

Hualing Holdings Limited (the "Company" or "Hualing") adhered to the operation approach of "focusing on profitability, adjusting the operation mode, specializing in refrigerators and air-conditioners, controlling costs and enhancing efficiency and achieving break-even" to realise profitability as soon as possible under the increasing competitive environment in the industry.

During 2006, the slowdown in the growth of the home appliances industry and substantial rise in raw materials costs, have adversely impacted the operating environment of the industry. Against the backdrop of severe market competition, Hualing, adhering to the operation approach of "focusing on profitability, adjusting the operation mode, specializing in refrigerators and air-conditioners, controlling costs and enhancing efficiency and achieving break-even", optimized internal operational management system, extended its commitment in technologies improvement, introduced reform in marketing strategies, promoted lean manufacturing and significant improvement in the overall operations was achieved with all the measures undertaken. For the year ended 31 December 2006 (the "Year"), the growth in the Hualing and its subsidiaries (together as the "Group")'s sales amounted to approximately 17% while the loss was substantially narrowed down as compared to that of year 2005 (the "Previous Year").

Turnover of the Group for the Year amounted to approximately HK\$2,286,387,000 (2005: HK\$1,959,921,000), representing an increase of approximately 17% when compared to that of the Previous Year. The audited loss attributable to shareholders amounted to approximately HK\$112,647,000 (2005: HK\$283,540,000), which was 60% less than that of the Previous Year. The board of directors of the Company (the "Board") does not recommend the payment of final dividend for the Year.

In 2006, the home appliances industry in the PRC has become more competitive. The operating environment for small to medium sized home appliances enterprises have become more difficult under the intensive competition from the leading domestic and international major brands. Hualing, by adhering to its strategies, concentrating its resources on core businesses such as air-conditioner and refrigerator, furthering the adjustments to the mode of operation, optimizing its internal operational management system, was capable of competitions in the market and meeting the requirements of corporate development.

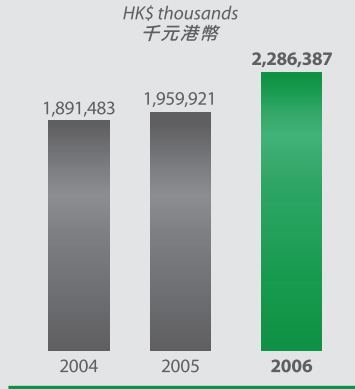
在行業競爭日益激烈的背景下，華凌集團有限公司（「本公司」或「華凌」）堅持「以盈利為核心，調整經營模式，專營冰箱空調，狠抓成本、速度，實現盈虧平衡」的經營理念，力爭儘快扭虧為盈。

2006年度，家電行業經營環境更加惡劣，行業總體增長放緩，原材料成本大幅上漲，行業競爭日益激烈的背景下，華凌堅持「以盈利為核心，調整經營模式，專營冰箱空調，狠抓成本、速度，實現盈虧平衡」的經營理念，繼續優化內部經營管理體制，加大技術投入，推動營銷模式變革，推進精益製造，整體經營明顯改善。截至二零零六年十二月三十一日止年度（「本年度」），華凌及其附屬公司（以下統稱「集團」）的銷售額增長約達17%，虧損額較二零零五年（「上年度」）大幅縮減。

本年度集團的營業額約為港幣2,286,387,000元（二零零五年：港幣1,959,921,000元），較上年度增加約17%。經審核股東應佔虧損約港幣112,647,000元（二零零五年：港幣283,540,000元），較上年度減少60%。本公司董事會（「董事會」）不擬派發本年度之末期股息。

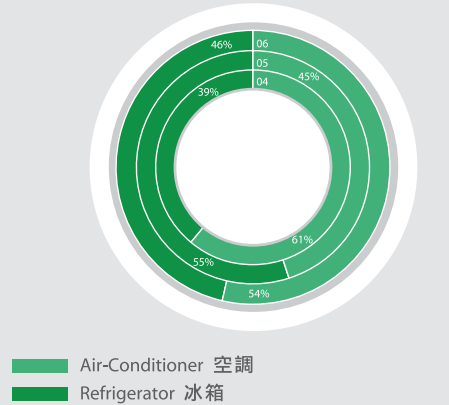
回顧二零零六年，中國家電行業競爭更加激烈，面臨國內家電巨頭和國際大品牌激烈的競爭，中、小品牌家電企業經營環境顯得困難。華凌堅持已制定策略，集中資源於空調和冰箱等核心業務，繼續調整經營模式，優化內部經營管理體制，以適合市場競爭和企業發展要求。

### Turnover of the Group 本集團營業額



For the years ended 31 December 2004-2006  
截至二零零四年至二零零六年十二月三十一日止年度

### Turnover of the Group by Products 本集團營業額之產品分佈



For the years ended 31 December 2004-2006  
截至二零零四年至二零零六年十二月三十一日止年度

During 2006, the Group furthered its investment in technologies and promoted higher standard of manufacturing. With the higher demand in consumption, the Group, being market-oriented, has re-directed its focus on the research and development of new products. The development of air-conditioners mainly focused on high value-added products with direct current invertors, while a series of larger capacity and air-cooling refrigerators was introduced. In addition, the Group has also further its investment in the research and development, testing and quality control over the hardware facilities during the Year. With respect to manufacturing, the Group has introduced the rationale of producing goods with higher standard and tools such as 5S, 6sigma, for perfecting the manufacturing technologies and optimizing the manufacturing processes which allows higher flexibility.

With respect to sales, the Group promoted the reformation on marketing strategies and established its capability of marketing in different markets. Following the delegation of power in sales on the basis of effective control, the Group has responded promptly to market demand and maintained its vitality in marketing. In respect of setting up sales channels, the Group further expanded its sales channels and strived to maintain different marketing channels. In addition, the Group has extended the coverage, and strengthened the management, of its after-sales network for providing all-rounded services for our consumers.

二零零六年，集團加大技術投入，推進精益製造。根據消費升級需求，集團以市場為導向，有針對性地進行新產品研發，空調重點開發以直流變頻為主的高附加值產品；冰箱推出了一系列大容積、風冷式冰箱。另外，本年度加大了研發硬體設施、測試、品質工藝等投入。生產製造方面，導入精益生產理念，引進5S、6sigma等工具，不斷改進製造工藝，推進製造流程的精細化和柔性化。

銷售方面，集團推動營銷模式變革，培育差異化營銷能力。在有效監控的基礎上，銷售業務權力充分下放，快速回應市場需求，保持營銷活力。在銷售渠道建設方面，集團進一步拓寬銷售渠道，力求多種流通業態並存。另外，本年度加強了售後網點的覆蓋和管理，以保證給消費者提供更周全的服務。

During the Year, the Group, on the basis of product categories, has established a value chain team, which comprised staff from the departments of research and development, procurement, manufacturing and sales of related products. The Group has also set up a joint meeting system and this system facilitated the regular communications. Such internal co-ordination system help solve the problem arising in the operation effectively and establish a good internal coordination system.

Taken the experience of outstanding management of Midea Group Co., Ltd. (the "Midea Group") over the past few years as reference, the Group has established an effective management model which helped to promote the healthy development of our operation.

## ACKNOWLEDGEMENT

I would like to take this opportunity to express my sincere gratitude to members of the Board, the management team and all the staff members for their dedication and contribution to the Group's development. I would also like to convey my cordial appreciation to the shareholders for their support. The Group as a whole will make every endeavour to manage the Company in a disciplined and efficient manner, and to realise profitability shortly, so as to maximise returns to the shareholders.

By order of the Board

**FANG Hongbo**

*Chairman*

Hong Kong, 18 April 2007

在經營方面，本年度集團按產品種類成立了價值鏈小組。價值鏈小組由產品相關的研發、採購、製造、銷售等人員組成，並建立聯席會議制度，定期對經營情況進行溝通，非常即時有效地解決了經營中出現的問題，建立了良好的內部協調機制。

通過幾年來持續借鑒美的集團有限公司（「美的集團」）的優秀管理經驗，集團已經建立了一套行之有效的管理模式。通過這套管理模式的實施，企業經營已經步入了良性的發展軌道。

## 致意

最後，本人謹借此機會，再一次感謝董事會各董事，各管理人員及全體員工，感謝大家為集團發展作出的努力和貢獻。同時本人亦衷心感謝股東們的支持，集團所有員工將竭盡所能，努力經營和管理公司，爭取在短時間內扭轉目前虧損的局面，為股東們帶來最大的回報。

承董事會

**方洪波**

*主席*

香港，二零零七年四月十八日