

The board of directors (the “**Directors**”) of the Company (the “**Board**”) takes pleasure in submitting its first annual report, together with the audited financial statements of the Company and the Group for the year ended 31 December 2005.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL OPERATIONS ANALYSIS

Our principal activity is investment holding. Our principal operating subsidiary – Yongle (China) Electronics Retail Co., Ltd. (“**Yongle (China)**”, formerly known as Shanghai Yongle Electronics Retail Co., Ltd., was re-named Yongle (China) Electronics Retail Co., Ltd. on 1 March 2006 and the relevant revised business license has been obtained) and its subsidiaries are principally engaged in the specialty retail business of household appliances and consumer electronics products.

RESULTS AND DISTRIBUTIONS

The results of the Group for the year ended 31 December 2005 and the state of affairs of the Company and the Group are set out in the consolidated financial statements on pages 54-116.

The Directors recommend the payment of a final dividend of HK2.6 cents per share and a special dividend of HK1.3 cents per share in respect of the year to shareholders whose names appear on the register of members of the Company on 26 May 2006, with a total amount of approximately HK\$84,541,000 (equivalent to RMB87,339,000).

FINANCIAL HIGHLIGHTS

A summary of the published results and assets, liabilities and minority interests of the Group for the past four financial years, as extracted from the Company’s accountants’ report and audited financial statements, is set out on page 3 of the annual report. This summary does not form part of the audited financial statements.

PROPERTY PLANT AND EQUIPMENT

During the year, the Group continued to expand its sales network. Details of movements in the property plant and equipment of the Group and the Company are set out in Note 15 to the financial statements.

RESERVES

Details of movements in the reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity on page 56 and Note 34(b) to the financial statements, respectively.

DISTRIBUTABLE RESERVES

The Company’s distributable reserves comprise share premium and retained profits. As at 31 December 2005, the Company’s reserves available for distribution to shareholders amounted to RMB1,484,036,000, of which RMB87,339,000 has been proposed as final and special dividends for the year.

SHARE CAPITAL

As part of the reorganization and in preparation for the shares of the Company (“**Shares**”) to be listed on the main board of The Stock Exchange of Hong Kong Limited (“**Stock Exchange**”), there were 1,643,576,693 Shares of the Company in issue immediately before the global offering and listing of the Shares of the Company. The Company issued 455,778,000 Shares pursuant to its global offering on 14 October 2005, the total consideration before deduction of listing expenses amounted to HK\$1,025,500,500 (equivalent to RMB1,066,521,000). Subsequently when the Over-allotment Option was exercised on 20 October 2005, the Company issued an additional 68,366,000 Shares, together with the 455,778,000 Shares issued on 14 October 2005, the Company had issued a total of 524,144,000 Shares all of which are listed on the Stock Exchange, and the total consideration before deduction of listing expenses amounted to HK\$1,179,324,000 (approximately RMB1,226,497,000).

Details of the movements in the share capital of the Company are set out in Note 32 to the financial statements.

SUBSIDIARIES

Details of the Company’s subsidiaries as at 31 December 2005 are set out in Note 18 to the financial statements.

DIRECTORS

Directors for the year and up to the date of this report were as follows:

Executive directors

Mr. Chen Xiao
 Ms. Shu Wei
 Mr. Liu Hui
 Mr. Yuan Yashi
 Mr. Ma Yawei
 Mr. Zhou Meng
 Mr. Shen Ping

Non-executive directors

Mr. Jiao Shuge (alias Jiao Zhen) *(resigned on 13 March 2006)*
 Mr. Liu Haifeng David *(resigned on 13 March 2006)*
 Mr. Julian Juul Wolhardt

Independent non-executive directors

Dr. Yu Zengbiao
 Mr. Chu Cheng Chung
 Mr. Wang Bing

Pursuant to Article 130 of the articles of association of the Company, Mr. Ma Yawei, Mr. Liu Hui, Dr. Yu Zengbiao and Mr. Chu Cheng Chung retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

The Company considers that Dr. Yu Zengbiao, Mr. Chu Cheng Chung and Mr. Wang Bing are independent pursuant to the criteria set out in the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("**Listing Rules**"), and having received the confirmations of independence from each of them.

DIRECTORS' SERVICE CONTRACTS

Each of the Directors has entered into a service contract with the Company for a staggered term of three years. For the executive directors, their service contracts are subject to termination by either party giving not less than three months' prior written notice expiring not earlier than the end of the first year after the listing of the Company. For the non-executive directors and the independent non-executive directors, their service contracts are subject to termination by either party giving not less than one month's prior notice in writing.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

The biographies of the Directors and senior management are set out on pages 34 to 35.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in "Connected Transactions" of this report, none of the Company, its holding company or any of its subsidiaries or fellow subsidiaries has entered into any contract of significance in relation to the business of the Group in which any of the Directors had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

REMUNERATION COMMITTEE

The Company established the remuneration committee on 14 September 2005 with the written terms of reference in compliance with paragraph B1 of the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules. The primary duties of the remuneration committee include (but without limitation): (i) making recommendations to the Directors on the Company's policy and structure for all remuneration of Directors and senior management and on the establishment of a formal and transparent procedure for developing policies on such remuneration; (ii) determining the terms of the specific remuneration package of each executive director and senior management; (iii) reviewing and approving performance-based remuneration by reference to corporate goals and objectives resolved by the Directors from time to time; and (iv) considering and approving the grant of share options to eligible participants pursuant to the share option scheme. The remuneration committee consists of three members, two of whom are independent non-executive directors, being Mr. Chu Cheng Chung and Mr. Wang Bing. The remuneration committee is chaired by Mr. Chen Xiao, an executive director.

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

As at 31 December 2005, the interests of the Directors of the Company in the shares of the Company or associated corporation as recorded in the register as required to be kept under section 352 of the Securities and Futures Ordinance (“SFO”), or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (“Model Code”), were as follows:

Name of Director	Name of company/associated corporation	Nature of Interests	Number of ordinary shares in the company concerned	Approximate percentage of the total issued capital of the company concerned
(Note 5)				
Chen Xiao	The Company	Company (Note 1)	1,314,253,060(L) (Note 2)	60.63%
			93,947,635(S) (Note 2)	4.33%
	Retail Management Company Limited (“Retail Management”)	Personal	725,898(L)	72.59%
			11,480(S) (Note 3)	1.15%
	Shanghai Minrong Investment Co., Ltd. (“Shanghai Minrong”)	Personal	N/A(L)	0.73%
			N/A(S)	0.01%
	Yongle (China)	Personal	N/A(L)	7.26%
			N/A(S)	0.12%
Shu Wei	Retail Management	Personal	131,025(L)	13.10%
	Shanghai Minrong	Personal	N/A(L)	0.13%
	Yongle (China)	Personal	N/A(L)	1.31%
Liu Hui	Retail Management	Personal	97,705(L)	9.77%
	Shanghai Minrong	Personal	N/A(L)	0.1%
	Yongle (China)	Personal	N/A(L)	0.98%
Yuan Yashi	Retail Management	Personal	45,372(L)	4.54%
	Shanghai Minrong	Personal	N/A(L)	0.05%
	Yongle (China)	Personal	N/A(L)	0.45%
Ma Yawei	Retail Management	Personal	10,585(L)	1.06%
	Shanghai Minrong	Personal	N/A(L)	0.01%
	Yongle (China)	Personal	N/A(L)	0.11%
Zhou Meng (Note 4)	Retail Management	Personal	5,000(L)	0.5%
	Shanghai Minrong	Personal	N/A(L)	0.01%
	Yongle (China)	Personal	N/A(L)	0.05%
Shen Ping	Retail Management	Personal	49,270(L)	4.93%
	Shanghai Minrong	Personal	N/A(L)	0.05%
	Yongle (China)	Personal	N/A(L)	0.49%

Notes:

- These shares are held by the substantial shareholder, Retail Management. Mr. Chen Xiao owns as to 72.59% of the issued share capital of Retail Management.
- This takes into account the RM Management Incentive Option and the Shares that Retail Management may acquire from the Financial Investors as a result of the valuation adjustment mechanisms as set out in the shareholders agreement entered into between Retail Management and the Financial Investors. Upon the exercise of the RM Management Incentive Option in full, Retail Management will be entitled to subscribe for 145,483,657 Shares at an aggregate exercise price of approximately HK\$120,500,000, representing approximately 6.7% of the issued share capital of the Company. In relation to the valuation adjustments, assuming that the valuation adjustment works in favour of Retail Management, its shareholding interest in the Company will increase by 46,973,817 Shares. If the valuation adjustment works against Retail Management, its shareholding interest could decrease by a maximum of 93,947,635 Shares.
- The short position represents the outstanding unexercised Yongle (China) and Shanghai Minrong option granted by Chen Xiao to six employees of the Group to acquire the beneficial interests in an aggregate of 0.12% of the registered capital of Yongle (China) and 0.012% of the registered capital in Shanghai Minrong respectively held by Chen Xiao at an aggregate exercise price of RMB4,740,000. The beneficial interests of the relevant shares in Retail Management will vest in the employees upon his exercise of his Yongle (China) and Shanghai Minrong option to acquire the beneficial interests in Yongle (China) and Shanghai Minrong. The exercise period of the option commences from 26 August 2005 and ends on 30 June 2007.
- This represents Zhou Meng's beneficial interests in 0.025% and 0.0025% of the registered capital of Yongle (China) and Shanghai Minrong respectively, and 0.25% in the issued share capital of Retail Management, together with the beneficial interests in 0.025% and 0.0025% of the registered capital of Yongle (China) and Shanghai Minrong, respectively, and 0.25% of the issued share capital of Retail Management that he can acquire from Chen Xiao under an option granted to him by Chen Xiao. The beneficial interests in Retail Management will only vest in Zhou Meng upon his exercise of his option to acquire the beneficial interests in Yongle (China) and Shanghai Minrong. The exercise price for the acquisitions by Zhou Meng of the remaining interests of all three associated corporations of the Company is RMB1,240,000. The exercise period of the option commences on 26 August 2005 and ends on 30 June 2007.
- The approximate percentage of interests in the corporations is based on the current issued share capital of the corporation.

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

Save as disclosed above, as at 31 December 2005, none of the Directors or their respective associates has any interests or short positions in the shares, underlying shares and debentures in the Company or its associated corporations that was required to be recorded pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at 31 December 2005, the interests and short positions of the substantial shareholders (other than the Directors of the Company) in shares and underlying shares of the Company as recorded in the register maintained under section 336 of the SFO were as follows:

Name of substantial shareholders	Number of shares held	Percentage of issued share capital
Chen Xiao <i>(Note)</i>	1,314,253,060(L)	60.63%
	93,947,635(S)	4.33%
Retail Management	1,314,253,060(L)	60.63%
	93,947,635(S)	4.33%
Morgan Stanley Global Emerging Markets Inc.	529,580,789(L)	24.43%
	40,397,483(S)	1.86%
Morgan Stanley	538,558,789(L)	24.84%
	40,397,483(S)	1.86%
Morgan Stanley Global Emerging Markets Private Investment Fund, L.P.	529,580,789(L)	24.43%
	40,397,483(S)	1.86%
MS Retail Limited	529,580,789(L)	24.43%
	40,397,483(S)	1.86%
MSGEM, LLC	529,580,789(L)	24.43%
	40,397,483(S)	1.86%

Notes:

As at 31 December 2005, Mr. Chen Xiao held 725,898 shares in Retail Management, representing 72.59% of the issued share capital of Retail Management, out of the 725,898 shares in Retail Management held by Mr. Chen Xiao, 456,334 shares were held by Mr. Chen Xiao on trust for over 50 beneficiaries.

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

Save as disclosed above, as at 31 December 2005, no person, other than the Directors, whose interests are set out in the section "DIRECTORS' INTERESTS, LONG POSITIONS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded in the register maintained pursuant to section 336 of the SFO.

CONNECTED TRANSACTIONS

Pursuant to an equity transfer agreement dated 14 September 2005 ("**Equity Transfer Agreement**"), China Paradise Electronics Retail (Hong Kong) II Limited ("**Paradise Hong Kong II**"), a wholly owned subsidiary of the Company, agreed to use part of the net proceeds from the listing of the Company to acquire 2% of the registered capital of Yongle (China) from the key management (i.e. Messrs. Chen Xiao, Shu Wei, Liu Hui and Yuan Yashi) at the consideration of 2% of the implied valuation of Yongle (China) before the listing of the Company with a 10% discount.

On 14 September 2005, the key management and Paradise Hong Kong II also entered into a registered capital increase agreement ("**Subscription Agreement**") whereby Paradise Hong Kong II agreed to use the remaining net proceeds from the listing of the Company to subscribe for additional equity interests in Yongle (China) at the same valuation as stated in the Equity Transfer Agreement. On 31 October 2005, after the net proceeds from the listing of the Company have been ascertained, parties to the Equity Transfer Agreement and Subscription Agreement have clarified the considerations for those transactions and the agreements were also re-dated 31 October 2005. As the re-dated agreements only clarified the acquisition considerations and the amount of increase in registered capital of Yongle (China), there was no material alterations to other terms and conditions of the agreements, nor did it affect the legality or effectiveness of such documents.

Yongle (China) is a 90% owned subsidiary of the Company. At present, four executive directors of the Company (who are connected persons as defined by the Listing Rules) hold a total of 10% of the voting rights of Yongle (China). The Stock Exchange has exercised its discretion to deem Yongle (China) and its subsidiaries as connected persons pursuant to Rule 14A.06 of the Listing Rules. However, the Stock Exchange has exempted the connected transactions arising from deeming Yongle (China) and its subsidiaries as connected persons which have been or will be entered into in the ordinary and usual course of business of the Company from the requirements of Chapter 14A of the Listing Rules (the "**Exemption**") for a period of six months commencing on the listing date (14 October 2005) (the "**Exemption Period**"). Other connected transactions arising outside the ordinary and usual course of business of the Company are not covered by the Exemption and the Company will be required to comply with the requirements under Chapter 14A of the Listing Rules in respect of these connected transactions.

Before the expiration of the Exemption Period on 13 April 2006, the Company had made an application to the Stock Exchange for an extension of the Exemption. The Stock Exchange had on 17 March 2006 agreed to further extend the Exemption Period for another six months, commencing from 14 April 2006. In other words, the Company shall be entitled to the Exemption until 13 October 2006.

Details of the related party transactions of the Group are set out in Note 37 to the financial statements.

Other than as disclosed above, pursuant to the Listing Rules, the Company has no other transactions which are connected transactions and required to be disclosed.

SHARE OPTION SCHEME

Pursuant to a shareholders' resolutions dated 14 September 2005, the Company has adopted a share option scheme. The purpose of share option scheme is to provide an incentive for employees of the Group to work with commitment towards enhancing the value of the Company and its shares for the benefit of its shareholders and to compensate employees of the Group for their contribution based on their individual performance and that of the Company. The share option scheme is valid for 10 years from the listing date of the Company.

The Board of Directors may from time to time grant options to individual who is an employee of the Group (including executive directors) and such other senior employees as the president of the Company may nominate in writing and approved by the Board of Directors from time to time ("**Participants**"), on the basis of their contribution to the development and growth of the Group.

The Company has not granted any option pursuant to the share option scheme. As at the date of this annual report, the total number of shares can be issued upon the exercise of options to be granted under the share option scheme is 209,935,469 Shares, representing approximately 9.68% of the existing issued share capital.

Unless approved by the shareholders in general meeting in the manner prescribed in the Listing Rules, the Board of Directors shall not grant options to any Grantee if the acceptance of those options would result in the total number of shares issued and to be issued to that Grantee on exercise of his options during any 12 month period exceeding 1 per cent. of the total Shares then in issue.

The price per Share at which a Grantee may subscribe for Shares upon exercise of an option ("**Subscription Price**") shall be determined by the Board of Directors, but in any event shall be at least the highest of:

- (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheets on the date on which the option is offered ("**Offer Date**");
- (ii) the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the Offer Date; and
- (iii) the nominal value of the Shares.

In the event of any alteration in the capital structure of the Company whilst any option becomes or remains exercisable, whether by way of capitalization of profits or reserves, rights issue, consolidation, subdivision or reduction of share capital of the Company (other than an issue of shares as consideration in respect of a transaction to which the Company is a party), the Board of Directors shall make corresponding alterations (if any) in (i) the number of Shares subject to any option so far as such option remains unexercised; (ii) the Subscription Price; or (iii) the number of Shares subject to the share option scheme.

Unless otherwise provided in the share option scheme or otherwise determined by the Board of Directors, an option shall fully vest and become exercisable on the third anniversary of the Offer Date ("**Vesting Date**"); provided that (a) the Participant who has accepted the grant of an option ("**Grantee**") is continuously under the employment of the Group until the Vesting Date; (b) the Board of Directors or remuneration committee, at its absolute and sole opinion, are of the view that the Grantee is in full compliance of the labour contract entered into by the Grantee; and (c) the option has not lapsed for any reason set forth in the share option scheme.

OTHER OPTIONS TO SUBSCRIBE FOR SHARES

Pursuant to an option deed entered into between the Company and Retail Management dated 14 September 2004, as amended and restated on 16 December 2004, the Company granted an option (the "**RM Management Incentive Option**") at nil consideration to Retail Management to subscribe for 145,483,657 Shares at an exercisable price of HK\$0.83 per Share as a management incentive. The RM Management Incentive Option is exercisable within 20 years from 14 September 2004.

Pursuant to another option deed entered into between the Company and Tong Ley Investment Ltd. ("**Tong Ley**") dated 4 July 2005, the Company granted an option (the "**Wang Management Incentive Option**") to Tong Ley for nil consideration to subscribe for 43,425,435 Shares at an exercise price of HK\$0.83 per Share to retain Mr. Wang Jiayu as a senior advisor to the Company in respect of the Company's prospective business in Henan province, PRC. The Wang Management Incentive Option is exercisable within 20 years from 4 July 2005.

During the year, neither the RM Management Incentive Option nor the Wang Management Incentive Option has been exercised.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Saved as disclosed under the heading "Directors' interests, Long positions, short positions in shares, underlying shares and debentures" above, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

RETIREMENT SCHEME

Details of the Group's retirement benefits scheme are set out in Note 14 to the financial statements.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's articles of association and there is no restriction against such rights under the laws of the Cayman Islands.

PURCHASE, SALE OR REDEMPTION OF LISTED SHARES OF THE COMPANY

During the year, none of the Company or any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

MAJOR CUSTOMERS AND SUPPLIERS

As the Group is principally engaged in the specialty retail business of household appliances and consumer electronics products and its customers are the general consumers and end users, therefore, during the year, the Group's five largest customers accounted in aggregate for less than 30% of the Group's revenue.

The purchase for the year attributable to the Group's five largest suppliers amounted in aggregate for less than 30% of the Group's total purchases respectively.

None of the Directors, their respective associates or the existing shareholders who, to the knowledge of the Directors, own more than 5% of the share capital of the Company is interested in any of the five largest customers or suppliers.

USE OF PROCEEDS

The proceeds from the Company's issue of new Shares at the time of its listing on the Main Board of the Stock Exchange in October 2005, after deduction of related expenses, amounted to approximately HK\$1,109,242,000.

In 2005, the Group was committed to expanding its retail/sales network and its market share in the PRC, with a view to becoming the top household appliances and consumer electronics products specialty retailer. According to the prospectus of the Company dated 4 October 2005, the Group will inject all of the net proceeds raised from the listing of the Company into Yongle (China), the principal operating subsidiary of the Company. However, as transferring the listing proceeds back to the PRC requires the prior approval of the PRC government, and as at 31 December 2005, the Company has not obtained such approval, therefore, the Company has placed all of the listing proceeds on one-month US dollars fixed deposit with banks in Hong Kong with a view to increase its interest income. Subject to obtaining the relevant approval, the Group shall apply the listing proceeds in accordance with the disclosure in the prospectus.

INVESTOR RELATIONSHIP AND COMMUNICATION

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

DONATIONS

The Group's charitable and/or other donations during the year ended 31 December 2005 amounted to RMB269,000.

BANK AND OTHER BORROWINGS

Details of the Group's bank and other borrowings as at 31 December 2005 are set out in Note 31 to the financial statements.

CONTINGENT LIABILITIES AND COMMITMENTS

Details of the Group's contingent liabilities and commitments as at 31 December 2005 are set out in Note 40 to the financial statements.

POST BALANCE SHEET EVENTS

Details of the post balance sheet events are set out in Note 42 to the financial statements.

PUBLIC FLOAT

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

CORPORATE GOVERNANCE

Save as those set out in the Corporate Governance Report, the Directors are not aware of any information which indicates that it can be reasonably expected that the Company has not complied with the Code of Best Practice of Appendix 14 of the Listing Rules.

Details of the corporate governance standards adopted by the Group are set out in the Corporate Governance Report on pages 35 to 41 of this report.

COMPLIANCE WITH THE MODEL CODE

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules as the Company's code of conduct and rules governing dealings by all Directors in the securities of the Company. The Company has made specific enquiries with all Directors and the Directors had confirmed their strict compliance with the Model Code during the year.

AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

By order of the Board

Chen Xiao

Chairman

Hong Kong, 21 April 2006