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Report of the Directors

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2006.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding.

During the year, the Group continued to be engaged in the manufacture and sale of washing machines. However, the Group discontinued its business of the manufacture and sale of mobile handsets by disposing of its entire interest in Pegasus Telecom (Qingdao) Co., Ltd. ("Pegasus Qingdao") and Pegasus Electronic (Qingdao) Co., Ltd. ("Pegasus Electronic") in June 2006, details of which are set out in note 13 to the financial statements.

During the year, the Company acquired a 100% interest in Haier Electrical Appliances Fourth Holdings (BVI) Limited ("Haier SPV"). The principal activities of the subsidiaries of Haier SPV are the manufacture and sale of washing machines and water heaters.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2006 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 47 to 147 of this report.

The directors do not recommend the payment of any dividends for the year.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and minority interests of the Group, as extracted from the audited financial statements and restated/reclassified as appropriate, is set out on page 148 of this report. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the Group's property, plant and equipment during the year are set out in note 17 to the financial statements.

SHARE CAPITAL, SHARE OPTIONS AND CONVERTIBLE NOTES

Details of movements in the Company's share capital, share options and convertible notes during the year are set out in notes 34, 35 and 31 to the financial statements, respectively.

董事會 報告書

董事同寅現謹提呈董事會報告書及本公司及本集團截至二零零六年十二月三十一日止年度之經審核財務報表。

主要業務

本公司之主要業務為投資控股。

年內，本集團繼續從事製造及銷售洗衣機業務。然而，透過出售其於飛馬通訊(青島)有限公司(「飛馬青島」)及飛馬電子(青島)有限公司(「飛馬電子」)之全部權益，本集團於二零零六年六月終止其製造及銷售移動手機之業務，有關詳情載於財務報表附註13。

年內，本公司收購海爾電器第四控股(BVI)有限公司(「海爾SPV」)之100%權益。海爾SPV附屬公司之主要業務為製造及銷售洗衣機及熱水器。

業績及股息

本集團截至二零零六年十二月三十一日止年度之溢利以及本公司及本集團於該日之財務狀況載於本報告第47至147頁之財務報表。

董事不建議派發本年度之任何股息。

財務資料摘要

本集團之已刊發業績與資產、負債及少數股東權益摘要載於本報告第148頁，乃摘錄自經審核財務報表並經過適當之重列／重新分類。該摘要並非經審核財務報表之一部分。

物業、廠房及設備

本集團物業、廠房及設備於年內之變動詳情載於財務報表附註17。

股本、購股權及可換股票據

本公司股本、購股權及可換股票據於年內之變動詳情分別載於財務報表附註34、35及31。

Report of the Directors

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the listed securities of the Company during the year.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 36(b) to the financial statements and in the combined statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 December 2006, the Company had no reserve (2005: Nil) available for distribution in accordance with the provisions of the Companies Act 1981 of Bermuda (as amended).

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for less than 30% of the total sales for the year. Purchases from the Group's five largest suppliers accounted for 93% of the total purchases for the year and purchases from the largest supplier included therein amounted to 62%.

During the year, Haier Group Corporation ("Haier Corp") and Qingdao Haier Investment and Development Co., Ltd. ("Haier Investment") (collectively the "Haier Group"), the substantial shareholders of the Company, had beneficial interests in four of the five largest suppliers of the Group.

Save as disclosed above, none of the directors or any of their associates or any shareholders of the Company (which, to the best knowledge of the directors, owns more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or suppliers.

董事會 報告書

優先認購權

根據本公司之公司細則或百慕達法例，並無任何有關優先認購權之條文規定本公司須向現時之股東按比例發售新股。

購買、贖回或出售本公司上市證券

本公司或其任何附屬公司於年內概無購買、贖回或出售本公司任何上市證券。

儲備

年內，本公司與本集團之儲備變動詳情分別載於財務報表附註36(b)及合併權益變動表。

可供分派儲備

於二零零六年十二月三十一日，本公司並無按百慕達一九八一年公司法(經修訂)之規定之可供分派儲備(二零零五年：無)。

主要客戶及供應商

於回顧年度內，本集團五大客戶之銷售額佔本年度總銷售額少於30%。向本集團五大供應商之購貨額佔本年度總購貨額93%，其中向最大供應商之購貨額則佔62%。

年內，本公司主要股東海爾集團公司(「海爾集團公司」)及青島海爾投資發展有限公司(「海爾投資」)(統稱「海爾集團」)分別在本集團其中四名五大供應商中擁有實益權益。

除上文所披露者外，概無董事、其任何聯繫人或據董事所知擁有本公司已發行股本5%以上之本公司股東，在本集團五大客戶或供應商中擁有任何實益權益。

Report of the Directors

DIRECTORS

The directors of the Company during the year and up to the date of this report were as follows:

Executive directors:

Yang Mian Mian
Wu Ke Song
Liang Hai Shan
Cao Chun Hua
Cui Shao Hua
Sun Jing Yan (appointed on 8 March 2007)
Chai Yong Sen (resigned on 15 February 2007)
Song Chun Guang (resigned on 15 February 2007)

Independent non-executive directors:

Lam Kin Kau, Mark
Fung Hoi Wing, Henry
Wu Yinong
Lau Ho Wai, Lucas (resigned on 28 July 2006)

In accordance with the bye-laws of the Company, Ms. Yang Mian Mian, Mr. Wu Ke Song, Mr. Liang Hai Shan and Mr. Sun Jing Yan will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting of the Company.

The independent non-executive directors of the Company are not appointed for any specific terms but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the bye-laws of the Company.

The Company has received annual confirmations of independence from Mr. Lam Kin Kau, Mark, Mr. Fung Hoi Wing, Henry and Mr. Wu Yinong, and, on the basis of such confirmations, considers them to be independent as at the date of this report.

董事會 報告書

董事

於年內及截至本報告日期，本公司董事如下：

執行董事：

楊綿綿
武克松
梁海山
曹春華
崔少華
孫京岩 (於二零零七年三月八日獲委任)
柴永森 (於二零零七年二月十五日辭任)
宋春光 (於二零零七年二月十五日辭任)

獨立非執行董事：

林建球
馮藹榮
吳亦農
劉可為 (於二零零六年七月二十八日辭任)

根據本公司之公司細則，楊綿綿女士、武克松先生、梁海山先生及孫京岩先生將於本公司即將舉行之股東週年大會上退任，惟彼等符合資格並願意膺選連任。

本公司獨立非執行董事並無任何特定任期，惟須根據本公司之公司細則於本公司之股東週年大會輪值退任及膺選連任。

本公司已接獲林建球先生、馮藹榮先生及吳亦農先生之年度獨立確認書，並認為截至本報告日期，彼等為獨立人士。

Report of the Directors

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 11 to 13 of this annual report.

DIRECTORS' SERVICE CONTRACTS

During the year, no director had a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' REMUNERATION

The directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Company's board of directors with reference to directors' duties, responsibilities and performance and the results of the Group.

DIRECTORS' INTERESTS IN CONTRACTS

No director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, or its holding companies, or any of its subsidiaries or fellow subsidiaries was a party during the year.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 December 2006, except for the interests in share options of the Company as disclosed in note 35 to the financial statements, none of the directors has any interests and short positions in the ordinary share(s) (Share(s)) of the Company or the underlying Shares or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules.

董事會 報告書

董事及高級管理層履歷

本公司董事及本集團高級管理層之履歷載於本年報第11至13頁。

董事服務合約

年內，概無董事與本公司訂有本公司不得於一年內不作補償（法定賠償除外）而終止之服務合約。

董事薪酬

董事袍金須經股東於股東大會上批准。其他酬金乃由本公司董事會經參考董事之職責、責任、表現及本集團之業績而釐定。

董事於合約之權益

年內概無董事於本公司或其控股公司或其任何附屬公司或同系附屬公司所訂立任何對本集團業務關係重大之合約中，直接或間接擁有重大權益。

董事於股份及相關股份之權益及淡倉

於二零零六年十二月三十一日，除財務報表附註35所披露之本公司購股權權益外，概無董事於本公司或其相聯法團（定義見證券及期貨條例（「證券及期貨條例」）第XV部）之普通股（「股份」）或相關股份中，擁有任何記錄於本公司根據證券及期貨條例第352條規定須存置之登記冊中或根據上市規則附錄10所載上市公司董事進行證券交易的標準守則而知會本公司及香港聯合交易所有限公司（「聯交所」）之權益及淡倉。

Report of the Directors

董事會 報告書

DIRECTORS' RIGHTS TO ACQUIRE SHARES IN OR DEBENTURES OF THE COMPANY

Save as disclosed in note 35 to the financial statements regarding the share option scheme of the Company, at no time during the year were rights to acquire benefits by means of the acquisition of Shares in or debentures of the Company granted to any director of the Company or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, its holding companies, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors of the Company to acquire such rights in any other body corporate.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 31 December 2006, the following shareholders interested in 5% or more of the issued Shares and/or the underlying Shares were recorded in the register of substantial shareholders required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions in Shares:

董事購買本公司股份或債權證之權利

除財務報表附註35所載之本公司購股權計劃資料所披露者外，於年內任何時間概無任何本公司董事或彼等各自之配偶或未成年子女獲授予或行使可透過購入本公司股份或債權證而獲益之權利，而本公司、其控股公司或其任何附屬公司或同系附屬公司概無訂立任何安排，致令本公司董事可獲任何其他法人團體之該等權利。

主要股東於股份及相關股份之權益

於二零零六年十二月三十一日，以下股東擁有記錄於本公司根據證券及期貨條例第336條規定須存置之主要股東名冊之已發行股份及／或相關股份5%或以上權益：

股份之好倉：

Name of shareholder	股東名稱	Notes 附註	Number of Shares interested 擁有權益 之股份 數目	Approximate percentage of the Company's share capital 佔本公司股本 之概約 百分比
Qingdao Haier Collective Asset Management Association ("Haier Collective Asset Management")	青島海爾集體資產管理協會 ("海爾集體資產管理")	1	14,590,425,930	79.44
Haier Corp	海爾集團公司	2	14,590,425,930	79.44
Haier Investment	海爾投資	3	14,590,425,930	79.44
Deutsche Bank Aktiengesellschaft ("Deutsche Bank")	德意志銀行 ("德銀")	4	12,645,981,486	68.86
Qingdao Haier Group Holdings (BVI) Limited ("Haier BVI")	青島海爾集團控股(BVI) 有限公司("海爾BVI")	5	9,397,925,930	51.17
Haier Electrical Appliances Third Holdings (BVI) Limited ("Haier Third BVI")	海爾電器第三控股(BVI) 有限公司 ("海爾第三BVI")		1,000,000,000	5.44

Report of the Directors

董事會 報告書

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES (Cont'd)

主要股東於股份及相關股份之權益 (續)

Short positions in the underlying Shares:

相關股份之淡倉：

Name of shareholder	股東名稱	Note 附註	Number of underlying Shares interested 擁有權益之 相關股份數目	Approximate percentage of total shareholding 佔股權總額 之概約百分比
Deutsche Bank	德銀	4	3,926,774,819	21.38

Long positions in underlying Shares:

相關股份之好倉：

Name of shareholder	股東名稱	Note 附註	Number of underlying Shares interested 擁有權益之 相關股份數目	Approximate percentage of total shareholding 佔股權總額 之概約百分比
Haier BVI	海爾BVI	5	944,444,444	5.14

Notes:

- By virtue of the SFO, Haier Collective Asset Management was deemed to be interested in (i) 3,366,000,000 Shares held by its non-wholly owned subsidiary, namely Haier Investment and (ii) 826,500,000 Shares held by Haier Investment's indirect non-wholly-owned subsidiary. In addition, given Haier Investment was acting in concert with Haier Corp and both Haier BVI and Haier Third BVI are non-wholly-owned subsidiaries of Haier Corp, Haier Collective Asset Management was also deemed to be interested in an aggregate of 9,397,925,930 Shares held by Haier BVI as stated in note 5 below and 1,000,000,000 Shares held by Haier Third BVI pursuant to the SFO.

Ms. Yang Mian Mian, Mr. Wu Ke Song and Mr. Liang Hai Shan, the executive directors of the Company, are also the members of the board of management of Haier Collective Asset Management.

- As both Haier BVI and Haier Third BVI are the non-wholly-owned subsidiaries of Haier Corp, Haier Corp was deemed to be interested in an aggregate of 9,397,925,930 Shares held by Haier BVI as stated in note 5 below and 1,000,000,000 Shares held by Haier Third BVI pursuant to the SFO.

Furthermore, as Haier Corp was acting in concert with Haier Investment, Haier Corp was deemed to be interested in 3,366,000,000 Shares held by Haier Investment and 826,500,000 Shares held by a non-wholly-owned subsidiary of Haier Investment.

Ms. Yang Mian Mian, Mr. Wu Ke Song and Mr. Liang Hai Shan, the executive directors of the Company, are also the members of the management committee of Haier Corp.

附註：

- 根據證券及期貨條例，海爾集體資產管理被視為擁有(i) 其非全資附屬公司海爾投資所持有之3,366,000,000股股份；及(ii) 海爾投資之間接非全資附屬公司持有之826,500,000股股份。此外，由於海爾投資與海爾集團公司乃一致行動，而海爾BVI及海爾第三BVI均為海爾集團公司之非全資附屬公司，故此根據證券及期貨條例，海爾集體資產管理亦被視為於下文附註5所述海爾BVI持有之合共9,397,925,930股股份及海爾第三BVI持有之1,000,000,000股股份中擁有權益。

本公司執行董事楊綿綿女士、武克松先生及梁海山先生亦為海爾集體資產管理理事會之成員。

- 由於海爾BVI及海爾第三BVI為海爾集團公司之非全資附屬公司，故此根據證券及期貨條例，海爾集團公司被視為於下文附註5所述海爾BVI持有之合共9,397,925,930股股份及海爾第三BVI持有之1,000,000,000股股份中擁有權益。

此外，由於海爾集團公司與海爾投資乃一致行動，故海爾集團公司被視為於海爾投資所持有之3,366,000,000股股份及海爾投資之非全資附屬公司持有之826,500,000股股份中擁有權益。

本公司執行董事楊綿綿女士、武克松先生及梁海山先生亦為海爾集團公司管理委員會之成員。

Report of the Directors

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES (Cont'd)

Notes: (Cont'd)

3. Haier Investment was holding 3,366,000,000 Shares and was deemed to be interested in 826,500,000 Shares held by its indirect non-wholly-owned subsidiary. Moreover, Haier Investment was deemed to be interested in an aggregate of 9,397,925,930 Shares held by Haier BVI as stated in note 5 below and 1,000,000,000 Shares held by Haier Third BVI pursuant to the SFO by reason of its acting in concert with Haier Corp.

Ms. Yang Mian Mian and Mr. Cui Shao Hua, the executive directors of the Company, are also directors of Haier Investment.

4. Deutsche Bank has a long position in 12,645,981,486 Shares. In addition, it has a short position in 3,926,774,819 underlying Shares (the "DB Shares") acquired pursuant to an agreement dated 16 November 2005 entered into between Deutsche Bank and CCT Telecom Holdings Limited. In addition, pursuant to a subscription agreement dated 16 November 2005 entered into between Deutsche Bank and Haier BVI, Haier BVI agreed to issue and Deutsche Bank agreed to subscribe for warrants in respect of the 3,926,774,819 DB Shares which, upon exercise, will entitle the holder to put such Shares to Haier BVI.
5. Haier BVI was holding 4,526,706,667 Shares. In addition, Haier BVI was acting in concert with Deutsche Bank pursuant to an undertaking letter dated 5 January 2006 executed by Haier BVI and Deutsche Bank, pursuant to which Deutsche Bank agreed that, unless otherwise agreed and subject to the exceptions set out therein, Deutsche Bank will not sell or dispose of any of the 3,926,774,819 DB Shares (as defined in note 4 above). Accordingly, Haier BVI was deemed to be interested in the DB Shares pursuant to the SFO.

Haier BVI was also interested in 944,444,444 underlying Shares under the convertible notes as part of the consideration pursuant to an agreement dated 5 March 2004 entered into between Haier Corp, Haier Investment and the Company respectively.

Ms. Yang Mian Mian and Mr. Wu Ke Song, the executive directors of the Company, are also the directors of Haier BVI.

Save as disclosed above, as at 31 December 2006, no other person, other than the directors or the chief executive of the Company, whose interests are set out in the section headed "Directors' interests and short positions in the Shares and underlying Shares" above, had registered an interest or a short position in the Shares or underlying Shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

董事會 報告書

主要股東於股份及相關股份之權益 (續)

附註：(續)

3. 海爾投資持有3,366,000,000股股份，鑑於其與海爾集團公司乃一致行動，故根據證券及期貨條例，其被視為於其間接非全資附屬公司持有之826,500,000股股份中擁有權益，並於下文附註5所述海爾BVI持有之合共9,397,925,930股股份及海爾第三BVI持有之1,000,000,000股股份中擁有權益。

本公司執行董事楊綿綿女士及崔少華先生亦為海爾投資之董事。

4. 德銀擁有12,645,981,486股股份之好倉。此外，根據德銀與中建電訊集團有限公司於二零零五年十一月十六日訂立之協議，其亦擁有根據該協議所購入之3,926,774,819股相關股份（「德銀股份」）之淡倉。此外，根據德銀與海爾BVI於二零零五年十一月十六日訂立之認購協議，海爾BVI同意發行而德銀同意認購涉及3,926,774,819股德銀股份之認股權證，於行使時，持有人有權向海爾BVI認沽該等股份。
5. 海爾BVI持有4,526,706,667股股份。此外，根據海爾BVI與德銀於二零零六年一月五日簽立之承諾書，海爾BVI與德銀乃一致行動，據此，德銀同意，除非經其他方式協定及在當中所載若干例外情況下，德銀將不會銷售或出售任何3,926,774,819股德銀股份（定義見上文附註4）。因此，海爾BVI根據證券及期貨條例被視為於德銀股份中擁有權益。

海爾BVI亦於海爾集團公司、海爾投資與本公司在二零零四年三月五日訂立之協議中作部分代價之可換股票據所涉及之944,444,444股相關股份中擁有權益。

本公司執行董事楊綿綿女士及武克松先生亦為海爾BVI之董事。

除上文所披露者外，於二零零六年十二月三十一日，概無其他人士（所持權益載於上文「董事於股份及相關股份之權益及淡倉」一節之本公司董事或最高行政人員除外）於本公司股份或相關股份中擁有根據證券及期貨條例第336條規定須予記錄之登記權益或淡倉。

Report of the Directors

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

- (a) During the year, the Group disposed of its entire interest in Pegasus Qingdao and Pegasus Electronic to Haier BVI at a consideration aggregating approximately HK\$411 million. In addition, the Group assigned its receivable amounts due from Pegasus Qingdao and Pegasus Electronic aggregating approximately HK\$9 million to Haier BVI on a dollar-for-dollar basis. The aggregate consideration of approximately HK\$420 million was satisfied by way of a promissory note which was interest bearing at 5.2% per annum issued by Haier BVI to the Company and was repayable within one year (the "Promissory Note").

The above transactions were approved by the independent shareholders of the Company at a special general meeting held on 15 June 2006 and were completed on 27 June 2006.

- (b) During the year, the Company acquired from Haier Group its entire 100% interest in Haier SPV at a consideration of HK\$900 million. The consideration was satisfied by:
- (i) offsetting the outstanding principal amount of the Promissory Note of approximately HK\$420 million and its accrued interest of approximately HK\$11 million;
 - (ii) issue of 1 billion ordinary shares of the Company at HK\$0.24 each;
 - (iii) offsetting non-interest-bearing receivables of approximately HK\$60 million due from Haier Group to certain subsidiaries of Haier SPV; and
 - (iv) a payable to Haier Third BVI, a subsidiary of Haier Group, of approximately HK\$169 million which is unsecured, due to be repayable within one year and interest-bearing at 4% per annum.

The above transaction was approved by the independent shareholders of the Company at a special general meeting held on 23 October 2006 and was completed on 31 December 2006.

董事會 報告書

關連交易及持續關連交易

- (a) 年內，本集團向海爾BVI出售其於飛馬青島及飛馬電子之全部權益，代價合共約為411,000,000港元。此外，本集團按等額方式向海爾BVI轉讓其應收飛馬青島及飛馬電子款項合共約9,000,000港元。總代價約420,000,000港元，已由海爾BVI向本公司發出按年利率5.2厘計息及須於一年內償還之承付票據（「承付票據」）支付。

上述交易經本公司獨立股東於二零零六年六月十五日舉行之股東特別大會上批准並於二零零六年六月二十七日完成。

- (b) 年內，本公司以代價900,000,000港元向海爾集團收購其於海爾SPV全部100%權益。代價以下列方式支付：
- (i) 抵銷承付票據之尚餘本金額約420,000,000港元及其應計利息約11,000,000港元；
 - (ii) 按每股0.24港元發行1,000,000,000股本公司普通股；
 - (iii) 抵銷海爾集團結欠海爾SPV若干附屬公司之不計息應收款項約60,000,000港元；及
 - (iv) 應付海爾集團之附屬公司海爾第三BVI之款項約169,000,000港元，乃無抵押、須於一年內償還及按年利率4厘計息。

上述交易經本公司獨立股東於二零零六年十月二十三日舉行之股東特別大會上批准並於二零零六年十二月三十一日完成。

Report of the Directors

董事會 報告書

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS (Cont'd)

- (c) During the year, the Company's subsidiary, Pegasus Qingdao, had the following continuing connected transactions with Haier Corp, Haier Investment, their subsidiaries and associates (collectively referred to as "Haier Affiliates"):

關連交易及持續關連交易 (續)

- (c) 年內，本公司附屬公司飛馬青島與海爾集團公司、海爾投資、它們的附屬公司及聯營公司（統稱為「海爾聯屬人士」）曾進行以下持續關連交易：

		Group 本集團	
		2006 二零零六年 HK\$'000 千港元	2005 二零零五年 HK\$'000 千港元
Notes 附註			
Sales of mobile handset products	銷售移動手機產品	(i) 817,038	1,523,428
Purchases of raw materials	採購原料	(ii) 816,103	606,607
Utility service fee expenses	公用服務費支出	(iii) 2,546	5,745
Interest expenses	利息支出	(iv) 3,517	3,594
Interest income	利息收入	(iv) 248	165
Other service fee expenses	其他服務費支出	(v) 1,230	1,286

Notes:

- (i) The sales of mobile handset products were made at selling prices based on the costs of raw materials plus a processing fee which is not less than the industry standard.
- (ii) The purchases of materials were charged no more than the average market price or the consolidated and integrated tender and bidding price plus a 2.6% commission.
- (iii) Utility service fee expenses were charged based on the state-prescribed prices plus actual administrative costs.
- (iv) Interest expenses and income were determined with reference to the standard rates published by the People's Bank of China.
- (v) Other service fee expenses included legal consulting service fee, general security service fee and human resources service fee which were determined with reference to actual costs incurred.

附註：

- (i) 銷售移動手機產品乃按原料之成本另加加工費（不低於行業標準）計價。
- (ii) 採購原料支出乃根據不超過市場平均價或統一整合競標後之價格另加2.6%佣金計價。
- (iii) 公用服務費支出乃根據國家指定價格另加實際行政成本計價。
- (iv) 利息支出及收入乃參考中國人民銀行頒佈之標準息率釐定。
- (v) 其他服務費支出包括參考所產生實際成本釐定之法律顧問服務費、一般保安服務費及人力資源服務費。

Report of the Directors

董事會 報告書

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS (Cont'd)

(c) (Cont'd)

During the year, the Company's subsidiaries, Qingdao Haier Washing Machine Co., Ltd., Qingdao Jiaonan Haier Washing Machine Co., Ltd., Hefei Haier Washing Machine Co., Ltd., Foshan Shunde Haier Electric Co., Ltd., Foshan Shunde Haier Intelligent Electronic Co., Ltd. and Qingdao Haier Electronics Sales Co., Ltd. had the following continuing connected transactions with Haier Affiliates:

關連交易及持續關連交易 (續)

(c) (續)

年內，本公司之附屬公司青島海爾洗衣機有限公司、青島膠南海爾洗衣機有限公司、合肥海爾洗衣機有限公司、佛山市順德海爾電器有限公司、佛山市順德海爾智能電子有限公司及青島海爾電器銷售有限公司，與海爾聯屬人士曾進行下列持續關連交易：

		Group 本集團	
		For the year ended 31 December 2006 截至 二零零六年 十二月 三十一日 止年度 HK\$'000 千港元	From 28 January to 31 December 2005 二零零五年 一月二十八日 至十二月 三十一日 HK\$'000 千港元
	Notes 附註		
Sales of washing machines	銷售洗衣機 (vi)	346,991	310,782
Purchases of raw materials	採購原料 (vii)	3,105,709	2,405,228
Printing and packaging fee expenses	印刷及包裝費支出 (viii)	4,376	1,730
Mould charges	模具費支出 (ix)	45,640	57,719
Utility service fee expenses	公用服務費支出 (x)	12,441	10,776
Logistics charges	物流費支出 (xi)	125,621	112,042
Promotion fee expenses	宣傳費支出 (xii)	47,984	19,231
Other service fee expenses	其他服務費支出 (xiii)	31,373	13,845
Interest expenses	利息支出 (xiv)	269	—
Interest income	利息收入 (xiv)	1,808	525
Trademark license fee expenses	商標牌照費支出 (xv)	32,315	23,847

Notes:

- (vi) The sales of washing machines were made to Haier Electrical Appliances Co., Ltd. ("Haier Electrical"), a subsidiary of Haier Investment, at selling prices representing differences between the selling prices of washing machines mutually agreed and the selling expenses of Haier Electrical not exceeding 2.5% of the selling prices of washing machines.

附註：

- (vi) 銷售洗衣機予海爾投資之附屬公司海爾集團電器產業有限公司（「海爾電器產業」）之售價乃根據相當於雙方協定之洗衣機售價與海爾電器產業之出售開支（不超過洗衣機售價之2.5%）之差額而進行。

Report of the Directors

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS (Cont'd)

(c) (Cont'd)

Notes: (Cont'd)

- (vii) The purchases of materials were charged based on the lower of the average market price or the consolidated and integrated tender and bidding price plus a 2.6% commission.
- (viii) Printing and packaging fee expenses were charged on an actual cost basis plus a processing fee of not higher than those charged by independent third parties.
- (ix) Moulds were charged with reference to the average market tender and bidding price plus actual administrative costs.
- (x) Utility service fee expenses were charged based on the state-prescribed prices plus actual administrative costs.
- (xi) Logistics charges were charged based on an actual cost basis and on terms more favourable than those offered by independent third parties.
- (xii) Promotion fee expenses were charged based on 1.2% of the domestic sales of washing machines.
- (xiii) Other service fee expenses included legal consulting service fee, catering and travel agency service fee, human resources service fee, general security service fee, product certification service fee and equipment repair and maintenance service fee which were determined with reference to actual costs incurred.
- (xiv) Interest expenses and income were determined with reference to the standard rates published by the People's Bank of China.
- (xv) Trademark license fee expenses were charged at a rate of 0.8% of certain sales made by Qingdao Haier Washing Machine Co., Ltd., Foshan Shunde Haier Electric Co., Ltd., Hefei Haier Washing Machine Co., Ltd. and Qingdao Jiaonan Haier Washing Machine Co., Ltd.

Except for the trademark licence fee expenses, the above transactions were defined as MH Continuing Connected Transactions and Non-exempt Continuing Connected Transactions in the circulars to the shareholders of the Company dated 17 December 2004 and 4 October 2005, respectively, and were approved by the shareholders at special general meetings of the Company held on 4 January 2005 and 24 October 2005, respectively.

董事會 報告書

關連交易及持續關連交易 (續)

(c) (續)

附註：(續)

- (vii) 採購原料乃根據市場平均價或統一整合競標後之價格另加2.6%佣金計價(以較低者為準)。
- (viii) 印刷及包裝費支出乃根據實際成本另加不超過獨立第三方所收取之加工費計價。
- (ix) 模具費支出乃參考平均市場競標後之價格另加實際行政成本計價。
- (x) 公用服務費支出乃根據國家指定價格另加實際行政成本計價。
- (xi) 物流費支出乃按較獨立第三方提供者優厚之條款，根據實際成本計算。
- (xii) 宣傳費支出乃按洗衣機之國內銷售之1.2%計價。
- (xiii) 其他服務費支出包括參考所產生實際成本釐定之法律顧問服務費、餐飲及旅遊代理服務費、人力資源服務費、一般保安服務費、產品驗證服務費及設備維修保養服務費。
- (xiv) 利息支出及收入乃根據中國人民銀行頒佈之標準息率釐定。
- (xv) 商標牌照費乃按青島海爾洗衣機有限公司、佛山市順德海爾電器有限公司、合肥海爾洗衣機有限公司及青島膠南海爾洗衣機有限公司之若干銷售0.8%之比率計價。

除商標牌照費支出外，上述交易分別於二零零四年十二月十七日及二零零五年十月四日致本公司股東之通函中界定為手機持續關連交易及非豁免持續關連交易，並已分別於二零零五年一月四日及二零零五年十月二十四日舉行之本公司股東特別大會獲股東批准。

Report of the Directors

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS (Cont'd)

(c) (Cont'd)

The Stock Exchange has granted conditional waivers to the Company in respect of MH Continuing Connected Transactions and Non-exempt Continuing Connected Transactions from strict compliance with the connected transactions requirements as set out in the Listing Rules for the three financial years ending 31 December 2007.

The independent non-executive directors of the Company have reviewed MH Continuing Connected Transactions and Non-exempt Continuing Connected Transactions set out above and have confirmed that they were:

- (i) less than the cap amounts which were set out in the relevant agreements;
- (ii) entered into in the usual and ordinary course of business of the Group;
- (iii) entered into either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than terms available to or from (as appropriate) independent third parties; and
- (iv) entered into in accordance with the relevant agreements governing them on terms that were fair and reasonable and in the interests of the Group's shareholders as a whole.

- (d) On 25 June 2005, Haier Corp provided a corporate guarantee of RMB70,000,000 (equivalent to approximately HK\$67,307,000) to Haier Group Finance Co., Ltd. ("Haier Finance"), a subsidiary of Haier Corp and a financial institution approved by the People's Bank of China, as a security for banking facilities granted to Pegasus Qingdao for the period from 25 June 2005 to 24 June 2006. Pegasus Qingdao fully utilised the banking facilities as at 31 December 2005. It was disposed of to a subsidiary of Haier Corp during the year.

董事會 報告書

關連交易及持續關連交易 (續)

(c) (續)

聯交所已就手機持續關連交易及非豁免持續關連交易批准本公司在截至二零零七年十二月三十一日止三個財政年度有條件豁免嚴格遵守上市規則所載之關連交易規定。

本公司獨立非執行董事已審閱及確認上述手機持續關連交易及非豁免持續關連交易乃：

- (i) 低於有關協議指定之上限金額；
- (ii) 在本集團之一般及日常業務中進行；
- (iii) 按一般商業條款進行，或如無足夠之可比較交易以判斷是否按一般商業條款進行，則按不遜於本集團給予或獲自獨立第三方(視情況而定)之條款進行；及
- (iv) 按條款公平合理並符合本集團股東之整體利益之有關協議進行。

- (d) 於二零零五年六月二十五日，海爾集團公司向其附屬公司海爾集團財務有限責任公司(「海爾財務」，一間中國人民銀行認可之財務機構)提供人民幣70,000,000元(相等於約67,307,000港元)之公司擔保，作為飛馬青島於二零零五年六月二十五日至二零零六年六月二十四日期間所獲銀行融資之擔保。於二零零五年十二月三十一日，飛馬青島已全數動用上述銀行融資。其已於年內出售予海爾集團公司之一間附屬公司。

Report of the Directors

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS (Cont'd)

- (e) On 30 December 2005, Haier Corp provided a corporate guarantee of RMB30,000,000 (equivalent to approximately HK\$28,846,000) to Haier Finance as a security for banking facilities granted to Qingdao Jiaonan Haier Washing Machine Co., Ltd. for the period from 30 December 2005 to 29 December 2006. Qingdao Jiaonan Haier Washing Machine Co., Ltd. utilised RMB15,000,000 (equivalent to approximately HK\$14,423,000) of the above banking facilities in 2005 and the borrowings were fully repaid during the year.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 43 to the financial statements.

AUDITORS

Ernst & Young retire and a resolution for their re-appointment as auditors of the Company will be proposed at the forthcoming annual general meeting of the Company.

ON BEHALF OF THE BOARD

Yang Mian Mian
Chairman

Hong Kong
23 April 2007

董事會 報告書

關連交易及持續關連交易 (續)

- (e) 於二零零五年十二月三十日，海爾集團公司向海爾財務提供人民幣30,000,000元（相等於約28,846,000港元）之公司擔保，作為青島膠南海爾洗衣機有限公司於二零零五年十二月三十日至二零零六年十二月二十九日期間所獲銀行融資之擔保。年內，青島膠南海爾洗衣機有限公司已動用上述銀行融資之人民幣15,000,000元（相等於約14,423,000港元），有關借貸已於年內全數償還。

足夠公眾持股量

根據本公司所得之公開資料及就董事所知，於本報告日期，本公司全部已發行股本最少25%由公眾人士持有。

結算日後事項

本集團重大結算日後事項之詳情載於財務報表附註43。

核數師

安永會計師事務所將依章告退，在本公司即將舉行之股東週年大會上將提呈決議案續聘其為本公司核數師。

代表董事會

主席
楊綿綿

香港
二零零七年四月二十三日