

Haier 海尔

HAIER ELECTRONICS GROUP CO., LTD.

海爾電器集團有限公司*

(Incorporated in Bermuda with limited liability)
(Stock Code: 1169)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2006

INTERIM RESULTS

The Board of Directors of Haier Electronics Group Co., Ltd. (the “Company”) hereby announces the unaudited consolidated interim results of Group for the six months ended 30 June 2006 together with comparative figures for the corresponding period in 2005. These condensed consolidated interim financial statements have not been audited, but have been reviewed by the Company’s audit committee.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2006

		For the six months ended 30 June	
		2006 (Unaudited) HK\$'000	2005 (Restated) HK\$'000
CONTINUING OPERATIONS			
REVENUE	2	1,785,958	1,304,081
Cost of sales		(1,311,806)	(1,012,227)
Gross profit		474,152	291,854
Other income and gains	3	3,598	5,288
Selling and distribution costs		(313,348)	(209,027)
Administrative expenses		(111,192)	(72,599)
Finance costs	4	(4,079)	(4,417)
PROFIT BEFORE TAX		49,131	11,099
Tax	6	(20,662)	(2,888)
PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS		28,469	8,211
DISCONTINUED OPERATION			
Profit/(loss) for the period from a discontinued operation	9	103,420	(399,733)
PROFIT/(LOSS) FOR THE PERIOD	5	131,889	(391,522)

Attributable to:			
Equity holders of the parent		126,575	(397,006)
Minority interests		5,314	5,484
		<u>131,889</u>	<u>(391,522)</u>
DIVIDEND	7	<u>Nil</u>	<u>Nil</u>
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	8		
Basic			
— For profit/(loss) for the period		<u>0.74 cents</u>	<u>(2.68) cents</u>
— For profit from continuing operations		<u>0.13 cents</u>	<u>0.02 cents</u>
Diluted			
— For profit/(loss) for the period		<u>0.71 cents</u>	<u>N/A</u>
— For profit from continuing operations		<u>0.13 cents</u>	<u>0.02 cents</u>

CONDENSED CONSOLIDATED BALANCE SHEET

30 June 2006

		30 June 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) HK\$'000
	<i>Notes</i>		
NON-CURRENT ASSETS			
Property, plant and equipment		244,061	636,288
Prepaid land premiums		24,894	25,462
Intangible assets		—	3,437
Deferred tax assets		13,437	12,736
		<hr/>	<hr/>
Total non-current assets		282,392	677,923
		<hr/>	<hr/>
CURRENT ASSETS			
Inventories		165,576	433,645
Trade and bills receivables	<i>10</i>	132,638	677,510
Prepayments, deposits and other receivables		69,672	145,941
Amount due from a fellow subsidiary		419,954	—
Tax recoverable		218	3,342
Pledged deposits		—	70
Cash and cash equivalents		629,283	560,337
		<hr/>	<hr/>
Total current assets		1,417,341	1,820,845
		<hr/>	<hr/>
CURRENT LIABILITIES			
Trade and bills payables	<i>11</i>	223,388	972,116
Tax payable		18,486	5,030
Other payables and accruals		321,760	452,186
Provisions		36,142	20,184
Interest-bearing bank and other borrowings		—	124,807
		<hr/>	<hr/>
Total current liabilities		599,776	1,574,323
		<hr/>	<hr/>
NET CURRENT ASSETS		817,565	246,522
		<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		1,099,957	924,445
		<hr/>	<hr/>
NON-CURRENT LIABILITIES			
Convertible notes		157,957	211,528
Provisions		16,606	8,806
		<hr/>	<hr/>
Total non-current liabilities		174,563	220,334
		<hr/>	<hr/>
Net assets		925,394	704,111
		<hr/> <hr/>	<hr/> <hr/>

EQUITY

Equity attributable to equity holders of the parent

Issued equity	965,082	854,159
Equity component of convertible notes	22,094	30,281
Reserves	(138,437)	(251,670)
	<u>848,739</u>	<u>632,770</u>
Minority interests	76,655	71,341
	<u>925,394</u>	<u>704,111</u>

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2006

1. Accounting Policies

The condensed consolidated interim financial statements are prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting”. The accounting policies and basis of preparation adopted in the preparation of the interim financial statements are the same as those used in the annual financial statements for the year ended 31 December 2005, except in relation to the following new and revised Hong Kong Financial Reporting Standards (“HKFRSs”, which also include HKASs and Interpretations) that affect the Group and are adopted the first time for the current period’s financial statements:

HKAS 39 Amendment	The Fair Value Option
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease

The adoption of the above new and revised HKFRSs does not have any significant impact on the Group’s condensed consolidated financial statements.

2. Segment Information

The Group’s operating businesses are structured and managed separately according to the nature of their operations and the products they provide. Each of the Group’s business segments represents a strategic business unit that offers products which are subject to risks and returns that are different from those of the other business segments. The following tables present revenue and result for the Group’s primary segments.

For the six months ended 30 June 2006

	Continuing operations			Discontinued operation	
	Washing machine business (Unaudited) HK\$'000	Corporate and others (Unaudited) HK\$'000	Total (Unaudited) HK\$'000	Mobile handset business (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
Revenue:					
External sales	1,785,958	—	1,785,958	1,014,163	2,800,121
Other income and gains	859	—	859	882	1,741
	<u>1,786,817</u>	<u>—</u>	<u>1,786,817</u>	<u>1,015,045</u>	<u>2,801,862</u>
Segment results	<u>62,891</u>	<u>(12,420)</u>	50,471	(49,795)	676
Gain on disposal of the discontinued operation			—	156,449	156,449
Unallocated income			2,739	283	3,022
Finance costs			(4,079)	(3,517)	(7,596)
Tax			(20,662)	—	(20,662)
Profit for the period			<u>28,469</u>	<u>103,420</u>	<u>131,889</u>

For the six months ended 30 June 2005

	Continuing operations			Discontinued operation	
	Washing machine business (Unaudited) HK\$'000	Corporate and others (Unaudited) HK\$'000	Total (Unaudited) HK\$'000	Mobile handset business (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
Revenue:					
External sales	1,304,081	—	1,304,081	813,955	2,118,036
Other income and gains	4,048	—	4,048	2,791	6,839
	<u>1,308,129</u>	<u>—</u>	<u>1,308,129</u>	<u>816,746</u>	<u>2,124,875</u>
Segment results	<u>22,382</u>	<u>(8,106)</u>	14,276	(65,710)	(51,434)
Unallocated income			1,240	175	1,415
Finance costs			(4,417)	(4,433)	(8,850)
Impairment of goodwill			—	(321,947)	(321,947)
Tax			(2,888)	(7,818)	(10,706)
Profit/(loss) for the period			<u>8,211</u>	<u>(399,733)</u>	<u>(391,522)</u>

3. Other Income and Gains

	For the six months ended 30 June	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Continuing operations:		
Interest income	2,739	1,240
Rental income	163	2,673
Government subsidies	—	1,221
Others	696	154
	<u>3,598</u>	<u>5,288</u>
Discontinued operation:		
Interest income	283	175
Rental income	385	573
Sale of spare parts	—	2,154
Others	497	64
	<u>1,165</u>	<u>2,966</u>
Total other income and gains	<u><u>4,763</u></u>	<u><u>8,254</u></u>

4. Finance Costs

	For the six months ended 30 June	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Continuing operations:		
Interest on bank and other loans wholly repayable within five years	328	—
Interest on convertible notes	3,751	4,417
	<u>4,079</u>	<u>4,417</u>
Discontinued operation:		
Interest on bank and other loans wholly repayable within five years	3,517	4,433
	<u>3,517</u>	<u>4,433</u>
Total finance costs	<u><u>7,596</u></u>	<u><u>8,850</u></u>

5. Profit/(Loss) For The Period

Profit/(loss) for the period is arrived after charging:

	For the six months ended 30 June	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Continuing operations:		
Depreciation	11,967	9,999
Amortisation of prepaid land premiums	568	132
Discontinued operation:		
Depreciation	23,514	23,894
Amortisation of intangible assets	299	291
Impairment of goodwill	—	321,947
Provision for obsolete and slow-moving inventories	23,008	36,693
Provision for bad and doubtful debts	—	20,187
	<u> </u>	<u> </u>

6. Tax

	For the six months ended 30 June	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Current — PRC corporate income tax		
Charge for the period	18,616	1,045
Underprovision in prior years	2,747	—
Deferred	(701)	1,843
	<u> </u>	<u> </u>
Total tax charge for the period	<u>20,662</u>	<u>2,888</u>

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong for the six months ended 30 June 2006 and 2005.

The Group has seven subsidiaries established in the PRC, six of which are Sino-foreign equity joint ventures and the remaining one is a limited liability company. Except for the limited liability company and one Sino-foreign equity joint venture, all subsidiaries are entitled to preferential tax treatments including exemption from corporate income tax (“CIT”) for first two profitable years and 50% reduction of the CIT rate for the third to fifth years.

The Group has tax losses arising in Hong Kong that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in the Company and subsidiaries that have been loss-making for some time.

7. Dividend

The directors do not recommend payment of any interim dividend for the six months ended 30 June 2006 (2005: Nil).

8. Earnings/(Loss) Per Share

The calculation of basic earnings/(loss) per share amounts is based on the net profit/(loss) for the period attributable to ordinary equity holders of the parent and the weighted average number of ordinary shares in issue during the period.

The calculation of diluted earnings per share amounts is based on the net profit for the period attributable to ordinary equity holders of the parent, adjusted to reflect the interest on the convertible notes, where applicable (see below). The weighted average number of ordinary shares used in the calculation is the ordinary shares in issue during the period, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

Dilutive loss per share amount has not been disclosed as share options and convertible notes outstanding have anti-dilutive effects on the basic loss per share amount.

The calculations of basic and diluted earnings/(loss) per share are based on:

	For the six months ended 30 June	
	2006	2005
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Earnings/(loss)		
Net profit/(loss) attributable to ordinary equity holders of the parent, as used in the basic earnings/(loss) per share calculation:		
From continuing operations	23,155	2,727
From a discontinued operation	103,420	(399,733)
	<u>126,575</u>	<u>(397,006)</u>
Interest on convertible notes (<i>note 4</i>) #	3,751	4,417
	<u>130,326</u>	<u>(392,589)</u>
Net profit/(loss) attributable to ordinary equity holders of the parent before interest on convertible notes	<u>130,326</u>	<u>(392,589)</u>
Attributable to:		
Continuing operations #	26,906	7,144
Discontinued operation	103,420	(399,733)
	<u>130,326</u>	<u>(392,589)</u>
	<u>130,326</u>	<u>(392,589)</u>
	For the six months ended 30 June	
	2006	2005
	(Unaudited)	(Unaudited)
Shares		
Weighted average number of ordinary shares in issue during the period, as used in the basic earnings/(loss) per share calculation	17,194,251,187	14,819,658,465
Effect of dilution — weighted average number of ordinary shares:		
Share options	152,146,296	221,660,673
Convertible notes #	987,934,534	1,444,444,444
	<u>1,140,080,830</u>	<u>1,666,105,117</u>
Total #	<u>18,334,332,017</u>	<u>16,485,763,582</u>

Because the diluted earnings per share amounts for net profit from continuing operations for the six months ended 30 June 2006 and 2005 are increased when taking convertible notes into account, the convertible notes had an anti-dilutive effect on the basic earnings per share amounts for profit from continuing operations and were ignored in the calculation of diluted earnings per share amounts for profit from continuing operations. Therefore, diluted earnings per share amounts for profit from continuing operations are based on the net profit attributable to ordinary equity holders of the parent attributable to continuing operations of HK\$23,155,000 (2005: HK\$2,727,000) and the weighted average of 17,346,397,483 (2005: 15,041,319,138) ordinary shares in issue during the year.

9. Discontinued Operation

During the period, the Group disposed of its entire interest in Pegasus Telecom (Qingdao) Co., Ltd. (“Pegasus Qingdao”) and Pegasus Electronic (Qingdao) Co., Ltd. (“Pegasus Electronic”) to Qingdao Haier Group Holdings (BVI) Limited (“Haier BVI”) at a consideration aggregating HK\$411 million. Haier BVI is a substantial shareholder of the Company. Pegasus Qingdao and Pegasus Electronic are principally engaged in the manufacture and sale of mobile handsets. The above transaction was approved by the independent shareholders of the Company at a special general meeting held on 15 June 2006 and was completed on 27 June 2006.

The results of Pegasus Qingdao and Pegasus Electronic for the period are presented below:

	For the six months ended	
	30 June	
	2006	2005
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Revenue	1,014,163	813,955
Expenses	(1,063,675)	(879,490)
Finance costs	(3,517)	(4,433)
Impairment of goodwill	—	(321,947)
	<hr/>	<hr/>
Loss before tax from the discontinued operation	(53,029)	(391,915)
Tax	—	(7,818)
	<hr/>	<hr/>
Loss for the period from discontinued operation	(53,029)	(399,733)
Gain on disposal of the discontinued operation	156,449	—
	<hr/>	<hr/>
Profit/(loss) for the period from the discontinued operation	103,420	(399,733)
	<hr/> <hr/>	<hr/> <hr/>
Earnings/(loss) per share:		
Basic, from the discontinued operation	0.60 cents	(2.70) cents
	<hr/> <hr/>	<hr/> <hr/>
Diluted, from the discontinued operation	0.56 cents	N/A
	<hr/> <hr/>	<hr/> <hr/>

Dilutive loss per share amount has not been disclosed as share options and convertible notes outstanding have anti-dilutive effects on the basic loss per share amount.

The calculations of basic and diluted earnings/(loss) per share for the discontinued operation are based on:

	For the six months ended 30 June	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Earnings/(loss)		
Net profit/(loss) attributable to ordinary equity holders of the parent from the discontinued operation	103,420	(399,733)
	<hr/> <hr/>	<hr/> <hr/>
	For the six months ended 30 June	
	2006 (Unaudited)	2005 (Unaudited)
Shares		
Weighted average number of ordinary shares in issue during the period, as used in the basic earnings/(loss) per share calculation	17,194,251,187	14,819,658,465
	<hr/> <hr/>	<hr/> <hr/>
Weighted average number of ordinary shares, as used in the diluted earnings/(loss) per share calculation	18,334,332,017	N/A
	<hr/> <hr/>	<hr/> <hr/>

10. Trade and Bills Receivables

The Group normally allows an average credit period of 30 to 90 days to its trade customers. Trade receivables are non-interest-bearing.

An aged analysis of the trade and bills receivables as at the balance sheet date, based the invoice date and net of provisions, is as follows:

	30 June 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) HK\$'000
Trade receivables		
Within 1 month	65,925	310,244
1 to 2 months	10,806	114,645
2 to 3 months	—	77,899
Over 3 months	—	33,803
	<hr/>	<hr/>
	76,731	536,591
Bills receivable	55,907	140,919
	<hr/>	<hr/>
Total	132,638	677,510
	<hr/> <hr/>	<hr/> <hr/>

11. Trade and Bills Payables

An aged analysis of the trade payables as at the balance sheet date, based on the invoice date, is as follows:

	30 June 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) HK\$'000
Trade payables		
Within 1 month	216,560	445,144
1 to 2 months	406	129,504
2 to 3 months	820	119,850
Over 3 months	<u>5,602</u>	<u>181,473</u>
	223,388	875,971
Bills payable	<u>—</u>	<u>96,145</u>
	<u>223,388</u>	<u>972,116</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Overview

The first half of the 2006 financial year was a transitional period in the Group's corporate history. As part of the Group's long-term strategy to focus on developing its white goods businesses, in June 2006, the Group completed the disposal of the mobile handset business to its parent company and controlling shareholder, the Haier Group, for a total consideration of approximately HK\$420 million (comprising approximately HK\$411 million for the equity interests and approximately HK\$9 million for assignment of debt). This strategic move demonstrated the Group's commitment to achieving its ultimate goal of becoming a global white goods giant.

Group Results

Turnover from continuing operations of the Group, i.e. the top loading washing machine business, for the six months ended 30 June 2006 amounted to HK\$1,786 million, representing an increase of approximately 37% from HK\$1,304 million in the same period last year. Net profit attributable to shareholders amounted to HK\$127 million for the six months ended 30 June 2006, against a loss attributable to shareholders of HK\$397 million in the first half of 2005. Such turnaround was mainly attributed from the strong growth in the Group's top loading washing machine business, with operating profit from this business increased substantially by 181% from HK\$22 million in the first half of 2005 to HK\$63 million in the first half of 2006. In addition, the mobile handset business, which was disposed of during the period, recorded a net profit of approximately HK\$103 million (which mainly arose from the gain on disposal of this business) against a net loss of HK\$400 million in the same period last year.

BUSINESS REVIEW

Top loading washing machine business

The top loading washing machine business reported substantially improved results with sales of HK\$1,786 million, representing an increase of 37% as compared to the first half of 2005. Gross profit margin improved from 22.4% in the first half of 2005 to 26.5% in the first half of 2006. As a result, operating profit grew substantially by 181% from HK\$22 million in the first half of 2005 to HK\$63 million in the first half of 2006. The strong performance was the results of our successful product positioning and marketing strategies whilst focusing effort on technology innovation, leading to higher growth in sales of high end products which generated better margins.

Our environmentally friendly dual-drive washing machines, which are developed by our own R&D team and do not require the use of washing powder, in particular, recorded a robust growth in sales and established a sound reputation both domestically and internationally for its environmentally friendly, safety and energy efficient features. In recognition of its excellence in both technology and quality, our dual-drive washing machines have been awarded quality and technology certificates from international organizations in more than 10 countries. Moreover, our environmentally friendly dual-drive washing machines were awarded a golden prize in 2006 China International Patent Fair, adding another trophy to the already long list of awards we have on our washing machine products.

To cope with our rapid growth in sales, a new factory with annual production capacity of approximately 1 million units was recently established in Jiaonan, Shandong Province, the PRC. Production has commenced in the fourth quarter of 2005, boasting our annual production capacity to more than 6 million units. To cater for further growth of our washing machine business, another factory with annual production capacity of approximately 1 million units is being constructed in Chongqing, the PRC and is scheduled to commence production in the fourth quarter of 2006. This will further increase our annual production capacity to more than 7 million units by the end of 2006.

We will continue to leverage on our committed team of R&D professionals to focus on developing products with high level of quality, reliability and technology innovation. The Directors are confident that the top loading washing machine business of the Group will continue to perform well in the second half of 2006.

Mobile handset business

With competition in the PRC's mobile handset industry remained intensive and given the Haier Group's determination to transform the Group into the listed flagship of its white goods businesses, with the mobile handset business falling outside the scope of its white goods businesses, the Company entered into an agreement in April 2006 to dispose of the mobile handset business to the Haier Group for a consideration of approximately HK\$420 million. The disposal was completed in June 2006, enabling the Group to focus on improving its core competencies in the white goods businesses. Moreover, resources could now be better directed to our white goods businesses with promising prospects, resulting in improved profitability in the future.

Injection of front loading washing machine business and water heater business from the Haier Group into the Group

Subsequent to the period end, a further significant step has been taken by the Group in achieving its mission, which is to become the listed flagship of the Haier Group's white goods businesses. On 18 August 2006, the Company entered into an agreement to acquire from the Haier Group the front loading washing machines and water heaters businesses, which are the leading players in their respective markets in the PRC, for a total consideration of HK\$900 million (the "Asset Injection").

Upon completion of the Asset Injection, in addition to the top loading washing machine business currently undertaken by the Group, the Group will also be engaged in the business of research, development, production and sale of front loading washing machines and water heaters. The Directors believe that such consolidation of businesses will create a comprehensive product portfolio and significantly strengthen the overall competitiveness of the Group's washing machine business while eliminating potential competition and conflict of interests between the Group and the Haier Group on the management of the washing machines businesses. Moreover, as both washing machines and water heaters are consumer white goods with similar sale and marketing strategies, the Asset Injection will create synergies and increase the value of the Group as a whole. The Asset Injection is also expected to significantly improve the financial performance of the Group.

Further information on the Asset Injection will be contained in our circular to be dispatched to our shareholders in due course. The Asset Injection is subject to several conditions including approval by the independent shareholders of the Company at the forthcoming special general meeting of the Company. Subject to the fulfilment of all such conditions, it is expected that the Asset Injection will be completed by the fourth quarter of 2006.

OUTLOOK

Looking forward, the Group will continue to build on its platform of extensive resources in the PRC and the prestigious Haier brand to reinforce the leading position of its white goods businesses in the PRC market. In addition, to accomplish the global branding strategy launched by the Haier Group in 2006, the Group is committed to bringing its products worldwide in order to globalize its white goods business and to sustain our long-term business growth.

Meanwhile, the Group continues to move towards its goal of becoming the listed flagship of the Haier Group's white goods businesses and ultimately become a global top 3 white goods manufacturer. In addition to the divestment of the mobile handset business in the first half 2006 and the expected completion of injection of front loading washing machine business and water heater business by the end of the current 2006 financial year, the Group is also actively looking for further asset injection opportunities from the Haier Group, in particular, the Haier Group's equity interests in Qingdao Haier Co., Ltd. (a joint stock company listed on the Shanghai Stock Exchange) which is principally engaged in the research, development, production and sale of air-conditioners, refrigerators and other small home appliances. No definite time schedule has been set and no binding agreement has yet been entered into with the Haier Group in respect of further asset injections. The Group will make announcement to provide further update on the development of such possible asset injections in accordance with the requirements of the Listing Rules, as and when appropriate.

LIQUIDITY AND FINANCIAL RESOURCES

The Group has maintained a healthy financial and liquidity position with a current ratio of 236% as at 30 June 2006 (31 December 2005: 116%). As at 30 June 2006, the Group had a cash balance of HK\$629 million (as at 31 December 2005: HK\$560 million), no bank and other loans (as at 31 December 2005: HK\$125 million) and zero-coupon 3-year convertible notes (the "Convertible Notes") with a face value of HK\$170 million and a liability element of HK\$158 million (as at 31 December 2005: HK\$212 million).

The Group has a net cash balance (cash balance less borrowings and Convertible Notes) of HK\$471 million as at 30 June 2006, up substantially from HK\$224 million as at 31 December 2005. The Group has been able to maintain a very strong cash position due to its focus on cashflow management and has been able to record a net cash inflow from operating activities of HK\$135 million in the first half of 2006.

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

The Group had contracted capital commitments amounting to HK\$33 million as at 30 June 2006, which were mainly related to contracted construction cost and purchase of machinery for the expansion in production capacity of the Group's washing machines business.

CAPITAL STRUCTURE AND GEARING RATIO

As at 30 June 2006, the Group maintained a comfortable gearing ratio (total borrowings plus Convertible Notes over shareholders' equity) of 19% (as at 31 December 2005: 53%).

TREASURY POLICIES

The Group employs a conservative approach to cash management and risk controls. Most of the Group's receipts and payments are in Renminbi and Hong Kong dollars. Cash is generally placed in short term deposits denominated either in Renminbi or Hong Kong dollars. As at 30 June 2006, the Convertible Notes were denominated in Hong Kong dollars and the Group has no other outstanding borrowings. Foreign currency risk is not significant as liabilities in Renminbi will be matched by the Group's earnings, most of which are also denominated in Renminbi. The Group does not have any significant interest rate risk, as the current interest rate in the PRC stays at low level and is relatively stable. The Group does not have any financial instruments for hedging purposes.

EMPLOYEES AND REMUNERATION POLICY

The total number of employees of the Group as at 30 June 2006 was approximately 4,300, representing a decrease of approximately 23% as compared to 31 December 2005.

The Group ensures that the remuneration packages for its employees are competitive and employees are generally remunerated with a fixed monthly income, which are normally reviewed on an annual basis, plus discretionary performance related bonuses. Employees are also provided with benefits including provident fund and medical insurance. The Group maintains a share option scheme as an incentive to attract and retain talented employees. As at 30 June 2006, there were outstanding share options entitling the grantees to subscribe for 318 million new shares of the Company.

MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATES

Please refer to note 9 to the condensed consolidated interim financial statements above for details of material disposal of subsidiaries during the period.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

CORPORATE GOVERNANCE PRACTICES

The corporate governance practices adopted by the Company throughout the period of six months ended 30 June 2006 were consistent with those disclosed in the Company's 2005 Annual Report.

Compliance with Code on Corporate Governance Practices of the Listing Rules

As at 30 June 2006, the Company has complied with the majority of the applicable code provisions (the "Code Provision(s)") and principles under the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 to the Listing Rules, except for the following deviations:

Code Provision A.2.1

Under the Code Provision A.2.1, the roles of chairman and chief executive officer ("CEO") should be separate and should not be performed by the same individual. The Company does not currently have any person holding the title of CEO. Ms. Yang Mian Mian is the chairman of the Board and is also performing the functions of a CEO. The Board meets regularly to consider major matters affecting the business and operation of the Group. The Board considers that this structure will not impair the balance of power and authority between the Board and management and believes that this structure enables the Group to make and implement decisions promptly and efficiently.

Code Provision A.4.1

Under the Code Provision A.4.1, non-executive directors should be appointed for specific terms, subject to re-election. Currently, the independent non-executive directors of the Company are not appointed for a specific term but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company's Bye-laws. As such, the Board considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those set out in the CG Code.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a Model Code for Securities Transactions by Directors (the "Haier Electronics Model Code") on no less exacting terms than the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules. Upon enquiry by the Company, all directors of the Company have confirmed that they have complied with the required standard as set out in the Haier Electronics Model Code throughout the period of six months ended 30 June 2006.

AUDIT COMMITTEE

The Company has established an audit committee comprising three independent non-executive directors of the Company. The audit committee had reviewed with the management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including the review of the unaudited condensed consolidated interim financial statements of the Group for the six months ended 30 June 2006.

APPRECIATION

I would like to take this opportunity to thank all my fellow directors and staff for their dedicated services, contributions and support during the period.

By Order of the Board of
Haier Electronics Group Co., Ltd.
Yang Mian Mian
Chairman

Hong Kong, 22 September 2006

As at the date of this announcement, the executive directors of the Company are Messrs. Yang Mian Mian (Chairman), Wu Ke Song (Deputy Chairman), Chai Yong Sen, Liang Hai Shan, Cao Chun Hua, Cui Shao Hua and Song Chung Guang; the independent non-executive directors of the Company are Messrs. Lam Kin Kau, Mark, Fung Hoi Wing, Henry and Wu Yinong.

* *for identification purpose only*

Please also refer to the published version of this announcement in The Standard.