

INDUSTRY OVERVIEW

Against the upstream raw material rising in prices in 2006, the home appliances manufacturing industry encountered increasing pressure on costs, and this, in turn, contributed to a severe market competition.

In 2006, domestic sales volume of the air-conditioner industry in the PRC presented a negative growth for the first time. The growth was achieved in exports sales, however, the growth rate has slowed down obviously. The operating environment of the industry further deteriorated with a substantial rise in the prices of raw materials where the price of copper, in particular, has soared with the highest price of which represented a mark up of over 100% to the price as recorded at the year end of 2005. The manufacturing industry was incapable of relieving the cost pressures from the rise in prices of upstream raw materials, the major air-conditioner manufacturers opted for increase in their selling prices. The profit margin of the air-conditioner industry remains at a relatively low level in 2006. The competition pattern of the air-conditioner industry did not have material change in 2006, with a 50% of market being shared by three major brands, namely Gree, Midea and Haier. The reshuffling effect against weaker brands was stronger, leading to a further reduction in the number of brands in the air-conditioner industry.

In 2006, the refrigerator industry showed a positive growth, with sales increased over 20% from that of the Previous Year. There is material changes in terms of products portfolio. The market shares of three-doors and dual-opening doors large-capacity refrigerators increased significantly. Major shares in the PRC high-end market were captured by foreign brands, such as Siemens. This is because most of the domestic refrigerator manufacturers lacked the required technologies and could only rival each other in the highly competitive middle and lower-end market.

行業概覽

二零零六年在上游原材料價格大幅上漲的背景之下，家電製造企業成本壓力進一步增大，家電行業競爭更加激烈。

二零零六年中國空調行業國內銷售量首次出現負增長，出口仍保持增長，但較以往增速明顯放緩。整個行業環境進一步惡化，由於原材料價格大幅上漲，特別是銅的價格大幅飆升，最高價格較二零零五年底上漲甚至超過100%，製造企業無法承受上游原材料價格上漲造成的成本壓力，主要空調廠家紛紛上調銷售價格。但二零零六年空調行業利潤率仍處於較低的水平。二零零六年空調行業的競爭格局未發生大的轉變，格力、美的、海爾等三大品牌市場集中度達到50%，由於競爭加劇，弱勢品牌被進一步洗牌，空調行業品牌數量持續縮減。

二零零六年冰箱行業出現了良好的增長勢頭，銷量同比增長20%以上。在產品結構上，也出現了明顯的變化，三門、對開門為主的大容量冰箱市場份額明顯增加。國內高端市場由西門子等外資品牌佔據了主要市場份額，絕大多數國內冰箱企業由於技術積累不夠，只能在競爭激烈的中低端市場上相互競爭。

The original market competition pattern in the refrigerator industry in which four major brands, namely Haier, Kelon, Xinqi and Meiling, dominated the market, has had a thorough change with Hisense's taken-over of Kelon and Changhong acquisition of Meiling. A new layout in the industry is come out with the Bohai Rim being dominated by Haier and Hisense, the Zhujiang Delta being taken up by Midea as its focus, the Central China region and the Western China region being occupied by Xinqi and Changhong respectively.

BUSINESS REVIEW

Notwithstanding the substantial rise in the cost of upstream raw materials prices and the severity in market competition, the Group achieved outstanding operating results by upholding its operating philosophy of "focusing on profitability, adjusting the operation mode, specializing in refrigerators and air-conditioners businesses, controlling costs and enhancing efficiency, and achieving break-even." In 2006, it recorded an aggregate sales revenue of HK\$2,286,387,000, representing an increase of 17% from that of the Previous Year. The loss attributable to the equity holders of the Company reduced significantly to HK\$112,647,000, representing a decrease of 60% from that of the Previous Year.

Sales volume by products: (in thousands units)

Products	2006	2005	Changes
Air-conditioners	930	544	+71%
Refrigerators	1,398	1,538	-9%

冰箱產業原來的「海爾、科龍、新飛、美菱」四大品牌主導的市場競爭格局被徹底打破，海信入主科龍，長虹收購美菱。新的產業格局逐漸分明：以海爾、海信為中心的環渤海產業群，以美的為中心的珠三角產業群，以新飛為中心的中原產業群，以長虹為中心的西部產業群。

業務回顧

在上游原材料成本價格大漲，行業競爭日益激烈的行業環境背景下，本集團經受住了考驗，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，整體經營取得了較好的業績。二零零六年實現整體銷售收入為港幣2,286,387,000元，同比增長17%。本公司股權持有人應佔虧損大幅縮減至港幣112,647,000元，同比減少60%。

以產品劃分之銷量：(千台／千套)

產品	二零零六年	二零零五年	變動
空調	930	544	+71%
冰箱	1,398	1,538	-9%

ANALYSIS OF AIR-CONDITIONER BUSINESS

The Group's sales revenue from air-conditioners accounted for approximately 54% of its total revenue during the Year.

The Group's sales revenue from air-conditioners in 2006 amounted to approximately HK\$1,231,048,000, representing an substantial increase of 40% from that of the Previous Year. Sales volume was approximately 930,000 units, representing an increase of 71% from that of the Previous Year. In general, the average sales price per unit has further decreased.

In 2006, export sales revenue from the Group's air-conditioning products amounted to approximately HK\$522,413,000, representing an increase of 75% from that of the Previous Year, and representing 42% of the total revenue of the air-conditioner business. During the Year, the Group's export sales volume was approximately 469,000 units, representing an increase of 159% from that of the Previous Year. During the Year, the Group changed the sales mix and focused on the export market. There is a sharp increase in the export sales volume from that of the Previous Year, however, as the price of export sales was lower than domestic market, which led to greater increase in sales volume than that of sales revenue of air-conditioners during the Year.

Regarding the domestic market, domestic sales revenue from the air-conditioner business of the Group amounted to approximately HK\$708,635,000, representing an increase of 22% from that of the Previous Year. During the Year, the Group's domestic sales volume was approximately 461,000 units, representing an increase of 27% from that of the Previous Year. In general, the average domestic sales price per unit has slightly decreased.

空調業務分析

本集團空調銷售額佔本集團本年度整體銷售額約54%。

本集團於二零零六年空調銷售額約為港幣1,231,048,000元，較去年同期大幅上升約達40%；銷售量約達930,000套，較去年同期上升71%。整體上，銷售的平均單價進一步降低。

本集團空調產品於二零零六年出口銷售約為港幣522,413,000元，較去年同期上升75%，出口銷售佔空調總收入42%。期內，本集團出口銷售量約為469,000套，比去年同期上升159%。本集團於本期間改變銷售結構及專注於出口市場，出口銷售量相比去年同期大幅增加，然而，出口售價低於國內市場，從而導致本年度空調產品銷售量增幅大於銷售額的增幅。

國內市場方面，本集團國內空調銷售收入約為港幣708,635,000元，比去年同期上升22%；期內，本集團國內銷售量約為461,000套，比去年同期上升27%。整體上，內銷平均單價略有降低。

ANALYSIS OF REFRIGERATOR BUSINESS

The Group's sales revenue from refrigerators accounted for approximately 46% of its total revenue during the Year.

The Group's sales revenue from refrigerators in 2006 amounted to approximately HK\$1,055,339,000, representing a decrease of 2% from that of the Previous Year. Sales volume reached approximately 1,398,000 units, representing a decrease of 9% from that of the Previous Year. In general, there has been a slightly increase in the average sales price per unit as well as the export and domestic sales price per unit of refrigerator rose at the same time.

In 2006, export sales revenue from the Group's refrigerator products amounted to approximately HK\$675,318,000, nearly same level from that of the Previous Year and representing 64% of the total revenue of the refrigerator business. During the Year, the Group's export sales volume was approximately 1,026,000 units, representing a decrease of 5% from that of the Previous Year.

Regarding the domestic market, domestic sales revenue from the refrigerator business of the Group amounted to approximately HK\$380,021,000, representing a decrease of 6% from that of the Previous Year. During the Year, the Group's domestic sales volume was approximately 372,000 units, representing a decrease of 18% from that of the Previous Year.

冰箱業務分析

本集團冰箱銷售額佔本集團本年度整體銷售額約46%。

本集團於二零零六年冰箱銷售額約為港幣1,055,339,000元，較去年同期下降2%；銷售量約達1,398,000台，較去年同期下降9%。整體上，銷售的平均單價及冰箱的出口和國內銷售單價同時略有回升。

本集團冰箱產品於二零零六年出口銷售額約為港幣675,318,000元，基本與去年持平，出口銷售佔冰箱總收入64%。期內，本集團出口銷售量約為1,026,000台，比去年同期下降5%。

國內市場方面，本集團國內冰箱銷售收入約為港幣380,021,000元，比去年同期下降6%；期內，本集團國內銷售量約為372,000台，比去年同期下降18%。

OVERALL OPERATING PERFORMANCE

In 2006, the Group continued in disposing its non-core businesses and assets, we have completed the transfer of Guangzhou Hualing Property Management Co., Ltd. to independent third parties and commenced liquidation and deregistration procedures of Guangzhou Office, Beijing Office, Chengdu Hualing Electrical Household Appliance Co., Ltd. and Guangzhou Hualing Refrigeration Co., Ltd.. We have disposed part of our non-core and non-operating assets through auctions according to market practice. While also increasing investment and management effort in its core businesses, such as the air-conditioner and refrigerator businesses, has effectively achieved the improvement of the sustainability of its major businesses.

Developing Market-oriented New Products, Strengthening Research & Development of Core Technologies and Improving Product Competitiveness

The Group reinforced its research and development in market-oriented new products. In 2006, we have conducted researches on the demand of the target consumers group, and introduced nearly a hundred types of new products in response to such demand, these new products were well received in the market.

Meanwhile, we have made more efforts in our research on core technologies in 2006. We have achieved significant breakthrough in terms of capacities and efficiencies, as well as in direct current invertors' technologies for air-conditioners. We have also conducted more researches of frost-free and preservation technologies used in refrigerators.

Besides, we focused to develop high value-added products for air-conditioners, in particular transducers. For refrigerators, we have shifted our focus from refrigerators of smaller capacities to larger capacities and from vertical-cooling to air-cooling refrigerators, and such development significantly promote the values of the products.

整體運營表現

二零零六年本集團繼續剝離非核心業務和資產，進一步將廣州市華凌實業有限公司對外轉讓，對廣州辦、北京辦、成都華凌家電有限公司、廣州華凌雪櫃有限公司等公司開展清算註銷工作，對部份非核心，非經營性資產根據市場原則進行了拍賣剝離，進一步加大空調和冰箱等核心業務的投入和調整力度，取得了顯著效果，有效地促進主營業務的可持續性發展。

以市場導向開發新產品，加強核心技術研發，提升產品競爭力

集團強化了市場導向的新產品研發，二零零六年針對目標消費群體進行了需求調研，有針對性地推出了近百款新產品，並取得了不錯的市場效果。

二零零六年加強了核心技術的研究，空調在高能效、直流變頻等技術重點突破，冰箱加強無霜技術和保鮮技術的研究。

另外，空調重點打造一系列以變頻機為主的高附加值產品，冰箱由原來的小容積、直冷式向大容積、風冷式轉移，大大提高產品價值。

Expanding our Sales Channels and Strengthening our After-sales Services

We adjusted the structures of sales channels by extending the network coverage and by enlarging the scope of services for the purpose of developing a network with different mode of operations. By the end of 2006, our sales network has a nationwide coverage and the number of our sales channels grew from original figure of over 600 to over 2,000.

In addition, the Group strengthened the management of its after-sales outlets. We restructured our original after-sales outlets and set up additional ones in accordance to our basic principle of “closer to the clients and streamlined distribution.” By the end of 2006, the Group has over 5,000 after-sales outlets.

Standardising the Management Platform of our Supply Chain and Establishing Mutual and Stable Partnership with the Core Suppliers

Leveraging on the experience of the Midea Group in outstanding supply chain management, we have formulated an optimal supply chain management systems under the theme of “Standardising the Management Platform of our Supply Chain” in 2006. We have also conducted a comprehensive review of our existing suppliers and ceased dealing with those suppliers with the capacities and qualifications below our standard. Such measures eliminated the weakness that could possibly exist in our supply side. In 2006, the Group was able to share information with its suppliers and extended the technology cooperation with upstream suppliers. This supported the mutual growth with our suppliers and established a stable partnership with our core suppliers with mutual benefits.

拓寬銷售渠道，強化售後服務

調整銷售渠道結構，適度增加渠道的寬度和深度，力求多種流通業態並存。截至二零零六年底，銷售基本實現了全國覆蓋，分銷渠道由原來的六百多家增加到二千家以上。

另外，集團加強了售後網點的管理，根據「接近客戶，合理佈局」的基本原則，對原有售後網點進行整合，並適當增加新的售後網點，截至二零零六年底，集團售後網點數量超過5,000家。

統一供應鏈管理平臺，與核心供應商建立了互利穩定的合作夥伴關係

借鑒美的集團供應鏈管理的優秀經驗，二零零六年按照「統一供應鏈管理平臺」的思路，制定了更加合理的供應鏈管理制度，並對原有的供應商進行全面評估，淘汰了該等不具備供應能力和資格的供應商，消除了供應方面可能存在的隱患。另外，二零零六年，本集團與供應商基本實現資訊共用，並加大與上游供應商進行技術合作，支援供應商的同步成長，與核心供應商建立了互利、穩定的合作夥伴關係。

Management Discussion & Analysis

管理層討論及分析

Significant Improvement in Production and Operation Efficiencies

Upholding our philosophy of “stringent planning, specialized production lines, integrated auxiliary support and order-oriented”, we have optimised our operations such as plan-management, production procedures and coordination. In addition, the Group introduced the philosophy of streamlined production which targeted at high qualities, low costs and timely responses. We streamlined our operation procedures and improved the efficiencies of our production.

Further Improvement in Quality Management Systems and Enhancing Employees Awareness of Quality Control

We further improved our quality management systems in 2006 and focused on enhancing our employees' awareness of quality control. We established our “3Q” onsite production quality control system with core elements of “self-check, cross check and professional quality check”. Besides, the Panel on Quality of Production, Research and Sales was established in 2006 through which regular forums on products quality were conducted so as to improve the quality of the products effectively.

Reinforcing the Establishment of Human Resources Systems which Support the Development of the Group

The Group reinforced its human resources systems in 2006 and divided the employees into four major segments, namely management, professional, administrative and operation staff. The Group set up different careers development plans specifically designed for different staff segments. These developments improved the enthusiasm of our staff largely, and secured stable supply of human resources for the development of the Group.

生產運作效率顯著提高

堅持「計劃剛性、專線排產、配套集成、訂單牽引」的思路，在計劃管理、生產流程、產銷銜接等方面進行重點優化。另外，集團導入精益生產理念，以高品質、低成本和快速反應為目標，簡化運作流程、提高生產效率。

進一步完善品質管理體系，提高全員參與品質管理的意識

二零零六年進一步完善品質管理體系，並重點提高全體員工參與品質管理的意識，建立了以自檢、互檢、專檢為核心的「三檢」生產現場質量管理體系。另外，二零零六年建立了產研銷系統品質聯席會議制度，定期對產品品質工作進行溝通，更加有效地展開品質提升工作。

強化人力資源體系建設，支援集團業務發展

二零零六年本集團加強了人力資源體系建設，把員工按「管理人員、專業人員、行政人員、操作人員」四大職群進行劃分，並根據不同職群的特點設定了不同的職業發展通道，這大大地提高了員工的積極性，並已經收到良好的實際效果，為本集團業務的發展提供了穩定的人力資源保障。

FINANCIAL REVIEW

Liquidity and Financial Resources

The Group continues to adopt prudent funding and treasury policies. As at 31 December 2006, the Group's aggregate borrowings decreased to approximately HK\$391,162,000 (2005: HK\$450,978,000), which all are bearing interest at fixed rate. The decrease in borrowings is mainly due to the net repayment of approximately HK\$59,816,000 during the Year. Bank balances and cash amounted to approximately HK\$247,199,000 (2005: HK\$307,454,000). The balances of the Group's trade and notes receivables amounted to approximately HK\$438,830,000 (2005: HK\$581,005,000).

Capital Structure and Pledge of Assets

As at 31 December 2006, the Group had net deficit of shareholders of approximately HK\$300,490,000. As at 31 December 2006, the debt to equity ratio, calculated by dividing the sum of short-term loans and long terms loans with shareholders' equity, was -1.3. As at 31 December 2006, property, plant and equipment and leasehold land and land use rights with net book value of approximately HK\$81,335,000 (2005: HK\$98,076,000) were pledged as security for the Group's short term bank loans. As at 31 December 2006, approximately HK\$316,512,000 (2005: HK\$100,903,000) of the Group's loans were guaranteed by the Midea Group and a subsidiary of the Midea Group. In addition, the Group has unutilized banking facilities of approximately HK\$155,000,000, which can be used to meet our short-term cash demands. Details of contingent liabilities are set out in Note 29.

財務回顧

流動資金及財政資源

本集團繼續採取審慎之資金及財務政策。於二零零六年十二月三十一日，本集團之總貸款下降至約港幣391,162,000元（二零零五年：港幣450,978,000元），全部為定息銀行貸款。貸款之下降主要歸因於年內償付淨額約港幣59,816,000元。銀行結餘及現金則約港幣247,199,000元（二零零五年：港幣307,454,000元）。本集團之貿易應收賬款及應收票據結餘約為港幣438,830,000元（二零零五年：港幣581,005,000元）。

資本結構及資產抵押

於二零零六年十二月三十一日，本集團之股東虧絀淨額約為港幣300,490,000元。於二零零六年十二月三十一日，將短期貸款及長期貸款總和除以股東權益後，借貸比率為-1.3。於二零零六年十二月三十一日，短期銀行貸款乃由本集團賬面淨值約港幣81,335,000元（二零零五年：港幣98,076,000元）之物業、廠房及設備及租賃土地及土地使用權作抵押。於二零零六年十二月三十一日，本集團約港幣316,512,000元（二零零五年：港幣100,903,000元）貸款乃由美的集團及美的集團之一間附屬公司作出擔保。此外，本集團未動用銀行信貸約港幣155,000,000元，此信貸可用於應付集團之短期現金需要。有關或然負債詳情載於附註29。

Management Discussion & Analysis

管理層討論及分析

Exposure to Fluctuations in Exchange Rate

Since most of the Group's loans and transactions are 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 2006, the Group employed approximately 2,800 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. To enhance our productivity and further improve the caliber of the staff, the Group provided continual education and training programs for our management and production staff.

FUTURE PROSPECT

The Group will continue to adhere to its established strategies in further strengthening the two major lines of businesses, namely refrigerators and air-conditioners businesses, optimising resources allocation, increasing the investment in research and development, further implementing the existing sales marketing strategies, improving the efficiencies of our internal operations, strengthening control in costs and expenses and achieving the breakthrough in products and markets in order to persistently and effectively improve the Group's operating capacity, as well as to strive for better operating results. Having enjoyed fruits of the continued support from the substantial shareholder, the Midea Group with its strong sales, production and purchasing networks, the Group will seek to further strengthen its relationship with this strategic shareholder and aim to enhance synergies and economies of scale through closer cooperation between the two groups.

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。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

於二零零六年十二月三十一日，本集團於香港及國內共聘用約2,800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。為改善本集團的生產力及進一步提高職工質素，本集團對管理層人員及生產工人提供持續教育及培訓課程。

未來發展

本集團將繼續堅持已制定策略，進一步集中冰箱及空調兩項主要業務、優化資源分配、增加投資於研究及發展、進一步實施現有營銷策略、提高內部營運效率、加強成本及開支監控以及在產品及市場方面取得突破，以持續有效地改善本公司之營運能力，並爭取更佳經營業績。本集團得到大股東美的集團的持續支持，利用美的集團強大銷售、生產、採購網絡。未來本集團將與大股東加強合作關係，以取得更多的規模效益，發揮成本優勢。