Notes to the Unaudited Interim Financial Report

AS AT 30 JUNE 2005

1. BASIS OF PREPARATION

This interim financial report has been prepared in accordance with International Accounting Standard ("IAS") 34 "Interim Financial Reporting" issued by the International Accounting Standards Board ("IASB").

This interim financial report should be read in conjunction with the 2004 annual financial statements.

The accounting policies and methods of computation used in the preparation of this interim financial report are consistent with those used in the annual financial statements for the nine-month period ended 31 December 2004, except for the changes discussed below following its adoption of new or revised International Financial Reporting Standards and International Accounting Standards (the "new IFRSs") which are effective for accounting periods commencing on or after 1 January 2005.

This interim financial report has been prepared in accordance with the IFRSs that were in issue as at the time of preparing this information (August 2005) and mandatory for this interim financial report.

The changes to the Group's accounting policies and the effect of adopting these new policies are set out in note 2 below.

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.

Accordingly, this unaudited interim financial report is presented for a period of six months ended 30 June 2005 and the comparative amounts for the income statement, the statement of changes in equity, the statement of cash flows and related notes are presented for the six months ended 30 June 2004 rather than the previously reported amounts for the six months ended 30 September 2004.

2. IMPACT OF ADOPTION OF NEW IFRSs

(A) Effect of adopting new IFRSs

In 2005, the Group adopted the following new or advised IFRSs:

IAS 1 Presentation of Financial Statements

IAS 2 Inventories

IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors

IAS 10 Events after the Balance Sheet Date

IAS 16 Property, Plant and Equipment

IAS 17 Leases

IAS 21 The Effects of Changes in Foreign Exchange Rates

IAS 24 Related Party Disclosures

IAS 27 Consolidated and Separate Financial Statements

IAS 28 Investments in Associates

IAS 32 Financial Instruments: Disclosures and Presentation

IAS 33 Earnings per Share

IAS 39 Financial Instruments: Recognition and Measurement

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

The adoption of the above new or revised standards did not result in substantial changes to the Group's accounting policies nor any significant financial impact to the Group. In summary:

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

– IASs 2, 8, 10, 16, 17, 21, 24, 27, 28, 32, 33 and 39 had no material effect on the Group's policies.

– IFRS 5 requires the non-current assets classified as held for sale and the liabilities directly associated with those assets to be presented separately in the balance sheet. Such assets are measured at the lower of the carrying amount and the fair value less costs to sell and are not depreciated. IFRS 5 had no material effect on the Group.

(B) Impact of standards issued but not yet effective

The Group has not early adopted any of the following new or revised standards or interpretations that have been issued but are not yet effective. The adoption of such standards or interpretations will not result in substantial changes to the Group's accounting policies.

Amendment to IAS 19	Employee Benefits-Actual gains and losses, Group plans and disclosures
IFRS 6	Exploration for and Evaluation of Mineral Resources
IFRIC 4	Determining Whether an Arrangement Contains a Lease
IFRIC 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

3. REVENUE AND OTHER OPERATING INCOME

(A) The principal activities of the Group comprise the retailing of electrical appliances and consumer electronic products, and investment. As disclosed in note 19 to this report, during the six-month period ended 30 June 2005, the Group disposed of the business of securities and futures broking.

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

	Six-month period ended 30 June 2005	Six-month period ended 30 June 2004
	HK$'000	*HK$'000*
Sale of electrical appliances and consumer electronic products	**7,807,984**	5,911,928
Others	**4,081**	5,408
	7,812,065	5,917,336

(B) Other operating income comprises the following:

	Notes	**Six-month period ended 30 June 2005**	Six-month period ended 30 June 2004
		HK$'000	*HK$'000*
Income from suppliers:			
Promotion income		**120,639**	94,992
Management fee income		**34,243**	24,833
Display space leasing fees		**29,162**	14,629
Product listing fees		**17,766**	14,625
Management fee from related parties	*23(A)(ii)*	**61,975**	33,193
Management fees for air-conditioner installations		**19,616**	17,077
Government grants	*(i)*	**11,426**	7,573
Other income		**19,792**	40,730
		314,619	247,652

(i) Various local government grants have been received to reward the Group's contributions to the local economy. There were no unfulfilled conditions or contingencies attaching to these government grants.

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 over 90% of the Group's revenue was derived from customers in PRC.

5. PROFIT BEFORE TAX AND FINANCE INCOME/(COSTS)

The Group's profit before tax and finance income/(costs) is arrived at after charging:

	Note	**Six-month period ended 30 June 2005** *HK$'000*	Six-month period ended 30 June 2004 *HK$'000*
Cost of inventories recognised as expenses		**7,137,552**	5,403,239
Depreciation		**18,650**	14,129
Loss on disposal of fixed assets		**14**	118
Loss on disposal of subsidiaries	*19*	**2,172**	–
Minimum lease payments under operating leases in respect of land and buildings		**163,283**	96,471
Loss on trading of securities, foreign exchange and futures contracts		**151**	3,750
Staff costs excluding directors' remuneration:			
Wages, salaries and bonuses		**131,113**	84,121
Pension scheme costs		**13,223**	8,373
Social welfare and other costs		**15,110**	10,963
		159,446	103,457

6. FINANCE INCOME/(COSTS)

	Six-month period ended 30 June 2005 *HK$'000*	Six-month period ended 30 June 2004 *HK$'000*
Interest expense	**–**	(489)
Bank interest income	**18,366**	8,677
Other interest income	**1,435**	941
Interest income	**19,801**	9,618
	19,801	9,129

7. INCOME TAX

	Six-month period ended 30 June 2005 *HK$'000*	Six-month period ended 30 June 2004 *HK$'000*
Current – Hong Kong	**291**	5,500
Current – PRC	**41,333**	44,176
Total tax charge for the period	**41,624**	49,676

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.

The provision for Hong Kong Profits Tax is calculated at 17.5% of the estimated assessable profit for the six-month periods ended 30 June 2005 and 2004.

8. PROPERTY, PLANT AND EQUIPMENT

During the six-month period ended 30 June 2005, the Group acquired buildings with a cost of HK$176.8 million, leasehold improvements at cost of HK$18 million, motor vehicles at a cost of HK$2.7 million, and equipment and fixtures at a cost of HK$12.5 million. Fixed assets with a net book value of HK$1.9 million were disposed of during the six-month period ended 30 June 2005, resulting in a loss on disposal of HK$14,000.

9. INTANGIBLE ASSETS

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

	30 June 2005 (Unaudited) *HK$'000*	31 December 2004 (Audited) *HK$'000*
Goodwill	**–**	2,126
Exchange trading right	**–**	114
	–	2,240

The previous financial reporting period of the Group was for the nine-month period beginning 1 April 2004. The adoption of IFRS 3 and IAS 36 (revised) has resulted in the Group, from 1 April 2004, ceasing annual goodwill amortisation and testing 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.

10. INVESTMENT PROPERTIES

	30 June 2005 (Unaudited) *HK$'000*	31 December 2004 (Audited) *HK$'000*
At 1 Januay/1 April	**5,000**	4,438
Net income from fair value adjustment	**–**	562
At 30 June/31 December	**5,000**	5,000

Investment properties comprise an industrial property and a car park that are leased to a related party (note 23 (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 determined based on the valuations performed by B.I. Appraisals Limited, an independent firm of professional valuers, as at 30 June 2005. The fair value represents the amount at which the assets could be exchanged between a knowledgeable willing buyer and a 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.

11. PROPERTY PROJECT CLASSIFIED AS HELD FOR SALE

	Note	30 June 2005 (Unaudited) *HK$'000*	31 December 2004 (Audited) *HK$'000*
Property project		**750,441**	750,441
Liabilities directly associated with non-current asset classified as held for sale	*17*	**(157,547)**	(157,547)
		592,894	592,894

The balance represented the Group's interest in a property development project located at Area No. 7, Xi Ba He Bei Lane, Chaoyang District, Beijing, 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 will obtain the land use rights of the Property Project.

During 2004, the directors decided that no further commitments would be made to the Property Project beyond the amount payable to Beijing Bus Company Limited of HK$157.5 million (note 17) and the Property Project is classified as held for sale. The Company is actively seeking for an appropriate buyer during the period.

The Property Project held for sale is measured at the lower of its carrying amount and fair value less costs to sell. The fair value of the property project held for sale was determined based on the valuations performed by B.I. Appraisals Limited, an independent firm of professional valuers, as at 30 June 2005. The fair value represents the amount at which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction at the date of valuation.

12. INVENTORIES

	30 June 2005 (Unaudited) *HK$'000*	31 December 2004 (Audited) *HK$'000*
Merchandise for resale	**1,358,706**	1,033,324
Consumables	**19,742**	13,010
	1,378,448	1,046,334

13. TRADE RECEIVABLES

The trade receivables are analysed as follows:

	30 June 2005 (Unaudited) *HK$'000*	31 December 2004 (Audited) *HK$'000*
Sale of electrical appliances and consumer electronic products	**39,099**	–
Securities and equity options transactions:		
Cash clients	**–**	15,467
Margin clients	**–**	46,592
Hong Kong Futures Exchange Clearing Corporation Limited	**–**	5,416
	39,099	67,475
Outstanding balance, aged:		
Within three months	**39,099**	67,475

The settlement terms of accounts receivable arising in the sale of electrical appliances and consumer electronic products are one month.

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

14. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	30 June 2005 (Unaudited) *HK$'000*	31 December 2004 (Audited) *HK$'000*
Prepayments	**77,373**	52,469
Advances to suppliers	**249,672**	53,926
Deposits and other receivables	**117,946**	70,689
	444,991	177,084

15. DUE FROM RELATED PARTIES

The amount due from related parties are unsecured, interest-free and have no fixed terms of repayment.

16. TRADE AND BILLS PAYABLE

	30 June 2005 (Unaudited) *HK$'000*	31 December 2004 (Audited) *HK$'000*
Trade and bills payables arising from retailing operations	**4,861,298**	2,988,670
Trade payables in dealing with securities and futures transactions	**–**	23,815
	4,861,298	3,012,485
Outstanding balance, aged:		
Within three months	**3,447,092**	1,945,580
Within three to six months	**1,295,004**	999,149
Over six months	**119,202**	67,756
	4,861,298	3,012,485

The Group's bills payable as at 30 June 2005 are secured by the pledge of certain of the Group's time deposits and by corporate guarantees provided by certain related companies.

17. LIABILITY DIRECTLY ASSOCIATED WITH NON-CURRENT ASSET CLASSIFIED AS HELD FOR SALE

The 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 certain supplementary contracts, an amount of approximately HK$75.4 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. In the opinion of the directors, the payable balances would either be disposed of together with the property project (note 11) or fully settled upon the disposal.

18. SHARE CAPITAL

	Number of shares *'000*	*HK$'000*
Authorised:		
Ordinary shares of HK$0.1 each	50,000,000	5,000,000
Issued and fully paid:		
Ordinary shares of HK$0.1 each at 1 January 2005 and 30 June 2005	1,642,447	164,245

19. DISPOSAL OF SUBSIDIARIES

On 30 April 2005, the Group disposed of a 100% equity interest in Eagle Legend Futures Limited and a 96.67% equity interest in Eagle Legend Securities Limited for a total consideration of approximately HK$51 million to an unrelated third party.

	As at 30 April 2005 *HK$'000*
Net assets disposed of:	
Property, plant and equipment	1,583
Intangible assets	2,232
Trade receivables	58,593
Prepayments and other receivables	2,349
Client trust bank balances	1,606
Cash and cash equivalents	20,031
Trade payables	(4,785)
Other payables and accruals	(27,178)
Minority interests	(1,204)
	53,227
Loss on disposal of subsidiaries	(2,172)
	51,055
Satisfied by:	
Cash	49,000
Other receivables	2,055
	51,055

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of the subsidiaries is as follows:

	As at 30 April 2005 *HK$'000*
Cash consideration	49,000
Cash and bank balances disposed of	(20,031)
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	28,969

The results of the subsidiaries disposed of in the six-month period ended 30 June 2005 had no significant impact on the Group's consolidated turnover or profit after tax for the period.

20. DIVIDEND AND EARNINGS PER SHARE

(A) Dividend

	Six-month period ended 30 June 2005	Six-month period ended 30 June 2004
	HK$'000	*HK$'000*
Interim – 4.2 cents (Six-month period ended 30 June 2004: Nil) per ordinary share	**68,983**	–

This interim dividend has not been included as a liability in this interim financial report.

(B) Earnings per share

The basic earnings per share amount is calculated by dividing the net profit for the six-month period ended 30 June 2005 attributable to ordinary equity holders of the Company of approximately HK$224.2 million (Six-month period ended 30 June 2004: approximately HK$214.6 million) by the weighted average number of ordinary shares outstanding during the six-month period ended 30 June 2005 of approximately 1,642.4 million (Six-month period ended 30 June 2004: approximately 1,606.2 million).

No diluted earnings per share amount is presented as the Company did not have any dilutive potential ordinary shares for the six-month period ended 30 June 2005.

The diluted earnings per share amount for the six-month period ended 30 June 2004 is calculated by dividing the net profit attributable to ordinary equity holders (after deducting interest on convertible notes) of approximately HK$214.8 million by the weighted average number of ordinary shares outstanding during the period (adjusted for the effect of dilutive convertible notes) of approximately 1,609.3 million.

There have been no other transactions involving ordinary shares or potential ordinary shares since the reporting date and before the completion of this interim report.

21. CONTINGENT LIABILITIES

The Group and the Company did not have any significant contingent liabilities as at 31 December 2004 and 30 June 2005.

22. COMMITMENTS

(A) Capital commitment

The capital commitment outstanding as at the balance sheet dates and not provided for are as follows:

	30 June 2005 (Unaudited) *HK$'000*	31 December 2004 (Audited) *HK$'000*
Contracted, but not provided for		
Buildings	**68,037**	–
Equipment and fixtures	**199**	–
	68,236	–

(B) Acquisition commitments

In March 2005, the Company and two PRC companies, which principally engaged in the retailing of electrical appliances (the "Target Companies"), entered into an agreement pursuant to which the Company agreed to acquire the businesses or the operating properties and equipment of the Target Companies. The Company has made a down payment thereto of HK$33 million.

Subsequent to 30 June 2005 and up to the date of this report, the parties are in the process of negotiating the consideration and other terms of acquisition. In the opinion of the directors, the acquisition transactions will be completed before 31 December 2005.

(C) Lease commitments

As at the balance sheet date, the Group had the following minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2005 (Unaudited) *HK$'000*	31 December 2004 (Audited) *HK$'000*
Within one year	**413,118**	275,373
In the second to fifth years, inclusive	**1,307,355**	895,023
After five years	**768,039**	224,629
	2,488,512	1,395,025

23. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances which are disclosed elsewhere in this interim report, 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 Electrical Appliance Co., Ltd. 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 PRC in which the Group operates. The companies comprising the Parent Group are controlled by Mr. Wong Kwong Yu ("Mr. Wong"), a director of the Company. Beijing Xinhengji is owned by family members of Mr. Wong.

(A) Continuing transactions:

		Notes	**Six-month period ended 30 June 2005** ***HK$'000***	Six-month period ended 30 June 2004 *HK$'000*
(a)	Sale to the Parent Group	*(i)*	**301,597**	426,845
(b)	Purchases from the Parent Group	*(i)*	**(136,217)**	(497,460)
(c)	Provision of management and purchasing services to the Parent Group	*(ii)*	**61,975**	33,193
(d)	Rental expenses to Beijing Xinhengji	*(iii)*	**(1,595)**	(1,595)
(e)	Sub-lease income from audio and visual stores of the Parent Group	*(iv)*	**12,968**	2,282

Notes:

(i) The sale 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 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 was charged based on 0.75% and 0.9%, respectively, of the total turnover of the Parent Group, 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 sublease agreements with each of the individual outlets of the Group. According to the sublease agreements, the rent is charged at (1) approximately HK$11.3 per square metre per day; and (2) 5.0% of the total revenue being the turnover of the Parent Group generated from the sale of the audio and visual products.

23. RELATED PARTY TRANSACTIONS *(continued)*

(B) Discontinuing transactions:

	Notes	**Six-month period ended 30 June 2005 HK$'000**	Six-month period ended 30 June 2004 HK$'000
(a) Provision of corporate guarantees from the Parent Group and Beijing Xinhengji in respect of:			
– Bills facilities	*(i)*	**431,267**	2,560,142
– Bank loan		**–**	9,434
(b) Rental expenses to a related party	*(ii)*	**(480)**	(480)
(c) Rental income from a related party	*(iii)*	**108**	108

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$480,000 during the period (Six-month period ended 30 June 2004: HK$480,000).

(iii) The Company's subsidiary, Hong Kong Punching Centre Limited, received operating lease rentals in respect of the Group's factory premises (note 10) from Hong Kong Gome, a controlled company of Mr. Wong, totalling HK$108,000 during the period (Six-month period ended 30 June 2004: HK$108,000).

(C) Compensation of key management personnel of the Group:

	Six-month period ended 30 June 2005 HK$'000	Six-month period ended 30 June 2004 HK$'000
Short-term employee benefits:		
Fee	**244**	144
Salaries, allowance, bonuses and other benefits in kind	**4,441**	1,777
	4,685	1,921
Pension costs	**61**	40
	4,746	1,961

24. CONCENTRATION OF RISK

The Group is exposed to the following risks:

(i) Credit risk

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

The carrying amounts of cash and cash equivalents, pledged deposits, trade receivables, repayments and other receivables included in the interim financial report 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 significant interest rate risk.

(iii) Foreign currency transaction risk

The Group's businesses are principally conducted in Renminbi which cannot be freely exchanged into foreign currencies. As at 30 June 2005, most 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 of and the assessment of related party transactions by the relevant PRC tax authorities.

25. POST BALANCE SHEET EVENTS

Save as disclosed elsewhere, the following significant event took place subsequent to 30 June 2005.

On 22 July 2005, the Company, Beixin Logistic Co., Ltd. and Shenzhen Beixin Decoration and Design Co., Ltd. (collectively the "Vendors") entered into a sales and purchase agreement. Pursuant to this agreement, the Company agreed to acquire, from the Vendors the entire equity interest in Shenzhen eHome Commercial Chain Co., Ltd. ("eHome") and the relevant interest in a shareholder's loan to eHome. Subsequent to 30 June 2005 and up to the date of this report, both parties are still in the process of negotiating the consideration of acquisition. In the opinion of the directors, the acquisition transactions will be completed before 31 December 2005.

26. APPROVAL OF THE FINANCIAL STATEMENTS

The interim financial report were approved and authorised for issue by the board of directors on 16 August 2005.