

# MANAGEMENT DISCUSSION AND ANALYSIS

## 管理層 討論及分析

### MARKET ENVIRONMENT

The household electronic appliances industry in 2005 was highlighted by diversification and acceleration in consumption pattern and upsurge in exports, as a result of continued rapid growth in the PRC economy, acceleration in the urbanisation process of rural area, the State's determined implementation of policies in support of agricultural development (policies in favour of agriculture, rural areas and farmers), and the gradual relocation of manufacturing activities of international enterprises to the PRC. In addition, the increased consciousness of environmental protection and energy saving as reflected from the State's industry policies and public consumption preference had directed the industry's focus to quality competition, which further expedited the technological and product innovation progress of the household electronic appliances industry.

The market competition and industry consolidation was further intensified by globalisation of economies. The development enabled leading industry players to further enlarge their market share. The already worsening operating environment of second and third-tier brand names was further aggravated by the immense competition from both domestic and international leading brand names. Household appliances manufacturers, including the Company, had to cope with mounting operating costs brought about by appreciation in Renminbi, increase in the prices of essential utilities energy and raw materials such as oil, electricity, coal, copper, aluminium and iron, reform in the supply chain initiated by the domestic and overseas leading household appliances chain stores, and the non-tariff trading barriers (anti-dumping policy, Directive on Restrictions on the Use of Certain Hazardous Substances in Electrical and Electronic Equipment).

### REFRIGERATOR INDUSTRY ENVIRONMENT

During the Year, the domestic refrigerator market sustained a slow but steady growth. With the implementation of the policies supporting agricultural development, low-end refrigerators are expected to popularize in the rural market and to have an approximately 5% growth in 2006. Despite sharp decline in sales growth rate of the refrigerator export market, there are signs of increase in the average selling price and slight increase in the profit margins from export sales. The export sales for 2006 is expected to increase by approximately 10%.

### 市場環境

二零零五年，國內經濟持續高速增長，農村向城鎮化發展的趨勢加速、國家大力推行扶持農業、農村、農民的三農政策以及不同層次的國際企業生產工序逐步向中國轉移，帶來了家電消費結構分化、升級與出口增長等市場機遇。另一方面，國家產業政策與社會消費文化對環保、節能的關注提高，令行業進入質量上競爭，進一步加快家電行業技術與產品創新的步伐。

經濟全球化令市場競爭和行業整合進一步深化，行業上佔領先地位的企業進一步擴大市場佔有率。二、三綫品牌則同時面對國內、國際大品牌的競爭壓力，使經營環境更為嚴峻。人民幣升值，油、電、煤、銅、鋁、鐵等上游生產資源價格上升、國內外家電連鎖大集團主導的供應鏈變革、非關稅貿易壁壘（反傾銷、ROHS指令）等因素，則不斷加重包括本公司在內的家電製造業經營成本。

### 冰箱行業環境

冰箱內銷市場年度內平穩低速增長，農村市場隨著三農政策落實，將出現低端冰箱普及化趨勢，預計二零零六年增幅約5%。冰箱外銷市場銷量增幅快速回落，但平均售價則有上升趨勢，出口銷售邊際利潤有所上升，預計二零零六年出口銷量增幅約10%。

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Refrigerators of domestic brand names remained at a relatively weak position, whilst foreign products which are represented by top brand names from Korea and Europe accounted for approximately 80% of the high-end refrigerators market sales.

Polarisation of the market becomes more apparent, evidenced by increased penetration of low-end refrigerators in rural markets and exponential growth in the consumption of high-end refrigerators in first-tier and second-tier cities in the PRC. Small refrigerators of 130L selling below RMB1,000 each and large refrigerators of 250L selling above RMB3,500 each accounted for more than 80% of the overall refrigerator sales.

Following the end of market domination by the "Top four brands", the latest market restructuring further reinforces the dominant position of the two leading brand names. On the other hand, more and more household appliances enterprises are entering the refrigerator market. Competition among second-tier and third-tier brand names is further intensified as overseas enterprises and small enterprises are starting to gain market shares.

### AIR-CONDITIONER INDUSTRY ENVIRONMENT

Following a period of rapid growth, the domestic and export markets for air-conditioners are experiencing a slowdown in expansion. It is expected that domestic sales in 2006 will basically remain at the same level of the Year, while export sales will enter an era of modest growth.

Under an oligopoly market situation, the air-conditioner industry is gradually changing its competitive landscape and the industry is now at the critical point of technological advancement. First-tier brand names are shifting their emphasis from price competition in the domestic market to struggling for overseas market share. In the face of similar product quality and limited room for cost adjustments, the air-conditioner industry starts to explore ways to achieve breakthroughs in technology and products. Second-tier and third-tier brand names are therefore under intensified pressure on their survival.

國內冰箱產品在市場相對仍處於弱勢，以韓國、歐洲知名企業為代表的外資品牌佔據大約80%的高端冰箱市場份額。

市場正出現高度兩極分化，中國農村市場低端冰箱普及與一、二級城市高端冰箱消費上升速度加快，130L/人民幣1,000元以下小容積冰箱、250L/人民幣3,500元以上大容積冰箱佔整體冰箱銷售額的80%以上。

冰箱「四大品牌」操控市場的局面基本瓦解，新一輪重組一方面使行業由兩大企業主導的局面進一步穩固，另一方面使眾多家電企業紛紛跨入冰箱行業，外資和小規模企業不斷蠶食市場份額，二、三線品牌競爭日趨激烈。

### 空調行業環境

空調國內市場和出口市場在高速增長過後增幅放緩，預計二零零六年國內銷售將與本年度基本持平，外銷進入低速增長期。

在寡頭競爭形勢下，空調競爭焦點正逐步轉移，行業正處於技術突破的臨界點。一線品牌由專注於國內的產品價格競爭迅速轉向爭奪海外市場份額；面對產品質量相近，成本調整空間有限的空調行業開始探求新技術、新產品的革命性突破。二、三線品牌面臨更為嚴峻的生存挑戰。

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### BUSINESS PERFORMANCE

The Company survived severe challenges in 2005, while navigating through a complex and highly competitive operating environment in both the domestic and overseas markets. Despite this, the Group was able to realise an increased sales volume, which was only made possible by dedication of all of its staff. Sales revenue for the Year amounted to approximately HK\$1,959,921,000, representing an increase of 4% from that of the Previous Year; with loss narrowed by 55% to approximately HK\$283,540,000. Sales upsurge with reduced loss indicated an improvement in operating efficiency of the Group.

### REFRIGERATOR BUSINESS

The Group overcame the adverse impact of various unfavourable factors during the Year. Its refrigerator business realised a growth slightly higher than that of the industry average. The Group's refrigerator sales volume for the Year amounted to approximately 1,538,000 units, representing an increase of 33% from that of the Previous Year. Turnover amounted to approximately HK\$1,079,352,000, representing an increase of 47% from that of the Previous Year. Sales revenue from refrigerators accounted for 55% of the Group's total turnover for the Year.

During the Year, the export volume of and export sales revenue from the Group's refrigerator business amounted to approximately 1,084,000 units and HK\$676,054,000, respectively, representing increases of 37% and 56% from those of the Previous Year, respectively. The Group's export mainly composed of small refrigerators manufactured on an OEM (original equipment manufacturer) basis. Surge in small refrigerator exports was partly attributable to the Group's sophisticated production skills and overseas customers' recognition of the Group's product quality. In addition, the Group succeeded in broadening the market coverage of its refrigerators in Europe, America, Africa and Australia etc.

### 業務表現

二零零五年在複雜而競爭劇烈的內、外部市場環境下，本公司經歷了嚴峻的考驗。在全體員工的努力之下，實現了銷售規模的增長。本集團全年銷售收入約港幣1,959,921,000元，同比增長4%；虧損約港幣283,540,000元，同比下降55%。在銷售收入上升的情況下，虧損收窄反映本集團營運效益有所提升。

### 冰箱業務

二零零五年本集團克服諸多不利因素的影響，達成冰箱業務增長略高於行業水平的業績。全年總銷售量約1,538,000台，與去年同期相比上升33%；銷售額約港幣1,079,352,000元，比去年同期上升約47%。冰箱銷售額佔本集團本年度整體營業額約55%。

本集團於年度內冰箱海外出口約1,084,000台，同比增長37%；出口銷售收入約港幣676,054,000元，較去年上升約56%。本集團的出口以OEM形式生產的小冰箱為主，小冰箱出口上升，部份由於本集團產品技術成熟，產品質量獲海外客戶認可。此外，本集團冰箱產品亦在歐美、非洲及澳大利亞等地成功開發新客戶。

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During the Year, the Group's domestic sales volume of and domestic sales revenue from refrigerator business amounted to approximately 454,000 units and HK\$403,298,000, respectively, representing increases of 26% and 34% from those of the Previous Year, respectively. In addition to benefiting from the growth in the overall refrigerator industry in the PRC, the Group increased its refrigerator production capacity and completed, during the Year, the restructuring of its sales and distribution system, which substantially enhanced its sales performance.

### AIR-CONDITIONER BUSINESS

During the Year, the Group's sales revenue from air-conditioner business amounted to approximately HK\$880,569,000, representing a decrease of 24% from that of the Previous Year and accounting for 45% of the Group's total turnover. Sales volume of air-conditioners for the Year amounted to approximately 544,000 units, which represented a drop of 34% from that of the Previous Year.

The export volume of and export sales revenue from air-conditioner business of the Group during the Year amounted to approximately 181,000 units and HK\$297,808,000, respectively, representing decreases of 56% and 35% from those of the Previous Year, respectively. Decline in the export of the Group's air-conditioners was resulted from decline in orders being placed by customers during the Year. The peak season for securing air-conditioner export orders started from the end of the Previous Year till the beginning of the Year, at which point the existing management was in a transitional period of taking over control of the Group, and the Group had not yet completed the restructuring of its sales and distribution system.

The domestic sales volume of and sales revenue from air-conditioner business amounted to 363,000 units and approximately HK\$582,761,000, respectively, representing decreases of 13% and 16% from those of the Previous Year, respectively. During the Year, the domestic sales performance of the Group's air-conditioners lagged behind the industry trend which was attributed by cut-throat price competition in the domestic market and the Group's adjustment to its production line and sales and distribution system to reconcile them with its market positioning of the medium-to-high-end products.

本集團於年度內冰箱國內市場銷售量約454,000台，比去年上升26%；國內銷售收入額約港幣403,298,000元，較去年上升約34%。除了受惠於國內冰箱行業整體之增長，本集團於年度內提高冰箱生產能力和完成了營銷系統的重整，大大提升了產品銷售能力。

### 空調業務

本集團空調於年度內銷售額約港幣880,569,000元，較去年同期下降24%，佔本集團本年度整體營業額約45%。銷售量約544,000套，同比下降34%。

本年度空調出口量約181,000套，同比下降56%，出口銷售收入約港幣297,808,000元，同比下降35%。由於空調之出口訂單高峰期為每年年初及上年度年底，當時正值管理層的交接期間，且當時本集團尚未完成重整營銷體系，因而影響出口接單情況，令本集團年度內空調出口有所減少。

空調國內銷售量約363,000套，同比下降13%。銷售收入約港幣582,761,000元，下降16%。由於國內市場出現割價競爭，加上本集團對生產線和營銷系統作出調整，以配合其將產品定位於中、高檔的策略，所以本集團在年度內的空調內銷表現與行業水平比較仍有距離。

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### OVERALL OPERATING PERFORMANCE

In reacting to an over-diversified business portfolio, redundancy in its business structure and other issues inherited from the past, the Group actively reformed and reshaped its operations during the Year. The Group undertook extensive business rationalisation and organisational restructuring, which had begun to generate significant results.

### GRADUAL ENHANCEMENT IN PRODUCT RESEARCH AND DEVELOPMENT

The Group further strengthened its market-oriented product planning and research and development (“R&D”) direction, and substantially expanded its refrigerator and air-conditioner product ranges. The Group’s product portfolio covered a comprehensive range of products including 50L to 268L refrigerators, freezers, wine coolers, dehumidifiers, window type air-conditioners, split type air-conditioners, and floor standing air-conditioners. The product portfolio could better satisfy the different needs of customers at home and abroad. The emphasis of refrigerator R&D further reinforced the product’s market positioning, by strengthening the development of high value-added products such as frost-free refrigerators, fan-cooling system refrigerators, large capacity refrigerators and electronically controlled refrigerators, as well as high-end wine coolers.

### CONSOLIDATION OF SALES CHANNELS AND ESTABLISHMENT OF SYSTEMATIC SALES AND DISTRIBUTION

To achieve further synergetic effect, the Group actively pursued the consolidation of its sales platform during the Year. In overseas sales, the Group leveraged the Midea Group’s extensive distribution channels and network to rapidly expand its air-conditioner export business on the basis of independent order taking and separate financial accounting. With respect to domestic sales, the Group merged the domestic sales platforms for refrigerators and residential air-conditioners into one, and focused on the development of the existing markets where the Company enjoyed established competitive advantages, and concentrated its resources on enhancing operational scale. In optimising sales and distribution system, the Group incorporated Hefei Hualing Co., Ltd.’s sales and distribution system, which was originally under independent

### 整體營運表現

針對以往集團業務過於分散、機構重疊和歷史遺留下來的問題，集團積極進行經營變革，大刀闊斧地重組業務和結構，並已取得明顯成效。

### 產品研發能力逐步提升

集團進一步強化以市場為主導的產品企劃與研發原則，大幅擴闊冰箱、空調產品系列，形成了50L到268L冰箱、冰櫃、酒櫃、除濕機、窗式空調器、分體式空調器、櫃式空調器等品類齊全的產品組合，更有效滿足了國內、外客戶的不同需求。目前，冰箱研發方面進一步確立產品市場定位，加強了對無霜、風冷、大容量、電控冰箱以及高檔酒櫃等高附加值產品的研發工作。

### 銷售平臺整合、體系營銷建設初見成效

本集團於年度內進一步發揮專業協同效應，大力推行營銷平臺整合。外銷方面，本集團以雙方獨立對外接單，財務上獨立核算的形式，借助美的集團龐大的分銷渠道和網絡，迅速擴大空調出口業務。內銷方面，本集團將冰箱及家用空調國內營銷平臺結合起來，專注於本公司品牌傳統優勢市場，集中資源壯大規模。營銷體系優化方面，將本集團附屬公司合肥華凌股

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operation, into the headquarters' domestic and overseas network. The integrated operation of sales and distribution system allowed the Group to better share resources and mitigate internal competition.

In 2005, the Group basically completed the restructuring of its sales and distribution model, accomplishing the transformation of its sales and distribution approach from an individual personnel-driven effort to a well-organised systematic exercise. Meanwhile, the Group continued to strengthen its sales team, with significant improvement in its expertise and professionalism.

### EFFECTIVE ENHANCEMENT IN PRODUCTION SPECIALISATION

The Group's production division established an effective mechanism to match production with sales, through the implementation of stringent planning management. The Group allocated its raw materials and operation resources in accordance with market conditions and orders on hand to achieve optimum utilisation. Depending on the cost effectiveness of each production process, the Group gradually contracted out or upgraded the technology of certain low-efficient processes such as plastic injection moulding and electrophoresis.

### FURTHER STRENGTHENING QUALITY MANAGEMENT

The Group strictly adhered to the quality management requirements of ISO9001-2000 standards. The Group further optimised the quality management processes and the performance measurement system, through production flow control and product testing. In 2005, the first-time pass rate of the Company's refrigerators in 2005 reached 86%, while the refixing rate of the Company's air-conditioners remained at industry average level.

### FURTHER OPTIMISATION IN ORGANISATIONAL SYSTEM AND HUMAN RESOURCES STRUCTURE

The Group substantially minimised redundancy by downsizing its organisational structure from 22 main business units to 6 operating business units in accordance with its emphasis on the core businesses of refrigerator and air conditioner.

份有限公司原本獨立運作的營銷體系整體併入集團總部內、外銷體系，實行一體化運作，共享資源，減少內部競爭。

本集團二零零五年基本完成營銷模式變革，由「個人營銷」轉向「體系營銷」的轉變基本完成。同時，營銷隊伍不斷充實優化，專業能力與職業素質得到較明顯的提升。

### 製造專業化能力有效提升

製造體系以推行硬性計劃管理、建立有效的產銷銜接機制為重點，根據市場形勢與訂單情況帶動物料、作業等資源配套，同時根據生產流程中每一環節的成本效益，對目前效益偏低的注塑、電泳等自行生產環節逐步實行外判和工藝技術更新，有效提升了製造專業化和生產效率。

### 產品質量管理進一步加強

本集團嚴格執行ISO9001-2000產品質量標準，並透過對生產流程的控制和產品檢測，進一步完善了質量管理流程與績效指標體系。二零零五年本公司之冰箱一次合格率達到86%，空調市場維修率保持行業平均水平。

### 組織體系與人力資源結構進一步優化

本集團按照專營冰箱、空調主業的經營原則，將組織機構由原來的22個主體緊縮為6個經營主體，大幅減少組織冗員。



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### IMPROVEMENT IN FINANCIAL POSITION

During the Year, the Company completed a rights issue to raise approximately HK\$233 million on the basis of three rights shares for every two existing shares of the Company. The rights issue was oversubscribed with the full support from the Midea Group and other existing shareholders of the Company. The successful completion of the rights issue provided the Group with sufficient funds to support its business development. In addition, the proceeds raised from the rights issue also helped improve the Group's debt to equity ratio, and served to enhance the Group's financing flexibility.

### FINANCIAL REVIEW

#### *Working Capital and Financial Resources*

As at 31 December 2005, the bank borrowings of the Group amounted to approximately HK\$450,978,000, all of them were in short-term, while bank balances and cash amounted to approximately HK\$307,454,000. The Group's trade and notes receivable balance was approximately HK\$581,005,000.

#### *Capital Structure and Pledge of Assets*

As at 31 December 2005, the shareholders' net deficit of the Group was approximately HK\$261,616,000. As at 31 December 2005, the debt to equity ratio, calculation based on the total of short-term and long-term loans against consolidated shareholders' equity, was about -1.72.

As at 31 December 2005, property, plant and equipment and leasehold land and land use right with net book value of approximately HK\$98,076,000 (2004: HK\$258,672,000) was pledged as security for the Group's short-term bank loans. As at 31 December 2005, approximately HK\$100,903,000 (2004: Nil) of the Group's loans were guaranteed by the Midea Group.

### 財務狀況改善

本公司於年度內按每兩股本公司現有股份供三股之基準，進行涉及金額約港幣233,000,000元的供股計劃。供股計劃獲美的集團和本公司其他現有股東之全力支持，供股獲超額認購。是次成功供股為本集團提供較為充裕的資金支持其業務發展。此外，集團亦因有資金注入令其資產負債比例有所改善，提升了其向外融資的能力。

### 財務回顧

#### *營運資金及財政資源*

於二零零五年十二月三十一日，集團之銀行貸款約為港幣450,978,000元，全部為短期。銀行結餘及現金約為港幣307,454,000元。集團之貿易應收賬款及應收票據結餘約為港幣581,005,000元。

#### *資本結構及資產抵押*

於二零零五年十二月三十一日，集團之股東虧絀淨額約為港幣261,616,000元。於二零零五年十二月三十一日，將短期貸款及長期貸款總額除以股東權益後，借貸比率約為-1.72。

於二零零五年十二月三十一日，短期銀行貸款乃由集團賬面淨值約港幣98,076,000元(二零零四年：港幣258,672,000元)之若干物業、廠房及設備及租賃土地及土地使用權等資產作抵押。於二零零五年十二月三十一日，本集團約港幣100,903,000元(二零零四年：無)之貸款乃由美的集團作出擔保。

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### *Exposure to Fluctuations in Exchange Rate*

Since most of the Group's loans and transactions are mainly denominated in Renminbi, Hong Kong Dollar and United States Dollar, the risk borne by the Group with respect to currency fluctuation is relatively low. During the Year, the Group mainly used its income in Renminbi to settle the expenses from its PRC operations, and had not used any financial instrument to hedge its bank borrowings denominated in Renminbi, which was mainly used to meet the working capital requirements of its PRC operations.

### HUMAN RESOURCES

As at 31 December 2005, the Group employed approximately 4,000 full time staff in Hong Kong and the PRC. The Group has considered research report on remuneration prepared by professional consultants in the PRC in determining employees' remuneration based on their respective performance, experience and industry practice. The Company has also adopted a share options scheme and has provided free housing to certain staff in the PRC.

### FUTURE PROSPECTS

In view of the Group's current development, the competition under an oligopoly in the household appliances market and consolidation of the refrigerator industry in a massive scale, the Group will actively adjust its business model in accordance with its "profit-driven" operation principle. The Group will continue to fine-tune its management system and management team by establishing an accountability mechanism that links reward with responsibility. The Group will continue to exercise stringent cost control and enhance efficiency to maximise cost-effectiveness, and to rapidly expand the scale of its core businesses. All these efforts aimed at bringing the Group back to profitability as soon as possible.

### 匯率波動風險

由於本集團大部份借貸及交易主要以人民幣、港元及美元為單位，本集團所承受之匯率波動風險相對較低。整體而言，年內本集團主要以所賺得之人民幣收入支付中國業務之資金支出，並無使用任何金融工具對沖人民幣銀行借貸，至於該等借貸主要用於中國業務之人民幣資金需求。

### 人力資源

於二零零五年十二月三十一日，本集團於香港及國內共聘用約4,000名全職僱員。本集團已考慮中國專業顧問所編製之薪酬研究報告，按僱員各自之表現、經驗及業內慣例釐定僱員薪酬。本公司已採納購股權計劃及為國內若干員工提供免費宿舍。

### 未來發展

根據本集團的發展現狀，面對家電業寡頭競爭、冰箱行業大規模整合的形勢，本集團將堅持以「盈利」為核心的經營宗旨，積極調整經營模式，不斷優化管理體制及經營團隊，建立權責和回報掛鈎的經營責任機制。集團將持續嚴控成本和提升效率以發揮最佳經營效益，迅速擴大主營業務規模，力爭儘快扭虧為盈。



# MANAGEMENT DISCUSSION AND ANALYSIS

## 管理層 討論及分析

For sales and distribution, the Group will accelerate the establishment of the mainstream distribution platform, while developing more diversified sales channels. For the export markets, the Group will focus on utilising the Midea Group's existing overseas customer network, and will take advantage of the consolidation of large and small refrigerator operations and the industry restructuring, to develop a multi-level customer portfolio, comprising major worldwide customers, regional collaborative partners, and mainstream distributors and retailers in various countries. For the domestic market, the Group will pursue a low-profit-margin approach to penetrate into the mainstream distribution network and to strengthen the structure of the Group's existing channels.

The Group's business focus in 2006 is to intensify the consolidation of the domestic and export sales system for its large and small refrigerators. Its refrigerator business will focus on the development of its niche markets, and concentrate on the development of the American and Southeast Asian markets which are experiencing strong growth. On the domestic front, the Group will emphasize on strengthening existing markets and expanding into other regions. With respect to the domestic sales of air-conditioners, the emphasis is on the consolidation of market channels in which the Group enjoys a leading edge. The Group plans to gradually integrate less competitive air-conditioner sales channels into its refrigerator sales network.

The Group's products are positioned at the medium-to-high-end market. It will enhance its profitability by upgrading its products. The refrigerator business is aiming at achieving economies of scale through expansion of product series. In 2006, the Group will strengthen its product development, by taking advantage of the integration of its large and small refrigerator product series, and to develop comprehensive product series based on higher profit margin standard models. The Group will classify its product series into four categories, each with a distinctive market positioning, namely "competitive series" (models with competitive pricing), "regular series", "medium-end series" and "upmarket series". To highlight its core technology and product added value, the Group will strengthen the development of frost-free refrigerators and products with fresh-preserving function.

在營銷方面，集團將加強主流管道建設，並拓展更多元化的銷售管道。外銷市場重點開發美的集團現有海外客戶網絡、借助大小冰箱整合優勢和利用行業重組機遇，致力開拓全球性大客戶、區域性合作夥伴、各國主流經銷商和零售管道等多層次的客戶結構。內銷市場採取微利競爭方式拓展主流管道、優化現有管道結構。

二零零六年的重點是深化整合大、小冰箱內外銷體系。冰箱將重點拓展具有優勢之市場，其中外銷重點拓展美洲、東南亞等高增長市場，內銷則著重在鞏固現有市場的基礎上向其他區域延伸。空調內銷則以穩定現有優勢市場管道為主，逐步引導非優勢市場管道與冰箱管道的整合。

集團的產品定位於中高端路線，將實施產品優化以提升盈利能力。冰箱業務將透過擴闊產品系列、達致規模效益為目標。二零零六年集團將加強產品開發，利用大、小冰箱產品綫合併優勢，以邊際利潤較高的基準機型作為基礎進行全系列開發，形成戰鬥機（具價格競爭優勢的機款）、常規機、中檔機、高檔機定位清晰的四個級數產品序列，強化無霜風冷、維他命產品的研發，提升核心技術與賣點價值。

# MANAGEMENT DISCUSSION AND ANALYSIS

## 管理層 討論及分析

The development objective of the air-conditioner business is emphasising on meeting different market needs and strengthening export product sales. The Group will focus on the development of high value-added products, and will gradually withdraw from the production of low value-added products such as the mass-produced series (standard air-conditioners supplied to large real estate projects) and competitive series (models with competitive pricing). In 2006, the Group will intensify its efforts in the research and development of air-conditioners, and in the adjustment to the production processes and the sales and distribution system of the product.

### *Continuous Efforts in Cost Reduction*

In view of the comparatively high operating cost, the Group is setting up a specialised department for cost control. This department will look into every aspect of the operational process, with its focus on procurement, technology and operation. It will identify projects and targets for achieving cost reduction in the areas of supply, research and development, production and sales system, according to the divisional and departmental operation objectives. In this way, the Group can have a designated team to enforce cost reduction without compromising product quality.

The Group continues to capitalise on the supply chain platform of the Midea Group, and introduces a tendering mechanism, with an aim to lowering procurement cost. In addition, the Group implements cost target for each of its product, and demands cost saving to be a key consideration in product design. During product development, the Group will consider to increase the proportion of domestic raw materials application, and will implement standardisation in technology application and design.

The Group will continue to streamline its organisational structure to reduce redundancy, and will exercise stringent control of inventories as well as lower various operating costs including production, sales and distribution, and management expenses.

空調業務以迎合市場不同需要、加強出口產品銷售為發展目標。集團將重點開發高附加值產品，並逐步退出工程機（供應大型房地產項目的標準型機）、戰鬥機（具價格競爭優勢的機款）等低附加值領域。在二零零六年集團將全面深化空調產品研發，生產流程和營銷體制的調整。

### *持續降低成本*

針對營運成本過高的現狀，集團正組建專責成本控制部門，深入各個營運環節，圍繞採購、技術、營運三條主綫，依據企業經營各細分目標策略，確立供應、研發、生產、銷售系統降低成本專案與目標，在保證產品質量的前提下，由專人專責推動降低成本。

集團將繼續利用美的集團供應鏈平臺，並引入競價機制，達到降低採購成本目標。此外，集團推行產品目標成本機制，產品設計需考慮及節約成本，在產品設計過程中增加採用國產材料比例、實行技術應用和設計標準化。

集團將加強組織體制的精簡，減少冗員，嚴格控制庫存，降低製造、營銷、管理等各類營運費用。

# MANAGEMENT DISCUSSION AND ANALYSIS

## 管理層 討論及分析

### *Operational Structure Reform*

The Group will continue to fine-tune its organisational system, optimise its human resources structure, and to recruit professional business management talents in a systematic manner, to strengthen its human resources management. The Group is currently pushing ahead with the implementation of performance management including the adoption of a management accountability mechanism. The Group will monitor management efficiency through inspection at specific timeline and during day-to-day operation, and will introduce a parallel supporting management line. With respect to accountability, the Group establishes a mechanism for evaluating and tracking performance and accountability during each operation process, in order to achieve a highly efficient operational system supported by traceable records and standard procedures.

### *Vision*

At present, the Group has a production capacity of 3 million units of refrigerators and is the fourth largest manufacturer in the domestic refrigerator industry. We aim to become one of the top three players in the refrigerator industry, and strive to become the second largest player in two to three years.

In addition, the Group has a production capacity of 1.5 million units of air-conditioners. In coming three years, we will strengthen the Hualing's market position as a medium-to-high-end brand, and set strategic goal to achieve steady business growth.

We have overcome the challenges from the past and are well poised to capture the upcoming opportunities. Under fierce competition in the household appliances market, the Company has put its operation back onto the right track and has accomplished the enhancement of its management system and the quality of the management team, following a year of restructuring and adjustment. We look forward to leading the Company into a period of healthy and rapid development in one to two years' time.

### *經營機制變革*

集團將繼續完善組織架構，優化人才結構，大規模、系統化引進專業經營人才，加強人力資源管理。集團正全面推行經營責任制等目標績效管理，實行定期與過程的經營監控、執行與協同管理。在問責方面，建立可評估、可追溯的流程績效責任機制，實現有據可依、有序可循、高效營運體制。

### *發展願景*

目前，集團擁有冰箱300萬台的生產能力以及國內冰箱行業第四名的市場地位，我們希望用二至三年時間躋身冰箱行業前三名，並爭取成為第二名。

同時，集團目前擁有空調150萬套的產能，在未來三年，將沿着謀求華凌品牌中高端化、和業務穩定增長的戰略願景不斷向前發展。

超越歷史，面向未來。在當前家電行業競爭劇烈環境下，本公司經歷一年改革與磨合，各項經營工作正逐步走上軌道，並已解決管理體制與經營團隊素質問題，我們期望用一至二年時間使本公司進入良性、快速發展的軌道。