

Chairman's Statement



WONG KWONG YU

Chairman

Year 2006 was an exciting year for all of us at the Company. I am pleased to announce that we accomplished a number of achievements during the year, which have firmly cemented the Company as the leading retailer of household appliances and consumer electronics in China.

During the year, the Company formed a strategic alliance with leading private equity investor, Warburg Pincus. It also completed the acquisition of the remaining 35% equity interest in Gome Appliance Co., Ltd., which is the Company's principal operating subsidiary in China. Later in the year, the Company and the number three player in the market, China Paradise Electronics Retail Limited ("China Paradise"), successfully completed a HK\$5.2 billion merger principally through a share swap. The breakthrough merger has demonstrably strengthened the network resources and capabilities of the new company and has positioned it well for future growth opportunities and challenges. The success of a merger hinges on swiftly executed

integration and I am pleased to announce that integration work has progressed extremely well and the bulk of the work will have been completed by the end of first half of 2007. The Company started to consolidate the financials of China Paradise on December 1, 2006.

Financially, the Company recorded revenue of RMB24,729 million in 2006, which represented a 38% increase over 2005. During the year, gross profit, operating profit, and net profit were RMB2,360 million, RMB914 million, and RMB819 million respectively. Basic earnings per share reached RMB38 cents, representing a growth of 27% over 2005. The Board has proposed a final dividend payment of 3.6 HK cents.

Year 2006 was also a challenging year in which the Company not only had to manage rapid expansion and mitigate competitive pressure, it also had to ensure the successful and timely execution of key important corporate initiatives. I am proud to say that our management teams and colleagues have clearly demonstrated full energy, spirit, and drive. They have worked relentlessly and achieved tremendous success for the Company in 2006.

After two years of aggressive growth and challenging performance in 2005 and 2006, I believe that the Company has reached a new stage where the Company is better positioned to embrace a new set of objectives. With a strengthened platform and enhanced resources as a result of the business achievements we accomplished in the last two years, the Company's new objectives are to achieve managed growth, improve sales efficiency, and enhance profitability in 2007.

As I said last year in the 2005 Annual Report, the future holds considerable potential for our company. I am fully confident the Company is well equipped to fully capitalize on opportunities that market has to offer and to forcefully handle challenges in the future. The continued success of the Company depends on the collective efforts of our business partners, Board of Directors, management, staff, and shareholders and I would like to take this opportunity to thank them all for the support that they have extended to the Company in the past. I also ask them to continue to support the Company in the future.

WONG KWONG YU
Chairman