit. In addition, the costs of fuel and raw materials had increased causing a corresponding increase in production costs. As the railway transportation facilities were overloaded, the delivery of goods was adversely affected. Notwithstanding the endeavours proceeded by the Company in the areas of marketing, sales, costs control and technological innovation, the Company recorded substantial decline in profit as compared with the same period of the previous year. For the six months ended 30 June 2001, income from principal operations of the Company amounted to Rmb389,279,000, representing a decrease of 8.48% when compared with the same period of last year; net profit amounted to Rmb7,966, representing a decline of 75.26% when compared with the same period of the previous year calculated in accordance with the PRC Accounting Standards.

2. INVESTMENT OF THE COMPANY

(1) Use of proceeds from capital raised

During the reporting period, the Company did not raise any capital, and no capital raised in previous years was available.

(2) Other investment (other than financial by the proceeds)

- (a) During the period, the registered capital of China Luoyang Float Sheet Glass Group Financial Company Limited ("CLFC"), an associated company of the Group, has increased from Rmb100,000,000 to Rmb300,000,000. The Company's investment in CLFC has increased by Rmb71,000,000 correspondingly.
- (b) During the report period, a float sheet glass production line named CLFG Yang Shao Glass Co., Ltd. ("Yang Shao"), which is located at Mianchi, San Men Xia City, Henan Province, the PRC was jointly established by the Company, the holding company of the Company and a thirty party. Such Company commenced operation in April 2001. As at 30 June 2001, the Company has paid Rmb40,000,000 as its capital injection into Yang Shao.

3. FINANCIAL POSITION OF THE COMPANY (PREPARED UNDER PRC

ACCOUNTING STANDARDS)

(1) Analysis of the relevant items contained in the balance sheet (Unit: Rmb'000)

Items	As at 30 June 2001 (unaudited)	As at 31 December 2000 (audited)	Percentage change (%)	Notes
Total assets	3,110,713	2,889,045	7.7	a
Trade debtors	201,480	189,274	6.4	b
Inventories	209,495	198,197	5.7	c
Long term investment	194,707	172,116	13.1	d
Cost of fixed assets	1,423,506	1,330,373	7.0	e
Long term liabilities	115,049	17,522	556.6	f
Shareholders' fund	1,560,682	1,552,716	0.5	g
Interest Receivable	35,705	24,947	43.1	h
Construction in progress	27,576	2,797	885.9	i
Trade creditors	185,759	127,938	45.2	j
Accrual expenses	33,902	19,615	72.8	k
Long-term loans repayable within one year	44,480	8,469	425.2	f
Long-term loans	109,308	12,193	796.5	f
Minority interests	77,247	44,505	73.6	l

(2) Analysis of the relevant items contained in the profit and loss account (Unit: Rmb'000)

Items	For the six months ended 30 June 2001 (unaudited)	For the six months ended 30 June 2000 (unaudited)	Percentage change (%)	Notes
Principal operating profit	62,147	125,846	(50.6)	m
Net profit	7,966	32,204	(75.3)	n
Administrative expenses	31,773	47,432	(33.0)	o
Investment income/(loss)	1,734	(3,325)	152.1	p
Non-operating income	1,659	2,421	(31.5)	q
Non-operating expenses	(2,915)	(9,320)	68.7	r

- (a) The increase in total assets was mainly due to the following reasons illustrated in notes b, c, d and e.
- (b) The speed of collection of trade debtors decreased during the period.
- (c) More glass was retained at the period end since the supply of glass in the market was increased significantly during the period.
- (d) The Company increased its investment in CLFC by Rmb71M, the increase was partly offset by the provision for diminution in value of investment and share of net loss of

associated companies.

- (e) The production line of Yang Shao contributed to the increase in fixed assets.
- (f) More bank loans were borrowed during the period to finance working capital and increase in investment.
- (g) There was no significant change in the shareholders fund.
- (h) Qingdao Taiyang Glass Industry Co., Ltd., a fellow subsidiary of the Company, was delayed in paying its interest due to the Company.
- (i) A subsidiary of the Company, Lubo Group Longmen Glass Co., Ltd ("Longmen"). has undergone renovation project during the period end.
- (j) The prices of some major raw materials, such as heavy oil and soda ash, increased significantly during the period.
- (k) Interest accrual increased in line with increase in the balances of bank loans.
- (l) The increase was mainly caused by the establishment of Yang Shao. The Company's direct attributable equity interest in Yang Shao was 54%.
- (m) Since market supply of glass was greater than demand, the gross profit margin decreased from 29.6% to 16%.
- (n) The decrease in net profit for the period was caused by the reasons as illustrated in notes m, o, p, q and r.
- (o) The Group made provision for bad and doubtful debts of Rmb5,000,000 in last period. During the period, no additional provision was made. Instead, the Group wrote back the provision of Rmb3,000,000. In addition, the Group has reversed adjustments of approximately Rmb6,000,000 in relation to unreconciled bank items of previous periods.
- (p) Dividend income of Rmb4.7M was distributed from a long term investment, which was partly offset by share of net loss of associated companies and provision for diminution in value of other unlisted investments.
- (q) The gain on disposal of fixed assets in relation to cold overhaul of No. 3 production of the Company was included in the non-operating income of last period. No such income is made in the current period.
- (r) The loss in relation to cold overhaul of No. 3 production line of the Company was included in the non-operating expenses of last period. No such loss was incurred during the period.

4. LIQUIDITY AND CAPITAL STRUCTURE (PREPARED IN ACCORDANCE WITH INTERNATIONAL ACCOUNTING STANDARDS)

The cash and cash equivalents as at 30 June 2001 amounted to Rmb165,089,000, including US\$4,690,250 (2000: US\$3,310,450) and HK\$9,676,747 (2000: HK\$5,251,852), representing an increase of Rmb53,312,000 compared to Rmb111,777,000 in 2000. The net cash inflow from operating and financing activities are utilised to pay interest expenses of borrowings and finance investing activities.

During the period, the Longmen's production line underwent a renovation project. In additions, the Group increased its investment in CLFC. It led to a net cash outflow from investing activities of Rmb97,701,000.

As at 30 June 2001, the borrowings of the Group totalled Rmb1,003,288,000 of which Rmb9,199,000 (FFR6,957,000) were borrowing in foreign currency. The interests rate of borrowings were fluctuated in accordance with prevailing interest rate of the Organisation for Economic Co-operation and Development and the PRC nominal interest rate for working capital loans. The Group did not enter any financial instruments for hedging purpose. As at 30 June 2001, the gearing ratio (total interest bearing loans / shareholders' fund) was 64.3% representing an increase of 5.7% over 2000.

Capital expenditure of approximately Rmb166,638,000 is expected to be incurred in the second half of 2001 for renovation of Longmen's production line.

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

5. PLANNING IN THE SECOND HALF OF THE YEAR

(1) Macro development and situation of the glass industry

- The State will continue to implement aggressive fiscal policy and stable monetary policy in order to expedite the growth in the development of fixed assets of the society. All these will help to trigger the demand in the glass industry significantly.
- The development in the construction industry, motor vehicle industry and the interior decoration industry, the implementation of strategic development of small towns and the perfection of the policies such as the laws and regulations of the industry will also stimulate the demand of the glass market.
- The situation of oversupply in the total production and structural shortage in the domestic sheet glass market persisted. In view of the total production, the problem of excess supply over demand in the domestic glass market still existed. However, the production capacity of high-end quality glass accounts for only 10% of the total production capacity which failed to satisfy substantially the demand of the re-processed glass enterprises in the PRC particularly that ultra thick and ultra thin float glass still cannot be produced domestically.

(2) Counter-measures

- The Company will put more efforts in studying and forecasting changes in the market for the purpose of establishing a prompt response mechanism to increase sales.
- The Company will further reduce production costs and save expenses.
- The Company will focus on the organisation in respect of the establishment of ultra thin float glass production lines of Longmen Glass Company ("Longmen") based on the particular situation in the domestic market. The Company will develop the product of thin glass less than 2MM in order to satisfy the insufficient supply in the domestic market and the demands of the electronics industry and the high-end sedan car for quality thin glass. The Company will make use of the addition high-value of such product to boost the economic growth of the Company so that it can become a new foundation of profit growth for the Company.

Based on the foundation of float glass production line No. 1, the Company will fully enhance the level of "Luoyang Float Glass" technology so that the quality of its products can remain stable for a long period and reach the advanced level similar to international standard. Furthermore, the Company will fully utilise its function of demonstration and sum up the achievements attained by this project in a systematic and earnest manner. Moreover, the Company will promote and apply the achievements of technological renovation in other float glass production lines of the Group in order to fully enhance the technological level of the equipment and the products of the Group.