Notes to Consolidated Financial Statements

31 December 2006

1. CORPORATE INFORMATION AND BASIS OF PRESENTATION

GOME Electrical Appliances Holding Limited (the "Company") is a limited liability company incorporated in Bermuda. Its shares are listed on The Stock Exchange of Hong Kong Limited (the "SEHK"). 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 activity of the Company and its subsidiaries (the "Group") is the retailing of electrical appliances and consumer electronic products in designated cities within the People's Republic of China (the "PRC").

Pursuant to the group reorganisation, a 65% equity interest in the Gome Appliance Co., Limited ("Gome Appliance"), a PRC holding company of the Group's PRC retail business, was transferred to the Company through a very substantial acquisition transaction in July 2004. The group reorganisation was accounted for as a combination of entities under common control in a manner similar to pooling of interests in the Group's 2004 consolidated financial statements because Mr. Wong Kwong Yu ("Mr. Wong"), the controlling shareholder and Chairman of the Company, controlled the Company and all the relevant combining entities before and after the group reorganisation. The injection of the 65% interest into the Company was the first phase of the group reorganization. The second phase of injection of the remaining 35% interest in Gome Appliance owned by Mr. Wong was initiated during current year after the approval of the Ministry of Commerce ("MOC") of the PRC had been obtained by the Company.

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 and the shareholder's loan in the amount of HK$225,014,672 due from Grand Hope at a total consideration of approximately HK$6,986.7 million. The Vendor is ultimately and wholly owned by Mr. Wong. The consideration of HK$6,986.7 million was satisfied as follows: (i) 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 per share to the Vendor; (ii) HK$761.4 million (equivalent to approximately RMB784,269,000) by the set-off against the amount due from Kashmac International Limited (note 22(iv)), a related party; and (iii) HK$990 million (equivalent to approximately RMB1,019.7 million) in cash. The acquisition transaction was completed on 8 May 2006 upon the fulfilment of the relevant conditions prescribed by the Acquisition Agreement.

1. CORPORATE INFORMATION AND BASIS OF PRESENTATION (continued)

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 acquisition 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 acquisition transaction, the Group has the entire equity interest in Gome Appliance.

As the 35% equity interest in Gome Appliance acquired by the Group during the year was controlled and beneficially owned by Mr. Wong before and after the completion of the transaction, the transaction is accounted for in the consolidated financial statements as a transfer of assets between entities under common control. An entity that receives the net assets or the equity interests of other entities under common control shall recognise the assets and liabilities received at their carrying amounts in the accounts of the transferring entity at the date of transfer (note 26(c)).

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 the issued shares of China Paradise. The consideration under the Offer is 0.3247 new shares of the Company and HK$0.1736 in cash for each of the issued shares of China Paradise. The principal activity of China Paradise is the retailing of electrical appliances and consumer electronic products in the PRC. As at 15 November 2006, being the last date for acceptance of the Offer, the Group received valid acceptance under the Offer in respect of 2,315,123,465 shares of China Paradise, representing approximately 98.24% of the issued shares of China Paradise. Upon the appointment of directors to the board of China Paradise on 30 November 2006, the Company obtained effective control over China Paradise.

As the Company has acquired not less than 90% of the issued shares of China Paradise, on 29 December 2006, the Company exercised its right under Section 88 of the Cayman Islands Company Law and in accordance with Rule 2.11 of the Hong Kong Code on Takeover and Mergers to compulsorily acquire the remaining outstanding shares of China Paradise. The Company would be entitled to and bound to acquire the outstanding shares of China Paradise on the same terms of the Offer on the expiration of one month from 29 December 2006, the date on which the compulsory acquisition notices were dispatched, unless the Grand Court of the Cayman Islands makes an order to the contrary upon the application of any shareholders who hold the outstanding shares of China Paradise.

1. CORPORATE INFORMATION AND BASIS OF PRESENTATION (continued)

Subsequent to the balance sheet date, on 30 January 2007, the Company announced that the acquisition of the remaining outstanding shares of China Paradise was completed and the listing of the shares of China Paradise on the SEHK was withdrawn with effect from 31 January 2007.

In the preparation of the consolidated financial statements, the Company has accounted for the acquisition of the above-mentioned 98.24% of the issued shares of China Paradise under the purchase method with effect from 30 November 2006. The transaction for the acquisition of the 41,506,320 outstanding shares of China Paradise, representing 1.76% of the issued shares of China Paradise, is a non-adjusting post balance sheet event and will be dealt with in the Company's 2007 consolidated financial statements.

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: investments held for trading, investment properties and the derivative component of convertible bonds. These consolidated financial statements are presented in Renminbi ("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") promulgated by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance.

Basis of consolidation

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

2.1 BASIS OF PREPARATION (continued)

Basis of consolidation (continued)

The acquisition of subsidiaries during the year has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

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.

Minority interests represent the portion of profit or loss and net assets not held by the Group and are presented separately in the consolidated income statement and within equity in the consolidated balance sheet, separately from the parent shareholders' equity.

2.2 IMPACT OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group has adopted the following new and revised IFRS and International Financial Reporting Interpretations Committee ("IFRIC") interpretations during the year. Adoption of these revised standards and interpretations did not have any effect on the consolidated financial statements of the Group.

IAS 19 Amendment	–	Employee Benefits
IAS 21 Amendment	–	The Effects of Changes in Foreign Exchange Rates
IAS 39 Amendment	–	Financial Instruments: Recognition and Measurement
IFRIC 4	–	Determining whether an Arrangement contains a Lease
IFRIC 5	–	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
IFRIC 6	–	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised IFRSs, which have been issued but are not yet effective, in these consolidated financial statements:

IAS 1 Amendment	–	Capital Disclosures
IFRS 7	–	Financial Instruments: Disclosures
IFRS 8	–	Operating Segments
IAS 23	–	Borrowing costs
IFRIC 7	–	Applying the Restatement Approach under IAS 29 *Financial Reporting in Hyperinflationary Economies*
IFRIC 8	–	Scope of IFRS 2
IFRIC 9	–	Reassessment of Embedded Derivatives
IFRIC 10	–	Interim Financial Reporting and Impairment
IFRIC 11	–	IFRS 2 – Group and Treasury Share Transactions
IFRIC 12	–	Service Concession Arrangements

The IAS 1 Amendment shall be applied for annual periods beginning on or after 1 January 2007. The revised standard will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

IFRS 7 shall be applied for annual periods beginning on or after 1 January 2007. The standard requires disclosures that enable users of the consolidated financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments.

IFRS 8 shall be applied for annual periods beginning on or after 1 January 2009. The standard requires the disclosure of information about the operating segments of the Group, the products and services provided by the segments, the geographical areas in which the Group operates, and revenues from the Group's major customers. This standard will supersede IAS 14 Segment Reporting.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

IAS 23 (revised) shall be applied for annual periods beginning on or after 1 January 2009. The revision to IAS 23 removes the option of immediately recognising as an expense borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. A qualifying asset is one that takes a substantial period of time to get ready for use or sale. An entity is, therefore, required to capitalise such borrowing costs as part of the cost of the asset. Currently, borrowing costs are recognised by the Group as an expense when incurred. Management consider the change in the accounting policy in the applicable accounting period is unlikely to have a significant impact on the Group's results of operations and financial position.

IFRIC 7, IFRIC 8, IFRIC 9, IFRIC 10, IFRIC 11 and IFRIC 12 shall be applied for annual periods beginning on or after 1 March 2006, 1 May 2006, 1 June 2006, 1 November 2006, 1 March 2007 and 1 January 2008, respectively.

The Group is in the process of making an assessment of the impact of these new and revised IFRSs upon initial application. So far, it has concluded that while the adoption of the IAS 1 Amendment, IFRS 7 and IFRS 8 may result in new or amended disclosures and the adoption of the IAS 23 will induce a change in the Group's accounting policy in respect of capitalisation of the borrowing costs, these new and revised IFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2.4 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

Judgements

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 consolidated 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 the Group's working capital is devoted to inventories. The Company reviews its inventory ageing on a periodical basis and compares 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 is needed in respect of any missing obsolete and defective inventories identified. In this regard, the Group believes that this risk is minimal and accordingly no provision for obsolete and slow-moving inventories was required as at 31 December 2006.

2.4 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Judgements (continued)

Tax provisions

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

Impairment of assets

In determining whether an asset is impaired, the Group has to exercise judgement in the area of asset impairment, particularly in assessing: (1) whether an event has occurred that may affect the asset value; (2) whether the carrying value of an asset can be supported by the net present value of future cash flows which are estimated based upon the continued use of the asset; and (3) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changes in assumptions, including the discount rates or the growth rate, in the cash flow projections could materially affect the net present value used in the impairment test.

Estimates and assumptions

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:

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 management 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 2006 was RMB3,217,613,000 (31 December 2005: RMB7,300,000). Further details are given in Note 13 to the consolidated financial statements.

2.4 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Estimates and assumptions (continued)

Depreciation

Depreciation of each item of property, plant and equipment is calculated on the straight-line basis over its expected useful life, after taking into account their estimated residual value. The Group has estimated the useful lives of its property, plant and equipment of 5 to 40 years and residual value of 5% to 10% as set out in the principal accounting policies below. The carrying amounts of items of property, plant and equipment and investment properties at 31 December 2006 were RMB2,206,673,000 (2005: RMB909,631,000) and RMB6,229,000 (2005: RMB5,200,000), respectively. Further details are given in Note 11 and Note 12 to the consolidated financial statements.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of recognised tax losses at 31 December 2006 was RMB65,990,000 (2005: RMB39,449,000) and the unrecognised tax losses at 31 December amounted to RMB286,335,000 (2005: RMB53,814,000). Further details are contained in Note 15 to the consolidated financial statements.

3. PRINCIPAL 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 interests in subsidiaries are stated at cost less any impairment losses.

3. PRINCIPAL ACCOUNTING POLICIES (continued)

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; or

(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 registered capital and 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.

3. PRINCIPAL ACCOUNTING POLICIES (continued)

Foreign currencies

The consolidated financial statements are presented in Renminbi. The Company's functional currency is the Hong Kong dollar. The Company's consolidated financial statements are presented in Renminbi because management considers that a substantial majority of the group companies are in the PRC and the Group primarily generates and expends cash in Renminbi.

Each entity in the Group determines its own functional currency and items included in the consolidated 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.

The functional currencies of overseas subsidiaries are their respective local currencies. As at the reporting date, the assets and liabilities of these overseas subsidiaries are translated into the Company's presentation currency at the exchange rates ruling at the balance sheet date and their income statements are translated at the weighted average exchange rates for the year. Exchange differences arising on the translation are taken directly to the exchange reserve inside the equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the consolidated income statement.

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 (a business segment), or in providing products or services within a particular economic environment (a geographical segment). Each segment is subject to risks and rewards that are different from those of the other segments.

3. PRINCIPAL ACCOUNTING POLICIES (continued)

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured on the following basis:

- Sale of goods is recognised 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.

- 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.

- Management fee income from the Parent Group (defined in note 38) and contractors for air-conditioner installation is recognised when such services have been rendered.

- Rental income is recognised on a time proportion basis over the terms of the respective leases.

- Interest income is recognised as interest accrues (using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial 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. Where the attaching conditions have not yet been fulfilled, government grants received are recognised as liabilities.

3. PRINCIPAL ACCOUNTING POLICIES (continued)

Employee benefits

(i) 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.

(ii) Contributions to defined contribution retirement plans are recognised as an expense in the consolidated income statement as incurred.

Pursuant to the relevant PRC laws and regulations, each of the PRC subsidiaries and jointly-controlled entities of the Group is required to participate in a defined contribution retirement benefits scheme organised by the local municipal government whereby the Group is required to contribute a certain percentage of the salaries of its employees to the retirement benefits scheme. 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 is without realistic possibility of withdrawal.

Taxes

Income tax comprises current and deferred tax. Income tax is recognised in the consolidated income statement, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

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.

3. PRINCIPAL ACCOUNTING POLICIES (continued)

Taxes (continued)

Deferred tax

Deferred 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:

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

- in respect of taxable temporary differences associated with investments in subsidiaries and 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.

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 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 and jointly-controlled entities, 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.

3. PRINCIPAL ACCOUNTING POLICIES (continued)

Taxes (continued)

Deferred tax (continued)

Deferred 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.

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

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 a jointly-controlled entity;

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

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

(e) 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 (c) or (d); or

(f) 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.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the consolidated income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the consolidated income statement on the straight-line basis over the lease terms.

3. PRINCIPAL ACCOUNTING POLICIES (continued)

Operating leases (continued)

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

Impairment of non-financial assets other than goodwill

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.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised 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 credited to the consolidated income statement in the period in which it arises 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.

3. PRINCIPAL ACCOUNTING POLICIES (continued)

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that 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 the consolidated income statement.

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 consolidated income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

3. PRINCIPAL ACCOUNTING POLICIES (continued)

Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group interest in the net fair value of the identifiable assets, liabilities and contingent liabilities assumed as at the date of acquisition. 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, 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 or group of 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; and

- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with IAS 14 *Segment Reporting*.

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 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 based on 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.

3. PRINCIPAL ACCOUNTING POLICIES (continued)

Excess over the cost of business combinations

Any excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of acquisition of subsidiaries (previously referred to as negative goodwill), after reassessment, will be recognised immediately in the consolidated income statement.

Property, plant and equipment

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

The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the item of property, plant and equipment 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 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 items of property, plant and equipment and where the cost of item can be measured reliably, the expenditure is capitalised as an additional cost of that item of property, plant and equipment or as a replacement.

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

Buildings	20-40 years
Leasehold improvements	The shorter of the 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.

3. PRINCIPAL 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 item of property, plant and equipment (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.

Residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each balance sheet date.

Borrowing costs

Borrowing costs are recognised as an expense when incurred.

Investment properties

Investment properties are interests in buildings that are held to earn rental income or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes, or for sale in the ordinary course of business.

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.

3. PRINCIPAL ACCOUNTING POLICIES (continued)

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the 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 to the consolidated income statement 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 consolidated 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.

Inventories

Inventories comprised merchandise purchased for resale and consumables and are stated at the lower of cost and net realisable value.

The cost of merchandise is determined on the first-in, first-out basis. The net realisable value is determined based on the estimated selling price less any estimated costs to be incurred to disposal.

Consumables are stated at cost less any impairment losses.

3. PRINCIPAL ACCOUNTING POLICIES (continued)

Trade and other receivables

Trade receivables are recognised and carried at the original invoice amount less an allowance for any uncollectable amounts.

Other receivables are recognised and carried at cost less an allowance for any uncollectible amounts.

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 or loans and receivables 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 considers whether a contract contains an embedded derivative when the Group first becomes a party to it. The embedded derivatives are separated from the host contract which is not measured at fair value through profit or loss when the analysis shows that the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract.

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, which is the date that the Group commits to purchase or sell 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 at fair value through profit or loss includes financial assets held for trading and financial assets designated upon initial recognition as at fair value 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, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments or financial guarantee contracts. Gains or losses on investments held for trading are recognised in the consolidated income statement.

3. PRINCIPAL ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Financial assets at fair value through profit or loss (continued)

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial asset at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial assets may be designated at initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis; or (ii) the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial asset contains an embedded derivative that would need to be separately recorded. As at 31 December 2006, the Group held investment in a Hong Kong listed company amounting to RMB908,000 (2005: RMB861,000) for trading purpose.

Loans and receivables

Loans and receivables are non-derivative financial assets which carry fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and receivables are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the consolidated income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Fair value

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, a discounted cash flow analysis or other valuation models.

3. PRINCIPAL ACCOUNTING POLICIES (continued)

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 and cash equivalents as defined above with an original maturity of generally within three months when acquired, net of outstanding bank overdrafts.

Trade and bills payables and other payables

Trade and bills payables and other payables are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains or losses are recognised in the consolidated income statement when the liabilities are derecognised as well as through the amortisation process.

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. If the effect of the time value of money is material, provisions are discounted using a current 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.

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 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 consolidated income statement when the liabilities are derecognised as well as through the amortisation process.

3. PRINCIPAL ACCOUNTING POLICIES (continued)

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 the consolidated income statement.

3. PRINCIPAL ACCOUNTING POLICIES (continued)

Convertible bonds

The Group's convertible bonds issued with embedded derivative features are split into liability and derivative components according to their fair values for measurement purposes.

The fair value of the liability component is determined using the market rate for an equivalent non-convertible bond on the issuance of convertible bonds and this amount is carried as a long term liability on the amortised cost basis until extinguished on conversion or redemption. The derivative component is remeasured at each balance sheet date and any gains or losses arising from change in the fair value are recognised in the consolidated income statement.

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 consolidated financial statements. When a change in the probability of an outflow occurs so that an outflow is probable, a contingent liability 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 consolidated financial statements when an inflow of economic benefits is probable. When an inflow is virtually certain, an asset is recognised.

Dividends

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.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

4. REVENUE AND OTHER INCOME

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

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 significant category of revenue recognised during the year is as follows:

	2006 **RMB'000**	2005 RMB'000
Sale of electrical appliances and consumer electronic products	**24,720,112**	17,954,796
Others	**9,080**	4,462
	24,729,192	17,959,258

(b) Other income comprises the following:

	Notes	**2006** **RMB'000**	2005 RMB'000
Income from suppliers		**928,879**	492,707
Management fee from the Parent Group	*(i)*	**202,470**	144,420
Management fees for air-conditioner installation		**59,496**	48,331
Government grants	*(ii)*	**28,380**	16,153
Fair value gain/(loss) on investment properties	*12*	**1,029**	(100)
Excess over the cost of a business combination		**–**	6,415
Others		**31,526**	32,609
		1,251,780	740,535

Notes:

(i) The Parent Group is defined in note 38 to the consolidated financial statements.

(ii) 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.

5. SEGMENT INFORMATION

(i) During the year, over 90% of the Group's revenue and contribution to the operating profit 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 and over 90% of the Group's assets are located in the PRC.

6. PROFIT BEFORE TAX

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

	Notes	2006 RMB'000	2005 RMB'000
Cost of inventories sold		**22,369,445**	16,307,478
Depreciation	*11*	**115,186**	52,381
Amortisation of intangible assets		**2,591**	8
Loss on disposal of subsidiaries		**–**	6,960
Loss on disposal of items of property, plant and equipment		**4,925**	62
Minimum lease payments under operating leases in respect of buildings		**874,677**	446,404
Gross rental income in respect of investment properties		**216**	227
Fair value (gain)/ loss on investment properties	*12*	**(1,029)**	100
Fair value gain on the derivative component of convertible bonds	27	**(93,519)**	–
Fair value gain on listed investments		**(47)**	(10)
Transaction cost related to the derivative component of convertible bonds		**2,731**	–
Net exchange loss		**11,585**	5,638
Auditors' remuneration*		**7,800**	3,727
Staff costs excluding directors' remuneration *(note 8)*:			
Wages, salaries and bonuses		**540,539**	337,169
Pension costs		**81,087**	34,360
Social welfare and other costs		**73,885**	34,098
		695,511	405,627

* Including a non-audit service fee of RMB800,000 (2005: RMB1,312,000).

7. FINANCE (COSTS)/INCOME

	Note	2006 RMB'000	2005 RMB'000
Finance costs:			
Interest on interest-bearing short term bank loans		**(1,419)**	–
Interest expense on convertible bonds	27	**(63,985)**	–
		(65,404)	–
Finance income:			
Bank interest income		**113,839**	67,220
Other interest income		**12,315**	3,085
		126,154	70,305

8. REMUNERATION OF DIRECTORS AND FIVE HIGHEST PAID EMPLOYEES

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	2006 RMB'000	2005 RMB'000
Fees	**803**	578
Other emoluments:		
Salaries, allowances, bonuses and other benefits	**3,322**	3,812
Pension scheme contributions	**52**	39
	3,374	3,851

8. 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 were as follows:

	2006 *RMB'000*	2005 *RMB'000*
Mr. Chen Huai	–	37
Mr. Chan Yuk Sang	**258**	127
Mr. Sze Tsai Ping	**258**	227
Mr. Mark Christopher Greaves	**258**	187
Dr. Liu Peng Hui	**29**	–
	803	578

There were no other emoluments payable to the independent non-executive directors during the year ended 31 December 2006 (2005: Nil).

(b) Executive directors and non-executive director

2006	**Fees** *RMB'000*	**Salaries, allowances, bonuses and other benefits** *RMB'000*	**Pension scheme contributions** *RMB'000*	**Total** *RMB'000*
Executive directors:				
Mr. Wong Kwong Yu	–	**1,596**	**13**	**1,609**
Ms. Du Juan	–	**902**	**13**	**915**
Mr. Lam Pang	–	**372**	**13**	**385**
Mr. Ng Kin Wah	–	**452**	**13**	**465**
	–	**3,322**	**52**	**3,374**
Non-executive director:				
Mr. Sun Qiang Chang	–	–	–	–
	–	**3,322**	**52**	**3,374**

8. REMUNERATION OF DIRECTORS AND FIVE HIGHEST PAID EMPLOYEES (continued)

(b) Executive directors (continued)

2005	Fees RMB'000	Salaries, allowances, bonuses and other benefits RMB'000	Pension scheme contributions RMB'000	Total 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

There was no arrangement under which directors or supervisors waived or agreed to waive any remuneration during the year (2005: Nil).

(c) Five highest paid employees

The five highest paid employees during the year included two (2005: two) directors, details of whose remuneration are set out above. Details of the remuneration of the remaining three (2005: three) non-director, highest paid employees for the year are as follows:

	2006 RMB'000	2005 RMB'000
Salaries, allowances, bonuses and other benefits	**4,471**	4,709
Pension scheme contributions	**24**	24
	4,495	4,733

8. REMUNERATION OF DIRECTORS AND FIVE HIGHEST PAID EMPLOYEES (continued)

(c) Five highest paid employees (continued)

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

	Number of employees	
	2006	2005
Nil to HK$1,000,000 (equivalent to Nil to RMB1,024,900)	**1**	1
HK$1,000,001 to HK$1,500,000 (equivalent to RMB1,024,901 to RMB1,537,350)	**1**	–
HK$1,500,001 to HK$2,000,000 (equivalent to RMB1,537,351 to RMB2,049,800)	**1**	2
	3	3

9. PENSION SCHEMES

All the PRC subsidiaries and jointly-controlled entities of the Group are required to participate in the employee retirement benefits schemes operated by the relevant local government authorities in the PRC. The PRC government is responsible for the pension liability to these retired employees. The Group is required to make contributions for those employees who are registered as permanent residents in the PRC and are within the scope of the relevant PRC regulations at rates ranging from 20% to 22.5% of the employees' salaries for the years ended 31 December 2006 and 2005.

The Group's contributions to pension schemes for the year ended 31 December 2006 amounted to approximately RMB81,139,000 (2005: RMB34,399,000).

10. TAX

An analysis of the provision for tax in the consolidated financial statements is as follows:

	2006 RMB'000	2005 RMB'000
Current – Hong Kong	–	795
Current – PRC	**142,003**	104,607
Adjustment in respect of current income tax of previous years	–	(487)
Deferred	**(16,405)**	(13,018)
Total tax charge for the year	**125,598**	91,897

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 certain PRC subsidiaries and jointly-controlled entities of the Group, the PRC companies of the Group are subject to corporate income tax at a rate of 33% on their respective taxable income. During the year, 36 entities of the Group (2005: 11 entities of the Group) obtained approval from the relevant PRC tax authorities and were entitled to preferential corporate income tax rates or corporate income tax exemptions.

The Group realised a significant amount of tax benefits during the year through utilising the preferential corporate income tax rates and the corporate income tax exemptions. These preferential tax treatments were available to the Group pursuant to the enacted PRC tax rules and regulations and are subject to the assessment by the relevant PRC tax authorities.

The provision for Hong Kong profits tax was calculated at 17.5% of the estimated assessable profit for the years ended 31 December 2005 and 2006.

10. TAX (continued)

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

	2006					
	Hong Kong		**PRC**		**Total**	
	RMB'000	***%***	***RMB'000***	***%***	***RMB'000***	***%***
Profit before tax	**14,061**		**1,054,161**		**1,068,222**	
Income tax at the statutory income tax rate	**2,461**	**17.5**	**347,873**	**33.0**	**350,334**	**32.8**
Tax effect of preferential income tax rates	**–**		**(296,822)**		**(296,822)**	
Tax effect of non-taxable income	**(16,365)**		**–**		**(16,365)**	
Tax effect of non-deductible expenses	**11,196**		**56,608**		**67,804**	
Tax losses utilised from previous year	**–**		**(8,160)**		**(8,160)**	
Tax losses not recognised	**2,708**		**26,099**		**28,807**	
Tax charge at the Group's effective rate	**–**		**125,598**		**125,598**	

10. TAX (continued)

	2005					
	Hong Kong		PRC		Total	
	RMB'000	%	*RMB'000*	%	*RMB'000*	%
Profit/(loss) before tax (including profit from a discontinued operation)	(18,517)		887,613		869,096	
Income tax at the statutory income tax rate	(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	
Tax charge at the Group's effective rate	308		91,589		91,897	

11. 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 2006						
At 1 January 2006, net of accumulated depreciation	**535,266**	**128,736**	**78,704**	**13,740**	**153,185**	**909,631**
Additions	**60,336**	**118,479**	**61,794**	**10,434**	**28,612**	**279,655**
Acquisition of subsidiaries *(note 33)*	**788,655**	**140,030**	**112,354**	**11,491**	**88,872**	**1,141,402**
Disposals	**–**	**(2,844)**	**(5,486)**	**(402)**	**–**	**(8,732)**
Depreciation charge for the year	**(26,379)**	**(56,330)**	**(29,453)**	**(3,024)**	**–**	**(115,186)**
Transfers from construction in progress	**164,237**	**–**	**2,372**	**146**	**(166,755)**	**–**
Exchange realignment	**(29)**	**(29)**	**(16)**	**(23)**	**–**	**(97)**
At 31 December 2006, net of accumulated depreciation	**1,522,086**	**328,042**	**220,269**	**32,362**	**103,914**	**2,206,673**
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	280,000	–	–	–	–	280,000
Disposals	–	–	(2,494)	(278)	–	(2,772)
Disposal of subsidiaries	–	(1,164)	(517)	–	–	(1,681)
Depreciation charge for the year	(3,138)	(31,026)	(15,171)	(3,046)	–	(52,381)
Transfers from construction in progress	108,621	–	2,978	–	(111,599)	–
Exchange realignment	(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

11. PROPERTY, PLANT AND EQUIPMENT (continued)

Group (continued)

	Buildings	Leasehold improvements	Equipment and fixtures	Motor vehicles	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
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
At 31 December 2006						
Cost	1,551,676	459,417	281,211	43,934	103,914	2,440,152
Accumulated depreciation	(29,590)	(131,375)	(60,942)	(11,572)	–	(233,479)
Net carrying amount	1,522,086	328,042	220,269	32,362	103,914	2,206,673

Certain of the buildings of the Group in the PRC, were pledged as security for bank loans (note 29) and bills payables (note 30) of the Group as at 31 December 2006. The aggregate carrying value of the pledged buildings attributable to the Group as at 31 December 2006 amounted to RMB327,829,000.

The Group's buildings are located in the PRC under medium term leases.

12. INVESTMENT PROPERTIES

Group

	2006 RMB'000	2005 RMB'000
At 1 January	**5,200**	5,300
Net gain/(loss) from fair value adjustment	**1,029**	(100)
At 31 December	**6,229**	5,200

Investment properties comprise an industrial property and a car park that are leased to a related party (note 38(a)(viii)) 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 professionally qualified valuers, as at the balance sheet date. The fair value represents the amount of market value 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.

13. GOODWILL

Group

	2006 RMB'000	2005 RMB'000
At 1 January, net of accumulated impairment	**7,300**	2,254
Acquisition of subsidiaries	**3,210,313**	7,300
Disposal of subsidiaries	**–**	(2,254)
At 31 December, cost and net carrying amount	**3,217,613**	7,300

In the consolidated financial statements, for the year ended 31 December 2005, the carrying amount of goodwill as at 31 December 2005 was included in the balance of intangible assets.

13. GOODWILL (continued)

Impairment testing of goodwill

The carrying amount of goodwill allocated to each of the cash-generating units is as follows:

	2006 **RMB'000**	2005 RMB'000
Wuhan Gome Electrical Appliances Company Limited	**7,300**	7,300
Jiangsu Pengrun Gome Electrical Appliance Company Limited and Nanjing Pengze Investment Company Limited *(note 33(a))*	**5,874**	–
Shenzhen Gome Electrical Appliances Company Limited and Guangzhou Gome Electrical Appliances Company Limited *(note 33(b))*	**22,986**	–
China Paradise *(note 33(c))*	**3,181,453**	–
	3,217,613	7,300

The recoverable amount of each cash-generating unit has been determined based on a value in use calculation. To calculate this, cash flow projections are prepared based on financial budgets as approved by the executive directors which cover a period of five years. The pre-tax discount rate applied to the cash flow projections is 11.3% (2005: 11.0%).

The growth rate used to extrapolate the cash flows of the cash-generating units beyond the five-year period is 3% (2005: 3%). This growth rate is below the average growth rate of the retail industry of 6.8% to 20.1% for the past 10 years. Senior management of the Company believes that a lower growth rate is more conservative and reliable for the purpose of this impairment testing.

13. GOODWILL (continued)

Impairment testing of goodwill (continued)

Key assumptions used in the value in use calculations

The following describes the key assumptions of the cash flow projections.

Store revenue:	the bases used to determine the future earnings potential are historical sales and average and expected growth rates of the retail market in the PRC.
Gross margins:	the gross margins are based on the average gross margin achieved in the past two years.
Expenses:	the bases used to determine the values assigned are staff costs, rental expenses and other operating expenses. Value assigned to the key assumptions reflects past experience and management's commitment to maintain its operating expenses to an acceptable level.
Discount rates:	the discount rates used are before tax and reflect management's estimate of the risks specific to each unit. In determining appropriate discount rates for each unit, regard has been given to the applicable borrowing rate of the Group in the current year.

Sensitivity to changes in assumptions

With regard to the assessment of value in use of the respective cash generating units, management believe that no reasonably possible change in any of the above key assumptions would cause the respective carrying values, including goodwill, of the cash-generating units to materially exceed respective recoverable amounts.

14. OTHER INTANGIBLE ASSETS

Group

	Notes	Trademarks RMB'000	Exchange trading right RMB'000	Total RMB'000
Cost at 1 January 2006, net of accumulated amortisation		25,915	–	25,915
Acquisition of a subsidiary	*(ii)&33(c)*	129,000	–	129,000
Amortisation provided during the year		(2,591)	–	(2,591)
At 31 December 2006, net of accumulated amortisation		152,324	–	152,324
Cost at 1 January 2005, net of accumulated amortisation		–	120	120
Acquisition of a subsidiary	*(i)*	25,915	–	25,915
Disposal of subsidiaries		–	(112)	(112)
Amortisation provided during the year		–	(8)	(8)
At 31 December 2005, net of accumulated amortisation		25,915	–	25,915
At 31 December 2005				
Cost		25,915	–	25,915
Accumulated amortisation		–	–	–
Net carrying amount		25,915	–	25,915
At 31 December 2006				
Cost		154,915	–	154,915
Accumulated amortisation		(2,591)	–	(2,591)
Net carrying amount		152,324	–	152,324

Notes:

(i) 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 10 years.

(ii) The fair value of the trademark arising from the acquisition of China Paradise of RMB129,000,000, is determined based on the valuation performed by Sallmanns (Far East) Ltd., an independent firm of professionally qualified valuers. The trademark is amortised on a straight-line basis over the directors' estimate of its useful life of 20 years.

15. DEFERRED TAX

Group

	Notes	Balance at 1 January 2006 RMB'000	Recognised in the consolidated income statement RMB'000	Acquisition RMB'000	Balance at 31 December 2006 RMB'000
Deferred tax assets:					
Tax losses	(i)	13,018	14,111	–	27,129
Deferred revenue		–	2,294	5,672	7,966
		13,018	16,405	5,672	35,095
Deferred tax liabilities:					
Fair value adjustment on acquisitions	(ii)	–	–	46,954	46,954

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

Notes:

(i) The Group has not recognised deferred tax assets in respect of tax losses arising in Hong Kong of RMB57.7 million (2005: RMB42.2 million) and in PRC of RMB228.6 million (2005: RMB11.6 million) as they have arisen in subsidiaries that have been loss-making for some time.

(ii) The deferred tax liabilities of RMB5,874,000 and RMB41,080,000 were recognised on the acquisition of Nanjing Pengze and China Paradise (note 33), respectively.

16. LEASE PREPAYMENTS

Group

	Notes	2006 RMB'000	2005 RMB'000
Prepaid land lease payments	(i)	**46,396**	–
Rental prepayments	(ii)	**14,761**	–
		61,157	–

Notes:

(i) Prepaid land lease payments

Group

	2006 RMB'000	2005 RMB'000
Acquisition of subsidiaries	**46,497**	–
Recognised during the year	**(101)**	–
Carrying amount at 31 December	**46,396**	–

The leasehold land is held under a long term lease and is situated in Shanghai.

(ii) The balance at 31 December 2006 represented the non-current portion of rental prepayments.

17. INTERESTS IN SUBSIDIARIES

Company

	2006 RMB'000	2005 RMB'000
Unlisted shares, at cost	**5,498,148**	283,898
Amounts due from subsidiaries	**330,004**	60,250
Amount due to subsidiaries	**(284,220)**	(297,087)
	5,543,932	47,061
Impairment	**(46,925)**	(48,574)
	5,497,007	(1,513)

The balances with subsidiaries are interest-free, unsecured and have no fixed terms of repayment. The carrying amounts of these balances approximate to their fair values.

Details of the Company's principal subsidiaries at 31 December 2006 are set out below:

Company name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Capital Automation (BVI) Limited	British Virgin Islands/ Hong Kong	US$50,000	100	–	Investment holding
Grand Hope Investment Limited	British Virgin Islands/ Hong Kong	US$1 million	100	–	Investment holding
China Paradise Electronics Retail Limited *(vii)*	Cayman Islands	HK$235,662,979	98.24	–	Investment holding
Hong Kong Punching Center Limited	Hong Kong	HK$100,000	–	100	Property holding
Ocean Town Int'l Inc.	British Virgin Islands/ Hong Kong	US$50,000	–	100	Investment holding

17. INTERESTS IN SUBSIDIARIES (continued)

Company name	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
Gome Appliance Company Limited *(ii)* 國美電器有限公司	PRC	RMB300 million	–	100	*Note (vi)*
Tianjin Gome Electrical Appliance Company Limited *(i)* 天津國美電器有限公司	PRC	RMB40 million	–	100	*Note (iii)*
Tianjin Gome Logistics Company Limited *(i)* 天津國美物流有限公司	PRC	RMB18 million	–	100	*Note (iv)*
Chongqing Gome Electrical Appliance Company Limited *(i)* 重慶國美電器有限公司	PRC	RMB20 million	–	100	*Note (iii)*
Chengdu Gome Electrical Appliance Company Limited *(i)* 成都國美電器有限公司	PRC	RMB20 million	–	100	*Note (iii)*
Xi'an Gome Electrical Appliance Company Limited *(i)* 西安國美電器有限公司	PRC	RMB10 million	–	100	*Note (iii)*
Kunming Gome Electrical Appliance Company Limited *(i)* 昆明國美電器有限公司	PRC	RMB10 million	–	100	*Note (iii)*

17. INTERESTS IN SUBSIDIARIES (continued)

Company name	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
Shenzhen Gome Electrical Appliance Company Limited *(i)* 深圳國美電器有限公司	PRC	RMB10 million	–	100	*Note (iii)*
Fuzhou Gome Electrical Appliance Company Limited *(i)* 福州國美電器有限公司	PRC	RMB10 million	–	100	*Note (iii)*
Guangzhou Gome Electrical Appliance Company Limited *(i)* 廣州市國美電器有限公司	PRC	RMB10 million	–	100	*Note (iii)*
Wuhan Gome Electrical Appliance Company Limited *(i)* 武漢國美電器有限公司	PRC	RMB10 million	–	100	*Note (iii)*
Shenyang Gome Electrical Appliance Company Limited *(i)* 瀋陽國美電器有限公司	PRC	RMB10 million	–	100	*Note (iii)*
Jinan Gome Electrical Appliance Company Limited *(i)* 濟南國美電器有限公司	PRC	RMB10 million	–	100	*Note (iii)*

17. INTERESTS IN SUBSIDIARIES (continued)

Company name	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
Qingdao Gome Electrical Appliance Company Limited *(i)* 青島國美電器有限公司	PRC	RMB10 million	–	100	*Note (iii)*
Tianjin Gome Commercial Consultancy Company Limited *(i)* 天津國美商業管理諮詢有限公司	PRC	RMB3 million	–	100	*Note (v)*
Kunming Gome Logistics Company Limited *(i)* 昆明國美物流有限公司	PRC	RMB8 million	–	100	*Note (iv)*
Quanzhou Pengrun Gome Electrical Appliance Company Limited *(i)* 泉州鵬潤國美電器有限公司	PRC	RMB5 million	–	100	*Note (iii)*
Changzhou Jintaiyang Zhizun Electrical Appliance Company Limited *(i)* 常州金太陽至尊電器有限公司	PRC	RMB50 million	–	100	*Note (iii)*
Gansu Gome Electrical Appliance Company Limited *(i)* 甘肅國美電器有限公司	PRC	RMB5 million	–	100	*Note (iii)*

17. INTERESTS IN SUBSIDIARIES (continued)

Company name	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
Beijing Pengze Real Estate Company Limited *(i)* 北京鵬澤置業有限公司	PRC	RMB10 million	–	100	Property holding
Shenyang Pengrun Gome Electrical Appliance Company Limited *(i)* 瀋陽鵬潤國美電器有限公司	PRC	RMB10 million	–	100	*Note (iii)*
Kunming Qin'an Commercial Management Consultancy Company Limited *(i)* 昆明勤安商業管理諮詢有限公司	PRC	RMB6 million	–	100	*Note (iii)*
Jiangsu Pengrun Gome Electrical Appliance Company Limited *(i)* 江蘇鵬潤國美電器有限公司	PRC	RMB10 million	–	100	*Note (iii)*
Eagle Electrical Appliance Company Limited *(i)* 鵬潤電器有限公司	PRC	RMB100 million	–	100	Investment holding
Shenzhen eHome Commercial Chain Company Limited *(i) (vii)* 深圳易好家商業連鎖有限公司	PRC	RMB20 million	–	100	*Note (iii)*
Gansu Gome Logistics Company Limited *(i)* 甘肅國美物流有限公司	PRC	RMB10 million	–	100	*Note (iv)*

17. INTERESTS IN SUBSIDIARIES (continued)

Company name	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
Nanjing Pengze Investment Company Limited *(i) (vii)* 南京鵬澤投資有限公司	PRC	RMB156 million	–	100	Property holding
Yongle (China) Electronics Retail Company Limited *(ii) (vii)* 永樂(中國)電器銷售有限公司	PRC	RMB220 million	–	88.42	Investment holding
Guangdong Yongle Electronics Retail Company Limited *(i) (vii)* 廣東永樂家用電器有限公司	PRC	RMB30 million	–	88.33	*Note (iii)*
Henan Yongle Electronics Retail Company Limited *(i) (vii)* 河南永樂生活電器有限公司	PRC	RMB20 million	–	88.33	*Note (iii)*
Jiangsu Yongle Electronics Retail Company Limited *(i) (vii)* 江蘇永樂家用電器有限公司	PRC	RMB10 million	–	88.33	*Note (iii)*
Shanghai Yongle Communication Equipment Company Limited *(i) (vii)* 上海永樂通訊設備有限公司	PRC	RMB10 million	–	88.33	*Note (iii)*

17. INTERESTS IN SUBSIDIARIES (continued)

Company name	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
Sichuan Yongle Electronics Retail Company Limited *(i) (vii)* 四川永樂家用電器有限公司	PRC	RMB20 million	–	88.33	*Note (iii)*
Xiamen Yongle Siwen Electronics Retail Company Limited *(i) (vii)* 廈門永樂思文家電有限公司	PRC	RMB10 million	–	79.57	*Note (iii)*
Zhejiang Yongle Electronics Retail Company Limited *(i) (vii)* 浙江永樂家用電器有限公司	PRC	RMB15 million	–	88.33	*Note (iii)*

Notes:

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

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

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

(iv) Provision of logistics services.

(v) Provision of business management services.

(vi) Investment holding and retailing of electrical appliances and consumer electronic products

(vii) During the year, the Group acquired these subsidiaries from independent third parties. Further details of these acquisitions are included in Note 33 to the consolidated financial statements.

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

18. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

The Group has interests in jointly-controlled entities. Particulars of the jointly-controlled entities as at 31 December 2006 are as follows:

Company name	Place of incorporation/ registration and operations	Nominal value of registered share capital	Percentage of Ownership interest	Voting power	Profit sharing	Principal activities
Qingdao Dazhong Yongle Electronics Retail Co., Ltd. 青島大中永樂電器有限公司	PRC	RMB10 million	45%	50%	45%	*Note (i)*
Shanxi Yongle • Dazhong Electronics Retail Co., Ltd. 陝西永樂 • 大中生活電器有限公司	PRC	RMB10 million	45%	50%	45%	*Note (i)*
Shanghai Zhongyongtongtai Electronics Marketing Co., Ltd. 上海中永通泰電器有限公司	PRC	RMB0.9 million	35%	39%	35%	*Note (ii)*

Notes:

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

(ii) Trading of household appliances.

All the above investments in jointly-controlled entities are indirectly held by China Paradise through its 90% owned subsidiary, Yongle (China) Electronics Retail Company Limited.

The Group's receivable balances due from the jointly-controlled entities are disclosed in note 22 to the consolidated financial statements.

18. INTERESTS IN JOINTLY-CONTROLLED ENTITIES (continued)

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:

	2006	2005
	RMB'000	*RMB'000*
Current assets	**62,595**	–
Non-current assets	**3,134**	–
Current liabilities	**(99,473)**	–
Net liabilities	**(33,744)**	–

The share of the revenue and expenses of the jointly-controlled entities during the year, which are included in the consolidated financial statements, is as follows:

	December 2006	2005
	RMB'000	*RMB'000*
Revenue	**15,509**	–
Cost of sales	**(15,208)**	–
Other income	**1,120**	–
Selling and distribution costs	**(1,269)**	–
Administrative expenses	**(2,076)**	–
Other expenses	**(934)**	–
Finance income	**100**	–
Net loss	**(2,758)**	–

19. INVENTORIES

Group

	2006 *RMB'000*	2005 *RMB'000*
Merchandise for resale, at cost	**4,825,488**	2,681,118
Consumables, at cost	**57,266**	44,257
	4,882,754	2,725,375

As at 31 December 2006, the carrying amount of the Group's inventories that were pledged as security for the Group's bank loans and bills payable amounting to RMB700 million (31 December 2005: nil) (notes 29 and 30).

20. TRADE AND BILLS 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 one month. The Group seeks to maintain strict control over its outstanding receivables and overdue balances are reviewed regularly by senior management.

The balance of trade and bills receivables as at 31 December 2006 is mainly attributable to the acquisition of China Paradise and includes an amount of receivables from Beijing Dazhong Electrical Appliances Co., Ltd. ("Beijing Dazhong") of approximately RMB38,391,000. The recovery of the amount can only proceed when the arbitration by the China International Economic and Trade Arbitration Commission (the "CIETAC") is completed (note 36). Other than the balance due from Beijing Dazhong, management considers that there is no significant concentration of credit risk.

20. TRADE AND BILLS RECEIVABLES (continued)

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

Group

	2006 **RMB'000**	2005 RMB'000
Outstanding balance, aged:		
Within 3 months	**21,885**	30
3 to 6 months	**47,664**	–
6 months to 1 year	**3,727**	–
Over 1 year	**1,913**	–
	75,189	30

The balances are unsecured, non-interest-bearing and are repayable on demand. The carrying amounts of the trade and bills receivables approximate to their fair values.

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Group

	Note	**2006** **RMB'000**	2005 RMB'000
Prepayments		**174,234**	111,300
Advances to suppliers		**698,953**	236,070
Other deposits and receivables	*(i)*	**425,045**	119,647
		1,298,232	467,017

Company

	2006 **RMB'000**	2005 RMB'000
Prepayments	**575**	405
Deposits and other receivables	**84**	115
	659	520

Note:

(i) Other deposits and receivables balance as at 31 December 2006 of the Group included the balance of rental receivables from a related party amounting to RMB347,000 (note 38(a)(viii)). The balance was interest-free, unsecured and was fully settled subsequent to the balance sheet date.

22. DUE FROM RELATED PARTIES

Group

	Notes	2006 RMB'000	2005 RMB'000
Receivables from the Parent Group	(i)	**136,227**	46,612
Receivables from jointly-controlled entities	(ii)	**3,521**	–
Due from previous key management personnel of China Paradise	(iii)	**49,500**	–
Due from Kashmac International Limited	(iv)	**–**	793,445
Others		**215**	19
		189,463	840,076

Company

	Note	2006 RMB'000	2005 RMB'000
Due from Kashmac International Limited	(iv)	**–**	793,445

Notes:

(i) These balances mainly represented the management fee due from the Parent Group (note 38). The aforesaid balances were interest-free, unsecured and were fully settled subsequent to the balance sheet date.

(ii) The balances are unsecured, interest-free and are repayable on demand.

(iii) This represented the balances due from certain previous key management personnel of China Paradise, including Mr. Chen Xiao and his affiliates. The Company considers that Mr. Chen Xiao is a key management personnel of the Company. The balances arose from the disposal of certain subsidiaries of China Paradise to these individuals in May 2006. Pursuant to the disposal agreements dated 17 May 2006, the amount of RMB49,500,000 due from the subsidiaries disposed of was assigned to the aforesaid individuals.

The balance as at 31 December 2006 was unsecured, interest-free and fully settled before the date of approval of the consolidated financial statements.

(iv) The balance as at 31 December 2005 represented the consideration receivable in respect of the disposal of a property project in Beijing during the year 2005 and the related accrued interest income. The balances were guaranteed by Mr. Wong and bore interest at a rate of 4.5% per annum. The balance was fully settled during the current year by offsetting against the Group's consideration for the acquisition of the 35% equity interest in Gome Appliance as disclosed in note 1 to the consolidated financial statements.

The carrying amounts of the amounts due from related parties approximate to their fair values.

23. OTHER FINANCIAL ASSETS

The balance at 31 December 2006 represented a deposit to Mr. Zhang Dazhong in respect of a proposed acquisition transaction entered into among Yongle (China) Electronics Retail Co., Ltd. ("Yongle (China)"), a 90% owned subsidiary of China Paradise, Beijing Dazhong and Mr. Zhang Dazhong. The recovery of the deposit can only proceed when the arbitration by the CIETAC is completed, further details of which are set out in note 36 to the consolidated financial statements.

The balances as at 31 December 2005 represented deposits for the acquisitions as disclosed in note 33 (a) and (b) to the consolidated financial statements. The acquisitions were completed during 2006.

24. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

Group

	2006	2005
	RMB'000	*RMB'000*
Bank balances	**1,372,455**	776,296
Time deposits	**7,528,137**	3,436,175
	8,900,592	4,212,471
Less: Time deposits pledged for bills payable	**(6,168,895)**	(3,133,124)
Time deposits pledged for bank acceptance credit	**(1,279,860)**	–
Cash and cash equivalents	**1,451,837**	1,079,347

Company

	2006	2005
	RMB'000	*RMB'000*
Cash and bank balances	**428**	948
Time deposits, non-pledged	**65,939**	302,858
Cash and cash equivalents	**66,367**	303,806

24. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS (continued)

The cash and cash equivalents and time deposits of the Group amounting to RMB7,502,880,000 as at 31 December 2006 (2005: RMB3,908,468,000) were denominated in Renminbi, which is not freely convertible in the international market. The remittance of funds out of the PRC is subject to the exchange restrictions imposed by the PRC government.

The bank balances of the Group and the Company earn interest at floating rates based on daily bank deposit rates. Short term deposits of the Group and the Company are made for varying periods of between one day and one year, and earn interest at the respective short term deposit rates.

The carrying amounts of the cash and cash equivalents and pledged deposits of the Group and the Company approximate to their fair values.

25. ISSUED CAPITAL

	Number of shares *'000*	*HK$'000*	**Equivalent to** *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
Shares issued for acquisition of a minority interest *(note a)*	650,347	65,035	66,986
Shares issued for acquisition of China Paradise *(note b)*	751,721	75,172	75,924
At 31 December 2006	3,044,515	304,452	317,009

Notes:

(a) The 650,347,000 consideration shares of HK$0.10 each 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 consolidated financial statements.

(b) The 751,720,555 consideration shares of HK$ 0.10 each were issued as part of the consideration in respect of the Offer to acquire all the issued shares of China Paradise. As at the date of close of the Offer on 15 November 2006, the Company received valid acceptance in respect of 2,315,123,465 shares, representing 98.24% of the issued shares of China Paradise and the Company issued 751,720,555 consideration shares as an exchange. Details of the acquisition transaction are disclosed in note 33(c) to the consolidated financial statements. Subsequent to 31 December 2006, 13,477,075 additional consideration shares were issued for acquiring the outstanding issued shares of China Paradise.

26. RESERVES

(a) Group

The movements in the reserves of the Group are set out in the consolidated statement of changes in equity on page 71 of the consolidated financial statements.

Statutory reserves

Pursuant to relevant PRC laws and regulations, Sino-foreign equity joint ventures registered in the PRC are required to transfer a certain percentage, as approved by the board of directors, of their profit after income tax, as determined in accordance with PRC accounting rules and regulations, 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 in accordance with the PRC accounting regulations, to the statutory common reserve fund, until the balance of the fund reaches 50% of the registered capital of these companies. 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. Prior to 1 January 2006, PRC domestic companies were 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 of these companies. These funds are non-distributable other than in the event of liquidation.

According to the revised PRC Company Law with effect from 1 January 2006, the PRC domestic companies are no longer required to transfer their profit after tax to the statutory common public welfare fund. All unutilised balances of the fund as at 1 January 2006 were transferred to the statutory surplus reserve.

26. RESERVES (continued)

(b) Company

	Notes	Share premium RMB'000	Contributed surplus RMB'000 Note (ii)	Capital reserve RMB'000	Exchange reserve RMB'000	Retained earnings RMB'000 Note (i)	Total RMB'000
At 1 January 2006		**761,846**	**42,849**	**–**	**(18,970)**	**59,508**	**845,233**
Acquisition of a minority interest	(c)	**–**	**–**	**(1,632,736)**	**–**	**–**	**(1,632,736)**
Issue of warrants	28	**22,317**	**–**	**–**	**–**	**–**	**22,317**
Acquisition of China Paradise	33(c)	**4,464,318**	**–**	**–**	**-**	**–**	**4,464,318**
Share issue cost		**(14,476)**	**–**	**–**	**–**	**–**	**(14,476)**
Profit for the year		**–**	**–**	**–**	**–**	**577,998**	**577,998**
Dividends paid	34	**–**	**–**	**–**	**–**	**(99,186)**	**(99,186)**
Proposed final 2006 dividend	34	**–**	**–**	**–**	**–**	**(110,118)**	**(110,118)**
Exchange realignment		**–**	**–**	**–**	**(30,725)**	**–**	**(30,725)**
At 31 December 2006		**5,234,005**	**42,849**	**(1,632,736)**	**(49,695)**	**428,202**	**4,022,625**
At 1 January 2005		761,846	42,849	–	–	59,065	863,760
Profit for the year		–	–	–	–	145,635	145,635
Dividends paid	34	–	–	–	–	(71,742)	(71,742)
Proposed final 2005 dividend	34	–	–	–	–	(73,450)	(73,450)
Exchange realignment		–	–	–	(18,970)	–	(18,970)
At 31 December 2005		761,846	42,849	–	(18,970)	59,508	845,233

Notes:

(i) The profit attributable to equity holders for the year ended 31 December 2006 dealt with in the financial statements of the Company, was approximately RMB578.0 million (2005: approximately RMB145.6 million).

(ii) 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 capital and share premium.

26. RESERVES (continued)

(c) As further disclosed in note 1 to the consolidated financial statements, on 8 May 2006, the Group acquired an additional 35% interest of Gome Appliance, which was previously owned by Mr. Wong, taking its ownership in Gome Appliance to 100%. In respect of this transaction, (i) 650,347,000 consideration shares of the Company were issued and an amount of approximately HK$65,035,000 (equivalent to RMB66,986,000) was credited to the Company's share capital account; (ii) an amount of HK$761.4 million (equivalent to approximately RMB784,269,000) was set off against the amount due from Kashmac International Limited (note 22(iv)), a related party; and (iii) an amount of HK$990 million (equivalent to approximately RMB1,019.7 million) was paid by the Company in cash. The carrying value of the minority interest acquired was RMB238,219,000. The difference of RMB1,632,736,000 between the total consideration and the carrying value of the minority interest acquired is recognised as the capital reserve.

27. CONVERTIBLE BONDS

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 (the "Subscription Agreement") in relation to the issuance of US$125 million unlisted and unsecured convertible bonds (the "Bonds") and warrants to subscribe for in aggregate 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

27. CONVERTIBLE BONDS (continued)

(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 bear interest at the rate of 1.5% per annum on the principal amount of the Bonds outstanding. The interest will be payable by the Company semi-annually in arrears. The Bonds will be redeemed on maturity at a value equal to the aggregate of (1) its principal 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 consolidated income statement.

27. CONVERTIBLE BONDS (continued)

The fair values of the derivative component at the issuance date and at 31 December 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:

	2006 ***RMB'000***
Nominal value of convertible bonds issued during the period (US$125,000,000)	**999,950**
Transaction cost related to the liability component	**(6,194)**
Derivative component at the issuance date	**(305,979)**
Liability component at the issuance date	**687,777**
Interest expense on convertible bonds *(note 7)*	**63,985**
Interest paid	**(7,661)**
Currency translation differences	**(17,398)**
Liability component at 31 December 2006	**726,703**
Derivative component at the issuance date	**305,979**
Fair value adjustment	**(93,519)**
Currency translation differences	**(5,673)**
Derivative component of convertible bonds at 31 December 2006	**206,787**

28. WARRANTS

Pursuant to the Subscription Agreement as disclosed in note 27 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 for in aggregate a maximum amount of US$25 million new shares of the Company at an exercise price of HK$7.70 per share (equivalent to RMB7.90 per share) during an exercise period of five years commencing 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 year ended 31 December 2006.

29. INTEREST-BEARING BANK LOANS

Group

	Interest rate and final maturity	**2006** *RMB'000*	2005 *RMB'000*
PRC bank loans – secured, within one year	Fixed interest rates ranging from 5.02% to 5.85% per annum, with maturities through 2007	**729,330**	–

The Group's bank loans are secured by:

(i) the pledge of certain of the Group's buildings, which had an aggregate carrying value at 31 December 2006 of approximately RMB327,829,000 (note 11);

(ii) the pledge of certain of the Group's inventories amounting to RMB700 million (note 19); and

(iii) the bank acceptance credit in favour of the Group. The bank acceptance credit was secured by Group's time deposits amounting to RMB1,279,860,000 (note 24).

The Group's bank loans are all denominated in RMB. The carrying amounts of the bank loans approximate to their fair values.

30. TRADE AND BILLS PAYABLES

Group

	2006 *RMB'000*	2005 *RMB'000*
Trade payables and bills payable	**12,614,613**	6,805,277
Outstanding balance, aged:		
Within 3 months	**7,059,361**	4,345,608
3 to 6 months	**5,244,494**	2,375,118
Over 6 months	**310,758**	84,551
	12,614,613	6,805,277

The Group's bills payable are secured by:

(i) the pledge of the Group's time deposits amounting to RMB6,168,895,000 (2005: RMB3,133,124,000) (note 24);

(ii) the bank acceptance credit in favour of the Group. The bank acceptance credit was secured by Group's time deposits amounting to RMB1,279,860,000 (note 24);

(iii) the pledge of certain of the Group's buildings with an aggregate net book value of approximately RMB241,063,000 (note 11);

(iv) the pledge of certain of the Group's inventories amounting to RMB700 million (note 19); and

(v) the corporate guarantees provided by the Parent Group and Beijing Xinhengji as at 31 December 2006 (note 38(a)(vi)).

The trade and bills payables are non-interest-bearing and are normally settled on one to six months term.

The carrying amounts of the trade and bills payables approximate to their fair values.

31. CUSTOMERS' DEPOSITS, OTHER PAYABLES AND ACCRUALS

Group

	Note	**2006** **RMB'000**	2005 RMB'000
Customers' deposits		**334,846**	173,753
Consideration payable for the Acquisition of subsidiaries	*(i)*	**63,300**	84,300
Provision for coupon liabilities	*(ii)*	**35,423**	20,417
Other payables and accruals		**852,862**	327,191
		1,286,431	605,661

Notes:

(i) The balances as at 31 December 2006 and 2005 represented outstanding purchase considerations for the business combination transactions in 2005.

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

	2006 **RMB'000**	2005 RMB'000
At 1 January	**20,417**	–
Arising during the year	**36,268**	22,151
Utilised	**(10,047)**	(1,734)
Unused amounts reversed	**(11,215)**	–
At 31 December	**35,423**	20,417

32. DUE TO A RELATED PARTY

The amount due to a related party as at 31 December 2006 represented the balance of a non-interest-bearing and unsecured loan drawn down under a loan agreement and a supplementary agreement entered into among the Company, Wan Sheng Yuan Asset Management Company Limited, a related party of the Group, and Ms. Du Juan, a director of the Company, dated 21 July 2006 and 24 August 2006, respectively. The full balance was settled in February 2007.

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

The carrying amount of the amount due to a related company approximates to its fair value.

33. BUSINESS COMBINATIONS

(a) Acquisition of Nanjing Pengze Investment Company Limited ("Nanjing Pengze")

On 11 January 2006, the Group acquired a 100% equity interest in Nanjing Pengze, a limited liability company registered in the PRC, from independent third parties. The fair values of the identifiable assets and liabilities as at the date of acquisition were as follows:

	Fair value recognised on acquisition *RMB'000*	**Carrying amount** *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 13)*	5,874	
Cash consideration	174,050	

* The fair value of the properties was determined based on the valuation performed by B.I. Appraisals Limited, an independent firm of professionally qualified valuers, as at the acquisition date.

An analysis of the net outflow of cash and cash equivalents 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 cash equivalents acquired	(250)
Net cash outflow during the year	47,800

Since the date of the acquisition, Nanjing Pengze contributed RMB15.7million to the profit of the Group for the year.

33. BUSINESS COMBINATIONS (continued)

(b) Acquisition of Shenzhen eHome Commercial Chain Co., Ltd. ("eHome")

On 23 June 2006, the Group acquired a 100% equity interest in eHome from independent third parties. The fair values of the identifiable assets and liabilities as at the date of acquisition were as follows:

	Fair value recognised on acquisition *RMB'000*	Carrying amount *RMB'000*
Property, plant and equipment	18,112	18,112
Inventories	65,374	65,374
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 *(note 13)*	22,986	
Cash consideration	125,000	

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

	RMB'000
Total cash consideration	125,000
Deposit paid in 2005	(35,000)
	90,000
Cash and cash equivalents acquired	(2,482)
Net cash outflow during the year	87,518

Since the date of the acquisition, eHome contributed RMB26.3 million to the profit of the Group for the year.

33. BUSINESS COMBINATIONS (continued)

(c) Acquisition of China Paradise

As further disclosed in note 1 to the consolidated financial statements, the Company has acquired the control over China Paradise since 30 November 2006. The fair value of the identifiable assets of China Paradise as at the date of acquisition was as follows:

	Notes	Fair value recognised on acquisition *RMB'000*	Carrying amount *RMB'000*
Property, plant and equipment	*(i)*	949,490	796,802
Intangible assets	*(i)*	129,000	–
Lease prepayment		61,744	61,744
Deferred tax assets		5,672	5,672
Inventories		1,022,450	1,022,450
Trade receivables		58,129	58,129
Bills receivable		16,204	16,204
Other financial assets	*(ii)*	150,000	150,000
Prepayments, deposits and other receivables		865,377	865,377
Due from related parties		49,640	49,640
Pledged deposits		1,805,724	1,805,724
Cash and cash equivalents		923,992	923,992
Interest-bearing bank loan		(222,330)	(222,330)
Trade payables		(867,887)	(867,887)
Bills payable		(2,654,454)	(2,654,454)
Tax payable		(1,740)	(1,740)
Other payable and accruals		(325,896)	(325,896)
Deferred tax liabilities		(41,080)	(15,884)
Minority interests		(54,737)	(29,049)
Fair value of net assets		1,869,298	1,638,494
Attributable to:			
2,315,123,465 shares of China Paradise acquired by the Group		1,836,398	
41,506,320 shares of China Paradise to be acquired by the Group		32,900	
		1,869,298	
Total consideration		4,946,167	
Transaction costs		71,684	
Total cost of the acquisition		5,017,851	
Net assets acquired by the Group		(1,836,398)	
Goodwill on acquisition	*(ii)&13*	3,181,453	

33. BUSINESS COMBINATIONS (continued)

(c) Acquisition of China Paradise (continued)

Notes:

(i) The fair value of the property, plant and equipment and an intangible asset (i.e. a trademark) were determined based on the valuations performed by Sallmanns (Far East) Ltd., an independent firm of professionally qualified valuers, as at the acquisition date.

(ii) The Group accounted for the goodwill using provisional value because management are of the view that the outcome of the contingency relating to the Strategic Cooperation Agreement as disclosed in note 36 to these consolidated financial statements cannot be reasonably determined at the time the Group completed the consolidated financial statements.

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

	RMB'000
Total consideration	4,946,167
Consideration shares of the Company	(4,540,242)
Cash consideration	405,925
Cash and cash equivalents acquired	(923,992)
Net cash inflow during the year	(518,067)

The fair value of the consideration shares is determined based on the quoted closing price of the Company's shares of HK$5.98 (equivalent to RMB6.04) at the date of acquisition and 751,720,555 shares of the Company issued in exchange for the 2,315,123,465 shares of China Paradise.

Since its acquisition, China Paradise contributed a profit of RMB13,290,000 to the Group's profit for the year ended 31 December 2006.

33. BUSINESS COMBINATIONS (continued)

(c) Acquisition of China Paradise (continued)

At 31 December 2006, the Company had the following acquisition commitments in respect of the compulsory acquisition notices, which were dispatched to the shareholders of the 41,506,320 outstanding issued shares of China Paradise on 29 December 2006.

		Equivalent to
	HK$'000	*RMB'000*
To be satisfied:		
In cash	7,205	7,239
In ordinary shares of the Company	80,593	80,972
	87,798	88,211

Subsequent to the balance sheet date, on 30 January 2007, the Company announced that the acquisition of the remaining outstanding shares of China Paradise was completed and the listing of the shares of China Paradise on the SEHK was withdrawn with effect from 31 January 2007.

The transaction for the acquisition of the 41,506,320 outstanding shares of China Paradise, representing 1.76% of the issued shares of China Paradise, is a non-adjusting post balance event and will be dealt with in the Company's 2007 consolidated financial statements.

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

34. DIVIDENDS

	2006 RMB'000	2005 RMB'000
Declared and paid during the year		
Equity dividends on ordinary shares:		
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
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
	172,636	115,267
Proposed for approval		
Equity dividends on ordinary shares:		
Final dividend per share for 2006: HK3.6 cents (equivalent to RMB3.6 fen) (2005: HK4.3 cents (equivalent to RMB4.5 fen))	**110,118**	73,450

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

35. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

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

The diluted earnings per share amount for the year is calculated by dividing the profit for the year attributable to ordinary equity holders of the parent (adjusted to add the interest on convertible bonds and deduct fair value gain on the derivative component of convertible bonds) by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that assumed to have been issued at no consideration on the deemed exercise or conversion of all the dilutive potential ordinary shares into ordinary shares.

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

35. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (continued)

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

	2006	2005
	RMB'000	*RMB'000*
Earnings:		
Profit attributable to ordinary equity holders of the parent from continuing operations	**819,167**	498,264
Profit attributable to ordinary equity holders of the parent from a discontinued operation	**–**	332
Profit attributable to ordinary equity holders of the parent, used in the basic earning per share calculation	**819,167**	498,596
Interest expense on convertible bonds *(notes 7 & 27)*	**63,985**	–
Fair value gain on the derivative component of convertible bonds *(notes 6 & 27)*	**(93,519)**	–
Profit attributable to ordinary equity holders of the parent as adjusted for the effect of convertible bonds	**789,633**	498,596
Attributable to:		
Continuing operations	**789,633**	498,264
Discontinued operations	**–**	332
	789,633	498,596

35. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (continued)

	Number of shares	
	2006	2005
	'000	*'000*
Weighted average number of ordinary shares for basic earnings per share	**2,173,340**	1,642,447
Effect of dilution:		
Convertible bonds	**139,875**	–
Weighted average number of ordinary shares adjusted for the effect of dilution	**2,313,215**	1,642,447

Notes:

(i) Other than the issuance of 13,477,075 consideration shares subsequent to the balance sheet date in exchange for the acquisition of the remaining 41,506,320 outstanding shares of China Paradise, there have been no transactions involving ordinary shares or potential ordinary shares between the balance sheet date and the completion of the consolidated financial statements.

(ii) During the year ended 31 December 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 year and were ignored in the calculation of diluted earnings per share.

36. CONTINGENT ASSETS AND LIABILITIES

On 19 April 2006, Yongle (China), a 90% owned subsidiary of China Paradise, Beijing Dazhong and Mr. Zhang Dazhong entered into a strategic cooperation agreement (the "Strategic Cooperation Agreement") in respect of the transfer of a 78% equity interest in Beijing Dazhong ("Dazhong Equity Interest") to Yongle (China). Yongle (China) paid a deposit of RMB150 million to Mr. Zhang Dazhong (the "Deposit") in accordance with the terms and conditions stated in the Strategic Cooperation Agreement.

Pursuant to the Strategic Cooperation Agreement, Mr. Zhang Dazhong is entitled to keep the Deposit if there is a failure on the part of Yongle (China) to fulfil 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 fulfil his obligations in the transfer of the Dazhong Equity Interest, Mr. Zhang Dazhong will be required to pay Yongle (China) RMB300 million, being twice the amount of the Deposit. If Mr. Zhang Dazhong transfers 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 the Deposit. The Strategic Cooperation Agreement provides that any disputes arising from or in connection with the Strategic Cooperation Agreement shall be determined by arbitration at the CIETAC.

On 17 October 2006, China Paradise received a written notice from Beijing Dazhong in which Beijing Dazhong purported to rescind the Strategic Cooperation Agreement as a result of the Offer which was jointly announced by the Company and China Paradise. Afterwards, China Paradise also received an arbitration request notice from the CIETAC.

China Paradise has been advised by its PRC legal advisers that its exposure would be limited to the loss of the Deposit of RMB150 million together with the costs of arbitration. However, China Paradise's legal advisers have advised that such outcome is unlikely as China Paradise has a strong case against Beijing Dazhong and Mr. Zhang Dazhong for the refund of the Deposit, because the Strategic Cooperation Agreement remains enforceable and effective and Beijing Dazhong has no right to unilaterally terminate the Strategic Cooperation Agreement and to forfeit the Deposit.

36. CONTINGENT ASSETS AND LIABILITIES (continued)

On 16 February 2007, Yongle (China) submitted a request to the CIETAC to enforce the merger between Beijing Dazhong and Yongle (China) and if this request is not supported by the CIETAC, Yongle (China) would request Mr. Zhang Dazhong to pay a compensation of RMB300 million including the Deposit paid. As at the date of approval of the consolidated financial statements, the result of the arbitration is pending.

Having considered the advice from China Paradise's PRC legal adviser, the directors are of the opinion that the arbitration is likely to have a favourable impact to the Group and no impairment provision is required for both the Deposit (note 23) and the balance of the trade receivables from Beijing Dazhong of RMB38,391,000 (note 20) as at 31 December 2006.

Other than the above, neither the Group nor the Company had any significant contingent assets or liabilities at the balance sheet date.

37. OPERATING LEASE ARRANGEMENTS AND COMMITMENTS

(a) Operating lease arrangements

As lessee

The Group leases certain of its properties under operating lease arrangements. These leases have an average life of between 1 and 20 years and there are no restrictions placed upon the Group by entering into these lease agreements.

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

	2006	2005
	RMB'000	*RMB'000*
Within one year	**1,384,183**	633,299
In the second to fifth years, inclusive	**4,645,046**	2,150,468
After five years	**3,383,908**	1,592,805
	9,413,137	4,376,572

37. OPERATING LEASE ARRANGEMENTS AND COMMITMENTS (continued)

(a) Operating lease arrangements (continued)

As lessee (continued)

A non-cancellable lease is a lease that is cancellable only: (a) upon the occurrence of some remote contingency; (b) with the permission of the lessor; (c) if the lessee enters into a new lease for the same or an equivalent asset with the same lessor; or (d) upon payment by the lessee of such an additional amount that, at inception of the lease, continuation of the lease is reasonably certain.

Pursuant to the relevant lease agreements, upon the payment of early termination compensation rental which in general ranging from one to twelve months, the Group is entitled to terminate the underlying lease agreement if a store will not be in a position to continue its business because of the losses or other circumstances as specified under the rental agreements.

As lessor

The Group has entered into commercial property sub-leases on its leased properties (note 38(a)(iv)). These non-cancellable leases have remaining terms of between 1 and 10 years. All leases include a clause to enable upward revision of the rental charge on regular basis according to prevailing market conditions.

The Group had the following future minimum rentals receivable under non-cancellable operating leases:

	2006	2005
	RMB'000	*RMB'000*
Within one year	**47,115**	27,841
In the second to fifth years, inclusive	**142,828**	37,907
After five years	**74,429**	18,213
	264,372	83,961

37. OPERATING LEASE ARRANGEMENTS AND COMMITMENTS (continued)

(b) Capital commitments

In addition to the operating lease commitments above, the Group had the following capital commitments at 31 December 2006.

	2006	2005
	RMB'000	*RMB'000*
Contracted, but not provided for:		
Acquisition of buildings	**39,705**	67,395
Authorised, but not contracted for:		
Construction of a warehouse	**61,183**	–

(c) Acquisition commitment

Details of the acquisition commitment attributable to the acquisition of the 41,506,320 outstanding shares of China Paradise are disclosed in note 33(c) to the consolidated financial statements.

Subsequent to the balance sheet date, on 30 January 2007, the Company announced that the acquisition of the remaining outstanding issued shares of China Paradise was completed and the listing of the shares of China Paradise on the SEHK was withdrawn with effect from 31 January 2007.

38. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances which are disclosed in note 1, 22 and note 32 to these consolidated 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.

38. RELATED PARTY TRANSACTIONS (continued)

(a) The Group had the following transactions with related parties during the year:

	Notes	2006 RMB'000	2005 RMB'000
(a) Sales to the Parent Group	*(i)*	**8,586**	321,726
(b) Purchases from the Parent Group	*(i)*	**(237,159)**	(291,369)
(c) Provision of management and purchasing services to the Parent Group	*(ii)&4(b)*	**202,470**	144,420
(d) Rental expenses to Beijing Xinhengji	*(iii)*	**(4,166)**	(3,364)
(e) Sublease income from audio and visual equipment shops of the Parent Group	*(iv)*	**39,971**	33,258
(f) Sale of merchandise to jointly-controlled entities	*(v)*	**66**	–
(g) Provision of corporate guarantees from the Parent Group and Beijing Xinhengji in respect of the Group's bills facilities	*(vi)*	**898,571**	250,000
(h) Interest income on the amount due from a related party	*22(iv)*	**12,315**	1,562
(i) Rental expenses to a related party	*(vii)*	**–**	(1,008)
(j) Rental income from a related party	*(viii)*	**563**	227

Notes:

(i) The sales and purchase transactions and the joint purchase transactions entered into between the Group and the Parent Group in respect of the 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 the management service fee and the purchasing service fee was charged based on 0.6% 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.

38. RELATED PARTY TRANSACTIONS (continued)

(iii) On 20 December 2003, the Group entered into a rental agreement with Beijing Xinhengji to lease properties for a term of two years at an annual rental of approximately RMB3.3 million. On 12 January 2006, the parties renewed the agreement at an annual rental of approximately RMB 4.2 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.

(v) These 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 interests in the jointly-controlled entities.

(vi) The provision of corporate guarantees is at nil consideration. The Group intends to replace the aforesaid guarantees as soon as practicable.

(vii) During the year ended 31 December 2005, 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.

(viii) The Company's subsidiary, Hong Kong Punching Centre Limited, received operating lease rentals in respect of the Group's investment properties (note 12) from Hong Kong Gome, totalling RMB216,000 (31 December 2005: RMB227,000) during the year. At 31 December 2006, the balance of rentals receivable from Hong Kong Gome was nil (31 December 2005: RMB19,000).

Furthermore, during 2006 the Group had rental income from Hong Kong Gome in respect of the sub-lease of the Group's office premises amounting to RMB347,000. As at 31 December 2006, the balance of rental receivables was RMB347,000 (note 21).

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

	2006	2005
	RMB'000	*RMB'000*
Other emoluments:		
Salaries, allowances, bonuses and other benefits	**10,232**	11,632
Pension costs	**162**	123
	10,394	11,755

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise cash and banks, short term deposits, pledged deposits, interest-bearing bank loans, 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, prepayments, deposits and other receivables, trade payables and other 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 other than the convertible bonds which were entered into with the purpose of raising finance for the Group's 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, pledged deposits, trade receivables and prepayments, deposits and other receivables, other financial assets and amounts due from related parties included in the consolidated 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.

(ii) Interest rate risk

The Group has no floating rate bank loans except for the short term bank loans of RMB729,330,000 disclosed in note 29 to the consolidated financial statements and as a result, it 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 2006, a substantial majority amount of the Group's assets and liabilities were denominated in RMB. Fluctuation of the exchange rates of RMB against other currencies 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.

39. 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 payable, convertible bonds and other interest-bearing loans. As at 31 December 2006, the Group had trade and bills payables amounting to RMB12,614,613,000 (2005: RMB6,805,277,000). In addition, as at 31 December 2006, the Group had bank loan balances of RMB 729,330,000 (2005: nil) which could mature within 12 months. The directors have reviewed the Group's working capital and capital expenditure requirements and determined that the Group has no significant liquidity risk.

40. POST BALANCE SHEET EVENTS

During the 5th Session of the 10th National People's Congress, which was concluded on 16 March 2007, the PRC Corporate Income Tax Law (the "New Corporate Income Tax Law") was approved and will become effective on 1 January 2008. The New Corporate Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%. Since the detailed implementation and administrative rules and regulations have not yet been announced, the financial impact of the New Corporate Income Tax Law to the Group cannot be reasonably estimated at this stage.

Save as disclosed in note 1, note 25(b), note 33(c) and above, the Group did not have any significant events taking place subsequent to 31 December 2006.

41. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors on 17 April 2007.