

Management Discussion and Analysis 管理層討論及分析

Industry Environment

In 2003, the market condition of household appliance in the PRC was complicated. Unfavorable factors like the outbreak of Severe Acute Respiratory Syndrome (“SARS”), large-scale cool-summer in the PRC, the ever-increasing raw material cost, the continuous price-cutting of the domestic manufacturers, and the inflow of the large-scale foreign household appliance enterprises, resulted in keen competition of household appliance market. The pressure to reshuffle in the industry was strong. The enhanced brand concentration and polarization forced weaker enterprises out of the household appliance market.

Regarding the air-conditioner business, the costs of raw material were rising rapidly. The cost of major raw materials like compressor, plastic material, copper and steel, etc. increased by approximately 20%-25%, and the possibility of revising downward is hardly possible in the near term. On the other hand, price was the major means of competition of air-conditioner business; the operating environment of the industry became more challenging.

Regarding the refrigerator business, according to a survey on the market condition of refrigerator in major cities, the penetration rate of refrigerator in the urban area was high, reached approximately 89.7%. Market demand was mainly derived from second-time purchase. The strengthened brand recognition of the PRC consumers and the improvement of living standard shifted the demand of refrigerator to significant brand, with the retention rate of the top four brands reached approximately 60%. As a result of the high brand concentration, the competition of the refrigerator market was more static.

The export volume of the PRC household appliance continued to maintain high growth momentum. The statistic of Customs General Administration showed, the annual total export revenue of the PRC household appliance in 2003 was approximately US\$12.58 billion, representing an increase of approximately 42.4% over prior year. Among which, the total export volume of air-conditioner reached approximately 16,438,800 units, doubled that of the previous year; while that of refrigerator amounted to approximately 8,807,300 units, increased 44.3% over the corresponding period of last year. The PRC has become the world's largest manufacturing base and export country of household appliance.

行業環境

二零零三年，中國家電市場環境十分複雜：突發的非典型肺炎疫情及全國大面積涼夏帶來的不利影響、原材料價格日漸上升、本土生產商不斷削價促銷，以及外國大型家電商的湧入，這些因素造成家電生產行業競爭異常激烈，行業洗牌壓力驟增，品牌集中度大幅度提升，兩極分化的局面愈來愈明顯，一些不適應市場競爭的企業已經開始退出家電市場競爭。

空調市場方面，原材料漲價的速度很快，主要原材料如壓縮機、塑膠、銅、鋼等，價格上升約20%-25%，而價格在短期內回落的可能性不大；而另一方面空調以價格戰為主要手段的競爭日趨激烈，使行業的經營環境日趨嚴峻。

冰箱市場方面，根據一項針對主要城市冰箱市場狀況的調查顯示，城市的冰箱普及率很高，約達89.7%，市場需求主要為二次購買。隨著中國消費者品牌觀念的加強和生活水平的提高，冰箱產品趨向集中於大品牌，位於前四名品牌保有率約達60%；品牌高集中度的情況使冰箱市場的競爭較為平靜。

中國家電的出口繼續保持高增長，根據海關總署統計，二零零三年全年中國家電總出口額約達125.8億美元，較去年同期增長約42.4%。其中，空調總出口量約達16,438,800台，較去年同期增長約一倍以上。冰箱總出口量約達8,807,300台，較去年同期增長約44.3%；中國已經成為全球最大的家電生產基地和出口國。



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The PRC Government launched the "Maximum allowable values of energy consumption and energy efficiency grades for household refrigerator" in November 2003. All refrigerators would be classified into Grade A, B, C, D & E according to their energy consumption levels. Grade A represents the highest energy efficiency level; whereas Grade D & E represent refrigerators which have to be mandatory eliminated by the PRC Government. The policy brought forward new standard for the industry by allowing only the strongest survived. All refrigerator manufacturers will be more concerned with energy efficiency in the future.

Financial Highlights

Working Capital and Financial Resources

As at 31st December 2003, the bank borrowings of the Group amounted to approximately HK\$538,788,000, including short-term bank loans of approximately HK\$510,637,000 while bank balances and cash amounted to approximately HK\$132,716,000. The Group's trade receivable balance for the year ended 31st December 2003 was approximately HK\$246,949,000.

Since all of the Group's sales and purchases are mainly denominated in United States Dollar, Renminbi and Hong Kong Dollar, there is no material risk with respect to currency fluctuation.

Capital Structure

As at 31st December 2003, the shareholders' equity of the Group was approximately HK\$353,538,000, a decrease of approximately 18% over prior year. As at 31st December 2003, the debt to equity ratio, calculation based on total of short-term and long-term loans against consolidated shareholders' equity, was about 1.52.

中國政府於二零零三年十一月實施了「家用電冰箱耗電量限定值及能源效率等級」標準，將冰箱按能源的消耗量分為A、B、C、D及E五個等級，A級表示最高節能水平，而D、E級則屬於中國將要強制性淘汰的耗電冰箱。此政策將為市場帶來新的準則，汰弱留強，各冰箱生產商日後將更重視產品的節能效果。

集團財務表現摘要

流動資金及財政資源

截至二零零三年十二月三十一日止年度，本集團之銀行貸款約為538,788,000港元，當中包括約510,637,000港元為短期貸款，銀行結餘及現金則為約132,716,000港元。本集團截至二零零三年十二月三十一日止年度的應收賬款總額約為246,949,000港元。

由於集團之銷售及採購的主要貨幣為美元、人民幣及港元，因此匯率波動方面並無重大風險。

資本結構

截至二零零三年十二月三十一日止年度，本集團之總股東權益約為353,538,000港元，較去年同期下調約18%。於二零零三年十二月三十一日止，將短期貸款及長期貸款總和除以綜合股東權益後，借貸比率約為1.52。

Balance Sheet Highlights
資產負債表摘要

HK\$ Million 百萬港元	2001	2002	2003	02/03 Change 改變
Non-current Assets 非流動資產	800	813	770	-5%
Inventory 存貨淨值	635	397	550	39%
A/C Receivables 應收賬款	301	132	247	87%
Cash on Hand 手頭現金	187	174	133	-24%
Bank Loan 銀行貸款	535	530	539	2%
Shareholders' Equity 股東權益	682	431	354	-18%

Profit and Loss Account Highlights
集團損益表摘要

HK\$ Million 百萬港元	2001	2002	2003	02/03 Change 改變
Turnover 營業額	1,651	1,261	1,573	25%
Gross Profit 產品銷售毛利	434	168	300	79%
Operating Profit / (Loss) 經營溢利 / (虧損)	73	-200	-34	NA / 不適用
Profit / (Loss) Attributable to shareholders 股東應佔溢利 / (虧損)	11	-250	-77	NA / 不適用
Earnings / (Loss) per share (HK cents) 每股盈利 / (虧損) - 港仙	0.8	-18.1	-5.6	NA / 不適用

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Banking Facilities and Pledge of Assets

As at 31st December 2003, the Group had banking facilities of approximately HK\$843,210,000 (2002: HK\$709,931,000) for overdrafts, bank borrowings and trade financing. As at 31st December 2003, HK\$690,958,000 was utilized (2002: HK\$530,468,000). Property, plant and equipment with net book value of approximately HK\$245,975,000 (2002: HK\$95,916,000) was pledged as security for the Group's short-term bank loans.

Employees' Remuneration Policy

As at 31st December 2003, the Group employed approximately 2,800 full time staff in Hong Kong and the PRC. The Group follows research report on remuneration which was prepared by professional consultants in the PRC to determine employee remuneration based on employee performance, experience and industry practice. The Company has set up share options scheme and provided free housing to part of its staff in the PRC.

Business Performance

Despite of the intense competition in household appliance market, the Group proactively analyzed the market situation and launched appropriate strategies. As a result, the Group could achieve most of the targets. The business performance improved as compared to the previous year. With regard to brand establishment, the Group launched a series of market promotion activities including the invitation of endorser and successfully established the image of "Professionalism creates elegance". During the year under review, the total sales volume of the Group's products reached approximately 1,476,700 units, representing an increase of approximately 40% as compared to prior year. Sales revenue increased by approximately 25% when compared to last year, amounted to approximately HK\$1,573 million. The Group actively explored the overseas export business during the year and satisfactory result was attained. Foreign sales revenue increased by approximately 53% and reached approximately US\$86,583,000.

銀行融資及資產抵押

於二零零三年十二月三十一日，本集團有關透支、貸款及貿易融資之銀行信用額度約為843,210,000港元（二零零二年：709,931,000港元）。截至該日已動用690,958,000港元（二零零二年：530,468,000港元）。短期借款乃由集團的賬面淨值約245,975,000港元（二零零二年：95,916,000港元）之若干物業、廠房及設備等資產抵押。

僱員及薪酬政策

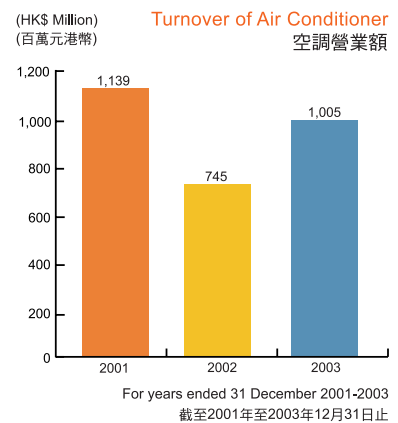
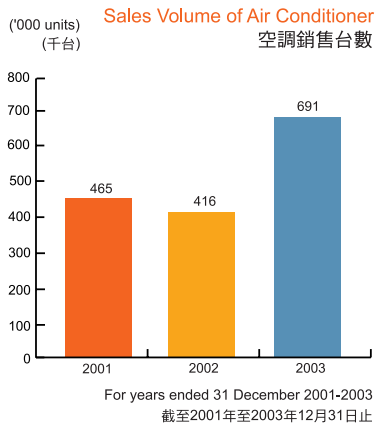
於二零零三年十二月三十一日，本集團於中港兩地共聘用約2,800名全職員工。本集團並按照國內專業顧問公司提出之薪酬研究報告，根據員工之表現、經驗及當時行業薪酬水平厘定僱員酬金。本公司並設有購股權計劃及為部分國內僱員免費提供宿舍。

業務表現

儘管家電市場競爭激烈，管理層積極地根據市場形勢，調整經營策略，集團各項經營目標均能實現，各項業務表現較上年度有了顯著的提高；在品牌宣傳推廣方面，通過品牌代言人等一系列的市場推廣工作，成功建立了華凌“專業創造時尚”的品牌形象。於回顧年內，各產品總銷售量約達1,476,700台，比去年增長約40%。銷售收入較去年增長約25%，約達15.73億港元。集團於年內積極拓展海外出口業務，取得良好的成績。出口創匯約達86,583,000美元，較去年增長約53%。



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Air-Conditioner Business

During the year, the air-conditioner business of the Group achieved encouraging result. Turnover increased by approximately 35% which amounted to approximately HK\$1,005,654,000. Sales volume reached approximately 690,700 units, representing an increase of approximately 66%. Among different products, sales volume of window-type air-conditioner was approximately 183,900 units, representing an increase of approximately 64% as compared to last year. Sales volume of cabinet-type air-conditioner increased approximately 10% and reached approximately 67,900 units. Sales volume of split-type air-conditioner amounted to approximately 434,500 units, representing an increase of approximately 81%. Sales volume of central air-conditioner, the new business of the Group, amounted to approximately 4,400 units.

Overseas Export Market

Upon the PRC's accession to the World Trade Organization, the PRC could compete under a fairer environment, and the competitive advantage of PRC's household enterprises became more significant. With the policy of directing resources to the export market, the Group's business continued last year's rising trend with strong export recorded. The export volume was approximately 331,000 units, representing an increase of approximately 67% as compared to last year. Foreign sales revenue increased approximately 72% and reached approximately US\$53,836,000. Export volume to North America accounted for approximately 39% of the total export volume, whereas export volume to Europe was approximately 37% of the total export volume.

空調業務

於年內，本集團空調業務取得良好的業績，營業額錄得約35%之升幅，約達1,005,654,000港元；銷售量約達690,700台，較去年增加約66%；其中，窗機的銷售量約達183,900台，較去年上升約64%。櫃機的銷售量約達67,900台，比去年上升約10%。分體機的銷售量約達434,500台，較去年上升約81%。本集團的新業務中央空調機的銷售量約達4,400台。

海外出口

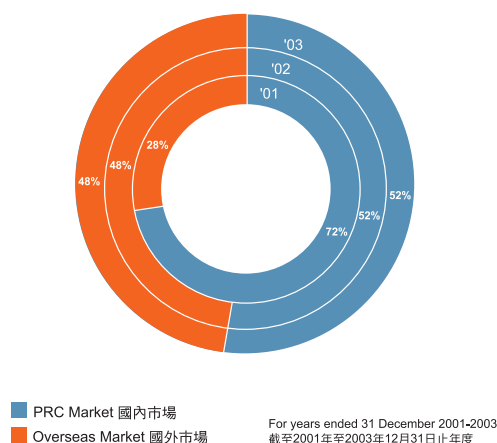
隨著中國加入世界貿易組織後，中國能在更公平的市場環境下競爭，中國家電企業的競爭優勢更加突顯；在集團將資源向出口市場傾斜的政策下，承接去年的升勢，本年度的出口走勢仍然強勁。出口量約為331,000台，較去年增長約67%。出口創匯約達53,836,000美元，較去年增長約72%。於北美的出口約佔整體出口量之39%，於歐洲的出口則約佔整體出口量之37%。

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Sales Volume by Markets of Air-Conditioner
空調銷售台數之市場分佈

	PRC Market 國內市場	Overseas Market 國外市場	Total 合計
Year 年度	Units 台數	Units 台數	Units 台數
2001	335,500	129,900	465,400
2002	218,000	198,000	416,000
2003	359,700	331,000	690,700

Sales Volume by Markets of Air-Conditioner
空調銷售台數之市場分佈



The PRC Market

During the year, first-tier brand self-initiated the reshuffle to expand its market share by cutting price which led to vicious price competition. Only the fittest survived in the market. Since a lot of household appliance enterprises exited the market, the competition of the air-conditioner market became more focused. The Group established a new sales management model and oval-shaped market management structure, which significantly improved the market responsiveness of the whole sales system. The operation of the Group was thus closer to the market needs. The sales volume of air-conditioner in the PRC reached approximately 359,700 units, representing an increase of approximately 65% as compared to last year, the result was satisfactory.

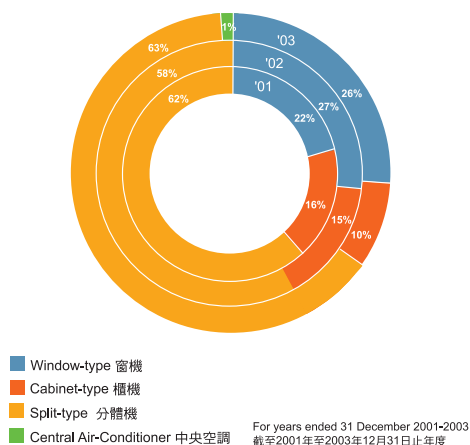
國內市場

年內一線品牌主動開始「洗牌」工作，紛紛以低價促銷來擴大市場份額，造成惡性價格競爭，市場競爭呈現「強者愈強，弱者愈弱」的格局，大量不具備競爭力的生產企業被淘汰出局，國內空調市場競爭已明顯由分散走向集中；本集團於年內確立了新的營銷管理模式和橄欖型的市場管理結構，使整個營銷體系的市場反映效率得以大大的提高，其運作更貼近市場，空調於國內市場之銷售量約達359,700台，較去年上升約65%，取得了令人滿意的業績。

Sales Volume by Products of Air-Conditioner
空調銷售台數之產品分佈

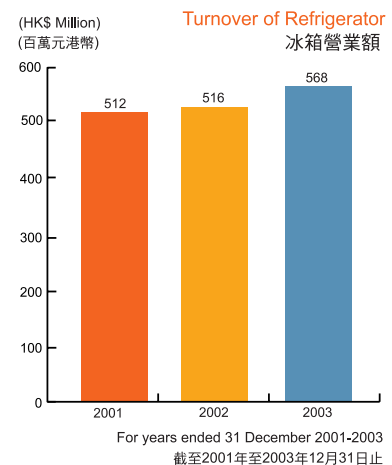
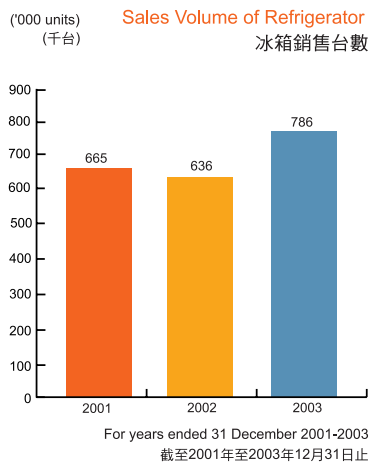
	Window-type 窗機	Cabinet-type 櫃機	Split-type 分體機	Central Air conditioner 中央空調	Total 合計
Year 年度	Units 台數	Units 台數	Units 台數	Units 台數	Units 台數
2001	102,000	73,900	289,500	NA / 不適用	465,400
2002	114,000	62,000	240,000	NA / 不適用	416,000
2003	183,900	67,900	434,500	4,400	690,700

Sales Volume by Products of Air-Conditioner
空調銷售台數之產品分佈





Management Discussion and Analysis 管理層討論及分析



The new business, central air-conditioner, developed in the year also achieved encouraging results. Regarding the central air-conditioner, the Group completed the research and development, establishment of sales system and exploration of international market in March 2003. The sales volume was approximately 4,400 units that represented a sales revenue of approximately HK\$20,699,000. Capitalizing on the technological edge of Hualing in the refrigerant industry, the central air-conditioner business with high technological requirement and high profitability set a solid foundation for the Group’s next development of related yet diversified business.

Refrigerator Business

The Group’s sales volume of refrigerator reached approximately 786,000 units, representing an increase of approximately 24% in comparison with last year. Turnover increased by approximately 10% as compared to that of last year and amounted to approximately HK\$567,668,000.

Overseas Export Market

During the year, the refrigerator export business of the Group achieved satisfactory performance and developed in line with the air-conditioner business. Export volume of refrigerator reached approximately 429,000 units, representing an increase of approximately 31% as compared with last year. Foreign sales revenue of refrigerator increased approximately 29% and reached approximately US\$32,747,000.

於年內集團開展的中央空調業務也取得了長足的發展，從二零零三年三月開始完成了中央空調產品的研發、銷售系統的建立、以及國際市場的開拓工作，年內銷售量約達4,400台，銷售收入約為20,699,000港元，憑著華凌在製冷行業的技術優勢，中央空調業務的高技術門檻和高盈利水平將為集團下一步向相關多元化業務發展打下了一個良好的基礎。

冰箱業務

本集團冰箱之銷售量約達786,000台，較去年上升約24%。營業額則比去年上升約10%，約達567,668,000港元。

海外出口

於年內，集團的冰箱業務取得良好的成績，與空調業務同步發展。冰箱出口量約達429,000台，較去年上升了約31%。冰箱之出口創匯約達32,747,000美元，比去年上升了約29%。

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The PRC Market

The Group's sales volume of refrigerator in the PRC market during the year increased by approximately 16% when compared to the previous year, amounted to approximately 357,000 units. Turnover was approximately HK\$312,238,000, representing a decrease of approximately 1.7% as compared to prior year.

Project Business

The Group established specialized department for the project business since June 2003. According to the specification of major client, the Group formulated corresponding sales strategy, information network and distribution channel, and achieved satisfactory development. During the year under review, sales volume reached approximately 62,300 units, and sales revenue was approximately HK\$170 million, representing a 332% surge when compared to 2002, and accounted for 11% of the total sales revenue. It became a major channel of business growth.

Overall Operation Performance

During the year under review, the already intensified market competition was made even more heightened due to the falling retail price but surging costs. By adopting strategies like strengthening sales integration, establishing distribution network and sales team, tightening cost control, actively building up brand awareness, applying information technology, speeding up management reform and technological innovation, both turnover and financial performance of the Group recorded a better result when compared to those of the previous year.

國內市場

集團於年內在國內市場之冰箱銷售量比去年上升了約16%，約達357,000台。營業額約為312,238,000港元，比去年下降了約1.7%。

工程項目

集團於二零零三年六月份成立的工程機業務專門部門在年內根據大客戶業務的特性制定相應的營銷策略、資訊網絡及銷售渠道，業務取得很大的發展，於回顧年內，銷售量約達62,300台，銷售收入較二零零二年增長332%，約為1.7億港元，佔總銷售收入的11%，成為業務增長的主要渠道。

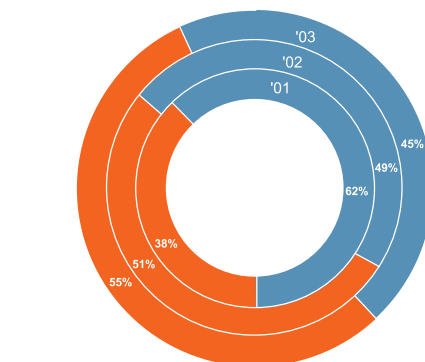
整體營運表現

於回顧年內，由於國內家電售價下滑，但成本卻不斷上漲，令競爭本來已十分激烈的家電市場，經營環境更見困難。憑著本集團不斷加強營銷整合、建設市場銷售網絡及銷售隊伍、嚴格控制成本、積極建立品牌知名度和資訊化建設及加速各項管理改革和技術創新，集團的營業額及財務表現均錄得較上年度理想的成績。

Sales Volume by Markets of Refrigerator
冰箱銷售台數之市場分佈

	PRC Market 國內市場	Overseas Market 國外市場	Total 合計
Year 年度	Units 台數	Units 台數	Units 台數
2001	415,000	250,000	665,000
2002	309,000	327,000	636,000
2003	357,000	429,000	786,000

Sales Volume by Markets of Refrigerator
冰箱銷售台數之市場分佈



■ PRC Market 國內市場
■ Overseas Market 國外市場

For years ended 31 December 2001-2003
截至2001年至2003年12月31日止年度



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Strengthening of New Product Development

The Group did not sacrifice its advantages in quality and technology for temporary vicious price competition in the market. On the contrary, the Group continued to increase resources investment and expanded the self-development of core technology so as to lead in the technological aspect. The Group pioneered the market by continuous launch of new product that fulfilled the market needs. The Group invested approximately RMB62,670,000 during the year.

With regard to the air-conditioner business, according to the "Product roadmap 03/04", 112 R&D projects of new product development were completed. Central air-conditioner that applied digital vortex intelligent multi-link system successfully applied the government financial subsidy from Guangdong Province Technology Innovation Scheme during the year. As for the refrigerator business, the Group focused on high-end product and 30 projects of new product development were completed on the ground of its existing product line during the year. The Group successfully developed new products like cooling cabinet, wine cabinet and refrigerator for automobile, etc., as a result, the product line of refrigerator was significantly widen. The refrigerator cabinet ("冷藏冷凍箱") was conferred the "Third Class Excellent Industrial Design Award" by Provincial Industrial Design Association ("省工業設計協會").

Tightening of Cost Control

Since the price of major raw material of household appliance increased by a large extent, the price increment of compressor, plastic material and copper, etc. was 20%-25% and price of the imported steel surged by more than 30%. However, the selling price of household appliance was moving in an opposite trend. In view of the brutal market environment, the Group actively controlled cost from product R&D, to procurement centre, which implemented bidding system for project installation and logistic transportation, in a bid to cut cost. Even confronted with the ever-increasing raw material price, the accelerated procurement reserve also achieved significant cost control effect. During the year, the Group participated in tendering for 71 times while overall price moved down by approximately 8%. The cost of profitable cabinet-type air-conditioner decreased by approximately 25%. Under the dedication of all the employees, even with decreased price level but rising raw material cost, the overall profit margin of products was increased from the average of 13% in 2002 to an average of 19% in 2003. The Group's overall administrative expenses ratio and distribution cost ratio decreased by approximately 6% and 2% respectively.

加強新品研發

集團沒有因為市場暫時的惡性價格競爭而放棄質量和技術優勢，相反繼續加大資源投入，加速自主核心技術研發，擴大技術領先優勢，不斷推出新產品以迎合市場的需要，使集團處於行業主導地位，年內投放金額約達人民幣62,670,000元。

空調方面，根據「零三、零四年產品線規劃」，共完成了112項新產品開發專案；中央空調運用了數碼渦旋智慧型網絡系統，其專案成功獲得了本年度廣東省技術創新計劃的政府之資金補助；冰箱方面，集團主要發展一些高檔次產品，年內共完成了30項新產品開發專案在原有產品線的基礎上，成功開發了冷櫃、酒櫃、車載冰箱等新產品，使冰箱的產品線大大的拓寬，新產品中的冷藏冷凍箱更獲得了本年度省工業設計協會授予的「年度優良工業設計三等獎」。

嚴格控制成本

由於家電主要原材料價格大幅度上漲，壓縮機、塑膠、銅等價格上漲幅度為20%-25%，進口鋼材價格上漲了30%以上，而家電售價卻進一步下跌；面對殘酷的市場環境，集團通過積極控制成本，採取從產品研發設計源頭開始採取措施，並由集團採購中心通過開展工程機安裝招標和物流運輸投標等一系列措施降低成本，面對原材料價格不斷上漲的趨勢提前採購儲備也取得了明顯的成本控制效果，本年度共招標71次，使整體價格下降約8%，盈利機型櫃機的成本降幅更約達25%；在全體員工的努力下，在產品售價下跌、原材料價格上漲的環境下，整體產品的毛利率水平也較二零零二年的平均13%明顯提高至平均19%，本集團整體管理費用率和銷售費用率也分別較上年下降了約6%和2%。

Management Discussion and Analysis 管理層討論及分析

Upgrading of Operating Efficiency

The aim of the Group's information system is to "consolidate, improve and upgrade". The Enterprise Resource Planning (ERP) and Product Data Management (PDM) were successfully launched. During the year, the ERP systems of China Refrigeration Industry Company Limited and Hualing (Guangzhou) Electrical Appliances Co., Ltd. were launched, realizing the integration of information regarding procurement, production, sales, inventory, and financial aspects. The Group's subsidiaries could exchange information via the ERP system when increasing number of subsidiaries were connected online. The operating efficiency was substantially increased.

Establishing Brand Awareness

In order to establish the brand new image of Hualing, the Group invited one of the most popular groups, Twins, to be the endorser of its brand during the year. Further strengthening of brand awareness was attained and the brand new concept of "Professionalism creates elegance" was established so as to create a greater brand impact and reputation.

Strengthening of Quality Management

During the year under review, the Group continued to underpin the quality of its product. The one-tick product pass ratio of the Group was approximately 97% while the Grade A product ratio was approximately 99.5%. In addition, the Group also further strengthened safety production, such that no material production accident was reported and the number of general accidents further reduced when compared to last year.

Optimization of Human Resources

During the year, the Group appointed several elites who are young and possessed higher professional qualification to take up senior managerial position of Guangzhou Hualing Air-conditioning & Equipment Company Limited, China Refrigeration Industry Company Limited and Hualing (Guangzhou) Electrical Appliances Co., Ltd. The Group also optimized the hierarchy of the senior management. In addition, in order to sustain the development of the Group, all subsidiaries further enhanced the training of employees to fulfill the need of future development of the Group.

提高營運效率

年內集團資訊化工作之目標為「鞏固、改善和提高」。企業資源規劃(ERP)及產品資料管理(PDM)專案已成功推行。於年內，中雪公司及華電公司的ERP專案相繼上線，實現了採購、生產、銷售、儲運及財務的資訊集成；隨著附屬公司相繼上線，公司間可通過ERP系統進行資料交換，集團的營運效率得到了很大的提升。

推進品牌建設

為了建立華凌品牌的新形象，於年內邀請香港超人氣組合Twins擔任其企業形象代言人，進一步推動品牌效應，為華凌建立了「專業創造時尚」的全新品牌形象，大大地提高了品牌的知名度和美譽度。

強化質量管理

於回顧年內，集團繼續強化其產品質量，各類產品試驗一次合格率約達97%，成品優等品率約達99.5%。此外，集團進一步加強安全生產，於年內，並無發生重大安全生產事故，而一般性安全生產事故也較去年進一步降低。

優化人力資源

於年內，集團提拔了多位年輕、具較高專業資格的管理人員擔任空調公司、中雪公司及華電公司之高級管理職位。與此同時，集團也就高層管理人員進行了優化調整。此外，各附屬公司進一步加強培養後備人才，讓集團的人力資源能滿足持續發展的需要。



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Management Discussion and Analysis 管理層討論及分析

Innovative Product Management

The Group were devoted to innovate product management so as to raise operating efficiency during the year. With the same level of fixed management cost, the annual production volume of Guangzhou Hualing Air-conditioning & Equipment Company Limited was approximately 820,000 units, representing an increase of approximately 112% as compared to last year. The annual production volume of China Refrigeration Industry Company Limited increased 24% and reached approximately 320,000 units. Upon the relocation of Hefei Hualing, the annual production volume amounted to approximately 480,000 units, representing an increase of approximately 36% as compared to prior year.

Future Prospects

The development direction of the Group in the next few years will be attentive to the objective market pattern; exploration of self resources; expansion of production scale; enhancement of financing ability; consolidation of corporate management; continuous improvement of competitiveness; and to become one of the top five players in the household appliance industry in the PRC.

Implementation of Quality Product Strategy

The Group will implement strategy of quality product and to be directed by market. In addition, the Group will accelerate the speed of product development and upgrade the technological level, in a bid to develop and realize cost advantage while ultimately realize the integrated and all-rounded competitive advantages. In regard of air-conditioner, the Group will enhance the product structure, comprising the streamlining of model type, upgrading of function and energy-saving ability, as well as the design of stylish products, and most importantly, realizing the technological differentiation. As for refrigerator, the Group will develop products which are more favorable to the market needs by speeding up the evaluation rate of the design of normal-type refrigerator while at the same time maintain the quality. At present, the Group strives to continuously enhance brand recognition and impact of HUALING products by actively applying for “China Famous Goods” (“中國名牌產品”), “China Famous Goods for Export” (“中國名牌出口產品”) and State Certification of “Product Exemption from Quality Surveillance Inspection” (“國家免檢產品”) in 2004.

創新生產管理

集團於年內積極創新生產管理體制以提升生產效率。在固定的管理成本不變的前提下，空調公司的年產量約達82萬台，較上年增長約112%；中雪公司的年產量約達32萬台，比去年增長了約24%；合肥華凌遷入新廠房後，年產量約達48萬台，較去年增長了約36%。

未來發展方向

未來幾年內集團發展的總體發展方向是：尊重市場客觀規律，發掘自身資源，擴大產業規模，提高融資能力，深化企業管理，不斷提高企業競爭力，躋身中國家電行業前五強。

實施高品質戰略

集團將實施高品質戰略，堅持以市場為導向，加快產品開發，提升技術水平，努力發展和實現成本優勢，最終實現全方位的企業綜合競爭優勢。空調方面，集團會優化產品結構，包括簡化機型、優化性能、省電節能、設計外觀時尚的產品，更重要的是實現技術差異化。冰箱方面，集團將加快普通型冰箱的設計評審速度，同時保持產品的質素，研製更能切合市場需要的產品。目前，集團正積極申報二零零四年中國名牌產品、中國名牌出口產品和國家免檢產品，不斷提升華凌品牌的知名度和影響力。

Management Discussion and Analysis 管理層討論及分析

Consolidation of Sales Channels

Sales effort remains the centre of the Group's development. The current distribution channel has been changed to the mode of production lines directly linked to the retail chains. As such, it is important to cooperate with chained retailers since household electrical appliance hypermarkets all over the provinces and cities in the PRC have become the major channel for sales of air-conditioner. In view of this, the Group will speed up the development of channels among cities through active exploration of the market in the Northern PRC, consolidation of sales channels and expansion of market share.

The Group intends to further expand its export business. In this respect, the Group will further adjust the structure of the export department and establish an outstanding sales team. When appropriate opportunity arises, the Group will consider dispensing more resources in the setting up of overseas offices, responsible for research of international intelligence in order to manufacture products which are more favorable in the overseas markets.

Realization of Scale Operation

Expansion of corporate scale is the Group's most important issue. The Group will strive to realize the target of integrated productivity of 5 million units in two-year's time. Moreover, the Group is targeted to become the first-tier brand of air-conditioner and refrigerator, maintain a strong position in the market, and become one of the top five players in the PRC. The Group will accelerate the development of central air-conditioner, mini-household electrical appliance and other diversified products to form a competitive product portfolio.

Strengthening of Corporate Management

In order to improve procurement efficiency, the Group will establish a more comprehensive procurement information platform and strengthen the management of procurement supply chain. The Group will also consider forming strategic alliance with suppliers. By incorporating suppliers into just-in-time delivery system, cost will be reduced because of the lower inventory volume. In a bid to enhance operating efficiency, the Group will improve and standardize the internal information system. Through the improvement of SAP system, the management could retrieve information from the system according to business need in order to provide timely and accurate information support for the management's decision.

整合銷售渠道

銷售工作始終是集團的發展重心。家電產品的流通渠道，目前已轉變為生產線直接到連鎖零售商，家電大賣場在全國省會城市和一些大中城市已經成為空調銷售的主渠道，因而與家電連鎖零售商的合作意義重大。集團將加速城市渠道形態的進化，積極開拓國內北方市場，整合銷售渠道，擴大市場份額。

對海外市場，集團有意進一步擴大出口業務之優勢，有見及此，集團將進一步調整出口部門的結構、建立優秀之銷售隊伍。在適當時候將考慮投放加多資源，待時機成熟即在海外設立業務機構，進行國際市場的資訊研究工作，使產品更加貼近海外市場。

實現規模化經營

擴大企業規模對於集團而至關重要。集團將爭取在兩年內實現綜合產能達到500萬台的目標，成為中國空調、冰箱的一線品牌，在市場中確保強勢地位，並躋身全國同行業前五名；集團還將加快中央空調、小家電等相關多元化的家電業務發展，形成具備競爭力的產品線。

深化企業管理

為了提高採購效率，集團將建立更完善的採購資訊平台及加強採購供應鏈的管理，並考慮與供應商建立戰略聯盟，把供應商納入適時送貨系統，透過減少存貨以降低成本；為提高營運效率，集團將加強內部的資訊化建設，使資訊化工作趨於規範化，透過完善SAP系統，按照業務需求提取系統資料，為管理層的經營決策提供及時和準確的資訊支援。