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WASHING MACHINE BUSINESS

The Group's washing machine business comprises the manufacture and sale of top loading and front loading washing machines, which together accounted for approximately 81.9% of the Group's total revenue for 2006 (2005: 80.8%). The Group continues to strengthen its dominant market position in the PRC with strong revenue growth of 26.2% from HK\$4,478 million in 2005 to HK\$5,651 million in 2006. Gross profit margin improved from 21.9% in 2005 to 25.9% in 2006 due to our launch of innovative high value added products, stabilization of raw material costs after a period of rapid cost increase in 2004 and 2005, improvement in operational efficiency and the ability of the Group to regain the pricing power in the market. As a result, operating profit grew substantially by 29.7% from HK\$170 million in 2005 to HK\$221 million in 2006. The growth of this business in both volume and profitability was made possible by our well-received marketing programs and successful product positioning whilst focusing effort on technology innovation. Our environmentally friendly dual-drive detergent-free washing machines in particular achieved remarkable results. Their sophisticated design and technology were reaffirmed during the year by winning awards such as Golden Award for Outstanding Chinese Patented Invention organized by both The World Intellectual Property Organisation and The State Intellectual Property Office of The People's Republic of China. Our dual drive washing machine technology was also included in the 2006 IEC standard proposal, demonstrating the Group's world-class R&D capabilities.

Sale of front loading washing machines is another area with significant growth potential. Although this type of washing machines, being more popularly used in Europe, have only been introduced to the PRC market for a relatively shorter period of time, they are

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洗衣機業務

本集團之洗衣機業務包括製造及銷售波輪式及滾筒式洗衣機，合共佔二零零六年總收益約81.9%（二零零五年：80.8%）。本集團繼續鞏固其於中國之顯赫市場地位，並於二零零六年錄得強勁收益增長，由二零零五年之4,478,000,000港元增加26.2%至二零零六年之5,651,000,000港元。本集團推出了創新高增值產品，加上原料成本在二零零四年及二零零五年間飆升後回穩，而本集團亦能在市場上重奪定價權及改善營運效益，令毛利率由二零零五年之21.9%改善至二零零六年之25.9%。因此，經營溢利由二零零五年之170,000,000港元大幅增長29.7%至二零零六年之221,000,000港元。由於本集團推行之市場推廣活動反應熱烈及產品定位湊效，並以科技創新為重心，故令該業務之銷量及盈利能力均取得增長。本集團毋須耗用洗衣粉之環保雙動力洗衣機業績尤為理想。年內，雙動力洗衣機再度勇奪多項殊榮，如由世界知識產權組織及中華人民共和國知識產權局合辦之中國專利金獎，足證其精密設計與技術得到認同。本集團之雙動力洗衣機技術亦獲納入二零零六年IEC國際標準提案，充分顯示本集團之研發能力可傲視全球。

滾筒式洗衣機為另一項增長潛力優厚之範疇。儘管此類型於歐洲獲廣泛使用之洗衣機推出中國市場之時間相對較短，惟其以較高平均售價，並主攻較高檔次之客戶，隨著都市化日



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targeting at the higher end of the market with higher average selling price. With increasing urbanization, rising income and improving living standards among the PRC citizens, we are seeing significant growth potential for our front loading washing machines.

To cater for our rapid growth in sales, a new factory with annual production capacity of approximately 1 million units has been constructed in Chongqing, the PRC and will commence production in the first quarter of 2007, boasting our total annual production capacity to approximately 8 million units.

We will continue to enhance the competitiveness of our washing machine business by further strengthening our R&D capabilities on developing more differentiated products which carry value added features to improve our margin, and environmentally conscious products which we believe is the global trend for all consumer products. We will also expand our export markets, which currently only account for approximately 12% of the Group's sale of washing machines in 2006, to generate, initially volume growth, and over the longer horizon improved profitability. The Directors are confident that the washing machine business will continue to perform satisfactorily in the coming year.

WATER HEATER BUSINESS

The water heater business, which accounted for approximately 18.1% of the Group's revenue in 2006 (2005: 19.2%), also performed well during the year. Revenue grew by approximately 17.6%, reaching HK\$1,251 million in 2006. Gross profit margin improved from 25.9% in 2005 to 29.9% in 2006. As a result, operating profit grew strongly by 25.1% from HK\$35 million in 2005 to HK\$44 million in 2006.

The Group produced three types of water heaters, namely, electrical water heaters, gas water heaters and solar power water heaters. Currently, electrical water heaters and gas water heaters are the predominant types of water heaters sold in the PRC whilst the market share of solar power water heaters is relatively insignificant. However, it is expected that the market potential of solar power water heaters will be tremendous for its environmentally friendly, safety and energy efficient features. With our extensive experience and expertise in water heater market, the Group is poised to take advantage of the growth opportunities of this market segment in the years ahead.

In recognition of our technology excellence, the Group's patented PTO10 technology, a safe care water heater technology, which ensures users' safety in case of electricity leakage, was included in the 2006 IEC standard proposal. Going forward, the Group will

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深，加上中國國民之收入增加及生活質素改善，本集團預期將在滾筒式洗衣機方面得享龐大增長潛力。

為配合銷售之迅速增長，本集團已於中國重慶興建一座全新廠房，年產能約為1,000,000部，並將於二零零七年首季投產，令本集團之總年產能上升至約8,000,000部。

本集團將繼續提高其洗衣機業務之競爭力，透過進一步加強研發能力，開發更多可改善邊際利潤兼具增值功能之差異化產品及環保產品，而本集團深信，環保產品實為所有消費品之全球大勢所趨。出口市場目前僅佔洗衣機業務於二零零六年之銷售額約12%，故本集團將拓展其出口市場，務求首先可帶動大幅增長，再長遠改善盈利能力。展望未來，董事有信心洗衣機業務將繼續在來年取得佳績。

熱水器業務

熱水器業務於年內表現出色，佔本集團於二零零六年之收益約18.1%（二零零五年：19.2%）。二零零六年之收益增加約17.6%至1,251,000,000港元。毛利由二零零五年之25.9%改善至二零零六年之29.9%。經營溢利因而錄得強勁增長，由二零零五年之35,000,000港元上升25.1%至二零零六年之44,000,000港元。

本集團生產三類熱水器，即電熱水器、燃氣熱水器及太陽能熱水器。電熱水器及燃氣熱水器目前為在中國出售之主要熱水器類別，而太陽能熱水器之市場佔有率則相對較低。然而，預期太陽能熱水器將因其環保、安全及能源效益之優點而在將來具龐大市場潛力。憑藉本集團在熱水器市場之豐富經驗及專業知識，本集團已蓄勢待發，可望在未來數年抓緊該市場之增長商機。

本集團之專利安全熱水器技術PTO10防電牆技術可在發生漏電時確保使用者安全，該專利已獲納入二零零六年IEC國際標準提案，足證本集團之優秀技術廣受認同。未來，本集團將在

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follow its “safety-based products” philosophy in the design of water heater products and continue to lead the industry in safety technologies. The Directors are confident that the water heater business will continue to provide satisfactory contribution to the Group.

MOBILE HANDSET BUSINESS

During the year, the Group disposed of the mobile handset business to its parent company, the Haier Group, for a total consideration of approximately HK\$420 million in June 2006, realizing a disposal gain of HK\$156 million. Netting off the loss of this business up to the date of disposal of HK\$53 million, this business, being classified as discontinued operation in the financial statements, contributed HK\$103 million in net profit to the Group for the year. The disposal enabled the Group to focus on improving its core competencies in the white goods businesses and to better direct resources to such businesses.

LIQUIDITY AND FINANCIAL RESOURCES

The Group has maintained a healthy financial and liquidity position with a current ratio of 115% as at 31 December 2006 (2005: 112%). As at 31 December 2006, the Group had a cash balance of HK\$627 million (2005: HK\$592 million), bank and other borrowings of approximately HK\$137 million (2005: HK\$243 million) and zero-coupon 3-year convertible notes (the “Convertible Notes”) with a face value of HK\$170 million (2005: HK\$233 million) and a liability element of HK\$162 million (2005: HK\$212 million).

The Group has a net cash balance (cash balance less borrowings and Convertible Notes) of HK\$328 million as at 31 December 2006, up substantially from HK\$138 million as at 31 December 2005. Due to our focus on cashflow management, the Group has been able to maintain a very strong cash position and has been able to record a net cash inflow from operating activities of HK\$317 million in 2006.

There is no material effect of seasonality on the Group's borrowing requirements.

The Group had capital commitments amounting to HK\$252 million as at 31 December 2006 (2005: HK\$12 million), comprising authorized but not contracted capital commitments of HK\$169 million and contracted capital commitments of HK\$83 million, which were mainly related to construction cost and purchase of machinery for the expansion in production capacity of the Group's businesses.

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設計熱水器產品時奉行其「產品以安全為本」之理念，繼續在安全技術上領導業界。董事有信心熱水器業務將繼續為本集團帶來可觀收益。

移動手機業務

年內，本集團於二零零六年六月以總代價約420,000,000港元向其母公司海爾集團出售移動手機業務，取得出售收益156,000,000港元。在扣除該業務截至出售日期止之虧損53,000,000港元後，該業務（已於財務報表內分類為已終止經營業務）於年內為本集團帶來純利103,000,000港元。出售令本集團得以主力增強其白色家電業務之核心能力，亦可將資源更有效地調配至該等業務。

流動資金及財務資源

本集團之財政及流動資金狀況穩健，於二零零六年十二月三十一日之流動比率為115%（二零零五年：112%）。於二零零六年十二月三十一日，本集團之現金結餘為627,000,000港元（二零零五年：592,000,000港元），而銀行及其他借貸約為137,000,000港元（二零零五年：243,000,000港元），而零息三年期可換股票據（「可換股票據」）面值為170,000,000港元（二零零五年：233,000,000港元），其負債部分為162,000,000港元（二零零五年：212,000,000港元）。

本集團於二零零六年十二月三十一日擁有328,000,000港元現金結餘淨額（現金結餘減借貸及可換股票據），較於二零零五年十二月三十一日之138,000,000港元大幅增加。由於本集團著重現金流量管理，故此本集團得以維持十分穩健之現金狀況，於二零零六年錄得317,000,000港元經營活動現金流入淨額。

本集團之借貸需要並無重大季節性影響。

於二零零六年十二月三十一日，本集團之資本承擔為252,000,000港元（二零零五年：12,000,000港元），包括已批准但未訂約資本承擔169,000,000港元及已訂約資本承擔83,000,000港元，主要由於為提高本集團業務產能之建設成本以及購買機器所致。

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CAPITAL STRUCTURE AND GEARING RATIO

As at 31 December 2006, the Group maintained a comfortable gearing ratio (defined as total borrowings plus Convertible Notes over net assets) of 37% (2005: 41%).

TREASURY POLICIES

The Group employs a conservative approach to cash management and risk controls. Most of the Group's receipts and payments are in Renminbi and Hong Kong dollars. Cash is generally placed in short term deposits denominated either in Renminbi or Hong Kong dollars. As at 31 December 2006, the Convertible Notes were denominated in Hong Kong dollars and most of the Group's outstanding borrowings were denominated in Renminbi and were principally made on a floating rate basis. Foreign currency risk is not significant as liabilities in Renminbi will be matched by the Group's earnings, most of which are also denominated in Renminbi. The Group does not have any significant interest rate risk, as the current interest rate in the PRC stays at low level and is relatively stable. The Group does not have any financial instruments for hedging purposes.

EMPLOYEES AND REMUNERATION POLICY

The total number of employees of the Group as at 31 December 2006 was approximately 7,800, representing a decrease of approximately 5% as compared to 31 December 2005.

The Group ensures that the remuneration packages for its employees are competitive and employees are generally remunerated with a fixed monthly income, which are normally reviewed on an annual basis, plus discretionary performance related bonuses. Employees are also provided with benefits including provident fund and medical insurance. The Group maintains a share option scheme as an incentive to attract and retain talented employees. As at 31 December 2006, there were outstanding share options entitling the grantees to subscribe for 267.5 million new shares of the Company (or 26.75 million new shares of the Company after adjusting the figure in corresponding with the share consolidation as detailed in note 43 to the financial statements below).

MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATES

Please refer to notes 13 and 37 to the combined annual financial statements below for details of disposal of the mobile handset business and acquisition of the front loading washing machine and water heater businesses respectively during the year.

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資本架構及負債資本比率

於二零零六年十二月三十一日，本集團之負債資本比率(定義為按借貸總額加可換股票據除以資產淨值計算)理想，為37%(二零零五年：41%)。

庫務政策

本集團採取審慎現金管理及風險監控。本集團大部分收支以人民幣及港元結算。現金一般存作人民幣或港元短期存款。於二零零六年十二月三十一日，可換股票據以港元計值，而本集團大部份未償還借貸以人民幣結算，並主要按浮動利率利息。由於人民幣負債將與本集團盈利(大部分亦以人民幣計值)對銷，因此外匯風險並不重大。由於現時中國利率偏低且相當穩定，故此本集團並無任何重大利率風險。本集團並無運用任何金融工具進行對沖。

僱員及薪酬政策

本集團於二零零六年十二月三十一日之僱員總數約7,800人，較於二零零五年十二月三十一日減少約5%。

本集團確保僱員酬金待遇具競爭力，僱員一般獲發定額月薪，另加表現花紅，而薪酬通常每年作檢討。僱員亦獲提供公積金及醫療保險等福利。本集團設有購股權計劃，以作為吸引及留聘人才之獎勵。於二零零六年十二月三十一日，尚未行使之購股權可供授予者認購本公司新股之總數為267,500,000股(或就下文財務報表附註43所詳述之股份合併作出調整後之數字為26,750,000股本公司新股)。

附屬公司及聯營公司之重大收購及出售

年內，有關出售移動手機業務及收購滾筒式洗衣機及熱水器業務之詳情，請分別參閱下述合併年度財務報表附註13及37。