CORPORATE INFORMATION

DIRECTORS

Executive

Mr. FANG Hongbo *(Chairman)*
Mr. LIU Liang
Mr. ZHANG Quan
Mr. LI Jianwei

Non-executive

Ms. YUAN Liqun
Mr. ZHANG Xin Hua
Mr. CHEN Yu Hang

Independent Non-executive

Mr. CHAN Wai Dune
Mr. LAM Ming Yung
Ms. CHEN Chunhua

COMPANY SECRETARY

Ms. TANG Wai Ying, Tracy
CPA FCCA

AUDITORS

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

LEGAL ADVISERS

Chiu & Partners

REGISTERED OFFICE

Room 4108-10, 41st Floor,
Hopewell Centre,
183 Queen's Road East, Wanchai,
Hong Kong

SHARE REGISTRARS

Computershare Hong Kong Investor Services Limited
46th Floor, Hopewell Centre,
183 Queen's Road East, Wanchai,
Hong Kong

STOCK CODE

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PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
Bank of China
Industrial and Commercial Bank of China
China Construction Bank

WEBSITE ADDRESS

http://www.hualing.com

INTERIM RESULTS

The directors of Hualing Holdings Limited (the "Company") hereby announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2005, together with the comparative figures for 2004. These interim financial statements have not been audited, but have been reviewed by the Company's audit committee and its external auditors (the "Auditors").

MANAGEMENT DISCUSSION AND ANALYSIS

Overall Review

The Group strove to strengthen its business structure and fine-tuned its development strategy in the first half of 2005. In the face of a severe business environment and the effort and resources required for tackling of certain historical issues, the Group reported a loss during the period under review.

Since Midea Group Co., Ltd. (the "Midea Group") became the controlling shareholder of the Company, through its wholly-owned subsidiary Midea International Corporation Company Limited ("Midea International") in November 2004, the new management worked all-out to fine-tune the Group's business development direction during the period under review and to formulate an overall policy that focuses on "restructuring, rectification, adjustment and development". On the one hand, the management divested the operation of non-core businesses such as car rental services and land investment, in order to further concentrate its resources on the development of refrigerator and air-conditioner businesses. On the other hand, the management introduced the successful administration and management systems of Midea Group and carried out various reforms including strict cost control, further expansion of overseas market, and strengthening of production planning with a view to laying a solid foundation for the Group's future development and to sharpening the Group's competitive edge.

In the first half of 2005, the Group rectified the sales system by separating the air-conditioner business from the refrigerator one, adopting vertical management, and establishing overseas sales companies to expand export business. The sales strategy had been adjusted to adopt a systematic sales and marketing, and the sales network was expanded to strengthen the Group's collaboration with large-scale household appliance chain retailers.

Refrigerator business sustained satisfactory development during the period under review, with impressive growth in sales volume and revenue. As a result of a slowdown in the growth of the PRC's air-conditioner industry and decline in the overall PRC's air-conditioner sales revenue due to fierce market competition as well as the significant decline in export sales, the Group's air-conditioner sales volume was lower than that of the same period last year.

The Company has announced a rights issue of approximately 2.4 billion shares on the basis of three rights shares issued for every two existing shares of the Company in May 2005. The rights issue was completed in July 2005 and was oversubscribed due to strong support from the existing shareholders of the Company. After the completion of rights issue, Midea International's shareholding in the Company increased to 46.3%. The net proceeds from rights issue amounted to approximately HK$233,000,000, which would be used as working capital. The successful rights issue provided rather sufficient capital for business development.

In view of the intensified competition in the household appliance market in the upcoming years, there will be further consolidation in the market. The PRC's household appliance manufacturers are developing in the direction of large-scale operation, quality enhancement and low cost of production. The Group will continue to focus on its air-conditioner and refrigerator core businesses, to divest non-core operations such as property investment and equity investment as soon as possible, and to optimise the business structure and production flow, thereby further raising its operational efficiency. Meanwhile, the Group will exercise effective cost control and sales expansion by introducing a procurement tender mechanism and taking full advantage of Midea Group's supply chain. In addition, the Group will further strengthen the research and development of product technology and increase product competitiveness to support continuous growth of its businesses.

The Group has entered into continuing connected transactions with regards to the procurement of raw materials, the sales of air-conditioner and refrigerator products, etc with Midea Group and GD Midea Electric Appliances Co., Ltd. ("Midea Electric") during the first half of 2005 (the continuing connected transactions had been approved by independent shareholders of the Company), the Group has received all-out support from Midea Group to share resources and fully leverage on operational synergy to increase operating income and reduce operating cost.

With "increasing revenue, reducing cost, enhancing efficiency" as its core principles, the Group will actively carry out market expansion, new product development, cost and quality management and investment in production capacity expansion. The Group will focus on the enhancement of "systematic sales" ability, production scale and product competitiveness. Underpinned by Midea Group's tremendous resources, the Group will continue to optimise its own organisational structure, to break through the "bottleneck" in capital and to enhance its overall profitability, with the aim of making the Group as one of the top eight players in the PRC's air-conditioning industry.

Market Review

In the first half of 2005, the PRC's air-conditioner export volume maintained a double-digit growth of 17.43% from that of the same period last year to a total of 19,070,000 units. Refrigerator export volume amounted to 6,970,000 units, representing a 30.87% increase from that of the same period last year. Total household appliance export sales amount was US$10.432 billion, representing a 24.1% increase from that of the same period last year.

During the period under review, the PRC's air-conditioner industry has gradually entered into matured stage after years of rapid growth. Overall speaking, the ongoing growth of the PRC's economy and the boost of consumption power have made air-conditioners and refrigerators becoming household necessities, leading to the steady growth in demand for these two products. Coupled with the still low penetration rate of air-conditioners and refrigerators in the PRC, the respective markets for these two products in the PRC are demonstrating a steady growth momentum.

Business Review

The Group's unaudited turnover for the six months ended 30 June 2005 amounted to approximately HK$1,037,572,000 (30 June 2004: HK$1,199,522,000), representing a 14% decrease from that of the same period last year. Slip of air-conditioner sales volume from that of the same period last year was mainly attributed to the Group's adjustment to the production flow, reconsolidation of the sales network, and endeavour in raising the gross profit margin of products in the first half of 2005. On the other hand, impressive growth was recorded in refrigerator sales volume, with the average price of refrigerators reported a 14% growth. While striving to rectify its corporate structure and optimise its resource allocation in the first half of 2005, the Group has strengthened its credit risk management in the same period and adopted strict monitoring on customers' payment ability in order to minimise the risk of insolvency. The Group's overall sales were to some extent affected by these prudent measures.

The Group incurred a loss of approximately HK$248,843,000 in the first half of 2005 due to increasingly fierce competition in the PRC's household appliance industry, price hikes of raw materials such as steel, aluminium and plastic, the operational efficiency of some production facilities falling short of expectation and substantial decrease in export sales.

Air-conditioner Business Analysis

The Group's air-conditioner sales accounted for approximately 54% of the Group's turnover during the period under review.

The Group's air-conditioner sales amount and sales volume in the first half of 2005 were approximately HK$557,079,000 and 384,000 units respectively, representing decreases of 33% and 42% respectively as compared to those of the same period last year. The fact that the decrease in air-conditioner product sales volume was larger than that in its sales amount was mainly attributed to the increase in product prices, while the slip in air-conditioner sales volume was mainly attributed to slowdown of the industry and fierce market competition.

The Group's air-conditioner product export sales in the first half of 2005 amounted to approximately HK$131,184,000, representing a 68% decrease from that of the same period last year and accounting for 24% of the total revenue from air-conditioners. During the period under review, the Group's export sales volume of air-conditioners was approximately 136,000 units, representing a 62% decrease from that of the same period last year. Since the peak period of export sales order is usually between the beginning of the year and the end of the prior year where the Group was in the transitionary period during that period and hence significantly affecting the export sales volume during the period under review. The Group's air-conditioner sales revenue in the PRC amounted to approximately HK$425,895,000, basically the same with that of the same period last year. The Group's air-conditioner sales volume in the PRC during the period under review was approximately 248,000 units, representing an 18% decrease from that of the same period last year.

Refrigerator Business Analysis

The Group's refrigerator sales accounted for approximately 46% of the Group's turnover during the period under review.

The Group's refrigerator sales amount and sales volume in the first half of 2005 were approximately HK$480,493,000 and 703,000 units respectively, representing increases of 31% and 30% respectively from those of the same period last year.

The Group's refrigerator export sales revenue and sales volume in the first half of 2005 amounted to approximately HK$287,301,000 and 494,000 units respectively, representing increases of 48% and 45% respectively as compared to those of the same period last year. Apart from the Group's proven product technology which met the needs of overseas consumers, the development of new refrigerator customer bases in markets like Europe, America, Africa and Australia and the growth of business volume from existing customers had a significant contribution to the growth of refrigerator sales. The Group's refrigerator export sales revenue accounted for 60% of its total revenue from the sales of refrigerators. During the period under review, the Group's refrigerator sales revenue and sales volume in the PRC amounted to approximately HK$193,192,000 and 209,000 units respectively, representing increases of 13% and 5% respectively as compared to those of the same period last year. This was mainly attributed to the increase of the Group's refrigerator production and sales capabilities and the overall growth of the PRC's refrigerator industry.

2005 Prospects

In spite of the fierce competition of the industry, it is anticipated that the PRC's air-conditioner and refrigerator markets will maintain a steady growth.

At present, the PRC is the biggest household air-conditioner producer in the world, accounting for 70% of the global total output. The overall global demand for air-conditioner products shows a steady growth. In consideration of the world's demand for products made in the PRC, the demand for air-conditioner products made in the PRC is estimated to increase by over 10% for each year in the coming three years.

The extent of growth in demand for refrigerators was minimal in the past few years; however, the PRC's refrigerator output in 2005 realised an increase of about 15% as compared to that of the previous year due to model changes of refrigerators last year and the trend of refrigerators increasingly being produced in the PRC. It is estimated that the PRC's refrigerator industry will grow by nearly 10% in the coming three years.

The Group has formulated the operating principles of "developing refrigerator business with great effort, consolidating air-conditioner business with full strength, and cultivating central air-conditioning business". The Group endeavours in achieving the goals proposed at the beginning of the year of realising the annual sales volumes of 1,000,000 units of air-conditioners, 480,000 units of mid-sized refrigerators and 1,050,000 units of small refrigerators.

In order to increase its operating income and improve its operational efficiency, the Group has carried out a series of measures, including:

Domestic Sales

The Group will broaden its product portfolio to meet the needs of different markets. Meanwhile, the Group will accelerate the development of mainstream sales channels, optimise the channel structure and put more effort on expanding into second- and third-tier markets (municipal- and prefectural-level markets) with the aim of gradually optimising the market layout. In addition, the Group will facilitate the establishment of a sales team and raise the team's marketing capability.

Overseas Sales

The Group will strive to improve its clientele structure for air-conditioner products. While prioritising sales in conventional markets such as Europe and America, the Group will forge ahead to achieve favourable results in rapid-growing markets like South Asia and the Middle East. The Group will also push forward its the global collaboration with Electrolux AB over the development of refrigerator products and strive to expand its scale of sales by taking over the market space left by competitors.

Production Strategy

The Group will comprehensively increase production efficiency and strengthen production planning and organisational management with the aim of serialising the production process and assembling raw materials in three days. Based on the existing conditions, the Group will also work all-out to expand production capacity of refrigerators particularly. In addition, the Group will enhance quality control in order to ensure its products be positioned as medium-to-high end products and strengthen the supply chain establishment. Procurement of raw materials will be coordinated by Midea Group. While reducing cost by augmenting the amount of procurement, the Group will consolidate and optimise its current supply chain structure by phasing out suppliers with inferior technology, product supply and quality assurance.

Development Strategy

In order to achieve the goals of cost reduction and efficiency enhancement, the Group will strengthen the research and development of core products, enhance the functions and competitiveness of products, and actively improve the production technology.

Financial Strategy

The Group will intensify its efforts on financial management by cultivating a mandatory cost management culture. At the same time, it will accelerate the handling of the Group's non-performing assets, reduce operating risk and raise the liquidity of assets.

Human Resources Strategy

The Group will intensify its efforts on the recruitment of talents, especially those from people specialised in marketing, research and development. The Group will also gradually improve its remuneration scheme in order to motivate employees.

Operational Strategy

With "flow" and "plan" as core principles, the Group will gradually establish and perfect its operations management system. The Group will also fully implement the work of operations assessment in order to exert pressure on the operational units as a means to enhance operational efficiency.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 30 June 2005, the bank borrowings of the Group, amounting to approximately HK$521,212,000, including short-term bank loans of approximately HK$502,440,000, were at fixed interest rate, while free bank balances and cash amounted to approximately HK$160,654,000. Details of borrowings are set out in note 12 to the accounts. The Group's trade and notes receivable balance was approximately HK$431,971,000.

As at 30 June 2005, the Group's net deficit was approximately HK$394,579,000 where property, plant and equipment with net book value of approximately HK$206,043,000 (at 31 December 2004: HK$258,672,000) was pledged as security for the Group's short-term bank loans. Approximately HK$188,659,000 of the loans are guaranteed by China Refrigerator Industry Co. Ltd., a related company of the Group and Midea Group.

CONTINGENT LIABILITIES

Details of contingent liabilities are set out in note 22 to the accounts.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATE

Since all of the Group's sales and purchases are mainly denominated in United States Dollar, Renminbi and Hong Kong Dollar, there is no material risk with respect to currency fluctuation.

HUMAN RESOURCES

As at 30 June 2005, the Group employed approximately 5,502 staff, of which 5 are stationed in Hong Kong. The Group remunerates its employees based on their performance, experience and prevailing industry practice. The Group has set up a share option scheme and provides retirement benefits, in the form of Mandatory Provident Fund etc. and other benefits, which are similar to the employees in the PRC. The Group will also grant bonus and other kinds of remuneration according to individual performance and the performance of the Group's overall profit.

DIRECTORS' AND CHIEF EXECUTIVE INTERESTS IN EQUITY AND DEBT SECURITIES

As at 30 June 2005, the interests and short positions of each director and chief executive in office as at 30 June 2005 in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO"), Chapter 571 of the laws of Hong Kong), as recorded in the register maintained by the Company under Section 352 of the SFO or which have to be notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions, if any, which they are taken or deemed to have under such provisions of the SFO) and the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, were as follows:

(a) Interest in shares of the Company

		Number of Shares held	Nature of interest	Approximate shareholding percentage
Chan Wai Dune	Long positions	1,000,000	Beneficial owner	0.06%

(b) Interests in share options of the Company

		Number of outstanding share options	Exercise period of the share option	Exercise price per share option	Approximate shareholding percentage
Zhang Xin Hua	Long positions	800,000	From 30 September 1997 to 10 November 2005	HK$0.93	0.05%

Share options are granted to directors under the 1993 Share Option Scheme. Save as disclosed above, as at 30 June 2005, no Directors and chief executives (including their spouse and children under 18 years of age) had any interest in, or had been granted, or exercised, any rights to subscribe for shares of the Company and its associated corporations (within the meaning of the SFO).

SUBSTANTIAL SHAREHOLDERS' INTERESTS

So far as the Directors are aware, the register of substantial shareholders maintained under Section 336 of the SFO shows that as at 30 June 2005, the Company had been notified of the following substantial shareholders' interests, being 5% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the Directors.

Name of shareholder		Nature of interest	Number of shares held	Percentage of shareholding
Midea International (Note 1)	Long positions	Beneficial owner	3,053,571,420 (Note 1)	192.29% (Note 9)
Midea Group (Note 2)	Long positions	Interest of controlled corporation	3,053,571,420 (Note 1)	192.29% (Note 9)
Foshan Shunde Tiantuo Investment Co., Ltd. ("Shunde Tiantuo") (Note 3)	Long positions	Interest of controlled corporation	3,053,571,420 (Note 1)	192.29% (Note 9)
Foshan Shunde Lixun Investment Co., Ltd. ("Lixun Investment") (Note 4)	Long positions	Interest of controlled corporation	3,053,571,420 (Note 1)	192.29% (Note 9)
Mr. He Xiangjian (Note 5)	Long positions	Interest of controlled corporation	3,053,571,420 (Note 1)	192.29% (Note 9)
Ms. Liang Fengchai (Note 6)	Long positions	Interest of spouse	3,053,571,420 (Note 1)	192.29% (Note 9)
Mr. Zhang Hechuan (Note 7)	Long positions	Interest of controlled corporation	3,053,571,420 (Note 1)	192.29% (Note 9)
Ms. Zhao Hongying (Note 8)	Long positions	Interest of spouse	3,053,571,420 (Note 1)	192.29% (Note 9)
Guangzhou Baiyun Agriculture Industry & Commerce Corporation	Long positions	Beneficial owner	162,960,000	10.3%

Notes:

1. Midea International was the underwriter of the Company for its rights issue announced in May 2005 and it was deemed to be interested in all the rights shares it underwrote under the SFO. These 3,053,571,420 shares included the 670,076,808 shares directly held by Midea International, together with the 2,383,494,612 rights shares taken to be interested by Midea International pursuant to the underwriting agreement dated 12 May 2005 entered into between the Company and Midea International under the SFO.

   The right issue of the Company has closed and become unconditional on 18 July 2005. As a result of the over-subscription of the rights issue, the obligations of Midea International under the underwriting agreement have been discharged on 18 July 2005.

Midea International has taken up (i) the 1,005,115,212 rights shares provisionally allotted to it and (ii) 162,996,000 excess rights shares applied and paid for by it. Accordingly, the number of shares of the Company directly held by Midea International after the completion of the rights issue increased from 670,076,808 shares (representing approximately 42.20% of the Company's share capital immediately before completion of the rights issue) to 1,838,188,020 shares (representing approximately 46.30% of the issued share capital of the Company as enlarged after the completion of the rights issue).

2. Midea Group was deemed to be interested in the 3,053,571,420 Shares which Midea International was interested in by virtue of its holding 100% equity interest in Midea International under the SFO.

3. The registered capital of Midea Group is owned as to 55% by Shunde Tiantuo and 45% by Lixun Investment. Accordingly, Shunde Tiantuo was deemed to be interested in the 3,053,571,420 Shares which Midea International was interested in by virtue of its holding 55% equity interest in Midea Group under the SFO.

4. The registered capital of Midea Group is owned as to 55% by Shunde Tiantuo and 45% by Lixun Investment. Accordingly, Lixun Investment was deemed to be interested in the 3,053,571,420 Shares which Midea International was interested in by virtue of its holding 45% equity interest in Midea Group under the SFO.

5. The registered capital of Shunde Tiantuo is owned as to 90% by Mr. He Xiang Jian and 10% by Ms. Lu De Yan. Accordingly, Mr. He Xiang Jian was deemed to be interested in the 3,053,571,420 Shares which Midea International was interested in by virtue of his holding 90% equity interest in Shunde Tiantuo under the SFO.

6. Ms. Liang Fengchai is the spouse of Mr. He Xiang Jian and is therefore deemed to be interested in the 3,053,571,420 Shares which Midea International was interested in by virtue of Mr. He's holding 90% equity interest in Shunde Tiantuo under the SFO.

7. The registered capital of Lixun Investment is owned as to 34% by Mr. Zhang Hechuan, 33% by Mr. Li Jianwei and 33% by Ms. Yuan Liqun. Accordingly, Mr. Zhang Hechuan was deemed to be interested in the 3,053,571,420 Shares which Midea International was interested in by virtue of his holding 34% equity interest in Lixun Investment under the SFO.

8. Ms. Zhao Hongying is the spouse of Mr. Zhang Hechuan and was therefore deemed to be interested in the 3,053,571,420 Shares which Midea International was interested in by virtue of Mr. Zhang's holding 34% equity interest in Lixun Investment under the SFO.

9. This percentage was calculated based on the total number of issued shares of the Company as at 30 June 2005, which was 1,588,036,408 shares.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the reporting period, neither the Company nor its subsidiaries purchased, sold or redeemed any listed securities held by them.

MODEL CODE OF SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities ("Listing Rules") on The Stock Exchange of Hong Kong Limited as its own code of conduct regarding securities transactions by the Directors. Having made specific enquiry of all directors, they all confirmed that they have complied with the required standard set out in the Model Code during the six months ended 30 June 2005.

AUDIT COMMITTEE

An audit committee of the Company (the "Audit Committee") was established in August 1999. At present, the Audit Committee comprises three members, namely Mr. Chan Wai Dune, Mr. Lam Ming Yung and Ms. Chen Chunhua. The principal duties of the Audit Committee include the review of the Company's financial reporting program, internal controls and financial reporting matters of the Group. The Audit Committee has reviewed the unaudited interim results of the Company for the six months ended 30 June 2005 and agreed to the accounting treatment adopted by the Company. In addition, the Company's external auditors have reviewed these unaudited interim results in accordance with Statement of Auditing

Standards 700 "Engagements to review interim financial reports" ("SAS 700") issued by Hong Kong Institute of Certified Public Accountants. A summary of the independent review report of the auditors is set out below.

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES

The board (the "Board") of directors of the Company has adopted the code provisions of the Code on Corporate Governance Practices ("Code Provisions") set out in Appendix 14 of the Listing Rules.

During the reporting period, the Company had complied with the Code Provisions except for the following deviations:

Code A.4.2 (last sentence)

Code A.4.2 (last sentence) stipulates that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

In accordance with article 91 of the articles of association of the Company ("Articles"), at every annual general meeting, one-third of the directors for the time being or, if their number is not a multiple of three, then the number nearest to but not exceeding one-third, shall retire from office. Under article 95 of the Articles, the managing director of the Company (if any) shall not whilst holding office as such be subject to retirement by rotation or be taken into account in determining the number of directors to retire in each year.

In order to ensure full compliance with Code A.4.2, a special resolution will be proposed to amend the relevant provisions of the Articles at the next annual general meeting of the Company to be held in 2006, so that every Director shall be subject to retirement by rotation at least once every three years.

Code B.1.1 and Code B.1.2

Code B.1.1 stipulates that all issuers should establish a remuneration committee with specific written terms of reference with deal clearly with its authority and duties and Code B.1.2 stipulates that the remuneration committee should consult the chairman and/or chief executive officer about their proposals relating to the remuneration of other executive directors and have access to professional advice if considered necessary.

The remuneration committee was only established by the Board pursuant to a resolution passed by the Board at its meeting held on 22 September 2005. Specific written terms of reference for the remuneration committee in line with the Code Provisions was also adopted. The remuneration committee is principally responsible for formulating the policy and structure for all remunerations of the directors and senior management of the Group and it will consult the chairman and/or chief executive officer about their proposals relating to the remuneration of other executive directors and have access to professional advice if considered necessary.

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INDEPENDENT REVIEW REPORT
TO THE BOARD OF DIRECTORS OF HUALING HOLDINGS LIMITED

INTRODUCTION

We have been instructed by the Company to review the interim financial report set out on pages 20 to 66.

DIRECTORS' RESPONSIBILITIES

The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with Hong Kong Accounting Standard 34 – "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors.

REVIEW WORK PERFORMED

We conducted our review in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports" ("SAS 700") issued by Hong Kong Institute of Certified Public Accountants, except that the scope of our review was limited as explained below.

A review consists principally of making enquiries of management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as test of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

The evidence available to us was limited because, in the absence of sufficient evidence, we were unable to ascertain whether the assumptions made by the directors in preparing the accounts on a going concern basis, as set out in Note 1 to the interim financial report, are fair and reasonable. Accordingly, we were unable to satisfy ourselves that the going concern basis is proper and appropriate. There were no other satisfactory review procedures that we could adopt to satisfy ourselves as to the appropriateness of the going concern basis, which may have a consequential significant effect on the loss of the Group for the six months ended 30 June 2005 and the net liabilities of the Group as at 30 June 2005.

INABILITY TO REACH A REVIEW CONCLUSION

Because of the significance of the possible effect of the limitation in evidence available to us in relation to the directors in preparing the accounts on a going concern basis, we are unable to reach a review conclusion as to whether material modifications should be made to the interim financial report for the six months ended 30 June 2005.

We draw your attention to Note 1 to the interim financial report which indicates that the comparative information for the six months ended 30 June 2004 was neither reviewed in accordance with SAS 700 nor audited by us.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong
22 September 2005

CONSOLIDATED BALANCE SHEET

As at 30 June 2005

(All amounts in HK dollar thousands unless otherwise stated)

	Note	As at 30 June 2005 Unaudited	As at 31 December 2004 Restated
ASSETS			
Non-current assets			
Property, plant and equipment	6	**366,473**	363,437
Investment properties	6	**97,736**	97,736
Leasehold land and land use rights	6	**30,598**	43,987
Interest in associates		**15,591**	27,658
Other non-current assets		**4,494**	1,619
		514,892	534,437
Current assets			
Inventories	7	**383,463**	344,344
Due from related companies	24(c)	**–**	1,359
Trade and other receivables	8	**536,088**	339,915
Prepaid value-added tax	9	**34,214**	57,365
Pledged bank deposits	13(b)	**50,187**	101,254
Cash and cash equivalents		**160,654**	130,089
		1,164,606	974,326
Total assets		**1,679,498**	1,508,763

	Note	As at 30 June 2005 Unaudited	As at 31 December 2004 Restated
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	10	**158,804**	158,804
Other reserves	11	**646,751**	643,682
Accumulated losses		**(1,253,343)**	(1,004,500)
		(447,788)	(202,014)
Minority interest		**53,209**	53,163
Total equity		**(394,579)**	(148,851)
LIABILITIES			
Non-current liabilities			
Borrowings	12	**18,772**	42,305
Current liabilities			
Trade and other payables	13	**1,447,878**	1,016,058
Due to related companies	24(c)	**85,002**	13,234
Current income tax		**579**	2,442
Provisions for warranty and charges	14	**19,406**	19,406
Borrowings	12	**502,440**	564,169
		2,055,305	1,615,309
Total liabilities		**2,074,077**	1,657,614
Total equity and liabilities		**1,679,498**	1,508,763
Net current liabilities		**(890,699)**	(640,983)
Total assets less current liabilities		**(375,807)**	(106,546)

CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2005

(All amounts in HK dollar thousands unless otherwise stated)

	Note	Unaudited Six months ended 30 June **2005**	 2004
Sales	5	**1,037,572**	1,199,522
Cost of goods sold		**(998,347)**	(1,070,437)
Gross profit		**39,225**	129,085
Other gains – net	16	**10,640**	17,507
Selling and marketing costs		**(214,360)**	(101,005)
Administrative expenses		**(47,774)**	(58,115)
Other operating expenses		**(5,567)**	(5,019)
Operating loss		**(217,836)**	(17,547)
Finance costs	17	**(18,195)**	(16,789)
Share of loss of associates		**(12,067)**	(1,684)
Loss before income tax		**(248,098)**	(36,020)
Income tax expense	18	**(745)**	(2,117)
Loss for the period		**(248,843)**	(38,137)
Attributable to:			
Equity holders of the Company		**(248,889)**	(44,625)
Minority interest		**46**	6,488
		(248,843)	(38,137)
Loss per share for loss attributable to the equity holders of the Company during the period (expressed in HK cents per share)			
– basic	19	**(15.7)**	(2.8)
Dividends	20	**–**	–

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2005

(All amounts in HK dollar thousands unless otherwise stated)

	Unaudited				
	Attributable to equity holders of the Company			Minority interest	Total
	Share capital	Other reserves	Accumulated losses		
Balance at 1 January 2004, as previously reported as equity	138,204	591,079	(375,745)	–	353,538
Balance at 1 January 2004, as previously separately reported as minority interest	–	–	–	51,352	51,352
Balance at 1 January 2004, as restated	138,204	591,079	(375,745)	51,352	404,890
Issuance of ordinary shares	20,000	60,000	–	–	80,000
Share issuance expenses	–	(2,730)	–	–	(2,730)
(Loss)/profit for the period	–	–	(44,625)	6,488	(38,137)
Profit appropriation	–	610	(610)	–	–
Translation differences	–	21	–	–	21
Balance at 30 June 2004	158,204	648,980	(420,980)	57,840	444,044
Balance at 1 January 2005, as previously reported as equity	158,804	643,682	(1,004,500)	–	(202,014)
Balance at 1 January 2005, as previously separately reported as minority interest	–	–	–	53,163	53,163
Balance at 1 January 2005, as restated	158,804	643,682	(1,004,500)	53,163	(148,851)
(Loss)/profit for the period	–	–	(248,843)	46	(248,797)
Translation differences	–	3,069	–	–	3,069
Balance at 30 June 2005	**158,804**	**646,751**	**(1,253,343)**	**53,209**	**(394,579)**

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2005

(All amounts in HK dollar thousands unless otherwise stated)

	Unaudited	
	Six months ended 30 June	
	2005	2004
Net cash generated from operating activities	**8,117**	18,745
Net cash used in investing activities	**(44,611)**	(20,100)
Net cash generated from financing activities	**67,059**	63,395
Net increase in cash and cash equivalents	**30,565**	62,040
Cash and cash equivalents at 1 January	**130,089**	132,716
Cash and cash equivalents at 30 June	**160,654**	194,756
Analysis of balances of cash and cash equivalents		
Cash at bank and in hand	**160,654**	194,756

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

1. BASIS OF PREPARATION

The Group incurred a loss attributable to the equity holders of approximately HK$248,889,000 for the six months ended 30 June 2005. In addition, the Group had net current liabilities and net liabilities of approximately HK$890,699,000 and approximately HK$394,579,000 respectively, as at 30 June 2005. Nevertheless, the directors have adopted the going concern basis in the preparation of these accounts based on the assumptions below:

(a) The successful implementation of new business strategies of the Group to terminate the production of certain unprofitable models and to dispose of certain off-strategy investments to generate cash flows for the Group's operations.

(b) The Group will succeed in negotiating with its bankers to roll over the outstanding bank loans and / or to extend their repayment terms to meet its future working capital and financial requirements. As disclosed in Note 12 to the accounts, certain bank loans, with which the Group largely finances its day-to-day working capital requirements, are due for repayment within one year. Subsequent to the balance sheet date, bank loans of approximately HK$80,000,000 have been rolled over for a further year and none of the banks has withdrawn their facilities extended to the Group. Nevertheless, the Group is also actively exploring the availability of alternative sources of financing should its negotiations with its current bankers not be fully successful.

(c) The Group will be able to obtain ongoing support from its established suppliers to continue to extend credit and supply raw materials to the Group.

(d) The continued support of its shareholders including its controlling shareholders, Midea Group Co., Ltd. (the "Midea Group"), to assist the Group in obtaining adequate additional banking facilities and in extending credit from established and new suppliers or to inject funding into the Group. The Midea Group has injected a loan of approximately HK$50,000,000 and has provided a guarantee to a bank for banking facilities of approximately HK$56,000,000 extended to the Group in the first quarter of 2005. Further as disclosed in Note 25, in July 2005, the Company issued 2,382,054,612 shares at HK$0.1 each in a rights issue to existing shareholders and received net proceeds of approximately HK$233,000,000 after underwriting commission, professional fees and other expenses, which were used to provide working capital for the Group's operations.

In the opinion of the directors, in light of the measures taken to date and on the basis of the above-mentioned major assumptions, the Group will have sufficient working capital to finance its operations and therefore to maintain its operating existence in the foreseeable future. Accordingly, the directors are satisfied that it is appropriate to prepare the accounts on a going concern basis.

Should the Group be unable to continue as a going concern, adjustments would have to be made in the accounts to reduce the carrying values of the assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively. The consequential effects of these potential adjustments may have significant effect on the loss of the Group for the six months ended 30 June 2005 and the net liabilities of the Group as at 30 June 2005.

The comparative information for the six months ended 30 June 2004 was extracted from the interim announcement of the Company in 2004 or where applicable, other accounting records of the Group, after making such adjustments as were considered necessary by the management to conform to new accounting standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The Group had not appointed the auditors to carry out any review of the comparative interim financial statements in accordance with SAS 700 "Engagements to review interim financial reports" in respect of the comparative figures.

2. PRINCIPAL ACCOUNTING POLICIES

These unaudited condensed consolidated financial statements have been prepared in accordance with HKAS 34, "Interim Financial Reporting" issued by the HKICPA.

These condensed consolidated financial statements should be read in conjunction with the 2004 annual financial statements.

The accounting policies and methods of computation used in the preparation of these condensed consolidated financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2004 except that the Group has changed certain of its accounting policies following its adoption of new / revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRS") which are effective for accounting periods commencing on or after 1 January 2005.

The changes to the Group's accounting policies and the effect of adopting these new policies are set out in note 3 below.

3. CHANGES IN ACCOUNTING POLICIES

(a) Effect of adopting new HKFRS

In 2005, the Group adopted the new / revised standards of HKFRS below, which are relevant to its operation. The 2004 comparatives have been amended as required, in accordance with the relevant requirements.

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 16	Property, Plant and Equipment
HKAS 17	Leases
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 38	Intangible Assets
HKAS 39	Financial instruments: Recognition and Measurement
HKAS 40	Investment Property
HKAS-Int 21	Income Taxes – Recovery of Revalued Non-Depreciated Assets
HKFRS 2	Share-based payments
HKFRS 3	Business Combination

The adoption of new/revised HKASs 1, 2, 7, 8, 10, 16, 21, 23, 24, 27, 28, 32, 33 and 39 did not result in substantial changes to the Group's accounting policies. In summary:

– HKAS 1 has affected the presentation of minority interest, share of net after-tax results of associates and other disclosures.

– HKASs 2, 7, 8, 10, 16, 23, 27, 28, 32, 33 and 39 had no material effect on the Group's policies.

– HKAS 21 had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard. The Group has considered the functional currency is Renminbi ("RMB") while the presentation currency for the Group is Hong Kong dollars.

– HKAS 24 has affected the identification of related parties and some other related-party disclosures.

The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of leasehold land and land use rights from property, plant and equipment to operating leases. The up-front prepayments made for the leasehold land and land use rights are expensed in the income statement on a straight-line basis over the period of the lease or where there is impairment, the impairment is expensed in the income statement. In prior years, the leasehold land was accounted for at fair value or cost less accumulated depreciation and accumulated impairment.

The adoption of revised HKAS 40 has resulted in a change in the accounting policy of which the changes in fair values are recorded in the income statement as part of other income. In prior years, the increases in fair value were credited to the investment properties revaluation reserve. Decreases in fair value were first set off against increases on earlier valuations on a portfolio basis and thereafter expensed in the income statement.

The adoption of revised HKAS-Int 21 has resulted in a change in the accounting policy relating to the measurement of deferred tax liabilities arising from the revaluation of investment properties. Such deferred tax liabilities are measured on the basis of tax consequences that would follow from recovery of the carrying amount of that asset through use. In prior years, the carrying amount of that asset was expected to be recovered through sale.

The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payments. Until 31 December 2004, the provision of share options to employees did not result in an expense in the income statement. Effective on 1 January 2005, the Group expenses the cost of share options in the income statement. As all of the outstanding share options were granted before 7 November 2002 and had fully vested on 1 January 2005, the adoption of HKFRS 2 has no impact on the outstanding share options as at 1 January 2005 (Note 3.8).

The adoption of HKFRS 3, HKAS 36 and HKAS 38 results in a change in the accounting policy for goodwill. Until 31 December 2004, goodwill was:

– Amortised on a straight line basis over a period of 10 years; and

– Assessed for an indication of impairment at each balance sheet date.

In accordance with the provisions of HKFRS 3 (Note 3.4):

– The Group ceased amortisation of goodwill from 1 January 2005;

– Accumulated amortisation as at 31 December 2004 has been eliminated with a corresponding decrease in the cost of goodwill;

– From the year ending 31 December 2005 onwards, goodwill is tested annually for impairment, as well as when there is indication of impairment.

The Group has reassessed the useful lives of its intangible assets in accordance with the provisions of HKAS 38. No adjustment resulted from this reassessment.

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards. All standards adopted by the Group require retrospective application other than:

– HKAS 16 – the initial measurement of an item of property, plant and equipment acquired in an exchange of assets transaction is accounted at fair value prospectively only to future transactions;

– HKAS 39 – does not permit to recognize, derecognize and measure financial assets and liabilities in accordance with this standard on a retrospective basis. The Group applied the previous SSAP 24 "Accounting for investments in securities" to investments in securities and also to hedge relationships for the 2004 comparative information. The adjustments required for the accounting differences between SSAP 24 and HKAS 39 are determined and recognized at 1 January 2005;

– HKAS 40 – since the Group has adopted the fair value model, there is no requirement for the Group to restate the comparative information, any adjustment should be made to the retained earnings as at 1 January 2005, including the reclassification of any amount held in revaluation surplus for investment property;

– HKFRS 2 – only retrospective application for all equity instruments granted after 7 November 2002 and not vested at 1 January 2005; and

– HKFRS 3 – prospectively after the adoption date.

(i) The adoption of revised HKAS 17 resulted in:

	As at	
	30 June 2005	31 December 2004
Decrease in property, plant and equipment	**30,598**	43,987
Increase in leasehold land and land use rights	**30,598**	43,987

(b) New accounting policies

The accounting policies used for the condensed consolidated financial statements for the six months ended 30 June 2005 are the same as those set out in note 2 to the 2004 annual financial statements except for the following:

3.1 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency"). The condensed consolidated financial statements are presented in Hong Kong Dollars, which is different from the Group's functional currency of RMB. The Group has used Hong Kong Dollars as presentation currency, in view of the shares of the Company listed on the Hong Kong Stock Exchange.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Translation differences on non-monetary items, such as equity instruments held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation difference on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

(c) *Group companies*

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the Company's presentation currency are translated into the Company's presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognized as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognized in the income statement as part of the gain or loss on sale.

3.2 Property, plant and equipment

Cost may include transfers from equity of any gains / losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

3.3 Investment properties

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the companies in the consolidated Group, is classified as investment property.

Investment property comprises land held under operating leases and buildings held under finance leases.

Land held under operating leases are classified and accounted for as investment property when the rest of the definition of investment property is met. The operating lease is accounted for as if it were a finance lease.

Investment property is measured initially at its cost, including related transaction costs.

After initial recognition, investment property is carried at fair value. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. These valuations are performed in accordance with the guidance issued by the international Valuation Standards Committee. These valuations are reviewed annually by external valuers. Investment property that is being redeveloped for continuing use as investment property, or for which the market has become less active, continues to be measured at fair value.

The fair value of investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions.

The fair value also reflects, on a similar basis, any cash outflows that could be expected in respect of the property. Some of those outflows are recognized as a liability, including finance lease liabilities in respect of land classified as investment property; others, including contingent rent payments, are not recognized in the financial statements.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed in the income statement during the financial period in which they are incurred.

Changes in fair values are recognized in the income statement.

3.4 Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary / associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing.

3.5 Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation, which are at least tested annually for impairment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

3.6 Trade and other receivables

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognized in the income statement.

3.7 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

3.8 Share-based compensation

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognized as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balances sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognizes the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

4. FINANCIAL RISK MANAGEMENT

4.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: foreign exchange risk, credit risk, liquidity risk and cash flow and fair value interest rate risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Foreign exchange risk

The Group exposes to foreign exchange risks as certain portion of business activities are denominated in foreign currencies, primarily with respect to the US dollar. The Group has negotiated sales contracts to manage the risk arising from certain recognized liabilities. The directors are of the opinion that the Group's expose to foreign exchange risk is manageable.

(b) Credit risk

Trade receivables are spread among a number of customers and cash is deposited with registered financial institutions in the PRC. The directors are of the opinion that the Company has no significant concentrations of credit risk.

(c) Liquidity risk

Most of the bank financing of the Group is in the form of short-term bank loans. As a result, the Group had net current liabilities of approximately HK$890,699,000 as at 30 June 2005. The Group has not experienced any difficulty in renewing the borrowings when they fell due. Besides, the Group has unutilized banking facilities of approximately HK$23,000,000 at 30 June 2005, which the Group can utilize it to meet its short-term cash demands. As a result, the directors are of the opinion that liquidity risk is not material as at 30 June 2005.

(d) Cash flow and fair value interest rate risk

The Group's interest rate risk arises mainly from long-term borrowings bearing fixed interest rates. However, considering long-term borrowings only represented approximately 4% of total borrowings, the directors are of the opinion this risk is not material as at 30 June 2005.

5. SEGMENT INFORMATION

Primary reporting format – business segments

As at 30 June 2005, the Group is organised into three main business segments:

Refrigerator business	–	manufacture and distribution of a broad range of refrigerators
Air-conditioner business	–	manufacture and distribution of a broad range of air-conditioners
Mini-refrigerator business	–	manufacture and distribution of a broad range of mini-refrigerators

Other businesses of the Group mainly comprise holding of investment properties and renting of properties, neither of which are of a sufficient size to be reported separately.

The segment results for the six months ended 30 June 2005 are as follows:

	Refrigerator business	Air-conditioner business	Mini-refrigerator business	Other businesses	Group
Sales	**178,803**	**557,079**	**301,690**	**–**	**1,037,572**
Segment results	**(152,560)**	**(59,925)**	**4,815**	**(10,166)**	**(217,836)**
Finance costs					**(18,195)**
Share of losses of associates					**(12,067)**
Loss before taxation					**(248,098)**
Taxation					**(745)**
Loss for the period					**(248,843)**

The segment results for the six months ended 30 June 2004 are as follows:

	Refrigerator business	Air-conditioner business	Mini-refrigerator business	Other businesses	Group
Sales	164,477	834,055	200,990	–	1,199,522
Segment results	(22,296)	(1,966)	14,738	(8,023)	(17,547)
Finance costs					(16,789)
Share of losses of associates					(1,684)
Loss before taxation					(36,020)
Taxation					(2,117)
Loss for the period					(38,137)

The segment assets and liabilities as at 30 June 2005 and capital expenditure for the six months then ended are as follows:

	Refrigerator business	Air-conditioner business	Mini-refrigerator business	Other businesses	Group
Segment assets	**248,768**	**864,809**	**421,090**	**949**	**1,535,616**
Interests in associates					**15,591**
Unallocated assets					**128,291**
Total assets					**1,679,498**
Segment liabilities	**220,905**	**1,386,163**	**299,983**	**17,752**	**1,924,803**
Unallocated liabilities					**149,274**
Total liabilities					**2,074,077**
Capital expenditures	**24,272**	**2,239**	**18,647**	**–**	**45,158**

The segment assets and liabilities as at 31 December 2004 and capital expenditure for the six months ended 30 June 2004 are as follows:

	Refrigerator business	Air-conditioner business	Mini-refrigerator business	Other businesses	Group
Segment assets	302,191	733,114	371,212	10,589	1,417,106
Interests in associates					27,658
Unallocated assets					63,999
Total assets					1,508,763
Segment liabilities	454,425	931,181	248,871	5,208	1,639,685
Unallocated liabilities					17,929
Total liabilities					1,657,614
Capital expenditures	–	600	3,750	–	4,350

Secondary reporting format – geographical segments

The Group's three business segments are operated in five main geographical areas:

Mainland China	–	manufacture and sale of household electrical appliances
Europe	–	sale of household electrical appliances
Other Asia-Pacific countries	–	sale of household electrical appliances
America	–	sale of household electrical appliances
Africa	–	sale of household electrical appliances

There are no sales between the geographical segments. Analysis of financial statements by geographical segment is as follows:

Analysis of sales of refrigerators into domestic sales in Mainland China and export sales outside Mainland China by region is as follows:

	Six months ended 30 June	
	2005	2004
Domestic sales	**143,411**	128,273
Export sales		
Europe	**25,230**	24,857
Asia-Pacific	**10,008**	10,924
America	**154**	119
Africa	**–**	304
Total export sales	**35,392**	36,204
Total	**178,803**	164,477

Analysis of sales of air-conditioners into domestic sales in Mainland China and export sales outside Mainland China by region is as follows:

	Six months ended 30 June	
	2005	2004
Domestic sales	**425,895**	427,737
Export sales		
Europe	**58,532**	212,013
Asia-Pacific	**57,016**	56,536
America	**15,636**	74,987
Middle-East	**–**	61,024
Africa	**–**	1,758
Total export sales	**131,184**	406,318
Total	**557,079**	834,055

Analysis of sales of mini-refrigerators into domestic sales in Mainland China and export sales outside Mainland China by region is as follows:

	Six months ended 30 June	
	2005	2004
Domestic sales	**49,781**	42,512
Export sales		
Europe	**64,316**	53,883
America	**123,316**	60,221
Asia-Pacific	**55,866**	42,789
Africa	**8,411**	1,585
Total export sales	**251,909**	158,478
Total	**301,690**	200,990

No geographical segment analysis on total assets and capital expenditure is prepared as over 90% of the Group's total assets and capital expenditures were located / incurred in Mainland China.

6. CAPITAL EXPENDITURE

	Goodwill	Taxi licenses	Total intangible assets	Investment properties	Property, plant and equipment	Leasehold land and land use rights
Opening net book amount as at 1 January 2005	–	–	–	97,736	363,437	43,987
Additions	–	–	–	–	45,158	–
Exchange differences	–	–	–	–	–	–
Disposals	–	–	–	–	(4,580)	(13,112)
Depreciation/amortisation charge	–	–	–	–	(37,542)	(277)
Closing net book amount as at 30 June 2005	–	–	–	97,736	366,473	30,598
Opening net book amount as at 1 January 2004	4,081	5,504	9,585	168,000	516,517	44,665
Additions	–	–	–	–	4,350	–
Exchange differences	–	–	–	–	–	–
Disposals	–	–	–	–	(5,397)	–
Depreciation/amortisation charge	(340)	(135)	(475)	–	(34,397)	(365)
Closing net book amount as at 30 June 2004	3,741	5,369	9,110	168,000	481,073	44,300
Additions	–	–	–	–	38,274	53
Exchange differences	–	–	–	–	1,053	–
Revaluation	–	–	–	(70,264)	–	–
Disposals of subsidiaries	–	–	–	–	(140)	–
Other disposals	–	–	–	–	(9,299)	–
Depreciation/amortisation charge	(340)	(135)	(475)	–	(34,250)	(366)
Impairment charge	(3,401)	(5,234)	(8,635)	–	(113,274)	–
Closing net book amount as at 31 December 2004	–	–	–	97,736	363,437	43,987

7. INVENTORIES

	As at 30 June 2005	As at 31 December 2004
Raw materials	**204,747**	140,152
Work-in-progress	**18,091**	15,886
Finished goods	**160,625**	188,306
	383,463	344,344

8. TRADE AND OTHER RECEIVABLES

	As at 30 June 2005	As at 31 December 2004
Trade receivables (Note (a))	**390,084**	204,611
Notes receivable (Note (b))	**41,887**	25,983
Prepayments and other receivables	**104,117**	109,321
	536,088	339,915

(a) No standard credit term policy was adopted by the Group as the credit terms granted by the Group varied towards different customers. At 30 June 2005, the ageing analysis of the trade receivables was as follows:

	As at	
	30 June 2005	31 December 2004
Within 1 year	**372,622**	202,632
In the second year	**17,462**	1,979
Over 2 years	**–**	–
	390,084	204,611

(b) Notes receivable

The balance represents bank acceptance notes with maturity periods within six months.

9. PREPAID VALUE-ADDED TAX

Guangzhou Hualing Electrical Household Appliance Enterprise Co., Ltd. and Hualing (Guangzhou) Electrical Appliances Co., Ltd. ("Hualing Appliances") have paid input value-added taxes to the State Tax Bureau for the finished goods purchased from China Refrigeration Industry Co., Ltd. and Hualing Air-conditioning & Equipment Co., Ltd.. In accordance with the relevant PRC tax regulations, these value-added taxes can be offset with the output value-added taxes arising from the sales in the future but are not refundable.

10. SHARE CAPITAL AND SHARE OPTIONS

(a) Share capital

	Authorised Ordinary shares of HK$0.1 each	
	Number of shares ('000)	HK$ '000
At 30 June 2005	10,000,000	1,000,000
At 31 December 2004	1,600,000	160,000

	Issued and fully paid Ordinary shares of HK$0.1 each	
	Number of shares ('000)	HK$ '000
At 30 June 2005 and 31 December 2004	1,588,036	158,804

(b) Share options

The share option scheme adopted by the Company on 26 November 1993 (the "1993 Share Option Scheme") expired on 25 November 2003. A new share option scheme (the "2003 Share Option Scheme") was approved by the shareholders at the Annual General Meeting on 27 June 2003 and was adopted thereafter. The 1993 Share Option Scheme was terminated immediately upon the adoption of 2003 Share Option Scheme. The options granted under the 1993 Share Option Scheme will remain in force and effect.

Pursuant to 1993 Share Option Scheme, for incentive purpose, the Company is authorized to grant options to executive directors and employees of the Group to subscribe for shares in the Company, subject to a maximum of (i) 20% of the issued share capital of the Company in issue as at 25th June 1999 plus (ii) the nominal amount of share capital of the Company repurchased by the Company subsequent to the amendments up to a maximum equivalent of 10% of the aggregate nominal amount of the share capital of the Company in issue, excluding shares issued on exercise of options. The subscription price would be determined by the directors, and would not be less than the higher of the nominal value of the shares and 80% of the average of the closing prices of the shares quoted on The Stock Exchange of Hong Kong Limited ("HKSE") on the five trading days immediately preceding the date of offer of the option. An option may be exercised under 1993 Share Option Scheme at any time during the period commencing on the date upon which such option is deemed to be granted and accepted.

Due to the expiration of the 1993 Share Option Scheme, and to be in line with Chapter 17 (Share Option Schemes) of the Listing Rules, the Company terminated the 1993 Share Option Scheme and adopted the 2003 Share Option Scheme on 27 June 2003 as follows:

The purpose of the 2003 Share Option Scheme is for the Company to attract, retain and motivate talented participants to strive for future developments and expansion of the Group and to provide the Company with a flexible means of giving incentive to, rewarding, remunerating, compensating and/or providing benefits to the participants. Eligible participants of the 2003 Share Option Scheme include the directors (including executive directors and non-executive directors) or employees of the Group, consultants or advisors of the Group, substantial shareholders or employees of substantial shareholders of the Company, associates of directors or chief executives or substantial shareholders of the Company, employees or directors of suppliers or customers of the Group, discretionary objects of a discretionary trust established by employees or directors of the Group, as to be determined by the board at its absolute discretion within the above categories.

The maximum numbers of shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under 2003 Share Option Scheme and any other share option schemes adopted by the Company must not in aggregate exceed 30% of the shares in issue from time to time. The total number of shares which may be issued upon the exercise of all options to be granted under the 2003 Share Option Scheme and any other share option schemes of the Company must not in aggregate exceed 10% of the shares of the Company in issue as at 27 June 2003, but the Company may seek approval of its shareholders in general meeting to refresh the 10% limit under 2003 Share Option Scheme.

The total number of shares issued and to be issued upon exercise of the share options granted under 2003 Share Option Scheme and any other share option schemes of the Company to each participant in any 12-month period up to the date of grant must not exceed 1% of the shares in issue at the date of grant. Any further grant of share options in excess of this limit is subject to the approval of shareholders in general meeting of the Company.

Share options granted under the 2003 Share Option Scheme to director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval of the independent non-executive directors of the Company (excluding any independent non-executive director who is also the grantee of the options). In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the closing price of the Company's shares at the date of each grant) in excess of HK$5,000,000, within any 12-month period up to and including the date of such grant, are subject to shareholders' approval in general meeting of the Company.

The exercise price of the share options will be at least the highest of (i) the closing price of the Company's shares as stated in daily quotations sheet of HKSE on the date of the offer for grant, which must be a business day; (ii) the average closing price of the Company's shares as stated in HKSE's daily quotations sheet for the five business days immediately preceding the date of the offer for grant, which must be a business day; and (iii) the nominal value of the share.

The share options granted may be exercised at any time during the period commencing immediately after the date on which the option is deemed to be granted and accepted and expiring on a date to be determined and notified by the board of directors which shall not be more than 10 years from the date on which the share option is deemed to be granted and accepted. The 2003 Share Option Scheme shall be valid and effective for a period of 10 years commencing on 27 June 2003.

No share options were granted, cancelled or lapsed under the share option schemes of the Company during the period.

Movements of the share options granted under the 1993 Share Option Scheme during the period are as follows:

Name	Options held at 1 January 2005	Options granted during the period	Options exercised during the period	Lapsed/ cancelled during the period	Options held at 30 June 2005	Exercise price HK$	Grant date	Exercisable from	Exercisable until
Directors:									
Zhang Xin Hua	800,000	–	–	–	800,000	0.930	30/9/1997	30/9/1997	10/11/2005
Employees	160,000	–	–	–	160,000	0.211	5/7/2000	5/7/2000	10/11/2005
	960,000	–	–	–	960,000				

11. OTHER RESERVES

	Share premium	General reserve fund	Enterprise expansion fund	Exchange reserve	Total
Balance at 1 January 2004	509,398	37,361	16,958	27,362	591,079
Issuance of ordinary shares	60,000	–	–	–	60,000
Share issuance expenses	(2,730)	–	–	–	(2,730)
Profit appropriation	–	610	–	–	610
Translation difference	–	–	–	21	21
Balance at 30 June 2004	566,668	37,971	16,958	27,383	648,980
Issuance of ordinary shares	798	–	–	–	798
Share issuance expenses	(31)	–	–	–	(31)
Reversal of profit appropriation	–	(610)	–	–	(610)
Reserves transferred to income statement upon disposal of taxi licenses	–	(5,640)	–	–	(5,640)
Translation difference	–	–	–	185	185
Balance at 31 December 2004	567,435	31,721	16,958	27,568	643,682
Balance at 1 January 2005, as per above	567,435	31,721	16,958	27,568	643,682
Translation difference	–	–	–	3,069	3,069
Balance at 30 June 2005	567,435	31,721	16,958	30,637	646,751

The Company's PRC subsidiaries are required to follow the laws and regulations of the PRC and their articles of association. These subsidiaries are required to provide for certain statutory funds, namely, general reserve fund and enterprise expansion fund, which are appropriated from net profit after taxation but before dividend distribution based on the local statutory accounts prepared in accordance with accounting principles and relevant financial regulations applicable to enterprises established in the PRC. These PRC subsidiaries are required to allocate at least 10% of its net profit to the reserve fund until the balance of such fund has reached 50% of its registered capital. Such appropriations are determined at the discretion of the directors. The general reserve fund can only be used, upon approval by the relevant authority, to offset accumulated deficit or increase capital.

12. BORROWINGS

	As at	
	30 June 2005	31 December 2004
Short-term bank loans, secured	**502,440**	564,169
Long-term bank loans , secured	**18,772**	42,305
	521,212	606,474

At 30 June 2005, the Group's bank loans were repayable as follows:

	As at	
	30 June 2005	31 December 2004
Within one year	**502,440**	564,169
In the second year	**18,772**	42,305
	521,212	606,474

Interests of the bank loans are charged on the outstanding balances at interest rates ranging from 1.05% to 6.70% per annum (31 December 2004: 2.94% to 6.70% per annum).

The carrying amounts of borrowings approximate their fair value.

Property, plant and equipment with net book value of approximately HK$206,043,000 (31 December 2004: HK$258,672,000) have been pledged as security for the Group's short-term bank loans.

Approximately HK$188,659,000 (31 December 2004: HK$75,089,000) of the loans of the subsidiaries as at 30 June 2005 are guaranteed by China Refrigerator Industry Co., Ltd., a related company, and Midea Group, the ultimate parent company of the Company.

Subsequent to the balance sheet date, bank loans of approximately HK$80,000,000 have been rolled over for a further year.

13. TRADE AND OTHER PAYABLES

	As at	
	30 June 2005	31 December 2004
Trade payables (Note (a))	**907,731**	586,348
Provision for staff welfare and bonus	**976**	1,918
Accruals	**170,768**	86,908
Advances from customers	**71,395**	105,423
Notes payable (Note (b))	**258,511**	212,152
Taxes payable	**–**	409
Payable for property, plant and equipment	**3,382**	15,034
Others	**35,115**	7,866
	1,447,878	1,016,058

(a) At 30 June 2005, the ageing analysis of the trade payables was as follows:

	As at	
	30 June 2005	31 December 2004
Within 1 year	**782,947**	542,133
In the second year	**120,902**	27,215
Over 2 years	**3,882**	17,000
	907,731	586,348

(b) The balance represents bank acceptance notes issued by the Group with maturity periods of less than six months. At 30 June 2005, the notes payable were pledged by bank deposits of approximately HK$50,187,000 (31 December 2004: HK$101,254,000).

14. PROVISIONS FOR WARRANTY

The movement of warranty provision was analysed as follows:

	As at	
	30 June 2005	31 December 2004
At 1 January	**19,406**	17,399
Charge for the period/year	**6,224**	15,677
Less: Amounts utilised	**(6,224)**	(13,670)
At 30 June 2005/31 December 2004	**19,406**	19,406

Hualing Appliances provides free repair and replacement services ranging from one year to three years after sales. The cost of the warranty obligation under which Hualing Appliances agrees to remedy defects in its products is accrued at the time the related sales are recognised. As at 30 June 2005, the Group had provided for expected warranty claims on household electrical appliance items sold.

15. EXPENSES BY NATURE

Expenses included in cost of goods sold, selling and marketing costs and administrative expenses are analysed as follows:

	Six months ended 30 June	
	2005	2004
Depreciation and amortisation (Note 6)	**37,819**	34,762
Employee benefit expense	**36,160**	47,380
Operating lease rental for land and building	**1,513**	1,327

16. OTHER GAINS – NET

	Six months ended 30 June	
	2005	2004
Sales of scrap materials	**8,853**	6,872
Reversal of write-down of inventories	**–**	2,508
Rental income	**2,492**	2,002
Interest income	**2,515**	2,609
Government grants	**1,723**	1,154
Loss on disposal of land use right	**(1,893)**	–
Others	**(3,050)**	2,362
	10,640	17,507

17. FINANCE COSTS

	Six months ended 30 June	
	2005	2004
Interest on short-term bank loans	**16,310**	15,859
Bank handling charges	**1,885**	930
	18,195	16,789

18. INCOME TAX EXPENSE

No Hong Kong profits tax has been provided as the Group did not have any assessable profit under Hong Kong profits tax. PRC enterprise income tax has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the respective jurisdictions.

	Six months ended 30 June	
	2005	2004
Enterprise income tax	**745**	2,117

19. LOSS PER SHARE

The calculations of basic loss per share are based on Group's loss attributable to equity holders of approximately HK$248,889,000 (2004: HK$44,625,000).

The basic loss per share is based on the weighted average number of 1,588,036,408 (2004: 1,568,849,595) ordinary shares in issue during the period.

No diluted loss per share is presented as there are no potential dilutive ordinary shares outstanding during the six months ended 30 June 2005 (2004: Nil).

20. DIVIDENDS

The directors do not recommend the payment of a dividend for the six months ended 30 June 2005 (2004: Nil).

21. DEFERRED TAXATION

Deferred taxation is calculated in full on temporary differences under the liability method using taxation rates applicable to the companies comprising the Group.

Temporary differences are mainly arising from:

	As at	
	30 June 2005	31 December 2004
Accumulated losses of some of its subsidiaries carried forward	**899,215**	601,326
Provision for inventory obsolescence	**87,696**	81,590
Write down of inventory to net realisable value	**12,340**	26,540
Provision for doubtful receivables	**103,903**	86,459
Impairment loss	**42,237**	113,274
Others	**28,350**	21,314
	1,173,741	930,503

The potential deferred tax assets not provided for in the accounts amounted to:

	As at	
	30 June	31 December
	2005	2004
Accumulated losses of some of its subsidiaries carried forward	**287,574**	195,789
Provisions for inventory obsolescence	**10,524**	13,867
Write down of inventory to net realisable value	**1,481**	6,625
Provision for doubtful receivables	**12,469**	20,944
Others	**8,462**	27,169
	320,510	264,394

At the balance sheet date, there were no material unprovided deferred tax liabilities. Deferred tax assets arising from above temporary differences have not been recognised as it is uncertain that future taxable profit will be available against which the temporary differences can be utilised.

The expiry date of deferred tax assets not provided is as follows:

	As at	
	30 June	31 December
	2005	2004
Expire within 1 year	**25,455**	25,920
Expire in 1 – 2 years	**27,837**	24,977
Expire in 2 – 3 years	**30,608**	30,682
Expire in 3 – 4 years	**53,649**	30,517
Expire in 4 – 5 years	**113,154**	80,870
No expiry date	**69,807**	71,428
	320,510	264,394

According to Provisional Regulations on PRC Enterprise Income Tax No.11, tax losses of the PRC subsidiaries of the Group can be carried forward to offset future assessable profit for a period of five years.

22. CONTINGENCIES

	As at	
	30 June	31 December
	2005	2004
Discounted letters of credit with recourse	**583**	34,885
Bills of exchange discounted/endorsed with recourse	**–**	217,186
	583	252,071

Management anticipates that no material liabilities will arise from the above discounts of letters of credit or bills or bills endorsement which arose in the ordinary course of businesses.

23. COMMITMENTS

(a) Capital commitments for purchases of property, plant and equipment:

	As at	
	30 June 2005	31 December 2004
Contracted but not provided for	**50,567**	60,009

(b) Commitments under operating leases:

As at 30 June 2005, the Group had future aggregate minimum lease payments under non-cancellable operating leases for land and buildings as follows:

	As at	
	30 June 2005	31 December 2004
Not later than one year	**4,761**	1,778
Later than one year and not later than five years	**388**	81
	5,149	1,859

24. RELATED PARTY TRANSACTIONS

The shares of the Company held by Guangzhou International Group Company Limited, the former ultimate parent company, were transferred to Midea International Corporation Company Limited, a wholly-owned subsidiary of Midea Group, on 11 November 2004. The directors regard Midea Group, a company incorporated in the PRC, as being the ultimate parent company from 11 November 2004.

Save as disclosed elsewhere in this set of accounts, the significant related party transactions are as follows:

(a) Significant related party transactions are as follows:

	Six months ended 30 June	
	2005	2004
Purchases goods	**50,605**	3,241
Sales of goods	**56,388**	–

The above transactions with related parties are conducted in the ordinary course of business at market price similar to those offered to / from third parties.

(b) Key management compensation:

	Six months ended 30 June	
	2005	2004
Salaries and other short-term employee benefits	**660**	1,990

(c) Balances with related companies:

	As at 30 June 2005	As at 31 December 2004
Due from related companies:		
– Foshan Midea Household Appliance Co., Ltd.*	**–**	527
– Foshan Midea Refrigeratory Co., Ltd.* (“Midea Refrigeratory”)	**–**	714
– Guangdong Midea Commercial Air Conditioner & Equipment Co., Ltd.*	**–**	118
	–	1,359

* These are the related parties controlled by the ultimate parent company of the Company.

	As at 30 June 2005	As at 31 December 2004
Due to related companies:		
– Xi’an Dongling Refrigerator Compressors Co., Ltd., an associated company	**3,564**	3,735
– Midea Refrigeratory	**2,338**	–
– Guangzhou Hualing Polyfoam Co., Ltd, an associated company	**100**	98
– Foshan Weishang Technology Industrial Development (Holding) Company Limited (''Foshan Weishang'')*	**79,000**	9,401
	85,002	13,234

* Foshan Weishang, a related party in which the ultimate parent company of the Company had significant influence.

The balances due from/to related companies are interest free and are repayable on demand.

25. EVENTS AFTER THE BALANCE SHEET DATE

In July 2005, the Group raised approximately HK$233,000,000 after expenses by issuing 2,382,054,612 rights shares at a price of HK$0.1 per rights share.

26. COMPARATIVE FIGURES

The Group has adopted new HKFRS which are effective for accounting periods commencing on or after 1 January 2005. As mentioned in Note 3, this has resulted in changes to the presentation of certain items and comparative financial statements have been restated accordingly. In addition, certain comparative figures have been reclassified to conform to the current period's presentation.

27. APPROVAL OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The condensed consolidated financial statements were approved by the board of directors on 22 September 2005.