

## Corporate Governance Report

The board (the “Board”) of directors (the “Directors”) and the management (the “Management”) of Haier Electronics Group Co., Ltd. (the “Company”) recognise that sound corporate practices are crucial to the efficient operation of the Company and its subsidiaries (collectively the “Group”) and the safeguarding of our shareholders’ interests. In this regard, the Board attaches great priority to reinforce the Company’s corporate governance standards with emphasis on transparency, accountability and independence in order to enhance our long-term shareholders’ value.

The Company has, throughout the year ended 31 December 2005, complied with most of the applicable code provisions (the “Code Provision(s)”) and principles under the Code on Corporate Governance Practices (the “CG Code”) as set out in Appendix 14 to the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) except for certain deviations as described below. This report describes the Company’s corporate governance practices, explains its applications of and deviations from the CG Code, together with considered reasons for such deviations.

### BOARD OF DIRECTORS

#### Composition

The Board currently comprises seven executive Directors and four independent non-executive Directors (the “INED(s)”). The Directors are well-versed in respective areas such as legal, accounting and finance, business management and industry knowledge and the Board as a whole has achieved an appropriate balance of skills and experience. The Directors’ biographical information is set out on pages 9 to 11 under the section headed “Directors and Senior Management”.

To the best of the Company’s knowledge, there is no financial or family relationship among the Board members. All of them are free to exercise their independent judgment on all matters concerning the Company.

#### Delegation by the Board

The Directors are collectively responsible for setting the Group’s strategies, providing leadership and guidance to put them into effect, reviewing and monitoring the performance of the Group and are accountable to the Company’s shareholders. To maximise the effectiveness of the Group’s operations, the Board has delegated management and administration of the Group’s daily operations to the executive Directors and the Management while reserving several important matters for its approval. To this end, the Board has adopted written guidelines (the “Guidelines”) laying down the division of functions between the Board and the Management (including the executive Directors for the purpose of the Guidelines).

Pursuant to the Guidelines, the major functions of the Board and the Management are summarized as follows:

The Board is principally responsible for:

1. determining the overall strategy and approving annual operating budget of the Group;
2. reviewing all significant policies of the Group;
3. monitoring the performance of the Management to ensure that the business operations of the Group are properly planned and undertaken;
4. approving interim and annual results of the Group based on recommendations made by the audit committee of the Company;
5. approving material contracts and transactions for which the Management is required to obtain the Board’s prior approval; and
6. subject to the requirements of the Listing Rules, approving transactions in which connected person(s) (as defined in the Listing Rules) of the Group is/are considered having a material conflict of interests.

## BOARD OF DIRECTORS (cont'd)

### Delegation by the Board (cont'd)

The Management is principally responsible for:

1. exercising all such other powers and perform all such other acts as may be exercised and performed by the Directors, save and except for those that may specifically be reserved by the Board/or the committees set up by the Board for decision and implementation; or those that may only be exercised by the Board pursuant to The Companies Act of Bermuda, the Bye-laws of the Company, the Listing Rules and/or the Hong Kong Codes on Takeovers and Mergers and Share Repurchases;
2. formulating and implementing policies for business activities, internal controls and administration of the Company;
3. planning and deciding the Company's strategies on its business activities; and
4. keeping proper written records of its decisions taken which may be inspected by any members of the Board or the Board committees upon request.

The Board will review those arrangements and the Guidelines on a periodic basis to ensure that they remain appropriate to the needs of the Group.

### Chairman and Chief Executive Officer ("CEO")

Under the Code Provision A.2.1, the roles of chairman and CEO should be separate and should not be performed by the same individual. Currently, the Company does not comply with such Code Provision since the Company does not 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 CEO. The Board meets regularly to consider major matters affecting the business and operations of the Group. The Board considers that this structure will not impair the balance of power and authority between the Board and the Management and believes that this structure enables the Group to make and implement decision promptly and efficiently.

### INEDs

The INEDs have the same duties of care and skill and fiduciary duties as the executive Directors. They are expressly identified as such in all corporate communications that disclose the names of the Directors.

The INEDs are experienced professionals with expertise in respective areas of legal, accounting and finance. With their professional knowledge and experience, the INEDs advised the Company on its operation and management; provided independent opinion on the Company's connected transactions; participated in the Company's audit committee meetings and remuneration committee meetings. The INEDs have contributed to provide adequate checks and balance to protect the interests of the Company and the Company's shareholders as a whole, and to promote the development of the Company.

The Company has received an annual confirmation of independence from each of the INEDs pursuant to Rule 3.13 of the Listing Rules and considers that all INEDs to be independent as at the date of this report.

Under the Code Provision A.4.1, non-executive directors should be appointed for specific terms, subject to re-election. Currently, all INEDs 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 CG Code.

### Supply of and access to information

Newly appointed Directors will receive induction packages containing the duties and responsibilities of directors under the Listing Rules and other applicable rules and regulations.

Each of the Directors is briefed and updated from time to time on the latest legislative and regulatory developments to ensure that he/she is fully aware of his/her responsibilities under the Listing Rules, applicable legal and regulatory requirements.

In order to ensure that their duties can be properly discharged, the Directors are entitled to seek advice from independent professional advisers whenever deemed necessary by them at the Company's expense.

**Corporate Governance Report (cont'd)****BOARD OF DIRECTORS (cont'd)****Board Meetings**

Apart from consents obtained through circulation of written resolutions of all the Board members, the Board met 29 times during the year ended 31 December 2005 to review and approve, among other things, the 2004 annual results and 2005 interim results, the documents relating to corporate governance practices, continuing connected transactions and other operational issues of the Group. The Company's board meetings (the "Board Meeting(s)") are permitted to be held by means of telephone or other means of electronic communication under the Bye-laws of the Company.

Reasonable notices are served and comprehensive information is provided to the Board members in advance of all the Board Meetings in order to enable them to make informed decisions on all matters transacted at the Board Meetings.

The proceedings of the Board Meetings are normally conducted by the Chairman of the Company who ensures that sufficient time is allowed for discussion among the Directors and equal opportunities are being given to the Directors to express their views and share their concerns.

The Company Secretary/Qualified Accountant attends the Board Meetings to advise Directors on corporate governance practices, and statutory compliance, accounting and financial matters whenever deemed necessary by the Board.

The Company Secretary is responsible for preparing minutes recording all matters transacted and resolved at the Board Meetings. All the Board Minutes are kept by the Company Secretary and are open for inspection by the Directors.

The following table shows the attendance of the Directors at the Board Meetings during the year ended 31 December 2005:

	<b>No. of the Board Meetings attended/held</b>
<i>Executive Directors:</i>	
Ms. Yang Mian Mian ( <i>Chairman</i> )*	18/29
Mr. Wu Ke Song ( <i>Deputy Chairman</i> )	4/29
Mr. Chai Yong Sen	5/29
Mr. Liang Hai Shan	5/29
Mr. Cao Chun Hua*	4/20
Mr. Cui Shao Hua	27/29
Mr. Song Chun Guang*	2/20
Mr. Mak Shiu Tong, Clement <sup>#</sup>	9/9
Mr. Tam Ngai Hung, Terry <sup>#</sup>	9/9
Mr. Man Wei Dong <sup>#</sup>	0/9
<i>INEDs:</i>	
Mr. Lam Kin Kau, Mark	17/29
Mr. Fung Hoi Wing, Henry	17/29
Mr. Lau Ho Wai, Lucas	17/29
Mr. Wu Yinong*	10/20

\* appointed on 28 January 2005

<sup>#</sup> resigned on 28 January 2005

It is challenging to arrange the Board Meeting that fits in with the tight and busy schedules of all the Directors. In particular, as certain of the executive Directors devote considerable time and efforts to the management and operation of the Group's business, they were only able to attend some of the Board Meetings in person and their attendance rate at the Board Meetings are relatively low during the fiscal year of 2005. To enable all the Directors to keep abreast of the Company's latest development and to discharge their duties properly, the Company Secretary will brief the Directors on those matters transacted at the Board Meetings that they were unable to attend. In addition, draft and final versions of board minutes will be sent to all Directors for their comments and records.

## BOARD OF DIRECTORS (cont'd)

### 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 as set out Appendix 10 to the Listing Rules. Having made specific enquiry of all the Directors, the Company confirmed that all the Directors have complied with the required standard as set out in the Haier Electronics Model Code throughout the year ended 31 December 2005.

In addition, the Board has adopted written guidelines (the “Employees’ Guidelines for Securities Transactions”) for securities transactions by employees (the “Relevant Employees”) who are likely to be in possession of unpublished price sensitive information of the Company on no less exacting terms than the Haier Electronics Model Code. Having made specific enquiry of all the Relevant Employees, the Company confirmed that all the Relevant Employees have complied with the required standard as set out in the Employees’ Guidelines for Securities Transactions throughout the year ended 31 December 2005.

### Board Committees

The Board has established an Audit Committee (the “Audit Committee”) and a Remuneration Committee (the “Remuneration Committee”) (collectively the “Committees”) to oversee particular aspects of the Company’s affairs. To reinforce independence, the chairman of both the Committees is an INED. The Committees report to the full Board regularly. Each of the Committees has adopted specific terms of reference covering its duties, powers and functions which will be reviewed by the Board from time to time. The Company Secretary also acts as secretary of the Committees. The Committees adopt as far as practicable, the procedures and arrangement of the Board Meeting in relation to conduct of meetings, notice of meetings and recording of minutes. Further particulars of each of the Committees is set out below:

#### (1) *Audit Committee*

The Audit Committee currently comprises all four INEDs and is chaired by Mr. Lam Kin Kau, Mark. Mr. Lam is a professional accountant and has been a practicing accountant for over 20 years. The primary duties of the Audit Committee are to ensure the objectivity and credibility of financial reporting, to make recommendation to the Board on the appointment, reappointment and removal of the Group’s external auditors and to review of the Company’s financial controls, internal control and risk management systems.

During the year ended 31 December 2005, the Audit Committee met twice with an attendance rate of 100% to review the management and accounting principles and practices adopted by the Group and to discuss internal controls and financial reporting matters including the review of 2004 annual results and 2005 interim results of the Group. Each member of the Audit Committee has unrestricted access to the Group’s external auditors and the Management.

#### (2) *Remuneration Committee*

The Remuneration Committee currently comprises six members including two executive Directors, namely, Mr. Wu Ke Song and Mr. Cui Shao Hua and all four INEDs. The Remuneration Committee is chaired by Mr. Fung Hoi Wing, Henry, an INED. The primary duties of the Remuneration Committee are to make recommendations to the Board on policy and structure of all remuneration of the Directors. Each of the Directors has not involved in the determination of his/her own remuneration. The Remuneration Committee meets at least once a year. During the year under review, the Remuneration Committee Meeting has held one meeting in September 2005 with an attendance rate of 100%. At the meeting, members of the Remuneration Committee reviewed the remuneration packages and overall benefits of the Directors by taking into account factors such as remuneration packages and benefits offered by comparable companies, the respective contribution of each of the Directors to the Group and the business objectives of the Group.

### Insurance

The Group has arranged appropriate directors’ and officers’ liability insurance to indemnify the Directors and senior staff of the Group for the potential liabilities incurred by them in discharging their duties. The Group reviews the insurance coverage for the Directors and the Group’s senior staff on an annual basis.

**Corporate Governance Report (cont'd)****ACCOUNTABILITY AND AUDIT**

The Directors acknowledge their responsibility for preparing financial statements of the Group in accordance with relevant statutory requirements and generally accepted accounting principles in Hong Kong and ensuring that the financial statements give a true and fair view of the Group's financial position. In preparing the financial statements of the Group for the year ended 31 December 2005, the Directors have adopted suitable accounting policies and applied them consistently; made judgments and estimates that are prudent and reasonable; and prepared the financial statements on a going concern basis.

The Board aims to present a comprehensive, balanced and understandable assessment of the Group's development and prospects in all corporate communications, including but not limited to annual and interim reports, any price-sensitive announcements and financial disclosures required under the Listing Rules, any reports to regulators as well as to information required to be disclosed pursuant to other statutory requirements.

**INTERNAL CONTROL AND RISK MANAGEMENT**

The Group is committed to implementing effective internal controls and risk management procedures to identify and manage the risks that may be faced by the Group, as well as to safeguard the interests of the Group and the Company's shareholders as a whole.

The Board is responsible for maintaining adequate internal controls and risk management procedures in the Group, and for reviewing its effectiveness through the Audit Committee on an on-going basis. The Board has delegated to the Management the implementation of the Group's internal controls covering financial, operational and compliance aspects, as well as risk management procedures.

The Board has reviewed the overall effectiveness of the internal control system of the Group during the year ended 31 December 2005, and based on the assessment and recommendations made by the Audit Committee, is satisfied that during the year ended 31 December 2005, the Group has implemented adequate internal controls and risk management procedures. No significant areas of concern which might affect the Group's operation and the interests of the Company's shareholders were identified.

**REMUNERATION OF EXTERNAL AUDITORS**

The Group's independent external auditors are Ernst & Young, Certified Public Accountants. The remuneration for the audit and non-audit services provided by Ernst & Young to the Group during the year ended 31 December 2005 was as follows:

<b>Type of services</b>	<b>Amount</b> <i>HK\$'000</i>
Audit	6,000
Non-audit services	
Taxation	188
Other services	625
	6,813

By Order of the Board  
**Yip Wai Ming**  
*Company Secretary*

Hong Kong, 19 April 2006