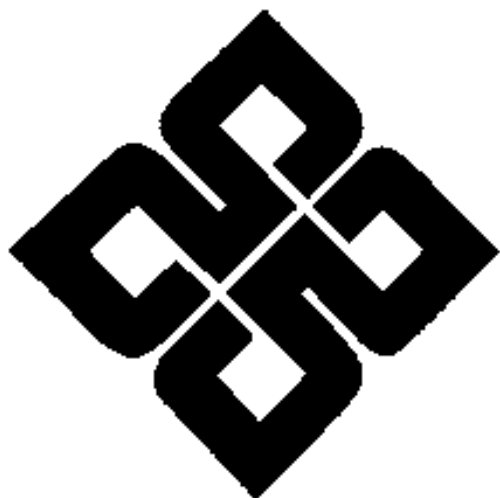


合肥美菱股份有限公司



2006 年 年 度 报 告

Annual Report of Hefei Meiling Co., Ltd.

Important Notice:

Board of Directors, Supervisory Committee, all directors, supervisors and senior executives of Hefei Meiling Co., Ltd. (hereinafter referred to as the Company) hereby confirm that there are no any fictitious statements, misleading statements, or important omissions carried in this report, and shall take all responsibilities, individual and/or joint, for the reality, accuracy and completion of the whole contents.

Sichuan Jun He Certified Public Accountants Co., Ltd and Morison Heng Certified Public Accountants respectively issued standard unqualified Auditors; Report for the Company.

Mr. Zhao Yong, Principal of the Company, Vice-president Mr. Ye Honglin and Secretary of Financial Dept. Mr. Kong Tansheng hereby confirm that the Financial Report of the Annual Report is true and complete.

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Section I. Company Profile
1. Legal Name of the Company

In Chinese: 合肥美菱股份有限公司

In English: HEFEI MEILING CO., LTD.

Abbr. in English: HFML

2. Legal Representative: Mr. Zhao Yong

3. Secretary of the Board of Directors and Securities Affairs Representative

Secretary of the Board of Directors: Xue Hui

Contact address: No.48, Wuhu Road, Hefei

Tel: 0551-2869394 Fax: 0551-2883122

E-mail: wyxuehui@163.com

Securities Affairs Representative: Qi Dunwei

E-mail: secretary@meiling.com

4. Registered Address: No.48, Wuhu Road, Hefei

Office Address: No.48, Wuhu Road, Hefei

Post Code: 230001

Company's Internet Website: <http://www.meiling.com>

E-mail of the Company: info@meiling.com

5. Newspapers Chosen for Disclosing the Information of the Company:

Securities Times, China Securities and Wen Wei Po

Internet Website for Publishing the Annual Report of the Company:

<http://www.cninfo.com.cn>

The Place Where the Annual Report is Prepared and Placed: Secretariat of the Board of Directors, on 2/F of the Company's Office Bldg.

6. Stock Exchange Listed with: Shenzhen Stock Exchange

Short Form of the Stock: MEILINGDIANQI, WANMEILING-B

Stock Code: 000521, 200521

7. Initial registration date: Dec.31, 1992

Initial registration place: Hefei Municipal Administration Bureau of Industrial and Commerce

Registration date after change: Jul.28, 2004

Registration address: Anhui Province Administration Bureau of Industrial and Commerce

Registration number of business license of enterprise legal person: QGWZF Zi No.001684

Registration number of tax: GSW Zi No.34010414918555X

Domestic Certified Public Accountants Engaged by the Company:

Name: Sichuan Jun He Certified Public Accountants Co., Ltd

Address: 22nd Floor, Guoxin Square, No.88, Ba Bao Street, Chengdu, Sichuan

International Certified Public Accountants Engaged by the Company:

Name: Morison Heng Certified Public Accountants

Address: 17th Floor, No.1, Hysan Avenue, Causeway Bay, Hong Kong

Section II. Summary of Financial Highlight and Business Highlight

1. Total profit of the Company and constitution as of the year 2006

Unit: RMB

Items	Amounts
Total profit	12,548,541.46
Net profit	11,965,716.54
Net profit after deducting non-recurring gains and losses	4,201,265.67
Profit from main operations	431,291,161.60
Other operating profit	1,636,641.47
Operating profit	9,674,964.07
Investment income	738,416.55
Subsidy income	1,622,900.00
Net non-operating income/expenses	512,260.84
Net cash flows arising from operating activities	13,475,867.01
Net increase in cash and cash equivalents	-
	19,291,555.68

Items of non-recurring gains and losses and the involved amounts are as following:

Items	Amount before tax	Impact on income tax	Amount of deducting
Net profit before deducting			11,965,716.54
Less: Income from transfer of asset	30,004.03		30,004.03
Net income from penalty	509,199.79		509,199.79
Income from government subsidy	1,622,900.00		1,622,900.00
Switching back provision for the depreciation of inventories	7,315,150.00	-	7,315,150.00
Switching back provision for devaluations of fixed assets	830,137.84	-	830,137.84
Total of decrease	10,307,391.66	-	10,307,391.66
Add: Losses from disposal of fixed assets	22,384.43		22,384.43
Expenses of overdue payment	4,500.00		4,500.00
Other non-operating expenses	58.55		58.55
Withdrawal of provision for the depreciation of inventories	642,995.30		642,995.30
Losses of clearing the long-term equity investment	1,873,002.51		1,873,002.51
Total of increase	2,542,940.79		2,542,940.79
Net profit after deducting			4,201,265.67

2. The net profit as of year 2006 was RMB 11,966 thousand as audited according to the Chinese Accounting Standards and that was RMB 21,343 thousand as audited by Morison Heng Certified Public Accountants according to the International Financial Reporting Standards. The differences are stated as follows:

Unit: RMB;000

	Net profit as of year 2006	Net assets as at Dec.31, 2006
As report under PRC statutory financial statements	11,966	875,500
IFRS adjustments:		
Provision for maintaining expenses	(646)	(13,928)
Recalculation of financial assets in accordance with IAS No.39	(1,158)	(234,534)
Depreciation of fixed assets	(1,291)	13,462
Depreciation of intangible assets	11,347	-
Other	1,125	(19,063)
According to International Accounting Standards	21,343	621,437

3. Main accounting data and financial indexes

Unit: RMB

Items	2006	2005	2004
Income from main operations	2,760,792,099.10	2,022,018,592.24	1,438,633,867.16
Net profit	11,965,716.54	6,658,981.44	16,767,740.47
Total assets	2,372,505,077.32	2,439,936,423.58	2,357,408,266.18
Shareholders' equity	875,499,801.20	863,654,084.66	856,947,103.22
Earnings per share (weighted)	0.0289	0.016	0.04
Earnings per share (diluted)	0.0289	0.016	0.04
Earnings per share (deducting non-recurring gains and losses)	0.01	-0.03	0.03
Net assets per share	2.12	2.09	2.07
Net assets per share after adjustment	2.09	1.63	1.22
Net cash flow per share arising from operating activities	0.033	0.15	0.36
Return on equity (%) (diluted)	1.37	0.77	1.96
Return on equity (%) (weighted)	1.39	-1.46	1.98

3. Supplemental statement of profit distribution

Items	Profit as of report period	Return on equity		Earnings per share	
		Fully diluted	Weighted average	Fully diluted	Weighted average
Profit from main operations	431,291,161.60	49.26%	50.01%	1.0427	1.0427
Operating profit	9,674,964.07	1.11%	1.12%	0.0234	0.0234
Net profit	11,965,716.54	1.37%	1.39%	0.0289	0.0289
Net profit after deducting non-recurring gains and losses	4,201,265.67	0.48%	0.49%	0.0102	0.0102

Explanation:

(1) In accordance with the notice No.9 of Rules on Information Disclosure of Companies Publicly Issuing Stock, the total amount of ordinary share was 413,642,949 shares at the end of year 2006 and 2005 and was calculated based on the calculating method of weighted average.

Calculation formula of major financial indexes:

Earnings per share= Net profit/Total ordinary share at the year-end

Net assets per share= Shareholder's equity at the year-end / Total ordinary share at the year-end

Return on equity= Net profit/Shareholder's equity at the year-end; 100%

Net assets per share after adjustment= (Shareholder's equity at the year-end " accounts receivable of more than three years " expenses to be apportioned " long-term expenses to be apportioned)/Total ordinary share at the year-end

Net cash flow per share arising from operating activities= Net cash flow arising from operating activities/ Total ordinary share at the year-end

(2) Non-recurring gains and losses are calculated based on Q&A for Standard on the Information Disclosure of Companies Publicly Issuing Stock (No.1) " Non-recurring gains and losses.

(3) Weighted average return on equity is calculated based on net profit after deducting non-recurring gains and losses as of report period. The calculating method of the said index referred to the Rules on Information Disclosure of Companies Publicly Issuing Stock (No.9)

4. Particulars about changes in shareholders' equity during the report period and reasons

Unit: RMB/Share

Item	Share capital	Capital reserve	Surplus reserve	Statutory Public welfare fund	Undistributed profit	Total
Amount at period-begin	413642949.00	571817478.72	219246331.19	65643217.32	-406695891.57	863654084.66
Increase in this period	--	7040000.00	65643217.32	--	11965716.54	84648933.86
Decrease in this period	--	--	--	65643217.32	--	65643217.32
Amount at period-end	413642949.00	578857478.72	284889548.51	0	-401890175.03	875499801.20
Reason for Changes	--	Transfer-in of appropriation	Transfer-in of public welfare fund	Transfer-out of public welfare fund	Gains this year	

Section III. Changes in Capital Shares and Particulars about Shareholders

(I) Changes in share capital

1. Particulars about the changes in shares of the Company (ended of Dec.31, 2006)

Unit: Share

	Before the change		Increase/Decrease of this time (+, -)					After the change	
	Amount	Proportion	New shares issued	Bonus shares	Capitalization of public reserve	Others	Subtotal	Amount	Proportion
I. Unlisted shares	149,012,606	36.02%						149,012,606	36.02%
1. Sponsors; shares	44,129,967	10.67%				82,852,683	82,852,683	126,982,650	30.70%
Including: State-owned share	40,543,692	9.80%				82,852,683	82,852,683	123,396,375	29.83%
Domestic legal person;s shares	3,586,275	0.87%						3,586,275	0.87%
Foreign legal person;s shares	0	0.00%						0	0.00%
Others	0	0.00%						0	0.00%
2. Raised legal person;s shares	22,029,956	5.33%						22,029,956	5.33%
3. Inner employees; shares	0	0.00%						0	0.00%
4. Preference shares or others	82,852,683	20.03%				-82,852,683	-82,852,683	0	0.00%
II. Listed shares	264,630,343	63.98%						264,630,343	63.98%
1. RMB ordinary share	151,530,343	36.63%						151,530,343	36.63%
2. Domestically listed foreign shares	113,100,000	27.34%						113,100,000	27.34%
3. Overseas listed foreign shares	0	0.00%						0	0.00%
4. Others	0	0.00%						0	0.00%
III.Total shares	413,642,949	100.00%						413,642,949	100.00%

2. Issuance and Listing of shares

In 1996, through approval by China Securities Regulatory Commission, the Company issued 100 million shares of domestically listed foreign shares (B-shares) at the price of RMB 3.30 per share on Aug.14, 1996, which was listed with Shenzhen Stock Exchange for trading on Aug.28, 1996.

In June 1997, the Company implemented the dividend distribution plan by distributing bonus shares at the rate of 3.5 shares for every 10 shares. As a result, the share capital increased by 82.3549 million shares, up to 380,226,255 shares.

From July 29 to August 11, 1997, the Company conducted allotment for A-shares (at the rate of 2.22 shares for every 10 shares). Totally 33.4167 million shares were placed and were listed on Aug.23, 1997. Up to then, the Company's total share capital increased to 413,642,949 shares.

(II) About shareholders

1. Particular about amount of shareholders and shares held by the shareholders

Unit: Share

Total amount of shareholders		72,247			
Particulars about shares held by the top ten shareholders					
Name of Shareholders	Nature of shareholder	Proportion of shares held	Total of shares held	Numbers of non-tradable shares held	Number of share pledged or frozen
Hefei Meiling (Group) Holdings Co., Ltd.	State-owned shareholder	29.83%	123,396,375	0	0
Fang Jingwen	Foreign shareholder	0.56%	2,333,600	0	0
Yongsheng Industrial Co., Ltd.	Foreign shareholder	0.55%	2,308,000	0	0
Chen Rongsheng	Foreign shareholder	0.51%	2,117,500	0	0
Long Qinfang	Foreign shareholder	0.43%	1,791,266	0	0
Hefei Industrial and Commercial Bank	Other	0.41%	1,707,750	0	0
Anhui Guofeng Group Co., Ltd.	Other	0.41%	1,707,750	0	0
Anhui Agricultural Bank and Trust Hefei Office	Other	0.37%	1,536,975	0	0
Anhui Industrial and Commercial Bank International Business Department	Other	0.37%	1,536,975	0	0
China Cinda Assets Management Company	Other	0.37%	1,536,975	0	0
Particulars about shares held by the top ten shareholders of tradable shares					
Name of Shareholders		Number of tradable shares held		Type of shares	
Fang Jingwen		2,333,600		Domestically listed foreign share	
Yongsheng Industrial Co., Ltd.		2,308,000		Domestically listed foreign share	
Chen Rongsheng		2,117,500		Domestically listed foreign share	
Long Qinfang		1,791,266		Domestically listed foreign share	

CHEN YI QING	1,610,459	Domestically listed foreign share
Zhu Yinan	1,414,020	Domestically listed foreign share
CAO SHENGCHON	1,406,400	Domestically listed foreign share
Huang Guoqiang	1,370,600	Domestically listed foreign share
LI XOXONG	1,369,500	Domestically listed foreign share
Hefei Meicheng Vacuum Forming Co., Ltd.	1,305,300	RMB common share
Explanation on associated relationship or accordant action among the aforesaid shareholders	Among the top ten shareholders, there existed no associated relationship or belong to the concerted actors as specified in the Measures for the Administration of Information Disclosure of Shareholder Equity Changes of Listed Companies; as the Company has no idea on whether there exists any business relationship among other shareholders of tradable shares or they belong to the concerted actors as specified in the Measures for the Administration of Information Disclosure of Shareholder Equity Changes of Listed Companies.	

Explanation:

(1) In accordance with Hefei Arbitration Commission Arbitration Letter-(2006) HZZi No.104, Guangdong Greencool Enterprise Development Co., Ltd returned 20.03% legal persons shares of the Company to Hefei Meiling (Group) Holdings Co., Ltd, and the registration procedure of share transferring has been finished on Dec.29, 2006; the Company also received the Transfer Registration Confirmation from China Securities Depository and Clearing Corporation Limited Shenzhen Company, and confirmed that the registration and transfer procedures between the aforesaid two companies was finished. After the transferring, Meiling Group held 123,396,375 shares of the Company, which accounted for 29.83% in total issued shares of the Company. Guangdong Greencool no longer held the shares of the Company.

On May 18, 2006 and Jan.11, 2007, Meiling Group respectively signed Share Transfer Agreement of Meiling Electric Appliance and Share Transfer Supplementary Agreement of Meiling Electric Appliance with Sichuan Changhong Electric Appliance Co., Ltd and Sichuan Changhong Electric Group Co., Ltd. Meiling Group planed to transfer its holding 82,852,683 shares among 123,396,375 shares to Sichuan Changhong and Changhong Group in the method of agreement transfer, of which Sichuan Changhong Electric Appliance Co., Ltd accepted 45,000,000 shares and Sichuan Changhong Electric Group Co., Ltd accepted 37,852,683 shares. At present, the transferring procedure was in process.

(2) There existed no pledged or frozen shares held by Hefei Meiling (Group) Holdings Co., Ltd.

2. Brief introduction on controlling shareholder and actual controller

The controlling shareholder of the Company, Hefei Meiling (Group) Holdings Co., Ltd., was an operation organization of stated-owned capital built in the method of state-owned assets authorized operation approved by Hefei GZW, it was founded on Dec.24, 1997, and now it was the first largest shareholders of the Company. The main business of the company is management and operations of state-owned equity. Legal representative: Wang Jiazhang; registered capital: RMB 0.3 billion; address: No.48, Wuhu Road, Hefei, Anhui; main business: washing machines, VCD, water heater, plastic products, packing products, copper products, hotel, transportation and property management, etc.

According to the Share Transfer Agreement of Meiling Electric Appliance and Share Transfer Supplementary Agreement of Meiling Electric Appliance of Meiling Group respectively signing with Sichuan Changhong Electric Appliance Co., Ltd and Sichuan Changhong Electric

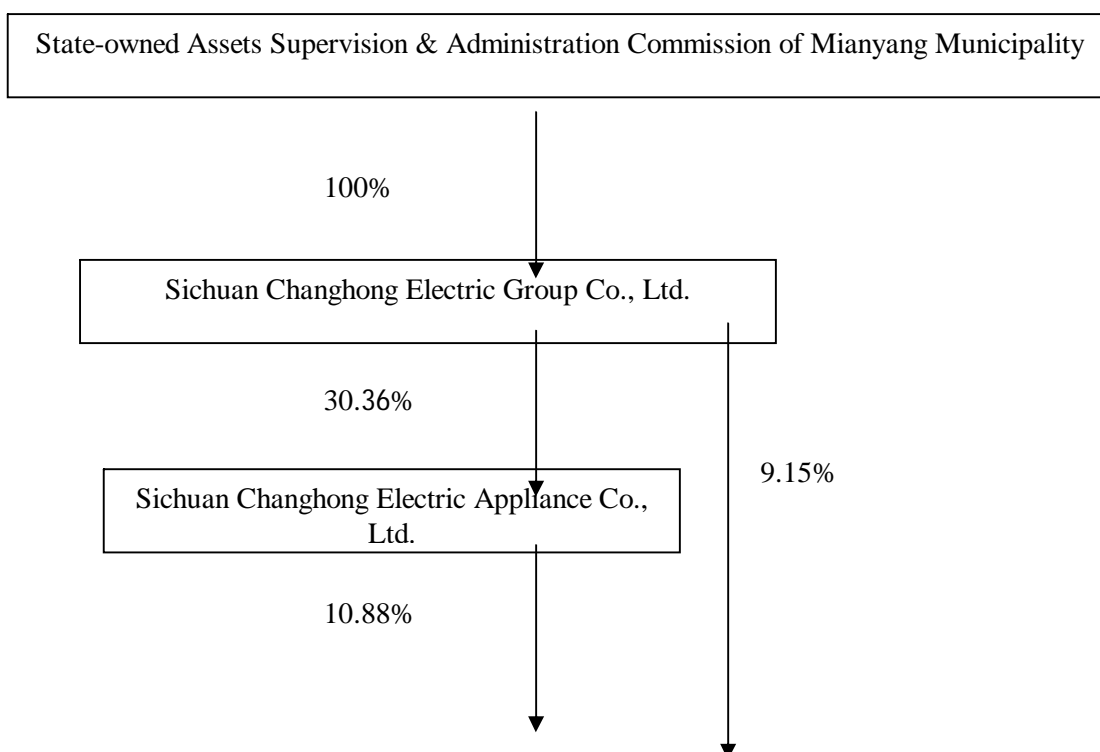
Group Co., Ltd, Sichuan Changhong Electric Appliance Co., Ltd and Sichuan Changhong Electric Group Co., Ltd are the actual controllers of the Company.

Sichuan Changhong Electric Appliance Co., Ltd.: Legal representative: Mr. Zhao Yong; registered capital: RMB 1,898,210,000; registered address: No.35, Mianxing (E) Road, Hi-tech Zone, Mianyang, Sichuan; business scope: video products, audiovisual products, air-conditioner products, refrigerator products and small household appliance products, serious of buttry products, network products, serious of laser read-write products, satellite TV & Broadcast ground receiving equipment, video movie, electric medicine products, electrical equipment, security technology products, organization products, digital camera, communication and computer products, manufacture and sales of chemical industry products, highway transportation, packaging products and technical service; maintenance and sales of electric products and components; house leasing; entrepot trade, electronic commerce, hi-tech risk investment and other state-permitted business.

Sichuan Changhong Electric Group Co., Ltd.: Legal representative: Mr. Zhao Yong; registered capital: RMB 398,540,000; registered address: Hi-tech Development Zone, Mianyang, Sichuan; business scope: manufacturing and sales of household appliance, automobile electric appliance, electronic products and components, products of information network, electronic commerce, new-type materials, electric products, environmental products, communication transmission facilities, and manufacture and sales of electrical equipment.

Sichuan Changhong Electric Group Co., Ltd holds 576,203,793 shares of Sichuan Changhong Electric Appliance Co., Ltd, which accounts for 30.36% in total shares of Sichuan Changhong.

The actual controller of Sichuan Changhong Electric Group Co., Ltd is State-owned Assets Supervision & Administration Commission of Mianyang Municipality. Equity structure chart of the Company is as follows:



Hefei Meiling Co., Ltd.

Section IV. Particulars about Directors, Supervisors, Senior Executives and Employees

1. Shares held by directors, supervisors and senior executives, their office term and remuneration

Name	Title	Sex	Age	Office term	Shares held at year-begin	Shares held at year-end	Reason for change	Total remuneration drawn from the Company in the report period (RMB;0000)	Drawing remuneration from shareholders; units or other related units or not
Zhao Yong	Chairman of the Board	Male	44	Feb.11, 2006-May 28, 2008	0	0		0.00	Yes
Wang Jiazhang	Vice Chairman of the Board	Male	56	May 28, 2005-May 28, 2008	13,477	77,977	Government encouragement	46.19	No
Li Jin	Director	Male	40	Feb.10, 2006-May 28, 2008	0	0		0.00	Yes
Jiang Jizhi	Director	Male	60	May 28, 2005-May 28, 2008	0	10,800	Government encouragement	27.50	No
Wang Yong	President	Male	40	Mar.3, 2006-May 28, 2008	0	0		29.71	No
Ye Honglin	Vice President	Male	36	Nov.13, 2005-May 28, 2006	0	0		26.22	No
Li Daijiang	Vice President	Male	41	Nov.13, 2005-May 28, 2008	0	0		26.11	No
Xuehui	Vice President	Male	44	May 28, 2005-May 28, 2008	0	0		39.97	No
Wei Wei	Independent Director	Male	52	May 28, 2005-May 28, 2008	0	0		5.40	No
Zhuo Wenyan	Independent Director	Male	69	May 28, 2005-May 28, 2008	0	0		5.40	No
Wu Hanhong	Independent Director	Male	50	May 28, 2005-May 28, 2008	0	0		5.40	No
Fei Mingying	Chairman of Supervisory Committee	Female	49	Feb.10, 2006-May 28, 2008	0	0		0.00	Yes
Yu Xiao	Supervisor	Male	39	Feb.10, 2006-May 28, 2008	0	0		0.00	Yes
Yang Jun	Supervisor	Male	37	Feb.10, 2006-May 28, 2008	0	0		0.00	Yes
Yong Fengshan	Supervisor	Male	39	May 28, 2005-May 28, 2008	0	0		5.40	Yes
Total					13,477	88,777		231.33	

Main work experience of directors, supervisors and senior executives for the recent five years:
 (1) Zhao Yong, Male, Han nationality, was born in Santai, Sichuan dated June, 1963, Member

of CPC, Senior Engineer and Post Doctorate. He ever held the posts of Deputy General Manager, Vice Chairman of the Board, Member of Standing CPC Committee, General Manager, Vice Secretary of CPC Committee of Sichuan Changhong Electric Appliance Co., Vice Chairman of the Board, Member of Standing CPC Committee, Vice Secretary of CPC Committee of Sichuan Changhong Electric Group Co., Ltd. and Deputy Mayor and Member of CPC Organization of Mianyang City; now he holds the posts of Chairman of the Board and Secretary of CPC Committee of Sichuan Changhong Electric Group Co., Ltd., Chairman of the Board and Secretary of CPC Committee of Sichuan Changhong Electric Appliance Co., and Chairman of the Board of Hefei Meiling Co., Ltd.

(2) Wang Jiazhang, Male, Han nationality, successively held the posts of Assistant of Factory Director and Vice Factory Director of Hefei Refrigerator Headquarter, and Vice Chairman of the Board and Chairman of the Board of Hefei Meiling Co., Ltd.; now he holds the posts of Chairman of the Board and Secretary of CPC Committee of Hefei Meiling (Group) Holdings Co., Ltd., and Vice Chairman of the Board of the Company.

(3) Li Jin, Male, Han nationality, was born in Anhua, Hunan dated April, 1967, Member of CPC and Senior Engineer with Doctor's Degree. He has been in charge of Head of Air-conditioner Research Center of Air-conditioner Division, Deputy Minister of Air-conditioner Department and concurrently chief engineer of Sichuan Changhong Electric Appliance Co., Ltd., and General Manager of Changhong Air-conditioner Corp., etc. Now he holds the posts of Director, Member of CPC Committee, and Deputy General Manager of Sichuan Changhong Electric Appliance Co., Ltd., and Director of the Company.

(4) Jiang Jizhi, Male, Han nationality, Accountant, successively held the posts of Chief of Account Department, Chief Accountant of Hefei Meiling Co., Ltd., General Manager of Sales Company and General Manager of Hefei Meiling Washing Machine Co., Ltd, and now he holds the posts of Director and Standing Deputy General Manager of Hefei Meiling (Group) Holdings Co., Ltd. and Director of the Company.

(5) Wang Yong, Male, Han nationality, was born in Ziyang, Sichuan dated July, 1967, Engineer with Bachelor's Degree. He graduated from radio-technology major of Shanghai Jiao Tong University in July 1990 and then worked at Sichuan Changhong Electric Appliance Co., Ltd. He ever took the posts of Director of Management Committee in Marketing Management Department, Head of Administration Office, Vice Minister, and Deputy General Manager of Changhong Electric Appliance (China) Marketing Corp. and concurrently General Manager of North China Operation & Administration Center, etc. Now he is President of the Company.

(6) Ye Honglin, Male, Han nationality, was born in Pujiang, Sichuan dated December, 1971, Senior Accountant with Bachelor's Degree. He graduated from Finance major of Southwest University of Finance & Economics in 1995 and started to work at Sichuan Changhong Electric Appliance Co., Ltd.; he ever held the positions of General Manager of Inner Bank and Deputy Minister of Finance Department, etc.; now he is Vice President of the Company.

(7) Li Daijiang, Male, Han nationality, was born in Shifang, Sichuan dated October, 1966, Member of CPC and Statistician with Bachelor's Degree. He graduated from statistics major of Southwest University of Finance & Economics in July, 1987 and then worked at Sichuan Changhong Electric Appliance Co., Ltd.; he ever held the posts of Head of Price Department, Minister of Price Department, Vice Minister of Comprehensive Management Department and Vice Minister of the Ministry of Materials, etc. Now he is Vice President of the Company.

(8) Xue Hui, Male, Han nationality, successively held the posts of Director and concurrently General Manager of Hefei Huazhen Senior Composite Material Co., Ltd., Chief of Capital

Management Office of Daxipu International Industry (Anhui) Co., Ltd., Standing Deputy General Manager of Anhui Chang'an Electronic Co., Ltd. and concurrently General Manager of Sales Company; now he holds the posts of Vice President and Secretary of the Board of the Company.

(9) Wei Wei, Male, Han nationality, Doctor's Degree, Professor and Instructor of doctoral students, well posted up in macro economy, successively held the posts of President of Economic Institute of Anhui University, Vice Principal of Anhui University and School Members of the Party committee; now he holds the posts of President of Anhui Academy of Social Sciences and Independent Director of the Company.

(10) Zhuo Wenyan, Male, Han nationality, Professor, China CPA, Instructor of master degree students of Anhui University of Finance and Economics, holds the posts of Director of Accounting Society of China, Standing Director of Anhui CPA Institute, and Independent Director of the Company.

(11) Wu Hanhong, Male, Han nationality, Doctor's Degree, Professor and Instructor of doctoral students, holds the posts of Director of China Association of Foreign Economic Doctrine Studies, Secretary-general of Beijing Association of Foreign Economic Doctrine Studies, Senior Visiting Scholar of Universite Catholique De Louvain in Belgium, and Independent Director of the Company.

(12) Fei Mingying, Female, Han nationality, was born in Su County, Anhui dated November 1958, Member of CPC and Economist with Bachelor's Degree; she ever held the posts of Director of Audit Office, Minister of Audit Ministry of Law, etc. of Sichuan Changhong Electric Appliance Co., Ltd. Now she holds the posts of Supervisor, Deputy Secretary of Committee for Disciplinary Inspection and Minister of Ministry of Audit of Sichuan Changhong Electric Appliance Co., Ltd., and Chairman of Supervisory Committee of the Company.

(13) Yu Xiao, Male, Han nationality, was born in Yiwu, Zhejiang dated August, 1968, Member of CPC, Senior Accountant with Bachelor's Degree. He graduated from accounting major of Sichuan University in July, 1990, and now he holds the posts of Minister of Financial Department of Sichuan Changhong Electric Appliance Co., Ltd. He ever held the posts of Deputy Director General of Finance & Accounting Office, Deputy Director General of Finance & Accounting Office of Sales Department, and Deputy Minister of Sales Department, etc. of Sichuan Changhong Electric Appliance Co., Ltd., and now he is Supervisor of the Company.

(14) Yang Jun, Male, Han nationality, was born in Mianyang, Sichuan dated March, 1970, Member of CPC. He graduated from Business Administration major of Sichuan Institute of Business Administration (Master's Degree) in 2005, and now he is Minister of Assets Operation Department of Sichuan Changhong Electric Appliance Co., Ltd. He ever held the posts of Senior Manager and Vice Minister of Assets Operation Department, etc. of Sichuan Changhong Electric Appliance Co., Ltd, and now he is Supervisor of the Company.

(15) Yong Fengshan, Male, Han nationality, Accountant, successively held the posts of Director Assistant of Operation Department, Head of Financial Department of Hefei Cable Plant, Director and concurrently Deputy Chief Accountant of Financial Department of Hefei Meiling Co., Ltd. Now he holds the posts of Director and Deputy General Manager of Hefei Meiling (Group) Holdings Co., Ltd., and Supervisor of the Company.

2. Particulars about director and supervisor holding concurrent office in Shareholding

Company

Name	Unit	Title	Start date of office term	End date of office term	Drawing remuneration and allowance or not
Zhao Yong	Sichuan Changhong Electric Appliance Co., Ltd. Sichuan Changhong Electric Group Co., Ltd	Chairman of the Board	June 28, 2005	June 28, 2008	Yes
Wang Jiazhang	Hefei Meiling (Group) Holdings Co., Ltd.	Chairman of the Board	2002	-----	No
Li Jin	Sichuan Changhong Electric Appliance Co., Ltd	Director and Deputy GM	June 28, 2005	June 28, 2008	Yes
Jiang Jizhi	Hefei Meiling (Group) Holdings Co., Ltd.	Director and Deputy GM	2002	-----	No
Yong Fengshan	Hefei Meiling (Group) Holdings Co., Ltd.	Director and Deputy GM	2003	-----	Yes

3. Foundation of annual remuneration

Foundation of annual remuneration received by directors, supervisors and senior executives: the Company conducted the performance examination on the task of directors, supervisors and senior executives according to the resolution of the 11th meeting of the 4th Board of Directors, the relevant policies of labor authority and the checking system of linking their office position wages with performance; then the remuneration is decided and implemented on the basis of evaluation result which has been examined and approved by the Board of Directors or the Shareholders; General Meeting. The Company respectively paid allowance of Independent Directors of RMB 54,000 to every independent director per year based on the decision of the 11th meeting of the 4th Board of Director.

4. Particular of the change of Director, Supervisor and Senior Executive

(1) The Company held the 1st Extraordinary Shareholders; General Meeting of 2006 on Feb.10, 2006; the meeting examined and approved Proposal on Electing Mr. Zhao Yong and Mr. Li Jin as Directors of the 5th Board of Director.

(2) The Company held the 1st Extraordinary Shareholders; General Meeting of 2006 on Feb.10, 2006; the meeting examined and approved Proposal on Electing Ms. Fei Mingying, Mr. Yu Xiao and Yang Jun as Supervisors of the 5th Supervisory Committee.

(3) The Company held the 10th Extraordinary Meeting of the 5th Board of Director on Feb.11, 2006, the meeting elected Mr. Zhao Yong as Chairman of the Board of the Company and legal representative of the Company.

(4) The Company held the 5th Meeting of the 5th Supervisory Committee on Feb.11, 2006; 5 supervisors were supposed to be present and actually all of them attended the meeting. The meeting elected Ms. Fei Mingying as Chairman of the 5th Supervisory Committee.

(5) The Company held the 11th Extraordinary Meeting of the 5th Board of Directors on Mar.3, 2006; the meeting examined and approved Proposal on Change in Partial Senior Executives of the Company, and decided to engage Mr. Wang Yong as President of the Company.

(6) The Company held the 15th Extraordinary Meeting of the 5th Board of Directors on July 27, 2006; the meeting agreed Mr. He Jinqi resigned his post of Vice President of the Company

due to work.

5. The number of employees, professional composition, education background and retirement
The Company has 2,781 employees, including 243 professionals holding medium and senior professional titles, 1,584 production personnel, 700 salespersons, and 201 administrative personnel. 854 of them hold college degrees or above. The Company did not bear the expenses of retired staff and there are only 161 internally retired staff members. Professional composition of employees is as follow:

Professional	Number	Proportion
Production personnel	1584	56.96%
Salesperson	700	25.16%
Administrative personnel	201	7.24%
Technicians	121	4.36%
Financial personnel	123	4.43%

Section V. Administrative Structure

I. Company Administration

In the report period, in strict accordance with the requirements in Company Law, Securities Law, Code of Corporate Governance for Listed Companies in China, and other relevant laws and regulations as well as Articles of Association, the Company endlessly perfected its legal person administration structure, promoted its administration lever in all respects, and standardized its operation. In the report period, Relevant administrative system was modified, a decision-making and management system with the Shareholders; General Meeting, the Board of Directors, Supervisory Committee and management level as the main structure was formed, and the practical condition of the Company's administration accorded with the requirements on the administration of listed companies of standard documents promulgate by Code of Corporate Governance for Listed Companies and China Securities Regulatory Commission.

1. Shareholders and Shareholders; General Meeting: The Company formulated Rules of Procedures of the Shareholders; General Meeting, could convene and hold the Shareholders; General Meeting in strict accordance with the requirements of Articles of Association and the Standard Opinion of Shareholders; General Meeting, tried its best to let more shareholders attend Shareholders; General Meeting and fully exercise their rights of their own, and ensured that all the shareholders, especially small and medium shareholders, could enjoy equal status.

2. Controlling shareholders and listed companies: With standard behaviors, the controlling shareholders of the company didn't exceeded the Shareholders; General Meeting to intervene the decision-making and management activities directly or indirectly, and all the significant decisions were made by Shareholders; General Meeting or Board of Directors of the Company according to law. There were no such cases occurring as the Company guaranteed for related parties and the controlling shareholders occupied the assets of the Company and other assets

by violating the regulations. The Board of Directors, Supervisory Committee and every internal institution could operate independently, and the Company formulated standard system, trying to keep the related transactions fair and reasonable and the transaction price objective and equitable.

3. Directors and the Board of Directors: The Company elected directors in strict accordance with the director electing and engaging processes prescribed by Articles of Association and the member formation of the Board of Directors was in accordance with the requirements of laws and regulations. The Company formulated standard Rules of Procedures of the Shareholders; General Meeting and System of Independent Director, and the ratio of independent directors in the Board of Directors met statutory requirements; the meetings of the Board of Directors proceeded in strict accordance with rules laid down, and all the director could attend the Board of Directors and the Shareholders; General Meeting seriously and conscientiously, performed their obligations and responsibilities in good faith and diligence, and ensured a scientific and fair decision-making of the Board of Directors.

4. Supervisors and Supervisory Committee: The Company had set up Supervisory Committee, and the numbers and member formation of the Supervisory Committee were in accordance with the requirements of Articles of Association and relevant laws and regulations. The Company formulated Rules of Procedures of the Supervisory Committee; all the supervisors could earnestly perform their duties, supervise the treasurers, directors, presidents as well as other senior executives of the Company to see if they could perform their duties by laws and regulations, and safeguard the legitimate rights and interests of the Company and its shareholders.

5. Performance valuation as well as encouragement binding mechanism: The Company continued to promote and perfect the equitable, transparent and normative performance valuation standard and encouragement binding mechanism for directors, supervisors and senior executives, and link their salaries with the Company's achievements and personal performances, in order to arouse the positivity and creativity of senior executives and ensure the rapidly and well continuous development of the Company.

6. Interest correlatives: The Company could fully respect and safeguard the legitimate rights and interests of banks, other creditors, employees of the Company, consumers, and other interest correlatives, and actively cooperate with the interest correlatives to jointly promote the continuous and healthy development of the Company. In the report period, the economic benefits of the Company, the interest of shareholders, the income of employees and social benefits had all grown with a bigish increase over the same period.

7. Information disclosure: In strict accordance with the requirements of Stock Listing Rules of Shenzhen Stock Exchange and Articles of Association, the Company disclosed relevant information truly, accurately, integrally and timely, and ensured that all the shareholders enjoy the right of acquiring the information equally, fully incarnating the importance of information disclosure in the administrative structure of the Company.

II. Performances of Independent Directors

According to the relevant provisions of the Guiding Opinions on the Establishment of Independent Director System in Listed Companies promulgated by China Securities Regulatory Commission, the Company has integrated independent director system in Articles of Association. At present, 3 independent directors of the Company was in compliance with the requirement of CSRC, since the tenancy, the 3 independent directors were able to attend

to the Board of Directors and the Supervisory Committee in the report period, actively learned the particulars about the various operations of the Company, fulfilled their obligations with earnest, expressed independent opinions for the related transactions as well as operation decision-making of the Company, performed an active function on the scientific decision-making of directors and the development of the Company, and preserved the interest of the Company and all shareholders in a diligent and responsible attitude as independent directors.

1. Particulars about independent director attending the Board of Directors:

Name of independent directors	Due presence at the Board of this year (times)	Presence in person (times)	Entrusted presence (times)	Absence (times)	Notes
Wei Wei	12	12	0	0	---
Zhuo Wenyan	12	12	0	0	---
Wu Hanhong	12	12	0	0	---

2. Particulars about independent director presenting different opinion on the relevant items of the Company:

In the report period, the 3 independent directors had no different opinion on various proposals of the Annual Board of Meeting and other events of the Company.

III. Separation between the Company and its controlling shareholder in terms of business, personnel, assets, organization and finance

The Company separated from the controlling shareholder Hefei Meiling (Group) Holdings Co., Ltd. in terms of business, personnel, assets, finance and organization, examined and calculated independently, and undertook responsibility and risks independently.

1. Business. The Company had independent and integral business and self-operating ability; the Company set up specialized purchasing and sales departments, and operated and managed the Company's business independently; the production and operating personnel were independent of the controlling shareholders.

2. Personnel. The Company possessed its own independent labor, human resource, and salary management departments and established its own labor, personnel, and salary management systems; the senior executives of the Company didn't hold concurrent posts in the controlling shareholders' units, but all drew their remuneration in the Company.

3. Assets. There was a clear property right and integrated asset between the Company and the controlling shareholder and the production system and supporting facilities were independent of the controlling shareholder.

4. Organization. The Company established its own organizations completely independent of the controlling shareholder, and the Board of Directors, Supervisory Committee and internal organization could operate independently; there were no actions existing of the controlling shareholder's intervening the operation decision of the Company.

5. Finance. The Company possessed independent financial and accounting departments, established independent accounting calculation system and financial management system,

opened its account with the bank and declared to pay taxes independently.

IV. Valuation and Encouragement Mechanism for Senior Executives

In the report period, the Company consistently perfected fair, transparent and normative valuation standards and encouragement binding mechanism on the directors, supervisors and senior executives; the duties of the executives were confirmed in the post obligation system of the Company.

The Company conducted the distribution assessment system based on the work achievements on the senior executives. According to the post duty of individuals and evaluation of work achievements and the economic benefits of the Company, the company distributed salary to the senior executives.

Section VI. Shareholders; General Meeting

I. The Annual Shareholders; Meeting of the Company

Annual Shareholders; Meeting 2005 was held on May 18, 2006, and the relevant resolutions were published on China Securities, Securities Times and Hong Kong Wen Wei Po dated May 19, 2006.

II. Extraordinary Shareholders; Meeting of the Company

The 1st Extraordinary Shareholders; Meeting 2006 was held on Feb.10, 2006, and the relevant resolutions were published on China Securities, Securities Times and Hong Kong Wen Wei Po dated Feb.11, 2006.

The 2nd Extraordinary Shareholders; Meeting 2006 was held on Nov.11, 2006, and the relevant resolutions were published China Securities, Securities Times and Hong Kong Wen Wei Po dated Nov.14, 2006.

Section VII. Report of the Board of Directors

I. Management Discussion & Analysis

Year 2006 was the first year for the strategic cooperation between Sichuan Changhong and Hefei Meling. In accordance with the annual management policy of ;Focusing on market, improving the quality, raising the efficiency and increasing the market share;, we attained the success of strategic reorganization of enterprise, and simultaneously realized a fairly rapid growth of Meiling history.

Main achievements:

1. In the respect of sales, the market share on both domestic and overseas market of Meiling increased significantly.

The putting forward of the new sales strategy of ;Brave Sword Attack; in domestic market and the implementation of independent operating system of step by step imitation greatly emancipated the productive forces, successfully realized the moving down of sales focus and moving forward of decision-making, and made the domestic market reach the rapidest growth; the subdivision of the market region enhanced the channel construction of the overseas market, actively adjusted the structure of the export products, expanded the proportion of high value-added products, added the technical and value contents to export products, and increased its gross profit.

2. In the technical field, the high-tech products sprang up.

The Company established the inter-system and inter-departmental new product exploitation

and technical research committee, founded chief scientist mechanism, integrated resources, greatly speeded up the bringing out of new products, and strengthened the research and development fighting capacity, so that the Meiling refrigerator emerged in thick and fast: the daily electricity consumption of Meiling Terminator II refrigerator was only 0.29 kilowatt-hours; the original TOP temperature variation & fruit and vegetable SPA fresh-kept refrigerator; products of air-cooled refrigerator successfully opened up the market of North America; the first domestic five-door refrigerator Athena got off the production line; -164 °C cryogenic refrigerator had reached successful research and development.

3. The manufacturing system and product quality achieved increasingly promotion.

The continuous launching of on-the-spot 5S activities, fine techniques activities and overall quality control greatly improved the quality of the products; the promotion of the factories; simulating independent calculation enhanced the economic calculation work, strengthened the operation awareness of every factory, and increased the economic benefit.

4. The construction of high and new-tech industry garden was boosted, and the embryonic form of the largest refrigerator base in Asia began to appear.

The project (Phase 1) of Changhong & Meiling high and new-tech industry garden started working on Feb.28, 2006, and was put into production on Jan.20, 2007 after one year of construction; the Phase 2 project started working simultaneously, and it could newly increase the production capacity of 2,000,000 refrigerators, greatly relieved the shortage of production capacity. It was estimated that after the whole industry garden was built up in 2008, the production capacity of refrigerators and freezers would reach 5,000,000, and as a unit, the industry garden would become the largest refrigerator production base in Asia.

5. The operation and management obtained enhancement.

The management of operation budget was strengthened, and with the development of new business, the budget management working was shifted from the conservative control mode to the attacking service mode; entirely according with the budget and simultaneously making an active supporting to the business development were emphasized; at the same time, the system of monthly operating analysis meeting was established to find out the problems in operation through the analysis and work out measures to solve them, in order that the operation efficiency and operation quality of the Company could be increasingly improved.

II. Scope of main business and operating status

1. Scope of main business

The Company belongs to the industry of household appliance, mainly engaged in the R&D, manufacturing and sales of the refrigerators, and the scope of principal businesses includes the manufacturing, sales and service of various household refrigerators and auxiliary parts, and the sales and service of other household appliance products.

2. Operation based on products in 2006:

Unit: RMB;0000

Items	Income from main operations	<u>Cost of main operations</u>	Gross profit ratio (%)	Increase/decrease in income over the same period of last year (%)	Increase/decrease in cost over the same period of last year (%)	Increase/decrease in gross profit ratio over last year (%)
Refrigerators (freezer)	276,079.21	231,905.18	16.00	36.54	38.63	-1.29
Total	276,079.21	231,905.18	16.00	36.54	38.63	-1.29

3. Operation in 2006 classified according to areas:

Unit: RMB;0000

Areas	The current year			The last year		
	Income	Cost	Gross profit ratio	Income	Cost	Gross profit ratio
Export	77,053.09	75,564.51	1.93%	62,664.30	62,007.40	1.05%
Domestic sales	199,026.12	156,340.67	21.45%	139,537.56	105,275.41	24.55%
Total	276,079.21	231,905.18	16.00%	202,201.86	167,282.81	17.27%

4. Operations and achievements of main holding and share-holding companies:

Unit: RMB;0000

Units	Type of economy	Main operations	Registered capital	Proportion of shares held by the Company	Scale of assets	Net profit
Hefei Meiling Packaging Co., Ltd.	Domestic joint venture	Production and sales of corrugated paper	USD 3.067 million	48.28%	12248.63	10.66
Zhongke Meiling Low Temperature Technology Co., Ltd.	Domestic joint venture	Refrigerators and freezer with low temperature	RMB 60 million	70.00%	12108.44	194.28
Hefei Meiling Real Estate Development Co.Ltd.	Domestic joint venture	Real estate Development	RMB 20 million	90.00%	2001.60	--

5. Main suppliers and customers:

Unit: RMB

Total purchasing amount of the top five supplier	65,064,218.66	Proportion in total purchasing amount	2.61%
Total sales amount of the top five customers	1,851,111,673.91	Proportion in the total sales amount	67.05%

6. Problems and difficulties from the operation and their solutions

In 2006, household appliance enterprises face new external environment and market situation; the main existing problems are as follows:

- i. The price fluctuation of materials increases the difficulty of cost controlling;
- ii. The durative appreciation of RMB lead to the increased pressure on export cost;
- iii. The domestic market share of Meiling did not remain high; the brand image is not good enough;
- iv. The industry competition intensifies.

Aiming at the aforesaid existing problems, the Company prepared to adopt the following countermeasures:

- i. Establish strategic cooperation partner with sub-suppliers, and strengthen the management of external supplier.
- ii. Continuously promote the strategic cost reduction, enhance the competitive power of the product.
- iii. Put emphasis on the plan of market brand communication; improve the brand image of Meiling. Continuously develop the medium and top products, enhance the brand value of Meiling.

7. Alterations on accounting policy and accounting estimation of the Company, and influences on financial status and business results of the Company after implementing the New Accounting Standards in 2007.

i. Balance of long-term equity investment

According to the 5th article of Accounting Standard for Business Enterprises No.38 - First time adoption of Accounting Standards for Business Enterprises and the regulations of Accounting Standard for Business Enterprises No.20 - Business Combinations, the long-term equity investment arising from the combination of enterprises under the same control, balance of long-term equity investment that haven;t been amortized yet should totally offset retained earnings. Other long-term equity investment calculated by equity method, balance of loan should be wrote off existed in creditor balance of equity investment and adjusted the retained profits.

The holding subsidiary of the Company Zhongke Meiling Low Temperature Technology Co., Ltd. belong to the long-term equity investment that adopted equity calculation method under the same control, offset credit balance of equity investment of Zhongke Meiling Low Temperature Technology Co., Ltd. that not yet finished amortization amounting to RMB 2,771,209.53, increased owner;s equity amounting to RMB 2,771,209.53 on Jan.1, 2007, including the increase in owner;s equity attributable to parent company amounting to RMB 2,771,209.53.

ii. Income tax

According to the regulations of Accounting Standard for Business Enterprises No.18 - Income taxes, the Company cleaned up the book value and basis of calculating tax on Dec.31, 2006,

after the cleaning, the Company found no other material provisional differences except deductible temporary differences arising from appropriation of provision for devaluation of assets. The Company estimate that these deductible sum temporary differences could affirm deferred income tax assets amounting to RMB 10,851,314.63 according to applicable tax rate of the holding subsidiaries of the Company that bringing into the scope of consolidated financial statements, meanwhile, increased retained earnings of the Company amounting to RMB 10,851,314.63 on Jan.1, 2007, including the increase in owner;s equity attributable to parent company amounted to RMB 10,533,421.07, and increase attributable to minority shareholders; equity amounted to RMB 317,893.56.

Ended Dec.31, 2006, the Company still suffered losses amounting to RMB 401,890,175.03; these losses were mainly resulted from the losses in 2001 and 2003, according to the 11th article of Provisional Regulations of the People's Republic of China on Enterprises Income Tax and 28th article of Detailed Rules for the Implementation of the Provisional Regulations of the People's Republic of China on Enterprise Income Tax, the losses can be deducted with pre-tax profit in the future five year, the losses in 2001 have already exceeded the time limit of pre-tax profit deduction, and the losses in 2003 still have two years (2007 and 2008) to deduct the pre-tax profit, at the same time, considered the regulation of 15th article in Accounting Standard for Business Enterprises No.18 - Income Taxes, need to make a decision on taxable income in the future, as the Company has already formed deductible temporary difference amounting to RMB 32,882,771.61, it;s uncertain that if there;s enough taxable income in the future to deduct these losses. Therefore, the Company hasn;t confirmed relevant deferred income tax assets of losses in previous years.

iii. Minority shareholders; equity

(i) The minority shareholders; equity in (consolidated) financial statement compiled on Dec.31, 2006 in accordance to existing accounting standards amounted to RMB 18,300,652.32, which was calculated in shareholders; equity according to new accounting standard and relatively resulted in the increase attributable to shareholders; equity amounting to RMB 18,300,652.32 on Jan.1, 2007;

(ii) Due to the subordinate subsidiary appropriate provision for devaluation of assets which formed deductible temporary differences, and confirmed the increased equity of deferred income tax assets that attributable to minority shareholders; equity amounting to RMB 317,893.56.

Integrate the aforesaid point (i) and (ii), the minority shareholders; equity under new accounting standard amounted to RMB18, 618,545.88.

iv. Other events requiring explanation

The Company held 8,173,000 legal-person shares of Hefei Department Store Co., Ltd. (000417), which accounting for 3.32% of its registered capital. According to the regulations of Administrative Measures on Share Merger Reform of Listed Companies by Merging Shares, after the Share Merger Reform of Hefei Department Store Co., Ltd., the shares held by the Company could be listed and circulated after Mar.9, 2007, before that are restricted tradable shares, and can not be transferred. According to the regulation of Accounting Standard for Business Enterprises No.22 - Recognition and Measurement of Financial Instruments and 1st article of Accounting Standard for Business Enterprises No.2 - Long-term Equity Investments, only existing active market and reliable measurement of fair value can be recognized as financial assets measured by fair value or tradable financial assets, others that exist no active market and reliable measurement of fair value should be recognized as long-term equity

investment and calculate with cost method. Hefei Department Store Co., Ltd. held by the Company were still restricted on Dec.31, 2006, can not take relevant trade price of circulating shares as its fair value, and it's difficult to affirm the fair value of the equity in other manners. Therefore, when implement the new accounting standard on Jan.1, 2007, the Company still recognize it as long term equity investment, and calculated with cost method in accordance to the regulations of Accounting Standard for Business Enterprises No.2 - Long-term Equity Investments.

III. Investment of the Company in the report period

1. The use of the raised proceeds in the report period:

In current year, there was no share allotment or the use of the proceeds raised through shares allotment continuing to the report period.

2. Investment of the non-raised proceeds through shares offering in the report period:

Unit: RMB;0000

Name of investment project	Amount at the period-begin	Increased in this period	Transferring out in this period	Amount at the period-end
Fixed assets	84,794.43	1,672.34	253.62	86,213.15
Construction in progress	1,604.40	650.53	593.96	1,661.86

IV. Analysis on operating results and financial status in the report period

1. Operating results and cash flow

Unit: RMB

Name of indexes	2006	2005	Increase/decrease (%)
Income from main operations	2,760,792,099.10	2,022,018,592.24	36.54
Profit from main operations	431,291,161.60	344,249,045.67	25.28
Operating expense	276,744,673.36	191,276,409.37	45.06
Management expense	106,553,680.32	106,422,872.27	-0.34
Financial expense	39,954,485.32	42,549,942.65	-6.10
Investment earnings	738,416.55	1,321,095.64	-44.11
Non-operating income/expense	512,260.84	-346,742.28	247.74
Net profit	11,965,716.54	6,658,981.44	79.69
Net increase in cash and cash equivalents	-19,291,555.68	-8,327,473.47	-7.96

Reason for changes:

- i. The increase in the income from main operation mainly resulted from the rise in sales volume of refrigerators
- ii. The main reason for the increase in operating expenses was that, as the refrigerator market competed fiercely, the Company increased relevant expenses such as market construction cost,

advertising cost, transportation cost, customer service charge, etc. in order to enlarge the market share of every branch.

iii. The main reason for the decrease in gains from investment was that, the Company cleared the losses of the controlling subsidiary Anhui Anhong Plastic Co., Ltd.

iv. The increase in non-operating income and expense mainly resulted from the increase in the claims on quality of the year.

v. The increase in net profit mainly resulted from the increase in the main operation of the Company

2. Analysis on financial status of the Company

Name of indexes	2006	2005	Increase/decrease (%)
Accounts receivable	270,510,386.36	95,783,745.92	182.42
Other receivables	17,688,375.41	197,109,389.28	-91.03
Notes receivable	145,033,876.33	62,462,728.72	132.19
Intangible assets	713,380,644.23	742,972,757.95	-3.98
Total assets	2,372,505,077.32	2,439,936,423.58	-2.76
Shareholders' equity	875,499,801.20	863,654,084.66	1.37

Reason for changes:

i. The increase of 182.42% over last year in accounts receivable mainly resulted from the increase in the export accounts receivable of the Company and the accounts receivable from Hefei Changhong Meiling Refrigeration Co., Ltd.

ii. The main reason for the decrease of -91.03% over last year in other receivables was that, the Company withdrew the amount of RMB 194,079,303.91 from the related party Hefei Meiling Washing Machine Co., Ltd. this year.

V. Business development plan of the New Year

In 2007, with the operating and guiding idea of ;People-oriented, make top-quality products, well establish the new region, striving for first level with keeping second; as the core, the Company persist in developing the spirit of brave sword, promote the strategic cost reducing work, intensify the basic management, keep people-oriented, strengthen market exploitation and development, promote information-based construction, try our best to well establish the new region, enhance sustainable developing ability of Meiling.

1. Continuously develop the spirit of brave sword in domestic marketing, continue to optimize the simulated independent running mechanism of subsidiary, intensify the channel construction, network construction, regional market construction, marketing team construction, the plan on product and market, enhance the operational management capability, network coverage, and market share in the third and fourth market of subsidiaries, enhance the brand value, increase

the market shares.

- ◆ Establish key strategic regional market, form strategy focus; beat competitors with advantages.
- ◆ Expand the planning strengthen on differential top product, the plan on market and promotion, improve the brand image, realize the top break through, and enhance the brand value.
- ◆ Adapt the requirement of refrigerator in rapidly increasing rural market, design and develop high performance-price ratio products which suit the rural markets.
- ◆ Actualize the project of ; thousand cities, 10 thousand shops; , put emphasis on network construction in the third and forth market.
- ◆ Strengthen the plan on terminal promotion and brand promotion activities so as to enhance the brand image and brand value of Meiling.

2. In the aspect of oversea marketing, the Company will strengthen the management function construction of regional marketing, take measures of adjustment and optimization of product structure, customer structure and market structure, through channel construction and development of air-cooled products, realize the object of increase in amounts and income.

3. Completely start the project of top-quality product, strengthen the technology innovation, speed up the development and launch of new product, adapt the demand of new countryside construction, put emphasis on development of products aiming at the third and forth markets to meet the needs of rural consumers.

4. Further deal with the construction of industry park project phase-II and the remove of old industry area; exert the production capability to the maximum extent, improve the production efficiency and labor productivity. Continuously promote the independent simulated calculation of manufactory, enhance the economic benefit of the manufactory. Develop total quality management activities, introduce advanced methods and measures of quality management, intensify the quality improvement, and enhance the quality of the product.

5. Strengthen the strategic purchase, do sufficient research of materiel supply market, integrate the resources of internal departments and external supply resources, make perfect project of every materiel purchases, guarantee the materials be supplied in time, reduce the cost of materials to the maximum extent.

6. Startup the project of talent personnel, insist on people-oriented, well accomplish the reserve cadre construction. Startups the project of information-based construction, perfect the ERP system, promote the project of PDM, CRM, SCM, improve the enterprise management level.

VI. Routine work of the Board of Directors

1. Meetings and resolutions of the Board of Directors in the report year

(I) The 9th meeting of the 5th Board of Directors was held on Jan.4, 2006 and the public notice of the resolutions was published on China Securities, Securities Times and Hong Kong Wen Wei Po dated Jan.7, 2006.

(II) The 10th meeting of the 5th Board of Directors was held on Feb.11, 2006 and the public notice of the resolutions was published on China Securities, Securities Times and Hong Kong Wen Wei Po dated Feb.12, 2006.

(III) The 11th meeting of the 5th Board of Directors was held on Mar.3, 2006 and the public notice of the resolutions was published on China Securities, Securities Times and Hong Kong

Wen Wei Po dated Mar.5, 2006.

(IV) The 12th meeting of the 5th Board of Directors was held on Apr.9, 2006 and the public notice of the resolutions was published on China Securities, Securities Times and Hong Kong Wen Wei Po dated Apr.12, 2006.

(V) The 16th meeting of the 5th Board of Directors was held on Aug.23, 2006 and the public notice of the resolutions was published on China Securities, Securities Times and Hong Kong Wen Wei Po dated Aug.25, 2006.

(VI) The 18th meeting of the 5th Board of Directors was held on Oct.25, 2006 and the public notice of the resolutions was published on China Securities, Securities Times and Hong Kong Wen Wei Po dated Oct.27, 2006.

(VII) The 20th meeting of the 5th Board of Directors was held on Jan.9, 2007 and the public notice of the resolutions was published on China Securities, Securities Times and Hong Kong Wen Wei Po dated Jan.16, 2007.

2. Implementation of the Board of Directors on resolutions of Shareholders; General Meeting
In the report period, the Company totally held one Annual Shareholders; General Meeting and two Extraordinary Shareholders; General Meeting. The Board of Directors performed their duties strictly according to Articles of Association of the Company and relevant regulations, and seriously implemented all resolutions of Shareholders; General Meeting.

VII. The profit distribution preplan and predicting profit distribution policy 2006

1. The profit distribution preplan

Since there occurred a loss in the operation in 2001 and 2003, at present the accumulative retained profits were RMB -401,890,175.03. Thus, the Company decided neither to distribute profits nor convert reserve into share capital in 2006. The profit distribution plan would be carried out after losses offsetting.

The said preplan should be submitted to Annual Shareholders; General Meeting 2006 for consideration after being examined and approved by the Board of Directors.

2. Predicting profit distribution policy in 2007

In 2007, the profit would be used for offset losses in priority and profit distribution would be conducted after offsetting losses.

VIII. Other reporting issues

In 2006, the newspapers designated by the Company for information disclosure were China Securities, Securities Times and Wen Wei Po. In 2007, the newspapers designated by the Company for information disclosure are China Securities, Securities Times and Wen Wei Po.

Section VIII. Report of the Supervisory Committee

I. Meetings of the Supervisory Committee in the report period

In the report period, besides attending the Shareholders; General Meeting 2005 and each meeting in 2006 of the Board of Directors of the Company as non-voting delegates, the Supervisory Committee held the following meetings and the main contents are as follows:

1. On Feb.11, 2006, the 5th meeting of the 5th Supervisory Committee was held in the A16 meeting room on the trade centre of Changhong. 5 supervisors should have attended the meeting, and actually 5 supervisors did, which was conformed to the relevant regulations of the Company Law and Articles of Association of the Company. With voting by open ballots,

the followings were approved: Electing Ms. Fei Minying the Chairman of the 5th Supervisory Committee, Proposal on Sale Agency of Meiling's Refrigerator by Changhong.

2. On Apr.9, 2006, the 6th meeting of the 5th Supervisory Committee of the Company was held. 5 supervisors should have attended the meeting, and actually 5 supervisors did, which was conformed to the relevant regulations of the Company Law and Articles of Association of the Company. With voting by open ballots, the followings were approved: Work Report 2005 of the Supervisory Committee, Annual Report 2005 and Summary of Annual Report 2005, Financial Settlement Report 2005, Preplan on Profit Distribution 2005 and Profit Distribution Plan 2006, Proposal on Revising the Articles of Association, Proposal on Revising the Rules and Procedures of the Shareholders' General Meeting, Proposal on Revising the Rules and Procedures of the Supervisory Committee, and Proposal on Liquidating the Debts of Hefei Meiling Washing Machine Co., Ltd.

II. Independent opinions of the Supervisory Committee on relevant events of 2006

On Mar.5, 2007, the Supervisory Committee held a meeting and examined and approved Work Report 2006 of the Board of Directors of the Company and relevant events, released independent opinions on the following events:

1. Operation according to laws

In the report period, the members of Supervisory Committee listed and attended the meetings of Board of Directors and Shareholders' General Meetings, the Supervisory Committee took for that in current year, the decision-making procedures of the Company were conformed to the laws, the internal control system of the Company was established and completed, there found no behaviors of breaking laws, regulations, Articles of Association or doing any harm to the interest of the Company by the directors and senior executives of the Company when performing their duties.

2. Inspection of the financial status of the Company

In the report period, the Supervisory Committee checked the business and financial status of the Company and its share-holding and holding subsidiaries, examined and approved the Financial Annual Report, Semi-annual Report and other documents which submitted by the Board of Directors, the Supervisory Committee took for that the financial report truly and fairly reflected the financial status and operation results of the Company. Sichuan Jun He Certified Public Accountants Co., Ltd. have audited the accounting statement of the Company on Dec.31, 2006 and issued unqualified Auditors' Report JHSZi [2007] No.1093, the Supervisory Committee considered that the auditors' opinion issued by Sichuan Jun He Certified Public Accountants Co., Ltd. was true and objective.

3. In the report period, the Company hasn't had any behavior of purchasing or selling assets transaction.

4. Related transactions

In the report period, Sichuan Jun He Certified Public Accountants Co., Ltd. issued JHSZi [2007] No. Specific Explanation for the Company's Fund Occupancy by Related Parties and External Guarantee of Hefei Meiling Co., Ltd., the Supervisory Committee took for that the price of the related transactions happened in the report period of the Company was fair and reasonable, which didn't do any harm to the interest of non-related shareholders or the Listed Company.

5. Before and in the report period, the Company hasn't forecast the realized profit, so there was no difference between the amounts of realized profit and forecast profit.

Section IX. Significant Events

I. The Company had not been involved in any material lawsuits or arbitrations in the report period.

II. The Company had no purchase or sale of assets in the report period

III. Significant transactions of the Company in the report period

1. Purchasing of merchandise

i. Pricing policy

The Company purchased material from the related enterprises in open bidding according to market price.

ii. Lists on purchasing of merchandise from the related parties

Unit: RMB;0000

The related parties	The related transaction	Amount of related transaction	Account for purchasing of merchandise of the report period (%)	Settlement method
Hefei Meiling Precision Tube Co., Ltd.	Material and refrigerator fittings	4,457.08	1.79%	Note
Hefei Meiling Non-ferrous Metal Products Co., Ltd.	Material and refrigerator fittings	2,799.39	1.12%	Note
Hefei Meiling Hengtong Glass Products Co., Ltd.	Material and refrigerator fittings	2,244.97	0.90%	Note
Meiling-Equator Household Appliance (Hefei) Co., Ltd.	Material and refrigerator fittings	144.62	0.06%	Note
Meiling Electronic Co., Ltd.	Material and refrigerator fittings	80.71	0.03%	Note
Meiling Refrigeration Equipments Co., Ltd.	Material and refrigerator fittings	85.44	0.03%	Note
Hefei Meiling Packaging Co., Ltd.	Material and refrigerator fittings	8,689.40	3.49%	Note
Sichuan Changhong Electric Appliance Co., Ltd	Material and refrigerator fittings	82.69	0.03%	Note
Hefei Changhong Meiling Refrigeration Co., Ltd.	Material and refrigerator fittings	781.81	0.31%	Note
Hefei Meiling Economic Development Co., Ltd.	Material and refrigerator fittings	2,006.54	0.81%	Note
Total			8.58%	

2. Sales of merchandise

i. Pricing policy

The sales of the Company to Meiling Washing Machine Co., Ltd and Anhong Plastic Co., Ltd were conducted publicly according to the market price of the same merchandise.

ii. Lists on sales of merchandise to the related parties

Unit: RMB;0000

Name of the Enterprise	The related transaction	Amount of related transaction	The same period of last year	Settlement method
Hefei Meiling Precision Tube Co., Ltd.	Selling products	78,608.56	297,474.57	Note
Hefei Meiling Hengtong Glass Products Co., Ltd.	Selling products	4,370,502.52	3,776,330.46	Note
Hefei Meiling Non-ferrous Metal Products Co., Ltd.	Selling products	16,294.97	538,617.71	Note
Meiling Electric Appliance Fittings Manufacture Co., Ltd.	Selling products	4,800.00	--	Note
Hefei Meiling Economic Development Co., Ltd.	Selling products	20,003.43	3,507,765.88	Note
Hefei Meiling Packaging Co., Ltd.	Selling products	991.97	--	Note
Meiling Electronic Co., Ltd.	Selling products	667,264.95	444,444.44	Note
Meiling Aokai Electric Appliance Co., Ltd.	Selling products	5,590,266.68	--	Note
Meiling Industrial & Trading Co., Ltd.	Selling products	2,517.95	1,057.26	Note
Hefei Meiling Solar Energy Science and Technology Co., Ltd.	Selling products	43,376.07	--	Note
Meiling Refrigeration Equipments Co., Ltd.	Selling products	4,700.85	2,598,557.67	Note
Sichuan Changhong Mould & Plastic Technology Co., Ltd.	Selling products	161,752.14	--	Note
Meiling-Equator Household Appliance (Hefei) Co., Ltd.	Selling products	38,388.89	--	Note
Hefei Changhong Meiling Refrigeration Co., Ltd.	Selling products	67,046,066.20	--	Note
Sichuan Changhong Electric Appliance Co., Ltd	Selling products	1,646,019,974.66	--	Note
Hefei Meiling Solar Energy Science and Technology Co., Ltd.	Selling products	43,376.07	297,474.57	Note

The Company's explanations on the necessity and continuity of the related transaction:

In the material purchasing of related transaction, to some extent the gap of raw material can be guaranteed, and it could make sure of the normal operation of Company and reduce the production cost.

The purpose of the aforesaid transaction was to make sure of the normal production and operation of the Company and reduce the production cost. The related transaction belonged to normal durative long-term transaction; the price of transaction was based on market, the transaction amount was calculated on amount of actual occurring; it did not do harm to the Company.

3. In the report period, the creditor's rights and liabilities or guarantee between the Company and the related parties:

(I) Creditor's rights and liabilities between the Company and the related parties

Unit: RMB;0000

The related parties	Funds the listed company providing for the related party		Funds the related party providing for the listed company	
	Occurring amount	Balance	Occurring amount	Balance
Hefei Meiling Washing Machine Co., Ltd.	---	----	19,407.93	0.00
Hefei Meiling Real Estate Development Co., Ltd.	----	----	26.64	1.60
Meiling Property Management Co., Ltd.	----	----	8.96	10.48
Hefei Changhong Meiling Refrigeration Co., Ltd.	----	----	83.94	61.35
Total	----	-----	19527.47	7.43

Explanations:

i. Hefei Meiling Washing Machine Co., Ltd. totally occupied funds of the Company amounting to RMB 194,079,300. According to the requirement of settling the arrearage of related parties within the regulated time limit by the Supervision Department, Hefei Meiling (Group) Holdings Co., Ltd. repaid the arrearage that Hefei Meiling Washing Machine Co., Ltd. owed the Company amounting to RMB 194,079,300 in cash on Sep.30, 2006, thus the arrearage of related parties of the Company has already been liquidated completely.

(II) Guarantee between the Company and the related parties in the report period

i. Ended Dec. 31, 2006, the guarantee for loan of the Company from the shareholder Hefei Meiling (Group) Holdings Co., Ltd. was amounting to RMB 75.5 million.

ii. External guarantee, guarantee for subsidiaries and guarantee of breaking regulations of the Company

Unit:;0000

Particulars about the external guarantee of the Company (barring the guarantee for controlling subsidiaries)						
Name of the Company guaranteed	Date of happening (date of signing agreement)	Amount of guarantee	Guarantee type	Guarantee term	Complete Implementation or not	Guarantee for related party (yes or not)
---	----	----	0----	----	----	----
Total amount of guarantee during the report period						0.00
Total balance of guarantee at the end of the report period						0.00
Guarantee of the Company for the controlling subsidiaries						
Total amount of guarantee for controlling subsidiaries during the report period						4,000.00
Total balance of guarantee for controlling subsidiaries at the end of the report period						4,000.00
Total amount of guarantee of the Company (including guarantee for controlling subsidiaries)						

Total amount of guarantees	4,000.00
Ratio of total guarantee to net assets of the Company	4.57%
Including:	
Amount of guarantee for shareholders, actual controller and its related parties	0.00
The debts guarantee amount provided for the guarantee of which the assets-liability ratio exceeded 70% directly or indirectly	0.00
Proportion of total amount of guarantee in net assets of the Company exceeded 50%	0.00
Total amount of the aforesaid three guarantees	0.00

The aforesaid company guaranteed was the controlling subsidiary of the Company, and the company was in normal operation and did not do harm to the financial status of the Company.

IV. Commitment events of the Company or shareholders holding above 5% shares

Ended June 30, 2006, Hefei Meiling Washing Machine Co., Ltd. totally occupied funds of the Company amounting to RMB 194,079,300. According to the requirement of settling the arrearage of related parties within the regulated time limit by the Supervision Department, Hefei Meiling (Group) Holdings Co., Ltd repaid the arrearage that Hefei Meiling Washing Machine Co., Ltd. owed the Company amounting to RMB 194,079,300 in cash on Sep.30, 2006, thus the arrearage of related parties of the Company has already been liquidated completely.

V. Engagement, change of the engagement or disengagement of Certified Public Accountants
Board of Directors of the Company engaged Sichuan Jun He Certified Public Accountants Co., Ltd. to be in charge of the domestic financial auditing work in 2006 of the Company. The remuneration the Company paid Morison Heng Certified Public Accountants was HKD 460,000, and that for Sichuan Jun He Certified Public Accountants Co., Ltd. was RMB 350,000. Morison Heng Certified Public Accountants and Sichuan Jun He Certified Public Accountants Co., Ltd. had provided auditing services for the Company for 4 years and 1 year respectively.

VI. Criticism received from CSRC and Shenzhen Stock Exchange in the report period

In the report period, the Company, the Board of the Company and directors had not been inspected by CSRC, or received administrative penalty or circulating criticisms, nor had them ever been criticized publicly by Shenzhen Stock Exchange.

VII. In the report period, in accordance with the requirements of Guidance for Fair Information Disclosure for Listed Companies, when receiving the research and interview, the Company as well as relevant obligors for information disclosure strictly followed the principle of fair information disclosure, without any implementation of discrimination treatment policy and any selective and private disclosure, revealing or divulgence of non-public information to specific objects.

VIII. Other significant events

The Company had proclaimed the suggestive notice on Share Merger Reform on Dec.30, 2006, officially proclaimed the Share Merger Reform plan on Jan.20, 2007, and promulgated

the communicating result on Jan.27, 2007, deciding that the Share Merger Reform plan of the Company would be of no adjustment and still be as follows: the non-tradable share shareholders of MEILING DIANQI carries out the price computation on A-share tradable shareholders with its possessed shares to acquire the listing and circulation right of its possessed non-tradable shares, and A-share tradable shareholders will obtain 1.5 shares of price computation for holding every 10 shares of MEILING DIANQI A-share tradable shares; as soon as the price computation is fully implemented, the non-tradable shares held by the non-tradable share shareholders of MEILING DIANQI will acquire the listing and circulation right. At present, the Company has already received GZCQ [2007] No.253 promulgated by GZW of the State Council on Reply of Relevant Problems of Hefei Meiling (Group) Holdings Co., Ltd. Transferring Parts of State-owned Shares, which agrees that Hefei Meiling (Group) Holdings Co., Ltd. can transfer 37,852,683 shares in 82,852,683 shares of Hefei Meiling (Group) Holdings Co., Ltd. to Sichuan Changhong Electric Group Co., Ltd. and 45,000,000 shares to Sichuan Changhong Electric Appliance Co., Ltd.

Section X. Financial Report

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF
HEFEI MEILING COMPANY LIMITED

合肥美菱股份有限公司

(Incorporated in the People's Republic of China with limited liability)

We have audited the accompanying consolidated financial statements of Hefei Meiling Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") which comprise the consolidated balance sheet as at December 31, 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies

used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the accompanying consolidated financial statements give a true and fair view of the financial position of the Group as at December 31, 2006, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Morison Heng
Chartered Accountants
Certified Public Accountants
Hong Kong:

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2006

	<u>Notes</u>	<u>2006</u> RMB;000	<u>2005</u> RMB;000
Turnover	6	2,760,186	2,028,938
Cost of sales		<u>(2,319,052)</u>	<u>(1,679,136)</u>
Gross profit		441,134	349,802
Other operating income	7	11,430	5,183
Distribution costs		(279,080)	(200,267)
Administrative expenses		(107,168)	(100,846)
Other operating expenses		<u>(6,156)</u>	<u>(7,882)</u>
Profit from operations	8	60,160	45,990
Finance costs	10	(35,635)	(41,857)
Loss on liquidation of a subsidiary		(2,682)	-
Share of results of associates		<u>117</u>	<u>182</u>
Profit before taxation		21,960	4,315
Income tax	11	<u>-</u>	<u>(18)</u>
Profit for the year		<u><u>21,960</u></u>	<u><u>4,297</u></u>
Attributable to:			
Equity holders of the Company		21,343	3,877
Minority interests	27	<u>617</u>	<u>420</u>
		<u>21,960</u>	<u>4,297</u>
Earnings per share			
Basic	12	<u>0.0516</u>	<u>0.0093</u>

CONSOLIDATED BALANCE SHEET
AT DECEMBER 31, 2006

	<u>Notes</u>	<u>2006</u> RMB;000	<u>2005</u> RMB;000 (restated)
ASSETS			
Non-currents assets			
Prepaid lease payments	13	616,559	634,268
Property, plant and equipment	14	467,766	506,597
Intangible assets	15	109,811	113,945
Interests in associated companies	16	26,516	26,399
Available-for-sale investments	17	32,690	30,690
Amounts due from related companies	18	<u>77,977</u>	<u>42,300</u>
		<u>1,331,319</u>	<u>1,354,199</u>
Current assets			
Inventories	19	327,810	363,696
Prepaid lease payments	13	14,111	10,513
Trade receivables	20	124,298	25,468
Bills receivable		145,034	62,464
Other receivables and prepayments	21	69,302	62,681
Tax recoverable		14,643	37,577
Amounts due from related companies	22	-	25,073
Pledged or guaranteed deposits	23	77,483	72,225
Bank balances and cash	23	<u>209,679</u>	<u>234,229</u>
		<u>982,360</u>	<u>893,926</u>
Total assets		<u><u>2,313,679</u></u>	<u><u>2,248,125</u></u>

CONSOLIDATED BALANCE SHEET (continued)
AT DECEMBER 31, 2006

	<u>Notes</u>	<u>2006</u> RMB;000	<u>2005</u> RMB;000 (restated)
Equity and liabilities			
Capital and reserves			
Registered capital	28	413,643	413,643
Reserves	29	863,747	856,707
Accumulated losses		<u>(655,953)</u>	<u>(677,296)</u>
Equity attributable to equity holders of the Company		621,437	593,054
Minority interests	27	<u>17,914</u>	<u>16,826</u>
Total equity		<u>639,351</u>	<u>609,880</u>
Non-current liabilities			
Borrowings	26	<u>37,500</u>	<u>20,460</u>
Current liabilities			
Trade payables		456,552	417,433
Bills payable		237,000	285,700
Other payables and accruals		132,485	132,032
Receipts in advance		71,677	64,592
Amounts due to shareholders		128,901	28,392
Amounts due to related companies	24	175,555	9,374
Amount due to an associated company	24	5,230	10,576
Provision for warranty	25	13,928	13,282
Borrowings	26	<u>415,500</u>	<u>656,404</u>
		<u>1,636,828</u>	<u>1,617,785</u>
Total liabilities		<u>1,674,328</u>	<u>1,638,245</u>
Total equity and liabilities		<u><u>2,313,679</u></u>	<u><u>2,248,125</u></u>

Approved by the Board of Directors on

DIRECTOR

DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2006

	Attributable to equity holders of the Company							Total RMB;000
	Share capital RMB;000	Capital reserve RMB;000	Statutory common reserve funds RMB;000	Statutory public welfare funds RMB;000	Discretionary common reserve funds RMB;000	Accumulated losses RMB;000	Minority interests RMB;000	
Balance at December 31, 2004 As per previously stated	413,643	571,769	65,426	65,643	153,820	(674,013)	16,406	612,694
Prior year adjustment (note 37)	-	-	-	-	-	(7,160)	-	(7,160)
Balance at December 31, 2004 as restated	413,643	571,769	65,426	65,643	153,820	(681,173)	16,406	605,534
Increase for the year	-	49	-	-	-	-	-	49
Net profit for the year	-	-	-	-	-	3,877	420	4,297
Balance at December 31, 2005, as restated	413,643	571,818	65,426	65,643	153,820	(677,296)	16,826	609,880
Increase/(Decrease) for the year	-	7,039	67,705	(65,643)	(2,061)	-	-	7,040
Net profit for the year	-	-	-	-	-	21,343	617	21,960
Acquisition of a subsidiary	-	-	-	-	-	-	2,000	2,000
Liquidation of a subsidiary	-	-	-	-	-	-	(1,529)	(1,529)
Balance at December 31, 2006	<u>413,643</u>	<u>578,857</u>	<u>133,131</u>	<u>-</u>	<u>151,759</u>	<u>(655,953)</u>	<u>17,914</u>	<u>639,351</u>

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2006

	<u>2006</u> RMB;000	<u>2005</u> RMB;000 (restated)
Cash flows from operating activities		
Profit before taxation	21,960	4,315
Adjustments for:		
Amortisation of intangible assets	4,134	4,134
Amortisation of prepaid lease payments	14,111	10,513
Dividend income	(2,139)	(768)
Depreciation	48,830	46,317
Loss on disposal of property, plant and equipment	-	5,233
Interest paid	35,635	41,659
Interest income	(2,903)	(2,219)
Impairment loss on receivables	-	1,432
Share of results of associated companies	(117)	-
Loss on liquidation of a subsidiary	<u>2,682</u>	<u>-</u>
Operating profit before working capital changes	122,193	110,616
Decrease/(Increase) in inventories	35,886	(126,167)
(Increase)/Decrease in trade receivables	(98,895)	7,745
(Increase)/Decrease in bills receivable	(82,570)	13,135
(Increase)/Decrease in other receivables and prepayments	(9,050)	43,998
Increase in amounts due from related companies	(10,604)	(24,628)
Increase in trade payables	39,278	48,126
(Decrease)/Increase in bills payable	(48,700)	13,594
(Decrease)/Increase in other payables and accruals	(485)	21,656
Increase/(Decrease) in receipts in advance	7,085	(24,145)
Increase in amounts due to related companies	166,181	8,100
Increase in amounts due to shareholders	99,835	28,392
Decrease in amount due to an associated company	(5,346)	(8,237)
Increase in provision for warranty	<u>646</u>	<u>1,206</u>
Cash generated from operations	215,454	113,391
Interest paid	(35,635)	(41,659)
Overseas income tax paid	-	(37,595)
Tax refund	<u>22,920</u>	<u>-</u>
Net cash from operating activities	<u>202,739</u>	<u>34,137</u>

CONSOLIDATED CASH FLOW STATEMENT (continued)
FOR THE YEAR ENDED DECEMBER 31, 2006

	<u>2006</u> RMB;000	<u>2005</u> RMB;000
Cash flows from investing activities		
Interest received	2,903	2,219
Dividend received	2,139	768
Payments for prepaid lease payments	-	(181,842)
Proceeds on disposal of property, plant and equipment	50	10,053
Purchases of property, plant and equipment	(10,299)	(77,526)
Purchases of intangible assets	-	(599)
Purchase of available-for-sale investments	(2,000)	-
Acquisition of interests in associated companies	-	(181)
Decrease in amount due from shareholder	-	70,374
Decrease in amount due from a related company	-	117,137
	<u> </u>	<u> </u>
Net cash used in investing activities	<u>(7,207)</u>	<u>(59,597)</u>
Cash flows from financing activities		
Proceeds from issue of capital reserve	-	49
Receipt of government subsidies	7,040	-
New borrowings raised	442,540	509,333
Repayments of borrowings	(666,404)	(493,119)
Capital injection from minority shareholders	2,000	-
	<u> </u>	<u> </u>
Net cash (used in)/from financing activities	<u>(214,824)</u>	<u>16,263</u>
Net (decrease) in cash and cash equivalents	(19,292)	(9,197)
Cash and cash equivalents at the beginning of the year	<u>306,454</u>	<u>315,651</u>
Cash and cash equivalents at the end of the year	<u>287,162</u>	<u>306,454</u>
Analysis of cash and cash equivalents at the end of the year		
Bank balances and cash	209,679	234,229
Pledged or guarantee deposits	77,483	72,225
	<u>287,162</u>	<u>306,454</u>

1. GENERAL INFORMATION

Hefei Meiling Company Limited (the "Company") is a joint stock limited company incorporated in the People's Republic of China (the "PRC"). The Company and its subsidiaries (the "Group") are principally engaged in the manufacturing and sales of household refrigerators and household electronic appliances. The Company's A shares and B shares are listed on the Shenzhen Stock Exchange.

The Company's Domestically Listed Foreign Shares ("B Shares") are listed on the Shenzhen Stock Exchange. The address of its registered office is 48 Wuhu Road, Hefei.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, a number of new standards, amendments and interpretations ("Standards and Interpretations") issued by the International Accounting Standards Board (the "IASB") and the International Financial Reporting Interpretations Committee (the "IFRIC") of the IASB, which are either effective for accounting periods beginning on or after January 1, 2006.

IAS 19 Amendment	Employee Benefits
IAS 21 Amendment	Net Investment in a Foreign Operation
IAS 39 & IFRS 4 Amendments	Financial Guarantee Contracts
IAS 39 Amendment	The Fair Value Option
IAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
IFRS 1 Amendment	First " time Adoption of International Financial Reporting Standards
IFRS 6	Exploration for and Evaluation of Mineral Resources
IFRIC 4	Determining Whether an Arrangement Contains a Lease
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
IFRIC 6	Liabilities arising from Participating in a Specific Market " Waste Electrical and Electronic Equipment

The adoption of these Standards and Interpretations had no material effect on how the results for the current or prior accounting periods have been prepared and presented. Accordingly, no prior year adjustment has been required.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS " (continued)

The Group has not early applied the following Standards and Interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these Standards and Interpretations will have no material impact on the results and the financial position of the Group.

IAS 1 (Amendment)	Capital Disclosures ¹
IFRS 7	Financial Instruments: Disclosures ¹
IFRS 8	Operating Segments ²
IFRIC 7	Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies ³
IFRIC 8	Scope of IFRS 2 ⁴
IFRIC 9	Reassessment of Embedded Derivatives ⁵
IFRIC 10	Interim Financial Reporting and Impairment ⁶
IFRIC 11	Group and Treasury Share Transfer ⁷
IFRIC 12	Service Concession Arrangements ⁸

¹ Effective for annual periods beginning on or after January 1, 2007

² Effective for annual periods beginning on or after January 1, 2009

³ Effective for annual periods beginning on or after March 1, 2006

⁴ Effective for annual periods beginning on or after May 1, 2006

⁵ Effective for annual periods beginning on or after June 1, 2006

⁶ Effective for annual periods beginning on or after November 1, 2006

⁷ Effective for annual periods beginning on or after March 1, 2007

⁸ Effective for annual periods beginning on or after January 1, 2008

3. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of those consolidated financial statements are set out below:

Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and under the historical cost convention.

3. SIGNIFICANT ACCOUNTING POLICIES " (continued)

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and enterprises controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of the subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant inter-company transactions and balances within the Group are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 Business Combinations are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held Sale and Discontinued Operations, which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

3. SIGNIFICANT ACCOUNTING POLICIES “ (continued)

Subsidiaries

A subsidiary is a company in which the Company, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or where the Company controls the composition of its board of directors or equivalent governing body.

Investments in subsidiaries are stated at cost less any identified impairment loss. Result of the subsidiaries are accounted for by the Company on the basis of dividends received and receivable during the year.

Investments in associates

An associate is an entity over which the Group has significant influence and that is not a subsidiary nor an interest in a joint venture.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, or when the investment is designated as at fair value through profit or loss upon initial recognition or is classified as held for trading, in which case it is accounted for under IAS 39 Financial Instruments: Recognition and Measurement. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group’s share of the profit or loss and of changes in equity of the associate, less any identified impairment loss. When the Group’s share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interest that, in substance, form part of the Group’s net investment in the associate), the Group discontinues recognizing its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group’s interest in the relevant associate.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and sales related taxes.

Sales of goods are recognised when goods are delivered and title has passed.

Dividend income is recognised when the right to receive dividends or other payments is established.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses.

Construction in progress represents properties under construction and equipment purchased prior to installation and is stated at cost, including borrowing costs capitalised in accordance with the Group's accounting policy for borrowing costs, less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is charged so as to write off the cost of property, plant and equipment, other than construction in progress, over their estimated useful lives, taking into consideration of their residual values, if any and accumulated impairment losses using the straight-line method, on the following bases:

Buildings	30 - 40 years
Plant and machinery	10 - 16 years
Furniture, fixtures and office equipment	8 - 12 years
Motor vehicles	8 - 15 years

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

3. SIGNIFICANT ACCOUNTING POLICIES " (continued)

Prepaid lease payments

Cost of acquiring rights to use certain land for the Group's operations over a certain period is recorded as prepaid lease payments. Prepaid lease payments are stated at cost and amortized over the period of the lease on the straight-line basis to the income statement.

Intangible assets

i) Intangible assets acquired separately

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. Alternatively, intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses below).

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the consolidated income statement when the asset is derecognized.

ii) Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its useful life, and carried at cost less subsequent accumulated amortisation and any accumulated impairment losses.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset is reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

3. SIGNIFICANT ACCOUNTING POLICIES " (continued)

Intangible assets (continued)

iii) Impairment

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually by comparing their carrying amounts with their recoverable amounts, irrespective of whether there is any indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of impairment loss is recognised as income immediately.

Intangible assets with finite useful lives are tested for impairment when there is an indication that an asset may be impaired.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified as available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of these financial assets are set out below.

3. SIGNIFICANT ACCOUNTING POLICIES " (continued)

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables and held-to-maturity investments. At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss. Any impairment losses on available-for-sale financial assets are recognised in profit or loss. Impairment losses on available-for-sale equity investments will not reverse in subsequent periods. For available-for-sale debt investments, impairment losses are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not reverse in subsequent periods.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost which comprises direct materials and, where applicable, direct labor costs and those overheads that have been incurred in bringing the inventories and work in progress to their present locations and condition, is calculated using the first-in, first-out method. Net realisable value is based on estimated selling prices less estimated selling expenses.

Trade receivables

Trade receivables are carried at original invoice amount less provision made for impairment of these receivables. A provision for impairment of trade receivables is established when there is an objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the market rate of interest for similar borrowers.

3. SIGNIFICANT ACCOUNTING POLICIES “ (continued)

Warranty

The Group recognises the estimated liability to repair or replace products still under warranty at the balance sheet date. This provision is calculated based on certain percentage of the completed contract cost which is determined by reference to past history of the level of repairs and replacements.

Impairment of assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately.

Where an impairment loss is subsequently reversed, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Income taxes

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Income taxes (continued)

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals applicable to such operating leases are charged to the income statement on the straight-line basis over the lease terms.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

Employee benefits costs

Retirement benefit costs charged to the consolidated income statement represent the amount payable under a defined contribution arrangement with the local government.

Borrowing costs

All borrowing costs are recognised as expenses in the year in which they are incurred.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purpose of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, cash investments with a maturity of three months or less from the date of investment and bank overdraft.

4. FINANCIAL RISK MANagements

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks: cash flow interest-rate risk, credit risk, foreign exchange risk and liquidity risk.

(i) Cash flow and fair value interest rate risk

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group's interest rate risk arises from long-term borrowings. The interest rates and repayment terms of borrowings are disclosed in note 26. Borrowings issued at variable rates expose the Group to Cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The Group has not hedged its cash flow and fair value interest rate risk.

(ii) Credit risk

The Group has no significant concentrations of credit risk. Trade receivables of the Group are spread among a number of customers in the PRC and cash is deposited with registered banks in the PRC. The carrying amounts of the trade receivables after deducting the provision for bad and doubtful debts represent the Group's maximum exposure to credit risk.

(iii) Foreign exchange risk

The Group's entities operate in the PRC with most of the transactions denominated in Renminbi. The Group is exposed to foreign exchange risk arising from the exposure of Renminbi against USD. The Group has not hedged its foreign exchange rate risk. In addition, the conversion of Renminbi into foreign currencies is subject to the rules and regulations of the foreign exchange control promulgated by the PRC government.

(iv) Liquidity risk

The Group ensures that it maintains sufficient cash and credit lines to meet its liquidity requirements.

(b) Fair value estimation

The carrying amounts of the following financial assets and financial liabilities approximate their fair values: cash, receivables, payables and borrowings. Information on the fair value of borrowings and interest rate exposure is included in note 26.

5. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

- (a) Estimated impairment of property, plant and equipment and available-for-sale investments

Property, plant and equipment and available-for-sales investments are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts of property, plant and equipment and available-for-sale investments have been determined based on value-in-use calculations. These calculation and valuations require the use of judgment and estimates.

- (b) Current taxation and deferred taxation

The Group is subject to taxation in the PRC. Significant judgment is required in determining the amount of the provision for taxation and the timing of payment of the related taxations. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such difference will impact the income tax and deferred tax provisions in the periods in which such determination are made.

6. SEGMENT INFORMATION

- (a) No business segment information of the Group is presented as the Group's sales, expenses, assets and liabilities are primarily attributable to manufacturing and sales of household refrigerators and electronic appliances.

	<u>2006</u> RMB;000	<u>2005</u> RMB;000
Sales of goods	<u>2,760,186</u>	<u>2,028,938</u>

- (b) Geographical Segments

The following table presents revenue regarding geographical segments for the year ended December 31, 2006:

	<u>2006</u> RMB;000	<u>2005</u> RMB;000
The PRC	1,989,655	1,402,295
Europe	334,451	403,027
Asia Pacific region	68,235	67,920
Others	<u>367,845</u>	<u>155,696</u>
	<u>2,760,186</u>	<u>2,028,938</u>

The principal assets employed by the Group are located in the PRC, accordingly, no segmental analysis of assets and expenditure is prepared for the year.

7. OTHER OPERATING INCOME

	<u>2006</u> RMB;000	<u>2005</u> RMB;000
Bank interest income	2,903	2,219
Dividend income	2,139	768
Sale of raw materials	1,304	-
Tax refund on export sales and new products	1,623	1,542
Write-back of provision for receivables	2,365	-
Other income	<u>1,096</u>	<u>654</u>
	<u>11,430</u>	<u>5,183</u>

8. PROFIT FROM OPERATIONS

Profit from operations is arrived at:

	<u>2006</u> RMB;000	<u>2005</u> RMB;000
After charging:		
Amortisation of prepaid lease payments	14,111	10,513
Amortisation of intangible assets	4,134	4,134
Depreciation of property, plant and equipment	48,830	46,317
Exchange loss	6,149	2,826
Loss on disposal of property, plant and equipment	-	5,233
Impairment loss on receivables	-	1,432
Provision for inventories	583	8,807
Provision for warranty expenses	13,000	13,000
Research and development expenditure	1,022	2,295
Rent paid under operating leases ** office rental	6,545	4,944
Staff costs	135,637	108,372
Warranty expenses	<u>12,354</u>	<u>11,794</u>

9. STAFF COSTS

	<u>2006</u> RMB;000	<u>2005</u> RMB;000
Wages and salaries	108,466	80,977
Staff welfare	14,624	16,010
Retirement benefits	<u>12,547</u>	<u>11,385</u>
	<u>135,637</u>	<u>108,372</u>

10. FINANCE COSTS

	<u>2006</u> RMB;000	<u>2005</u> RMB;000
Interest on bank borrowings	34,702	41,659
Interest on bills payable	621	-
Interest element of finance leases	-	198
Other interest	<u>312</u>	<u>-</u>
	<u>35,635</u>	<u>41,857</u>

11. INCOME TAX

	2005 RMB;000	<u>2005</u> RMB;000
Current tax	<u>-</u>	<u>18</u>

PRC income tax comprises income tax of the Company and its subsidiaries, Zhongke Meiling Cryogenics Company Limited and Anhui Anhong Plastics Co., Ltd., and is calculated at rates applicable to the relevant companies ranging from 24% to 33%.

The charge for the year can be reconciled to the profit per the income statement as follows:

	<u>2006</u> RMB;000	<u>2005</u> RMB;000
Profit before tax	<u>21,960</u>	<u>4,315</u>
Tax calculated at the effective rate of 33%	7,247	1,424
Tax effect of expenses not deductible for taxation purposes	10,730	11,092
Tax effect of income not taxable for taxation purposes	(12,102)	(4,176)
Tax effect of tax losses not recognised	-	23
Utilisation of tax losses not previously recognised	(5,875)	(8,363)
Others	<u>-</u>	<u>18</u>
Taxation charge	<u>-</u>	<u>18</u>

No deferred tax asset has been recognized in the financial statements as it is uncertain such an asset will crystallize in the foreseeable future (2005: Nil).

Details of the unprovided deferred tax asset at December 31, 2006 are as follows:

	<u>2006</u> RMB;000	<u>2005</u> RMB;000
Provision for receivables and inventories	95,693	66,999
Tax losses	<u>125,264</u>	<u>130,418</u>
	<u>220,957</u>	<u>197,417</u>

12. EARNINGS PER SHARE

The calculation of earnings per share is based on the consolidated profit after tax and minority interests for the year of RMB21,343,000 (2005: profit of RMB3,877,000) and 413,643,000 shares (2005: 413,643,000 shares) in issue.

The diluted earnings per share is equivalent to the basis earnings per share as there were no potential ordinary shares outstanding during the years ended December 31, 2006 and 2005.

13. PREPAID LEASE PAYMENTS

	RMB;000
COST	
At January 1, 2005	486,731
Additions	<u>181,842</u>
At December 31, 2005 and at December 31, 2006	<u>668,573</u>
ACCUMULATED AMORTIZATION	
At January 1, 2005	13,279
Charge for the year	<u>10,513</u>
At December 31, 2005	23,792
Charge for the year	<u>14,111</u>
At December 31, 2006	<u>37,903</u>
NET BOOK VALUE	
At December 31, 2006	<u><u>630,670</u></u>
At December 31, 2005	<u><u>644,781</u></u>

The leasehold land is held under long term lease.

Analysed for reporting purposes as:

	<u>2006</u> RMB	<u>2005</u> RMB
Current portion	14,111	10,513
Non-current portion	<u>616,559</u>	<u>634,268</u>
	<u><u>630,670</u></u>	<u><u>644,781</u></u>

At December 31, 2006, the net book value of land use rights of the Group amounted to RMB573,535,000 (2005: RMB585,707,000) were pledged as security for bank borrowings. Title to the land use right for settlement of outstanding balance with Hefei Meiling Holding Company (HMHC), a shareholder of the Company, has not been registered in the Company's name.

14. PROPERTY, PLANT AND EQUIPMENT

	<u>Buildings</u> RMB;000	<u>Plant and machinery</u> RMB;000	<u>Furniture, fixtures and office equipment</u> RMB;000	<u>Motor vehicles</u> RMB;000	<u>Construction in progress</u> RMB;000	<u>Total</u> RMB;000
COST						
At January, 2005	238,589	529,527	31,463	18,579	11,088	829,246
Additions	40,225	20,726	2,196	2,814	11,565	77,526
Transfer	-	16,720	-	-	(16,720)	-
Disposals	-	(21,379)	(145)	(737)	-	(22,261)
At December 31, 2005	278,814	545,594	33,514	20,656	5,933	884,511
Additions	359	9,474	2,479	1,359	3,628	17,299
Transfer	146	3,113	-	-	(3,259)	-
Disposals /written off	(65)	(18,297)	(378)	(2,173)	-	(20,913)
At December 31, 2006	<u>279,254</u>	<u>539,884</u>	<u>35,615</u>	<u>19,842</u>	<u>6,302</u>	<u>880,897</u>
ACCUMULATED DEPRECIATION						
At January 1, 2005	49,300	254,055	22,576	12,641	-	338,572
Charge for the year	6,636	37,465	1,718	498	-	46,317
Eliminated on disposals	-	(6,412)	(63)	(500)	-	(6,975)
At December 31, 2005	55,936	285,108	24,231	12,639	-	377,914
Charge for the year	7,921	38,730	1,035	1,144	-	48,830
Impairment	-	-	(7)	(823)	-	(830)
Eliminated on disposals /written off	(46)	(11,314)	(356)	(1,067)	-	(12,783)
At December 31, 2006	<u>63,811</u>	<u>312,524</u>	<u>24,903</u>	<u>11,893</u>	<u>-</u>	<u>413,131</u>
NET BOOK VALUES						
At December 31, 2006	<u>215,443</u>	<u>227,360</u>	<u>10,712</u>	<u>7,949</u>	<u>6,302</u>	<u>467,766</u>
At December 31, 2005	<u>222,878</u>	<u>260,486</u>	<u>9,283</u>	<u>8,017</u>	<u>5,933</u>	<u>506,597</u>

At December 31, 2006, the net book value of buildings of the Group amounted to RMB26,627,000 (2005: RMB26,960,000) and plant and in machinery of the group amounted to RMB189,225,000 (2005: Nil) were pledged as security for bank borrowings.

15. INTANGIBLE ASSETS

	<u>Computer software</u> RMB,000	<u>Trademark</u> RMB,000	<u>Technical know-how</u> RMB,000	<u>Total</u> RMB,000
COST				
At January 1, 2005	8,821	130,078	18,000	156,899
Additions	<u>599</u>	<u>-</u>	<u>-</u>	<u>599</u>
At December 31, 2005 and at December 31, 2006	<u>9,420</u>	<u>130,078</u>	<u>18,000</u>	<u>157,498</u>
ACCUMULATED AMORTISATION				
At January 1, 2005	4,226	30,393	4,800	39,419
Charge for the year	<u>1,884</u>	<u>-</u>	<u>2,250</u>	<u>4,134</u>
At December 31, 2005	6,110	30,393	7,050	43,553
Charge for the year	<u>1,884</u>	<u>-</u>	<u>2,250</u>	<u>4,134</u>
At December 31, 2006	<u>7,994</u>	<u>30,393</u>	<u>9,300</u>	<u>47,687</u>
NET BOOK VALUE				
At December 31, 2006	<u>1,426</u>	<u>99,685</u>	<u>8,700</u>	<u>109,811</u>
At December 31, 2005	<u>3,310</u>	<u>99,685</u>	<u>10,950</u>	<u>113,945</u>

16. INTERESTS IN ASSOCIATED COMPANIES

	<u>2006</u> RMB;000	<u>2005</u> RMB;000
Unlisted shares, at cost	25,749	25,749
Share of post-acquisition profits	<u>2,427</u>	<u>2,310</u>
	28,176	28,059
<u>Less: Impairment loss</u>	<u>(1,660)</u>	<u>(1,660)</u>
	<u>26,516</u>	<u>26,399</u>

Details of the associated companies as at December 31, 2006 are as follows:

<u>Name of associated company</u>	<u>Registered capital</u>	<u>Principal activities</u>	<u>Equity interest held</u>	
			<u>2006</u>	<u>2005</u>
Hefei Meiling Packing Product Co., Ltd	USD3,067,000	Manufacturing and sale of packing materials	48.28%	48.28%
Hefei Meiling - Sigema Appliances Co., Ltd	USD1,000,000	Manufacturing and sale of air conditioners	20%	20%
合肥技術產權交易所	RMB3,500,000	Clearing house	28.57%	28.57%

17. AVAILABLE-FOR-SALE INVESTMENTS

	<u>2006</u> RMB;000	<u>2005</u> RMB;000
Listed investments	6,150	6,150
Unlisted investments	<u>26,540</u>	<u>24,540</u>
	<u>32,690</u>	<u>30,690</u>

18. AMOUNT DUE FROM RELATED COMPANIES

	<u>2006</u> RMB;000	<u>2005</u> RMB;000
Amount due from a related company	77,977	194,079
<u>Less: Impairment loss</u>	<u>-</u>	<u>(151,779)</u>
	<u>77,977</u>	<u>42,300</u>

19. INVENTORIES

	<u>2006</u> RMB;000	<u>2005</u> RMB;000
Raw materials	135,590	88,656
Work in progress	18,976	19,120
Finished goods	<u>173,244</u>	<u>255,920</u>
	<u>327,810</u>	<u>363,696</u>

20. TRADE RECEIVABLES

	<u>2006</u> RMB;000	<u>2005</u> RMB;000
Trade receivables	196,900	97,276
<u>Less: Provision for bad and doubtful debts</u>	<u>(72,602)</u>	<u>(71,808)</u>
Trade receivables, net	<u>124,298</u>	<u>25,468</u>

21. OTHER RECEIVABLES AND PREPAYMENTS

	<u>2006</u> RMB;000	<u>2005</u> RMB;000
Other receivables	25,317	17,803
<u>Less: Provision for bad and doubtful debts</u>	<u>(6,160)</u>	<u>(9,622)</u>
Other receivables, net	19,157	8,181
Prepayments	<u>50,145</u>	<u>54,500</u>
	<u>69,302</u>	<u>62,681</u>

22. AMOUNTS DUE FROM RELATED COMPANIES

The amounts due are unsecured, interest-free and with no fixed terms of repayment.

23. CASH AND CASH EQUIVALENTS

	<u>2006</u> RMB;000	<u>2005</u> RMB;000
Cash and cash equivalents:		
Bank balance and cash	209,679	234,229
Pledged or guaranteed deposits		
Bank guarantee saving deposits	<u>77,483</u>	<u>72,225</u>
Total bank balances and cash	<u><u>287,162</u></u>	<u><u>306,454</u></u>

Bank guarantee saving deposits have been pledged to banks to guarantee bills payable and the average effective interest rate on short-term bank deposits was 0.99% (2005: 0.99%) per annum.

24. AMOUNTS DUE TO RELATED COMPANIES/AN ASSOCIATED COMPANY

The amounts due are unsecured, interest-free and with no fixed terms of repayment.

25. PROVISION FOR WARRANTY

	<u>2006</u> RMB;000	<u>2005</u> RMB;000
Opening net book value	13,282	12,076
Provision for the year	13,000	13,000
Utilisation	<u>(12,354)</u>	<u>(11,794)</u>
Closing net book value	<u><u>13,928</u></u>	<u><u>13,282</u></u>

The Group provides a three-year warranty in respect of the compressors of refrigerators and undertakes to repair or replace items that fail to perform satisfactorily. The provision is estimated by reference to the expected warranty claims calculated at certain percentage based on past experience of the level of repairs and returns.

26. BORROWINGS

	<u>2006</u> RMB;000	<u>2005</u> RMB;000
Current		
- secured bank borrowings	340,000	656,404
- unsecured bank borrowings	<u>75,500</u>	<u>-</u>
	<u>415,500</u>	<u>656,404</u>
Non-current		
- secured bank borrowings	20,000	10,000
- unsecured government loan	<u>17,500</u>	<u>10,460</u>
	<u>37,500</u>	<u>20,460</u>
Total borrowings	<u>453,000</u>	<u>676,864</u>

(a) Certain bank borrowings of the Group are guaranteed by the following shareholder:

	<u>2006</u> RMB;000	<u>2005</u> RMB;000
HMHC	<u>395,500</u>	<u>284,404</u>

Certain bank borrowings of the Group are guaranteed and pledged by the economic development area and industrial building owned by the shareholder.

(b) The Group's major bankers had confirmed that it would provide banking facilities totaling RMB730,000,000 to the Group for a period to December 31, 2006. As at December 31, 2006 banking facilities of RMB50,000,000 has not been utilised.

(c) The interest rate exposure of the borrowings of the Group is as follows:

	<u>2006</u> RMB;000	<u>2005</u> RMB;000
Total borrowings		
- at fixed rates	449,700	666,404
- interest free	<u>3,300</u>	<u>3,300</u>
	<u>453,000</u>	<u>669,704</u>
	<u>2006</u>	<u>2005</u>
Weighted average effective interest rate:		
- bank borrowings	<u>5.98%</u>	<u>4.39%</u>

26. BORROWINGS (continued)

- (d) The carrying amount and estimated fair value of the Group's non-current borrowings at December 31, 2006 are set out as follows:

	<u>2006</u> RMB'000	<u>2005</u> RMB'000
Carrying amount	37,500	13,300
Estimated fair value	<u>37,691</u>	<u>13,684</u>

The fair value of non-current borrowings is estimated by applying a discounted cash flow approach using current market interest rates for similar indebtedness.

Fair value estimates are made at specific point in time and are based on relevant market information. These estimates are subjective in nature and involved uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in valuation methods and assumptions could significantly affect the estimates.

27. MINORITY INTERESTS

	<u>2006</u> RMB'000	<u>2005</u> RMB'000
At beginning of year	16,826	16,406
Addition of subsidiary	2,000	-
Share of results of subsidiaries	617	420
Disposal of subsidiary	<u>(1,529)</u>	<u>-</u>
At end of year	<u>17,914</u>	<u>16,826</u>

28. REGISTERED CAPITAL

Registered, issued and fully paid ordinary shares of RMB1 each:

	<u>2006</u> RMB'000	<u>2005</u> RMB'000
A shares (unlisted)	149,056	149,056
A shares (listed)	151,487	151,487
B shares (listed)	<u>113,100</u>	<u>113,100</u>
	<u>413,643</u>	<u>413,643</u>

Pursuant to Company's Articles of Association, A and B shares are all registered ordinary share. Except for the currency in which dividends are payable, these shares carry equal rights.

29. RESERVES

In accordance with the relevant PRC regulations applicable to joint stock limited companies and the Company's Articles of Association, the Group is required to allocate its profit after tax to the following reserves:

Statutory common reserve funds

The Group is required each year to transfer 10% of the profit after tax as reported under the PRC statutory financial statements to the statutory common reserve funds until the balance reaches 50% of the registered share capital. This reserve can be used to make up any loss incurred or to increase share capital. Except for the reduction of losses incurred, any other application should not result in this reserve balance falling below 25% of the registered capital.

Statutory public welfare funds

In accordance with the notice issued by the Ministry of Finance of the PRC on the accounting issues relating to the implementation of the Company Law (Cai Qi [2006] No. 67, the Company transferred the balance of the statutory public reserve fund as at December 31, 2005 to statutory surplus fund reserve.

Discretionary common reserve funds

The discretionary common reserve funds can be set up by means of appropriation from retained earnings or transferred from the statutory public welfare funds. The reserve can be used to reduce losses, to increase share capital or for payment of dividends. Any transfer to the reserve requires the approval of shareholders in general meeting.

No profit appropriation will be made for the year 2006 as the net profit for the year has been utilised to make up accumulated losses.

30. DISTRIBUTABLE PROFITS

Pursuant to the relevant PRC regulations and the Company's Articles of Association, profit distributable to shareholders shall be the lower of the distributable profits as determined in accordance with PRC accounting standards and the distributable profits as adjusted in accordance with IFRS.

31. CAPITAL COMMITMENTS

	<u>2006</u> RMB;000	<u>2005</u> RMB;000
Authorised but not contracted for	-	470
Contracted but not provided for		
- capital contribution to construction in progress	-	2,446
- acquisition of property, plant and equipment	<u>120</u>	<u>-</u>
	<u><u>120</u></u>	<u><u>2,916</u></u>

32. RELATED PARTY TRANSACTIONS

During the year, the Group had the following material transactions with the following related parties in normal course of its business:

	<u>2006</u> RMB;000	<u>2005</u> RMB;000
HMHC – the shareholder of the Company		
- Disposal of accounts receivable for a consideration of land use rights	<u>-</u>	<u>703,875</u>
Purchases:		
Meiling Precision Tube Industry Limited Liability Company	44,571	25,201
Meiling Non-ferrous Metal Product Limited Company	27,994	24,372
Meiling Heng Tong Glass Company Limited	22,450	12,816
Meiling England Kate Electrical Appliances (Hefei) The Limited Company	1,446	8,291
Hefei Meiling Packing Product Company Limited	86,894	71,195
Hefei Changhong Meiling Freezer Company Limited	7,818	-
Hefei Meiling Economics Development Company Limited	<u>20,065</u>	<u>24,268</u>
Sales:		
Hefei Meiling Heng Tong Glass Company Limited	4,371	3,776
Hefei Meiling Aoka Electric Appliance Limited Company	5,590	-
Hefei Changhong Meiling Freezer Company Limited	67,046	-
Sichuan Changhong Electric Company Limited	<u>1,646,020</u>	<u>-</u>

33. PLEDGE OF ASSETS

At December 31, 2006, the land use rights with net book value of RMB630,670,000 (2005: RMB644,780,983), the buildings with net book value of RMB59,876,193 (2005: RMB26,960,000) and the plant and machinery with net book value of RMB189,224,954 (2005: RMB172,870,000) were pledged to banks for banking facilities granted to the Group.

34. LIQUIDATION OF A SUBSIDIARY

The Group's subsidiary, Anhui Anhong Plastic Co Ltd was liquidated during the year. The net assets of Anhui Anhong Plastics Co Ltd at the date of liquidation were as follows:

	<u>2006</u> RMB;000
Net assets at the date of liquidation:	
Property, plant and equipment	7,000
Trade receivables	65
Trade payable	(106)
Other payables and accruals	(8)
Amounts due to shareholders	(838)
Minority interests	<u>(1,529)</u>
	4,584
Loss on liquidation of a subsidiary	<u>(2,682)</u>
Total consideration	<u><u>1,902</u></u>
Satisfied by:	
Property, plant and equipment	7,000
Other payables	(2,457)
Prepayments	(2,634)
Other liabilities	<u>(7)</u>
	<u><u>1,902</u></u>
Net cash inflow arising on liquidation of a subsidiary:	
Cash consideration	<u><u>-</u></u>

35. CONTINGENT LIABILITIES

- The Company pledged its buildings with a carrying value of approximately Rmb39,000,000 to a bank for banking facilities granted to one of its subsidiary.
- The Company has executed corporate guarantees for banking facilities granted to one of its subsidiary. The total amount of such facility covered by the Company's guarantee amounted to approximately Rmb20,000,000.

36. SUBSIDIARIES

As at December 31, 2006, the Company directly held equity interests in the following PRC established subsidiaries:

<u>Name of subsidiary</u>	<u>Registered capital</u>	<u>Principal activities</u>	<u>Attributable equity interest held</u>	
			<u>2006</u>	<u>2005</u>
Zhongke Meiling Cryogenics Company Limited	RMB60,000,000	Development, manufacturing and sale of cryogenic refrigerators	70%	70%
Hefei Meiling Property Development Company Limited	RMB20,000,000	Dormant	90%	-

37. PRIOR YEAR ADJUSTMENT

The prior year adjustment represented the correction of errors in respect of omission of a long term loan of RMB7,160,000 in 2002.

SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2006

The impact of IFRS adjustments on the PRC statutory financial statements is as follows:

	Net loss for The year ended <u>December 31, 2006</u> RMB; 000	Net assets as at <u>December 31, 2006</u> RMB;000
As report under PRC statutory financial statements	11,966	875,500
IFRS adjustments:		
Adjustments for warranty provision	(646)	(13,928)
Remeasurement of financial assets in according with IAS 39	(1,158)	(234,534)
Depreciation of property, plant and equipment	(1,291)	13,462
Amortisation of intangible assets	11,347	-
Others	<u>1,125</u>	<u>(19,063)</u>
As restated after IFRS adjustments	<u>21,343</u>	<u>621,437</u>

Section XI. Documents for Reference

- I. Accounting statements with the signature and seal of Chairman of the Board, Vice President, and principal of accounting institutions;
 - II. Original of the Auditors; Reports with the seals of Domestic and International Certified Public Accountants, and the signature of the certified public accountants;
 - III. Original of the documents of the Company and public notices publicly disclosed on the newspapers designated by China Securities Regulatory Commission in the report period.
- The aforesaid documents are all available and complete at headquarter of the Company. The Company would provide them timely when CSRC and Shenzhen Stock Exchange required or the shareholders need consultation according to the regulations and Articles of Association.

Chairman of the Board: Zhao Yong
Board of Directors of Hefei Meiling Co., Ltd.
April 18, 2007