

Results

The Board of Directors (the “Board”) of Hualing Holdings Limited (the “Company”) (formerly known as “GZITIC Hualing Holdings Limited”) announces the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2003 (the “Period”) as follows:

Condensed Consolidated Profit and Loss Account

	Note	Six months ended 30 June	
		2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000
Turnover	2	909,857	714,726
Cost of sales		(798,299)	(611,336)
Gross profit		111,558	103,390
Other revenues	3	21,718	24,305
Distribution costs		(81,778)	(79,067)
Administrative expenses		(63,385)	(41,834)
Other operating expenses		(732)	(484)
Operating (loss)/profit	4	(12,619)	6,310
Finance costs		(12,920)	(14,104)
Share of losses of associated companies		(301)	(1,569)
Loss before taxation		(25,840)	(9,363)
Taxation	5	(1,307)	3,047
Loss after taxation		(27,147)	(6,316)
Minority interests		(452)	(3,130)
Loss attributable to shareholders		(27,599)	(9,446)
Losses per share			
- basic	7	(2.0) cents	(0.7) cents
- diluted	7	N/A	(0.7) cents

Interim Results

Condensed Consolidated Balance Sheet

		30 June 2003 (Unaudited) HK\$'000	31 December 2002 (Audited) HK\$'000 (Note 16)
Non-current assets			
Fixed assets		725,462	769,662
Other assets		62,546	43,325
		<u>788,008</u>	<u>812,987</u>
Current assets			
Inventories		463,871	396,596
Trade and other receivables	8	572,847	249,647
Prepaid value-added tax		41,722	42,818
Bank balances and cash		164,142	174,262
		<u>1,242,582</u>	<u>863,323</u>
Current Liabilities			
Trade and other payables	9	975,919	647,234
Tax payable		133	25,814
Short-term bank borrowings		570,256	491,876
		<u>1,546,308</u>	<u>1,164,924</u>
Net current liabilities		<u>(303,726)</u>	<u>(301,601)</u>
Total assets less current liabilities		<u>484,282</u>	<u>511,386</u>
Non-current liabilities			
Long-term bank borrowings		38,592	38,592
		<u>38,592</u>	<u>38,592</u>
Net assets before minority interests		<u>445,690</u>	<u>472,794</u>
Minority interests		41,786	41,334
Net assets		<u>403,904</u>	<u>431,460</u>
Financed by:			
Share capital	10	138,204	138,188
Reserves		265,700	293,272
Shareholders' funds		<u>403,904</u>	<u>431,460</u>

Condensed Consolidated Cash Flow Statement

	Six months ended	
	30 June	
	2003	2002
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
		(Note 16)
Net cash (outflow)/inflow from operating activities	(6,119)	26,301
Net cash outflow from returns on investments and servicing of finance	(14,893)	(15,747)
Taxation paid	(58,205)	(17,664)
Net cash outflow from investing activities	(11,773)	(46,697)
Net cash outflow before financing	(90,990)	(53,807)
Net cash inflow from financing	80,870	3,467
Decrease in bank balances and cash	(10,120)	(50,340)
Bank balances and cash as at 1 January	174,262	187,039
Bank balances and cash as at 30 June	164,142	136,699

Interim Results

Consolidated Statement of Changes in Equity

	Share Capital	Share Premium	General reserve fund	Enterprise expansion fund	Exchange reserve	Accumulated losses	Total
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
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>(54,167)</u>	<u>672,558</u>
Balance as of 1 January 2003	138,188	509,383	37,361	16,958	28,339	(298,769)	431,460
Share of post-acquisition reserves	—	—	5	—	—	—	5
Currency translation difference	—	—	—	—	7	—	7
Net gain not recognised in the income statement	138,188	509,383	37,366	16,958	28,346	(298,769)	431,472
Net loss for the Period	—	—	—	—	—	(27,599)	(27,599)
Profit appropriation	—	—	6,947	—	—	(6,947)	—
Dividends	—	—	—	—	—	—	—
Issue of share capital	16	18	—	—	—	—	34
Share issue expenses	—	(3)	—	—	—	—	(3)
Balance as of 30 June 2003	<u>138,204</u>	<u>509,398</u>	<u>44,313</u>	<u>16,958</u>	<u>28,346</u>	<u>(333,315)</u>	<u>403,904</u>

Notes to Unaudited Condensed Financial Statements

1. Principal Accounting Policies and Basis of Preparation

These condensed consolidated interim financial statements (“interim financial statements”) are prepared in accordance with Statement of Standard Accounting Practice (“SSAP”) No. 25 “Interim Financial Reporting” issued by the Hong Kong Society of Accountants and with the applicable disclosure requirement of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

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

The interim financial statements have been prepared on a basis consistent with the accounting policies adopted in 2002 annual report except for the adoption of SSAP 12 (Revised) “Income Taxes” and SSAP 35 “Accounting for Government Grants and Disclosure of Government Assistance”. The adoption of SSAP 12 (Revised) and SSAP 35 had no material effect on the amounts reported in the current period and prior year.

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 (loss)/profit by products are summarized as follows:

	Turnover		Contribution to operating (loss)/profit	
	Six months ended		Six months ended	
	30 June 2003	30 June 2002	30 June 2003	30 June 2002
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$’000	HK\$’000	HK\$’000	HK\$’000
Sales of refrigerators				
(Note 1)	186,439	160,758	(22,183)	(11,885)
Sales of air-conditioners				
(Note 2)	564,587	443,550	12,506	15,869
Sales of mini-refrigerators				
(Note 3)	158,831	110,418	2,253	8,130
Others	—	—	(5,195)	(5,804)
	909,857	714,726	(12,619)	6,310

Interim Results

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

	Six months ended	
	30 June 2003	30 June 2002
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Domestic sales in the PRC	163,178	142,390
Export sales outside the PRC		
Europe	11,001	6,484
America	259	—
Asia-Pacific	11,905	11,884
Africa	96	—
	<hr/>	<hr/>
Total export sales	23,261	18,368
	<hr/>	<hr/>
Total	186,439	160,758
	<hr/> <hr/>	<hr/> <hr/>

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

	Six months ended	
	30 June 2003	30 June 2002
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Domestic sales in the PRC	233,361	232,206
Export sales outside the PRC		
Europe	167,107	53,851
America	116,877	66,161
Asia-Pacific	46,563	80,843
Africa	679	10,489
	<hr/>	<hr/>
Total export sales	331,226	211,344
	<hr/>	<hr/>
Total	564,587	443,550
	<hr/> <hr/>	<hr/> <hr/>

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 2003 (Unaudited) HK\$'000	30 June 2002 (Unaudited) HK\$'000
Domestic sales in the PRC	54,201	16,491
Export sales outside the PRC		
Europe	6,961	1,873
America	44,184	29,500
Asia-Pacific	51,123	61,992
Africa	2,362	562
Total export sales	104,630	93,927
Total	158,831	110,418

3. *Other Revenues*

	Six months ended	
	30 June 2003 (Unaudited) HK\$'000	30 June 2002 (Unaudited) HK\$'000
Rental Income	4,016	1,918
Write-back of provision for obsolete stock	—	11,314
Write-back of provision for doubtful debts	8,900	5,657
Government subsidies	2,215	1,207
Sales of scrap material	5,362	3,528
Others	1,225	681
	21,718	24,305

Interim Results

4. Operating (Loss)/Profit

	Six months ended	
	30 June 2003	30 June 2002
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Operating (loss)/profit is stated after charging the following:		
Depreciation on fixed assets	36,452	33,564
Amortisation of goodwill	340	340
Interest on borrowings	17,465	17,738
	<u> </u>	<u> </u>

5. Taxation

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

	For the six months ended	
	30 June 2003	30 June 2002
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
PRC enterprise income tax		
Provision of current period	(2,192)	(3,184)
Overprovision over prior year	885	6,231
	<u> </u>	<u> </u>
	<u>(1,307)</u>	<u>3,047</u>

6. Interim Dividend

The directors do not recommend any payment of interim dividends for the Period (2002: nil).

7. Losses Per Share

The calculation of basic losses per share is based on the unaudited losses for the Period of HK\$27,599,000 (2002: HK\$9,446,000) and on the weighted average number of 1,382,025,800 (2002: 1,381,603,701) shares in issue during the Period.

No diluted losses per share for the Period disclosed as the average price of the Company's shares during the Period was less than the exercise prices of share options and the potential ordinary shares would have no dilutive effect. The diluted losses per share for the six months ended 30 June 2002 was calculated based on the diluted weighted average number of 1,382,511,306 shares.

8. Trade and Other Receivables

No specific credit term policy was adopted by the Group as the credit terms granted by the Group's varies towards different customers. The ageing analysis of trade receivables is as follows:

	30 June 2003 (Unaudited) HK\$'000	31 December 2002 (Audited) HK\$'000
Within one year	379,333	174,824
Over 1 year but within 2 years	19,196	26,642
Over 2 years	49,337	25,180
	<u>447,866</u>	<u>226,646</u>
Provision for doubtful debts	(73,491)	(94,186)
	<u><u>374,375</u></u>	<u><u>132,460</u></u>

9. Trade and Other Payables

The ageing analysis of trade payables is as follows:

	30 June 2003 (Unaudited) HK\$'000	31 December 2002 (Audited) HK\$'000
Within one year	608,261	235,266
Over 1 year but within 2 years	33,097	22,042
Over 2 years	8,941	4,773
	<u>650,299</u>	<u>262,081</u>

Interim Results

10. Share Capital

	30 June 2003 (Unaudited) HK\$'000	31 December 2002 (Audited) HK\$'000
Authorised:		
1,600,000,000 Ordinary shares of HK\$0.1 each	<u>160,000</u>	<u>160,000</u>
Issued and fully paid:		
1,382,036,408 (31 December 2002: 1,381,876,408) Ordinary shares of HK\$0.1 each	<u>138,204</u>	<u>138,188</u>

During the Period, 160,000 ordinary shares of HK\$0.10 each were issued upon the exercise of share options at a premium of HK\$0.111 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, subject to a maximum of (i) 20% of the share capital of the Company in issue as at 25 June 1999 plus (ii) the nominal amount of share capital of the Company repurchased by the Company subsequent to the amendments up to a maximum equivalent of 10% of the aggregate nominal amount of the share capital of the Company in issue, excluding shares issued on exercise of options. 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\$0.211	
Beginning as of 1 January 2003	800,000	4,000,000	2,320,000	7,120,000
Granted during the Period	—	—	—	—
Exercised during the Period*	—	—	(160,000)	(160,000)
Cancelled/Lapsed during the Period	—	—	—	—
Balance as of 30 June 2003	800,000	4,000,000	2,160,000	6,960,000

There were no options granted, cancelled or lapsed during the Period. The share options are exercisable over a period of ten years from the date of granting the options.

* The exercise date of the share option of 160,000 ordinary shares was 13 January 2003. At the date before the option were exercised, the market value per share was HK\$0.265.

12. 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.

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

	Six months ended	
	30 June 2003 (Unaudited) HK\$'000	30 June 2002 (Unaudited) HK\$'000
Purchase from Guangzhou Hualing Polyfoam Co., Ltd	2,269	4,317
Purchase from and processing charges paid to Yungang Plastic Co., Ltd	2,783	6,792
Purchase equipments from Xian Dongfang Electrical (Group) Co., Ltd	—	11,474
	<u> </u>	<u> </u>

Interim Results

13. Banking Facilities and Pledge of Assets

As at 30 June 2003, the Group had banking facilities of approximately HK\$770,257,000 (as at 31 December 2002: approximately HK\$709,931,000) for overdrafts, bank borrowings and trade financing. As at that date, approximately HK\$610,209,000 (as at 31 December 2002: approximately HK\$530,468,000) was utilized. Property, plant and equipment with net book value of approximately HK\$283,963,000 (as at 31 December 2002: HK\$95,916,000) were pledged as securities for the Group's short-term bank loans.

14. Capital Commitments

As at 30 June 2003, the Group had authorized and contracted capital commitments in relation to purchase of fixed assets of approximately HK\$13,939,000 (as at 31 December 2002: approximately HK\$6,802,000).

15. Contingent Liabilities

As at 30 June 2003, the balance of the discounted letters of credit with recourse of the Group was amounted to approximately HK\$25,540,000 (as at 31 December 2002: nil), the balance of bills of exchange discounted/endorsed with recourse was amounted to approximately HK\$38,498,000 (as at 31 December 2002: HK\$155,056,000).

16. Comparative Figures and Condensed Balances

Certain of the 2002 comparative figures have been reclassified to conform to current period's presentation. For presentation of the condensed consolidated balance sheet, certain balance sheet items as at 31 December 2002 have not been separately disclosed. Accordingly, "intangible assets" and "interests in associated companies" were grouped under "other assets", "due from related companies" was grouped under "trade and other receivables", and "due to related companies" and "provisions for warranty" were grouped under "trade and other payables" respectively.

Financial Performance

The Group's sales volume increased by approximately 31.6% for the Period ended 30 June 2003 when compared with the corresponding Period of last year, reaching approximately 891,400 units. Turnover reached about HK\$909,857,000, representing an increase of approximately 27.3% when compared with HK\$714,726,000 last year. The Group recorded operating loss of approximately HK\$12,619,000 (2002: operating profit of HK\$6,310,000). Loss attributable to shareholders were approximately HK\$27,599,000 (2002: HK\$9,446,000). As at 30 June 2003, cash on hand was approximately HK\$164,142,000. The bank borrowing of the Group amounted to approximately HK\$608,848,000, including short-term bank loans of approximately HK\$570,256,000. As at the Period end, the debt to equity ratio, calculation based on total of short-term and long-term loans against consolidated shareholders' equity was about 1.5 (as at 31 December 2002: 1.2).

Interim Dividend

The Board does not recommend any interim dividend for the Period (2002: nil).

Industry Overview

During the Period, the People's Republic of China ("PRC") and overseas continued to be affected by the unfavorable external economic factors. In addition, the outbreak of Severe Acute Respiratory Syndrome (SARS) in March 2003 has directly attached the global market and the product sales of the Group. Along with the significant increase in the raw material cost of household appliances, the weak consumption market has led to an overall downward adjustment of product price. Besides, the continuous new entries of home appliance manufacturers into the industry, as well as the inclination of the original air-conditioning OEM clients setting up their own production lines, have escalated the industry competition. Thus, the overall household appliance manufacturing market in the PRC was under uncertainty. Moreover, the abnormal weather and the low temperature within the major sales regions of the Group, while some of the regions being persistently affected by the flooding, had directly affected the domestic product sales of the Group's products. Nevertheless, the PRC has progressively transformed into a major international production base with pricing advantage as a result of the increasingly liberalized international trades and economics. The PRC manufacturing industry embraces enormous potential in the overseas export market.

Business Review

Pursuant to the restructuring of controlling shareholder during the Period under review, Guangzhou International Group Co., Ltd., a subsidiary of Guangzhou Municipal Government, became the controlling shareholder of the Group. Starting from 11 July 2003, the name of the Group changed from “GZITIC Hualing Holdings Limited” (國信華凌集團有限公司) to “Hualing Holdings Limited” (華凌集團有限公司). Mr. Li Yujun and Mr. Huang Weihua were appointed as the Executive Directors of the Group with effect from 27 June 2003. The Board further elected Mr. Li Yujun as the Chairman of the Company.

During the Period under review, the total sales volume of products amounted to about 891,400 units, increased by approximately 31.6% when compared to the corresponding period of last year. Among which, approximately 382,100 units were domestic sales of the PRC market and 509,300 units were overseas exports, representing a rise of 11.9% and 51.7% respectively when compared with that of last year. The sales volume of overseas export was higher than that of the domestic sales for the first time. Foreign sales revenue significantly increased by 59% compared to the same period last year, and amounted to over US\$56,930,000. Although the turnover and sales volume of the Group during the Period increased when compared to the corresponding period of last year, the intensive industry competition led to continuous price slash and thus substantially affected the gross profit of the products. As a result, the profit contribution of products was directly impacted.

Although the industry environment was not optimistic during the Period, capitalized on the Group’s discreet operation strategies and aggressive development plans, distinguished results were achieved in areas such as business management, sales and marketing, product research and development, quality control, brand building and information system management. The Group successfully maintained stable performance and recorded significant growth in its overseas export business.

Air-conditioner Business Analysis

During the Period under review, total production of air-conditioner amounted to approximately 418,000 units. Sales volume amounted to approximately 444,600 units, increased by approximately 47.7% when compared to the corresponding period of last year. Despite the increase in sales volume, which offset part of the pressure caused by the price-cut of air-conditioners, however, growth in profit contribution was not recorded. Turnover of air-conditioners amounted to approximately HK\$564,587,000 during the Period under review, increased by approximately 27.3% over prior year.

Regarding the sales distribution of air-conditioning products, sales of window-type air-conditioners accounted for approximately 40.9% of the total sales volume, a decrease of approximately 13.9% compared to 47.5% of last year. Corresponding figures for cabinet-type and split-type air-conditioners were 5.5% and 53.6%, representing a decrease of 14.1% and an increase of 16.3% respectively. Following the introduction of mini central air-conditioners since last year, the product type received favorable market responses. A total of about 100 models were launched during the Period under review, amongst which the duct machine series, possessing competitive technical and functional edges, were comparatively better received.

Overseas Export Market

The Group's air-conditioner export business continued to maintain a rapid growth. The export volume was approximately 282,200 units during the Period under review, increased significantly by approximately 82.1%. Turnover of export sales reached approximately US\$42,430,000, which accounted for approximately 58.7% of the total sales of air-conditioners. The Group's export volume of air-conditioners to North America and Europe remained stable. Export volume to North America increased by about 87% in comparison with the corresponding period of last year.

The Board believes that trades between the PRC and foreign countries would become more frequent and liberalized with the progressive improvement in the global trading environment and the accession of the nation to the World Trade Organization ("WTO"). Leveraged on its established international reputation and solid foundation, the Group would actively develop its overseas export business.

The PRC Market

Due to the cut-throat price competition in the white household appliance market during the Period under review, the Group's air-conditioner business results in the PRC market was affected. Although there was a rise in sales volume, gross profit was on the downward trend. The sales volume amounted to approximately 161,900 units, increased by 10.9% when compared to the same period of last year. The turnover increased slightly by approximately 0.06% and amounted to approximately HK\$231,917,000. Split-type air-conditioner accounted for approximately 79.2% of the total sales volume in the PRC market and shared the largest portion among other segments.

Interim Results

OEM Market in the PRC

During the Period under review, the Group's sales volume in OEM business amounted to 496 units, increased by approximately 26.5% compared to the same period last year. Turnover amounted to approximately HK\$1,445,000, increased substantially by approximately 237.6% over last year. The increment was mainly due to the sales of cabinet-type air-conditioner which was having higher price level. Nevertheless, the OEM business accounted for only a small portion of the overall air-conditioners sales volume. As the original OEM clients in the PRC set up their own production facilities for product development and manufacture, a drop in the demand for the Group's OEM air-conditioners in the PRC was resulted.

Refrigerator Business Analysis

During the Period under review, the Group's refrigerator sales volume increased by approximately 18.8% compared to the corresponding period of last year, amounted to approximately 446,800 units. Turnover amounted to approximately HK\$345,270,000, representing an increase of approximately 27.3%. China Refrigeration Industry Company Limited recorded the highest daily production of 2,222 units since its operation. Among the total sales volume, refrigerator business and mini-refrigerator business accounted for approximately 40.2% and 59.8% respectively.

In February 2003, the production line of the Group's export base located in the first phase of Hefei Economic and Technological Development Zone commenced production. The new plant, with gross floor area of 43,000 square meters, is anticipated to generate an annual production of 1.2 million mini-refrigerators with an annual turnover of over RMB\$1billion and was mainly for export sales. As at the balance sheet date, approximately 258,000 units of mini-refrigerators were manufactured at the new plant, increased by approximately 48% over the previous year. Results were encouraging, as export orders obtained in the first month of commenced operation has already reached the grand total of last year.

Overseas Export Market

During the Period under review, the export sales volume of the Group's refrigerator was satisfactory, with export volume surged 25.5% and amounted to approximately 227,100 units. Among which, refrigerators and mini-refrigerators amounted to 24,600 and 202,500 units respectively. Total turnover increased by approximately 13.9% and reached approximately HK\$127,891,000.

The PRC Market

During the Period under review, the sales volume of refrigerators in the PRC increased by approximately 23.4% compared to the corresponding period of last year, reached approximately 182,600 units. Turnover surged by approximately 60.8% and amounted to approximately HK\$182,301,000.

OEM Market in the PRC

During the Period under review, the Group's sales volume and turnover of refrigerators in OEM business were approximately 37,100 units and HK\$35,078,000 respectively, representing a decrease of 21.1% and 23.0% respectively.

Overall Business Analysis of the Group

Business Management

Reforms were implemented on the Group's internal management system during the Period under review. A departmental contracted responsibility system was proposed and implemented in the China Refrigeration Industry Company Limited and satisfactory results were obtained. Under this innovative mode of management, the operational efficiency of the management and staff was promoted, resulting in lowered departmental costs and an enhanced productivity.

The Group also dedicated to improving the management quality of Hualing air-conditioners. The "production, logistics and merchandizing management and regulation plan" was devised and implemented during the Period under review. The Group strictly follows the management objectives of "tapping new sources of revenue and cutting down expenditures, attaining clear and definite responsibility, implementing resolute practice and executing reward and punishment". By employing the objectives, shortcomings of various departments could be resolved.

Sales and Marketing

Positive results were attained in terms of sales and marketing during the Period under review. The Group implemented the "Hualing Strategy and Promotion Plan for Sales and Marketing 2003" as the market promotion objective of the year. Apart from underscoring the clientele, the Group also actively explored new markets, in order to boost the profile and influence of the brand in domestic and overseas markets.

Through cutting-edge sales and marketing strategies such as integrated marketing communications, market segmentations and media selections, the Group aggressively promoted its products and successfully enhanced the quality of its sales network. Marketing strategies in key markets such as Chongqing, Sichuan, Zhejiang and Hunan have also been reformulated, so as to improve the Group's marketing quality and effectiveness.

Product Research and Development (“R&D”)

To cope with the ever-changing customer demands and fierce market competitions, the Group put dedicated efforts into propelling R&D of new products and gained impressive results during the Period under review. The Directors believe that launching new products not only effectively enhances the Group’s profits, but also expands the Group’s domestic and overseas businesses, thereby benefiting its long-term development.

Regarding the refrigerators, China Refrigeration Industry Company Limited completed the R&D of 21 types of new products, as well as various designs of OEM products during the Period under review. Affirmative market responses were obtained for products of limited edition, one of which was nominated for the “Guangdong Excellent Industrial Design Award 2003”. The Group entered into collaboration with a Japanese company in a research project of wine cabinets. The design was completed in late April and has been put into production. The Group believes that its export business could be greatly expanded through the development of high-end products of high technical and artistic level such as wine cabinets.

As for the R&D of air-conditioners, Hualing air-conditioning had successfully completed more than 100 R&D projects of new products including mini-central air-conditioners. The Group, through the establishment of the Project Development Group, improved the design workflow and method of new products, thereby effectively reduced R&D costs of new models and accelerated the development processes.

Quality Control

During the Period under review, the quality of the Group’s products maintained a stable level of high standard. One-tick product pass rate was 97% and Grade A product ratio reached 99.5%, while Grade B product ratio dropped to 0.03%. The Group is satisfied with the achievements in quality control and management efficiency.

Results attained by the Group in quality control during the Period were as follows:

- Completed internal examinations of management systems such as ISO14001 and ISO9001
- Successfully passed second phase evaluation of the quality control management organized by Beijing China Certification Center Incorporation in May
- Completed and passed accreditations such as the TUV-certification and JET-S-MARK accreditation
- Completed revisions, announcements and implementations of procedures, as well as the documentations of environmental handbook, environmental procedures, quality handbook and ISO management system, etc

- Completed the PRC's "3C" accreditation for 43 models in June, and 25 quality improvements, so as to match the new product launches and exports
- Upgraded the quality check system for the betterment of pre-sales quality control
- Stringently devised a set of quality standards by signing quality agreements with overseas partners so as to enhance the quality of products and parts
- Enhanced product quality through the use of quality statistics and data feedback systems that reflect quality data

Information System Management

To enhance operational effectiveness and efficiency, the Group proactively initiated constructions and strengthening of new and existing information systems. In April 2003, China Refrigeration Industry Company Limited first launched the SAP system and the system was officially online in July. Progressive implementations of plans concerning systematic operation blueprints and business processes achieved stable results in initial tests.

Hualing air-conditioning, on the other hand, successfully put the production control system online in accordance with the "Corporate Information System Establishment" solution plan. A taskforce comprising elites from various departments responsible for the SAP and PDM systems was also formed and successfully resolved some of the problems in these systems, enabling a smoother operation of the air-conditioning information system.

Future Prospects

With the PRC's accession to the WTO, its trade market is exhibiting progressive liberalization. The nation is expected to become the largest household appliance manufacturing base in the world following the persistent upgrading of the PRC's global status. Despite the development opportunities that brought forth, severe competitions in the market are inevitable. With its inherent advantages and patent technologies, as well as a market-and-effectiveness-oriented approach, the Group will dedicate to further develop its business leveraging on new and aggressive management strategies.

As for the overseas market, the Group's dedication in the past in exploring the export business has led to a higher air-conditioner export volume than that in the PRC. The Group also succeeded in establishing a stable export sales network. Along with the higher energy standard and refrigerant criteria stipulated in Europe next year, which would lead to higher technical requirement of household appliance imports. As such, the entry barrier of household appliance manufacturing industry will be further upgraded, and in turn, some of the brands will be forced to exit the European market. Capitalized on Hualing's technical advantages, the Group is capable of increasing its export business and enhancing its revenue by expanding the operating economies of scale.

Interim Results

With respect to the PRC market, the intense competition of the refrigerator market which persisted for several years left the market with quality manufacturers. As a result of the gradual stabilization of product price, the Group's sales volume of refrigerator has resumed a growth trend. After the expansion of the Group's production scale, positive effects will be brought about to its business. As for the air-conditioner business, the Group believes some of the manufacturers have already been eliminated under the severe competition. The Group will continue to exercise prudent cost control and to expand the PRC market. With the rapid increase in its export business, economies of scale were achieved. Coupled with Hualing's advantages in quality and pricing, the Group's market share in the PRC would be increased and thus provide greater contribution to the Group.

The Group has laid down a number of corporate development plans:

- Strengthen sales and marketing activities to enhance market coverage of the “Hualing” products
- Control marketing costs stringently to increase profitability
- Hefei Hualing will proactively launch promotional activities such as “風雪姐妹” and “終端工程”
- Explore the overseas market and extend the Group's sales network to countries and regions of the Middle East and South America
- Reinforce the Group's sales and marketing team and uplift its efficiency
- Devise R&D plans in line with market demands of new and diversified products for the three main series of products, namely refrigerators, window-type air-conditioners and central air-conditioners. Design of prototype has been finished.
- China Refrigeration Industry Company Limited will accelerate its assessment progress on the design of normal-type refrigerators, the R&D projects and proposals on cyclopentane and work related to the new energy-saving standards of the PRC
- Proactively advance product technologies to enhance product quality and reduce product costs
- R&D of air-conditioners will focus on the concept of “full cost”, in order to attaining simplified model, elegant appearance and reductions in comprehensive product costs

- Strengthen the balancing and control over the Group's budget and improve the analysis system of the management reports
- Implement prudent cost control to counter-balance the profitability pressure of product price reduction
- Improve the merchandizing and tendering systems, planning to put the supplier merchandizing system in trial between July to September, as well as implementing the tendering system in the pricing of all inventory items in October
- Integrate the sales and marketing mode of the Group, shifting the strategy from product marketing to brand marketing
- Strengthen the brand building leveraging on the Group's sales experience and continuing the use of "brand spokesperson" to promote the "Hualing" brand
- Continue to improve the SAP information system and develop the data management system to further enhance management and production efficiency

Employment, Training, Development and Remuneration Policy

As at 30 June 2003, the Group employed approximately 3,000 staff, of which 12 are stationed in Hong Kong. The Group remunerates its employees based on their performance, experience and prevailing industry practice. The Group has set up a share option scheme and provides 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 generally financed its operations with cash flow generated internally and facilities provided by banks in the PRC.

Interim Results

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 2003 as recorded in the register maintained under Section 29 of Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") were as follows:

	Number of shares held		
	Personnel Interest	Family Interest	Corporate Interest
CHEN Xiao Shi	2,800,000	—	—
LIANG Wei Wen	2,100,000	—	—
ZHANG Xin Hua	1,600,000	—	—
	Options		
	As at 01/01/2003	Exercised	As at 30/06/2003
ZHANG Xin Hua	800,000	—	800,000
LO Wing Sang Vincent	3,000,000	—	3,000,000
CHAN Wai Dune	3,000,000	—	3,000,000

Share options are granted to directors under the share option scheme dated 26 November 1993. Details of the scheme are set out in Note 11 to the unaudited condensed financial statements. The movement of share options held by the Company's directors during the Period is as follows:

Name of directors	Date of grant	Exercise period	Exercise price per share	Number of Share Options				
				Outstanding at 01/01/2003	Grant during the Period	Exercised during the Period	Lapsed/ cancelled during the Period	Outstanding as at 30/06/2003
Mr. Zhang Xin Hua	30/9/1997	30/9/1997-30/9/2007	HK\$0.93	800,000	—	—	—	800,000
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 2003.

Other than disclosed as above, at no time during the Period was the Company, its subsidiaries, its associated companies, its fellow subsidiaries or its holding company, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Substantial Shareholders

As at 30 June 2003, the following shareholders of the Company had or were deemed to have more than 5% 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:

Name	Number of shares held
Guangzhou International Group Co., Limited (“GIG”)*	670,076,808**
Guangzhou Baiyun Agriculture Industry & Commerce Corporation	162,960,000

* As part of Guangzhou Municipal Government (“GMG”) Reorganization, the aggregate shares of the Company held by Guangzhou International Trust & Investment Corporation (“GZITIC”) were transferred to Able Profit Investment Co., Limited (“AP”)(“the Transfer”). After the Transfer, AP’s immediate holdings company, GIG, will be the largest shareholder of the Company. The Company was informed by GZITIC and GIG on 29 May 2003 that the Transfer had been completed by 29 May 2003.

** 590,076,808 shares were pledged as share mortgage in exchange of a loan facility of US\$20,000,000 to GIG 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 2003.

Purchase, Sales and Redemption of Securities

During the Period, the Company has not redeemed any of its shares. During the Period, the Company and its subsidiaries did not purchase or sell any of the Company’s securities.

Audit Committee

The Audit Committee has reviewed the unaudited interim financial statements and accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters, including a review of the unaudited condensed financial statement for the Period with the management.

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 ended 30 June 2003 except that 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

LI Yujun

Chairman

Hong Kong, 20 August 2003