

(Amounts expressed in Hong Kong dollars unless otherwise stated)

The directors are pleased to present their report together with the audited financial statements of GZITIC Hualing Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for the year ended 31 December, 2000.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. Its subsidiaries are principally engaged in the manufacture and sale of household electrical appliances, which include refrigerators, air conditioners and mini-refrigerators.

For the year ended 31 December, 2000, substantially all the turnover and trading results of the Group were attributable to the sale of household electrical appliances in the People's Republic of China (the "PRC").

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December, 2000, the five largest customers of the Group accounted for approximately 29.7% (1999: 35%) of the Group's turnover with the largest customer accounted for approximately 9.12% (1999: 10%). The largest five suppliers accounted for approximately 20.75% (1999: 23%) of the Group's total purchases, with the largest supplier accounted for approximately 7.49% (1999: 10%).

As at 31 December, 2000, none of the directors, their associates, or any shareholders (which to the knowledge of the directors owned more than 5% of the Company's share capital) had a beneficial interest in the Group's five largest customers and five largest suppliers.

RESULTS AND APPROPRIATIONS

The results for the year ended 31 December, 2000 are set out on page 28 of this report.

The Company has not declared any interim or final dividend for the year (1999: nil).

RESERVES

Movements in reserves of the Group and the Company during the year are set out in Note 25 to the financial statements.

As at 31 December, 2000, the Company had no reserves available for distribution to its shareholders (1999: nil).

FINANCIAL SUMMARY

A summary of the results and assets and liabilities of the Group for the five years ended 31 December, 2000 is set out on pages 55 and 56 of this report.

SHARE CAPITAL

During the year, 4,600,000 ordinary shares of \$0.10 each were issued upon the exercise of share options by employees of the Group. Details of share capital of the Company are set out in Note 24 to the financial statements.

CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from 12 June, 2001 to 15 June, 2001, both days inclusive, during which period no transfers of shares will be effected. Central Registration Hong Kong Limited is the Company's Registrar for registration and is located at 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong.

Report of The Directors

SUBSTANTIAL SHAREHOLDERS

As at 31 December, 2000, the register of substantial shareholders maintained under Section 16(1) of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") showed that the Company has been notified of the following interests, being 10% or more of the Company's issued share capital.

Name	Number of shares held	Percentage of shareholding
Guangzhou International Trust and Investment Corporation ("GZITIC")	670,076,808*	56.8%
Guangzhou Baiyun Agriculture Industry & Commerce Corporation	162,960,000	13.8%

* 590,076,808 shares were pledged as share mortgage in exchange for 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 interests to be recorded under Section 16(1) of the SDI ordinance as at 31 December, 2000.

SHARE OPTION SCHEME

Details of the Company's share option scheme are set out in Note 26 to the financial statements.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed shares during the year ended 31 December, 2000.

DIRECTORS

CHEN Xiao Shi (Chairman)

LIANG Wei Wen

LIANG Bao Ping

YE Zhen Wen

CHEN Hui

LIU Xi Bo*

ZHANG Xin Hua*

NG Cheong Lam*

LO Wing Sang, Vincent**

CHAN Wai Dune**

LAM Ming Yung**

* Non-executive Directors

** Independent Non-executive Directors

In accordance with Article 91 of the Company's Articles of Association, Mr. Lo Wing Sang, Vincent, Ms. Liang Bao Ping and Ms. Ye Zhen Wen retire by rotation and both, being eligible, offer themselves for re-election at the forthcoming Annual General Meeting.

Non-executive directors are subject to retirement by rotation in accordance with the above clause.

DIRECTORS' SERVICE CONTRACTS

None of the directors and directors being proposed for election at the forthcoming Annual General Meeting has a service contract with the Company or any of its subsidiaries which is not terminable within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTEREST IN SHARES, WARRANTS AND SHARE OPTIONS

As at 31 December, 2000, a director had or was deemed to have interests in the shares of the Company within the meaning of the SDI Ordinance as recorded in the register maintained pursuant to Section 29 of the SDI Ordinance which are requested to be notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to Section 28 of the SDI Ordinance (including interests which they are deemed or taken to have under Section 31 of, or Part I of the Schedule to the SDI Ordinance) or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies or any interests which are required pursuant to Section 29 of the SDI Ordinance to be entered in the register referred to therein. The relevant details are as follows:

Director	Number of shares hold		
	Personal interests	Family interests	Corporate interests
Ng Cheong Lam	–	–	1,508,000*

* Such shares were held through a corporation which is 70% owned by Ng Cheong Lam.

Also, Ng Cheong Lam holds a 31% equity interest in Hi-Q Investment Company Limited, which in turn has a 40% interest in Guangzhou Hualing Polyfoam Co., Ltd., an associate of the Group.

The Company has a share option scheme under which it may grant options to executive directors and employees of the Group to subscribe for shares in the Company. Details of the scheme are set out in Note 26 to the financial statements. The share options held by and granted to the Company's directors during the year are as follows:

Director	Subscription price per share	Number of share options					End of year	Notes
		Beginning of year	Granted during the year	Exercised during the year	Lapsed/ cancelled during the year			
Mr. Chen Xiao Shi	\$0.211	–	2,800,000	–	–	2,800,000		3
Mr. Liang Wei Wen	\$0.211	–	2,100,000	–	–	2,100,000		3
Ms. Liang Bao Ping	\$0.211	–	1,000,000	–	–	1,000,000		3
Ms. Ye Zhen Wen	\$0.211	–	1,000,000	–	–	1,000,000		3
Mr. Chen Hui	\$0.211	–	1,000,000	–	–	1,000,000		3
Mr. Liu Xi Bo	\$0.93	1,000,000	–	–	–	1,000,000		1
	\$0.244	–	2,000,000	–	–	2,000,000		2
	\$0.211	–	1,000,000	–	–	1,000,000		3
Mr. Zhang Xin Hua	\$0.93	800,000	–	–	–	800,000		1
	\$0.211	–	2,100,000	–	–	2,100,000		3
Mr. Ng Cheong Lam	\$0.93	1,000,000	–	–	–	1,000,000		1
	\$0.244	–	2,000,000	–	–	2,000,000		2
	\$0.211	–	1,000,000	–	–	1,000,000		3
Mr. Lo Wing Sang, Vincent	\$0.244	–	2,000,000	–	–	2,000,000		2
	\$0.211	–	1,000,000	–	–	1,000,000		3
Mr. Chan Wai Dune	\$0.244	–	2,000,000	–	–	2,000,000		2
	\$0.211	–	1,000,000	–	–	1,000,000		3
Mr. Lam Ming Yung	\$0.244	–	2,000,000	–	–	2,000,000		2
	\$0.211	–	1,000,000	–	–	1,000,000		3

Report of The Directors

Notes:

- 1) These share options were granted on 30 September, 1997 and are exercisable at any time during the period from 30 September, 1997 to 30 September, 2007 at a subscription price of \$0.93 per share.
- 2) On 17 February, 2000, the Company granted share options exercisable at any time during the period from 17 February, 2000 to 17 February, 2010 at a subscription price of \$0.244 per share.
- 3) On 5 July, 2000, the Company granted share option exercisable at any time during the period from 5 July, 2000 to 4 July, 2010 at a subscription price of \$0.211 per share.

Save as disclosed above, the Company has no notice of any interest to be recorded under Section 29 of the SDI Ordinance as at 31 December, 2000.

Except for the above, at no time during the year was the Company, its subsidiaries or holding company a party to any arrangements to enable any of the Company's directors to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which any directors or members of the management of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

PENSION SCHEME, PERSONNEL AND PAYROLL

The Group employed approximately 2,500 fully time staff (1999: 2,700 staff) in Hong Kong and in the PRC. Total salaries, wages (including full time and temporary staff), bonuses and pension contributions for the year amounted to approximately \$84,908,000 (1999: \$54,000,000).

Particulars of the Pension Scheme of the Group are set out in Note 31 to the accompanying financial statements.

SUBSIDIARIES AND ASSOCIATES

Details of the Company's subsidiaries and associates as at 31 December, 2000 are set out in Notes 14 and 15 respectively, to the financial statements.

INVESTMENT PROPERTIES AND FIXED ASSETS

Movements in fixed assets and investment properties of the Group during the year are set out in Notes 11 and 12 to the financial statements.

BANK BORROWINGS AND OVERDRAFTS

Particulars of bank borrowings and overdrafts of the Group and the Company as at 31 December, 2000 are set out in Notes 23 and 29 to the financial statements respectively.

Interest expense of approximately \$2,827,000 was capitalised by the Group during the year (1999: nil).

CONNECTED PARTY TRANSACTIONS

For the year ended 31 December, 2000, the Group had the following connected party transactions:

- (a) On 22 December, 1999, Hualing Technology Limited ("Hualing Technology"), a wholly-owned subsidiary of the Company, entered into an agreement with Panyu Dashi Economic Development Holding Company for the acquisition of 20% equity interest in Guangzhou Hualing Air conditioning & Equipment Co., Ltd. ("Hualing Air conditioning"), an indirectly 80% owned subsidiary of the Company, for a consideration of RMB43,800,000 (approximately \$42,460,000).

Upon completion of the acquisition on 1 February, 2000, Hualing Air conditioning became an indirectly wholly-owned subsidiary of the Company and a wholly-foreign owned enterprise in the PRC.

- (b) Pursuant to a Sales and Purchase agreement, GZITIC had guaranteed the Group that the gross annual rental income of an investment property acquired from GZITIC would amount to approximately \$15,400,000 per annum for two years commencing 10 June, 1998. The property was substantially unoccupied since its acquisition. In view of the financial difficulties of GZITIC, the Group had made full provision on the rental income in 1998 and 1999.

On 1 December, 2000, the Company and other creditors entered into a debt restructuring agreement with GZITIC (the "Debt Restructuring Agreement") under which GZITIC agreed to pay approximately \$13,447,000 to the Company for the full settlement of the guaranteed rental income receivable on the unoccupied portion of the property of approximately \$26,894,000. Such payment will be made in full as soon as practicable after receipt by GZITIC of the People's Bank of China's approval of such payment but in any event no later than six months after 1 December, 2000. Accordingly, the Company has recorded as income the net guaranteed rental income receivable of approximately \$13,447,000 for the year ended 31 December, 2000.

The independent non-executive directors of the Company have reviewed the above transactions and confirmed that the above transactions (during the period(s) where they constituted connected transactions under the Listing Rules, where applicable):

- (a) have been entered into by the Group in the ordinary course of its business;
- (b) have been entered into (i) on normal commercial terms or (ii) on terms that are fair and reasonable so far as the shareholders of the Company are concerned; and
- (c) have been entered into either (i) in accordance with the terms of the agreements governing such transactions or (ii) (where there is no such agreement) on terms no less favorable to the Group than terms available to third parties.

With regard to the connected transactions of the Company referred to above, the Company confirms that to the extent required under Chapter 14 of the Listing Rules:

- (i) it has set out the requisite details in this annual report; and/or
- (ii) details of such transactions have been published in previous announcements in certain newspapers in Hong Kong; and/or
- (iii) such transactions have already been approved by the independent shareholders of the Company at shareholders' meeting of the Company; and/or
- (iv) such transactions are subject to the waivers from compliance with relevant connected transactions requirements previously granted by The Stock Exchange of Hong Kong Limited.

Report of The Directors

CODE OF BEST PRACTICE

The Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules of The Stock Exchange of Hong Kong Limited throughout the year covered by the annual report except that independent non-executive directors are not appointed for a specific term 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.

AUDITORS

The financial statements have been audited by Arthur Andersen & Co. A resolution for the re-appointment of Arthur Andersen & Co as the Company's auditors for the ensuing year is to be proposed at the forthcoming Annual General Meeting.

On behalf of the Board of Directors

Chen Xiao Shi
Chairman

Hong Kong, 29 March, 2001