国美电器

永乐家电

Forging a New Retail Leader

Voluntary Conditional Offer by
Goldman Sachs (Asia) L.L.C.

for and on behalf of
GOME Electrical Appliances Holding Limited

to acquire all of the issued shares in the capital of
China Paradise Electronics Retail Limited
(not already owned by
GOME Electrical Appliances Holding Limited
and its concert parties)

Financial Adviser to
GOME Electrical Appliances Holding Limited

Goldman Sachs

Financial Adviser to
China Paradise Electronics Retail Limited

CAZENOVE
Cazenove Asia Limited

Independent Financial Adviser to the Independent Board Committee
of China Paradise Electronics Retail Limited

SOMERLEY LIMITED

GOME's Offer - an investment in China's leading electrical appliance retailer

- HK$0.1736 in cash + 0.3247 GOME Shares for each China Paradise Share
- Offer value of HK$2.2354 per China Paradise Share, or HK$5,268 million in aggregate, based on GOME closing price on 17 July 2006
- A premium of 9% over the China Paradise closing price on 17 July 2006, the Last Trading Day in China Paradise Shares prior to suspension pending the announcement of GOME's Offer
- Key China Paradise Shareholders, representing approximately 31% (on a fully diluted basis) have irrevocably undertaken to accept the GOME Offer
- Retail Management Limited, the controlling shareholder of China Paradise, has also stated that it fully intends to accept the Offer in respect of its remaining 30% shareholding (on a fully diluted basis), after the expiry on 13 October 2006 of a regulatory lock-up
- Mr. Wong, the chairman and controlling shareholder of GOME, has undertaken to vote in favour of the Offer at the GOME SGM

Value today,
opportunity tomorrow

Compelling Business Logic

- Enhanced size:
  - The Enlarged Group will become the clear leader in its market with strongholds in key regions including both Beijing and Shanghai
  - The combined store network of GOME and China Paradise will be 563 stores based on number of stores as at 30 June 2006

- Strengthened strategic position:
  - The Enlarged Group will be well positioned for future growth and continued industry consolidation

- Operational cost savings:
  - Increased purchasing power and the integration of procurement and supply chain management functions are expected to enhance operating costs efficiency for the Enlarged Group

The above benefits significantly strengthen the Enlarged Group, and strategically position the business to become the long-term market leader in China

Two Premier National Brands

- Over 560 stores nationwide
- A dual-brand strategy to capitalise on the strengths of both the GOME and China Paradise brands in the domestic market

Pioneers...

Operational Synergies

- Increased purchasing power
- Leveraging from integration of procurement and supply chain management functions and coordinated marketing campaigns and promotional offers
- Optimisation of store footprint

...joining Forces

Good reasons to accept GOME's Offer

1. GOME-China Paradise will be well positioned for future growth and continued industry consolidation

2. Market leading positions in key markets in China including both Beijing and Shanghai

3. Increased purchasing power and enhanced operational costs efficiency

4. Benefits from operating cost savings and shift of focus away from severe price competition to more sustainable business strategies

5. China Paradise management to remain stable and utilised to optimal capacity to ensure a smooth transition and realise the synergies of GOME

6. The successful completion of the Offer gives China Paradise's Shareholders the opportunity to invest in and share the growth of the strengthened market leader

7. The Offer price represents a premium of approximately 10.9% to the average closing price of China Paradise Shares as quoted on the Stock Exchange for the 30 trading days immediately prior to and including the Last Trading Day of 17 July 2006 and 19.5% over the closing price for China Paradise Shares on the Latest Practicable Date of 25 August 2006

*In considering GOME's Offer,
China Paradise Shareholders should also refer to
the letter from the China Paradise Independent Board Committee
and the letter from the Independent Financial Adviser to
the Independent Board Committee,
both of which are set out in this Composite Document*

How to accept GOME's Offer

A. If you are the registered shareholder on record of your China Paradise Shares, follow these three simple steps to accept GOME's Offer:

1. Locate the enclosed Form of Acceptance

2. Fill in your details and sign the Form of Acceptance (instructions are set out on the reverse side of the Form of Acceptance and in Appendix I)

3. **Return the Form of Acceptance together with any other documents of title**, in the enclosed pre-paid envelope. The Form of Acceptance and other relevant documents of title must be received by Computershare Hong Kong Investor Services Limited, the Registrar, no later than 4:00pm on 17 October 2006

B. If your China Paradise Shares have been lodged with your licensed securities dealer/custodian bank through CCASS, please contact them with any queries you may have

C. If your China Paradise Shares have been lodged with your Investor Participant Account with CCASS, please contact CCASS with any queries you may have

Further information regarding acceptance procedures is set out in Appendix I

If you have questions about GOME's Offer or how to complete the Form of Acceptance, call our **Helpline on +852-3515 8602**

Invest in the future

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THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this Offer, you should consult a licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or otherwise transferred all your shares in China Paradise, you should at once hand the Composite Document and the accompanying Form of Acceptance to the purchaser(s) or transferee(s) or to a licensed securities dealer, registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s). This document should be read in conjunction with the Form of Acceptance, the contents of which form part of the terms of the Offer contained therein.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of the Composite Document and the accompanying Form of Acceptance, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this document.

This Offer is made for the securities of a foreign company. The Offer is subject to disclosure requirements of a foreign country that are different from those of the United States. Financial statements included in the document, if any, have been prepared in accordance with foreign accounting standards that may not be comparable to the financial statements of United States companies.

It may be difficult for you to enforce your rights and any claim you may have arising under the U.S. federal securities laws, since the issuer is located in a foreign country, and some or all of its officers and directors may be residents of a foreign country. You may not be able to sue a foreign company or its officers or directors in a foreign court for violations of the U.S. securities laws. It may be difficult to compel a foreign company and its affiliates to subject themselves to a U.S. court's judgment.

You should be aware that, subject to applicable laws and regulations, the GOME Group, its respective nominees, or brokers (acting as agents), may purchase securities otherwise than under this Offer, such as in open market or privately negotiated purchases.

GOME Electrical Appliances Holding Limited
(incorporated in Bermuda with limited liability)
(Stock Code: 493)

China Paradise Electronics Retail Limited
(incorporated in the Cayman Islands with limited liability)
(Stock Code: 503)

OFFER AND RESPONSE DOCUMENT RELATING TO A VOLUNTARY CONDITIONAL OFFER BY GOLDMAN SACHS (ASIA) L.L.C. FOR AND ON BEHALF OF GOME ELECTRICAL APPLIANCES HOLDING LIMITED TO ACQUIRE ALL OF THE ISSUED SHARES IN THE CAPITAL OF CHINA PARADISE ELECTRONICS RETAIL LIMITED

(not already owned by GOME Electrical Appliances Holding Limited and parties acting in concert with it)

Financial Adviser to GOME Electrical Appliances Holding Limited

Goldman Sachs

Financial Adviser to China Paradise Electronics Retail Limited

CAZENOVE
Cazenove Asia Limited

Independent Financial Adviser to the Independent Board Committee of China Paradise Electronics Retail Limited

SOMERLEY LIMITED

A letter from the Board of GOME is set out on pages 9 to 15 of the Composite Document.

A letter from Goldman Sachs (Asia) L.L.C. containing, amongst other things, the details of the terms of the Offer is set out on pages 16 to 30 of the Composite Document.

A letter from the Board of China Paradise is set out on pages 31 to 38 of the Composite Document.

A letter from the Independent Board Committee of China Paradise containing its recommendations to the Independent China Paradise Shareholders is set out on page 39 of the Composite Document and a letter from the Independent Financial Adviser, containing its opinion on the Offer to the Independent Board Committee of China Paradise is set out on pages 40 to 82 of the Composite Document.

The procedures for acceptance and other related information are set out in Appendix I of the Composite Document and in the accompanying Form of Acceptance. Acceptances should be received by no later than 4:00 p.m. on Tuesday, 17 October 2006 (or such other time and/or date as the Offeror may determine and announce with the consent of the Executive).

29 August 2006

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Despatch date of the Composite Document and the commencement of the Offer *(Note 1)*	Tuesday, 29 August 2006
Special General Meeting of GOME	9:30 a.m. on Monday, 18 September 2006
Latest time and date for acceptance of the Offer *(Note 2)*	4:00 p.m. on Tuesday, 17 October 2006
First Closing Date *(Note 2)*	Tuesday, 17 October 2006
Announcement of the result of the Offer, as at the First Closing Date, on the website of the Stock Exchange	not later than 7:00 p.m. on Tuesday, 17 October 2006
Announcement of the result of the Offer, as at the First Closing Date, in the newspapers in Hong Kong	Wednesday, 18 October 2006
Latest date for posting of share certificates and cheques to the China Paradise Shareholders who accepted the Offer by the First Closing Date, assuming the Offer becomes or is declared unconditional on the First Closing Date *(Note 3)*	Friday, 27 October 2006
Latest time and date for the Offer remaining open for acceptance assuming the Offer becomes or is declared unconditional on the First Closing Date *(Note 4)*	4:00 p.m. on Tuesday, 31 October 2006
Latest time by which the Offer can become or be declared unconditional as to acceptances *(Note 5)*	7:00 p.m. on Tuesday, 31 October 2006

Notes:

1. The Offer is made on Tuesday, 29 August 2006, namely the date of posting of the Composite Document, and is capable of acceptance on and as from that date.

2. In accordance with the Takeovers Code, the Offer must initially be open for acceptance for at least 21 days following the date on which the Composite Document was posted. The latest time for acceptance of the Offer is 4:00 p.m. on Tuesday, 17 October, 2006. See also Note 4 below.

3. The consideration payable for the China Paradise Shares under the Offer will be posted by ordinary post to the China Paradise Shareholders accepting the Offer at his/her/its own risk as soon as possible, but in any event within 10 days of the later of: (i) the date of receipt by the Registrar of all the relevant documents to render the acceptance under the Offer complete and valid, and (ii) the date the Offer becomes, or is declared, unconditional.

4. In accordance with the Takeovers Code, where the Offer becomes or is declared unconditional, it should remain open for acceptance for not less than 14 days thereafter. In such case, at least 14 days' notice in writing must be given before the Offer is closed to the China Paradise Shareholders who have not accepted the Offer. GOME

reserves its right to extend the Offer until such date as it may determine in accordance with the Takeovers Code (or as permitted by the Executive in accordance with the Takeovers Code). GOME will issue a press announcement in relation to any extension of the Offer, which will state the next closing date or, if the Offer has become or is at that time unconditional, that the Offer will remain open until further notice. The Offeror has stated its intention in the Composite Document to exercise certain rights of compulsory acquisition under Section 88 of the Cayman Islands Company Law and in accordance with Rule 2.11 of the Takeovers Code, if the Offeror acquires not less than 90% of the Disinterested Shares within four months of the posting of the Composite Document. The Offer may not remain open for acceptance for more than 4 months from the date of posting of the Composite Document, unless the Offeror has by that time become entitled to exercise those rights of compulsory acquisition.

5. In accordance with the Takeovers Code, except with the consent of the Executive, the Offer may not become or be declared unconditional as to acceptances after 7:00 p.m. (Hong Kong time) on the 60th day after the day the Composite Document was posted. Where a period laid down by the Takeovers Code ends on a day which is not a business day, the period is extended until the next business day. Accordingly, unless the Offer has previously become or is declared unconditional as to acceptances, the Offer will lapse after 7:00 p.m. (Hong Kong time) on Tuesday, 31 October 2006, unless extended with the consent of the Executive.

All time references contained in the Composite Document are to Hong Kong time.

In the Composite Document, unless the context otherwise requires, the following expressions have the following meanings:

"Accepting Shareholders"	the China Paradise Shareholders who accept the Offer by duly completing and returning the Form of Acceptance;
"Acquisition Agreement"	the agreement dated 29 March 2006 among Gome Holdings Limited (a company incorporated with limited liability under the laws of the British Virgin Islands and which is ultimately and wholly-owned by Mr. Wong Kwong Yu), Mr. Wong Kwong Yu and GOME in respect of the acquisition by GOME of the entire issued share capital of Grand Hope Investment Limited (a company incorporated with limited liability under the laws of the British Virgin Islands and which is ultimately and wholly-owned by Mr. Wong Kwong Yu) and the shareholder's loan of HK$225,014,672.20 due from Grand Hope Investment Limited to Gome Holdings Limited;
"Beijing Property Agreement"	the agreement dated 7 November 2005 among GOME, Mr. Wong Kwong Yu and Kashmac International Limited, a company incorporated in the British Virgin Islands and wholly-owned by Mr. Wong Kwong Yu, in respect of the parcel of land located at Area no. 7, Xi Ba He Bei Lane, Chaoyang District, Beijing, the PRC under which a total consideration of approximately HK$761.4 million was receivable by GOME, subject to the terms of the agreement;
"Bye-Laws"	the bye-laws of the Offeror;
"Cayman Islands Company Law"	the Cayman Islands Companies Law (2004 Revision);
"Cazenove"	Cazenove Asia Limited, a licensed corporation under the SFO, licensed to conduct Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities, and the financial advisor to China Paradise in relation to the Offer;
"CDH"	CDH Electronics Limited, a limited liability company incorporated in the British Virgin Islands;
"China Paradise"	China Paradise Electronics Retail Limited, a company incorporated in the Cayman Islands, the shares of which are listed on the Stock Exchange;
"China Paradise Directors"	the directors of China Paradise;
"China Paradise Group"	China Paradise and its subsidiaries;

"China Paradise Shareholders"	the holders of China Paradise Shares;
"China Paradise Shares"	the ordinary shares of HK$0.10 each in the share capital of China Paradise;
"Committed Shareholders"	Retail Management, MS Retail and CDH;
"Committed Shares"	the 734,576,861 China Paradise Shares (representing approximately 31.46% of the issued share capital of China Paradise as at the date of the Composite Document or approximately 31.17% of the issued share capital of China Paradise on a fully diluted basis assuming that the Wang Management Incentive Option is exercised in full) held by the Committed Shareholders, which are the subject of the Irrevocable Undertakings;
"Composite Document"	this composite offer and response document dated 29 August 2006 issued jointly by the Offeror and China Paradise in connection with the Offer;
"Disinterested Shares"	all the China Paradise Shares other than those held by GOME and parties acting in concert with it;
"Enlarged Group"	the GOME Group and the China Paradise Group;
"Exclusivity Agreement"	the exclusivity agreement entered into between GOME, China Paradise, Retail Management and Mr. Chen Xiao dated 18 July 2006;
"Executive"	the Executive Director of the Corporate Finance Division of the SFC or any delegate of such Executive Director;
"First Closing Date"	17 October 2006, being the first closing date for the Offer;
"Form of Acceptance"	the form of acceptance and transfer in respect of the Offer which accompanies the Composite Document;
"Goldman Sachs"	Goldman Sachs (Asia) L.L.C., a licensed corporation under the SFO, licensed to carry out Type 1 (dealing in securities), Type 4 (advising on securities), Type 5 (advising on futures contracts), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities, and the financial adviser to the Offeror in relation to the Offer;
"GOME" or the "Offeror"	GOME Electrical Appliances Holding Limited, a company incorporated in Bermuda, the shares of which are listed on the Stock Exchange;

"GOME Directors"	the directors of GOME;
"GOME Group"	GOME and its subsidiaries;
"GOME Shareholders"	the holders of GOME Shares;
"GOME Shares"	ordinary shares of HK$0.10 each in the share capital of GOME;
"GS&Co"	Goldman, Sachs & Co., a limited partnership organised in the State of New York;
"GS Group"	The Goldman Sachs Group, Inc., a corporation incorporated in the State of Delaware, and its affiliates;
"GSAF"	Goldman Sachs (Asia) Finance, a corporation incorporated in the Republic of Mauritius;
"GSI"	Goldman Sachs International, a company incorporated in England and Wales;
"HK$"	Hong Kong dollar(s), the lawful currency of Hong Kong for the time being;
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC;
"Hong Kong Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange;
"Hong Kong Underwriters"	MSDW, Cazenove, BOCI Asia Limited, Sun Hung Kai International Limited, Kingsway Financial Services Group Limited, Tai Fook Securities Company Limited and BCOM Securities Company Limited;
"Hong Kong Underwriting Agreement"	the underwriting agreement dated 3 October 2005 entered into between, among others, China Paradise and the Hong Kong Underwriters relating to the public offering of China Paradise Shares in Hong Kong commencing on 4 October 2005;
"IFRS"	International Financial Reporting Standards;
"Independent Board Committee"	the independent committee of the board of China Paradise, comprising Dr. Yu Zengbiao, Mr. Chu Cheng Chung and Mr. Wang Bing, who are all the independent non-executive directors of China Paradise, which has been formed to advise the Independent China Paradise Shareholders in respect of the Offer;

"Independent China Paradise Shareholders"	the China Paradise Shareholders other than the Offeror and parties acting in concert with it;
"Independent Financial Adviser"	Somerley, the independent financial adviser to the Independent Board Committee of China Paradise in respect of the Offer;
"Initial Purchasers"	Morgan Stanley & Co. International Limited and Cazenove as representatives of several initial purchasers;
"International Purchase Agreement"	the international purchase agreement dated 8 October 2005 entered into between, among others, China Paradise and the Initial Purchasers relating to the international offering of China Paradise's Shares;
"Irrevocable Undertakings"	the undertakings from the Committed Shareholders to accept the Offer in respect of their respective Committed Shares;
"Joint Announcement"	the joint press announcement dated 25 July 2006 made by the Offeror and China Paradise regarding the Offer;
"Joint Global Coordinators"	Cazenove and MSDW, the joint global coordinators in connection with the global offering and listing of the China Paradise Shares on the Stock Exchange on 14 October 2005;
"JPMorgan Group"	JPMorgan Chase & Co., a corporation incorporated in the state of Delaware and which is deemed to be an associate of Cazenove under the Takeovers Code, and its affiliates;
"Last Trading Day"	17 July 2006, being the last trading day prior to the suspension of trading in China Paradise Shares on 17 July 2006;
"Latest Practicable Date"	Friday, 25 August 2006, being the latest practicable date prior to the printing of the Composite Document for the purpose of ascertaining certain information contained in the Composite Document;
"Loan"	the loan agreement dated 21 July 2006 between GOME, Wan Sheng Yuan Asset Management Company Limited (an investment holding company wholly and beneficially owned by Ms. Du Juan, who is an executive director of GOME, and the spouse of Mr. Wong Kwong Yu, who is the controlling shareholder of GOME) and Ms. Du Juan, as amended by a supplemental agreement dated 24 August 2006, relating to the loan of an aggregate principal amount of HK$420,000,000 from Wan Sheng Yuan Asset Management Company Limited to GOME;

"Lock-Up Agreement"	the lock up agreement dated 8 October 2005 relating to the Hong Kong Underwriting Agreement and the International Purchase Agreement executed by MS Retail and CDH in favour of China Paradise, Morgan Stanley & Co. International Limited and the Joint Global Coordinators;
"Long Stop Date"	Tuesday, 21 November 2006 (being the latest date on which the Offeror can declare the Offer unconditional in all respects under the Takeovers Code without the consent of the Executive) or such later date as the Executive may consent to;
"Macau"	the Macau Special Administrative Region of the PRC;
"Memorandum of Association"	the memorandum of association of the Offeror;
"Minrong"	Shanghai Minrong Investment Co., Ltd (上海民融投資有限公司), a company incorporated in the PRC on 5 September 2001 which is an indirect non-wholly owned subsidiary of China Paradise;
"MS Retail"	MS Retail Limited, a company incorporated in the Cayman Islands on 9 August 2004;
"MSDW"	Morgan Stanley Dean Witter Asia Limited, a licensed corporation under the SFO, licensed to conduct Type 1 (dealing in securities), Type 4 (advising on securities), Type 5 (advising on futures contracts) Type 6 (advising on corporate finance) and Type 7 (providing automated trading services) regulated activities;
"New GOME Shares"	up to 765,197,691 new GOME Shares to be issued as consideration for the transfer of China Paradise Shares to the Offeror;
"Non-competition Undertaking"	the non-competition undertaking dated 29 July 2004 entered into between Mr. Wong Kwong Yu and China Eagle Group Company Limited (renamed GOME Electrical Appliances Holding Limited in August 2004);
"Offer Conditions"	the conditions of the Offer as set out in Appendix I;
"Offer"	the voluntary conditional offer made by Goldman Sachs on behalf of the Offeror to acquire all the issued and to be issued China Paradise Shares (other than those already held by GOME and parties acting in concert with it) on the terms and subject to the conditions contained in the Composite Document and the Form of Acceptance, including any extension or revision thereof;

"Overseas Shareholders"	the China Paradise Shareholders whose registered addresses, as shown on the register of members of China Paradise, are outside Hong Kong;
"Parent Group"	the same meaning as defined in the circular of GOME (formerly China Eagle Group Company Limited) in connection with a very substantial acquisition relating to Gome Appliance Co., Ltd., dated 5 July 2004. The Parent Group is not part of the GOME Group;
"Placing Agreements"	the four placing agreements dated 24 April 2006 between each of Retail Management, MS Retail, CDH and Tong Ley and the Placing Agent relating to the placing of shares in China Paradise;
"Placing Agent"	Morgan Stanley & Co. International Limited acting in its capacity as placing agent pursuant to the Placing Agreements;
"PRC or China"	the People's Republic of China (for the purposes of the Composite Document, excluding Hong Kong, Macau and Taiwan);
"Registrar"	Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17/F Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, being the share registrar for receiving and processing the acceptances of the Offer;
"Retail Management"	Retail Management Company Limited, a company incorporated in the British Virgin Islands with its registered address at Romasco Place, Wickhams Cay 1, P.O. Box 3140, Road Town, Tortola, British Virgin Islands;
"RMB"	Renminbi, the lawful currency of the PRC for the time being;
"SCHI"	Shinning Crown Holdings Inc. a company incorporated in the British Virgin Islands and beneficially wholly-owned by Mr. Wong Kwong Yu, the chairman of GOME;
"SEC"	the US Securities and Exchange Commission;
"SFC"	the Securities and Futures Commission of Hong Kong;
"SFO"	the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time;
"SGL"	Shine Group Limited a company incorporated in the British Virgin Islands and beneficially wholly-owned by Mr. Wong Kwong Yu, the chairman of GOME;

"Somerley"	Somerley Limited, a licensed corporation under the SFO, licensed to carry out Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities, and the independent financial adviser to the Independent Board Committee in respect of the Offer;
"Special General Meeting"	the special general meeting of GOME to be convened for the purpose of considering and, if though fit, approving, among other things, the Offer and the allotment and issue of the New GOME Shares;
"sq.m."	square meter(s);
"Stamp Office"	the Stamp Office of the Inland Revenue Department of Hong Kong;
"Stock Exchange"	The Stock Exchange of Hong Kong Limited;
"Takeovers Code"	the Hong Kong Code on Takeovers and Mergers;
"Tong Ley"	Tong Ley Investment Limited, a limited liability company incorporated in the British Virgin Islands;
"US" or the "United States"	the United States of America;
"US Securities Act"	the US Securities Act 1933;
"US Shareholders"	China Paradise Shareholders who are residents of the United States or the beneficial holders of China Paradise Shares, resident in the United States and on whose behalf China Paradise Shareholders hold such shares, directly or indirectly, on a non-discretionary basis;
"US$"	United States dollar(s), the lawful currency of the US for the time being;
"Voting Undertaking"	the undertaking given by Mr. Wong Kwong Yu, the chairman and a controlling shareholder of GOME, SCHI and SGL, two companies wholly-owned and controlled by Mr. Wong Kwong Yu, on 18 July 2006 to China Paradise to vote in favour of all the resolutions in connection with the Offer at the Special General Meeting;
"Wang Management Incentive Option"	the share option granted by China Paradise to Tong Ley pursuant to an option deed dated 4 July 2005 to subscribe for a maximum number of 43,425,435 China Paradise Shares; and

"Yongle China"	Yongle (China) Electronics Retail Co., Ltd. (永樂(中國)電器銷售有限公司), formerly known as Shanghai Yongle Electronics Retail Co., Ltd. (上海永樂家用電器有限公司), a sino-foreign equity joint venture company established in the PRC on 6 September 1996 which is an indirect non-wholly owned subsidiary of China Paradise.

In the Composite Document, certain amounts denominated in US$ or RMB have been translated, for illustration purposes only, into HK$ at the respective exchange rates: (i) US$1.00:HK$7.80; and (ii) (unless otherwise indicated herein) RMB1.03:HK$1.00.

GOME Electrical Appliances Holding Limited
國美電器控股有限公司*

(a company incorporated in Bermuda with limited liability)
(Stock Code: 493)

Executive Directors of the Offeror:
WONG Kwong Yu *(Chairman)*
DU Juan
LAM Pang
NG Kin Wah

Non-executive Director of the Offeror:
SUN Qiang Chang

Independent Non-executive Directors of the Offeror:
SZE Tsai Ping Michael
CHAN Yuk Sang
GREAVES Mark C.

Registered office of the Offeror:
Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

Principal place of business of the Offeror in Hong Kong:
Unit 6101, 61st Floor
The Center
99 Queen's Road
Central
Hong Kong

29 August 2006

Dear China Paradise Shareholders,

**VOLUNTARY CONDITIONAL OFFER BY
GOLDMAN SACHS (ASIA) L.L.C.
FOR AND ON BEHALF OF
GOME ELECTRICAL APPLIANCES HOLDING LIMITED
TO ACQUIRE ALL OF THE ISSUED SHARES IN THE CAPITAL OF
CHINA PARADISE ELECTRONICS RETAIL LIMITED
(not already owned by GOME Electrical Appliances Holding Limited
and parties acting in concert with it)**

On 25 July 2006, we jointly announced with China Paradise that a voluntary conditional offer was intended to be made by Goldman Sachs, on behalf of GOME, to acquire all the issued shares in the capital of China Paradise, not already owned by GOME and parties acting in concert with it.

Full details of the Offer are set out elsewhere in the Composite Document, which this letter forms a part of. Terms defined in the Composite Document have the same meanings when used in this letter.

* *For the purpose of identification only*

We would like to take this opportunity to briefly set out certain background information on GOME, the reasons we are making the Offer and our intentions in relation to China Paradise.

INFORMATION ON THE OFFEROR AND THE GOME GROUP

GOME was incorporated on 31 January 1992 under the laws of Bermuda and is the holding company of the GOME Group. The GOME Group went through a corporate transformation in July 2004 following the acquisition of a 65% equity interest in Gome Appliance Co., Ltd (***Gome Appliance***). The GOME Group is principally engaged in the retail of electrical appliances and consumer electronics in the PRC under the brand name "GOME". Gome Appliance was the largest electrical appliance and consumer electronics retailer in the PRC in revenue terms for 2005. A summary of the history of the GOME Group is as follows:

- In 1987, Gome Appliance opened its first electrical appliance retail outlet in Beijing. The brand name "GOME" was first adopted by all of its retail outlets in Beijing in 1993.

- In 1999, Gome Appliance established its first retail outlet in Tianjin. Since then, GOME has rapidly expanded into other major cities in China and gained widespread consumer recognition.

- In July 2004, Gome Appliance obtained its listing in Hong Kong through the injection of a 65% stake in Gome Appliance into an existing Hong Kong listed company.

- In August 2004, the listed entity officially adopted the name "GOME Electrical Appliances Holding Limited".

- In 2004, Gome Appliance was selected as one of the "Key and Strategically Important Enterprises" in China by the Ministry of Commerce.

- In May 2006, GOME completed the acquisition of the remaining 35% equity interest in Gome Appliance from Gome Holdings Limited, which is ultimately and wholly owned by Mr. Wong Kwong Yu.

For the twelve months ended 31 December 2005, the audited consolidated revenue, profit for the year and the basic earnings per share for the year of GOME was approximately RMB17,959 million, RMB777 million and RMB0.30 respectively. For the six months ended 30 June 2006, the unaudited consolidated revenue, profit for the period and the basic earnings per share for the period of GOME was approximately RMB12,168 million, RMB467 million and RMB0.19 respectively. All figures stated in this paragraph were prepared in accordance with IFRS.

FINANCIAL AND TRADING PROSPECTS OF GOME

GOME is the largest electrical appliance and consumer electronics retailer in the PRC in revenue terms for 2005. As at 30 June 2006, GOME owned and operated 338 retail outlets across 96 cities in the PRC, and managed in addition 220 stores on behalf of the Parent Group across 72 cities in the PRC, Hong Kong and Macau.

GOME is in the midst of executing a four-year growth initiative, which was implemented in 2005, that aims to expand its business scale, extend its national footprint, solidify market leadership, foster competitive strengths and enhance brand value. GOME's management continues to believe that competitive pressure in the household appliances and consumer electronics retail industry in the PRC is intense. GOME's management 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. GOME 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 GOME continues to enhance its store network, GOME is emphasizing initiatives aimed at improving operating efficiency, enhancing store competitiveness, building brand loyalty, and elevating customer satisfaction in 2006.

Through the proposed merger with China Paradise, GOME expects to make meaningful progress towards achieving many of the objectives set out in its four-year growth initiative. In particular, GOME's management expects the merger will significantly enhance its scale in key domestic markets including Beijing and Shanghai, strengthen the strategic position of the Enlarged Group to better capture future consolidation opportunities, and reap operating cost savings.

In addition, GOME believes the Offer will help transform the dynamics in the home appliances and consumer electronics retail industry by shifting focus away from severe price competition to more sustainable long-term business strategies. The Enlarged Group will employ a dual-brand strategy to capitalise on the strengths of both the GOME and China Paradise brands in the domestic market to enhance customer satisfaction and foster customer loyalty. GOME believes the Offer will position the Enlarged Group to become the long-term market leader in China and further increase future competitiveness.

REASONS FOR THE OFFER

The Offeror believes there are compelling commercial reasons for a combination of GOME and China Paradise as set out below:

(a) *Enhanced size*: The Enlarged Group will become the clear leader in its market with strongholds in key regions including both Beijing and Shanghai. Post-merger, the combined store network of GOME and China Paradise will be 563 stores based on number of stores as at 30 June 2006. In addition, the Enlarged Group will continue to manage 220 stores owned by the Parent Group.

(b) *Strengthened strategic position*: The Enlarged Group will be well positioned for future growth and continued industry consolidation.

(c) *Operational cost savings*: Increased purchasing power and the integration of procurement and supply chain management functions are expected to enhance operating costs efficiency for the Enlarged Group.

The Offeror expects all of the above benefits to significantly strengthen the Enlarged Group, and strategically position the business to become the long-term market leader in China.

The following table shows the distribution of stores of GOME and China Paradise in the PRC as at 30 June 2006:

	GOME	**China Paradise**
Anhui	4	4
Beijing	42	7
Chongqing	19	–
Fujian	24	27
Gansu	3	–
Guangdong	87	22
Hebei	5	–
Henan	–	22
Hubei	19	–
Jiangsu	22	33
Liaoning	17	–
Shaanxi	11	7
Shandong	25	–
Shanghai	–	62
Sichuan	25	14
Tianjin	23	4
Yunnan	12	–
Zhejiang	–	23
Total	**338**	**225**

INTENTIONS IN RELATION TO CHINA PARADISE

After the completion of the Offer, the Offeror intends to proceed with the continuation of China Paradise's business, and to adopt an appropriate new company name which will reflect its new status as a combination of the businesses of GOME and China Paradise. The Offeror intends to take measures, as is common in the ordinary course of business, to improve the financial and operational performance of the Enlarged Group. The Offeror expects to leverage the combined resources available, which may include redeployment of certain fixed assets, integration of procurement and supply chain management functions and coordinated marketing campaigns and promotional offers. Consistent with such goals, the Offeror will also look to enhance the performance of China Paradise's current network of stores as well as to seek to optimize the store footprint of the Enlarged Group. The Offeror intends the Enlarged Group to adopt a dual-brand strategy to capitalise on the strengths of both the GOME and China Paradise brands in the domestic market. The combined store network of GOME and China Paradise stores will position the Enlarged Group as a domestic market leader in the consumer electronics retail sector. The GOME Directors believe that the terms of the Offer are fair and reasonable and in the interests of the GOME Shareholders as a whole.

In addition, GOME believes the Offer will help transform the dynamics in the home appliances and consumer electronics retail industry in the long term by shifting focus away from severe price competition to more sustainable business strategies based upon superior service and strong brand value. The Enlarged Group not only intends to continue offering competitive pricing but also to provide an enhanced customer experience by dedicating resources to strengthen its in-store and after sales customer service functions. The Enlarged Group also intends to provide greater transparency on timing, demand and logistics to its suppliers through the integration of GOME and China Paradise's procurement and supply chain management functions, which will likely enhance the efficiency and profitability of the Enlarged Group's suppliers. As such, the GOME Directors are of the view that the proposed business combination through the Offer is supported by a compelling, long-term commercial rationale.

After the completion of the Offer, the Offeror intends to appoint two employees of China Paradise as executive directors of the Offeror and also intends to appoint Mr. Chen Xiao, the current Chairman of China Paradise, as its Chief Executive Officer. The Offeror also intends for the current China Paradise management to remain stable. With regard to the continued employment of the employee workforce of the China Paradise Group, the Offeror intends for it to remain stable. The Offeror intends that the senior management team of China Paradise be utilised to an optimal capacity following completion of the Offer, to ensure a smooth transition and to realise synergies per the business plan of the combined business. The Offeror does not currently intend to change the composition of the board of directors of China Paradise after completion of the Offer.

After completion of the Offer, in the event that China Paradise is not privatised, GOME will give consideration to corporate governance issues relating to:

(i) the delineation of the businesses of GOME and China Paradise;

(ii) competition issues between GOME and China Paradise; and

(iii) the degree of managerial, operational and financial reliance of China Paradise on GOME.

COMPULSORY ACQUISITION, WITHDRAWAL OF LISTING AND MAINTAINING THE LISTING

In accordance with Rule 2.11 of the Takeovers Code, except with the consent of the Executive, where the Offeror seeks to acquire or privatise China Paradise by means of the Offer and the use of compulsory acquisition rights, such rights may only be exercised if, in addition to satisfying any requirements imposed by the Cayman Islands Company Law, the Offeror and parties acting in concert with it acquire not less than 90% of the Disinterested Shares within four months of the posting of the Offer Document.

The Offeror intends to exercise the right under Section 88 of the Cayman Islands Company Law and in accordance with Rule 2.11 of the Takeovers Code, if it acquires not less than 90% of the Disinterested Shares within four months of the posting of the Composite Document, to compulsorily acquire those China Paradise Shares not acquired by the Offeror pursuant to the Offer. On completion of the compulsory acquisition, it is intended that China Paradise will become a wholly-owned subsidiary of the Offeror and an application will be made for the withdrawal of the listing of the China Paradise Shares from the Stock Exchange pursuant to Rule 6.15 of the Hong Kong Listing Rules.

Assuming the Offeror does not effect the compulsory acquisition set out above (whether by reason of not acquiring 90% of the Disinterested Shares or otherwise), the Offeror will, following the closing of the Offer, ensure that not less than 25% of the China Paradise Shares will be held by the public in compliance with the Hong Kong Listing Rules.

The Stock Exchange has stated that if, upon the close of the Offer, less than 25% of China Paradise Shares are held by the public, or if the Stock Exchange believes that:

- a false market exists or may exist in the trading of China Paradise Shares; or
- there are insufficient China Paradise Shares in public hands to maintain an orderly market,

then it will consider exercising its discretion to suspend trading in China Paradise Shares until a level of sufficient public float is attained. In this connection, it should be noted that upon completion of the Offer, there may be insufficient public float for the China Paradise Shares and therefore, trading in the China Paradise Shares may be suspended until a prescribed level of public float is attained.

DISCUSSION WITH SHAREHOLDERS

GOME confirms that it has not had any discussions with any China Paradise Shareholders (other than the Committed Shareholders) in relation to a commitment to accept or reject the Offer, and there is no agreement or understanding with any other China Paradise Shareholders in relation to the acceptance or rejection of the Offer or the acquisition of the China Paradise Shares by GOME.

MISCELLANEOUS

To the best of the knowledge, information and belief of the GOME Directors, having made all reasonable enquiries, China Paradise and its substantial shareholders are third parties independent from and not connected with the Offeror and any of the directors, chief executive or substantial shareholders of the Offeror and its subsidiaries and any of their respective associates, and the Offer does not constitute a connected transaction for China Paradise.

Your attention is drawn to the information in "Letter from Goldman Sachs", which immediately follows this letter, as well as the additional information set out in the Appendices which form part of the Composite Document.

Yours faithfully
for and on behalf of
GOME Electrical Appliances Holding Limited
Wong Kwong Yu
Chairman

Goldman Sachs (Asia) L.L.C.
68/F Cheung Kong Center
2 Queen's Road
Central
Hong Kong

29 August 2006

Dear China Paradise Shareholders,

**VOLUNTARY CONDITIONAL OFFER BY
GOLDMAN SACHS (ASIA) L.L.C.
FOR AND ON BEHALF OF
GOME ELECTRICAL APPLIANCES HOLDING LIMITED
TO ACQUIRE ALL OF THE ISSUED SHARES IN THE CAPITAL OF
CHINA PARADISE ELECTRONICS RETAIL LIMITED
(not already owned by GOME Electrical Appliances Holding Limited
and parties acting in concert with it)**

INTRODUCTION

On 25 July 2006, GOME announced a voluntary conditional offer intended to be made by us on behalf of GOME, to acquire all the issued shares in the capital of China Paradise, not already owned by GOME and parties acting in concert with it.

Terms defined in the Composite Document have the same meaning when used in this letter.

THE OFFER

On behalf of GOME, we are making the Offer on the terms and conditions set out below in the Composite Document (together with the terms set out in Appendix I to the Composite Document) and in the Form of Acceptance.

Offer Conditions

The Offer is conditional upon:

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

(b) valid acceptances having been received at or before 4:00 p.m. on the First Closing Date (or such other time as GOME may, subject to the Takeovers Code, decide) in respect of at least 90% of the Disinterested Shares;

(c) 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;

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

(e) the execution of non-competition agreements between China Paradise and certain China Paradise Shareholders (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 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 (collectively, the ***Managing Shareholders***);

(f) 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 as would not have a material adverse effect on the legal ability of the Offeror to proceed with or consummate the Offer); and

(g) save in connection with the completion of the Offer, the listing of the China Paradise Shares on the Stock Exchange not having been withdrawn, and no indication being received from the SFC 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 Offer Conditions (b), (d), (e), (f) and (g) to the Offer set out above, in whole or in part. Offer Condition (b) 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.

According to the interim results announcement of China Paradise dated 14 August 2006, the total assets of China Paradise, less its total liabilities, being the net asset value, as set out in the unaudited consolidated interim financial statements of China Paradise for the six months ended 30 June 2006 was approximately RMB2,358,974,000.

China Paradise entered into a non-competition agreement with each of the Managing Shareholders on 14 August 2006. The non-competition agreement provides, inter alia, that the Managing Shareholders will, for a period of 5 years from the date of the non-competition agreement, be prohibited from, among other things, procuring that any of China Paradise's employees resign from China Paradise, procuring that the directors, managers or technicians of China Paradise resign, working for or investing in competitors of China Paradise, having a direct business dealing with any customers and employees of China Paradise and having a direct business dealing with any agents and suppliers of China Paradise.

Based on the above, Offer Conditions (d) and (e) have been fulfilled.

Consideration

For each China Paradise Share ..... 0.3247 New GOME Shares and HK$0.1736 in cash

Based on an exchange ratio of 0.3247 GOME Shares per China Paradise Share and 2,334,917,067 China Paradise Shares on an undiluted basis (assuming that the Wang Management Incentive Option is not exercised), the maximum number of New GOME Shares that GOME will issue in connection with the Offer is approximately 758,147,572. This represents approximately 33.07% of the existing issued ordinary share capital of GOME of 2,292,794,534 GOME Shares as at the date of this letter, and approximately 24.85% of the enlarged issued share capital of GOME of 3,050,942,106 GOME Shares immediately following the issue of the New GOME Shares.

Based on an exchange ratio of 0.3247 GOME Shares per China Paradise Share, and 2,356,629,785 China Paradise Shares on a fully diluted basis (assuming that the Wang Management Incentive Option is exercised in full), the maximum number of New GOME Shares that GOME will issue in connection with the Offer is approximately 765,197,691. This represents approximately 33.37% of the existing issued ordinary share capital of GOME of 2,292,794,534 GOME Shares as at the date of this letter, and approximately 25.02% of the enlarged issued share capital of GOME of 3,057,992,225 GOME Shares immediately following the issue of the New GOME Shares.

Nature of China Paradise Shares

China Paradise Shares will be acquired free from all liens, charges, encumbrances, rights of pre-emption and any other third party rights of any nature and together with all rights attaching to them, including the right to receive in full all dividends and other distributions, if any, declared, made or paid on or after the date of the Joint Announcement.

Nature of New GOME Shares

New GOME Shares will be issued free from all liens, charges and encumbrances and together with all rights attaching to them, including the right to receive all dividends declared (except for the interim dividend declared by GOME on 17 August 2006), and will rank pari passu with the existing GOME Shares. There will be no restrictions on the transfer of the New GOME Shares to be issued under the Offer. An application will be made to the Stock Exchange for the listing of, and permission to deal in, the New GOME Shares issued in connection with the Offer on the Stock Exchange.

Comparisons of value

The aggregate consideration of HK$2.2354 per China Paradise Share under the Offer (comprising the value of 0.3247 GOME Shares based on the closing price of each GOME Share of HK$6.35, as quoted on the Stock Exchange on 17 July 2006, being the last day of trading in the GOME Shares immediately preceding the date of the Joint Announcement, and the cash consideration of HK$0.1736 per China Paradise Share) represents:

(a) a premium of approximately 6.3%, 11.4% and 10.9% over the average closing prices of HK$2.1025, HK$2.0063 and HK$2.0158 per China Paradise Share, being the average closing prices of China Paradise Shares as quoted on the Stock Exchange for the 10, 20 and 30 trading days respectively immediately prior to and including the Last Trading Day;

(b) a premium of approximately 9.0% over the closing price of each China Paradise Share of HK$2.0500, as quoted on the Stock Exchange on the Last Trading Day;

(c) a premium of approximately 21.0%, 11.5% and 8.5% over the average closing prices of HK$1.8470, HK$2.0045 and HK$2.0608 per China Paradise Share, being the average closing prices of China Paradise Shares as quoted on the Stock Exchange for the 10, 20 and 30 trading days respectively immediately prior to and including the Latest Practicable Date; and

(d) a premium of approximately 19.5% over the closing price of each China Paradise Share of HK$1.8700, as quoted on the Stock Exchange on the Latest Practicable Date.

Total Consideration for China Paradise Shares

On the basis of the aggregate consideration of HK$2.2354 per China Paradise Share under the Offer (comprising the value of 0.3247 GOME Shares based on the closing price of GOME Shares of HK$6.35, as quoted on the Stock Exchange on 17 July 2006, being the last day of trading in the GOME Shares immediately preceding the date of the Joint Announcement, and the cash consideration of HK$0.1736 per China Paradise Share), the entire issued share capital of 2,356,629,785 China Paradise Shares (on a fully diluted basis assuming that the Wang Management Incentive Option is exercised in full), is valued at approximately HK$5,268.0 million.

The consideration payable under the Offer was determined on the basis of the recent financial performance of China Paradise including profitability measures such as margins and net income, taking into account the recent trading performance of China Paradise Shares, and was the result of arm's length negotiations between the relevant parties.

Settlement of Consideration

Provided that the Form of Acceptance and share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) are in complete and good order and have been received by the Registrar by not later than the latest time for acceptance, settlement of the consideration under the Offer will be made within ten days of the later of the date on which the Offer becomes or is declared unconditional in all respects and the date of receipt of the duly completed Form of Acceptance.

China Paradise Shareholders should be aware that in accepting the Offer, any resulting fractions of a New GOME Share will be disregarded and such fractions of a New GOME Share will not be issued. China Paradise Shareholders should also be aware that in accepting the Offer, any resulting fractions of a Hong Kong cent will be disregarded and any cash amount payable will be rounded down to the nearest Hong Kong cent.

China Paradise Shareholders should also be aware that GOME Shares are traded in board lots of 1,000 shares and no arrangements are intended to be made for the trading of odd lots of GOME Shares resulting from the acceptance of the Offer. China Paradise Shareholders who receive odd lots of GOME Shares resulting from the acceptance of the Offer may choose to combine the odds lots into full lots for the purposes of trading on the Stock Exchange.

Outstanding Options

As at the Latest Practicable Date, part of the Wang Management Incentive Option was still outstanding. The Wang Management Incentive Option is exercisable by Tong Ley within 20 years from 4 July 2005 at an exercise price of HK$0.83 per China Paradise Share, less an amount calculated based on the aggregate dividends which have been declared by China Paradise up to the time of exercise of the Wang Management Incentive Option which Tong Ley would have been entitled to receive if the China Paradise Shares subject to the Wang Management Incentive Option had already been issued. If the outstanding Wang Management Incentive Option is exercised in full, China Paradise will have to issue 21,712,718 China Paradise Shares to Tong Ley, representing approximately 0.93% of the existing issued share capital of China Paradise. As at the Latest Practicable Date, China Paradise had not received any indication from Tong Ley as to whether or not it will exercise the Wang Management Incentive Option.

Tong Ley is a private company wholly and beneficially owned by Mr. Wang Jiayu, a senior advisor to China Paradise, and the Wang Management Incentive Option was granted to Tong Ley.

In connection with the Offer, Tong Ley has obtained a waiver from the Placing Agent from the restriction on the exercise of the Wang Management Incentive Option as set out in the Placing Agreements, allowing it to exercise the Wang Management Incentive Option and dispose of the China Paradise Shares held by it.

In the event that the Offer is declared or becomes unconditional, an appropriate offer or proposal will be made, in accordance with the provisions of the Takeovers Code, for the cancellation of any outstanding options.

Confirmation of Financial Resources for the Offer

The maximum cash amount to be paid to the China Paradise Shareholders in connection with the Offer (including the compulsory acquisition exercise to be undertaken in connection with the Offer and assuming that the Wang Management Incentive Option is exercised in full) is HK$409,110,931, based on cash consideration of HK$0.1736 per China Paradise Share, and 2,356,629,785 China Paradise Shares on a fully diluted basis assuming that the Wang Management Incentive Option is exercised in full. The amount of HK$409,110,931 will be funded from GOME's cash reserves and, to the extent required, the Loan.

The Loan is an unsecured and interest-free loan for a maximum principal amount of HK$420,000,000. The Loan shall mature on the later of 20 July 2007, or the business day following the end of the period beginning the date of the Loan to the 30th day following the later of:

(i) the final date on which GOME is required under the Takeovers Code to make any cash payment to any China Paradise Shareholder in relation to the Offer;

(ii) the final date on which GOME is required to pay any stamp duty in respect of the Offer; or

(iii) the final date on which GOME is required to make a cash payment to any of the China Paradise Shareholders as a result of an exercise by GOME of any rights of compulsory acquisition of the shares in China Paradise.

Goldman Sachs is satisfied that sufficient financial resources are available to the Offeror to meet full acceptance of the Offer as described above.

The GOME Directors confirm that the repayment of any liability (contingent or otherwise) arising from the above-mentioned Loan will not depend to any significant extent on the business of China Paradise.

IRREVOCABLE UNDERTAKINGS TO ACCEPT THE OFFER

Committed Shares

Pursuant to the Irrevocable Undertakings, each of the Committed Shareholders has undertaken to accept the Offer in respect of an aggregate of 734,576,861 China Paradise Shares, representing approximately 31.46% of the issued share capital of China Paradise or approximately 31.17% of the issued share capital of China Paradise on a fully diluted basis assuming that the Wang Management Incentive Option is exercised in full. The Irrevocable Undertakings will be binding even if a higher offer is made for China Paradise Shares. The Committed Shareholders have committed to accept the Offer in respect of their respective China Paradise Shares as follows:

Name of Committed Shareholder	Number of Committed Shares held	Approximate percentage of China Paradise Shares (assuming the Wang Management Incentive Option is not exercised)	Approximate percentage of China Paradise Shares (assuming the Wang Management Incentive Option is fully exercised)
Retail Management	473,686,307	20.29	20.10
MS Retail	224,392,912	9.61	9.52
CDH	36,497,642	1.56	1.55
Total	**734,576,861**	**31.46**	**31.17**

Retail Management's China Paradise Shares

Retail Management currently holds 1,180,675,243 China Paradise Shares representing approximately 50.57% of the issued share capital of China Paradise or (approximately 50.10% of the issued share capital of China Paradise on a fully diluted basis assuming that the Wang Management Incentive Option is exercised in full), of which approximately 20.29% (or approximately 20.10% on a fully diluted basis assuming that the Wang Management Incentive Option is exercised in full) forms part of the Committed Shares as set out above. The remaining 30% of the issued share capital of China Paradise (on a fully diluted basis assuming the Wang Management Incentive Option is exercised in full) held by Retail Management is currently subject to a lock-up on disposal under Rule 10.07(1)(b) of the Hong Kong Listing Rules, which expires on 13 October 2006. The lock-up prohibits Retail Management from disposing of, or entering into any agreement to dispose of, such China Paradise Shares, if immediately following such disposal, Retail Management would cease to be the controlling shareholder (as defined in the Hong Kong Listing Rules) of China Paradise. The expiry date of 13 October 2006 falls before the First Closing Date. Retail Management has not entered into any verbal or written agreement or arrangement to dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of the 30% of the issued share capital of China Paradise (on a fully diluted basis assuming the Wang Management Incentive Option is exercised in full) held by it which is subject to a lock-up on disposal under Rule 10.07(1)(b) of the Hong Kong Listing Rules. However, upon expiry of the lock-up period, Retail Management fully intends to accept the Offer in respect of the remaining 30% of the issued share capital of China Paradise (on a fully diluted basis assuming the Wang Management Incentive Option is exercised in full) held by it.

EXCLUSIVITY AGREEMENT

GOME, China Paradise, Retail Management and Mr. Chen Xiao entered into the Exclusivity Agreement on 18 July 2006 pursuant to which each of Retail Management, China Paradise and Mr. Chen Xiao has agreed, among other things, that it will not and will procure that each of its subsidiaries, directors, employees, advisors, agents and representatives will not sell or dispose of any interest in any China Paradise Shares, provide information to, or participate in discussions with, any third party concerning a sale or issue of China Paradise Shares or China Paradise's assets and undertakings (other than in the ordinary course of business of China Paradise), for a period commencing on 18 July 2006 until noon on 17 January 2007 (or such earlier date on which GOME has given written notice of its intention (subject to the provisions of the Takeovers Code) not to proceed with the Offer, or the Offer lapses, closes or is withdrawn).

WAIVER OF NON-COMPETITION UNDERTAKING

On 21 July 2006, Mr. Wong Kwong Yu granted a waiver to GOME from its obligations under the Non-competition Undertaking not to directly or indirectly engage in the retail sales of electrical appliances or consumer electronic products in any of the locations in the PRC in which any member of the Parent Group had established, or was as at 3 June 2004 in the course of establishing, any retail outlet for the sale of electrical appliances and consumer electronic products under the "GOME Electrical Appliances" trade mark. Such waiver shall take effect on and as from the Offer having been declared or becoming unconditional in all respects.

WAIVER OF LOCK-UPS

The Joint Global Coordinators have granted waivers to Retail Management from its obligations under the Hong Kong Underwriting Agreement and the International Purchase Agreement not to dispose of the China Paradise Shares held by it for the 12-month period specified in the Hong Kong Underwriting Agreement and the International Purchase Agreement for the purposes of the Offer.

The Joint Global Coordinators and Morgan Stanley & Co. International Limited have granted waivers to each of MS Retail and CDH from its obligations under the Lock-Up Agreement not to dispose of the China Paradise Shares held by each of them for the 12-month period specified in the Lock-Up Agreement for the purposes of the Offer.

The Placing Agent has granted a waiver to each of Retail Management, MS Retail, CDH and Tong Ley from the restrictions on the disposal of China Paradise Shares held by them as set out in the Placing Agreements, and further in the case of Tong Ley, from the restriction on the exercise of the Wang Management Incentive Option as set out in the Placing Agreements, and has given its consent, for the purposes of the Offer, to such disposal of China Paradise Shares and the exercise of the Wang Management Incentive Option.

MAJOR TRANSACTION FOR GOME

As the Offer will constitute a major transaction for GOME under the Hong Kong Listing Rules, the Offer is subject to the approval of the shareholders of GOME in general meeting. Further, the issue of the New GOME Shares will require the approval of the shareholders of GOME. GOME has convened the Special General Meeting to approve the Offer and the issue of the New GOME Shares in connection with the Offer and all the transactions contemplated in connection with the Offer. As the interest of the controlling shareholder of GOME in the Offer is the same as those of the other shareholders of GOME, no shareholder, including the controlling shareholder, of GOME is required to abstain from voting at such general meeting.

To the best of the knowledge, information and belief of the GOME Directors, having made all reasonable enquiries, China Paradise and its substantial shareholders are third parties independent from and not connected with the Offeror and any of the directors, chief executive or substantial shareholders of the Offeror and its subsidiaries and any of their respective associates. The Offer does not constitute a connected transaction for China Paradise.

UNDERTAKING FROM MR. WONG KWONG YU

Mr. Wong Kwong Yu, the chairman and a controlling shareholder of GOME, SCHI and SGL, two companies wholly-owned and controlled by Mr. Wong Kwong Yu, have on 18 July 2006 given an undertaking to China Paradise to vote in favour of all the resolutions in connection with the Offer at the Special General Meeting. The Voting Undertaking also provides that Mr. Wong Kwong Yu, SCHI and SGL will not, among other things, sell, transfer or otherwise dispose of any interest in any GOME Shares such that their combined shareholding falls below 50% of the issued share capital of GOME. Mr. Wong Kwong Yu, his associates and parties acting in concert with him are currently the beneficial owners of 1,564,947,034 GOME Shares representing approximately 68.26% of the issued share capital of GOME. The Voting Undertaking shall lapse if, among other things, the Offer Condition referred to in paragraph (d) of the section headed "Offer Conditions" of this letter is not fulfilled or waived. As set out in that section, Offer Condition (d) has been fulfilled.

INFORMATION ON GOME

Incorporation

The Offeror was incorporated in Bermuda with an issued share capital of approximately HK$229,279,453 at the par value of HK$0.10 each at the date of the Composite Document. Further details on the Offeror may be found on pages 9 to 15 in the section headed "Letter from the board of GOME" of the Composite Document.

Share Capital

A maximum of approximately 25.02% of GOME's enlarged share capital may be held by the Accepting Shareholders (assuming that the Wang Management Incentive Option is exercised in full).

FURTHER TERMS OF THE OFFER

Further Terms

Further terms and conditions (including the procedures for acceptance, the acceptance period and revisions of the Offer) of the Offer are also set out in Appendix I and the Form of Acceptance.

Completion of the Offer

If the Offer Conditions are not satisfied (or, if applicable, waived) on or before the First Closing Date, the Offer will lapse unless extended by the Offeror. In that case, the Offeror will issue a press announcement in accordance with the Takeovers Code and the Hong Kong Listing Rules as soon as practicable thereafter. The latest date on which the Offeror can declare the Offer unconditional as to acceptances is 60 days after the date of the posting of the Composite Document (or such later date as the Executive may consent to). The latest date on which the Offeror can declare the Offer unconditional as to all Offer Conditions is the Long Stop Date.

If the Offer Conditions are satisfied (or, if applicable, waived) on or before the First Closing Date, China Paradise Shareholders will be notified by press announcement as soon as practicable thereafter.

Stamp Duty

Further details in connection with the amount of stamp duty payable by the Accepting Shareholders are set out in Appendix I.

GENERAL MATTERS RELATING TO THE OFFER

Taxation and Independent Advice

China Paradise Shareholders are recommended to consult their own professional advisers if they are in any doubt as to the taxation implications of accepting or rejecting the Offer. It is emphasised that none of the Offeror or Goldman Sachs or any of their respective directors or affiliates or any other person involved in the Offer accepts responsibility for any tax or other effects on, or liabilities of, any person or persons as a result of their acceptance or rejection of the Offer.

Overseas Shareholders

The Offeror intends to make available the Offer to all China Paradise Shareholders. The availability of the Offer to persons not resident in Hong Kong may be affected by the laws of the relevant jurisdictions. Persons who are not resident in Hong Kong should inform themselves about and observe any applicable requirements in their own jurisdictions.

It is the responsibility of any Overseas Shareholder not resident in Hong Kong who wishes to accept the Offer to satisfy himself as to the full observance of all the applicable laws and regulations of any relevant jurisdiction in connection therewith, including obtaining any government or other consent which may be required, complying with any other necessary formalities and paying all applicable issue, transfer or other taxes in such jurisdiction.

IMPORTANT NOTE FOR US INVESTORS

China Paradise Shareholders who are US Shareholders must take notice of the following:

The New GOME Shares have not been and will not be registered under the US Securities Act, and accordingly, the New GOME Shares may not be reoffered, resold, renounced or transferred, directly or indirectly in or into the United States except pursuant to an exemption from, or a transaction not subject to, the registration requirements of the US Securities Act.

None of the SEC, any state securities commission or other regulatory body has approved or disapproved these securities or passed upon the adequacy or accuracy of the Composite Document. Any representation to the contrary is a criminal offence.

BECAUSE OF THE FOLLOWING RESTRICTIONS AND NOTICES, US SHAREHOLDERS ARE ADVISED TO CONSULT LEGAL COUNSEL PRIOR TO PARTICIPATING IN THE OFFER.

US Shareholders who accept the Offer are deemed to make the representations, warranties, agreements and confirmations contained in paragraph 2.9 of Appendix I of the Composite Document, in which they represent, *inter alia*, that they are a "qualified institutional buyer" (a ***QIB***) within the meaning of Rule 144A under the US Securities Act.

GOME intends to exercise the right under Section 88 of the Cayman Islands Company Law and in accordance with Rule 2.11 of the Takeovers Code, if it acquires not less than 90% of the Disinterested Shares within four months of the posting of the Composite Document, to compulsorily acquire those China Paradise Shares not acquired by the Offeror pursuant to the Offer. The consideration for the compulsory acquisition will be 0.3247 New GOME Shares and HK$0.1736 in cash for each China Paradise Share. The eligibility of remaining US Shareholders to receive New GOME Shares will be determined at that time. On completion of the compulsory acquisition, it is intended that China Paradise will become a wholly-owned subsidiary of the Offeror and an application will be made for the withdrawal of the listing of the China Paradise Shares from the Stock Exchange pursuant to Rule 6.15 of the Hong Kong Listing Rules.

Disclosure

The Offer is being made for the securities of a stock corporation organised under the laws of the Cayman Islands and listed on the Hong Kong Stock Exchange. The disclosure requirements applying to the Offer are different from those applying to similar offers in the United States. Financial information included in the Composite Document has been prepared in accordance with Hong Kong and/or international accounting standards, which may not be comparable to the financial statements of United States companies.

Enforcement of Civil Liability

GOME is located outside of the United States, and its officers and directors may reside outside of the United States. As a result, it may not be possible for investors to effect service of process within the United States upon GOME or such persons or to enforce against such persons or GOME judgments predicated upon the civil liability provisions of the federal securities laws of the United States.

Available Information

If, at any time, GOME is neither subject to Section 13 or 15(d) of the United States Securities Exchange Act of 1934, as amended, nor exempt from reporting pursuant to Rule 12g3-2(b), it will furnish, upon request, to any owner of New GOME Shares offered hereby, or any prospective purchaser designated by any such owner, the information required to be delivered pursuant to Rule 144A(d)(4) under the US Securities Act for so long as any of the New GOME Shares are "restricted securities" within the meaning of Rule 144(a)(3).

Confidentiality

The Composite Document is confidential and has been prepared solely for the purpose of enabling China Paradise Shareholders to consider the Offer. Any reproduction or distribution of the Composite Document, in whole or in part, and any disclosure of its contents or use of any information herein for any purpose other than considering participation in the Offer is prohibited. Each China Paradise Shareholder, by accepting delivery of the Composite Document, agrees to the foregoing.

US Federal Income Tax Considerations

The following is a summary based on present law of certain US federal income tax considerations for a beneficial owner of China Paradise Shares who is (i) an individual citizen or resident of the United States; (ii) a corporation, partnership or other entity created or organized under the laws of the United States; (iii) a trust subject to the control of a US person and the primary supervision of a US court; or (iv) an estate the income of which is subject to US federal income tax regardless of its source, (***US Holder***) considering the Offer. This summary is not tax advice. It does not describe all tax considerations that may be relevant to a particular US Holder. This summary addresses the treatment of US Holders that hold China Paradise Shares as capital assets and use the US dollar as their functional currency. It does not address the tax treatment of persons subject to special rules, such as banks, insurance companies, regulated investment companies, dealers, traders in securities that elect mark-to-market treatment, insurance companies, tax-exempt entities, or persons holding China Paradise Shares or GOME Shares as part of a hedge, straddle, conversion or other integrated financial transaction. This discussion does not consider consequences for persons that own or will own (or be deemed to own) 10% or more (by voting power or value) of the China Paradise Shares or the GOME Shares. This discussion does not address US state and local tax considerations.

This discussion assumes, that neither China Paradise nor GOME is or will become a passive foreign investment company (***PFIC***) for US federal income tax purposes. A company's status as a PFIC must be determined annually and therefore may be subject to change depending upon, among other things, changes in the value of its shares and changes in its activities and assets. If it were determined that China Paradise is or has been a PFIC or that GOME is or will become a PFIC, the US federal income tax consequences of acceptance of the Offer may be materially less favorable to US Holders. See "Passive Foreign Investment Company" below.

THE FOLLOWING STATEMENTS ABOUT US FEDERAL TAX ISSUES ARE MADE TO SUPPORT MARKETING OF THE NEW GOME SHARES PURSUANT TO THE OFFER. NO TAXPAYER CAN RELY ON THEM TO AVOID US FEDERAL TAX PENALTIES. EACH HOLDER OF CHINA PARADISE SHARES SHOULD SEEK ADVICE FROM AN INDEPENDENT TAX ADVISOR ABOUT THE TAX CONSEQUENCES UNDER ITS OWN PARTICULAR CIRCUMSTANCES OF ACCEPTING THE OFFER.

Exchange of China Paradise Shares

Subject to the PFIC rules discussed below, a US Holder that receives Hong Kong dollars or New GOME Shares and Hong Kong dollars in exchange for China Paradise Shares generally will recognise capital gain or loss equal to the difference between its adjusted tax basis in the China Paradise Shares exchanged and the sum of the US dollar value of the Hong Kong dollars received and the fair market value of the New GOME Shares received. The gain or loss will be long-term gain or loss if the US Holder has held the China Paradise Shares it exchanges for more than one year. Deductions for capital losses are subject to limitations. Gain or loss generally will be treated as arising from US sources.

The date for determining the US dollar value of the Hong Kong dollars received depends on whether special rules for sales of securities traded on an established securities market apply. Although the China Paradise Shares are traded on a market, the rules might not apply here because an exchange pursuant to the Offer is not a transaction on that market. If the special rules apply, cash method and electing accrual method US Holders would value the Hong Kong dollars received as of the settlement date. If the rules do not apply, US Holders would value the Hong Kong dollars as of the date their tender of China Paradise Shares is unconditionally accepted.

A US Holder will have a tax basis in the New GOME Shares and Hong Kong dollars received on disposition of China Paradise Shares equal to the US dollar amounts realised on account of receiving them. Gain or loss realised by a US Holder on a subsequent conversion or other disposition of the Hong Kong dollars generally will be ordinary gain or loss arising from US sources.

Treatment of New GOME Shares

(a) *Dividends* – Subject to the PFIC rules discussed below, dividends on the New GOME Shares generally will be ordinary income from foreign sources. The dividends will not be eligible for the dividends-received deduction generally available to US corporations or qualify for the reduced rate available to US individuals on qualified dividend income. Dividends paid in Hong Kong dollars will be includable in income in a US dollar amount based on the exchange rate in effect on the date of receipt whether or not the payment is converted into US dollars at that time. Any gain or loss on a subsequent conversion or other disposition of the Hong Kong dollars into US dollars for a different amount generally will be US source ordinary income or loss.

(b) *Dispositions* – Subject to the PFIC rules discussed below, a US Holder will recognize capital gain or loss on the sale or other disposition of New GOME Shares in an amount equal to the difference between the US Holder's adjusted tax basis in the shares and the amount realised from the disposition. Gain or loss generally will be long-term capital gain or loss if the shares have been held for more than one year. Deductions for capital losses are subject to limitations. Gain or loss generally will be treated as arising from US sources.

A US Holder that receives currency other than the US dollar on the disposition of New GOME Shares will realise an amount equal to the US dollar value of the foreign currency received on the date of sale (or generally, in the case of cash basis and electing accrual basis taxpayers applying the special rule for shares traded on an established stock exchange, the settlement date). A US Holder will have a tax basis in the foreign currency received equal to the US dollar amount realised. Gain or loss on a subsequent conversion or other disposition of the foreign currency generally will be US source ordinary income or loss.

Passive Foreign Investment Company

If China Paradise was a PFIC during any year when a US Holder owned its shares (regardless of whether China Paradise now is a PFIC), the US Holder would be subject to additional taxes on any gain from exchange of the China Paradise Shares pursuant to the Offer. If GOME is a PFIC during any year when a US Holder owns its shares, the US Holder would be subject to additional taxes on any excess distributions received from the GOME and any gain realised on the sale or other disposition on the New GOME Shares (regardless of whether GOME continues to be a PFIC). GOME believes that China Paradise is not now a PFIC and that GOME is not now and is not likely to become a PFIC, but GOME does not know whether China Paradise was a PFIC during previous years. Since PFIC status is determined annually and depends upon the composition of a company's income and assets and the market value of its assets from time to time, there can be no assurance that GOME will not be a PFIC for any taxable year. The valuation of GOME's assets will depend, in part, on the market value of its shares, which will vary.

A foreign corporation will be a PFIC in any taxable year when, taking into account the income and assets of certain subsidiaries, either (i) 75% or more of its gross income is passive income or (ii) 50% or more of the quarterly average value of its assets is attributable to assets that produce or are held to produce passive income. A US Holder has an excess distribution to the extent that distributions on the shares during a taxable year exceed 125% of the average amount received during the three preceding taxable years (or, if shorter, the US Holder's holding period). To compute the tax on excess distributions or any gain, (i) the excess distribution or the gain is allocated rateably over the US Holder's holding period, (ii) the amount allocated to the current taxable year and any year before the company became a PFIC is taxed as ordinary income in the current year and (iii) the amount allocated to other taxable years is taxed at the highest applicable marginal rate in effect for each year and an interest charge is imposed to recover the deemed benefit from the deferred payment of the tax attributable to each year.

If GOME were a PFIC in this or future years, a US Holder might be able to avoid some of the tax consequences just described by electing to mark the New GOME Shares to market annually. A US Holder can elect to mark the New GOME Shares to market only if the New GOME Shares are marketable stock. The New GOME Shares will be marketable stock only if they are traded (other than in de minimis quantities) on a qualified exchange at least 15 days during each calendar quarter. GOME believes the Hong Kong exchange should be a qualified exchange. Any gain from marking the shares to market or from disposing of them would be ordinary income. A US Holder would recognise loss from marking shares to market, but only to the extent of its unreversed gains. Loss recognised from marking shares to market would be ordinary, but loss on disposing of them would be capital loss except to the extent of unreversed gains. Each US Holder should ask its tax adviser whether a mark-to-market election is available or desirable.

If GOME were a PFIC, a US Holder could not avoid the tax consequences just described by electing to treat GOME as a qualified electing fund (or ***QEF***) because GOME will not prepare the information that a US Holder would need to make the election.

Information Reporting and Backup Withholding

Proceeds from the disposition of China Paradise Shares or New GOME Shares and dividends on the New GOME Shares may be reported to the US Internal Revenue Service unless the holder is a corporation or otherwise establishes a basis for exemption. Backup withholding may apply to amounts subject to reporting if the holder fails to provide an accurate taxpayer identification number. The amount of any backup withholding tax will be refunded or allowed as a credit against the holder's US income tax liability if the holder furnishes the appropriate information to the U.S. Internal Revenue Service.

ADDITIONAL INFORMATION

Further details of the Offer are set out elsewhere in the Composite Document of which this letter forms a part. We would like to draw your attention to the "Letter from the Board of GOME" which sets out, among other things, certain background information on GOME, the reasons for the Offer and the intentions of GOME in relation to China Paradise, and the letters from the Board of China Paradise, the Independent Board Committee and the Independent Financial Adviser, which are set out in the Composite Document, and the additional information set out in the appendices of the Composite Document.

Yours faithfully
for and on behalf of
GOLDMAN SACHS (ASIA) L.L.C.

Tim Freshwater
Vice Chairman

Johan Leven
Managing Director

永乐家电

China Paradise Electronics Retail Limited
中國永樂電器銷售有限公司*

(incorporated in the Cayman Islands with limited liability)
(Stock Code: 503)

Chairman and Executive Director:
CHEN Xiao

Executive Directors:
SHU Wei
LIU Hui
YUAN Yashi
MA Yawei
ZHOU Meng
SHEN Ping

Non-executive Director:
Julian Juul WOLHARDT

Independent Non-executive Directors:
YU Zengbiao
CHU Cheng Chung
WANG Bing

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

Principal office and place of business in Hong Kong:
Unit 12, 26/F China Merchants Tower
Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

29 August 2006

To the China Paradise Shareholders

Dear Sir or Madam,

**VOLUNTARY CONDITIONAL OFFER BY
GOLDMAN SACHS (ASIA) L.L.C.
FOR AND ON BEHALF OF
GOME ELECTRICAL APPLIANCES HOLDING LIMITED
TO ACQUIRE ALL OF THE ISSUED SHARES IN THE CAPITAL OF
CHINA PARADISE ELECTRONICS RETAIL LIMITED
(not already owned by GOME Electrical Appliances Holding Limited
and parties acting in concert with it)**

INTRODUCTION

Reference is made to the Joint Announcement issued by GOME and China Paradise dated 25 July 2006, in which GOME announced that Goldman Sachs, on behalf of GOME, intended to make a voluntary conditional offer to acquire all the issued shares in the capital of China Paradise not already owned by the Offeror and parties acting in concert with it.

* *For the purpose of identification only*

The Offeror has received the Irrevocable Undertakings from:

(1) Retail Management and Mr. Chen Xiao, in respect of 473,686,307 China Paradise Shares held by Retail Management representing approximately 20.29% of the issued share capital of China Paradise or approximately 20.10% of the issued share capital of China Paradise on a fully diluted basis assuming that the Wang Management Incentive Option is exercised in full;

(2) MS Retail, in respect of all the China Paradise Shares held by it, being 224,392,912 China Paradise Shares, representing approximately 9.61% of the issued share capital of China Paradise or approximately 9.52% of the issued share capital of China Paradise on a fully diluted basis assuming that the Wang Management Incentive Option is exercised in full; and

(3) CDH, in respect of all the China Paradise Shares held by it, being 36,497,642 China Paradise Shares, representing approximately 1.56% of the issued share capital of China Paradise or approximately 1.55% of the issued share capital of China Paradise on a fully diluted basis assuming that the Wang Management Incentive Option is exercised in full.

The Offeror intends to exercise the right under Section 88 of the Cayman Islands Company Law and in accordance with Rule 2.11 of the Takeovers Code, if it acquires not less than 90% of the Disinterested Shares within four months of the posting of the Composite Document, to compulsorily acquire any remaining China Paradise Shares and to apply for a de-listing of China Paradise Shares from the Stock Exchange.

In accordance with Rule 2.1 and Rule 2.8 of the Takeovers Code, the China Paradise Independent Board Committee, comprising Dr. Yu Zengbiao, Mr. Chu Cheng Chung and Mr. Wang Bing, was established to advise the China Paradise Shareholders in respect of the Offer. Mr. Julian Juul Wolhardt is a non-executive director of China Paradise nominated by MS Retail. Mr. Wohlhardt has been excluded from the Independent Board Committee as he is not considered sufficiently independent to advise the China Paradise Shareholders in respect of the Offer by reason of his interest in MS Retail, which is one of the Committed Shareholders, and his involvement in negotiating the Offer.

The purpose of the Composite Document is to provide you with, among other matters, information relating to the China Paradise Group, the Offeror and the Offer as well as setting out the letter from the China Paradise Independent Board Committee containing its recommendation and advice to the China Paradise Shareholders in respect of the Offer, and the letter from the Independent Financial Adviser containing its advice to the China Paradise Independent Board Committee in respect of the Offer.

THE OFFER

Goldman Sachs is making the Offer for and on behalf of the Offeror, subject to the terms set out in the Composite Document (including, without limitation, those in Appendix I) and in the accompanying Form of Acceptance, to acquire all of the issued China Paradise Shares not already owned by the Offeror and parties acting in concert with it. Further details of the Offer are set out in the "Letter from Goldman Sachs" in the Composite Document.

OUTSTANDING OPTIONS

As at the Latest Practicable Date, part of the Wang Management Incentive Option was still outstanding. The Wang Management Incentive Option is exercisable by Tong Ley within 20 years from 4 July 2005 at an exercise price of HK$0.83 per China Paradise Share, less an amount calculated based on the aggregate dividends which have been declared by China Paradise up to the time of exercise of the Wang Management Incentive Option which Tong Ley would have been entitled to receive if the China Paradise Shares the subject of the Wang Management Incentive Option had been issued. If the outstanding Wang Management Incentive Option is exercised in full, China Paradise will have to issue 21,712,718 China Paradise Shares to Tong Ley, representing approximately 0.93% of the existing issued share capital of China Paradise. As at the Latest Practicable Date, China Paradise had not received any indication from Tong Ley as to whether or not it will exercise the Wang Management Incentive Option.

Tong Ley is a private company wholly and beneficially owned by Mr. Wang Jiayu, a senior advisor to China Paradise.

In connection with the Offer, Tong Ley has obtained a waiver from the Placing Agent from the restriction on the exercise of the Wang Management Incentive Option as set out in the Placing Agreements, allowing it to exercise the Wang Management Incentive Option and dispose of the China Paradise Shares held by it.

In the event that the Offer is declared or becomes unconditional, an appropriate offer or proposal will be made, in accordance with the provisions of the Takeovers Code, for the cancellation of any outstanding options.

As at the Latest Practicable Date, other than the Wang Management Incentive Option, there were no options, warrants, convertible securities or other derivatives outstanding in respect of the share capital of China Paradise.

IRREVOCABLE UNDERTAKINGS TO ACCEPT THE OFFER

Retail Management and Mr. Chen Xiao have given an irrevocable undertaking to the Offeror pursuant to which Retail Management has undertaken that it will, and Mr. Chen Xiao has undertaken that he will use his best endeavours to procure that Retail Management will, accept the Offer in respect of 473,686,307 China Paradise Shares held by Retail Management representing approximately 20.29% of the issued share capital of China Paradise or approximately 20.10% of the issued share capital of China Paradise on a fully diluted basis assuming that the Wang Management Incentive Option is exercised in full. Retail Management currently holds 1,180,675,243 China Paradise Shares representing approximately 50.57% of the issued share capital of China Paradise or approximately 50.10% of the issued share capital of China Paradise on a fully diluted basis assuming that the Wang Management Incentive Option is exercised in full. The remaining 30% of the issued share capital of China Paradise (on a fully diluted basis assuming the Wang Management Incentive Option is exercised in full) held by Retail Management is currently subject to a lock-up on disposal under Rule 10.07(1)(b) of the Hong Kong Listing Rules, which expires on 13 October 2006. The lock-up prohibits Retail Management from disposing of, or entering into any agreement to dispose of, such China Paradise Shares, if immediately following such disposal, Retail Management would cease to be the controlling shareholder (as defined in the Hong Kong Listing Rules) of China Paradise. The Takeovers Code provides that the Composite Document must be posted to China Paradise Shareholders within 35 days of the Joint Announcement, and that the last day for the Offer to become or be declared unconditional as to acceptances is the 60th day after the day the Composite Document is posted. The expiry date of 13 October 2006 may therefore fall within the offer period in respect of the Offer permitted under the provisions of the Takeovers Code. Retail Management has not entered into any verbal or written agreement or arrangement to dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of the 30% of the issued share capital of China Paradise (on a fully diluted basis assuming the Wang Management Incentive Option is exercised in full) held by it which is subject to the lock-up on disposal under Rule 10.07(1)(b) of the Hong Kong Listing Rules. However, upon expiry of the lock-up period, Retail Management fully intends to accept the Offer in respect of the remaining 30% of the issued share capital of China Paradise (on a fully diluted basis assuming the Wang Management Incentive Option is exercised in full) held by it.

MS Retail has given an irrevocable undertaking to the Offeror to accept the Offer in respect of all of the China Paradise Shares held by it, being 224,392,912 China Paradise Shares representing approximately 9.61% of the issued share capital of China Paradise or approximately 9.52% of the issued share capital of China Paradise on a fully diluted basis assuming that the Wang Management Incentive Option is exercised in full.

CDH has given an irrevocable undertaking to the Offeror to accept the Offer in respect of all of the China Paradise Shares held by it, being 36,497,642 China Paradise Shares representing approximately 1.56% of the issued share capital of China Paradise or approximately 1.55% of the issued share capital of China Paradise on a fully diluted basis assuming that the Wang Management Incentive Option is exercised in full.

WAIVER OF LOCK-UPS

The Joint Global Coordinators have granted waivers to Retail Management from its obligations under the Hong Kong Underwriting Agreement and the International Purchase Agreement not to dispose of the China Paradise Shares held by it for the 12-month period specified in the Hong Kong Underwriting Agreement and the International Purchase Agreement for the purposes of the Offer.

The Joint Global Coordinators and Morgan Stanley & Co. International Limited have granted waivers to each of MS Retail and CDH from its obligations under the Lock-Up Agreement not to dispose of the China Paradise Shares held by each of them for the 12-month period specified in the Lock-Up Agreement for the purposes of the Offer.

The Placing Agent has granted a waiver to each of Retail Management, MS Retail, CDH and Tong Ley from the restrictions on the disposal of China Paradise Shares held by them as set out in the Placing Agreements, and further in the case of Tong Ley, from the restriction on the exercise of the Wang Management Incentive Option as set out in the Placing Agreements, and has given its consent, for the purposes of the Offer, to such disposal of China Paradise Shares and the exercise of the Wang Management Incentive Option.

CHINA PARADISE SHARES HELD BY THE CHINA PARADISE DIRECTORS

As at the Latest Practicable Date, none of the China Paradise Directors directly held any China Paradise Shares.

Retail Management is the controlling shareholder of China Paradise. Retail Management is the legal and beneficial owner of 1,180,675,243 China Paradise Shares representing approximately 50.57% of the issued share capital of China Paradise. Retail Management is owned by Mr. Chen Xiao, Ms. Shu Wei, Mr. Liu Hui and Mr. Yuan Yashi who are all executive directors of China Paradise, as to 72.59%, 13.10%, 9.77% and 4.54%, respectively.

Retail Management has undertaken to accept the Offer in respect of 473,686,307 China Paradise Shares held by Retail Management representing approximately 20.29% of the issued share capital of China Paradise or approximately 20.10% of the issued share capital of China Paradise on a fully diluted basis assuming that the Wang Management Incentive Option is exercised in full. The remaining 30% of the issued share capital of China Paradise (on a fully diluted basis assuming the Wang Management Incentive Option is exercised in full) held by Retail Management is currently subject to a lock-up on disposal under Rule 10.07(1)(b) of the Hong Kong Listing Rules, which expires on 13 October 2006. However, Retail Management fully intends to accept the Offer in respect of such 30% of the issued share capital of China Paradise (on a fully diluted basis assuming the Wang Management Incentive Option is exercised in full), upon expiry of the lock-up period.

INFORMATION ON THE CHINA PARADISE GROUP

Business of the China Paradise Group

China Paradise was incorporated on 9 August 2004 under the laws of the Cayman Islands and is the holding company of the China Paradise Group. China Paradise initially commenced business in September 1996 when Yongle China, China Paradise's principal operating subsidiary, was established. Since then, China Paradise has grown to become one of the top three household appliances retail chain operators in China in 2005, with a market leading position in Shanghai in 2002, 2003 and 2004 in terms of sales. The China Paradise Shares were listed on the Stock Exchange on 14 October 2005 after a global offering of the China Paradise Shares.

Key financial information of China Paradise

The net asset value per China Paradise Share, based on the audited financial statements for the two financial years ended 31 December 2004 and 31 December 2005, and the unaudited financial statements for the six months ended 30 June 2006, is as follows:

	31 December 2004	**31 December 2005**	**30 June 2006**
NAV per China Paradise Share *(RMB)*	0.1816	0.9854	1.0103
NAV per China Paradise Share *(HK$)*	0.1780	0.9660	0.9905
NAV per China Paradise Share on a fully diluted basis *(RMB)*	0.1799	0.9763	1.0010
NAV per China Paradise Share on a fully diluted basis *(HK$)*	0.1764	0.9571	0.9814

* *All figures in HK$ are calculated based on the exchange rate of RMB1.02 to HK$1.00. All the NAV per China Paradise Share are calculated based on the issued share capital of China Paradise as at the Latest Practicable Date of 2,334,917,067 China Paradise Shares or 2,356,629,785 China Paradise Shares on a fully diluted basis.*

The total net asset value of all the China Paradise Shares, based on the audited financial statements for the two financial years ended 31 December 2004 and 31 December 2005 and unaudited financial statements for the six months ended 30 June 2006, was approximately RMB424 million (HK$416 million), RMB2,301 million (HK$2,256 million) and RMB2,359 million (HK$2,313 million), respectively.

Based on the latest published audited financial statements of China Paradise, the audited consolidated profits before and after taxation and minority interests of China Paradise were approximately RMB350 million and RMB289 million, respectively for the financial year ended 31 December 2005. The audited consolidated profits before and after taxation and minority interests of China Paradise were approximately RMB257 million and RMB186 million, respectively for the financial year ended 31 December 2004. For the six months ended 30 June 2006, as set out in the unaudited consolidated financial statements of China Paradise dated 14 August 2006, the unaudited consolidated profits before and after taxation and minority interests of China Paradise, and the earnings per share of China Paradise were approximately RMB86 million, RMB15 million and RMB0.7 cents, respectively.

THE OFFEROR'S INTENTIONS REGARDING CHINA PARADISE

China Paradise Business

After the completion of the Offer, the Offeror intends to proceed with the continuation of China Paradise's business, and to adopt an appropriate new company name which will reflect its new status as a combination of the businesses of GOME and China Paradise. The Offeror intends to take measures, as is common in the ordinary course of business, to improve the financial and operational performance of the Enlarged Group. The Offeror expects to leverage the combined resources available, which may include redeployment of certain fixed assets, integration of procurement and supply chain management functions and coordinated marketing campaigns and promotional offers. Consistent with such goals, the Offeror will also look to enhance the performance of China Paradise's current network of stores as well as to seek to optimise the store footprint of the Enlarged Group. The Offeror intends the Enlarged Group to adopt a dual-brand strategy to capitalise on the strengths of both the GOME and China Paradise brands in the domestic market. The combined store network of GOME and China Paradise stores will position the Enlarged Group as a domestic market leader in the consumer electronics retail sector.

In addition, the Offeror believes the Offer will help transform the dynamics in the home appliances and consumer electronics retail industry in the long term by shifting focus away from severe price competition to more sustainable business strategies based upon superior service and strong brand value. The Enlarged Group not only intends to continue offering competitive pricing but also to provide an enhanced customer experience by dedicating resources to strengthen its in-store and after sales customer service functions. The Enlarged Group also intends to provide greater transparency on timing, demand and logistics to its suppliers through the integration of GOME and China Paradise's procurement and supply chain management functions, which will likely enhance the efficiency and profitability of the Enlarged Group's suppliers. As such, the Offeror is of the view that the proposed business combination through the Offer is supported by a compelling, long-term commercial rationale.

Compulsory Acquisition

In accordance with Rule 2.11 of the Takeovers Code, except with the consent of the Executive, where the Offeror seeks to acquire or privatise China Paradise by means of the Offer and the use of compulsory acquisition rights, such rights may only be exercised if, in addition to satisfying any requirements imposed by the Cayman Islands Company Law, the Offeror and parties acting in concert with it acquire not less than 90% of the Disinterested Shares within four months of the posting of the Offer Document.

The Offeror intends to exercise the right under Section 88 of the Cayman Islands Company Law and in accordance with Rule 2.11 of the Takeovers Code, if it acquires not less than 90% of the Disinterested Shares within four months of the posting of the Composite Document, to compulsorily acquire those China Paradise Shares not acquired by the Offeror pursuant to the Offer. On completion of the compulsory acquisition, it is intended that China Paradise will become a wholly-owned subsidiary of the Offeror and an application will be made for the withdrawal of the listing of the China Paradise Shares from the Stock Exchange pursuant to Rule 6.15 of the Hong Kong Listing Rules.

As each of Retail Management, MS Retail and CDH is not acting in concert with the Offeror, acceptances of the Offer by them under their respective irrevocable undertakings given to the Offeror will be taken into account when calculating the 90% of Disinterested Shares for the purpose of Rule 2.11 of the Takeovers Code.

Corporate Governance

After completion of the Offer, in the event that China Paradise is not privatised, GOME will give consideration to corporate governance issues relating to:

(i) the delineation of the businesses of GOME and China Paradise;

(ii) competition issues between GOME and China Paradise; and

(iii) the degree of managerial, operational and financial reliance of China Paradise on GOME.

Maintaining the Listing

Assuming the Offeror does not effect the compulsory acquisition set out above (whether by reason of not acquiring 90% of the Disinterested Shares or otherwise), the Offeror will, following the closing of the Offer, ensure that not less than 25% of the China Paradise Shares will be held by the public in compliance with the Hong Kong Listing Rules.

The Stock Exchange has stated that if, upon the close of the Offer, less than 25% of China Paradise Shares are held by the public, or if the Stock Exchange believes that:

- a false market exists or may exist in the trading of China Paradise Shares; or

- there are insufficient China Paradise Shares in public hands to maintain an orderly market, then it will consider exercising its discretion to suspend trading in China Paradise Shares until a level of sufficient public float is attained. In this connection, it should be noted that upon completion of the Offer, there may be insufficient public float for the China Paradise Shares and therefore, trading in the China Paradise Shares may be suspended until a prescribed level of public float is attained.

Management and Staff

After completion of the Offer, the Offeror intends to appoint two employees of China Paradise as executive directors of the Offeror and also intends to appoint Mr. Chen Xiao, the current Chairman of China Paradise, as its Chief Executive Officer. The Offeror also intends for the current China Paradise management to remain stable.

With regard to the continued employment of the employee workforce of the China Paradise Group, the Offeror intends for it to remain stable. The Offeror intends that the senior management team of China Paradise be utilised to an optimal capacity following completion of the Offer, to ensure a smooth transition and to realise synergies per the business plan of the combined business. The Offeror does not currently intend to change the composition of the board of directors of China Paradise after completion of the Offer.

FURTHER INFORMATION

Please refer to the letter from Goldman Sachs set out in the Composite Document and Appendix I to the Composite Document for information in relation to the Offer, the making of the Offer to China Paradise Shareholders residing in jurisdictions outside Hong Kong, taxation, acceptance and settlement procedures of the Offer.

RECOMMENDATION

Your attention is drawn to the letter from the China Paradise Independent Board Committee set out in the Composite Document, which contains its recommendation to the China Paradise Shareholders in respect of the Offer and the letter from the Independent Financial Adviser which contains its advice to the Independent Board Committee in respect of the fairness and reasonableness of the Offer, and the principal factors and reasons which it has considered before arriving at its advice to the China Paradise Independent Board Committee. You are also advised to read the Composite Document and the Form of Acceptance in respect of the acceptance and settlement procedures of the Offer.

Yours faithfully,
For and on behalf of the Board of
China Paradise Electronics Retail Limited
Chen Xiao
Chairman and executive director

永乐家电

CHINA PARADISE ELECTRONICS RETAIL LIMITED

中國永樂電器銷售有限公司*

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 503)

29 August 2006

To the Independent Shareholders
of China Paradise Electronics Retail Limited

Dear Sir or Madam,

VOLUNTARY CONDITIONAL OFFER BY GOLDMAN SACHS (ASIA) L.L.C. FOR AND ON BEHALF OF GOME ELECTRICAL APPLIANCES HOLDING LIMITED TO ACQUIRE ALL OF THE ISSUED SHARES IN THE CAPITAL OF CHINA PARADISE ELECTRONICS RETAIL LIMITED (not already owned by GOME Electrical Appliances Holding Limited and parties acting in concert with it)

As the Independent Board Committee, we have been appointed to advise you in connection with the Offer and to advise you as to whether, in our opinion, the terms of the Offer are fair and reasonable so far as the China Paradise Shareholders are concerned. Details of the Offer are set out in the "Letter from the Board of GOME" and the "Letter from Goldman Sachs" contained in the Composite Document, of which this letter forms part. Terms defined in the Composite Document shall have the same meanings when used herein unless the context otherwise requires. Somerley Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee in respect of the terms of the Offer. Details of its advice and the principal factors taken into consideration in arriving at its recommendations are set out in the "Letter from the Independent Financial Adviser" on pages 40 to 82 of the Composite Document.

Having considered the terms of the Offer, taking into account the information contained in the Composite Document, and the advice of Somerley Limited, we are of the opinion that the terms of the Offer are fair and reasonable so far as the China Paradise Shareholders are concerned. Accordingly, we recommend that you should accept the Offer.

Yours faithfully,
The Independent Board Committee

YU Zengbiao	**CHU Cheng Chung**	**WANG Bing**
Independent Non-executive Director	*Independent Non-executive Director*	*Independent Non-executive Director*

* *For the purpose of identification only*

The following is the text of the letter of advice from the Independent Financial Adviser prepared for the sole purpose of inclusion in the Composite Document:

SOMERLEY LIMITED
Suite 2201, 22nd Floor
Two International Finance Centre
8 Finance Street
Central
Hong Kong

29 August 2006

To: The Independent Board Committee of
China Paradise Electronics Retail Limited

Dear Sirs,

VOLUNTARY CONDITIONAL OFFER TO ACQUIRE ALL OF THE ISSUED SHARES IN THE CAPITAL OF CHINA PARADISE ELECTRONICS RETAIL LIMITED (NOT ALREADY OWNED BY GOME ELECTRICAL APPLIANCES HOLDING LIMITED AND PARTIES ACTING IN CONCERT WITH IT)

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee in respect of the terms of the Offer. Details of the Offer are contained in the Composite Document, of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Composite Document unless the context otherwise requires.

On 25 July 2006, China Paradise and GOME jointly announced the Offer. The consideration for the Offer is 0.3247 New GOME Share and HK$0.1736 in cash for each China Paradise Share. Irrevocable Undertakings have been received from the Committed Shareholders in respect of an aggregate of 734,576,861 China Paradise Shares, representing approximately 31.46% of the existing issued China Paradise Shares, to accept the Offer. The remaining 30% of the issued share capital of China Paradise (on a fully diluted basis assuming the Wang Management Incentive Option is exercised in full) held by Retail Management (being one of the Committed Shareholders) is currently subject to lock-up on disposal under Rule 10.07(1)(b) of the Hong Kong Listing Rules, which expires on 13 October 2006. Upon expiry of the lock-up period, Retail Management intends to accept the Offer in respect of the remaining 30% of the issued share capital of China Paradise (on a fully diluted basis assuming the Wang Management Incentive Option is exercised in full) held by it.

The board of China Paradise comprises of seven executive China Paradise Directors, one non-executive China Paradise Director and three independent non-executive China Paradise Directors. The Independent Board Committee, comprising all of the three independent non-executive China Paradise Directors, Dr. Yu Zengbiao, Mr. Chu Cheng Chung and Mr. Wang Bing, has been established to advise the Independent China Paradise Shareholders (i) as to whether or not the Offer is fair and reasonable; and (ii) as to whether or not to accept the Offer. Mr. Julian Juul Wolhardt, the non-executive China Paradise

Director, has been excluded from the Independent Board Committee for the reason of his interest in MS Retail (being one of the Committed Shareholders) and his involvement in negotiating the Offer. Somerley has been appointed as the Independent Financial Adviser to advise the Independent Board Committee in respect of the terms of the Offer.

Somerley is not associated or connected with China Paradise, GOME, their respective substantial shareholders or any party acting, or presumed to be acting, in concert with any of them and, accordingly, is considered eligible to give independent advice on the Offer. Apart from normal professional fees payable to us in connection with this appointment and similar engagements, no arrangement exists whereby we will receive any fees or benefits from China Paradise, GOME, their respective substantial shareholders or any party acting, or presumed to be acting, in concert with any of them.

In formulating our advice and recommendation, we have relied on the information and facts supplied, and the opinions expressed, by the China Paradise Directors, the GOME Directors and the management of the China Paradise Group and the GOME Group, which we have assumed to be true, accurate and complete as at the date of this letter. We have reviewed the published information on China Paradise and GOME, including the prospectus of the global offering of China Paradise Shares dated 4 October 2005 and the annual report of China Paradise for the financial year ended 31 December 2005, its unaudited interim report for the six months ended 30 June 2006, the annual reports of GOME for the nine months ended 31 December 2004 and the financial year ended 31 December 2005, its unaudited interim reports for the six months ended 30 June 2005 and 2006 and the circulars of GOME dated 5 July 2004 and 13 April 2006. We have discussed with the boards of China Paradise Directors and GOME Directors regarding the past performance and future prospects of the China Paradise Group and the GOME Group respectively. We have also reviewed the trading performance of the China Paradise Shares and the GOME Shares on the Stock Exchange, valuation of comparable companies and comparable transactions, and have considered the future intentions of the GOME Group regarding the China Paradise Group.

We have sought and received confirmation from the China Paradise Directors that no material facts have been omitted from the information supplied and opinions expressed. We consider that the information which we have received is sufficient for us to reach our advice and recommendation as set out in this letter and to justify our reliance on such information. We have no reason to doubt the truth and accuracy of the information provided to us or that any material facts have been omitted or withheld. We have also assumed that all representations contained or referred to in the Composite Document were true at the date of the Composite Document and will continue to be true up to the close of the Offer. We have, however, not conducted any independent investigation into the businesses and affairs of the China Paradise Group and the GOME Group, nor have we carried out any independent verification of the information supplied.

We have not considered the tax implications on the Independent China Paradise Shareholders of accepting the Offer since these depend on their individual circumstances. In particular, the Independent China Paradise Shareholders who are overseas residents or subject to overseas taxes or Hong Kong taxation on securities dealings should consider their own tax position and, if in any doubt, should consult their own professional advisers.

TERMS OF THE OFFER

The terms set out below are summarised from the "Letter from Goldman Sachs" in the Composite Document. China Paradise Shareholders are encouraged to read the Composite Document and the accompanied Form of Acceptance in full.

The Offer is being made for all the China Paradise Shares not already owned or agreed to be acquired by the Offeror and parties acting in concert with it on the following basis:

For each China Paradise Share . . . . 0.3247 New GOME Share and HK$0.1736 in cash

By accepting the Offer, the Accepting Shareholders will sell their China Paradise Shares and all rights attached to them, including the rights to receive all dividends and distributions declared, made or paid on or after the date of the Joint Announcement.

In accepting the Offer, any resulting fractions of a New GOME Share will be disregarded and such fractions of a New GOME Share will not be issued. Any resulting fractions of a Hong Kong cent will also be disregarded and any cash amount payable will be rounded down to the nearest Hong Kong cent. In addition, GOME Shares are traded in board lots of 1,000 shares and no arrangements are intended to be made for the trading of odd lots of GOME Shares resulting from the acceptance of the Offer.

On the basis of the aggregate consideration of HK$2.2354 per China Paradise Share under the Offer (comprising the value of 0.3247 GOME Share based on the closing price of GOME Shares of HK$6.35 each as quoted on the Stock Exchange on the Last Trading Day, and the cash consideration of HK$0.1736 per China Paradise Share), the entire issued share capital of 2,356,629,785 China Paradise Shares (on a fully diluted basis assuming that the Wang Management Incentive Option is exercised in full) is valued at approximately HK$5,268.0 million.

The Offer is conditional upon, among other things, valid acceptances having been received at or before 4:00 p.m. on the First Closing Date (or such other time as GOME may, subject to the Takeovers Code, decide) in respect of at least 90% of the Disinterested Shares. The Offeror, however, reserves the right to waive such condition 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. For the other conditions to the Offer, please refer to the sub-section headed "Offer Conditions" in the "Letter from Goldman Sachs" in the Composite Document. If the Offer Conditions are not satisfied (or, if applicable, waived) on or before the First Closing Date, the Offer will lapse unless extended by the Offeror. The latest date on which the Offeror can declare the Offer unconditional as to all Offer Conditions is the Long Stop Date.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our recommendation with regard to the Offer, we have taken into account the following principal factors and reasons:

1. Reasons for the Offer and the future intentions of the Offeror

The Offeror believes there are compelling commercial reasons for a combination of the GOME Group and the China Paradise Group as summarised below:

(i) *Enhanced size:* The Enlarged Group will become the clear leader in its market with strongholds in key regions including both Beijing and Shanghai. Post-merger, the combined store network of GOME and China Paradise will be 563 stores based on the number of stores as at 30 June 2006. In addition, the Enlarged Group will continue to manage 220 stores owned by the Parent Group.

(ii) *Strengthened strategic position:* The Enlarged Group will be well positioned for future growth and continued industry consolidation.

(iii) *Operational cost savings:* Increased purchasing power and the integration of procurement and supply chain management functions are expected to enhance operating costs efficiency for the Enlarged Group.

The Offeror expects all of the above benefits to significantly strengthen the Enlarged Group, and strategically position the business to become the long-term market leader in China.

After the completion of the Offer, the Offeror intends to proceed with the continuation of China Paradise's business, and to adopt an appropriate new company name which will reflect its new status as a combination of the businesses of GOME and China Paradise. The Offeror intends to take measures, as is common in the ordinary course of business, to improve the financial and operational performance of the Enlarged Group. The Offeror expects to leverage the combined resources available, which may include redeployment of certain fixed assets, integration of procurement and supply chain management functions and coordinated marketing campaigns and promotional offers. Consistent with such goals, the Offeror will also look to enhance the performance of China Paradise's current network of stores as well as to seek to optimise the store footprint of the Enlarged Group. The Offeror intends the Enlarged Group to adopt a dual-brand strategy to capitalise on the strengths of both the GOME and China Paradise brands in the domestic market. The combined store network of GOME and China Paradise stores will position the Enlarged Group as a domestic market leader in the consumer electronics retail sector.

The Offeror considered that the merger of the GOME Group and the China Paradise Group will transform the dynamics in the home appliances and consumer electronics retail industry in the long term by shifting focus away from severe price competition to more sustainable business strategies based upon superior service and strong brand value. The Enlarged Group not only intends to continue offering competitive pricing but also to provide an enhanced customer experience by dedicating resources to strengthen its in-store and after sales customer service functions. The Enlarged Group also intends to provide greater transparency on timing, demand and logistics to its suppliers through the integration of GOME and China Paradise's procurement and supply chain management functions, which will likely enhance the efficiency and profitability of the Enlarged Group's suppliers.

After the completion of the Offer, the Offeror intends to appoint two employees of China Paradise as executive directors of the Offeror and also intends to appoint Mr. Chen Xiao, the current Chairman of China Paradise, as its Chief Executive Officer, and also intends for the current China Paradise's management to remain stable. With regard to the continued employment of the employee workforce of the China Paradise Group, the Offeror intends for it to remain stable. The Offeror intends that the senior management team of China Paradise be utilised to an optimal capacity following the completion of the Offer, to ensure a smooth transition and to realise synergies per the business plan of the combined business. The Offeror does not currently intend to change the composition of the board of China Paradise Directors after the completion of the Offer.

As stated in the "Letter from the board of GOME" in the Composite Document, it is the intention of the Offeror to exercise the right under Section 88 of the Cayman Islands Companies Law and pursuant to Rule 2.11 of the Takeovers Code, if it acquires not less than 90% of the Disinterested Shares within four months of the posting of the Composite Document, to compulsorily acquire those China Paradise Shares not acquired by the Offeror pursuant to the Offer. On completion of the compulsory acquisition, it is intended that China Paradise will become a wholly-owned subsidiary of the Offeror and an application will be made for the withdrawal of the listing of the China Paradise Shares from the Stock Exchange pursuant to Rule 6.15 of the Hong Kong Listing Rules. In the event that the China Paradise Group is privatised, the Enlarged Group will benefit from savings in compliance and administrative costs relating to the maintenance of the listing status of China Paradise.

After the completion of the Offer, in the event that China Paradise is not privatised, GOME will give consideration to the corporate governance issues relating to:

(i) the delineation of the businesses of GOME and China Paradise;

(ii) competition issues between GOME and China Paradise; and

(iii) the degree of managerial, operational and financial reliance of China Paradise on GOME.

2. Information on the China Paradise Group

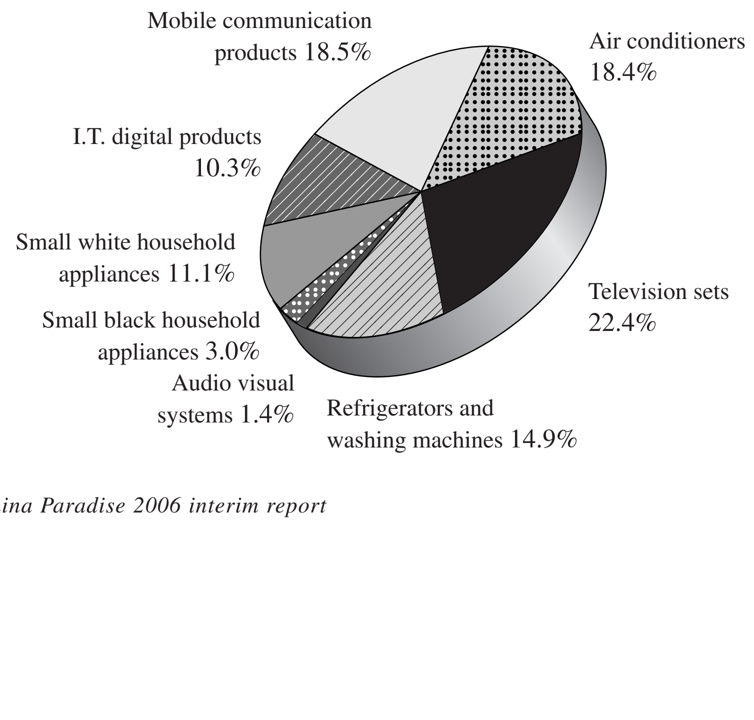
The China Paradise Group is a leading specialty retailer of household appliances and consumer electronics products and related services in China. The China Paradise Group initially commenced its business in September 1996 and has grown to become one of the top three household appliances retail chain operators in China in 2005 with a market leading position in Shanghai in 2002, 2003 and 2004 in terms of sales. China Paradise became listed on the Stock Exchange on 14 October

2005 after a global offering of the China Paradise Shares. The China Paradise Group's revenue is generated from sale of household appliances and consumer electronics products, telephone service charges relating to shared promotion scheme of mobile communication businesses, sponsorship income provided from suppliers including promotion fees and display fees, and air-conditioner installation, repair and maintenance fees.

(i) Products and stores

The China Paradise Group offers an extensive selection of merchandise to their customers including air conditioners, televisions, mobile communications products, refrigerators and washing machines, small white appliances, small black appliances, I.T. digital products and audio-video systems. As at 30 June 2006, the China Paradise Group operates an aggregate of 225 stores throughout 75 cities in China comprising 206 standardized stores, 6 mega stores and 13 digital shops. Standardised stores offer a range of household appliances and consumer electronics products with a typical store area of approximately 2,000 sq.m. to 5,000 sq.m. in floor area. Mega stores are large retail outlets with a floor area of 5,000 sq.m. to 12,000 sq.m. designed to provide a comprehensive shopping experience. Digital shops are small specialty stores that sell mobile handsets and accessories, computers and digital products with a floor area of between 300 sq.m. to 500 sq.m.

Set out below is a chart illustrating the revenue for the first half of 2006 attributable to different product categories:



Source: China Paradise 2006 interim report

(ii) Geographical network

The China Paradise Group has a focused geographic retail network concentrating on regions with high income levels. In deciding to expand to a particular city, the China Paradise Group sets a minimal entry threshold, requiring a local market size of household appliances and consumer electronics products of no less than RMB250 million, gross domestic products per capita of over RMB10,000, and a population exceeding 3 million. The China Paradise Group's store network is clustered in several higher-income provinces covering the eastern coastal regions of Shanghai, Jiangsu, Zhejiang and Anhui; Southern China of Fujian and Guangdong; Central China of Sichuan, Henan and Shaanxi; and Northern China of Beijing and Tianjin.

Of all these locations, the total number of stores in the eastern coastal regions as at 30 June 2006 was 122 which represented over half of the total number of stores of the China Paradise Group of 225 as at the same date. In Shanghai, Zhejiang and Henan, the China Paradise Group has a strong presence of 62, 23 and 22 stores in the respective locations.

(iii) Expansion strategy

The China Paradise Group has a defined expansion strategy where for new regions without a leading incumbent retailer, the China Paradise Group will pursue an organic growth strategy where the China Paradise Group will set up and launch its own new stores and build its own logistics infrastructure. On the other hand, where there is a dominant local operator, the China Paradise Group will strive to enter the market through acquisitions or strategic alliances.

During 2005, the China Paradise Group acquired (a) the remaining 50% equity interest not already owned by the China Paradise Group in Sichuan Yongle Electronics Retail Co., Ltd. for RMB16.5 million; (b) the entire equity interest in Xiamen Yongle Siwen Electronics Retail Co., Ltd. for RMB5.5 million; (c) the operating assets of Henan Tongli Retail Co., Ltd. for a consideration of RMB64.1 million; and (d) inventory and fixed assets of certain subsidiaries of Tsann Kuen (China) Enterprise Co., Ltd. for a consideration of RMB143.8 million. Such acquisitions were made by the China Paradise Group pursuant to the aforementioned acquisition strategy where the target entities acquired represent leading local operators in the relevant regions.

During the first half of 2006, the China Paradise Group expanded its coverage principally through organic growth with the total sales area increased by approximately 27.0% to 705,569 sq.m. during the period.

(iv) Challenges faced by the China Paradise Group

The retail market for household appliances in China is large and is expanding rapidly. The market can be broadly segregated into the major affluent cities including Beijing, Shanghai, Guangzhou and Shenzhen, the provincial capital cities, and the less affluent, smaller and distant cities and regions. While competition in major cities is keen and increasingly dominated by large retail groups, smaller and more distant regions are principally served by smaller retailers as such markets are yet to be commercially worthwhile for large scale specialty retailers like GOME and China Paradise to operate in. As a whole, China's electrical appliances retail market remains fragmented. As discussed with the management of the China Paradise Group, the combined turnover of the Enlarged Group (being the largest retail group in the sector) represents around 10% of the market size of China. Market competition in major cities is, however, increasingly intensive and challenges faced by the China Paradise Group include (a) continuing pricing pressure as a result of keen competition among suppliers and lack of differentiated products; (b) suppliers having limited margin leaving retailers not much room for margin increment; (c) foreign players joining China's market; (d) significant store openings by the top five consumer electronics retailers leading to a decrease in sales per sq.m. and same-store sales growth; (e) rapid economic development in regions pushing up rental costs; (f) the continuing increase in the number of retail stores entailing the increase in store sales staff employed, and hence staff costs; (g) intensifying market competition prolonging return on investment in stores located in new markets; and (h) large international food retailers adding selling spaces for white electrical goods.

Given the recent trend in the electrical appliances retail market, we consider that the future prospects and outlook for retailers will continue to be tough where the various factors mentioned above will exert pressure on revenue growth, operating costs and therefore profit margins. With China's entry into the World Trade Organisation, foreign retailers are now allowed to enter China's retail market. In recent months, we have seen the first major entrance by an international retailer into China's electrical appliances retail market through the acquisition of Jiangsu Five Star Appliance Co. Ltd. by Best Buy Co., Inc. Such entrances will only add to the intensiveness of the competitive environment in the industry. The resulting operating environment is likely to trigger increasing industry consolidation with the formation of larger retail groups which can leverage economies of scale.

(v) Historical financial performance of the China Paradise Group

Set out below are the audited consolidated results of the China Paradise Group for the last four financial years and its unaudited consolidated results for the six months ended 30 June 2006 with the comparative audited figures of the corresponding period in 2005:

	Six months ended 30 June		**Year ended 31 December**			
	2006	**2005**	**2005**	**2004**	**2003**	**2002**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Unaudited)	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)
Revenue	7,722,807	5,699,884	12,246,168	8,266,956	4,944,770	2,390,883
Gross profit	576,675	396,521	914,405	582,848	306,555	96,274
Profit before tax	85,805	172,464	349,936	257,243	174,969	34,379
Income tax	(70,288)	(16,563)	(28,596)	(44,915)	(27,466)	(6,201)
Profit for the year/period	15,517	155,901	321,340	212,328	147,503	28,178
Attributable to:						
Equity holders of China Paradise	15,018	140,570	289,474	185,650	127,418	23,437
Minority interests	499	15,331	31,866	26,678	20,085	4,741
Profit for the year/period	15,517	155,901	321,340	212,328	147,503	28,178
Gross profit margin	7.5%	7.0%	7.5%	7.1%	6.2%	4.0%
Net profit margin (before minority interests)	0.2%	2.7%	2.6%	2.6%	3.0%	1.2%
Number of stores	225	121	193	92	25	14

Note: We have considered the effect of changes in accounting standards on the financial information for different periods under review and that such changes do not have material effect on our financial analysis.

Year ended 31 December 2003 compared to year ended 31 December 2002

Revenue for 2003 was RMB4,944.8 million representing an increase of 106.8% from RMB2,390.9 million for 2002. Such increase was mainly due to (a) the increase in the purchasing power of consumers in the relevant markets; (b) the successful marketing and promotional activities; and (c) the addition of 11 stores in other markets including Jiangsu, Zhejiang, Guangdong and Fujian.

In line with the growth in revenue, gross profit increased by 218.4% to RMB306.6 million for 2003 from RMB96.3 million for 2002, and the gross profit margin increased to 6.2% for 2003 from 4.0% for 2002. The improvement in gross profit margin was due to economies of scale that the China Paradise Group achieved through the expansion of its operations.

Selling and distribution costs consist primarily of advertising expenses, marketing and promotional expenses, warehousing expenses, rental of stores, staff costs for sales staff, depreciation of stores, leasehold improvements and vehicles used in sales, and utilities. The increase in selling and distribution costs of 181.0% for 2003 (of RMB175.6 million, representing 3.6% of revenue) as compared to that for 2002 (of RMB62.5 million, representing 2.6% of revenue) was principally in line with the growth in revenue (which increased by 106.8%) and sponsorship income from suppliers (which increased by 217.1%), taking into account that the China Paradise Group first expanded outside Shanghai into Jiangsu, Zhejiang, Guangdong and Fujian.

Year ended 31 December 2004 compared to year ended 31 December 2003

Revenue for 2004 was RMB8,267.0 million representing an increase of 67.2% from RMB4,944.8 million for 2003. Such increase primarily resulted from the expansion of retail sales network through both organic growth and acquisitions. In 2004, the China Paradise Group added 67 new stores in total to its network, 10 of which were through acquisitions while the rest were through organic growth. In terms of product lines, the China Paradise Group enjoyed substantial growth in sales in most of its product lines.

In line with the growth in revenue, gross profit increased by 90.1% to RMB582.8 million for 2004 from RMB306.6 million for 2003, and the gross profit margin increased to 7.1% for 2004 from 6.2% for 2003. The China Paradise Group enjoyed an improvement in gross profit margin for almost all of its products, which was mainly attributable to a higher level of economies of scale that it achieved through the increased size of its operations and more centralised purchasing.

Year ended 31 December 2005 compared to year ended 31 December 2004

Revenue for 2005 was RMB12,246.2 million representing an increase of 48.1% from RMB8,267.0 million for 2004. Such increase primarily resulted from the continuance of expansion of the China Paradise Group. In 2005, the China Paradise Group added 101 new stores in total to its network with 48 in Shanghai, Jiangsu and Fujian, 20 in Henan, 12 in Guangdong, 3 in Beijing, 3 in Tianjin and rest in various parts of China.

Gross profit increased by 56.9% to RMB914.4 million for 2005 from RMB582.8 million for 2004, and the gross profit margin increased to 7.5% for 2005 from 7.1% for 2004. While the gross profit margin increased, the slowdown of such increase was mainly due to the intensified market competition and the increase in the percentage of sales discount to the sales value as a result of increased promotional sales.

Six months ended 30 June 2006 compared to six months ended 30 June 2005

Revenue for the first half of 2006 was RMB7,722.8 million representing an increase of 35.5% from RMB5,699.9 million for the corresponding period of 2005. Such increase primarily resulted from the continuance of proactive expansion of the China Paradise Group. In the first half of 2006, the China Paradise Group added 49 new stores in total to its network and closed down 17 non-performing stores. Such stores were closed down due to unsatisfactory performance in terms of turnover and profitability.

The China Paradise Group faced keen competition from existing players in newly entered markets, where the China Paradise Group was still in a preliminary stage of investment. For the six months ended 30 June 2006, the China Paradise Group's approximate weighted average revenue per sq.m. of retail space per annum was RMB22,512, representing a decrease of 13.1% over the same period in the previous year. As a result of the fierce competition, where competitors sped up new store opening and diverted sales from existing stores of the China Paradise Group, same store sales of the China Paradise Group were down by 9.5% as compared to the same period in the previous year. The pressures on new stores and existing stores resulted in a level of revenue which is significantly below the management's expectations.

Gross profit increased by 45.4% to RMB576.7 million for the first half of 2006 from RMB396.5 million for the corresponding period of 2005, and the gross profit margin increased to 7.5% from 7.0% for the first half of 2005. The gross profit expansion was attributable to increased return from suppliers rebate resulting from sales growth.

For the first half of 2006, net profit decreased from RMB155.9 million to RMB15.5 million compared to the corresponding period of 2005, and the net profit margin significantly decreased to 0.2% from 2.7% for the first half of 2005. Such decline is mainly due to (a) the level of revenue achieved being significantly lower for both the existing stores and newly established stores compared to the management's expectations; (b) intensifying market competition from industry players' price cuts which, taking into account increased rebate from suppliers, still prevented the China Paradise Group from achieving a significant improvement in gross margin; (c) increase in rental costs where leading large scale retailers competed to secure strategically advantageous new retail space; (d) increase in staff costs where more sales staff were employed to pursue the same level of revenue; and (e) increase in taxation expense (by RMB53.7 million or 324.4%) which was the result of, among others, the expiry of tax holiday for certain subsidiaries. Rental expenses for retail stores as a percentage of revenue increased from 2.0% in the six months ended 30 June 2005 (of RMB114.0 million) to 3.6% in the same period in 2006 (of RMB278.0 million). Selling and distribution staff costs amounted to RMB177.6 million, representing 2.3% of revenue in 30 June 2006 compared to RMB68.4 million, or 1.2% of revenue in 2005. Whilst the China Paradise Group recorded increases in turnover and total return from suppliers, the increases were not sufficient to offset the significant surge in operating costs. As a result, while the management have aggressively expanded its store outlets and employed new staff to cater for the growing store network, the revenue from new stores were not sufficient to cover such costs. In addition, business for new stores, including 4 stores in Beijing, 1 store in Tianjin, 1 store in Sichuan, 2 stores in Henan, 5 stores in Shaanxi, 5 stores in Fujian, 3 stores in Guangdong, 1 store in Anhui, 1 store in Zhejiang, and 9 stores in Shanghai was still in a preliminary investment stage and had yet to contribute profits. Given the additional rental and staff costs incurred for the new stores and the ratio of operating costs as a percentage of revenue of 9.3% achieved for the six months ended 30 June 2005, in order for the China Paradise Group to achieve the same level of profitability, it would have needed to achieve total revenue of approximately RMB10.8 billion, compared to the actual revenue of RMB7.7 billion achieved for the six months ended 30 June 2006.

Operating costs for the China Paradise Group increased as a percentage of revenue from 9.3% for the six months ended 30 June 2005 (of RMB529.8 million) to 13.0% for the six months ended 30 June 2006 (of RMB1,006.5 million). Of which, selling and distribution costs increased by 91.4% as a whole, which increased as a percentage of revenue from 7.4% for the six months ended 30 June 2005 to 10.4% for the six months ended 30 June 2006. The increase in the ratio of operating costs as a percentage of revenue mainly attributable to a lower than expected level of revenue and a higher level of rental and staff costs, which was the result of increasing demand from competitors seeking prime store locations for stores which pushed up store rents and intensifying competition. As at 30 June 2006, 9 out of 225 retail stores of the China Paradise Group were self owned properties.

In May 2006, the China Paradise Group entered into agreements with its key management with respect to the disposal of the equity interests in seven subsidiaries engaging in non-core businesses, including sales of lightings, home furnishings, building materials, etc. (the "Disposal"). Such subsidiaries were predominantly loss making for the year ended 31 December 2005. The aggregate consideration for the Disposal (including an assignment of debts to the Key Management) amounted to RMB70.3 million. During the six months ended 30 June 2006, a one-off non-recurring gain of RMB41.6 million from the Disposal was recorded.

Generally, the China Paradise Group experienced a period of enormous growth between 2002 and 2005 in terms of both turnover and net profits. Such growth was the result of a combination of mergers and acquisitions and organic growth by aggressively opening new stores and expanding into new markets. As the store network continued to grow, the China Paradise Group increasingly enjoyed economies of scale. However, towards the end of 2005 and even more apparent in the first half of 2006, despite the continued drive for growth, intensifying competition from leading electrical appliances retailers (in terms of over-crowding of stores opened by different operators) has significantly diluted sales growth and imposed pressures on operating costs, especially in rentals of stores and staff costs. For example, in Shanghai alone, the Parent Group opened 9 stores. At the same time, newly established stores have not performed as expected. The result was a significantly lower level of revenue recorded compared to the management's expectations and a drastic decrease in profitability for the China Paradise Group. While the management have taken cost control measures including closing down under-performing stores, competition remains fierce and it is uncertain whether the China Paradise Group will return to the same level of past profitability in the near future.

(vi) Financial position of the China Paradise Group

Set out below is the unaudited consolidated financial position of the China Paradise Group as at 30 June 2006 and the comparative audited figures as at 31 December 2005:

	30 June 2006 *RMB'000* (Unaudited)	**31 December 2005** *RMB'000* (Audited)
Non-current assets		
Property, plant and equipment	844,220	787,346
Intangible assets	9,795	9,057
Goodwill	16,997	32,699
Long term land deposits	–	48,100
Deferred expenditure	77,465	86,459
Deferred tax assets	22,738	40,899
Total non-current assets	971,215	1,004,560
Current assets		
Inventories	1,424,688	1,649,268
Trade receivables	86,112	73,855
Bills receivable	29,910	3,530
Prepayments, deposits and other receivables	2,129,145	1,664,482
Pledged deposits	1,835,124	1,779,594
Cash and cash equivalents	1,789,463	1,541,407
Total current assets	7,294,442	6,712,136
Current liabilities		
Trade payables	1,472,937	1,161,772
Bills payable	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	230,000	340,000
Total current liabilities	5,863,214	5,370,030
Net current assets	1,431,228	1,342,106
Total assets less current liabilities	2,402,443	2,346,666
Non-current liabilities		
Deferred income	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

Property, plant and equipment

As at 30 June 2006, 10.2% of the total assets of the China Paradise Group related to property, plant and equipment. The property interests of the China Paradise Group include office buildings, stores and warehouses located in Shanghai, a parcel of land which is being constructed into an automated logistics centre in Shanghai, and nine retail properties which are self-occupied.

Intangible assets and goodwill

The China Paradise Group maintains a computerised information system which integrates the functions of merchandising, stock replenishment, procurement and distribution, sales and financial management. Intangible assets represent the purchase costs of computer software used by the China Paradise Group for its management information system.

Goodwill is recognised as a result of acquisition of subsidiaries, which is not amortised but is subject to impairment test on an annual basis.

Inventories

Inventories represented 17.2% of the total assets of the China Paradise Group as at 30 June 2006. Approximately 90 to 95% of the China Paradise Group's goods purchased are returnable to suppliers. Items of inventories that are not returnable to suppliers represent mainly products under the China Paradise Group's own brand name and certain popular brands and models of mobile handsets. The China Paradise Group adopts a policy to make a general provision for inventories aged over 180 days. The China Paradise Group also makes a specific provision for inventories which are not returnable to suppliers. Turnover of inventory for the six months ended 30 June 2006 was 38.7 days, representing an increase of 7.4 days compared to the six months ended 30 June 2005. The increase was mainly because the China Paradise Group stocked up to mitigate the impact of raw materials costs increase on the price of certain popular and recent models of air-conditioners, and stocked up for an enlarged store network.

Trade and bills receivables

Most of the China Paradise Group's sales are paid at the time of purchase by cash, credit cards or debit cards. Trade and bills receivables mainly relate to certain bulk sales of merchandise. The receivables turnover for the first half of 2006 was 2.7 days, which increased from 0.7 day for the same period in the previous year, indicating that most sales continued to be conducted in cash.

Prepayments, deposits and other receivables

As at 30 June 2006, the aggregate amount of RMB2.1 billion comprised RMB948.6 million of prepayments to suppliers, RMB608.0 million of rebate and sponsorship income receivable and RMB572.6 million of other deposits and receivables, representing approximately 44.6%, 28.6% and 26.8% of this balance, as compared to RMB744.0 million of prepayments to suppliers, RMB573.7 million of rebate and sponsorship income receivable and RMB346.8 million of other deposits and receivables as at 31 December 2005. Increase in prepayments to suppliers is generally in line with the increase in the scale of business of the China Paradise Group.

Cash and bank balances

As at 30 June 2006, the China Paradise Group held RMB3,624.6 million cash and bank balances including pledged deposits, representing approximately 43.9% of the total assets and 153.6% of the net assets of the China Paradise Group.

Bank loans

As at 30 June 2006, the China Paradise Group had RMB230.0 million outstanding bank loans which were repayable within one year, representing approximately 3.9% of the total liabilities and 9.8% of the net assets of the China Paradise Group.

Trade payables and bills payable

Trade payables and bills payable mainly relate to purchases of merchandise. Increase in the balances is generally in line with the increase in the scale of business of the China Paradise Group. The payables turnover for the first half of 2006 was 127.4 days, which is 5.7 days more than that for the same period of 2005. Such increase was due to the management's decision to increase the proportion of bills of exchange used, where the repayable period for bills payable was longer than trade payables and interest can be earned on the related pledged deposits.

Cashflow position

For the six months ended 30 June 2006, the China Paradise Group generated RMB401.7 million in cashflow from operating activities, representing a drop of 25.8% compared to the RMB541.6 million in the same period for 2005. The amount of cashflow generated from operations remained strong, at the same time, the China Paradise Group had cash and cash equivalents of approximately RMB1.8 billion with minimal bank borrowings. Accordingly, we consider that the cashflow position of the China Paradise Group remained strong.

On an overall basis, the financial position of the China Paradise Group continued to be strong with cash and cash equivalents of RMB1.8 billion and a net cash position of RMB1.6 billion. The China Paradise Group had bank loans of only RMB230.0 million as at 30 June 2006. The large discrepancy between the turnover of receivables of 2.7 days and the turnover of payables of 127.4 days enabled efficient cashflow management of the China Paradise Group. Despite the negative trend in the financial results, the financial position of the China Paradise Group remained strong.

(vii) Dispute relating to Dazhong

On 19 April 2006, the China Paradise Group entered into an agreement ("Dazhong Agreement") with Beijing Dazhong Electrical Appliances Co., Ltd. ("Beijing Dazhong") and Mr. Zhang Dazhong, the controlling shareholder of Beijing Dazhong, to agree to form a strategic alliance with Beijing Dazhong to cooperate in the areas of joint procurement, logistics and delivery, products display, store development, store management, financial management, information system and personnel exchange. Beijing Dazhong is a leading specialty retailer of household appliances and consumer electronics products and related services in Beijing, Tianjin and other major cities in China. A deposit ("Deposit") has been paid by China Paradise to Beijing Dazhong in the amount of RMB150.0 million.

Subsequent to the release of the Joint Announcement, certain press articles were published to contain statements referring to Beijing Dazhong alleging that China Paradise has breached the Dazhong Agreement. In response to such articles, China Paradise issued a clarification announcement on 17 August 2006 ("Clarification Announcement"). As stated in the Clarification Announcement, on 7 August 2006, China Paradise received a request from Beijing Dazhong for a proposal ("Proposal") to terminate the Dazhong Agreement and has not been informed by Beijing Dazhong of its intention to forfeit the Deposit or to claim damages against China Paradise. Based on legal advice from China Paradise's PRC lawyers, the Dazhong Agreement remains in full force and effect and Beijing Dazhong has no right to unilaterally terminate the Dazhong Agreement and to forfeit the Deposit. China Paradise has been advised that it has the legal right to claim back the Deposit.

No formal response to the Proposal has yet been given to Beijing Dazhong and no decision has yet been made by the China Paradise Directors as to China Paradise's future relationship with Beijing Dazhong. China Paradise is seeking further advice from its legal advisers and is considering its options and proposed course of action including whether to commence legal action against Beijing Dazhong to enforce the Dazhong Agreement or to initiate claim for damages and refund of the Deposit.

As regards Beijing Dazhong, we have discussed the latest progress with the management of China Paradise, who advised that the information contained in the Clarification Announcement represented the latest status from the perspective of China Paradise.

In the current situation, it is not possible for us to obtain detailed information regarding future plans regarding China Paradise's strategic alliance with Beijing Dazhong nor are we able to obtain detailed financial information on Beijing Dazhong. Accordingly, we are not in a position to analyse the effect of such transaction on the Enlarged Group.

(viii) Prospects of the China Paradise Group

In the midst of intensifying competition in the electrical appliances retail industry, the financial performance of the China Paradise Group has deteriorated significantly. Performance in the traditional stronghold of Shanghai and Zhejiang Province is under pressure as the China Paradise Group is competing head-to-head against newcomers including the Parent Group, resulting in severe price competition and dilution in store sales. At the same time, sales achieved in newly established stores in the smaller and less affluent cities in China are slower than expected. The management considered that the short term measures were to control costs in a stringent manner while continuing to cautiously expand its store network. In the longer term, the management believe that the best way to resolve the issue of competition and to substantially improve results is to merge with other industry players. We concur with the management's view and consider that during a period of intensifying competition in an emerging market like China, merging with a strong partner will improve the competitive position of the China Paradise Group.

Since the performance of the China Paradise Group has been under competitive pressure and the operating environment continues to be extremely competitive, we consider that it is not certain whether the performance of the existing operations of the China Paradise Group can recover to the previous levels in the near future. As a result, the prospects of the China Paradise Group in the longer term remain uncertain.

3. Information on the GOME Group

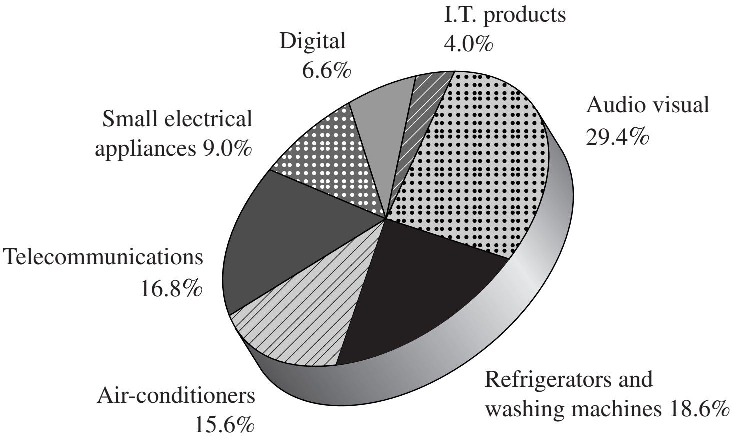
GOME through its subsidiaries is principally engaged in the retail of electrical appliances and consumer electronics products in China and operates retail outlets under the brand name "GOME", which is the largest electrical appliance and consumer electronics retailer in China in revenue terms for 2005. Prior to 2004, the Offeror was engaged in property investment in China, general trading and investment in a property development company in China, securities brokerage and trading in securities, futures and foreign exchanges. In July 2004, GOME went through a corporate transformation following the acquisition of a 65% equity interest in Gome Appliance Co., Ltd. ("Gome Appliance"). In May 2006, GOME completed the acquisition of the remaining 35% equity interest in Gome Appliance from Gome Holdings Limited, which is ultimately and wholly owned by Mr. Wong Kwong Yu, the Chairman of GOME ("Mr. Wong").

While the GOME Group operates one of the largest chain of retail stores, the Parent Group also operates an aggregate of 220 stores as at 30 June 2006. The operations and financial statements of the Parent Group are segregated from that of the GOME Group and the GOME Group does not share the profits of the Parent Group. Stores under the Parent Group are managed by the GOME Group pursuant to a management agreement whereby a management fee is charged by the GOME Group to the Parent Group in consideration for the management services provided. The annual management fee is calculated at the rate of either 0.6% or 0.75% of the total revenue of the Parent Group generated from the sales of electrical appliances and consumer electronic products (excluding value added tax). Mr. Wong has undertaken to GOME that, for so long as Mr. Wong remains a controlling shareholder of GOME, he will not and will procure that the Parent Group will not, directly or indirectly, engage in retail sales of electrical appliances and/or consumer electronic products in any location which the GOME Group has established any retail outlet. GOME has also undertaken to Mr. Wong that it will be subject to a similar restriction. GOME has been granted by the Parent Group a right of first refusal to consider expansion to a new location or a new investment opportunity. The Parent Group does not operate in any location in competition with the GOME Group.

(i) Products

The GOME Group offers an extensive selection of merchandise to their customers including air conditioners, telecommunication products, refrigerators and washing machines, small electrical appliances, computers, digital products and audio visual products. Revenue comprises sales, rebate, management fee and subsidy, etc.

Set out below is a chart illustrating the revenue for the first half of 2006 attributable to different product categories:



Source: GOME 2006 interim report

(ii) Geographical network

As at 30 June 2006, the GOME Group operated a network of 338 stores in 96 cities comprising 334 traditional stores, 1 mega store and 3 digital stores. The GOME Group's network covers Beijing, Tianjin, Chongqing, Guangdong, Liaoning, Sichuan, Shandong, Shaanxi, Fujian, Yunnan, Hubei, Jiangsu, Anhui, Hebei and Gansu. Of all these locations, GOME has 87 stores in Guangdong and 42 stores in Beijing while the China Paradise Group has only 22 and 7 stores in the respective locations. In Chongqing, Gansu, Hebei, Hubei, Liaoning, Shandong and Yunnan, the GOME Group has 19, 3, 5, 19, 17, 25 and 12 stores in the respective locations where the China Paradise Group has no presence at all except for Shandong province.

(iii) Expansion plan

In 2006, the GOME Group will continue its expansion in major capital cities including Beijing, Guangzhou and Shenzhen and further expand its development in smaller and less affluent cities. The GOME Group entered 27 new cities and added 84 traditional stores and 1 mega store. However, during the same period, 9 traditional and 1 digital stores were closed.

To capture strategic competitive advantages in the future, the GOME Group has established a management centre dedicated to seizing strategic opportunities in smaller and less affluent cities and to actively undergoing network expansion. At the same time, the management are committed to improving the GOME Group's operations in those cities and bringing a new source of profitability to the GOME Group.

(iv) Strategic alliance with Warburg Pincus

Warburg Pincus is a leading private equity investor. During the first half of 2006, Warburg Pincus made a strategic investment in GOME and GOME issued (a) US$125 million five-year convertible bonds ("WP Convertible Bonds") due 2011, with coupon of 1.5% p.a.; and (b) US$25 million five-year warrants ("WP Warrants") at a subscription price of US$3 million.

(v) Historical financial performance of the GOME Group

Set out below are the consolidated results of the GOME Group for the last four financial years and its consolidated results for the six months ended 30 June 2006 with the comparative figures of the corresponding period in 2005:

	Six months ended 30 June		Year ended 31 December			
	2006	**2005**	**2005**	**2004**	**2003**	**2002**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Unaudited)	(Unaudited & restated) *(Note 1)*	(Audited)	(Reviewed) *(Note 2)*	(Reviewed) *(Notes 2 and 3)*	(Audited) *(Note 4)*
Revenue	12,167,820	8,280,789	17,959,258	12,647,177	9,091,493	6,619,006
Gross profit	1,155,854	714,984	1,651,780	1,217,378	665,192	420,803
Profit before tax	525,505	414,965	868,764	814,122	338,846	132,119
Income tax	(58,663)	(44,121)	(91,897)	(76,283)	(74,891)	(25,673)
Profit from discontinued operations	–	–	332	–	–	–
Profit for the year/period	466,842	370,844	777,199	737,839	263,955	106,446
Attributable to:						
Equity holders of GOME	344,531	237,669	498,596	485,645	170,614	69,190
Minority interests	122,311	133,175	278,603	252,194	93,341	37,256
Profit for the year/period	466,842	370,844	777,199	737,839	263,955	106,446
Gross profit margin	9.5	8.6	9.2	9.6	7.3	6.4
Net profit margin (before minority interests)	3.8	4.5	4.3	5.8	2.9	1.6
Number of stores	338	188	263	144	79	47

Notes:

1) As stated in GOME's 2005 annual report, GOME's consolidated financial statements for the year ended 31 December 2005 are presented in RMB, which is different from that of the six months ended 30 June 2005 and nine months ended 31 December 2004 of HK$. The change in presentation currency is because the management of the GOME Group consider that a substantial majority of the Group's transactions are denominated in RMB. Accordingly, such change in presentation currency provides more relevant information about the GOME Group's transactions. The comparative amounts to GOME's consolidated financial statements for 2005 were restated accordingly for comparative purposes.

2) In financial years 2002 and 2003, the financial year end date of GOME was 31 March. However, the financial year end date was changed to 31 December with effect in 2004. As a result, the financial statements for 2004 covered only a period of nine months, and were therefore not directly comparable with those of other financial periods, which covered periods of 12 months. Accordingly, the financial information illustrated was prepared based on a period of 12 months (from 1 January to 31 December) for each of the financial years under analysis.

   The 2004 and 2003 financial information (the "Adjusted Financial Information"), adjusted for the change in accounting period end date, was extracted from the "Supplementary information to shareholders" in the GOME's annual reports for 2005 and 2004 respectively. As stated in GOME's annual reports for 2005 and 2004, the significant accounting policies and basis of presentation used in the presentation of the Adjusted Financial Information were the same as those used in the audited financial statements of GOME for the year ended 31 December 2005 and the nine months ended 31 December 2004 respectively. Further, the Adjusted Financial Information was reviewed by GOME's auditors in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the Hong Kong Institute of Certified Public Accountants.

3) The figures have been translated from HK$ to RMB at an exchange rate of HK$1.00 to RMB1.03.

4) Extracted from the circular of GOME dated 5 July 2004.

Year ended 31 December 2003 compared to year ended 31 December 2002

Revenue increased from RMB6,619.0 million in 2002 to RMB9,091.5 million in 2003 representing an increase of 37.4%. Such increase, despite the impact of the outbreak of severe acute respiratory syndrome, was principally attributable to the expansion of the sales network with additional 32 retail stores opened, including 11 stores in eight new cities where there were no stores operated by the GOME Group before.

In line with the growth in revenue, gross profit increased by 58.1% to RMB665.2 million for 2003 from RMB420.8 million for 2002, and the gross profit margin increased to 7.3% for 2003 from 6.4% for 2002. The improvement was attributable to the GOME Group's improving bargaining position with its suppliers due to increasing purchase volume. This has resulted in higher volume purchase rebate rates obtained from the suppliers.

Year ended 31 December 2004 compared to year ended 31 December 2003

Revenue for 2004 was RMB12,647.2 million representing an increase of 39.1% from RMB9,091.5 million for 2003. Such increase primarily resulted from the expansion of the GOME Group's retail network. In 2004, the GOME Group added 65 new stores in total to its network.

In line with the growth in revenue, gross profit increased by 83.0% to RMB1,217.4 million for 2004 from RMB665.2 million for 2003, and the gross profit margin increased to 9.6% for 2004 from 7.3% for 2003. The GOME Group enjoyed an improvement in gross profit margin, which was mainly attributable to a rising proportion of revenue accounted for by exclusive models, more direct purchases from suppliers, and better terms from suppliers as the GOME Group's purchase scale grew.

Year ended 31 December 2005 compared to year ended 31 December 2004

Revenue for 2005 was RMB17,959.3 million representing an increase of 42.0% from RMB12,647.2 million in 2004. Such increase was primarily resulted from the continuance of proactive expansion of the GOME Group. In 2005, the number of stores of the GOME Group grew to 263 spanning across 69 cities in China. Besides, the GOME Group started to enter smaller and less affluent cities on a big scale in 2005. As at 31 December 2005, 73 stores of the GOME Group were operated in the smaller and less affluent cities.

Gross profit increased by 35.7% to RMB1,651.8 million for 2005 from RMB1,217.4 million for 2004, and the gross profit margin decreased to 9.2% for 2005 from 9.6% for 2004. Such decrease was mainly due to keen competition among suppliers in promoting their respective product offerings and management's initiative to adopt more flexible pricing policies, especially at newly opened stores in order to enhance sales and counter competition.

Six months ended 30 June 2006 compared to six months ended 30 June 2005

Revenue for the first half of 2006 was RMB12,167.8 million representing an increase of 46.9% from RMB8,280.8 million in the same period in 2005. As at 30 June 2006, the number of stores of the GOME Group grew to 338 spanning across 96 cities in China. The GOME Group continued to put heavy focus on smaller and less affluent cities in the first half of 2006. As at 30 June 2006, 116 stores of the GOME Group were operated in smaller and less affluent cities.

The increase in sales revenue was mainly attributable to the expansion of the GOME Group's retail network. Same store sales at 110 stores (which were in operation in the entire period for both the six months ended 30 June 2005 and 2006) decreased by approximately 1.24% during the period. Sales per sq.m. declined by approximately 34%, on an annualised basis, compared with the same period in 2005. GOME's management attributed such decline to intensifying competition and dense store coverage.

Gross profit increased by 61.7% to RMB1,155.9 million in the first half of 2006 from RMB715.0 million for the same period in 2005, and the gross profit margin increased to 9.5% in the first half of 2006 from 8.6% for the same period in 2005. The management of GOME is of the view that the improvement was the result of further economies of scale achieved by the GOME Group and better pricing strategy implementation.

Selling and distribution expenses of the GOME Group increased by approximately 87.5% to RMB942.4 million in the six months ended 30 June 2006, compared to the same period in 2005. The rise in selling and distribution expenses could be attributed to the significant increase in store numbers in the period.

We have noted that the GOME Group has achieved significant growth with a speed similar to the China Paradise Group, in terms of store network, turnover and profitability. The GOME Group achieved this through the acquisition of competitors, and internal corporate restructuring and opening new stores. Recently, the focus has been turned towards smaller cities in China. While competing head-to-head with the China Paradise Group, the GOME Group faced similar pressures in terms of increasing costs and dilution in sales revenue per store. However, owing to economies of scale, the GOME Group has been able to maintain its profitability in the six months ended 30 June 2006 and continued to achieve profits growth.

During the six months ended 30 June 2006, the Parent Group entered the Shanghai market, which has traditionally been the stronghold of the China Paradise Group, based on the significantly increased management fee of the Parent Group paid to the GOME Group (which is calculated by reference to revenue), we see that the Parent Group has taken significant market share from the China Paradise Group. However, as the profitability of the Parent Group is not disclosed, we cannot assess its performance in this regard.

On the other hand, both the GOME Group and the China Paradise Group expanded into smaller and less affluent cities in China. Based on our discussions with the respective managements, the results suggested that the GOME Group can achieve better performance in such smaller cities than the China Paradise Group. As discussed with the management of GOME, performance in smaller and less affluent cities take longer to realise and the larger revenue base of the GOME Group, combined with the Parent Group, enabled them to better leverage on the economies of scale and digest the slower performance in such cities.

The Independent China Paradise Shareholders should note that at a meeting held on 17 August 2006, the board of GOME Directors declared an interim dividend of HK4.2 cents per GOME Share for the six months ended 30 June 2006 to which the Accepting Shareholders will not be entitled. The interim dividend will be paid on 15 September 2006 to those GOME Shareholders whose names appear on the register of members of GOME on 8 September 2006.

(vi) Financial position of the GOME Group

Set out below is the unaudited consolidated financial position of the GOME Group as at 30 June 2006 with the comparative audited figures as at 31 December 2005:

	30 June 2006 *RMB'000* (Unaudited)	**31 December 2005** *RMB'000* (Audited)
Non-current assets		
Property, plant and equipment	1,234,534	909,631
Investment properties	5,150	5,200
Intangible assets	60,780	33,215
Deferred tax assets	12,486	13,018
Total non-current assets	1,312,950	961,064
Current assets		
Hong Kong listed investments, at fair value	904	861
Inventories	2,740,827	2,725,375
Bills receivable	407	30
Trade receivables	36,245	–
Prepayments, deposits and other receivables	377,713	467,017
Due from related parties	5,133	840,076
Other financial assets	–	161,000
Pledged deposits	4,055,113	3,133,124
Cash and cash equivalents	1,954,911	1,079,347
Total current assets	9,171,253	8,406,830
Current liabilities		
Trade and bills payables	8,356,307	6,805,277
Customers' deposits, other payables and accruals	669,473	605,661
Due to a related party	–	83
Tax payable	146,216	85,579
Derivative component of convertible bonds	251,742	–
Total current liabilities	9,423,738	7,496,600
Net current (liabilities)/assets	(252,485)	910,230
Non-current liabilities		
Deferred income tax liabilities	5,874	–
Convertible bonds	715,438	–
Total non-current liabilities	721,312	–
Net assets	339,153	1,871,294

Property, plant and equipment

As at 30 June 2006, 11.8% of the total assets of the GOME Group are related to property, plant and equipment. The property interests of the GOME Group include principally seven retail properties utilised as its retail shops.

Inventories

As at 30 June 2006, the GOME Group's inventory amounted to approximately RMB2.7 billion. Turnover of inventory for the six months ended 30 June 2006 and for the year ended 31 December 2005 was 45 days and 43 days respectively. The management of GOME and we consider that the movement is stable and within a normal band.

Pledged deposits, cash and bank balances

As at 30 June 2006, the GOME Group held RMB1,954.9 million in cash and bank balances and RMB4,055.1 million in pledged deposits, together representing approximately 57.3% of the total assets of the GOME Group. The pledged deposits relate to business acquisitions, store premises purchases, and offer of bank acceptance drafts.

Convertible bonds

On 1 March 2006, GOME issued WP Convertible Bonds in the aggregate amount of US$125 million (or RMB999,950,000). As at 30 June 2006, the non-liability component of the WP Convertible Bonds amounted to approximately RMB715.4 million.

Trade and bills payable

Trade and bills payable mainly relate to purchases of merchandise. As at 30 June 2006, the aggregate value of RMB8,356.3 million. Trade payables and bills payable turnover days increased from 112 in the first half of 2005 to 124 in the six months ended 30 June 2006 mainly due to a longer credit period granted by suppliers for business relationship.

Reserves

During the six months ended 30 June 2006, the shareholders' equity decreased significantly from RMB1,510.9 million as at 31 December 2005 to RMB339.2 million as at 30 June 2006 as a result of the accounting treatment for the acquisition of the 35% equity interest in Gome Appliance in March 2006.

The GOME Group's overall leverage position, represented by the debt to equity ratio was rather high at 285%. Such high ratio was mainly due to the decrease in owner's equity resulting from the accounting treatment for the recent acquisition of a 35% equity interest in Gome Appliance.

Cashflow position

For the six months ended 30 June 2006, the GOME Group generated RMB1,211.0 million in cashflow from operating activities, representing an increase of 52.2% compared to the RMB795.9 million in the same period for 2005. The amount of cashflow generated from operations remained very strong, at the same time, the GOME Group had cash and cash equivalents of approximately RMB2.0 billion with minimal bank borrowings. Accordingly, we consider the cashflow position of the GOME Group to remain strong.

In light of the financial and trading prospects of the GOME Group as discussed below and its cash position as at 30 June 2006, we consider that the financial position of the GOME Group is relatively strong.

(vii) Financial and trading prospects of GOME

GOME is the largest electrical appliance and consumer electronics retailer in the PRC in terms of revenue for 2005. As at 30 June 2006, GOME owned and operated 338 retail outlets across 96 cities in China, and managed additional 220 stores on behalf of the Parent Group across 72 cities in China.

GOME is in the midst of executing a four-year growth initiative, which was implemented in 2005, that aims to expand its business scale, extend its national footprint, solidify market leadership, foster competitive strengths and enhance brand value. GOME's management 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. Therefore, at the same time as GOME continues to enhance its store network, GOME is emphasizing initiatives aimed at improving operating efficiency, enhancing store competitiveness, building brand loyalty, and elevating customer satisfaction in 2006.

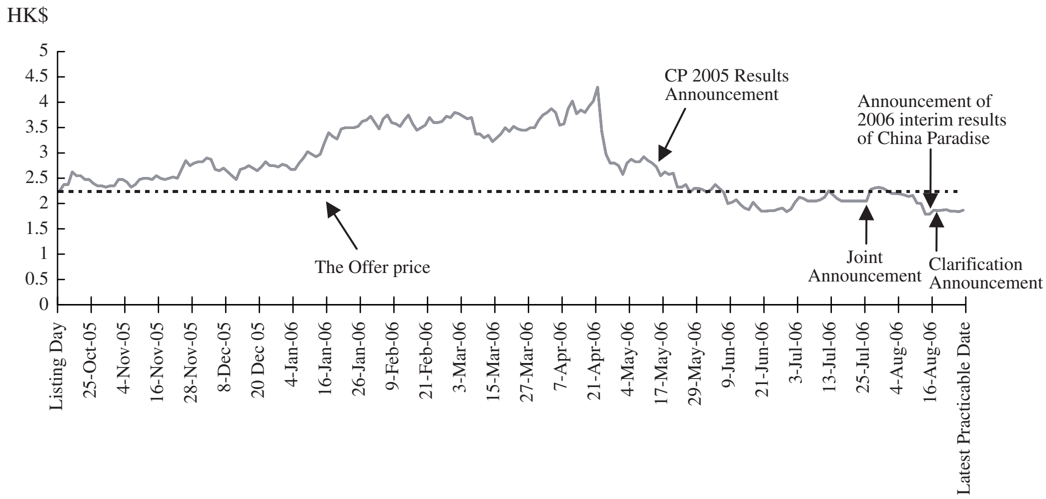
Through the proposed merger with China Paradise, GOME expects to make meaningful progress towards achieving many of the objectives set out in its four-year growth initiative. In particular, GOME's management expects the merger with China Paradise will significantly enhance its scale in key domestic markets including Beijing and Shanghai, strengthen the strategic position of the Enlarged Group to better capture future consolidation opportunities, and reap operating cost savings.

In addition, GOME believes the Offer will help transform the dynamics in the home appliances and consumer electronics retail industry by shifting focus away from severe price competition to more sustainable long-term business strategies. The Enlarged Group will employ a dual-brand strategy (i.e. co-existence of each of the two brands) to capitalise on the strengths of both the GOME and China Paradise brands in the domestic market to enhance customer satisfaction and foster customer loyalty. GOME believes the Offer will position the Enlarged Group to become the long-term market leader in China and further increase future competitiveness. Given the significantly larger scale of operations and higher profitability, we consider that the GOME Group is better positioned to compete in the highly competitive environment.

4. Trading performance on the Stock Exchange

(i) Share price performance of China Paradise

The chart below illustrates the daily closing prices of the China Paradise Shares from 14 October 2005 (the "Listing Day"), being the listing date of the China Paradise Shares on the Stock Exchange, up to and including the Latest Practicable Date.



Source: Bloomberg

During the period from the Listing Day up to and including the Last Trading Day (the "CP Comparison Period"), the closing prices ranged from HK$1.840 to HK$4.300 per China Paradise Share. The China Paradise Share price increased substantially since the Listing Day until 21 April 2006, when the China Paradise Share price closed at its historical peak of HK$4.300. However, the China Paradise Share price dropped significantly right after the release of the 2005 annual results announcement ("CP 2005 Results Announcement") dated 21 April 2006 in which it mentioned that the China Paradise Group's profit for the first half of 2006 may be lower than that for the corresponding period in 2005. At the same time, a placing of 369,207,270 existing China Paradise Shares by certain China Paradise Shareholders added pressure to the market for the China Paradise Shares. Since late April 2006, accompanying a general correction on the stock market as a whole, and in particular, China related stocks, the China Paradise Share price decreased gradually. On 25 May 2006, the China Paradise Share price closed at HK$2.225, the first trading day when the China Paradise Share price closed below its initial public offering price of HK$2.250. From 25 May 2006 up to and including the Last Trading Day, the closing price of the China Paradise Shares fluctuated within a range of HK$1.840 to HK$2.375. During the CP Comparison Period, the averaged closing price per China Paradise Share was approximately HK$2.868.

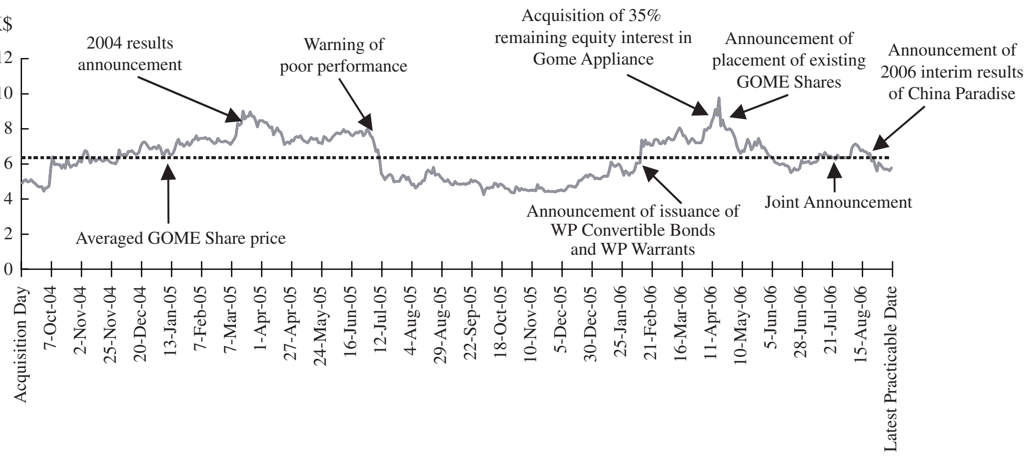
The closing price of the China Paradise Shares rose from HK$2.050 on the Last Trading Day to HK$2.280 on 26 July 2006, being the day on which trading in the China Paradise Shares resumed after the publication of the Joint Announcement. In our opinion, such rise reflected market's reaction to the terms of the Offer. From the date of the Joint

Announcement to 11 August 2006, being the date before the interim results of the China Paradise Group were released, the closing prices fluctuated within a narrow range of HK$2.000 to HK$2.320 per China Paradise Share. Upon the release of the interim results of China Paradise, the price of the China Paradise Shares dropped by HK$0.210 to close at HK$1.790, representing a 10.5% decrease. Upon the release of the Clarification Announcement, the price of the China Paradise Shares increased by HK$0.010 to close at HK$1.870. As at the Latest Practicable Date, the China Paradise Share price closed at HK$1.870.

Given the historical China Paradise Share price performance, in particular, the drop in share price after the release of the 2006 interim results of the China Paradise Group, the financial results of China Paradise for the year ended 31 December 2005 and the six months ended 30 June 2006, we consider the China Paradise Share price is supported by the Offer and is unlikely to remain at the current level if the Offer is withdrawn or lapses.

(ii) Share price performance of GOME

The chart below illustrates the daily closing prices of the GOME Shares from 10 September 2004 (the "Acquisition Day"), being the date on which the acquisition of a 65% equity stake in Gome Appliance was completed, up to and including the Latest Practicable Date.



Source: Bloomberg

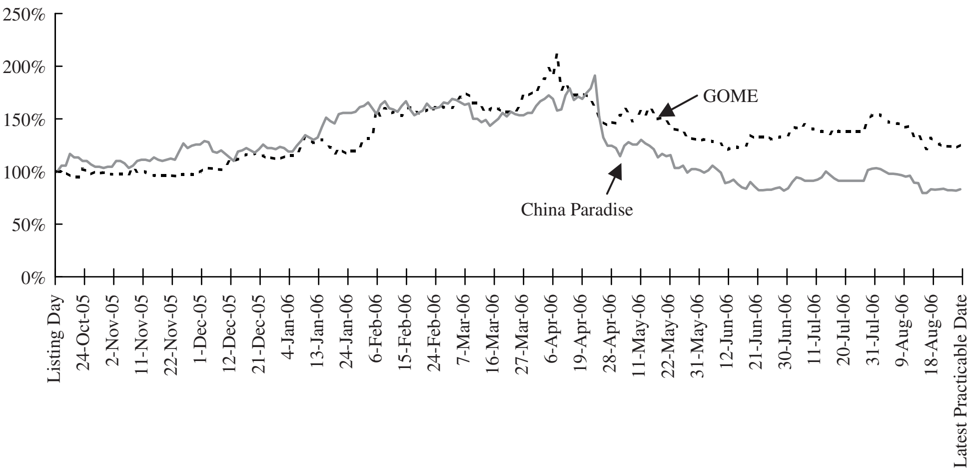
During the period between the Acquisition Day up to and including the Last Trading Day (the "GOME Comparison Period"), the closing prices ranged from HK$4.250 to HK$9.750 per GOME Share. The GOME Share price increased gradually since the Acquisition Day until 14 March 2005. When the GOME Group announced its 2004 annual results on 14 March 2005, the GOME Share price surged to a peak of HK$8.950 on 17 March 2005. The GOME Share price dropped by 26.5% within 10 trading days from 4 July 2005 when GOME issued an announcement giving out negative news of the performance of the GOME Group on 4 July 2005. Since then, the GOME Shares were closed below HK$6.000 until early January 2006. The GOME Share price surged to its historical peak of HK$9.750 on 6

April 2006 when GOME announced on 30 March 2006 that it would further acquire the remaining 35% equity interest in Gome Appliance from its controlling shareholder. However, the GOME Share price fell significantly on 7 April 2006 when GOME announced the placement of 140 million existing GOME Shares by its controlling shareholder on 6 April 2006. Since late April 2006, accompanying a general correction on the stock market as a whole, and in particular, China related stocks, the GOME Share price decreased gradually. During the GOME Comparison Period, the average of the closing price per GOME Share was approximately HK$6.349.

The closing price of the GOME Shares rose from HK$6.350 on the Last Trading Day to HK$6.900 on 26 July 2006, being the day on which trading in the Shares resumed after the publication of the Joint Announcement. In our opinion, such rise reflected market's reaction to the terms of the Offer. From the date of the Joint Announcement to 11 August 2006, being the date before the interim results of the China Paradise Group were released, the closing prices fluctuated within a range of HK$6.160 to HK$7.130 per GOME Share. Upon the release of the interim results of China Paradise, the price of the GOME Shares dropped by HK$0.360 to close at HK$5.900, representing a 5.8% decrease. As at the Latest Practicable Date, the GOME Share price closed at HK$5.760.

(iii) Relative share price performance of China Paradise and GOME

The chart below illustrates the relative share prices performance of China Paradise and GOME from the Listing Day up to and including the Latest Practicable Date.



As shown above, the share price performance of China Paradise is comparable with that of GOME up to late April 2006. However, after the release of the CP 2005 Results Announcement, the China Paradise Share price underperformed that of GOME from early May 2006 to the Last Trading Day. This is probably caused by the anticipated poor performance of the China Paradise Group for the first half of 2006.

(iv) Trading volume of the China Paradise Shares

The following table sets out the historical monthly trading volume and value of the China Paradise Shares, from the Listing Day to the Latest Practicable Date:

	Total monthly trading volume of the China Paradise Shares	% of total monthly trading volume to the total issued China Paradise Shares	% of total monthly trading volume to public float	Total monthly trading value of the China Paradise Shares
				HK$
	(Note 1)	*(Note 2)*	*(Note 3)*	*(Note 1)*
2005				
Listing Day to 31 October	575,860,008	27%	138%	1,397,000,000
November	64,434,805	8%	39%	423,014,500
December	122,447,082	6%	29%	330,927,200
2006				
January	183,840,700	8%	21%	592,468,600
February	154,683,623	7%	17%	557,005,700
March	151,037,000	6%	17%	537,926,100
April	804,422,280	34%	90%	2,644,598,000
May	534,815,440	23%	60%	1,432,944,000
June	407,496,970	17%	46%	820,685,700
July	456,854,696	20%	51%	1,015,318,000
1 August to the Latest Practicable Date	259,003,464	11%	29%	498,732,270

Notes:

1) Source: Bloomberg.

2) For monthly trading volume in 2005, calculation is based on 2,167,720,693 China Paradise Shares in issue as at 31 December 2005. For monthly trading volume in 2006, calculation is based on 2,334,917,067 China Paradise Shares in issue as at the Latest Practicable Date.

3) Based on the number of China Paradise Shares in issue as set out in note 2 above excluding 1,220,305,425 and 529,580,789 China Paradise Shares held by Retail Management and parties acting in concert with it and MS Retail respectively for the period from the Listing Day to 31 December 2005. From 1 January 2006 to the Latest Practicable Date, calculation is based on the number of China Paradise Shares in issue as set out in note 2 above excluding 1,180,675,243, 36,497,642 and 224,392,912 China Paradise Shares held by Retail Management and parties acting in concert with it, CDH and MS Retail respectively.

As illustrated in the above table, the trading volume of the China Paradise Shares was heavy during October 2005, when the China Paradise Shares were listed on the Stock Exchange. Trading activity slowed down somewhat after October 2005, which is typical for newly listed securities. However, the trading volume increased significantly in April 2006 when the China Paradise Group issued the CP 2005 Results Announcement in which it was mentioned, amongst others, that its profit for the first half of 2006 may be lower than that for the corresponding period in 2005. Such increased trading volume reflected the placing of 369,207,270 existing China Paradise Shares in April 2006 by certain China Paradise Shareholders and the subsequent increase in the percentage of public float of the China Paradise Shares in the market. The trading volume of the China Paradise Shares remained at a high level for the subsequent two months amid market speculation relating to the potential merger of China Paradise with Beijing Dazhong. In general, the China Paradise Shares have remained actively traded throughout the period under review.

(v) Trading volume of the GOME Shares

The following table sets out the historical monthly trading volume and value of the GOME Shares from the Acquisition Day to the Latest Practicable Date:

	Total monthly trading volume of the GOME Shares	% of total monthly trading volume to the total issued GOME Shares	% of total monthly trading volume to public float	Total monthly trading value of the GOME Shares
				HK$
	(Note 1)	*(Note 2)*	*(Note 3)*	*(Note 1)*
2004				
Acquisition Day to 30 September	324,897,674	20%	57%	1,304,275,000
October	78,000,300	5%	14%	457,176,300
November	108,570,350	7%	19%	693,139,900
December	328,952,892	20%	58%	2,110,218,000
2005				
January	63,277,931	4%	11%	442,501,600
February	47,089,400	3%	8%	345,584,600
March	69,010,731	4%	12%	563,046,900
April	59,269,300	4%	10%	455,376,700
May	40,058,650	2%	7%	297,926,000
June	93,333,900	6%	16%	702,675,500
July	149,513,055	9%	27%	783,746,700
August	99,788,446	6%	18%	511,022,500
September	75,505,930	5%	14%	344,550,300
October	79,765,400	5%	14%	364,391,700
November	44,028,054	3%	8%	196,577,100
December	43,789,467	3%	8%	219,903,700
2006				
January	68,879,300	3%	9%	389,185,200
February	80,417,990	4%	11%	587,593,500
March	85,625,842	4%	12%	662,211,000
April	311,511,256	14%	43%	2,616,472,000
May	143,891,650	6%	20%	968,899,000
June	98,565,421	4%	14%	573,668,400
July	84,220,100	4%	12%	572,949,500
1 August to the Latest Practicable Date	133,774,600	6%	18%	812,254,330

Notes:

1. Source: Bloomberg.

2. For monthly trading volume in 2004 and 2005, calculation is based on 1,642,447,000 GOME Shares in issue as at 31 December 2004 and 2005. For monthly trading volume in 2006, calculation is based on 2,292,794,534 GOME Shares in issue as at the Latest Practicable Date.

3. Based on the number of GOME Shares in issue set out in note 2 above excluding 1,076,615,085, 1,084,600,085 and 1,564,947,034 GOME Shares held by Mr. Wong, his concert parties and associates during the respective periods from the Acquisition Day to 31 December 2004, 1 January 2005 to 31 December 2005, and 1 January 2006 to the Latest Practicable Date.

As illustrated in the above table, the trading volume of the GOME Shares fell significantly after September 2004, being the month in which the acquisition of 65% equity interest in Gome Appliance was completed. However, the trading volume increased significantly in December 2004 and April 2006 when the GOME Group announced the placements of 188.5 million (with an option of additional 31.5 million) and 140.0 million existing GOME Shares to independent third parties respectively. In July 2005, the trading volume of the GOME Shares increased significantly when the GOME Group released an announcement giving out negative news on the GOME Group's business performance. In general, the GOME Shares have a very high level of liquidity throughout the period under review.

Overall, as the liquidity of both the GOME Shares and the China Paradise Shares are high, we consider that switching from China Paradise Shares to GOME Shares is not expected to result in any difficulty in trading.

5. Comparison with historical China Paradise Share prices

The Offer valued the China Paradise Shares at approximately HK$2.2354 (comprising the value of 0.3247 GOME Share based on the closing price of GOME Shares of HK$6.350 each as quoted on the Stock Exchange on the Last Trading Day, and the cash consideration of HK$0.1736 per China Paradise Share) and represents:

- a premium of approximately 19.5% over the closing price of HK$1.870 per China Paradise Share as at the Latest Practicable Date;

- a premium of approximately 9.0% over the closing price of HK$2.050 per China Paradise Share on the Last Trading Day;

- a premium of approximately 6.3% and 10.9% over the average of the closing prices of approximately HK$2.103 and HK$2.016 per China Paradise Share for the 10 and 30 trading days respectively immediately prior to and including the Last Trading Day; and

- a discount of approximately 19.5% and 22.1% to the average of the closing prices of approximately HK$2.776 and HK$2.868 per China Paradise Share for the 90 trading days immediately prior to and including the Last Trading Day and the CP Comparison Period, respectively.

As illustrated above, the Offer represents a moderate premium with reference to the closing price on the Last Trading Day and average of the closing prices of the China Paradise Shares up to 30 trading days prior to the Last Trading Day. However, when compared with the averages of the closing prices of the China Paradise Shares for the 90 trading days prior to the Last Trading Day and the entire CP Comparison Period, the Offer represents a discount.

In our opinion, given the impact of the intensifying competition of consumer electronics retail sector on the disappointing latest interim financial results of the China Paradise Group was only made known recently, the average of the closing prices of the China Paradise Shares for longer periods (during most of which periods, information on the latest financial results were not known to the public) is considered to be less relevant and carries little weight for evaluation of the Offer price.

Based on the closing price of the GOME Shares of HK$5.760 each as quoted on the Stock Exchange as at the Latest Practicable Date, the Offer valued the China Paradise Shares at approximately HK$2.044 (comprising the value of 0.3247 GOME Share, and the cash consideration of HK$0.1736 per China Paradise Share) and represents:

- a premium of approximately 9.3% over the closing price of HK$1.870 per China Paradise Share as at the Latest Practicable Date;

- a discount of approximately 0.3% to the closing price of HK$2.050 per China Paradise Share on the Last Trading Day;

- a premium of approximately 10.7% over the average of the closing prices of approximately HK$1.847 per China Paradise Share for the 10 trading days immediately prior to and including the Latest Practicable Date; and

- a discount of approximately 0.8%, 14.8% and 25.9% to the average of the closing prices of approximately HK$2.061, HK$2.399 and HK$2.757 per China Paradise Share for the 30 and 90 trading days immediately prior to and including the Latest Practicable Date and the entire period from the Listing Day to the Latest Practicable Date, respectively.

The price of the China Paradise Shares prior to the Last Trading Day had not reflected the latest financial performance of the China Paradise Group, which was disappointing. Given that the Offer price represents a premium to the current market price for the China Paradise Shares, we consider the Offer Price to be fair and reasonable.

6. Comparison with historical GOME Share prices

The GOME Share price of HK$6.350, being the closing GOME Share price on the Last Trading Day represents:

- a premium of approximately 10.2% over the closing price of HK$5.760 per GOME Share as at the Latest Practicable Date;
- a discount of approximately 1.2%, 8.3% and 0.02% to the average of the closing prices of approximately HK$6.430, HK$6.922 and HK$6.349 per GOME Share for the 10 and 90 trading days immediately prior to and including the Last Trading Day and the GOME Comparison Period, respectively; and
- a premium of approximately 3.5% over the average of the closing prices of approximately HK$6.133 per GOME Share for the 30 trading days immediately prior to and including the Last Trading Day.

As illustrated above, the GOME Share price on the Last Trading Day represented only a small premium over or discount to the closing GOME Share prices as at the Latest Practicable Date and the averages of the closing prices of the GOME Shares for the 10, 30 and 90 trading days immediately prior to and including the Last Trading Day and the GOME Comparison Period respectively.

The GOME Share price of HK$5.760, being the closing GOME Share price on the Latest Practicable Date represents:

- a discount of approximately 9.3% to the closing price of HK$6.350 per GOME Share on the Last Trading Day; and
- a discount of approximately 0.3%, 9.0%, 11.8% and 9.3% to the average of the closing prices of approximately HK$5.776, HK$6.332, HK$6.529 and HK$6.348 per GOME Share for the 10, 30 and 90 trading days immediately prior to and including the Latest Practicable Date and the entire period from the Acquisition Day to the Latest Practicable Date, respectively.

Having considered the recent trading pattern and the recently announced results of the GOME Group, we consider the price of the GOME Shares on the Last Trading Day is within the range of the recent market prices and does not represent a particularly high price at which the GOME Shares have been traded.

7. Comparable companies

We have considered the price earnings multiple ("P/E") and premium over net asset value ("PNAV") for the following comparable companies (the "Comparable Companies") which are principally engaged in consumer electronics retailing in the United States or China with similar geographical size based on Bloomberg search for companies under the category of "Computer & Electronics Retail" (China Paradise and GOME fall under this category) and listed on the Stock Exchange, New York Stock Exchange ("NYSE"), Shanghai Stock Exchange or Shenzhen Stock Exchange ("SZSE") with market capitalisation above HK$4 billion as at the Latest Practicable Date. The aforesaid stock exchanges have been selected as companies traded on such stock exchanges cover countries with similar size in terms of population and are countries of major geographical size.

	Market capitalisation as at the Latest Practicable Date	**P/E**	**PNAV**
	HK$ million	*times*	*%*
		(Note 1)	*(Note 2)*
Stock Exchange			
GOME	14,559.2	30.08	4,321.6
China Paradise	4,581.6	16.30	108.8
SZSE			
Suning Appliance Co., Ltd ("Suning")	15,820.7	46.25	518.4
NYSE			
Best Buy Co., Inc. ("Best Buy")	172,009.6	19.40	308.8
Circuit City Stores Inc. ("Circuit City")	30,841.7	28.37	103.8
RadioShack Corporation ("Radioshack")	18,324.5	8.82	283.4
Average		24.87	940.8
Median		23.89	296.1
The Offer – Last Trading Day basis *(Note 3)*		18.57	137.8
The Offer – Latest Practicable Date basis *(Note 4)*		16.98	117.5

Notes:

1) The P/Es are calculated by using the annual earnings attributable to equity holders for the year ended 31 December 2005 for GOME, China Paradise, Suning and Radioshack, 28 February 2006 for Circuit City and 25 February 2006 for Best Buy from their respective audited annual reports and market capitalisations as at the Latest Practicable Date, save for GOME and China Paradise, whose market capitalisations were based on the Last Trading Day due to the trading performance of China Paradise Shares and GOME Shares having been distorted by the Offer subsequent to the Last Trading Day.

2) The PNAVs are calculated by using the net asset value as at 30 June 2006 for GOME, China Paradise, Suning and Radioshack, 31 May 2006 for Circuit City and 27 May 2006 for Best Buy from their respective unaudited interim reports or quarterly results announcements and their respective market capitalisations as at the Latest Practicable Date, save for GOME and China Paradise, whose market capitalisations were based on the Last Trading Day due to the trading performance of China Paradise Shares and GOME Shares having been distorted by the Offer subsequent to the Last Trading Day.

3) The P/E multiple implied by the Offer valued at the Last Trading Day.

4) The P/E multiple implied by the Offer valued at the Latest Practicable Date.

As shown above, the P/E and PNAV of the Comparable Companies range from 8.82 times to 46.25 times and 103.8% to 4,321.6% respectively. While the average and median of P/E and PNAV of the Comparable Companies are 24.87 times and 23.89 times and 940.8% and 296.1%, respectively. It can be illustrated that companies in the industry tend to trade at a relatively high P/E and premium to underlying net assets.

Both P/E and PNAV implied by the Offer valued at the Last Trading Day are at the lower range of the Comparable Companies. This is probably mainly caused by the anticipated poor 2006 interim results of the China Paradise Group. Since the China Paradise Group has announced the interim results which represented a significant deviation from the annual results for the year ended 31 December 2005, we consider the historical P/E for the China Paradise Shares cannot be relied on for a fair judgement of the value of the China Paradise Shares.

On the basis of the interim earnings per share for the China Paradise Group of RMB0.7 cents, on an annualised basis, an annual earnings per share would be RMB1.4 cents per China Paradise Shares. On the basis of the implied Offer Price of HK$2.2354, such price would represent a P/E multiple of 159.7 times. While it cannot be ascertained whether the performance of the China Paradise Group will improve in the second half of the 2006 financial year, it can be concluded generally that the Offer price of HK$2.2354 represents a very high valuation based on the latest published earnings of the China Paradise Group.

As shown in the table above, the PNAVs vary significantly with the GOME Shares representing an extreme case within the Comparable Companies. The China Paradise Shares, based on the underlying net assets, traded at a relatively low PNAV by reference to the Comparable Companies. We consider this to be likely the result of the market anticipation of disappointing performance of the China Paradise Group in terms of earnings. Taking into account the latest published financial results of the China Paradise Group, we consider that the Offer price still represent a significant premium over the underlying net assets of China Paradise Shares and to this end, is fair and reasonable.

8. Comparable transaction

We have considered the P/E and PNAV for the following comparable transaction based on Bloomberg "M&A Search" for merger and acquisition transactions in China under the categories of "Retail – Appliance", "Retail – Computer" and "Retail – Electronics" announced during the period from 1 January 2006 up to and including the Latest Practicable Date (the Offer falls under these categories).

Announcement Date	Target	Purchaser	Consideration	% of interest acquired	P/E	PNAV
			HK$ million		*times* *(Note)*	*%*
29 March 2006	Gome Appliance	GOME	6,986.7	35%	26.1	1,916.1
The Offer					**18.6**	**137.8**

Note: The P/E implied by the consideration for the acquisition.

For the acquisition of 35% equity the interest in Gome Appliance by GOME, it is noted that the P/E of 25.2 times was relatively close to the P/E implied by the market price of the GOME Shares as at 29 March 2006, being the date of the announcement of the acquisition by GOME. In this regard, we consider that the valuation implied by the Offer is in line with those implied by transactions for significant stakes in companies in the industry.

9. Relative contributions of the GOME Group and the China Paradise Group

The aggregate consideration for the Offer will be partly satisfied by a maximum of 765,197,691 New GOME Shares (assuming that the Wang Management Incentive Option is exercised in full) to be issued. The shareholding of China Paradise Shareholders will represent approximately 25.0% of the enlarged issued share capital of GOME. The issue price of the New GOME Shares and the consideration for acquiring the China Paradise Shares both represent a significant premium to their respective underlying net assets as at 30 June 2006.

The following table sets out the proportions of turnover, earnings and net assets contributed by the GOME Group and the China Paradise Group, respectively, compared to the proportion of the equity of the Enlarged Group allocated to the China Paradise Shareholders:

	The GOME Group *RMB million (Note 1)*		**The China Paradise Group** *RMB million (Note 1)*		**Total** *RMB million*	
Turnover for the year ended 31 December 2005	17,959.3	59.5%	12,246.2	40.5%	30,205.5	100.0%
Turnover for the six months ended 30 June 2006	12,167.8	61.2%	7,722.8	38.8%	19,890.6	100.0%
Earnings for the year ended 31 December 2005	777.2	70.8%	321.3	29.2%	1,098.5	100.0%
Earnings for the six months ended 30 June 2006	466.8	96.8%	15.5	3.2%	482.3	100.0%
NAV as at 30 June 2006	339.2	12.6%	2,359.0	87.4%	2,698.2	100.0%
Equity holdings in GOME if the Offer is accepted in full (GOME Shares) *(Note 2)*	2,292,794,534	74.98%	765,197,691	25.02%	3,057,992,225	100.0%

Notes: 1) The figures in the above table are based on the 2005 annual reports and the 2006 interim reports of China Paradise and GOME.

2) The shareholdings in the Enlarged Group are calculated before taking into account any exercise of the Wang Management Incentive Option.

The merger will involve the exchange of an interest in the entire China Paradise Group for a minority stake in the Enlarged Group. While the existing China Paradise Group is expected to account for 87.4% of the net assets of the Enlarged Group upon the merger becoming successful, it only accounts for 3.2% of the earnings of the Enlarged Group. China Paradise Shareholders are partially compensated as regards the dilution in net assets as they will receive an element of cash consideration when accepting the Offer. The proportion of turnover contributed by the China Paradise Group is close to 40%. Consequently, the proportion of earnings contributed by the China Paradise Group at 3.2% is substantially lower than the approximately 25% proportion of the enlarged share capital to be held by the China Paradise Shareholders. Accordingly, the terms of the Offer involve a substantial enhancement in earnings attributable to China Paradise Shareholders as a whole. In this regard, having considered the relative prospects of the GOME Group, the China Paradise Group and the Enlarged Group, we are of the view that a degree of enhancement in earnings based on latest published interim results of the two groups are in the interest of the China Paradise Shareholders. This is particularly apparent in that the profitability of the China Paradise Group is declining in the first half of 2006 and it is uncertain that any material improvement can be expected. On the other hand, the GOME Group has continued to achieve improved growth in terms of turnover and profits.

10. Prospects of the Enlarged Group

In respect of the prospects of the Enlarged Group and synergies created by the merger of the two groups, we have considered the following:

(i) Strengthened market leadership

The Enlarged Group's market share is expected to rise significantly. More importantly, in Beijing and Shanghai, the two most important markets in China, the Enlarged Group would enjoy a dominant market share.

(ii) Future expansion and further potential upside

The merger would combine China's largest and third largest players in the consumer electronics retail sector. These actions may potentially accelerate industry consolidation and ease the pressure on competitive pricing of sales and shift the focus of competition to other areas like customer service, which will be positive on product margins.

(iii) Potential synergies

As illustrated in the latest financial results of the respective companies, the achievement of economies of scale is of crucial importance to the overall profitability of a company in the industry. The merger of this size should further enable the Enlarged Group to benefit from synergies through cost savings as well as better economies of scale.

(iv) Integration of operations

For a merger of this magnitude, it is of crucial importance that a successful integration of the operations be implemented to realise any potential synergies and cost savings.

11. Other considerations in relation to the Offer

(i) The Offer Conditions

China Paradise Shareholders should note that the Offer is conditional on, among other things, valid acceptances having been received in respect of at least 90% of the Disinterested Shares. The Offeror has reserved its right to waive certain of the conditions, in particular, the condition relating to the level of acceptances where 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. The Offer is also subject to other Offer Conditions including 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 as would not have a material adverse effect on the legal ability of the Offeror to proceed with or consummate the Offer). Nevertheless, it is not certain whether the Offer can become unconditional. The share prices of the China Paradise Shares has been trading at relatively stable prices despite disappointing results for the six months ended 30 June 2006 recently announced. In the event that the Offer is withdrawn or lapses, it is possible that support for the prices of the China Paradise Shares may disappear and they may not be sustainable at the current levels.

(ii) Possible future dilution in GOME Shares

The Offer does not involve significant cash outlay on the part of GOME. Whilst we are not aware of any plans in this regard, given the aggressive growth strategy previously adapted by GOME, there is a possibility that the future expansion of the Enlarged Group may be financed by the issue of further GOME Shares. In addition, upon exercise of the conversion rights attached to the WP Convertible Bonds and WP Warrants, further GOME Shares will be issued. Accordingly, Accepting Shareholders should note that any such further issue of GOME Shares may result in further dilution of their interests in the Enlarged Group.

(iii) Public float of the China Paradise Shares

The Offeror has stated its intention to privatise China Paradise and the withdrawal of listing of China Paradise. Assuming the Offeror does not effect the compulsory acquisition for the China Paradise Shares, the Offeror has stated that it will, following the close of the Offer, ensure that not less than 25% of the China Paradise Shares will be held by the public in compliance with the Hong Kong Listing Rules.

However, the Stock Exchange has stated that if, at the close of the Offer, less than 25% of the China Paradise Shares are held by the public, or if the Stock Exchange believes that a false market exists or may exist in the trading of the China Paradise Shares; or there are insufficient China Paradise Shares in public hands to maintain an orderly market, then it will consider exercising its discretion to suspend trading in the China Paradise Shares. There is no assurance that the China Paradise Shares can resume trading in such event and result in a prolonged suspension in the China Paradise Shares.

DISCUSSION AND ANALYSIS

(i) In the midst of strong growth, the consumer electronics retail market has consolidated with the emergence of a number of large retail groups with dominant positions, including the China Paradise Group and the GOME Group. At the same time, competition for business, retail space and other resources are increasingly intensifying.

(ii) The China Paradise Group has in recent years achieved strong growth in turnover and profits and improvement in gross margin. Such growth has been the result of aggressive organic expansion as well as a series of acquisitions over a short period of time. However, due to (a) intensifying market competition resulting in a lower level of sales achieved for both existing and new stores; (b) a lower level of gross margin achieved than expected; and (c) increase in rental costs and staff costs the China Paradise Group's results were significantly affected with an 89.3% decline in the net profit attributable to China Paradise Shareholders for the six months ended 30 June 2006.

(iii) The Offer valued at an equivalent of HK$2.2354 per China Paradise Share represents a premium of 9.0% to the closing price of HK$2.050 as quoted on the Last Trading Day. Such price also represents premium to the average of the closing prices of the Shares of 6.3% and 10.9% for the 10-day period and the 30-day period up to and including the Last Trading Day, respectively.

(iv) The Offer price represents a P/E multiple of approximately 18.57 times, based on the final results for 2005, which represents a price lower than the average of the P/E multiples of the Comparable Companies of approximately 24.87 times. However, taking into account the latest published interim results, the Offer valued the China Paradise Shares at an annualised P/E of approximately 160 times.

(v) The PNAV implied by the Offer price of approximately 137.8% is compared favourably to the ratio of the closing prices of the China Paradise Shares to its underlying consolidated NAV, however, such premium is significantly lower than that for the Comparable Companies. We consider this to be reflective of the latest performance of the China Paradise Group.

(vi) The Offer carries with it risks relating to a number of conditions to which the Offer is subject and that the Accepting Shareholders may find themselves further diluted due to any possible issue of the GOME Shares in the future. In the event that the Offer cannot become unconditional and the conditions cannot be fulfilled, the Offer will lapse and the price of the China Paradise Shares, which is supported by the Offer, may fall into a level that is based on the fundamentals of its latest performance.

(vii) GOME Shares have been trading at a higher PNAV than the China Paradise Shares. We are of the view that the higher valuation is commensurate with the better prospects and profitability achieved by GOME.

(viii) Swapping the China Paradise Shares for the New GOME Shares bring significant enhancement in earnings per share for China Paradise Shareholders based on the latest published interim results of the two groups and are in the interest of the China Paradise Shareholders.

OPINION AND RECOMMENDATION

Based on the above principal factors and reasons, we consider the terms of the Offer are fair and reasonable so far as the Independent China Paradise Shareholders are concerned. Accordingly, we recommend the Independent Board Committee to advise the Independent China Paradise Shareholders to accept the Offer.

The Offeror has stated that, where the relevant regulatory requirements allow, it intends to exercise the right which may be available to them to acquire compulsorily any outstanding issued China Paradise Shares not acquired under the Offer after it is closed. In such circumstances, China Paradise will become a wholly-owned subsidiary of the Offeror and China Paradise will cease to be a listed company with the China Paradise Shares withdrawn from listing on the Stock Exchange.

Assuming that the above compulsory acquisition right is not effected, the Offeror has stated that it will take appropriate steps to ensure that sufficient public float exists in the China Paradise Shares. However, China Paradise Shareholders should be aware that, in the event that the number of China Paradise Shares held by the public comprises less than 25% of the issued China Paradise Shares at the close of the Offer, trading in the China Paradise Shares may be suspended. As a result, China Paradise Shareholders should also note the possibility that the listing of the China Paradise Shares may suffer from a prolonged suspension if public float cannot be restored, and the China Paradise Shareholders will not be able to sell their China Paradise Shares on the Stock Exchange until trading in the China Paradise Shares resumes.

We have not considered the different tax implications on the Independent China Paradise Shareholders for accepting the Offer since these depend on their individual circumstances. Independent China Paradise Shareholders should consider their own tax position and, if in any doubt, should consult their own professional advisers.

The procedures for acceptance of the Offer are set out in Appendix I to the Composite Document and the accompanied Form of Acceptance. The latest time for lodging acceptances (unless extended by the Offeror) is 4:00 p.m. on Tuesday, 17 October 2006. China Paradise Shareholders are urged to act according to this timetable if they wish to accept the Offer.

Yours faithfully,
for and on behalf of
SOMERLEY LIMITED
Jamie Cheung
Managing Director

1. OFFER CONDITIONS

The Offer is conditional upon:

(a) the Offer and the issue of the New GOME Shares in connection with the Offer having been approved by the GOME Shareholders in general meeting;

(b) valid acceptances having been received at or before 4:00 p.m. on the First Closing Date (or such other time as GOME may, subject to the Takeovers Code, decide) in respect of at least 90% of the Disinterested Shares;

(c) 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;

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

(e) the execution of non-competition agreements between China Paradise and the Managing Shareholders;

(f) 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 as would not have a material adverse effect on the legal ability of the Offeror to proceed with or consummate the Offer); and

(g) save in connection with the completion of the Offer, the listing of the China Paradise Shares on the Stock Exchange not having been withdrawn, and no indication being received from the SFC 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 Offer Conditions (b), (d), (e), (f) and (g) to the Offer set out above, in whole or in part. Offer Condition (b) 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. If the Offer Conditions are satisfied (or, if applicable, waived) on or before the First Closing Date, China Paradise Shareholders will be notified by press announcement as soon as practicable thereafter.

According to the interim results announcement of China Paradise dated 14 August 2006, the total assets of China Paradise, less its total liabilities, being the net asset value, as set out in the unaudited consolidated interim financial statements of China Paradise for the six months ended 30 June 2006 was approximately RMB2,358,974,000.

China Paradise entered into a non-competition agreement with the Managing Shareholders on 14 August 2006. The non-competition agreement provides, inter alia, that the Managing Shareholders will, for a period of 5 years from the date of the non-competition agreement, be prohibited from, among other things, procuring that any of China Paradise's employees resign from China Paradise, procuring that the directors, managers or technicians of China Paradise resign, working for or investing in competitors of China Paradise, having a direct business dealing with any customers and employees of China Paradise and having a direct business dealing with any agents and suppliers of China Paradise.

Based on the above, Offer Conditions (d) and (e) have been fulfilled.

The Offeror intends to exercise the right under Section 88 of the Cayman Islands Company Law and in accordance with Rule 2.11 of the Takeovers Code, if it acquires not less than 90% of the Disinterested Shares within four months of the posting of the Composite Document, to compulsorily acquire those China Paradise Shares not acquired by the Offeror pursuant to the Offer. On completion of the compulsory acquisition, it is intended that China Paradise will become a wholly-owned subsidiary of the Offeror and an application will be made for the withdrawal of the listing of the China Paradise Shares from the Stock Exchange pursuant to Rule 6.15 of the Hong Kong Listing Rules.

The Offer may lapse if it does not become unconditional. GOME Shareholders and China Paradise Shareholders should exercise caution when dealing in GOME Shares and China Paradise Shares.

2. FURTHER TERMS OF THE OFFER

2.1 Procedures for Acceptance

The Offer in respect of China Paradise Shareholders

(a) If you accept the Offer, you should complete and sign the Form of Acceptance in accordance with the instructions printed thereon, which instructions form part of the terms of the Offer.

(b) If the share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your China Paradise Share(s) is/are in your name, and you wish to accept the Offer, you must send the Form of Acceptance duly completed and signed together with the relevant share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) to the Registrar.

(c) If the share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your China Paradise Shares is/are in the name of a nominee company or a name other than your own, and you wish to accept the Offer in respect of your China Paradise Shares, you must either:

(i) lodge your China Paradise Share certificate(s) and/or transfer receipts and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) with the nominee company, or other nominee, with instructions authorising it to accept the Offer on your behalf and requesting it to deliver the Form of Acceptance duly completed and signed together with the relevant China Paradise Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) to the Registrar; or

(ii) arrange for the China Paradise Shares to be registered in your name by China Paradise through the Registrar, and send the Form of Acceptance duly completed and signed together with the relevant China Paradise Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) to the Registrar; or

(iii) if your China Paradise Shares have been lodged with your licensed securities dealer/custodian bank through CCASS, instruct your licensed securities dealer (or other registered dealer in securities)/custodian bank to authorise HKSCC Nominees Limited to accept the Offer on your behalf on or before the deadline set out by HKSCC Nominees Limited, in this case, at 11:00 a.m. on Tuesday, 17 October 2006. In order to meet the deadline set by HKSCC Nominees Limited, you should check with your licensed securities dealer (or other registered dealer in securities)/custodian bank for the timing for the processing of your instruction, and submit your instruction to your licensed securities dealer/custodian bank as required by them; or

(iv) if your China Paradise Shares have been lodged with your Investor Participant Account with CCASS, authorise your instruction via the CCASS Phone System or CCASS Internet System not later than 11:00 a.m. on Tuesday, 17 October 2006.

(d) If you have lodged transfer(s) of any of your China Paradise Shares for registration in your name and have not yet received your China Paradise Share certificate(s), and you wish to accept the Offer in respect of your China Paradise Shares, you should nevertheless complete and sign the Form of Acceptance and deliver it to the Registrar together with the transfer receipt(s) duly signed by yourself. Such action will be deemed to be an authority to the Offeror or their respective agent(s) to collect from China Paradise or the Registrar on your behalf the relevant China Paradise Share certificate(s) when issued and to deliver such certificate(s) to the Registrar as if it was/they were delivered to the Registrar with the Form of Acceptance.

(e) If the share certificate(s) and/or transfer receipt(s) and/or other document(s) of title in respect of your China Paradise Shares is/are not readily available and/or is/are lost and you wish to accept the Offer in respect of your China Paradise Shares, you should nevertheless complete the Form of Acceptance and deliver it to the Registrar together with a letter stating that you have lost one or more of your share certificate(s) and/or transfer receipt(s) and/or other document(s) of title or that it/they is/are not readily available. If you find such document(s) or if it/they become(s) available, the relevant share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title should be forwarded to the Registrar as soon as possible thereafter. If you have lost your share certificate(s) and/or transfer receipt(s) and/or other document(s) of title, you should also write to the Registrar for a letter of indemnity which, when completed in accordance with the instructions given, should be returned to the Registrar.

(f) Acceptance of the Offer will be treated as valid only if the completed and duly signed Form of Acceptance is received by the Registrar by no later than 4:00 p.m. on Tuesday, 17 October 2006 or such later time and/or date as the Offeror may determine and announce with the consent of the Executive and the Registrar has recorded that the acceptance and any relevant documents required by Note 1 to Rule 30.2 of the Takeovers Code have been so received, and is:

(i) accompanied by the relevant China Paradise Share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) and, if those China Paradise Share certificate(s) is/are not in your name, such other documents in order to establish your right to become the registered holder of the relevant China Paradise Shares; or

(ii) from a registered China Paradise Shareholder or his personal representative (but only up to the amount of the registered holding and only to the extent that the acceptance relates to the China Paradise Shares which are not taken into account under this paragraph (f)); or

(iii) certified by the Registrar or the Stock Exchange.

If the Form of Acceptance is executed by a person other than the registered holder of the China Paradise Shares, appropriate documentary evidence of authority to the satisfaction of the Registrar must be produced.

(g) No acknowledgement of receipt of any Form(s) of Acceptance, China Paradise Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) will be given.

(h) All China Paradise Shareholders who accept the Offer will be deemed:

(i) to represent and warrant that you are not a resident of the United States (or acting on behalf of a resident of the United States); or

(ii) if you are a US Shareholder, to make the representations, warranties, agreements and confirmations contained in paragraph 2.9 of Appendix I to the Composite Document.

2.2 Acceptance Period and Revisions

The Offer is made on Tuesday, 29 August 2006, being the date of posting of the Composite Document, and is capable of acceptance on and from this date.

The Offeror reserves the right to extend the Offer in accordance with the relevant provisions of the Takeovers Code. Unless the Offer has previously been extended with the consent of the Executive, all acceptances must be received by 4:00 p.m. on Tuesday, 17 October 2006, being the First Closing Date.

If in the course of the Offer, the Offeror revises its terms with the consent of the Executive, all China Paradise Shareholders (other than the Offeror and parties acting in concert with it), whether or not they have already accepted the Offer, will be entitled to the revised terms. A revised offer must be kept open for at least 14 days following the date on which the revised offer document is posted.

2.3 Announcements

By 6:00 p.m. (or such later time and/or date as the Executive agrees) on Tuesday, 17 October 2006 which is the First Closing Date, the Offeror must inform the Executive and the Stock Exchange of its intention in relation to the revision, extension, expiry or unconditionality of the Offer. The Offeror must publish an announcement through the Stock Exchange's website by 7:00 p.m. on the First Closing Date stating whether the Offer has been revised or extended, has expired or has become or been declared unconditional (and, in such case, whether as to acceptances or in all respects). Such announcement must be republished in accordance with the requirements set out below on the next business day.

The announcement must state the following:

(i) the total number of the China Paradise Shares and rights over the China Paradise Shares for which acceptances of the Offer have been received;

(ii) the total number of China Paradise Shares and rights over the China Paradise Shares held, controlled or directed by the Offeror or parties acting in concert with it before the offer period; and

(iii) the total number of China Paradise Shares and rights over the China Paradise Shares acquired or agreed to be acquired during the offer period by the Offeror or parties acting in concert with it.

The announcement must also specify the percentages of the relevant classes of share capital of China Paradise and the percentages of voting rights represented by these numbers of China Paradise Shares.

2.4 Right of Withdrawal

(a) Acceptance of the Offer by the China Paradise Shareholders shall be irrevocable and cannot be withdrawn, except in the circumstances set out in (b) below or in Rule 17 of the Takeovers Code which provides that an acceptor shall be entitled to withdraw his/her/its acceptance after 21 days from the First Closing Date if the Offer has not by then become unconditional as to acceptances. In such circumstances, an acceptor of the Offer may withdraw his/her/its acceptance by lodging a notice in writing signed by the acceptor (or his/her/its agent duly appointed in writing and evidence of whose appointment is produced together with the notice) to the Registrar.

(b) If the Offeror is unable to comply with the requirements set out in the section headed "Announcements" in this appendix, the Executive may require that the China Paradise Shareholders who have tendered acceptances to the Offer be granted a right of withdrawal on terms that are acceptable to the Executive until the requirements set out in that section are met.

2.5 Settlement of Consideration

The timing and procedures for settlement of the consideration to which the Accepting Shareholders will be entitled (if the Offer becomes, or is declared, unconditional in all respects) are set out in the Form of Acceptance and in the section headed "Settlement of Consideration" contained in the "Letter from Goldman Sachs" in the Composite Document.

2.6 New GOME Shares

The New GOME Shares to be issued under the Offer will be issued credited as fully-paid and will rank pari passu with the issued shares in the Offeror, including the right to receive in full all dividends and other distributions after the date of their issue. The New GOME Shares will also be issued subject to the terms of the Memorandum of Association and the Bye-Laws and, by accepting the Offer, the persons who become the holders of such shares in connection with the Offer will be bound by the Memorandum of Association and the Bye-Laws.

2.7 Stamp duty

(a) *Buyers' ad valorem stamp duty* – Buyers' ad valorem stamp duty for the China Paradise Shares arising in connection with the acceptance of the Offer is payable by the Offeror at the rate of HK$1.00 for every HK$1,000 (or part of HK$1,000) of the consideration payable in respect of the relevant acceptance. The Offeror will pay the buyer's ad valorem stamp duty on its own behalf.

(b) *Sellers' ad valorem stamp duty* – Sellers' ad valorem stamp duty for China Paradise Shares arising in connection with the acceptance of the Offer is payable by the Accepting Shareholders at the rate of HK$1.00 for every HK$1,000 (or part of HK$1,000) of the consideration payable in respect of the relevant acceptance. The applicable sellers' ad valorem stamp duty will be deducted from the cash amount due to such Accepting Shareholder under the Offer, and the Offeror will pay such ad valorem stamp duty on behalf of each Accepting Shareholder.

2.8 Overseas Shareholders

The Offeror intends to make available the Offer to all China Paradise Shareholders. The availability of the Offer to persons not resident in Hong Kong may be affected by the laws of the relevant jurisdictions. Persons who are not resident in Hong Kong should inform themselves about and observe any applicable requirements in their own jurisdictions.

It is the responsibility of any Overseas Shareholder not resident in Hong Kong who wishes to accept the Offer to satisfy himself as to the full observance of all the applicable laws and regulations of any relevant jurisdiction in connection therewith, including obtaining any government or other consent which may be required, complying with any other necessary formalities and paying all applicable issue, transfer or other taxes due in such jurisdiction.

2.9 US Shareholders

A US Shareholder is only eligible to receive the New GOME Shares to the extent that such US Shareholder is able to represent, warrant, agree and confirm that:

(a) it is the beneficial owner or an authorised fiduciary or agent for the beneficial owner of the shares of China Paradise referred to in the Form of Acceptance;

(b) it is an institution which has such knowledge and experience in financial and business matters and is capable of evaluating the merits and risks of an investment in the New GOME Shares, and it and any accounts for which it is acting are each able to bear the economic risk of such investment, and are able to sustain a complete loss of its investment in the New GOME Shares;

(c) prior to accepting the Offer, it has received and read a copy of the Composite Document and has had access to the financial and other information regarding the GOME and the New GOME Shares as it has requested in connection with its investment decision to participate in the Offer. If it has had any queries regarding the Offer or GOME and its affairs, it has asked these questions of and received answers satisfactory to it from the representatives of GOME. It has not relied on representations, warranties, opinions, projections, financial or other information or analysis supplied to it by any person other than GOME. It has made its own assessment concerning the relevant tax, legal and other economic considerations relevant to its investment in the New GOME Shares;

(d) it acknowledges that the New GOME Shares are of the same class as the existing ordinary shares of GOME listed on the Hong Kong Stock Exchange and that GOME is therefore required to publish certain business and financial information in accordance with general disclosure requirements and the rules and practices of the Hong Kong Stock Exchange (the ***Exchange Information***), and that it is able to obtain or access such information without undue difficulty. It acknowledges that neither GOME nor any of its affiliates has made any representation to it with respect to GOME, other than the information contained in the Composite Document. It understands that the Exchange Information has been prepared in accordance with Hong Kong format, style and content, which differs from US format, style and content;

(e) it is a "qualified institutional buyer" (a ***QIB***) within the meaning of Rule 144A under the US Securities Act. Further, if it is acquiring the New GOME Shares as a fiduciary or agent for one or more investor accounts, each such account is a QIB, it has investment discretion with respect to each such account, and it has full power and authority to make the representations, warranties, agreements and confirmations herein on behalf of each such account;

(f) it is acquiring the New GOME Shares for its own account (or the account of a QIB as to which it has full investment discretion) for investment purposes, and not with a view to distribution within the meaning of the United States securities laws, and does not hold its shares through a depository in the form of American Depository Shares;

(g) it understands that the New GOME Shares are being offered in a transaction not involving any public offering in the United States within the meaning of the US Securities Act and that the New GOME Shares have not been and will not be registered under the US Securities Act. Notwithstanding statements in the Offer Document regarding the transferability of the New GOME Shares, it agrees that the New GOME Shares may not be reoffered, resold, pledged or otherwise transferred, and that it will not reoffer, resell, pledge or otherwise transfer the New GOME Shares, except (a) in an offshore transaction pursuant to Regulation S under the US Securities Act, (b) in the United States to QIBs pursuant to Rule 144A under the US Securities Act (if available), or (c) pursuant to Rule 144 under the US Securities Act (if available) and that, in each case, such offer, sale, pledge or transfer must, and will, be made in accordance with any applicable securities laws of any state of the United States;

(h) it understands that no representation has been made as to the availability of Rule 144 or any other exemption under the US Securities Act for the reoffer, resale, pledge or transfer of the New GOME Shares;

(i) it understands that the New GOME Shares are "restricted securities" within the meaning of Rule 144(a)(3) under the US Securities Act and that, for so long as they remain "restricted securities", they may not be deposited into any unrestricted depositary facility established or maintained by a depositary bank; and

(j) it understands that the foregoing representations, warranties, agreements and confirmations are required in connection with United States and other securities laws and that GOME, Goldman Sachs and their respective affiliates are entitled to rely upon the accuracy of the representations, warranties, agreements and confirmations contained herein, and GOME, Goldman Sachs and their respective affiliates are irrevocably authorised to produce a copy hereof to any interested party in any administrative or legal proceedings or official inquiries with respect to the matters covered hereby.

US Shareholders who accept the Offer will be deemed to make these representations, warranties, agreements and confirmations set out in this paragraph 2.9.

2.10 General

(a) All communications, notices, Forms of Acceptance, China Paradise Share certificates, transfer receipts, other documents of title or indemnities, cheques and New GOME Shares to be delivered by or sent to the China Paradise Shareholders will be delivered by or sent to or from them, or their designated agents, at their own risk, and none of the Offeror, Goldman Sachs, China Paradise, the Registrar or any of their respective agents, or any other person involved in the Offer, accepts any liability for any loss in postage or any other liabilities that may arise as a result.

(b) Subject to the terms of the Takeovers Code, acceptance(s) of the Offer may, at the discretion of the Offeror, be treated as valid even if not accompanied by the relevant China Paradise Share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities in respect thereof), but, in such cases, the cheques and/or New GOME Share certificates will not be despatched until the China Paradise Share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities in respect thereof) has/have been received by the Registrar. However, such acceptances will not be counted towards fulfilling the acceptance condition unless Rule 30.2 of the Takeovers Code has been fully complied with.

(c) If no number of the China Paradise Shares is specified in the applicable Form of Acceptance or the number of the China Paradise Shares specified by the acceptor in the applicable Form of Acceptance is greater than the number of the China Paradise Shares registered in the name of the acceptor as holder, the acceptor shall be deemed to have accepted the Offer in respect of the entire holdings of the China Paradise Shares registered in the acceptor's name.

(d) Subject to paragraph (b) in this sub-section headed ''GENERAL'' of this appendix, if the number of the China Paradise Shares specified by an acceptor in the applicable form for acceptance of the Offer is greater than the relevant China Paradise Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities in respect thereof) that are forwarded by the acceptor to the Registrar, the acceptor shall be deemed to have accepted the Offer only in respect of the number or face value represented by the relevant China Paradise Share certificate(s), transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities in respect thereof) received by the Registrar in good order before 4:00 p.m. on the First Closing Date, or such later time and/or date as the Offeror may determine and announce with the consent of the Executive.

(e) If the Offer does not become unconditional in all respects within the time permitted by the Takeovers Code, the Form of Acceptance, the relevant China Paradise Share certificate(s), transfer receipt(s) and any other documents of title (and/or any satisfactory indemnity or indemnities required in respect thereof) received by the Offeror will be returned to the China Paradise Shareholders who have accepted the Offer by post or such documents will be made available by the Registrar for collection, as soon as possible but in any event within 10 days after the Offer has lapsed.

(f) The provisions set out in the accompanying Form of Acceptance form part of the terms of the Offer.

(g) The accidental omission to despatch the Composite Document and/or Form of Acceptance or any of them to any person to whom the Offer is made will not invalidate the Offer in any way.

(h) The Offer and all acceptances is governed by and will be construed in accordance with the laws of Hong Kong.

(i) Due execution of the Form of Acceptance will constitute an irrevocable authority to any Director or such person or persons as the Offeror may direct to complete and execute any document on behalf of the person accepting the Offer and to do any other act that may be necessary or expedient for the purposes of vesting in the Offeror or such person or persons as it may direct the China Paradise Shares in respect of which such person has accepted the Offer.

(j) Acceptance of the Offer by any person or persons will be deemed to constitute a warranty by such person or persons to the Offeror that the China Paradise Shares acquired under the Offer are sold by any such person or persons free from all third party rights, liens, claims, charges, equities and encumbrances and together with all rights attaching thereto including the rights to receive all future dividends or other distributions declared, paid or made on the China Paradise Shares on or after the date of the Joint Announcement.

(k) Settlement of the consideration to which any China Paradise Shareholder is entitled under the Offer will be implemented in full in accordance with the terms of the Offer without regard to any lien, right of set-off, counterclaim or other analogous right to which GOME may otherwise be, or claim to be, entitled against such China Paradise Shareholder.

(l) References to the Offer in the Composite Document and in the Form of Acceptance shall include any revision and/or extension thereof and references to the Offer becoming unconditional shall include a reference to the Offer being declared unconditional.

(m) Acceptance of the Offer by persons with a registered address in jurisdictions outside Hong Kong may be affected by the laws of the relevant jurisdictions. Holders of China Paradise Shares who are citizens or residents or nationals of jurisdictions outside Hong Kong should inform themselves about and observe any applicable legal requirements. It is the responsibility of any person not resident in Hong Kong who wishes to accept the Offer to satisfy himself as to the full observance of all the applicable laws and regulations of any relevant jurisdiction in connection therewith, including obtaining any government or other consent which may be required, complying with any other necessary formalities and paying and issue, transfer or other taxes due in such jurisdiction. The Offeror, Goldman Sachs and any other person involved in the Offer shall be entitled to be fully indemnified and held harmless by such person for any taxes as such person may be required to pay. For further information regarding Overseas Shareholders, see section 2.8 above, headed "Overseas Shareholders" of this appendix.

(n) The English text of the Composite Document and of the Form of Acceptance shall prevail over the Chinese text for the purpose of interpretation.

(o) The Registrar is situated at Shops 1712-1716, 17/F Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

(A) THREE-YEAR FINANCIAL SUMMARY

Set out below is a summary of the consolidated income statements of GOME Electrical Appliances Holding Limited (the "Company") for the year ended 31 December 2005, nine months ended 31 December 2004 and the year ended 31 March 2004 and the consolidated balance sheets as at 31 March 2004, 31 December 2004 and 31 December 2005 (the "Financial Information"). The Financial Information is extracted from the Company's audited consolidated financial statements for the year ended 31 December 2005 (the "2005 Financial Statements"), nine months ended 31 December 2004 (the "2004 Financial Statements") and the year ended 31 March 2004 which are prepared in accordance with International Financial Reporting Standards (the "IFRS"). The auditors' reports in respect of the Company's respective consolidated financial statements did not contain any qualification. There is no extraordinary or exceptional item for the year ended 31 December 2005, nine months ended 31 December 2004 and the year ended 31 March 2004.

The International Accounting Standards Board has issued a number of new and revised IFRSs, which are effective for accounting periods beginning on or after 1 January 2005. The adoption of the new and revised standards had no significant financial impact to the GOME Group.

As set out in note 1 to the Company's 2005 Financial Statements, the 2005 Financial Statements are presented in Renminbi, which is different from the presentation currency of the 2004 Financial Statements of Hong Kong dollars. As a result, the comparative amounts to the 2005 Financial Statements have been restated to achieve comparability with the current period. The change of presentation currency and restatement of the comparative amounts from Hong Kong dollars to Renminbi had no material impact on the Company's consolidated financial statements for the periods presented.

In addition, as set out in note 1 to the Company's 2004 Financial Statements, pursuant to a resolution passed by the board of directors of the Company on 17 November 2004, the board resolved to change the Company's financial year end from 31 March to 31 December in order to achieve a coterminous year end date with the Company's operating subsidiaries in the People's Republic of China. Accordingly, the 2004 Financial Statements are presented for a period of nine months rather than for a period of twelve months as was adopted for the year ended 31 March 2004. Consequently, the comparative amounts for the Company's consolidated income statement for the nine months period ended 31 December 2004 are not comparable with those of the year ended 31 December 2005.

The financial summary of consolidated income statements for the year ended 31 March 2004 has been translated, for illustrative purpose only, into RMB from HK$ at applicable exchange rate of RMB1.06: HK$1.00.

Summary Consolidated Income Statements:

	Year ended 31 December 2005 *RMB'000*	Nine months ended 31 December 2004 *RMB'000* (Restated)	Year ended 31 March 2004 *RMB'000* (Restated)
Continuing operations			
Revenue	17,959,258	9,715,903	10,233,768
Cost of sales	(16,307,478)	(8,762,730)	(9,406,107)
Gross profit	1,651,780	953,173	827,661
Other income	740,535	385,965	353,416
Selling and distribution costs	(1,228,433)	(544,464)	(538,944)
Administrative expenses	(268,868)	(130,658)	(131,460)
Other expenses	(96,555)	(61,062)	(44,425)
Finance costs	–	(2,200)	(1,286)
Finance income	70,305	24,401	16,309
Share of losses of associates	–	–	(1)
Profit before tax	868,764	625,155	481,270
Income tax	(91,897)	(44,561)	(94,389)
Profit for the year/period from continuing operations	776,867	580,594	386,881
Discontinued operation			
Profit for the year/period from a discontinued operation	332	–	–
Profit for the year/period	777,199	580,594	386,881
Attributable to:			
Equity holders of the parent	498,596	374,089	258,767
Minority interests	278,603	206,505	128,114
	777,199	580,594	386,881
Dividends			
Interim	71,742	–	–
Final	73,450	43,525	–
	145,192	43,525	–
Earnings per share attributable to ordinary equity holders of the parent			
– basic, for profit for the year/period	RMB30 fen	RMB23 fen	RMB17 fen
– basic, for profit from continuing operations	RMB30 fen	RMB23 fen	RMB17 fen
– diluted, for profit for the year/period	N/A	RMB23 fen	RMB17 fen
– diluted, for profit from continuing operations	N/A	RMB23 fen	RMB17 fen
Dividends per share			
Interim	RMB4.4 fen	–	–
Final	RMB4.5 fen	RMB2.7 fen	–
	RMB8.9 fen	RMB2.7 fen	–

Summary Consolidated Balance Sheets:

	31 December 2005 *RMB'000*	31 December 2004 *RMB'000* (Restated)	31 March 2004 *RMB'000* (Restated)
ASSETS			
Non-current assets			
Property, plant and equipment	909,631	135,500	111,624
Investment properties	5,200	5,300	4,704
Intangible assets	33,215	2,374	(14,269)
Property under development	–	–	795,467
Other investments	–	–	131
Deferred income tax assets	13,018	–	1,232
	961,064	143,174	898,889
Current assets			
Hong Kong listed investments, at fair value	861	851	851
Margin deposits with brokers and financial institutions	–	–	68,182
Inventories	2,725,375	1,109,114	831,303
Bills receivable	30	320	940
Trade receivables	–	71,524	66,599
Prepayments, deposits and other receivables	467,017	187,709	87,686
Due from related parties	840,076	232,547	1,102,180
Other financial assets	161,000	–	–
Client trust bank balances	–	12,649	11,513
Pledged deposits	3,133,124	901,319	807,210
Cash and cash equivalents	1,079,347	1,659,094	357,522
	8,406,830	4,175,127	3,333,986
Assets of a disposal group classified as held for sale	–	795,467	–
	8,406,830	4,970,594	3,333,986
TOTAL ASSETS	9,367,894	5,113,768	4,232,875

	31 December 2005 *RMB'000*	31 December 2004 *RMB'000* (Restated)	31 March 2004 *RMB'000* (Restated)
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital	174,099	174,099	300,966
Reserves	1,336,787	963,675	312,572
Mandatory convertible notes	–	–	318,000
	1,510,886	1,137,774	931,538
Minority interests	360,408	233,182	131,401
Total equity	1,871,294	1,370,956	1,062,939
Non-current liabilities			
Deferred income tax liabilities	–	–	1,107
Long term payables	–	–	167,000
	–	–	168,107
Current liabilities			
Interest-bearing bank loan, unsecured	–	–	10,000
Convertible notes	–	–	25,440
Trade and bills payables	6,805,277	3,193,234	2,528,210
Customers' deposits, other payables and accruals	605,661	329,758	314,191
Due to a related party	83	85	92,266
Liability directly associated with assets classified as held for sale	–	167,000	–
Tax payable	85,579	52,735	31,722
	7,496,600	3,742,812	3,001,829
Total liabilities	7,496,600	3,742,812	3,169,936
TOTAL EQUITY AND LIABILITIES	9,367,894	5,113,768	4,232,875

(B) SUPPLEMENTARY INFORMATION ON GOME

The accompanying supplementary information has been extracted from the 2004 annual report of GOME and pro forma financial information (the “Pro Forma Financial Information”), which has been prepared by the Company solely for illustrative purpose to provide information on how the financial report of the Group that would have been attained had the change of financial year end from 31 March to 31 December taken effect from 1 January 2003. The Pro Forma Financial Information has been prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting” promulgated by the International Accounting Standards Board. The significant accounting policies and basis of presentation used in the preparation of Pro Forma Financial Information are the same as those used in the audited financial statements of the Company for the nine months ended 31 December 2004.

The Pro Forma Financial Information has been reviewed by Ernst & Young, certified public accountants, in accordance with Statement of Auditing Standards 700 “Engagements to review interim financial reports” issued by the Hong Kong Institute of Certified Public Accountants.

Pro Forma Condensed Combined Income Statement
For the year ended 31 December 2004

	2004	2003
	HK$'000	*HK$'000*
Revenue	11,931,299	8,826,692
Cost of sales	(10,782,829)	(8,180,875)
GROSS PROFIT	1,148,470	645,817
Other operating income	458,197	270,834
Selling and distribution expenses	(653,021)	(461,260)
Administrative expenses	(162,747)	(103,119)
Other operating expenses	(48,927)	(35,279)
PROFIT FROM OPERATING ACTIVITIES	741,972	316,993
Interest expense	(2,321)	(1,344)
Interest income	28,389	13,329
Share of losses of associate	–	(1)
PROFIT BEFORE TAX	768,040	328,977
Income tax	(71,965)	(72,710)
PROFIT BEFORE MINORITY INTERESTS	696,075	256,267
Minority interests	(237,919)	(90,622)
NET PROFIT	458,156	165,645
DIVIDENDS		
Proposed final	41,061	–
EARNINGS PER SHARE		
Basic	28 cents	11 cents
Diluted	28 cents	11 cents

Pro Forma Condensed Combined Balance Sheet

As at 31 December 2004

	31 December 2004 HK$'000	31 December 2003 HK$'000
NON-CURRENT ASSETS		
Property, plant and equipment	127,830	95,597
Intangible assets	2,240	1,421
Interests in associates	–	203,246
Investment properties	5,000	4,438
Other investments	–	124
Deferred income tax assets	–	2,244
	135,070	307,070
CURRENT ASSETS		
Property project held for sale	750,441	–
Hong Kong listed investments, at fair value	803	–
Margin deposits with brokers and financial institutions	–	39,863
Inventories	1,046,334	919,698
Bills receivable	302	2,814
Trade receivables	67,475	23,677
Prepayments and other receivables	177,084	105,535
Due from related parties	219,384	1,980,456
Client trust bank balances	11,933	12,416
Pledged deposits	850,301	998,112
Cash and cash equivalents	1,565,183	378,607
	4,689,240	4,461,178
CURRENT LIABILITIES		
Interest-bearing bank loan, unsecured	–	9,434
Convertible notes	–	24,000
Trade payables and bills payable	3,012,485	3,254,776
Customers' deposits, other payables and accruals	311,093	294,073
Due to related parties	80	121
Current portion of long term payables	157,547	–
Tax payable	49,750	17,952
Deferred income tax liabilities	–	1,999
	3,530,955	3,602,355
NET CURRENT ASSETS	1,158,285	858,823
TOTAL ASSETS LESS CURRENT LIABILITIES	1,293,355	1,165,893
MINORITY INTERESTS	219,983	314,473
NET ASSETS	1,073,372	851,420
	1,073,372	851,420
CAPITAL AND RESERVES		
Share capital	164,245	283,930
Reserves	868,066	267,490
Mandatory convertible notes	–	300,000
Proposal final dividends	41,061	–
	1,073,372	851,420

Pro Forma Condensed Combined Statement of Changes in Equity

For the year ended 31 December 2004

	Issued share capital	Share premium	Contributed surplus	Statutory reserves	Mandatory convertible notes	Retained earnings	Proposed final dividends	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2003	161,830	40,734	620	14,609	–	176,830	–	394,623
Placing of shares	32,300	5,680	–	–	–	–	–	37,980
Shares issued upon conversion of convertible notes	42,500	8,500	–	–	–	–	–	51,000
Contribution from the owner	–	–	–	–	–	202,172	–	202,172
Distribution to owner	–	–	–	–	–	–	–	–
Net profit for the year	–	–	–	–	–	165,645	–	165,645
Transfer to statutory reserves	–	–	–	25,255	–	(25,255)	–	–
At 31 December 2003	236,630	54,914	620	39,864	–	519,392	–	851,420
Effect of adopting IFRS 3	–	–	–	–	–	15,718	–	15,718
Issue of new shares for Acquisition	4,412	–	–	–	–	(4,412)	–	–
Share issue costs	–	(15,426)	–	–	–	–	–	(15,426)
Placing of shares	47,300	9,328	–	–	–	–	–	56,628
Issue of mandatory convertible notes	–	–	–	–	522,944	(222,944)	–	300,000
Shares issued upon conversion of:								
– Mandatory convertible notes	250,000	50,000	–	–	(300,000)	–	–	–
– Convertible notes	20,000	4,000	–	–	–	–	–	24,000
– Mandatory convertible notes	145,985	76,959	–	–	(222,944)	–	–	–
Share consolidation	(540,082)	540,082	–	–	–	–	–	–
Net profit for the year	–	–	–	–	–	458,156	–	458,156
Proposed final dividends	–	–	–	–	–	(41,061)	41,061	–
Transfer to statutory reserves	–	–	–	110,794	–	(110,794)	–	–
Distribution to the owner	–	–	–	(25,347)	–	(591,777)	–	(617,124)
At 31 December 2004	**164,245**	**719,857**	**620**	**125,311**	**–**	**22,278**	**41,061**	**1,073,372**

Pro Forma Condensed Combined Statement Of Cash Flows
For the year ended 31 December 2004

	2004	**2003**
	HK$'000	*HK$'000*
Net cash inflow from operating activities	413,428	1,544,170
Net cash inflow/(outflow) from investing activities	95,760	(696,832)
Net cash inflow/(outflow) from financing activities	677,388	(714,827)
Net increase in cash and cash equivalents	1,186,576	132,511
Cash and cash equivalents as at 1 January	378,607	246,096
Cash and cash equivalents as at 31 December	1,565,183	378,607

(C) FINANCIAL INFORMATION OF GOME FOR THE YEAR ENDED 31 DECEMBER 2005 AND THE NINE MONTHS ENDED 31 DECEMBER 2004:

Set out below are the audited consolidated financial statements of GOME for the year ended 31 December 2005 and the nine months ended 31 December 2004 are extracted from the 2005 annual report of GOME:

CONSOLIDATED INCOME STATEMENT
Year ended 31 December 2005

	Notes	Year ended 31 December 2005 RMB'000	Nine months ended 31 December 2004 RMB'000 (Restated) *(note 1)*
Continuing operations			
Revenue	*3(a)*	17,959,258	9,715,903
Cost of sales		(16,307,478)	(8,762,730)
Gross profit		1,651,780	953,173
Other income	*3(b)*	740,535	385,965
Selling and distribution costs		(1,228,433)	(544,464)
Administrative expenses		(268,868)	(130,658)
Other expenses		(96,555)	(61,062)
Finance costs	*6*	–	(2,200)
Finance income	*6*	70,305	24,401
Profit before tax	*5*	868,764	625,155
Income tax	*8*	(91,897)	(44,561)
Profit for the year/period from continuing operations		776,867	580,594
Discontinued operation			
Profit for the year/period from a discontinued operation	*9*	332	–
Profit for the year/period		777,199	580,594
Attributable to:			
Equity holders of the parent		498,596	374,089
Minority interests		278,603	206,505
		777,199	580,594
Earnings per share attributable to ordinary equity holders of the parent	*32*		
– basic, for profit for the year/period		RMB30 fen	RMB23 fen
– basic, for profit from continuing operations		RMB30 fen	RMB23 fen
– diluted, for profit for the year/period		N/A	RMB23 fen
– diluted, for profit from continuing operations		N/A	RMB23 fen

CONSOLIDATED BALANCE SHEET

31 December 2005

	Notes	31 December 2005 RMB'000	31 December 2004 RMB'000 (Restated) (note 1)
ASSETS			
Non-current assets			
Property, plant and equipment	10	909,631	135,500
Investment properties	11	5,200	5,300
Intangible assets	12	33,215	2,374
Deferred income tax assets	13	13,018	–
		961,064	143,174
Current assets			
Hong Kong listed investments, at fair value		861	851
Inventories	15	2,725,375	1,109,114
Bills receivable		30	320
Trade receivables	16	–	71,524
Prepayments, deposits and other receivables	17	467,017	187,709
Due from related parties	18	840,076	232,547
Other financial assets	19	161,000	–
Client trust bank balances	20	–	12,649
Pledged deposits	21	3,133,124	901,319
Cash and cash equivalents	21	1,079,347	1,659,094
		8,406,830	4,175,127
Assets of a disposal group classified as held for sale	22	–	795,467
		8,406,830	4,970,594
TOTAL ASSETS		9,367,894	5,113,768

	Notes	31 December 2005 RMB'000	31 December 2004 RMB'000 (Restated) *(note 1)*
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital	*23*	174,099	174,099
Reserves	*24(a)*	1,336,787	963,675
		1,510,886	1,137,774
Minority interests		360,408	233,182
Total equity		1,871,294	1,370,956
Current liabilities			
Trade and bills payables	*25*	6,805,277	3,193,234
Customers' deposits, other payables and accruals	*26*	605,661	329,758
Due to a related party	*27*	83	85
Tax payable		85,579	52,735
		7,496,600	3,575,812
Liability directly associated with assets classified as held for sale	*22, 28*	–	167,000
Total liabilities		7,496,600	3,742,812
TOTAL EQUITY AND LIABILITIES		9,367,894	5,113,768

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2005

		Attributable to equity holders of the Parent									
	Notes	Issued share capital RMB'000	Share premium account RMB'000	Contributed surplus RMB'000	Statutory reserves RMB'000	Mandatory convertible notes reserves RMB'000	Foreign currency translation reserve RMB'000	Retained earnings RMB'000	Total RMB'000	Minority interests RMB'000	Total equity RMB'000
At 1 April 2004 (Restated) *(note 1)*		300,966	68,097	657	15,388	318,000	–	245,091	948,199	131,401	1,079,600
Issue of new shares for acquisition		4,677	–	–	–	–	–	(4,677)	–	–	–
Share issue costs		–	(16,352)	–	–	–	–	–	(16,352)	–	(16,352)
Issue of mandatory convertible notes		–	–	–	–	236,321	–	(236,321)	–	–	–
Shares issued upon conversion of: – Mandatory convertible notes		265,000	53,000	–	–	(318,000)	–	–	–	–	–
– Convertible notes		21,200	4,240	–	–	–	–	–	25,440	–	25,440
– Mandatory convertible notes		154,744	81,577	–	–	(236,321)	–	–	–	–	–
Share consolidation		(572,488)	572,488	–	–	–	–	–	–	–	–
Net profit for the period		–	–	–	–	–	–	374,089	374,089	206,505	580,594
Transfer to statutory reserves		–	–	–	117,441	–	–	(117,441)	–	–	–
Distribution to the owner		–	–	–	–	–	–	(193,602)	(193,602)	(104,246)	(297,848)
Acquisition of a subsidiary		–	–	–	–	–	–	–	–	(478)	(478)
At 31 December 2004 (Restated) *(note 1)*		174,099	763,050	657	132,829	–	–	67,139	1,137,774	233,182	1,370,956
Net profit for the year		–	–	–	–	–	–	498,596	498,596	278,603	777,199
Disposal of subsidiaries	*30(a)*	–	–	–	–	–	–	–	–	(1,276)	(1,276)
Dividends	*31*	–	–	–	–	–	–	(115,267)	(115,267)	(150,101)	(265,368)
Transfer to statutory reserves		–	–	–	83,838	–	–	(83,838)	–	–	–
Currency translation differences		–	–	–	–	–	(10,217)	–	(10,217)	–	(10,217)
At 31 December 2005		174,099	763,050	657	216,667	–	(10,217)	366,630	1,510,886	360,408	1,871,294

BALANCE SHEET OF THE COMPANY

At 31 December 2005

	Notes	31 December 2005 RMB'000	31 December 2004 RMB'000 (Restated) (note 1)
ASSETS			
Non-current assets			
Interests in subsidiaries	14	(1,513)	187,745
Current assets			
Hong Kong listed investments, at fair value		861	851
Due from a related party	18	793,445	–
Prepayments, deposits and other receivables	17	520	337
Cash and cash equivalents	21	303,806	901,717
		1,098,632	902,905
TOTAL ASSETS		1,097,119	1,090,650
EQUITY AND LIABILITIES			
Equity			
Share capital	23	174,099	174,099
Reserves	24(b)	918,683	907,285
Total equity		1,092,782	1,081,384
Current liabilities			
Other payables and accruals		4,254	3,351
Due to a related party	27	83	85
Tax payable		–	5,830
Total liabilities		4,337	9,266
TOTAL EQUITY AND LIABILITIES		1,097,119	1,090,650

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2005

	Notes	Year ended 31 December 2005 RMB'000	Nine months ended 31 December 2004 RMB'000 (Restated) (note 1)
Cash flows from operating activities			
Profit before tax from continuing operations		868,764	625,155
Profit before tax from the discontinued operation		332	–
Adjustments for:			
Finance income	6	(70,305)	(24,401)
Finance costs	6	–	2,200
Depreciation	5	52,381	28,260
Loss on disposal of property, plant and equipment	5	62	1,751
Loss on disposal of subsidiaries	5	6,960	–
Fair value adjustment to investment properties	11	100	(596)
Excess over the cost of the business combination	5,29(b)	(6,415)	–
Amortisation of intangible assets	5	8	18
Operating profit before working capital changes		851,887	632,387
(Increase)/decrease in Hong Kong listed investments, at fair value		(10)	1
Decrease in margin deposits with brokers and financial institutions		–	68,182
Increase in inventories		(1,591,261)	(277,811)
Decrease in bills receivable		290	619
(Increase)/decrease in trade receivables		9,415	(4,925)
Increase in prepayments, deposits and other receivables		(279,620)	(100,022)
(Increase)/decrease in amounts due from related parties		184,354	(218,909)
(Increase)/decrease in client trust bank balances		10,947	(1,136)
Increase in pledged deposits		(2,231,805)	(94,109)
Increase in trade and bills payables		3,617,115	665,024
Increase in customers' deposits, other payables and accruals		218,614	15,566
Decrease in amounts due to a related party		–	(92,182)
Cash generated from operations		789,926	592,685
Interest received		70,305	24,401
Interest paid		–	(2,200)
Dividends paid		(265,368)	–
Hong Kong profits tax paid		(6,139)	–
PRC income tax paid		(65,932)	(23,425)
Net cash inflow from operating activities		522,792	591,461

Continued/....

	Notes	Year ended 31 December 2005 RMB'000	Nine months ended 31 December 2004 RMB'000 (Restated) *(note 1)*
Cash flows from investing activities			
Purchases of property, plant and equipment		(549,232)	(53,887)
Proceeds from disposal of property, plant and equipment		2,710	–
Proceeds from disposal of other long term investments		–	131
Acquisition of subsidiaries	*29*	(247,500)	(477)
Disposal of subsidiaries, net	*30*	(107,363)	–
Increase in other financial assets	*19*	(161,000)	–
Decrease in a liability directly associated with assets classified as held for sale		(30,000)	–
Net cash outflow from investing activities		(1,092,385)	(54,233)
Net cash (outflow)/inflow before financing activities		(569,593)	537,228
Cash flows from financing activities			
Share issue costs		–	(16,352)
Decrease in amounts due from related parties		–	1,088,542
Repayment of a bank loan		–	(10,000)
Distribution to the owner		–	(297,848)
Net cash inflow from financing activities		–	764,342
Net increase/(decrease) in cash and cash equivalents		(569,593)	1,301,570
Cash and cash equivalents at beginning of year/period		1,659,094	357,524
Net foreign exchange difference		(10,154)	–
Cash and cash equivalents at end of year/period		1,079,347	1,659,094

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2005

1. CORPORATE INFORMATION

GOME Electrical Appliances Holding Limited (the "Company") was incorporated in Bermuda with limited liability. Its shares are listed on The Stock Exchange of Hong Kong Limited. The address of its registered office is Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda.

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

The principal activities of the Company and its subsidiaries (the "Group") are the retailing of electrical appliances and consumer electronic products in designated cities within the PRC. During the year, the Group had disposed of its securities and futures broking operation.

Pursuant to a resolution passed by the board of directors of the Company on 17 November 2004, the board resolved to change the Company's financial year end date from 31 March 2005 to 31 December 2004 and, as a result, the Company's comparative financial statements were presented for a period of nine months rather than for a period of twelve months. Consequently, the comparative amounts for the income statement, the statement of changes in equity, the statement of cash flows and related notes are not comparable with those of the year ended 31 December 2005.

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

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

2.1 BASIS OF PREPARATION

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

Statement of compliance

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

2.1 BASIS OF PREPARATION *(Continued)*

Basis of consolidation

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

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

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

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

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

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

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

IFRS 5 requires the non-current assets classified as held for sale and the liabilities directly associated with those assets to be presented separately in the balance sheet. Such assets are measured at the lower of the carrying amount and the fair value less costs to sell and are not depreciated. IFRS 5 had no material effect on the Group and is applied prospectively.

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

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

2.3 SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

Judgments

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

Inventories

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

Income taxes

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

Estimation uncertainty

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

Goodwill

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies

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

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

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

Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing a particular type of products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

(i) *Sale of goods*

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

(ii) *Income from suppliers*

Income from suppliers comprises promotion income, management fee income, display space leasing fees and product listing fees. Revenue is recognised according to the underlying contract terms when these services have been provided in accordance therewith.

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

Revenue is recognised when such services have been rendered.

(iv) *Royalty income from franchise stores*

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

(v) Interest income

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

Government grants

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

Employee benefits

Salaries, bonuses, paid annual leave and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

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

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which does not have realistic possibility of withdrawal.

Taxes

Current tax

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

Deferred tax

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxes *(Continued)*

Deferred tax (Continued)

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

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

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

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

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

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

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

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

Sales tax

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

- where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

- receivables and payables that are stated with the amount of sales tax included.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Related parties

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

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

(b) the party is an associate;

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

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

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

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

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

Leases

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

Impairment of assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognised in the consolidated income statement in those expense categories consistent with the function of the impaired asset.

Impairment of financial assets

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets *(Continued)*

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

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

Property, plant and equipment

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

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

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

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

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

The carrying values of property, plant and equipment are reviewed for impairment either annually, or when events or changes in circumstances indicate that the carrying values may not be recoverable (whichever is earlier). If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. The recoverable amount of property, plant and equipment is the greater of the net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognised in the consolidated income statement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment *(Continued)*

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

Investment properties

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

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the consolidated income statement in the year of retirement or disposal.

Intangible assets

Intangible assets acquired separately are capitalised at cost, and those acquired from a business combination are capitalised at fair value as at the date of acquisition. Following initial recognition, the cost model is applied to the class of intangible assets. The useful lives of these intangible assets are assessed to be either finite or indefinite. Amortisation is charged on assets with finite lives. The amortisation period and amortisation method for an intangible asset with a finite useful life is reviewed at least at each balance sheet date.

Intangible assets, excluding development costs, created within the business are not capitalised and expenditure is charged against profits in the year in which the expenditure is incurred.

Intangible assets are tested for impairment annually and in the case of an intangible asset with an indefinite useful life, whenever there is an indication that an intangible asset may be impaired, either individually or at the cash-generating unit level. Useful lives are also examined on an annual basis and adjustments, where applicable, are made on a prospective basis.

Goodwill

Goodwill on business combination is initially measured at cost being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill relating to acquisitions is not amortised. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

As at the acquisition date, any goodwill acquired is allocated to each of the cash-generating units expected to benefit from the combination's synergies. Impairment is determined by assessing the recoverable amount of the cash-generating unit, to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised. Where goodwill forms part of a cash-generating unit (group of cash-generating units), and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained. An impairment loss is not reversed in a subsequent period.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill *(Continued)*

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

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis. Net realisable value is the estimated selling price in the ordinary course of business, less any estimated costs necessary to make the sale.

Consumables are stated at cost less any impairment losses.

Trade receivables

Trade receivables are recognised and carried at the original invoice amount less any allowances for any uncollectable amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

Investments and other financial assets

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

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

Financial assets at fair value through profit or loss

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Held-to-maturity investments

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

Receivables

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

Available-for-sale financial assets

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

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

Cash and cash equivalents

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

Property project held for sale

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

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation provided and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as an interest expense.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Bonus point liabilities

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

Interest-bearing loans and borrowings

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

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

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

Derecognition of financial assets and liabilities

Financial assets

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Derecognition of financial assets and liabilities *(Continued)*

Financial liabilities

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

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

Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events for which existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that an outflow of economic resources will be required, or that the amount of the obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that an outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events for which existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When an inflow is virtually certain, an asset is recognised.

3. REVENUE AND OTHER INCOME

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

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

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

3. REVENUE AND OTHER INCOME *(Continued)*

(b) Other income comprises the following:

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

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

** Various local government grants have been received to reward the Group's contributions to the local economy. There were no unfulfilled conditions or contingencies attaching to these government grants.

4. SEGMENT INFORMATION

(i) During the year/period, over 90% of the Group's revenue and results were derived from the retailing of electrical appliances and consumer electronic products, and therefore no business segment analysis has been presented.

(ii) No geographical segment analysis has been presented as over 90% of the Group's revenue was derived from customers in the PRC.

5. PROFIT BEFORE TAX

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

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

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

6. FINANCE (COSTS)/INCOME

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

7. REMUNERATION OF DIRECTORS AND FIVE HIGHEST PAID EMPLOYEES

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

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

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

(a) Independent non-executive directors

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

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

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

(b) Executive directors

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

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

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

(b) Executive directors *(Continued)*

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

(c) Five highest paid employees

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

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

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

	Number of employees	
	Year ended 31 December 2005	**Nine months ended 31 December 2004**
Nil to HK$1,000,000	1	–
HK$1,000,001 to HK$1,500,000	–	–
HK$1,500,001 to HK$2,000,000	2	–
	3	–

8. INCOME TAX

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

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

Under the relevant PRC income tax law, except for certain preferential treatment available to the Group, the subsidiaries of the Group are subject to income tax at a rate of 33% on their respective taxable income.

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

The Group realised a significant amount of tax benefits during the year through utilising the preferential income tax rates and the income tax exemption. These preferential tax treatments were available to the Group pursuant to the PRC tax rules and regulations, which are subject to the approval of and the assessment of related party transactions by the relevant PRC tax authorities.

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

8. **INCOME TAX** *(Continued)*

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the countries in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rates is as follows:

Group – for the year ended 31 December 2005

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

No tax charge was attributable to the discontinued operation.

Group – for the nine months ended 31 December 2004

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

9. **DISCONTINUED OPERATION**

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

9. **DISCONTINUED OPERATION** *(Continued)*

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

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

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

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

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

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

10. PROPERTY, PLANT AND EQUIPMENT

Group

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

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

Group *(Continued)*

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

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

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

11. INVESTMENT PROPERTIES

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

Investment properties comprise an industrial property and a car park that are leased to a related party (note 35(b)(iii)) and a third party, respectively.

Investment properties are stated at fair value, which has been determined based on the valuations performed by B.I. Appraisals Limited, an independent firm of professional valuers, as at the balance sheet date. The fair value represents the amount at which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction at the date of valuation.

Investment properties are located in Hong Kong under medium term leases.

12. INTANGIBLE ASSETS

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

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

12. INTANGIBLE ASSETS *(Continued)*

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

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

13. DEFERRED INCOME TAX ASSETS

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

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

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

14. INTERESTS IN SUBSIDIARIES

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

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

Details of the Company's principal subsidiaries at 31 December 2005 are set out below:

Name of Company	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Capital Automation (BVI) Limited (i)	British Virgin Islands/ Hong Kong	US$50,000	100	–	Investment holding
Eagle Decade Investments Limited (i)	British Virgin Islands/ Hong Kong	US$1	100	–	Investment holding
China Eagle Management Limited	Hong Kong	HK$10,000	–	100	Management services
Hong Kong Punching Center Limited	Hong Kong	HK$100,000	–	100	Property holding
Ocean Town Int'l Inc. (i)	British Virgin Islands/ Hong Kong	US$50,000	–	100	Investment holding
Gome Appliance Company Limited (iii)	PRC	RMB 300 million	–	65	*Note (iv)*
Tianjin Gome Electrical Appliance Company Limited ("Tianjin Gome") (i)(ii)	PRC	RMB 40 million	–	65	*Note (iv)*

14. INTERESTS IN SUBSIDIARIES *(Continued)*

Details of the Company's principal subsidiaries at 31 December 2005 are set out below: *(Continued)*

Name of Company	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Langfang Gome Electrical Appliance Company Limited ("Langfang Gome") (i)(ii)	PRC	RMB 1 million	–	65	*Note (iv)*
Tianjin Gome Logistics Company Limited ("Tianjin Logistics") (i)(ii)	PRC	RMB 18 million	–	65	*Note (v)*
Chongqing Gome Electrical Appliance Company Limited ("Chongqing Gome") (i)(ii)	PRC	RMB 20 million	–	65	*Note (iv)*
Chengdu Gome Electrical Appliance Company Limited ("Chengdu Gome") (i)(ii)	PRC	RMB 20 million	–	65	*Note (iv)*
Zigong Gome Electrical Appliance Company Limited ("Zigong Gome") (i)(ii)	PRC	RMB 1 million	–	65	*Note (iv)*
Xi'an Gome Electrical Appliance Company Limited ("Xi'an Gome") (i)(ii)	PRC	RMB 10 million	–	65	*Note (iv)*
Kunming Gome Electrical Appliance Company Limited ("Kunming Gome") (i)(ii)	PRC	RMB 10 million	–	65	*Note (iv)*
Shenzhen Gome Electrical Appliance Company Limited ("Shenzhen Gome") (i)(ii)	PRC	RMB 10 million	–	65	*Note (iv)*
Fuzhou Gome Electrical Appliance Company Limited ("Fuzhou Gome") (i)(ii)	PRC	RMB 10 million	–	65	*Note (iv)*
Guangzhou Gome Electrical Appliance Company Limited ("Guangzhou Gome") (i)(ii)	PRC	RMB 10 million	–	65	*Note (iv)*

14. INTERESTS IN SUBSIDIARIES *(Continued)*

Details of the Company's principal subsidiaries at 31 December 2005 are set out below: *(Continued)*

Name of Company	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Wuhan Gome Electrical Appliance Company Limited ("Wuhan Gome") (i)(ii)	PRC	RMB 10 million	–	65	*Note (iv)*
Shenyang Gome Electrical Appliance Company Limited ("Shenyang Gome") (i)(ii)	PRC	RMB 10 million	–	65	*Note (iv)*
Jinan Gome Electrical Appliance Company Limited ("Jinan Gome") (i)(ii)	PRC	RMB 10 million	–	65	*Note (iv)*
Zibo Eagle Gome Appliance Company Limited ("Zibo Gome") (i)(ii)	PRC	RMB 2 million	–	65	*Note (iv)*
Qingdao Gome Electrical Appliance Company Limited ("Qingdao Gome") (i)(ii)	PRC	RMB 10 million	–	65	*Note (iv)*
Weifang Gome Electrical Appliance Company Limited ("Weifang Gome") (i)(ii)	PRC	RMB 3 million	–	65	*Note (iv)*
Tianjin Gome Commercial Consultancy Company Limited ("Tianjin Management") (i)(ii)	PRC	RMB 3 million	–	65	*Note (vi)*
Yantai Gome Electrical Appliance Company Limited ("Yantai Gome") (i)(ii)	PRC	RMB 5 million	–	65	*Note (iv)*
Zhanjiang Gome Electrical Appliance Company Limited ("Zhanjiang Gome") (i)(ii)	PRC	RMB 5 million	–	65	*Note (iv)*
Kunming Gome Logistics Company Limited ("Kunming Logistics") (i)(ii)	PRC	RMB 8 million	–	65	*Note (v)*

14. INTERESTS IN SUBSIDIARIES *(Continued)*

Details of the Company's principal subsidiaries at 31 December 2005 are set out below: *(Continued)*

Name of Company	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Quanzhou Pengrun Gome Electrical Appliance Company Limited ("Quanzhou Pengrun Gome") (i)(ii)	PRC	RMB 5 million	–	65	*Note (iv)*
Changzhou Jintaiyang Zhizun Electrical Appliance Company Limited ("Changzhou Jintaiyang") (i)(ii)	PRC	RMB 50 million	–	65	*Note (iv)*
Gansu Gome Electrical Appliance Company Limited ("Gansu Gome") (i)(ii)	PRC	RMB 5 million	–	65	*Note (iv)*
Beijing Pengze Real Estate Company Limited ("Beijing Pengze") (i)(ii)	PRC	RMB 10 million	–	65	Property holding
Suzhou Pengrun Gome Electrical Appliance Company Limited ("Suzhou Pengrun Gome") (i)(ii)	PRC	RMB 5 million	–	65	*Note (iv)*
Shenyang Pengrun Gome Electrical Appliance Company Limited ("Shenyang Pengrun Gome") (i)(ii)	PRC	RMB 10 million	–	65	*Note (iv)*
Kunming Qin'an Commercial Management Consultancy Company Limited ("Kunming Qin'an") (i)(ii)	PRC	RMB 6 million	–	65	*Note (vi)*
Anhui Gome Electrical Appliance Company Limited ("Anhui Gome") (i)(ii)	PRC	RMB 5 million	–	65	*Note (iv)*
Tangshan Pengrun Gome Home Appliance Company Limited ("Tangshan Pengrun Gome") (i)(ii)	PRC	RMB 5 million	–	65	*Note (iv)*

14. INTERESTS IN SUBSIDIARIES *(Continued)*

Details of the Company's principal subsidiaries at 31 December 2005 are set out below: *(Continued)*

Name of Company	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Weihai Gome Electrical Appliance Company Limited ("Weihai Gome") (i)(ii)	PRC	RMB 5 million	–	65	*Note (iv)*
Jiangsu Pengrun Gome Electrical Appliance Company Limited ("Jiangsu Pengrun Gome") (i)(ii)	PRC	RMB 10 million	–	65	*Note (iv)*
Eagle Electrical Appliance Company Limited (i)(ii)	PRC	RMB 100 million	–	65	Investment holding

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

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

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

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

(v) Provision of logistics services.

(vi) Provision of business management services.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year/period or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

15. INVENTORIES

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

16. TRADE RECEIVABLES

The trade receivables are analysed as follows:

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

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

17. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

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

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

18. DUE FROM RELATED PARTIES

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

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

Notes:

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

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

19. OTHER FINANCIAL ASSETS

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

19. OTHER FINANCIAL ASSETS *(Continued)*

Notes:

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

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

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

20. CLIENT TRUST BANK BALANCES

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

21. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

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

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

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

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

The balance represented the Group's interest in a property development project located at Area No. 7, Xi Ba He Bei Lane, Chaoyang District, Beijing, the PRC (the "Property Project"). During 2004, the directors decided that no further commitments would be made to the Property Project beyond the amount payable to Beijing Bus Company Limited of RMB167 million (note 28), and since then the Property Project was classified as held for sale.

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

23. SHARE CAPITAL

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

24. RESERVES

(a) Group

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

24. RESERVES *(Continued)*

(a) Group *(Continued)*

Statutory reserves

Pursuant to relevant PRC laws and regulations, Sino-foreign equity joint ventures registered in the PRC are required to transfer a certain percentage, as approved by the board of directors, of their profit after income tax to the reserve fund, the enterprise expansion fund and the employee bonus and welfare fund. These funds are restricted as to use.

In accordance with the relevant PRC laws and regulations, PRC domestic companies are required to transfer 10% of the profit after income tax, as determined under the PRC accounting regulations, to the statutory common reserve fund, until the balance of the fund reaches 50% of the registered capital of that company. Subject to certain restrictions as set out in the relevant PRC laws and regulations, the statutory common reserve fund may be used to offset against accumulated losses, if any. PRC domestic companies are also required to transfer 5% to 10% of their net profit, as determined under the PRC accounting regulations, to the statutory common public welfare fund. This fund can only be used to provide staff welfare facilities and other collective benefits to the employees. These funds are non-distributable other than in the event of liquidation.

(b) Company

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

24. RESERVES *(Continued)*

(b) Company *(Continued)*

Notes:

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

(b) The contributed surplus of the Company represents the difference between the nominal value of the Company's shares issued in exchange for the issued ordinary shares of Capital Automation (BVI) Limited and the value of net assets of the underlying subsidiaries acquired as at 27 March 1992. At the group level, the contributed surplus is reclassified into various components of reserves of the underlying subsidiaries.

Under the Bermuda Companies Act 1981 (as amended), the contributed surplus of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of the contributed surplus, if:

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

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

25. TRADE AND BILLS PAYABLES

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

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

26. CUSTOMERS' DEPOSITS, OTHER PAYABLES AND ACCRUALS

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

Note:

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

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

27. DUE TO A RELATED PARTY

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

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

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

29. BUSINESS COMBINATIONS

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

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

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

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

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

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

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

29. BUSINESS COMBINATIONS *(Continued)*

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

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

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

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

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

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

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

29. BUSINESS COMBINATIONS *(Continued)*

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

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

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

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

	RMB'000
Cash paid	25,000

Since its acquisition, Wuhan Zhongshang contributed RMB15,273,672 to the Group's turnover and RMB439,882 to the consolidated profit for the year ended 31 December 2005.

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

30. DISPOSAL OF SUBSIDIARIES

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

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

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

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

Before disposal, Eagle Legend Futures and Eagle Legend Securities contributed RMB4,192,000 (for the nine months ended 31 December 2004: RMB10,143,000) to the Group's turnover and RMB379,000 (for the nine months ended 31 December 2004: profit RMB3,422,000) to the consolidated profit for the year ended 31 December 2005.

30. DISPOSAL OF SUBSIDIARIES *(Continued)*

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

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

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

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

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

31. DIVIDENDS

	Year ended 31 December 2005 *RMB'000*	Nine months ended 31 December 2004 *RMB'000* (Restated) *(note 1)*
Declared and paid during the year/period		
Equity dividends on ordinary shares:		
Final dividend for 2004: HK2.5 cents (equivalent to approximately RMB2.7 fen) per share	43,525	–
Interim dividend for 2005: HK4.2 cents (equivalent to approximately RMB4.4 fen) per share	71,742	–
	115,267	–
Proposed for approval		
Equity dividends on ordinary shares:		
Final dividend for 2005: HK4.3 cents (equivalent to approximately RMB4.5 fen) per share	73,450	43,525

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

32. EARNINGS PER SHARE

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

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

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

32. EARNINGS PER SHARE *(Continued)*

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

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

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

33. CONTINGENT LIABILITIES

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

34. COMMITMENTS

(a) Capital commitments

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

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

(b) Acquisition commitments

On 22 July 2005, the Group and two PRC companies (the "Vendors") entered into a sales and purchase agreement. Pursuant to the agreement, the Group agreed to acquire the entire equity interest in a company which operated certain electrical appliance businesses in the PRC (the "Target Company") for a consideration of RMB20 million and the relevant interest of a shareholder's loan from the Vendors to the Target Company for a consideration of RMB160 million. A deposit of RMB35 million was paid by the Group before the year ended 31 December 2005 (note 19).

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

(c) Lease commitments

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

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

35. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances which are disclosed in note 30(b) to these financial statements, the Group had the following significant transactions with the Parent Group and Beijing Xinhengji Property Co., Ltd. ("Beijing Xinhengji"). The Parent Group comprises Beijing Eagle Investment Co., Ltd., Beijing Gome Electrical Appliance Co., Ltd. and other companies which are engaged in the retail sales and related operations of electrical appliances and consumer electronic products under the trademark of "Gome Electrical Appliances" in cities other than the designated cities of the PRC in which the Group operates. The companies comprising the Parent Group are controlled by Mr. Wong. Beijing Xinhengji is owned by a family member of Mr. Wong.

(a) Continuing transactions:

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

Notes:

(i) The sales and purchase transactions entered into between the Group and the Parent Group in respect of the retailing of electrical appliances and consumer electronic products were conducted based on the actual purchase cost from the Group's third party suppliers.

(ii) The Group provides management services to the Parent Group in respect of the retailing of electrical appliances and consumer electronic products in cities other than the designated cities of the PRC in which the Group operates. In addition, the Group negotiates with various suppliers for both the Group and the Parent Group on a centralised basis. The total amount of management service fee and purchasing service fee was charged based on 0.6% and 0.9% (2004: 0.75% and 0.9%), respectively, of the total turnover of the Parent Group, pursuant to a purchase service agreement and a management agreement entered into between the Group and the Parent Group.

(iii) On 20 December 2003, the Group entered into a rental agreement with Beijing Xinhengji to lease the properties for a term of two years at an annual rental of approximately RMB3.3 million. In the opinion of the directors, the rental has been determined based on the prevailing market rentals of offices within the same district.

(iv) The Parent Group has set up counters in the retail outlets operated by the Group for selling audio and visual products. The Parent Group has entered into sublease agreements with each of the individual outlets of the Group. According to the sublease agreements, the rent is charged at (1) approximately RMB12 per square metre per day; and (2) 5% of the total revenue generated from the sale of audio and visual products.

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

35. RELATED PARTY TRANSACTIONS *(Continued)*

(b) Discontinuing transactions:

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

Notes:

(i) The provision of corporate guarantees is at nil consideration. The Group intends to replace the aforesaid guarantees as soon as is practical.

(ii) The Company paid operating lease rentals in respect of the Group's office premises to Gome Home Appliances (Hong Kong) Limited ("Hong Kong Gome"), a company controlled by Mr. Wong, totalling RMB1,008,000 (Nine months ended 31 December 2004: RMB763,000) during the year. At 31 December 2005, the rental payable to Hong Kong Gome amounted to approximately RMB83,000 (31 December 2004: RMB85,000).

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

35. RELATED PARTY TRANSACTIONS *(Continued)*

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

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

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

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

(i) Credit risk

The cash at bank balances, other financial assets, pledged deposits, prepayments, deposits, due from related parties and other receivables included in the financial statements represent the Group's major exposure to the credit risk attributable to its financial assets. The Group has no other significant concentrations of credit risk.

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

(ii) Interest rate risk

The Group has no significant interest rate risk.

(iii) Foreign currency risk

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

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

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

(iv) Liquidity risk

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

37. POST BALANCE SHEET EVENT

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

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

38. APPROVAL OF THE FINANCIAL STATEMENTS

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

(D) FINANCIAL INFORMATION OF GOME FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2006:

Set out below is the reviewed consolidated financial report of GOME for the six months ended 30 June 2006 which has been extracted from the 2006 interim report of GOME:

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2006

		For the six months ended 30 June	
		2006	**2005**
		(Unaudited)	(Unaudited)
	Notes	*RMB'000*	*RMB'000*
			(Restated)
			(note 1)
Revenue	*3(a)*	12,167,820	8,280,789
Cost of sales		(11,011,966)	(7,565,805)
Gross profit		1,155,854	714,984
Other income	*3(b)*	487,504	333,496
Selling and distribution costs		(942,405)	(502,550)
Administrative expenses		(208,705)	(111,182)
Other expenses		(59,652)	(40,772)
Finance costs	*6*	(27,661)	–
Finance income	*6*	120,570	20,989
Profit before tax	*5*	525,505	414,965
Income tax	*7*	(58,663)	(44,121)
Profit for the period		466,842	370,844
Attributable to:			
Equity holders of the parent		344,531	237,669
Minority interests		122,311	133,175
		466,842	370,844
Dividends			
Interim	*22*	99,186	71,742
Earnings per share attributable to ordinary equity holders of the parent	*23*		
– Basic, for profit for the period		RMB19 fen	RMB14 fen
– Diluted, for profit for the period		RMB16 fen	N/A

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2006

	Notes	30 June 2006 (Unaudited) RMB'000	31 December 2005 (Audited) RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	8	1,234,534	909,631
Investment properties	9	5,150	5,200
Intangible assets	10	60,780	33,215
Deferred income tax assets	11	12,486	13,018
		1,312,950	961,064
Current assets			
Hong Kong listed investments, at fair value		904	861
Inventories	12	2,740,827	2,725,375
Bills receivable		407	30
Trade receivables	13	36,245	–
Prepayments, deposits and other receivables	14	377,713	467,017
Due from related parties	15	5,133	840,076
Other financial assets		–	161,000
Pledged deposits		4,055,113	3,133,124
Cash and cash equivalents		1,954,911	1,079,347
		9,171,253	8,406,830
TOTAL ASSETS		10,484,203	9,367,894
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital	16	241,085	174,099
Reserves		98,068	1,336,787
		339,153	1,510,886
Minority interests		–	360,408
Total equity		339,153	1,871,294
Non-current liabilities			
Deferred income tax liabilities	11	5,874	–
Convertible bonds	17	715,438	–
		721,312	–
Current liabilities			
Trade and bills payables	19	8,356,307	6,805,277
Customers' deposits, other payables and accruals		669,473	605,661
Due to a related party	20	–	83
Tax payable		146,216	85,579
Derivative component of convertible bonds	17	251,742	–
		9,423,738	7,496,600
Total liabilities		10,145,050	7,496,600
TOTAL EQUITY AND LIABILITIES		10,484,203	9,367,894

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2006

		Attributable to equity holders of the parent									
	Notes	**Issued share capital** *RMB'000*	**Share premium account** *RMB'000*	**Contributed surplus** *RMB'000*	**Capital reserve** *RMB'000*	**Statutory reserves** *RMB'000*	**Foreign currency translation reserve** *RMB'000*	**Retained earnings** *RMB'000*	**Total** *RMB'000*	**Minority interests** *RMB'000*	**Total equity** *RMB'000*
(Unaudited)											
For the six months ended 30 June 2006:											
At 1 January 2006		174,099	763,050	657	–	216,667	(10,217)	366,630	1,510,886	360,408	1,871,294
Acquisition of minority interests	*1*	66,986	–	–	(1,524,721)	–	–	–	(1,457,735)	(346,219)	(1,803,954)
Issue of warrants	*18*	–	22,317	–	–	–	–	–	22,317	–	22,317
Net profit for the period		–	–	–	–	–	–	344,531	344,531	122,311	466,842
Dividends	*22*	–	–	–	–	–	–	(73,450)	(73,450)	–	(73,450)
Dividends of subsidiaries		–	–	–	–	–	–	–	–	(136,500)	(136,500)
Currency translation difference		–	–	–	–	–	(7,396)	–	(7,396)	–	(7,396)
At 30 June 2006		241,085	785,367	657	(1,524,721)	216,667	(17,613)	637,711	339,153	–	339,153
(Unaudited)											
For the six months ended 30 June 2005:											
(Restated) *(note 1)*											
At 1 January 2005		174,099	763,050	657	–	132,829	–	67,139	1,137,774	233,182	1,370,956
Net profit for the period		–	–	–	–	–	–	237,669	237,669	133,175	370,844
Disposal of subsidiaries		–	–	–	–	–	–	–	–	(1,276)	(1,276)
Dividends	*22*	–	–	–	–	–	–	(43,525)	(43,525)	–	(43,525)
Dividends of subsidiaries		–	–	–	–	–	–	–	–	(83,601)	(83,601)
At 30 June 2005		174,099	763,050	657	–	132,829	–	261,283	1,331,918	281,480	1,613,398

INTERIM CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2006

	Notes	For the six months ended 30 June 2006 (Unaudited) RMB'000	2005 (Unaudited) RMB'000 (Restated) (note 1)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit from operations before income tax		525,505	414,965
Adjustments for:			
Finance income	6	(66,333)	(20,989)
Fair value gain on the derivative component of convertible bonds	6,17	(54,237)	–
Depreciation	5	49,666	19,769
Loss on disposal of items of property, plant and equipment		–	15
Loss on disposal of subsidiaries		–	2,302
Amortisation of intangible assets	5	1,295	–
Transaction cost related to the derivative component of convertible bonds	5	2,731	–
Interest expenses on the convertible bonds	6,17	27,661	–
Operating profit before working capital changes		486,288	416,062
Decrease in other investment		–	159
(Increase)/decrease in inventories		49,922	(352,041)
Increase in bills receivable		(377)	(680)
Increase in trade receivables		(36,245)	(32,030)
(Increase)/decrease in prepayments, deposits and other receivables		111,819	(284,293)
Decrease in amounts due from related parties		43,060	187,438
Decrease in client trust bank balances		–	10,947
Increase in pledged deposits		(920,585)	(974,877)
Increase in trade and bills payables		1,550,777	1,964,814
Increase in customers' deposits, other payables and accruals		67,577	20,852
Decrease in amounts due to a related party		(83)	(85)
Cash generated from operating activities		1,352,153	956,266
Interest received		66,333	20,990
Dividends paid		(73,450)	(43,525)
Dividends of subsidiaries		(136,500)	(83,601)
Hong Kong profits tax paid		–	(6,138)
PRC income tax refunded		5,699	–
PRC income tax paid		(3,195)	(48,070)
Net cash inflow from operating activities		1,211,040	795,922

INTERIM CONDENSED CONSOLIDATED CASH FLOW STATEMENT *(continued)*
For the six months ended 30 June 2006

	Notes	For the six months ended 30 June 2006 (Unaudited) *RMB'000*	2005 (Unaudited) *RMB'000* (Restated) *(note 1)*
Net cash inflow from operating activities		1,211,040	795,922
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		(181,407)	(194,639)
Proceeds from disposal of items of property, plant and equipment		339	1,950
Acquisition of subsidiaries		(148,318)	–
Acquisition of minority interests	*1*	(1,019,700)	–
Disposal of subsidiaries, net		–	30,707
Net cash outflow from investing activities		(1,349,086)	(161,982)
CASH FLOWS FROM FINANCING ACTIVITIES			
Issue of convertible notes	*17*	999,950	–
Issue of warrants	*18*	24,102	–
Transaction costs for issuing convertible bonds and warrants		(10,710)	–
Net cash inflow from financing activities		1,013,342	–
NET INCREASE IN CASH AND CASH EQUIVALENTS		875,296	633,940
Cash and cash equivalents at 1 January		1,079,347	1,659,094
Exchange difference		268	–
CASH AND CASH EQUIVALENTS AT 30 JUNE		1,954,911	2,293,034
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Bank balances		1,739,733	1,468,893
Time deposits		4,270,291	2,700,337
		6,010,024	4,169,230
Less: Time deposits pledged for bills payable		(4,055,113)	(1,876,196)
Cash and cash equivalents		1,954,911	2,293,034

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL REPORT

At 30 June 2006

1. CORPORATE INFORMATION AND BASIS OF PRESENTATION

GOME Electrical Appliances Holding Limited (the "Company") is incorporated in Bermuda with limited liability. Its shares are listed on The Stock Exchange of Hong Kong Limited. The address of its registered office is Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda. In the opinion of the directors, the ultimate holding company is Shining Crown Holdings Inc., which is incorporated in the British Virgin Islands.

The principal activities of the Company and its subsidiaries (the "Group") are the retailing of electrical appliances and consumer electronic products in designated cities within the People's Republic of China (the "PRC").

On 29 March 2006, the Company and Gome Holdings Limited (the "Vendor") entered into an acquisition agreement (the "Acquisition Agreement"), pursuant to which the Group has acquired from the Vendor the entire equity interest of Grand Hope Investment Limited ("Grand Hope") which in turn owns a 35% equity interest in Gome Appliance Co., Limited ("Gome Appliance") and the shareholder's loan in the amount of HK$225,014,672 due from Grand Hope for a total consideration of approximately HK$6,986.7 million. The Vendor is ultimately and wholly owned by Mr. Wong Kwong Yu ("Mr. Wong"), the substantial shareholder and Chairman of the Company. The consideration of HK$6,986.7 million was satisfied (i) to HK$5,235.3 million by the issue of 650,347,000 of the Company's shares at a nominal issue price of HK$8.05 each to the Vendor; (ii) to HK$761.4 million (equivalent to approximately RMB793,445,000) by the set-off against the amount due from Kashmac Int'l Ltd. (note 15(ii)), a related party; and (iii) to HK$990 million (equivalent to approximately RMB1,019.7 million) in cash. The acquisition transaction was completed on 8 May 2006 upon the fulfillment of relevant conditions prescribed by the Acquisition Agreement.

Gome Appliance was registered in the PRC on 2 April 2003 as a limited liability company and is the holding company of the Group's electrical appliances and consumer electronic products retailing business in the PRC. Before the completion of the transaction, Gome Appliance was owned as to 65% by the Group and 35% by Mr. Wong through the Vendor's wholly-owned subsidiary, Grand Hope, a company incorporated in the British Virgin Islands with limited liability. Upon the completion of the transaction, the Group has the entire equity interest in Gome Appliance.

As the 35% equity interest in Gome Appliance that has been acquired by the Group during the current period was controlled and beneficially owned by Mr. Wong, the controlling shareholder of the Company before and after the completion of the transaction, the transaction is accounted for in the Interim Condensed Consolidated Financial Report as a transfer of assets between entities under common control. An entity that receives the net assets or the equity interests shall recognise the assets and liabilities received at their carrying amounts in the accounts of the transferring entity at the date of transfer.

As set out in note 1 to the Group's annual financial statements for the year ended 31 December 2005, the Group has changed its presentation currency from Hong Kong dollars to Renminbi. As a result, the Company's Interim Condensed Consolidated Financial Report is presented in Renminbi, which is different from the presentation currency of the Company's interim condensed consolidated financial report for the six months ended 30 June 2005 which was Hong Kong dollars.

The comparative amounts to the Interim Condensed Consolidated Financial Report have been adjusted to achieve comparability with the current period. The restatement of the comparative amounts from Hong Kong dollars to Renminbi had no material impact on the Group's Interim Condensed Consolidated Financial Report for the periods presented.

2. BASIS OF PREPARATION

The interim condensed consolidated financial report for the six months ended 30 June 2006 (the "Interim Condensed Consolidated Financial Report") has been prepared in accordance with International Financial Reporting Standard IAS 34 "Interim Financial Reporting" issued by the International Accounting Standards Board.

The Interim Condensed Consolidated Financial Report does 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 for the year ended 31 December 2005.

3. REVENUE AND OTHER INCOME

(a) Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts. The amount of each significant category of revenue recognised in revenue during the period is as follows:

	For the six months ended 30 June	
	2006	**2005**
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
		(Restated)
		(note 1)
Sale of electrical appliances and consumer electronic products	12,167,820	8,276,463
Others	–	4,326
	12,167,820	8,280,789

3. REVENUE AND OTHER INCOME *(Continued)*

(b) Other income comprises the following:

		For the six months ended 30 June	
		2006	**2005**
		(Unaudited)	(Unaudited)
	Note	*RMB'000*	*RMB'000*
			(Restated)
			(note 1)
Income from suppliers:			
Promotion income		205,382	127,877
Management fee income		49,054	36,298
Display space leasing fees		47,368	30,912
Product listing fees		29,895	18,832
Management fee from the Parent Group*	*26(a)(ii)*	102,127	65,693
Management fees for air-conditioner installation		22,486	20,793
Government grants**		12,849	12,112
Other income		18,343	20,979
		487,504	333,496

* The Parent Group is defined in note 26 to the Interim Condensed Consolidated Financial Report.

** Various local government grants have been received to reward the Group's contributions to the local economy. There were no unfulfilled conditions or contingencies attaching to these government grants.

4. SEGMENT INFORMATION

During the period, over 90% of the Group's revenue and results were derived from the retailing of electrical appliances and consumer electronic products in the PRC, and therefore no segment analysis has been presented.

5. PROFIT BEFORE TAX

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

	Notes	For the six months ended 30 June 2006 (Unaudited) *RMB'000*	2005 (Unaudited) *RMB'000* (Restated) *(note 1)*
Cost of inventories recognised as expenses		11,011,966	7,565,805
Depreciation		49,666	19,769
Amortisation of intangible assets		1,295	–
Minimum lease payments under operating leases in respect of land and buildings		372,951	173,080
Fair value gain on the derivative component of convertible bonds	*6,17*	(54,237)	–
Transaction cost related to derivative component of convertible bonds		2,731	–
Auditors' remuneration		1,962	1,924
Staff costs excluding directors' remuneration:			
Wages, salaries and bonuses		256,389	138,980
Pension scheme contributions		33,264	14,016
Social welfare and other costs		26,233	16,017
		315,886	169,013

6. FINANCE (COSTS)/INCOME

	Notes	For the six months ended 30 June 2006 (Unaudited) *RMB'000*	2005 (Unaudited) *RMB'000* (Restated) *(note 1)*
Finance costs:			
Interest expenses on the convertible bonds	*17*	(27,661)	–
Finance income:			
Bank interest income		53,957	19,468
Other interest income		12,376	1,521
		66,333	20,989
Fair value gain on derivative component of convertible bonds	*5, 17*	54,237	–
		120,570	20,989

7. INCOME TAX

The major components of income tax in the Interim Condensed Consolidated Financial Report are:

	For the six months ended 30 June	
	2006	**2005**
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
		(Restated)
		(note 1)
Current income tax:		
Hong Kong	4,651	308
PRC	53,480	43,813
Deferred income tax	532	–
	58,663	44,121

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.

Under the relevant PRC income tax law, except for certain preferential treatment available to the Group, the subsidiaries of the Group are subject to income tax at a rate of 33% on their respective taxable income. The determination of current and deferred income taxes was based on the enacted tax rates.

The provision for Hong Kong profits tax is calculated at 17.5% of the estimated assessable profit for the respective periods.

8. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2006, the Group acquired buildings at a total cost of RMB250 million, leasehold improvements at a total cost of RMB76 million, motor vehicles at a total cost of RMB4 million, and equipment and fixtures at a total cost of RMB44 million. Fixed assets with a net book value of RMB340,000 were disposed of during the six months ended 30 June 2006.

As at 30 June 2006, the legal formalities for the transfer of title of certain properties in the PRC, which have been acquired by the Group from certain independent third parties with an aggregate carrying value of RMB217 million, were still in progress. The directors are confident that these matters can be resolved before the end of 2006 without any material effect on the Group's results of operations and financial position.

9. INVESTMENT PROPERTIES

	30 June 2006 (Unaudited) *RMB'000*	31 December 2005 (Audited) *RMB'000*
At 1 January	5,200	5,300
Exchange adjustment	(50)	(100)
At 30 June/31 December	5,150	5,200

Investment properties comprise an industrial property and a car park that are leased to a related party (note 26(b)(iv)) and a third party, respectively.

Investment properties are stated at fair value. The fair value of investment properties at 31 December 2005 was determined based on the valuations performed by B.I. Appraisals Limited, an independent firm of professional valuers, as at 31 December 2005. The directors consider there was no material change to the fair value of investment properties between 31 December 2005 and 30 June 2006.

Investment properties are located in Hong Kong under medium term leases.

10. INTANGIBLE ASSETS

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

	Notes	30 June 2006 (Unaudited) *RMB'000*	31 December 2005 (Audited) *RMB'000*
Goodwill	*(i)*	36,160	7,300
Trademark	*(ii)*	24,620	25,915
		60,780	33,215

Notes:

(i) The additions to goodwill during the six months ended 30 June 2006 are attributable to the acquisition of Nanjing Pengze Home Appliance Co., Ltd. ("Nanjing Pengze") and Shenzhen eHome Commercial Chain Co., Ltd. ("eHome") which gave rise to goodwill of RMB5,874,000 and RMB22,986,000 (note 21), respectively.

The balance of goodwill as at 31 December 2005 was attributable to the acquisition of Wuhan Zhongshang Group Co., Ltd. in 2005.

(ii) The trademark arising from the acquisition of Changzhou Jintaiyang Zhizun Home Appliance Co., Ltd. in 2005 of RMB25,915,000 is amortised on the straight-line basis over the directors' estimate of its useful economic life of 10 years.

11. DEFERRED INCOME TAX ASSETS/LIABILITIES

The principal components of the Group's deferred income tax assets and liabilities at 30 June 2006 and the movements in deferred income tax for the six months ended 30 June 2006 are as follows:

	Balance at 31 December 2005 (Audited) *RMB'000*	Recognised in the income statement *RMB'000*	Balance at 30 June 2006 (Unaudited) *RMB'000*
Deferred income tax assets:			
Tax losses	13,018	(532)	12,486

	Balance at 31 December 2005 (Audited) *RMB'000*	Recognised as intangible assets *RMB'000*	Balance at 30 June 2006 (Unaudited) *RMB'000*
Deferred income tax liabilities:			
Goodwill *(note 21(a))*	–	5,874	5,874

12. INVENTORIES

	30 June 2006 (Unaudited) *RMB'000*	31 December 2005 (Audited) *RMB'000*
Merchandise for resale	2,693,100	2,681,118
Consumables	47,727	44,257
	2,740,827	2,725,375

13. TRADE RECEIVABLES

The balance of the trade receivables was fully settled subsequent to the balance sheet date.

14. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	30 June 2006 (Unaudited) *RMB'000*	31 December 2005 (Audited) *RMB'000*
Prepayments	130,707	111,300
Advances to suppliers	87,192	236,070
Deposits and other receivables	159,814	119,647
	377,713	467,017

15. DUE FROM RELATED PARTIES

	Notes	30 June 2006 (Unaudited) RMB'000	31 December 2005 (Audited) RMB'000
Receivables from the Parent Group	*(i)*	5,059	46,612
Due from Kashmac Int'l Ltd.	*(ii)*	–	793,445
Others		74	19
		5,133	840,076

(i) These balances mainly represented the management fee due from the Parent Group (note 26(a)(ii)). The aforesaid balances were interest-free unsecured and were fully settled subsequent to the balance sheet date.

(ii) The balance as at 31 December 2005 represented the consideration receivable in respect of the disposal of a property project in Beijing and related accrued interest income. The balance was fully settled by offsetting against the Group's consideration for the acquisition transaction as set out in note 1 to the Interim Condensed Consolidated Financial Report.

16. SHARE CAPITAL

	Number of shares '000	HK$'000	RMB'000
Authorised:			
Ordinary shares of HK$0.1 each	50,000,000	5,000,000	5,300,000
Issued and fully paid:			
At 1 January 2006	1,642,447	164,245	174,099
Consideration shares *(note)*	650,347	65,035	66,986
At 30 June 2006	2,292,794	229,280	241,085

Note:

The 650,347,000 consideration shares were issued in respect of the acquisition of a 35% equity interest in Gome Appliance. Details of the acquisition are disclosed in note 1 to the Interim Condensed Consolidated Financial Report.

17. CONVERTIBLE BONDS

On 28 January 2006, the Company and a wholly owned subsidiary of Warburg Princus Private Equity IX, L.P. (the "Subscriber") entered into a subscription agreement (the "Subscription Agreement") in relation to the issuance of US$125 million unlisted and unsecured convertible bonds (the "Bonds") and warrants to subscribe in aggregate for a maximum amount of US$25 million new shares of the Company to the Subscriber.

Pursuant to the Subscription Agreement, the Bonds are

i) convertible at the option of the bondholders into fully paid ordinary shares on or after 1 September 2006 and up to and including 7 February 2011 at a conversion price of US$0.8251 (equivalent to approximately RMB6.60) per share;

ii) redeemable at the option of the bondholders at 105.49% of their principal amount on the third anniversary of the issue date of the Bonds at a value equal to the aggregate of (1) its principal amount outstanding; (2) the interest accrued; and (3) a premium of 5.49% on the principal amount; and

iii) at the option of the Company to request the bondholders for mandatory conversion of the convertible bonds on or after the third anniversary of the issue date with an amount equal to US$62.5 million less the sum of the aggregate principal amount of the Bonds that have been converted or redeemed; provided that no such conversion may be made unless the volume-weighted average of the prices of the Company's shares for 30 trading days on which the shares were traded prior to the date upon which the Company's notice of the mandatory conversion is given was not less than 130% of the then prevailing conversion price.

The Bonds will be redeemed on maturity at a value equal to the aggregate of (1) its principle amount outstanding; (2) the interest accrued; and (3) a premium calculated at 9.48% on the principal amount. In addition, the Company may redeem the outstanding bonds if the principal amount of the bonds outstanding is equal to or less than US$12,500,000.

The proceeds from the issuance of the Bonds on 1 March 2006 of US$125 million (equivalent to RMB999,950,000) have been split into liability and derivative components. On issuance of the convertible bonds, the fair value of the derivative component is determined using an option pricing model; and this amount is carried as a derivative component of the liability until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the liability component and is carried as a liability on the amortised cost basis until extinguished on conversion or redemption. The derivative component is measured at fair value on the issuance date and any subsequent changes in fair value of the derivative component as at the balance sheet date are recognised in the income statement.

17. CONVERTIBLE BONDS *(Continued)*

The fair values of the derivative component at the issuance date and at 30 June 2006 are determined based on the valuations performed by Vigers Appraisal & Consulting Limited using the applicable option pricing model. Changes in fair value of that component between the issuance date and the balance sheet date is recognised in the consolidated income statement. Details of the net proceeds received from the issue of the convertible bonds that have been split between the derivative and liability components are analysed as follows:

	30 June 2006 (Unaudited) *RMB'000*
Nominal value of convertible bonds issued during the period (US$125,000,000)	999,950
Transaction cost related to liability component	(6,194)
Derivative component at the issuance date	(305,979)
Liability component at the issuance date	687,777
Interest expenses on convertible bonds *(notes 6 and 23)*	27,661
Liability component at 30 June 2006	715,438
Derivative component at the issuance date	305,979
Fair value adjustment *(notes 5, 6 and 23)*	(54,237)
Derivative component of convertible bonds at 30 June 2006	251,742

18. WARRANTS

Pursuant to the Subscription Agreement as disclosed in note 17 above, on 1 March 2006, the Company issued warrants at a subscription price of US$3,000,000 (equivalent to RMB24,102,000). The Subscriber is entitled to subscribe in aggregate a maximum amount of US$25 million for new shares of the Company at an exercise price of HK$7.70 (equivalent to RMB7.90) during an exercise period of five years from 1 March 2006. The net proceeds from the issuance of the warrants (net of issuance costs of RMB1,785,000) of RMB22,317,000 are recognised by the Company as equity and are not subsequently remeasured at the balance sheet date until the exercise of the warrants.

None of the warrants were exercised during the period ended 30 June 2006.

19. TRADE AND BILLS PAYABLES

	30 June 2006 (Unaudited) *RMB'000*	31 December 2005 (Audited) *RMB'000*
Trade and bills payables arising from retailing operations	8,356,307	6,805,277
Outstanding balance, aged:		
Within three months	5,886,193	4,345,608
Within three to six months	2,393,507	2,375,118
Over six months	76,607	84,551
	8,356,307	6,805,277

The Group's bills payable as at 30 June 2006 were secured by the pledge of certain of the Group's time deposits and by corporate guarantees provided by certain related companies (note 26(b)(i)).

20. DUE TO A RELATED PARTY

The amounts due to a related party as at 31 December 2005 and 30 June 2006 represented the rent payables, which were unsecured, interest-free and payable within one year.

21. BUSINESS COMBINATIONS

(a) On 11 January 2006, the Group acquired a 100% equity interest in Nanjing Pengze, a PRC established limited liability company, from certain independent third parties. The fair values of the identifiable assets of Nanjing Pengze as at the date of acquisition was as follows:

	Fair value recognised on acquisition	**Carrying amount**
	RMB'000	*RMB'000*
Properties*	173,800	156,000
Cash and cash equivalents	250	250
Deferred tax liabilities arising from acquisition	(5,874)	–
Fair value of net assets	168,176	156,250
Goodwill on acquisition *(note 11)*	5,874	
Cash consideration	174,050	

* The fair value of the properties was determined based on the valuations performed by B.I. Appraisals Limited, an independent firm of professional valuers, as at the acquisition date.

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

	RMB'000
Total cash consideration	174,050
Deposit paid in 2005	(126,000)
	48,050
Cash and bank balances acquired	(250)
Net cash outflow during the current period	47,800

As the transaction is effective from 11 January 2006, the profit and revenue of the Group would not be materially different from the amounts presented in the Interim Condensed Consolidated Financial Report had the transaction taken place at the beginning of the period.

21. BUSINESS COMBINATIONS *(Continued)*

(b) On 23 June 2006, the Group acquired a 100% equity interest in eHome from independent third parties. The fair values of the identifiable assets of eHome as at the date of acquisition was as follows:

	Fair value recognised on acquisition	**Carrying amount**
	RMB'000	*RMB'000*
Property, plant and equipment	18,112	18,112
Inventories	65,374	65,374
Trade and other receivables	22,515	22,515
Pledged deposits	1,404	1,404
Cash and cash equivalents	2,482	2,482
Trade and other payables	(7,873)	(7,873)
Fair value of net assets	102,014	102,014
Goodwill on acquisition	22,986	
Cash consideration	125,000	

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

	RMB'000
Total cash consideration	125,000
Deposit paid in 2005	(35,000)
	90,000
Cash and bank balances acquired	(2,482)
Net cash outflow during the current period	87,518

As the acquisition is effective from 23 June 2006, the contribution to the net profit of the Group from eHome was not material for the current period. If the business combination had taken place at the beginning of the period, the net profit and revenue for the Group would have been increased by RMB11.5 million and RMB310 million, respectively.

22. DIVIDENDS

	30 June	
	2006	**2005**
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
		(Restated)
		(note 1)
Declared and paid		
Final dividend per share for 2005: HK4.3 cents (equivalent to RMB4.5 fen) (2004: HK2.5 cents (equivalent to RMB2.7 fen))	73,450	43,525
Proposed (not recognised as a liability as at 30 June)		
Interim dividend per share for 2006: HK4.2 cents (equivalent to RMB4.3 fen) (2005: HK4.2 cents (equivalent to RMB4.4 fen))	99,186	71,742

23. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

Basic earning per share amount is calculated by dividing the net profit for the period attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the period.

Diluted earnings per share amount is calculated by dividing the net profit attributable to ordinary equity holders of the parent, (adjusted to add the bank interest on convertible bonds and deducting fair value gain on the derivative component of convertible bonds) by the weighted average number of ordinary shares outstanding during the period plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

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

	For the six months ended 30 June	
	2006	**2005**
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
		(Restated)
		(note 1)
Earnings		
Net profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation:	344,531	237,669
Interest expenses on convertible bonds *(notes 6 and 17)*	27,661	–
Fair value gain on the derivative component of convertible bonds *(notes 6 and 17)*	(54,237)	–
Net profit attributable to ordinary equity holders of the parent as adjusted for the effect of convertible bonds	317,955	237,669

23. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT *(Continued)*

	30 June	
	2006	**2005**
	(Unaudited)	(Unaudited)
	'000	*'000*
Shares		
Weighted average number of ordinary shares for basic earnings per share	1,832,880	1,642,447
Effect of dilution – weighted average number of ordinary shares:		
Convertible bonds	102,114	–
Weighted average number of ordinary shares adjusted for the effect of dilution	1,934,994	1,642,447

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of the Interim Condensed Consolidated Financial Report.

Note:

During the period ended 30 June 2006, the average market price of the Company's shares was less than the exercise price of the warrants and therefore the warrants had an anti-dilutive effect on the basic earnings per share for the period and were ignored in the calculation of diluted earnings per share.

24. CONTINGENT LIABILITIES

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

25. COMMITMENTS

Operating lease commitments

Operating lease commitments – Group as lessee

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

	30 June 2006	**31 December 2005**
	(Unaudited)	(Audited)
	RMB'000	*RMB'000*
Within one year	804,952	633,299
In the second to fifth years, inclusive	3,281,308	2,150,468
After five years	2,209,855	1,592,805
	6,296,115	4,376,572

25. COMMITMENTS *(Continued)*

Operating lease commitments – Group as lessor

The Group had the following future minimum rentals receivable under non-cancelable operating leases:

	30 June 2006 (Unaudited) *RMB'000*	31 December 2005 (Audited) *RMB'000*
Within one year	30,347	27,841
In the second to fifth years, inclusive	47,985	37,907
After five years	23,017	18,213
	101,349	83,961

26. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances which are disclosed elsewhere in this Interim Condensed Consolidated Financial Report, the Group had the following significant transactions with the Parent Group and Beijing Xinhengji Property Co., Ltd. ("Beijing Xinhengji"). The Parent Group comprises Beijing Eagle Investment Co., Ltd., Beijing Gome Electrical Appliance Co., Ltd. and other companies which engage in the retailing and related operations of electrical appliances and consumer electronic products under the trademark of "Gome Electrical Appliances" in cities other than the designated cities of the PRC in which the Group operates. The companies comprising the Parent Group are controlled by Mr. Wong. Beijing Xinhengji is owned by the family members of Mr. Wong.

(a) Continuing transactions:

		For the six months ended 30 June	
	Notes	2006 (Unaudited) *RMB'000*	2005 (Unaudited) *RMB'000* (Restated) *(note 1)*
Sales to the Parent Group	*(i)*	7,733	319,693
Purchases from the Parent Group	*(i)*	(2,182)	(144,390)
Provision of management and purchasing services to the Parent Group	*(ii)*	102,127	65,693
Rental expenses to Beijing Xinhengji	*(iii)*	(1,650)	(1,691)
Sublease income from audio and visual stores of the Parent Group	*(iv)*	21,382	13,746

Notes:

(i) The sale and purchase transactions entered into between the Group and the Parent Group in respect of the retailing of electrical appliances and consumer electronic products were conducted based on the actual purchase cost from the Group's third party suppliers.

26. RELATED PARTY TRANSACTIONS *(Continued)*

(a) Continuing transactions: *(Continued)*

(ii) The Group provides management services to the Parent Group in respect of the retailing of electrical appliances and consumer electronic products in cities other than the designated cities of the PRC in which the Group operates. In addition, the Group negotiates with various suppliers for both the Group and the Parent Group on a centralised basis. The total amount of management service fees and purchasing service fees was charged based on 0.6% and 0.9%, respectively, of the total turnover of the Parent Group, pursuant to a management agreement and a purchase service agreement entered into between the Group and the Parent Group.

(iii) On 1 January 2006, the Group entered into a rental agreement with Beijing Xinhengji to lease the properties for a term of three years at an annual rental of approximately RMB3.7 million. In the opinion of the directors, the rental has been determined based on the prevailing market rentals of offices within the same district.

(iv) The Parent Group has set up counters in the retail outlets operated by the Group for selling audio and visual products. The Parent Group has entered into sublease agreements with each of the individual outlets of the Group. According to the sublease agreements, the rent is charged at (1) approximately RMB12 per square metre per day and (2) 5% of the total revenue generated from the sale of audio and visual products.

(b) Discontinued transactions:

		For the six months ended 30 June	
		2006	**2005**
		(Unaudited)	(Unaudited)
	Notes	*RMB'000*	*RMB'000*
			(Restated)
			(note 1)
Provision of corporate guarantees from the Parent Group and Beijing Xinhengji in respect of bills facilities *(note 19)*	*(i)*	720,000	457,143
Interest income on the amount due from Kashmac Int'l Ltd.	*(ii)*	12,376	–
Rental expenses to a related party	*(iii)*	(480)	(509)
Rental income from a related party	*(iv)*	108	114

Notes:

(i) The provision of corporate guarantees is at Nil consideration. The Group intends to replace the aforesaid guarantees as soon as it is practical.

(ii) The amount represented interest income on the receivable in respect of the disposal of a property project in Beijing. The interest rate was 4.5% per annum. The outstanding balance of the receivable was fully settled during the current period.

(iii) The Company paid operating lease rentals in respect of the Group's office premises to Gome Home Appliances (Hong Kong) Limited ("Hong Kong Gome"), a controlled company of Mr. Wong, totalling HK$480,000 during the period (six months ended 30 June 2005: HK$480,000).

26. **RELATED PARTY TRANSACTIONS** *(Continued)*

(b) **Discontinued transactions:** *(Continued)*

(iv) The Company's subsidiary, Hong Kong Punching Centre Limited, received operating lease rentals in respect of the Group's factory premises (note 9) from Hong Kong Gome, a controlled company of Mr. Wong, totalling HK$108,000 during the period (six months ended 30 June 2005: HK$108,000).

(c) **Compensation of key management personnel (as defined under IAS 24, Related Party Disclosures) of the Group:**

	For the six months ended 30 June	
	2006	**2005**
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
		(Restated)
		(note 1)
Fee	386	259
Other emoluments:		
Salaries, allowances, bonuses and other benefits	5,955	4,707
Pension scheme contributions	84	65
	6,425	5,031

27. **FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

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

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

(i) **Credit risk**

The cash at banks, other financial assets, pledged deposits, prepayments, deposits amounts, due from related parties and other receivables included in the Interim Condensed Consolidated Financial Report represent the Group's major exposure to the credit risk attributable to its financial assets. The Group has no other significant concentrations of credit risk.

Since most of the Group's sales are on cash or credit card basis, and the Group only deals with recognised and creditworthy third parties, there is no requirement for collateral.

(ii) **Interest rate risk**

Save as disclosed in note 17 to the Interim Condensed Consolidated Financial Report, the Group has no other significant interest rate risks.

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

(iii) Foreign currency risk

The Group's businesses are principally conducted in RMB which cannot be freely exchanged into foreign currencies. As at 30 June 2006, a substantial amount of the Group's assets and liabilities were denominated in RMB. The Company's functional currency is Hong Kong dollars. In addition, the Group's convertible bonds and issued warrants were denominated in United States dollars. Fluctuation of the exchange rates of RMB against Hong Kong dollars or United States dollars can affect the Group's results of operations.

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

(iv) Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bills payable, convertible bonds and other interest-bearing loans. Save as disclosed in note 17 to the Interim Condensed Consolidated Financial Report, the Group had no other borrowings as at 30 June 2006. The directors have reviewed the Group's working capital and capital expenditure requirements and determined that the Group has no significant liquidity risk.

28. POST BALANCE SHEET EVENT

On 25 July 2006, the Company and China Paradise Electronics Retail Limited ("China Paradise") jointly announced a voluntary conditional offer (the "Offer") by the Company to acquire all of the issued shares of China Paradise (the "CP Shares"). The consideration under the Offer is 0.3247 new shares of the Company and HK$0.1736 in cash for each of the CP Shares. According to the Company's announcement dated 25 July 2006, based on the closing price of the Company's shares of HK$6.35 each, as quoted on the Stock Exchange of Hong Kong Limited on 17 July 2006, being the last trading day for the Company's shares before the announcement, and the entire CP Shares of 2,356,629,785 (on a fully diluted basis), the aggregate consideration is valued at approximately HK$5,268 million (approximately RMB5,426 million).

The Offer and the issue of the new shares are subject to the approval of the shareholders of the Company in a forthcoming general meeting.

Save as disclosed above, the Group did not have any significant events taking place subsequent to 30 June 2006.

29. APPROVAL OF THE FINANCIAL STATEMENTS

The Interim Condensed Consolidated Financial Report was approved and authorised for issue by the board of directors on 17 August 2006.

I. THREE-YEAR FINANCIAL SUMMARY

Set out below is a summary of the income statement of the China Paradise Group for each of the three years ended 31 December 2005 and the balance sheets as at December 2004 and 2005. The information is extracted from China Paradise's audited accounts which are prepared in accordance with International Financial Reporting Standards. The auditors' reports in respect of China Paradise's audited accounts for the three years ended 31 December 2005 did not contain any qualification. China Paradise has not declared and paid any dividends in years 2003 and 2004. China Paradise has declared and paid dividends of RMB4.0 cents per China Paradise Shares in 2005. China Paradise has no extraordinary items for the three financial years ended 31 December 2003, 31 December 2004 and 31 December 2005.

Summary Consolidated Income Statements of the last 3 financial years

	For the year ended 31 December		
	2005	**2004**	**2003**
	RMB'000	*RMB'000*	*RMB'000*
REVENUE	12,246,168	8,266,956	4,944,770
Cost of sales	(11,331,763)	(7,684,108)	(4,638,215)
Gross profit	914,405	582,848	306,555
Other income and gains	760,206	300,462	90,261
Selling and distribution costs	(1,096,602)	(508,071)	(175,597)
Administrative expenses	(259,559)	(127,556)	(46,011)
Other expenses	(13,133)	(17,786)	(1,494)
Interest income	52,925	31,215	8,538
Finance costs	(8,306)	(5,345)	(6,342)
Share of profits/(losses) of associates	–	1,476	(941)
PROFIT BEFORE TAX	349,936	257,243	174,969
Income tax expense	(28,596)	(44,915)	(27,466)
PROFIT FOR THE YEAR	321,340	212,328	147,503
Attributable to:			
Equity holders of the Company	289,474	185,650	127,418
Minority interests	31,866	26,678	20,085
	321,340	212,328	147,503
Dividends[1]	87,339	550	3,000
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
– Basic (RMB cents)	17.3	12.0	8.3
– Diluted (RMB cents)	15.9	11.8	7.0

Notes:

1. Prior to the completion of the reorganisation of the China Paradise Group as set out in China Paradise's prospectus dated 4 October 2005, dividends were declared by the subsidiaries of China Paradise during the years ended 31 December 2003 and 2004 to their respective shareholders. The dividend amounts of RMB3,000,000 and RMB550,000 disclosed above represent the dividends paid by the subsidiaries to entities outside China Paradise for the year ended 31 December 2003 and 2004.

   The actual dividends payout for the year ended 31 December 2005 was RMB94,076,000 due to additional dividend amount paid to share option holders of China Paradise who had exercised their options subsequent to the issuance date of the financial statements but before the books closure date for dividend entitlement.

II FINANCIAL INFORMATION

Set out below are the income statement of China Paradise for each of the two years ended 31 December 2005 and the balance sheets as at 31 December 2004 and 2005 together with the relevant notes thereto as extracted from the 2005 annual report of China Paradise which are prepared in accordance with International Financial Reporting Standards

CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2005

	Notes	2005 RMB'000	2004 RMB'000
REVENUE	5	12,246,168	8,266,956
Cost of sales		(11,331,763)	(7,684,108)
Gross profit		914,405	582,848
Other income and gains	5	760,206	300,462
Selling and distribution costs		(1,096,602)	(508,071)
Administrative expenses		(259,559)	(127,556)
Other expenses		(13,133)	(17,786)
Interest income		52,925	31,215
Finance costs	6	(8,306)	(5,345)
Share of profits and losses of associates		–	1,476
PROFIT BEFORE TAX	7	349,936	257,243
Income tax expense	10	(28,596)	(44,915)
PROFIT FOR THE YEAR		321,340	212,328
Attributable to:			
Equity holders of the Company	11	289,474	185,650
Minority interests		31,866	26,678
		321,340	212,328
Dividends	12	87,339	550
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
– Basic (RMB cents)	13	17.3	12.0
– Diluted (RMB cents)	13	15.9	11.8

CONSOLIDATED BALANCE SHEET

31 December 2005

	Notes	2005 RMB'000	2004 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	787,346	379,104
Intangible assets	16	9,057	3,810
Goodwill	17	32,699	20,772
Long term land deposits		48,100	12,500
Deferred expenditure	20	86,459	77,239
Deferred tax assets	21	40,899	16,090
Total non-current assets		1,004,560	509,515
CURRENT ASSETS			
Inventories	22	1,649,268	799,365
Trade receivables	23	73,855	25,971
Bills receivable	24	3,530	–
Prepayments, deposits and other receivables	25	1,664,482	835,714
Property under development	26	–	20,085
Pledged deposits	27	1,779,594	1,123,684
Cash and cash equivalents	27	1,541,407	494,943
Total current assets		6,712,136	3,299,762
CURRENT LIABILITIES			
Trade payables	28	1,161,772	712,630
Bills payable	29	3,632,762	2,309,371
Tax payable		16,339	13,319
Other payables and accruals	30	219,157	111,144
Current portion of interest-bearing bank loans	31	340,000	170,000
Total current liabilities		5,370,030	3,316,464
NET CURRENT ASSETS/(LIABILITIES)		1,342,106	(16,702)
TOTAL ASSETS LESS CURRENT LIABILITIES		2,346,666	492,813
NON-CURRENT LIABILITIES			
Interest-bearing bank loans	31	–	26,000
Deferred income	20	6,939	26,938
Deferred tax liabilities	21	39,011	15,845
Total non-current liabilities		45,950	68,783
Net assets		2,300,716	424,030
EQUITY			
Equity attributable to equity holders of the Company			
Issued capital	32	225,443	1
Reserves	34	1,884,153	379,070
Proposed final and special dividends	12	87,339	–
		2,196,935	379,071
Minority interests		103,781	44,959
Total equity		2,300,716	424,030

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the year ended 31 December 2005

		Attributable to equity holders of the Company									
	Notes	Issued share capital *RMB'000* *Note 32*	Share premium account *RMB'000*	Contributed surplus *RMB'000* *Note 34(a)(i)*	Statutory surplus reserves *RMB'000* *Note 34(a)(ii)*	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*
As at 1 January 2004		1	–	85,229	20,077	–	72,059	–	177,366	36,792	214,158
Net profit for the year		–	–	–	–	–	185,650	–	185,650	26,678	212,328
Decrease in minority interests in Paradise Shanghai		–	–	4,770	1,124	–	10,161	–	16,055	(16,055)	–
Transfer/appropriation to statutory surplus reserves		–	–	–	45,328	–	(45,328)	–	–	–	–
Acquisition of subsidiaries		–	–	–	–	–	–	–	–	4,366	4,366
Capital contribution by minority shareholders		–	–	–	–	–	–	–	–	3,995	3,995
Disposal of subsidiaries		–	–	–	–	–	–	–	–	(2,118)	(2,118)
Dividends	*34(a)(iii)*	–	–	–	–	–	–	–	–	(550)	(550)
Acquisitions of additional equity interests in subsidiaries		–	–	–	–	–	–	–	–	(8,149)	(8,149)
As at 31 December 2004		1	–	89,999	66,529	–	222,542	–	379,071	44,959	424,030
Net profit for the year		–	–	–	–	–	289,474	–	289,474	31,866	321,340
Issue of share capital of the Company	*32(a)*	–	413,513	1	–	–	–	–	413,514	–	413,514
Capital Increase and Equity Transfer	*1*	–	–	(188,068)	–	–	–	–	(188,068)	25,050	(163,018)
Issue of shares upon the Capital Change and Capitalisation Issue	*32(b)*	160,598	(160,598)	–	–	–	–	–	–	–	–
Issue of shares upon the Global Offering	*32(c)*	54,511	1,171,986	–	–	–	–	–	1,226,497	–	1,226,497
Share issue expenses	*32(c)*	–	(72,885)	–	–	–	–	–	(72,885)	–	(72,885)
Issue of shares upon the exercise of the Financial Investors' Option	*32(d)*	10,333	131,773	–	–	–	–	–	142,106	–	142,106
Transfer/appropriation to statutory surplus reserves		–	–	–	102,102	–	(102,102)	–	–	–	–
Capital contribution by minority shareholders		–	–	–	–	–	–	–	–	4,297	4,297
Acquisition of additional equity interest in a subsidiary		–	–	–	–	–	–	–	–	(1,910)	(1,910)
Disposal of subsidiaries		–	–	–	–	–	–	–	–	(481)	(481)
Equity-settled share option arrangements	*7*	–	–	–	–	7,226	–	–	7,226	–	7,226
Proposed final and special dividends	*12*	–	–	–	–	–	(87,339)	87,339	–	–	–
As at 31 December 2005		**225,443**	**1,483,789**	**(98,068)**	**168,631**	**7,226**	**322,575**	**87,339**	**2,196,935**	**103,781**	**2,300,716**

CONSOLIDATED CASH FLOW STATEMENT
For the year ended 31 December 2005

	Notes	2005 RMB'000	2004 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		349,936	257,243
Adjustments for:			
Finance costs	6	8,306	5,345
Share of profits and losses of associates		–	(1,476)
Interest income		(52,925)	(31,215)
Dividend income from long term investments	5	–	(218)
Depreciation	7	56,391	17,726
Amortisation of intangible assets	7	2,298	837
(Gain)/loss on disposal of subsidiaries	5,7	(175)	11
Impairment of goodwill	7	696	6,887
Gain on disposal of long term investments	5	–	(13)
Excess over the cost of a business combination recognised in the income statement	5	–	(863)
Loss on disposal of property, plant and equipment	7	2,964	769
Provision for doubtful debts	7	–	55
Provision/(write-back of provision) for slow-moving inventories	7	(62,742)	43,767
Equity-settled share option expense	7	7,226	–
Operating profit before working capital changes		311,975	298,855
Increase in inventories		(757,365)	(355,344)
Increase in trade receivables, bills receivable, prepayments, deposits and other receivables		(1,021,623)	(194,036)
Increase in trade payables, bills payable, other payables and accruals		1,771,936	718,230
Decrease in deferred income		(19,999)	(34,646)
(Increase)/decrease in deferred expenditure		(9,220)	55,788
Decrease/(increase) in property under development		20,085	(4,985)
Cash generated from operations		295,789	483,862
Taxes paid		(63,999)	(38,505)
Net cash inflow from operating activities		231,790	445,357

CONSOLIDATED CASH FLOW STATEMENT *(Continued)*
For the year ended 31 December 2005

	Notes	2005 RMB'000	2004 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		52,925	31,215
Purchases of items of property, plant and equipment		(380,533)	(257,583)
Proceeds from disposal of items of property, plant and equipment		90,772	–
Additions to investments in subsidiaries		(2,500)	(1,350)
Proceeds from disposal of long term investments		–	513
Purchases of intangible assets	16	(7,538)	(3,340)
Disposal of subsidiaries	36	3,907	(2,107)
Dividends received from associates		–	1,950
Proceeds from disposal of associates		–	5,735
Cash outflow from Equity Transfer	1	(163,018)	–
Dividends received from long term investments		–	218
Acquisition of subsidiaries	35	(79,832)	(7,565)
Increase in pledged deposits		(547,848)	(13,490)
Net cash outflow from investing activities		(1,033,665)	(245,804)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		740,000	284,000
Repayment of bank loans		(596,000)	(201,000)
Capital contribution by minority shareholders		4,297	3,995
Proceeds from issue of shares upon the Global Offering	32(c)	1,226,497	–
Share issue expenses	32(c)	(72,885)	–
Proceeds from issue of shares upon the exercise of the Financial Investors' Option	32(d)	142,106	–
Proceeds from issue of shares of the Company	32(a)	413,514	–
Dividends paid to minority shareholders		–	(550)
Interest paid	6	(9,190)	(5,825)
Net cash inflow from financing activities		1,848,339	80,620
NET INCREASE IN CASH AND CASH EQUIVALENTS		1,046,464	280,173
Cash and cash equivalents at beginning of year		494,943	214,770
CASH AND CASH EQUIVALENTS AT END OF YEAR		1,541,407	494,943
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	27	278,057	494,943
Time deposits	27	1,263,350	–
		1,541,407	494,943

BALANCE SHEET
31 December 2005

Company

	Notes	**2005** *RMB'000*	**2004** *RMB'000*
NON-CURRENT ASSETS			
Interests in subsidiaries	*18*	398,522	–
Total non-current assets		398,522	–
CURRENT ASSETS			
Other receivables		172	–
Cash and cash equivalents	*27*	1,314,817	–
Total current assets		1,314,989	–
CURRENT LIABILITIES			
Other payables and accruals		4,720	–
Total current liabilities		4,720	–
NET CURRENT ASSETS		1,310,269	–
TOTAL ASSETS LESS CURRENT LIABILITIES		1,708,791	–
EQUITY			
Issued capital	*32*	225,443	–
Reserves	*34(b)*	1,396,009	–
Proposed final and special dividends	*12*	87,339	–
Total equity		1,708,791	–

Note: The Company was incorporated on 9 August 2004 with one share of US$0.01. As at 31 December 2004, the Company had not commenced any business or operation.

NOTES TO FINANCIAL STATEMENTS

31 December 2005

1. CORPORATE INFORMATION

The Company is an exempted company with limited liability incorporated in the Cayman Islands on 9 August 2004. Particulars of the subsidiaries and jointly-controlled entities are set out in notes 18 and 19, respectively. The registered office of the Company is located at PO Box 309GT, 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.

In preparation for a foreign investment in the Group and the listing of the Group on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Group underwent a reorganisation (the "Reorganisation"), as a result of which the Company became the holding company of the subsidiaries comprising the Group. The Reorganisation consists of the Onshore Restructuring and the Offshore Restructuring as detailed below.

Onshore Restructuring

At the beginning of 2004 and prior to the commencement of the restructuring, the Group's specialty retail business was carried on by Yongle (China) Electronics Retail Co., Ltd. (formerly known as Shanghai Yongle Electronics Retail Co., Ltd.) ("Yongle (China)"), Shanghai Minrong Investment Co., Ltd. ("Minrong"), and 33 other entities (the "Original Group") which were held by Yongle (China), Minrong, and/or certain individuals or companies (the "Original Owners"). These Original Owners comprise individuals who are current or previous employees of the Group or relatives of Mr. Chen Xiao, Ms. Shu Wei, Mr. Liu Hui and Mr. Yuan Yashi (collectively referred to as the "Key Management"), and companies that were held by them. These Original Owners also include the Key Management and several individuals who are the beneficiaries under a trust arrangement.

In preparation for the Foreign Investment (as defined in the sub-section headed "Offshore Restructuring" below) at the end of 2004, the Group underwent a restructuring of the Original Group that included the following principal steps:

- the transfer by the Original Owners of all or part of their interests in 18 entities in the Original Group, resulting in Yongle (China) and Minrong holding 90% and 10%, respectively, of the registered capital of the 18 entities;
- the liquidation or cessation of the businesses of 11 dormant or non-performing entities in the Original Group;
- the establishment of 4 jointly-controlled entities;
- the establishment of 26 new subsidiaries, each held by Yongle (China) and Minrong as to 90% and 10%, respectively, and the establishment of a new subsidiary with Minrong holding a 90% interest; and

1. **CORPORATE INFORMATION** *(Continued)*

Onshore Restructuring *(Continued)*

- the reorganisation of the shareholding structure of Yongle (China) and Minrong, resulting in China Paradise Electronics Retail (Hong Kong) II Limited ("Paradise Hong Kong II") holding a 90% equity interest in Yongle (China), and Yongle (China) in turn holding a 99% equity interest in Minrong.

Immediately after the Onshore Restructuring, the Company became the holding company of the Group which consisted of 55 group members in the Mainland China, namely, Yongle (China), Minrong, 45 subsidiaries being held as to 90% by Yongle (China) and 10% by Minrong, a subsidiary held as to 90% by Minrong, Shanghai Yongle Electronics Training Center (which is a legal entity wholly owned by Yongle (China)) and 6 jointly-controlled entities.

Offshore Restructuring

The Company was incorporated with an initial issued share capital of one share at par value of US$0.01. China Paradise Electronics Retail (Hong Kong) Limited ("Paradise Hong Kong") and Paradise Hong Kong II were incorporated on 8 September 2004 in Hong Kong. On 10 September 2004, Paradise Hong Kong II was acquired from its initial subscribers by Paradise Hong Kong, which was in turn acquired by the Company from its initial subscribers on the same date.

Retail Management was incorporated in the British Virgin Islands on 31 August 2004. On 14 September 2004, Retail Management allotted 1,000,000 shares to the Key Management, representing 100% of the issued share capital of Retail Management. Since then and until the date of this report, the Key Management, namely, Mr. Chen Xiao, Ms. Shu Wei, Mr. Liu Hui, and Mr. Yuan Yashi hold 72.59%, 13.10%, 9.77% and 4.54% of the shareholding of Retail Management, respectively.

On 23 December 2004, Retail Management acquired the one share at par value of US$0.01 (representing 100% of the issued share capital) of the Company from MS Retail Limited. On 24 December 2004, in preparation for the Foreign Investment, Retail Management subscribed for 6,638 additional shares in the Company at a par value of US$0.01 each. In January 2005, each of MS Retail Limited and CDH Electronics Limited (collectively referred to as the "Financial Investors") subscribed for 2,150 shares and 350 shares at a par value of US$0.01 each (equivalent to 363,286,716 and 59,139,698 shares after conversion of these shares into shares of the Company at a par value of HK$0.10 each), respectively, at a total consideration of US$50 million (the "Foreign Investment"). As a result, Retail Management and the Financial Investors held 72.64% and 27.36% of the total shareholding in the Company, respectively.

The Company used the amount invested by the Financial Investors to subscribe for 99 shares (representing a 100% equity interest) in Paradise Hong Kong at a consideration US$50 million. Paradise Hong Kong, in turn, used the proceeds received from the Company to subscribe for 99 shares (representing a 100% equity interest) in Paradise Hong Kong II at the same amount of consideration.

Prior to the investment of Paradise Hong Kong II in Yongle (China), the registered and paid-up capital of Yongle (China) was RMB100 million. Mr. Chen Xiao, Ms. Shu Wei, Mr. Liu Hui and Mr. Yuan Yashi were interested in 72.59%, 13.10%, 9. 77% and 4.54% of the registered capital of Yongle (China), respectively.

On 15 September 2004, Paradise Hong Kong II entered into a capital increase agreement with the Key Management whereby Paradise Hong Kong II agreed to subscribe for RMB120.0 million of the registered capital of Yongle (China) for a consideration of approximately RMB250.8 million (the "Capital Increase"). The excess of the consideration over the par value of the registered capital was treated as share premium.

1. CORPORATE INFORMATION *(Continued)*

Offshore Restructuring *(Continued)*

Pursuant to a transfer agreement dated 16 September 2004 entered into between the Key Management and Paradise Hong Kong II, Mr. Chen Xiao, Ms. Shu Wei, Mr. Liu Hui and Mr. Yuan Yashi agreed to transfer RMB56.6 million, RMB10.2 million, RMB7.6 million and RMB3.5 million, respectively, of the registered capital of Yongle (China) to Paradise Hong Kong II at a consideration of RMB118.3 million, RMB21.4 million, RMB15.9 million and RMB7.4 million, respectively, or totalling to RMB163 million (the "Equity Transfer").

The Capital Increase and Equity Transfer were completed in February 2005. As a result, Paradise Hong Kong II and the Key Management became interested in 90% and 10% of the registered capital of Yongle (China), respectively.

2. BASIS OF PRESENTATION

The consolidated financial statements have been prepared on a continuing basis as if the acquisition of the controlling interest in Yongle (China) by the Company via Paradise Hong Kong II had been completed as at the beginning of the financial years presented because the acquisition of Yongle (China) by the Company should be regarded as a business combination under common control as the Company and Yongle (China) are ultimately controlled by the same parties before and after the Reorganisation. Therefore, the consolidated financial statements include the Group's financial position, results of operations and cash flows as if Yongle (China) had been a subsidiary of the Group since the beginning of the financial years presented, to the extent of the interests in Yongle (China) held by the Key Management and a trust, of which Mr. Chen Xiao was the trustee, over the periods up to the date of acquisition of a 90% interest in Yongle (China) by the Company via Paradise Hong Kong II, excluding the 10% interest in Yongle (China) directly held by the Key Management upon completion of the Reorganisation which is accounted for as part of the minority interests since the beginning of the financial years presented.

Except that the results of Yongle (China) are presented on a merger basis as described in the preceding paragraph, the results of all subsidiaries and jointly-controlled entities historically acquired or disposed of by Yongle (China) are consolidated from or to their effective dates of acquisition or disposal.

In the opinion of the directors, the financial statements of the Group, presented on the above basis, present fairly the results, cash flows and the state of affairs of the Group as a whole.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"), which comprises standards and interpretations approved by the International Accounting Standards Board (the "IASB"), and International Accounting Standards and Standing Interpretations Committee interpretations approved by the International Accounting Standards Committee that remain in effect, except for the following standards that have been early adopted since the beginning of the financial years presented:

- IFRS 1 (amended in 2004), First-Time Adoption of International Financial Reporting Standards;
- IFRS 2, Share-Based Payment;
- IFRS 3, Business Combinations;
- IFRS 5, Non-current Assets Held for Sale and Discontinued Operations;
- IAS 1 (amended in 2004), Presentation of Financial Statements;

3. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

Basis of preparation *(Continued)*

- IAS 10 (amended in 2004), Events after the Balance Sheet Date;
- IAS 12 (amended in 2004), Income Taxes;
- IAS 14 (amended in 2004), Segment Reporting;
- IAS 16 (amended in 2004), Property, Plant and Equipment;
- IAS 17 (amended in 2004), Leases;
- IAS 18 (amended in 2004), Revenue;
- IAS 19 (amended in 2004), Employee Benefits;
- IAS 27 (amended in 2004), Consolidated and Separate Financial Statements;
- IAS 28 (amended in 2004), Investments in Associates;
- IAS 31 (amended in 2004), Interests in Joint Ventures;
- IAS 32 (amended in 2004), Financial Instruments: Disclosure and Presentation;
- IAS 33 (amended in 2004), Earnings Per Share;
- IAS 36 (amended in 2004), Impairment of Assets;
- IAS 37 (amended in 2004), Provisions, Contingent Liabilities and Contingent Assets;
- IAS 38 (amended in 2004), Intangible Assets; and
- IAS 39 (amended in 2004), Financial Instruments: Recognition and Measurement.

The consolidated financial statements have been prepared on a historical cost basis and presented in Renminbi and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the companies comprising the Group. Except that the results of Yongle (China) were presented on a merger basis as described in note 2, the results of all subsidiaries and jointly-controlled entities historically acquired or disposed of by Yongle (China) are consolidated from or to their effective dates of acquisition or disposal.

All material intra-group transactions and balances, and any unrealised gains arising from intra-group transactions, have been eliminated on consolidation.

Minority interests at balance sheet date, being the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the Group, whether directly or indirectly through subsidiaries, are presented in the consolidated balance sheet within equity, separately from the parent shareholders' equity. Minority interests in the results of the Group are also separately disclosed in the consolidated income statement.

3. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

Subsidiaries

A subsidiary is an entity controlled by the Company. Control exists when Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of a subsidiary is included in the consolidated financial statements from the date that control commences until the date control ceases.

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

Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture entity and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

(a) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture;

(b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;

(c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's equity voting rights and is in a position to exercise significant influence over the joint venture; or

(d) an equity investment accounted for in accordance with IAS 39, if the Group holds, directly or indirectly, less than 20% of the joint venture's equity voting rights and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

Jointly-controlled entities

A jointly-controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's interests in its jointly-controlled entities are accounted for by proportionate consolidation, which involves recognising its share of the jointly-controlled entities' assets, liabilities, income and expenses with similar items in the consolidated financial statements on a line-by-line basis.

Investments in associates

The Group's investments in its associates are accounted for under the equity method of accounting. An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a jointly-controlled entity.

3. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

Investments in associates *(Continued)*

Under the equity method, the investment in the associate is carried in the balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. After application of the equity method, the Group determines whether it is necessary to recognise any additional impairment loss with respect to the Group's net investment in the associate. The income statement reflects the share of the results of operations of the associate. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the statement of changes in equity.

The reporting dates of the associate and the Group are identical and the associates' accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

Goodwill

Goodwill acquired on a business combination is initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, or that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units. Each unit or group of units to which the goodwill is so allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit are disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

An impairment loss recognised for goodwill is not reversed in a subsequent period.

Excess over the cost of business combinations

Any excess of the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of the business combinations, the excess is recognised immediately in the income statement in the "other expenses" line item.

Related parties

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

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

3. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

Related parties *(Continued)*

(b) the party is an associate;

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

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

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

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

Impairment of assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognised in the income statement in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Property, plant and equipment

Property, plant and equipment, other than construction in progress ("CIP"), are stated at cost less accumulated depreciation and any impairment in value. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment *(Continued)*

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The estimated useful lives for this purpose are as follows:

	Depreciation life	Residual value
Leasehold land and buildings	20 years	3-5%
Leasehold improvements	3-5 years	–
Motor vehicles	5 years	3-5%
Furniture and office equipment	5 years	3-5%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

CIP represents buildings, stores and storage facilities under construction, or renovation works in progress, which is stated at cost less any impairment in value, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. CIP is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is charged against profits in the year in which the expenditure is incurred. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the income statement in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

3. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

Investments and other financial assets

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

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

Financial assets at fair value through profit or loss

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

Loans and receivables

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

Held-to-maturity investments

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

Available-for-sale financial assets

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

3. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

Investments and other financial assets *(Continued)*

Available-for-sale financial assets (Continued)

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

Derecognition of financial assets and liabilities

Financial assets

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

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

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

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

Financial liabilities

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

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

3. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

Impairment of financial assets

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

Assets carried at amortised cost

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

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

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

Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from equity to the income statement. Reversals in respect of equity instruments classified as available-for-sale are not recognised in profit. Reversals of impairment losses on debt instruments are reversed through profit or loss, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

Properties under development

Properties under development are stated at cost which includes all development expenditures, including land costs, interest charges and other costs directly attributable to such properties. Properties under development which are expected to be completed within one year from the balance sheet date are classified as current assets.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Inventories

Inventories comprise merchandise purchased for resale and are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs necessary to make the sale.

Trade and other receivables

Trade receivables, which generally have a credit term of one month, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. Provision is made when there is objective evidence that the Group will not be able to collect the debts. Bad debts are written off when identified.

Cash and cash equivalents

Cash and short term deposits in the balance sheet comprise cash at banks and on hand and short term deposits with an original maturity of three months or less.

For the purpose of the consolidated cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of the money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

Employee retirement benefits

Pursuant to the relevant regulations of the PRC government, the companies now comprising the Group operating in the Mainland China (the "Mainland China group companies") have participated in a local municipal government retirement benefits scheme (the "Scheme"), whereby the Mainland China group companies are required to contribute a certain percentage of the basic salaries of their employees to the Scheme. The local municipal government undertakes to assume the retirement benefits scheme obligations of all existing and future retired employees of the Mainland China group companies. The only obligation of the Group with respect to the Scheme is to pay the ongoing contributions under the Scheme. Contributions under the Scheme are charged to the income statement as incurred. There are no provision under the Scheme whereby forfeited contributions may be used to reduce future contributions.

Share-based payment transactions

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Certain employees of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

3. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

Share-based payment transactions *(Continued)*

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined using a binomial model, further details of which are given in note 33 to the financial statements. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ("market conditions"), if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the "vesting date"). The cumulative expense recognised for equity-settled transactions at each balance sheet date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

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

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e. assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

3. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) revenue from the provision of repair and maintenance services, air-conditioner installation services, transportation services and management services is recognised upon the rendering of services;

(c) rental income arising on the sub-leasing of properties is accounted for on the straight-line basis over the lease term on ongoing leases;

(d) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset;

(e) phone service charges sharing on the sale of certain mobile phone service packages, upon the actual consumption of phone services taken place;

(f) revenue from the sale of mobile handsets under certain mobile phone service packages is deferred and recognised over the terms of the subscription contract;

(g) rebate and sponsorship from suppliers is recognised on an accrual basis upon the right to receive has been established with reference to the terms of the agreements; and

(h) dividend income, when the shareholders' right to receive payment has been established.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, or in equity if it relates to items that are recognised directly in equity in the same or a different period.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

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

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

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

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

3. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

Income tax *(Continued)*

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

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

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

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

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

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

Government grants and subsidies

Government grants and subsidies are recognised at their fair value where there is reasonable assurance that the grant or subsidy will be received and all attaching conditions will be complied with. When the grant or subsidy relates to an expense item, it is recognised as income over the periods necessary to match the grant or subsidy on a systematic basis to the costs that it is intended to compensate. Where the grant or subsidy relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

Dividends

Interim dividends are simultaneously proposed and declared, because the memorandum and articles of association of the Company grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Foreign currencies

The financial records of the Mainland China group companies are maintained and the consolidated financial statements are presented in Renminbi ("RMB"), which is the functional currency of the Mainland China group companies.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

Transactions in foreign currencies are initially recorded using the functional currency rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. Exchange differences are taken to profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of the Company and the Hong Kong subsidiaries are currencies other than the RMB. As at the balance sheet date, the assets and liabilities of these entities are translated into RMB at the exchange rates ruling at the balance sheet date and, their income statements are translated into RMB at the weighted average exchange rates for the year. The resulting translation differences are included in the exchange fluctuation reserve. On disposal of the Hong Kong subsidiaries, the deferred cumulative amount recognised in equity relating to that particular operation is recognised in the income statement.

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

Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Group as a lessee

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating lease payments are recognised as an expense in the income statement on the straight-line basis over the lease term.

Group as a lessor

Leases where the Group retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as rental income.

3. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

Use of estimates

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

(i) Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2005 was RMB32,699,000 (2004: RMB20,772,000). More details are given in note 17 to the financial statements.

(ii) Income taxes

The preferential income tax rate of 15% entitled by Yongle (China) for the year ended 31 December 2005 is only prescribed by the relevant PRC tax authority and not prescribed under any laws or 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. Further details of the income tax concession are set out in note 10 to the financial statements.

(iii) Deferred tax assets

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised. Where the actual or expected tax positions of the relevant companies of the Group in future are different from the original estimate, such differences will impact on the recognition of deferred tax assets and income tax charge in the period in which such estimate has been changed. The carrying amount of deferred tax assets at 31 December 2005 was RMB40,899,000 (2004: RMB16,090,000). More details are given in note 21 to the financial statements.

(iv) Provision for slow-moving inventories

Provision for slow-moving inventories is made based on the ageing and estimated net realisable value of inventories. The assessment of the provision amount required involves management judgment and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will impact on the carrying value of inventories and provision charge/write-back in the period in which such estimate has been changed. The carrying amount of inventories as at 31 December 2005 was RMB1,649,268,000 (2004: RMB799,365,000).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impact of issued but not yet effective IFRSs and IFRIC Interpretations

The Group has not applied the following IFRSs and IFRIC Interpretations that have been issued but are not yet effective:

IFRS 6 Exploration for and Evaluation of Mineral Resources

This Standard does not apply to the activities of the Group.

IFRIC Interpretation 5 Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

This Interpretation is required to be applied for annual periods beginning on or after 1 January 2006, but is not expected to be relevant for activities of the Group.

The Group expects that adoption of the pronouncements listed above will have no impact on the Group's financial statements in the period of initial application.

4. SEGMENT INFORMATION

During the years ended 31 December 2005 and 2004, the Group principally operated in one business segment, which is the retailing of household appliances and consumer electronics products. The turnover, 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.

5. REVENUE, OTHER INCOME AND GAINS

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 gains is as follows:

		2005	**2004**
	Notes	*RMB'000*	*RMB'000*
Revenue			
Sale of household appliances and consumer electronics products		12,134,461	8,109,256
Phone service charges sharing and deferred revenue recognised in the sale of CDMA mobile phone service packages		111,707	157,700
		12,246,168	8,266,956
Other income			
Sponsorship from suppliers		625,126	266,343
Provision of transportation services		–	1,005
Provision of air-conditioner installation services		30,576	15,497
Rental income		12,823	5,338
Management fee income		2,287	1,902
Provision of repair and maintenance services		1,240	1,598
Income from sale of household furniture and decoration materials		42	789
Dividend from long term investments		–	218
Subsidy income		61,454	1,212
Sale of properties		451	–
Compensation received for breach of a contract		10,442	–
Others		15,590	5,684
		760,031	299,586
Gains			
Excess over the cost of a business combination recognised in the income statement	*35*	–	863
Gain on disposal of subsidiaries	*36*	175	–
Gain on disposal of long term investments		–	13
		175	876
		760,206	300,462

6. FINANCE COSTS

	2005	2004
	RMB'000	*RMB'000*
Interest on interest-bearing bank loans	9,190	5,825
Less: Interest capitalised	(884)	(480)
	8,306	5,345

7. PROFIT BEFORE TAX

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

		2005	2004
	Notes	*RMB'000*	*RMB'000*
Cost of inventories recognised as expenses		11,343,161	7,541,009
Depreciation	*15*	56,391	17,726
Amortisation of intangible assets	*16*	2,298	837
Provision/(write-back of provision) for slow-moving inventories		(62,742)	43,767
Interest income		(52,925)	(31,215)
Provision for doubtful debts		–	55
Impairment of goodwill*	*17*	696	6,887
Loss on disposal of property, plant and equipment		2,964	769
Loss on disposal of subsidiaries		–	11
Minimum lease payments under non-cancellable operating leases of land and buildings		357,567	137,605
Auditors' remuneration		3,700	1,256
Staff costs including directors' remuneration *(note 8)*:			
Wages, salaries and bonuses		254,994	116,164
Equity-settled share option expense		7,226	–
Retirement benefit contributions		24,515	14,183
Other social security and welfare costs		45,956	33,629
		332,691	163,976

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

The Group had 17,027 (2004: 9,192) employees as at 31 December 2005.

8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Section 161 of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong), is as follows:

	Group	
	2005	**2004**
	RMB'000	*RMB'000*
Fees	90	–
Other emoluments:		
Salaries, allowances and benefits in kind	4,862	1,599
Bonuses	2,023	533
Retirement benefit contributions	79	68
	6,964	2,200
	7,054	2,200

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year are as follows:

	2005	**2004**
	RMB'000	*RMB'000*
Mr. Yu Zengbiao	30	–
Mr. Chu Cheng Chung	30	–
Mr. Wang Bing	30	–
	90	–

There were no other emoluments payable to the independent non-executive directors during the year (2004: Nil).

8. **DIRECTORS' REMUNERATION** *(Continued)*

(b) **Executive directors and non-executive directors**

	Fees	Salaries, allowances and benefits in kind	Bonuses	Retirement benefit contributions	Total remuneration
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
2005					
Executive directors:					
Mr. Chen Xiao	–	1,159	619	16	1,794
Ms. Shu Wei	–	1,001	499	16	1,516
Mr. Liu Hui	–	478	65	16	559
Mr. Ma Yawei	–	381	125	–	506
Mr. Yuan Yashi	–	363	81	16	460
Mr. Zhou Meng	–	1,050	504	–	1,554
Mr. Shen Ping	–	430	130	15	575
	–	4,862	2,023	79	6,964
Non-executive directors:					
Mr. Liu Haifeng	–	–	–	–	–
Mr. Jiao Shuge	–	–	–	–	–
Mr. Julian Juul Wolhardt	–	–	–	–	–
	–	4,862	2,023	79	6,964

	Fees	Salaries, allowances and benefits in kind	Bonuses	Retirement benefit contributions	Total remuneration
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
2004					
Executive directors:					
Mr. Chen Xiao	–	336	140	14	490
Ms. Shu Wei	–	312	104	14	430
Mr. Liu Hui	–	310	92	14	416
Mr. Ma Yawei	–	195	64	–	259
Mr. Yuan Yashi	–	202	58	13	273
Mr. Zhou Meng	–	–	–	–	–
Mr. Shen Ping	–	244	75	13	332
	–	1,599	533	68	2,200
Non-executive directors:					
Mr. Liu Haifeng	–	–	–	–	–
Mr. Jiao Shuge	–	–	–	–	–
Mr. Julian Juul Wolhardt	–	–	–	–	–
	–	1,599	533	68	2,200

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2004: three) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining two (2004: two) non-director, highest paid employee for the year are as follows:

	2005	2004
	RMB'000	*RMB'000*
Salaries, allowances and benefits in kind	1,060	549
Bonuses	162	178
Retirement benefit contributions	–	29
	1,222	756

The above remuneration does not include the equity-settled share option expense as disclosed in note 33 to the financial statements.

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

	Number of employees	
	2005	2004
Nil to RMB1,000,000	2	2

10. 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 year under the income tax rules and regulations of the PRC:

- Yongle (China), Shanghai 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 Yongfu Technique Service 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. is subject to a corporate income tax rate of 15% for the seven-month period ended 31 December 2004 and the financial year ended 31 December 2005 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.

10. INCOME TAX *(Continued)*

- Shanghai Yongle Communication Equipment Co., Ltd. was granted a 50% and a full tax exemption of income tax for the six-month period ended 31 December 2004 and the financial year ended 31 December 2005, respectively, as prescribed by the tax authority in accordance with the relevant tax laws and regulations.

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

	2005	**2004**
	RMB'000	*RMB'000*
Current income tax – PRC		
Charge for the year	64,474	45,307
Underprovision in prior years	2,545	1,327
Deferred income tax		
Relating to origination and reversal of temporary differences *(note 21)*	(38,423)	(1,719)
Total tax charge for the year	28,596	44,915

Share of tax attributable to associates amounting to approximately RMB15,000 for the year ended 31 December 2004 is included in "share of profits and losses of associates" on the face of the Group's consolidated income statement.

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the countries in which the Group's operating subsidiaries and jointly-controlled entities are domiciled to the tax expense at the effective tax rates is as follows:

	2005	**2004**
	RMB'000	*RMB'000*
Profit before tax	349,936	257,243
Tax at the statutory tax rate of 33%	115,479	84,890
Lower tax rate for specific provinces/districts or concessions	(68,553)	(54,098)
Tax saving from tax exemption	(62,794)	(3,295)
Expenses not deductible for tax	29,730	16,091
Deferred tax assets not recognised	12,189	–
Underprovision in prior years	2,545	1,327
Tax charge at the Group's effective rate of 8% (2004: 17%)	28,596	44,915

11. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The net profit from ordinary activities attributable to equity holders of the Company for the year ended 31 December 2005 dealt with in the financial statements of the Company was RMB247,000 (2004: Nil) (note 34(b)).

12. DIVIDENDS

	2005	2004
	RMB'000	*RMB'000*
Proposed final dividend HK2.6 cents per ordinary share	58,226	550
Proposed special dividend HK1.3 cents per ordinary share	29,113	–
	87,339	550

Prior to the completion of the Reorganisation, dividends were declared by the subsidiaries of the Group during the year ended 31 December 2004 to their respective shareholders. The dividend amount of RMB550,000 for the year ended 31 December 2004, disclosed in the consolidated results represents the dividends paid by the subsidiaries to entities outside the Group. The dividend rates for year 2004 are not presented as such information is considered not meaningful for the purpose of this report.

The proposed final and special dividends for the year are subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

13. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

Basic earnings per share

The calculation of basic earnings per share amounts for the year ended 31 December 2005 is based on the net profit for the year attributable to ordinary equity holders of the Company of RMB289,474,000, and the weighted average number of ordinary shares in issue during the year of 1,678,047,208 shares on the assumption that 1,544,222,000 shares, representing the number of the shares of the Company outstanding immediately before the offering of the Company's shares in relation to the listing of the Company on the Stock Exchange (the "Global Offering"), assuming that none of the Company's share option will be exercised before the Global Offering, had been in issue throughout the year ended 31 December 2005, adjusted for new issue of 455,778,000 shares upon the Global Offering and 99,354,693 shares upon the exercise of the Financial Investors' Option by the Financial Investors on 14 October 2005 and 68,366,000 shares under over-allotment arrangement in connection with the Global Offering on 20 October 2005.

The calculation of basic earnings per share amounts for the year ended 31 December 2004 is based on the net profit for the year attributable to ordinary equity holders of the Company of approximately RMB185,650,000, and the number of ordinary shares in issue during 2004 on the assumption that 1,544,222,000 shares issued as at 14 October 2004, assuming that none of the Company's share option will be exercised before the Global Offering, had been in issue throughout the year ended 31 December 2004.

Diluted earnings per share

The calculation of diluted earnings per share amounts is based on the net profit for the year attributable to the ordinary equity holders of the Company, adjusted to reflect the outstanding share options. The weighted average number of ordinary shares used in the calculation is the ordinary shares in issue during the year, as used in the basic earnings per share calculation and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

13. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY *(Continued)*

Diluted earnings per share *(Continued)*

The calculations of basic and diluted earnings per share are based on:

	2005	2004
	RMB'000	*RMB'000*
Earnings		
Net profit attributable to ordinary equity holders of the Company	289,474	185,650

	Number of shares	
	2005	2004
	'000	*'000*
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	1,678,047	1,544,222
Effect of dilution due to share options – weighted average number of ordinary shares	142,598	29,737
	1,820,645	1,573,959

14. RETIREMENT BENEFIT SCHEMES

The Group is required to participate in employee retirement benefit schemes operated by the relevant local government authorities in the PRC. The PRC government is responsible for the pension liability to those retired employees. The Group is required to make contributions to the employee retirement benefit funds at rates ranging from 12% to 24% of the standard salaries set by the local authorities annually.

The Group's retirement benefit schemes contributions for the year amounted to approximately RMB24,515,000 (2004: RMB14,183,000).

15. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings *RMB'000*	Leasehold improvements *RMB'000*	Motor vehicles *RMB'000*	Furniture and office equipment *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
At cost:						
At 1 January 2005	268,624	49,551	14,087	37,214	41,959	411,435
Additions	81,354	162,179	9,502	66,963	25,819	345,817
Disposals	(97,646)	(3,275)	(2,733)	(2,437)	(160)	(106,251)
Acquisition of subsidiaries	209,065	3,304	320	1,733	–	214,422
Disposal of subsidiaries	–	–	–	(37)	–	(37)
Transfers	52,284	–	–	8,985	(61,269)	–
At 31 December 2005	513,681	211,759	21,176	112,421	6,349	865,386
Accumulated depreciation:						
At 1 January 2005	8,705	11,227	5,155	7,244	–	32,331
Provided during the year	16,556	26,729	2,453	10,653	–	56,391
Disposals	(9,174)	(655)	(1,919)	(767)	–	(12,515)
Acquisition of subsidiaries	1,253	374	40	167	–	1,834
Disposal of subsidiaries	–	–	–	(1)	–	(1)
At 31 December 2005	17,340	37,675	5,729	17,296	–	78,040
Net book value:						
At 31 December 2005	496,341	174,084	15,447	95,125	6,349	787,346
At cost:						
At 1 January 2004	69,240	8,047	6,275	14,754	4,056	102,372
Additions	188,010	34,234	4,443	18,664	12,712	258,063
Disposals	(131)	–	(526)	(1,063)	–	(1,720)
Acquisition of subsidiaries	10,455	7,270	3,895	3,686	27,414	52,720
Transfers	1,050	–	–	1,173	(2,223)	–
At 31 December 2004	268,624	49,551	14,087	37,214	41,959	411,435
Accumulated depreciation:						
At 1 January 2004	3,549	2,842	1,508	2,167	–	10,066
Provided during the year	3,948	7,404	1,557	4,817	–	17,726
Disposals	(38)	–	(296)	(617)	–	(951)
Acquisition of subsidiaries	1,246	981	2,386	877	–	5,490
At 31 December 2004	8,705	11,227	5,155	7,244	–	32,331
Net book value:						
At 31 December 2004	259,919	38,324	8,932	29,970	41,959	379,104

The Group's land and buildings, included above at cost, were valued at RMB540,958,000 as at 31 August 2005 in the prospectus issued on 4 October 2005 in connection with the listing of the Company's shares on 14 October 2005 (note 32). Had the Group's land and buildings been included in these financial statements at such valuation amount throughout the year ended 31 December 2005, an additional depreciation charge of RMB1,594,000 would have been charged to the consolidated income statement for the year ended 31 December 2005.

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

All of the Group's leasehold land and buildings are located in the Mainland China.

Certain of the Group's property, plant and equipment have been pledged to banks for bills payable facilities and interest bearing bank loans granted to the Group as disclosed in notes 29 and 31, respectively, to the financial statements.

The carrying amounts of the Group's leasehold land and buildings and construction in progress included capitalised interest of approximately RMB2,324,000 and RMB1,440,000 as at 31 December 2005 and 2004, respectively. Interest was capitalised at an average annual rate of 4.6% for the years ended 31 December 2005 and 2004.

16. INTANGIBLE ASSETS

	2005	**2004**
	RMB'000	*RMB'000*
At cost:		
At beginning of year	5,497	1,840
Additions	7,538	3,340
Acquisition of subsidiaries	8	317
At end of year	13,043	5,497
Accumulated amortisation:		
At beginning of year	1,687	777
Provided during the year	2,298	837
Acquisition of subsidiaries	1	73
At end of year	3,986	1,687
Net book value:		
At end of year	9,057	3,810

Intangible assets represent the purchase costs of computer software.

17. GOODWILL

The amount of the goodwill recognised in the consolidated balance sheet, arising from the acquisition of subsidiaries and acquisition of additional interests in subsidiaries, is as follows:

	2005	2004
	RMB'000	*RMB'000*
At cost:		
At beginning of year	27,659	–
Acquisition of subsidiaries	12,033	27,153
Arising from acquisition of additional interests in subsidiaries	590	506
At end of year	40,282	27,659
Accumulated impairment:		
At beginning of year	(6,887)	–
Provided during the year	(696)	(6,887)
At end of year	(7,583)	(6,887)
Net book value:		
At end of year	32,699	20,772

The above goodwill related to the acquisition of subsidiaries. In accordance with IFRS 3, the above goodwill is not amortised but is tested for impairment at the cash-generating units on an annual basis.

Impairment testing of goodwill

Goodwill acquired through business combinations has been allocated to the cash-generating units of the respective companies for impairment testing.

The recoverable amounts of these subsidiaries have been determined based on the value in use calculation of the respective companies. To calculate this, cash flow projections are based on financial budgets approved by management covering a three-year period. The discount rate applied to the cash flow projections beyond a one-year period is 5%. No growth has been projected beyond the three-year period.

Key assumptions used in the value in use calculation

The key assumptions on which management has based its cash flow projections when undertaking the impairment testing of goodwill are as follows:

Store revenue – the bases used to determine the future earning potential are historical sales and population growth, taking into account economy outlook.

Cost of sales and operating expenses – the bases used to determine the values assigned are cost of merchandise purchased for resale, staff headcount and other operating costs. Value assigned to the key assumption reflects past experience and management commitment to maintain its cost of sales and operating expenses to an acceptable level.

18. INTERESTS IN SUBSIDIARIES

Company

	2005
	RMB'000
Unlisted shares, at cost	405,600
Amounts due to subsidiaries	(7,078)
	398,522

The balances with subsidiaries are unsecured, interest-free and have no fixed terms of repayment. The carrying amounts of the amounts due to subsidiaries approximates to their fair values.

Particulars of the subsidiaries of the Group are as follow:

Company name	**Place of incorporation/ registration and operation**	**Nominal value of issued ordinary/ issued capital as at 31 December 2005** *(in '000)*	**Percentage of equity attributable to the Group as at 31 December 2005**	**Principal activities** *Notes*
China Paradise Electronics Retail (Hong Kong) Limited	Hong Kong	HK$1	100%	(i)
China Paradise Electronics Retail (Hong Kong) II Limited	Hong Kong	HK$1	100%	(i)
Yongle (China) Electronics Retail Co., Ltd. (l) 永樂(中國)電器銷售有限公司	PRC/Mainland	RMB220,010	90%	(ii)
Shanghai Minrong Investment Co., Ltd. 上海民融投資有限公司	PRC/Mainland	RMB80,000	89.1%	(iii)
Anhui Yongle Hongtai Electronics Retail Co., Ltd. 安徽永樂鴻泰家用電器有限公司	PRC/Mainland	RMB10,000	89.91%	(ii)
Anyang Yongle Electronics Retail Co., Ltd. 安陽永樂生活電器有限公司	PRC/Mainland	RMB5,000	89.91%	(ii)
Beijing Century Yongle Electronics Retail Co., Ltd. 北京世紀永樂家用電器有限公司	PRC/Mainland	RMB10,000	89.91%	(ii)
Changge Yongle Electronics Retail Co., Ltd. 長葛永樂生活電器有限公司	PRC/Mainland	RMB5,000	89.91%	(ii)
Changzhou Yongle Electronics Retail Co., Ltd. 常州市永樂家用電器有限公司	PRC/Mainland	RMB5,000	89.91%	(ii)

18. INTERESTS IN SUBSIDIARIES *(Continued)*

Company name	Place of incorporation/ registration and operation	Nominal value of issued ordinary/ issued capital as at 31 December 2005 *(in '000)*	Percentage of equity attributable to the Group as at 31 December 2005	Principal activities *Notes*
Cixi Yongle Electronics Retail Co., Ltd. 慈溪市永樂家用電器有限公司	PRC/Mainland	RMB4,000	89.91%	(ii)
Dongguan Yonggang Electronics Retail Co., Ltd. 東莞市永剛家用電器有限公司	PRC/Mainland	RMB5,000	89.91%	(ii)
Foshan Yongle Electronics Retail Co., Ltd. 佛山市永樂生活電器有限公司	PRC/Mainland	RMB5,000	89.91%	(ii)
Fuyang Yongsheng Electronics Retail Co., Ltd. 富陽永盛家電有限公司	PRC/Mainland	RMB1,000	89.91%	(ii)
Guangdong Yongle Electronics Retail Co., Ltd. 廣東永樂家用電器有限公司	PRC/Mainland	RMB30,000	89.91%	(ii)
Haimen Yongsheng Electronics Retail Co., Ltd. 海門市永勝家用電器有限公司	PRC/Mainland	RMB2,000	89.91%	(ii)
Haining Yongle Electronics Retail Co., Ltd. 海寧市永樂家電有限公司	PRC/Mainland	RMB1,000	89.91%	(ii)
Hangzhou Linping Yongle Electronics Retail Co., Ltd. 杭州臨平永樂家電有限公司	PRC/Mainland	RMB1,000	89.91%	(ii)
Henan Yongle Technique Service Co., Ltd. 河南永樂技術服務有限公司	PRC/Mainland	RMB1,000	89.91%	(ii)
Henan Yongle Electronics Retail Co., Ltd. 河南永樂生活電器有限公司	PRC/Mainland	RMB20,000	89.91%	(ii)
Huaian Yongle Electronics Retail Co., Ltd. 淮安永樂生活電器有限公司	PRC/Mainland	RMB5,000	89.91%	(ii)
Jiangsu Yongle Electronics Retail Co., Ltd. (a) 江蘇永樂家用電器有限公司	PRC/Mainland	RMB5,000	89.91%	(ii)
Jiangsu Yongle Technique Service Co., Ltd. 江蘇永樂家電維修服務有限公司	PRC/Mainland	RMB5,000	89.91%	(ii)
Jiaxing Yongle Electronics Retail Co., Ltd. 嘉興市永樂家電有限公司	PRC/Mainland	RMB4,000	89.91%	(ii)
Jiaozuo Yongle Electronics Retail Co., Ltd. 焦作永樂生活電器有限公司	PRC/Mainland	RMB5,000	89.91%	(ii)

18. INTERESTS IN SUBSIDIARIES *(Continued)*

Company name	Place of incorporation/ registration and operation	Nominal value of issued ordinary/ issued capital as at 31 December 2005 *(in '000)*	Percentage of equity attributable to the Group as at 31 December 2005	Principal activities *Notes*
Jingjiang Yongji Electronics Retail Co., Ltd. 靖江市永吉生活電器有限公司	PRC/Mainland	RMB3,000	89.91%	(ii)
Kaifeng Yongle Electronics Retail Co., Ltd. 開封永樂生活電器有限公司	PRC/Mainland	RMB5,000	89.91%	(ii)
Kunshan Yongji Electronics Retail Co., Ltd. 昆山市永吉家用電器有限公司	PRC/Mainland	RMB5,000	89.91%	(ii)
Lianyungang Yongji Electronics Retail Co., Ltd. 連雲港永吉生活電器有限公司	PRC/Mainland	RMB3,000	89.91%	(ii)
Luoyang Yongle Electronics Retail Co., Ltd. 洛陽永樂生活電器有限公司	PRC/Mainland	RMB5,000	89.91%	(ii)
Nanjing Yongle Electronics Retail Co., Ltd. 南京永樂生活家用電器有限公司	PRC/Mainland	RMB10,000	89.91%	(ii)
Nantong Yongtong Electronics Retail Co., Ltd. 南通永通家用電器有限公司	PRC/Mainland	RMB4,000	89.91%	(ii)
Nanyang Yongle Electronics Retail Co., Ltd. 南陽永樂生活電器有限公司	PRC/Mainland	RMB5,000	89.91%	(ii)
Ningbo Jiangdong Yongle Electronics Retail Co., Ltd. 寧波市江東永樂家用電器有限公司	PRC/Mainland	RMB8,000	89.91%	(ii)
Ninghai Yonghai Electronics Retail Co., Ltd. 寧海縣永海生活電器有限公司	PRC/Mainland	RMB1,000	89.91%	(ii)
Pingdingshan Yongle Electronics Retail Co., Ltd. 平頂山永樂生活電器有限公司	PRC/Mainland	RMB5,000	89.91%	(ii)
Pinghu Yongxin Electronics Retail Co., Ltd. 平湖市永欣家電有限公司	PRC/Mainland	RMB1,000	89.91%	(ii)
Qidong Yongsheng Electronics Retail Co., Ltd. 啟東市永盛家用電器有限公司	PRC/Mainland	RMB3,000	89.91%	(ii)
Rugao Yongji Electronics Retail Co., Ltd. 如皋市永吉家用電器有限公司	PRC/Mainland	RMB3,000	89.91%	(ii)

18. **INTERESTS IN SUBSIDIARIES** *(Continued)*

Company name	Place of incorporation/ registration and operation	Nominal value of issued ordinary/ issued capital as at 31 December 2005 *(in '000)*	Percentage of equity attributable to the Group as at 31 December 2005	Principal activities *Notes*
Shaanxi Yongle • Dazhong Electronics Retail Co., Ltd. (k) 陝西永樂•大中生活電器有限公司	PRC/Mainland	RMB10,000	89.91%	(ii)
Shanghai Chenyue Real Estate Development Co., Ltd. 上海辰粵房地產開發有限公司	PRC/Mainland	RMB106,000	N/A	(iii)
Shanghai Gaodi Logistics Co., Ltd. 上海永樂高地物流有限公司	PRC/Mainland	RMB3,000	89.91%	(iv)
Shanghai Haodaojia Home-Decoration Co., Ltd. (f) 上海好到家家居裝飾有限公司	PRC/Mainland	RMB4,000	89.91%	(v)
Shanghai Haodaojia Home Decoration & Design Co., Ltd. 上海好到家裝潢設計有限公司	PRC/Mainland	RMB500	89.91%	(vi)
Shanghai Haodaojia Home-Decoration Marketing Management Co., Ltd. 上海好到家家居裝飾市場經營管理有限公司	PRC/Mainland	RMB1,000	89.91%	(vii)
Shanghai Lequan Property Management Co., Ltd. 上海樂全物業管理有限公司	PRC/Mainland	RMB1,000	89.91%	(vii)
Shanghai Minrong Consumer Goods Transportation Co., Ltd. (f) 上海民融消費品配送有限公司	PRC/Mainland	RMB10,000	89.91%	(ii)
Shanghai Shanglu Advertising Co., Ltd. 上海商旅廣告有限公司	PRC/Mainland	RMB500	89.91%	(ix)
Shanghai Yongfu Technique Service Co., Ltd. (b) 上海永服電器服務有限公司	PRC/Mainland	RMB10,000	89.91%	(viii)
Shanghai Yongju Home Decoration Co., Ltd. 上海永居裝潢設計有限公司	PRC/Mainland	RMB12,000	89.91%	(v)
Shanghai Yongju Home-Decoration Marketing Management Co., Ltd. (c) 上海永居裝飾市場經營管理有限公司	PRC/Mainland	RMB1,000	89.91%	(vii)
Shanghai Yongju Housewares Sales Co., Ltd. 上海永居家庭裝飾產品銷售有限公司	PRC/Mainland	RMB5,000	89.91%	(v)

18. INTERESTS IN SUBSIDIARIES *(Continued)*

Company name	Place of incorporation/ registration and operation	Nominal value of issued ordinary/ issued capital as at 31 December 2005 *(in '000)*	Percentage of equity attributable to the Group as at 31 December 2005	Principal activities *Notes*
Shanghai Yongle Stock Purchase Electronics Co., Ltd. 上海永樂家用電器採購有限公司	PRC/Mainland	RMB10,000	89.91%	(ii)
Shanghai Yongle Communication Equipment Co., Ltd. (d) 上海永樂通訊設備有限公司	PRC/Mainland	RMB10,000	89.91%	(x)
Shanghai Yongle Electronics Training Center 上海永樂家電職業技術培訓中心	PRC/Mainland	RMB100	90%	(xi)
Shanghai Yongle Smart Building Equipment Engineering & Service Co., Ltd. 上海永樂樓宇設備工程服務有限公司	PRC/Mainland	RMB2,000	89.91%	(ii)
Shanghai Yongle Smart Building Equipment Marketing Co., Ltd. 上海永樂樓宇設備銷售有限公司	PRC/Mainland	RMB5,000	89.91%	(ii)
Shanghai Yongle Commercial Management Co., Ltd. 上海永樂商業管理有限公司	PRC/Mainland	RMB1,000	89.91%	(ii)
Shanghai Yongle Illuminations Electronics Co., Ltd. 上海永樂照明電器有限公司	PRC/Mainland	RMB10,000	63.9%	(ii)
Shangyu Yongle Electronics Retail Co., Ltd. 上虞市永樂家電有限公司	PRC/Mainland	RMB1,000	89.91%	(ii)
Shaoxing Yongle Electronics Retail Co., Ltd. (j) 紹興永樂家用電器有限公司	PRC/Mainland	RMB1,000	89.91%	(ii)
Shenzhen Yongle Electronics Retail Co., Ltd. 深圳永樂家用電器有限公司	PRC/Mainland	RMB8,000	89.91%	(ii)
Sichuan Yongle Electronics Retail Co., Ltd. (e) (g) 四川永樂家用電器連鎖有限公司	PRC/Mainland	RMB20,000	89.91%	(ii)
Suzhou Yongle Electronics Retail Co., Ltd. 蘇州永樂家電有限公司	PRC/Mainland	RMB10,000	89.91%	(ii)
Taicang Yongtai Electronics Retail Co., Ltd. 太倉永太家用電器有限公司	PRC/Mainland	RMB1,000	89.91%	(ii)

18. INTERESTS IN SUBSIDIARIES *(Continued)*

Company name	Place of incorporation/ registration and operation	Nominal value of issued ordinary/ issued capital as at 31 December 2005 *(in '000)*	Percentage of equity attributable to the Group as at 31 December 2005	Principal activities *Notes*
Taixing Yonggao Electronics Retail Co., Ltd. 泰興市永高家用電器有限公司	PRC/Mainland	RMB4,000	89.91%	(ii)
Taizhou Yongji Electronics Retail Co., Ltd. 泰州永吉生活電器有限公司	PRC/Mainland	RMB5,000	89.91%	(ii)
Tianjin Yongle Electronics Retail Co., Ltd. 天津永樂生活電器有限公司	PRC/Mainland	RMB10,000	89.91%	(ii)
Tongxiang Yongle Electronics Retail Co., Ltd. 桐鄉市永樂家電有限公司	PRC/Mainland	RMB1,000	89.91%	(ii)
Wuxi Yongxi Electronics Retail Co., Ltd. 無錫永錫家用電器有限公司	PRC/Mainland	RMB5,000	89.91%	(ii)
Xiamen Yongle Siwen Electronics Retail Co., Ltd. (g)(h) 廈門永樂思文家電有限公司	PRC/Mainland	RMB10,000	81%	(ii)
Xinxiang Yongle Electronics Retail Co., Ltd. 新鄉永樂生活電器有限公司	PRC/Mainland	RMB5,000	89.91%	(ii)
Xuzhou Yongle Electronics Retail Co., Ltd. 徐州市永樂家用電器有限公司	PRC/Mainland	RMB5,000	89.91%	(ii)
Yancheng Yongji Electronics Retail Co., Ltd. 鹽城永吉生活電器有限公司	PRC/Mainland	RMB5,000	89.91%	(ii)
Yangzhou Yongle Electronics Retail Co., Ltd. 揚州永樂生活電器有限公司	PRC/Mainland	RMB5,000	89.91%	(ii)
Yixing Yongle Electronics Retail Co., Ltd. 宜興市永樂家電有限公司	PRC/Mainland	RMB4,000	89.91%	(ii)
Yuyao Yongle Electronics Retail Co., Ltd. (i) 余姚市永樂家用電器有限公司	PRC/Mainland	RMB4,000	89.91%	(ii)
Zhangjiagang Yongji Electronics Retail Co., Ltd. 張家港永吉生活電器有限公司	PRC/Mainland	RMB3,000	89.91%	(ii)
Zhejiang Yongle Electronics Retail Co., Ltd. 浙江永樂家電有限公司	PRC/Mainland	RMB15,000	89.91%	(ii)
Zhejiang Yongle Smart Building Equipment Engineering & Service Co., Ltd. 浙江永樂樓宇工程服務有限公司	PRC/Mainland	RMB5,000	89.91%	(ii)

18. INTERESTS IN SUBSIDIARIES *(Continued)*

Company name	Place of incorporation/ registration and operation	Nominal value of issued ordinary/ issued capital as at 31 December 2005 *(in '000)*	Percentage of equity attributable to the Group as at 31 December 2005	Principal activities *Notes*
Zhongshan Yongji Electronics Retail Co., Ltd. 中山永吉家用電器有限公司	PRC/Mainland	RMB5,000	89.91%	(ii)
Zhuji Yongqiang Electronics Retail Co., Ltd. 諸暨市永強家電有限公司	PRC/Mainland	RMB1,000	89.91%	(ii)

Except for China Paradise Electronics Retail (Hong Kong) Limited, all the equity in the above companies are indirectly held by the Company.

Except for Yongle (China) which is registered as a foreign-invested enterprise, all other PRC/Mainland companies are registered as limited liability companies.

All the above companies' financial statements were not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms. The Group engaged a certified public accountants firm in the PRC to audit these companies' statutory financial statements.

Notes:

(i) Investment holding

(ii) Operation of household appliances and consumer electronics products chain stores

(iii) Property development

(iv) Provision of transportation services to the Group companies

(v) Sale of household furniture and decoration materials

(vi) Provision of indoor design and decoration services

(vii) Provision of management services

(viii) Provision of air-conditioner installation services

(ix) Provision of advertising and promotion services

(x) Wholesale of household appliances

(xi) Dormant

(a) On 6 July 2005, the company's name was changed from Wuxi Yongyue Electronics Retail Co., Ltd. (無錫永越家用電器有限公司) to Jiangsu Yongle Electronics Retail Co., Ltd. (江蘇永樂家用電器有限公司) .

18. INTERESTS IN SUBSIDIARIES *(Continued)*

Notes: (Continued)

(b) On 6 June 2005, the company's name was changed from Shanghai Yonggu Refrigerator Engineering Co., Ltd. (上海永固制冷設備工程有限公司) to Shanghai Yongfu Technique Service Co., Ltd. (上海永服電器服務有限公司) .

(c) On 16 June 2005, the company's name was changed from Shanghai Haodaojia (Caobao) Home-Decoration Marketing Management Co., Ltd. (上海好到家漕寶家居裝飾市場經營管理有限公司) to Shanghai Yongju Home-Decoration Marketing Management Co., Ltd. (上海永居裝飾市場經營管理有限公司) .

(d) On 11 November 2004, the company's name was changed from Shanghai Minrong Communication Co., Ltd. (上海民融通訊設備有限公司) to ShanghaiYongle Communication Equipment Co., Ltd. (上海永樂通訊設備有限公司).

(e) On 14 July 2005, the company's name was changed from Chengdu Yongle-Chengbai Electronics Retail Co., Ltd. (成都成百永樂家用電器連鎖有限公司) to Sichuan Yongle Electronics Retail Co., Ltd. (四川永樂家用電器連鎖有限公司) .

(f) Before the respective dates of 8 August 2004 and 15 August 2004, Shanghai Haodaojia Home-Decoration Co., Ltd. and Shanghai Minrong Consumer Goods Transportation Co., Ltd. were associates of the Group and were thus accounted for using the equity method of accounting.

(g) Before the respective dates of 28 May 2005 and 2 August 2005, Sichuan Yongle Electronics Retail Co., Ltd. and Xiamen Yongle Siwen Electronics Retail Co., Ltd. were jointly-controlled entities of the Group and were thus accounted for by proportionate consolidation.

(h) On 25 April 2005, the company's name was changed from Xiamen Yongshang Electronics Retail Co., Ltd. (廈門永商家電有限公司) to Xiamen Yongle Electronics Retail Co., Ltd. (廈門永樂家電有限公司) . On 30 August 2005, the company's name was further changed to Xiamen Yongle Siwen Electronics Retail Co., Ltd. (廈門永樂思文家電有限公司) .

(i) On 14 September 2005, the company's name was changed from Yuyao Yongdong Electronics Retail Co., Ltd. (余姚市永東家用電器有限公司) to Yuyao Yongle Electronics Retail Co., Ltd. (余姚市永樂家用電器有限公司) .

(j) On 15 September 2005, the company's name was changed from Shaoxing Yongda Electronics Retail Co., Ltd. (紹興永大家用電器有限公司) to Shaoxing Yongle Electronics Retail Co., Ltd. (紹興永樂家用電器有限公司) .

(k) On 17 February 2006, the company's name was changed from Shaanxi Yongle Electronics Retail Co., Ltd. (陝西永樂生活電器有限公司) to Shaanxi Yongle • Dazhong Electronics Retail Co., Ltd. (陝西永樂 • 大中生活電器有限公司) .

(l) On 1 March 2006, the company's name was changed from Shanghai Yongle Electronics Retail Co., Ltd. (上海永樂家用電器有限公司) to Yongle (China) Electronics Retail Co., Ltd. (永樂(中國)電器銷售有限公司) .

19. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

The Group has interests in jointly-controlled entities. Particulars are as follows:

Company name	Place of incorporation/ registration and operation	Nominal value of issued ordinary/ issued capital as at 31 December 2005 *(in '000)*	Percentage of equity attributable to the Group as at 31 December 2005	Principal activities *Notes*
Fujian Yongle-Shangye Electronics Retail Co., Ltd. 福建永樂商業家電有限公司	PRC/Mainland	RMB24,000	45%	(i)
Quanzhou Yongle Electronics Retail Co., Ltd. 泉州永樂家電有限公司	PRC/Mainland	RMB5,000	45%	(i)
Shanghai Zhongyongtongtai Electronics Marketing Co., Ltd. 上海中永通泰電器營銷有限公司	PRC/Mainland	RMB1,000	27%	(ii)

Notes:

(i) Operation of household appliances and consumer electronics products chain stores

(ii) Wholesale of household appliances

All the above investments in jointly-controlled entities are indirectly held by the Company through its 90% owned subsidiary, Yongle (China).

The share of the assets and liabilities of the jointly-controlled entities at the balance sheet date, which are included in the consolidated financial statements, is as follows:

	2005 *RMB'000*	**2004** *RMB'000*
Current assets	118,227	183,669
Non-current assets	10,247	12,634
	128,474	196,303
Current liabilities	(113,526)	(173,458)
Net assets	14,948	22,845

19. INTERESTS IN JOINTLY-CONTROLLED ENTITIES *(Continued)*

The share of the revenue and expenses of jointly-controlled entities during the year, which are included in the consolidated financial statements, is as follows:

	2005	**2004**
	RMB'000	*RMB'000*
Revenue	390,020	265,027
Cost of sales	(372,169)	(253,215)
Other income and gains	16,998	10,690
Selling and distribution costs	(24,039)	(21,833)
Administrative expenses	(5,441)	(7,577)
Other expenses	(169)	(93)
Profit/(loss) before tax	5,200	(7,001)
Income tax	(2,894)	1,517
Net profit/(loss) for the year	2,306	(5,484)

20. DEFERRED EXPENDITURE/INCOME

		2005	**2004**
	Notes	*RMB'000*	*RMB'000*
Deferred expenditure			
Deferred expenditure on the sale of mobile handsets under CDMA mobile phone service packages	*(i)*	18,251	59,207
Others	*(ii)*	68,208	18,032
		86,459	77,239
Deferred income			
Deferred income from the sale of mobile handsets under CDMA mobile phone service packages	*(i)*	6,939	26,938

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 compensation/premium paid for new rental contracts entered into for existing/new stores by subsidiaries 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.

21. DEFERRED TAX ASSETS AND LIABILITIES

The movements in deferred tax assets and liabilities during the year are as follows:

Deferred tax assets

	Inventory provision	Losses available for offset against future taxable profit	Income taxable in advance	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2005	6,457	9,749	(116)	16,090
Acquisition of subsidiaries	1,184	695	(111)	1,768
Deferred tax credited/(charged) to the income statement during the year	(5,531)	18,502	10,070	23,041
At 31 December 2005	2,110	28,946	9,843	40,899

Deferred tax liabilities

	Fair value adjustments arising from acquisition of a subsidiary	Inventory provision	Income not yet taxable	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2005	–	8,591	(24,436)	(15,845)
Acquisition of subsidiaries	(38,548)	–	–	(38,548)
Deferred tax credited/(charged) to the income statement during the year	1,517	(7,034)	20,899	15,382
At 31 December 2005	(37,031)	1,557	(3,537)	(39,011)

21. DEFERRED TAX ASSETS AND LIABILITIES *(Continued)*

Deferred tax assets

	Inventory provision *RMB'000*	Losses available for offset against future taxable profit *RMB'000*	Income not yet taxable *RMB'000*	Total *RMB'000*
At 1 January 2004	–	–	–	–
Acquisition of subsidiaries	2,082	5,760	4,201	12,043
Deferred tax credited/(charged) to the income statement during the year	4,375	3,989	(4,317)	4,047
At 31 December 2004	6,457	9,749	(116)	16,090

Deferred tax liabilities

	Inventory provision *RMB'000*	Income not yet taxable *RMB'000*	Total *RMB'000*
At 1 January 2004	4,115	(17,632)	(13,517)
Deferred tax credited/(charged) to the income statement during the year	4,476	(6,804)	(2,328)
At 31 December 2004	8,591	(24,436)	(15,845)

22. INVENTORIES

	2005 *RMB'000*	2004 *RMB'000*
Merchandise, at cost	1,668,056	877,304
Inventory provision	(18,788)	(77,939)
	1,649,268	799,365

At 31 December 2005, the Group's inventories amounting to RMB700 million (2004: RMB500 million) were pledged for bills payable facilities granted to the Group as disclosed in note 29 to the financial statements.

23. 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.

23. TRADE RECEIVABLES *(Continued)*

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:

	2005	**2004**
	RMB'000	*RMB'000*
Within three months	70,866	21,344
Over three months but within six months	972	3,038
Over six months but within one year	47	1,589
Over one year	1,970	–
	73,855	25,971

The amounts due from related companies included in the above can be analysed as follows:

	2005	**2004**
	RMB'000	*RMB'000*
Jointly-controlled entities	4,092	3,154

The balances are unsecured, non-interest-bearing and repayable on demand.

24. BILLS RECEIVABLE

The maturity profile of the bills receivable of the Group is as follows:

	2005	**2004**
	RMB'000	*RMB'000*
Over three months but within six months	3,530	–

25. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2005	**2004**
	RMB'000	*RMB'000*
Prepayments	743,950	240,562
Deposits for leasehold land and buildings	–	200,464
Rebate and sponsorship income receivable	573,708	281,092
Other deposits and receivables	346,824	113,596
	1,664,482	835,714

26. PROPERTY UNDER DEVELOPMENT

Property under development represents costs of the portion of "Yongle" building that was for sale. During the year, the "Yongle" building was fully completed and sold.

27. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group	
	2005	**2004**
	RMB'000	*RMB'000*
Cash and bank balances	278,057	494,943
Time deposits	3,042,944	1,123,684
	3,321,001	1,618,627
Less: Pledged deposits	(1,779,594)	(1,123,684)
Cash and cash equivalents	1,541,407	494,943

The Group's cash and cash equivalents are denominated in RMB at each balance sheet date, except for aggregate amounts of RMB52 million and RMB1,263 million, which is denominated in Hong Kong dollars and United States dollars, respectively, as at 31 December 2005.

	Company	
	2005	**2004**
	RMB'000	*RMB'000*
Cash and bank balances	51,467	–
Time deposits	1,263,350	–
	1,314,817	–

The Company's cash and cash equivalents are denominated in RMB at each balance sheet date, except for aggregate amounts of RMB51 million and RMB1,263 million, which is denominated in Hong Kong dollars and United States dollars, respectively, as at 31 December 2005.

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 29 to the financial statements.

28. 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:

	2005	**2004**
	RMB'000	*RMB'000*
Within three months	1,013,115	626,869
Over three months but within six months	79,818	23,202
Over six months but within one year	59,687	60,672
Over one year	9,152	1,887
	1,161,772	712,630

The amounts due to related companies included in the above can be analysed as follows:

	2005	**2004**
	RMB'000	*RMB'000*
Jointly-controlled entities	1,244	491

The balances are unsecured, non-interest-bearing and repayable on demand.

29. BILLS PAYABLE

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

	2005	**2004**
	RMB'000	*RMB'000*
Within three months	2,267,458	526,975
Over three months but within six months	1,365,304	1,782,396
	3,632,762	2,309,371

The Group's bills payable are secured by:

(i) the pledge of certain of the Group's time deposits amounting to RMB1,780 million (2004: RMB1,124 million);

(ii) the pledge of certain of the Group's leasehold land and buildings with aggregate net book values of approximately RMB196,858,000 (2004: RMB38,956,000); and

(iii) the pledge of certain of the Group's inventories amounting to RMB700 million (2004: RMB500 million).

As at 31 December 2004, the Directors provided guarantees totalling approximately RMB1,070 million for the banking facilities granted to the Group. These guarantees ended 31 December 2005 were released during the year.

30. OTHER PAYABLES AND ACCRUALS

	2005	2004
	RMB'000	*RMB'000*
Advances from customers	25,602	21,477
Other payables and accruals	193,555	89,667
	219,157	111,144

Included in other payables and accruals as at 31 December 2004 was a consideration of RMB2,662,000 received from two Directors for the pre-sale of certain units of "Yongle" building as disclosed in note 26 to the financial statements.

31. INTEREST-BEARING BANK LOANS

	Effective interest rate	Maturity	2005	2004
	(%)		*RMB'000*	*RMB'000*
Current:				
Bank loans – secured	5.22-5.58	2006	340,000	170,000
Non-Current:				
Bank loans – secured			–	26,000
			340,000	196,000
Bank loans repayable:				
Within one year or on demand			340,000	170,000
In the second year			–	26,000
			340,000	196,000

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 values of approximately RMB196,858,000 (2004: RMB108,431,000); and

(ii) the pledge of certain of the Group's inventories amounting to RMB700 million (2004: Nil).

The pledge of the Group's property under development amounting to RMB20,085,000 as at 31 December 2004 and the security by way of the Group's right of entitlement to the sharing of mobile phone service charge income on the sale of CDMA mobile phone service packages have been released during the year.

32. SHARE CAPITAL

	2005	2004
	RMB'000	*RMB'000*
Authorised:		
5,000,000,000 ordinary shares of HK$0.10 each	520,000	1
Issued and fully paid:		
2,167,720,693 ordinary shares of HK$0.10 each	225,443	1

During the year, the movements in share capital were as follows:

(a) In January 2005, each of MS Retail Limited and CDH Electronics Limited subscribed for 2,150 shares and 350 shares at a par value of US$0.01 each, respectively, at a total consideration of US$50 million (equivalent to RMB413,514,000), of which RMB413,513,000 was credited to share premium account;

(b) Pursuant to written resolutions of the shareholders on 14 September 2005, the original authorised share capital of the Company of US$100 (10,000 shares at US$0.01 each) was cancelled and a new class of share capital of 5,000,000,000 shares at HK$0.10 each was created. Accordingly, the issued capital of 9,139 shares at US$0.01 each immediately prior to the date of these resolutions was repurchased and cancelled and 9,139 shares of HK$0.10 were issued and allotted to the existing shareholders based on their existing shareholding on a pro rata basis ("Capital Change"). In addition, 1,544,212,861 shares were then allotted and issued at a par value by way of capitalisation of part of the Company's share premium account to these shareholders on the said pro rata basis ("Capitalisation Issue") amounted to RMB160,598,000;

(c) The issue of 524,144,000 shares, including 68,366,000 shares under the over-allotment option arrangement, at a total consideration of RMB1,226,497,000 pursuant to the Global Offering, of which RMB54,511,000 and RMB1,171,986,000 were credited to issued share capital and share premium account, respectively. These shares with a norminal value of HK$0.10 each were issued to the public by way of the Global Offering at a price of HK$2.25. After deducting the share issue expenses totalling approximately RMB72,885,000, the Company raised net proceeds of approximately RMB1,153,612,000; and

(d) The issue of 99,354,695 shares at a total consideration of RMB142,106,000 upon exercise of the Financial Investors' Option by the Financial Investors on 14 October 2005, of which RMB10,333,000 and RMB131,773,000 were credited to issue share capital and share premium account, respectively.

32. SHARE CAPITAL *(Continued)*

A summary of the transactions during the year with reference to the above movements in the Company's issued ordinary share capital is as follows:

	Number of shares in issue	Issued share capital	Share premium account	Total
	'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2005	7	1	–	1
Issue of shares upon the Financial Investment (as defined in *note 1*)	2	–	413,513	413,513
Issue of shares upon the Capital Change and Capitalisation Issue	1,544,213	160,598	(160,598)	–
Issue of shares upon the Global Offering	524,144	54,511	1,171,986	1,226,497
Issue of shares upon the exercise of the Financial Investors' Option	99,355	10,333	131,773	142,106
	2,167,721	225,443	1,556,674	1,782,117
Share issue expenses	–	–	(72,885)	(72,885)
At 31 December 2005	2,167,721	225,443	1,483,789	1,709,232

33. SHARE OPTION SCHEME

The Company has granted options to various parties to subscribe for its shares as set out below:

The Financial Investors' Option

Pursuant to the shareholders' agreement entered into between the Company and the Financial Investors on 24 December 2004, the Company granted options to the Financial Investors at no consideration whereby the Financial Investors can require the Company to allot and issue 506 and 82 ordinary shares of US$0.01 each, respectively, in the capital of the Company (the "Pre-Redenomination Shares") (equivalent to 85,499,107 and 13,855,586 shares, respectively, after the conversion of the Pre-Redenomination Shares into share of the Company with a par value of HK$0.10 each (the Capital Change as defined in note 32(b)) and the issue of the Company's shares to be made upon the capitalisation of part of the Company's share premium account (the Capitalisation Issue as defined in note 32(b)) to MS Retail Limited and CDH Electronics Limited, respectively (the "Financial Investors' Option") for an aggregate exercise price of US$17.65 million, which is equivalent to approximately HK$1.38 per share after the Capital Change and Capitalisation Issue. The Financial Investors' Option has been fully exercised by the Financial Investors' Option on 14 October 2005 and the total consideration received amounting to RMB142,106,000 has been credited to the issued capital and share premium account as disclosed in note 32 to the financial statements.

33. SHARE OPTION SCHEME *(Continued)*

The RM Management Incentive Option

Pursuant to an option deed entered into between the Company and Retail Management dated 14 September 2004, as amended and restated on 16 December 2004 (the "RM Management Incentive Option"), the Company granted the RM Management Incentive Option to Retail Management at no consideration to subscribe for 861 Pre-Redenomination Shares (subject to any adjustment pursuant to the changes in the Company's share capital) (equivalent to 145,483,657 shares after the Capital Change and Capitalisation Issue), exercisable within 20 years from 14 September 2004 as a management incentive. The exercise price of the option shall be US$18,000 per Pre-Redenomination Share (equivalent to HK$0.83 per share after the Capital Change) less an amount calculated based on the dividends which have been declared by the Company up to the time of exercise of the RM Management Incentive Option which Retail Management would have been entitled to receive if the shares subject to that option had already been issued.

For the RM Management Incentive Option, the Group has taken advantage of the transitional provisions of IFRS 1 in respect of equity-settled awards and only applied IFRS 2 to equity-settled awards granted on or after 1 January 2005 as the Group has not previously disclosed publicly the fair value of equity instruments that granted and vested on or before 1 January 2005.

The Wang Management Incentive Option

Pursuant to an option deed entered into between the Company and Tong Ley Investment Ltd. ("Tong Ley"), a private company wholly owned by Mr. Wang Jiayu ("Mr. Wang") dated 4 July 2005, the Company granted an option to Tong Ley at no consideration, to subscribe for 257 Pre-Redenomination Shares, equivalent to 43,425,435 shares after the Capital Change (subject to any adjustment pursuant to the changes in the Company's share capital), exercisable within 20 years from the date of the option deed (the "Wang Management Incentive Option"). The exercise price of the Wang Management Incentive Option shall be US$18,000 per Pre-Redenomination Share (equivalent to HK$0.83 per share after the Capital Change and Capitalisation Issue) less an amount calculated based on the dividends which have been declared by the Company up to the time of exercise of the Wang Management Incentive Option which Tong Ley would have been entitled to receive if the shares subject to that option had already been issued. Mr. Wang is the general manager of Henan Tongli Retail Co., Ltd. and the Wang Management Incentive Option was granted to retain him as a senior advisor to the Company in respect of the Group's business in Henan province. There are no vesting conditions on the Wang Management Incentive Option.

The fair value of the share options granted during the year was RMB7,226,000.

The fair value of equity-settled share options granted during the year was estimated as at the date of grant, using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used for the year ended 31 December 2005:

Expected volatility (%)	35
Risk-free interest rate (%)	4.5
Expected life of option (year)	1.5
Value per share price (HK$)	0.85
Dividend yield (%)	2

The expected life of the options is estimated by management based on representation from the option owner, taking into account the probability of the materialisation of the transactions.

The expected volatility reflects management's estimation of the volatility of the Company's share price based on the volatility of the shares of a listing company engaged in the same industry with the Group.

33. SHARE OPTION SCHEME *(Continued)*

The Wang Management Incentive Option *(Continued)*

The value per share price is estimated by management based on the selling price of the Company's shares to the Financial Investors prior to the grant of the option.

No other feature of the option granted was incorporated in the measurement of the fair value.

As at 31 December 2005, except for the full exercise of the Financial Investors' Option, none of the management incentive options has been exercised.

34. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity.

(i) Contributed surplus

The contributed surplus of the Group represents the difference between the Company's cost of investment in Yongle (China) and the share capital and share premium account of Yongle (China) arose from the preparation of the Group's consolidated financial statements on the basis of preparation set out in note 2 to the financial statements.

(ii) Statutory surplus reserves

In accordance with the PRC Company Law and the articles of association of the Group companies, the subsidiaries that are domiciled in the Mainland China are required to appropriate certain percentage of their net profits after tax to statutory reserve fund. Subject to certain restrictions set out in the relevant PRC regulations and in the Group companies' articles of association, the statutory reserve fund may be used either to offset losses, or to be converted to increase paid-up capital. The reserves cannot be used for purposes other than those for which they are created and are not distributable as cash dividends.

(iii) Dividend

Prior to the completion of the Reorganisation, dividends were declared by subsidiaries of the Group in the year ended 31 December 2004 to their respective shareholders. The dividend amount of RMB550,000 represented the dividends paid by the subsidiaries to entities outside the Group for the year ended 31 December 2004.

34. **RESERVES** *(Continued)*

(b) **Company**

	Notes	Share premium account RMB'000 Note (i)	Share option reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2005		–	–	–	–	–
Issue of shares	32(a)	413,513	–	–	–	413,513
Issue of shares upon the Capital Change and Capitalisation Issue	32(b)	(160,598)	–	–	–	(160,598)
Issue of shares upon the Global offering	32(c)	1,171,986	–	–	–	1,171,986
Issue of shares upon the exercise of the Financial Investors' Option	32(d)	131,773	–	–	–	131,773
Share issue expenses	32(c)	(72,885)	–	–	–	(72,885)
Equity-settled share option arrangements	33	–	7,226	–	–	7,226
Foreign currency translation		–	–	(7,914)	–	(7,914)
Net profit for the year		–	–	–	247	247
Proposed final and special dividends	12	–	–	–	(87,339)	(87,339)
At 31 December 2005		1,483,789	7,226	(7,914)	(87,092)	1,396,009

Note:

(i) Under the Companies Law (2001 Second Revision) of the Cayman Islands, the share premium is distributable to the shareholders of the Company, provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

35. **BUSINESS COMBINATION**

During the year, the Group effected the following acquisitions:

(i) On 14 April 2005, the Group acquired the entire interests in Lequan Property (as defined in note 37(iii)) at a total consideration of approximately RMB79.8 million. Taking into consideration the valuation surplus of the Properties (as defined in note 37(iii)) (net of the related deferred tax liability) of approximately RMB78.3 million, the net fair value of the identifiable assets and liabilities of Lequan Property at the acquisition date was approximately RMB79.7 million. The excess of RMB79.8 million over RMB79.7 million, being RMB0.1 million, was charged to the Group's consolidated income statement. The purchase consideration for the acquisition was satisfied by cash.

(ii) On 28 May 2005, the Group acquired the remaining 50% equity interest in a jointly-controlled entity, Sichuan Yongle Electronics Retail Co., Ltd. ("Sichuan Yongle"), at a total consideration of RMB16.5 million. Sichuan Yongle was engaged in the retailing of household appliances and consumer electronics products. The excess of the cost of a business combination over the net fair value of the identifiable assets and liabilities of Sichuan Yongle amounting to RMB11.3 million was recognised as goodwill. The purchase consideration for the acquisition was satisfied by cash.

35. BUSINESS COMBINATION *(Continued)*

(iii) On 3 August 2005, the Group acquired 80% and 20% equity interests in Xiamen Yongle Siwen Electronics Retail Co., Ltd. ("Xiamen Yongle") from its jointly-controlled entities, Fujian Yongle-Shangye Electronics Retail Co., Ltd. and Quanzhou Yongle Electronics Retail Co., Ltd. at a total consideration of RMB4.5 million and RMB1.0 million, respectively. Xiamen Yongle is engaged in the retailing of household appliances and consumer electronics products. The excess of the cost a business combination over the net fair value of the identifiable assets and liabilities of Xiamen Yongle amounting to RMB0.6 million was recognised as goodwill. The purchase consideration of the acquisition was satisfied by cash.

The impacts of the above acquisitions on the consolidated financial statements are summarised below:

	Fair value recognised on acquisition 2005	**Fair value recognised on acquisition 2004**
	RMB'000	*RMB'000*
Net assets acquired:		
Property, plant and equipment	217,349	47,230
Intangible assets	14	244
Long term investments	–	7,305
Long term land deposits	–	12,500
Deferred tax assets	3,536	12,043
Inventories	59,593	116,572
Trade receivables, bills receivable, prepayments, deposits and other receivables	157,089	454,658
Pledged deposits	216,124	539,524
Property under development	–	15,100
Cash and cash equivalents	31,836	64,182
Deferred tax liabilities	(38,548)	–
Tax payable	–	(78)
Trade payables, bills payable, other payables and accruals	(552,757)	(1,184,424)
Interest-bearing bank loans	–	(31,000)
Minority interests	–	(4,366)
	94,236	49,490
Goodwill on acquisition	12,033	27,153
Excess over the cost of a business combination recognised in the income statement	–	(863)
	106,269	75,780

35. BUSINESS COMBINATION *(Continued)*

The fair values of the above assets and liabilities approximate to their respective carrying amounts except for property, plant and equipment and deferred tax liability whose carrying amounts of which were RMB116,813,000 and nil, respectively.

	2005	**2004**
	RMB'000	*RMB'000*
Satisfied by:		
Cash	99,004	71,747
Interests in associates	–	4,033
Interests in jointly-controlled entities:		
Property, plant and equipment	4,761	–
Intangible assets	7	–
Deferred tax assets	1,768	–
Inventories	29,797	–
Trade receivables, bills receivable, prepayments, deposits and other receivables	39,574	–
Pledged deposits	108,062	–
Cash and cash equivalents	12,664	–
Trade payables, bills payable, other payables and accruals	(189,368)	–
Offset by:		
Trade receivables, bills receivable, prepayments, deposits and other receivables	79,053	475,275
Trade payables, bills payable, other payables and accruals	(79,053)	(475,275)
	106,269	75,780

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

	2005	**2004**
	RMB'000	*RMB'000*
Cash consideration	(99,004)	(71,747)
Cash and cash equivalents of jointly-controlled entities satisfied	(12,664)	–
Cash and cash equivalents acquired	31,836	64,182
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	(79,832)	(7,565)

From the date of acquisition, the subsidiaries acquired by the Group contributed approximately RMB306 million to the revenue of the Group and RMB1.8 million to the profit of the Group for the year ended 31 December 2005.

Had the combination taken place at the beginning of the year, the revenue and the profit of the Group for the year would have been RMB12,434 million and RMB319 million, respectively.

36. DISPOSAL OF SUBSIDIARIES

	2005 *RMB'000*	2004 *RMB'000*
Net assets disposed of:		
Property, plant and equipment	36	–
Other receivables	179,903	22
Cash and cash equivalents	1,529	4,214
Trade payables and other payables	(175,726)	–
Minority interests	(481)	(2,118)
	5,261	2,118
Gain/(loss) on disposal of subsidiaries	175	(11)
	5,436	2,107
Satisfied by:		
Cash	5,436	2,107

An analysis of the net inflow/(outflow) of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	2005 *RMB'000*	2004 *RMB'000*
Cash consideration	5,436	2,107
Cash and cash equivalents disposed of	(1,529)	(4,214)
Net inflow/(outflow) of cash and cash equivalents in respect of the disposal of subsidiaries	3,907	(2,107)

The results of the subsidiaries disposed of in the year ended 31 December 2005 had no significant impact on the Group's consolidated turnover or profit after tax for that year.

37. RELATED PARTY TRANSACTIONS

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

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

	2005 *RMB'000*	2004 *RMB'000*
Sale of merchandise	11,584	685
Purchase of merchandise	18,359	–
Provision of management services	2,287	256
Rental expenses	785	802

37. RELATED PARTY TRANSACTIONS *(Continued)*

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

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 investment in the jointly-controlled entities.

(ii) The Group had business transactions with related companies and associates which were previously owned by the affiliates of the major shareholders of Yongle (China) or third parties and were conducting the business of retailing of household appliances and consumer electronics products and related business. During the years ended 31 December 2005 and 2004, the Group acquired the controlling interests in nearly all such related companies and associates. (Those related companies and associates not being acquired by the Group were dissolved during the year ended 31 December 2004.) Since then, such related companies and associates became subsidiaries of the Group and the intra-group transactions were eliminated in the consolidated financial statements of the Group.

The Group's transactions with such related companies and associates during the years ended 31 December 2005 and 2004 before the said acquisitions are set out as below:

	2005	**2004**
	RMB'000	*RMB'000*
Sale of merchandise to:		
Associates	–	93,149
Related companies	587	360,717
	587	453,866
Purchase of merchandise from:		
Related companies	–	24,061
Provision of transportation services to:		
Associates	–	1,215
Related companies	–	3,506
	–	4,721
Purchase rebate receivable from:		
Related companies	–	1,095
Rental expenses to:		
A related company	1,325	–

The above transactions were entered into based on mutually agreed terms.

(iii) On 12 January 2005, the Group transferred to the Key Management its entire interests in Shanghai Lequan Property Management Co., Ltd. ("Lequan Property") for a total consideration of RMB936,000, which was determined based on the net assets value of Lequan Property. On 26 January 2005, the Group transferred five real estate properties (the "Properties") to Lequan Property for an aggregate consideration of approximately RMB88.6 million based on the net book value of the Properties. The Properties were leased back to the Group at an aggregate monthly rental of RMB530,000 for the period from 26 January 2005 to 14 April 2005.

37. RELATED PARTY TRANSACTIONS *(Continued)*

On 14 April 2005, the Group acquired the entire interests in Lequan Property for a total consideration of approximately RMB79.8 million. Taking into consideration the valuation surplus of the Properties (net of the related deferred tax liability) of approximately RMB78.3 million, the net fair value of the identifiable assets and liabilities of Lequan Property at the acquisition date was approximately RMB79.7 million. The excess of RMB79.8 million over RMB79.7 million, being RMB0.1 million, was charged to the Group's consolidated income statement for the year ended 31 December 2005.

(iv) Guarantees provided by the Directors

As at 31 December 2004, the Directors provided guarantees totalling approximately RMB1,070 million for the banking facilities granted to the Group. These guarantees were released during the year ended 31 December 2005.

(v) Guarantees provided to jointly-controlled entities

As at 31 December 2005, the Group provided guarantees totalling approximately RMB68 million for the banking facilities granted to its jointly-controlled entities. The contingent liabilities, net of the liabilities accounted for under proportionate consolidation, are further disclosed in note 40 to the financial statements.

(vi) During the year ended 31 December 2004, the Group pre-sold certain units of "Yongle" building to the Directors, Mr. Chen Xiao and Mr. Shen Ping, at a total consideration of approximately RMB2,051,000 and RMB668,000, respectively, based on the similar prices offered to the public.

(vii) Balances due from/to related companies

The balances due from/to related companies mainly resulted from trading transactions. Further details of the balances are set out in notes 23 and 28 to the financial statements, respectively.

(viii) During the year, the Group acquired equity interests in certain companies from its jointly-controlled entities. Further details of these transactions are set out in note 35 to the financial statements.

(ix) Compensation of key management personnel of the Group

	2005	**2004**
	RMB'000	*RMB'000*
Salaries, allowances and benefits in kind	5,445	1,599
Bonuses	2,070	533
Retirement benefit contributions	79	68
	7,594	2,200

Further details of directors' emoluments are included in note 8 to the financial statements.

(x) Pursuant to an equity transfer agreement entered into between Paradise Hong Kong II and the Key Management dated 14 September 2005 ("Equity Transfer Agreement"), Paradise Hong Kong II agreed to use part of the net proceeds from the Global Offering to acquire 2% of the registered capital in Yongle (China) from the Key Management at the consideration determined based on the implied valuation of Yongle (China) before the listing of the Company with a 10% discount.

37. RELATED PARTY TRANSACTIONS *(Continued)*

On 14 September 2005, Paradise Hong Kong II and the Key Management also entered into a registered capital increase agreement ("Subscription Agreement") whereby Paradise Hong Kong II agreed to use the remaining proceeds from the Global Offering to subscribe for additional interests in Yongle (China) at the same valuation as stated in the Equity Transfer Agreement. On 31 October 2005, after the net proceeds from the Global Offering have been ascertained, parties to the Equity Transfer Agreement and Subscription Agreement have clarified the considerations for those transactions and the agreements were also re-dated 31 October 2005.

Except for items (i), (v), (vii), (viii) and (ix), the above related party transactions also constitute connected transactions as defined in Chapter 14A of the Listing Rules.

38. 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 31 December 2005, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2005	**2004**
	RMB'000	*RMB'000*
Within one year	20,822	4,620
In the second to fifth years, inclusive	63,785	15,347
After five years	17,915	10,203
	102,522	30,170

(ii) Group as leasee

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

At 31 December 2005, the Group had total future minimum lease payments under non-cancellable operating leases as follows:

	2005	**2004**
	RMB'000	*RMB'000*
Within one year	561,074	212,249
In the second to fifth years, inclusive	2,039,944	812,421
After five years	1,838,166	824,919
	4,439,184	1,849,589

39. CAPITAL COMMITMENTS

In addition to the operating lease commitments detailed in note 38(ii) above, the Group had the following capital commitments at the balance sheet date:

	2005	2004
	RMB'000	*RMB'000*
Contracted but not provided for in respect of the acquisition of:		
– Leasehold land and buildings	15,745	340,476
– Leasehold improvement	2,522	–
– Furniture and office equipment	583	1,462
– Capital contributions payable to jointly-controlled entities	60,000	–
	78,850	341,938
Authorised but not contracted for in respect of the acquisition of:		
– Leasehold land and buildings	157,812	–
	236,662	341,938

40. CONTINGENT LIABILITIES

At the balance sheet date, neither the Group nor the Company had any significant contingent liabilities except for the guarantees with the amount of RMB68 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 RMB47 million have been recognized as liabilities in the consolidated balance sheet under proportionate consolidation.

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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.

Risk

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

(i) Interest 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 RMB and USD. All of the said interest-bearing financial assets and liabilities are short term in nature.

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

(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 RMB52 million and RMB1,263 million, which are denominated in Hong Kong dollars and United States dollars, respectively, as disclosed in note 27 to the financial statements. The Group has policies in place to limit the exposure to any single financial institution. 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. 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.

Fair value

The carrying amounts of the Group's financial instruments were stated approximately at their fair value as at the balance sheet dates. 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.

42. **POST BALANCE SHEET EVENTS**

Subsequent to the balance sheet date, the following events took place:

(i) Pursuant to a strategic cooperation agreement entered into between Yongle (China), Beijing Dazhong Electrical Appliances Co., Ltd. ("Beijing Dazhong"), a limited liability company established in the PRC, and Mr. Zhang Dazhong on 19 April 2006 (the "Strategic Cooperation Agreement"), Yongle (China) agreed to form a strategic alliance with Beijing Dazhong to cooperate in the areas of joint procurement, logistics and delivery, products display, store development, store management, financial management, information system and personnel exchange.

In addition, Mr. Zhang Dazhong has also agreed to transfer, subject to various conditions, his 78% equity interests in Beijing Dazhong ("Dazhong Equity Interest") during the term of the Strategic Cooperation Agreement to Yongle (China). Mr. Zhang Dazhong has also undertaken to procure the transfer of the equity interests in Beijing Dazhong held by his brothers, Mr. Zhang Dapu and Mr. Zhang Dajiang, (the "Other Investors") as to 15% and 7%, respectively, to Yongle (China). The term of the Strategic Cooperation Agreement is one year from the date of the Strategic Cooperation Agreement. The consideration payable by Yongle (China) in respect of the transfer of the Dazhong Equity Interest or acquisition of equity interest from the Other Investors is based on a valuation of Beijing Dazhong determined by the following formula:

$A=B*(C/D)*80\%$

42. POST BALANCE SHEET EVENTS *(Continued)*

Where;

A means the valuation of the entire share capital of Beijing Dazhong. The exact consideration payable to each seller will be a percentage of this value in accordance with the amount of equity interest being sold. Subject to approvals from the relevant PRC regulatory authorities having been obtained, Yongle (China) propose to acquire all the equity interest in Beijing Dazhong. In the event that the relevant PRC approvals only allows Yongle (China) to acquire a percentage which is less than 100%, Yongle (China) will acquire the maximum percentage that is permissible pursuant to the approvals.

B means the audited net profit of Beijing Dazhong for the period between 1 July 2006 and 30 June 2007 in accordance with the International Financial Reporting Standards as promulgated by the International Accounting Standards Board.

C means the average closing price of the shares of the Company quoted on the Stock Exchange for the last thirty trading days immediately prior to the date of the formal equity transfer agreement in respect of the Dazhong Equity Interest.

D means the sum of the average projected earnings per share of the Company for each of years 2006 and 2007 as quoted in the Institutional Brokers' Estimate System divided by two.

D is not a profit forecast given by the Company. It is an earnings projection of the Company produced by institutional analysts based on information generally available to the public or their own information. As such, D should not be regarded as a profit forecast on the part of the Company.

Pursuant to the terms of the Strategic Cooperation Agreement, Beijing Dazhong has confirmed that its International Financial Reporting Standards audited net asset value will not be less than RMB500 million as at 30 June 2006. If its net asset value is below this amount, it is proposed that the valuation of Beijing Dazhong and the consideration will be adjusted based on a mechanism to be agreed in the formal equity transfer agreement. Since the audited net profit of Beijing Dazhong is not expected to be available until Mr. Zhang Dazhong has served the notice in respect of the transfer of the Dazhong Equity Interest pursuant to the Strategic Cooperation Agreement, Yongle (China) and Mr. Zhang Dazhong have agreed to use RMB100 million as the value of B for calculating the consideration payable in connection with the transfer of the Dazhong Equity Interest at the time of the signing of the formal equity transfer agreement. Adjustments will be made to the actual consideration once the relevant figures for determining B become available.

The transfer of the Dazhong Equity Interest is conditional upon:

- a formal equity transfer agreement being entered into between Yongle (China) and Mr. Zhang Dazhong;
- the approval being obtained from the independent shareholders;
- compliance with any other requirements as required by the Stock Exchange; and
- approvals being obtained from the relevant PRC government departments including the Ministry of Commerce, State Administration of Foreign Exchange and the State Administration for Industry and Commerce.

42. POST BALANCE SHEET EVENTS *(Continued)*

In connection with the transfer of the Dazhong Equity Interest, Yongle (China) has agreed to pay a deposit of RMB150 million (the "Deposit") to Mr. Zhang Dazhong. Mr. Zhang Dazhong is entitled to forfeit the deposit if there is a failure on the part of Yongle (China) to fulfill its obligation in relation to the transfer of the Dazhong Equity Interest. If there is a failure on the part of Mr. Zhang Dazhong to fulfill its obligations in relation to the transfer of Dazhong Equity Interest, Mr. Zhang Dazhong will be required to pay to Yongle (China) RMB300 million, being twice the amount of the Deposit. If Mr. Zhang Dazhong transfer any of the Dazhong Equity Interest to a third party within 2 years after the date of the Strategic Cooperation Agreement, Mr. Zhang Dazhong will be required to pay additional compensation of RMB150 million to Yongle (China). For details, please refer to the public announcement made by the Company dated 21 April 2006.

(ii) On 21 April 2006, the board of directors recommended final dividend for the year ended 31 December 2005 and special dividend of HK2.6 cents and HK1.3 cents per ordinary share, respectively, to the equity holders of the Company. The proposed final and special dividends for the year are subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

43. APPROVAL OF THE FINANCIAL STATEMENTS

The consolidated financial statements were approved by the board of directors on 21 April 2006.

III. INTERIM FINANCIAL INFORMATION

The financial information set out below is extracted from the interim report of China Paradise for the six months ended 30 June 2006. The unaudited results of China Paradise have been reviewed by external auditors and the relevant report prepared by the auditors is reproduced as follows:

Interim Condensed Consolidated Income Statement

		For the six-month period ended 30 June	
		2006	2005
		(Unaudited)	(Audited)
	Notes	*RMB'000*	*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

Interim Condensed Consolidated Balance Sheet *(Continued)*

	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

Interim Condensed Consolidated Statement of Changes in Equity

	Attributable to equity holders of the Company									
	Issued Share capital	Share premium account	Contributed surplus	Statutory surplus reserves	Share option reserve	Retained profits	Proposed final and special dividends	Total	Minority interests	Total equity
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*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

Notes to the Interim Condensed Consolidated Financial Statements

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.

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

2. BASIS OF PRESENTATION AND ACCOUNTING POLICIES *(Continued)*

Significant accounting policies *(Continued)*

(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.

7. **INCOME TAX** *(Continued)*

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.

- 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 (Unaudited) RMB'000	2005 (Audited) 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

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.

14. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES *(Continued)*

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 Electronics 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.

22. OPERATING LEASE ARRANGEMENTS *(Continued)*

(ii) Group as lessee *(Continued)*

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 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 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.

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;

(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.

IV. INDEBTEDNESS STATEMENT

As at the close of business on 31 July 2006, being the latest practicable date for the purpose of this indebtedness statement, the China Paradise Group had outstanding bills payable and interest-bearing bank loans of approximately RMB3,658.3 million and RMB223.0 million, respectively. These banking facilities were secured by:

(i) the pledge of certain of the China Paradise Group's leasehold land and buildings and construction in progress with aggregate net book value of approximately RMB414.6 million; and

(ii) the pledge of certain of the China Paradise Group's inventories amounting to RMB700.0 million.

In addition, these bills payable were also secured by the pledge of the China Paradise Group's time deposits amounting to approximately RMB1,773.2 million.

As at 31 July 2006, the China Paradise Group had capital commitments in respect of acquisition of property, plant and equipment amounting to approximately RMB169.8 million.

As at 31 July 2006, the China Paradise Group had no material contingent liabilities except for the guarantees provided by the China Paradise Group for the banking facilities granted to its jointly-controlled entities amounting to approximately RMB32.5 million, net of the portion having been recognised as liabilities under proportionate consolidation.

Save as aforesaid, the China Paradise Group did not have outstanding liabilities or any mortgage, charges, debentures or other loan capital, bank overdrafts, loans, liabilities under acceptance or other similar indebtedness or any guarantee or other material contingent liabilities at the close of business on 31 July 2006.

Save as disclosed above, the China Paradise Directors have confirmed that there have been no material changes in the commitments and contingent liabilities of the China Paradise Group since 31 December 2005 and up to the Latest Practicable Date.

V. MATERIAL CHANGE

Strategic Cooperation Agreement entered with Beijing Dazhong and Mr. Zhang Dazhong

On 24 April 2006, China Paradise announced that its operating subsidiary, Yongle (China) Electronics Retail Co., Ltd. (previously known as Shanghai Yongle Electronics Retail Co., Ltd.) ("**Yongle China**"), entered into a strategic cooperation agreement with Beijing Dazhong and Mr. Zhang Dazhong on 19 April 2006 (the "**Strategic Cooperation Agreement**") pursuant to which Yongle China agreed to form a strategic alliance with Beijing Dazhong to cooperate in the areas of joint procurement, logistics and delivery, products display and store development, store management, financial management, information system and personnel exchange. Mr. Zhang Dazhong agreed to transfer, subject to various conditions, his 78% equity interest in Beijing Dazhong during the term of the Strategic Cooperation Agreement to Yongle China. In connection with the transfer of such interest, Yongle China agreed to pay the sum of RMB150.0 million in cash as deposit to Mr. Zhang Dazhong or his nominee to guarantee the performance of its obligation in the event of a transfer of such interest.

China Paradise published a clarification announcement on 17 August 2006 that it had received a request from Beijing Dazhong on 7 August 2006 in relation to a proposal to terminate the Strategic Cooperation Agreement. China Paradise had not formally responded to Beijing Dazhong's proposal and no decision had yet been made by the board of China Paradise as to China Paradise's future relationship with Beijing Dazhong. China Paradise is currently seeking further advice from its legal advisers to consider its options and proposed course of action.

Disposal of non-core businesses

On 17 May 2006, China Paradise announced that Yongle China entered into a disposal agreement with Shanghai Minrong Investment Co. Ltd. and Mr. Chen Xiao, Ms. Shu Wei, Mr. Liu Hui and Mr. Yuan Yashi (together the "**Key Management**") for disposal of certain non-core businesses (which were principally engaged in the sale of lightings, home furnishings, building materials etc.) for an aggregate consideration of approximately RMB20.8 million. In addition, the Key Management also agreed to take up RMB49.5 million indebtedness due from Shanghai Yongju Houseware Sales Company Limited and Shanghai Yongle Illuminations Electronics Company Limited to Yongle China.

Announcement of interim results of 2006

On 14 August, 2006, China Paradise Group announced its unaudited results for the six months ended 30 June 2006. The profit attributable to China Paradise Shareholders was down by 89.3% to approximately RMB15.0 million for the first half of 2006 compared to the same period last year.

Save as disclosed above, the board of China Paradise is not aware of any material changes in the financial or trading position or outlook of China Paradise subsequent to 31 December 2005, the date to which the latest audited financial statements of China Paradise were made up.

(A) INTRODUCTION

The accompanying unaudited pro forma financial information of the enlarged group has been prepared to illustrate the effect of GOME Electrical Appliances Holding Limited (the "Company") proposed acquisition (the "Acquisition") of the issued shares in the share capital of China Paradise Electronics Retail Limited (the "CP Shares"), not already owned by the Company and parties acting in concert with it. The consideration under the offer (the "Offer") is 0.3247 new shares of the Company and HK$0.1736 in cash for each of the CP Shares. According to the Company's announcement dated 25 July 2006, based on the closing price of the Company's shares of HK$6.35, as quoted on the Stock Exchange of Hong Kong Limited on 17 July 2006, being the last trading day for the Company's shares before the announcement, and the total amount of CP Shares of 2,356,629,785 (on a fully diluted basis), the aggregate consideration is valued at approximately HK$5,268 million (approximately RMB5,426 million).

The accompanying unaudited pro forma statement of assets and liabilities of the enlarged group as at 30 June 2006 (the "Pro Forma Financial Information") gives effect to the Acquisition as if the Acquisition had been completed on 30 June 2006.

The accompanying unaudited Pro Forma Financial Information is based upon the historical financial statements of the Group after giving effect to the pro forma adjustments described in the accompanying notes. A narrative description of the pro forma adjustments of the Acquisition that are (i) directly attributable to the transactions; (ii) expected to have a continuing impact on the Group; and (iii) factually supportable, are summarised in the accompanying notes.

The accompanying unaudited Pro Forma Financial Information is based on a number of assumptions, estimates, uncertainties and currently available information. As a result of these assumptions, estimates and uncertainties, the accompanying unaudited Pro Forma Financial Information does not purport to describe the actual acceptance of the Offer and financial position that would have been presented had the Acquisition been completed. Further, the accompanying unaudited Pro Forma Financial Information does not purport to predict the Group's future financial position.

The unaudited Pro Forma Financial Information should be read in conjunction with the unaudited interim condensed consolidated financial report of Company and China Paradise Electronics Retail Limited and its subsidiaries (the "China Paradise Group") as set out in Appendix II and Appendix III, respectively, and other financial information elsewhere in the Composite Document.

(B) UNAUDITED PRO FORMA STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP AT 30 JUNE 2006

	Gome Group Historical	China Paradise Group Historical	Total Historical	Pro Forma Adjustments		Pro Forma Enlarged Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*Notes*	*RMB'000*
ASSETS						
Non-current assets						
Property, plant and equipment	1,234,534	844,220	2,078,754			2,078,754
Investment properties	5,150	–	5,150			5,150
Intangible assets	24,620	9,795	34,415			34,415
Goodwill	36,160	16,997	53,157	3,165,585	*2*	3,218,742
Deferred expenditure	–	77,465	77,465			77,465
Deferred income tax assets	12,486	22,738	35,224			35,224
	1,312,950	971,215	2,284,165			5,449,750
Current assets						
Hong Kong listed investments, at fair value	904	–	904			904
Inventories	2,740,827	1,424,688	4,165,515			4,165,515
Bills receivable	407	29,910	30,317			30,317
Trade receivables	36,245	86,112	122,357			122,357
Prepayments, deposits and other receivables	377,713	2,129,145	2,506,858			2,506,858
Due from related parties	5,133	–	5,133			5,133
Pledged deposits	4,055,113	1,835,124	5,890,237			5,890,237
Cash and cash equivalents	1,954,911	1,789,463	3,744,374	(421,384)	*1(b)*	3,322,990
	9,171,253	7,294,442	16,465,695			16,044,311
TOTAL ASSETS	10,484,203	8,265,657	18,749,860			21,494,061

Continued/...

(B) UNAUDITED PRO FORMA STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP AT 30 JUNE 2006 *(continued)*

	Gome Group Historical	China Paradise Group Historical	Total Historical	Pro Forma Adjustments	Notes	Pro Forma Enlarged Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*Notes*	*RMB'000*
EQUITY AND LIABILITIES						
Equity attributable to equity holders of the parent				78,815	*1(a)*	
Share capital	241,085	242,664	483,749	(242,664)	*1(c)*	319,900
				4,925,960	*1(a)*	
Reserves	98,068	2,017,910	2,115,978	(2,017,910)	*1(c)*	5,024,028
	339,153	2,260,574	2,599,727			5,343,928
Minority interests	–	98,400	98,400			98,400
Total equity	339,153	2,358,974	2,698,127			5,442,328
Non-current liabilities						
Deferred income	–	2,950	2,950			2,950
Deferred income tax liabilities	5,874	40,519	46,393			46,393
Convertible bonds	715,438	–	715,438			715,438
	721,312	43,469	764,781			764,781
Current liabilities						
Trade payables and bills payable	8,356,307	5,325,790	13,682,097			13,682,097
Customers' deposits, other payables and accruals	669,473	256,845	926,318			926,318
Tax payable	146,216	50,579	196,795			196,795
Derivative component of convertible bonds	251,742	–	251,742			251,742
Current portion of interest-bearing bank loans	–	230,000	230,000			230,000
	9,423,738	5,863,214	15,286,952			15,286,952
Total liabilities	10,145,050	5,906,683	16,051,733			16,051,733
TOTAL EQUITY AND LIABILITIES	10,484,203	8,265,657	18,749,860			21,494,061

(B) UNAUDITED PRO FORMA STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP AT 30 JUNE 2006 *(continued)*

Notes:

1. The consideration under the Offer is 0.3247 new shares of the Company and HK$0.1736 in cash for each of the CP Shares. Based on the closing price of the Company's shares of HK$6.35 (equivalent to RMB6.54) each, as quoted on the Stock Exchange of Hong Kong Limited on 17 July 2006, and the entire CP Shares of 2,356,629,785 (on a fully diluted basis), the cash consideration and new consideration shares of the Company are valued to be at approximately HK$409,110,931 (equivalent to RMB421,384,000) and HK$4,859,005,339 (equivalent to RMB5,004,775,000), respectively. The aggregate consideration under the offer is valued at approximately HK$5,268 million (approximately RMB5,426 million). Accordingly, the pro forma statement of assets and liabilities of the enlarged group was adjusted to reflect:

   (a) the effect of additions to the Company's share capital of RMB78,815,000 and share premium of RMB4,925,960,000 (equivalent to HK$4,782,485,570), in aggregate amounting to RMB5,004,775,000, that will be recorded upon issuance of 765,197,691 new ordinary shares of the Company (par value of HK$0.10 (equivalent to RMB0.103) each) as if the Offer had received full acceptance and the Acquisition had been completed on 30 June 2006;

   (b) the effect of the payment of cash consideration of RMB421,384,000 (equivalent to HK$409,110,931) as if the Offer had received full acceptance and the Acquisition had been completed on 30 June 2006; and

   (c) the share capital of China Paradise Group of RMB242,664,000 and reserves of RMB2,017,910,000 were eliminated on consolidation.

2. The acquired assets and liabilities (including property, plant and equipment, investment properties, intangible assets and contingent liabilities) of the China Paradise Group would be recorded in the Company's consolidated financial statements at their fair values at the acquisition date. In preparing the unaudited Pro Forma Financial Information, it is assumed that the fair values of net assets of the China Paradise Group acquired are the same as their carrying values as at 30 June 2006. The fair values of net assets of the China Paradise Group at the date of acquisition may be different from the carrying values of the assets and liabilities of the China Paradise Group that are used in the preparation of the unaudited Pro Forma Financial Information as presented above.

   The difference between the cost of the Acquisition and the fair value of the acquired identifiable assets and liabilities as at the acquisition date will be accounted for in the Company's consolidated financial statements as goodwill, or excess over the cost of a business combination, if any, as the case may be. As a result, any subsequent changes in market value of the Company's shares or fair values of the identifiable assets and liabilities as assessed at the acquisition date will affect the unaudited pro forma statement of assets and liabilities of the enlarged group. If the market value of the Company's shares increase, the cost of the Acquisition would also increase, thereby resulting in an additional amount of goodwill arising from the Acquisition. If the market value of the Company's shares decrease, the cost of the Acquisition would also decrease, thereby resulting in a decrease in the amount of goodwill arising from the Acquisition or increase in the amount of excess over the cost of a business combination.

   Any goodwill arising from the Acquisition will be recognised as an asset at cost, subject to annual impairment review in subsequent years, and any impairment will have to be recognised as an expense in the consolidated income statement in the year it arises. If the net fair value of all identifiable assets and liabilities (including intangible assets and contingent liabilities) exceeds the cost of the Acquisition, the net fair value will have to be reassessed and any excess remaining will be credited to the consolidated income statement in the year of the Acquisition after the reassessment.

(C) ACCOUNTANTS' REPORT ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP

ERNST & YOUNG
安永會計師事務所

18th Floor
Two International Finance Centre
8 Finance Street
Central
Hong Kong

29 August 2006

The Directors
GOME Electrical Appliances Holding Limited

Dear Sirs,

We report on the unaudited pro forma financial information (the "Pro Forma Financial Information") of GOME Electrical Appliances Holding Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") which have been prepared by the Directors for illustrative purposes only, to provide information about how the proposed acquisition of the issued shares in the share capital of China Paradise Electronics Retail Limited might have affected the financial information presented, for inclusion as Appendix IV of the composite document dated 29 August 2006 (the "Composite Document") and Appendix III of the circular issued by the company dated 29 August 2006 (the "Circular"). The basis of preparation of the Pro Forma Financial Information is set out on pages 274 to 277 of the Composite Document and pages 212 to 215 of the Circular.

Responsibilities

It is the responsibility solely of the Directors of the Company to prepare the Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to AG 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

It is our responsibility to form an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Pro Forma Financial Information beyond that owed to those to whom the reports were addressed by us at the dates of their issue.

(C) ACCOUNTANTS' REPORT ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP *(continued)*

Basis of Opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Pro Forma Financial Information with the Directors. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Pro Forma Financial Information has been properly compiled by the Directors on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

The Pro Forma Financial Information is for illustrative purposes only, based on the judgements and assumptions of the Directors, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Group as at 30 June 2006 or any future date.

Opinion

In our opinion:

(a) the unaudited Pro Forma Financial Information has been properly compiled by the Directors on the basis stated;

(b) such a basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,

Ernst & Young
Certified Public Accountants
Hong Kong

(D) LETTER FROM GOLDMAN SACHS ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP

Goldman Sachs

The Directors

GOME Electrical Appliances Holding Limited

29 August 2006

Dear Sirs,

We refer to the unaudited pro forma financial information of GOME Electrical Appliances Holding Limited (the "**Company**") and its subsidiaries and China Paradise Electronics Retail Limited ("**China Paradise**") and its subsidiaries (the "**Pro Forma Financial Information**") contained in the section headed "Unaudited Pro Forma Financial Information of the Enlarged Group" in Appendix IV to the offer and response document (the "**Composite Document**") dated 29 August 2006 jointly issued by the Company and China Paradise, and the section headed "Unaudited Pro Forma Financial Information of the Enlarged Group" in Appendix III to the circular (the "**Circular**") dated 29 August 2006 issued by the Company, in relation to the voluntary conditional offer made by us on behalf of the Company to acquire all the issued shares in the capital of China Paradise (not already owned by the Company and parties acting in concert with it), both of which this letter forms part.

We have discussed with you the bases and assumptions upon which the Pro Forma Financial Information has been prepared. We have also considered the report dated 29 August 2006 from Ernst & Young set out on pages 278 and 279 of the Composite Document and pages 216 and 217 of the Circular.

On the basis above, we are of the opinion that the Pro Forma Financial Information, for which the directors of the Company are solely responsible, have been prepared after due and careful consideration.

Yours faithfully,

For and on behalf of
Goldman Sachs Asia L.L.C.

Tim Freshwater
Vice Chairman

Johan Leven
Managing Director

(E) INDEBTEDNESS

As at the close of business on 31 July 2006, being the latest practicable date for the purpose of preparing this indebtedness statement, the Enlarged Group had indebtedness as follows:

	Gome Group	China Paradise Group	Pro Forma Enlarged Group
	RMB million	*RMB million*	*RMB million*
Borrowings:			
Bank loans, unsecured	–	223	223
Bills payable:	6,217	3,658	9,875
Unlisted and unsecured convertible bonds:	1,012	–	1,012
Pledge of assets:			
Bank deposits	3,786	1,773	5,559
Leasehold land and buildings	–	415	415
Inventories	–	700	700
	3,786	2,888	6,674
Contingent liabilities:			
Bank guarantee in favour of the jointly controlled entities	–	33	33
Capital commitment:			
Purchase of property, plant and equipment	–	170	170

Save as aforesaid, the Enlarged Group did not have any outstanding liabilities or any mortgage, charges, debentures or other loan capital, bank overdrafts, loans, liabilities under acceptance or other similar indebtedness or any guarantee or other material contingent liabilities at the close of business on 31 July 2006.

(F) WORKING CAPITAL

The Directors of the Company are of the opinion that the Enlarged Group will, following the completion of the Acquisition, has sufficient working capital for its present requirements in the absence of unforeseen material circumstances.

1. RESPONSIBILITY

The Composite Document includes particulars given in compliance with the Hong Kong Listing Rules and the Takeovers Code for the purpose of giving information with regard to GOME and the Offer.

The GOME Directors jointly and severally accept full responsibility for the accuracy of the information stated in the Composite Document (other than in relation to China Paradise and the China Paradise Group) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Composite Document have been arrived at after due and careful consideration and there are no other facts not contained in the Composite Document, the omission of which would make any statement contained herein misleading.

2. SHARE CAPITAL

2.1 As at the Latest Practicable Date, the authorised and issued share capital of GOME is as follows:

Authorised:	*HK$*
50,000,000,000 GOME Shares	5,000,000,000
Issued and fully paid or credited as fully paid GOME Shares:	
2,292,794,534 GOME Shares	229,279,453

On 1 March 2006, GOME issued US$125 million unlisted and unsecured convertible bonds (the ***Convertible Bond***) convertible into 151,496,788 GOME Shares and US$25 million of unlisted warrants (the ***Warrants***) convertible into 25,183,842 GOME Shares. Mr. Wong Kwong Yu, the ultimate controlling shareholder of GOME, his associates and parties acting in concert with him are currently the beneficial owners of 1,564,947,034 GOME Shares representing approximately 68.26% of the issued share capital of GOME.

Other than the said GOME Shares, the Convertible Bond and the Warrants, there are no options, warrants, convertible securities or other derivatives or other classes of relevant securities of GOME in issue. On 29 July 2004, GOME Shareholders approved the consolidation of GOME Shares on the basis of 40 then existing ordinary GOME Shares into one new ordinary GOME Share. Save for the aforementioned consolidation, there has been no re-organisation of capital during the two financial years preceding the date of the Joint Announcement. All the GOME Shares rank pari passu in all respects as regards rights to dividends, voting and capital.

Save for the issue of 650,346,949 GOME Shares on 8 May 2006 at HK$8.05 per GOME Share pursuant to the acquisition of a 35% equity interest in Gome Appliance, no new GOME Shares have been issued or repurchased since 31 December 2005, being the end of the last financial year of GOME.

The GOME Shares are listed and traded on the Stock Exchange. No part of the GOME Shares are listed, or dealt in, on any other stock exchange, nor is any listing of or permission to deal in the GOME Shares being, or proposed to be sought, on any other stock exchange.

2.2 Assuming all China Paradise Shareholders validly elect to accept the Offer and that the Wang Management Incentive Option has been exercised in full, a total of 765,197,691 New GOME Shares will be issued, representing approximately 25.02% of the enlarged share capital of GOME or approximately 33.37% of the existing share capital of GOME. The shareholding structure of GOME, both before and after the completion of the Offer, assuming the maximum number of New GOME Shares are issued, is as follows:

Name	**Prior to completion of the Offer**		**After completion of the Offer (assuming the Wang Management Incentive Option is exercised in full)**		**After completion of the Offer (assuming the Wang Management Incentive Option is not exercised)**	
	No. of GOME Shares held	*Approx. %*	*No. of GOME Shares held*	*Approx. %*	*No. of GOME Shares held*	*Approx. %*
Mr. Wong Kwong Yu, parties acting in concert with him, and his associates	1,564,947,034 *(Note 1)*	68.26	1,564,947,034 *(Note 1)*	51.18	1,564,947,034 *(Note 1)*	51.29
Retail Management and parties acting in concert with it	–	0.00	383,365,251	12.54	383,365,251	12.57
CDH	–	0.00	11,850,784	0.39	11,850,784	0.39
MS Retail	–	0.00	72,860,379	2.38	72,860,379	2.39
Public Shareholders	727,847,500	31.74	1,024,968,777	33.51	1,017,918,657	33.36
Total	**2,292,794,534**	**100.00**	**3,057,992,225**	**100.00**	**3,050,942,105**	**100.00**

Note:

1 *Including the 280,000 GOME Shares held by Smart Captain Holdings Limited, a company 100% beneficially owned by Ms. Du Juan, the spouse of Mr. Wong Kwong Yu.*

3. MARKET PRICES

3.1 GOME Shares

The table below shows the closing market prices for the GOME Shares as quoted on the Stock Exchange: (i) on the Latest Practicable Date; (ii) on 17 July 2006, being the last day of trading in the GOME Shares immediately preceding the date of the Joint Announcement; and (iii) at the end of each of the calendar months during the period commencing six months preceding the date of the Joint Announcement and ending on the Latest Practicable Date.

Date	**GOME Share price** *HK$*
27 January 2006	6.05
28 February 2006	7.35
31 March 2006	8.65
28 April 2006	6.70
30 May 2006	5.95
30 June 2006	6.55
17 July 2006	6.35
31 July 2006	7.06
Latest Practicable Date	5.76

The highest and lowest closing market prices for the GOME Shares as quoted on the Stock Exchange for the period between 26 January 2006 (being the commencement of the six month period preceding the date of the Joint Announcement) and the Latest Practicable Date were HK$9.75 recorded on 6 April 2006, and HK$5.50 recorded on 8 June 2006, respectively.

4. DISCLOSURE OF SHAREHOLDINGS IN CHINA PARADISE AND THE OFFEROR

China Paradise Shares

4.1 As at the Latest Practicable Date:

- neither GOME nor any party acting in concert with GOME owned or controlled; and

- none of the GOME Directors (including their respective spouses, children under the age of 18, related trusts and companies controlled by any of them) was beneficially interested (as described in Part XV of the SFO) in;

directly or indirectly, any China Paradise Shares.

4.2 Save as disclosed in this paragraph 4.2, there are no other persons who, prior to the posting of the Composite Document, have irrevocably committed themselves to accept or reject the Offer:

Name of Committed Shareholder	**Number of Committed Shares held**	**Approximate percentage of China Paradise Shares (assuming the Wang Management Incentive Option is not exercised)**	**Approximate percentage of China Paradise Shares (assuming the Wang Management Incentive Option is fully exercised)**
Retail Management	473,686,307	20.29	20.10
MS Retail	224,392,912	9.61	9.52
CDH	36,497,642	1.56	1.55
Total	**734,576,861**	**31.46**	**31.17**

GOME Shares

4.3 Save as disclosed in this paragraph 4.3 and paragraph 4.4, no party acting in concert with GOME owned or controlled, directly or indirectly, any GOME Shares as at the Latest Practicable Date:

	Number of ordinary shares held				
Names	**Personal interests**	**Interest of spouse**	**Corporate interests**	**Total**	**Approximate % of shareholding**
Mr. Wong Kwong Yu	900,087	280,000 *(Note 2)*	1,563,766,947 *(Note 1)*	1,564,947,034	68.26%
Ms. Du Juan	–	1,564,667,034 *(Note 1)*	280,000 *(Note 2)*	1,564,947,034	68.26%

Notes:

1. These GOME Shares are held as to 1,377,729,553 GOME Shares by Shinning Crown Holdings Inc. and as to 186,037,394 GOME Shares by Shine Group Limited. Both companies are 100% beneficially owned by Mr. Wong Kwong Yu, the spouse of Ms. Du Juan.

2. These GOME Shares are held by Smart Captain Holdings Limited which is 100% beneficially owned by Ms. Du Juan, the spouse of Mr. Wong Kwong Yu.

4.4 As at the Latest Practicable Date, GS Group owns or controls the following GOME Shares:

Holdings in GOME Shares

Name	Number of GOME Shares	Aggregate % interest
GSAF	3,147,000	0.137%
GS&Co	63,000	0.003%

As at the Latest Practicable Date, GS Group owns or controls the following options relating to GOME Shares:

Holdings in options

Name	Description	Number of shares in the option	Exercise Period	Exercise Price *(HK$)*
GSAF	European Put Option	1,500,000	01 Mar 06 - 01 Sep 06	6.9350
GSAF	European Put Option	929,000	30 Mar 06 - 29 Sep 06	7.7655
GSAF	European Put Option	1,194,000	26 Apr 06 - 26 Oct 06	6.0450

4.5 Save as disclosed in paragraph 5(a)(1) of this appendix, none of the GOME Directors (including their respective spouses, children under the age of 18, related trusts and companies controlled by any of them) was beneficially interested (as described in Part XV of the SFO) in, directly or indirectly, any GOME Shares as at the Latest Practicable Date.

4.6 None of the persons who, prior to the posting of the Composite Document, have irrevocably committed themselves to accept or reject the Offer, owned or controlled, directly or indirectly, any GOME Shares as at the Latest Practicable Date.

5. FURTHER DISCLOSURE OF INTERESTS IN THE OFFEROR

(a) Directors' interests and short positions in the shares, underlying shares and debentures of GOME and its associated corporations

As at the Latest Practicable Date, the GOME Directors and the chief executive of GOME and their respective associates had the following interests and short positions in the shares, underlying shares and debentures of GOME and its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to GOME and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or were required, pursuant to section 352 of the SFO, to be entered in the register of GOME referred to therein or were required, pursuant to Part XV of the SFO or were required to be disclosed in the Composite Document under the Takeovers Code, or the Model Code for Securities Transactions by Directors of Listed Issuers of the Hong Kong Listing Rules, to be notified to GOME and the Stock Exchange:

(1) Long positions in the shares of the Company

	Number of ordinary shares held					Approximate
Name of Directors	Personal interests	Interest of spouse	Corporate interests	Total	Type of interest	% of shareholding
Mr. Wong Kwong Yu	900,087	280,000 *(Note 2)*	1,563,766,947 *(Note 1)*	1,564,947,034	Beneficial owner	68.26%
Ms. Du Juan	–	1,564,667,034 *(Note 1)*	280,000 *(Note 2)*	1,564,947,034	Beneficial owner	68.26%

Notes:

1. These GOME Shares are held as to 1,377,729,553 GOME Shares by Shinning Crown Holdings Inc. and as to 186,037,394 GOME Shares by Shine Group Limited. Both companies are 100% beneficially owned by Mr. Wong Kwong Yu, the spouse of Ms. Du Juan.

2. These GOME Shares are held by Smart Captain Holdings Limited which is 100% beneficially owned by Ms. Du Juan, the spouse of Mr. Wong Kwong Yu.

(b) Particulars of the GOME Directors' service contracts

As at the Latest Practicable Date, none of the GOME Directors had entered or was proposing to enter into a service contract with GOME or any member of the GOME Group (excluding contracts expiring or determinable within one year without payment of compensation other than statutory compensation).

(c) Others

Save as disclosed in sections 4 and 5 of this appendix, as at the Latest Practicable Date

(i) none of the GOME Directors and the chief executive of GOME and their respective associates held any interests or short positions in the shares, underlying shares and debentures of GOME or any of its associated corporations (within the meaning of the SFO) which were required to be notified to GOME and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or were required, pursuant to section 352 of the SFO, to be entered in the register of GOME referred to therein or were required, pursuant to Part XV of the SFO or were required to be disclosed in the Composite Document under the Takeovers Code, or the Model Code for Securities Transactions by Directors of Listed Issuers of the Hong Kong Listing Rules, to be notified to GOME and the Stock Exchange;

(ii) None of the GOME Directors had any direct or indirect interest in any assets which had been, since 31 December 2005, being the date of the latest published audited accounts of GOME were made up, acquired or disposed of by, or leased to GOME or any member of the GOME Group, or were proposed to be acquired or disposed of by, or leased to, GOME or any member of the GOME Group; and

(iii) save for the transactions contemplated under the Beijing Property Agreement and the continuing connected transactions approved by the GOME Shareholders in the special general meetings of GOME held on 28 July 2004 and 15 April 2005, none of the GOME Directors was materially interested in any contract or arrangement entered into by GOME or any member of the GOME Group which contract or arrangement was subsisting and which was significant in relation to the business of the GOME Group taken as a whole.

(d) Directors' interests in competing business

As at the Latest Practicable Date, the interests of GOME Directors in businesses (other than those businesses where the GOME Directors were appointed as directors to represent the interests of GOME and/or any member of the GOME Group) which are considered to compete or are likely to compete, whether directly or indirectly, with the businesses of the GOME Group were as follows:

Name of GOME Director	Name of competing entity	Description of business of competing entity	Nature of interest of GOME Director
Mr. Wong Kwong Yu	Parent Group	Retail of electrical appliances and consumer electronics products	Beneficial owner

Mr. Wong Kwong Yu and China Eagle Group Company Limited (renamed GOME Electrical Appliances Holding Limited in August 2004) entered into the Non-competition Undertaking on 29 July 2004, pursuant to which Mr. Wong Kwong Yu undertook to GOME that he would not and would procure that the Parent Group would not, among other things, engage in retail sales of electrical appliances and/or consumer electronic products in places in the PRC where GOME had established any retail outlet for the sale of electrical appliances and consumer electronics products under the "GOME Electrical Appliances" trademark, provided that Mr. Wong Kwong Yu remains as the controlling shareholder of GOME. GOME undertook to Mr. Wong Kwong Yu not to directly or indirectly engage in the retail sales of electrical appliances or consumer electronic products in any of the locations in the PRC in which any member of the Parent Group had established, or was as at 3 June 2004 in the course of establishing, any retail outlet for the sale of electrical appliances and consumer electronic products under the "GOME Electrical Appliances" trade mark. Further details of the Non-competition Undertaking are set out in GOME's circular dated 5 July 2004. On 21 July 2006, Mr. Wong Kwong Yu granted a waiver to GOME from its obligations under the Non-competition Undertaking as summarised above in this paragraph. Such waiver shall take effect on and as from the Offer having been declared or becoming unconditional in all respects.

6. SUBSTANTIAL SHAREHOLDERS' INTERESTS IN THE OFFEROR

So far as is known to any GOME Director or the chief executive of GOME, as at the Latest Practicable Date, other than the interests and short positions of the GOME Directors or the chief executive of GOME as disclosed above, the following persons had interests or short positions in the shares or underlying shares of GOME which would fall to be disclosed to GOME under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by GOME under Section 336 of the SFO, or as otherwise notified to GOME and the Stock Exchange:

(a) Substantial shareholders' interests and short positions in the shares and underlying shares of GOME

Name of shareholder	Nature	Number of GOME Shares held	Approximate % of shareholding
Warburg Pincus & Co *(note 1)*	Long position	176,680,630	7.71%
Morgan Stanley *(note 2)*	Long position	161,707,223	7.05%
	Short position	68,298,725	2.98%
JPMorgan Chase & Co. *(note 3)*	Long position	138,468,630	6.04%
	Lending pool	77,998,630	3.40%

Notes:

1. Warburg Pincus Private Equity IX, L.P is part of the Warburg Pincus Funds. The general partner of the Warburg Pincus Funds is Warburg Pincus Partners LLC, which is a subsidiary of Warburg Pincus & Co. Each of Warburg Pincus Partners LLC and Warburg Pincus & Co. is therefore deemed to be interested in the shares held by the Warburg Pincus Funds, which includes Warburg Pincus IX LLC, Warburg Pincus Private Equity IX, L.P.. These are derivative interests and are held as to 151,496,788 GOME Shares by Real Success International Limited and as to 25,183,842 GOME Shares by Sound Idea International Limited, both of which are wholly-owned subsidiaries of Warburg Pincus Private Equity IX, L.P.

2. Morgan Stanley was interested in these Shares through its interests in controlled corporations. Of these shares, long position in 105,882,406 GOME Shares were held by Morgan Stanley Investment Management Company, long position in 26,508 GOME Shares and short position in 25,000 GOME Shares were held by Morgan Stanley Dean Witter Hong Kong Securities Limited, long position in 23,067,122 GOME Shares and short position in 35,619,891 GOME Shares were held by Morgan Stanley & Co International Limited, long position in 7,544,800 GOME Shares and short position in 7,544,800 GOME Shares were held by MSDW Equity Finance Services I (Cayman) Limited, long position in 25,166,838 GOME Shares and short position in 25,109,034 GOME Shares were held by Morgan Stanley & Co. Incorporated and long position in 19,548 GOME Shares were held by Morgan Stanley Capital Services Inc., all of which are either controlled or indirectly controlled corporations of Morgan Stanley.

3. JPMorgan Chase & Co. was interested in 2,370,000 GOME Shares, 58,100,000 GOME Shares and 77,998,630 GOME Shares in its capacity as beneficial owner, investment manager and custodian corporation/approved lending agent, respectively. JPMorgan Chase & Co. was interested in such GOME Shares through its interests in controlled corporations. Of these GOME Shares, 80,101,630 GOME Shares were held by JPMorgan Chase Bank, N.A., 12,068,000 GOME Shares were held by J.P. Morgan Investment Management Inc., 36,691,000 GOME Shares were held by JPMorgan Asset Management (UK) Limited, 1,000,000 GOME Shares were held by JPMorgan Asset Management (Canada) Inc., 2,370,000 GOME Shares were held by J.P. Morgan Whitefriars Inc. and 3,238,000 GOME Shares were held by JPMorgan Asset Management (Japan) Limited, all of which are either controlled or indirectly controlled corporations of JPMorgan Chase & Co.

(b) Interests and short positions of other persons in the shares and underlying shares of GOME

As at the Latest Practicable Date, there was no other person (other than the GOME Directors and the chief executive of GOME), who had an interest or short position in the shares or underlying shares of GOME which would fall to be disclosed to GOME under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were recorded in the register to be kept by GOME under Section 336 of the SFO, or as otherwise notified to GOME and the Stock Exchange.

7. DEALINGS IN GOME SHARES

7.1 Save as disclosed in paragraph 7.2 neither (i) GOME nor any party acting in concert with GOME; and (ii) none of the GOME Directors (including their respective spouses, children under the age of 18, related trusts and companies controlled by any of them) has dealt for value in any GOME Shares, options, warrants, derivatives or any securities convertible into GOME Shares during the period beginning six months prior to the date of the Joint Announcement and ending on the Latest Practicable Date.

7.2 The following are the dealings in GOME Shares and options relating to GOME Shares during the period beginning six months prior to the date of the Joint Announcement and ending on the Latest Practicable Date conducted by GS Group (other than exempt fund managers), but excluding dealings on an agency or non-discretionary basis and certain dealings by GS Group during the Offer Period which the Executive has permitted to be continued but subject to private disclosure during the Offer Period under the Takeovers Code:

Dealings in Shares

Parties	**Trade Date**	**Number of GOME Shares**		**Dealing Price per Share**
		Bought	*Sold*	*(HK$)*
GSI	01/03/2006		5,000	7.30
GSI	01/03/2006		34,000	7.35
GS&Co	16/03/2006	31,000		7.35
GS&Co	16/03/2006	32,000		7.40
GS&Co	06/04/2006	1,000		9.25
GS&Co	06/04/2006	5,000		9.70
GS&Co	06/04/2006	10,000		9.75
GS&Co	06/04/2006	1,000		9.80
GS&Co	06/04/2006	1,000		9.85
GS&Co	06/04/2006	1,000		9.90
GS&Co	06/04/2006	2,000		9.95
GS&Co	06/04/2006	6,000		10.00
GS&Co	06/04/2006	2,000		10.05
GS&Co	06/04/2006	2,000		10.10

Parties	Trade Date	Number of GOME Shares *Bought*	*Sold*	Dealing Price per Share *(HK$)*
GS&Co	06/04/2006	3,000		10.15
GS&Co	06/04/2006	4,000		10.20
GS&Co	06/04/2006	5,000		10.40
GS&Co	06/04/2006	11,000		10.50
GS&Co	19/06/2006	38,000		6.05
GS&Co	19/06/2006	46,000		6.10
GS&Co	19/06/2006	66,000		6.15
GS&Co	19/06/2006	19,000		6.20
GS&Co	19/06/2006	11,000		6.25
GSAF	06/02/2006	14,000		6.90
GSAF	07/02/2006	350,000		7.20
GSAF	13/02/2006	136,000		6.80
GSAF	13/02/2006	370,000		6.90
GSAF	16/02/2006		85,000	7.35
GSAF	01/03/2006	522,000		7.30
GSAF	02/03/2006		200,000	7.60
GSAF	13/03/2006	250,000		7.10
GSAF	23/03/2006		39,000	7.40
GSAF	24/03/2006		35,000	7.60
GSAF	24/03/2006		10,000	7.75
GSAF	24/03/2006		49,000	7.85
GSAF	30/03/2006	172,000		8.30
GSAF	30/03/2006	51,000		8.35
GSAF	30/03/2006		101,000	8.50
GSAF	30/03/2006		18,000	8.55
GSAF	24/04/2006	245,000		6.70
GSAF	24/04/2006	205,000		6.75
GSAF	24/04/2006	318,000		7.15
GSAF	25/04/2006	300,000		6.80
GSAF	26/04/2006	900,000		6.50
GSAF	02/05/2006		300,000	7.00
GSAF	02/05/2006		100,000	7.05
GSAF	03/05/2006		400,000	7.20
GSAF	03/05/2006		200,000	7.35
GSAF	03/05/2006		57,000	7.40
GSAF	19/05/2006	400,000		6.55
GSAF	19/05/2006	200,000		6.65
GSAF	19/05/2006	200,000		6.70
GSAF	24/05/2006	200,000		6.25
GSAF	25/05/2006	500,000		6.10
GSAF	30/05/2006	400,000		5.90

Parties	Trade Date	Number of GOME Shares *Bought*	*Sold*	Dealing Price per Share *(HK$)*
GSAF	13/06/2006	500,000		5.65
GSAF	14/06/2006	124,000		5.35
GSAF	16/06/2006		162,000	6.10
GSAF	20/06/2006		323,000	6.05
GSAF	29/06/2006		223,000	6.25
GSAF	30/06/2006		250,000	6.35
GSAF	30/06/2006		50,000	6.40
GSAF	03/07/2006		2,000	6.55
GSAF	05/07/2006		600,000	6.65
GSAF	10/07/2006	230,000		6.45
GSAF	12/07/2006	44,000		6.30
GSAF	26/07/2006		100,000	6.75
GSAF	26/07/2006		60,000	6.77
GSAF	26/07/2006		26,000	6.78
GSAF	26/07/2006		92,000	6.79
GSAF	26/07/2006		10,000	6.80
GSAF	26/07/2006		4,000	6.81
GSAF	26/07/2006		200,000	6.82
GSAF	26/07/2006		100,000	6.85
GSAF	26/07/2006		400,000	6.90
GSI	27/07/2006	2,000		7.01
GSI	27/07/2006	5,000		7.02
GSI	27/07/2006	8,000		7.03
GSI	27/07/2006	5,000		7.04
GSI	27/07/2006	3,000		7.05
GSI	27/07/2006	3,000		7.06
GSI	27/07/2006	4,000		7.07
GSI	27/07/2006	1,000		7.08
GSI	27/07/2006	1,000		7.09
GSI	27/07/2006	1,000		7.10
GSI	27/07/2006	6,000		7.11
GSAF	02/08/2006		200,000	6.73
GSAF	09/08/2006	400,000		6.54
GSAF	10/08/2006		200,000	6.10
GSAF	10/08/2006		10,000	6.12
GSAF	10/08/2006		114,000	6.15
GSAF	10/08/2006		145,000	6.16
GSAF	10/08/2006		17,000	6.17
GSAF	10/08/2006		7,000	6.38
GSAF	10/08/2006		21,000	6.39
GSAF	10/08/2006	153,000		6.25

Parties	Trade Date	Number of GOME Shares *Bought*	*Sold*	Dealing Price per Share *(HK$)*
GSAF	10/08/2006	77,000		6.26
GSAF	10/08/2006	73,000		6.28
GSAF	10/08/2006	115,000		6.49
GSAF	10/08/2006	200,000		6.50
GSAF	10/08/2006	22,000		6.51
GSAF	15/08/2006	350,000		5.61
GSAF	16/08/2006		100,000	6.04
GSAF	16/08/2006		100,000	6.05
GSAF	16/08/2006		90,000	6.08
GSAF	16/08/2006		4,000	6.13
GSAF	22/08/2006	330,000		5.62

Dealings in Options

Parties	Date of taking/ granting option	Nature of dealing	Number of securities under option	Exercise Period	Exercise Price *(HK$)*	Trade Price *(HK$)*
GSAF	07/02/2006	Taking on	1,078,000	07 Feb 06 – 07 Aug 06	6.696	0.55
GSAF	13/02/2006	Taking on	1,600,000	13 Feb 06 – 14 Aug 06	6.392	0.53
GSAF	01/03/2006	Taking on	1,500,000	01 Mar 06 – 01 Sep 06	6.935	0.43
GSAF	30/03/2006	Taking on	929,000	30 Mar 06 – 29 Sep 06	7.766	0.65
GSAF	26/04/2006	Taking on	1,194,000	26 Apr 06 – 26 Oct 06	6.045	0.53
GSAF	2/8/2006	Closing out	1,078,000	07 Feb 06 – 07 Aug 06	6.696	0.16
GSAF	10/8/2006	Closing out	1,194,000	13 Feb 06 – 14 Aug 06	6.045	0.53

7.3 No persons who, prior to the posting of the Composite Document, have irrevocably committed themselves to accept or reject the Offer has dealt for value in any GOME Shares, options, warrants, derivatives or any securities convertible into GOME Shares during the period beginning six months prior to the date of the Joint Announcement and ending on the Latest Practicable Date.

8. DEALINGS IN CHINA PARADISE SHARES

8.1 As at the Latest Practicable Date, neither GOME nor persons acting in concert with GOME held any convertible securities, warrants or options (or other outstanding derivatives) in respect of any China Paradise Shares.

8.2 The following are the dealings of China Paradise Shares during the period beginning six months prior to the date of the Joint Announcement and ending on the Latest Practicable Date conducted by GS Group (other than exempt fund managers), but excluding dealings on an agency or non-discretionary basis and certain dealings by GS Group which the Executive has permitted to be continued during the Offer Period under the Takeovers Code:

Parties	**Trade Date**	**Number of China Paradise Shares**		**Dealing Price per Share**
		Bought	*Sold*	*(HK$)*
GSI	10/04/2006	522,000		3.88
GSI	11/04/2006	616,000		4.01
GSI	11/04/2006		310,000	3.98
GSI	12/04/2006		474,000	3.95
GSI	12/04/2006	352,000		3.85
GSI	13/04/2006		158,000	3.81
GSI	13/04/2006	2,000		3.83
GSI	18/04/2006		550,000	3.78
GS&Co	21/04/2006	46,000*		4.23
GS&Co	21/04/2006	38,000*		4.23
GSI	21/04/2006		200,000*	4.28
GSI	21/04/2006	90,000*		4.23
GS&Co	21/04/2006	96,000*		4.23
GS&Co	24/04/2006		241,000*	3.48
GS&Co	24/04/2006		202,000*	3.48
GSI	24/04/2006		445,000*	3.48
GS&Co	24/04/2006		516,000*	3.48
GSI	08/06/2006		100,000*	1.99
GSI	13/06/2006		250,000*	1.97
GSI	13/06/2006		250,000*	1.98

* *Please note that these trades were carried out for the account of GSI and GS&Co's discretionary investment clients.*

8.3 Save as disclosed in paragraph 8.2 above, neither (i) GOME nor any party acting in concert with GOME; and (ii) none of the GOME Directors (including their respective spouses, children under the age of 18, related trusts and companies controlled by any of them) has dealt for value in any China Paradise Shares, options, warrants, derivatives or any securities convertible into China Paradise Shares during the period beginning six months prior to the date of the Joint Announcement and ending on the Latest Practicable Date.

8.4 During the period beginning six months prior to the date of the Joint Announcement and ending on the Latest Practicable Date, persons who, prior to the posting of the Composite Document, have irrevocably committed themselves to accept or reject the Offer have dealt for value in China Paradise Shares as follows:

Parties	**Date**	**Number of China Paradise Share**		**Dealing price per China Paradise Share**
		Purchased	*Sold*	*HK$*
Retail Management	24 April 2006	–	86,604,000	3.1965
MS Retail	24 April 2006	–	224,392,911	3.1965
CDH	24 April 2006	–	36,497,642	3.1965

Save as disclosed above, no persons who, prior to the posting of the Composite Document, have irrevocably committed themselves to accept or reject the Offer has dealt for value in any China Paradise Shares, options, warrants, derivatives or any securities convertible into China Paradise Shares during the period beginning six months prior to the date of the Joint Announcement and ending on the Latest Practicable Date.

9. DIRECTORS AND SENIOR MANAGEMENT OF THE OFFEROR

Details of the GOME Directors and senior management are as follows:

Board of Directors

Executive Directors

Mr. Wong Kwong Yu, aged 37, has been the Chairman of the GOME Group and an executive director since April 2002. Mr. Wong has 19 years of experience in the retailing of electrical appliances and consumer electronic products. Mr. Wong founded the GOME Group in 1987 and has since developed the GOME Group into one of the largest chain operators for electrical appliances and consumer electronic products in the PRC. In 1993, Mr. Wong established the "GOME" brand name and conceived the strategies for chain store operations.

Ms. Du Juan, aged 33, has been an executive director since August 2002. Ms. Du has extensive experience in the banking and finance industry. From 1998 to 2002, Ms. Du worked in two diversified conglomerates and was responsible for financial and administrative management. Ms. Du is a fellow member of Hong Kong Institute of Directors Limited. Ms. Du is the spouse of Mr. Wong.

Mr. Lam Pang, aged 37, has been an executive director since September 2000. He was the Chairman of the GOME Group in the period between 7 December 2000 and 17 April 2002. Mr. Lam has extensive experience in the trade between the PRC and Hong Kong, and property investment in the PRC.

Mr. Ng Kin Wah, aged 46, has been an executive director since September 2000. Mr. Ng has over 20 years' experience in securities investment in Hong Kong.

Non-executive Director

Mr. Sun Qiang Chang, aged 49, was appointed as a non-executive director on 28 February 2006. Mr. Sun is the managing director of Warburg Pincus Asia LLC (***Warburg Pincus***), a leading private equity and venture capital firm. Mr. Sun has been with Warburg Pincus since 1995 and has approximately 19 years of experience in the investment banking industry and private equity markets. Before joining Warburg Pincus, Mr. Sun served as an executive director of the investment banking division of Goldman Sachs (Asia) LLC. Mr. Sun is also the founding chairman of the China Venture Capital Association and a non-executive director of Kasen International Holdings Limited and Enerchina Holdings Limited, both companies are listed on the Main Board of the Stock Exchange. Mr. Sun is also a director of Harbin Pharmaceutical Holding Company Limited, Intime Group Limited and Harbour Networks Holdings Limited. In the three years prior to his appointment as the Company's non-executive director, Mr. Sun had held directorships in MediaNation Inc., a company listed on the Growth Enterprise Market of the Stock Exchange, Asiainfo Holdings Inc., a company listed on NASDAQ, and Hong Leong Asia Limited and Eagle Brand Holdings Limited, both of which are companies listed on the Singapore Stock Exchange.

Independent Non-executive Directors

Mr. Sze Tsai Ping, Michael, aged 61, was appointed as an independent non-executive director on 31 October 2002. Mr. Sze has over 30 years experience in the financial and securities field. He is currently a Member of the Cash Market Consultative Panel of Hong Kong Exchanges and Clearing Limited and a Member of the Disciplinary Appeals Committee of the Stock Exchange. He was formerly a Council Member of the Stock Exchange, a Member of the Main Board Listing Committee of the Stock Exchange and a Member of the SFC Appeals Panel. Mr. Sze is a non-executive director of Burwill Holdings Limited and an independent non-executive director of T S Telecom Technologies Limited, both of which are listed on the Stock Exchange. He is a Fellow of the Institute of Chartered Accountants in England and Wales, the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. He is also a Fellow of the Hong Kong Institute of Directors Limited.

Mr. Chan Yuk Sang, aged 60, was appointed as an independent non-executive director on 20 May 2004. Mr. Chan was the chairman of Century Legend (Holdings) Limited in the period since September 1999 until July 2002 and a director of Hong Kong Building & Loan Agency Ltd. from 1993 to 1995, both of which are companies are listed on the Main Board of The Stock Exchange. Mr. Chan was a senior general manager of a local bank and was an executive director of a joint Chinese-foreign bank in Shenzhen. Mr. Chan has more than 30 years' experience in the banking and finance industry. Mr. Chan is currently an independent non-executive director of Four Seas Mercantile Holdings Limited, a company listed on the Main Board of the Stock Exchange.

Mr. Mark C. Greaves, aged 49, was appointed as an independent non-executive director on 15 April 2005. Mr. Greaves was the managing director for the Asia region of NM Rothschild & Sons Limited and a director of NM Rothschild & Sons Limited, London until 2002. Mr. Greaves was the founding principal of the specialist consultancy practice of Anglo FarEast Group with an emphasis on cross-border assignments between Asia and Europe from 2002 to 2004 and is currently the chief executive of Hanson Capital Limited. Mr. Greaves was for many years a council representative to the Singapore Investment Banking Association and is an authorised representative and an approved person of the UK Financial Services Authority. Mr. Greaves is also a director of Sinosoft Technology plc, a company which is listed on the Alternative Investment Market of the London Stock Exchange.

Senior Management

Mr. Li Jun Tao, *General Manager of Sales and Procurement Centre*

Mr. Li joined the GOME Group in 1988 and previously held the position of General Manager of Operation Centre. He has extensive experience in electrical appliances retailing, chain store operations and management.

Mr. Zhou Ya Fei, *Chief Financial Officer*

Mr. Zhou joined the GOME Group in 2000 and held the position of Chief Financial Officer since then. Mr. Zhou is responsible for the planning and implementation of the internal budgeting and auditing systems, and is also involved in all major investment decisions of the GOME Group. He led the design and integration of the GOME Group's ERP system to enhance corporate efficiency. Prior to joining the GOME Group, he worked in an accounting firm, an accounting consultancy, as well as the Beijing municipal government. Mr. Zhou has over 10 years of experience in PRC accounting, finance and tax consulting. He is a registered accountant (non-practicing) and a registered tax agent (non-practicing) in the PRC.

Ms. Wei Qiu Li, *Director of Management Center, Price Centre and Human Resources Centre*

Ms. Wei has over 10 years of experience in human resources and administrative management and she joined the GOME Group in 2000.

Mr. Wang Jun Zhou, *Chairman of Policy and Execution Committee*

Mr. Wang joined the GOME Group in 2001 and previously held the position of General Manager of Operation Centre in the headquarters and General Manager for managing the business of South-China region. He is responsible for the business such as negotiation and contracts between the GOME Group and manufacturers, and research and development of major clients. He has over ten years of experience in the management and sale of electrical appliances.

Mr. Sun Yi Ding, *Director of Stores Development Centre and Customer Service Centre*

Mr. Sun joined the GOME Group in 2001 and previously held the position of Sub-branch General Manager, Deputy General Manager of sale and purchasing department and General Manager of Operation Centre. Mr. Sun is responsible for the ordinary course of operation of the GOME Group including the selection of shop addresses, renovation of shops, logistics and after-sale services. He has over fourteen years of sales experience.

Mr. He Yang Qing, *Director of Brand Management Centre*

Mr. He joined the GOME Group in 2003 and previously held the position as Deputy Chief Operation Officer of Procurement Centre in the headquarters. He is now responsible for the management and maintenance of GOME's brand name and enterprise image. Mr. He has extensive experience in the field of production and manufacturing of electrical appliances.

Mr. Mu Gui Xian, *Director of Stores Management Centre*

Mr. Mu joined the GOME Group in 2001 and is responsible for the management and administration of shops nationwide. Mr. Mu previously held the position as General Manager of Tianjin GOME and GOME Appliance in the Northern China region and has ten years of experience in the sale of home electrical appliances and management of shops. Mr. Mu is a senior economic analyst.

10. PROPOSED DIRECTORS OF CHINA PARADISE

The Offeror intends that the senior management team of China Paradise be utilised to an optimal capacity following completion of the Offer, to ensure a smooth transition and to realise synergies per the business plan of the combined business. The Offeror does not currently intend to change the composition of the board of directors of China Paradise after completion of the Offer.

11. INDEBTEDNESS, CONTINGENCIES AND COMMITMENTS

At the close of business on 31 July 2006, being the latest practicable date for the purpose of preparing this indebtedness statement, the GOME Group had bills payable of approximately RMB6,217 million and unlisted and unsecured convertible bonds of approximately RMB1,012 million. The balances of bills payable are secured by pledges of time deposits with an aggregate carrying value of approximately RMB3,786 million.

Save as aforesaid, and apart from the intra-group liabilities, the GOME Group did not have any outstanding mortgages, charges, debentures, loan capital or overdrafts, or other similar indebtedness, finance leases or hire-purchase commitments, liabilities under acceptances or acceptance credits or any guarantees or other material contingent liabilities as at the close of business on 31 July 2006.

12. LITIGATION

As at the Latest Practicable Date, neither GOME nor any member of the GOME Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was known to the GOME Directors to be pending or threatened by or against GOME or any member of the GOME Group.

13. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by the Offeror within the two years immediately preceding the date of the Joint Announcement up to and including the Latest Practicable Date, and are or may be material:

(a) the subscription agreement dated 28 January 2006 entered into between GOME, Real Success International Limited and Warburg Pincus Private Equity IX, LP, pursuant to which Real Success International Limited subscribed bonds in the principal amount of US$125,000,000 and warrants in the principal amount of US$25,000,000;

(b) the Beijing Property Agreement;

(c) the Acquisition Agreement;

(d) the Voting Undertaking;

(e) the Exclusivity Agreement; and

(f) the Loan.

14. CONSENTS

Each of Goldman Sachs and Ernst & Young has given and has not withdrawn its written consent to the issue of the Composite Document with the inclusion of its letter and references to its name in the form and context in which they respectively appear.

The following are the qualifications of such experts who have given opinion or advice which are contained in the Composite Document:

Name	Qualification
Goldman Sachs	a licensed corporation under the SFO, licensed to carry out Type 1 (dealing in securities), Type 4 (advising on securities), Type 5 (advising on futures contracts), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities
Ernst & Young	certified public accountants

15. MATERIAL CHANGES

The GOME Directors are not aware of any material changes in the financial or trading position or outlook of GOME subsequent to 31 December 2005, the date to which the latest audited consolidated financial statements of the GOME Group were made.

16. MISCELLANEOUS

(a) The registered office of GOME is Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda and its principal office in Hong Kong is Unit 6101, 61st Floor, The Center, 99 Queen's Road Central, Hong Kong.

(b) The principal members of the group acting in concert with the Offeror comprise Mr. Wong Kwong Yu of Flat A, 33/F., 62B Robinson Road, Hong Kong, who is the chairman of GOME; Ms. Du Juan of Flat A, 33/F., 62B Robinson Road, Hong Kong, who is an executive director of GOME and Mr. Wong Kwong Yu's spouse; and Wan Sheng Yuan Asset Management Company Limited of Portcullis TrustNet Chambers, P.O. Box 3444, Road Town, Tortola, British Virgin Islands, which is an investment holding company which is party to the Loan and is wholly and beneficially owned by Ms. Du Juan.

(c) None of the experts named in paragraph 14 in this Appendix has any direct or indirect interest in any asset which had, since 31 December 2005, being the date of the latest published audited accounts of GOME were made up, been acquired or disposed of by or leased to any member of the GOME Group or were proposed to be acquired or disposed of by or leased to any member of the GOME Group.

(d) Any person who, alone or acting together with any other person(s) pursuant to an agreement or understanding (whether formal or informal) to acquire or control securities of China Paradise, owns or control 5% or more of any class of securities of China Paradise, including a person who as a result of any transaction owns or controls 5% or more of any class of securities of China Paradise, is generally required under the provisions of Rule 22 of the Takeovers Code to notify the Stock Exchange and the Executive of every dealing in such securities during the offer period of the Offer. Please consult your financial adviser, legal adviser and/or other professional advisers immediately if you believe this rule may be applicable to you.

(e) As at the Latest Practicable Date, no agreements, arrangements or understandings (including any compensation arrangement) exist between GOME or any person acting in concert with it and any of the China Paradise Directors, recent China Paradise Directors, and holders or recent holders of the China Paradise Shares which is conditional on or dependent upon the outcome of the Offer or is otherwise connected with the Offer.

(f) Unless otherwise required by the Hong Kong Listing Rules with regard to the public float requirements, the Offeror has no intention to charge, pledge or transfer the China Paradise Shares acquired in pursuance of the Offer to any other persons.

(g) The Offeror has no intention to pledge or charge the China Paradise Shares acquired in pursuance of the Offer to any other persons.

(h) As at the Latest Practicable Date, no benefit had been, nor will any be, given to any China Paradise Directors as compensation for loss of office or otherwise in connection with the Offer (save as statutory compensation required under the appropriate laws).

(i) The emoluments of the directors of the Offeror will not be affected by the acquisition of China Paradise Shares in connection with the Offer or by any other associated transaction.

(j) There is no arrangement of the kind referred to in Note 8 of Rule 22 of the Takeovers Code between the Offeror, parties acting in concert with the Offeror, or any associate of the Offeror, and any other person.

(k) GOME is not a party to any agreements or arrangements under which GOME may or may not invoke or seek to invoke a pre-condition or a condition of the Offer, as referred to in Rule 3.5(g) of the Takeovers Code.

(l) In the event of inconsistency, the English text of this Composite Document shall prevail over the Chinese text.

17. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of GOME at Unit 6101, 61st Floor, The Center, 99 Queen's Road Central, Hong Kong during normal business hours for so long as the Offer remains open for acceptance:

(a) the Memorandum of Association and the Bye-Laws;

(b) the letter from the Board of GOME, the text of which is set out on pages 9 to 15 of this Composite Document;

(c) the letter from Goldman Sachs, the text of which is set out on pages 16 to 30 of this Composite Document;

(d) the unaudited pro forma statement of assets and liabilities of the Enlarged Group, the text of which is set out in Appendix IV of this Composite Document;

(e) the accountants' report from Ernst & Young dated 29 August 2006 in respect of the unaudited pro forma financial information on the Enlarged Group, the text of which is set out in Appendix IV to this Composite Document;

(f) the comfort letter from Goldman Sachs, the text of which is set out in Appendix IV of this Composite Document;

(g) the letters of consent dated 29 August 2006 from each of Goldman Sachs and Ernst & Young;

(h) the Irrevocable Undertaking to accept the Offer in respect of 473,686,307 China Paradise Shares in favour of the Offeror signed by Retail Management on 18 July 2006;

(i) the Irrevocable Undertaking to accept the Offer in respect of 224,392,912 China Paradise Shares in favour of the Offeror signed by MS Retail on 18 July 2006;

(j) the Irrevocable Undertaking to accept the Offer in respect of 36,497,642 China Paradise Shares in favour of the Offeror signed by CDH on 18 July 2006;

(k) the annual reports of GOME for the two financial years ended 31 December 2004 and 2005;

(l) the interim report of GOME for the six months ended 30 June 2006;

(m) the material contracts referred to in the section headed "Material Contracts" in this appendix;

(n) the circular issued by GOME dated 10 April 2006 regarding the general mandate to issue and repurchase shares, amendments to existing By-laws, re-election of retiring directors and notice of annual general meeting;

(o) the circular issued by GOME dated 13 April 2006 regarding the acquisition of a 35% equity interest in Gome Appliance Co., Ltd.; and

(p) the Composite Document.

The above documents can be viewed on the website of; (i) the Securities and Futures Commission – www.sfc.hk; and (ii) GOME – www.gome.com.hk as from the date of the Composite Document until the closing date of the Offer.

1. RESPONSIBILITY STATEMENT

The Composite Document includes particulars given in compliance with the Hong Kong Listing Rules and the Takeovers Code for the purpose of giving information with regard to China Paradise.

The China Paradise Directors jointly and severally accept full responsibility for the accuracy of the information stated in the Composite Document relating to the China Paradise Group and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Composite Document have been arrived at after due and careful consideration and there are no other facts not contained in the Composite Document, the omission of which would make any statement contained herein relating to the China Paradise Group misleading.

2. SHARE CAPITAL

As at the Latest Practicable Date, the authorised and issued share capital of China Paradise is as follows:

Authorised share capital:	*HK$*
5,000,000,000 China Paradise Shares	500,000,000
Issued and fully paid or credited as fully paid China Paradise Shares:	
2,334,917,067 China Paradise Shares	233,491,707

The China Paradise Shares are listed and traded on the Stock Exchange. No part of the China Paradise Shares are listed, or dealt in, on any other stock exchange, nor is any listing of or permission to deal in the China Paradise Shares being, or proposed to be sought, on any other stock exchange.

Other than the China Paradise Shares, there are no other classes of securities in the share capital of China Paradise in issue. All the China Paradise Shares rank pari passu in all respects as regards rights to dividends, voting and capital.

On 24 April 2006, Tong Ley exercised the Wang Management Incentive Option in part to subscribe for a total of 21,712,717 China Paradise Shares and Retail Management exercised an option pursuant to an option deed dated 14 September 2004, as amended and restated on 16 December 2004 and as further amended on 17 April 2005, to subscribe for a total of 145,483,657 China Paradise Shares (***Subscription***). An aggregate of 167,196,374 China Paradise Shares were issued on 26 April 2006 as a result of the Subscription. Save as disclosed, no China Paradise Shares have been issued or repurchased since 31 December 2005, being the end of the last financial year of China Paradise, until the Latest Practicable Date.

As at the Latest Practicable Date, other than the Wang Management Incentive Option, there are no options, warrants, convertible securities or other derivatives outstanding in respect of the share capital of China Paradise.

3. MARKET PRICES

(a) China Paradise Shares

The table below shows the closing market prices for the China Paradise Shares as quoted on the Stock Exchange: (i) on the Latest Practicable Date; (ii) on 17 July 2006, being the Last Trading Day; and (iii) at the end of each of the calendar months during the period commencing six months preceding the date of the Joint Announcement and ending on the Latest Practicable Date.

Date	**China Paradise Share price**
	HK$
27 January 2006	3.65
28 February 2006	3.70
31 March 2006	3.80
28 April 2006	2.75
30 May 2006	2.275
30 June 2006	2.025
17 July 2006	2.05
31 July 2006	2.30
Latest Practicable Date	1.87

The highest and lowest closing market prices of China Paradise Shares as quoted on the Stock Exchange during the period commencing 6 months preceding the Last Trading Day, and ending on and inclusive of the Latest Practicable Date were respectively HK$4.30 on 21 April 2006, and HK$1.79 on 14 August 2006 and 15 August 2006.

4. DISCLOSURE OF INTERESTS IN CHINA PARADISE

As at the Latest Practicable Date, the China Paradise Directors and their respective associates had the following interests and short positions in the shares, underlying shares and debentures of China Paradise (within the meaning of Part XV of the SFO) which had to be notified to China Paradise and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she was taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO to be entered in the register of China Paradise referred to therein or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Hong Kong Listing Rules, to be notified to China Paradise and the Stock Exchange:

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** *(Note 5)*
Chen Xiao	China Paradise	Company *(Note 1)*	1,227,649,060(L) 93,947,635(S) *(Note 2)*	52.58% 4.02%
	Retail Management	Personal	725,898(L) 12,480(S) *(Note 3)*	72.59% 1.25%
	Minrong	Personal	N/A(L) N/A(S)	0.73% 0.01%
	Yongle China	Personal	N/A(L) N/A(S)	7.26% 0.12%
Shu Wei	Retail Management	Personal	131,025(L)	13.10%
	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%
	Minrong	Personal	N/A(L)	0.10%
	Yongle China	Personal	N/A(L)	0.98%
Yuan Yashi	Retail Management	Personal	45,372(L)	4.54%
	Minrong	Personal	N/A(L)	0.05%
	Yongle China	Personal	N/A(L)	0.45%
Ma Yawei	Retail Management	Personal	10,585(L)	1.06%
	Minrong	Personal	N/A(L)	0.01%
	Yongle China	Personal	N/A(L)	0.11%
Zhou Meng *(Note 4)*	Retail Management	Personal	5,000(L)	0.50%
	Minrong	Personal	N/A(L)	0.01%
	Yongle China	Personal	N/A(L)	0.05%

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 *(Note 5)*
Shen Ping	Retail Management	Personal	49,270(L)	4.93%
	Minrong	Personal	N/A(L)	0.05%
	Yongle China	Personal	N/A(L)	0.49%

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

Notes:

1. These China Paradise Shares are held by Retail Management. Mr. Chen Xiao owns as to 72.59% of the issued share capital of Retail Management.

2. This includes the number of China Paradise Shares which Retail Management may acquire from MS Retail and CDH as a result of the valuation adjustment mechanisms as set out in the shareholders agreement entered into between Retail Management, MS Retail and CDH in September 2005 as amended and restated in July 2006. Assuming that the valuation adjustment works in favour of Retail Management, its shareholding interest in China Paradise will increase by 46,973,817 China Paradise Shares. If the valuation adjustment works against Retail Management, its shareholding interest in China Paradise could decrease by a maximum of 93,947,635 China Paradise Shares.

3. The short position represents the outstanding unexercised Yongle China and Minrong option granted by Mr. Chen Xiao to several employees of the China Paradise 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 Minrong respectively held by Mr. 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 the Yongle China and Minrong option to acquire the beneficial interests in Yongle China and Minrong. The exercise period of these options commences from 26 August 2005 and ends on 30 June 2007.

4. This represents Mr. Zhou Meng's beneficial interests in 0.025% and 0.0025% of the registered capital of Yongle China and 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 Minrong, respectively, and 0.25% of the issued share capital of Retail Management that he can acquire from Mr. Chen Xiao under an option granted to him by Mr. Chen Xiao. The beneficial interests in Retail Management will only vest in Mr. Zhou Meng upon his exercise of the option to acquire the beneficial interests in Yongle China and Minrong. The exercise price for the acquisitions by Mr. Zhou Meng of the remaining interests of all three associated corporations of China Paradise 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 is calculated based on the issued share capital of each of the companies as at the Latest Practicable Date.

Save as disclosed above, as at the Latest Practicable Date, none of the China Paradise Directors or their respective associates has any interests or short positions in the shares, underlying shares and debentures in China Paradise or its associated corporations.

None of the China Paradise Directors has indicated that he/she will or will not accept the Offer.

5. SHAREHOLDINGS AND DEALINGS IN GOME SHARES

As at the Latest Practicable Date, neither China Paradise nor any of the China Paradise Directors was interested in the share capital of GOME.

Holdings in GOME Shares

As at the Latest Practicable Date, J.P. Morgan Whitefriars Inc. (***JPMW***), an entity ultimately owned by JPMorgan Chase & Co. which is deemed to be an associate of Cazenove under the Takeovers Code, owns or controls the following GOME Shares:

Name of entity	Number of GOME Shares	Aggregate % of interest
JPMW	2,370,000	0.10%

Holdings in derivatives relating to GOME Shares

As at the Latest Practicable Date, J.P. Morgan International Derivatives Limited (***JPMID***), an entity ultimately owned by JPMorgan Chase & Co. which is deemed to be an associate of Cazenove under the Takeovers Code, owns or controls the following derivatives relating to GOME Shares:

Name of entity	Description	Notional amount *(HK$)*	Knock-out barrier price *(HK$)*	First trading date	Maturity date
JPMID	Knock-out option	39,987,800	9.9295	10 April 2006	18 April 2007

6. DEALINGS IN CHINA PARADISE SHARES

Save as disclosed below, neither China Paradise nor any of the China Paradise Directors (including their respective spouses, children under the age of 18, related trusts and companies controlled by any of them) has dealt for value in any China Paradise Shares, options, warrants, derivatives or any securities convertible into China Paradise Shares during the period beginning six months prior to the date of the Joint Announcement and ending on the Latest Practicable Date.

Party	Date	Number of China Paradise Shares		Dealing price per China Paradise Share
		Purchased	*Sold*	*HK$*
Retail Management*	24 April 2006	–	86,604,000	3.1965

* *Retail Management is owned by Mr. Chen Xiao, Ms. Shu Wei, Mr. Liu Hui and Mr. Yuan Yashi who are all executive directors of China Paradise, as to 72.59%, 13.1%, 9.77% and 4.54%, respectively.*

7. DEALINGS IN GOME SHARES

Neither China Paradise nor any of the China Paradise Directors (including their respective spouses, children under the age of 18, related trusts and companies controlled by any of them) has dealt for value in any GOME Shares, options, warrants, derivatives or any securities convertible into GOME Shares during the period beginning six months prior to the date of the Joint Announcement and ending on the Latest Practicable Date.

The following are the dealings in GOME Shares and options relating to GOME Shares conducted by JPMorgan Group (other than exempt fund managers) during the period starting from the date of the Joint Announcement up to the Latest Practicable Date, excluding dealings on an agency or non-discretionary basis and certain dealings by JPMorgan Group during the offer period which the Executive has permitted to be continued but subject to private disclosure during the offer period under the Takeovers Code:

Party	Date of dealing	Bought/Sold	No. of GOME Shares	Dealing Price *(HK$)*
JPMW	26 July 2006	Sold *(Note 1)*	60,000	6.88
JPMW	11 August 2006	Sold *(Note 2)*	483,000	6.9544

Notes:

(1) Sale of GOME Shares for re-hedging a pre-existing OTC option position.

(2) Sale of GOME Shares to fulfil the delivery obligation of a pre-existing OTC position.

8. SERVICE CONTRACTS

Save as disclosed below, none of the China Paradise Directors has entered into any service contract with China Paradise or any of its subsidiaries or associated companies (i) which are continuous with a notice period of 12 months or more; (ii) which are of fixed term with more than 12 months to run irrespective of the notice period; or (iii) which (including both continuous and fixed term contracts) have been entered into or amended within six months before the date of the Joint Announcement:–

Directors	**Fixed remuneration (excluding arrangements for pension payment) payable under the service contract** *(RMB)* *(Note 2)*
Executive Directors (Note 1)	
Chen Xiao	1,537,200
Shu Wei	1,209,600
Liu Hui	420,000
Yuan Yashi	300,000
Ma Yawei	300,000
Zhou Meng	1,101,600
Shen Ping	360,000

Notes:

1. Each of Chen Xiao, Shu Wei, Liu Hui, Yuan Yashi, Ma Yawei, Zhou Meng and Shen Ping has entered into a service agreement with China Paradise on 14 September 2005 for a maximum period of three years, respectively, which may be terminated by either party by a prior written notice of at least three months expiring not earlier than 13 October 2006.

2. Save for a discretionary bonus as determined by the remuneration committee of China Paradise by reference to the performance of the China Paradise Group and the respective executive director, none of the executive directors of China Paradise is entitled to any variable remuneration payable under his/her service agreement.

9. INDEBTEDNESS, CONTINGENCIES AND COMMITMENTS

Save as disclosed in the section headed "Indebtedness Statement" in Appendix III to the Composite Document, as at 31 July 2006, the China Paradise Group did not have any bank overdrafts or loans, or other similar indebtedness, mortgages, charges, or guarantees or other material contingent liabilities.

10. LITIGATION

Save as disclosed in the section headed "Material Change" in Appendix III to the Composite Document, neither China Paradise nor any member of the China Paradise Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was known to the China Paradise Directors to be pending or threatened by or against China Paradise or any member of the China Paradise Group as at the Latest Practicable Date.

11. MATERIAL CONTRACTS

The following contracts, not being contracts entered into in the ordinary course of business, have been entered into by members of the China Paradise Group after the date two years before the commencement of the offer period and up to and including the Latest Practicable Date:

(1) an option deed dated 14 September 2004 made by China Paradise in favour of Retail Management whereby China Paradise granted to Retail Management an irrevocable and exclusive option to purchase 722 pre-redenomination shares at an initial exercise price of US$20,007 per pre-redenomination share (subject to adjustment);

(2) a capital increase agreement dated 15 September 2004 entered into between Chen Xiao, Shu Wei, Liu Hui, Yuan Yashi and China Paradise Electronics Retail (Hong Kong) II Limited ("***Paradise Hong Kong II***") pursuant to which the capital of Yongle China was increased by RMB120,010,300, which amount was contributed by Paradise Hong Kong II, such contribution being made by a US dollars equivalent of RMB250,821,528;

(3) an equity joint venture agreement dated 16 September 2004 entered into between Chen Xiao, Shu Wei, Liu Hui, Yuan Yashi and Paradise Hong Kong II whereby the parties agreed to jointly operate Yongle China;

(4) an equity transfer agreement dated 16 September 2004 entered into between Chen Xiao, Shu Wei, Liu Hui, Yuan Yashi and Paradise Hong Kong II whereby Chen Xiao, Shu Wei, Liu Hui, Yuan Yashi agreed to sell, and Paradise Hong Kong II agreed to purchase, respectively, approximately 56.62%, 10.22%, 7.62% and 3.54% equity interest in the registered capital of Yongle China at a consideration of RMB118,333,962.89, RMB21,359,511.58, RMB15,927,892.09 and RMB7,396,480.74, respectively;

(5) an amended and restated option deed dated 16 December 2004 made by China Paradise in favour of Retail Management whereby China Paradise granted to Retail Management an irrevocable and exclusive option to purchase 861 pre-redenomination shares at an initial exercise price of US$20,000 per pre-redenomination share (subject to adjustment);

(6) a note purchase agreement dated 24 December 2004 entered into between China Paradise, MS Retail, CDH and Retail Management, whereby China Paradise agreed to sell and MS Retail and CDH agreed to purchase, certain notes at a consideration of US$43,000,000 and US$7,000,000, respectively;

(7) an existing shareholder subscription agreement dated 24 December 2004 entered into between China Paradise and Retail Management, whereby China Paradise agreed to allot and issue to Retail Management, and Retail Management agreed to subscribe for and purchase, 6,638 pre-redenomination shares at a consideration of US$66.38;

(8) an investor shareholders subscription agreement dated 24 December 2004 entered into between China Paradise, MS Retail and CDH, whereby China Paradise agreed to allot and issue to MS Retail and CDH, and MS Retail and CDH each agreed to subscribe for and purchase, 2,150 pre-redenomination shares and 350 pre-redenomination shares, respectively, by the delivery to China Paradise of certain notes in the principle amount of US$43,000,000 and US$7,000,000, respectively;

(9) a shareholders' agreement dated 24 December 2004 entered into between MS Retail, CDH, Retail Management and China Paradise in respect of certain matters relating to the transfer of China Paradise Shares and the management and operation of China Paradise;

(10) an equity interest pledge contract dated 6 January 2005 entered into between Fujian Commercial (Group) Co., Ltd. (福建省商業(集團)有限責任公司) and Yongle China whereby a 33.3% equity interest in the registered capital of Fujian Yongle-Shangye Electronics Retail Co., Ltd (福建永樂商業家電有限公司) was pledged by Fujian Commercial (Group) Co., Ltd. (福建省商業(集團)有限責任公司) in favour of Yongle China;

(11) a property sale and purchase agreement dated 26 January 2005 entered into between Minrong and Shanghai Lequan Property Management Co., Ltd. (上海樂全物業管理有限公司) whereby Minrong agreed to sell, and Shanghai Lequan Property Management Co., Ltd. (上海樂全物業管理有限公司) agreed to purchase, certain properties owned by Minrong and the related land use rights at a consideration of RMB8,998,700;

(12) a property sale and purchase agreement dated 26 January 2005 entered into between Yongle China and Shanghai Lequan Property Management Co., Ltd. (上海樂全物業管理有限公司) whereby Yongle China agreed to sell, and Shanghai Lequan Property Management Co., Ltd. (上海樂全物業管理有限公司) agreed to purchase, certain properties owned by Yongle China and the related land use rights at a consideration of RMB10,115,500;

(13) a property sale and purchase agreement dated 26 January 2005 entered into between Yongle China and Shanghai Lequan Property Management Co., Ltd. (上海樂全物業管理有限公司) whereby Yongle China agreed to sell, and Shanghai Lequan Property Management Co., Ltd. (上海樂全物業管理有限公司) agreed to purchase, certain properties owned by Yongle China and the related land use rights at a consideration of RMB12,929,900;

(14) a property sale and purchase agreement dated 26 January 2005 entered into between Yongle China and Shanghai Lequan Property Management Co., Ltd. (上海樂全物業管理有限公司) whereby Yongle China agreed to sell, and Shanghai Lequan Property Management Co., Ltd. (上海樂全物業管理有限公司) agreed to purchase, certain properties owned by Yongle China and the related land use rights at a consideration of RMB47,629,700;

(15) a property sale and purchase agreement dated 26 January 2005 entered into between Yongle China and Shanghai Lequan Property Management Co., Ltd. (上海樂全物業管理有限公司) whereby Yongle China agreed to sell, and Shanghai Lequan Property Management Co., Ltd. (上海樂全物業管理有限公司) agreed to purchase, certain properties owned by Yongle China and the related land use rights at a consideration of RMB8,924,000;

(16) an equity transfer agreement dated 14 April 2005 entered into between Chen Xiao, Shu Wei, Liu Hui, Yuan Yashi and Yongle China whereby Chen Xiao, Shu Wei, Liu Hui and Yuan Yashi agreed to sell, and Yongle China agreed to purchase, respectively, approximately a 72.59%, 3.10%, 9.77% and 4.54% equity interest in the registered capital of Shanghai Lequan Property Management Co., Ltd. (上海樂全物業管理有限公司) at a consideration of RMB57,959,477.92, RMB2,477,252.31, RMB7,801,413.44 and RMB3,622,764.70, respectively;

(17) an equity transfer agreement dated 14 April 2005 entered into between Shu Wei and Minrong whereby Shu Wei agreed to sell, and Minrong agreed to purchase, a 10% equity interest in the registered capital of Shanghai Lequan Property Management Co., Ltd. (上海樂全物業管理有限公司) at a consideration of RMB7,984,545.38;

(18) an amendment deed dated 17 April 2005 entered into between China Paradise and Retail Management to further amend the option deed and the amended and restated option deed referred to in paragraphs (1) and (5) above, respectively whereby, amongst others, the initial exercise price of the option granted by China Paradise to Retail Management pursuant to the option deeds above was amended to US$18,000 per pre-redenomination share;

(19) an equity transfer agreement dated 28 May 2005 entered into between Chengdu Department Emporium Electronics Retail Co., Ltd. (成都百貨大樓家用電器連鎖有限公司) and Yongle China whereby Chengdu Department Emporium Electronics Retail Co., Ltd. (成都百貨大樓家用電器連鎖有限公司) agreed to sell, and Yongle China agreed to purchase, a 40% equity interest in the registered capital of Sichuan Yongle Electronics Retail Co., Ltd. (四川永樂家用電器連鎖有限公司) at a consideration of RMB13,200,000;

(20) an equity transfer agreement dated 28 May 2005 entered into between Chengdu Department Emporium Electronics Retail Co., Ltd. (成都百貨大樓家用電器連鎖有限公司) and Minrong whereby Chengdu Department Emporium Electronics Retail Co., Ltd. (成都百貨大樓家用電器連鎖有限公司) agreed to sell, and Minrong agreed to purchase, a 10% equity interest in the registered capital of Sichuan Yongle Electronics Retail Co., Ltd. (四川永樂家用電器連鎖有限公司) at a consideration of RMB3,300,000;

(21) an agreement dated 31 May 2005 entered into between Yongle China, Wang Jiayu and Henan Tongli Retail Limited (河南通利量販有限公司) and others ("***Henan Tongli Parties***") whereby Henan Tongli Parties agreed to sell and Yongle China agreed to purchase certain assets and rights, at a consideration of not less than RMB64.1 million for certain assets, such as retail stores and operating assets, and at a consideration of an amount to be calculated based on various factors for inventories;

(22) an equity transfer agreement dated 3 June 2005 entered into between Minrong, Chen Xiao, Shu Wei, Liu Hui and Yuan Yashi whereby Minrong agreed to sell, and Chen Xiao, Shu Wei, Liu Hui and Yuan Yashi agreed to purchase, respectively, approximately 65.33%, 11.79%, 8.79% and 4.08% equity interest in the registered capital of Shanghai Chenyue Real Estate Development Co., Ltd. (上海辰粵房地產開發有限公司) at a consideration of RMB3,266,531, RMB589,615.15, RMB439,678.90 and RMB204,174.95, respectively;

(23) an asset transfer agreement dated 1 July 2005 entered into amongst Tsann Kuen (Fuzhou) Electronics Co., Ltd. (福州燦坤電子有限公司), Tsann Kuen (Xiamen) Electronics Co., Ltd. (廈門燦坤電通有限公司), Tsann Bou (Shanghai) Electronics Co., Ltd. (上海燦寶電子有限公司), Tsann Huen (Shanghai) Electronics Co., Ltd. (上海燦鴻電子有限公司), Tsann Kuen (Nanjing) Electronics Co., Ltd. (南京燦坤電子有限公司) and Yongle China whereby Tsann Kuen (Fuzhou) Electronics Co., Ltd. (福州燦坤電子有限公司), Tsann Kuen (Xiamen) Electronics Co., Ltd. (廈門燦坤電通有限公司), Tsann Bou (Shanghai) Electronics Co., Ltd. (上海燦寶電子有限公司), Tsann Huen (Shanghai) Electronics Co., Ltd. (上海燦鴻電子有限公司) and Tsann Kuen (Nanjing) Electronics Co., Ltd. (南京燦坤電子有限公司) agreed to sell and Yongle China agreed to purchase certain assets and inventories at a consideration of RMB143,800,000 (subject to adjustment);

(24) an option deed dated 4 July 2005 made by China Paradise in favour of Tong Ley whereby China Paradise granted to Tong Ley an irrevocable and exclusive option to subscribe for 257 pre-redenomination shares at an initial exercise price of US$18,000 per pre-redenomination share (subject to adjustment);

(25) an asset transfer agreement dated 21 July 2005 entered into between Xiamen Siwen Electronics Retail Co., Ltd. (廈門市思文電器有限公司), Xiamen Siwen Electronics Retail (Xincheng) Co., Ltd. (廈門市思文電器新城有限公司) and Yongle China whereby Xiamen Siwen Electronics Retail Co., Ltd. (廈門市思文電器有限公司) and Xiamen Siwen Electronics Retail (Xincheng) Co., Ltd. (廈門市思文電器新城有限公司) agreed to sell and Yongle China agreed to purchase certain assets and inventory at an initial total consideration of approximately RMB55 million (subject to adjustment);

(26) a state-owned land use rights transfer contract dated 12 August 2005 entered into between Shanghai Qingpu District Property Land Bureau (上海市青浦區房屋土地管理局) and Yongle China whereby Yongle China acquired the land use right of a piece of land in Qingpu District at a consideration of RMB14,430,000 for a term of 40 years;

(27) a contract of complement dated 12 August 2005 entered into between Shanghai Qingpu Land Development Centre (上海市青浦區土地發展中心) and Yongle China in respect of a land use rights transfer contract of a piece of land in Qingpu District whereby Yongle China agreed to pay an initial development cost, including land acquisition fee, relocation and settlement cost and infrastructures cost, of a total amount of RMB33,670,000 to Shanghai Qingpu Land Development Centre (上海市青浦區土地發展中心);

(28) a lock-up deed dated 14 September 2005 entered into between Retail Management and China Paradise in respect of certain restrictions governing the transfer of certain equity securities of China Paradise held by Retail Management;

(29) an equity transfer agreement dated 14 September 2005 entered into between Chen Xiao, Shu Wei, Liu Hui, Yuan Yashi and Paradise Hong Kong II whereby Chen Xiao, Shu Wei, Liu Hui and Yuan Yashi agreed to transfer to Paradise Hong Kong II a total of 2% of the registered capital of Yongle China at a consideration calculated based on the market capitalisation of China Paradise upon its listing on the Stock Exchange and the amount of the net proceeds pursuant to its global offering;

(30) a capital increase contract dated 14 September 2005 entered into between Paradise Hong Kong II, Chen Xiao, Shu Wei, Liu Hui and Yuan Yashi whereby Paradise Hong Kong II agreed to subscribe for additional registered capital in Yongle China for a consideration equivalent to the remaining net proceeds of the global offering of China Paradise, after deducting the amount used to acquire the registered capital of Yongle China pursuant to the equity transfer agreement referred to in paragraph (29) above;

(31) a deed of indemnity dated 3 October 2005 entered into by Retail Management, Chen Xiao, Shu Wei, Liu Hui, Yuan Yashi and China Paradise whereby Retail Management, Chen Xiao, Shu Wei, Liu Hui and Yuan Yashi agreed to give certain indemnities in relation to tax and other matters in favour of the China Paradise Group;

(32) the Hong Kong Underwriting Agreement;

(33) the International Purchase Agreement;

(34) an equity transfer agreement dated 31 October 2005 entered into between Chen Xiao, Shu Wei, Liu Hui, Yuan Yashi and Paradise Hong Kong II whereby Chen Xiao, Shu Wei, Liu Hui and Yuan Yashi agreed to sell, and Paradise Hong Kong II agreed to purchase a 2% equity interest in Yongle China, at a consideration of RMB78,741,333;

(35) a capital increase agreement dated 31 October 2005 entered into between Chen Xiao, Shu Wei, Liu Hui, Yuan Yashi and Paradise Hong Kong II whereby Paradise Hong Kong II would increase the registered capital in Yongle China by RMB649,718,423;

(36) a management agreement dated 30 December 2005 entered into between Qingdao Dazhong Yongle Appliances Co., Ltd. (青島大中永樂電器有限公司), Beijing Dazhong Electrical Appliances Co., Ltd. (北京市大中電器有限公司) ("***Beijing Dazhong***") and Yongle China whereby Yongle China was appointed as an operator responsible for the overall operation and management of Qingdao Dazhong Yongle Household Appliances Co., Ltd. (青島大中永樂電器有限公司);

(37) a management agreement dated 30 December 2005 entered into between Shaanxi Yongle Dazhong Electronics Retail Co., Ltd. (陝西永樂大中生活電器有限公司), Beijing Dazhong and Yongle China whereby Yongle China was appointed as an operator responsible for the overall operation and management of Shaanxi Yongle Dazhong Electronics Retail Co., Ltd. (陝西永樂大中生活電器有限公司);

(38) a cooperation framework agreement dated 30 December 2005 entered into between Beijing Dazhong and Yongle China whereby both parties agreed on a joint investment by establishing a cooperative joint venture in Qingdao and Xi'an respectively to carry out the retail business of domestic electrical appliances;

(39) an equity transfer agreement dated 6 January 2006 entered into between Anhui Yongle Hongtaijiao Electrical Appliances (Group) Co., Ltd. (安徽鴻泰交家電(集團)有限公司) and Yongle China whereby Yongle China agreed to sell, and Anhui Yongle Hongtaijiao Electrical Appliances (Group) Co., Ltd. (安徽鴻泰交家電(集團)有限公司) agreed to purchase, a 29.9% equity interest in the registered capital of Anhui Yongle Hongtai Electronics Retail Co., Ltd. (安徽永樂鴻泰家用電器有限公司) at a consideration of RMB2,990,000;

(40) an equity transfer agreement dated 6 February 2006 entered into between Beijing Dazhong and Yongle China whereby Yongle China agreed to sell, and Beijing Dazhong agreed to purchase, a 50% equity interest in the registered capital of Shaanxi Yongle Dazhong Electronics Retail Co., Ltd. (陝西永樂大中生活電器有限公司) at a consideration of RMB5,000,000;

(41) a registered capital increase and equity transfer agreement dated 6 February 2006 entered into between Beijing Dazhong, Zhang Dazhong, Lou Hongguang and Yongle China whereby Zhang Dazhong and Lou Hongguang agreed to sell, and Beijing Dazhong agreed to purchase, a 100% equity interest in Qingdao Dazhong Yongle Appliances Co., Ltd. (青島大中永樂電器有限公司) at a consideration of RMB5,000,000 and Yongle China agreed to inject RMB5,000,000, representing 50% of the then enlarged registered capital of Qingdao Dazhong Yongle Appliances Co., Ltd. (青島大中永樂電器有限公司);

(42) a strategic cooperation agreement dated 19 April 2006 entered into between Beijing Dazhong, Zhang Dazhong and Yongle China whereby Beijing Dazhong and Yongle China agreed to cooperate in the areas of joint procurement, logistics and delivery, products display, store development, store management, financial management, information system and personnel exchange;

(43) an equity transfer agreement dated 17 May 2006 entered into between Yongle China, Minrong, Chen Xiao, Shu Wei, Liu Hui and Yuan Yashi whereby Minrong and Yongle China agreed to sell, and Chen Xiao, Shu Wei, Liu Hui and Yuan Yashi agreed to purchase, 100% equity interest in Shanghai Yongju Houseware Sales Co., Ltd. (上海永居家庭裝飾產品銷售有限公司), at a consideration of RMB10,000;

(44) an equity transfer agreement dated 17 May 2006 entered into between Yongle China, Minrong, Chen Xiao, Shu Wei, Liu Hui and Yuan Yashi whereby Minrong and Yongle China agreed to sell, and Chen Xiao, Shu Wei, Liu Hui and Yuan Yashi agreed to purchase, 100% equity interest in Shanghai Yongju Decoration & Design Co., Ltd. (上海永居裝潢設計有限公司), at a consideration of RMB5,450,447;

(45) an equity transfer agreement dated 17 May 2006 entered into between Yongle China, Minrong, Chen Xiao, Shu Wei, Liu Hui and Yuan Yashi whereby Minrong and Yongle China agreed to sell, and Chen Xiao, Shu Wei, Liu Hui and Yuan Yashi agreed to purchase, 100% equity interest in Shanghai Yongju Home-Decoration Marketing Management Co., Ltd. (上海永居裝飾市場經營管理有限公司), at a consideration of RMB10,000;

(46) an equity transfer agreement dated 17 May 2006 entered into between Yongle China, Minrong, Chen Xiao, Shu Wei, Liu Hui and Yuan Yashi whereby Minrong and Yongle China agreed to sell, and Chen Xiao, Shu Wei, Liu Hui and Yuan Yashi agreed to purchase, 100% equity interest in Shanghai Yongle Smart Buildings Equipment Engineering & Services Co., Ltd. (上海永樂樓宇設備工程服務有限公司), at a consideration of RMB2,100,697;

(47) an equity transfer agreement dated 17 May 2006 entered into between Yongle China, Minrong, Chen Xiao, Shu Wei, Liu Hui and Yuan Yashi whereby Minrong and Yongle China agreed to sell, and Chen Xiao, Shu Wei, Liu Hui and Yuan Yashi agreed to purchase, 100% equity interest in Shanghai Yongle Smart Buildings Equipment Marketing Co., Ltd. (上海永樂樓宇設備銷售有限公司), at a consideration RMB1,613,576;

(48) an equity transfer agreement dated 17 May 2006 entered into between Yongle China, Minrong, Chen Xiao, Shu Wei, Liu Hui and Yuan Yashi whereby Minrong and Yongle China agreed to sell, and Chen Xiao, Shu Wei, Liu Hui and Yuan Yashi agreed to purchase, 100% equity interest in Zhejiang Yongle Smart Buildings Equipment Engineering & Services Co., Ltd. (浙江永樂樓宇工程服務有限公司), at a consideration of RMB5,000,000;

(49) an equity transfer agreement dated 17 May 2006 entered into between Yongle China, Chen Xiao, Shu Wei, Liu Hui and Yuan Yashi whereby Yongle China agreed to sell, and Chen Xiao, Shu Wei, Liu Hui and Yuan Yashi agreed to purchase, a 71% equity interest in Shanghai Yongle Illuminations Electronics Co., Ltd. (上海永樂照明電器有限公司), at a consideration of RMB6,604,192;

(50) an equity transfer agreement dated 18 May 2006 entered into between Yongle China, Minrong, Shanghai Shenyi Lumbering Co., Ltd. (上海神藝木業有限公司) and Lou Minxian (樓敏仙) whereby Minrong and Yongle China agreed to sell, Lou Minxian (樓敏仙) and Shanghai Shenyi Lumbering Co., Ltd. (上海神藝木業有限公司) agreed to purchase, 100% equity interest in Shanghai Haodaojia Home-Decoration Marketing Management Co., Ltd. (上海好到家家居裝飾市場經營管理有限公司), at a consideration of RMB200,000;

(51) an equity transfer agreement dated 12 July 2006 entered into between Chen Xiao and Shanghai Hegui Property Management Co., Ltd. (上海和貴物業管理有限公司) whereby Chen Xiao agreed to sell, and Shanghai Hegui Property Management Co., Ltd. (上海和貴物業管理有限公司) agreed to purchase, a 0.01% equity interest in Yongle China, at a consideration of RMB393,706;

(52) a joint venture contract dated 12 July 2006 entered into between Chen Xiao, Shu Wei, Liu Hui, Yuan Yashi, Shanghai Hegui Property Management Co., Ltd. (上海和貴物業管理有限公司) and Paradise Hong Kong II whereby the parties agreed to jointly operate Yongle China;

(53) the Exclusivity Agreement;

(54) the Voting Undertaking;

(55) an equity transfer agreement dated 24 July 2006 made between Fujian Commercial (Group) Co., Ltd. (福建商業(集團)有限責任公司), Yongle China and Minrong pursuant to which Fujian Commercial (Group) Co., Ltd. (福建商業(集團)有限責任公司) agreed to sell, and Yongle China and Minrong agreed to purchase, a 50% equity interest in Fujian Yongle-Shangye Electronics Retail Co., Ltd. (福建永樂商業家電有限公司), at a consideration of RMB15,360,000;

(56) an equity transfer agreement dated 24 July 2006 made between Fujian Commercial (Group) Co., Ltd. (福建商業(集團)有限責任公司) and Yongle China pursuant to which Fujian Commercial (Group) Co., Ltd. (福建商業(集團)有限責任公司) agreed to sell, and Yongle China agreed to purchase, a 10% equity interest in Quanzhou Yongle Electronics Retail Co., Ltd. (泉州永樂家電有限公司), at a consideration of RMB640,000; and

(57) a non-competition agreement dated 14 August 2006 between China Paradise and each of the Managing Shareholders pursuant to which the Managing Shareholders will, for a period of 5 years from the date of the non-competition agreement, be prohibited from, among other things, procuring that any of China Paradise's employees resign from China Paradise, procuring that the directors, managers or technicians of China Paradise resign, working for or investing in competitors of China Paradise, having a direct business dealing with any customers and employees of China Paradise and having a direct business dealing with any agents and suppliers of China Paradise.

12. CONSENTS

Somerley has given and has not withdrawn its written consent to the issue of the Composite Document with the inclusion of the text of its letter and references to its name in the form and context in which it is included.

Somerley is a corporation licensed under the SFO to conduct types 1 (dealing in securities), 4 (advising on securities), 6 (advising on corporate finance) and 9 (asset management) regulated activities under the SFO.

13. MATERIAL CHANGES

Save as disclosed in the section headed "Material Change" in Appendix III to the Composite Document, the Directors of China Paradise are not aware of any material changes in the financial or trading position or outlook of China Paradise subsequent to 31 December 2005, the date to which the latest audited consolidated financial statements of the China Paradise were made.

14. MISCELLANEOUS

(a) The registered office of China Paradise is M&C Corporate Services Limited, PO Box 309 GT, Ugland House, South Church Street, George Town, Grand Cayman, Cayman Islands and its principal office in Hong Kong is Unit 12, 26th Floor, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong.

(b) In the event of inconsistency, the English text of this document shall prevail over the Chinese text.

(c) Save as disclosed in paragraphs 5, 6 and 7 in this appendix, no subsidiary of China Paradise, or any pension fund of China Paradise or of a subsidiary of China Paradise, or an adviser to China Paradise as specified in class (2) of the definition of "associate" (but excluding exempt principal traders) in the Takeovers Code, owned or controlled any securities in China Paradise or GOME nor did any of such persons above deal for value in the securities of China Paradise or GOME between the period from the date of the Joint Announcement and the Latest Practicable Date.

(d) No person who had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with China Paradise or with any person who is an associate of China Paradise by virtue of classes (1), (2), (3) and (4) of the definition of "associate" in the Takeovers Code held any GOME Shares or China Paradise Shares or had dealt for value in securities in China Paradise or GOME between the period from the date of the Joint Announcement and the Latest Practicable Date.

(e) There were no fund managers (other than exempted fund managers) connected with China Paradise and who managed funds on a discretionary basis had owned or dealt for value in any securities in China Paradise or GOME between the period from the date of the Joint Announcement and the Latest Practicable Date.

(f) As at the Latest Practicable Date, there is no agreement or arrangement or understanding (including any compensation arrangement) between, (i) any of the China Paradise Directors and any other persons which is conditional on or dependent upon the outcome of the Offer or is otherwise connected with the Offer; and (ii) GOME or any person acting in concert with it and any of the China Paradise Directors, recent China Paradise Directors, and holders or recent holders of the China Paradise Shares having any connection with or dependence upon the Offer.

(g) There is no contract entered into by GOME in which any China Paradise Director has a material personal interest.

(h) As at the Latest Practicable Date, no benefit (other than statutory compensation) would be given to any China Paradise Director as compensation for loss of office or otherwise in connection with the Offer.

15. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be made available for inspection at the office of China Paradise at Unit 12, 26th Floor, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong during normal business hours (except Sundays and gazetted public holidays in Hong Kong) up to the close of the Offer:

(a) the memorandum and articles of association of China Paradise;

(b) the annual report of China Paradise for the year ended 31 December 2005;

(c) the audited combined financial statements of China Paradise for each of the three years ended 31 December 2002, 2003 and 2004 and the six-month period ended 30 June 2005;

(d) the interim report of China Paradise for the six months ended 30 June 2006;

(e) the letter from Goldman Sachs, the text of which is set out on pages 16 to 30 of the Composite Document;

(f) the letter from the China Paradise Independent Board Committee, the text of which is set out on pages 39 of the Composite Document;

(g) the letter from Somerley, the text of which is set out on pages 40 to 82 of the Composite Document;

(h) the material contracts set out under the paragraph headed "Material Contracts" in this appendix;

(i) each of the service contracts referred to in the paragraph headed "Service Contracts" in this appendix;

(j) the written consent referred to in the paragraph headed "Consents" in this appendix;

(k) the Irrevocable Undertakings;

(l) the Exclusivity Agreement; and

(m) the Composite Document.

The above documents can be viewed on the website of: (i) the Securities and Futures Commission – www.sfc.hk; and (ii) the website of China Paradise – www.china-paradise.com as from the date of the Composite Document until the closing date of the Offer.