

## Results

The Board of Directors (the “Board”) of GZITIC Hualing Holdings Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2002 (the “Period”) as follows:

### Condensed Consolidated Income Statement

	Note	Six months ended 30 June	
		2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000
Turnover	2	714,726	949,717
Cost of sales		<u>(611,336)</u>	<u>(726,504)</u>
Gross profit		103,390	223,213
Other revenue	3	24,305	14,173
Selling and distribution expenses		(79,067)	(105,421)
Administrative expenses		(41,834)	(60,733)
Other operating expenses		<u>(484)</u>	<u>(1,893)</u>
Operating profit	4	6,310	69,339
Finance cost		(14,104)	(19,203)
Share of losses of associates		<u>(1,569)</u>	<u>(1,416)</u>
Profits/(losses) before taxation		(9,363)	48,720
Taxation	5	<u>3,047</u>	<u>(3,861)</u>
Profits/(losses) after taxation		(6,316)	44,859
Minority interests		<u>(3,130)</u>	<u>(6,795)</u>
Profits/(losses) attributable to shareholders		<u>(9,446)</u>	<u>38,064</u>
Earnings/(losses) per shares			
– basic	7	<u>(0.7) cents</u>	<u>3.2cents</u>
– diluted	7	<u>(0.7) cents</u>	<u>3.1cents</u>

## Interim Results

*Condensed Consolidated Balance Sheet*

		<b>30 June 2002 (Unaudited) HK\$'000</b>	31 December 2001 (Audited) HK\$'000
	Note		
<b>Non-current assets</b>			
Fixed assets		577,832	570,948
Other assets		244,206	229,092
		<u>822,038</u>	<u>800,040</u>
<b>Current assets</b>			
Inventories		600,592	635,241
Trade and other receivables	8	551,100	388,069
Bank and cash balance		136,699	187,039
		<u>1,288,391</u>	<u>1,210,349</u>
<b>Current Liabilities</b>			
Trade and other payable	9	829,026	701,028
Tax payable		34,556	28,515
Short-term bank borrowings		520,564	518,574
Other short-term borrowings		–	30,000
		<u>1,384,146</u>	<u>1,278,117</u>
Net current assets/(liabilities)		<u>(95,755)</u>	<u>(67,768)</u>
Total assets less current liabilities		<u>726,283</u>	<u>732,272</u>
<b>Non-current liabilities</b>			
Long-term bank borrowings		16,500	16,500
		<u>16,500</u>	<u>16,500</u>
Net assets before minority interest		<u>709,783</u>	<u>715,772</u>
Minority interest		<u>37,225</u>	<u>34,095</u>
Net assets		<u>672,558</u>	<u>681,677</u>
Representing			
Share capital	10	138,172	138,052
Reserve		534,386	543,625
		<u>672,558</u>	<u>681,677</u>

*Condensed Consolidated Cash Flow Statement*

	Note	Six months ended 30 June	
		2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000
Net cash inflow/(outflow) from operating activities	12	27,508	(17,100)
Net cash outflow from returns on investments and servicing of finance		(15,747)	(17,975)
Taxation paid		(17,664)	(75,954)
Net cash outflow from investing activities		<u>(46,697)</u>	<u>(89,081)</u>
Net cash outflow before financing		(52,600)	(200,110)
Net cash inflow from financing		<u>2,260</u>	<u>111,671</u>
Decrease in bank balance and cash		(50,340)	(88,439)
Bank balance and cash as at 1 January		<u>187,039</u>	<u>171,367</u>
Bank balance and cash as at 30 June		<u><u>136,699</u></u>	<u><u>82,928</u></u>

## Interim Results

*Consolidated Statement of Change in Equity*

	Share Capital (unaudited) HK\$'000	Share Premium (unaudited) HK\$'000	General Reserve Fund (unaudited) HK\$'000	Enterprise Expansion Fund (unaudited) HK\$'000	Exchange Reserve (unaudited) HK\$'000	Property Revaluation Reserve (unaudited) HK\$'000	Accumulated Losses (unaudited) HK\$'000	Total (unaudited) HK\$'000
Balance as of 1 January 2001	117,906	446,533	33,144	16,958	28,497	13,000	(54,952)	601,086
Share of post-acquisition reserves	-	-	-	-	-	-	-	-
Currency translation difference	-	-	-	-	(57)	-	-	(57)
Net gain not recognised in the income statement	117,906	446,533	33,144	16,958	28,440	13,000	(54,952)	601,029
Net profit for the period	-	-	-	-	-	-	38,064	38,064
Profit appropriation	-	-	-	-	-	-	-	-
Dividends	-	-	-	-	-	-	-	-
Issue of share capital	19,143	63,574	-	-	-	-	-	82,717
Share issue expenses	-	(624)	-	-	-	-	-	(624)
Balance as of 30 June 2001	<u>137,049</u>	<u>509,483</u>	<u>33,144</u>	<u>16,958</u>	<u>28,440</u>	<u>13,000</u>	<u>(16,888)</u>	<u>721,186</u>
Balance as of 1 January 2002	138,052	509,219	33,477	16,958	28,497	-	(44,526)	681,677
Share of post-acquisition reserves	-	-	38	20	-	-	-	58
Currency translation difference	-	-	-	-	-	-	-	-
Net gain not recognised in the income statement	138,052	509,219	33,515	16,978	28,497	-	(44,526)	681,735
Net loss for the period	-	-	-	-	-	-	(9,446)	(9,446)
Profit appropriation	-	-	195	-	-	-	(195)	-
Dividends	-	-	-	-	-	-	-	-
Issue of share capital	120	156	-	-	-	-	-	276
Share issue expenses	-	(7)	-	-	-	-	-	(7)
Balance as of 30 June 2002	<u>138,172</u>	<u>509,368</u>	<u>33,710</u>	<u>16,978</u>	<u>28,497</u>	<u>-</u>	<u>(54,167)</u>	<u>672,558</u>

## Notes to Unaudited Condensed Financial Statements

### (1) Principal Accounting Policies and Basis of Preparation

These unaudited consolidated interim accounts (“interim accounts”) are prepared in accordance with Statement of Standard Accounting Practice (“SSAP”) No. 25, “Interim Financial Reporting”, issuing by the Hong Kong Society of Accountants, and Appendix 16 of Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited. The accounting policies adopted are consistent with those followed in the Group’s annual financial statements for the year ended 31 December 2001, except that the Group has changed certain of its accounting policies following its adoption of the following Statements of Standard Accounting Practice (SSAPs) issued by the Hong Kong Society of Accountants which are effective for accounting periods commencing on or after 1st January 2002:

SSAP 1 (revised):	Presentation of financial statements
SSAP 11 (revised):	Foreign currency translation
SSAP 15 (revised):	Cash flow statements
SSAP 25 (revised):	Interim financial reporting

These unaudited condensed consolidated interim financial statements have not been audited by the Company’s auditors but have been reviewed by the Company’s Audit Committee.

### (2) Turnover and Segment Information

Substantially all turnover of the Group is attributable to the sales of household electrical appliances.

An analysis of the Group’s turnover and contribution to operating profit/(loss) by products are summarized as follows:

	Turnover		Contribution to operating profit/(loss)	
	Six months ended 30 June		Six months ended 30 June	
	2002 (Unaudited) HK\$’000	2001 (Unaudited) HK\$’000	2002 (Unaudited) HK\$’000	2001 (Unaudited) HK\$’000
Sales of refrigerators (Note 1)	160,758	169,687	(11,885)	(29,120)
Sales of air-conditioners (Note 2)	443,550	661,773	15,869	83,853
Sales of mini-refrigerators (Note 3)	110,418	118,257	8,130	19,506
Others	—	—	(5,804)	(4,900)
	<u>714,726</u>	<u>949,717</u>	<u>6,310</u>	<u>69,339</u>

## Interim Results

Note 1: Analysis of sales of refrigerators into domestic sales in the PRC and export sales outside the PRC is as follows:

	<b>Six months ended</b>	
	<b>30 June</b>	
	<b>2002</b>	2001
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Domestic sales in PRC	<b>142,390</b>	165,595
Export sales outside the PRC		
Europe	<b>6,484</b>	4,092
Asia-Pacific	<b>11,884</b>	–
Africa	<b>–</b>	–
	<b>18,368</b>	4,092
Total export sales	<u><b>18,368</b></u>	<u>4,092</u>
Total	<u><b>160,758</b></u>	<u>169,687</u>

Note 2: Analysis of sales of air-conditioners into domestic sales in the PRC and export sales outside the PRC is as follows:

	<b>Six months ended</b>	
	<b>30 June</b>	
	<b>2002</b>	2001
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Domestic sales in the PRC	<b>232,206</b>	537,417
Export sales outside the PRC		
Europe	<b>53,851</b>	37,307
America	<b>66,161</b>	39,172
Asia-Pacific	<b>80,843</b>	47,877
Africa	<b>10,489</b>	–
	<b>211,344</b>	124,356
Total export sales	<u><b>211,344</b></u>	<u>124,356</u>
Total	<u><b>443,550</b></u>	<u>661,773</u>

## Interim Results

Note 3: Analysis of sales of mini-refrigerators into domestic sales in the PRC and export sales outside the PRC is as follows:

	Six months ended 30 June	
	2002	2001
	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Domestic sales in the PRC	16,491	33,766
Export sales outside the PRC		
Europe	1,873	–
America	29,500	28,968
Asia-Pacific	61,992	55,523
Africa	562	–
	<u>93,927</u>	<u>84,491</u>
Total export sales	<u>93,927</u>	<u>84,491</u>
Total	<u>110,418</u>	<u>118,257</u>

## (3) Other Revenue

	Six months ended 30 June	
	2002	2001
	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Rental Income	1,918	198
Write-back of provision for obsolete stock	11,314	–
Write-back of provision for doubtful debts	5,657	–
Government subsidies	1,207	–
Value added tax refund	–	7,430
Sales of setap material	3,528	4,957
Others	681	1,588
	<u>24,305</u>	<u>14,173</u>

## Interim Results

### (4) Operating Profit

	Six months ended 30 June	
	2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000
Operating profit is stated after charging the following:		
Depreciation on fixed assets	33,564	25,819
Amortisation of goodwill	340	340
Interest on borrowings	<u>17,738</u>	<u>19,502</u>

### (5) Taxation

No Hong Kong profits tax has been provided as the Group did not have any assessable income under Hong Kong Profit tax. Overseas taxation has been calculated on the estimated assessable profit for the period as the rate prevailing in the respective jurisdictions.

	Six months ended 30 June	
	2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000
<b>PRC Enterprise Income Tax</b>		
Provision of current period	(3,184)	(3,861)
(Underprovision)/overprovision over prior year	<u>6,231</u>	<u>-</u>
	<u><b>3,047</b></u>	<u>(3,861)</u>

### (6) Interim Dividend

The directors do not recommend the payment of an interim dividend for the period ended 30 June 2002 (2001: nil).

### (7) Earnings/(Losses) Per Share

The calculation of basic losses per share is based on the consolidated losses attributable to shareholders for the period of approximately HK\$9,446,000 (2001 profits attributable to shareholders: HK\$38,064,000) and weighted average of 1,381,603,701 shares (2001: 1,207,558,893 shares) in issue during the period.

Diluted losses per share for the period is computed by diluted number of 1,382,511,306 shares (2001: 1,216,895,889 shares).



**(8) Trade and Other Receivable**

No specific credit term policy was adopted by the Group as the credit terms granted by the Group's varies towards different customers. As of 30 June 2002, accounts receivable was analysed as follows:

	<b>30 June 2002 (Unaudited) HK\$'000</b>	31 December 2001 (Audited) HK\$'000
Within one year	<b>351,251</b>	327,695
Over 1 year but within 2 years	<b>33,498</b>	26,126
Over 2 years	<b>30,296</b>	18,538
	<b>415,045</b>	372,359
Provision for doubtful debts	<b>(66,770)</b>	(71,485)
Other receivables	<b>202,825</b>	87,195
	<b>551,100</b>	388,069

**(9) Trade and Other Payable**

The following is an aging analysis of trade payable at the reporting date:

	<b>30 June 2002 (Unaudited) HK\$'000</b>	31 December 2001 (Audited) HK\$'000
Within one year	<b>526,740</b>	441,945
Over 1 year but within 2 years	<b>23,401</b>	7,479
Over 2 years	<b>4,704</b>	2,476
	<b>554,845</b>	451,900
Other payables	<b>274,181</b>	249,128
	<b>829,026</b>	701,028

## Interim Results

*(10) Share Capital*

	<b>30 June 2002 (Unaudited) HK\$'000</b>	31 December 2001 (Audited) HK\$'000
Authorised:		
1,600,000,000 Ordinary shares of HK\$0.1 each	<u><u>160,000</u></u>	<u><u>160,000</u></u>
Issued and fully paid:		
1,381,716,408 Ordinary shares of HK\$0.1 each (31 December 2001: 1,380,516,408 shares)	<u><u>138,172</u></u>	<u><u>138,052</u></u>

During the period, 1,200,000 ordinary shares of HK\$0.10 each were issued upon the exercise of share option as follows:

- (a) 300,000 shares at a premium of HK\$0.144 each;
- (b) 900,000 shares at a premium of HK\$0.125 each.

*(11) Share Option Scheme*

Pursuant to the Company's share option scheme dated 26 November 1993, the Company, for incentive purpose, is authorised to grant options to executive directors and employees of the Group to subscribe for shares in the Company ("Shares"), subject to a maximum when the aggregate number of Shares issued and issuable under the Scheme, together with any Shares issuable upon exercise of all options for the time being outstanding which have been granted under any other scheme involving the issue or grant of options over Shares or other securities by the Company to, or for the benefit of, executives and/or employees of the Group, equivalent to the nominal value 10% of issued share capital of the Company, excluding Shares issued pursuant to the Scheme. The subscription price would be determined by the directors, and would not be less than the higher of the nominal value of the Shares and 80% of the average of the closing prices of the shares quoted on The Stock Exchange of Hong Kong Limited on the five trading days immediately preceding the date of offer of the option. There is no limit as to the number of shares in respect of which options may be granted under the scheme to any one participant. The terms of the scheme provide that an option may be exercised under the scheme at any time during the period commencing on the date upon which such option is deemed to be granted and accepted.

A summary of the movements of number of share options granted under the scheme during the period is as follows:

	Subscription price per share				Total
	HK\$0.930	HK\$0.244	HK\$0.225	HK\$0.211	
Beginning as of 1 January 2002	2,800,000	4,300,000	900,000	2,480,000	10,480,000
Granted during the period	-	-	-	-	-
Exercised during the period	-	(300,000)	(900,000)	-	(1,200,000)
Cancelled/Lapsed during the period	(2,000,000)	-	-	-	(2,000,000)
<b>Balance as of 30 June 2002</b>	<b><u>800,000</u></b>	<b><u>4,000,000</u></b>	<b><u>-</u></b>	<b><u>2,480,000</u></b>	<b><u>7,280,000</u></b>

The share options are exercisable over a period of ten years from the date of granting the options.

**(12) Reconciliation of Profit/(Loss) before Taxation to Net Cash Inflow/(Outflow) from Operating Activities**

	Six months ended	
	30 June	
	2002	2001
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Profits (losses) before taxation	(9,363)	48,720
Share of losses of associates	1,569	1,416
Depreciation and amortisation	33,904	26,159
Loss on disposal of fixed assets	326	329
Interest income	(1,560)	(1,527)
Interest expenses	17,738	19,502
Increase in tax payable	26,752	39,633
Decrease/(Increase) in inventory	34,650	(98,486)
Increase in trade and other receivables	(163,031)	(248,881)
Increase in trade and other payables	86,523	196,016
Exchange difference	-	19
Net cash inflow/(outflow) from operating activities	<u>27,508</u>	<u>(17,100)</u>

**(13) Related Parties Transactions**

Companies are considered to be related if one company has the ability, directly or indirectly, to control the other company or exercise significant influence over the other company in making financial and operating decisions. Companies are also considered to be related if they are subject to common control or common significant influence.

## Interim Results

The Group had the following material transactions with related parties during the period, which the directors considered were in the normal course of business and under normal commercial terms:

	<b>Six months ended</b>	
	<b>30 June</b>	
	<b>2002</b>	2001
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Purchase from Guangzhou Hualing Polyfoam Co., Ltd	<b>4,317</b>	2,955
Purchase from and processing charges paid to Yungang Plastic Co., Ltd	<b>6,792</b>	7,432
Purchase equipments from Xian Dongfang Electrical (Group) Co., Ltd**	<b>11,474</b>	–
	<b><u>22,583</u></b>	<u>10,387</u>

\*\* Pursuant to an approval document (No. 005) from Xian Ministry of Foreign Trade and Economic Committee, the issued and paid-up capital of Xian Dongling Refrigerating Compressors Co., Ltd ("Xian Dongling"), an associate of the Group, was increased from US\$11,340,000 to US\$18,670,000. The Company contributed capital of US\$1,832,500, consisting of cash of US\$361,500 and equipments equivalent to US\$1,471,000. Such equipments were purchased from Xian Dongfang Electrical (Group) Co., Ltd. the major shareholder of Xian Dongling. As at the date of the report, the amount is still remained outstanding in the accounts of the Group.

### (14) Banking Facilities and Pledge of Assets

As at 30 June 2002, the Group had banking facilities of approximately HK\$618,895,000 (as at 31 December 2001: HK\$634,896,000) for overdrafts, bank borrowings and trade financing. As at that date, approximately HK\$550,160,000 was utilized (as at 31 December 2001: HK\$535,074,000).

These facilities were secured by:

- (a) corporate guarantees given by the subsidiaries of the Company;
- (b) charges over certain fixed assets of China Refrigeration Industry Co., Ltd., Guangzhou Hualing Air-conditioning & Equipment Co., Ltd and Hefei Hualing Electrics Co., Ltd. With a total book value of approximately HK\$239,557,000 as at 30 June 2002 (as at 31 December 2001: HK\$116,967,000).

### (15) Capital Commitments

As at 30 June 2002, the Group had authorized and contracted capital commitments in relation to purchase of fixed assets of approximately HK\$23,876,000 (as at 31 December 2001: HK\$43,893,000).

### *Financial Performance*

For the period ended 30 June 2002, the Group's sales volume increased by approximately 9.72%, while turnover reached approximately HK\$714,726,000 compared with HK\$949,717,000 last year, representing a decrease of approximately 24.74%. Operating profit dropped by 90.90%, amounted to approximately HK\$6,310,000 (2001: HK\$69,339,000). Losses attributable to shareholders were approximately HK\$9,446,000 (2001 profits attributable to shareholders: HK\$38,064,000). As at 30 June 2002, cash on hand was approximately HK\$136,699,000.

### *Interim Dividend*

The Board does not recommend any interim dividend for the period ended 30 June 2002 (2001: nil).

### *Industry Overview*

In the first half of 2002, the economy of the People's Republic of China ("PRC") has grown steadily, thus stimulated the growth of industrial production. Yet, the slow down of people's income growth, the low price level of commodities and the moderate growth of demand in rural areas have affected the economic development of the first half of this year.

During the period, the drop in the consumption price and persistent new entries of household appliance manufacturers into the industry, have made the household appliance market in the PRC much more competitive and the growth in the overall marginal profit of the industry smaller than the growth in the overall sales during the period.

In the export market, the PRC household appliance manufacturing industry has been further developed and the volume of export has increased, coupled with the competitive price level of PRC products, it is estimated that the PRC household appliance industry will play an important role in the international household appliance market in the foreseeable future.

## Interim Results

### *Business Review*

During the period under review, the Group has strived to enlarge the market share of air-conditioner and refrigerator markets in the PRC and overseas. Based on the Group's application of modern management system, it has become one of the largest household appliance enterprises in the PRC. As there were many new entrants to the industry during the period, the industry became extremely competitive. Despite the Group performed well in exploring both the PRC and overseas market, in developing new products, building corporate information system, controlling cost and establishing corporate culture; it could not offset the negative effect brought by the fierce competition towards the Group's gross profit.

### *Air-conditioner Business Analysis*

During the period under review, the sales volume of air-conditioner amounted to approximately 301,000 units, increased by approximately 4.88% compared to the corresponding period last year. However, under the influence of an overall price-cut in the PRC air-conditioner market, the Group's profit from air-conditioners could not obtained a parallel growth with the sales volume, the turnover of air-conditioners decreased by approximately 32.98% in comparison with the corresponding period last year, amounted to approximately HK\$443,550,000.

### *Overseas Export Market*

During the period under review, the Group's air-conditioner export business was satisfactory, the export volume increased by approximately 59.79% compared to the corresponding period last year. It amounted to approximately 155,000 units and achieved approximately 89% of the Group's year plan, while the turnover increased by approximately 69.95% compared to the same period last year, amounted to approximately HK\$211,344,000. During the period, exports to North America, Europe and Taiwan region have recorded a larger increase. Export to North America amounted to approximately 56,600 units, to Taiwan amounted to approximately 38,400 units, increased by approximately 50% and 67% respectively compared to the corresponding period last year. The Group's export to Europe has exceeded 40,000 units during the period and a faster growth pace was recorded compared to the same period of last year.

### **The PRC Market**

During the period under review, the sales volume of air-conditioner in the PRC amounted to approximately 146,000 units, decreased by approximately 1.35% compared to the corresponding period last year. Turnover dropped by approximately 46.81%, amounted to approximately HK\$231,778,000. There were two reasons for the drop in sales volume and turnover of the PRC market. First, many new air-conditioner manufacturers in the PRC cut down the price intentionally to crash the market price system, in order to raise their reputation and increase their market share in a short period of time. The other reason was because of the cool summer in the PRC this year, which has lowered the demand for air-conditioners and thus affected the sales of the Group's air-conditioners. However, the management of Group believes that long-term development of the corporation could only be brought forth by providing high quality products and services to the clients. Therefore, during the period, the Group upheld the mission of "High quality products and services" and had not involved in the price-cut blindly, instead the Group focused on raising the product quality and service standard so as to fulfill its commitment to the users. Although this might bring negative effect towards the Group's air-conditioner business in the PRC in the short-run, it will, however, help the Group to enhance its air-conditioner brand image and competitiveness in long-run.

### **OEM Market in the PRC**

During the period under review, the Group's sales volume in OEM business amounted to approximately 392 units, decreased by approximately 99.07% compared to the same period last year, while the turnover amounted to approximately HK\$428,000, decreased by 99.58% compared to the corresponding period last year. As the brown electronic appliance manufacturers in the PRC were confident with the air-conditioner market, they have set up their own factories for product development and manufacturing, coupled with the cool summer of the PRC, both have led to a drop in the demand for the Group's OEM air-conditioners in the PRC.

### ***Refrigerator Business Analysis***

During the period under review, the Group's refrigerator sales volume increased by approximately 13.94% compared to the corresponding period last year, amounted to approximately 376,000 units. The turnover of refrigerators amounted to approximately HK\$271,176,000 decreased by approximately 5.82% compared to the corresponding period last year.

## Interim Results

### Overseas Export Market

During the period under review, the export sales volume of the Group's refrigerator has grown steadily, the export volume of refrigerators amounted to approximately 181,000 units, increased by approximately 15.29% compared to the corresponding period last year. The turnover increased by approximately 26.77%, reaching approximately HK\$112,295,000. The performance of export business in refrigerators was the most outstanding. The accumulative export volume for the first half of this year has already exceeded the aggregate export volume last year that reached approximately 19,300 units with an aggregate value of approximately HK\$18,368,000. The development of refrigerator market in Europe was encouraging and the sales volume of export to the UK accounted for approximately 40% of the aggregate export volume during the period. Meanwhile, the Group's competitiveness in the Asia market was further accelerated with the sales volume of export to Indonesia achieved a high growth rate compared with last year. During the period, the export volume of HUALING mini-refrigerators in the three largest markets, namely North America, Japan and Europe increased by approximately 7.78%, reaching approximately 164,000 units. The large growth rate in the export of refrigerator was a great encouragement to the Group in the export market and has strengthened the Group's confidence towards the international market. The Group will continue to develop the international market and at the same time, speed up its research and development of new products.

### The PRC Market

During the period under review, the sales volume of refrigerators in the PRC decreased by approximately 3.27% compared to the corresponding period last year, reaching approximately 148,000 units. The turnover decreased by approximately 34.51% compared to the corresponding period last year, amounted to approximately HK\$113,331,000. During the period, the Group obtained the development rights of new products, progressively restructured the research and development direction of new refrigerator models, and made use of different price levels and characteristics comprising the high, medium and low categories of end products to fit with the demand of customers from different segments. The Group's marketing strategy is to strive for a higher profit through 20% of products comprising the high and medium category and a larger market share through 80% of products comprising the medium and low category. These have raised the flexibility of the market operation of the Group.



## OEM Market in the PRC

The Group's sales volume and turnover of refrigerators in OEM business were approximately 47,000 units and HK\$45,550,000 respectively, representing a substantial increase of approximately 135% and 73.08% compared to the corresponding period last year. The increase in the sales of OEM refrigerators was mainly caused by the high entry barrier of the industry and the manufacturers, who aimed at brand diversification, would prefer to working with manufacturers that produced higher-quality OEM products in their brand image.

## *Overall Business Analysis of the Group*

### Application of Corporate Information System

During the period under review, the Group attained a progressive improvement in the establishment of an information system. The Product Data Management ("PDM") project, the Enterprise Resources Planning ("ERP") project – co-launched with the renowned IT enterprise, Legend Group and the Group's procurement information system, were launched successfully in April this year. All of these would bring about significant and persistent influence to the Group in enhancing its efficiency in decision-making, strengthening its cost-control and raising its management quality, etc. Furthermore, the Group has moved a great step forward in building a Web-based procurement information platform. Initially, the operation of the Web-based logistics management information system helped the suppliers to obtain first hand logistics management related information, thus they could be in time to prepare and arrange delivery according to the procurement plan, so as to lower the inventory level of the Group.

### Cost Control

During the period under review, the Group aimed to strengthen the structure of the Group's resources, enhance the cooperation between the Group's subsidiaries and improve the efficiency of internal resources allocation, in order to reduce cost in different stages of production. At the same time, the Group has appropriately cut the salary of the management so as to further control the operating management cost. For the Group's resources structure, the Group has established a central procurement center and a Web-based procurement platform in early 2002. After running for months, the new procurement model was especially beneficial in reducing the procurement cost. It is expected that the procurement cost will be reduced by more than 5% for the whole year.

## Interim Results

### The Research and Development (“R&D”)

During the period under review, the Group’s air-conditioner companies continued to enhance its technology in researching and developing new products. A product management committee was established and the development of new products has been included in the investment operating system for long-term planning and management. To complement the demand for market diversification in the future, the subsidiaries of the Group have divided its technological R&D department into the “domestic product R&D department” and the “international product R&D department” that were responsible for the technological R&D of domestic and international products respectively. Thus, the efficiency and success rate of product development have been enhanced to a large extent. During the period, the Group has implemented 17 projects on new products and 14 projects on the improvement of major technologies and R&D management. The new discoveries in R&D will drive the Group to further developments.

### Quality Control

During the period under review, in order to maintain the quality standard of products under the brand name of HUALING and enhance the market competitiveness of HUALING products, the Group emphasized in establishing a strict quality control system and the result was satisfactory. Subsidiaries of the Group were strictly adhering to the requirements of ISO9001 2000 by amending the quality handbook and procedure documents. Regular meetings on quality standard have enhanced the quality level. During the period, the Group’s average rate of B product per month was only 0.10%, which was much lower than the average standard of 0.27% last year. The strict quality management has further enhanced customers’ recognition and loyalty towards the brand name of HUALING.

### Capital Operation and Restructuring

During the period under review, leveraging on the opportunities brought by the restructuring of the international and PRC household appliance industry, the Group researched and laid down expansion strategies through the capital market, and expected to strengthen HUALING rapidly through asset restructuring, so as to realize the goal of becoming one of the top five air-conditioner and refrigerator manufacturers in the PRC before the year of 2005.

### **Human Resources Management and Establishment of Corporate Culture**

During the period under review, the Group endeavoured to strengthen the human resources management and improved systems, such as the “Result and effectiveness examining system” and the “Management examination regulations”. An effective practical result was achieved after a period of experimentation. The subsidiaries of the Group worked together on building a corporate information system and made revolutionary changes in management via the information systems like the ERP and the PDM to strengthen the theory of human resources management and the ways of working and at the same time, to reconstruct the working procedure through training and monitoring so as to enhance the overall managing quality in all scales.

To complement human resources management and to respond to the trend of corporate management reform, the Group recruited a group of experts and professors from different internationally renowned enterprises and universities during the period. All the parties joined together to propose and gather thoughts with regard to the concept of the Group’s corporate culture and to compile a corporate culture handbook, which would be implemented by all the employees to raise their spirit and loyalty towards the Group.

### ***Employment, Training, Development and Remuneration Policy***

As at 30 June 2002, the Group employed approximately 2,900 staff, comprising 10 of them in Hong Kong. The Group remunerates its employees based on their performance, experience and prevailing industry practice. The Group has set up share options scheme and provided retirement benefits, in the form of Mandatory Provident Fund etc. and other benefits, which are similar to the employees in the PRC. The Group will also grant bonus and other kinds of remuneration according to individual performance and the performance of the Group’s overall profit.

### ***Liquidity and Capital Resources***

The Group financed its operations through internal funding and corresponding banks in the PRC.

## Interim Results

### *Prospects*

Due to the fierce competition in the PRC household appliance industry during the period, many competitors have withdrawn as the profit margin of the industry has dropped. Therefore, it is expected that competition will be lessened in the second half of this year and the business prospects will be better. Looking forward, the Group will grasp the opportunities brought by the restructuring of the PRC white household appliance industry and the upgrading of product structures to expand its operating scales and at the same time, follow the market trend and apply the latest technology to accelerate the technological advantages of HUALING products continuously. The management of the Group believes that as a new series of the Group's products come onto the market, there will be a breakthrough in the Group's sales volume.

In the future, it is expected that the status of PRC household appliance manufacturing industry as "The World's Largest Household Appliance Manufacturing Base" will be raised and consolidated continuously and eventually this will help the PRC household appliance industry to strive for more opportunities in the global market with a wider coverage. The Group will grasp this opportunity to consistently enhance, examine and utilize the technology and advantages of its products, to speed up its exploration of the overseas market network and to implement its long-term and internationalization goal effectively.

### *Summary of the Group's Future Targets:*

- Many manufacturers have withdrawn as the profit margin has dropped, the competition is expected to lessen in the future and the business prospects of the Group is foreseen to be better.
- Leverage on the opportunities brought by the restructuring of the PRC white household appliance industry and the upgrading of product structures to expand its operating scale.
- Follow the market trend and apply the latest technology to raise the technological advantages of HUALING products continuously.
- Improve product structure to conform with different market segments.
- Strengthen the research and development of its overall products to produce high value-added and high gross profit products.

- Reconstruct the sales network of air-conditioners and refrigerators to reduce the Group's cost on operation and sales.
- Further reconstruct the procurement systems of air-conditioners and refrigerators to increase its bargaining power and control its production cost.
- Continue to cooperate with Legend Group to develop the ERP system to further enhance its operating efficiency.
- Consistently enhance, examine and utilize the technology and advantages of its products, so as to speed up its exploration of the overseas market network and to implement its long-term and internationalization goals effectively.
- Search for more potential overseas market to further expand its export business.
- Launch the small-scale central air-conditioners to the market in the second half of this year.
- Intend to convert the share capital of Hefei mini-refrigerators factory into a joint stock limited company, so that it will be prepared and qualified for listing in the A share market in the PRC in the future (although, at present, the Group has no concrete plan for such listing in the PRC).

### *Directors' Interests in Shares, Warrants and Share Options*

Details of the interests of the directors in the ordinary shares of the Company as at 30 June 2002 as recorded in the register maintained under Section 29 of Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") were as follows:

	Number of shares held		
	Personel Interest	Family Interest	Corporate Interest
Chen Xiao-shi	2,800,000	–	–
Liang Wei-wen	2,100,000	–	–
Liang Bao-ping	1,000,000	–	–
Ye Zhen-wen	500,000	–	–
Chen Hui	1,000,000	–	–
Zhang Xin-hua	1,600,000	–	–

## Interim Results

The Company has a share option scheme under which it may grant options to directors and employees of the Group to subscribe for shares of the Company. Details of the scheme are set out in Note 11 to the Unaudited Condensed Financial Statements. The movement of share option held by the Company's directors during the period is as follows:

Name of directors	Date of grant	Exercise period	Number of Share Options				Lapsed/ cancelled during the period	Outstanding as at 30/6/2002
			Exercise price per share	Outstanding as at 1/1/2002	Grant during the period	Exercise during the period		
Mr. Liu Xi Bo	30/9/1997	30/9/1997- 30/9/2007	HK\$0.93	1,000,000	-	-	1,000,000	-
Mr. Zhang Xin Hua	30/9/1997	30/9/1997- 30/9/2007	HK\$0.93	800,000	-	-	-	800,000
Mr. Ng Cheong Lam	30/9/1997	30/9/1997- 30/9/2007	HK\$0.93	1,000,000	-	-	1,000,000	-
Mr. Lo Wing Sang, Vincent	17/2/2000	17/2/2000- 17/2/2010	HK\$0.244	2,000,000	-	-	-	2,000,000
	5/7/2000	5/7/2000- 4/7/2010	HK\$0.211	1,000,000	-	-	-	1,000,000
Mr. Chan Wai Dune	17/2/2000	17/2/2000- 17/2/2010	HK\$0.244	2,000,000	-	-	-	2,000,000
	5/7/2000	5/7/2000- 4/7/2010	HK\$0.211	1,000,000	-	-	-	1,000,000

Save as disclosed above, the Company has no notice of any interest to be recorded under Section 29 of the SDI Ordinance as at 30 June 2002.

Except for the above, at no time during the period was the Company or its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debenture of, the Company or any other body corporate.

### *Substantial Shareholders*

As at 30 June 2002, the following shareholders of the Company had or were deemed to have more than 10% of interests in the Company under the Provisions of the SDI Ordinance as recorded in the register maintained pursuant to Section 16(1) of the SDI Ordinance:

<b>Name</b>	<b>Number of shares held</b>
Guangzhou International Trust and Investment Corporation (“GZITIC”)	670,076,808 *
Guangzhou Baiyun Agriculture Industry & Commerce Corporation	162,960,000

\* 590,076,808 shares were pledged as share mortgage in exchange of a loan facility of US\$20,000,000 to GZITIC and were registered under the name of Bright Asia Assets Ltd., as nominee shareholder of the lender.

Save as disclosed above, the Company has no notice of any interest to be recorded under Section 16(1) of the SDI Ordinance as at 30 June 2002.

### *Purchase, Sales and Redemption of Securities*

During the period ended 30 June 2002, the Company and its subsidiaries did not purchase, sell or redeem any of the Company’s securities.

### *Audit Committee*

The Audit Committee has reviewed the unaudited interim financial statement and accounting principles and practices adopted by the Group and discussed with the management including auditing, internal controls and financial reporting matters.

## Interim Results

### *Code of Best Practice*

In the opinion of the Board, the Group has complied with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities of the Stock Exchange of Hong Kong Limited throughout the six months period ended 30 June 2002 except the Non-executive Directors and Independent Non-executive Directors are not appointed for a specific terms as they are subject to retirement by rotation and re-election at the Annual General Meeting of the Company in accordance with the provisions of the Company's Articles of Association.

By Order of the Board

**Chen Xiao-shi**

*Chairman*

Hong Kong, 12 September 2002