Haier Electronics Group Co., Ltd.
海 爾 電 器 集 團 有 限 公 司 *

(Incorporated in Bermuda with limited liability)
（於 百 慕 達 註 冊 成 立 之 有 限 公 司）

Interim Report 2005 | 中 期 報 告

* For identification purpose only
* 僅供識別

Contents

Interim Results

The Board of Directors of the Company hereby announces the unaudited interim results of the Group for the six months ended 30 June 2005 together with the comparative figures for the corresponding period in 2004. 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 2005

	Notes	For the six months ended 30 June **2005** **(Unaudited)** **HK$'000**	 2004 (Restated) HK$'000
REVENUE			
Sale of goods	5	**2,118,036**	2,748,303
Cost of sales		**(1,858,556)**	(2,470,063)
Gross profit		**259,480**	278,240
Other income and gains	6	**8,254**	8,207
Selling and distribution costs		**(209,027)**	(142,048)
Administrative expenses		**(88,426)**	(54,333)
Other expenses		**(20,300)**	(8,975)
Finance costs	7	**(8,850)**	(9,170)
Recognition of negative goodwill as income	2	**227,780**	–
Impairment of goodwill		**(549,727)**	–
PROFIT/(LOSS) BEFORE TAX	8	**(380,816)**	71,921
Tax	9	**(10,706)**	(14,039)
PROFIT/(LOSS) FOR THE PERIOD		**(391,522)**	57,882
ATTRIBUTABLE TO:			
Equity holders of the parent		**(397,006)**	44,983
Minority interests		**5,484**	12,899
		(391,522)	57,882
EARNINGS/(LOSS) PER SHARE	10		
Basic		**(2.68) cents**	0.71 cents
Diluted		**N/A**	N/A
DIVIDEND	11	**–**	8,508

CONDENSED CONSOLIDATED BALANCE SHEET

30 June 2005

	Notes	30 June 2005 (Unaudited) HK$'000	31 December 2004 (Restated) HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	12	**587,765**	367,705
Prepaid land premiums		**12,018**	12,150
Intangible assets		**3,631**	3,922
Deferred tax assets		**11,866**	21,527
Total non-current assets		**615,280**	405,304
CURRENT ASSETS			
Inventories		**542,774**	436,939
Trade and bills receivables	13	**469,019**	972,171
Prepayments, deposits and other receivables		**235,208**	131,471
Tax recoverable		**9,178**	4,940
Pledged deposits		**–**	2,501
Cash and cash equivalents		**389,594**	242,741
Total current assets		**1,645,773**	1,790,763
CURRENT LIABILITIES			
Trade payables	14	**833,372**	1,136,940
Tax payable		**1,065**	825
Other payables and accruals		**344,734**	200,610
Short term bank and other loans		**164,648**	147,044
Due to minority shareholders		**6,126**	–
Warranty provision		**21,776**	20,487
Total current liabilities		**1,371,721**	1,505,906
NET CURRENT ASSETS		**274,052**	284,857
TOTAL ASSETS LESS CURRENT LIABILITIES		**889,332**	690,161

CONDENSED CONSOLIDATED BALANCE SHEET (Cont'd)

30 June 2005

	Notes	**30 June 2005 (Unaudited) HK$'000**	31 December 2004 (Restated) HK$'000
NON-CURRENT LIABILITIES			
Convertible notes	15	**230,626**	–
Deferred tax liabilities		**606**	606
Total non-current liabilities		**231,232**	606
		658,100	689,555
CAPITAL AND RESERVES			
Equity attributable to equity holders of the parent			
Issued equity	16	**804,339**	352,324
Other reserves	16	**63,203**	29,412
Retained earnings/(accumulated losses)	16	**(269,563)**	127,443
		597,979	509,179
Minority interests	16	**60,121**	180,376
		658,100	689,555

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2005

		For the six months ended 30 June	
		2005	2004
		(Unaudited)	(Restated)
	Notes	**HK$'000**	HK$'000
Total equity at 1 January		**689,555**	555,107
Changes in equity during the period:			
Profit/(loss) for the period	16	**(391,522)**	57,882
Dividend	16	**(6,126)**	(14,180)
Acquisition of subsidiaries	16	**325,694**	–
Issue of convertible notes	16	**33,791**	–
Exercise of share options	16	**6,708**	–
Total equity at 30 June		**658,100**	598,809
Total recognised income and expenses for the period attributable to:			
Equity holders of the parent		**(397,006)**	44,983
Minority interests		**5,484**	12,899
		(391,522)	57,882

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2005

	For the six months ended 30 June	
	2005	2004
	(Unaudited)	(Restated)
	HK$'000	HK$'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	**70,429**	365,618
NET CASH INFLOW/(OUTFLOW) FROM INVESTING ACTIVITIES	**56,545**	(18,145)
NET CASH INFLOW/(OUTFLOW) FROM FINANCING ACTIVITIES	**19,879**	(267,311)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**146,853**	80,162
Cash and cash equivalents at beginning of period	**242,741**	263,657
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**389,594**	343,819
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	**353,797**	343,819
Time deposits with original maturity of less than three months when acquired	**35,797**	–
	389,594	343,819

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2005

1. GROUP REORGANISATION

On 28 January 2005, the Company acquired from Haier Group Corporation ("Haier Corp") and Qingdao Haier Investment and Development Co., Ltd. ("Haier Investment") (collectively "Haier Group") their entire interest in Haier Holdings (BVI) Limited ("BVI-1") and Qingdao Haier Investment and Development Holdings (BVI) Limited ("BVI-2") (collectively "Haier BVI"), for an aggregate consideration of RMB1,100 million (equivalent to approximately HK$1,035 million) (the "Asset Injection"). The total consideration was satisfied as to HK$725 million by the issuance of 4,027 million ordinary shares of the Company at HK$0.18 each, HK$260 million by the issuance of convertible notes of the Company and HK$50 million in cash.

On the same date, the Company exercised its call option to acquire from Haier Investment its entire interest in Pegasus Telecom (Qingdao) Co., Ltd. ("Pegasus Qingdao") for a consideration of HK$468.6 million (the "Call Option Exercise"). The consideration was satisfied by the issuance of 2,343 million ordinary shares of the Company at HK$0.20 each.

Upon completion of the Asset Injection and Call Option Exercise, Haier Group's interest in the Company increased to 50.2% and Haier Group became the controlling shareholder of the Company.

2. REVERSE ACQUISITION

Under Hong Kong Financial Reporting Standard ("HKFRS") 3 "Business Combinations", the Asset Injection and Call Option Exercise have been accounted for as a reverse acquisition since the issuance of the consideration shares and convertible notes resulted in Haier Group becoming the controlling shareholder of the Company. For accounting purpose, Haier Group's interest in Haier BVI and Pegasus Qingdao (collectively "Haier Businesses") is treated as the acquirer while the Company and its relevant interest in the then subsidiaries (collectively the "Former Group") is deemed to have been acquired by Haier Businesses as at 28 January 2005. These consolidated financial statements of the Group have been prepared as a continuation of the Haier Businesses and accordingly,

(i) the assets and liabilities of Haier Businesses are recognised and measured at the date of acquisition at their historical carrying values prior to the Asset Injection and Call Option Exercise;

(ii) the reserves recognised in the consolidated financial statements of the Group are the reserves of Haier Businesses;

(iii) the amount recognised as issued equity, consists of share capital, contributed surplus and share premium, has been determined by adding to the issued equity of Haier Businesses immediately before the Asset Injection and Call Option Exercise the cost of acquisition of the Former Group; and

(iv) comparative information presented is that of Haier Businesses for the six months ended 30 June 2004 and as at 31 December 2004.

2. REVERSE ACQUISITION (Cont'd)

In preparing these consolidated financial statements, Haier Businesses has applied the purchase method to account for the acquisition of the Former Group. In applying the purchase method, the identifiable assets and liabilities of the Former Group were recorded in the consolidated balance sheet at their fair values as at 28 January 2005. In addition, negative goodwill arising on the acquisition of the Former Group of approximately HK$228 million was recorded, being the excess of the sum of the fair values of the identifiable assets less liabilities of the Former Group and the cost of acquisition of the Former Group.

3. 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 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 2004, except in relation to the following new and revised HKFRSs (which also include HKASs and Interpretations) that affect the Group and are adopted for the first time for the current period's financial statements:

HKAS 1	"Presentation of Financial Statements"
HKAS 2	"Inventories"
HKAS 7	"Cash Flow Statements"
HKAS 8	"Accounting Policies, Changes in Accounting Estimates and Errors"
HKAS 10	"Events after the Balance Sheet Date"
HKAS 12	"Income Taxes"
HKAS 16	"Property, Plant and Equipment"
HKAS 17	"Leases"
HKAS 18	"Revenue"
HKAS 19	"Employee Benefits"
HKAS 21	"The Effects of Changes in Foreign Exchange Rates"
HKAS 23	"Borrowing Costs"
HKAS 24	"Related Party Disclosures"
HKAS 27	"Consolidated and Separate Financial Statements"
HKAS 28	"Investments in Associates"
HKAS 32	"Financial Instruments: Disclosure and Presentation"
HKAS 33	"Earnings per Share"
HKAS 36	"Impairment of Assets"
HKAS 37	"Provisions, Contingent Liabilities and Contingent Assets"
HKAS 38	"Intangible Assets"
HKAS 39	"Financial Instruments: Recognition and Measurement"
HKAS 40	"Investment Property"
HKFRS 2	"Share-based Payment"
HKFRS 3	"Business Combinations"
HKAS-Int 21	"Income Taxes – Recovery of Revalued Non-depreciable Assets"
HK-Int 4	"Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases"

3. ACCOUNTING POLICIES (Cont'd)

The adoption of HKASs 1, 2, 7, 8, 10, 12, 16, 18, 19, 21, 23, 24, 27, 28, 32, 33, 36, 37, 38, 39, 40, HKAS-Int 21 and HK-Int 4 has had no material impact on the accounting policies of the Group and the methods of computation in the Group's condensed consolidated financial statements. The impact of adopting the other HKFRSs is summarised as follows:

(a) HKAS 17 – Leases

In prior periods, leasehold land and buildings held for own use were stated at cost less accumulated depreciation and any impairment losses.

Upon the adoption of HKAS 17, the Group's leasehold interest in land and buildings is separated into leasehold land and leasehold buildings. The Group's leasehold land is classified as an operating lease, because the title of the land is not expected to pass to the Group by the end of the lease term, and is reclassified from property, plant and equipment to prepaid land premiums, while leasehold buildings continue to be classified as part of property, plant and equipment. Prepaid land premiums for land lease payments under operating leases are initially stated at cost and subsequently amortised on the straight-line basis over the lease term. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

This change in accounting policy has had no effect on the condensed consolidated income statement and retained earnings. The comparatives on the condensed consolidated balance sheet for the year ended 31 December 2004 have been restated to reflect the reclassification of leasehold land.

(b) HKFRS 2 – Share-based Payment

In prior periods, no recognition and measurement of share-based transactions in which employees (including directors) were granted share options over shares in the Company was required until such options were exercised by employees, at which time the share capital and share premium were credited with the proceeds received.

Upon the adoption of HKFRS 2, when employees (including directors) render services as consideration for equity instruments ("equity-settled transactions"), the cost of the equity-settled transactions with employees is measured by reference to the fair value at the date at which the instruments are granted. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company, if applicable.

3. ACCOUNTING POLICIES (Cont'd)

(b) HKFRS 2 – Share-based Payment (Cont'd)

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the "vesting date"). The cumulative expense recognised for equity-settled transactions at each balance sheet date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

In accordance with the transitional provision of HKFRS 2, the Group applies HKFRS 2 to share options granted after 7 November 2002 and not yet vested at 1 January 2005.

(c) HKFRS 3 – Business Combinations and HKAS 36 – Impairment of Assets

In prior periods, goodwill arising on acquisitions was capitalised and amortised on the straight-line basis over its estimated useful life and was subject to impairment testing when there was any indication of impairment.

Upon the adoption of HKFRS 3 and HKAS 36, goodwill arising on acquisitions is no longer amortised but subject to an annual impairment review (or more frequently if events or changes in circumstances indicate that the carrying value may be impaired). Any impairment loss recognised for goodwill is not reversed in a subsequent period.

Any excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of the acquisition of subsidiaries and associates (previously referred to as "negative goodwill"), after reassessment, is recognised immediately in the income statement.

The adoption of HKFRS 3 has resulted in the recognition of negative goodwill as income arising from the acquisition of the Former Group in 2005 and the effect is summarised in note 4.

4. SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICY

The following tables summarise the impact on profit after tax for the six months period ended 30 June 2005 and 2004 upon the adoption of the HKFRS 3. As no retrospective adjustments have been made for the adoption of HKFRS 3, the amounts shown for the six months period ended 30 June 2004 may not be comparable to the amount shown for the current period. Effect on profit after tax for the six months ended 30 June 2005 and 2004 are as follows:

Effect of new policy (Increase/ (decrease))	Note	For the six months ended 30 June **2005** Equity holders of the parent (Unaudited) HK$'000	**2005** Minority interests (Unaudited) HK$'000	**2005** Total (Unaudited) HK$'000	2004 Equity holders of the parent (Restated) HK$'000	2004 Minority interests (Restated) HK$'000	2004 Total (Restated) HK$'000
Effect on profit after tax:							
HKFRS 3							
Recognition of negative goodwill as income	3(c)	**227,780**	**–**	**227,780**	–	–	–
Total effect for the period		**227,780**	**–**	**227,780**	–	–	–
Effect on earnings per share:							
Basic		**1.54 cents**			–		
Diluted		**N/A**			N/A		

5. SEGMENT INFORMATION

The Group's operating business 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 table presents revenue and result for the Group's primary segments.

	For the six months ended 30 June							
	2005				2004			
	Mobile handset business (Unaudited) HK$'000	Washing machine business (Unaudited) HK$'000	Corporate and others (Unaudited) HK$'000	Total (Unaudited) HK$'000	Mobile handset business (Restated) HK$'000	Washing machine business (Restated) HK$'000	Corporate and others (Restated) HK$'000	Total (Restated) HK$'000
Revenue:								
External sales	813,955	1,304,081	–	2,118,036	1,650,354	1,097,949	–	2,748,303
Other income and gains	2,791	4,048	–	6,839	4,872	2,214	–	7,086
	816,746	1,308,129	–	2,124,875	1,655,226	1,100,163	–	2,755,389
Segment results	(65,710)	22,382	(8,106)	(51,434)	24,153	55,817	–	79,970
Unallocated income				1,415				1,121
Finance costs				(8,850)				(9,170)
Recognition of negative goodwill as income				227,780				–
Impairment of goodwill	(549,727)	–	–	(549,727)				–
Tax				(10,706)				(14,039)
Profit/(loss) for the period				(391,522)				57,882

6. OTHER INCOME AND GAINS

	For the six months ended 30 June	
	2005	2004
	(Unaudited)	(Restated)
	HK$'000	HK$'000
Rental income	**3,246**	2,768
Sale of spare parts	**2,154**	378
Interest income	**1,415**	1,121
Government subsidies *(note)*	**1,221**	3,907
Others	**218**	33
	8,254	8,207

Note: *In 2005, a subsidiary of the Group in PRC received subsidies from an authority of Shunde Municipality as an encouragement for advanced research and development. The subsidies for 2004 were received from the relevant authorities of Qingdao Municipality as an encouragement for export sales made by one of the Group's subsidiary in PRC.*

7. FINANCE COSTS

	For the six months ended 30 June	
	2005	2004
	(Unaudited)	(Restated)
	HK$'000	HK$'000
Interest on bank and other loans wholly repayable within five years	**4,433**	9,170
Interest on convertible notes	**4,417**	–
	8,850	9,170

8. PROFIT/(LOSS) BEFORE TAX

Profit/(loss) before tax was determined after charging/(crediting) the following:

	For the six months ended 30 June	
	2005	2004
	(Unaudited)	(Restated)
	HK$'000	HK$'000
Depreciation	**33,893**	19,677
Amortisation of prepaid land premiums	**132**	132
Amortisation of intangible assets	**291**	291
Impairment of goodwill	**549,727**	–
Provision for obsolete and slow-moving inventories	**36,693**	42,209
Provision for bad and doubtful debts	**20,187**	8,975
Recognition of negative goodwill as income	**(227,780)**	–

9. TAX

	For the six months ended 30 June	
	2005	2004
	(Unaudited)	(Restated)
	HK$'000	HK$'000
Current – PRC corporate income tax ("CIT")	**1,045**	18,298
Deferred	**9,661**	(4,259)
Total tax charge for the period	**10,706**	14,039

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the periods ended 30 June 2005 and 2004.

The Group has six subsidiaries established in the PRC, four of which are Sino-foreign equity joint ventures and the remaining two are wholly-foreign owned enterprises. These subsidiaries are entitled to preferential tax treatments including reduction of PRC CIT rate and full exemption from PRC CIT for two years starting from its first profit-making year following by a 50% reduction for the next consecutive three 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.

10. EARNINGS/(LOSS) PER SHARE

Under reverse acquisition accounting method (note 2), the 6,369,706,667 ordinary shares issued by the Company for the purposes of Asset Injection and Call Option Exercise (note 1) are deemed to be issued on 1 January 2004 for the purposes of calculating earnings/(loss) per share.

The calculation of basic loss per share for the period is based on the loss attributable to equity holders of the parent of HK$397,006,000 (six months ended 30 June 2004: earnings of HK$44,983,000 (as restated)), and the weighted average number of 14,819,658,465 (six months ended 30 June 2004: 6,369,706,667 (as restated)) ordinary shares in issue during the period.

Diluted loss per share for the period ended 30 June 2005 has not been disclosed as share options and convertible notes outstanding during the period had anti-dilutive effects on the basic loss per share for the period.

Diluted earnings per share for the period ended 30 June 2004 has not been disclosed as the Group did not have any dilutive potential ordinary shares during that period.

11. DIVIDEND

The directors do not recommend payment of an interim dividend for the six months ended 30 June 2005.

The dividend disclosed for the six months ended 30 June 2004 represented dividend declared by a subsidiary of BVI-1 to its previous owner, Haier Corp, out of its retained profits after setting aside a required percentage of its net earnings to the relevant statutory reserves in accordance with the rules and regulations applicable in the PRC and its articles of association.

12. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2005, the Group incurred construction costs for production plants and purchased fixed assets of HK$13,336,000 and HK$14,699,000, respectively (six months ended 30 June 2004: HK$1,249,000 and HK$16,825,000, respectively), and disposed of certain fixed assets with an aggregate net book value of HK$1,551,000 (six months ended 30 June 2004: Nil).

13. TRADE AND BILLS RECEIVABLES

The Group normally allows an average credit period of 30 to 90 days to its trade customers. An aged analysis of the trade and bills receivables as at the balance sheet date, based on invoice date and net of provisions, is as follows:

	30 June 2005 (Unaudited) HK$'000	31 December 2004 (Restated) HK$'000
Within 1 month	**360,096**	681,417
1 to 2 months	**79,384**	233,715
2 to 3 months	**4,705**	10,037
Over 3 months	**24,834**	47,002
Total	**469,019**	972,171

A provision is made when there is objective evidence that the Group will not be able to collect the amounts due according to the original terms of the receivables.

Included in the above balances are trade receivables of HK$306,497,000 (2004: HK$820,128,000 (as restated)) due from subsidiaries of Haier Corp and Haier Investment, which are repayable on similar credit terms to those offered to the major customers of the Group. Further details in respect of the sales to these related parties are set out in note 17.

14. TRADE PAYABLES

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

	30 June 2005 (Unaudited) HK$'000	31 December 2004 (Restated) HK$'000
Within 1 month	**317,696**	618,215
1 to 2 months	**76,430**	104,033
2 to 3 months	**18,318**	91,458
Over 3 months	**420,928**	323,234
Total	**833,372**	1,136,940

Included in the above balances are trade payables of HK$507,306,000 (2004: HK$793,724,000) due to subsidiaries of Haier Corp and Haier Investment, which are repayable on similar credit terms to those offered by major suppliers of the Group. Further details of the purchases from these related parties are set out in note 17.

15. CONVERTIBLE NOTES

On 28 January 2005, the Company issued convertible notes with an aggregate principal amount of HK$260 million to a subsidiary of Haier Group, Qingdao Haier Group Holdings (BVI) Ltd., as part of the purchase consideration for the Asset Injection (note 1).

The convertible notes have a three-year term and are not interest bearing. Each note is convertible at any time prior to the fifth business days before 27 January 2008, at the holder's option, into the Company's ordinary shares at a conversion price of HK$0.18 per share.

The fair value of the liability component of the convertible notes was determined, upon issuance, using the prevailing market interest rate for similar debt without a conversion option of 4.75% and is carried as a long term liability. The remaining portion was allocated to the conversion option that is recognised and included in other reserves.

16. EQUITY

	Equity attributable to equity holders of the parent						
	Issued equity (Unaudited) HK$'000	Equity component of convertible notes (Unaudited) HK$'000	Reserve fund (Unaudited) HK$'000	Retained earnings (Unaudited) HK$'000	Total (Unaudited) HK$'000	Minority interests (Unaudited) HK$'000	Total equity (Unaudited) HK$'000
At 1 January 2004 (as restated)	352,324	–	15,697	30,187	398,208	156,899	555,107
Dividend (as restated)	–	–	–	(8,508)	(8,508)	(5,672)	(14,180)
Profit for the period (as restated)	–	–	–	44,983	44,983	12,899	57,882
At 30 June and 1 July 2004 (as restated)	352,324	–	15,697	66,662	434,683	164,126	598,809
Profit for the period (as restated)	–	–	–	74,496	74,496	16,250	90,746
Transfer to reserves (as restated)	–	–	13,715	(13,715)	–	–	–
At 31 December 2004 and 1 January 2005 (as restated)	352,324	–	29,412	127,443	509,179	180,376	689,555
Loss for the period	–	–	–	(397,006)	(397,006)	5,484	(391,522)
Dividend	–	–	–	–	–	(6,126)	(6,126)
Acquisition of subsidiaries	445,307	–	–	–	445,307	(119,613)	325,694
Issue of convertible notes	–	33,791	–	–	33,791	–	33,791
Exercise of share options	6,708	–	–	–	6,708	–	6,708
At 30 June 2005	804,339	33,791*	29,412*	(269,563)	597,979	60,121	658,100

* *These reserves accounts comprise the consolidated other reserves of HK$63,203,000 (2004: HK$29,412,000) in the consolidated balance sheet.*

17. RELATED PARTY TRANSACTIONS

(a) During the period, the Group had the following material transactions with Haier Corp, Haier Investment, their subsidiaries and associates. Haier Corp, Haier Investment, their subsidiaries and associates are companies that have certain key management personnel in common with the Company.

		Six months ended 30 June	
		2005	2004
		(Unaudited)	(Restated)
	Notes	**HK$'000**	HK$'000
Subsidiaries of Haier Corp and Haier Investment			
Sales of mobile handset products	(i)	**783,357**	1,425,693
Sales of washing machines			
– before 28 January 2005	(ii)	**302,793**	1,094,217
– on or after 29 January 2005	(iii)	**121,569**	–
Purchases of raw materials	(iv)	**1,320,449**	1,992,760
Printing and packaging fees	(v)	**5,104**	694
Utility service fees	(vi)	**7,948**	5,847
Mould charges	(vii)	**27,751**	22,175
Logistics charges	(viii)	**53,473**	51,549
Interest expenses	(ix)	**3,467**	2,918
Interest income	(ix)	**273**	450
Purchases of fixed assets	(x)	**2,383**	–
Other service fees	(xi)	**6,536**	3,230
Haier Corp and Haier Investment			
Trademark license fees	(xii)	**10,416**	3,102
Associates of Haier Corp			
Rental income	(xiii)	**2,773**	2,768

17. RELATED PARTY TRANSACTIONS (Cont'd)

Notes:

(i) *For the period ended 30 June 2005, the sales of mobile handset products were made at a selling price based on the costs of raw materials plus a processing fee which is not less than the industry standard in accordance with the terms of the respective contract.*

For the period ended 30 June 2004, the sales of mobile handset products were made at a selling price based on the cost of materials plus a processing fee ranging from 5% to 40% of the purchase price of the materials.

(ii) *Before 28 January 2005, the sales of washing machines were made to the subsidiaries of Haier Corp and Haier Investment at selling prices quoted by the related parties to third party distributor less a discount ranging from 10.5% to 17.5% and were conducted in accordance with the terms of the contracts.*

(iii) *On or after 29 January 2005, the sales of washing machine were made to a subsidiary of Haier Investment. The selling prices were determined with reference to the selling prices to ultimate customers, less the corresponding selling expenses of not exceeding 2.5% of those ultimate selling prices.*

(iv) *The purchases were determined based on the lower of the average market price or the consolidated and the integrated tender and bidding price plus 2.6% commission.*

(v) *Printing and packaging fees were charged based on the actual costs incurred plus a processing fee of not higher than those charged by independent third parties.*

(vi) *Utility service fees were charged based on the state-prescribed prices plus actual administrative costs for the provision of the relevant services.*

(vii) *Mould charges were charged based on the average market tender and bidding price of such moulds plus the actual administrative costs.*

(viii) *Logistics charges were charged based on actual costs incurred. They are negotiated on an arm's length basis and charged on terms more favourable than those offered by independent third parties.*

(ix) *The interest expenses and interest income were received in accordance with the terms set out in the respective contract. The interests were determined with reference to the standard rates published by the People's Bank of China.*

(x) *The purchases of the fixed assets were made at a selling price based on the lower of the average market price or the bidding price provided by independent third parties.*

(xi) *Other service fees included legal consulting service fee, catering and travel agency service fee, human resources service fee, general security service fee, product certification service fee and equipment repair and maintenance service fee which were charged in accordance with the terms and conditions set out in the respective contract.*

(xii) *Trademark license fees were charged by Haier Corp and Haier Investment at a rate of 0.8% (2004: 0.5%) of certain sales made by the Group.*

17. RELATED PARTY TRANSACTIONS (Cont'd)

Notes: (Cont'd)

(xiii) The monthly rental on buildings and equipment were mutually agreed at a prescribed amount with reference to market rate of similar properties in accordance with the terms of the respective contracts.

(b) On 25 June 2005, Haier Corp provided a corporate guarantee of RMB70,000,000 (equivalent to HK$65,421,000) to Haier Group Finance Co., Ltd. ("Haier Finance"), a subsidiary of Haier Corp and a financial institution approved by the People's Bank of China, as a security for banking facilities granted to Pegasus Qingdao for the period from 25 June 2005 to 24 June 2006. As at 30 June 2005, the above banking facilities were fully utilised.

(c) Outstanding balances with related parties

In addition to the trade and bills receivables and trade payables with the subsidiaries of Haier Corp and Haier Investment as disclosed in notes 13 and 14, respectively, the Group also has the following outstanding balances with the related parties:

	Notes	**30 June 2005 (Unaudited) HK$'000**	31 December 2004 (Restated) HK$'000
Subsidiaries of Haier Corp and Haier Investment			
Cash and cash equivalents	(i)	**106,483**	59,524
Prepayments, deposits and other receivables	(ii)	**119,123**	52,499
Other payables and accruals	(iii)	**99,656**	71,098
Other short term loan	(iv)	**65,421**	65,421
Associates of Haier Corp			
Prepayments, deposits and other receivables	(v)	**3,027**	2,425

17. RELATED PARTY TRANSACTIONS (Cont'd)

Notes:

(i) The balance represented deposits placed with Haier Finance. The interest rate on these deposits was 0.72% per annum.

(ii) Prepayments, deposits and other receivables from subsidiaries of Haier Corp and Haier Investment mainly represented prepayments for purchases of goods and services and advances, which are unsecured, interest-free and have no fixed terms of repayment.

(iii) Other payables and accruals from subsidiaries of Haier Corp and Haier Investment mainly represented accrued charges for purchases of moulds and services and advances, which are unsecured, interest-free and have no fixed terms of repayment.

(iv) Other short term loan was borrowed from Haier Finance, bears interests at a rate of approximately 5% per annum and is repayable on 24 June 2006.

(v) The balance arose from the rental income receivable from associates of Haier Corp and is unsecured, interest free and has no fixed terms of repayment.

(d) Compensation of key management personnel of the Group

	For the six months ended 30 June	
	2005	2004
	(Unaudited)	(Restated)
	HK$'000	HK$'000
Short term employee benefits	**1,382**	21
Post-employment benefits	**10**	4
Total compensation paid to key management personnel	**1,392**	25

18. CONTINGENT LIABILITIES

At 30 June 2005, the Group did not have any significant contingent liabilities (2004: Nil).

19. OPERATING LEASE ARRANGEMENTS

(i) As lessor

The Group leases part of its buildings and machinery under an operating lease arrangement, with the lease negotiated for a term of one to eight years.

At balance sheet date, the Group has total future minimum lease receivables under the non-cancellable operating lease with its tenants falling due as follows:

	30 June 2005 (Unaudited) HK$'000	31 December 2004 (Restated) HK$'000
Within one year	**2,259**	1,646
2nd to 5th years, inclusive	**40**	721
	2,299	2,367

(ii) As lessee

The Group leases certain of its factory buildings under operating lease arrangements. Leases for factory buildings are negotiated for terms ranging from one to ten years.

At balance sheet date, the Group has total future minimum lease payable under non-cancellable operating leases falling due as follows:

	30 June 2005 (Unaudited) HK$'000	31 December 2004 (Restated) HK$'000
Within one year	**1,709**	2,003
2nd to 5th years, inclusive	**5,387**	5,604
After 5 years	**516**	1,135
	7,612	8,742

20. COMMITMENTS

In addition to the operating lease arrangements detailed in note 19 above, the Group had the following commitments at the balance sheet date.

	30 June 2005 (Unaudited) HK$'000	31 December 2004 (Restated) HK$'000
Contracted, but not provided for:		
– Building	**21,631**	–
– Plant and machinery	**24,253**	15,507
	45,884	15,507
Authorised, but not contracted for:		
– Plant and machinery	**1,087**	–

21. APPROVAL OF THE INTERIM FINANCIAL REPORT

These condensed consolidated interim financial statements were approved and authorised for issue by the board of directors on 23 September 2005.

Management Discussion and Analysis

OVERVIEW

The first half of 2005 witnessed an overhaul in the structure and direction of the Group. On 28 January 2005, the Group completed the acquisition of the washing machine business and the remaining 35.5% interest in Pegasus Telecom (Qingdao) Co., Ltd. ("Pegasus Qingdao"), which is engaged in the mobile handset business, not already owned by the Group (the "Asset Injection") from Haier Group Corporation and Qingdao Haier Investment and Development Co., Ltd. (together with their respective subsidiaries, excluding the Group, the "Haier Group"). This marked the first step taken by the Group towards building up an integrated electronics and white goods giant and to ultimately becoming the listed flagship of the white goods businesses of the Haier Group. As the Asset Injection was mainly satisfied by the issue of new shares, the Haier Group has thereby become the controlling shareholder of the Company and the name of the Company was also changed from Haier-CCT Holdings Limited to Haier Electronics Group Co., Ltd. with effect from 31 January 2005.

GROUP RESULTS

As explained in note 2 to the unaudited condensed consolidated interim financial statements above, since the Asset Injection resulted in a change in control of the Group, the Group has adopted reverse acquisition accounting in preparing its unaudited condensed consolidated interim financial statements. As a result, the Haier Group's interests in the washing machine business and Pegasus Qingdao are considered as the acquirer in the Asset Injection and the consolidated financial statements presented above represent the consolidated financial statements of such businesses. The Company and its relevant interests in the then subsidiaries were deemed to be acquired and were consolidated into the Group's financial statements as from 28 January 2005, being the date of completion of the Asset Injection. All comparative figures have therefore been restated to represent those of the Haier Group's interests in the washing machine business and Pegasus Qingdao.

Turnover for the six months ended 30 June 2005 amounted to HK$2,118 million, representing a decrease of approximately 23% from HK$2,748 million (restated on the basis set out above) in the corresponding period in 2004. Although the washing machine business continued to exhibit strong growth in turnover of approximately 19% to HK$1,304 million in the first half of 2005, the Group's turnover has been adversely affected by a drop in turnover of the mobile handset business of approximately 51% to HK$814 million in the first half of 2005.

Loss attributable to shareholders amounted to HK$397 million for the six months ended 30 June 2005, against a profit attributable to shareholders of HK$45 million (restated on the basis set out above) in the corresponding period in 2004. The loss was mainly due to the performance of the mobile handset business, which recorded an operating loss of HK$65.7 million in the first half of 2005, and the impairment loss of HK$549.7 million in relation to goodwill attributable to the Group's acquired interest in the mobile handset business, after crediting a negative goodwill of HK$227.8 million arising from the Asset Injection, as detailed in note 2 to the unaudited condensed consolidated financial statements above.

Despite a loss being reported, since impairment loss on goodwill was a non-cash item and coupled with contribution from the washing machine business, the Group's cash flow position has been satisfactory, with a net cash inflow from operating activities of HK$70.4 million in the first half of 2005, and only a moderate negative EBITDA (earnings before interest, tax, depreciation and amortisation) of HK$15.7 million in the same period.

BUSINESS REVIEW

Washing machine business

The Group continued to be the leader in the washing machine market in the People's Republic of China (excluding the Hong Kong Special Administrative Region, the Macau Special Administrative Region and Taiwan) ("PRC"). Sales of washing machines amounted to HK$1,304 million in the first half of 2005, up by approximately 19% from the first half of 2004. In view of the growth in sales, a new factory with an annual production capacity of approximately 1 million units of washing machines has been established in Jiaonan, Shandong Province, the PRC. The new plant is expected to focus on manufacturing products for exports, and is scheduled to commence operations in the second half of 2005. Furthermore, to cope with the anticipated increase in demand for the Group's washing machines, the Group is considering to set up another production base in Chongqing, the PRC, in 2006 and is in the course of obtaining shareholders' approval of, among other things, an upward revision of the cap for certain continuing connected transactions, details of which have been set out in the Company's announcement dated 22 August 2005 and further information will be provided in a circular in relation thereto to be dispatched to shareholders of the Company in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") in due course.

Operating profit of the washing machine business amounted to HK$22.4 million in the first half of 2005, as compared to HK$55.8 million in the first half of 2004. The decline was mainly due to substantial expenditure incurred in developing new products in the first half of 2005, which are expected to be launched and provide contribution in the second half of 2005, and the rise in the cost of certain raw materials such as plastic and steel plates. The Board is optimistic on the performance of the washing machine business in the second half of the year. The new models developed in the first half of the year are expected to be launched and provide contribution in the second half of the year. The Group is also reviewing its product mix and will focus on products with higher profit margins. We are also seeing signs that the cost of certain raw materials, such as steel plates, are stabilising or dropping. In addition, winter is traditionally the peak season while summer is the low season for sale of washing machines in the PRC, and historically, around 60% of washing machines were sold in the second half of a calendar year. Taking into account of the above factors, the Board is optimistic on the performance of the washing machine business in the second half of 2005.

Mobile handset business

For the six months ended 30 June 2005, turnover of the mobile handset business amounted to HK$814 million, representing a decrease of 51% from the corresponding period in 2004. Price cutting strategy adopted by foreign branded manufacturers since the last quarter of 2004 continued into 2005. Operating environment became more difficult as a result of the flood of illegal handsets into the PRC market which forced a majority of the domestic branded manufacturers to clear their inventories by cutting prices. These had adversely impacted the Group, resulting in a sharp drop in volume and an operating loss of HK$65.7 million in the first half of 2005, as compared to an operating profit of HK$24.2 million in the first half of 2004.

In view of the intense competition in the mobile handset market in the PRC, the Board has conducted a review and considered it appropriate to write off the entire amount of goodwill attributable to the Group's acquired interest in the mobile handset business, which resulted in an impairment loss of HK$549.7 million in the first half of 2005. The Board expects the mobile handset market in the PRC to remain competitive in the near future but remains optimistic on its long-term potential.

OUTLOOK

Apart from strengthening our market position in our two main lines of businesses, namely the washing machine business and mobile handset business, we will continue to explore further asset injection opportunities from the Haier Group. As mentioned in our circular to shareholders dated 18 November 2004 in connection with the Asset Injection and the 2004 annual report of the Company published on 22 April 2005, it is Haier Group's intention to turn the Company into the listed flagship of its white goods businesses. At present, the Company has not entered into any binding agreement in respect of further asset injections. The Group is exploring these opportunities and will make public announcements on further developments in accordance with the requirements of the Listing Rules.

LIQUIDITY AND FINANCIAL RESOURCES

The Group has maintained a healthy financial and liquidity position with a current ratio of 120% at 30 June 2005 (31 December 2004: 119%). As at 30 June 2005, the Group had a cash balance of HK$390 million (31 December 2004: HK$243 million), total bank and other loans of approximately HK$165 million (31 December 2004: HK$147 million) and zero-coupon 3-year convertible notes ("Convertible Notes") with a face value of HK$260 million and a liability element of HK$231 million (31 December 2004: Nil). The Convertible Notes were issued to the Haier Group as part consideration for the Asset Injection, and are convertible into ordinary shares of the Company at HK$0.18 per share. All the other borrowings of the Group were arranged on a short-term basis for working capital purposes, and were denominated in Renminbi, repayable within one year and bore interest at floating rates.

Net debt balance (borrowings less cash balance) amounted to only HK$6 million as at 30 June 2005. If the Convertible Notes are excluded, the Group will instead have a net cash balance (cash balance less borrowings) of HK$225 million as at 30 June 2005, up substantially from HK$96 million as at 31 December 2004. 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$70.4 million in the first half of 2005 despite a substantial loss being reported.

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

The Group had contracted capital commitments amounting to HK$45.9 million as at 30 June 2005, 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 2005, the Group maintained a comfortable gearing ratio (total borrowings over shareholders' equity) of 66% (31 December 2004: 29%), or 28% if excluding the Convertible Notes.

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 2005, apart from the Convertible Notes which are denominated in Hong Kong dollars, most of the Group's outstanding borrowings were denominated in Renminbi and were principally made on a floating rate basis. Foreign currency risk is not significant as liabilities in Renminbi will be matched by the Group's earnings, most of which are also denominated in Renminbi. The Group does not have any significant interest rate risk, as the current interest rate in the PRC stays at low level and is relatively stable. The Group does not have any financial instruments for hedging purposes.

EMPLOYEES AND REMUNERATION POLICY

The total number of employees of the Group as at 30 June 2005 was approximately 4,800, representing an increase of approximately 7% as compared to 31 December 2004.

The Group ensures that the remuneration packages for its employees are competitive and employees are generally remunerated with a fixed monthly income, which is 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 2005, there were outstanding share options entitling the grantees to subscribe for approximately 751.5 million new shares of the Company.

MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATES

Please refer to note 1 to the unaudited condensed consolidated interim financial statements above for details of material acquisition of subsidiaries pursuant to the Asset Injection on 28 January 2005.

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.

CODE ON CORPORATE GOVERNANCE PRACTICES OF THE LISTING RULES

As at 30 June 2005, the Company has complied with the majority of the code provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 to the Listing Rules, except with the following deviations:

Code Provision A.2.1

Under 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 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 in the Code.

Code Provision B.1.1

Under code provision B.1.1, an issuer should establish a remuneration committee with specific written terms of reference. The Company did not have any remuneration committee as at 30 June 2005. However, a remuneration committee has been established subsequently on 22 September 2005 to make recommendations to the Board on policy and structure of all remuneration of directors and senior management and a written terms of reference in compliance with code provision B.1.3 was adopted by the Company on the same day. The remuneration committee comprises six members including two executive directors, Mr. Wu Ke Song and Mr. Cui Shao Hua and all the four independent non-executive directors, Mr. Lam Kin Kau, Mark, Mr. Fung Hoi Wing, Henry, Mr. Lau Ho Wai, Lucas and Mr. Wu Yinong.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a model code (the "Haier Electronics Model Code") for securities transactions by directors on no less exacting terms than the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of 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 six months ended 30 June 2005.

AUDIT COMMITTEE

The Company has established an audit committee comprising four 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 2005.

BOARD OF DIRECTORS

As at the date of this interim report, the executive directors of the Company are Messrs. Yang Mian Mian, Wu Ke Song, Chai Yong Sen, Liang Hai Shan, Cao Chun Hua, Cui Shao Hua and Song Chun Guang and the independent non-executive directors of the Company are Messrs. Lam Kin Kau, Mark, Fung Hoi Wing, Henry, Lau Ho Wai, Lucas and Wu Yinong.

By Order of the Board
Yang Mian Mian
Chairman

Hong Kong, 23 September 2005

Disclosure of Interests

INTERESTS OF DIRECTORS AND CHIEF EXECUTIVE

As at 30 June 2005, the directors and the chief executive of the Company and/or their respective associates had the following interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO")) as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Part XV of the SFO or the Model Code ("Model Code") for Securities Transactions by Directors adopted by the Company on 29 December 2004, which is on no less exacting terms than The Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Rules ("Listing Rules") Governing the Listing of Securities on the Stock Exchange:

Long positions in the underlying shares of equity derivatives of the Company – Share options outstanding under the share option scheme adopted by the Company on 28 February 2002:

Name of Director	Date of grant of share options	Exercise period of share options	Exercise price per ordinary share (HK$)	Number of options outstanding	Number of total underlying shares	Approximate percentage of total shareholding (%)
Wu Ke Song	19/11/2002	19/11/2003-18/11/2007	0.150	89,000,000	89,000,000	0.54
Chai Yong Sen	19/11/2002	19/11/2003-18/11/2007	0.150	89,000,000	89,000,000	0.54
Liang Hai Shan	19/11/2002	19/11/2003-18/11/2007	0.150	89,000,000	89,000,000	0.54
Cui Shao Hua	19/11/2002	19/11/2003-18/11/2007	0.150	89,000,000	89,000,000	0.54
Lam Kin Kau, Mark	16/8/2002	16/8/2003-15/8/2007	0.156	5,000,000	5,000,000	0.03
Fung Hoi Wing, Henry	16/8/2002	16/8/2003-15/8/2007	0.156	5,000,000	5,000,000	0.03
				366,000,000	366,000,000	2.23

Save as disclosed above, as at 30 June 2005, none of the directors and the chief executive of the Company and their respective associates had any interests and short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or the Model Code.

INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at 30 June 2005, the following persons (other than the directors or the chief executive of the Company) had an interest or a short position in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO:

Long positions in the ordinary shares of the Company:

Name of shareholder	Notes	Number of ordinary shares interested	Approximate percentage of total shareholding (%)
Qingdao Haier Collective Asset Management Association	(1)	8,219,206,667	50.19
Haier Group Corporation	(2)	8,219,206,667	50.19
Qingdao Haier Investment and Development Co., Ltd.	(3)	8,219,206,667	50.19
Qingdao Haier Group Holdings (BVI) Limited		4,026,706,667	24.59
Qingdao Haier International Trading Co., Ltd.	(4)	826,500,000	5.05
Haier (Hong Kong) Company Limited	(5)	826,500,000	5.05
Orient Rich (H.K.) Limited		826,500,000	5.05
CCT Telecom Holdings Limited	(6)	3,926,774,819	23.98
Soaring Profit Holdings Limited	(7)	3,926,774,819	23.98
Greatway International Corp.		880,172,486	5.37

Long positions in underlying Shares of equity derivatives of the Company:

Name of shareholder	Notes	Number of ordinary shares interested	Approximate percentage of total shareholding (%)
Qingdao Haier Group Holdings (BVI) Limited	(8)	1,444,444,444	8.82

INTERESTS OF SUBSTANTIAL SHAREHOLDERS (Cont'd)

Notes:

(1) *Qingdao Haier Collective Asset Management Association is interested in (i) 3,366,000,000 Shares held by its non-wholly owned subsidiary, namely Qingdao Haier Investment and Development Co., Ltd.; (ii) 826,500,000 shares held by Orient Rich (H.K.) Limited as stated in notes (3), (4) and (5) below and (iii) 4,026,706,667 shares held by Qingdao Haier Group Holdings (BVI) Limited as stated in notes (2) and (3) below.*

(2) *Haier Group Corporation is interested in the 4,026,706,667 shares held by Qingdao Haier Group Holdings (BVI) Limited, a non-wholly owned subsidiary of Haier Group Corporation. In addition, Haier Group Corporation is acting in concert with Qingdao Haier Investment and Development Co., Ltd. As Qingdao Haier Investment and Development Co., Ltd. is holding 3,366,000,000 Shares and is interested in 826,500,000 shares held by Orient Rich (H.K.) Limited as stated in notes (3), (4) and (5) below, Haier Group Corporation is also taken to be interested in the 3,366,000,000 shares held by Qingdao Haier Investment and Development Co., Ltd. and in the 826,500,000 shares held by Orient Rich (H.K.) Limited.*

(3) *Qingdao Haier Investment and Development Co., Ltd. is holding 3,366,000,000 shares and is interested in (i) the 826,500,000 shares held by Orient Rich (H.K.) Limited through its non-wholly owned subsidiary, namely Qingdao Haier International Trading Co., Ltd. as state in notes (4) and (5) below and (ii) the 4,026,706,667 shares held by Qingdao Haier Group Holdings (BVI) Limited as stated in note (2) above as it is acting in concert with Haier Group Corporation.*

(4) *Qingdao Haier International Trading Co., Ltd. is interested in the 826,500,000 shares held by Orient Rich (H.K.) Limited through its non-wholly owned subsidiary, namely Haier (Hong Kong) Company Limited.*

(5) *Haier (Hong Kong) Company Limited is interested in 826,500,000 shares held by Orient Rich (H.K.) Limited, a non-wholly owned subsidiary of Haier (Hong Kong) Company Limited.*

(6) *CCT Telecom Holdings Limited is interested in the 3,926,774,819 shares interested by Soaring Profit Holdings Limited through the subsidiaries as disclosed in note (7) below. Soaring Profit Holdings Limited is a wholly-owned subsidiary of CCT Telecom Holdings Limited.*

(7) *Soaring Profit Holdings Limited is interested in the 880,172,486 shares held by its wholly-owned subsidiary, namely Greatway International Corp. and five other wholly-owned subsidiaries holding an aggregate of 3,046,602,333 shares.*

(8) *Qingdao Haier Group Holdings (BVI) Limited is interested in 1,444,444,444 underlying shares under the convertible notes issued to Qingdao Haier Group Holdings (BVI) Limited as part of the consideration pursuant to an agreement dated 5 March 2004 entered into between Haier Group Corporation, Qingdao Haier Investment and Development Co., Ltd. and the Company under which the Company agreed to acquire from Haier Group Corporation and Qingdao Haier Investment and Development Co., Ltd. the entire share capital of Haier Holdings (BVI) Limited and Qingdao Haier Investment and Development Holdings (BVI) Limited for an aggregate consideration of RMB1,100 million.*

Save as disclosed above, as at 30 June 2005, no other person (other than the directors or the chief executive of the Company) had any interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO.

Share Option Scheme

The share option scheme adopted by the Company on 24 November 1997 and subsequently amended on 4 December 1997 (the "Old Share Option Scheme") has been terminated and a new share option scheme (the "New Share Option Scheme") was adopted by the Company on 28 February 2002 to comply with the new amendments to the Listing Rules in respect of the share option schemes of a listed company. As a result, the Company may no longer grant any further share options under the Old Share Option Scheme. However, all share options granted prior to the termination of the Old Share Option Scheme will remain in full force and effect. As at 30 June 2005, there were 3,000,000 and 748,500,000 share options remained outstanding under the Old Share Option Scheme and the New Share Option Scheme respectively. Based on these outstanding share options, the total number of shares available for issue as at 30 June 2005 was 751,500,000 which represents approximately 4.59% of the issued share capital of the Company.

Details of the movements of share options under the Old Share Option Scheme during the period between 1 January 2005 and 30 June 2005 were as follows:

	Number of share options							
Name or category of participant	**Outstanding as at 1 January 2005**	**Granted during the period**	**Exercised during the period**	**Lapsed/ Cancelled during the period**	**Outstanding as at 30 June 2005**	**Date of grant of share options (Note 1)**	**Exercise period of share options**	**Exercise price per share HK$ (Note 2)**
Employees								
in aggregate	3,000,000	–	–	–	3,000,000	13/7/2001	13/1/2002-12/7/2006 (Note 3)	0.19
	3,000,000	–	–	–	3,000,000			

Notes:

1. *The vesting period of the share options is from the date of grant until the commencement of the exercise period.*

2. *The exercise price of the share options is subject to adjustment(s) in the case of rights or bonus share issues, or other similar changes in the share capital of the Company.*

3. *The date of expiry was extended by one year to 12 July 2004 from the original expiry date of 12 July 2003 pursuant to the resolution of the board of directors of the Company passed on 2 July 2003, which was further extended by one year to 12 July 2005 pursuant to the resolution of the board of directors of the Company passed on 8 July 2004, and was further extended by one year to 12 July 2006 pursuant to the resolution of the board of directors of the Company passed on 30 June 2005.*

Details of the movements of share options under the New Share Option Scheme during the period between 1 January 2005 and 30 June 2005 were as follows:

	Number of share options								
Name or category of participant	Outstanding as at 1 January 2005	Granted during the period	Exercised during the period	Lapsed/ Cancelled during the period	Transferred from/(to) other category during the period	Outstanding as at 30 June 2005	Date of grant of share options (Note 1)	Exercise period of share options	Exercise price per share HK$ (Note 2)
Executive directors									
Wu Ke Song	89,000,000	–	–	–	–	89,000,000	19/11/2002	19/11/2003-18/11/2007	0.150
Chai Yong Sen	89,000,000	–	–	–	–	89,000,000	19/11/2002	19/11/2003-18/11/2007	0.150
Liang Hai Shan	89,000,000	–	–	–	–	89,000,000	19/11/2002	19/11/2003-18/11/2007	0.150
Cui Shao Hua	89,000,000	–	–	–	–	89,000,000	19/11/2002	19/11/2003-18/11/2007	0.150
Man Wei Dong	89,000,000	–	–	(89,000,000)	–	–	19/11/2002	19/11/2003-18/11/2007	0.150
Mak Shiu Tong, Clement	89,000,000	–	–	–	(89,000,000)	–	16/8/2002	16/8/2003-15/8/2007	0.156
Tam Ngai Hung, Terry	89,000,000	–	–	–	(89,000,000)	–	16/8/2002	16/8/2003-15/8/2007	0.156
	623,000,000	–	–	(89,000,000)	(178,000,000)	356,000,000			
Independent non-executive directors									
Lam Kin Kau, Mark	5,000,000	–	–	–	–	5,000,000	16/8/2002	16/8/2003-15/8/2007	0.156
Fung Hoi Wing, Henry	5,000,000	–	–	–	–	5,000,000	16/8/2002	16/8/2003-15/8/2007	0.156
	10,000,000	–	–	–	–	10,000,000			
Other employees									
In aggregate	247,500,000	–	–	–	(247,500,000)	–	16/8/2002	16/8/2003-15/8/2007	0.156
Other participants									
In aggregate	–	–	(43,000,000)	–	425,500,000	382,500,000	16/8/2002	16/8/2003-15/8/2007	0.156
	247,500,000	–	(43,000,000)	–	178,000,000	382,500,000			
Total:	880,500,000	–	(43,000,000)	(89,000,000)	–	748,500,000			

Notes:

1. *The vesting period of the share options is from the date of grant until the commencement of the exercise period.*

2. *The exercise price of the share options is subject to adjustment(s) in the case of rights or bonus share issues, or other similar changes in the share capital of the Company.*

During the period, the weighted average closing price of the shares of the Company immediately before the dates on which the share options were exercised was HK$0.212.

Summary Financial Information

A summary of the results and of the assets, liabilities and minority interests of the Group for the six months ended 30 June 2005 and, after restatement on the basis set out the note 2 to the unaudited condensed consolidated interim financial statements set out above, for the corresponding period in 2004 and for the four financial years ended 31 December 2004 is set out below:

RESULTS

	Six months ended 30 June		**Year ended 31 December**			
	2005	2004	2004	2003	2002	2001
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
	(unaudited)	(restated)	(restated)	(restated)	(restated)	(restated)
Revenue	**2,118,036**	2,748,303	5,893,839	3,751,640	2,794,422	2,333,026
Cost of sales	**(1,858,556)**	(2,470,063)	(5,277,340)	(3,229,896)	(2,350,569)	(1,997,811)
Gross profit	**259,480**	278,240	616,499	521,744	443,853	335,215
Other income and gains	**8,254**	8,207	17,698	9,165	10,094	34,537
Selling and distribution costs	**(209,027)**	(142,048)	(332,460)	(246,706)	(300,394)	(220,003)
Administrative expenses	**(88,426)**	(54,333)	(123,909)	(115,807)	(94,075)	(89,266)
Other expenses	**(20,300)**	(8,975)	(30)	(6,324)	(896)	–
Finance costs	**(8,850)**	(9,170)	(12,152)	(19,852)	(13,158)	(7,256)
Recognition of negative goodwill as income	**227,780**	–	–	–	–	–
Impairment of goodwill	**(549,727)**	–	–	–	–	–
Profit/(loss) before tax	**(380,816)**	71,921	165,646	142,220	45,424	53,227
Tax	**(10,706)**	(14,039)	(17,018)	(31,453)	(10,227)	(9,711)
Profit / (loss) for the year/ period	**(391,522)**	57,882	148,628	110,767	35,197	43,516
Attributable to:						
Equity holders of the parent	**(397,006)**	44,983	119,479	107,595	27,365	26,852
Minority interests	**5,484**	12,899	29,149	3,172	7,832	16,664
	(391,522)	57,882	148,628	110,767	35,197	43,516

ASSETS, LIABILITIES AND MINORITY INTERESTS

	30 June	31 December			
	2005	2004	2003	2002	2001
	(unaudited)	(restated)	(restated)	(restated)	(restated)
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	**2,261,053**	2,196,067	2,154,945	1,782,565	1,432,815
Total liabilities	**(1,602,953)**	(1,506,512)	(1,599,838)	(1,256,360)	(899,763)
	658,100	689,555	555,107	526,205	533,052
Capital and reserves:					
Equity attributable to equity holders of the parent	**597,979**	509,179	398,208	362,946	381,789
Minority interests	**60,121**	180,376	156,899	163,259	151,263
	658,100	689,555	555,107	526,205	533,052

Haier 海尔