1. CORPORATE INFORMATION

The Company is an exempted company with limited liability incorporated in the Cayman Islands on 9 August 2004. Particulars of the subsidiaries and jointly-controlled entities are set out in notes 18 and 19, respectively. The registered office of the Company is located at PO Box 309GT, Ugland House, South Church Street, George Town, Grand Cayman, the Cayman Islands.

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

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

In preparation for a foreign investment in the Group and the listing of the Group on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Group underwent a reorganisation (the "Reorganisation"), as a result of which the Company became the holding company of the subsidiaries comprising the Group. The Reorganisation consists of the Onshore Restructuring and the Offshore Restructuring as detailed below.

Onshore Restructuring

At the beginning of 2004 and prior to the commencement of the restructuring, the Group's specialty retail business was carried on by Yongle (China) Electronics Retail Co., Ltd. (formerly known as Shanghai Yongle Electronics Retail Co., Ltd.) ("Yongle (China)"), Shanghai Minrong Investment Co., Ltd. ("Minrong"), and 33 other entities (the "Original Group") which were held by Yongle (China), Minrong, and/or certain individuals or companies (the "Original Owners"). These Original Owners comprise individuals who are current or previous employees of the Group or relatives of Mr. Chen Xiao, Ms. Shu Wei, Mr. Liu Hui and Mr. Yuan Yashi (collectively referred to as the "Key Management"), and companies that were held by them. These Original Owners also include the Key Management and several individuals who are the beneficiaries under a trust arrangement.

In preparation for the Foreign Investment (as defined in the sub-section headed "Offshore Restructuring" below) at the end of 2004, the Group underwent a restructuring of the Original Group that included the following principal steps:

- the transfer by the Original Owners of all or part of their interests in 18 entities in the Original Group, resulting in Yongle (China) and Minrong holding 90% and 10%, respectively, of the registered capital of the 18 entities;
- the liquidation or cessation of the businesses of 11 dormant or non-performing entities in the Original Group;
- the establishment of 4 jointly-controlled entities;
- the establishment of 26 new subsidiaries, each held by Yongle (China) and Minrong as to 90% and 10%, respectively, and the establishment of a new subsidiary with Minrong holding a 90% interest; and
- the reorganisation of the shareholding structure of Yongle (China) and Minrong, resulting in China Paradise Electronics Retail (Hong Kong) II Limited ("Paradise Hong Kong II") holding a 90% equity interest in Yongle (China), and Yongle (China) in turn holding a 99% equity interest in Minrong.

Immediately after the Onshore Restructuring, the Company became the holding company of the Group which consisted of 55 group members in the Mainland China, namely, Yongle (China), Minrong, 45 subsidiaries being held as to 90% by Yongle (China) and 10% by Minrong, a subsidiary held as to 90% by Minrong, Shanghai Yongle Electronics Training Center (which is a legal entity wholly owned by Yongle (China)) and 6 jointly-controlled entities.

1. CORPORATE INFORMATION *(Continued)*

Offshore Restructuring

The Company was incorporated with an initial issued share capital of one share at par value of US$0.01. China Paradise Electronics Retail (Hong Kong) Limited ("Paradise Hong Kong") and Paradise Hong Kong II were incorporated on 8 September 2004 in Hong Kong. On 10 September 2004, Paradise Hong Kong II was acquired from its initial subscribers by Paradise Hong Kong, which was in turn acquired by the Company from its initial subscribers on the same date.

Retail Management was incorporated in the British Virgin Islands on 31 August 2004. On 14 September 2004, Retail Management allotted 1,000,000 shares to the Key Management, representing 100% of the issued share capital of Retail Management. Since then and until the date of this report, the Key Management, namely, Mr. Chen Xiao, Ms. Shu Wei, Mr. Liu Hui, and Mr. Yuan Yashi hold 72.59%, 13.10%, 9.77% and 4.54% of the shareholding of Retail Management, respectively.

On 23 December 2004, Retail Management acquired the one share at par value of US$0.01 (representing 100% of the issued share capital) of the Company from MS Retail Limited. On 24 December 2004, in preparation for the Foreign Investment, Retail Management subscribed for 6,638 additional shares in the Company at a par value of US$0.01 each. In January 2005, each of MS Retail Limited and CDH Electronics Limited (collectively referred to as the "Financial Investors") subscribed for 2,150 shares and 350 shares at a par value of US$0.01 each (equivalent to 363,286,716 and 59,139,698 shares after conversion of these shares into shares of the Company at a par value of HK$0.10 each), respectively, at a total consideration of US$50 million (the "Foreign Investment"). As a result, Retail Management and the Financial Investors held 72.64% and 27.36% of the total shareholding in the Company, respectively.

The Company used the amount invested by the Financial Investors to subscribe for 99 shares (representing a 100% equity interest) in Paradise Hong Kong at a consideration of US$50 million. Paradise Hong Kong, in turn, used the proceeds received from the Company to subscribe for 99 shares (representing a 100% equity interest) in Paradise Hong Kong II at the same amount of consideration.

Prior to the investment of Paradise Hong Kong II in Yongle (China), the registered and paid-up capital of Yongle (China) was RMB100 million. Mr. Chen Xiao, Ms. Shu Wei, Mr. Liu Hui and Mr. Yuan Yashi were interested in 72.59%, 13.10%, 9.77% and 4.54% of the registered capital of Yongle (China), respectively.

On 15 September 2004, Paradise Hong Kong II entered into a capital increase agreement with the Key Management whereby Paradise Hong Kong II agreed to subscribe for RMB120.0 million of the registered capital of Yongle (China) for a consideration of approximately RMB250.8 million (the "Capital Increase"). The excess of the consideration over the par value of the registered capital was treated as share premium.

Pursuant to a transfer agreement dated 16 September 2004 entered into between the Key Management and Paradise Hong Kong II, Mr. Chen Xiao, Ms. Shu Wei, Mr. Liu Hui and Mr. Yuan Yashi agreed to transfer RMB56.6 million, RMB10.2 million, RMB7.6 million and RMB3.5 million, respectively, of the registered capital of Yongle (China) to Paradise Hong Kong II at a consideration of RMB118.3 million, RMB21.4 million, RMB15.9 million and RMB7.4 million, respectively, or totalling to RMB163 million (the "Equity Transfer").

The Capital Increase and Equity Transfer were completed in February 2005. As a result, Paradise Hong Kong II and the Key Management became interested in 90% and 10% of the registered capital of Yongle (China), respectively.

2. BASIS OF PRESENTATION

The consolidated financial statements have been prepared on a continuing basis as if the acquisition of the controlling interest in Yongle (China) by the Company via Paradise Hong Kong II had been completed as at the beginning of the financial years presented because the acquisition of Yongle (China) by the Company should be regarded as a business combination under common control as the Company and Yongle (China) are ultimately controlled by the same parties before and after the Reorganisation. Therefore, the consolidated financial statements include the Group's financial position, results of operations and cash flows as if Yongle (China) had been a subsidiary of the Group since the beginning of the financial years presented, to the extent of the interests in Yongle (China) held by the Key Management and a trust, of which Mr. Chen Xiao was the trustee, over the periods up to the date of acquisition of a 90% interest in Yongle (China) by the Company via Paradise Hong Kong II, excluding the 10% interest in Yongle (China) directly held by the Key Management upon completion of the Reorganisation which is accounted for as part of the minority interests since the beginning of the financial years presented.

Except that the results of Yongle (China) are presented on a merger basis as described in the preceding paragraph, the results of all subsidiaries and jointly-controlled entities historically acquired or disposed of by Yongle (China) are consolidated from or to their effective dates of acquisition or disposal.

In the opinion of the directors, the financial statements of the Group, presented on the above basis, present fairly the results, cash flows and the state of affairs of the Group as a whole.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"), which comprises standards and interpretations approved by the International Accounting Standards Board (the "IASB"), and International Accounting Standards and Standing Interpretations Committee interpretations approved by the International Accounting Standards Committee that remain in effect, except for the following standards that have been early adopted since the beginning of the financial years presented:

- IFRS 1 (amended in 2004), *First-Time Adoption of International Financial Reporting Standards;*
- IFRS 2, *Share-Based Payment;*
- IFRS 3, *Business Combinations;*
- IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations;*
- IAS 1 (amended in 2004), *Presentation of Financial Statements;*
- IAS 10 (amended in 2004), *Events after the Balance Sheet Date;*
- IAS 12 (amended in 2004), *Income Taxes;*
- IAS 14 (amended in 2004), *Segment Reporting;*
- IAS 16 (amended in 2004), *Property, Plant and Equipment;*
- IAS 17 (amended in 2004), *Leases;*
- IAS 18 (amended in 2004), *Revenue;*
- IAS 19 (amended in 2004), *Employee Benefits;*
- IAS 27 (amended in 2004), *Consolidated and Separate Financial Statements;*

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of preparation *(Continued)*

- IAS 28 (amended in 2004), *Investments in Associates;*
- IAS 31 (amended in 2004), *Interests in Joint Ventures;*
- IAS 32 (amended in 2004), *Financial Instruments: Disclosure and Presentation;*
- IAS 33 (amended in 2004), *Earnings Per Share;*
- IAS 36 (amended in 2004), *Impairment of Assets;*
- IAS 37 (amended in 2004), *Provisions, Contingent Liabilities and Contingent Assets;*
- IAS 38 (amended in 2004), *Intangible Assets; and*
- IAS 39 (amended in 2004), *Financial Instruments: Recognition and Measurement.*

The consolidated financial statements have been prepared on a historical cost basis and presented in Renminbi and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the companies comprising the Group. Except that the results of Yongle (China) were presented on a merger basis as described in note 2, the results of all subsidiaries and jointly-controlled entities historically acquired or disposed of by Yongle (China) are consolidated from or to their effective dates of acquisition or disposal.

All material intra-group transactions and balances, and any unrealised gains arising from intra-group transactions, have been eliminated on consolidation.

Minority interests at balance sheet date, being the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the Group, whether directly or indirectly through subsidiaries, are presented in the consolidated balance sheet within equity, separately from the parent shareholders' equity. Minority interests in the results of the Group are also separately disclosed in the consolidated income statement.

Subsidiaries

A subsidiary is an entity controlled by the Company. Control exists when Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of a subsidiary is included in the consolidated financial statements from the date that control commences until the date control ceases.

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

Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture entity and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Joint ventures *(Continued)*

A joint venture is treated as:

(a) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture;

(b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;

(c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's equity voting rights and is in a position to exercise significant influence over the joint venture; or

(d) an equity investment accounted for in accordance with IAS 39, if the Group holds, directly or indirectly, less than 20% of the joint venture's equity voting rights and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

Jointly-controlled entities

A jointly-controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's interests in its jointly-controlled entities are accounted for by proportionate consolidation, which involves recognising its share of the jointly-controlled entities' assets, liabilities, income and expenses with similar items in the consolidated financial statements on a line-by-line basis.

Investments in associates

The Group's investments in its associates are accounted for under the equity method of accounting. An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a jointly-controlled entity.

Under the equity method, the investment in the associate is carried in the balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. After application of the equity method, the Group determines whether it is necessary to recognise any additional impairment loss with respect to the Group's net investment in the associate. The income statement reflects the share of the results of operations of the associate. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the statement of changes in equity.

The reporting dates of the associate and the Group are identical and the associates' accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

Goodwill

Goodwill acquired on a business combination is initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, or that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units. Each unit or group of units to which the goodwill is so allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill *(Continued)*

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit are disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

An impairment loss recognised for goodwill is not reversed in a subsequent period.

Excess over the cost of business combinations

Any excess of the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of the business combinations, the excess is recognised immediately in the income statement in the "other expenses" line item.

Related parties

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

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

(b) the party is an associate;

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

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

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

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

Impairment of assets

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of assets *(Continued)*

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Property, plant and equipment

Property, plant and equipment, other than construction in progress ("CIP"), are stated at cost less accumulated depreciation and any impairment in value. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The estimated useful lives for this purpose are as follows:

	Depreciation life	Residual value
Leasehold land and buildings	20 years	3-5%
Leasehold improvements	3-5 years	–
Motor vehicles	5 years	3-5%
Furniture and office equipment	5 years	3-5%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

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

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

CIP represents buildings, stores and storage facilities under construction, or renovation works in progress, which is stated at cost less any impairment in value, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. CIP is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is charged against profits in the year in which the expenditure is incurred. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the income statement in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

Investments and other financial assets

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

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

Financial assets at fair value through profit or loss

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

Loans and receivables

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Held-to-maturity investments

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

Available-for-sale financial assets

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

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

Derecognition of financial assets and liabilities

Financial assets

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Derecognition of financial assets and liabilities *(Continued)*

Financial liabilities

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

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

Impairment of financial assets

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

Assets carried at amortised cost

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

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

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

Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from equity to the income statement. Reversals in respect of equity instruments classified as available-for-sale are not recognised in profit. Reversals of impairment losses on debt instruments are reversed through profit or loss, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

Properties under development

Properties under development are stated at cost which includes all development expenditures, including land costs, interest charges and other costs directly attributable to such properties. Properties under development which are expected to be completed within one year from the balance sheet date are classified as current assets.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Inventories

Inventories comprise merchandise purchased for resale and are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs necessary to make the sale.

Trade and other receivables

Trade receivables, which generally have a credit term of one month, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. Provision is made when there is objective evidence that the Group will not be able to collect the debts. Bad debts are written off when identified.

Cash and cash equivalents

Cash and short term deposits in the balance sheet comprise cash at banks and on hand and short term deposits with an original maturity of three months or less.

For the purpose of the consolidated cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of the money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

Employee retirement benefits

Pursuant to the relevant regulations of the PRC government, the companies now comprising the Group operating in the Mainland China (the "Mainland China group companies") have participated in a local municipal government retirement benefits scheme (the "Scheme"), whereby the Mainland China group companies are required to contribute a certain percentage of the basic salaries of their employees to the Scheme. The local municipal government undertakes to assume the retirement benefits scheme obligations of all existing and future retired employees of the Mainland China group companies. The only obligation of the Group with respect to the Scheme is to pay the ongoing contributions under the Scheme. Contributions under the Scheme are charged to the income statement as incurred. There are no provision under the Scheme whereby forfeited contributions may be used to reduce future contributions.

Share-based payment transactions

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Certain employees of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined using a binomial model, further details of which are given in note 33 to the financial statements. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ("market conditions"), if applicable.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Share-based payment transactions *(Continued)*
The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the "vesting date"). The cumulative expense recognised for equity-settled transactions at each balance sheet date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Interest-bearing loans and borrowings
All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

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

Borrowing costs
Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e. assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

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

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) revenue from the provision of repair and maintenance services, air-conditioner installation services, transportation services and management services is recognised upon the rendering of services;

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

(c) rental income arising on the sub-leasing of properties is accounted for on the straight-line basis over the lease term on ongoing leases;

(d) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset;

(e) phone service charges sharing on the sale of certain mobile phone service packages, upon the actual consumption of phone services taken place;

(f) revenue from the sale of mobile handsets under certain mobile phone service packages is deferred and recognised over the terms of the subscription contract;

(g) rebate and sponsorship from suppliers is recognised on an accrual basis upon the right to receive has been established with reference to the terms of the agreements; and

(h) dividend income, when the shareholders' right to receive payment has been established.

Income tax

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

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

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

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

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

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

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

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

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

Government grants and subsidies

Government grants and subsidies are recognised at their fair value where there is reasonable assurance that the grant or subsidy will be received and all attaching conditions will be complied with. When the grant or subsidy relates to an expense item, it is recognised as income over the periods necessary to match the grant or subsidy on a systematic basis to the costs that it is intended to compensate. Where the grant or subsidy relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

Dividends

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

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Foreign currencies

The financial records of the Mainland China group companies are maintained and the consolidated financial statements are presented in Renminbi ("RMB"), which is the functional currency of the Mainland China group companies.

Transactions in foreign currencies are initially recorded using the functional currency rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. Exchange differences are taken to profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetory items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of the Company and the Hong Kong subsidiaries are currencies other than the RMB. As at the balance sheet date, the assets and liabilities of these entities are translated into RMB at the exchange rates ruling at the balance sheet date and, their income statements are translated into RMB at the weighted average exchange rates for the year. The resulting translation differences are included in the exchange fluctuation reserve. On disposal of the Hong Kong subsidiaries, the deferred cumulative amount recognised in equity relating to that particular operation is recognised in the income statement.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*
For the purpose of the consolidated cash flow statement, the cash flows of the Company and the Hong Kong subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of the Company and the Hong Kong subsidiaries which arise throughout the year are translated into RMB at the weighted average rates for the year.

Leases
The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Group as a lessee
Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating lease payments are recognised as an expense in the income statement on the straight-line basis over the lease term.

Group as a lessor
Leases where the Group retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as rental income.

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

(i) *Impairment of goodwill*
The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2005 was RMB32,699,000 (2004: RMB20,772,000). More details are given in note 17 to the financial statements.

(ii) *Income taxes*
The preferential income tax rate of 15% entitled by Yongle (China) for the year ended 31 December 2005 is only prescribed by the relevant PRC tax authority and not prescribed under any laws or regulations. In the future, if the PRC government is of the view that such income tax treatment is inconsistent with the relevant national or local tax laws or regulations in the PRC or as a result of any other unforeseeable reasons, the PRC government may require Yongle (China) to pay its corporate income tax at a rate higher than the current applicable rate. Further details of the income tax concession are set out in note 10 to the financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Use of estimates *(Continued)*

(iii) *Deferred tax assets*

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised. Where the actual or expected tax positions of the relevant companies of the Group in future are different from the original estimate, such differences will impact on the recognition of deferred tax assets and income tax charge in the period in which such estimate has been changed. The carrying amount of deferred tax assets at 31 December 2005 was RMB40,899,000 (2004: RMB16,090,000). More details are given in note 21 to the financial statements.

(iv) *Provision for slow-moving inventories*

Provision for slow-moving inventories is made based on the ageing and estimated net realisable value of inventories. The assessment of the provision amount required involves management judgment and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will impact on the carrying value of inventories and provision charge/write-back in the period in which such estimate has been changed. The carrying amount of inventories as at 31 December 2005 was RMB1,649,268,000 (2004: RMB799,365,000).

Impact of issued but not yet effective IFRSs and IFRIC Interpretations

The Group has not applied the following IFRSs and IFRIC Interpretations that have been issued but are not yet effective:

IFRS 6 Exploration for and Evaluation of Mineral Resources

This Standard does not apply to the activities of the Group.

IFRIC Interpretation 5 Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

This Interpretation is required to be applied for annual periods beginning on or after 1 January 2006, but is not expected to be relevant for activities of the Group.

The Group expects that adoption of the pronouncements listed above will have no impact on the Group's financial statements in the period of initial application.

4. SEGMENT INFORMATION

During the years ended 31 December 2005 and 2004, the Group principally operated in one business segment, which is the retailing of household appliances and consumer electronics products. The turnover, operating results and assets in relation to this business segment accounted for more than 90% of the Group's total. In addition, all the Group's operating activities are carried out in the Mainland China. Accordingly, no further business and geographical segment analyses are presented.

5. REVENUE, OTHER INCOME AND GAINS

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

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

	Notes	2005 RMB'000	2004 RMB'000
Revenue			
Sale of household appliances and consumer electronics products		**12,134,461**	8,109,256
Phone service charges sharing and deferred revenue recognised in the sale of CDMA mobile phone service packages		**111,707**	157,700
		12,246,168	8,266,956
Other income			
Sponsorship from suppliers		**625,126**	266,343
Provision of transportation services		**–**	1,005
Provision of air-conditioner installation services		**30,576**	15,497
Rental income		**12,823**	5,338
Management fee income		**2,287**	1,902
Provision of repair and maintenance services		**1,240**	1,598
Income from sale of household furniture and decoration materials		**42**	789
Dividend from long term investments		**–**	218
Subsidy income		**61,454**	1,212
Sale of properties		**451**	–
Compensation received for breach of a contract		**10,442**	–
Others		**15,590**	5,684
		760,031	299,586
Gains			
Excess over the cost of a business combination recognised in the income statement	*35*	**–**	863
Gain on disposal of subsidiaries	*36*	**175**	–
Gain on disposal of long term investments		**–**	13
		175	876
		760,206	300,462

6. FINANCE COSTS

	2005 RMB'000	2004 RMB'000
Interest on interest-bearing bank loans	**9,190**	5,825
Less: Interest capitalised	**(884)**	(480)
	8,306	5,345

7. PROFIT BEFORE TAX

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

	Notes	2005 RMB'000	2004 RMB'000
Cost of inventories recognised as expenses		**11,343,161**	7,541,009
Depreciation	*15*	**56,391**	17,726
Amortisation of intangible assets	*16*	**2,298**	837
Provision/(write-back of provision) for slow-moving inventories		**(62,742)**	43,767
Interest income		**(52,925)**	(31,215)
Provision for doubtful debts		**–**	55
Impairment of goodwill*	*17*	**696**	6,887
Loss on disposal of property, plant and equipment		**2,964**	769
Loss on disposal of subsidiaries		**–**	11
Minimum lease payments under non-cancellable operating leases of land and buildings		**357,567**	137,605
Auditors' remuneration		**3,700**	1,256
Staff costs including directors' remuneration *(note 8)*:			
Wages, salaries and bonuses		**254,994**	116,164
Equity-settled share option expense		**7,226**	–
Retirement benefit contributions		**24,515**	14,183
Other social security and welfare costs		**45,956**	33,629
		332,691	163,976

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

The Group had 17,027 (2004: 9,192) employees as at 31 December 2005.

8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Section 161 of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong), is as follows:

	Group	
	2005 RMB'000	2004 RMB'000
Fees	**90**	–
Other emoluments:		
Salaries, allowances and benefits in kind	**4,862**	1,599
Bonuses	**2,023**	533
Retirement benefit contributions	**79**	68
	6,964	2,200
	7,054	2,200

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year are as follows:

	2005 RMB'000	2004 RMB'000
Mr. Yu Zengbiao	**30**	–
Mr. Chu Cheng Chung	**30**	–
Mr. Wang Bing	**30**	–
	90	–

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

8. DIRECTORS' REMUNERATION *(Continued)*

(b) Executive directors and non-executive directors

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Bonuses RMB'000	Retirement benefit contributions RMB'000	Total remuneration RMB'000
2005					
Executive directors:					
Mr. Chen Xiao	–	1,159	619	16	1,794
Ms. Shu Wei	–	1,001	499	16	1,516
Mr. Liu Hui	–	478	65	16	559
Mr. Ma Yawei	–	381	125	–	506
Mr. Yuan Yashi	–	363	81	16	460
Mr. Zhou Meng	–	1,050	504	–	1,554
Mr. Shen Ping	–	430	130	15	575
	–	4,862	2,023	79	6,964
Non-executive directors:					
Mr. Liu Haifeng	–	–	–	–	–
Mr. Jiao Shuge	–	–	–	–	–
Mr. Julian Juul Wolhardt	–	–	–	–	–
	–	4,862	2,023	79	6,964

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Bonuses RMB'000	Retirement benefit contributions RMB'000	Total remuneration RMB'000
2004					
Executive directors:					
Mr. Chen Xiao	–	336	140	14	490
Ms. Shu Wei	–	312	104	14	430
Mr. Liu Hui	–	310	92	14	416
Mr. Ma Yawei	–	195	64	–	259
Mr. Yuan Yashi	–	202	58	13	273
Mr. Zhou Meng	–	–	–	–	–
Mr. Shen Ping	–	244	75	13	332
	–	1,599	533	68	2,200
Non-executive directors:					
Mr. Liu Haifeng	–	–	–	–	–
Mr. Jiao Shuge	–	–	–	–	–
Mr. Julian Juul Wolhardt	–	–	–	–	–
	–	1,599	533	68	2,200

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2004: three) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining two (2004: two) non-director, highest paid employee for the year are as follows:

	2005 RMB'000	2004 RMB'000
Salaries, allowances and benefits in kind	**1,060**	549
Bonuses	**162**	178
Retirement benefit contributions	**–**	29
	1,222	756

The above remuneration does not include the equity-settled share option expense as disclosed in note 33 to the financial statements.

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

	Number of employees	
	2005	2004
Nil to RMB1,000,000	**2**	2

10. INCOME TAX

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

Except for the following companies, the Mainland China group companies are subject to a statutory corporate income tax rate of 33% for the year under the income tax rules and regulations of the PRC:

- Yongle (China), Shanghai Gaodi Logistics Co., Ltd., Shanghai Haodaojia Home-Decoration Co., Ltd., Shanghai Haodaojia Home-Decoration Marketing Management Co., Ltd., Shanghai Lequan Property Management Co., Ltd., Shanghai Yongfu Technique Service Co., Ltd. and Shanghai Zhongyongtongtai Electronics Marketing Co., Ltd. are subject to a corporate income tax rate of 15% as they are registered in the Pudong New Area, Shanghai. In addition, Shanghai Minrong Investment Co., Ltd. is subject to a corporate income tax rate of 15% for the seven-month period ended 31 December 2004 and the financial year ended 31 December 2005 as prescribed by the tax authority in accordance with the relevant tax laws and regulations.

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

10. INCOME TAX *(Continued)*

- Shanghai Yongle Communication Equipment Co., Ltd. was granted a 50% and a full tax exemption of income tax for the six-month period ended 31 December 2004 and the financial year ended 31 December 2005, respectively, as prescribed by the tax authority in accordance with the relevant tax laws and regulations.

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

	2005 RMB'000	2004 RMB'000
Current income tax – PRC		
Charge for the year	**64,474**	45,307
Underprovision in prior years	**2,545**	1,327
Deferred income tax		
Relating to origination and reversal of temporary differences *(note 21)*	**(38,423)**	(1,719)
Total tax charge for the year	**28,596**	44,915

Share of tax attributable to associates amounting to approximately RMB15,000 for the year ended 31 December 2004 is included in "share of profits and losses of associates" on the face of the Group's consolidated income statement.

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the countries in which the Group's operating subsidiaries and jointly-controlled entities are domiciled to the tax expense at the effective tax rates is as follows:

	2005 RMB'000	2004 RMB'000
Profit before tax	**349,936**	257,243
Tax at the statutory tax rate of 33%	**115,479**	84,890
Lower tax rate for specific provinces/districts or concessions	**(68,553)**	(54,098)
Tax saving from tax exemption	**(62,794)**	(3,295)
Expenses not deductible for tax	**29,730**	16,091
Deferred tax assets not recognised	**12,189**	–
Underprovision in prior years	**2,545**	1,327
Tax charge at the Group's effective rate of 8% (2004: 17%)	**28,596**	44,915

11. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The net profit from ordinary activities attributable to equity holders of the Company for the year ended 31 December 2005 dealt with in the financial statements of the Company was RMB247,000 (2004: Nil) (note 34(b)).

12. DIVIDENDS

	2005 RMB'000	2004 RMB'000
Proposed final dividend HK2.6 cents per ordinary share	**58,226**	550
Proposed special dividend HK1.3 cents per ordinary share	**29,113**	–
	87,339	550

Prior to the completion of the Reorganisation, dividends were declared by the subsidiaries of the Group during the year ended 31 December 2004 to their respective shareholders. The dividend amount of RMB550,000 for the year ended 31 December 2004, disclosed in the consolidated results represents the dividends paid by the subsidiaries to entities outside the Group. The dividend rates for year 2004 are not presented as such information is considered not meaningful for the purpose of this report.

The proposed final and special dividends for the year are subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

13. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

Basic earnings per share

The calculation of basic earnings per share amounts for the year ended 31 December 2005 is based on the net profit for the year attributable to ordinary equity holders of the Company of RMB289,474,000, and the weighted average number of ordinary shares in issue during the year of 1,678,047,208 shares on the assumption that 1,544,222,000 shares, representing the number of the shares of the Company outstanding immediately before the offering of the Company's shares in relation to the listing of the Company on the Stock Exchange (the "Global Offering"), assuming that none of the Company's share option will be exercised before the Global Offering, had been in issue throughout the year ended 31 December 2005, adjusted for new issue of 455,778,000 shares upon the Global Offering and 99,354,693 shares upon the exercise of the Financial Investors' Option by the Financial Investors on 14 October 2005 and 68,366,000 shares under over-allotment arrangement in connection with the Global Offering on 20 October 2005.

The calculation of basic earnings per share amounts for the year ended 31 December 2004 is based on the net profit for the year attributable to ordinary equity holders of the Company of approximately RMB185,650,000, and the number of ordinary shares in issue during 2004 on the assumption that 1,544,222,000 shares issued as at 14 October 2004, assuming that none of the Company's share option will be exercised before the Global Offering, had been in issue throughout the year ended 31 December 2004.

Diluted earnings per share

The calculation of diluted earnings per share amounts is based on the net profit for the year attributable to the ordinary equity holders of the Company, adjusted to reflect the outstanding share options. The weighted average number of ordinary shares used in the calculation is the ordinary shares in issue during the year, as used in the basic earnings per share calculation and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

13. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY *(Continued)*

Basic earnings per share *(Continued)*

The calculations of basic and diluted earnings per share are based on:

	2005 RMB'000	2004 RMB'000
Earnings		
Net profit attributable to ordinary equity holders of the Company	**289,474**	185,650

	Number of shares	
	2005 '000	2004 '000
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**1,678,047**	1,544,222
Effect of dilution due to share options – weighted average number of ordinary shares	**142,598**	29,737
	1,820,645	1,573,959

14. RETIREMENT BENEFIT SCHEMES

The Group is required to participate in employee retirement benefit schemes operated by the relevant local government authorities in the PRC. The PRC government is responsible for the pension liability to those retired employees. The Group is required to make contributions to the employee retirement benefit funds at rates ranging from 12% to 24% of the standard salaries set by the local authorities annually.

The Group's retirement benefit schemes contributions for the year amounted to approximately RMB24,515,000 (2004: RMB14,183,000).

15. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings RMB'000	Leasehold improvements RMB'000	Motor vehicles RMB'000	Furniture and office equipment RMB'000	Construction in progress RMB'000	Total RMB'000
At cost:						
At 1 January 2005	268,624	49,551	14,087	37,214	41,959	411,435
Additions	81,354	162,179	9,502	66,963	25,819	345,817
Disposals	(97,646)	(3,275)	(2,733)	(2,437)	(160)	(106,251)
Acquisition of subsidiaries	209,065	3,304	320	1,733	–	214,422
Disposal of subsidiaries	–	–	–	(37)	–	(37)
Transfers	52,284	–	–	8,985	(61,269)	–
At 31 December 2005	513,681	211,759	21,176	112,421	6,349	865,386
Accumulated depreciation:						
At 1 January 2005	8,705	11,227	5,155	7,244	–	32,331
Provided during the year	16,556	26,729	2,453	10,653	–	56,391
Disposals	(9,174)	(655)	(1,919)	(767)	–	(12,515)
Acquisition of subsidiaries	1,253	374	40	167	–	1,834
Disposal of subsidiaries	–	–	–	(1)	–	(1)
At 31 December 2005	17,340	37,675	5,729	17,296	–	78,040
Net book value:						
At 31 December 2005	496,341	174,084	15,447	95,125	6,349	787,346
At cost:						
At 1 January 2004	69,240	8,047	6,275	14,754	4,056	102,372
Additions	188,010	34,234	4,443	18,664	12,712	258,063
Disposals	(131)	–	(526)	(1,063)	–	(1,720)
Acquisition of subsidiaries	10,455	7,270	3,895	3,686	27,414	52,720
Transfers	1,050	–	–	1,173	(2,223)	–
At 31 December 2004	268,624	49,551	14,087	37,214	41,959	411,435
Accumulated depreciation:						
At 1 January 2004	3,549	2,842	1,508	2,167	–	10,066
Provided during the year	3,948	7,404	1,557	4,817	–	17,726
Disposals	(38)	–	(296)	(617)	–	(951)
Acquisition of subsidiaries	1,246	981	2,386	877	–	5,490
At 31 December 2004	8,705	11,227	5,155	7,244	–	32,331
Net book value:						
At 31 December 2004	259,919	38,324	8,932	29,970	41,959	379,104

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

The Group's land and buildings, included above at cost, were valued at RMB540,958,000 as at 31 August 2005 in the prospectus issued on 4 October 2005 in connection with the listing of the Company's shares on 14 October 2005 (note 32). Had the Group's land and buildings been included in these financial statements at such valuation amount throughout the year ended 31 December 2005, an additional depreciation charge of RMB1,594,000 would have been charged to the consolidated income statement for the year ended 31 December 2005.

All of the Group's leasehold land and buildings are located in the Mainland China.

Certain of the Group's property, plant and equipment have been pledged to banks for bills payable facilities and interest-bearing bank loans granted to the Group as disclosed in notes 29 and 31, respectively, to the financial statements.

The carrying amounts of the Group's leasehold land and buildings and construction in progress included capitalised interest of approximately RMB2,324,000 and RMB1,440,000 as at 31 December 2005 and 2004, respectively. Interest was capitalised at an average annual rate of 4.6% for the years ended 31 December 2005 and 2004.

16. INTANGIBLE ASSETS

	2005 RMB'000	2004 RMB'000
At cost:		
At beginning of year	**5,497**	1,840
Additions	**7,538**	3,340
Acquisition of subsidiaries	**8**	317
At end of year	**13,043**	5,497
Accumulated amortisation:		
At beginning of year	**1,687**	777
Provided during the year	**2,298**	837
Acquisition of subsidiaries	**1**	73
At end of year	**3,986**	1,687
Net book value:		
At end of year	**9,057**	3,810

Intangible assets represent the purchase costs of computer software.

17. GOODWILL

The amount of the goodwill recognised in the consolidated balance sheet, arising from the acquisition of subsidiaries and acquisition of additional interests in subsidiaries, is as follows:

	2005 RMB'000	2004 RMB'000
At cost:		
At beginning of year	**27,659**	–
Acquisition of subsidiaries	**12,033**	27,153
Arising from acquisition of additional interests in subsidiaries	**590**	506
At end of year	**40,282**	27,659
Accumulated impairment:		
At beginning of year	**(6,887)**	–
Provided during the year	**(696)**	(6,887)
At end of year	**(7,583)**	(6,887)
Net book value:		
At end of year	**32,699**	20,772

The above goodwill related to the acquisition of subsidiaries. In accordance with IFRS 3, the above goodwill is not amortised but is tested for impairment at the cash-generating units on an annual basis.

Impairment testing of goodwill
Goodwill acquired through business combinations has been allocated to the cash-generating units of the respective companies for impairment testing.

The recoverable amounts of these subsidiaries have been determined based on the value in use calculation of the respective companies. To calculate this, cash flow projections are based on financial budgets approved by management covering a three-year period. The discount rate applied to the cash flow projections beyond a one-year period is 5%. No growth has been projected beyond the three-year period.

Key assumptions used in the value in use calculation
The key assumptions on which management has based its cash flow projections when undertaking the impairment testing of goodwill are as follows:

Store revenue – the bases used to determine the future earning potential are historical sales and population growth, taking into account economy outlook.

Cost of sales and operating expenses – the bases used to determine the values assigned are cost of merchandise purchased for resale, staff headcount and other operating costs. Value assigned to the key assumption reflects past experience and management commitment to maintain its cost of sales and operating expenses to an acceptable level.

18. INTERESTS IN SUBSIDIARIES

Company

	2005 RMB'000
Unlisted shares, at cost	**405,600**
Amounts due to subsidiaries	**(7,078)**
	398,522

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

Particulars of the subsidiaries of the Group are as follow:

Company name	Place of incorporation/ registration and operation	Nominal value of issued ordinary/ issued capital as at 31 December 2005 (in '000)	Percentage of equity attributable to the Group as at 31 December 2005	Principal activities *Notes*
China Paradise Electronics Retail (Hong Kong) Limited	Hong Kong	HK$1	100%	(i)
China Paradise Electronics Retail (Hong Kong) II Limited	Hong Kong	HK$1	100%	(i)
Yongle (China) Electronics Retail Co., Ltd. (I) 永樂（中國）電器銷售有限公司	PRC/Mainland	RMB220,010	90%	(ii)
Shanghai Minrong Investment Co., Ltd. 上海民融投資有限公司	PRC/Mainland	RMB80,000	89.1%	(iii)
Anhui Yongle Hongtai Electronics Retail Co., Ltd. 安徽永樂鴻泰家用電器有限公司	PRC/Mainland	RMB10,000	89.91%	(ii)
Anyang Yongle Electronics Retail Co., Ltd. 安陽永樂生活電器有限公司	PRC/Mainland	RMB5,000	89.91%	(ii)
Beijing Century Yongle Electronics Retail Co., Ltd. 北京世紀永樂家用電器有限公司	PRC/Mainland	RMB10,000	89.91%	(ii)

18. INTERESTS IN SUBSIDIARIES *(Continued)*

Company name	Place of incorporation/ registration and operation	Nominal value of issued ordinary/ issued capital as at 31 December 2005 (in '000)	Percentage of equity attributable to the Group as at 31 December 2005	Principal activities *Notes*
Changge Yongle Electronics Retail Co., Ltd. 長葛永樂生活電器有限公司	PRC/Mainland	RMB5,000	89.91%	(ii)
Changzhou Yongle Electronics Retail Co., Ltd. 常州市永樂家用電器有限公司	PRC/Mainland	RMB5,000	89.91%	(ii)
Cixi Yongle Electronics Retail Co., Ltd. 慈溪市永樂家用電器有限公司	PRC/Mainland	RMB4,000	89.91%	(ii)
Dongguan Yonggang Electronics Retail Co., Ltd. 東莞市永剛家用電器有限公司	PRC/Mainland	RMB5,000	89.91%	(ii)
Foshan Yongle Electronics Retail Co., Ltd. 佛山市永樂生活電器有限公司	PRC/Mainland	RMB5,000	89.91%	(ii)
Fuyang Yongsheng Electronics Retail Co., Ltd. 富陽永盛家電有限公司	PRC/Mainland	RMB1,000	89.91%	(ii)
Guangdong Yongle Electronics Retail Co., Ltd. 廣東永樂家用電器有限公司	PRC/Mainland	RMB30,000	89.91%	(ii)
Haimen Yongsheng Electronics Retail Co., Ltd. 海門市永勝家用電器有限公司	PRC/Mainland	RMB2,000	89.91%	(ii)
Haining Yongle Electronics Retail Co., Ltd. 海寧市永樂家電有限公司	PRC/Mainland	RMB1,000	89.91%	(ii)
Hangzhou Linping Yongle Electronics Retail Co., Ltd. 杭州臨平永樂家電有限公司	PRC/Mainland	RMB1,000	89.91%	(ii)
Henan Yongle Technique Service Co., Ltd. 河南永樂技術服務有限公司	PRC/Mainland	RMB1,000	89.91%	(ii)

18. INTERESTS IN SUBSIDIARIES *(Continued)*

Company name	Place of incorporation/ registration and operation	Nominal value of issued ordinary/ issued capital as at 31 December 2005 (in '000)	Percentage of equity attributable to the Group as at 31 December 2005	Principal activities *Notes*
Henan Yongle Electronics Retail Co., Ltd. 河南永樂生活電器有限公司	PRC/Mainland	RMB20,000	89.91%	(ii)
Huaian Yongle Electronics Retail Co., Ltd. 淮安永樂生活電器有限公司	PRC/Mainland	RMB5,000	89.91%	(ii)
Jiangsu Yongle Electronics Retail Co., Ltd. (a) 江蘇永樂家用電器有限公司	PRC/Mainland	RMB5,000	89.91%	(ii)
Jiangsu Yongle Technique Service Co., Ltd. 江蘇永樂家電維修服務有限公司	PRC/Mainland	RMB5,000	89.91%	(ii)
Jiaxing Yongle Electronics Retail Co., Ltd. 嘉興市永樂家電有限公司	PRC/Mainland	RMB4,000	89.91%	(ii)
Jiaozuo Yongle Electronics Retail Co., Ltd. 焦作永樂生活電器有限公司	PRC/Mainland	RMB5,000	89.91%	(ii)
Jingjiang Yongji Electronics Retail Co., Ltd. 靖江市永吉生活電器有限公司	PRC/Mainland	RMB3,000	89.91%	(ii)
Kaifeng Yongle Electronics Retail Co., Ltd. 開封永樂生活電器有限公司	PRC/Mainland	RMB5,000	89.91%	(ii)
Kunshan Yongji Electronics Retail Co., Ltd. 昆山市永吉家用電器有限公司	PRC/Mainland	RMB5,000	89.91%	(ii)
Lianyungang Yongji Electronics Retail Co., Ltd. 連雲港永吉生活電器有限公司	PRC/Mainland	RMB3,000	89.91%	(ii)
Luoyang Yongle Electronics Retail Co., Ltd. 洛陽永樂生活電器有限公司	PRC/Mainland	RMB5,000	89.91%	(ii)

18. INTERESTS IN SUBSIDIARIES *(Continued)*

Company name	Place of incorporation/ registration and operation	Nominal value of issued ordinary/ issued capital as at 31 December 2005 (in '000)	Percentage of equity attributable to the Group as at 31 December 2005	Principal activities *Notes*
Nanjing Yongle Electronics Retail Co., Ltd. 南京永樂生活家用電器有限公司	PRC/Mainland	RMB10,000	89.91%	(ii)
Nantong Yongtong Electronics Retail Co., Ltd. 南通永通家用電器有限公司	PRC/Mainland	RMB4,000	89.91%	(ii)
Nanyang Yongle Electronics Retail Co., Ltd. 南陽永樂生活電器有限公司	PRC/Mainland	RMB5,000	89.91%	(ii)
Ningbo Jiangdong Yongle Electronics Retail Co., Ltd. 寧波市江東永樂家用電器有限公司	PRC/Mainland	RMB8,000	89.91%	(ii)
Ninghai Yonghai Electronics Retail Co., Ltd. 寧海縣永海生活電器有限公司	PRC/Mainland	RMB1,000	89.91%	(ii)
Pingdingshan Yongle Electronics Retail Co., Ltd. 平頂山永樂生活電器有限公司	PRC/Mainland	RMB5,000	89.91%	(ii)
Pinghu Yongxin Electronics Retail Co., Ltd. 平湖市永欣家電有限公司	PRC/Mainland	RMB1,000	89.91%	(ii)
Qidong Yongsheng Electronics Retail Co., Ltd. 啟東市永盛家用電器有限公司	PRC/Mainland	RMB3,000	89.91%	(ii)
Rugao Yongji Electronics Retail Co., Ltd. 如皋市永吉家用電器有限公司	PRC/Mainland	RMB3,000	89.91%	(ii)
Shanxi Yongle • Dazhong Electronics Retail Co., Ltd. (k) 陝西永樂•大中生活電器有限公司	PRC/Mainland	RMB10,000	89.91%	(ii)
Shanghai Chenyue Real Estate Development Co., Ltd. 上海辰粵房地產開發有限公司	PRC/Mainland	RMB106,000	N/A	(iii)

18. INTERESTS IN SUBSIDIARIES *(Continued)*

Company name	Place of incorporation/ registration and operation	Nominal value of issued ordinary/ issued capital as at 31 December 2005 (in '000)	Percentage of equity attributable to the Group as at 31 December 2005	Principal activities *Notes*
Shanghai Gaodi Logistics Co., Ltd. 上海永樂高地物流有限公司	PRC/Mainland	RMB3,000	89.91%	(iv)
Shanghai Haodaojia Home–Decoration Co., Ltd. (f) 上海好到家家居裝飾有限公司	PRC/Mainland	RMB4,000	89.91%	(v)
Shanghai Haodaojia Home Decoration & Design Co., Ltd. 上海好到家裝潢設計有限公司	PRC/Mainland	RMB500	89.91%	(vi)
Shanghai Haodaojia Home–Decoration Marketing Management Co., Ltd. 上海好到家家居裝飾市場經營管理有限公司	PRC/Mainland	RMB1,000	89.91%	(vii)
Shanghai Lequan Property Management Co., Ltd. 上海樂全物業管理有限公司	PRC/Mainland	RMB1,000	89.91%	(vii)
Shanghai Minrong Consumer Goods Transportation Co., Ltd. (f) 上海民融消費品配送有限公司	PRC/Mainland	RMB10,000	89.91%	(ii)
Shanghai Shanglu Advertising Co., Ltd. 上海商旅廣告有限公司	PRC/Mainland	RMB500	89.91%	(ix)
Shanghai Yongfu Technique Service Co., Ltd. (b) 上海永服電器服務有限公司	PRC/Mainland	RMB10,000	89.91%	(viii)
Shanghai Yongju Home Decoration Co., Ltd. 上海永居裝潢設計有限公司	PRC/Mainland	RMB12,000	89.91%	(v)
Shanghai Yongju Home-Decoration Marketing Management Co., Ltd. (c) 上海永居裝飾市場經營管理有限公司	PRC/Mainland	RMB1,000	89..91%	(vii)
Shanghai Yongju Housewares Sales Co., Ltd. 上海永居家庭裝飾產品銷售有限公司	PRC/Mainland	RMB5,000	89.91%	(v)

18. INTERESTS IN SUBSIDIARIES *(Continued)*

Company name	Place of incorporation/ registration and operation	Nominal value of issued ordinary/ issued capital as at 31 December 2005 (in '000)	Percentage of equity attributable to the Group as at 31 December 2005	Principal activities *Notes*
Shanghai Yongle Stock Purchase Electronics Co., Ltd. 上海永樂家用電器採購有限公司	PRC/Mainland	RMB10,000	89.91%	(ii)
Shanghai Yongle Communication Equipment Co., Ltd. (d) 上海永樂通訊設備有限公司	PRC/Mainland	RMB10,000	89.91%	(x)
Shanghai Yongle Electronics Training Center 上海永樂家電職業技術培訓中心	PRC/Mainland	RMB100	90%	(xi)
Shanghai Yongle Smart Building Equipment Engineering & Service Co., Ltd. 上海永樂樓宇設備工程服務有限公司	PRC/Mainland	RMB2,000	89.91%	(ii)
Shanghai Yongle Smart Building Equipment Marketing Co., Ltd. 上海永樂樓宇設備銷售有限公司	PRC/Mainland	RMB5,000	89.91%	(ii)
Shanghai Yongle Commercial Management Co., Ltd. 上海永樂商業管理有限公司	PRC/Mainland	RMB1,000	89.91%	(ii)
Shanghai Yongle Illuminations Electronics Co., Ltd. 上海永樂照明電器有限公司	PRC/Mainland	RMB10,000	63.9%	(ii)
Shangyu Yongle Electronics Retail Co., Ltd. 上虞市永樂家電有限公司	PRC/Mainland	RMB1,000	89.91%	(ii)
Shaoxing Yongle Electronics Retail Co., Ltd. (j) 紹興永樂家用電器有限公司	PRC/Mainland	RMB1,000	89.91%	(ii)
Shenzhen Yongle Electronics Retail Co., Ltd. 深圳永樂家用電器有限公司	PRC/Mainland	RMB8,000	89.91%	(ii)
Sichuan Yongle Electronics Retail Co., Ltd. (e) (g) 四川永樂家用電器連鎖有限公司	PRC/Mainland	RMB20,000	89.91%	(ii)

18. INTERESTS IN SUBSIDIARIES *(Continued)*

Company name	Place of incorporation/ registration and operation	Nominal value of issued ordinary/ issued capital as at 31 December 2005 (in '000)	Percentage of equity attributable to the Group as at 31 December 2005	Principal activities *Notes*
Suzhou Yongle Electronics Retail Co., Ltd. 蘇州永樂家電有限公司	PRC/Mainland	RMB10,000	89.91%	(ii)
Taicang Yongtai Electronics Retail Co., Ltd. 太倉永太家用電器有限公司	PRC/Mainland	RMB1,000	89.91%	(ii)
Taixing Yonggao Electronics Retail Co., Ltd. 泰興市永高家用電器有限公司	PRC/Mainland	RMB4,000	89.91%	(ii)
Taizhou Yongji Electronics Retail Co., Ltd. 泰州永吉生活電器有限公司	PRC/Mainland	RMB5,000	89.91%	(ii)
Tianjin Yongle Electronics Retail Co., Ltd. 天津永樂生活電器有限公司	PRC/Mainland	RMB10,000	89.91%	(ii)
Tongxiang Yongle Electronics Retail Co., Ltd. 桐鄉市永樂家電有限公司	PRC/Mainland	RMB1,000	89.91%	(ii)
Wuxi Yongxi Electronics Retail Co., Ltd. 無錫永錫家用電器有限公司	PRC/Mainland	RMB5,000	89.91%	(ii)
Xiamen Yongle Siwen Electronics Retail Co., Ltd. (g) (h) 廈門永樂思文家電有限公司	PRC/Mainland	RMB10,000	81%	(ii)
Xinxiang Yongle Electronics Retail Co., Ltd. 新鄉永樂生活電器有限公司	PRC/Mainland	RMB5,000	89.91%	(ii)
Xuzhou Yongle Electronics Retail Co., Ltd. 徐州市永樂家用電器有限公司	PRC/Mainland	RMB5,000	89.91%	(ii)
Yancheng Yongji Electronics Retail Co., Ltd. 鹽城永吉生活電器有限公司	PRC/Mainland	RMB5,000	89.91%	(ii)

18. INTERESTS IN SUBSIDIARIES *(Continued)*

Company name	Place of incorporation/ registration and operation	Nominal value of issued ordinary/ issued capital as at 31 December 2005 (in '000)	Percentage of equity attributable to the Group as at 31 December 2005	Principal activities *Notes*
Yangzhou Yongle Electronics Retail Co., Ltd. 揚州永樂生活電器有限公司	PRC/Mainland	RMB5,000	89.91%	(ii)
Yixing Yongle Electronics Retail Co., Ltd. 宜興市永樂家電有限公司	PRC/Mainland	RMB4,000	89.91%	(ii)
Yuyao Yongle Electronics Retail Co., Ltd. (i) 余姚市永樂家用電器有限公司	PRC/Mainland	RMB4,000	89.91%	(ii)
Zhangjiagang Yongji Electronics Retail Co., Ltd. 張家港永吉生活電器有限公司	PRC/Mainland	RMB3,000	89.91%	(ii)
Zhejiang Yongle Electronics Retail Co., Ltd. 浙江永樂家電有限公司	PRC/Mainland	RMB15,000	89.91%	(ii)
Zhejiang Yongle Smart Building Equipment Engineering & Service Co., Ltd. 浙江永樂樓宇工程服務有限公司	PRC/Mainland	RMB5,000	89.91%	(ii)
Zhongshan Yongji Electronics Retail Co., Ltd. 中山永吉家用電器有限公司	PRC/Mainland	RMB5,000	89.91%	(ii)
Zhuji Yongqiang Electronics Retail Co., Ltd. 諸暨市永強家電有限公司	PRC/Mainland	RMB1,000	89.91%	(ii)

Except for China Paradise Electronics Retail (Hong Kong) Limited, all the equity in the above companies are indirectly held by the Company.

Except for Yongle (China) which is registered as a foreign-invested enterprise, all other PRC/Mainland companies are registered as limited liability companies.

All the above companies' financial statements were not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms. The Group engaged a certified public accountants firm in the PRC to audit these companies' statutory financial statements.

18. INTERESTS IN SUBSIDIARIES *(Continued)*

Notes:

(i) Investment holding

(ii) Operation of household appliances and consumer electronics products chain stores

(iii) Property development

(iv) Provision of transportation services to the Group companies

(v) Sale of household furniture and decoration materials

(vi) Provision of indoor design and decoration services

(vii) Provision of management services

(viii) Provision of air-conditioner installation services

(ix) Provision of advertising and promotion services

(x) Wholesale of household appliances

(xi) Dormant

(a) On 6 July 2005, the company's name was changed from Wuxi Yongyue Electronics Retail Co., Ltd. (無錫永越家用電器有限公司) to Jiangsu Yongle Electronics Retail Co., Ltd. (江蘇永樂家用電器有限公司).

(b) On 6 June 2005, the company's name was changed from Shanghai Yonggu Refrigerator Engineering Co., Ltd. (上海永固制冷設備工程有限公司) to Shanghai Yongfu Technique Service Co., Ltd. (上海永服電器服務有限公司).

(c) On 16 June 2005, the company's name was changed from Shanghai Haodaojia (Caobao) Home-Decoration Marketing Management Co., Ltd. (上海好到家漕寶家居裝飾市場經營管理有限公司) to Shanghai Yongju Home-Decoration Marketing Management Co., Ltd. (上海永居裝飾市場經營管理有限公司).

(d) On 11 November 2004, the company's name was changed from Shanghai Minrong Communication Co., Ltd. (上海民融通訊設備有限公司) to Shanghai Yongle Communication Equipment Co., Ltd. (上海永樂通訊設備有限公司).

(e) On 14 July 2005, the company's name was changed from Chengdu Yongle-Chengbai Electronics Retail Co., Ltd. (成都成百永樂家用電器連鎖有限公司) to Sichuan Yongle Electronics Retail Co., Ltd. (四川永樂家用電器連鎖有限公司).

(f) Before the respective dates of 8 August 2004 and 15 August 2004, Shanghai Haodaojia Home-Decoration Co., Ltd. and Shanghai Minrong Consumer Goods Transportation Co., Ltd. were associates of the Group and were thus accounted for using the equity method of accounting.

(g) Before the respective dates of 28 May 2005 and 2 August 2005, Sichuan Yongle Electronics Retail Co., Ltd. and Xiamen Yongle Siwen Electronics Retail Co., Ltd. were jointly-controlled entities of the Group and were thus accounted for by proportionate consolidation.

(h) On 25 April 2005, the company's name was changed from Xiamen Yongshang Electronics Retail Co., Ltd. (廈門永商家電有限公司) to Xiamen Yongle Electronics Retail Co., Ltd. (廈門永樂家電有限公司). On 30 August 2005, the company's name was further changed to Xiamen Yongle Siwen Electronics Retail Co., Ltd. (廈門永樂思文家電有限公司).

(i) On 14 September 2005, the company's name was changed from Yuyao Yongdong Electronics Retail Co., Ltd. (余姚市永東家用電器有限公司) to Yuyao Yongle Electronics Retail Co., Ltd. (余姚市永樂家用電器有限公司).

(j) On 15 September 2005, the company's name was changed from Shaoxing Yongda Electronics Retail Co., Ltd. (紹興永大家用電器有限公司) to Shaoxing Yongle Electronics Retail Co., Ltd. (紹興永樂家用電器有限公司).

(k) On 17 February 2006, the company's name was changed from Shanxi Yongle Electronics Retail Co., Ltd. (陝西永樂生活電器有限公司) to Shanxi Yongle•Dazhong Electronics Retail Co., Ltd. (陝西永樂•大中生活電器有限公司).

(l) On 1 March 2006, the company's name was changed from Shanghai Yongle Electronics Retail Co., Ltd. (上海永樂家用電器有限公司) to Yongle (China) Electronics Retail Co., Ltd. (永樂(中國)電器銷售有限公司).

19. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

The Group has interests in jointly-controlled entities. Particulars are as follows:

Company name	Place of incorporation/ registration and operation	Nominal value of issued ordinary/ issued capital as at 31 December 2005 (in '000)	Percentage of equity attributable to the Group as at 31 December 2005	Principal activities *Notes*
Fujian Yongle-Shangye Electronics Retail Co., Ltd. 福建永樂商業家電有限公司	PRC/Mainland	RMB24,000	45%	(i)
Quanzhou Yongle Electronics Retail Co., Ltd. 泉州永樂家電有限公司	PRC/Mainland	RMB5,000	45%	(i)
Shanghai Zhongyongtongtai Electronics Marketing Co., Ltd. 上海中永通泰電器營銷有限公司	PRC/Mainland	RMB1,000	27%	(ii)

Notes:

(i) Operation of household appliances and consumer electronics products chain stores

(ii) Wholesale of household appliances

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

The share of the assets and liabilities of the jointly-controlled entities at the balance sheet date, which are included in the consolidated financial statements, is as follows:

	2005 RMB'000	2004 RMB'000
Current assets	**118,227**	183,669
Non-current assets	**10,247**	12,634
	128,474	196,303
Current liabilities	**(113,526)**	(173,458)
Net assets	**14,948**	22,845

19. INTERESTS IN JOINTLY-CONTROLLED ENTITIES *(Continued)*

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

	2005 RMB'000	2004 RMB'000
Revenue	**390,020**	265,027
Cost of sales	**(372,169)**	(253,215)
Other income and gains	**16,998**	10,690
Selling and distribution costs	**(24,039)**	(21,833)
Administrative expenses	**(5,441)**	(7,577)
Other expenses	**(169)**	(93)
Profit/(loss) before tax	**5,200**	(7,001)
Income tax	**(2,894)**	1,517
Net profit/(loss) for the year	**2,306**	(5,484)

20. DEFERRED EXPENDITURE/INCOME

	Notes	**2005 RMB'000**	2004 RMB'000
Deferred expenditure			
Deferred expenditure on the sale of mobile handsets under CDMA mobile phone service packages	*(i)*	**18,251**	59,207
Others	*(ii)*	**68,208**	18,032
		86,459	77,239
Deferred income			
Deferred income from the sale of mobile handsets under CDMA mobile phone service packages	*(i)*	**6,939**	26,938

Notes:

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

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

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

21. DEFERRED TAX ASSETS AND LIABILITIES

The movements in deferred tax assets and liabilities during the year are as follows:

Deferred tax assets

	Inventory provision RMB'000	Losses available for offset against future taxable profit RMB'000	Income taxable in advance RMB'000	Total RMB'000
At 1 January 2005	6,457	9,749	(116)	16,090
Acquisition of subsidiaries	1,184	695	(111)	1,768
Deferred tax credited/(charged) to the income statement during the year	(5,531)	18,502	10,070	23,041
At 31 December 2005	2,110	28,946	9,843	40,899

Deferred tax liabilities

	Fair value adjustments arising from acquisition of a subsidiary RMB'000	Inventory provision RMB'000	Income not yet taxable RMB'000	Total RMB'000
At 1 January 2005	–	8,591	(24,436)	(15,845)
Acquisition of subsidiaries	(38,548)	–	–	(38,548)
Deferred tax credited/(charged) to the income statement during the year	1,517	(7,034)	20,899	15,382
At 31 December 2005	(37,031)	1,557	(3,537)	(39,011)

Deferred tax assets

	Inventory provision RMB'000	Losses available for offset against future taxable profit RMB'000	Income not yet taxable RMB'000	Total RMB'000
At 1 January 2004	–	–	–	–
Acquisition of subsidiaries	2,082	5,760	4,201	12,043
Deferred tax credited/(charged) to the income statement during the year	4,375	3,989	(4,317)	4,047
At 31 December 2004	6,457	9,749	(116)	16,090

21. DEFERRED TAX ASSETS AND LIABILITIES *(Continued)*

Deferred tax liabilities

	Inventory provision RMB'000	**Income not yet taxable** RMB'000	**Total** RMB'000
At 1 January 2004	4,115	(17,632)	(13,517)
Deferred tax credited/(charged) to the income statement during the year	4,476	(6,804)	(2,328)
At 31 December 2004	8,591	(24,436)	(15,845)

22. INVENTORIES

	2005 **RMB'000**	2004 RMB'000
Merchandise, at cost	**1,668,056**	877,304
Inventory provision	**(18,788)**	(77,939)
	1,649,268	799,365

At 31 December 2005, the Group's inventories amounting to RMB700 million (2004: RMB500 million) were pledged for bills payable facilities granted to the Group as disclosed in note 29 to the financial statements.

23. TRADE RECEIVABLES

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

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

	2005 **RMB'000**	2004 RMB'000
Within three months	**70,866**	21,344
Over three months but within six months	**972**	3,038
Over six months but within one year	**47**	1,589
Over one year	**1,970**	–
	73,855	25,971

23. TRADE RECEIVABLES *(Continued)*

The amounts due from related companies included in the above can be analysed as follows:

	2005 RMB'000	2004 RMB'000
Jointly-controlled entities	**4,092**	3,154

The balances are unsecured, non-interest-bearing and repayable on demand.

24. BILLS RECEIVABLE

The maturity profile of the bills receivable of the Group is as follows:

	2005 RMB'000	2004 RMB'000
Over three months but within six months	**3,530**	–

25. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2005 RMB'000	2004 RMB'000
Prepayments	**743,950**	240,562
Deposits for leasehold land and buildings	**–**	200,464
Rebate and sponsorship income receivable	**573,708**	281,092
Other deposits and receivables	**346,824**	113,596
	1,664,482	835,714

26. PROPERTY UNDER DEVELOPMENT

Property under development represents costs of the portion of "Yongle" building that was for sale. During the year, the "Yongle" building was fully completed and sold.

27. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group	
	2005 RMB'000	2004 RMB'000
Cash and bank balances	**278,057**	494,943
Time deposits	**3,042,944**	1,123,684
	3,321,001	1,618,627
Less: Pledged deposits	**(1,779,594)**	(1,123,684)
Cash and cash equivalents	**1,541,407**	494,943

The Group's cash and cash equivalents are denominated in RMB at each balance sheet date, except for aggregate amounts of RMB52 million and RMB1,263 million, which is denominated in Hong Kong dollars and United States dollars, respectively, as at 31 December 2005.

	Company	
	2005 RMB'000	2004 RMB'000
Cash and bank balances	**51,467**	–
Time deposits	**1,263,350**	–
	1,314,817	–

The Company's cash and cash equivalents are denominated in RMB at each balance sheet date, except for aggregate amounts of RMB51 million and RMB1,263 million, which is denominated in Hong Kong dollars and United States dollars, respectively, as at 31 December 2005.

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

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

Certain of the Group's time deposits were pledged to banks for bills payable facilities granted to the Group as disclosed in note 29 to the financial statements.

28. TRADE PAYABLES

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

	2005 RMB'000	2004 RMB'000
Within three months	**1,013,115**	626,869
Over three months but within six months	**79,818**	23,202
Over six months but within one year	**59,687**	60,672
Over one year	**9,152**	1,887
	1,161,772	712,630

The amounts due to related companies included in the above can be analysed as follows:

	2005 RMB'000	2004 RMB'000
Jointly-controlled entities	**1,244**	491

The balances are unsecured, non-interest-bearing and repayable on demand.

29. BILLS PAYABLE

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

	2005 RMB'000	2004 RMB'000
Within three months	**2,267,458**	526,975
Over three months but within six months	**1,365,304**	1,782,396
	3,632,762	2,309,371

The Group's bills payable are secured by:

(i) the pledge of certain of the Group's time deposits amounting to RMB1,780 million (2004: RMB1,124 million);

(ii) the pledge of certain of the Group's leasehold land and buildings with aggregate net book values of approximately RMB196,858,000 (2004: RMB38,956,000); and

(iii) the pledge of certain of the Group's inventories amounting to RMB700 million (2004: RMB500 million).

As at 31 December 2004, the Directors provided guarantees totalling approximately RMB1,070 million for the banking facilities granted to the Group. These guarantees ended 31 December 2005 were released during the year.

30. OTHER PAYABLES AND ACCRUALS

	2005 RMB'000	2004 RMB'000
Advances from customers	**25,602**	21,477
Other payables and accruals	**193,555**	89,667
	219,157	111,144

Included in other payables and accruals as at 31 December 2004 was a consideration of RMB2,662,000 received from two Directors for the pre-sale of certain units of "Yongle" building as disclosed in note 26 to the financial statements.

31. INTEREST-BEARING BANK LOANS

	Effective interest rate (%)	Maturity	2005 RMB'000	2004 RMB'000
Current:				
Bank loans – secured	5.22-5.58	2006	**340,000**	170,000
Non-Current:				
Bank loans – secured			**–**	26,000
			340,000	196,000
Bank loans repayable:				
Within one year or on demand			**340,000**	170,000
In the second year			**–**	26,000
			340,000	196,000

The Group's bank loans are secured by:

(i) the pledge of certain of the Group's leasehold land and buildings and construction in progress with aggregate net book values of approximately RMB196,858,000 (2004: RMB108,431,000); and

(ii) the pledge of certain of the Group's inventories amounting to RMB700 million (2004: Nil).

The pledge of the Group's property under development amounting to RMB20,085,000 as at 31 December 2004 and the security by way of the Group's right of entitlement to the sharing of mobile phone service charge income on the sale of CDMA mobile phone service packages have been released during the year.

32. SHARE CAPITAL

	2005 RMB'000	2004 RMB'000
Authorised:		
5,000,000,000 ordinary shares of HK$0.10 each	**520,000**	1
Issued and fully paid:		
2,167,720,693 ordinary shares of HK$0.10 each	**225,443**	1

During the year, the movements in share capital were as follows:

(a) In January 2005, each of MS Retail Limited and CDH Electronics Limited subscribed for 2,150 shares and 350 shares at a par value of US$0.01 each, respectively, at a total consideration of US$50 million (equivalent to RMB 413,514,000), of which RMB413,513,000 was credited to share premium account;

(b) Pursuant to written resolutions of the shareholders on 14 September 2005, the original authorised share capital of the Company of US$100 (10,000 shares at US$0.01 each) was cancelled and a new class of share capital of 5,000,000,000 shares at HK$0.10 each was created. Accordingly, the issued capital of 9,139 shares at US$0.01 each immediately prior to the date of these resolutions was repurchased and cancelled and 9,139 shares of HK$0.10 were issued and allotted to the existing shareholders based on their existing shareholding on a pro rata basis ("Capital Change"). In addition, 1,544,212,861 shares were then allotted and issued at a par value by way of capitalisation of part of the Company's share premium account to these shareholders on the said pro rata basis ("Capitalisation Issue") amounted to RMB160,598,000;

(c) The issue of 524,144,000 shares, including 68,366,000 shares under the over-allotment option arrangement, at a total consideration of RMB1,226,497,000 pursuant to the Global Offering, of which RMB54,511,000 and RMB1,171,986,000 were credited to issued share capital and share premium account, respectively. These shares with a norminal value of HK$0.10 each were issued to the public by way of the Global Offering at a price of HK$2. 25. After deducting the share issue expenses totalling approximately RMB72,885,000, the Company raised net proceeds of approximately RMB1,153,612,000; and

(d) The issue of 99,354,695 shares at a total consideration of RMB142,106,000 upon exercise of the Financial Investors' Option by the Financial Investors on 14 October 2005, of which RMB10,333,000 and RMB131,773,000 were credited to issue share capital and share premium account, respectively.

32. SHARE CAPITAL *(Continued)*

A summary of the transactions during the year with reference to the above movements in the Company's issued ordinary share capital is as follows:

	Number of shares in issue '000	Issued share capital RMB'000	Share premium account RMB'000	Total RMB'000
At 1 January 2005	7	1	–	1
Issue of shares upon the Financial Investment (as defined in note 1)	2	–	413,513	413,513
Issue of shares upon the Capital Change and Capitalisation Issue	1,544,213	160,598	(160,598)	–
Issue of shares upon the Global Offering	524,144	54,511	1,171,986	1,226,497
Issue of shares upon the exercise of the Financial Investors' Option	99,355	10,333	131,773	142,106
	2,167,721	225,443	1,556,674	1,782,117
Share issue expenses	–	–	(72,885)	(72,885)
At 31 December 2005	2,167,721	225,443	1,483,789	1,709,232

33. SHARE OPTION SCHEME

The Company has granted options to various parties to subscribe for its shares as set out below:

The Financial Investors' Option

Pursuant to the shareholders' agreement entered into between the Company and the Financial Investors on 24 December 2004, the Company granted options to the Financial Investors at no consideration whereby the Financial Investors can require the Company to allot and issue 506 and 82 ordinary shares of US$0.01 each, respectively, in the capital of the Company (the "Pre-Redenomination Shares") (equivalent to 85,499,107 and 13,855,586 shares, respectively, after the conversion of the Pre-Redenomination Shares into share of the Company with a par value of HK$0.10 each (the Capital Change as defined in note 32(b)) and the issue of the Company's shares to be made upon the capitalisation of part of the Company's share premium account (the Capitalisation Issue as defined in note 32(b)) to MS Retail Limited and CDH Electronics Limited, respectively (the "Financial Investors' Option") for an aggregate exercise price of US$17.65 million, which is equivalent to approximately HK$1.38 per share after the Capital Change and Capitalisation Issue. The Financial Investors' Option has been fully exercised by the Financial Investors' Option on 14 October 2005 and the total consideration received amounting to RMB142,106,000 has been credited to the issued capital and share premium account as disclosed in note 32 to the financial statements.

The RM Management Incentive Option

Pursuant to an option deed entered into between the Company and Retail Management dated 14 September 2004, as amended and restated on 16 December 2004 (the "RM Management Incentive Option"), the Company granted the RM Management Incentive Option to Retail Management at no consideration to subscribe for 861 Pre-Redenomination Shares (subject to any adjustment pursuant to the changes in the Company's share capital) (equivalent to 145,483,657 shares after the Capital Change and Capitalisation Issue), exercisable within 20 years from 14 September 2004 as a management incentive. The exercise price of the option shall be US$18,000 per Pre-Redenomination Share (equivalent to HK$0.83 per share after the Capital Change) less an amount calculated based on the dividends which have been declared by the Company up to the time of exercise of the RM Management Incentive Option which Retail Management would have been entitled to receive if the shares subject to that option had already been issued.

33. SHARE OPTION SCHEME *(Continued)*

The RM Management Incentive Option *(Continued)*
For the RM Management Incentive Option, the Group has taken advantage of the transitional provisions of IFRS 1 in respect of equity-settled awards and only applied IFRS 2 to equity-settled awards granted on or after 1 January 2005 as the Group has not previously disclosed publicly the fair value of equity instruments that granted and vested on or before 1 January 2005.

The Wang Management Incentive Option
Pursuant to an option deed entered into between the Company and Tong Ley Investment Ltd. ("Tong Ley"), a private company wholly owned by Mr. Wang Jiayu ("Mr. Wang") dated 4 July 2005, the Company granted an option to Tong Ley at no consideration, to subscribe for 257 Pre-Redenomination Shares, equivalent to 43,425,435 shares after the Capital Change (subject to any adjustment pursuant to the changes in the Company's share capital), exercisable within 20 years from the date of the option deed (the "Wang Management Incentive Option"). The exercise price of the Wang Management Incentive Option shall be US$18,000 per Pre-Redenomination Share (equivalent to HK$0.83 per share after the Capital Change and Capitalisation Issue) less an amount calculated based on the dividends which have been declared by the Company up to the time of exercise of the Wang Management Incentive Option which Tong Ley would have been entitled to receive if the shares subject to that option had already been issued. Mr. Wang is the general manager of Henan Tongli Retail Co., Ltd. and the Wang Management Incentive Option was granted to retain him as a senior advisor to the Company in respect of the Group's business in Henan province. There are no vesting conditions on the Wang Management Incentive Option.

The fair value of the share options granted during the year was RMB7,226,000.

The fair value of equity-settled share options granted during the year was estimated as at the date of grant, using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used for the year ended 31 December 2005:

Expected volatility (%)	35
Risk-free interest rate (%)	4.5
Expected life of option (year)	1.5
Value per share price (HK$)	0.85
Dividend yield (%)	2

The expected life of the options is estimated by management based on representation from the option owner, taking into account the probability of the materialisation of the transactions.

The expected volatility reflects management's estimation of the volatility of the Company's share price based on the volatility of the shares of a listing company engaged in the same industry with the Group.

The value per share price is estimated by management based on the selling price of the Company's shares to the Financial Investors prior to the grant of the option.

No other feature of the option granted was incorporated in the measurement of the fair value.

As at 31 December 2005, except for the full exercise of the Financial Investors' Option, none of the management incentive options has been exercised.

34. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 56 of this report.

(i) Contributed surplus

The contributed surplus of the Group represents the difference between the Company's cost of investment in Yongle (China) and the share capital and share premium account of Yongle (China) arose from the preparation of the Group's consolidated financial statements on the basis of preparation set out in note 2 to the financial statements.

(ii) Statutory surplus reserves

In accordance with the PRC Company Law and the articles of association of the Group companies, the subsidiaries that are domiciled in the Mainland China are required to appropriate certain percentage of their net profits after tax to statutory reserve fund. Subject to certain restrictions set out in the relevant PRC regulations and in the Group companies' articles of association, the statutory reserve fund may be used either to offset losses, or to be converted to increase paid-up capital. The reserves cannot be used for purposes other than those for which they are created and are not distributable as cash dividends.

(iii) Dividend

Prior to the completion of the Reorganisation, dividends were declared by subsidiaries of the Group in the year ended 31 December 2004 to their respective shareholders. The dividend amount of RMB550,000 represented the dividends paid by the subsidiaries to entities outside the Group for the year ended 31 December 2004.

(b) Company

	Notes	**Share premium account** RMB'000 *Note (i)*	**Share option reserve** RMB'000	**Exchange fluctuation reserve** RMB'000	**Retained profits** RMB'000	**Total** RMB'000
At 1 January 2005		–	–	–	–	–
Issue of shares	*32(a)*	413,513	–	–	–	413,513
Issue of shares upon the Capital Change and Capitalisation Issue	*32(b)*	(160,598)	–	–	–	(160,598)
Issue of shares upon the Global offering	*32(c)*	1,171,986	–	–	–	1,171,986
Issue of shares upon the exercise of the Financial Investors' Option	*32(d)*	131,773	–	–	–	131,773
Share issue expenses	*32(c)*	(72,885)	–	–	–	(72,885)
Equity-settled share option arrangements	*33*	–	7,226	–	–	7,226
Foreign currency translation		–	–	(7,914)	–	(7,914)
Net profit for the year		–	–	–	247	247
Proposed final and special dividends	*12*	–	–	–	(87,339)	(87,339)
At 31 December 2005		1,483,789	7,226	(7,914)	(87,092)	1,396,009

Note:

(i) Under the Companies Law (2001 Second Revision) of the Cayman Islands, the share premium is distributable to the shareholders of the Company, provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

35. BUSINESS COMBINATION

During the year, the Group effected the following acquisitions:

(i) On 14 April 2005, the Group acquired the entire interests in Lequan Property (as defined in note 37(iii)) at a total consideration of approximately RMB79.8 million. Taking into consideration the valuation surplus of the Properties (as defined in note 37(iii)) (net of the related deferred tax liability) of approximately RMB78.3 million, the net fair value of the identifiable assets and liabilities of Lequan Property at the acquisition date was approximately RMB79.7 million. The excess of RMB79.8 million over RMB79.7 million, being RMB0.1 million, was charged to the Group's consolidated income statement. The purchase consideration for the acquisition was satisfied by cash.

(ii) On 28 May 2005, the Group acquired the remaining 50% equity interest in a jointly-controlled entity, Sichuan Yongle Electronics Retail Co., Ltd. ("Sichuan Yongle"), at a total consideration of RMB16.5 million. Sichuan Yongle was engaged in the retailing of household appliances and consumer electronics products. The excess of the cost of a business combination over the net fair value of the identifiable assets and liabilities of Sichuan Yongle amounting to RMB11.3 million was recognised as goodwill. The purchase consideration for the acquisition was satisfied by cash.

(iii) On 3 August 2005, the Group acquired 80% and 20% equity interests in Xiamen Yongle Siwen Electronics Retail Co., Ltd. ("Xiamen Yongle") from its jointly-controlled entities, Fujian Yongle-Shangye Electronics Retail Co., Ltd. and Quanzhou Yongle Electronics Retail Co., Ltd. at a total consideration of RMB4.5 million and RMB1.0 million, respectively. Xiamen Yongle is engaged in the retailing of household appliances and consumer electronics products. The excess of the cost a business combination over the net fair value of the identifiable assets and liabilities of Xiamen Yongle amounting to RMB0.6 million was recognised as goodwill. The purchase consideration of the acquisition was satisfied by cash.

The impacts of the above acquisitions on the consolidated financial statements are summarised below:

	Fair value recognised on acquisition 2005 RMB'000	Fair value recognised on acquisition 2004 RMB'000
Net assets acquired:		
Property, plant and equipment	**217,349**	47,230
Intangible assets	**14**	244
Long term investments	**–**	7,305
Long term land deposits	**–**	12,500
Deferred tax assets	**3,536**	12,043
Inventories	**59,593**	116,572
Trade receivables, bills receivable, prepayments, deposits and other receivables	**157,089**	454,658
Pledged deposits	**216,124**	539,524
Property under development	**–**	15,100
Cash and cash equivalents	**31,836**	64,182
Deferred tax liabilities	**(38,548)**	–
Tax payable	**–**	(78)
Trade payables, bills payable, other payables and accruals	**(552,757)**	(1,184,424)
Interest-bearing bank loans	**–**	(31,000)
Minority interests	**–**	(4,366)
	94,236	49,490
Goodwill on acquisition	**12,033**	27,153
Excess over the cost of a business combination recognised in the income statement	**–**	(863)
	106,269	75,780

35. BUSINESS COMBINATION *(Continued)*

The fair values of the above assets and liabilities approximate to their respective carrying amounts except for property, plant and equipment and deferred tax liability whose carrying amounts of which were RMB116,813,000 and nil, respectively.

	2005 RMB'000	2004 RMB'000
Satisfied by:		
Cash	**99,004**	71,747
Interests in associates	**–**	4,033
Interests in jointly-controlled entities:		
Property, plant and equipment	**4,761**	–
Intangible assets	**7**	–
Deferred tax assets	**1,768**	–
Inventories	**29,797**	–
Trade receivables, bills receivable, prepayments, deposits and other receivables	**39,574**	–
Pledged deposits	**108,062**	–
Cash and cash equivalents	**12,664**	–
Trade payables, bills payable, other payables and accruals	**(189,368)**	–
Offset by:		
Trade receivables, bills receivable, prepayments, deposits and other receivables	**79,053**	475,275
Trade payables, bills payable, other payables and accruals	**(79,053)**	(475,275)
	106,269	75,780

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

	2005 RMB'000	2004 RMB'000
Cash consideration	**(99,004)**	(71,747)
Cash and cash equivalents of jointly-controlled entities satisfied	**(12,664)**	–
Cash and cash equivalents acquired	**31,836**	64,182
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	**(79,832)**	(7,565)

From the date of acquisition, the subsidiaries acquired by the Group contributed approximately RMB306 million to the revenue of the Group and RMB1.8 million to the profit of the Group for the year ended 31 December 2005.

Had the combination taken place at the beginning of the year, the revenue and the profit of the Group for the year would have been RMB12,434 million and RMB319 million, respectively.

36. DISPOSAL OF SUBSIDIARIES

	2005 RMB'000	2004 RMB'000
Net assets disposed of:		
Property, plant and equipment	**36**	–
Other receivables	**179,903**	22
Cash and cash equivalents	**1,529**	4,214
Trade payables and other payables	**(175,726)**	–
Minority interests	**(481)**	(2,118)
	5,261	2,118
Gain/(loss) on disposal of subsidiaries	**175**	(11)
	5,436	2,107
Satisfied by:		
Cash	**5,436**	2,107

An analysis of the net inflow/(outflow) of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	2005 RMB'000	2004 RMB'000
Cash consideration	**5,436**	2,107
Cash and cash equivalents disposed of	**(1,529)**	(4,214)
Net inflow/(outflow) of cash and cash equivalents in respect of the disposal of subsidiaries	**3,907**	(2,107)

The results of the subsidiaries disposed of in the year ended 31 December 2005 had no significant impact on the Group's consolidated turnover or profit after tax for that year.

37. RELATED PARTY TRANSACTIONS

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

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

	2005 RMB'000	2004 RMB'000
Sale of merchandise	**11,584**	685
Purchase of merchandise	**18,359**	–
Provision of management services	**2,287**	256
Rental expenses	**785**	802

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

37. RELATED PARTY TRANSACTIONS *(Continued)*

(ii) The Group had business transactions with related companies and associates which were previously owned by the affiliates of the major shareholders of Yongle (China) or third parties and were conducting the business of retailing of household appliances and consumer electronics products and related business. During the years ended 31 December 2005 and 2004, the Group acquired the controlling interests in nearly all such related companies and associates. (Those related companies and associates not being acquired by the Group were dissolved during the year ended 31 December 2004.) Since then, such related companies and associates became subsidiaries of the Group and the intra-group transactions were eliminated in the consolidated financial statements of the Group.

The Group's transactions with such related companies and associates during the years ended 31 December 2005 and 2004 before the said acquisitions are set out as below:

	2005 RMB'000	2004 RMB'000
Sale of merchandise to:		
Associates	**–**	93,149
Related companies	**587**	360,717
	587	453,866
Purchase of merchandise from:		
Related companies	**–**	24,061
Provision of transportation services to:		
Associates	**–**	1,215
Related companies	**–**	3,506
	–	4,721
Purchase rebate receivable from:		
Related companies	**–**	1,095
Rental expenses to:		
A related company	**1,325**	–

The above transactions were entered into based on mutually agreed terms.

(iii) On 12 January 2005, the Group transferred to the Key Management its entire interests in Shanghai Lequan Property Management Co., Ltd. ("Lequan Property") for a total consideration of RMB936,000, which was determined based on the net assets value of Lequan Property. On 26 January 2005, the Group transferred five real estate properties (the "Properties") to Lequan Property for an aggregate consideration of approximately RMB88.6 million based on the net book value of the Properties. The Properties were leased back to the Group at an aggregate monthly rental of RMB530,000 for the period from 26 January 2005 to 14 April 2005.

On 14 April 2005, the Group acquired the entire interests in Lequan Property for a total consideration of approximately RMB79.8 million. Taking into consideration the valuation surplus of the Properties (net of the related deferred tax liability) of approximately RMB78.3 million, the net fair value of the identifiable assets and liabilities of Lequan Property at the acquisition date was approximately RMB79.7 million. The excess of RMB79.8 million over RMB79.7 million, being RMB0.1 million, was charged to the Group's consolidated income statement for the year ended 31 December 2005.

(iv) Guarantees provided by the Directors
As at 31 December 2004, the Directors provided guarantees totalling approximately RMB1,070 million for the banking facilities granted to the Group. These guarantees were released during the year ended 31 December 2005.

37. RELATED PARTY TRANSACTIONS *(Continued)*

(v) Guarantees provided to jointly-controlled entities

As at 31 December 2005, the Group provided guarantees totalling approximately RMB68 million for the banking facilities granted to its jointly-controlled entities. The contingent liabilities, net of the liabilities accounted for under proportionate consolidation, are further disclosed in note 40 to the financial statements.

(vi) During the year ended 31 December 2004, the Group pre-sold certain units of "Yongle" building to the Directors, Mr. Chen Xiao and Mr. Shen Ping, at a total consideration of approximately RMB2,051,000 and RMB668,000, respectively, based on the similar prices offered to the public.

(vii) Balances due from/to related companies

The balances due from/to related companies mainly resulted from trading transactions. Further details of the balances are set out in notes 23 and 28 to the financial statements, respectively.

(viii) During the year, the Group acquired equity interests in certain companies from its jointly-controlled entities. Further details of these transactions are set out in note 35 to the financial statements.

(ix) Compensation of key management personnel of the Group

	2005 **RMB'000**	2004 RMB'000
Salaries, allowances and benefits in kind	**5,445**	1,599
Bonuses	**2,070**	533
Retirement benefit contributions	**79**	68
	7,594	2,200

Further details of directors' emoluments are included in note 8 to the financial statements.

(x) Pursuant to an equity transfer agreement entered into between Paradise Hong Kong II and the Key Management dated 14 September 2005 ("Equity Transfer Agreement"), Paradise Hong Kong II agreed to use part of the net proceeds from the Global Offering to acquire 2% of the registered capital in Yongle (China) from the Key Management at the consideration determined based on the implied valuation of Yongle (China) before the listing of the Company with a 10% discount.

On 14 September 2005, Paradise Hong Kong II and the Key Management also entered into a registered capital increase agreement ("Subsciption Agreement") whereby Paradise Hong Kong II agreed to use the remaining proceeds from the Global Offering to subscribe for additional interests in Yongle (China) at the same valuation as stated in the Equity Transfer Agreement. On 31 October 2005, after the net proceeds from the Global Offering have been ascertained, parties to the Equity Transfer Agreement and Subscription Agreement have clarified the considerations for those transactions and the agreements were also re-dated 31 October 2005.

Except for items (i), (v), (vii), (viii) and (ix), the above related party transactions also constitute connected transactions as defined in Chapter 14A of the Listing Rules.

38. OPERATING LEASE ARRANGEMENTS

(i) Group as lessor

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

At 31 December 2005, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2005 RMB'000	2004 RMB'000
Within one year	**20,822**	4,620
In the second to fifth years, inclusive	**63,785**	15,347
After five years	**17,915**	10,203
	102,522	30,170

(ii) Group as leasee

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

At 31 December 2005, the Group had total future minimum lease payments under non-cancellable operating leases as follows:

	2005 RMB'000	2004 RMB'000
Within one year	**561,074**	212,249
In the second to fifth years, inclusive	**2,039,944**	812,421
After five years	**1,838,166**	824,919
	4,439,184	1,849,589

39. CAPITAL COMMITMENTS

In addition to the operating lease commitments detailed in note 38(ii) above, the Group had the following capital commitments at the balance sheet date:

	2005 RMB'000	2004 RMB'000
Contracted but not provided for in respect of the acquisition of:		
– Leasehold land and buildings	**15,745**	340,476
– Leasehold improvement	**2,522**	–
– Furniture and office equipment	**583**	1,462
– Capital contributions payable to jointly-controlled entities	**60,000**	–
	78,850	341,938
Authorised but not contracted for in respect of the acquisition of:		
– Leasehold land and buildings	**157,812**	–
	236,662	341,938

40. CONTINGENT LIABILITIES

At the balance sheet date, neither the Group nor the Company had any significant contingent liabilities except for the guarantees with the amount of RMB68 million provided by the Group to its jointly-controlled entities for the bills payable facilities granted by banks. Bills payable under such guarantees amounting to RMB47 million have been recognized as liabilities in the consolidated balance sheet under proportionate consolidation.

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

Risk

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

(i) *Interest risk*

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

(ii) *Credit risk*

Most of the Group's sales are settled by cash, debit cards or credit cards, therefore, the credit risk is low. The Group's cash and cash equivalents are deposited with banks in the Mainland China except for the amounts of RMB52 million and RMB1,263 million, which are denominated in Hong Kong dollars and United States dollars, respectively, as disclosed in note 27 to the financial statements. The Group has policies in place to limit the exposure to any single financial institution. The Group also exposes to credit risk in relation to the prepayments made to its suppliers. The Group has a diverse supplier base, and it only makes prepayments to established suppliers with whom the Group has long term relationships.

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

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Risk *(Continued)*

(iii) *Foreign currency risk*

The Group's operating activities are all carried out in the Mainland China and denominated in RMB. Most of the financial assets and liabilities are also denominated in RMB. The RMB is not freely convertible into other currencies, however, under the PRC Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB into other currencies through banks authorised to conduct foreign exchange business, such as the distribution of dividends.

Fair value

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

42. POST BALANCE SHEET EVENTS

Subsequent to the balance sheet date, the following events took place:

(i) Pursuant to a strategic cooperation agreement entered into between Yongle (China), Beijing Dazhong Electrical Appliances Co., Ltd. ("Beijing Dazhong"), a limited liability company established in the PRC, and Mr. Zhang Dazhong on 19 April 2006 (the "Strategic Cooperation Agreement"), Yongle (China) agreed to form a strategic alliance with Beijing Dazhong to cooperate in the areas of joint procurement, logistics and delivery, products display, store development, store management, financial management, information system and personnel exchange.

In addition, Mr. Zhang Dazhong has also agreed to transfer, subject to various conditions, his 78% equity interests in Beijing Dazhong ("Dazhong Equity Interest") during the term of the Strategic Cooperation Agreement to Yongle (China). Mr. Zhang Dazhong has also undertaken to procure the transfer of the equity interests in Beijing Dazhong held by his brothers, Mr. Zhang Dapu and Mr. Zhang Dajiang, (the "Other Investors") as to 15% and 7%, respectively, to Yongle (China). The term of the Strategic Cooperation Agreement is one year from the date of the Strategic Cooperation Agreement. The consideration payable by Yongle (China) in respect of the transfer of the Dazhong Equity Interest or acquisition of equity interest from the Other Investors is based on a valuation of Beijing Dazhong determined by the following formula:

A=B*(C/D)*80%

Where;

A means the valuation of the entire share capital of Beijing Dazhong. The exact consideration payable to each seller will be a percentage of this value in accordance with the amount of equity interest being sold. Subject to approvals from the relevant PRC regulatory authorities having been obtained, Yongle (China) propose to acquire all the equity interest in Beijing Dazhong. In the event that the relevant PRC approvals only allows Yongle (China) to acquire a percentage which is less than 100%, Yongle (China) will acquire the maximum percentage that is permissible pursuant to the approvals.

B means the audited net profit of Beijing Dazhong for the period between 1 July 2006 and 30 June 2007 in accordance with the International Financial Reporting Standards as promulgated by the International Accounting Standards Board.

C means the average closing price of the shares of the Company quoted on the Stock Exchange for the last thirty trading days immediately prior to the date of the formal equity transfer agreement in respect of the Dazhong Equity Interest.

42. POST BALANCE SHEET EVENTS *(Continued)*

D means the sum of the average projected earnings per share of the Company for each of years 2006 and 2007 as quoted in the Institutional Brokers' Estimate System divided by two.

D is not a profit forecast given by the Company. It is an earnings projection of the Company produced by institutional analysts based on information generally available to the public or their own information. As such, D should not be regarded as a profit forecast on the part of the Company.

Pursuant to the terms of the Strategic Cooperation Agreement, Beijing Dazhong has confirmed that its International Financial Reporting Standards audited net asset value will not be less than RMB500 million as at 30 June 2006. If its net asset value is below this amount, it is proposed that the valuation of Beijing Dazhong and the consideration will be adjusted based on a mechanism to be agreed in the formal equity transfer agreement. Since the audited net profit of Beijing Dazhong is not expected to be available until Mr. Zhang Dazhong has served the notice in respect of the transfer of the Dazhong Equity Interest pursuant to the Strategic Cooperation Agreement, Yongle (China) and Mr. Zhang Dazhong have agreed to use RMB100 million as the value of B for calculating the consideration payable in connection with the transfer of the Dazhong Equity Interest at the time of the signing of the formal equity transfer agreement. Adjustments will be made to the actual consideration once the relevant figures for determining B become available.

The transfer of the Dazhong Equity Interest is conditional upon:

- a formal equity transfer agreement being entered into between Yongle (China) and Mr. Zhang Dazhong;
- the approval being obtained from the independent shareholders;
- compliance with any other requirements as required by the Stock Exchange; and
- approvals being obtained from the relevant PRC government departments including the Ministry of Commerce, State Administration of Foreign Exchange and the State Administration for Industry and Commerce.

In connection with the transfer of the Dazhong Equity Interest, Yongle (China) has agreed to pay a deposit of RMB150 million (the "Deposit") to Mr. Zhang Dazhong. Mr. Zhang Dazhong is entitled to forfeit the deposit if there is a failure on the part of Yongle (China) to fulfill its obligation in relation to the transfer of the Dazhong Equity Interest. If there is a failure on the part of Mr. Zhang Dazhong to fulfill its obligations in relation to the transfer of Dazhong Equity Interest, Mr. Zhang Dazhong will be required to pay to Yongle (China) RMB300 million, being twice the amount of the Deposit. If Mr. Zhang Dazhong transfer any of the Dazhong Equity Interest to a third party within 2 years after the date of the Strategic Cooperation Agreement, Mr. Zhang Dazhong will be required to pay additional compensation of RMB150 million to Yongle (China). For details, please refer to the public announcement made by the Company dated 21 April 2006.

(ii) On 21 April 2006, the board of directors recommended final dividend for the year ended 31 December 2005 and special dividend of HK2.6 cents and HK1.3 cents per ordinary share, respectively, to the equity holders of the Company. The proposed final and special dividends for the year are subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

43. APPROVAL OF THE FINANCIAL STATEMENTS

The consolidated financial statements were approved by the board of directors on 21 April 2006.