China Paradise Electronics Retail Limited

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 0503)

永乐家电

Interim Report 2006

Corporate Information

EXECUTIVE DIRECTORS

Chen Xiao *(Chairman)*
Shu Wei
Liu Hui
Ma Yawei
Yuan Yashi
Zhou Meng
Shen Ping

NON-EXECUTIVE DIRECTORS

Julian Juul Wolhardt
Liu Haifeng, David
(Resigned on 13 March 2006)
Jiao Shuge (alias Jiao Zhen)
(Resigned on 13 March 2006)

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. Yu Zengbiao
Chu Cheng Chung
Wang Bing

AUDIT COMMITTEE

Dr. Yu Zengbiao *(Chairman)*
Chu Cheng Chung
Wang Bing

REMUNERATION COMMITTEE

Chen Xiao *(Chairman)*
Chu Cheng Chung
Wang Bing

COMPANY SECRETARY

Tong Wan Sze, Wilson (CPA, FCCA, MBA)

AUTHORIZED REPRESENTATIVES

Shu Wei
Tong Wan Sze, Wilson

QUALIFIED ACCOUNTANT

Tong Wan Sze, Wilson (CPA, FCCA, MBA)

AUDITORS

Ernst & Young

LEGAL ADVISORS

As to Hong Kong law:–
Arculli Fong & Ng
(in association with King & Wood, PRC Lawyers)
Herbert Smith

As to PRC law:–
Commerce & Finance Law Offices

As to Cayman Islands law:–
Maples and Calder

COMPLIANCE ADVISER

Cazenove Asia Limited

REGISTERED OFFICE

M&C Corporate Services Limited
PO Box 309 GT
Ugland House, South Church Street
George Town, Grand Cayman
Cayman Islands

Corporate Information

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 12, 26/F
China Merchants Tower
Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fund Services (Cayman) Limited
Butterfield House
68 Fort Street, P.O. Box 705
George Town, Grand Cayman
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shop 1712-16, 17/F
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

PRINCIPAL COMMERCIAL BANKERS

Bank of Shanghai, Jia Ding Sub-branch
Agricultural Bank of China, Shanghai Branch

SHARE INFORMATION

Stock code: 0503
(Listed on the Main Board of The Stock Exchange of Hong Kong Limited)
Board lot : 2,000 shares

INVESTOR RELATIONS CONTACT

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COMPANY WEBSITE

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Management Discussion and Analysis

RESULT HIGHLIGHTS

China Paradise Electronics Retail Limited ("**China Paradise**" or the "**Company**") together with its subsidiaries (collectively, the "**Group**") posted unsatisfactory interim results for the first half of 2006. Notwithstanding a 35.5% and 50.8% growth in turnover and total return from suppliers to RMB7,722,807,000 and RMB937,667,000 respectively, the increases were not sufficient to offset the significant surge in operating costs such as rental and staff costs. Furthermore, the Group's business in newly entered markets was still in a preliminary investment stage and had yet to have profit contribution. Therefore, profit attributable to equity holders of the Company was down by 89.3% to RMB15,018,000 during the period under review. Basic earnings per share decreased to RMB0.7 cents (approximately HK0.7 cents).

INTERIM DIVIDEND

The board of directors of the Company (the "**Board**") does not recommend payment of interim dividends for the six-month period ended 30 June 2006.

MARKET REVIEW

Boosted by China's rising economy and the increasingly strong domestic demand stimulated by the 11th Five-Year Plan of the PRC government, the retail market of household appliances in China offers enormous growth potential. This lucrative market, however, has also attracted foreign players, which intensified competition. In order to gain market shares, retail operators offered cutthroat discounts, exerting pressure to the industry as a whole. Further burden came from continuous increases in rental and staff costs. All of these served as catalysts to accelerate the pace of industry consolidation.

BUSINESS OVERVIEW

The Group is one of the top three household appliances retail chain operators in China. It enjoys a leading position in Shanghai with a 50% market share in terms of turnover. It is also the top retail chain operator in Henan province and maintains a leading position in the Zhejiang and Fujian areas. As at 30 June 2006, the Group had 225 stores covering 75 cities throughout China. Currently, the Group's operation covers major markets including the Pearl River Delta region, the Capital Economic Zone and Mid-Western China.

The Group underwent network expansion while streamlining its operations. During the period under review, 49 new stores were opened and 17 stores with unsatisfactory performance were closed down, bringing a net increase of 32 stores. Such an expansion pace was slightly behind the Group's schedule as the Group adopted a more prudent approach in order to avoid negative impact arising from initial investment in opening new stores.

STORE DISTRIBUTION

Region	Provinces/ centrally-administered municipalities	As at 30 June 2006 No. of cities covered	Total no. of stores
Eastern China	Shanghai	1	62
	Jiangsu	22	33
	Zhejiang	16	23
	Anhui	3	4
	Subtotal	**42**	**122**
Southern China	Fujian	9	27
	Guangdong	7	22
	Subtotal	**16**	**49**
Central China	Sichuan	4	14
	Henan	9	22
	Shaanxi	2	7
	Subtotal	**15**	**43**
Northern China	Beijing	1	7
	Tianjin	1	4
	Subtotal	**2**	**11**
Total		**75**	**225**

STORE FORMAT

The Group has established a comprehensive retail network which covers the Eastern China region and is extending into other potential markets. Its stores can be classified into the following three categories:

- Standardized store: normally with a floor area of approximately 2,000 sq.m. to 5,000 sq.m., which provides a wide array of household appliances and electronics products for basic household needs of customers.

- Flagship stores: large retail outlets that typically have a total floor area of 5,000 sq.m. to 12,000 sq.m. They are designed to provide a more comprehensive range of products and better shopping experience to customers and to enhance brand profile.

- Specialty stores: small outlets with floor area of approximately 300 sq.m. to 500 sq.m.. They are located in urban districts with heavy pedestrian flow. Specialty stores are mainly engaged in the sales of mobile phones and accessories, computers and digital products in order to satisfy the increasing demand of customers who wish to upgrade their personal electronic products with advanced technology and functions.

		As at 30 June 2006	
Region	**Standardised stores**	**Flagship stores**	**Specialty stores**
Eastern China	105	4	13
Southern China	48	1	–
Central China	42	1	–
Northern China	11	–	–
Total number of stores	**206**	**6**	**13**

CONDENSED CONSOLIDATED INCOME STATEMENT

	For the six-month period ended 30 June 2006 (RMB million)	2005 (RMB million)	Change (%)
Revenue	**7,723**	5,700	35.5
Gross profit	**577**	397	45.3
Total return from suppliers	**938**	622	50.8
Operating profit*	**0**	134	(100)
Profit attributable to shareholders	**15**	141	(89.3)
Earnings per share (RMB cents)			
– Basic	**0.7**	9.1	(92.3)
– Diluted	**0.7**	7.7	(90.9)
Interim dividends per share (RMB cents)	**–**	N/A	N/A

* Excluding non-operating items i.e. income from disposal of non-core businesses, tax rebates, exchange loss and impairment of goodwill.

	For the six-month period ended 30 June As percentage of turnover 2006	2005
Gross profit margin	**7.5**	7.0
Total return from the suppliers	**12.1**	10.9
Operating profit margin	**0**	2.4
Net profit margin	**0.2**	2.5

TURNOVER ANALYSIS

Revenue

The Group's revenue mainly came from the sale of household appliances and consumer electronics products. Revenue was also derived from telephone service charges based on shared promotion scheme of mobile communication businesses. The Group's revenue for the six-month period ended 30 June 2006 was approximately RMB7,722,807,000, representing an increase of 35.5% from approximately RMB5,699,884,000 for the same period of last year. This was mainly attributable to the expansion of the retail network. The number of stores increased from 193 as at 31 December 2005 to 225 as at 30 June 2006.

Geographically, the Eastern China region (including Shanghai, Jiangsu, Zhejiang and Anhui provinces) remained as the major source of revenue, accounting for 74.0% of the turnover of the Group for the first six months of 2006, which was 12.1 percentage points lower than that for the same period of last year. The decrease was due to increased contribution from the Southern China and Central China regions, which rose by 2.5 percentage points and 7.3 percentage points respectively, to 12.2% and 10.9% during the period under review.

As at 30 June 2006, the number of standardised stores, flagship stores and specialty stores were 206, 6 and 13 respectively, representing an addition of 90, 3 and 11 stores respectively over the same period of the previous year.

REVIEW OF OPERATIONS

As market competition became increasingly ferocious, the Group adopted a number of development strategies to maintain its competitiveness during the period under review, which included:

Expansion of Stores Network

The Group pursued stores network expansion during the period under review to further extend its market coverage. In December last year, the Group entered into a framework cooperation agreement with Beijing Dazhong Electrical Appliances Co., Ltd. ("**Beijing Dazhong**") for the establishment of joint ventures to tap new markets in Xian and Qingdao. It further entered into a strategic cooperation agreement with Beijing Dazhong in April this year, under which China Paradise is given the right to acquire the equity interest of Beijing Dazhong during the one-year term of the strategic cooperation agreement. Notwithstanding the Group has received a request from Beijing Dazhong in relation to a proposal to terminate the Strategic Cooperation Agreement, based on preliminary advice received from the Group's PRC lawyers, Beijing Dazhong does not have the right to unilaterally terminate the

Strategic Cooperation Agreement and to forfeit the deposit of RMB150 million. In fact, the Group is now seeking further advice from its legal advisers and is now considering its options and proposed course of action. Please refer to the announcement dated 18 August 2006 for details.

Concurrently, the Group expanded its coverage through organic growth. Its approximate total sales area increased by 27.0% to 705,569 sq.m. during the period under review.

Nevertheless, the Group faced keen competition from existing players in the newly entered markets. As the Group was still in a preliminary investment stage in these markets, it had yet to enjoy the benefits from scale of operation and market experience as it does in the Shanghai region. All these underlined the unsatisfactory store performance in these markets. For the six-month period ended 30 June 2006, the Group's approximate weighted average revenue per sq.m. per annum was RMB22,512, representing a decrease of 13.1% over the same period of last year. Owing to fierce price competition from its peers, same-store sales of the Group was down by 9.5% to RMB4,036,776,000, as compared to RMB4,458,152,000 for the same period of last year.

Disposal of Non-core Business

In order to concentrate its resources on the development of its core business, the Group entered into agreements with its key management on 17 May 2006 with respect to the disposal of the equity interests in seven subsidiaries engaging in non-core businesses, which included the sales of lightings, home furnishings, building materials, etc. The aggregate consideration (including assignment of debts), which amounted to RMB70,289,000, will be allocated as additional working capital. The disposal generated a one-off extraordinary gain of RMB41,597,000 to the Group.

Enhancing Operating Efficiency

During the period under review, the Group restructured its store network and closed down 17 stores with low profitability. Sales area was reduced by 79,940 sq.m. through subletting a portion of operation area or terminating leases to alleviate the pressure of rental increases. In addition, the Group streamlined its staff structure and reduced its staff force by 1,779 employees to lower operating costs.

Strengthening Relationship with Suppliers

The Group is committed to strengthening its relationship with suppliers. During the period under review, it launched a series of unique and creative marketing programmes to assist its suppliers to promote their brands and to provide excellent services to its customers.

BUSINESS PERFORMANCE

FINANCIAL HIGHLIGHTS

Revenue by Region

	For the six-month period ended 30 June			
	2006		2005	
	(RMB million)	**As a percentage of revenue (%)**	(RMB million)	As a percentage of revenue (%)
Eastern China (including Anhui Area)	**5,718**	**74.0**	4,908	86.1
Southern China	**941**	**12.2**	554	9.7
Central China	**839**	**10.9**	207	3.6
Northern China	**225**	**2.9**	31	0.6
Total	**7,723**	**100.0**	5,700	100.0

Revenue by Principal Product Categories

	2006	**As a percentage of sales**	2005	As a percentage of sales	**Change to such percentage**
Air conditioners	**1,421**	**18.4%**	1,284	22.5%	-4.1%*
Television sets	**1,734**	**22.4%**	1,220	21.4%	1.0%
Refrigerators and washing machines	**1,153**	**14.9%**	840	14.7%	0.2%
Audio visual systems	**108**	**1.4%**	93	1.6%	-0.2%
Small black household appliances	**231**	**3.0%**	205	3.6%	-0.6%
Small white household appliances	**857**	**11.1%**	663	11.7%	-0.6%
I.T. digital products	**792**	**10.3%**	491	8.6%	1.7%
Mobile communication products	**1,427**	**18.5%**	904	15.9%	2.6%
Total	**7,723**	**100.0%**	5,700	100.0%	

* With the changes in the State policies towards the real estate sector, the sluggish real estate business led to a decline in the sales of air conditioners.

With respect to product sales, conventional household appliances such as air conditioners, television sets, refrigerators and washing machines remained as the major revenue stream. Such products accounted for 55.7% of the turnover for the six-month period ended 30 June 2006 compared to 58.6% for the same period last year. The Group deployed additional resources to boost the sales of rapidly evolving digital electronic appliances with short product cycles such as I.T. digital and mobile communication products. Sales of these products accounted for 28.8% of total revenue, up from 24.5% in the same period of last year. The Group is optimistic of the growth potential of such products.

Approximate Weighted Average Revenue per sq.m. per Annum

The Group's approximate weighted average revenue per sq.m. per annum decreased from RMB25,917 for the same period of 2005 to RMB22,512 during the period under review. This was mainly due to the Group's strategy of expanding to new markets including the Southern and Northern China regions where the disposable income per capita was relatively lower than that in Eastern China. In addition, sales of new stores were generally lower in the initial stage after opening.

Comparison of Same-store Sales

Same-store sales in the first half of the year was RMB4,036,776,000, representing a decrease of 9.5% compared to the same period of 2005, which was mainly due to:

- Continuous fierce competition, as competitors sped up new store opening which exerted pressure on the Group's existing stores; and

- New stores opened by the Group which diverted sales from existing stores to new ones.

COST OF SALES AND GROSS PROFIT MARGIN

The Group's cost of sales for the six-month period ended 30 June 2006 was RMB7,146,132,000, increased by 34.7% as compared to the same period of 2005.

Gross profit included price difference rebate and price subsidy from suppliers. During the period under review, the Group's gross profit recorded a period-on-period increase of 45.3% to RMB576,675,000, while gross profit margin expanded by 0.5 percentage point to 7.5%. The gross profit margin expansion was attributable to increased return from suppliers rebate resulting from sales growth.

Gross Profit Contribution by Principal Product Categories

Revenue	For the six-month period ended 30 June 2006 Gross margin (%)	 2006 Percentage of total gross profit (%)	 2005 Gross margin (%)	 2005 Percentage of total gross profit (%)
Air conditioners	**5.3**	**13.1**	4.1	13.1
Television sets	**4.8**	**14.5**	2.4	7.5
Refrigerators and washing machines	**7.2**	**14.5**	5.3	11.2
Audio visual system	**21.2**	**4.0**	22.9	5.4
Small black household appliances	**10.1**	**4.0**	8.3	4.3
Small white household appliances	**14.3**	**21.2**	10.4	17.4
I.T. digital products	**1.8**	**2.5**	6.9	8.5
Mobile communication products	**10.6**	**26.2**	14.3	32.6
Total	**7.5**	**100.0**	7.0	100.0

PURCHASING AND LOGISTICS MANAGEMENT

For the six-month period ended 30 June 2006, 70% of the Group's purchase was direct purchase from manufacturers, and the remaining 30% was mainly procured from mobile handsets and digital product distributors. The mix was approximately the same as that in the previous year.

The Group is committed to strengthening back-end support. In the first half of the year, the Group commenced the construction of a logistics center in Qingpu, Shanghai. With total investments amounting to RMB200,000,000, it will be the largest logistics center built by a retail operator in China. The center is expected to commence its operation by early 2007. Upon completion, the Group will benefit from reduced logistics costs and enjoy greater flexibility in product procurement to meet market demand while reducing its inventory levels.

SPONSORSHIP FEES FROM SUPPLIERS

Revenue from sponsorship fees included promotion fees and display fees. For the six-month period ended 30 June 2006, sponsorship fees from suppliers amounted to RMB363,575,000, representing an increase of 50.6% from RMB241,397,000 over the same period of 2005. This was mainly attributable to the expansion of scale of operation and the increased promotional activities the Group offered to suppliers.

TOTAL RETURN FROM SUPPLIERS

For the six-month period ended 30 June 2006, the total return from suppliers increased from RMB621,831,000 for the same period last year to RMB937,667,000. The precentage of total return from suppliers to the turnover of the period increased from 10.9% for the first half of 2005 to 12.1% for the first half of 2006, representing an increase of 1.2 percentage points.

	For the six-month period ended 30 June	
	2006 (RMB million)	2005 (RMB million)
Gross profit	**577**	397
Write back of provision for slow moving inventories	**(3)**	(16)
Sponsorship fees from suppliers	**364**	241
Total return in revenue from suppliers	**938**	622
Rate of total return from suppliers	**12.1%**	10.9%

OTHER INCOME AND GAIN (EXCLUDING SPONSORSHIP FEES FROM SUPPLIERS)

Other income and gain for the six-month period ended 30 June 2006 rose by 108.7% to RMB107,149,000, which was mainly attributable to:

1. An extraordinary gain of RMB41,597,000 from the disposal of non-core businesses; and

2. Increase in rental income of RMB13,397,000 from leasing of certain properties in idle and subletting of certain store areas with unsatisfactory performance.

OPERATING COSTS

Operating costs included selling and distribution costs, administrative expenses and other expenses.

	For the six-month period ended 30 June As a percentage of revenue (%)	
	2006	2005
Selling and distribution costs	**10.4**	7.4
Administrative expenses	**2.1**	1.8
Other expenses	**0.5**	0.1
Total	**13.0**	9.3

Selling and Distribution Costs

The selling and distribution costs of the Group for the six-month period ended 30 June 2006 amounted to RMB807,025,000, denoting an increase of 91.4% over RMB421,592,000 for the same period of 2005. Percentage of selling and distribution costs to turnover also increased from 7.4% in the first six months of 2005 to 10.4% for the period under review.

	For the six-month period ended 30 June As a percentage of revenue (%)	
	2006	2005
Store rental	**3.6**	2.0
Advertising and promotion expenses	**1.9**	1.9
Staff costs of sales team	**2.3**	1.2
Logistics costs	**0.7**	0.8
Water and electricity charges	**0.7**	0.6
Depreciation	**0.8**	0.4
Others	**0.4**	0.5
Total	**10.4**	7.4

The increase in selling and distribution costs was mainly attributable to the increase in sales, rising rental and staff costs resulting from business expansion. During the period under review, rental costs recorded a period-on-period increase of 142.6%, from RMB115,869,000 for the same period of last year, accounting for 2.0% of the Group's turnover to RMB281,137,000 for the period under review, accounting for 3.6% of the Group's turnover. The significant rise in rental costs was as a result of the increased demand from competitors seeking prime locations for stores in the same region which pushed up store rents. In addition, staff costs increased by 156.2% to RMB175,761,000 and accounted for 2.3% of the turnover. The increase was attributable to intensified competition, as the growth in sales of new stores lagged behind the increase in staff costs.

Cost Control Measures

In view of the rising trend in rentals and staff costs, the Group re-engineered internal management during the period under review by streamlining corporate structure, reducing headcounts by 1,779 employees and adjusting staff salaries in accordance with their performance. Furthermore, the Group sublet a portion of areas in some of its stores, closed down certain under-performing stores and demanded rental reduction so as to increase operation efficiency.

Administrative Expenses

Administrative expenses increased by 59.5% to RMB163,058,000 during the period under review, which accounted for 2.1% of our turnover. The main reason for such rise was the increase in staff costs of our administrative team as we actively recruited more senior management personnel from international retail enterprises to cope with our business expansion. Thus, percentage of staff costs to turnover increased to 1.1% for the period under review from 0.9% during the same period of last year. In addition, other administrative expenses such as office expenses, legal and professional fee after IPO also increased.

Other Expenses

Other expenses of the Group for the first half of 2006 amounted to RMB36,383,000, which increased significantly over the same period of 2005 mainly due to impairment of goodwill of the purchased subsidiaries which amounted to RMB15,702,000 and exchange loss of RMB12,530,000 resulted from RMB appreciation on the listing proceeds currently placed in Hong Kong in US dollars deposits.

NET INTEREST INCOME

The Group's interest income for the first six months of 2006 amounted to RMB44,872,000, an increase of 245.4% as compared to the same period of last year. This was mainly due to the increase in interest income resulting from the increased bank deposits with the proceeds from listing.

INCOME TAX AND EFFECTIVE TAX RATE

Our income tax expenses for the six-month period ended 30 June 2006 amounted to RMB70,288,000, an increase of 324.4% over the same period of 2005. It was attributable to the substantial increase in deferred taxes of RMB45,878,000 as a result of write off of deferred tax assets recognised in prior year on unutilised tax losses of certain subsidiaries and the non-recognition of deferred tax assets on unutilised tax losses of certain subsidiaries during the current period. In the meantime, as Shanghai Yongle Communication Equipment Co. Ltd. was exempted from income tax during 2005, for which it was subject to tax at 15% after the tax exemption period expired, income taxes for the first half of the year thus amounted to RMB27,490,000.

PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY AND BASIC EARNINGS PER SHARE

Owing to the aforesaid reasons, the profit attributable to equity holders of the Company for the six-month period ended 30 June 2006 decreased by 89.3% period on period to RMB15,018,000. The net profit margin for the period was 0.2%, a decrease by 2.3 percentage points over the same period of last year. Basic earnings per share for the period under review decreased by 92.3% to RMB0.7 cents.

CURRENT LIQUIDITY AND CASH BALANCE

	As at 30 June		
	2006 **(RMB million)**	2005 (RMB million)	**Change** (%)
Cash and cash equivalents	**1,789**	875	104.5
Bank loans	**230**	226	1.8
Net cash[1]	**1,559**	649	140.2
Current ratio[2]	**1.2**	1.0	20.0
Turnover of inventory[3] (days)	**38.7**	31.3	23.6
Turnover of trade receivables and bills receivable (days)	**2.7**	0.7	285.7
Turnover of trade payables and bills payable (days)	**127.4**	121.7	4.7

Notes:

1. cash and cash equivalents – bank loans
2. current assets/current liabilities
3. average inventory during the period/selling cost x 180

   average inventory = (inventory at beginning of period + inventory at end of period)/2

Analysis of Cash Flow

	Condensed Consolidated Cash Flow Statement for the six-month period ended 30 June		
	2006 **(RMB million)**	2005 (RMB million)	**Change** (%)
Net cash inflow from operating activities	**402**	542	(25.8)
Net cash outflow from investing activities	**(80)**	(602)	(86.7)
Net cash inflow from financing activities	**(74)**	441	(116.8)

Increase in net cash outflow from investment activities in the last year was mainly attributable to the additional use of bills payable for purchases, which resulted in the deposits pledged increased by RMB383,700,000, as well as the consideration for acquisition arising from the restructuring of the Group. The payments made during the year were mainly for capital expenditures of RMB94,960,000.

Increase in net cash inflow from financing activities for the same period in the last year was the cash received for the subscription of the Company's shares by financial investors, namely MS Retail Limited and CDH Electronics Limited. For the six-month period ended 30 June 2006, the net cash outflow from financing activities was due to the repayment of bank loans of RMB110,000,000, and the payment of dividend of RMB94,076,000. The cash outflow arising therefrom was offset by the inflow of RMB142,712,000 received from the exercise of share options by Tong Ley Investment Ltd. and Retail Management Company Limited respectively.

Capital Expenditure

The Group's capital expenditure in the first half of 2006 (net of the amount transferred from long-term land deposits) amounted to RMB94,960,000, of which RMB65,166,000 was spent on opening new stores, RMB27,511,000 was spent on construction of distribution centre and RMB2,283,000 was spent on upgrading of our information system network.

Use of Proceeds from Listing

The Group was successfully listed on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") in October 2005. As the Group is waiting for the approval of the Chinese government for remittance of funds raised back to China, approximately RMB1.2 billion has not yet been applied as at the end of June 2006. Given the rising interest rate of US dollars, the fund was deposited in US dollar fixed deposit in order to maximize interest income.

MANAGEMENT OF WORKING CAPITAL

Current ratio

The Group's current ratio as at 30 June 2006 was 1.2, representing an increase of 20.0% as compared to 1.0 as at 30 June 2005. The increase was attributable to the net proceeds of approximately RMB1.2 billion received from listing in October 2005, resulting in a substantial increase in our cash balance at the end of June 2006.

Inventory Turnover

The inventory turnover as at 30 June 2006 increased by 7.4 days to 38.7 days over the same day in 2005. The increase was mainly because the Group stocked up to mitigate the impact of raw material cost increase on the price of air-conditioners, and stocked up for enlarged store network.

Trade Receivables and Bills Receivable Turnover

The receivables turnover for the first half of 2006 was 2.7 days, which was similar to last year, indicating that most sales continued to be conducted in cash.

Turnover of Trade Payables and Bills Payable

The payables turnover for the first half of 2006 was 127.4 days, 5.7 days more than that for the same period of 2005. It is due to the increase in proportion of bills used, and the repayable period for bills payable was longer than trade payables.

PLEDGE OF ASSETS

The Group's pledge of assets is disclosed under notes 17 and 18 of the notes to the interim condensed consolidated financial statements.

CONTINGENT LIABILITIES

The Group's contingent liabilities is disclosed under note 24 of the notes to the interim condensed consolidated financial statements.

RISK OF FOREIGN EXCHANGE

All of the Group's operations are in China and sales are denominated in Renminbi. Other than the listing proceeds which were denominated in Hong Kong dollars, all of our financial assets and liabilities are denominated in Renminbi. However, the prices at which the Group purchases from suppliers may be affected as a result of fluctuations in the prices of imported raw materials or parts or the foreign exchange rate. In view of the risk of appreciation of Renminbi, the Group has applied to the Chinese government to remit the funds which are currently placed in Hong Kong in US dollar deposit back to China.

FUTURE PROSPECTS

Owing to fierce price wars and the lacklustre performance of new stores in the Northern China and Southern China regions, the Group's results for the first half of this year was not as good as that of the same period last year. The participation by foreign players also greatly intensified competition. The Group believes that the best way of resolving the issue of competition altogether and to improve our results substantially is to merge with other industry players.

The Group published an announcement concerning the proposed merger with GOME Electrical Appliances Holding Limited ("**GOME**") under which GOME intends to make a voluntary conditional offer to us. Both parties believe that the merger will bring along a series of benefits and enhance shareholders' return. Firstly, the combined group will become the clear market leader, and enjoy leading positions in key regions including both Beijing and Shanghai. After the merger, the combined store network of GOME and the Group will increase to 501 stores based on the number of stores of both companies as at 31 March, 2006, which will further expand the scale of operation. The combined group will be well positioned for future growth and continued industry consolidation. In addition, the merger will also increase purchasing power and enable integration of procurement and supply chain management functions which will reduce the operating costs and enhance operating costs efficiency for the combined group.

Both parties expect all of the above benefits to significantly strengthen the combined group, and strategically position the businesses to become the long-term market leader in China.

For details of the offer, please refer to the announcement dated 25 July 2006 and the composite offer document to be issued to shareholders.

The Group will continue to discuss and review the acquisition of Beijing Dazhong and further announcement in relation to the developments of the Strategic Cooperation Agreement will be made if necessary.

The Board is pleased to present its 2006 interim report, together with the unaudited financial statements of the Group for the six-month period ended 30 June 2006.

CORPORATE GOVERNANCE

As mentioned in our 2005 annual report, the Company has put in place a code on corporate governance practices (the "**Corporate Governance Code**") that complies with the "Code on Corporate Governance Practices and Corporate Governance Report" as contained in Appendix 14 to The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

The Board has reviewed the implementation of our Corporate Governance Code. The Company has complied with the Corporate Governance Code throughout the six-month period ended 30 June 2006 except that the role of Chairman and Chief Executive Officer is performed by the same individual Mr. Chen Xiao, which is not in compliance with Code Provision A.2.1 of the Code on Corporate Governance Practices and Corporate Governance Report. The Board believes that vesting the roles of both Chairman and Chief Executive Officer (which is equivalent to the President) in Mr. Chen Xiao provides the Group with strong and consistent leadership and allows for more effective planning and execution of long-term business strategies.

Save as mentioned above, none of the directors of the Company is aware of any information which would reasonably indicate that the Company was not in compliance with the Code on Corporate Governance Practices and Corporate Governance Report set out in Appendix 14 to the Listing Rules at any time during the reporting period.

REMUNERATION COMMITTEE

The Company's remuneration committee consists of three members, two of whom are independent non-executive directors, being Mr. Chu Cheng Chung and Mr. Wang Bing. The remuneration committee is chaired by Mr. Chen Xiao, an executive director. The Company's remuneration committee has been established with written terms of reference. The primary duties of the remuneration committee include without limitation: (i) establishing a formal and transparent procedure for developing policies on remuneration; (ii) determining the terms of the specific remuneration package of each executive director and senior management, etc.

AUDIT COMMITTEE

The Company's audit committee comprises of three independent non-executive directors, namely Dr. Yu Zengbiao, Mr. Chu Cheng Chung and Mr. Wang Bing. The audit committee is chaired by Dr. Yu Zengbiao. The audit committee is established with the aim of monitoring the financial reporting procedures, reviewing internal control and risk management system of the Group and monitoring the relationship with external auditors, which includes the review of the unaudited interim condensed consolidated financial statements for the six-month period ended 30 June 2006. The audit committee has reviewed the unaudited interim condensed consolidated financial statements of the Group for the six-month ended 30 June 2006.

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

As at 30 June 2006, the interests of the Directors of the Company in the shares of the Company or associated corporation as recorded in the register as required to be kept under section 352 of the Securities and Futures Ordinance ("**SFO**"), or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("**Model Code**"), were as follows:

Name of Director	Name of company/ associated corporation	Nature of Interests	Number of ordinary shares in total	Approximate percentage of the total issued capital of the company concerned (Note 5)
Chen Xiao	The Company	Company (Note 1)	1,227,649,060(L) (Note 2)	52.58%
			93,947,635(S) (Note 2)	4.02%
	Retail Management Company Limited ("**Retail Management**")	Personal	725,898(L) 12,480(S) (Note 3)	72.59% 1.25%
	Shanghai Minrong Investment Co., Ltd. ("**Shanghai Minrong**")	Personal	N/A(L) N/A(S)	0.73% 0.01%
	Yongle (China) Electronics Retail Co., Ltd. ("**Yongle (China)**")	Personal	N/A(L) N/A(S)	7.26% 0.12%
Shu Wei	Retail Management	Personal	131,025(L)	13.10%
	Shanghai Minrong	Personal	N/A(L)	0.13%
	Yongle (China)	Personal	N/A(L)	1.31%
Liu Hui	Retail Management	Personal	97,705(L)	9.77%
	Shanghai Minrong	Personal	N/A(L)	0.1%
	Yongle (China)	Personal	N/A(L)	0.98%
Yuan Yashi	Retail Management	Personal	45,372(L)	4.54%
	Shanghai Minrong	Personal	N/A(L)	0.05%
	Yongle (China)	Personal	N/A(L)	0.45%

Name of Director	Name of company/ associated corporation	Nature of Interests	Number of ordinary shares in the company concerned	Approximate percentage of the total issued capital of the company concerned (Note 5)
Ma Yawei	Retail Management	Personal	10,585(L)	1.06%
	Shanghai Minrong	Personal	N/A(L)	0.01%
	Yongle (China)	Personal	N/A(L)	0.11%
Zhou Meng	Retail Management	Personal	5,000(L)	0.5%
(Note 4)	Shanghai Minrong	Personal	N/A(L)	0.01%
	Yongle (China)	Personal	N/A(L)	0.05%
Shen Ping	Retail Management	Personal	49,270(L)	4.93%
	Shanghai Minrong	Personal	N/A(L)	0.05%
	Yongle (China)	Personal	N/A(L)	0.49%

Notes:

1. These shares are held by the substantial shareholder, Retail Management. Mr. Chen Xiao owns as to 72.59% of the issued share capital of Retail Management.

2. This takes into account the shares that Retail Management may acquire from MS Retail Limited and CDH Electronics Limited (collectively, the "**Financial Investors**") as a result of the valuation adjustment mechanisms as set out in the shareholders agreement entered into between Retail Management and the Financial Investors. In relation to the valuation adjustments, assuming that the valuation adjustment works in favour of Retail Management, its shareholding interest in the Company will increase by 46,973,817 shares. If the valuation adjustment works against Retail Management, its shareholding interest could decrease by a maximum of 93,947,635 shares.

3. The short position represents the outstanding unexercised Yongle (China) and Shanghai Minrong option granted by Chen Xiao to seven employees of the Group to acquire the beneficial interests in an aggregate of 0.13% of the registered capital of Yongle (China) and 0.013% of the registered capital in Shanghai Minrong respectively held by Chen Xiao at an aggregate exercise price of RMB5,240,000. The beneficial interests of the relevant shares in Retail Management will vest in the employees upon his exercise of his Yongle (China) and Shanghai Minrong option to acquire the beneficial interests in Yongle (China) and Shanghai Minrong. The exercise period of the option commences from 26 August 2005 and ends on 30 June 2007.

4. This represents Zhou Meng's beneficial interests in 0.025% and 0.0025% of the registered capital of Yongle (China) and Shanghai Minrong respectively, and 0.25% in the issued share capital of Retail Management, together with the beneficial interests in 0.025% and 0.0025% of the registered capital of Yongle (China) and Shanghai Minrong respectively, and 0.25% of the issued share capital of Retail Management that he can acquire from Chen Xiao under an option granted to him by Chen Xiao. The beneficial interests in Retail Management will only vest in Zhou Meng upon his exercise of the option to acquire the beneficial interests in Yongle (China) and Shanghai Minrong. The exercise price for the acquisitions by Zhou Meng of the remaining interests of all three associated corporations of the Company is RMB1,240,000. The exercise period of the option commences on 26 August 2005 and ends on 30 June 2007.

5. The approximate percentage of interests in the corporations is based on the current issued share capital of each of the corporations.

(L) means long positions.
(S) means short positions.

Save as disclosed above, as at 30 June 2006, none of the Directors or their respective associates has any interests or short positions in the shares, underlying shares and debentures in the Company or its associated corporations that was required to be recorded in the register being maintained pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at 30 June 2006, the interests and short positions of the substantial shareholders (other than the Directors of the Company) in shares and underlying shares of the Company as recorded in the register maintained under section 336 of the SFO were as follows:

Name of substantial shareholders	Number of shares held	Percentage of issued shares
Chen Xiao (Note)	1,227,649,060(L) 93,947,635(S)	52.58% 4.02%
Retail Management	1,227,649,060(L) 93,947,635(S)	52.58% 4.02%
Morgan Stanley	351,283,878(L) 48,873,483(S)	15.04% 2.09%
Morgan Stanley Global Emerging Markets Private Investment Fund, L.P.	305,187,878(L) 40,397,483(S)	13.07% 1.73%

Name of substantial shareholders	Number of shares held	Percentage of issued share capital
MS Retail Limited	305,187,878(L)	13.07%
	40,397,483(S)	1.73%
MSGEM, LLC	305,187,878(L)	13.07%
	40,397,483(S)	1.73%

Notes:

Mr. Chen Xiao held 725,898 shares in Retail Management, representing 72.59% of the issued share capital of Retail Management. As at 30 June 2006, out of the 725,898 shares in Retail Management held by Mr. Chen Xiao, 456,334 shares were held by Mr. Chen Xiao on trust for over 50 beneficiaries.

(L) means long positions.
(S) means short positions.

Save as disclosed above, as at 30 June 2006, no person, other than the Directors, whose interests are set out in the section "DIRECTORS' INTERESTS, LONG POSITIONS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded in the register maintained pursuant to section 336 of the SFO.

SHARE OPTION SCHEME

During the six-month period ended 30 June 2006, the Company had not granted any option pursuant to the share option scheme.

Pursuant to an option deed entered into between the Company and Retail Management, the Company granted an option (the "**RM Management Incentive Option**") at nil consideration to Retail Management to subscribe for 145,483,657 shares at an exercise price of HK$0.83 per share as a management incentive.

Pursuant to another option deed entered into between the Company and Tong Ley Investment Ltd. ("**Tong Ley**"), the Company granted an option (the "**Wang Management Incentive Option**") to Tong Ley at nil consideration to subscribe for 43,425,435 shares at an exercise price of HK$0.83 per share. The Wang Management Incentive Option is exercisable within 20 years from 4 July 2005.

On 24 April 2006, Retail Management and Tong Ley exercised the RM Management Incentive Option in full and the Wang Management Incentive Option in part respectively, and were allotted 145,483,657 shares and 21,712,717 shares respectively. Such exercise of the options by Retail Management and Tong Ley was completed on 27 April 2006.

PURCHASE, SALE OR REDEMPTION OF LISTED SHARES OF THE COMPANY

During the six-month period ended 30 June 2006, none of the Company or any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

INVESTOR RELATIONSHIP AND COMMUNICATION

By meeting with institutional investors and financial analysts regularly, the Company has been making proactive efforts to promote investor relationship and communications with them, in order to ensure two-way communications on the Company's performance and development.

PUBLIC FLOAT

Based on the information available to Company and to the knowledge of the directors, as at the date of this report, the Company has maintained the prescribed public float required by the Listing Rules.

COMPLIANCE WITH THE MODEL CODE

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as the Company's code of conduct and rules governing dealings by all directors in the securities of the Company. The Company has made specific enquiries with all directors and the directors had confirmed their strict compliance with the Model Code during the six-month period ended 30 June 2006.

Independent Auditors' Review Report

To the Board of Directors of
China Paradise Electronics Retail Limited
(Incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have been instructed by the Company to review the interim financial report set out on pages 27 to 52.

DIRECTORS' RESPONSIBILITIES

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with International Accounting Standard 34 "Interim Financial Reporting" promulgated by the International Accounting Standards Board and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors.

REVIEW WORK PERFORMED

We conducted our review in accordance with Statement of Auditing Standards 700 "Engagements to Review Interim Financial Reports" issued by the Hong Kong Institute of Certified Public Accountants. A review consists principally of making enquiries of group management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

REVIEW CONCLUSION

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six-month period ended 30 June 2006.

Ernst & Young
Certified Public Accountants

Hong Kong
14 August 2006

Interim Condensed Consolidated Income Statement

	Notes	For the six-month period ended 30 June **2006** **(Unaudited)** **RMB'000**	 2005 (Audited) RMB'000
REVENUE	4	**7,722,807**	5,699,884
Cost of sales		**(7,146,132)**	(5,303,363)
Gross profit		**576,675**	396,521
Other income and gain	4	**470,724**	292,732
Selling and distribution costs		**(807,025)**	(421,592)
Administrative expenses		**(163,058)**	(102,231)
Other expenses		**(36,383)**	(5,957)
Interest income		**52,633**	16,319
Finance costs	5	**(7,761)**	(3,328)
PROFIT BEFORE TAX	6	**85,805**	172,464
Income tax expense	7	**(70,288)**	(16,563)
PROFIT FOR THE PERIOD		**15,517**	155,901
Attributable to:			
Equity holders of the Company		**15,018**	140,570
Minority interests		**499**	15,331
		15,517	155,901
Dividend	8	**–**	–
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
Basic (RMB cents)	9	**0.7**	9.1
Diluted (RMB cents)	9	**0.7**	7.7

Interim Condensed Consolidated Balance Sheet

	Notes	30 June 2006 (Unaudited) RMB'000	31 December 2005 (Audited) RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	10	**844,220**	787,346
Intangible assets		**9,795**	9,057
Goodwill		**16,997**	32,699
Long term land deposits		**–**	48,100
Deferred expenditure	11	**77,465**	86,459
Deferred tax assets		**22,738**	40,899
Total non-current assets		**971,215**	1,004,560
CURRENT ASSETS			
Inventories	12	**1,424,688**	1,649,268
Trade receivables	13	**86,112**	73,855
Bills receivable		**29,910**	3,530
Prepayments, deposits and other receivables	14	**2,129,145**	1,664,482
Pledged deposits	15	**1,835,124**	1,779,594
Cash and cash equivalents	15	**1,789,463**	1,541,407
Total current assets		**7,294,442**	6,712,136
CURRENT LIABILITIES			
Trade payables	16	**1,472,937**	1,161,772
Bills payable	17	**3,852,853**	3,632,762
Tax payable		**50,579**	16,339
Other payables and accruals		**256,845**	219,157
Current portion of interest-bearing bank loans	18	**230,000**	340,000
Total current liabilities		**5,863,214**	5,370,030
NET CURRENT ASSETS		**1,431,228**	1,342,106

	Notes	30 June 2006 (Unaudited) RMB'000	31 December 2005 (Audited) RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,402,443**	2,346,666
NON-CURRENT LIABILITIES			
Deferred income	11	**2,950**	6,939
Deferred tax liabilities		**40,519**	39,011
Total non-current liabilities		**43,469**	45,950
Net assets		**2,358,974**	2,300,716
EQUITY			
Equity attributable to equity holders of the Company			
Issued capital	19	**242,664**	225,443
Reserves		**2,017,910**	1,884,153
Proposed final and special dividends		**–**	87,339
		2,260,574	2,196,935
Minority interests		**98,400**	103,781
Total equity		**2,358,974**	2,300,716

Mr. Chen Xiao
Director

Mr. Yuan Yashi
Director

Interim Condensed Consolidated Statement of Changes in Equity

	Attributable to equity holders of the Company									
	Issued share capital RMB'000	Share premium account RMB'000	Contributed surplus RMB'000	Statutory surplus reserves RMB'000	Share option reserve RMB'000	Retained profits RMB'000	Proposed final and special dividends RMB'000	Total RMB'000	Minority interests RMB'000	Total equity RMB'000
For the six-month period ended 30 June 2006										
As at 1 January 2006	**225,443**	**1,483,789**	**(98,068)**	**168,631**	**7,226**	**322,575**	**87,339**	**2,196,935**	**103,781**	**2,300,716**
Net profit for the period	**–**	**–**	**–**	**–**	**–**	**15,018**	**–**	**15,018**	**499**	**15,517**
Issue of shares upon the exercise of share options	**17,221**	**129,104**	**–**	**–**	**(3,613)**	**–**	**–**	**142,712**	**–**	**142,712**
Capital contribution by minority shareholders	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**5,980**	**5,980**
Disposals of subsidiaries	**–**	**–**	**–**	**(15)**	**–**	**–**	**–**	**(15)**	**(1,407)**	**(1,422)**
Dividends	**–**	**–**	**–**	**–**	**–**	**(6,737)**	**(87,339)**	**(94,076)**	**(10,453)**	**(104,529)**
As at 30 June 2006 (unaudited)	**242,664**	**1,612,893**	**(98,068)**	**168,616**	**3,613**	**330,856**	**–**	**2,260,574**	**98,400**	**2,358,974**
For the six-month period ended 30 June 2005										
As at 1 January 2005	1	–	89,999	66,529	–	222,542	–	379,071	44,959	424,030
Net profit for the period	–	–	–	–	–	140,570	–	140,570	15,331	155,901
Issue of share capital of the Company	–	413,513	1	–	–	–	–	413,514	–	413,514
Capital increase and equity transfer	–	–	(188,068)	–	–	–	–	(188,068)	25,050	(163,018)
Capital contribution by minority shareholders	–	–	–	–	–	–	–	–	500	500
Acquisition of an additional equity interest in a subsidiary	–	–	–	–	–	–	–	–	(1,910)	(1,910)
Disposals of subsidiaries	–	–	–	–	–	–	–	–	(481)	(481)
As at 30 June 2005 (audited)	1	413,513	(98,068)	66,529	–	363,112	–	745,087	83,449	828,536

Interim Condensed Consolidated Cash Flow Statement

	For the six-month period ended 30 June	
	2006	2005
	(Unaudited)	(Audited)
	RMB'000	RMB'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	**401,701**	541,603
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	**(80,032)**	(601,886)
NET CASH (OUTFLOW)/INFLOW FROM FINANCING ACTIVITIES	**(73,613)**	440,686
NET INCREASE IN CASH AND CASH EQUIVALENTS	**248,056**	380,403
Cash and cash equivalents at beginning of period	**1,541,407**	494,943
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**1,789,463**	875,346
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	**427,300**	875,346
Time deposits	**1,362,163**	–
	1,789,463	875,346

1. Corporate information

The Company is an exempted company with limited liability incorporated in the Cayman Islands on 9 August 2004. The registered office of the Company is located at PO Box 309 GT, Ugland House, South Church Street, George Town, Grand Cayman, the Cayman Islands.

In the opinion of the Directors, the ultimate holding company is Retail Management Company Limited ("**Retail Management**"), a company incorporated in the British Virgin Islands.

The Group is principally engaged in the retailing of household appliances and consumer electronics products under the business name of "Yolo Home Appliance", and related businesses such as the installation of air-conditioners, repair and maintenance of household appliances, home decoration and the sale of certain mobile phone service packages.

On 25 July 2006, GOME Electrical Appliances Holding Limited ("**GOME**") and the Company jointly announced that Goldman Sachs (Asia) L.L.C. ("**Goldman Sachs**"), on behalf of GOME, intends to make a voluntary conditional offer to acquire all of the issued shares in the share capital of the Company not already owned by GOME and parties acting in concert with it. Further details of the transaction are set out in note 26 to the interim condensed consolidated financial statements.

2. Basis of presentation and accounting policies

Basis of preparation

The interim condensed consolidated financial statements for the six-month period ended 30 June 2006 have been prepared in accordance with IAS 34 *Interim Financial Reporting*.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2005.

2. Basis of presentation and accounting policies (continued)

Significant accounting policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2005, except for the adoption of the following amendments mandatory for annual periods beginning on or after 1 January 2006:

(i) IAS 39 – Financial Instruments: Recognition and Measurement ("**IAS 39**") – Amendment for financial guarantee contracts – which amended the scope of IAS 39 to include financial guarantee contracts issued. The amendment addresses the treatment of financial guarantee contracts by the issuer. Under IAS 39, as amended, financial guarantee contracts are recognised initially at fair value and generally remeasured at the higher of the amount determined in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with IAS 18 *Revenue*;

(ii) IAS 39 – Amendment for hedges of forecast intragroup transactions – which amended IAS 39 to permit the foreign currency risk of a highly probable intragroup forecast transaction to qualify as a hedged item in a cash flow hedge, provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and that the foreign currency risk will affect the financial statements; and

(iii) IAS 39 – Amendment for the fair value option – which restricted the use of the option to designate any financial asset or any financial liability to be measured at fair value through profit and loss.

The adoption of these amendments did not affect the Group's results of operations or financial position.

3. Segment information

During the six-month periods ended 30 June 2006 and 2005, the Group principally operated in one business segment, which is the retailing of household appliances and consumer electronics products. The revenue, operating results and assets in relation to this business segment accounted for more than 90% of the Group's total. In addition, all the Group's operating activities are carried out in the Mainland China. Accordingly, no further business and geographical segment analyses are presented.

4. Revenue, other income and gain

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts; and the value of services rendered, net of sale taxes and surcharges.

An analysis of the Group's revenue, other income and gain is as follows:

	For the six-month period ended 30 June	
	2006	2005
	(Unaudited)	(Audited)
	RMB'000	RMB'000
Revenue		
Sale of household appliances and consumer electronics products	**7,699,075**	5,633,044
Phone service charges sharing and deferred revenue recognised in the sale of CDMA mobile phone service packages	**23,732**	66,840
	7,722,807	5,699,884
Other income		
Sponsorship from suppliers	**363,575**	241,397
Provision of air-conditioner installation services	**16,666**	15,093
Rental income	**13,397**	3,101
Management fee income	**595**	–
Provision of repair and maintenance services	**881**	1,726
Sale of household furniture and decoration materials	**–**	229
Subsidy income	**27,503**	27,484
Others	**6,510**	3,527
	429,127	292,557
Gain		
Gain on disposals of subsidiaries (note 20)	**41,597**	175
	41,597	175
	470,724	292,732

5. Finance costs

	For the six-month period ended 30 June	
	2006	2005
	(Unaudited)	(Audited)
	RMB'000	RMB'000
Interest on interest-bearing bank loans	**7,761**	4,050
Less: Interest capitalised	**–**	(722)
	7,761	3,328

6. Profit before tax

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

	For the six-month period ended 30 June	
	2006	2005
	(Unaudited)	(Audited)
	RMB'000	RMB'000
Cost of inventories recognised as expenses	**7,136,162**	5,285,224
Depreciation	**52,710**	18,033
Amortisation of intangible assets	**1,545**	862
Exchange loss	**12,530**	–
Write-back of provision for slow-moving inventories	**(2,583)**	(16,088)
Impairment of goodwill*	**15,702**	696
Loss on disposal of property, plant and equipment	**490**	1,061
Minimum lease payments under operating leases of land and buildings	**286,723**	127,050
Auditors' remuneration	**1,978**	1,337
Staff costs	**256,631**	122,219

* The impairment of goodwill is included in "Other expenses" on the face of the interim condensed consolidated income statement.

7. Income tax

The Group is subject to income tax on an entity basis on profit arising in or derived from the tax jurisdictions in which members of the Group are domiciled and operate. The Group is not liable for income tax in Hong Kong as it does not have assessable income sourced from Hong Kong.

Except for the following companies, the Mainland China group companies are subject to a statutory corporate income tax rate of 33% for the period under the income tax rules and regulations of the People's Republic of China (the "PRC"):

- Yongle (China) Electronics Retail Co., Ltd. ("**Yongle (China)**"), Shanghai Yongle Gaodi Logistics Co., Ltd., Shanghai Haodaojia Home-Decoration Co., Ltd., Shanghai Haodaojia Home-Decoration Marketing Management Co., Ltd., Shanghai Lequan Property Management Co., Ltd., Shanghai Yongle Hengyuan Electronics Service Co., Ltd. (formerly known as Shanghai Yongfu Technique Service Co., Ltd.), Shanghai Yongle Stock Purchase Electronics Co., Ltd. and Shanghai Zhongyongtongtai Electronics Marketing Co., Ltd. are subject to a corporate income tax rate of 15% as they are registered in the Pudong New Area, Shanghai. In addition, Shanghai Minrong Investment Co., Ltd. ("Shanghai Minrong") is subject to a corporate income tax rate of 15% for the financial years ended/ending 31 December 2005 and 2006 as prescribed by the tax authority in accordance with the relevant tax laws and regulations.

  In January 2005, Yongle (China) became a foreign-invested enterprise, and under the relevant tax laws and regulations, it is subject to a corporate income tax rate of 33%. However, Yongle (China) is registered with the local government of the Pudong New Area and has been subject to a corporate income tax at the rate of 15% on all of its taxable income, which are only prescribed by the relevant tax authority and not prescribed under any laws and regulations. In the future, if the PRC government is of the view that such income tax treatment is inconsistent with the relevant national or local tax laws or regulations in the PRC or as a result of any other unforeseeable reasons, the PRC government may require Yongle (China) to pay its corporate income tax at a rate higher than the current applicable rate.

7. **Income tax (continued)**

- Shanghai Yongle Communication Equipment Co., Ltd. was granted a full tax exemption of income tax for the financial years ended 31 December 2005, as prescribed by the tax authority in accordance with the relevant tax laws and regulations. In 2006, the company is subject to a corporate income tax rate of 15% as it is registered in the Pudong New Area, Shanghai.

- Xiamen Yongle Siwen Electronics Retail Co., Ltd. was granted a full and 50% tax exemption of income tax for the financial years ended/ending 31 December 2005 and 2006, respectively, as prescribed by the tax authority in accordance with the relevant tax laws and regulations.

	For the six-month period ended 30 June	
	2006	2005
	(Unaudited)	(Audited)
	RMB'000	RMB'000
Group:		
Current – PRC		
Charge for the period	**44,873**	36,088
Underprovision in prior years	**2,767**	3,705
Deferred tax	**22,648**	(23,230)
Total tax charge for the period	**70,288**	16,563

8. **Dividend**

	30 June	
	2006	2005
	(Unaudited)	(Audited)
	RMB'000	RMB'000
Declared and paid during the six-month period		
Final dividend for 2005: HK 2.6 cents	**62,717**	–
Special dividend for 2005: HK 1.3 cents	**31,359**	–
	94,076	–

The directors do not recommend the payment of interim dividend (six-month period ended 30 June 2005: Nil).

9. Earnings per share attributable to ordinary equity holders of the Company

Basic earnings per share

The calculation of basic earnings per share amount for the six-month period ended 30 June 2006 is based on the net profit attributable to ordinary equity holders for the six-month period ended 30 June 2006 of RMB15,018,000 and the weighted average number of shares outstanding during the six-month period ended 30 June 2006 of 2,229,611,000.

The calculation of basic earnings per share amount for the six-month period ended 30 June 2005 is based on the net profit attributable to ordinary equity holders for the six-month period ended 30 June 2005 of RMB140,570,000 and the weighted average number of shares outstanding during the six-month period ended 30 June 2005 of 1,544,222,000, on the assumption that 1,544,222,000 shares, representing the number of the shares before the offering of the Company's shares in relation to the listing of the Company on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"), had been in issue throughout the period.

Diluted earnings per share

The calculation of diluted earnings per share amounts for the six-month periods ended 30 June 2006 and 2005 is based on the net profit attributable to the ordinary equity holders and number of shares as used in the basic earnings per share calculation, adjusted for 96,342,000 (2005: 288,264,000) shares assumed to have been issued since 1 January throughout the six-month periods ended 30 June 2006 and 2005, respectively, at no consideration on the deemed exercise of all share options.

10. Property, plant and equipment

During the six-month period ended 30 June 2006, the Group acquired assets with total cost of RMB140,777,000 (six-month period ended 30 June 2005: RMB70,364,000). Assets with a net book value of RMB7,892,000 were disposed of by the Group during the six-month period ended 30 June 2006 (six-month period ended 30 June 2005: RMB89,731,000), resulting in a net loss on disposal of RMB490,000 (six-month period ended 30 June 2005: RMB1,061,000).

11. Deferred expenditure/income

	Notes	**30 June 2006 (Unaudited) RMB'000**	31 December 2005 (Audited) RMB'000
Deferred expenditure			
Deferred expenditure on the sale of mobile handsets under CDMA mobile phone service packages	(i)	**8,280**	18,251
Others	(ii)	**69,185**	68,208
		77,465	86,459
Deferred income			
Deferred income from the sale of mobile handsets under CDMA mobile phone service packages	(i)	**2,950**	6,939

Notes:

(i) Deferred expenditure and deferred income represent the respective carrying values of the deferred sales and cost of sales in relation to the sale of mobile handsets under CDMA mobile phone service packages jointly held by the Group and a telecom company.

(ii) Other deferred expenditure mainly comprises the compensation/premium paid by subsidiaries for new rental contracts entered into for existing/new stores and the non-current portion of rental prepayments.

Deferred expenditure in respect of the compensation paid is amortised over the lease terms of the stores.

12. Inventories

	30 June 2006 (Unaudited) RMB'000	31 December 2005 (Audited) RMB'000
Merchandise, at cost	**1,440,893**	1,668,056
Inventory provision	**(16,205)**	(18,788)
	1,424,688	1,649,268

At 30 June 2006, the Group's inventories amounting to RMB700 million (31 December 2005: RMB700 million) were pledged for bills payable and loan facilities granted to the Group as disclosed in notes 17 and 18 to the interim condensed consolidated financial statements.

13. Trade receivables

All of the Group's sales are on a cash basis except for certain bulk sales of merchandise which are credit sales. The credit terms offered to customers are generally for a period of one month. The Group seeks to maintain strict control over its outstanding receivables and overdue balances are reviewed regularly by senior management. In view of the aforementioned, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

An aged analysis of the trade receivables as at the balance sheet date, based on the invoice date, and net of provision for bad and doubtful debts, is as follows:

	30 June 2006 (Unaudited) RMB'000	31 December 2005 (Audited) RMB'000
Within three months	**70,889**	70,866
Over three months but within six months	**1,267**	972
Over six months but within one year	**12,102**	47
Over one year	**1,854**	1,970
	86,112	73,855

14. Prepayments, deposits and other receivables

	30 June 2006 (Unaudited) RMB'000	31 December 2005 (Audited) RMB'000
Prepayments	**948,582**	743,950
Rebate and sponsorship income receivable	**607,963**	573,708
Other deposits and receivables	**572,600**	346,824
	2,129,145	1,664,482

14. Prepayments, deposits and other receivables (continued)

Included in other deposits and receivables are the following items:

(i) a deposit of RMB150 million paid to Mr. Zhang Dazhong (the "Deposit") in connection with the transfer of a 78% equity interest in Beijing Dazhong Electrical Appliances Co., Ltd. ("Beijing Dazhong") ("Dazhong Equity Interest") to Yongle (China) in accordance with the terms and conditions stated in the strategic cooperation agreement entered into between Yongle (China), an 90% owned subsidiary of the Company, Beijing Dazhong and Mr. Zhang Dazhong dated 19 April 2006 (the "Strategic Cooperation Agreement").

Pursuant to the Strategic Cooperation Agreement, Mr. Zhang Dazhong is entitled to forfeit the Deposit if there is a failure on the part of Yongle (China) to fulfill its obligations in relation to the transfer of the Dazhong Equity Interest. If there is a failure on the part of Mr. Zhang Dazhong to fulfill his obligations in the transfer of the Dazhong Equity Interest, Mr. Zhang Dazhong will be required to pay Yongle (China) RMB300 million, being twice of the amount of the Deposit. If Mr. Zhang Dazhong transfer any of the Dazhong Equity Interest to a third party within two years after the date of the Strategic Cooperation Agreement, Mr. Zhang Dazhong will be required to pay an additional compensation which will result in Yongle (China) receiving a total amount of RMB450 million, being three times of the Deposit.

On 25 July 2006, GOME and the Company jointly announced that Goldman Sachs, on behalf of GOME, intends to make a voluntary conditional offer to acquire all of the issued shares in the share capital of the Company not already owned by GOME and parties acting in concert with it. Upon consulting the Company's legal advisor, the directors are of the opinion that the voluntary conditional offer did not and will not result in the failure on the part of Yongle (China) to fulfill its obligations in relation to the transfer of the Dazhong Equity Interest.

(ii) an amount of RMB49,500,000 due from the key management of the Company, comprising Chen Xiao, Shu Wei, Liu Hui and Yuan Yashi (the "Key Management") as disclosed in note 21(iv) to the interim condensed consolidated financial statements.

15. Cash and cash equivalents and pledged deposits

	30 June 2006 (Unaudited) RMB'000	31 December 2005 (Audited) RMB'000
Cash and bank balances	427,300	278,057
Time deposits	3,197,287	3,042,944
	3,624,587	3,321,001
Less: Pledged deposits	(1,835,124)	(1,779,594)
Cash and cash equivalents	1,789,463	1,541,407

The Group's cash and cash equivalents are denominated in Renminbi ("RMB") at each balance sheet date, except for aggregate amounts of RMB4 million and RMB1,362 million, which are denominated in Hong Kong dollars and United States dollars, respectively, as at 30 June 2006.

The RMB is not freely convertible into other currencies, however, under the PRC Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB into other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective time deposit rates. The carrying amounts of the cash and cash equivalents and the pledged deposits approximate to their fair values.

Certain of the Group's time deposits were pledged to banks for bills payable facilities granted to the Group as disclosed in note 17 to the interim condensed consolidated financial statements.

16. Trade payables

The trade payables are non-interest-bearing and are normally settled on 30-day terms. An aged analysis of the trade payables as at the balance sheet date, based on the invoice date, is as follows:

	30 June 2006 (Unaudited) RMB'000	31 December 2005 (Audited) RMB'000
Within three months	**1,290,181**	1,013,115
Over three months but within six months	**80,294**	79,818
Over six months but within one year	**65,656**	59,687
Over one year	**36,806**	9,152
	1,472,937	1,161,772

17. Bills payable

The maturity profile of the Group's bills payable is as follows:

	30 June 2006 (Unaudited) RMB'000	31 December 2005 (Audited) RMB'000
Within three months	**2,182,091**	2,267,458
Over three months but within six months	**1,670,762**	1,365,304
	3,852,853	3,632,762

The Group's bills payable are secured by:

(i) the pledge of certain of the Group's time deposits amounting to RMB1,835 million (31 December 2005: RMB1,780 million);

(ii) the pledge of certain of the Group's leasehold land and buildings with aggregate net book value of approximately RMB417 million (31 December 2005: RMB197 million); and

(iii) the pledge of certain of the Group's inventories amounting to RMB700 million (31 December 2005: RMB700 million).

18. Interest-bearing bank loans

	Effective interest rate (%)	Maturity	30 June 2006 (Unaudited) RMB'000	31 December 2005 (Audited) RMB'000
Current				
Bank loans – secured	5.58	2007	**230,000**	340,000
Bank loans repayable:				
Within one year or on demand			**230,000**	340,000

The Group's bank loans are secured by:

(i) the pledge of certain of the Group's leasehold land and buildings and construction in progress with aggregate net book value of approximately RMB417 million (31 December 2005: RMB197 million); and

(ii) the pledge of certain of the Group's inventories amounting to RMB700 million (31 December 2005: RMB700 million).

19. Share capital

	30 June 2006 (Unaudited) RMB'000	31 December 2005 (Audited) RMB'000
Authorised:		
5,000,000,000 ordinary shares of HK$0.10 each	**520,000**	520,000
Issued and fully paid:		
2,334,917,067 (2005: 2,167,720,693) ordinary shares of HK$0.10 each	**242,664**	225,443

On 24 April 2006, Tong Ley Investment Ltd. and Retail Management exercised their share options to subscribe for 21,712,717 and 145,483,657 shares of the Company, respectively. The proceeds received from the exercise of options amounted to RMB142,712,000, of which RMB17,221,000 and RMB125,491,000 were credited to issued share capital and share premium account, respectively.

20. Disposals of subsidiaries

	For the six-month period ended 30 June	
	2006	2005
	RMB'000	RMB'000
Net assets disposed of:		
Property, plant and equipment	**23,301**	36
Intangible assets	**1,643**	–
Inventories	**18,296**	–
Other receivables	**23,284**	179,903
Cash and cash equivalents	**8,880**	1,529
Trade payables and other payables	**(94,605)**	(175,726)
Minority interests	**(1,407)**	(481)
	(20,608)	5,261
Gain on disposals of subsidiaries	**41,597**	175
	20,989	5,436
Satisfied by:		
Cash	**20,989**	5,436

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

	For the six-month period ended 30 June	
	2006	2005
	RMB'000	RMB'000
Cash consideration	**20,989**	5,436
Cash and cash equivalents disposed of	**(8,880)**	(1,529)
Net inflow of cash and cash equivalents in respect of the disposals of subsidiaries	**12,109**	3,907

The results of the subsidiaries disposed of in the six-month period ended 30 June 2006 consolidated up to the date of controls ceased have an impact to reduce the profit after tax for that period by approximately RMB19 million but have no significant impact to the consolidated revenue.

21. Related party transactions

The Group had the following material transactions with related parties during the period:

(i) Transactions with jointly-controlled entities of the Group

	For the six-month period ended 30 June	
	2006	2005
	(Unaudited)	(Audited)
	RMB'000	RMB'000
Sale of merchandise	**14,227**	3,509
Purchase of merchandise	**2,751**	–
Rental expenses	**–**	785

The above transactions were entered into based on mutually agreed terms. The amounts disclosed are arrived at after deducting the Group's share portion, which has been eliminated in the proportionate consolidation of the Group's investments in the jointly-controlled entities.

(ii) Guarantees provided to jointly-controlled entities

As of 30 June 2006, the Group provided guarantees totalling approximately RMB102 million for the banking facilities granted to its jointly-controlled entities. The contingent liabilities, net of the liabilities accounted for under the proportionate consolidation, are further disclosed in note 24 to the interim condensed consolidated financial statements.

(iii) Compensation of key management personnel of the Group

	For the six-month period ended 30 June	
	2006	2005
	(Unaudited)	(Audited)
	RMB'000	RMB'000
Salaries, allowances and benefits in kind	**3,087**	1,487
Bonuses	**1,078**	878
Retirement benefit contributions	**42**	39
	4,207	2,404

21. Related party transactions (continued)

(iv) Pursuant to disposal agreements ("Disposal Agreements") entered into between Yongle (China), Shanghai Minrong, a subsidiary of the Group, and the Key Management dated 17 May 2006, the Key Management purchased the entire equity interest in each of Shanghai Yongle Smart Building Equipment Engineering & Service Co., Ltd., Shanghai Yongle Smart Building Equipment Marketing Co., Ltd., Shanghai Yongju Home Decoration Co., Ltd., Shanghai Yongju Houseware Sales Co., Ltd., Shanghai Yongju Home Decoration Marketing Management Co., Ltd. and Zhejiang Yongle Smart Building Engineering & Service Co., Ltd. and a 71% equity interest in Shanghai Yongle Illuminations Electonics Co., Ltd. from Yongle (China) and Shanghai Minrong for considerations of approximately RMB2,100,697, RMB1,613,576, RMB5,450,447, RMB10,000, RMB10,000, RMB5,000,000 and RMB6,604,192, respectively. The purchase consideration was determined with reference to the net asset values of these subsidiaries as at 31 December 2005. Gain on disposals of these subsidiaries with the total amount of RMB41,597,000 is recognised as other income and gain.

Pursuant to the Disposal Agreements, the amount of RMB49,500,000 due from Shanghai Yongju Houseware Sales Co., Ltd. and Shanghai Yongle Illuminations Electronics Co., Ltd. to Yongle (China) was assigned to the Key Management, who have to settle the amount in full or by instalments within six months from the date of the Disposal Agreements. As at 30 June 2006, the amount remained unsettled is disclosed in note 14 to the interim condensed consolidated financial statements.

22. Operating lease arrangements

(i) Group as lessor

The Group leases certain of its leasehold land and buildings and leased properties under operating lease arrangements, with leases negotiated for terms ranging from 2 to 15 years.

At 30 June 2006, the Group had total future minimum lease receivables under operating leases with its tenants falling due as follows:

	30 June 2006 (Unaudited) RMB'000	31 December 2005 (Audited) RMB'000
Within one year	**15,734**	20,822
In the second to fifth years, inclusive	**61,258**	63,785
After five years	**15,121**	17,915
	92,113	102,522

(ii) Group as lessee

The Group leases certain of its leasehold land and buildings under operating lease arrangements with lease terms ranging from 1 to 12 years.

At 30 June 2006, the Group had total future minimum lease payments under operating leases as follows:

	30 June 2006 (Unaudited) RMB'000	31 December 2005 (Audited) RMB'000
Within one year	**623,358**	561,074
In the second to fifth years, inclusive	**2,239,195**	2,039,944
After five years	**1,785,266**	1,838,166
	4,647,819	4,439,184

23. Capital commitments

In addition to the operating lease commitments detailed in note 22(ii) above, the Group had the following capital commitments at the balance sheet date:

	30 June 2006 (Unaudited) RMB'000	31 December 2005 (Audited) RMB'000
Contracted, but not provided for in respect of the acquisition of:		
Leasehold land and buildings	**51,530**	15,745
Leasehold improvement	**488**	2,522
Furniture and office equipment	**3,128**	583
Capital contributions payable to jointly-controlled entities	**–**	60,000
	55,146	78,850
Authorised, but not contracted for in respect of the acquisition of:		
Leasehold land and buildings	**114,749**	157,812
	169,895	236,662

24. Contingent liabilities

At the balance sheet date, the Group had no significant contingent liabilities except for the guarantees with the amount of RMB102 million provided by the Group to its jointly-controlled entities for the bills payable facilities granted by banks. Bills payable under such guarantees amounting to RMB87 million have been recognised as liabilities in the interim condensed consolidated balance sheet under proportionate consolidation.

25. Financial instruments

The Group's principal financial instruments mainly include pledged deposits, cash and cash equivalents, trade receivables and bills receivable, prepayments, deposits and other receivables. Financial liabilities of the Group mainly include interest-bearing bank loans, trade payables and bills payable, accruals and other payables and tax payable.

Financial risks

The main risks arising from the Group's financial instruments are interest rate risk, credit risk and foreign currency risk. The Group does not hold or issue derivative financial instruments either for hedging or for trading purposes.

(i) Interest rate risk

The Group's earnings are affected by changes in interest rates due to the impact of such changes on interest income and expense from time deposits and interest-bearing bank loans, which are denominated in Hong Kong dollars and United States dollars. All of the said interest-bearing financial assets and liabilities are short term in nature.

(ii) Credit risk

Most of the Group's sales are settled by cash, debit cards or credit cards, therefore, the credit risk is low. The Group's cash and cash equivalents are deposited with banks in the Mainland China except for the amounts of RMB4 million and RMB 1,362 million, which are denominated in Hong Kong dollars and United States dollars, respectively, as disclosed in note 15 to the interim condensed consolidated financial statements. The Group also exposes to credit risk in relation to the prepayments made to its suppliers. The Group has a diverse supplier base, and it only makes prepayments to established suppliers with whom the Group has long term relationships.

The Group has no significant concentration of credit risk as at the balance sheet date.

(iii) Foreign currency risk

The Group's operating activities are all carried out in the Mainland China and denominated in RMB. Most of the financial assets and liabilities are also denominated in RMB except for the Group's cash and cash equivalents of RMB4 million and RMB1,362 million, which are denominated in Hong Kong dollars and United States dollars, respectively, as disclosed in note 15 to the interim condensed consolidated financial statements. The RMB is not freely convertible into other currencies, however, under the PRC Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB into other currencies through banks authorised to conduct foreign exchange business, such as the distribution of dividends.

25. Financial instruments (continued)

Fair value

The carrying amounts of the Group's financial instruments were stated approximately at their fair values at the balance sheet date. Fair value estimates are made at a specific point in time and based on relevant market information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

26. Post balance sheet events

On 25 July 2006, GOME (also known as the "**Offeror**" below) and the Company jointly announced that Goldman Sachs, on behalf of the Offeror, intends to make a voluntary conditional offer to acquire all of the issued shares in the share capital of China Paradise (the "**Offer**"). The consideration in respect of the Offer is 0.3247 new GOME shares and HK$0.1736 for each of the China Paradise shares. In the event that the Offer is declared or becomes unconditional, or an appropriate offer or proposal will be made, in accordance with the provisions of the Hong Kong Code on Takeovers and Mergers (the "**Takeovers Code**").

The Offer is conditional upon:

(i) the Offer and the issue of the new GOME shares in connection with the Offer having been approved by the shareholders of GOME in a general meeting;

(ii) valid acceptances having been received at or before 4:00 p.m. on the date to be stated in the composite offer and response document to be issued to all China Paradise's shareholders (or such other time as GOME may, subject to the Takeovers Code, decide) in respect of at least 90% of the China Paradise shares other than those held by GOME and persons acting in concert with GOME;

(iii) The Stock Exchange granting its approval of the listing of, and permission to deal in, the new GOME shares to be issued in consideration for the transfer of the China Paradise shares pursuant to the terms of the Offer;

(iv) the total assets of China Paradise, less its total liabilities, being the net asset value, as set out in the unaudited interim consolidated financial statements of China Paradise for the six-month period ended 30 June 2006, being no less than RMB2,250,000,000;

26. Post balance sheet events (continued)

(v) the execution of non-competition agreements between China Paradise and certain shareholders of China Paradise (i) each holding 1% or more of the issued share capital of China Paradise (as at the date of the execution of the relevant non-competition agreements) and (ii) being the members of China Paradise's senior management, who together comprise: Mr. Chen Xiao, Ms. Shu Wei, Mr. Liu Hui, Mr. Shen Ping, Mr. Huang Baoming, Mr. Yuan Yashi and Mr. Shu Weiyi;

(vi) the fact that there is no relevant government, governmental, quasi-governmental, statutory or regulatory body, court or agency having granted any order or made any decision that would make the Offer void, unenforceable or illegal, or restrict or prohibit the implementation of, or impose any additional material conditions or obligations with respect to, the Offer (other than such orders or decisions having a material adverse effect on the legal ability of the Offeror to proceed with or consummate the Offer); and

(vii) save in connection with the completion of the Offer, the listing of the China Paradise shares on the Stock Exchange not having been withdrawn, with no indication being received from the Hong Kong Securities and Futures Commission and/or the Stock Exchange to the effect that the listing of the China Paradise shares on the Stock Exchange is or is likely to be withdrawn.

The Offeror reserves the right to waive conditions (ii), (iii), (iv), (v) and (vi) to the Offer set out above, in whole or in part. Condition (ii) may be waived subject to the Offeror having received acceptances in respect of China Paradise shares which would result in the Offeror and parties acting in concert with it holding more than 50% of the voting rights in China Paradise.

Currently, management is negotiating the professional fees in connection with the above transaction with various professional firms engaged by the Company. Management estimated that the professional fees will not be more than RMB40,000,000.

27. Approval of interim financial report

The interim condensed consolidated financial statements have not been audited, but have been reviewed by the Company's audit committee.

The interim condensed consolidated financial statements were approved and authorised for issue by the board of directors on 14 August 2006.