Notes to the Financial Statements

As at 31 December 2004

1. Corporate Information/Group Reorganisation and Basis of Presentation of The Financial Statements

GOME Electrical Appliances Holding Limited (formerly China Eagle Group Company Limited and hereinafter referred to as the "Company") was incorporated in Bermuda with limited liability. Its shares are listed on The Stock Exchange of Hong Kong Limited. The address of its registered office is Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda.

On 10 August 2004, the Company changed its name from China Eagle Group Company Limited ("China Eagle") to GOME Electrical Appliances Holding Limited. In the opinion of the directors, the ultimate holding company is Shining Crown Holdings Inc. ("Shining Crown"), which is incorporated in British Virgin Islands.

Pursuant to an acquisition agreement dated 3 June 2004, the Company acquired all the issued shares of Ocean Town Int'l Inc. ("Ocean Town") from Gome Holdings Limited, a company beneficially owned by Mr. Wong Kwong Yu ("Mr. Wong"), for a total consideration of approximately HK$8.3 billion. This consideration was satisfied i) as to HK$243.5 million by the issue of approximately 44.1 million ordinary share of the Company; and ii) as to HK$7,031.4 million by the issue of the First Convertible Note and to HK$1,026.9 million by the issue of the Second Convertible Note (as further explained in note 28(e)). On completion of the acquisition transaction (the "Acquisition") on 29 July 2004, the Company became the holding company of Ocean Town.

Ocean Town was incorporated in the British Virgin Islands on 28 December 2001 with limited liability and has not carried out any business since the date of its incorporation other than holding a 65% equity interest in Gome Appliance Co., Ltd. ("Gome Appliance"), a company registered in the People's Republic of China (the "PRC") on 2 April 2003 and beneficially owned by Mr. Wong, pursuant to the Reorganisation as defined below.

Prior to the Acquisition, Gome Appliance was engaged in the retailing of electrical appliances and consumer electronic products in designated cities within the PRC (the "Relevant Business"), including Beijing, Tianjin, Langfang, Chongqing, Chengdu, Zigong, Xi'an, Kunming, Shenzhen, Fuzhou, Guangzhou, Wuhan, Shenyang, Jinan, Zibo, Qingdao, Weifang, Foshan, Dongguan, Huizhou, Fuqing and Zhongshan. The Relevant Business was previously operated by 19 companies registered in the PRC (the "Relevant Companies"), which were beneficially owned by Mr. Wong. Pursuant to a group reorganisation (the "Reorganisation"), during the period from 2 April 2003 to 6 April 2004, the following were transferred to Gome Appliance:

1) All the relevant assets, liabilities and the Relevant Business in Beijing as owned by Beijing Gome Electrical Appliance Co., Ltd. ("Beijing Gome"), one of the Relevant Companies, with the exclusion of certain assets and liabilities which were unrelated to the Relevant Business or which were untransferable; and

2) The entire equity interests in each of the remaining 18 Relevant Companies.

The above transfers were settled by a total cash consideration amounting to approximately HK$448 million which was determined based on the net asset values transferred to Gome Appliance as at the respective transfer dates.

Notes to the Financial Statements
As at 31 December 2004

1. Corporate Information/Group Reorganisation and Basis of Presentation of The Financial Statements *(continued)*

In addition to the above, pursuant to the Reorganisation, with effect from 20 April 2004, a 65% equity interest in Gome Appliance was transferred to Ocean Town for a total cash consideration of approximately HK$227 million, which was determined based on the net asset value of Gome Appliance and its subsidiaries as at the transfer date. Gome Appliance was transformed into a Sino-foreign equity joint venture. Ocean Town then became the holding company of Gome Appliance and its subsidiaries (hereinafter referred to as "Ocean Town Group").

As the Company, Ocean Town, Gome Appliance and the Relevant Companies were under the common control of Mr. Wong, the acquisitions of Ocean Town by the Company have been reflected in the accompanying financial statements as a combination of entities under common control in a manner similar to a pooling of interests. Accordingly, the operating results of Ocean Town Group for the nine-month period ended 31 December 2004 and the twelve-month period ended 31 March 2004 and the relevant assets and liabilities as at 31 December 2004 and 31 March 2004, have been included in the combined income statement and combined balance sheet of the Group. Upon the completion of the above acquisition, the principal activities of the Company and its subsidiaries (the "Group") are the retailing of electrical appliances and consumer electronic products in designated cities within the PRC and securities broking and investment in the Hong Kong Special Administrative Region ("Hong Kong").

The results of operations previously reported by the Group for the twelve-month period ended 31 March 2004 have been restated to include the results of Ocean Town Group as set out below:

	The Group (as previously reported)	**Ocean Town Group**	**The Group (combined)**
	HK$'000	*HK$'000*	*HK$'000*
Results of operations:			
Revenue	44,815	9,609,683	9,654,498
Profit from operating activities	25,880	413,976	439,856
Net profit	19,881	224,239	244,120

The financial position and shareholders' equity as at 31 March 2004 previously reported by the Group have been restated to include the assets and liabilities of the Ocean Town Group as set out below:

	The Group (as previously reported)	**Ocean Town Group**	**Reclassification**	**The Group (combined)**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
			Note 20	
Financial position:				
Current assets	224,798	2,909,611	10,861	3,145,270
Total assets	971,088	3,011,331	10,861	3,993,280
Current liabilities	160,545	2,661,555	10,861	2,832,961
Total liabilities	318,092	2,661,555	10,861	2,990,508
Shareholders' equity	651,449	227,360	–	878,809

1. Corporate Information/Group Reorganisation and Basis of Presentation of The Financial Statements *(continued)*

Pursuant to a resolution passed by the board of directors of the Company on 17 November 2004, the board resolved to change the Company's financial year end from 31 March to 31 December to achieve a coterminous year end date with the Ocean Town Group.

Accordingly, the financial statements are presented for a period of nine months rather than for a period of twelve months as was adopted for the twelve-month period ended 31 March 2004. Consequently, the comparative amounts for the income statement, the statement of changes in equity, the statement of cash flows and related notes are not comparable with those of the current nine-month period.

2. Significant Accounting Policies

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") promulgated by the International Accounting Standards Board. These financial statements reflect the combined financial position of the Group as at 31 December 2004 and the combined income statement and cash flows of the Group for the nine-month period then ended, prepared under the basis of presentation of the financial statements set out in note 1 above.

Basis of preparation

The financial statements are presented in Hong Kong dollars, rounded to the nearest thousand. They are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair values: financial instruments, investments held for trading and investment properties.

Changes in accounting policies

IFRS 3 'Business Combinations', IAS 36 'Impairment of Assets' (revised March 2004) and IAS 38 'Intangible Assets' (revised March 2004) are applicable from 1 April 2004 and firstly adopted in these financial statements.

The adoption of IFRS 3 and IAS 36 (revised) has resulted in the Group, from 1 April 2004, ceasing annual goodwill amortisation and to test for impairment of goodwill annually at the cash-generating unit level (unless an event occurs during the year which requires the goodwill to be tested more frequently). The transitional provisions of IFRS 3 have required the Group at 1 April 2004 to eliminate the carrying amount of the accumulated amortisation of goodwill of HK$92,000 with a corresponding adjustment to goodwill. Additionally, the carrying amount of negative goodwill at 1 April 2004 of approximately HK$15.7 million has been derecognised with a corresponding adjustment to the opening balance of retained earnings.

The adoption of IAS 36 and IAS 38 has had no significant impact on the financial statements.

2. Significant Accounting Policies *(continued)*

Basis of consolidation

(i) Subsidiaries

Subsidiaries are those entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the combined financial statements from the date that control commences until the date that control ceases.

(ii) Associates

Associates are those entities in which the Group has significant influence, but not joint or unilateral control, over the financial and operating policies. The combined financial statements include the Group's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds the carrying amount of the associate, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred obligations in respect of the associate.

(iii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the combined financial statements. Unrealised gains arising from transactions with associates are eliminated to the extent of the Group's interest in the entity and are eliminated against the investments in associates. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Foreign currency transactions

Transactions in foreign currencies are initially recorded in the currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the currency rate of exchange ruling at the balance sheet date. All differences are taken to the combined income statement.

The assets and liabilities of the Group's PRC subsidiaries are translated at the rate of exchange ruling at the balance sheet date. The income statements of these PRC subsidiaries are translated at the weighted average exchange rates for the period. The exchange differences arising on the retranslation are taken directly to equity. On disposal of a foreign entity, accumulated differences are recognised in the combined income statement as a component of the gain or loss on disposal.

2. Significant Accounting Policies *(continued)*

Property, plant and equipment

(i) Items of property, plant and equipment are stated at cost less accumulated depreciation (see below) and impairment losses. The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads.

Property that is being constructed or developed for future use as investment property is classified as property, plant and equipment and is stated at cost until construction or development is complete, at which time it is reclassified as investment property.

Where an item of property, plant and equipment comprises major components having different useful lives, they are accounted for as separate items of property, plant and equipment.

(ii) *Subsequent expenditure*

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, including major inspection and overhaul expenditure, is capitalised. Other subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is recognised in the combined income statement as an expense when incurred.

(iii) *Depreciation*

Depreciation is charged to the combined income statement on the straight-line basis over the estimated useful lives of items of property, plant and equipment and major components that are accounted for separately. Leasehold land is depreciated over the terms of the leases. Buildings are depreciated on the straight-line basis over the shorter of their estimated useful lives, (being 50 years from the date of completion), and the unexpired terms of the leases. Leasehold improvements are depreciated on the straight-line basis over the remaining of the lease terms.

The estimated useful lives of fixed assets are as follows:

Land and buildings	Over the remaining lease terms
Leasehold improvements	Over the remaining lease terms
Motor vehicles	5 years
Equipment and fixtures	4-15 years

Property under development

Land and buildings other than investment properties are carried at purchase price less impairment losses.

Property project held for sale

The property project held for sale is shown at the lower of cost and net realisable value.

Notes to the Financial Statements

As at 31 December 2004

2. Significant Accounting Policies *(continued)*

Goodwill

Goodwill on acquisition is initially measured at cost being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. As further explained under the heading "Changes in accounting policies" above, goodwill on acquisitions after 31 March 2004 is not amortised and goodwill already carried in the balance sheet is not amortised after 31 March 2004. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

As at the acquisition date, any goodwill acquired is allocated to each of the cash-generating units expected to benefit from the combination's synergies. Impairment is determined by assessing the recoverable amount of the cash-generating unit, to which the goodwill relates. Where recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised. Where goodwill forms part of a cash-generating unit and part of the operation within that unit are disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Intangible assets

Intangible assets acquired separately are capitalised at cost and from a business acquisition are capitalised at fair value as at the date of acquisition. Following initial recognition, the cost model is applied to the class of intangible assets. The useful lives of these intangible assets are assessed to be either finite or indefinite. Amortisation is charged on assets with finite lives.

Intangible assets, excluding development costs, created within the business are not capitalised and expenditure is charged against profits in the year in which the expenditure is incurred.

Intangible assets are tested for impairment annually and in the case of an intangible asset with an indefinite useful life, whenever there is an indication that an intangible asset may be impaired, either individually or at the cash-generating unit level. Useful lives are also examined on an annual basis and adjustments, where applicable, are made on a prospective basis.

The trading right in Hong Kong Futures Exchange Limited is stated in the balance sheet at cost less accumulated amortisation and impairment losses. Amortisation of the trading right is charged to the combined income statement on the straight-line basis over its estimated useful life of 10 years.

2. Significant Accounting Policies *(continued)*

Investments

(i) Investments in equity securities

Investments held for trading are classified as current assets and are stated at fair value, with any resulting gain or loss recognised in the combined income statement.

Investments held for trading are recognised/derecognised by the Group on the date it commits to purchase/sell the investments.

(ii) Investment properties

Initially, investment properties are measured at cost including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value. Gains or losses arising from changes in the fair values of investment properties are included in the combined income statement in the period in which they arise.

Investment properties are derecognised when they have either been disposed of or when the investment property is permanently withdrawn from use and no future benefit is expected from its disposal. Any gains or losses on the derecognition of an investment property are recognised in the combined income statement in the period of derecognition.

Trade receivables

Trade receivables are recognised and carried at the original invoice amount less any allowances for any uncollectable amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis. Net realisable value is the estimated selling price in the ordinary course of business, less any estimated costs necessary to make the sale.

Consumables are stated at cost less any impairment losses.

Cash and cash equivalents

Cash and short term deposits in the balance sheet comprise cash at bank and in hand and short term deposits with an original maturity of three months or less.

For the purpose of the combined cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

2. Significant Accounting Policies *(continued)*

Recoverable amount of non-current assets

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of the recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. The recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognised in the combined income statements.

Convertible notes

Convertible notes that can be converted to share capital at the option of the holder, where the number of shares issued does not vary with changes in their fair value, are accounted for as compound financial instruments, net of attributable transaction costs. The equity component of the convertible notes is calculated as the excess of the issue proceeds over the present value of the future interest and principal payments, discounted at the market rate of interest applicable to similar liabilities that do not have a conversion option. The interest expense recognised in the combined income statement is calculated using the effective interest rate method.

Mandatory convertible notes are those convertible notes that are not redeemable and are mandatorily convertible to share capital. Mandatory convertible notes are classified as equity in the financial statements.

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at cost, less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

Gains and losses are recognised in net profit or loss when the liabilities are derecognised or impaired, as well as through the amortisation process.

Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events for which existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that an outflow of economic resources will be required, or that the amount of the obligation cannot be measured reliably.

2. Significant Accounting Policies *(continued)*

Contingent liabilities and contingent assets *(continued)*

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that an outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events for which existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When an inflow is virtually certain, an asset is recognised.

Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the combined income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. The following temporary differences are not provided for: Goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Trade and other payables

Trade and other payables are stated at cost.

Provisions

A provision is recognised in the balance sheet when the Group has an obligation (legal or constructive), as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Notes to the Financial Statements

As at 31 December 2004

2. Significant Accounting Policies *(continued)*

Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

(i) *Sales of goods*

Revenue from the sales of goods is recognised in the combined income statement when the significant risks and rewards of ownership have been transferred to the buyer.

(ii) *Rental income*

Rental income from investment property is recognised in the combined income statement on the straight-line basis over the terms of the leases. Lease incentives granted are recognised as an integral part of the total rental income.

(iii) *Commission income from brokerage services*

Commission and brokerage on dealing in securities and futures contracts is recognised when the relevant contract is executed.

(iv) *Trading gains on investments*

Realised gains and losses arising from the trading in forex and futures contracts are accounted for in the year in which the positions are closed as the difference between the net sales proceeds and the carrying amount of the contracts. Open positions are valued at market rate with unrealised gains and losses included in the combined income statement.

Revenue from the sale of listed securities is recognised when the relevant contract is executed.

(v) *Income from suppliers*

Income from suppliers comprises promotion income, management fee income, display space leasing fees and product listing fees. Revenue is recognised according to the underlying contract terms and as these services are provided in accordance therewith.

(vi) *Management fee income from a related party and contractors for air-conditioner installations*

Revenue is recognised as such services are provided.

(vii) *Royalty income from franchise stores*

Revenue is recognised on a time proportion basis over the franchise period.

(viii) *Interest*

Revenue is recognised as the interest accrues (taking into account the effective yield on the relevant asset).

2. Significant Accounting Policies *(continued)*

Expenses

(i) Operating lease payments

Payments made under operating leases are recognised in the combined income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the combined income statement as an integral part of the total lease expense.

(ii) Net financing costs

Net financing costs comprise interest expense on borrowings, interest income on bank deposits, foreign exchange gains and losses and bank charges.

All interest and other costs incurred in connection with borrowings are expensed as incurred as part of net financing costs, except to the extent that they are capitalised as being directly attributable to the acquisition or construction of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

Employee benefits

(i) Salaries, bonuses, paid annual leave, leave passage and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Contributions to defined contribution retirement plans, including contributions payable under the Hong Kong Mandatory Provident Fund Schemes Ordinance, are recognised as an expense in the combined income statement as incurred.

Pursuant to the relevant PRC laws and regulations, each of the PRC subsidiaries of the Group is required to participate in a retirement benefits scheme organised by the local municipal government whereby the Group is required to contribute a certain percentage of the salaries of its employees to the retirement benefits scheme. The only obligation of the Group with respect to the retirement benefits scheme is to pay the ongoing required contributions. Contributions made to the defined contribution retirement benefits scheme are charged to the combined income statement as incurred.

(iii) Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

Notes to the Financial Statements

As at 31 December 2004

2. Significant Accounting Policies *(continued)*

Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Related parties

For the purpose of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the other party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained earnings within the capital and reserves section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

3. Revenue and Other Operating Income

(a) The principal activities of the Group comprise the retailing of electrical appliances and consumer electronic products, securities and futures broking and investment.

Revenue represents the net invoiced value of goods sold, after allowances for returns and trade discounts, the commission on securities and commodity broking and rental income. The amount of each significant category of revenue recognised in revenue during the period is as follows:

	Group	
	Nine-month period ended 31 December 2004	Twelve-month period ended 31 March 2004
	HK$'000	*HK$'000*
		(Restated-note 1)
Sales of electrical appliances and consumer electronic products	**9,156,185**	9,609,683
Others	**9,761**	44,815
	9,165,946	9,654,498

3. Revenue and Other Operating Income *(continued)*

(b) Other operating income comprises the following:

		Group	
		Nine-month period ended 31 December 2004	Twelve-month period ended 31 March 2004
	Notes	***HK$'000***	*HK$'000* (Restated-note 1)
Income from suppliers:			
Promotion income		**137,054**	169,072
Management fee income		**37,988**	43,824
Display space leasing fees		**38,262**	27,492
Product listing fees		**20,620**	20,755
Management fee from the Parent Group*	*35*	**56,685**	15,566
Management fees for air-conditioner installations		**28,239**	30,212
Royalty income from franchise stores		**1,126**	4,746
Other income	*(i)*	**44,144**	21,744
		364,118	333,411

* *Parent Group is further defined in note 35 to these financial statements.*

Notes:

(i) Other income includes an amount of HK$20,336,000 payable to a former related party that was waived during the period.

4. Segment Information

(i) During the period, over 90% of the Group's revenue and results were derived from the retailing of electrical appliances and consumer electronic products and therefore no business segment analysis has been presented.

(ii) No geographical segment analysis has been presented as the Group's operations were substantially carried out in the PRC. During the period, over 90% of the Group's revenue was derived from customers in the PRC.

Notes to the Financial Statements

As at 31 December 2004

5. Profit from Operating Activities

The Group's profit from operating activities is arrived at after charging/(crediting):

	Group	
	Nine-month period ended 31 December 2004	Twelve-month period ended 31 March 2004
	HK$'000	*HK$'000* (Restated-note 1)
Cost of inventories recognised as expenses	**8,266,726**	8,873,686
Depreciation	**26,661**	20,876
Amortisation of exchange trading right	**17**	87
Amortisation of negative goodwill	**–**	92
(Gain)/loss on disposal of fixed assets	**1,652**	(437)
Minimum lease payments under operating leases in respect of land and buildings	**157,807**	145,984
Loss on trading of securities, foreign exchange and futures contracts	**23,090**	–
Auditors' remuneration	**2,600**	600
Staff costs excluding directors' remuneration:		
Wages, salaries and bonuses	**141,486**	141,317
Pension costs	**14,198**	14,818
Social welfare and other costs	**15,636**	21,969
	171,320	178,104

6. Finance (Costs)/Income

	Group	
	Nine-month period ended 31 December 2004	Twelve-month period ended 31 March 2004
	HK$'000	*HK$'000*
		(Restated-note 1)
Interest expense	**(2,075)**	(5,987)
Less: borrowing costs capitalised into property under development	**–**	4,774
Net interest expense	**(2,075)**	(1,213)
Bank interest income	**14,903**	15,096
Other interest income	**8,126**	291
Net foreign exchange gain	**(9)**	(1)
Interest income	**23,020**	15,386
	20,945	14,173

7. Directors' and Senior Executives' Emoluments

Directors' remuneration for the period, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Nine-month period ended 31 December 2004	Twelve-month period ended 31 March 2004
	HK$'000	*HK$'000*
Fees	**310**	216
Other emoluments:		
Salaries, allowances, bonuses and other benefits in kind	**2,578**	2,118
Pension costs	**27**	36
	2,605	2,154

Included in the directors remuneration were fees of HK$310,000 (Twelve-month period ended 31 March 2004: HK$216,000) paid to the independent non-executive directors during the nine-month period ended 31 December 2004. There were no other emoluments payable to the independent non-executive director during the period (Twelve-month period ended 31 March 2004: Nil).

7. Directors' and Senior Executives' Emoluments *(continued)*

The number of directors whose remuneration fell within the following bands is as follows:

	Number of directors	
	Nine-month period ended 31 December 2004	Twelve-month period ended 31 March 2004
Nil to HK$1 million	**8**	5
HK$1 million to HK$1.5 million	**1**	1

There was no arrangement under which a director waived or agreed to waive any remuneration during the period.

The five highest paid individuals in the Group during the nine-month period ended 31 December 2004 included five directors (Twelve-month period ended 31 March 2004: four directors).

The remuneration of these remaining highest-paid individuals for the nine-month period ended 31 December 2004 and the twelve-month period ended 31 March 2004 fell within the band of nil to HK$1 million.

8. Income Tax

	Group	
	Nine-month period ended 31 December 2004	Twelve-month period ended 31 March 2004
	HK$'000	*HK$'000* (Restated-note 1)
Current – Hong Kong	**–**	5,500
Current – PRC	**48,530**	77,435
Adjustment in respect of current income tax of previous years	**(6,608)**	–
Deferred	**117**	6,111
Total tax charge for the period	**42,039**	89,046

8. Income Tax *(continued)*

The Group is subject to income tax on an entity basis on profit arising in or derived from the tax jurisdictions in which members of the Group are domiciled and operate. Under the relevant PRC income tax law, except for certain preferential treatment available to the Group, the subsidiaries of the Group are subject to income tax at a rate of 33% on their respective taxable income. The determination of current and deferred income tax was based on the enacted tax rates.

Pursuant to applicable income tax laws and regulations of the PRC on those enterprises established in the Shenzhen Special Economic Zone, Shenzhen Gome is subject to income tax at a preferential rate of 15%.

Pursuant to applicable income tax laws and regulations of the PRC, newly formed trading enterprises are eligible to apply for income tax exemption for a period of three years, provided that they have fulfilled the prescribed conditions regarding the recruitment of unemployed PRC citizens. Fuzhou Gome was approved by the relevant PRC tax authority to have an income tax exemption for 2003, 2004 and 2005.

Pursuant to applicable income tax laws and regulations of the PRC, newly formed labor-intensive service enterprises are eligible to apply for income tax exemption for a period of three years, provided that they have fulfilled the prescribed conditions regarding the recruitment of unemployed PRC citizens. Tianjin Gome was approved by the relevant PRC tax authority to have an income tax exemption for 2001, 2002 and 2003. Tianjin Logistics was approved by the relevant PRC tax authority to have an income tax exemption for the period from 1 September 2003 to 31 August 2006. Tianjin Management was approved by the relevant PRC tax authority to have an income tax exemption for the period from 1 December 2003 to 30 November 2006.

Pursuant to applicable income tax laws and regulations of the PRC, newly formed trading enterprises are eligible to apply for an income tax exemption of one year. Shenzhen Gome, Guangzhou Gome and Wuhan Gome were approved by the relevant PRC tax authority to have a one year income tax exemption for 2003.

Pursuant to applicable income tax laws and regulations of the PRC, enterprises that carried out encouraged businesses in the western district of the PRC are eligible to apply for a preferential income tax rate of 15% on a year-by-year basis, provided that they have fulfilled the prescribed conditions. Chongqing Gome, Chengdu Gome and Xi'an Gome are entitled to the preferential income tax rate in 2003 and 2004.

Notes to the Financial Statements

As at 31 December 2004

8. Income Tax *(continued)*

Pursuant to applicable income tax laws and regulations of the PRC, eligible newly formed enterprises in Yunnan Province with registered capital in excess of RMB5 million and with 51% of its contributed capital sourced outside Yunnan Province are eligible to apply for income tax exemption for a period of three years and a 50% reduction in the next two years. Kunming Gome was exempted from income tax for the three years ending 31 December 2005, and will be entitled to a 50% reduction in their income tax rate for the two years ending 31 December 2007.

Pursuant to applicable income tax laws and regulations of the PRC, Wuhan Gome is entitled to a 30% reduction in income tax rate for 2004 because it has fulfilled the prescribed conditions regarding the recruitment of unemployed PRC citizens.

The provision for Hong Kong Profits Tax is calculated at 17.5% of the estimated assessable profit for the twelve-month period ended 31 March 2004. No provision for Hong Kong profits tax has been made for the nine-month period ended 31 December 2004 as the Group had no assessable profits arising in Hong Kong for the period.

The Group has tax losses carried forward. However, no provision for deferred taxation has been made as it is not probable for the Group to have sufficient taxable profits from which the temporary differences can be utilised in the foreseeable future.

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the countries in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rates and a reconciliation of the applicable rates to the effective tax rates are as follows:

Group – for the nine-month period ended 31 December 2004

	Hong Kong		**PRC**		**Total**	
	HK$'000	***%***	***HK$'000***	***%***	***HK$'000***	***%***
Profit before tax	**(14,043)**		**603,813**		**589,770**	
Tax on profit before tax	**(2,458)**	**(17.5)**	**199,258**	**33.0**	**196,800**	**33.4**
Tax effect of preferential income tax rates	**–**	**–**	**(158,031)**	**(26.2)**	**(158,031)**	**(26.8)**
Adjustment in respect of current income tax of previous years	**–**	**–**	**(6,608)**	**(1.1)**	**(6,608)**	**(1.1)**
Tax effect of non-taxable income	**–**	**–**	**(1,812)**	**(0.3)**	**(1,812)**	**(0.3)**
Tax effect of non-deductible expenses	**–**	**–**	**9,232**	**1.5**	**9,232**	**1.5**
Tax losses not recognised	**2,458**	**17.5**	**–**	**–**	**2,458**	**0.4**
Income tax expense	**–**	**–**	**42,039**	**6.9**	**42,039**	**7.1**

8. Income Tax *(continued)*

Group – for the twelve-month period ended 31 March 2004

	Hong Kong		PRC		Total	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Profit before tax	25,499		428,529		454,028	
Tax on profit before tax	4,462	17.5	141,415	33.0	145,877	32.1
Tax effect of preferential income tax rates	–	–	(65,309)	(15.2)	(65,309)	(14.4)
Tax effect of non-taxable income	(112)	(0.4)	–	–	(112)	–
Tax effect of non-deductible expenses	861	3.4	7,440	1.7	8,301	1.8
Tax losses not recognised	289	1.1	–	–	289	0.1
Income tax expense	5,500	21.6	83,546	19.5	89,046	19.6

9. Property, Plant and Equipment

Group

	Land and buildings	**Leasehold improve-ments**	**Motor vehicles**	**Equipment and fixtures**	**Construction in progress**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
(Restated, note 1)						
At 1 April 2004, net of accumulated depreciation	826	56,391	6,064	41,170	855	105,306
Additions	–	34,873	3,622	10,995	1,347	50,837
Transfers	–	754	–	30	(784)	–
Disposals	–	–	(707)	(945)	–	(1,652)
Depreciation charge for the period	(17)	(17,532)	(2,277)	(6,835)	–	(26,661)
Reallocation	53	121	–	(174)	–	–
At 31 December 2004, net of accumulated depreciation	862	74,607	6,702	44,241	1,418	127,830
At 1 April 2004						
Cost	1,490	81,137	8,951	61,061	855	153,494
Accumulated depreciation	(664)	(24,746)	(2,887)	(19,891)	–	(48,188)
Net carrying amount	826	56,391	6,064	41,170	855	105,306
At 31 December 2004						
Cost	936	116,764	11,723	63,267	1,418	194,108
Accumulated depreciation	(74)	(42,157)	(5,021)	(19,026)	–	(66,278)
Net carrying amount	862	74,607	6,702	44,241	1,418	127,830

The Group's land and buildings are located in the PRC and are held under medium-term leases.

10. Intangible Assets

As at the balance sheet date, the Group has the following intangible assets:

Group

	Goodwill *HK$'000*	**Negative goodwill** *HK$'000* *Note (i)*	**Exchange trading right** *HK$'000* *Note (ii)*	**Total** *HK$'000*
At 1 April 2004, net of accumulated amortisation	2,126	(15,718)	131	(13,461)
Derecognition of negative goodwill *(note (i) below)*	–	15,718	–	15,718
Amortisation	–	–	(17)	(17)
At 31 December 2004, net of accumulated amortisation	2,126	–	114	2,240
At 1 April 2004				
Cost *(note (i) below)*	2,126	(15,718)	218	(13,374)
Accumulated amortisation	–	–	(87)	(87)
Net carrying amount	2,126	(15,718)	131	(13,461)
At 31 December 2004				
Cost	2,126	–	218	2,344
Accumulated amortisation	–	–	(104)	(104)
Net carrying amount	2,126	–	114	2,240

Notes:

(i) The transitional provisions of IFRS 3 have required the Group at 1 April 2004 to eliminate the carrying amount of the accumulated amortisation of goodwill of HK$92,000 with a corresponding adjustment to goodwill. Additionally, the carrying amount of negative goodwill at 1 April 2004 of approximately HK$15.7 million has been derecognised with a corresponding adjustment to the opening balance of retained earnings.

(ii) The exchange trading right is the right for trading and dealing of futures granted by Hong Kong Futures Exchange Limited. Amortisation charges for the nine-month period ended 31 December 2004 of HK$17,000 (Twelve-month period ended 31 March 2004: HK$87,000) is recognised in other operating expenses of the combined income statement.

11. Property Under Development and Property Project Held For Sale

	Group	
	31 December 2004	31 March 2004
	HK$'000	*HK$'000*
		(Restated-note 1)
Property acquisition cost	**509,434**	509,434
Relocation and compensation fees	**235,849**	235,849
Interest capitalised	**4,774**	4,774
Others	**384**	384
	750,441	750,441
Reclassified to property project held for sale	**(750,441)**	–
Long term portion	**–**	750,441

The balance represented the Group's cost of investment in a property development project located at Area No.7, Xi Ba He Bei Lane, Chaoyang District, Beijing, the PRC (the "Property Project"). Upon the completion of the application procedures and the payment of land premium of approximately HK$443.4 million to the relevant PRC authorities, the Company would obtain the land use rights of the Property Project. The land is in the initial stage of development.

During the current period, the directors estimated that no further commitments would be made to the Property Project beyond the amount payable to Beijing Bus Company Limited of $157.5 million (note 26) and the Property Project will be held for sale. The balance of property under development was reclassified to property project held for sale to reflect this change of intention.

Notes to the Financial Statements
As at 31 December 2004

12. Investment Properties

	Group	
	31 December 2004	31 March 2004
	HK$'000	*HK$'000*
		(Restated-note 1)
At 1 April	**4,438**	330
Transfer from property, plant and equipment	**–**	4,108
Net income from fair value adjustment	**562**	–
At 31 December/31 March	**5,000**	4,438

Investment properties comprise an industrial property and a car park that are leased to a related party (note 35 (B)(iii)) and a third party, respectively. The leases do not contain an initial non-cancellable period. No contingent rents are charged.

Investment properties are stated at fair value, which has been determined by the directors of the Company based on the valuations performed by B.I. Appraisals Limited, an independent firm of professional valuers, as at 31 December 2004. The valuation undertaken was based on an open market value, supported by market evidence in which assets could be exchanged between knowledgeable willing buyer and knowledgeable willing seller in an arm's length transaction at the date of valuation.

Investment properties are located in Hong Kong under medium-term leases.

13. Margin Deposits With Brokers and Financial Institutions

The balance at 31 March 2004 represented deposits with brokers and financial institutions in respect of the Group's margin transactions in foreign currency and futures contracts. The Group had no foreign currency and futures contracts outstanding as at 31 December 2004.

14. Interests in Subsidiaries

	Company	
	31 December 2004	31 March 2004
	HK$'000	*HK$'000*
		(Restated-note 1)
Unlisted shares, at cost	**767,980**	540,624
Amounts due from subsidiaries	**317,264**	150,474
Amount due to subsidiaries	**(861,421)**	(72,704)
	223,823	618,394
Provision for impairment	**(46,705)**	(59,282)
	177,118	559,112

14. Interests in Subsidiaries *(continued)*

Amounts due from/(to) subsidiaries are interest-free, unsecured and have no fixed terms of repayment, except for an amount of approximately $30.1 million as at 31 March 2004 due from a subsidiary which is interest bearing at 7.5% per annum.

Details of the Company's principal subsidiaries at 31 December 2004 are set out below:

Name of Company	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Artway Development Limited *(i)*	British Virgin Islands ("BVI")	US$1	100	–	Investment holding
Capital Automation (BVI) Limited *(i)*	BVI	US$50,000	100	–	Investment holding
Eagle Decade Investments Limited *(i)*	BVI	US$1	100	–	Investment holding
Smartech Cyberwords Limited *(i)*	BVI	US$1	100	–	Investment holding
Bestly legend Limited ("Bestly") *(i)*	BVI	US$1	100	–	Investment holding
China Eagle Capital Company Limited	Hong Kong	HK$10,000	–	100	Investment holding
China Eagle Management Limited	Hong Kong	HK$10,000	–	100	Management services
Beijing Jin Zun Property Development Limited *(i) (ii)*	PRC	RMB 10 million	–	100	Development and sales of properties

Notes to the Financial Statements
As at 31 December 2004

14. Interests in Subsidiaries *(continued)*

Name of Company	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Eagle Legend Securities Limited	Hong Kong	HK$30 million	–	96.67	Stockbroking
Eagle Legend Futures Limited	Hong Kong	HK$20 million	–	100	Dealing in futures contracts and options on Hong Kong Futures Exchange Limited
Hong Kong Punching Center Limited	Hong Kong	HK$100,000	–	100	Property holding
Ocean Town Int'l Inc. *(vii)*	BVI	US$50,000	–	100	Investment holding
Gome Appliance Company Limited *(iii) (vii)*	PRC	RMB300 million	–	65	*Note (iv)*
Tianjin Gome Electrical Appliance Company Limited ("Tianjin Gome") *(i) (ii) (vii)*	PRC	RMB40 million	–	65	*Note (iv)*
Langfang Gome Electrical Appliance Company Limited ("Langfang Gome") *(i) (ii) (vii)*	PRC	RMB1 million	–	65	*Note (iv)*
Tianjin Gome Logistics Company Limited ("Tianjin Logistics") *(i) (ii) (vii)*	PRC	RMB18 million	–	65	*Note (v)*

14. Interests in Subsidiaries *(continued)*

Name of Company	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Chongqing Gome Electrical Appliance Company Limited ("Chongqing Gome") *(i) (ii) (vii)*	PRC	RMB20 million	–	65	*Note (iv)*
Chengdu Gome Electrical Appliance Company Limited ("Chengdu Gome") *(i) (ii) (vii)*	PRC	RMB20 million	–	65	*Note (iv)*
Zigong Gome Electrical Appliance Company Limited ("Zigong Gome") *(i) (ii) (vii)*	PRC	RMB1 million	–	65	*Note (iv)*
Xi'an Gome Electrical Appliance Company Limited ("Xi'an Gome") *(i) (ii) (vii)*	PRC	RMB10 million	–	65	*Note (iv)*
Kunming Gome Electrical Appliance Company Limited ("Kunming Gome") *(i) (ii) (vii)*	PRC	RMB10 million	–	65	*Note (iv)*
Shenzhen Gome Electrical Appliance Company Limited ("Shenzhen Gome") *(i) (ii) (vii)*	PRC	RMB10 million	–	65	*Note (iv)*
Fuzhou Gome Electrical Appliance Company Limited ("Fuzhou Gome") *(i) (ii) (vii)*	PRC	RMB10 million	–	65	*Note (iv)*

Notes to the Financial Statements
As at 31 December 2004

14. Interests in Subsidiaries *(continued)*

Name of Company	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Guangzhou Gome Electrical Appliance Company Limited ("Guangzhou Gome") *(i) (ii) (vii)*	PRC	RMB10 million	–	65	*Note (iv)*
Wuhan Gome Electrical Appliance Company Limited ("Wuhan Gome") *(i) (ii) (vii)*	PRC	RMB10 million	–	65	*Note (iv)*
Shenyang Gome Electrical Appliance Company Limited ("Shenyang Gome") *(i) (ii) (vii)*	PRC	RMB10 million	–	65	*Note (iv)*
Jinan Gome Electrical Appliance Company Limited ("Jinan Gome") *(i) (ii) (vii)*	PRC	RMB10 million	–	65	*Note (iv)*
Zibo Eagle Gome Appliance Company Limited ("Zibo Gome") *(i) (ii) (vii)*	PRC	RMB2 million	–	65	*Note (iv)*
Qingdao Gome Electrical Appliance Company Limited ("Qingdao Gome") *(i) (ii) (vii)*	PRC	RMB10 million	–	65	*Note (iv)*
Weifang Gome Electrical Appliance Company Limited ("Weifang Gome") *(i) (ii) (vii)*	PRC	RMB3 million	–	65	*Note (iv)*

14. Interests in Subsidiaries *(continued)*

Name of Company	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Tianjin Gome Commercial Consultancy Company Limited ("Tianjin Management") *(i) (ii) (vii)*	PRC	RMB3 million	–	65	*Note (vi)*
Yantai Gome Electrical Appliance Company Limited ("Yantai Gome") *(i) (ii) (vii)*	PRC	RMB5 million	–	65	*Note (iv)*
Zhanjiang Gome Electrical Appliance Company Limited ("Zhanjiang Gome") *(i) (ii) (vii)*	PRC	RMB5 million	–	65	*Note (iv)*
Kunming Gome Logistics Company Limited ("Kunming Logistics") *(i) (ii) (vii)*	PRC	RMB8 million	–	65	*Note (v)*

(i) Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

(ii) The companies are registered as private companies with limited liability under PRC law.

(iii) The companies are registered as sino-foreign equity joint ventures under PRC law.

(iv) The retailing of electrical appliances and consumer electronic products.

(v) The provision of logistics services.

(vi) The provision of business management services.

(vii) During the period, the Company acquired Ocean Town Group as explained in note 1 to the financial statements.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the period or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

Notes to the Financial Statements

As at 31 December 2004

15. Inventories

	Group	
	31 December 2004	31 March 2004
	HK$'000	*HK$'000*
		(Restated-note 1)
Merchandise for resale	**1,033,324**	773,474
Consumables	**13,010**	10,774
	1,046,334	784,248

16. Bills Receivable

An aged analysis of the bills receivable, net of provision for bad and doubtful debts, is as follows:

	Group	
	31 December 2004	31 March 2004
	HK$'000	*HK$'000*
		(Restated-note 1)
Outstanding balance, aged:		
Within three months	**302**	886

17. Trade Receivables

The trade receivables are analysed as follows:

	Group	
	31 December 2004	31 March 2004
	HK$'000	*HK$'000*
		(Restated-note 1)
Securities and equity options transactions:		
Cash clients	**15,467**	13,233
Margin clients	**46,592**	22,360
Hong Kong Futures Exchange Clearing Corporation Limited	**5,416**	22,619
Others	**–**	4,617
	67,475	62,829
Outstanding balance, aged:		
Within three months	**67,475**	62,829

The settlement terms of accounts receivable arising in the ordinary course of business of dealing in securities and equity options transactions in respect of cash clients are two days after the trade date. Balances with the major clients are repayable on demand.

18. Prepayments and Other Receivables

	Group	
	31 December 2004	31 March 2004
	HK$'000	*HK$'000*
		(Restated-note 1)
Prepayments	**52,469**	31,430
Advances to suppliers	**53,926**	35,197
Deposits and other receivables	**70,689**	16,096
	177,084	82,723

	Company	
	31 December 2004	31 March 2004
	HK$'000	*HK$'000*
		(Restated-note 1)
Prepayment	**211**	315
Deposits and other receivables	**107**	–
	318	315

19. Due From Related Parties

		Group	
		31 December 2004	31 March 2004
	Notes	***HK$'000***	*HK$'000*
			(Restated-note 1)
Beijing Gome Debt	*(i)*	**–**	1,026,926
Due from related parties	*(ii)*	**–**	12,866
Receivables from the Parent Group	*(iii)*	**219,384**	–
		219,384	1,039,792

Notes:

(i) The balance as at 31 March 2004 represented the amount owed by Beijing Gome to Gome Appliance as at the date of Acquisition (the "Beijing Gome Debt"). Interest is charged at 6.8% per annum in respect of 65% of the unpaid balance of the Beijing Gome Debt. The Beijing Gome Debt was fully settled before 31 December 2004.

(ii) Due from related parties are unsecured, interest-free and have no fixed terms of repayment.

(iii) The balance as at 31 December 2004 represented deposits for purchases from the Parent Group of HK$219.4 million, which was interest free and was fully settled subsequent to the balance sheet date.

20. Client Trust Bank Balances

These represent cash balances held on trust for the customers in respect of the Group's securities and futures broking business. In the prior year, client trust bank balances and the related trade payables balances of HK$10,861,000 were offset on consolidation. The aforesaid balances were restated and disclosed separately as an item of current assets and current liabilities as at 31 March 2004.

21. Cash And Cash Equivalents and Pledged Deposits

	Group	
	31 December 2004	31 March 2004
	HK$'000	*HK$'000*
		(Restated-note 1)
Bank balances	**731,331**	337,285
Time deposits	**1,684,153**	761,519
	2,415,484	1,098,804
Less: Time deposits pledged for bills payable	**(850,301)**	(761,519)
Cash and cash equivalents	**1,565,183**	337,285

	Company	
	31 December 2004	31 March 2004
	HK$'000	*HK$'000*
		(Restated-note 1)
Bank balances	**19,976**	45,725
Time deposits	**830,700**	–
	850,676	45,725

22. Covertible Notes

Balance as at 31 March 2004 represented the amount of outstanding convertible notes in respect of the Company's acquisition of a subsidiary in 2002. Pursuant to an acquisition agreement, convertible notes totalling HK$75 million were issued by the Company as part of the consideration. The convertible notes were due in 2004 and beared interest from the date of their issue at a fixed rate of 2% per annum.

On 17 July 2003, convertible notes totalling HK$51 million were converted into the then 425 million ordinary shares of HK$0.1 each. The conversion price was HK$0.12 per ordinary share. The net proceeds over the par value of the shares issued resulted in a share premium of HK$8.5 million.

On 20 April 2004, convertible notes totalling HK$24 million were converted into the then 200 million ordinary shares of HK$0.10 each. The conversion price was HK$0.12 per ordinary share. The net proceeds over the par value of the shares issued resulted in a share premium of HK$4 million.

23. Trade Payables and Bills Payable

	Group	
	31 December 2004	31 March 2004
	HK$'000	*HK$'000*
		(Restated-note 1)
Trade payables and bills payable arising from retailing operations	**2,988,670**	2,330,242
Trade payables in dealing with securities, futures and option transactions	**23,815**	54,862
	3,012,485	2,385,104
Outstanding balance, aged:		
Within three months	**1,945,580**	1,515,325
Within three to six months	**999,149**	858,784
Over six months	**67,756**	10,995
	3,012,485	2,385,104

The settlement terms of accounts payables arising from the ordinary course of business of dealing in securities and equity options transactions in respect of cash clients are two days after the trade date.

Accounts payable to clients arising in the ordinary course of business of dealing in futures and options transactions represent margin deposits received from clients for their trading of futures and options, respectively. The excesses of the outstanding amounts over the required margin deposits are repayable to clients on demand.

The Group's bills payable are secured by the pledge of certain of the Group's time deposits as described in note 21 to the financial statements and by corporate guarantees provided by the Parent Group and Beijing Xinhengi as at 31 December 2004.

24. Customers' Deposits, Other Payables and Accruals

	Group	
	31 December 2004	31 March 2004
	HK$'000	*HK$'000*
		(Restated-note 1)
Customers' deposits	**86,786**	155,951
Other payables and accruals	**224,307**	140,457
	311,093	296,408

25. Due to Related Parties

Due to related parties as at 31 March 2004 were unsecured, interest-bearing at 0.4868% per annum and had no fixed terms of repayment.

The amounts due to related parties as at 31 December 2004 represented rent payables and which were unsecured, interest free and payable within one year.

26. Long Term Payables

	Group	
	31 December 2004	31 March 2004
	HK$'000	*HK$'000*
		(Restated-note 1)
Payables to Beijing Bus Company Limited	**157,547**	157,547
Portion classified as a current liability	**(157,547)**	–
Long term portion	**–**	157,547

The above balance represented the consideration of approximately HK$157.5 million payable to Beijing Bus Company Limited in respect of the acquisition of the property project described in note 11 above. Pursuant to the transfer contract and the supplementary contracts, an amount of approximately HK$75.5 million would be settled on or before 30 September 2005 and the remaining balance of approximately HK$82.1 million would be settled on or before 30 September 2006.

As explained in note 11 above, the Property Project was reclassified to property project held for sale. In the opinion of the directors, the payable balances would either be disposed of together with the Property Project or fully settled upon the disposal. Accordingly, the balance was reclassified as a current liability as at 31 December 2004 to reflect this change of intention.

27. Deferred Income Tax Assets and Liabilities

(a) The principal components of the Group's deferred income tax assets and liabilities at 31 December 2004 and the movements in deferred income tax for the nine-month period ended 31 December 2004 are as follows:

	Balance at 1 April 2004	**Recognised in combined income statement**	**Balance at 31 December 2004**
	HK$'000	*HK$'000*	*HK$'000*
	(Restated-note 1)		
Deferred income tax assets:			
Write-off of pre-operating expenses	1,162	(1,162)	–
Deferred income tax liabilities:			
Prepaid expenses	(1,045)	1,045	–
	117	(117)	–

(b) The Group has not recognised deferred tax assets in respect of tax losses arising in Hong Kong of HK$43.7 million (Twelve-month period ended 31 March 2004: approximately HK$42.5 million) as it is not probable that there will be sufficient future taxable income. The tax losses do not expire under the current tax legislation.

28. Share Capital

	Notes	Number of shares '000	HK$'000
Authorised:			
Ordinary shares of HK$0.1 each		50,000,000	5,000,000
Issued and fully paid:			
At 1 April 2004		2,839,304	283,930
Shares issued upon conversion of mandatory convertible notes	*(a)*	2,500,000	250,000
Shares issued upon conversion of convertible notes	*(b)*	200,000	20,000
Before share consolidation		5,539,304	553,930
Consolidation of 40 ordinary shares into one consolidated share	*(c)*	138,483	13,848
Shares issued for Acquisition	*(d)*	44,117	4,412
Shares issued upon conversion of the First Convertible Note and Second Convertible Note	*(e)*	1,459,847	145,985
At 31 December 2004		1,642,447	164,245

Notes:

(a) On 6 April 2004, mandatory convertible notes totalling HK$300 million were converted into 2,500 million ordinary shares of HK$0.10 each (note 30).

(b) On 20 April 2004, convertible notes totalling HK$24 million were converted into 200 million ordinary shares of HK$0.10 each (note 22).

(c) On 29 July 2004, the shareholders of the Company approved the consolidation of shares on the basis of 40 then existing ordinary shares of the Company into one new ordinary share.

(d) In connection with the Acquisition as set out in note 1 to these financial statements, the Company issued approximately 44.1 million ordinary shares of HK$0.10 each as part of the consideration.

28. Share Capital *(continued)*

Notes: (continued)

(e) In connection with the Acquisition set out in note 1 to these financial statements, the First Convertible Note and Second Convertible Note with a total face value of HK$8,058.3 million were issued to companies beneficially owned by Mr. Wong as part of the consideration. Based on the conversion price of HK$5.52 per share, approximately 1,459.8 million ordinary shares would be issued upon the full conversion of the First Convertible Note and Second Convertible Note.

As the Acquisition is accounted for as a combination of entities under common control, the equity interest of Ocean Town acquired by the Company is accounted for at historical amounts in a manner similar to a pooling of interests. Accordingly, the aforesaid consideration for the Acquisition is treated as an equity transaction and the value of the consideration shares and the mandatory convertible notes issued were stated at the net asset values of the Ocean Town Group.

On 4 October 2004, the aforesaid mandatory convertible notes with an aggregate face value of approximately HK$6,597.6 million were converted into approximately 1,195.2 million ordinary shares of HK$0.10 each. Further, on 17 December 2004, the mandatory convertible notes with an aggregate face value of approximately HK$1,460.8 million were converted into approximately 264.6 million ordinary shares of HK$0.10 each. The issued value of the mandatory convertible notes over the par value of the shares issued resulted in a share premium of approximately HK$76.9 million.

29. Reserves

(A) Group

The movements in the reserves of the Group are set out in the combined statement of changes in equity on page 39 of the financial statements.

(a) Statutory reserves

Pursuant to relevant PRC laws and regulations, Sino-foreign equity joint ventures registered in PRC are required to transfer a certain percentage, as approved by the board of directors, of their profit after income tax to the reserve fund, the enterprise expansion fund and the employee bonus and welfare fund. These funds are restricted as to use.

In accordance with the relevant PRC laws and regulations, PRC domestic companies are required to transfer 10% of the profit after income tax, as determined under PRC accounting regulations, to the statutory common reserve fund, until the balance of the fund reaches 50% of the registered capital of that company. Subject to certain restrictions as set out in the relevant PRC laws and regulations, the statutory common reserve fund may be used to offset against accumulated losses, if any. PRC domestic companies are also required to transfer 5% to 10% of their net profit, as determined under PRC accounting regulations, to the statutory common public welfare fund. This fund can only be used to provide staff welfare facilities and other collective benefits to the employees of that company. These funds are non-distributable other than in the event of liquidation.

29. Reserves *(continued)*

(A) Group *(continued)*

(b) Distribution to the owner

Distribution to the owner for the twelve-month period ended 31 March 2004 represented the balance of assets and liabilities retained by Beijing Gome pursuant to the Reorganisation set out in note 1 to these financial statements.

Distribution to the owner for the nine-month period ended 31 December 2004 represented the cash distribution of Gome Appliance which was attributable to the period prior to the completion of the Acquisition.

(c) Share premium

(i) The net proceeds of the June 2003 placement of 323 million shares in excess of the par value of shares issued resulted in a share premium of approximately HK$5.7 million.

The net proceeds of the January 2004 placement of 473 million shares in excess of the par value of shares issued resulted in a share premium of approximately HK$9.3 million (The Company: approximately HK$8.2 million). The share issue costs for the placement of the Company's shares through Eagle Legend Securities Limited, a subsidiary of the Company, amounting to approximately HK$1.1 million was eliminated in the Company's combined financial statements.

(ii) The excess of the total value of converted shares of HK$51 million over the par value (HK$42.5 million) of the converted shares has been treated as share premium of HK$8.5 million.

29. RESERVES *(continued)*

(B) Company

	Notes	Share premium HK$'000	Contributed surplus HK$'000 Note (b)	Mandatory convertible notes HK$'000	Accumulated losses/ retained earnings HK$'000	Total HK$'000
At 1 April 2003		40,734	40,423	–	(57,096)	24,061
Placing of shares		13,872	–	–	–	13,872
Mandatory convertible notes issued		–	–	300,000	–	300,000
Shares issued upon conversion of						
– Convertible notes		8,500	–	–	–	8,500
Net profit for the period		–	–	–	8,893	8,893
At 31 March 2004		63,106	40,423	300,000	(48,203)	355,326
Shares issue expenses		(15,426)	–	–	–	(15,426)
Issue of mandatory convertible notes	*28(e)*	–	–	222,944	–	222,944
Shares issued upon conversion of						
– Mandatory convertible notes	*28(a)*	50,000	–	(300,000)	–	(250,000)
– Convertible notes	*28(b)*	4,000	–	–	–	4,000
– Mandatory convertible notes	*28(e)*	76,959	–	(222,944)	–	(145,985)
Share consolidation	*28(c)*	540,082	–	–	–	540,082
Net profit for the period		–	–	–	144,988	144,988
Proposed final dividends	32(a)	–	–	–	(41,061)	(41,061)
At 31 December 2004		718,721	40,423	–	55,724	814,868

Notes:

(a) The net profit from ordinary activities attributable to shareholders for the nine-month period ended 31 December 2004 dealt with in the financial statements of the Company, was approximately HK$145.0 million (Twelve-month period ended 31 March 2004: approximately HK$8.9 million)

29. Reserves *(continued)*

(B) Company *(continued)*

Notes (continued):

(b) The contributed surplus of the Company as at 31 March 2004, represents the difference between the nominal value of the Company's shares issued in exchange for the issued ordinary shares of Capital Automation (BVI) Limited and the value of net assets of the underlying subsidiaries acquired as at 27 March 1992. At the group level, the contributed surplus is reclassified into its components of reserves of the underlying subsidiaries.

Under the Bermuda Companies Act 1981 (as amended), the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of the contributed surplus if:

a. it is, or would after the payment be, unable to pay its liabilities as they become due; or

b. the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium.

30. Mandatory Convertible Notes

	Group and Company	
	31 December 2004	31 March 2004
	HK$'000	*HK$'000*
		(Restated – note 1)
Mandatory convertible notes	**–**	300,000

Pursuant to an acquisition agreement dated 6 February 2004 regarding the acquisition of the entire issued share capital of Bestly for a consideration of HK$300 million, convertible notes totalling HK$300 million were issued to Shinning Crown. These convertible notes bear interest from the date of their issue at a fixed rate of 2% per annum, which is payable semi-annually in arrears.

On 6 April 2004, the aforesaid mandatory convertible notes totalling HK$300 million were converted into 2,500 million ordinary shares of HK$0.10 each. The conversion price was HK$0.12 per ordinary share. The net proceeds over the par value of the shares issued resulted in a share premium of HK$50 million.

31. Notes to The Combined Cash Flow Statement

(a) Major non-cash transactions

As further explained in note 28(a), (b), and (e), certain convertible notes were converted into the ordinary share capital of the Company during the period.

As further explained in note 1, the Company had acquired Ocean Town Group during the period. The consideration was satisfied i) as to HK$243.5 million by the issue of approximately 44.1 million ordinary shares; and ii) as to HK$7,031.4 million by the issue of the First Convertible Note and to HK$1,026.9 million by the issue of the Second Convertible Note.

Notes to the Financial Statements
As at 31 December 2004

31. Notes to The Combined Cash Flow Statement *(continued)*

(b) Acquisition of subsidiaries

On 20 and 23 May 2003, the Group acquired a 95% equity interest in Eagle Legend Futures Limited ("Eagle Legend Futures") and Eagle Legend Securities Limited ("Eagle Legend Securities"), respectively, with all acquisitions satisfied in cash. Eagle Legend Securities is engaged in securities dealing and brokerage while Eagle Legend Futures is engaged in futures contracts dealing. The acquisitions were accounted for using the purchase method of consolidation.

On 31 March 2004, the Group acquired the entire share capital of Bestly. The acquisition was financed by the issuing of mandatory convertible notes to Shining Crown. Bestly's principal activity is investment holding. It holds 100% interests in Beijing Wenyean Software Development Limited ("Beijing Wenyean") and Beijing Xinwenan Technology Limited ("Beijing Xinwenan") which in turn holds the remaining 20% interest in Beijing Jin Zun Property Development Limited ("Beijing Jin Zun Property") and a 51% interest in Beijing Jin Zun Technology Development Limited ("Beijing Jin Zun Technology"). The acquisition was accounted for using the purchase method of accounting.

Effect of acquisitions

The acquisitions had the following effect on the Group's assets and liabilities.

	Nine-month period ended 31 December 2004 ***HK$'000***	Twelve-month period ended 31 March 2004 *HK$'000* (Restated – note 1)
Net assets acquired:		
Property, plant and equipment	–	239
Trading rights	–	218
Property under development	–	459,955
Trade and other receivables	–	51,260
Cash and cash equivalents	–	11,626
Relocation and compensation fees payable	–	(95,789)
Trade and other payables	–	(91,365)
	–	336,144
Negative goodwill on acquisition	–	(12,550)
	–	323,594
Satisfied by:		
Cash	–	23,594
Mandatory convertible notes	–	300,000
	–	323,594

31. Notes to The Combined Cash Flow Statement *(continued)*

(b) Acquisition of subsidiaries *(continued)*

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries is as follows:

	Note	**Nine-month period ended 31 December 2004** ***HK$'000***	Twelve-month period ended 31 March 2004 *HK$'000* (Restated – note 1)
Cash consideration	*(i)*	**450**	23,594
Cash and bank balances acquired		**–**	(11,626)
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries		**450**	11,968

Note:

(i) During the nine-month period ended 31 December 2004, the Company acquired a further 2.5% equity interest in Eagle Legend Futures, a subsidiary of the Company, for a cash consideration of approximately HK$450,000.

32. Dividends And Earnings Per Share

(a) Dividends

	Nine-month period ended 31 December 2004 ***HK$'000***	Twelve-month period ended 31 March 2004 *HK$'000*
Proposed final – 2.5 cents (Twelve-month period ended 31 March 2004: Nil) per ordinary share	**41,061**	–

The proposed final dividends for the nine-month period ended 31 December 2004 are subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

Notes to the Financial Statements
As at 31 December 2004

32. Dividends And Earnings Per Share *(continued)*

(b) Earnings per share

Basic earnings per share amounts are calculated by dividing net profit for the nine-month period ended 31 December 2004 attributable to ordinary shareholders of the Company of approximately HK$352.9 million (Twelve-month period ended 31 March 2004: approximately HK$244.1 million) by the weighted average number of ordinary shares outstanding during the nine-month period ended 31 December 2004 of approximately 1,641.0 million (Twelve-month period ended 31 March 2004: approximately 1,553.0 million). The weighted average number of ordinary shares outstanding during the periods was adjusted for i) the effect of share consolidation; ii) 1,503.9 million ordinary shares outstanding during the period as if 44.1 million ordinary shares issued in connection with the Acquisition and approximately 1,459.8 million ordinary shares that were attributable to the conversion of the mandatory convertible notes issued in connection with the Acquisition had occurred at the beginning of the period presented.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary shareholders (after crediting interest on the convertible notes described in note 22) of approximately HK$353.0 million (Twelve-month period ended 31 March 2004: approximately HK$244.8 million) by the weighted average number of ordinary shares outstanding during the period (adjusted for the effects of dilutive convertible notes) of approximately 1,641.5 million (Twelve-month period ended 31 March 2004: approximately 1,561.2 million).

There have been no other transactions involving ordinary shares or potential ordinary shares since the reporting date and before the completion of these financial statements.

33. Contingent Liabilities

The Group and the Company did not have any significant contingent liabilities as at 31 March 2004 and 31 December 2004.

34. Commitments

(a) Capital commitments

The capital commitments outstanding as at 31 December 2004 not provided for in the financial statements were as follows:

	31 December 2004	31 March 2004
	HK$'000	*HK$'000*
		(Restated – note 1)
Authorised but not contracted for:		
Acquisition of property under development	**–**	443,396

The balance of capital commitments as at 31 March 2004 represented the commitment for payment of the land premium of approximately HK$443.4 million to the relevant PRC authorities in respect of the land use right attributable to the Property Project (note 11).

During the current period, the directors have determined that no further commitments will be made to the Property Project beyond those payable to Beijing Bus Company Limited, as set out in note 26 to the financial statements.

34. Commitments *(continued)*

(b) Investment commitments

	31 December 2004	31 March 2004
	HK$'000	*HK$'000*
		(Restated – note 1)
Commitments in respect of the acquisition of a 65% equity interest in Gome Appliance	**–**	227,358

As part of the Reorganisation, an agreement dated 8 February 2004 was entered into between Ocean Town and Beijing Eagle Yi Fu Network Technologies Co., Ltd. ("Yi Fu"), a PRC company beneficially owned by Mr. Wong, pursuant to which Ocean Town agreed to acquire a 65% equity interest in Gome Appliance from Yi Fu for a total cash consideration of approximately HK$227.4 million payable on or before 20 July 2004.

Ocean Town fully settled the outstanding consideration in June 2004.

(c) Lease commitments

The Group had the following minimum lease payments under non-cancellable operating leases falling due as follows:

	31 December 2004	31 March 2004
	HK$'000	*HK$'000*
		(Restated – note 1)
Within one year	**275,373**	179,778
In the second to fifth years, inclusive	**895,023**	636,739
After five years	**224,629**	146,042
	1,395,025	962,559

35. Related Party Transactions

In addition to the transactions and balances which are disclosed elsewhere in these financial statements, the Group had the following significant transactions with the Parent Group and Beijing Xinhengji Property Co., Ltd. ("Beijing Xinhengji"). The Parent Group comprises Beijing Eagle Investment Co., Ltd., Beijing Gome and other companies which are engaged in the retail sales and related operations of electrical appliances and consumer electronic products under the trademark of "Gome Electrical Appliances" in cities other than the designated cities of the PRC in which the Group operates. The companies comprising the Parent Group are controlled by Mr. Wong. Beijing Xinhengji is owned by family member of Mr. Wong.

Notes to the Financial Statements
As at 31 December 2004

35. Related Party Transactions *(continued)*

(A) Continuing transactions:

	Notes	**Nine-month period ended 31 December 2004** *HK$'000*	Twelve-month period ended 31 March 2004 *HK$'000* (Restated – note 1)
(a) Sales to the Parent Group	*(i)*	**186,577**	692,328
(b) Purchases from the Parent Group	*(i)*	**(982,828)**	(15,372)
(c) Provision of management and purchasing services to the Parent Group	*(ii)/3(b)*	**56,685**	15,566
(d) Rental expenses to Beijing Xinhengji	*(iii)*	**(2,268)**	(798)
(e) Sub-lease income from audio and visual stores of the Parent Group	*(iv)*	**16,296**	–
(f) Purchase deposit to the Parent Group	*(i)/19(iii)*	**367,000**	–

Notes:

(i) The sales and purchase transactions entered into between the Group and the Parent Group in respect of the retailing of electrical appliances and consumer electronic products were conducted based on the actual purchase cost from the Group's third party suppliers.

(ii) The Group provides management services to the Parent Group in respect of the retailing of electrical appliances and consumer electronic products in cities other than the designated cities of the PRC in which the Group operates. In addition, the Group negotiates with various suppliers for both the Group and the Parent Group on a centralised basis. The total amount of management service fee and purchasing service fee for the nine-month period ended 31 December 2004 was charged based on 0.75% and 0.9%, respectively, of the total turnover of the Parent Group for the nine-month period ended 31 December 2004, pursuant to a purchase service agreement and a management agreement entered into between the Group and the Parent Group.

(iii) On 20 December 2003, the Group entered into a rental agreement with Beijing Xinhengji, to lease the properties for a term of two years at an annual rental of approximately HK$3.1 million. In the opinion of the directors, the rental has been determined based on the prevailing market rentals of offices within the same district.

(iv) The Parent Group has set up counters in the retail outlets operated by the Group for selling audio and visual products. The Parent Group has entered into sub-lease agreements with each of the individual outlets of the Group. According to the sub-lease agreements, the rent is charged at 1) approximately HK$11.3 per square metre per day; and 2) 5.0% of the total revenue generated from the sales of the audio and visual products.

35. Related Party Transactions *(continued)*

(B) Discontinuing transactions:

	Notes	**Nine-month period ended 31 December 2004** **_HK$'000_**	Twelve-month period ended 31 March 2004 *HK$'000* (Restated – note 1)
(a) Provision of corporate guarantees from the Parent Group and Beijing Xinhengji in respect of:			
Bills facilities	*(i)*	**1,184,311**	3,335,132
Bank loan		**–**	9,434
(b) Interest income on Beijing Gome Debt *(note 19)*		**5,580**	–
(c) Commission income from a director		**–**	14
(d) Rental expenses to a related party	*(ii)*	**(720)**	(917)
(e) Rental income from a related party	*(iii)*	**162**	90

Notes:

(i) The provision of corporate guarantees is at nil consideration. The Group intends to replace the aforesaid guarantees as soon as is practical.

(ii) The Company paid operating lease rentals in respect of the Group's office premises to Gome Home Appliances (Hong Kong) Limited ("Hong Kong Gome"), a controlled company of Mr. Wong, totalling HK$720,000 (Twelve-month period ended 31 March 2004: HK$917,000) during the period. At 31 December 2004, the rental payable to Hong Kong Gome amounted to HK$80,000 (at 31 March 2004: HK$80,000).

(iii) The Company's subsidiary, Hong Kong Punching Centre Limited, received operating lease rentals in respect of the Group's factory premises (note 12) from Hong Kong Gome, a controlled Company of Mr. Wong, totalling HK$162,000 (Twelve-month period ended 31 December 2004: HK$90,000) during the period. At 31 December 2004, the rental receivable from Hong Kong Gome was nil (at 31 March 2004: HK$90,000).

Notes to the Financial Statements
As at 31 December 2004

35. Related Party Transactions *(continued)*

(B) Discontinuing transactions: *(continued)*

Pursuant to the supplementary agreement for the Reorganisation entered into between the Company, Gome Appliance, Beijing Gome and Mr. Wong, except for liabilities constituting or arising out of or relating to business undertaken by the Group, no other liabilities were assumed by the Group. Beijng Gome and Mr. Wong have also undertaken to indemnify the Company in respect of any loss or damage incurred in connection with or arising from the transfer of the subsidiaries and assets and liabilities to the Group in the Reorganisation. Beijing Gome and Mr. Wong also agreed to indemnify the Company against, amongst other things, any contingent tax liabilities existing prior to the completion of the Reoganisation and tax liabilities payable in respect of assets transferred to the Group pursuant to the Reorganisation and which were not provided for in the Group's accounts.

36. Concentration of Risk

The Group is exposed to the following risks as further explained below.

(i) Credit risk

The Group's cash and cash equivalents are deposited with banks in the PRC.

The trade and other receivables included in the financial information represent the Group's major exposure to the credit risk attributable to its financial assets. The Group has no other significant concentrations of credit risk.

(ii) Interest rate risk

The Group has no other loans except for a short term interest-bearing bank loan and as a result, it has no significant interest rate risk.

(iii) Foreign currency transactions risk

The Group's businesses are principally conducted in Renminbi which cannot be freely exchanged into foreign currencies. As at 31 December 2004, substantially all of the Group's assets and liabilities were denominated in Renminbi.

(iv) PRC tax risk

The Group realised a significant amount of tax benefits during the relevant periods through utilising the preferential income tax rates and the income tax exemption. These preferential tax treatments were available to the Group pursuant to the PRC tax rules and regulations, which are subject to the approval and assessment on related party transactions from the relevant PRC tax authorities.

37. Post Balance Sheet Events

No significant events took place subsequent to 31 December 2004.

38. Approval of The Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 14 March 2005.