Notes to the Consolidated Financial Statements

31 December 2005

1. CORPORATE INFORMATION

GOME Electrical Appliances Holding Limited (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.

In the opinion of the directors, the ultimate holding company is Shining Crown Holdings Inc., which is incorporated in the British Virgin Islands.

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. During the year, the Group had disposed of its securities and futures broking operation.

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 date from 31 March 2005 to 31 December 2004 and, as a result, the Company's comparative financial statements were presented for a period of nine months rather than for a period of twelve months. 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 year ended 31 December 2005.

Starting from 21 July 2005, the Peoples Republic of China has reformed the exchange rate regime by moving into a managed floating exchange rate regime based on market supply and demand with reference to a basket of currencies. The Renminbi ("RMB") is no longer pegged to the United States dollar ("US$"). Trading prices of the US$ and other non-US$ currencies against the Renminbi will be allowed to move within a certain band announced by the People's Bank of China.

The Company's consolidated financial statements for the year ended 31 December 2005 are presented in Renminbi, which is different from the presentation currency of the Company's consolidated financial statements for the nine-month period ended 31 December 2004 of Hong Kong dollars. These financial statements are presented in Renminbi because management consider that a substantial majority of the Group's transactions are denominated in Renminbi and the Group primarily generates and expends cash in Renminbi. Accordingly, the change of presentation currency from Hong Kong dollars to Renminbi presents reliable and more relevant information about the Group's transactions. The comparative amounts to these consolidated financial statements have been adjusted to achieve comparability with the current period. The change of presentation currency and restatement of the comparative amounts from Hong Kong dollars to Renminbi had no material impact on the Group's consolidated financial statements for the periods presented.

2.1 BASIS OF PREPARATION

These consolidated financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at fair values: other financial assets, investments held for trading and investment properties. Disposal groups and non-current assets held for sale are stated at the lower of carrying amount and fair value less costs to sell. These financial statements are presented in RMB and all values are rounded to the nearest thousand except when otherwise indicated.

2.1 BASIS OF PREPARATION *(Continued)*

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"), which include International Accounting Standard ("IAS") and Interpretations, promulgated by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance.

Basis of consolidation

These consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December each year. The financial statements of the subsidiaries are prepared for the same reporting year as the Company, using consistent accounting policies.

All intragroup balances, transactions, income and expenses and profits and losses resulting from intragroup transactions that are recognised in assets are eliminated in full.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

2.2 IMPACT OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS AND INTERNATIONAL ACCOUNTING STANDARDS

The International Accounting Standards Board has issued a number of new and revised IFRSs, which are effective for accounting periods beginning on or after 1 January 2005. The following sets out information on the significant changes in accounting policies for the current and prior accounting periods reflected in these financial statements.

IAS 1 has affected the presentation of minority interests on the face of the consolidated balance sheet, consolidated income statement, consolidated statement of changes in equity and other disclosures.

IAS 24 has expanded the definition of related parties and resulted in additional related party disclosures for the Group.

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 and is applied prospectively.

Saved as disclosed above, the adoption of the new and revised standards did not result in substantial changes to the Group's accounting policies nor any significant financial impact to the Group.

2.2 IMPACT OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS AND INTERNATIONAL ACCOUNTING STANDARDS *(Continued)*

The Group has not applied IFRS 7, Financial instruments: Disclosures, which has been issued but is not yet effective. IFRS 7 will replace IAS 32 and has modified the disclosure requirements of IAS 32 relating to financial instruments. The IFRS 7 will be applied for financial reporting periods beginning on or after 1 January 2007. The Group expects that the adoption of IFRS 7, Financial instruments: Disclosures, will have no impact on the Group's financial statements upon initial application.

2.3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Inventories

The Group does not have a general provisioning policy on inventories based on ageing given the nature of inventories and the purchase return or exchange protections from suppliers. However, operational procedures have been in place to monitor this risk as the majority of working capital is devoted to inventories. The Company reviews its inventory ageing listing on a periodical basis, which involves a comparison of the carrying value of the aged inventories with the respective net realisable value. The purpose is to ascertain whether allowance is required to be made in the consolidated financial statements for any obsolete and slow-moving inventories. In addition, physical counts are carried out on a periodical basis in order to determine whether allowance needs in respect of any obsolete and defective inventories identified. In this regard, the Group is satisfied that as this risk is minimal and accordingly no provision for obsolete and slow-moving inventories is required as at 31 December 2005.

Income taxes

The determination of income tax provisions involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates the tax implications of transactions, and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all the changes in the tax legislation and practices.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below:

Goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interest in subsidiaries are stated at cost less any impairment losses.

Foreign currencies

As further disclosed in note 1 to the consolidated financial statements, the consolidated financial statements are presented in Renminbi, which is different from the Company's functional currency of Hong Kong dollars.

Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded at the functional currency exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the consolidated income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate ruling at the date of initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Renminbi at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries, which arise throughout the year, are translated into Renminbi at the weighted average exchange rates for the year.

Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing a particular type of 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition

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) Sale of goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer.

(ii) 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 when these services have been provided in accordance therewith.

(iii) Management fee income from the Parent Group and contractors for air-conditioner installation

Revenue is recognised when such services have been rendered.

(iv) Royalty income from franchise stores

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

(v) Interest income

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

Government grants

Government grants are recognised at their fair values when there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the consolidated income statement over the expected useful life of the relevant assets by equal annual instalments. Government grants received where the attaching conditions have not yet been fulfilled are recognised as liabilities.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Employee benefits

Salaries, bonuses, paid annual leave 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.

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

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 does not have realistic possibility of withdrawal.

Taxes

Current tax

Current tax assets and liabilities for the current and prior periods are measured at the amounts expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amounts are those that are enacted or substantively enacted by the balance sheet date.

Deferred tax

Deferred income tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxes *(Continued)*

Deferred tax (Continued)

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- there the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income tax relating to items recognised directly in equity is recognised in equity and not in the consolidated income statement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxes *(Continued)*

Deferred tax (Continued)

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Sales tax

Revenues, expenses and assets are recognised net of the amount of sales tax except:

- where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables that are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the consolidated balance sheet.

Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Related parties *(Continued)*

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

Leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the consolidated income statement on the straight-line basis over the lease terms.

Impairment of assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's 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. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. 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. Impairment losses of continuing operations are recognised in the consolidated income statement in those expense categories consistent with the function of the impaired asset.

Impairment of financial assets

The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

If there is objective evidence that an impairment loss on receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through use of an allowance account. The amount of the loss shall be recognised in profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets *(Continued)*

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and provision for any impairment in value.

The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after assets have been put into operation, such as repairs and maintenance, is normally charged to the consolidated income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the asset, the expenditure is capitalised as an additional cost of that asset.

Depreciation of property, plant and equipment is calculated on the straight-line basis over its expected useful life, after taking into account its estimated residual value of 5% -10%, as follows:

Buildings	40 years
Leasehold improvements	The shorter of remaining lease terms and 5 years
Equipment and fixtures	4 - 15 years
Motor vehicles	5 years

Construction in progress represents stores and storage facilities under construction, or renovation works in progress and is stated at cost less any impairment loss, and is not depreciated. Cost comprises development and construction expenditure incurred and other direct costs attributable to the development less any accumulated impairment losses. On completion, the relevant assets are transferred to property, plant and equipment at cost less accumulated impairment losses.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment *(Continued)*

The carrying values of property, plant and equipment are reviewed for impairment either annually, or when events or changes in circumstances indicate that the carrying values may not be recoverable (whichever is earlier). If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. The recoverable amount of property, plant and equipment is the greater of the net selling price and value in use. 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 consolidated income statement.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year the item is derecognised.

Investment properties

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the balance sheet date. Gains or losses arising from changes in the fair values of investment properties are included in the consolidated income statement in the year in which they arise.

Investment properties are derecognised when either they have 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 retirement or disposal of an investment property are recognised in the consolidated income statement in the year of retirement or disposal.

Intangible assets

Intangible assets acquired separately are capitalised at cost, and those acquired from a business combination 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. The amortisation period and amortisation method for an intangible asset with a finite useful life is reviewed at least at each balance sheet date.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Intangible assets *(Continued)*

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.

Goodwill

Goodwill on business combination 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 acquired, and liabilities and contingent liabilities assumed. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill relating to acquisitions is not amortised. 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 the 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 (group of cash-generating units), and part of the operation within that unit is 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. An impairment loss is not reversed in a subsequent period.

If the Group's acquired interest in the net fair value of the identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the Group shall reassess the identification and measurement of the acquiree's identifiable assets, liabilities and contingent liabilities and the measurement of the cost of the combination and recognise immediately in profit or loss any excess remaining after that reassessment.

Goodwill arising on the acquisition of a minority interest is measured at cost being the excess of the cost of the transaction over the carrying value of the minority interest acquired. Following initial recognition, goodwill is not amortised. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

Investments and other financial assets

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, held-to-maturity investments, receivables or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, revaluates this designation at each financial year end.

All regular way purchases and sales of financial assets are recognised on the trade date i.e., the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category "financial assets at fair value through profit or loss". Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated and effective hedging instruments. Gains or losses on investments held for trading are recognised in the consolidated income statement.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity when the Group has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Other long term investments that are intended to be held to maturity, such as bonds, are subsequently measured at amortised cost. This cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortised cost, gains and losses are recognised in the consolidated income statement when the investments are derecognised or impaired, as well as through the amortisation process.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Receivables

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in income when the receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified in any of the three preceding categories. After initial recognition, available for sale financial assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the consolidated income statement.

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument, which is substantially the same, discounted cash flow analysis and option pricing models.

Cash and cash equivalents

For the purpose of the consolidated balance sheet, cash and cash equivalents comprise cash at banks and on hand and short term deposits, which are not restricted as to use. For the purpose of the consolidated cash flow statement, cash and cash equivalents consist of cash at banks and on hand and short term deposits with an original maturity of three months or less, net of outstanding bank overdrafts.

Property project held for sale

The property project held for sale is recognised at the lower of carrying value or fair value less cost to sell.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation provided and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money 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. Where discounting is used, the increase in the provision due to the passage of time is recognised as an interest expense.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Bonus point liabilities

Bonus point liabilities are recognised at fair value based on the bonus points granted to customers in accordance with the announced bonus points scheme and the anticipated level of redemption of bonus points.

Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any transaction cost, and any discount or premium on settlement.

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

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Derecognition of financial assets and liabilities *(Continued)*

Financial assets (continued)

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

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.

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.

3. REVENUE AND OTHER INCOME

(a) The principal activities of the Group comprise the retailing of electrical appliances and consumer electronic products.

Revenue represents the net invoiced value of goods sold, after allowances for returns and trade discounts. The amount of each significant category of revenue recognised in revenue during the year/period is as follows:

	Group	
	Year ended 31 December 2005 *RMB'000*	Nine-month period ended 31 December 2004 *RMB'000* *(Restated)* *(note 1)*
Sale of electrical appliances and consumer electronic products	**17,954,796**	9,705,556
Others	**4,462**	10,347
	17,959,258	9,715,903

(b) Other income comprises the following:

		Group	
	Notes	**Year ended 31 December 2005** *RMB'000*	Nine-month period ended 31 December 2004 *RMB'000* *(Restated)* *(note 1)*
Income from suppliers:			
Promotion income		**316,510**	145,277
Management fee income		**66,475**	40,267
Display space leasing fees		**63,768**	40,558
Product listing fees		**45,954**	21,857
Management fee from the Parent Group*	*35(a)*	**144,420**	60,086
Management fees for air-conditioner installation		**48,331**	29,933
Government grants**		**16,153**	8,605
Excess over the cost of a business combination	*29(b)*	**6,415**	–
Other income		**32,509**	39,382
		740,535	385,965

* The parent Group is defined in note 35 to the consolidated financial statements.

** 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 year/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 the PRC.

5. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Notes	Group Year ended 31 December 2005 RMB'000	Group Nine-month period ended 31 December 2004 RMB'000 (Restated) (note 1)
Cost of inventories recognised as expenses		**16,307,478**	8,762,730
Depreciation		**52,381**	28,260
Amortisation of intangible assets		**8**	18
Loss on disposal of subsidiaries	*30*	**6,960**	–
Loss on disposal of property, plant and equipment		**62**	1,751
Excess over the cost of a business combination	*29(b)*	**(6,415)**	–
Minimum lease payments under operating leases in respect of buildings		**446,404**	167,275
Loss on trading of securities, foreign exchange and futures contracts		**25**	24,475
Auditors' remuneration*		**3,727**	2,756
Staff costs excluding directors' remuneration:			
Wages, salaries and bonuses		**337,169**	149,975
Pension costs		**34,360**	15,050
Social welfare and other costs		**34,098**	16,574
		405,627	181,599

* Including non-audit service of RMB1,312,000 (Nine-month period ended 31 December 2004: Nil)

6. FINANCE (COSTS)/INCOME

	Group	
	Year ended 31 December 2005 *RMB'000*	Nine-month period ended 31 December 2004 *RMB'000* *(Restated)* *(note 1)*
Finance costs:		
Expense	–	(2,200)
Finance income:		
Bank interest income	67,220	15,797
Other interest income	3,085	8,614
Net foreign exchange gain	–	(10)
	70,305	24,401

7. REMUNERATION OF DIRECTORS AND FIVE HIGHEST PAID EMPLOYEES

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

	Year ended 31 December 2005 *RMB'000*	Nine-month period ended 31 December 2004 *RMB'000* *(Restated)* *(note 1)*
Fees	578	329
Other emoluments:		
Salaries, allowances, bonuses and other benefits in kind	3,812	2,460
Pension costs	39	27
	3,851	2,487

7. REMUNERATION OF DIRECTORS AND FIVE HIGHEST PAID EMPLOYEES

(Continued)

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year/period were as follows:

	Year ended 31 December 2005 *RMB'000*	Nine-month period ended 31 December 2004 *RMB'000* *(Restated)* *(note 1)*
Mr. Chen Huai	37	78
Mr. Chan Yuk Sang	127	78
Mr. Sze Tsai Ping	227	173
Mr. Mark C. Greaves	187	–
	578	329

There were no other emoluments payable to the independent non-executive directors during the year (Nine-month period ended 31 December 2004: Nil).

(b) Executive directors

	Fees *RMB'000*	Salaries, allowances and benefits in kind *RMB'000*	Pension scheme contributions *RMB'000*	Total remuneration *RMB'000*
2005				
Mr. Wong Kwong Yu	–	1,948	13	1,961
Ms. Du Juan	–	900	–	900
Mr. Lam Pang	–	398	13	411
Mr. Ng Kin Wah	–	461	13	474
Mr. Zhang Zhi Ming	–	105	–	105
	–	3,812	39	3,851

7. REMUNERATION OF DIRECTORS AND FIVE HIGHEST PAID EMPLOYEES *(Continued)*

(b) Executive directors *(Continued)*

	Fees	Salaries, allowances and benefits in kind	Pension scheme contributions	Total remuneration
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
2004 *(Restated) (note 1)*				
Mr. Wong Kwong Yu	–	1,252	9	1,261
Ms. Du Juan	–	331	–	331
Mr. Lam Pang	–	295	9	304
Mr. Ng Kin Wah	–	324	9	333
Mr. Zhang Zhi Ming	–	258	–	258
	–	2,460	27	2,487

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (Nine-month period ended 31 December 2004: Nil).

(c) Five highest paid employees

The five highest paid employees during the year included two (Nine-month period ended 31 December 2004: five) directors, details of whose remuneration are set out above. Details of the remuneration of the remaining three (Nine-month period ended 31 December 2004: Nil) non-director, highest paid employees for the year are as follows:

	Year ended 31 December 2005 *RMB'000*	Nine-month period ended 31 December 2004 *RMB'000* *(Restated) (note 1)*
Salaries, allowances and benefits in kind	**4,709**	–
Pension scheme contributions	**24**	–
	4,733	–

7. REMUNERATION OF DIRECTORS AND FIVE HIGHEST PAID EMPLOYEES *(Continued)*

(c) Five highest paid employees *(Continued)*

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	Year ended 31 December 2005 *RMB'000*	Nine-month period ended 31 December 2004 *RMB'000* *(Restated)* *(note 1)*
Nil to HK$1,000,000	1	–
HK$1,000,001 to HK$1,500,000	–	–
HK$1,500,001 to HK$2,000,000	2	–
	3	–

8. INCOME TAX

	Group	
	Year ended 31 December 2005 *RMB'000*	Nine-month period ended 31 December 2004 *RMB'000* *(Restated)* *(note 1)*
Current – Hong Kong	795	–
Current – PRC	104,607	51,441
Adjustment in respect of current income tax of previous years	(487)	(7,004)
Deferred	(13,018)	124
Total tax charge for the year/period	91,897	44,561

8. INCOME TAX *(Continued)*

The Group is subject to income tax on an entity basis on the profit arising in or derived from the tax jurisdictions in which members of the Group are domiciled and operate. The determination of current and deferred income taxes was based on the enacted tax rates.

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.

Pursuant to applicable income tax laws and regulations of the PRC, Zigong Gome, Zhanjiang Gome, Weifang Gome, Yantai Gome, Kunming Gome, Kunming Logistics, Tianjin Logistics, Tianjin Management, Kunming Management and Tangshan Pengrun Gome (as defined in note 14) were exempted from PRC income tax for the year ended 31 December 2005 as approved by the relevant PRC tax authority. Fuzhou Gome (as defined in note 14) was exempted from PRC income tax for the year ended 31 December 2005 and the nine-month period ended 31 December 2004, and Shenzhen Gome, Chongqing Gome, Chengdu Gome and Xi'an Gome (as defined in note 14) were subject to a preferential income tax rate of 15% for the year ended 31 December 2005 and the nine-month period ended 31 December 2004 as approved by the relevant PRC tax authority. Wuhan Gome (as defined in note 14) is entitled to a 30% reduction in income tax rate for the year ended 31 December 2005 and the nine-month period ended 31 December 2004.

The Group realised a significant amount of tax benefits during the year 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.

The provision for Hong Kong profits tax is calculated at 17.5% of the estimated assessable profit for the year ended 31 December 2005 and the nine-month period ended 31 December 2004.

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 is as follows:

8. INCOME TAX *(Continued)*

Group – for the year ended 31 December 2005

	Hong Kong		PRC		Total	
	RMB'000	%	*RMB'000*	%	*RMB'000*	%
Profit/(loss) before tax (including profit from discontinued operations)	(18,517)		887,613		869,096	
Tax on profit before tax	(3,240)	17.5	292,912	33.0	289,672	33.3
Tax effect of preferential income tax rates	–		(234,814)		(234,814)	
Adjustment in respect of current income tax of previous years	(487)		–		(487)	
Tax effect of non-taxable income	(4,309)		(3,155)		(7,464)	
Tax effect of non-deductible expenses	864		32,811		33,675	
Tax losses not recognised	7,480		3,835		11,315	
Income tax expense	308		91,589		91,897	

No tax charge was attributable to the discontinued operation.

8. INCOME TAX *(Continued)*

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

	Hong Kong		PRC		Total	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
(Restated) (note 1)						
Profit/(loss) before tax	(14,887)		640,042		625,155	
Tax on profit before tax	(2,605)	17.5	211,213	33.0	208,608	33.4
Tax effect of preferential income tax rates	–		(167,513)		(167,513)	
Adjustment in respect of current income tax of previous years	–		(7,004)		(7,004)	
Tax effect of non-taxable income	–		(1,921)		(1,921)	
Tax effect of non-deductible expenses	–		9,786		9,786	
Tax losses not recognised	2,605		–		2,605	
Income tax expense	–		44,561		44,561	

9. DISCONTINUED OPERATION

During 2004, the directors decided that no further commitments would be made to a property project in Beijing (note 22) beyond the amount payable to Beijing Bus Company Limited of RMB167 million (note 28) and the property project was classified as held for sale. Artway Development Limited ("Artway") and Bestly Legend Limited ("Bestly") were the holding companies of the Group's property project. On 15 December 2005, the Group disposed of its entire equity interests in Artway and Bestly to Kashmac Int'l Ltd., a company wholly owned by Mr. Wong Kwong Yu ("Mr. Wong"), a substantial shareholder and director of the Company. Further details are provided in note 30(b) to the consolidated financial statements.

9. DISCONTINUED OPERATION *(Continued)*

The results of Artway and Bestly included in the consolidated financial statements of the Group are presented below:

	Year ended 31 December 2005 RMB'000	Nine-month period ended 31 December 2004 RMB'000 (Restated) (note 1)
Expenses	(268)	–
Finance income	600	–
Net profit	332	–

The major classes of assets and liabilities of Artway and Bestly classified as held for sale as at 31 December 2004 were as follows:

	31 December 2004 RMB'000 (Restated) (note 1)
Property project	795,467
Liabilities directly associated with assets classified as held for sale	(167,000)
Net assets directly associated with the disposal group	628,467

9. DISCONTINUED OPERATION *(Continued)*

The net cash flows incurred by Artway and Bestly are as follows:

	Year ended 31 December 2005 *RMB'000*	Nine-month period ended 31 December 2004 *RMB'000* *(Restated)* *(note 1)*
Operating	167,493	–
Investing	(30,000)	–
Net cash	137,493	–
Earnings per share attributable to ordinary equity holders of the parent		
Basic, from discontinued operation	–	–
Diluted, from discontinued operation	–	–

10. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings	Leasehold improvements	Equipment and fixtures	Motor vehicles	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
31 December 2005						
At 1 January 2005, net of accumulated depreciation	914	79,082	46,897	7,104	1,503	135,500
Additions	148,886	81,863	47,022	9,979	263,281	551,031
Acquisition of subsidiaries *(note 29)*	280,000	–	–	–	–	280,000
Disposals	–	–	(2,494)	(278)	–	(2,772)
Disposal of subsidiaries *(note 30)*	–	(1,164)	(517)	–	–	(1,681)
Depreciation provided during the year	(3,138)	(31,026)	(15,171)	(3,046)	–	(52,381)
Transfers	108,621	–	2,978	–	(111,599)	–
Exchange adjustment	(17)	(19)	(11)	(19)	–	(66)
At 31 December 2005, net of accumulated depreciation	535,266	128,736	78,704	13,740	153,185	909,631
At 1 January 2005						
Cost	992	123,770	67,063	12,426	1,503	205,754
Accumulated depreciation	(78)	(44,688)	(20,166)	(5,322)	–	(70,254)
Net carrying amount	914	79,082	46,897	7,104	1,503	135,500
At 31 December 2005						
Cost	538,499	203,911	112,464	22,412	153,185	1,030,471
Accumulated depreciation	(3,233)	(75,175)	(33,760)	(8,672)	–	(120,840)
Net carrying amount	535,266	128,736	78,704	13,740	153,185	909,631

As at 31 December 2005, the legal formalities for the transfer of title of certain floors of a building acquired from a third party were still in progress. In opinion of the directors, the transfer procedures will be completed shortly.

10. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Group *(Continued)*

	Buildings	Leasehold improvements	Equipment and fixtures	Motor vehicles	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
31 December 2004 *(Restated) (note 1)*						
At 1 April 2004, net of accumulated depreciation	875	59,774	43,641	6,428	906	111,624
Additions	–	36,965	11,655	3,839	1,428	53,887
Depreciation provided during the period	(17)	(18,584)	(7,245)	(2,414)	–	(28,260)
Transfers	–	799	32	–	(831)	–
Disposals	–	–	(1,002)	(749)	–	(1,751)
Reallocation	56	128	(184)	–	–	–
At 31 December 2004, net of accumulated depreciation	914	79,082	46,897	7,104	1,503	135,500
At 1 April 2004						
Cost	1,579	86,005	64,725	9,488	906	162,703
Accumulated depreciation	(704)	(26,231)	(21,084)	(3,060)	–	(51,079)
Net carrying amount	875	59,774	43,641	6,428	906	111,624
At 31 December 2004						
Cost	992	123,770	67,063	12,426	1,503	205,754
Accumulated depreciation	(78)	(44,688)	(20,166)	(5,322)	–	(70,254)
Net carrying amount	914	79,082	46,897	7,104	1,503	135,500

The Group's buildings are located in the PRC and are held under medium term leases as at 31 December 2004 and 2005.

11. INVESTMENT PROPERTIES

	Group	
	31 December 2005 *RMB'000*	31 December 2004 *RMB'000* *(Restated)* *(note 1)*
Carrying amount at beginning of year/period	5,300	4,704
Net income/(loss) from fair value adjustment	(100)	596
Carrying amount at end of year/period	5,200	5,300

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.

Investment properties are stated at fair value, which has been determined based on the valuations performed by B.I. Appraisals Limited, an independent firm of professional valuers, as at the balance sheet date. 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.

12. INTANGIBLE ASSETS

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

	Notes	Goodwill RMB'000	Exchange trading right RMB'000	Trademark RMB'000	Total RMB'000
31 December 2005					
Cost at 1 January 2005, net of accumulated amortisation		2,254	120	–	2,374
Acquisition of subsidiaries	29	7,300	–	25,915	33,215
Disposal of subsidiaries	30(a)	(2,254)	(112)	–	(2,366)
Amortisation provided during the year		–	(8)	–	(8)
At 31 December 2005, net of accumulated amortisation		7,300	–	25,915	33,215
At 31 December 2005					
Cost		7,300	–	25,915	33,215
Accumulated amortisation		–	–	–	–
Net carrying amount		7,300	–	25,915	33,215

The trademark arising on the acquisition of Changzhou Jintaiyang Zhizun Home Appliance Co., Ltd. is amortised on a straight line basis over the directors' estimate of its useful economic life of 3 years.

12. INTANGIBLE ASSETS *(Continued)*

	Goodwill	Negative goodwill	Exchange trading right	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
31 December 2004				
(Restated) (note 1)				
Cost at 1 April 2004, net of accumulated amortisation	2,254	(16,661)	138	(14,269)
Derecognition	–	16,661	–	16,661
Amortisation provided during the period	–	–	(18)	(18)
At 31 December 2004, net of accumulated amortisation	2,254	–	120	2,374
At 31 December 2004				
Cost	2,254	–	231	2,485
Accumulated amortisation	–	–	(111)	(111)
Net carrying amount	2,254	–	120	2,374

13. DEFERRED INCOME TAX ASSETS

The principal components of the Group's deferred income tax assets at 31 December 2005 and the movements in deferred income tax for the year ended 31 December 2005 are as follows:

	Balance at 1 January 2005	Recognised in the consolidated income statement	Balance at 31 December 2005
	RMB'000	*RMB'000*	*RMB'000*
	(Restated) (note 1)		
Deferred income tax assets:			
Tax losses	–	13,018	13,018

The Group has not recognised deferred tax assets in respect of tax losses arising in Hong Kong of RMB42.2 million (Nine-month period ended 31 December 2004: approximately RMB46.3 million) and in PRC of RMB11.6 million as they have arisen in subsidiaries that have been loss-making for some time.

14. INTERESTS IN SUBSIDIARIES

	Company	
	31 December 2005 *RMB'000*	31 December 2004 *RMB'000* *(Restated)* *(note 1)*
Unlisted shares, at cost	**283,898**	814,059
Amounts due from subsidiaries	**60,250**	336,300
Amount due to subsidiaries	**(297,087)**	(913,106)
	47,061	237,253
Provision for impairment	**(48,574)**	(49,508)
	(1,513)	187,745

The balance with subsidiaries are interest-free, unsecured and have no fixed terms of repayment.

14. INTERESTS IN SUBSIDIARIES *(Continued)*

Details of the Company's principal subsidiaries at 31 December 2005 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	Indirect	Principal activities
Capital Automation (BVI) Limited (i)	British Virgin Islands/ Hong Kong	US$50,000	100	–	Investment holding
Eagle Decade Investments Limited (i)	British Virgin Islands/ Hong Kong	US$1	100	–	Investment holding
China Eagle Management Limited	Hong Kong	HK$10,000	–	100	Management services
Hong Kong Punching Center Limited	Hong Kong	HK$100,000	–	100	Property holding
Ocean Town Int'l Inc. (i)	British Virgin Islands/ Hong Kong	US$50,000	–	100	Investment holding
Gome Appliance Company Limited (iii)	PRC	RMB300 million	–	65	*Note (iv)*

14. INTERESTS IN SUBSIDIARIES *(Continued)*

Details of the Company's principal subsidiaries at 31 December 2005 are set out below: *(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 Electrical Appliance Company Limited ("Tianjin Gome") (i) (ii)	PRC	RMB 40 million	–	65	*Note (iv)*
Langfang Gome Electrical Appliance Company Limited ("Langfang Gome") (i) (ii)	PRC	RMB 1 million	–	65	*Note (iv)*
Tianjin Gome Logistics Company Limited ("Tianjin Logistics") (i) (ii)	PRC	RMB 18 million	–	65	*Note (v)*
Chongqing Gome Electrical Appliance Company Limited ("Chongqing Gome") (i) (ii)	PRC	RMB 20 million	–	65	*Note (iv)*
Chengdu Gome Electrical Appliance Company Limited ("Chengdu Gome") (i) (ii)	PRC	RMB 20 million	–	65	*Note (iv)*
Zigong Gome Electrical Appliance Company Limited ("Zigong Gome") (i) (ii)	PRC	RMB 1 million	–	65	*Note (iv)*
Xi'an Gome Electrical Appliance Company Limited ("Xi'an Gome") (i) (ii)	PRC	RMB 10 million	–	65	*Note (iv)*

14. INTERESTS IN SUBSIDIARIES *(Continued)*

Details of the Company's principal subsidiaries at 31 December 2005 are set out below: *(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
Kunming Gome Electrical Appliance Company Limited ("Kunming Gome") (i) (ii)	PRC	RMB 10 million	–	65	*Note (iv)*
Shenzhen Gome Electrical Appliance Company Limited ("Shenzhen Gome") (i) (ii)	PRC	RMB 10 million	–	65	*Note (iv)*
Fuzhou Gome Electrical Appliance Company Limited ("Fuzhou Gome") (i) (ii)	PRC	RMB 10 million	–	65	*Note (iv)*
Guangzhou Gome Electrical Appliance Company Limited ("Guangzhou Gome") (i) (ii)	PRC	RMB 10 million	–	65	*Note (iv)*
Wuhan Gome Electrical Appliance Company Limited ("Wuhan Gome") (i) (ii)	PRC	RMB 10 million	–	65	*Note (iv)*
Shenyang Gome Electrical Appliance Company Limited ("Shenyang Gome") (i) (ii)	PRC	RMB 10 million	–	65	*Note (iv)*
Jinan Gome Electrical Appliance Company Limited ("Jinan Gome") (i) (ii)	PRC	RMB 10 million	–	65	*Note (iv)*
Zibo Eagle Gome Appliance Company Limited ("Zibo Gome") (i) (ii)	PRC	RMB 2 million	–	65	*Note (iv)*

14. INTERESTS IN SUBSIDIARIES *(Continued)*

Details of the Company's principal subsidiaries at 31 December 2005 are set out below: *(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		Principal activities
			Direct	Indirect	
Qingdao Gome Electrical Appliance Company Limited ("Qingdao Gome") (i) (ii)	PRC	RMB 10 million	–	65	*Note (iv)*
Weifang Gome Electrical Appliance Company Limited ("Weifang Gome") (i) (ii)	PRC	RMB 3 million	–	65	*Note (iv)*
Tianjin Gome Commercial Consultancy Company Limited ("Tianjin Management") (i) (ii)	PRC	RMB 3 million	–	65	*Note (vi)*
Yantai Gome Electrical Appliance Company Limited ("Yantai Gome") (i) (ii)	PRC	RMB 5 million	–	65	*Note (iv)*
Zhanjiang Gome Electrical Appliance Company Limited ("Zhanjiang Gome") (i) (ii)	PRC	RMB 5 million	–	65	*Note (iv)*
Kunming Gome Logistics Company Limited ("Kunming Logistics") (i) (ii)	PRC	RMB 8 million	–	65	*Note (v)*
Quanzhou Pengrun Gome Electrical Appliance Company Limited ("Quanzhou Pengrun Gome") (i) (ii)	PRC	RMB 5 million	–	65	*Note (iv)*

14. INTERESTS IN SUBSIDIARIES *(Continued)*

Details of the Company's principal subsidiaries at 31 December 2005 are set out below: *(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
Changzhou Jintaiyang Zhizun Electrical Appliance Company Limited ("Changzhou Golden Sun") (i) (ii)	PRC	RMB 50 million	–	65	*Note (iv)*
Gansu Gome Electrical Appliance Company Limited ("Gansu Gome") (i) (ii)	PRC	RMB 5 million	–	65	*Note (iv)*
Beijing Pengze Real Estate Company Limited ("Beijing Pengze") (i) (ii)	PRC	RMB 10 million	–	65	Property holding
Suzhou Pengrun Gome Electrical Appliance Company Limited ("Suzhou Pengrun Gome") (i) (ii)	PRC	RMB 5 million	–	65	*Note (iv)*
Shenyang Pengrun Gome Electrical Appliance Company Limited ("Shenyang Pengrun Gome") (i) (ii)	PRC	RMB 10 million	–	65	*Note (iv)*
Kunming Qin'an Commercial Management Consultancy Company Limited ("Kunming Qin'an") (i) (ii)	PRC	RMB 6 million		65	*Note (vi)*
Anhui Gome Electrical Appliance Company Limited ("Anhui Gome") (i) (ii)	PRC	RMB 5 million	–	65	*Note (iv)*

14. INTERESTS IN SUBSIDIARIES *(Continued)*

Details of the Company's principal subsidiaries at 31 December 2005 are set out below: *(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
Tangshan Pengrun Gome Home Appliance Company Limited ("Tangshan Pengrun Gome") (i) (ii)	PRC	RMB 5 million	–	65	*Note (iv)*
Weihai Gome Electrical Appliance Company Limited ("Weihai Gome") (i) (ii)	PRC	RMB 5 million	–	65	*Note (iv)*
Jiangsu Pengrun Gome Electrical Appliance Company Limited ("Jiangsu Pengrun Gome") (i) (ii)	PRC	RMB 10 million	–	65	*Note (iv)*
Eagle Electrical Appliance Company Limited (i) (ii)	PRC	RMB 100 million	–	65	Investment holding

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

(ii) Registered as private companies with limited liability under the PRC law.

(iii) Registered as Sino-foreign equity joint ventures under the PRC law.

(iv) Retailing of electrical appliances and consumer electronic products.

(v) Provision of logistics services.

(vi) Provision of business management services.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year/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.

15. INVENTORIES

	Group	
	31 December 2005 *RMB'000*	31 December 2004 *RMB'000* *(Restated)* *(note 1)*
Merchandise for resale	2,681,118	1,095,323
Consumables	44,257	13,791
	2,725,375	1,109,114

16. TRADE RECEIVABLES

The trade receivables are analysed as follows:

	Group	
	31 December 2005 *RMB'000*	31 December 2004 *RMB'000* *(Restated)* *(note 1)*
Securities and equity options transactions:		
Cash clients	–	16,395
Margin clients	–	49,388
Hong Kong Futures Exchange Clearing Corporation Limited	–	5,741
	–	71,524
Outstanding balance, aged:		
Within three months	–	71,524

The above balances were attributable to the subsidiaries conducting securities broking and trading, which were disposed of during the year. Further details are provided in note 30 to the consolidated financial statements.

17. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group	
	31 December 2005 RMB'000	31 December 2004 RMB'000 (Restated) (note 1)
Prepayments	111,300	55,617
Advances to suppliers	236,070	57,162
Deposits and other receivables	119,647	74,930
	467,017	187,709

	Company	
	31 December 2005 RMB'000	31 December 2004 RMB'000 (Restated) (note 1)
Prepayments	405	224
Deposits and other receivables	115	113
	520	337

18. DUE FROM RELATED PARTIES

		Group	
	Notes	31 December 2005 RMB'000	31 December 2004 RMB'000 (Restated) (note 1)
Receivables from the Parent Group	*(i)*	46,612	232,547
Due from Kashmac Int'l Ltd.	*(ii)*	793,445	–
Others *(note 35 (b)(iii))*		19	–
		840,076	232,547

18. DUE FROM RELATED PARTIES *(Continued)*

	Note	Company 31 December 2005 RMB'000	31 December 2004 RMB'000 (Restated) (note 1)
Due from Kashmac Int'l Ltd	*(ii)*	793,445	–

Notes:

(i) The balance as at 31 December 2005 mainly represented the management fee due from the Parent Group (note 35(a)). The balance as at 31 December 2004 represented deposits for purchases from the Parent Group of RMB232.5 million. The aforesaid balances were interest-free and were fully settled subsequent to the balance sheet date.

(ii) The amount represented the consideration receivable in respect of the disposal of the Property Project and related accrued interest income. The balance was guaranteed by Mr. Wong, bears interest at 4.5% per annum and is due for repayment on 15 December 2006 (note 30(b)).

19. OTHER FINANCIAL ASSETS

	Notes	Group 31 December 2005 RMB'000	31 December 2004 RMB'000 (Restated) (note 1)
Guarantee deposits for the acquisition of Nanjing Pengze Home Appliance Company Limited ("Nanjing Pengze")	*(i)*	126,000	–
Other deposits	*(ii)*	35,000	–
		161,000	–

19. OTHER FINANCIAL ASSETS *(Continued)*

Notes:

(i) These represented guarantee deposits for the acquisition of properties and operating equipment relating to an electrical appliance business in Nanjing owned by third party vendors.

Subsequent to the balance sheet date, in January 2006, the Company and the vendors entered into a sale and purchase agreement to acquire Nanjing Pengze, a holding company of the properties and operating equipment relating to the aforesaid electrical appliance business, for a total consideration of RMB174 million.

(ii) These represented progress payments to two independent third party vendors in respect of the acquisition of certain electrical appliance business in the PRC. Further details are provided in note 34(b) to the consolidated financial statements.

20. CLIENT TRUST BANK BALANCES

These represent cash balances held on trust for customers in respect of the Group's securities and futures broking business which was disposed of during the year.

21. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group	
	31 December 2005 *RMB'000*	31 December 2004 *RMB'000* *(Restated)* *(note 1)*
Bank balances	**776,296**	775,211
Time deposits	**3,436,175**	1,785,202
	4,212,471	2,560,413
Less: Time deposits pledged for bills payable	**(3,133,124)**	(901,319)
Cash and cash equivalents	**1,079,347**	1,659,094

21. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS *(Continued)*

	Company	
	31 December 2005 *RMB'000*	31 December 2004 *RMB'000* *(Restated)* *(note 1)*
Bank balances	**948**	21,175
Time deposits	**302,858**	880,542
	303,806	901,717

22. ASSETS OF A DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE

		Group	
	Note	**31 December 2005 *RMB'000***	31 December 2004 *RMB'000* *(Restated)* *(note 1)*
Property project		**–**	795,467
Liability directly associated with assets classified as held for sale	*28*	**–**	(167,000)
		–	628,467

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, the PRC (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 RMB167 million (note 28), and since then the Property Project was classified as held for sale.

In December 2005, the Company disposed of the Property Project to a related company. Further details are provided in note 30(b) to the consolidated financial statements.

23. SHARE CAPITAL

	Number of shares *'000*	*HK$'000*	*RMB'000*
Authorised:			
Ordinary shares of HK$0.1 each	50,000,000	5,000,000	5,300,000
Issued and fully paid:			
At 1 January 2005 and 31 December 2005	1,642,447	164,245	174,099

24. RESERVES

(a) Group

The movements in the reserves of the Group are set out in the consolidated statement of changes in equity of the consolidated financial statements.

Statutory reserves

Pursuant to relevant PRC laws and regulations, Sino-foreign equity joint ventures registered in the 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 the 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 the 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. These funds are non-distributable other than in the event of liquidation.

24. RESERVES *(Continued)*

(b) Company

	Note	Share premium account RMB'000	Contributed surplus RMB'000 Note (b)	Mandatory convertible notes RMB'000	Foreign currency translation reserve RMB'000	(Accumulated losses)/ retained earnings RMB'000	Total RMB'000
At 1 April 2004							
(Restated) (note 1)		66,892	42,849	318,000	–	(51,096)	376,645
Share issue costs		(16,352)	–	–	–	–	(16,352)
Issue of mandatory convertible *notes*		–	–	236,321	–	–	236,321
Shares issued upon the conversion of		–	–	–	–	–	–
– Mandatory convertible notes		53,000	–	(318,000)	–	–	(265,000)
– Convertible notes		4,240	–	–	–	–	4,240
– Mandatory convertible notes		81,577	–	(236,321)	–	–	(154,744)
Share consolidation		572,489	–	–	–	–	572,489
Net profit for the period		–	–	–	–	153,686	153,686
At 31 December 2004		761,846	42,849	–	–	102,590	907,285
Net profit for the year		–	–	–	–	145,635	145,635
Dividends	*31*	–	–	–	–	(115,267)	(115,267)
Currency translation differences		–	–	–	(18,970)	–	(18,970)
At 31 December 2005		**761,846**	**42,849**	**–**	**(18,970)**	**132,958**	**918,683**

24. RESERVES *(Continued)*

(b) Company *(Continued)*

Notes:

(a) The net profit from ordinary activities attributable to shareholders for the year ended 31 December 2005 dealt with in the financial statements of the Company, was approximately RMB145.6 million (Nine-month period ended 31 December 2004: approximately RMB153.7 million).

(b) The contributed surplus of the Company 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 various components of reserves of the underlying subsidiaries.

Under the Bermuda Companies Act 1981 (as amended), the contributed surplus 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:

(i) it is, or after the payment would be, unable to pay its liabilities as they become due; or

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

25. TRADE AND BILLS PAYABLES

	Group	
	31 December 2005	31 December 2004
	RMB'000	*RMB'000*
		(Restated)
		(note 1)
Trade payables and bills payable arising from retailing operations	**6,805,277**	3,167,990
Trade payables in dealing with securities, futures and option transactions	**–**	25,244
	6,805,277	3,193,234
Outstanding balance, aged:		
Within three months	**4,345,608**	2,062,315
Within three to six months	**2,375,118**	1,059,098
Over six months	**84,551**	71,821
	6,805,277	3,193,234

The Group's bills payable are secured by the pledge of certain of the Group's time deposits (note 21) and by corporate guarantees provided by the Parent Group and Beijing Xinhengji as at 31 December 2005 (note 35(b)(i)).

26. CUSTOMERS' DEPOSITS, OTHER PAYABLES AND ACCRUALS

	Group	
	31 December 2005	31 December 2004
	RMB'000	*RMB'000*
		(Restated)
		(note 1)
Customers' deposits	**173,753**	91,994
Consideration payable for the acquisition of subsidiaries	**84,300**	–
Provision for coupon liabilities *(note)*	**20,417**	–
Other payables and accruals	**327,191**	237,764
	605,661	329,758

26. CUSTOMERS' DEPOSITS, OTHER PAYABLES AND ACCRUALS *(Continued)*

Note:

A reconciliation of the provision for coupon liabilities is as follows:

	Year ended 31 December 2005 *RMB'000*	Nine-month period ended 31 December 2004 *RMB'000*
At beginning of year/period	–	–
Arising during the year/period	22,151	–
Utilised	(1,734)	–
At end of year/period	20,417	–

27. DUE TO A RELATED PARTY

The amounts due to a related party as at 31 December 2004 and 2005 represented rent payables, which were unsecured, interest-free and payable within one year.

28. LIABILITY DIRECTLY ASSOCIATED WITH ASSETS CLASSIFIED AS HELD FOR SALE

The balance represented the consideration of RMB167 million payable to Beijing Bus Company Limited in respect of the Property Project described in note 22 to the consolidated financial statements. The payable balances had been disposed of together with the Property Project. Further details are provided in note 30(b) to the consolidated financial statements.

29. BUSINESS COMBINATIONS

(a) On 15 July 2005, the Group acquired a 100% equity interest in Tianjin Pengze Investment Co., Ltd. ("Tianjin Pengze") from independent third parties. The fair value of the identifiable assets of Tianjin Pengze as at the date of acquisition was as follows:

	Fair value recognised on acquisition *RMB'000*	Carrying amount *RMB'000*
Property	219,700	74,700
Cash and cash equivalents	8,300	8,300
Fair value of net assets	228,000	83,000
Cash consideration	228,000	

Out of the total purchase consideration of RMB228 million, RMB172 million was settled in cash as at 31 December 2005 and the remaining RMB56 million is payable in 2006.

An analysis of the net cash outflow in respect of the acquisition of a subsidiary is as follows:

	RMB'000
Cash consideration	(172,000)
Cash and bank balances acquired	8,300
Net cash outflow of cash and cash equivalents in respect of the acquisition of a subsidiary	(163,700)

Since its acquisition, Tianjin Pengze contributed RMB38,865,086 to the Group's turnover and RMB1,119,314 to the consolidated profit for the year ended 31 December 2005.

It is impracticable to disclose the revenue and profit of the combined entity for the year as though the acquisition had taken place at the beginning of the period, because the relevant information is not available to the Group.

29. BUSINESS COMBINATIONS *(Continued)*

(b) On 30 November 2005, the Group acquired a 100% equity interest in Changzhou Jintaiyang Zhizun Home Appliance Co., Ltd. ("Changzhou Jintaiyang") from independent third parties. The fair value of the identifiable assets of Changzhou Jintaiyang as at the date of acquisition was as follows:

	Fair value recognised on acquisition *RMB'000*	Carrying amount *RMB'000*
Property, plant and equipment	60,300	46,800
Intangible assets	25,915	–
Cash and cash equivalents	3,200	3,200
Fair value of net assets	89,415	50,000
Excess over the cost of a business combination recognised in the consolidated income statement	(6,415)	
Cash consideration	83,000	

Out of the total purchase consideration of RMB83 million, RMB62 million was settled in cash as at 31 December 2005 and the remaining RMB21 million is payable in 2006.

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

	RMB'000
Cash paid	(62,000)
Cash and bank balances acquired	3,200
Net cash outflow of cash and cash equivalents in respect of the acquisition of a subsidiary	(58,800)

Since its acquisition, Changzhou Jintaiyang contributed RMB19,822,149 to the Group's turnover and RMB2,467,620 to the consolidated profit for the year ended 31 December 2005.

It was impracticable to disclose the revenue and profit of the combined entity for the year as though the acquisition had taken place at the beginning of the period, because the relevant information is not available to the Group.

29. BUSINESS COMBINATIONS *(Continued)*

(c) On 4 November 2005, the Group acquired the business and inventories of certain electrical appliances retail outlets of Wuhan Zhongshang Group Co., Ltd. ("Wuhan Zhongshang"), an independent third party. The fair value of the identifiable assets acquired from Wuhan Zhongshang as at the date of acquisition is as follows:

	Fair value recognised on acquisition	Carrying amount
	RMB'000	*RMB'000*
Inventories	25,000	25,000
Fair value of net assets	25,000	25,000
Goodwill on acquisition	7,300	–
Cash consideration	32,300	25,000

Out of the total purchase consideration of RMB32.3 million, RMB25 million was settled in cash as at 31 December 2005 and the remaining RMB7.3 million is payable in 2006.

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

	RMB'000
Cash paid	(25,000)

Since its acquisition, Wuhan Zhongshang contributed RMB15,273,672 to the Group's turnover and RMB 439,882 to the consolidated profit for the year ended 31 December 2005.

It was impracticable to disclose the revenue and profit of the combined entity for the year as though the acquisition had taken place at the beginning of the period, because the relevant information is not available to the Group.

30. DISPOSAL OF SUBSIDIARIES

(a) On 30 April 2005, the Group disposed of its 100% equity interest in Eagle Legend Futures Limited ("Eagle Legend Futures") and 96.67% equity interest in Eagle Legend Securities Limited ("Eagle Legend Securities") for a total consideration of approximately RMB54.1 million to an independent third party. The net assets of the entities disposal of as at the disposal date were as follows:

	RMB'000
Property, plant and equipment	1,678
Intangible assets	2,366
Trade receivables	62,109
Prepayments and other receivables	2,490
Client trust bank balances	1,702
Cash and cash equivalents	21,233
Trade payables	(5,072)
Other payables and accruals	(28,809)
Minority interests	(1,276)
	56,421
Loss on disposal of subsidiaries	(2,303)
	54,118
Satisfied by:	
Cash	51,940
Other receivables	2,178
	54,118

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

	RMB'000
Cash consideration	51,940
Cash and bank balances disposed of	(21,233)
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	30,707

30. DISPOSAL OF SUBSIDARIES *(Continued)*

Before disposal, Eagle Legend Futures and Eagle Legend Securities contributed RMB4,192,000 (for the nine-month period ended 31 December 2004: RMB10,143,000) to the Group's turnover and RMB 379,000 (for the nine-month period ended 31 December 2004: profit RMB3,422,000) to the consolidated profit for the year ended 31 December 2005.

(b) Pursuant to a sale and purchase agreement dated 15 December 2005, the Group disposed of its 100% equity interest in Artway and Bestly, and to set off receivable from Artway and Bestly of totalling HK$228.4 million (equivalent to RMB237.5 million), for a total consideration of approximately HK$761.4 million (equivalent to RMB791.9 million) to Kashmac Int'l Ltd., a company wholly owned by a director. Artway and Bestly are the holding companies of the Property Project as disclosed in note 22 to the consolidated financial statements. The net assets of both entities disposed of as at the disposal date were as follows:

	Note	*RMB'000*
Equipment		3
Property Project		795,467
Cash and cash equivalents		138,070
Liability directly associated with assets classified as held for sale	*28*	(137,000)
		796,540
Loss on disposal of subsidiaries		(4,657)
		791,883

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

	RMB'000
Cash consideration	–
Cash and bank balances disposed of	(138,070)
Net outflow of cash and cash equivalents in respect of the disposal of subsidiaries	(138,070)

The consideration for the disposal of Artway and Bestly of RMB791,883,000, together with the attributable interest amounting to RMB1,562,000 is receivable on 15 December 2006 (note 18).

31. DIVIDENDS

	Year ended 31 December 2005 *RMB'000*	Nine-month period ended 31 December 2004 *RMB'000* *(Restated)* *(note1)*
Declared and paid during the year/period		
Equity dividends on ordinary shares:		
Final dividend for 2004: HK2.5 cents (equivalent to approximately RMB2.7 fen) per share	43,525	–
Interim dividend for 2005: HK4.2 cents (equivalent to approximately RMB4.4 fen) per share	71,742	–
	115,267	–
Proposed for approval		
Equity dividends on ordinary shares:		
Final dividend for 2005: HK4.3 cents (equivalent to approximately RMB4.5 fen) per share	73,450	43,525

The proposed final dividend for the year (not recognised as a liability as at 31 December 2005) is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

32. EARNINGS PER SHARE

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

No diluted earnings per share amount is presented as the Company did not have any dilutive potential ordinary shares for the year ended 31 December 2005.

Diluted earnings per share amount for the nine-month period ended 31 December 2004 was calculated by dividing the net profit attributable to ordinary equity holders of the parent (after deducting interest on convertible notes) by the weighted average number of ordinary shares outstanding during the nine-month period ended 31 December 2004 and the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

32. EARNINGS PER SHARE *(Continued)*

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	Year ended 31 December 2005 *RMB'000*	Nine-month period ended 31 December 2004 *RMB'000* *(Restated)* *(note 1)*
Net profit attributable to ordinary equity holders of the parent from continuing operations	**498,264**	374,089
Net profit attributable to ordinary equity holders of the parent from a discontinued operation	**332**	–
Net profit attributable to ordinary equity holders of the parent	**498,596**	374,089
Interest on convertible non-cumulative redeemable preference shares	**–**	100
Net profit attributable to ordinary equity holders of the parent	**498,596**	374,189

	Year ended 31 December 2005 *'000*	Nine-month period ended 31 December 2004 *'000* *(Restated)* *(note 1)*
Weighted average number of ordinary shares for basic earnings per share	**1,642,447**	1,640,955
Effect of dilution:		
Convertible *notes*	**–**	547
Weighted average number of ordinary shares adjusted for the effect of dilution	**1,642,447**	1,641,502

33. CONTINGENT LIABILITIES

At the balance sheet date, neither the Group nor the Company had any significant contingent liabilities.

34. COMMITMENTS

(a) Capital commitments

The capital commitments outstanding as at the balance sheet date and not provided for in the consolidated financial statements are as follows:

	31 December 2005 *RMB'000*	31 December 2004 *RMB'000* *(Restated)* *(note 1)*
Contracted, but not provided for:		
Buildings	**67,395**	–

(b) Acquisition commitments

On 22 July 2005, the Group and two PRC companies (the "Vendors") entered into a sales and purchase agreement. Pursuant to the agreement, the Group agreed to acquire the entire equity interest in a company which operated certain electrical appliance business in the PRC ("the Target Company") for a consideration of RMB 20 million and the relevant interest of a shareholder's loan from the Vendors to the Target Company for a consideration of RMB160 million. A deposit of RMB35 million was paid by the Group before the year ended 31 December 2005 (note 19).

As at 31 December 2005 and up to the date of the consolidated financial statements, the Group and the Vendors are in the process of discussing the details of the deal and the consideration. In the opinion of the directors, the settlement of the transaction will have no material impact to the Group's financial position.

34. COMMITMENTS *(Continued)*

(c) Lease commitments

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

	31 December 2005 *RMB'000*	31 December 2004 *RMB'000* *(Restated)* *(note 1)*
Within one year	**633,299**	291,895
In the second to fifth years, inclusive	**2,150,468**	948,724
After five years	**1,592,805**	238,107
	4,376,572	1,478,726

35. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances which are disclosed in note 30(b) to 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 Electrical Applicance 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 the PRC in which the Group operates. The companies comprising the Parent Group are controlled by Mr. Wong. Beijing Xinhengji is owned by a family member of Mr. Wong.

35. RELATED PARTY TRANSACTIONS *(Continued)*

(a) Continuing transactions:

		Notes	Year ended 31 December 2005 RMB'000	Nine-month period ended 31 December 2004 RMB'000 (Restated) (note 1)
(a)	Sale to the Parent Group	(i)	321,726	197,772
(b)	Purchases from the Parent Group	(i)	(291,369)	(1,041,798)
(c)	Provision of management and purchasing services to the Parent Group	(ii), 3(b)	144,420	60,086
(d)	Rental expenses to Beijing Xinhengji	(iii)	(3,364)	(2,404)
(e)	Sublease income from audio and visual equipment shops of the Parent Group	(iv)	33,258	17,274

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 was charged based on 0.6% and 0.9% (2004: 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 RMB3.3 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 RMB12 per square metre per day; and (2) 5% of the total revenue generated from the sale of audio and visual products.

35. RELATED PARTY TRANSACTIONS *(Continued)*

(a) Continuing transactions: *(Continued)*

The above transactions also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

(b) Discontinuing transactions:

	Notes	Year ended 31 December 2005 RMB'000	Nine-month period ended 31 December 2004 RMB'000 (Restated) (note 1)
(a) Provision of corporate guarantees from the Parent Group and Beijing Xinhengji in respect of bills facilities	*(i)*	250,000	1,255,370
(b) Interest income on the amount due from the Parent Group		–	5,915
(c) Interest income on the amount due from Kashmac Int'l Ltd.	*18(ii)*	1,562	–
(d) Rental expenses to a related party	*(ii)*	(1,008)	(763)
(e) Rental income from a related party	*(iii)*	227	172

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 company controlled by Mr. Wong, totalling RMB1,008,000 (Nine-month period ended 31 December 2004: RMB763,000) during the year. At 31 December 2005, the rental payable to Hong Kong Gome amounted to approximately RMB83,000 (31 December 2004: RMB85,000).

(iii) The Company's subsidiary, Hong Kong Punching Centre Limited, received operating lease rentals in respect of the Group's properties (note 11) from Hong Kong Gome, totalling RMB227,000 (Nine-month year ended 31 December 2004: RMB172,000) during the year. At 31 December 2005, the rental receivable from Hong Kong Gome was RMB19,000 (note 18) (31 December 2004: Nil).

35. RELATED PARTY TRANSACTIONS *(Continued)*

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

	Year ended 31 December 2005 *RMB'000*	Nine-month period ended 31 December 2004 *RMB'000* *(Restated)* *(note 1)*
Short term employee benefits		
Salaries, allowance, bonuses and other benefits in kind	11,632	2,733
Pension costs	123	29
	11,755	2,762

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise cash and short term deposits, pledged deposits and bills payables. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

It is, and has been throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are credit risk, cash flow interest rate risk, foreign currency risk and liquidity risk. The board of director reviews and agrees policies for managing each of these risks and they are summarized below.

(i) Credit risk

The cash at bank balances, other financial assets, pledged deposits, prepayments, deposits, due from related parties and other receivables included in the financial statements 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.

Since the Group only deals with recognised and creditworthy third parties, there is no requirement for collateral.

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(ii) Interest rate risk

The Group has no significant interest rate risk.

(iii) Foreign currency risk

The Group's businesses are principally conducted in RMB which cannot be freely exchanged into foreign currencies. As at 31 December 2005, a substantial majority amount of the Group's assets and liabilities were denominated in RMB. The Company's functional currency is Hong Kong Dollars. Fluctuation of the exchange rates of RMB against Hong Kong Dollars can affect the Group's results of operations.

The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

(iv) Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bills payables, convertible bonds and other interest-bearing loans. As at 31 December 2005, the Group had banking facilities in respect of bill payables amounted to RMB6.0 billion, of which an amount of RMB1.0 billion was not utilized. The Group had no bank loans and other borrowings as at 31 December 2005. The directors have reviewed the Group's working capital and capital expenditure requirements and determined that the Group has no significant liquidity risk.

37. POST BALANCE SHEET EVENT

On 28 January 2006, the Company and a wholly-owned subsidiary of Warburg Pincus Private Equity IX, L.P. (the "Subscriber") entered into a subscription agreement. Pursuant to the agreement, the Company issued US$125 million of unlisted and unsecured convertible bonds and US$25 million of unlisted warrants to the Subscriber. The convertible bonds bear interest of 1.5% per annum, with a conversion price of HK$6.40 (equivalent to RMB6.70) and will mature in February 2011. The unlisted warrants have an exercise price of HK$7.70 (equivalent to RMB8.00) and have an exercise period of five years from February 2006.

Save as disclosed in note 19 and above, the Group did not have any significant subsequent events taking place subsequent to 31 December 2005.

38. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 22 March 2006.