永乐家电

CHINA PARADISE ELECTRONICS RETAIL LIMITED
中國永樂電器銷售有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 503)

Annual Results
For the year ended 31 December 2005

Financial Highlight

- **Turnover rose by 48.1% to RMB12,246,168,000 from RMB8,266,956,000 in 2004**
- **Gross profit rose by 56.9% to RMB914,405,000 from RMB582,848,000 in 2004**
- **Net profit attributable to equity holders of the Company rose by 55.9% to RMB289,474,000 from RMB185,650,000 in 2004**
- **Basic earnings per share rose to RMB17.3 cents (2004: RMB12.0 cents)**
- **Proposed final dividend of HK2.6 cents per share**
- **Proposed special dividend of HK1.3 cents per share**
- **CAPEX rose by 45.4% to RMB381,000,000 from RMB262,000,000 in 2004**
- **Consolidated net asset value increased by 479.6% from RMB379,071,000 to RMB2,196,935,000, due mainly to proceeds from the Company's initial public offering.**
- **Total interest debts was RMB340,000,000 compared to RMB196,000,000 in 2004. Total debts to total assets and total debts to shareholder's equity improved to 4.4% and 15.5% respectively (2004: 5.1% and 51.7% respectively)**

The board of directors (the "Board") of China Paradise Electronics Retail Limited (the "Company") is pleased to present the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2005, together with the comparative figures for the year ended 31 December 2004.

CONSOLIDATED INCOME STATEMENT

		For the year ended 31 December	
		2005	2004
	Notes	***RMB'000***	*RMB'000*
REVENUE	*4*	**12,246,168**	8,266,956
Cost of sales		**(11,331,763)**	(7,684,108)
Gross profit		**914,405**	582,848
Other income and gains	*4*	**760,206**	300,462
Selling and distribution costs		**(1,096,602)**	(508,071)
Administrative expenses		**(259,559)**	(127,556)
Other expenses		**(13,133)**	(17,786)
Interest income		**52,925**	31,215
Finance costs		**(8,306)**	(5,345)
Share of profits and losses of associates		**–**	1,476
PROFIT BEFORE TAX		**349,936**	257,243
Income tax expense	*5*	**(28,596)**	(44,915)
PROFIT FOR THE YEAR		**321,340**	212,328
Attributable to:			
Equity holders of the Company		**289,474**	185,650
Minority interests		**31,866**	26,678
		321,340	212,328
Dividends	*6*	**87,339**	550
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
– Basic (RMB cents)	*7*	**17.3**	12.0
– Diluted (RMB cents)	*7*	**15.9**	11.8

CONSOLIDATED BALANCE SHEET

	As at 31 December	
	2005	2004
	RMB'000	RMB'000
NON-CURRENT ASSETS		
Property, plant and equipment	**787,346**	379,104
Intangible assets	**9,057**	3,810
Goodwill	**32,699**	20,772
Long term land deposits	**48,100**	12,500
Deferred expenditure	**86,459**	77,239
Deferred tax assets	**40,899**	16,090
Total non-current assets	**1,004,560**	509,515
CURRENT ASSETS		
Inventories	**1,649,268**	799,365
Trade receivables	**73,855**	25,971
Bills receivable	**3,530**	–
Prepayments, deposits and other receivables	**1,664,482**	835,714
Property under development	**–**	20,085
Pledged deposits	**1,779,594**	1,123,684
Cash and cash equivalents	**1,541,407**	494,943
Total current assets	**6,712,136**	3,299,762
CURRENT LIABILITIES		
Trade payables	**1,161,772**	712,630
Bills payable	**3,632,762**	2,309,371
Tax payable	**16,339**	13,319
Other payables and accruals	**219,157**	111,144
Current portion of interest-bearing bank loans	**340,000**	170,000
Total current liabilities	**5,370,030**	3,316,464
NET CURRENT ASSETS/(LIABILITIES)	**1,342,106**	(16,702)
TOTAL ASSETS LESS CURRENT LIABILITIES	**2,346,666**	492,813
NON-CURRENT LIABILITIES		
Interest-bearing bank loans	**–**	26,000
Deferred income	**6,939**	26,938
Deferred tax liabilities	**39,011**	15,845
Total non-current liabilities	**45,950**	68,783
Net assets	**2,300,716**	424,030
EQUITY		
Equity attributable to equity holders of the Company		
Issued capital	**225,443**	1
Reserves	**1,884,153**	379,070
Proposed final and special dividends	**87,339**	–
	2,196,935	379,071
Minority interests	**103,781**	44,959
Total equity	**2,300,716**	424,030

1. Corporate Information

The Company is an exempted company with limited liability incorporated in the Cayman Islands on 9 August 2004. The registered office of the Company is located at PO Box 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 "Hong Kong 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 four 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 six jointly-controlled entities.

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

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

On 23 December 2004, Retail Management acquired the one share at a 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 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.

2.1 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*;
- 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.

2.2 Basis of consolidation

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

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

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

3. 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. Revenue, other income and gains

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

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

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

5. 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.

- 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 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 year ended 31 December 2005 as prescribed by the tax authority in accordance with the relevant tax laws and regulations.

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

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

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

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

6. Dividends

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

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

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

7. 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 Hong Kong 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.

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

China Paradise is one of the top three household appliances retail chain operators in China. With strong roots in Shanghai, the Group enjoys a leading position in Shanghai with a dominant 50% market share by sales value. Since its establishment in 1996, the Group has developed an extensive network through continuous organic expansion of its business network as well as selective acquisitions. It has accumulated bountiful experience and established a strong foothold with a leading position in the Yangtze River Delta region, the nation's most affluent and urbanized region. Currently, the Group's retail network covers potential markets such as the Pearl River Delta region, the Capital Economic Zone and Mid-West China.

Financial highlights

Driven by a proactive business expansion plan, the Group has recorded encouraging performance in 2005. For the year ended 31 December 2005, the Group's turnover rose by 48.1% to RMB12,246,168,000 from RMB8,266,956,000 in 2004. The gross profit margin was maintained at 7.5%, a level similar to the previous year. The Group's operating profit (excluding tax subsidy income) during the period increased by 6.6% to RMB243,863,000 from RMB228,685,000 in 2004; and profit attributable to shareholders increased by 55.9% to RMB289,474,000 from RMB185,650,000 in 2004, exceeding the forecast made in the listing prospectus published in October 2005. Earnings per share was RMB17.3 cents (approximately HK16.6 cents).

Final dividend and dividend policy

In view of the strong operating performance and sound financial position, the Board recommends that 20% of the net profit attributable to equity holders of the Company for the year ended 31 December 2005 be distributed to shareholders as final dividends, and recommends the payment of a final dividend of HK2.6 cents per share. The Board further recommends that 10% of the net profit attributable to equity holders of the Company for the year ended 31 December 2005 be distributed to shareholders as special dividends and recommends the payment of a special dividend of HK1.3 cents per share.

Retail network expansion
The Group's strategy is to expand in major cities and regions with growth potentials. In 2005, the increase in number of stores was in line with the management's expectation. The Group's retail network expanded from 92 stores in 2004 to 193 stores by the end of 2005, extending coverage from 34 cities in 2004 to 72 cities in 2005.

As at 31 December 2005, the number of standardized stores (with floor area of approximately 2,000 sq.m to 5,000 sq.m each), mega stores (5,000 sq.m to 12,000 sq.m) and specialty stores (300 sq.m to 500 sq.m) was 183, 6 and 4 respectively, representing an increase of 93, 4 and 4 stores respectively over the previous year.

Store location is of paramount importance to the success of retailers. During the year under review, the Group re-assessed the performance of each of its stores. Those stores with unsatisfactory performance were relocated to areas where pedestrian flow is heavier. Such an adjustment contributed to a more efficient deployment of staff and resources and enhanced the Group's overall competitiveness.

Turnover Analysis
Revenue
The Group's revenue mainly comes from the sale of household appliances and consumer electronics products. The Group also derives revenue from telephone service charges based on shared promotion scheme of mobile communication businesses.

Revenue for the year ended 31 December 2005 surged by 48.1% year-on-year to RMB12,246,168,000 from 8,266,956,000 in 2004, mainly attributable to the expanded retail network.

Geographical analysis
The Group derived most of its revenue from Shanghai, Jiangsu and Zhejiang, its founding base, and the revenue from these markets in aggregate accounted for 81.8% of its turnover in 2005. However, in view of the continuous growth of the Group in Jiangsu, Zhejiang, Guangdong and Sichuan, the percentage of revenue from Shanghai decreased accordingly.

Product analysis
The Group values customers as its first priority and offers wide varieties of over 20,000 types of merchandise. In respect of product categories, sales of conventional household appliances such as air conditioners, television sets, refrigerators and washing machines, remained the Group's principal source of revenue, accounting for 56.6% of its revenue.

However, as the focus of sales shifted from conventional household appliances to innovative household appliances, such as I.T. digital and mobile communication products, the percentage of sales of I.T. digital products to the total revenue rose from 5.3% in 2004 to 10.3% in 2005. However, as the collaboration with China Unicom ended in 2005, sales of mobile communication as a percentage of total revenue decreased from 20.9% to 16.7%.

The penetration rate and popularity of mobile communication products and I.T. digital products are relatively lower than those of conventional household appliances. Coupled with the accelerating replacement rate, the Group anticipates that the growth potential of such products is immense and will become a profit driver in future.

Weighted average revenue per sq.m per annum
As the Group expanded its network to new markets during the year, encompassing developed regions with high disposable income per capita as well as emerging markets, and taking into consideration the relatively low income base during the initial store opening stage, the weighted average revenue per sq.m per annum declined from RMB40,472 in 2004 to RMB25,482 in 2005. Nevertheless, the Group believes that the store expansion plan will broaden its geographical presence and customer base, contributing to higher economies of scale and enabling it to optimize its overall cost structure. These initiatives will be favourable to the long-term development of the Group.

Comparison of same store sales
During the year under review, same store sales decreased by 2.8% to RMB33.8 per sq.m from RMB34.8 per sq.m in 2004, mainly due to:

- dilution effect on existing store sales resulting from the Group's attempt to increase market share by opening new stores; and
- increased competition arising from competitors' opening of new stores located in the proximity of the Group's existing stores.

Cost of sales and gross profit margin
The cost of sales of the Group for the year ended 31 December 2005 increased by 47.5% as compared to 2004 and amounted to RMB11,331,763,000. The increase was in line with revenue growth.

During the year under review, the Group's gross profit increased by 46.1% to RMB851,663,000 from RMB582,848,000 in 2004 after deduction of the write-back of inventory provision, and the gross profit margin decreased by 0.6 percentage points to 6.9%.

Purchasing and logistics management
The Group's purchasing strategy is to establish direct contact with major manufacturers of household appliances through bulk purchases which can reduce costs. Over the years, one of the keys to the Group's success was to maintain excellent and close working relationship with suppliers. For the year ended 31 December 2005, 70% of the Group's purchases was made directly from manufacturers (2004: 73%), and the remaining 30% was mainly procurement from mobile handsets and I.T. digital product distributors (2004: 27%). Direct procurement from suppliers decreased as a percentage of the total purchases mainly because of the increasing weight of I.T. digital products in the total sales mix. The Group has entered into standardized long-term agreement with majority of its suppliers in order to effectively improve its bargaining power.

The Group has an effective and efficient inventory logistics management system. Most of the Group's inventories are delivered directly by suppliers to warehouses operated by the Group's local dispatch centres in order to minimize the time and resources in handling. At present, the Group has 35 dispatch centres across China with a total area of 192,805 sq. m. Moreover, the computer systems of these dispatch centres are linked to the I.T. management system of the Group's headquarters, which handles product purchasing, store delivery and inventory management.

Sponsorship fees from suppliers
Sponsorship fees comprises (i) promotion fees, the expenses paid by suppliers when participating in promotional activities of the Group and (ii) display fees, the fees paid by suppliers for displaying their goods on the shelves and special counters of the Group's stores. For the year ended 31 December 2005, the sponsorship fees from suppliers amounted to RMB625,126,000, an increase of 134.7% from RMB266,343,000 over last year. The increase was mainly attributable to:

- expansion of the Group's scale of operation;
- reinforcement and implementation of the contracts entered into with suppliers; and
- increase in fees paid by suppliers as result of the increased promotional activities carried out during the year.

Total return from suppliers

Total return from suppliers is an important measure of our supplier management capability, which is calculated as gross profit before inventory provisions plus sponsorship fees as a percentage of revenue. For the year ended 31 December 2005, the total return from suppliers amounted to RMB1,476,000,000, or 12.1% of turnover, representing an increase of 65.3% or 1.3 percentage points from RMB893,000,000 or 10.8% of the turnover for 2004. Increase in the total return from the suppliers was mainly attributable to the following:

- rolling out specially designed marketing plans for suppliers, to achieve a win-win situation; and
- excellent brand name and customer service give confidence to customers, which ease the pressure on price-cutting promotions.

Warehousing management and inventory provision policy

Most of our goods are returnable to suppliers. In spite of this, the Group had adopted a relatively conservative policy in the past to make a provision of 3% for inventories aged not more than 180 days, 50% for inventories aged over 180 days and not more than one year, and 100% for inventories aged over one year, due to relatively high turnover days of these inventories prior to the listing of the Company. Such provisions were reflected in the cost of sales. The Group also made provision for inventories which were not returnable to suppliers.

Most of those aged inventories were sold during the year, and the age of certain inventory was shortened as certain of these long aged inventories were returned to suppliers. A total inventory provision of RMB62,742,000 was written back during the year. This was also attributable to the development of an inventory management system, the formulation of a comprehensive management policy as well as the result of a series of discount promotions.

Having consulted the Audit Committee, the Group shall be adjusting its inventory provision policy in 2006 to be consistent with general practices in the industry. The Group shall make provisions according to the specific conditions of each product and whether or not they are returnable to the suppliers. In doing so, the Group can eliminate the needs for making provisions followed by subsequent write-back, and at the same time this will more accurately reflect the Group's cost of sales and profitability. Accordingly, the Group anticipates that no significant provisions for inventories will be required in 2006.

Other income and revenue (excluding sponsorship fees from suppliers)

Other income and revenue for the year ended 31 December 2005 rose by 295.9% to RMB135,080,000 from RMB34,119,000 in 2004. Increase in other income and revenue was mainly attributable to:

- increased income from a new subsidiary acquired in April 2004 that engages in the provision of air conditioning services; and
- tax subsidies of approximately RMB61,454,000 received from the Shanghai municipal government. The municipal government refunds part of the tax paid to enterprises as a sign of encouraging more enterprises to invest in Shanghai. The Group anticipates to be entitled to such refund in the future.

Operating cost

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

Selling and distribution costs

The selling and distribution costs of the Group for the year ended 31 December 2005 amounted to RMB1,096,602,000, denoting an increase of 115.8% over RMB508,071,000 in 2004. Percentage of selling and distribution costs to the turnover increased from 6.1% in 2004 to 9.0% in 2005, which was mainly due to:

- increased rental costs as the number of leased stores increased. Rental costs rose by 161.6% to RMB328,176,000 from RMB125,445,000 in 2004, accounting for 2.7% of the Group's turnover;
- increased advertising and promotion expenses, which rose by 65.5% to RMB224,377,000 from RMB135,613,000 in 2004; and
- increased staff costs as a result of the increase in number of employees. The Group recruited more experienced and talented personnel to strengthen its management team. Coupled with the rising salary level and related employee benefits, sales staff costs increased by 81.2% to RMB179,223,000.

Cost control measures

As the economy of China experiences rapid growth, the Group anticipates that rental costs will continue to rise further. As such, the Group has adopted the following measures to control rental expenses effectively:

- entering into long-term leases of 10 years with landlords to lock in the costs. As at 31 December 2005, other than eight self-owned stores, the remaining 185 stores were leased by the Group with an average lease term of 7.5 years. Of the new leases entered into in 2005, the lease term ranged from 5 years to 10 years; and
- reorganizing the internal layout of stores to make more room for subletting to retailers who are not in competition with the Group and are able to attract customer flow, thereby reducing rental expenses and increasing sales per sq.m.

Administrative expenses

During the year under review, administrative expenses rose by 103.5% to RMB259,559,000 from RMB127,556,000 in 2004, which accounted for 2.1% of the Group's turnover. It was mainly due to the business expansion and the recruitment of more senior management personnel engaged in the retail business. Such increases also brought about management styles that are in line with international practice. In addition, there were also increases in other administrative expenses such as office expenses, government levies and entertainment expenses.

Other expenses

The Group's other expenses in 2005 amounted to RMB13,133,000, which is slightly less than that in 2004. Such expenses comprise loss on disposal of property plant and equipment, goodwill impairment and other operating costs.

Interest income

The interest income of the Group for 2005 amounted to RMB52,925,000, denoting an increase of 69.5% from RMB31,215,000 in 2004, mainly due to increase in bank deposits.

Income tax and the effective tax rate

Income tax expenses of the Group for the year ended 31 December 2005 amounted to RMB28,596,000, a decrease of 36.3% over RMB44,915,000 in 2004. The effective tax rate decreased from 17.5% to 8.2%.

The Group has established a centralized purchasing arm in Shanghai to handle purchasing function for all stores in different locations. Not only has this streamlined the purchasing team of the Group, but it has also maximized the preferential tax benefits enjoyed by the Group.

In addition, the Group has been acting proactively to obtain preferential tax concessions from local governments in localities outside Shanghai, so as to reduce the effective tax rate and increase profitability.

Profit attributable to equity holders of the Company

Owing to the aforesaid reasons, the profit attributable to equity holders of the Company for the year ended 31 December 2005 rose by 55.9% year-on-year, to RMB289,474,000, which was in line with the profit forecast disclosed in the prospectus of the Company. The net profit margin for the year (profit attributable to equity holders of the Company divided by revenue) was 2.4%, an increase by 0.2 percentage points over the same period of last year. Basic and diluted earnings per share increased substantially by 44.2% and 34.7% respectively in 2005 to RMB17.3 cents and RMB15.9 cents.

Use of proceeds from listing
The Group was successfully listed on the Stock Exchange of Hong Kong in October 2005. As the approval from the Chinese government is required for remitting the funds back to China, the listing proceeds of approximately RMB1.2 billion has not yet been used as at 31 December 2005. Given the rising interest rate of US dollars deposits, the funds was deposited in US dollars one-month fixed deposit in order to maximize interest income.

Capital expenditure
The capital expenditure of the Group in 2005 was RMB381,000,000. Capital expenditure in 2006 is expected to follow what was disclosed in the prospectus.

Budgeted capital expenditure in 2006	*(RMB Million)*
Opening of stores (excluding acquisitions)	180
Construction of a distribution centre	140
Upgrading of information system and network	50
Total	370

Future prospects
Market outlook
The demand for household appliances is growing at a robust pace. Despite the favourable outlook, competition is fierce. As a market leader, we benefit from the industry potential but also need to bear the competitive pressures, including:

- increased price competition as household appliances suppliers are narrowing down the pricing margin;
- intensifying market competition as large overseas household appliances retailers enter the market, and key competitors in China will open large-scale shops in Shanghai;
- intensifying market competition will prolong return on investment in stores in new markets;
- increased rentals caused by rapid economic development; and
- rising staff costs.

In the short term, the entire industry faces severe pressure on profit growth. As a leading industry player, we are no exception. More importantly due to the delay of confirmation of rebate and sponsorship fees from suppliers, our profit in the first half of 2006 may be lower than that of last year.

In response to these market changes, the Group adopts a steady and prudent development strategy. The Group will continue to expand its operations, and in the meantime exercise stringent cost control to achieve a win-win situation.

The Group intends to maintain and consolidate the existing market foothold and establish a leading position in new markets. The Group is committed to adopt the following business strategies to enhance our shareholders' value:

1. **Further explore the potential of existing markets and enlarge market share**
   The regions covered by the Group are affluent regions with higher per capita income. We intend to strengthen our existing market position and enhance our market share by expanding our business network. Through different penetrating strategies and expanding our economies of scale, more stores in the same locality will be able to share the resources, such as our logistics facilities and marketing support. We anticipate that about 90 new stores will be opened in the markets we have entered, including 10 mega stores will be opened for brand building purpose.

   As for the Yangtze River Delta region, as our operations in these markets are relatively mature with higher penetration rates, we will open smaller stores to enhance operation effectiveness.

   Moreover, we plan to open joint venture stores in third tier cities with our expertise in operation and supply of quality products to increase our penetration rates.

2. **Enter new markets by selective alliances or acquisitions**
   In the year under review, Shanghai and the Yangtze River Delta region were our principal sources of revenue. We have completed the acquisitions of the businesses in Henan, Fujian and Sichuan, respectively. As operations in the Yangtze River Delta region have advanced after more than two years of development, it is expected that there will be continuous and steady growth in these regions in the coming year.

   Our management believes that the market in China will undergo further consolidation, eliminating weaker players. Such changes will bring about new acquisition opportunities. Therefore, we are considering different means of development in entering these markets, such as strategic alliances or acquisitions. In early 2006, we established strategic alliance with Dazhong, the largest household appliances retailer in Beijing. Both parties agreed to set up joint venture companies to explore the markets in Xi'an and Qingdao with each party holding 50% interests in these joint venture companies. This sets a new milestone in the industry for cooperation among industry peers.

3. **Increase the proportion of the sale of digital and mobile communication products**
   Amongst the many household appliances and consumer electronics products, digital and mobile communication products offer the most impressive potential attributed to the short product life cycle and rapid new product launches. The Group intends to increase the proportion of the sale of digital and mobile communication products to capture opportunities. This will also generate higher customer flow, which in turn will boost the sales of other products.

4. **Broaden product portfolio and increase the percentage of high margin products**
   In addition to selling household appliances of overseas and domestic brand names, we have also established "Eden" and "Yuehao", our private label audio visual equipment. As the gross profit of such products is higher, we shall be launching more private label merchandise from this year onwards. Also, we successfully secured three major distribution agent agreements for distributing iPod in China. In the long term, this will enhance our profitability.

5. **Strengthen partnership with suppliers and enhance backup supports**
   We have entered into strategic collaboration with certain suppliers so that the Group can provide comprehensive after-sales services, while customers will have more pleasurable shopping experience. We will work even more closely with suppliers to develop this business into a new source of revenue.

   In terms of backup support, we are constructing the largest and most automated logistics centre in Shanghai, with a floor area of approximately 92,000 sq.m. It is expected to commence operation by early 2007, which will then provide strong logistics support for the Yangtze River Delta region and help us manage inventory levels and the flow of goods more easily. In the long run, it will help to reduce cost and bring in more revenue to the Group.

6. **Optimize customer service and improve customer loyalty**
   The Group has been committed to improving customer services quality, and by providing more convenient shopping channels, we look forward to achieving customer satisfaction and loyalty through the "Four Safeguards" we offer to customers.

The Group jointly issued its first affinity credit card in China with Bank of Shanghai and MasterCard in January 2006. Card holders are entitled to special discounts and services. The benefit of purchase by installments enjoyed by cardholders forms an ideal platform for building a loyal base of customers.

Moreover, the Group has entered into a strategic collaboration agreement in March 2006 with eBay, a leading online transaction service provider, thereby adding a new retail channel. The Group has also established an online commercial city as an extension of traditional sales and marketing channels.

The Chinese government has just announced the 11th Five-Year Plan promoting prosperity and stimulating internal demand. With this in mind, there is great potential in the household appliances retail business in China. With our clearly defined development direction and streamlined corporate structure and a team of management dedicated to the business of household appliances retail business, we are confident that we shall be achieving sustainable profit in future and to share the result of our efforts with our shareholders.

AUDIT COMMITTEE

The Audit Committee of the Company has, together with management, reviewed the accounting principles, accounting standards and methods adopted by the Group, and have discussed the issues regarding auditing, internal control and financial reporting including the review of the audited financial statements of the Group for the year ended.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of the Listed Issuers ("Model Code") set out in Appendix 10 of the Listing Rules as its own code of conduct regarding directors' securities transactions. Specific enquiry has been made with all directors of the Company and they have confirmed that they have complied with the required standard set out in the Model Code throughout the year.

CORPORATE GOVERNANCE

The Company has adopted its own code on corporate governance ("Corporate Governance Code") which complies with the Code on Corporate Governance Practices as contained in Appendix 14 to the Listing Rules. The Company has complied with the Corporate Governance Code except that the role of Chairman and Chief Executive Officer is performed by the same individual Mr. Chen Xiao. The Board believes that vesting the roles of both Chairman and Chief Executive Officer (which is equivalent to the President) in the same person provides the Group with strong and consistent leadership and allows for more effective planning and execution of long-term business strategies.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 24 May 2006 to Friday, 26 May 2006, both days inclusive, during which period no transfer of shares will be registered. In order to determine the identity of the shareholders who are entitled to attend and vote at the meeting, all duly completed transfer forms accompanied by the relevant share certificates must be lodged with the share registrars of the Company, Computershare Hong Kong Investor Services Limited at Shop 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong not later than 4:00 p.m. on Tuesday, 23 May 2006.

PURCHASE, SALE AND REDEMPTION OF SHARES

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

PUBLISHING OF ANNUAL RESULTS ON THE STOCK EXCHANGE'S WEBSITE

This announcement will also be published on the website of the Stock Exchange of Hong Kong. An annual report containing all information required by Appendix 16 to the Listing Rules will be dispatched to the Shareholders and published on the website of the Stock Exchange of Hong Kong in due course.

By order of the Board
Chen Xiao
Chairman

21 April 2006

As at the date of this announcement, the Directors of the Company are: Executive Directors: Mr. Chen Xiao, Ms. Shu Wei, Mr. Liu Hui, Mr. Ma Yawei, Mr. Yuan Yashi, Mr. Zhou Meng, Mr. Shen Ping, Non-executive Director: Mr. Julian Juul Wolhardt, Independent Non-executive Directors: Dr. Yu Zengbiao, Mr. Chu Cheng Chung, Mr. Wang Bing.

"Please also refer to the published version of this announcement in South China Morning Post."