

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The Company is committed to upholding good corporate governance practices. In the past, the board of Directors (the "Board") and the management of the Company have been continually reviewing and enhancing its corporate governance practices. The Board believes that its continued efforts have, directly and indirectly, contributed to the strong growth of the Group in the past years and will provide a solid foundation for achieving further business growth, broadening investors base, promoting high standards of accountability and transparency, all of them will ultimately create value to the shareholders of the Company.

The Stock Exchange of Hong Kong Limited (the "Stock Exchange") introduced the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") effective from 1 January 2005.

Subject to certain transitional arrangement in respect of code provision C.2 regarding internal controls and related disclosure requirements, the CG Code is effective for accounting periods commencing on or after 1 January 2005.

The Board responded promptly in 2005 to review its corporate governance practices and took appropriate actions to ensure that they are in compliance with the CG Code.

The Company has complied with the code provisions of the CG Code, except 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.

Set out below are the status and details of compliance by the Company of the CG Code in the year ended 31 December 2005.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the directors of the Company (the "Directors"). Having made specific enquiry to each of the Directors, the Company confirms that all Directors have complied with the Model Code during the year ended 31 December 2005.

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BOARD OF DIRECTORS

Board composition

As at 31 December 2005, the Board members were:

Mr. Wong Kwong Yu	<i>(Executive Director and Chairman)</i>
Ms. Du Juan	<i>(Executive Director)</i>
Mr. Lam Pang	<i>(Executive Director)</i>
Mr. Ng Kin Wah	<i>(Executive Director)</i>
Mr. Sze Tsai Ping, Michael	<i>(Independent non-executive Director)</i>
Mr. Chan Yuk Sang	<i>(Independent non-executive Director)</i>
Mr. Mark C. Greaves	<i>(Independent non-executive Director)</i>

Mr. Sun Qiang Chang has been appointed as a non-executive Director with effect from 28 February 2006. Currently, the Board comprises four executive Directors, one non-executive Director and three independent non-executive Directors.

The biographical details of the Board members are set out on pages 34 and 35 of this Annual Report.

All non-executive Directors are appointed with specific term of one year, eligible for re-election at the end of the term. The Board has confirmed with each of the independent non-executive Directors as to his independence with reference to the factors as set out in Rule 3.13 of the Listing Rules. The Board is satisfied with the independence of the independent non-executive Directors.

Ms. Du Juan, an executive Director, is the spouse of Mr. Wong Kwong Yu, an executive Director and the chairman of *the Company*. Mr. Wong and Ms. Du jointly own various investment holding companies.

Roles and functions

The Board is responsible for formulating the strategic business development, reviewing and monitoring the business performance of the Group, approving major funding and investment proposals, as well as preparing and approving the financial statements of the Group.

The Board has given clear directions as to the powers delegated to the management for the administrative and management functions of the Group.

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For the year ended 31 December 2005, the Board:–

1. reviewed the performance of the Group and formulated business strategy of the Group;
2. reviewed and approved the annual results of the Group for the year ended 31 December 2004 and the interim results of the Group for the 6 months ended 30 June 2005 and for the nine months ended 30 September 2005;
3. approved the re-appointment of the auditors of the Group;
4. reviewed and approved the change of company secretary of the Company;
5. reviewed and approved the appointment of independent non-executive Director;
6. reviewed and approved the share option scheme of the Company;
7. reviewed and approved the general mandates to issue and repurchase shares of the Company;
8. reviewed and approved the continuing connected transactions of the Group;
9. approved the establishment of the Remuneration Committee and the Nomination Committee of the Board;
10. reviewed and approved the agreements relating to the sale of Eagle Legend Futures Limited and Eagle Legend Securities Limited; and
11. reviewed and approved the discloseable and connected transaction in respect of disposal of the interests in Artway Development Limited and Bestly Legend Limited.

In addition, the Board also reviewed and approved the issue of (i) US\$125 million 1.5% unlisted and unsecured convertible bonds due 2011, and (ii) US\$25 million unlisted warrants in January 2006, details of such transactions are set out in the Company's announcements dated 2 February 2006 and 1 March 2006.

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The Board meets regularly at least once a quarter and additional meetings are convened as and when the Board considers necessary. In 2005, 19 Board meetings (including 4 regular Board meetings) were held. Details of the Directors' attendance record in the year are as follows:

Directors	Attendance
Mr. Wong Kwong Yu	4/19 (3/4)*
Ms. Du Juan	17/19 (3/4)*
Mr. Lam Pang	19/19 (4/4)*
Mr. Ng Kin Wah	19/19 (4/4)*
Mr. Sze Tsai Ping, Michael	5/19 (4/4)*
Mr. Chan Yuk Sang	5/19 (4/4)*
Mr. Mark C. Greaves	3/19 (3/4)*

* *Regular Board meetings – Apart from all regular Board meetings, the Board also met to discuss the day-to-day operations and other affairs pursuant to which the independent non-executive Directors were not required to attend.*

Board members are provided with complete, adequate and timely information to allow them to fulfill their duties properly. Code provision A.1.3 of the CG Code requires that notice of at least 14 days should be given of a regular board meeting to give all directors an opportunity to attend. Notice and agenda of regular Board meetings are sent to all Directors within reasonable time prior to the meetings. Where the Board considers necessary and desirable to hold a regular Board meeting with notice less than 14 days, the Board will first consult the Directors whether a shorter notice period is acceptable to them and if so, a regular Board meeting will be fixed accordingly. During the year under review, the average notice period for regular Board meetings given to the Directors is about 7 days. Documents relating to a regular Board meeting are sent to all Directors at least 3 days prior to such meeting.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

During the year under review, the Company did not have any officer with the title "chief executive officer". The duties of a chief executive officer were substantially undertaken by Mr. Wong Kwong Yu, the chairman of the Company until October 2005, during which Mr. Wong was responsible for overseeing the operations of the Group in Mainland China. A policy and execution committee of GOME Appliance Co. Ltd. (the principal operating subsidiary of the Company in the PRC), was formed in October 2005 and since then, Mr. Wang Junzhou, the chairman of this committee has undertaken the responsibility of overseeing the operations of the Group in Mainland China and executing the decisions of the Board. Mr. Wong continues to serve as the chairman of the Company and be primarily responsible for providing leadership to the Board.

BOARD COMMITTEES

As at 31 December 2005, the Board established the following committees:

1. Remuneration Committee;
2. Nomination Committee; and
3. Audit Committee.

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Remuneration Committee

The Remuneration Committee was established on 10 November 2005 with terms of reference substantially the same as those contained in paragraph B.1.3 of the CG Code. A majority of the members of the Remuneration Committee is independent non-executive Directors and members of the committee are as follows:

Mr. Mark C. Greaves	<i>(Independent non-executive Director and chairman of the Remuneration Committee)</i>
Mr. Sze Tsai Ping, Michael	<i>(Independent non-executive Director)</i>
Mr. Chan Yuk Sang	<i>(Independent non-executive Director)</i>
Ms. Du Juan	<i>(Executive Director)</i>
Mr. Ng Kin Wah	<i>(Executive Director)</i>

The Remuneration Committee is primarily responsible for the following duties:

1. to make recommendations to the Board on the Company's policy and structure for all remuneration of Directors and senior management and on the establishment of a formal and transparent procedure for developing the policy on such remuneration;
2. to have the delegated responsibilities to determine the specific remunerations packages of all executive Directors and senior management;
3. to review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time;
4. to review and approve the compensation payable to executive Directors and senior management in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not excessive for the Company;
5. to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is otherwise reasonable and appropriate; and
6. to ensure that no Director or any of his/her associates is involved in deciding his/her own remuneration.

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The Remuneration Committee will meet at least once each year. During the year under review, no Remuneration Committee meeting has been held since its establishment on 10 November 2005. The first Remuneration Committee meeting was held on 22 March 2006 considering and approving the plan for review of the remuneration policy of the Group. Attendance records of the members of the Remuneration Committee of such meeting are as follows:

Committee member	Attendance
Mr. Mark C. Greaves	1/1
Mr. Sze Tsai Ping, Michael	1/1
Mr. Chan Yuk Sang	1/1
Ms. Du Juan	1/1
Mr. Ng Kin Wah	1/1

During the year under review, a Board meeting was held on 10 November 2005 to establish the Remuneration Committee and adopt its terms of reference pursuant to which Ms. Du Juan, Mr. Lam Pang, Mr. Ng Kin Wah, Mr. Chan Yuk Sang and Mr. Sze Tsai Ping, Michael attended the said Board meeting, and a Board meeting was held on 28 December 2005 to approve the revision of the remuneration of Mr. Chan Yuk Sang and Mr. Sze Tsai Ping, Michael, both independent non-executive Directors, pursuant to which Ms. Du Juan, Mr. Lam Pang and Mr. Ng Kin Wah attended the said Board meeting.

Nomination Committee

The Nomination Committee was established on 10 November 2005 with terms of reference substantially the same as those contained in paragraph A.4.5 of the CG Code. A majority of the members of the Nomination Committee is independent non-executive Directors, As at 31 December 2005, members of the committee were as follows:

Mr. Chan Yuk Sang	<i>(Independent non-executive Director and chairman of the Nomination Committee)</i>
Mr. Sze Tsai Ping, Michael	<i>(Independent non-executive Director)</i>
Mr. Mark C. Greaves	<i>(Independent non-executive Director)</i>
Ms. Du Juan	<i>(Executive Director)</i>
Mr. Ng Kin Wah	<i>(Executive Director)</i>

Mr. Sun Qiang Chang has been appointed a member of the Nomination Committee with effect from 28 February 2006. Currently, the Nomination Committee comprises 6 members.

The Nomination Committee is primarily responsible for the following duties:

1. to review the structure, size and composition (including the skills, knowledge and experience) of the Board on a regular basis and make recommendations to the Board regarding any proposed changes;
2. to identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships;
3. to assess the independence of independent non-executive Directors, having regard to the requirements under the applicable laws, rules and regulations; and
4. to make recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors and succession planning for Directors and, in particular, the chairman and the chief executive officer (if any) of the Company.

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The Nomination Committee will meet at least once each year. During the year under review, no Nomination Committee meeting has been held since its establishment on 10 November 2005. The first Nomination Committee meeting was held on 22 March 2006 reviewing the structure, size and composition of the Board, assessing the continual independence of the independent non-executive Directors, and considering and recommending the re-election of the retiring Directors. Attendance records of the members of the Nomination Committee of such meetings are as follows:

Committee member	Attendance
Mr. Chan Yuk Sang	1/1
Mr. Sze Tsai Ping, Michael	1/1
Mr. Mark C. Greaves	1/1
Mr. Sun Qiang Chang	1/1
Ms. Du Juan	1/1
Mr. Ng Kin Wah	1/1

In selecting a suitable candidate to become a member of the Board, the Board will consider various criteria such as education, qualification, experience and reputation of such candidate.

During the year under review, a Board meeting was held on 15 March 2005 to consider and approve the conditional appointment of Mr. Mark C. Greaves as an independent non-executive Director subject to the approval of the Shareholder of the Company at the annual general meeting of the Company held on 15 April 2005, pursuant to which Ms. Du Juan, Mr. Lam Pang and Mr. Ng Kin Wah attended the said Board meeting, and a Board meeting was held on 10 November 2005 to establish the Nomination Committee and adopt its terms of reference pursuant to which Ms. Du Juan, Mr. Lam Pang, Mr. Ng Kin Wah, Mr. Chan Yuk Sang and Mr. Sze Tsai Ping, Michael attended the said Board meeting.

Code provision A.4.2 requires that every director should be subject to retirement by rotation at least once every three years and all directors appointed to fill a casual vacancy should be subject to election at the first general meeting after his/her appointment.

Bye-law 102 of the Company's Bye-laws provides that any Director appointed 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 be eligible for re-election (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). The Board will propose relevant amendments to be made to the Company's Bye-laws for approval by the shareholders at the forthcoming annual general meeting of the Company such that any Director appointed to fill a casual vacancy shall be subject to election by shareholders of the Company at the first general meeting after his/her appointment.

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Pursuant to Bye-law 99(A) of the Company's Bye-laws, at each annual general meeting of the Company, at least one third of the Directors for the time being shall retire from office, except the director holding office as chairman or managing director of the Company. The Company has reviewed its Bye-laws and the Private Act adopted by the Company in Bermuda in 1992 with reference to the code provision A.4.2 of the CG Code and noted that section 4(e) of the Private Act stipulates that any chairman or managing director of the Company shall not be subject to retirement by rotation under the Bye-laws of the Company. In the circumstances, any proposed amendments to the Company's Bye-laws shall take into account of the provisions of the Company's Private Act, which the Company is subject to. Accordingly, the Board will propose relevant amendments to be made to the Company's Bye-laws for approval by the shareholders at the forthcoming annual general meeting of the Company such that every director, including those appointed for a specific term (save for any chairman and managing director under the Company's Private Act), shall be subject to retirement by rotation at least once every three years.

ACCOUNTABILITY AND AUDIT

The Directors have acknowledged by issuing a management representation letter to the Auditors that they bear the ultimate responsibility of preparing the financial statements of the Group.

AUDIT COMMITTEE

The Audit Committee was established in 2004 and currently consists of the following members:

Mr. Sze Tsai Ping, Michael	<i>(Independent non-executive Director and chairman of the Audit Committee)</i>
Mr. Chan Yuk Sang	<i>(Independent non-executive Director)</i>
Mr. Mark C. Greaves	<i>(Independent non-executive Director)</i>

The Audit Committee has adopted a written terms of reference substantially the same as those contained in paragraph C.3.3 of the CG Code.

The Audit Committee is primarily responsible for, inter alia, the following duties:

1. to make recommendation to the Board on the appointment, re-appointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any questions of resignation or dismissal of that auditor;
2. to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standard;
3. to develop and implement policy on the engagement of an external auditor to supply non-audit services;
4. to monitor integrity of financial statements of the Company and the Company's annual report and accounts, half-year report and quarterly report and to review significant financial reporting judgments contained in them;
5. to review the Company's financial controls, internal control and risk management systems;

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6. to discuss with management the system of internal control and ensure that management has discharged its duty to have an effective internal control system;
7. to review the group's financial and accounting policies and practices; and
8. to review the external auditor's management letter, any material queries raised by the auditor to the management in respect of the accounting records, financial accounts or systems of control and management's response, and to ensure that the Board provide a timely response to the issues raised.

The Audit Committee will meet at least twice each year. In 2005, the Audit Committee met twice considering the annual results of the Group for the financial year ended 31st December 2004 and the interim results of the Group for the 6 months ended 30th June 2005, discussing with the auditors of the Company on internal control, auditors' independence, auditors' remuneration and the scope of work in relation to the annual audit and the transfer pricing issue in PRC and reviewing the continuing connected transactions of the Group. Attendance records of the Audit Committee members in 2005 are as follows:

Committee member	Attendance
Mr. Sze Tsai Ping, Michael	2/2
Mr. Chan Yuk Sang	2/2
Mr. Mark C. Greaves	1/2

The amount of fees payable to Ernst & Young, the auditors of the Company, for the year ended 31 December 2005 is RMB3,727,000 (2004: RMB2,756,000). The amount of remuneration payable to the auditors of the Company relating to non-audit services (for transfer pricing issue in PRC) for the year ended 31 December 2005 is RMB1,312,000 (2004: HK\$Nil). The Audit Committee is of the view that the auditors' independence was not affected by the provision of such non-audit related services to the Group.

Pursuant to the Bye-laws of the Company, the terms of appointment of the auditors of the Company will expire at the end of the forthcoming annual general meeting. The Audit Committee has recommended to the Board that Ernst & Young be nominated for re-appointment as the auditors of the Company at the forthcoming annual general meeting of the Company.

INTERNAL CONTROLS

Management had implemented a system of internal controls to provide reasonable assurance that the Group's assets are safeguarded, proper accounting records are maintained, appropriate legislation and regulations are complied with, reliable financial information are provided for management and publication purposes and investment and business risks affecting the Group are identified and managed.

The Board has reviewed the effectiveness of the Group's material internal controls and is satisfied that, based on information furnished to it and on its own observations, the present internal controls of the Group are satisfactory.

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SHAREHOLDERS' RIGHTS

The Company is committed to ensure shareholders' interest. To this end, the Company communicates with its shareholders through various channels, including annual general meetings, special general meetings, annual and half-yearly reports, notices of general meetings and circulars sent to shareholders by post, announcements on the website of the Stock Exchange, and press releases and other corporate communications available on the Company's website. Since September 2005, the Company has established the practice, on a voluntary basis, of publishing quarterly results of the Group on newspapers and the website of the Stock Exchange to provide better disclosure to the financial market and to the existing and potential shareholders of the business performance of the Group.

Registered shareholders are notified by post of the shareholders' meetings. Any registered shareholder is entitled to attend and vote at the annual and special general meetings, provided that his/her/its shares have been fully paid up and recorded in the register of members of the Company.

Shareholders or investors can make enquiries or proposals to the Company by putting their enquiries or proposals to the Company through the contact details listed under the section headed "Investor Relations".

INVESTOR RELATIONS

The Company regards the communication with institutional investors as an important means to enhance the transparency of the Company and collecting views and feedbacks from institutional investors. In the year under review, the Directors and senior management of the Company participated in numerous road shows covering America, Europe and Asia (Japan and Singapore). In addition, the Company also maintains regular communication with the media through press conferences, news releases to the media and on the Company's website, and answering enquiries from the media.

Shareholders, investors and the media can make enquiries to the Company through the following means:

Telephone number:	2122 9133
By post:	Unit 6101, 61st Floor The Center 99 Queen's Road Central Hong Kong
Attention:	Corporate Finance & Development Department
By email:	info@gome.com.hk