

Report of the Directors

The directors of the Company (the “Directors”) have pleasure in submitting their report and the audited financial statements of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2005.

PRINCIPAL ACTIVITIES

The Group is principally engaged in the retailing of electrical appliances and consumer electronic products in the Mainland China. The Group’s revenue is mainly derived from business activities in Mainland China. An analysis of the Group’s income for the year is set out in note 3 to the financial statements on page 80.

FINANCIAL STATEMENTS

The results of the Group for the year are set out in the Consolidated Income Statement on page 57.

The state of affairs of the Group as at 31 December 2005 is set out in the Consolidated Balance Sheet on pages 58 and 59.

The cash flows of the Group for the year are set out in the Consolidated Cash Flow Statement on pages 61 and 62.

SHARE CAPITAL

Details of the movement in share capital of the Company are set out in note 23 to the financial statements on page 108.

DIVIDENDS

An interim dividend of 4.2 HK cents (equivalent to RMB4.4 fen) per ordinary share, amounting to a total of about RMB71,742,000, was paid to the shareholders of the Company during the year.

The Directors recommend a final dividend of 4.3 HK cents (equivalent to RMB4.5 fen) per ordinary share for the year ended 31 December 2005 to be payable to the shareholders whose names appear on the Register of Members of the Company on 3 May 2006. Subject to the approval by the shareholders of the Company of the final dividend recommended by the Directors, the dividends paid and to be paid in respect of the full year 2005 will amount to 8.5 HK cents (equivalent to RMB8.9 fen) per share.

RESERVES

The amounts and particulars of material transfers to and from reserves of the Company and of the Group during the year are set out in note 24 to the financial statements on pages 108 to 110 and in the consolidated statement of changes in equity.

As at 31 December 2005, the Company’s reserve available for distribution amounted to RMB175.81 million of which RMB73.45 million has been proposed as a final dividend for the year.

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PROPERTY, PLANT AND EQUIPMENT

The movements in property, plant and equipment during the year are set out in note 10 to the financial statements on pages 91 and 92.

PROPERTIES HELD BY THE GROUP

Details of the properties held by the Group as at 31 December 2005 are set out on page 128.

MAJOR SUPPLIERS

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

Purchases

– the largest supplier	11.7%
– five largest suppliers combined	30.4%

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

DONATIONS

During the year, the Group made charitable and other donations totaling RMB12.34 million.

DIRECTORS

The Directors who held office during the year and up to the date of this report were:

Executive Directors

Mr. WONG Kwong Yu
Ms. DU Juan
Mr. LAM Pang
Mr. NG Kin Wah

Non-Executive Director

Mr. SUN Qiang Chang (appointed on 28 February 2006)

Independent Non-Executive Directors

Mr. SZE Tsai Ping, Michael
Mr. CHAN Yuk Sang
Mr. Mark C. GREAVES (appointed on 15 April 2005)
Mr. CHEN Huai (retired on 15 April 2005)

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According to the Company's Bye-laws, at each annual general meeting of the Company, one third of the Directors (except the Director holding office as chairman or managing director of the Company) for the time being shall retire from office, and the retiring Directors shall be eligible for re-election. Mr. Lam Pang and Mr. Ng Kin Wah will retire by rotation at the forthcoming annual general meeting of the Company and they, being eligible, will offer themselves for re-election at the annual general meeting.

In addition, pursuant to the Company's Bye-laws, any Director appointed either to fill a casual vacancy or as an addition to the Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election at the meeting (but shall not be taken into account in determining the Directors or the number of Directors who are to retire by rotation at such meeting.). Accordingly, the appointment of Mr. Sun Qiang Chang and Mr. Mark C. Greaves will cease at the conclusion of the forthcoming annual general meeting and they, being eligible, will offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

None of the Directors who are proposed for re-election at the forthcoming annual general meeting of the Company has a service contract with the Company which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

DIRECTORS' INTERESTS IN CONTRACTS

Apart from the transactions which are disclosed in note 30(b) and 35 to the financial statements on page 117, and pages 121 to 124 respectively and in the section headed "Connected Transactions" hereinbelow, there were no other contracts of significance in relation to the Group's business, to which the Company, its holding company, its subsidiaries or fellow subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisting at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

During the year, Mr. Wong Kwong Yu and Ms. Du Juan, both executive Directors, have beneficial interest in an electrical appliances retail network under the brand name "GOME" and operated in different cities in the PRC by companies in which Mr. Wong and Ms. Du have interest (the "Parent Group"). As the Parent Group operated in different locations, no direct competition existed between the Parent Group and the Group. Instead, in order to maximize the competitive advantage of the Group, the Group entered into certain connected transactions with the Parent Group. Please refer to the section headed "Connected Transactions" for details. Save as disclosed above, none of the Directors had an interest in any business which competes or may compete with the business of the Group.

DIRECTORS' BENEFITS FROM RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At the annual general meeting of the Company held on 15 April 2005, the Company adopted a share option scheme (the "Share Option Scheme") pursuant to which the board of Directors may grant share option to subscribe for the shares of the Company to (inter alia) employees, executives and officers of the Group. No share option has been granted or is outstanding under the Share Option Scheme since its adoption. Save for the Share Option Scheme, the Company has no other share option scheme.

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

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2005, the interests or short positions of the Directors and chief executive of the Company in the shares, underlying shares of equity derivatives and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were recorded in the register required to be kept under Section 352 of the SFO, or which were notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers adopted by the Company were as follows:

1. Long positions in the shares of the Company

Name of Director	Number of ordinary shares held				Type of interest	Approximate % of shareholding as at 31 December 2005
	Personal interests	Interest of spouse	Corporate interests	Total		
Wong Kwong Yu	900,087	280,000 (Note 2)	1,083,419,998 (Note 1)	1,084,600,085	Beneficial owner	66.04%
Du Juan	–	1,084,320,085 (Note 1)	280,000 (Note 2)	1,084,600,085	Beneficial owner	66.04%

Notes:

1. These shares are held as to 897,382,604 shares by Shinning Crown Holdings Inc. and as to 186,037,394 shares by Shine Group Limited. Both companies are 100% beneficially owned by Mr. Wong Kwong Yu, the spouse of Ms. Du Juan.
2. These shares are held by Smart Captain Holdings Limited which is 100% beneficially owned by Ms. Du Juan, the spouse of Mr. Wong Kwong Yu.

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2. Long positions in the shares of associated corporations of the Company

Name of Director	Name of associated corporation (Note 1)	Number of shares held	Type of interest	Approximate % of shareholding in the associated corporation as at 31 December 2005
Wong Kwong Yu	GOME Appliance Co. Ltd.	N/A	Beneficial owner	35%

Note 1: GOME Appliance Co., Ltd., a subsidiary of the Company established under the laws of the PRC, is owned by Mr. Wong Kwong Yu as to 35%.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

So far as is known to any Director or chief executive of the Company, as at 31 December 2005, persons (other than Directors or chief executive of the Company as disclosed herein) who had interests or short positions in the shares or underlying shares of equity derivatives of the Company as recorded in the register required to be kept under Section 336 of the SFO were as follows:

Name of Shareholder	Nature	Number of ordinary shares held	Approximate % of Shareholding 31 December 2005
The Capital Group Companies, Inc. (Note 1)	Long position	114,664,000	6.98%
Morgan Stanley (Note 2)	Long position	104,366,225	6.35%
	Short position	2,957,209	0.18%
JP Morgan Chase & Co. (Note 3)	Long position	101,152,000	6.16%

Notes:

- 1: These Shares were held by The Capital Group Companies, Inc. in its capacity as investment manager.
- 2: Morgan Stanley was interested in these Shares through its interests in controlled corporations.
- 3: 37,190,000 Shares were held by JP Morgan Chase & Co as investment manager and 63,962,000 Shares were held in its capacity as custodian corporation.

SUBSIDIARIES

Details of the Company's principal subsidiaries at 31 December 2005 are set out in note 14 to the financial statements on pages 96 to 102.

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CONNECTED TRANSACTIONS

Details of connected transactions are set out in notes 18, 27, 30(b) and 35 to financial statements on pages 104 and 105, 112, 117 and 121 to 124.

During the year, the Group entered into the following transactions and arrangements with connected persons (as defined in the Listing Rules) of the Company:

- (1) On 17 March 2005, the Group entered into a conditional supply agreement with Beijing GOME Electrical Appliance Co. Ltd. ("Beijing GOME"), a company beneficially owned by Mr. Wong, pursuant to which the Group agreed to sell electrical appliances and consumer electronic products to Beijing GOME from time to time on an at-cost basis for a term of three financial years ending 31 December 2007, subject to the annual caps of HK\$400 million (excluding value added tax), HK\$500 million (excluding value added tax) and HK\$550 million (excluding value added tax) respectively. During the year, the total amount of sales made under the aforesaid agreement was approximately RMB321.73 million (about HK\$306.41 million).
- (2) On 17 March 2005, the Group entered into a conditional purchase agreement with Beijing GOME pursuant to which the Group agreed to purchase electrical appliances and consumer electronic products from Beijing GOME from time to time on an at-cost basis for a term of three financial years ending 31 December 2007, subject to the annual caps of HK\$400 million (excluding value added tax), HK\$500 million (excluding value added tax) and HK\$550 million (excluding value added tax) respectively. During the year, the total amount of purchases made under the aforesaid agreement was approximately RMB291.37 million (about HK\$277.49 million).
- (3) The Group negotiated with various suppliers for both the Group and the Parent Group on a centralized basis to benefit from the volume purchases and to secure more favorable terms with suppliers. The Group provided purchasing services to the Parent Group (other than GOME Home Appliances (H.K.) Limited ("Hong Kong GOME")), and charged the Parent Group a fee at the rate of 0.9% of the revenue generated from the sales of the Parent Group (other than Hong Kong GOME) which was determined with reference to the gross profit margin of the Parent Group. The caps of the purchasing service fee for each of the three years ending 31 December 2006 are RMB55.0 million, RMB85.0 million and RMB125 million respectively. The purchasing service fees charged during the year was approximately RMB83.9 million.
- (4) The Parent Group is managed by the same management team of the Group for systematic brand building, enhanced market information and optimizing the use of resources in the PRC and Hong Kong. The Group will charge the Parent Group at the rate of 0.75% of the total revenue of the Parent Group if the revenue is equal to or less than RMB5.0 billion or at the rate of 0.6% if the revenue exceeds RMB5.0 billion, which is determined with reference to the expected expenses of the head office level to be allocated to the Parent Group and the expected revenue to be generated from the Parent Group based on the anticipated business growth. The caps of the management fee for each of the three year ending 31 December 2006 are RMB43.0 million, RMB65.0 million and RMB101.0 million respectively. The management fees charged during the year was RMB60.5 million.

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- (5) The Parent Group has set up counters in 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 RMB12 per square meter per day; and (2) 5.0% of the total revenue generated from sales of the audio and visual products of the Parent Group. The caps of the sub-lease income for each of the three years ending 31 December 2006 are RMB50.0 million, RMB115.0 million and RMB140.0 million respectively. The total sub-lease income charged for the year was approximately RMB33.26 million.
- (6) The Group entered into a lease agreement dated 20 December 2003 with Beijing Xinhengji Property Co., Ltd. (“Beijing Xinhengji”) pursuant to which the Group agreed to lease the premises situated at 18th Floor, Eagle Plaza, No.26 Xiaoyun Road, Chaoyang District, Beijing from Beijing Xinhengji for a term of two years with effect from 1 January 2004 for a monthly rental of US\$43,618.9 which was determined with respect to the prevailing market rental of the offices within the same district. The rental payment to Beijing Xinhengji for the year was approximately RMB3.36 million.

All independent non-executive Directors have reviewed the above-mentioned continuing connected transactions and confirmed that they were entered into:

1. in the ordinary and usual course of business of the Group;
2. either on normal commercial terms or on terms no less favourable to the Group than those available to or from independent third parties; and
3. in accordance with the relevant agreement(s) governing the above-mentioned continuing connected transactions on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Furthermore, the auditors of the Company have confirmed to the board of Directors that the above-mentioned continuing connected transactions:

1. have been approved by the board of Directors;
2. have not exceed the respective caps stated in the relevant announcements;
3. have been entered into in accordance with the terms of the relevant agreements governing such transactions; and
4. are in accordance with the pricing policies of the Group where such transactions involved the provision of goods or services by the Group.

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CONTINUING DISCLOSURE OBLIGATION

The total market capitalization of the Company was approximately HK\$8,622.85 million as at 31 December 2005 (the "Total Market Capitalisation"). The receivable balance due from Mr. Wong and his associates to the Group amounted to approximately RMB840.08 million (about HK\$807.77 million) as at 31 December 2005, representing more than 8% of the Total Market Capitalisation. The receivable balance in the sum of RMB840.08 million represented:

- (1) the consideration for disposal of a property project in Beijing amounted to approximately RMB791.89 million. The balance is guaranteed by Mr. Wong and payable before 15 December 2006. The interest rate is 4.5% per annum and interest amounted to RMB1.56 million was accrued up to 31 December 2005; and
- (2) RMB46.63 million resulted from the continuing connected transactions, including sales and purchases between Mr. Wong's associates and the Company, management service provided by the Group and sub-lease rental income from the audio and visual stores. The balance is unsecured, interest-free and has no fixed term of repayment.

EMPLOYEE AND REMUNERATION POLICY

As at 31 December 2005, the Group employed a total of 22,171 employees. The Group recruits and promotes individuals based on merit and their development potentials. Remuneration package offered to all employees including Directors is determined with reference to their performance and the prevailing salary levels in the market.

COMMITMENTS

Details of commitments are set out in note 34 to the financial statements on pages 120 and 121.

INDEPENDENCE CONFIRMATION

The Company has received from each of the independent non-executive Directors a confirmation of independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The board of Directors is satisfied with the independence of each of the independent non-executive Directors.

CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance and has complied with the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules except with deviations from the code provisions (i) A.1.3 in respect of the period of notice given to directors for regular board meetings; (ii) A.2.1 in respect of separate roles of chairman and chief executive officer, and (iii) A.4.2 in respect of re-election of director appointed to fill a casual vacancy respectively. With respect to the code provision A.4.2, amendments to the By-laws of the Company will be proposed at the forthcoming annual general meeting of the Company for the shareholders' approval. Further information on the Company's corporate governance practices is set out in the Corporate Governance Report on pages 46 to 55.

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EXCHANGE RATES EXPOSURE

Details of the exchange rates exposure are set out in note 36 to the financial statements on page 125.

PURCHASE, SALE AND REDEMPTION OF SHARES

During the year ended 31 December 2005, the Company had not redeemed and neither the Company nor any of its subsidiaries had purchased or sold any of the Company's listed securities.

POST BALANCE SHEET EVENTS

Details of the post balance sheet events are set out in note 37 to the financial statements on page 125.

FIVE YEARS FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for the past five years is set out on page 127.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year.

AUDITORS

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

On behalf of the Board

Du Juan

Director

Hong Kong, 22 March 2006