



Chairman's Statement

It is my pleasure to submit on behalf of the Board of Directors (the "Board") the results of GZITIC Hualing Holdings Limited (the "Company") and its subsidiaries (the "Group") for the year ended 31 December, 2000.

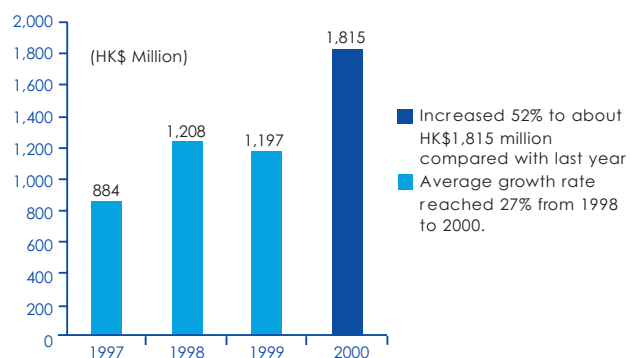
In the past year, the Board set down the target and strategies for the Group to become a middle-to-high end household electrical appliance enterprise in the Peoples' Republic of China (the "PRC") in the millennium.

Financial Highlights

Turnover of the Group hit a record of approximately HK\$1,815,247,000 for the year ended 31 December, 2000, a surge of 52% as compared to last year, it resulted in approximately HK\$90,389,000 profit attributable to shareholders, a rise of 64% as compared to that of last year. However, on the basis of prudent financial management policy adopted by the Group, as the accumulated losses amounted to approximately HK\$54,952,000 for the year ended 31 December, 2000, the Board do not recommend the enterprise payment of a final dividend for the year ended 31 December, 2000.

Turnover of the Group

For Years Ended 31 December 1997-2000



Business Review

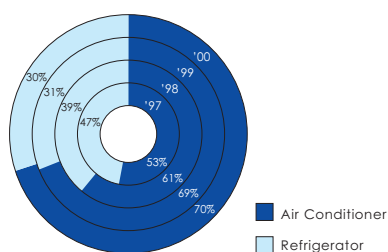


During the year under review, the Group has attained satisfactory growth;

1. Turnover of air conditioners and refrigerators business achieved satisfactory results. Turnover increased by 54% and 52% to HK\$1,271,140,000 and HK\$544,107,000 respectively;
2. Export business increased dramatically. The export of air conditioners and refrigerators business grew by 195% and 112% respectively;
3. The coverage of distribution points expanded and the number of points increased by 308 reaching 1,040;
4. Strategic alliance was formed. In December 2000, a cooperation alliance was formed with the largest electrical appliances retailer, China Suning Appliances Co., Ltd. (「中國蘇寧電器有限公司」) to explore the Northern markets in PRC;

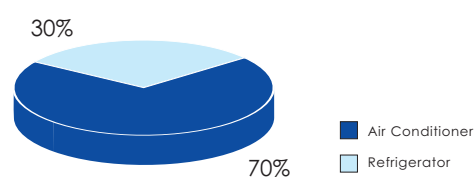
Turnover of the Group by Products

For years ended 31 December 1997-2000



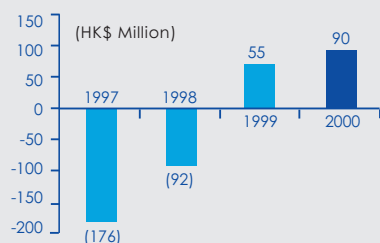
Turnover of the Group by Products

For year ended 31 December 2000



(Loss)/Profit Attributable to Shareholders of the Group

For Years Ended 31 December 1997-2000

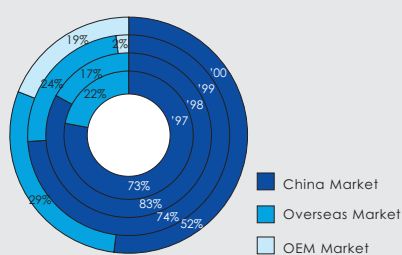


5. A total of 74 new products were developed, an increase of 124%;
6. The air conditioner and mini-refrigerator facilities reached the economy of scale and the capacity increased by 700,000 units and 300,000 units respectively and expects the economy of scale can be accomplished in short-term;
7. Dehumidifiers were introduced as tester products for the small household appliance market and attained satisfactory results.

Due to the reorganization initiated by management over the past three years, the Group has recorded satisfactory results. A modern management style has been established. With this foundation, the Group is confident to face and capture the market to achieve its goals.

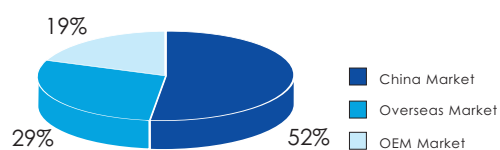
Turnover of the Group by Markets

For Years Ended 31 December 1997-2000



Turnover of the Group by Markets

For year ended 31 December 2000



Air Conditioner

Refrigerator

Chairman's Statement



..... **Blue print future development**

In Spring 2001, the Group has established a goal for the new millennium: "To increase the Group's market share and become one of the top five refrigerator and air conditioner manufacturers in terms of sales amount within three years."

..... **Long-term strategies**

1. **Value-added for human resources**

The Group believes that talents are the foundation for growth and the differentiation among enterprises. In view of this, the Group continuously strengthens internal management. Starting from two years ago, policy has already been implemented that all assistant managers of the Group under the age of 40 must pursue Master of Business Administration. This policy creates learning atmosphere within the Group, enterprise and product innovation discussion is frequent.

Furthermore, the Group stipulated policies on recruitment, incentives and internal controls, in order to achieve right person for the right position. The Group laid down clear incentives and penalty scheme to promote an open image for exchange of ideas, for example, if a suggestion is being adopted, award is presented.

2. **Cost control**

As the household appliance market is competitive and pricing is sensitive, advantage in costing will inevitably become the foundation of profitability. The Group has performed detailed analysis on product design, raw materials purchase, inventory control and production flow in order to achieve the optimum benefit from different tasks.

3. **Quality products and serialization**

After development over a decade, the manufacturing technology of household electrical appliances in PRC is rather mature and international standards have been achieved. Products, which are well received by customers, must be designed and catered for the needs of customers. Therefore, the Group designed its products in accordance with markets, dividing into export and domestic. Domestic market is further divided into urban and rural, southern and northern territories, in order to highlight the personalization concept. In the coming five years, the Group's air conditioners and refrigerators business will innovate and continue to introduce new products to satisfy customers' increasing living standards.

Besides the design aspect, quality products also involved manufacturing and purchase strategies. Thus, the Group insists that core components, which will significantly affect the overall quality, must be manufactured internally. Other components can be purchased externally in order to maintain product quality.

Currently, the Group's air conditioner serialization is vivid and mature. Although serialization in refrigerators has also been completed, the distinction is not so clear. The principal goal for refrigerators in the coming year in accordance with the markets, is to have a clear serialization of products into premium, economy and basic in order to build up clear image and increase competitive power.

4. **Economy of Scale**

The Group will strengthen the work on market development in order to raise the "HUALING" brand awareness and increase domestic and overseas OEM products. The overall increase in sale quantities can help achieve the economy of scale of production facilities. Economy of scale is an important issue to a household electrical appliance manufacturer. In order to achieve this important goal, the Group will use every endeavor to diversify its markets to reach an increase in sale volume.

Long-term strategies

5. Strategic alliance

At the end of year 2000, the Group took its first step to start cooperation with PRC's largest household electrical appliance retailer, China Suning Appliances Co., Ltd. (「中國蘇寧電器有限公司」), to explore electrical appliance retail business. In future, the Group will apply different methods to cooperate with domestic and overseas white and brown household electrical appliances manufacturers in order to strengthen the Group's business and capital base. The Group also uses internal resources and funds from capital market to push air conditioners and refrigerators into its new era.

6. Establishment of corporate culture

Management believes that the implementation of operating strategy will be significantly affected by employee's understanding of the enterprise goals, corporate ethical concepts and enterprise action affirmation. Management also believes that a good corporate culture will improve the unity, conformity and enthusiasm of employees towards the Group. Thus, management has through different activities, to enhance corporate culture, brought in personalized management concepts in order to fully reflect individual employee's quest for self-fulfillment. Management also wants to merge employee's thinking with the corporate operation concept so that the same high standard can be maintained to achieve the Group's development goals and build a good foundation for corporate culture.

7. Application of information technology

The Group has thoroughly analyzed the impact of Internet technology to the Group's business development. On the basis of internal resources, the Group has established a practical information technology policy. On one hand, the Group will use an intranet system to promote a paperless office environment and improve efficiency. Through this re-engineering process, the sharing of information among individual subsidiary and department will lower costs of management control and increase management efficiency. On the other hand, the utilization of information technology in the traditional manufacturing process will be enhanced. Different communication systems will be used for the research and development department and manufacturing department. For example, Hualing Air conditioning and Equipment Co., Ltd. has conducted the first phase of study of enterprise resources in preparation of its second phase development. This also paves the road for the development of the Group's high efficiency and low cost strategies.

..... Vote of thanks

Last but not the least, I would like to express my sincere gratitude again to our team for their contribution to the Group's development. Conveying our cordial thanks for the support of our shareholders, bankers and business associates, the Board will make every endeavor to generate considerable returns.

By Order of the Board
Chen Xiao Shi
Chairman

Hong Kong, 29 March, 2001

