# Management Discussion and Analysis

## BUSINESS SUMMARY

After a year of heavy investments and rapid store expansion in 2005, the Group has achieved a major milestone under the Growth Initiative by significantly enlarging its growing network and establishing an unparalleled footprint in the market. The Growth Initiative is a four-year strategic business plan spanning 2005 to 2008. In 2006, the Group is leveraging its platform of extensive resources in the China market and focusing on business initiatives aimed at improving core business fundamentals and competencies.

In the first six months of 2006 ("Period A"), the Group achieved revenue of RMB12,168 million, and net profit attributable to equity holders of the Company of RMB345 million. In the period, the Group entered 27 new cities and added 84 traditional stores and 1 mega store. At the same time, as part of the business improvement initiatives, 9 traditional and 1 digital stores were closed. Therefore, as of the end of Period A, the Group was present in 96 cities with 334 traditional stores, 1 mega store and 3 digital stores. Total sales area reached approximately 1,330,000 square meters as of the end of Period A and the weighted average sales area was approximately 1,190,000 square meters in Period A. The size of traditional stores averaged approximately 4,000 square meters at period end.

The Group is of the view that competition in the retail of consumer electronics products is shifting from mere store coverage and price to a more sophisticated stage where the ability to offer an overall good shopping experience is becoming increasingly critical. The Group firmly believes that it must therefore continue to strengthen its competitive edge in order to solidify its leadership position. Therefore, at the same time as the Group continues to enhance its store network, it is emphasizing on initiatives aimed at improving operating efficiency, enhancing store competitiveness, building brand loyalty, and elevating customer satisfaction in 2006.

Accordingly, during Period A, the Group began to establish a CRM (Customers Relationship Management) system, roll out a "household appliances hospital" maintenance service system, and add, among other functions, an after-sales installation service module to the ERP (Enterprise Resources Planning) system. At the same time, promotion on the membership program and installment purchase plan also continued. These measures are aimed at enabling the Group to improve operating efficiency and its customer service to enjoy high quality and excellent service from GOME, thereby enhancing our customers' level of satisfaction and their loyalty.

# Management Discussion and Analysis

## RECENT CORPORATE ACTIVITIES

The Group was involved in a number of corporate transactions since the beginning of 2006:

Strategic Alliance with Warburg Pincus

Acquisition of the Remaining 35% Interest in Gome Appliance

Announcement of Merger with China Paradise by Way of a Voluntary General Offer

### *STRATEGIC ALLIANCE WITH WARBURG PINCUS*

On 28 January 2006, the Group announced a strategic alliance with Warburg Pincus Private Equity IX, L.P. ("Warburg Pincus"), under which Warburg Pincus made a strategic investment in the Company through the issuance of US$125 million convertible bonds and US$25 million warrants. The investment in the Company is the largest that Warburg Pincus has made to date in the PRC.

Under a subscription agreement, Warburg Pincus subscribed for five-year convertible bonds due 2011 in the aggregate principal amount of US$125 million. The bonds carry an annual coupon rate of 1.5% payable semi-annually and a yield to put and maturity of 3.26%, and will be convertible, subject to certain conditions, into the Company's new ordinary shares at an initial conversion price of HK$6.40 per ordinary share.

In addition, Warburg Pincus also subscribed for US$25 million five-year warrants for new ordinary shares of the Company at a subscription price of US$3 million. Warburg Pincus has the right to exercise the warrants at an initial exercise price of HK$7.70 per ordinary share.

Upon full conversion of the convertible bonds and exercise of the warrants, Warburg Pincus would hold 176,680,630 ordinary shares.

To further demonstrate his support and commitment, Mr. Wong Kwong Yu, the Chairman, an executive director and the controlling shareholder of the Company, has made additional undertakings to the Company with respect to the business and assets of the companies which he is beneficially interested in and are engaged in the retail sales and related operations of electrical appliances and consumer electronic products under the trademark of "GOME Electrical Appliances" in the cities other than the designated cities in which the Group operates (the "Parent Group"), including a financial audit and the eventual injection of the Parent Group's retail business into the Group.

The Group believes that Warburg Pincus would bring its international experience and M&A expertise to assist the Group as it continues to embark on a growth path. At the same time, Warburg Pincus' board representation would encourage the Group to continue to adopt the best international practices in management and corporate governance.

# Management Discussion and Analysis

### *ACQUISITION OF THE REMAINING 35% INTEREST IN GOME APPLIANCE*

On 29 March 2006, the Company announced the acquisition of the remaining 35% equity interest in Gome Appliance Company Limited ("Gome Appliance"), which is the Company's main operating subsidiary in the PRC. Total consideration of the acquisition was approximately HK$6,986.7 million, which was satisfied:

- as to approximately HK$5,235.3 million by the issue of 650,346,949 new shares
- as to approximately HK$761.4 million by the set-off against the consideration for a property located in Beijing
- as to HK$990 million in cash

The acquisition had been long expected by the market and represented a big step forward in simplifying the Group's corporate structure and in consolidating the Company's its interest in Gome Appliance. The significance of the transaction is reflected in the following financial and strategic values:

- Simplification of corporate structure
- Consolidation of interest in Gome Appliance from 65% to 100%
- Strengthening of financial profile in terms of net profit and market capitalization
- Accretion of EPS

The acquisition was subsequently completed in early May 2006.

### *ANNOUNCEMENT OF MERGER WITH CHINA PARADISE BY WAY OF A VOLUNTARY GENERAL OFFER*

On 25 July 2006, the Group and China Paradise Electronics Retail Limited ("China Paradise") announced the terms of a voluntary general offer made by the Company to acquire all of the issued share capital of China Paradise not already owned by the Company and parties acting in concert with it. For every 1 share held, the shareholders of China Paradise shareholders will receive 0.3247 new GOME share and HK$0.1736 in cash. The offer values the entire issued share capital of China Paradise at HK$5,268.0 million.

The Group believes that the merger with China Paradise, the leading household appliances retailer in Shanghai and one of the top three household appliances retail chain operators, offers the enlarged group numerous operational and financial benefits:

- it will enjoy a strengthened position from which to pursue other opportunities to consolidate the market
- the two companies have complementary geographic networks from which to further expand; in particular China Paradise delivers to the Group its dominant position in Shanghai and other regions in the country

# Management Discussion and Analysis

- it will reduce price competition which enables the enlarged group to focus its efforts on business improvements and enhancement of customer services

- it will offer synergy savings through better bargaining power with suppliers, elimination of overlapping administrative costs, and better economies of scale

- it will strengthen the balance sheet of the enlarged group so as to provide increased flexibility for future organic growth and acquisition opportunities

- the enlarged market capitalization and shareholder base significantly improves liquidity in GOME stock and provides greater access to the capital markets

The proposed merger with China Paradise is expected to be completed in the fourth quarter of 2006.

# Management Discussion and Analysis

## OVERVIEW OF THE GROUP FOR THE FIRST HALF OF 2006

Having achieved a solid platform of store resources in Year 2005 in which the Group more than doubled its network, the Group entered Year 2006 with the objective of further improving its business operations and consolidating its leadership position. During the period, the Group was confronted with a number of challenges:

- Revenue growth – the Group must seek to mitigate competitive pressure and accelerate revenue growth, especially in the newly opened and second tier city stores, in order to capture market share and further widen the lead over the competition

- Sales efficiency – in light of declining sales efficiency, the Group seeks to reverse the downward trend in same store sales growth and moderate the decline in sales per square meter

- Cost ratios – they have been rising and the Group must implement tight cost control and improve sales performance in order to alleviate the negative impact

- Management initiatives – the Group is implementing a number of business improvement programs in 2006 and must seek to differentiate itself through the successful implementation of such initiatives

- Market consolidation – the Group must continue to strengthen its market leadership and act as a consolidator in the current competitive and fragmented market

The ability to overcome these challenges, especially at newly opened stores and stores in second tier cities, is critical to the buttressing the Group's leadership position and its financial wellbeing.

# Management Discussion and Analysis

### *STORE ROLLOUT*

In Period A, the Group continued to expand its retail network by opening 84 new traditional stores and 1 mega store. At the same time, it closed down 9 traditional stores and 1 digital store. In the first six months of 2005 ("Period B"), the Group opened 56 new and closed down 3 traditional stores. During the same period, it also closed down 9 digital stores. The following table illustrates the Group's store network as of the end of Period A and Period B:

**List of company stores network broken down by store format and by region**

| | Period A | | | Period B | | |
|---|---|---|---|---|---|---|
| **Region** | **Traditional** | **Mega** | **Digital** | **Traditional** | **Mega** | **Digital** |
| Beijing | 42 | – | – | 26 | – | 2 |
| Tianjin | 23 | – | – | 16 | – | 2 |
| Chengdu | 25 | – | – | 15 | – | 5 |
| Chongqing | 19 | – | – | 11 | – | 3 |
| Xi'an | 11 | – | – | 10 | – | 1 |
| Shenyang | 16 | 1 | – | 12 | – | – |
| Qingdao | 11 | – | 1 | 7 | – | 1 |
| Jinan | 13 | – | – | 8 | – | – |
| Guangzhou | 47 | – | 1 | 21 | – | 3 |
| Shenzhen | 39 | – | – | 19 | – | – |
| Wuhan | 19 | – | – | 8 | – | 1 |
| Kunming | 12 | – | – | 7 | – | – |
| Fuzhou | 18 | – | 1 | 9 | – | 1 |
| Nanjing | 11 | – | – | – | – | – |
| Quanzhou | 5 | – | – | – | – | – |
| Tangshan | 5 | – | – | – | – | – |
| Hefei | 4 | – | – | – | – | – |
| Suzhou | 4 | – | – | – | – | – |
| Changzhou | 4 | – | – | – | – | – |
| Lanzhou | 3 | – | – | – | – | – |
| Xuzhou | 3 | – | – | – | – | – |
| | **334** | **1** | **3** | **169** | **–** | **19** |

Of the total 334 traditional stores at the end of Period A, 218 were in first tier cities and 116 were in second tier cities.

During Period A, the Group purchased 2 additional store properties. In the future, the Group may continue to acquire additional selective store locations which are considered strategic. Securing good store locations at reasonable costs is becoming increasingly competitive. As a result, management is of the view that acquisition of retail properties in prime commercial locations would be helpful in mitigating the uptrend in rental expenses and in ensuring stability of operation.

# Management Discussion and Analysis

Therefore the Group believes that it must retain the flexibility and financial resources to make a purchase decision if necessary. The Group will continue to exercise caution in making such decisions to ensure the overall financial health of the Group.

In addition to the store network at the Group, the Parent Group also entered 11 new cities and added 41 traditional stores on a net basis but eliminated 1 digital store in Period A. As a result, the Parent Group's network amounted to 220 stores across 72 cities, of which 217 were traditional stores and 3 digital stores. On a combined basis, the Group and the Parent Group operated a network of 558 stores across 168 cities in the PRC at the end of Period A.

### *STORE LEASES*

At the end of Period A, all but 7 of the Group's stores were leased. More than 90% of the leases range from 3 to 12 years and the average remaining tenor of the leases at the end of Period B was approximately 6.98 years. About 44% of the leases have fixed rental expenses and the other 56% are subject to pre-agreed intermittent step-up mechanism. The Group can usually terminate a lease with one to three months' notice without incurring much additional costs.

### *MANAGEMENT INITIATIVES*

The Group began to implement the following initiatives in 2006:

- Improve core retail competencies: the importance of this initiative cannot be underestimated. The Group is paying close attention to store operating efficiencies such as front line employee productivity, shelf-space utilization ratio, and store level cost control. At the same time, the Group is implementing proactive control over promotions and optimizing SKUs and suppliers in order to recapture more gross margins. The Group is also leveraging on the GOME brand, which is the #1 brand in the consumer electronics retail sector in China, in promoting its network and products. The Group believes that positive impact from such programs will gradually come through in the near future.

- Enhance network coverage – in 2006, the Group is planning to add 120 to 150 traditional stores. It will also continue to expand into new cities. The Group started to enter second tier cities on a big scale in 2005. At the same time, a small number of selective mega stores will be opened if suitable locations can be secured.

- Enter second tier cities – characterized by significant market potential and less competition, second tier cities represent the next phase of growth for the Group. However, initial challenges include weaker purchasing power, longer penetration time, and smaller economies of scale which lead to longer breakeven period and less revenue on a per square meter basis. The Group aims to adopt flexible sales and marketing strategies in order to overcome such challenges and capitalize on the growth opportunities in these cities.

- Strengthen store network – as the Group continues to add stores in 2006, it is also closing down stores which are not as competitive. Store attrition, especially after 2005 in which the Group more than doubled its store network, is critical in ensuring that the Group's financial performance is not distorted by unproductive locations.

- Build IT infrastructure – in 2006, the Group will continue to enhance its IT infrastructure by adding a CRM component and ERP functionalities to improve the handling of sales transaction management, inventory monitoring, after-sales and customer feedback management.

# Management Discussion and Analysis

- Promote membership program – in October 2005, the Group launched another market-first initiative by introducing a tiered, point membership program nationally. The program is turning into a major success with membership reaching more than 4 million at the end of Period A. Together with the Parent Group, total membership had reached 5.5 million. With this program, the Group is capturing valuable customer data which the Group is seeking to turning into powerful marketing tools. The Group views the membership program as a key component of its overall effort to instill awareness of the GOME brand and loyalty in its customers.

- Introduce mega store format – the first mega store was opened in Shenyang in the beginning of 2006 under a new brand, Eagle. This alternative store format is launched to capitalize on what the Group believes is an emerging consumer group with high spending power which is increasingly looking for higher-end products and better shopping experience. The Group expects to open 2 additional mega stores by the end of 2006.

- Explore other revenue opportunities – group purchase arrangements, the maintenance service system and e-commerce represent additional revenue opportunities that the Group intends to further explore. Under the maintenance service system initiative which was first initiated in Period A, related infrastructure and network of alliances with suppliers and third party repair shops are now being put in place.

## *FINANCIAL PERFORMANCE*

*Revenue*

In Period A, the Group generated all of its revenue from its retail operation in the PRC, compared to Period B in which the Group also generated a small amount of revenue from the non-core securities and futures brokerage business which was disposed off in April 2005.

More than 98% of the revenue in Period A was derived from sales at traditional stores, with the rest contributed by other store formats and bulk purchases. The first Eagle mega store, which was opened in Shenyang during the period, is still in a very initial development stage. The Group will closely monitor its performance and continue to fine-tune its business model.

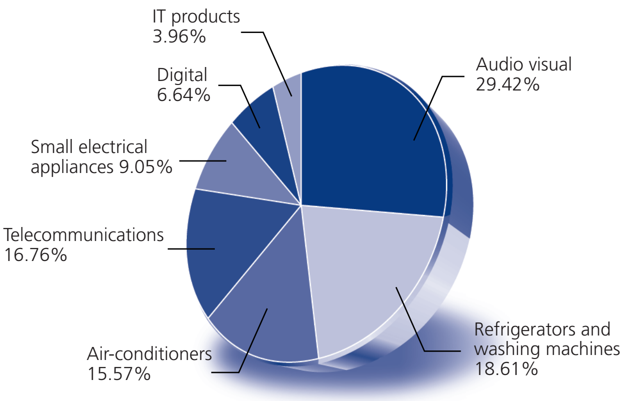
Revenue of the Group increased by approximately 47% to RMB12,168 million in Period A from RMB8,281 million in Period B. The increase was primarily attributable to the expansion of the Group's retail network. Same store sales at 110 qualified stores decreased by approximately 1.24% in Period A. Same store sales were up approximately 4.6% in Period B. Sales at these stores accounted for approximately 51% and 76% of total revenue in Period A and Period B respectively. Sales per square meter declined by approximately 34% from RMB30,900 in Period B to RMB20,400 in Period A on an annualized basis.

Decline in same store sales and sales per square meter could be attributed to intense competition and dense store coverage which had inevitably led to a certain degree of sales cannibalization.

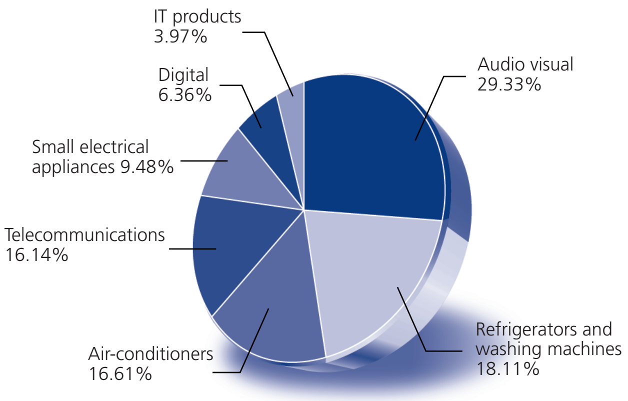
# Management Discussion and Analysis

The following charts illustrate the revenue breakdown in Period A and Period B respectively:

**Period A**




**Period B**



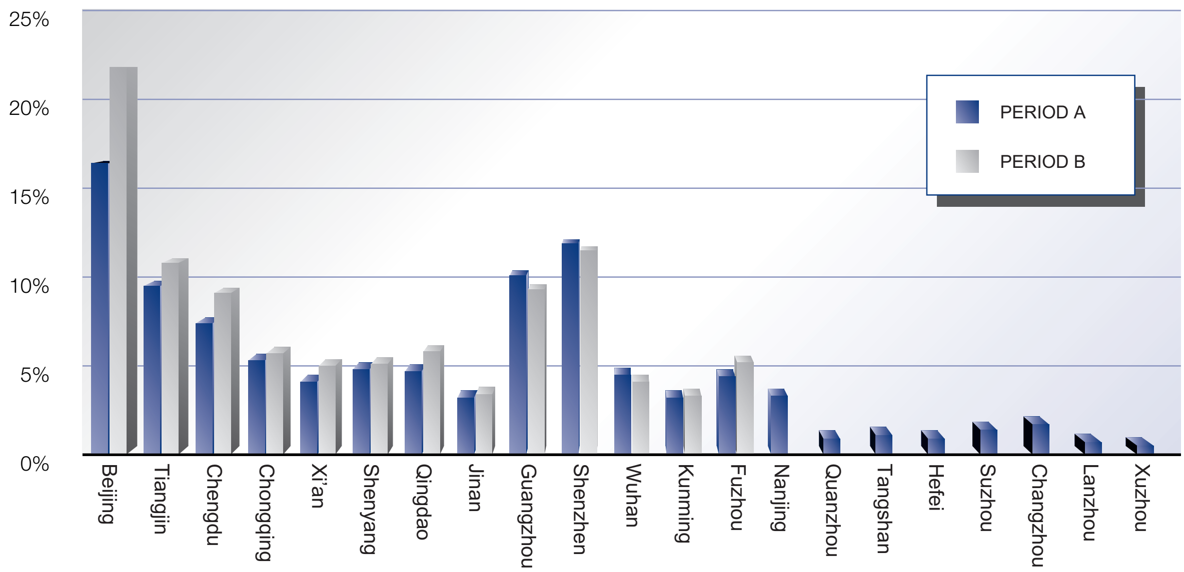

Audio visual products continued to make up the largest revenue component in the Group's product portfolio in Period A, accounting for approximately 29.4% of the revenue, compared to approximately 29.3% in Period B. As a percentage of revenue, digital products, telecommunications products, and refrigerators and washing machines rose while air-conditioners, small electrical appliances and IT products declined.

In terms of revenue, digital products, telecommunications product, and refrigerators and washing machines increased by approximately 53.6%, 52.6% and 51.1% respectively in Period A from Period B. On the other hand, revenue of air-conditioners and small electrical appliances grew by approximately 37.8% and 40.4% respectively in Period A from Period B.

# Management Discussion and Analysis

In addition to a diversified product portfolio, the Group is also balanced in terms of geographical revenue contribution. Beijing continued to be the largest revenue contributor, accounting for approximately 16.4% of the Group's revenue in Period A, compared to approximately 21.8% in Period B. The revenue breakdown by region is illustrated as follows:

**List of company stores network in terms of geographical revenue contribution**




The management of the Group estimates that in terms of revenue contribution, Chinese brands contributed approximately 67% while foreign brands accounted for the rest in Period A, which is relatively stable from the breakdown in Period B. The top 5 suppliers accounted for approximately 31.1% of the Group's total purchase in Period A, compared to approximately 25.8% In Period B.

The management of the Group believes that such a balance reflects a healthy mix of products and brands and preference by consumers. It is also testament to the ability of the Group to work effectively with both foreign and domestic brands and distribute their products through its retail channels.

*Cost of sales*

Cost of sales of the Group increased by 46% to RMB11,012 million in Period A from RMB7,566 million in Period B, principally as a result of increased sales volume.

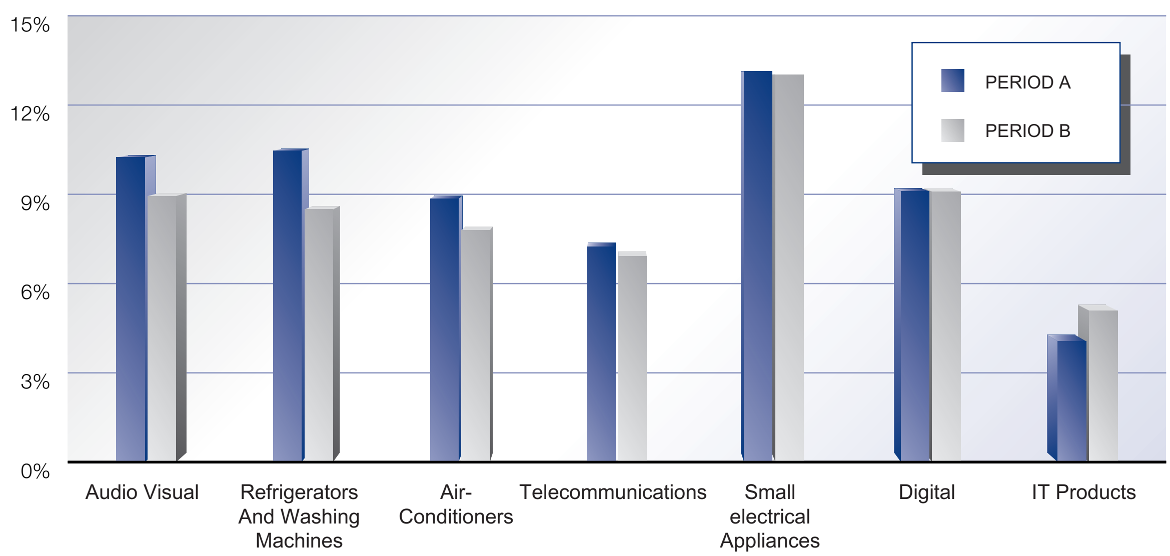
# Management Discussion and Analysis

*Gross profit*

Gross profit of the Group increased by approximately 62% to RMB1,156 million in Period A from RMB715 million in Period B. Gross profit margin increased to approximately 9.5% from approximately 8.63%. The management is of the view that the higher gross margin recorded during the reporting period was as a result of further economies of scale achieved by the Group and better pricing strategy implementation.

The following charts illustrates gross profit margin by product category in Period A and B:

**Gross Profit Margin in terms of product category**




*Other income*

The Group has been able to secure other income, mainly from suppliers pursuant to the Group's standardized supply contracts. Additionally, other income includes fee paid by air-conditioner installation contractors in connection with installation services for customers referred by the Group and management and purchasing service fees paid by the Parent Group for the provision of management and purchasing services by the Group in respect of the Parent Group's electrical appliance and consumer electronics retail operations in designated cities in the PRC.

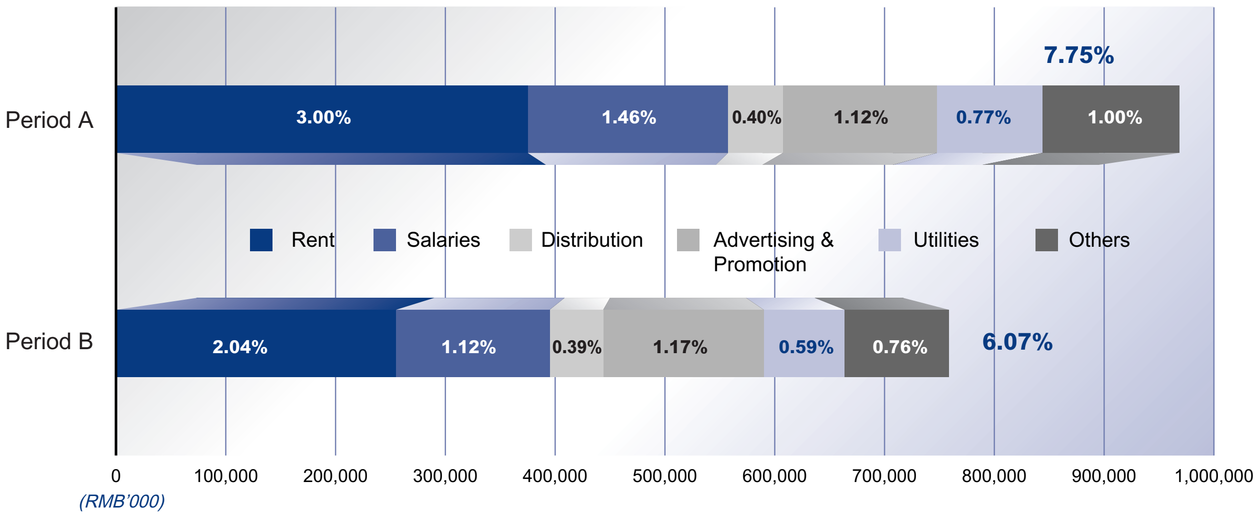
Other income of the Group increased by approximately 46% to RMB488 million in Period A from RMB333 million in Period B. The rise was primarily due to higher income from suppliers, which grew by approximately 55% to RMB332 million, or approximately 2.73% of revenue in Period A from RMB214 million, or approximately 2.58% in Period B. Higher management fee from the Parent Group also contributed to the rise in other operating income.

Other income as a percentage of revenue declined slightly to approximately 4.01% in Period A from approximately 4.03% in Period B.

# Management Discussion and Analysis

*Selling and distribution costs*

Selling and distribution expenses of the Group increased by approximately 88% to RMB942 million in Period A from RMB503 million in Period B. They comprise rental expenses, salaries and commissions of sales staff, utility charges, advertising, delivery and promotional expenses and other store-related expenses. As a percentage of revenue, selling and distribution expenses rose to approximately 7.75% from approximately 6.07%. The rise in selling and distribution expenses could be attributed to the significant increase in the stores number in Period A. The breakdown of the major items of the selling and distribution costs as a percentage of revenue for Period A and Period B is illustrated as follows:




*Administrative expenses*

Administrative expenses of the Group increased by approximately 88% to RMB209 million in Period A from RMB111 million in Period B. The major item of administrative expenses is salary expenses. The increase was primarily due to higher salary expenses incurred by the hiring of additional personnel and rises in salary and staff welfare for management personnel. As a percentage of revenue, administrative expenses rose to approximately 1.72% in Period A from approximately 1.34% in Period B.

*Other expenses*

Other expenses of the Group increased by 46% to RMB60 million in Period A from RMB41 million in Period B. The increase was primarily due to the expansion of the retail network of the Group, the increase in revenue, and the accompanying increase in business taxes, bank processing fees, and miscellaneous expenses. Other operating expenses as a percentage of revenue was approximately 0.49% in Period A, same as that of approximately 0.49% in Period B.

# Management Discussion and Analysis

*Finance costs*

The finance costs of the Group increased to RMB28 million in Period A from nil in Period B as a result of effective interest expense accrued on the US$125 million convertible bonds issued to Warburg Pincus in March 2006. Please note that most of the interest expense on the convertible bonds is non-cash in nature. Cash coupon on the bond is 1.5%.

*Finance income*

The finance income of the Group increased significantly by 474% to RMB121 million in Period A from RMB21 million in Period B. The increase was due to (1) bank interest income increase as a result of higher bank deposit rates and higher bank balance kept, including more pledged deposits; (2) RMB12 million in interest income received from a related company which acquired a piece of property in Beijing from the Group in 2005; and (3) a fair value gain of RMB54 million on the derivative component of convertible bonds in the period.

*Income tax*

Income tax paid by the Group increased by approximately 33% to RMB59 million in Period A from RMB44 million in Period B. The effective tax rates in Period A and Period B were approximately 11.2% and 10.6% respectively.

*Profit for the period attributable to equity holders of the Company*

As a result of the foregoing, the profit for the period attributable to equity holders of the Company increased by 45% to RMB345 million in Period A from RMB238 million in Period B. Net profit margin after minority interest accordingly declined to approximately 2.83% from approximately 2.87%.

## *LIQUIDITY AND FINANCIAL RESOURCES*

*Cash and cash equivalents*

The Group continues to enjoy a strong financial position. As of the end of Period A, the Group had RMB1,955 million in cash and cash equivalents, compared to RMB1,079 million as at 31 December 2005.

*Trade and bills payables*

Trade and bills payables amounted to RMB8,356 million as of the end of Period A, representing a 23% increase from RMB6,805 million at the end of 2005. Trade payables and bills payable days increased from 112 in 2005 to 124 in Period A.

*Inventory*

Inventories increased from RMB2,725 million as of 31 December 2005 to RMB2,741 million as of the end of Period A. Inventory turnover days increased from 43 in 2005 to 45 in Period A. The management of the Group considers the movement stable and within a normal band.

# Management Discussion and Analysis

*Indebtedness and leverage*

As of 30 June 2006, the Group had no long-term or short-term borrowings except the abovementioned US$125 million convertible bonds issued to Warburg Pincus. The Group's debt to equity ratio, expressed as a percentage of interest bearing external borrowings over owners' equity was 285%. The high ratio is mainly due to a significant decrease in the owner's equity from RMB1,511 million as of 31 December 2005 to RMB339 million at the end of Period A as a result of the accounting treatment for the acquisition of the 35% equity interest in Gome Appliance.

*Capital expenditures*

During Period A, the Group invested RMB181 million to acquire property, plant and equipment in connection with the expansion of its retail store network. In addition, the Group paid RMB148 million as balance payment of consideration for the subsidiaries acquired in 2005 and RMB1,020 million in acquiring the 35% equity interest in Gome Appliance.

*Cash flow*

The Group continued to enjoy stable and strong net cash inflow from operating activities of RMB1,211 million in Period A, compared to RMB796 million in Period B.

Cash outflow from investing activities amounted to RMB1,349 million in Period A, compared to RMB162 million in Period B, primarily as a result of higher capital expenditures and the acquisition of the 35% equity interest in Gome Appliance during Period A.

Cash inflow from financing activities during Period A amounted to RMB1,013 million, compared to no cash flow from financing activities in Period B.

## *CHARGES ON CAPITAL ASSETS*

As of 30 June 2006, the Group had pledged deposits amounting to RMB4,055 million, which were used to secure the bank acceptance draft facilities granted to the Group.

## *CONTINGENT LIABILITIES AND CAPITAL COMMITMENT*

There were no material contingent liabilities and capital commitment as of the end of Period A.

# Management Discussion and Analysis

### *FOREIGN CURRENCIES AND TREASURY POLICY*

All of the Group's revenues and most of its expenses are denominated in RMB. The Group does not believe that it currently has any significant direct foreign exchange risk in its retail business. However, as a result of the issuance of convertible bonds to Warburg Pincus, which are denominated in US$, the Group does have exposure to foreign exchange risk on its financial liabilities. Should US$ strengthen relative to HK$ or RMB, the Group's financial liability associated with the convertible bonds, if left unconverted into the Company's common shares, will increase. The Group has not hedged such exposure but may consider doing so in the future. It is the Group's treasury policy to manage its foreign currency exposure, if any, only when its potential financial impact is material to the Group.

The Group estimates that less than 10% of the Group's current purchase is imported products, which are sourced from suppliers and distributors in the PRC. Such transactions are denominated in the RMB. Considering the administrative revaluation of RMB against US$ in the third quarter of 2005 and the likely fluctuation of the value of RMB in the future, the management of the Group decided to switch its reporting currency to RMB, which is its functional currency, in 2005.

### *HUMAN RESOURCES*

As of the end of Period A, the total number of employees of the Group was 25,076, including 25,058 in the PRC and 18 in Hong Kong. At the end of Period B, the total number of employees of the Group was 13,489. It is the Group's policy to build a robust and team-oriented corporate culture which is critical to the Group's future prospect and developments.

## COMPETITION AND OUTLOOK

While growth potential and opportunities abound, the consumer electronics retail market in the PRC is rife with challenges. Fragmentation and fierce competition, massive expansion, and the lack of key differentiating factors currently among peers have led to decline in sales efficiency and pressure on margin and profitability. Even though competition in the market is mainly driven by domestic peers at the moment, the threat of foreign competition is quickly emerging.

Given the fragmented and competitive nature of the industry, speed of consolidation may pick up in the near future. The Group firmly believes that strategic consolidation opportunities are essential to building strong players, eliminating irrational competitive behaviors, and restoring sustainable profitability to the marketplace. In the future, the Group will continue to look for suitable acquisition opportunities while at the same time leverage its existing resources and grow organically. In order to further strengthen its competitive lead, the Group firmly believes that it must capitalize on the growth drivers in the market and at the same time mitigate the pressure exerted on management resources and financial performance by rapid growth and market competition.