

REPORT OF THE DIRECTORS

The directors have pleasure in submitting their report and the audited financial statements for the period from 1 April 2004 to 31 December 2004.

FINANCIAL STATEMENTS

The results for the year are set out in the Combined Income Statement on page 36.

The state of affairs of the Group as at 31 December 2004 are set out in the Combined Balance Sheet on pages 37 to 38.

The cash flows of the Group are set out in the Combined Statement of Cash Flows on pages 40 to 41.

PRINCIPAL SEGMENT ACTIVITIES AND INFORMATION

The Group is principally engaged in the retailing of electrical appliances and consumer electronic products in the Mainland China. Details of the Segment Information are set out in note 4 of the financial statements on page 55.

MAJOR SUPPLIERS

The percentages of purchases for the period attributable to the Group's major suppliers are as follows:

Purchases

– the largest supplier	12%
– five largest suppliers combined	28%

None of the Directors, their associates or any shareholder (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had an interest in the major suppliers noted above.

SHARE CAPITAL

Details of the movement in share capital of the Company are set out in note 28 on pages 75 to 76.

FINAL DIVIDEND

The directors have recommended a final dividend of 2.5 HK cents per ordinary share to be payable to shareholders whose names appear on the Register of Members of the Company on 8 April 2005. Subject to the passing of the necessary resolution at the forthcoming Annual General Meeting, such dividend will be payable on or about 22 April 2005.

RESERVES

The amounts and particulars of material transfers to and from reserves of the Company and of the Group during the period are set out in note 29 on pages 76 to 79 and in the consolidated statement of changes in equity.

DISTRIBUTABLE RESERVES

At 31 December 2004, the Company's reserve available for distribution amounted to HK\$137.2 million of which HK\$41.1 million has been proposed as a final dividend for the period.

DONATIONS

There was no donation made by the Group during the period from 1 April 2004 to 31 December 2004.

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PROPERTY, PLANT AND EQUIPMENT

The movements in property, plant and equipment during the period are set out in note 9 on page 61.

PURCHASE, SALE AND REDEMPTION OF SHARES

There was no purchase, sale or redemption of the Company's shares by the Company, or any of its subsidiaries during the period.

DIRECTORS

The directors who held office during the period and up to the date of this report were:

Mr. WONG Kwong Yu

Ms. DU Juan

Mr. LAM Pang

Mr. NG Kin Wah

Mr. ZHANG Zhi Ming *(appointed on 8 December 2004 and resigned on 28 February 2005)*

Mr. SZE Tsai Ping, Michael**

Mr. CHAN Yuk Sang** *(appointed on 20 May 2004)*

Mr. CHEN Huai** *(appointed on 20 May 2004)*

Mr. PENG Chengzhi** *(resigned on 20 May 2004)*

** *independent non-executive directors*

In accordance with Clause 102 of the Company's Bye-laws, all directors appointed during the period from last annual general meeting retires at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

There is no service contract, which is not determinable by the Company within the period without payment of compensation (other than statutory compensation), in respect of any director proposed for re-election at the forthcoming annual general meeting.

DIRECTORS' INTERESTS IN CONTRACTS

Apart from the connected transactions which are disclosed in note 35 on page 83 to 86, there were no other contracts of significance in relation to the Group's business, to which the Company, its holding company, its subsidiaries or fellow subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisting at the end of the period or at any time during the period.

DIRECTORS' INTEREST IN COMPETING BUSINESSES

Save as stated on the management discussion and analysis on pages 26 to 27, none of the directors of the Company had an interest in a business which competes or may compete with the business of the Group.

DIRECTORS' BENEFITS FROM RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the period was the Company, any of its holding companies or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' AND CHIEF EXECUTIVE'S IN INTERESTS IN SECURITIES

At 31 December 2004, the interest of directors and the chief executive of the Company and their associates in the securities of the Company and its associated corporations as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance (the "SFO"), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

Name of director	Number of ordinary shares held			Percentage of Shareholding
	Personal interests	Corporate interests	Total	
WONG Kwong Yu	900,087	1,075,714,998 (Note 1)	1,076,615,085	65.55%

Note:

1. These shares are held as to 889,677,604 shares by Shinning Crown Holdings Inc. and as to 186,037,394 shares by Shine Group Limited. Both companies are 100% beneficially owned by Mr. Wong Kwong Yu.

SUBSTANTIAL SHAREHOLDERS' INTEREST IN SECURITIES

As at 31 December 2004, so far as known to any Director or chief executive of the Company, no persons (other than a Director or chief executive of the Company) have an interest in the securities which would fall to be disclosed to the Company under provisions of Division 2 and 3 of Part XV of SFO.

MAJOR PROPERTIES AND PROPERTIES HELD FOR SALE

Details of the major properties and properties held for sale by the Group at 31 December 2004 are set out on page 92.

SUBSIDIARIES

Details of the Company's principal subsidiaries at 31 December 2004 are set out in note 14 on pages 64 to 69.

CONVERTIBLE NOTES AND MANDATORY CONVERTIBLE NOTES

Details of the convertible notes and mandatory convertible notes of the Group in issue during the period are set out in note 22 and 30 on pages 72 and 79 respectively.

EXCHANGE RATES EXPOSURE

Details of the exchange rates exposure are set out in note 36(iii) on page 86.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for the past five years is set out on page 91.

CONNECTED TRANSACTIONS

Details of material connected transactions are set out in note 35 on pages 83 to 86.

The Directors consider these transactions have been conducted in the ordinary and usual course of business of the Group on normal commercial terms and the continuation of these transactions in the future will be beneficial to the Group.

Pursuant to the requirements set by the Stock Exchange for waivers granted to the Group from strict compliance with the relevant requirements as set out in Chapter 14A of the Listing Rules, the connected transactions for the nine-month period ended 31 December 2004 have been reviewed by the auditors of the Company, and have been approved by the Board of Directors.

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COMMITMENTS

Details of commitments are set out in note 34 on page 82 to 83.

EMPLOYEE AND REMUNERATION POLICY

As at 31 December 2004, the Group employed a total of 9,245 employees. The Group recruits and promotes individuals based on merit and their development potentials. Remuneration package offered to all employees is determined with reference to their performance and the prevailing salary levels in the market. There is no share option scheme established for employee by the Group.

INDEPENDENCE CONFIRMATION

As at 31 December 2004, the Company received from each of independent non-executive directors that confirmation of his independence pursuant to 3.13 of Listing Rules of the Stock Exchange of Hong Kong Limited. The Company considered that they were independent.

AUDIT COMMITTEE

The Audit Committee comprises Messrs. SZE Tsai Ping, Michael, CHAN Yuk Sang and CHEN Huai, three of whom are independent non-executive directors. The Audit Committee intends to meet quarterly to assist the Board in providing an independent review on the completeness, accuracy and fairness of the financial statements of the Group, as well as the efficiency and effectiveness of the Group's operations and internal controls. In addition, the Audit Committee had reviewed with management reporting matters including a review of the combined financial statements of the Group and the auditors' report thereon and submitted its reports to the Board.

COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

None of the directors is aware of information that would reasonably indicate that the Company is not, or was not for any part of the accounting period covered by the annual report, in compliance with the Code of Best Practice, as set out in Appendix 14 of the Listing Rules of the Stock Exchange of Hong Kong Limited except that independent non-executive directors are not appointed for a specific term as they are subject to rotation at Annual General Meetings in accordance with the Bye-laws of the Company.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the "Model Code for Securities Transactions by Directors of Listed Issuers" as set out in Appendix 10 of the Listing Rules as the code for dealing in securities of the Company by the directors (the "Code"). Having made specific enquiry, the Company confirmed that all directors have complied with the required standard as set out in the Code.

POST BALANCE SHEET EVENTS

Details of the post balance sheet events are set out in note 37 on page 86.

AUDITORS

Ernst & Young retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of Ernst & Young as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

Ernst & Young were appointed as auditors of the Company on 17 November 2004 upon the resignation of KMPG. KPMG had been appointed as the Auditors of the Company following the resignation of Louis Leung & Partners CPA Limited on 7 November 2003.

On behalf of the Board

Ng Kin Wah

Director

Hong Kong, 14 March 2005