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)

Announcement of Unaudited Interim Results
For the six months ended 30 June 2006

The board of directors (the "**Board**") of China Paradise Electronics Retail Limited ("**China Paradise**" or the "**Company**") is pleased to present its 2006 interim condensed report, together with the unaudited interim condensed consolidated financial statements of the Company and its subsidiaries (collectively, the "**Group**") for the six months ended 30 June 2006.

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

		For the six months ended 30 June	
		2006	2005
		(Unaudited)	(Audited)
	Notes	***RMB'000***	*RMB'000*
REVENUE	*4*	**7,722,807**	5,699,884
Cost of sales		**(7,146,132)**	(5,303,363)
Gross profit		**576,675**	396,521
Other income and gain	*4*	**470,724**	292,732
Selling and distribution costs		**(807,025)**	(421,592)
Administrative expenses		**(163,058)**	(102,231)
Other expenses		**(36,383)**	(5,957)
Interest income		**52,633**	16,319
Finance costs		**(7,761)**	(3,328)
PROFIT BEFORE TAX	*5*	**85,805**	172,464
Income tax expense	*6*	**(70,288)**	(16,563)
PROFIT FOR THE PERIOD		**15,517**	155,901
Attributable to:			
Equity holders of the Company		**15,018**	140,570
Minority interests		**499**	15,331
		15,517	155,901
Dividend	*7*	**–**	–
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
Basic (RMB cents)	*8*	**0.7**	9.1
Diluted (RMB cents)	*8*	**0.7**	7.7

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

	30 June 2006 (Unaudited) *RMB'000*	31 December 2005 (Audited) *RMB'000*
NON-CURRENT ASSETS		
Property, plant and equipment	**844,220**	787,346
Intangible assets	**9,795**	9,057
Goodwill	**16,997**	32,699
Long term land deposits	–	48,100
Deferred expenditure	**77,465**	86,459
Deferred tax assets	**22,738**	40,899
Total non-current assets	**971,215**	1,004,560
CURRENT ASSETS		
Inventories	**1,424,688**	1,649,268
Trade receivables	**86,112**	73,855
Bills receivable	**29,910**	3,530
Prepayments, deposits and other receivables	**2,129,145**	1,664,482
Pledged deposits	**1,835,124**	1,779,594
Cash and cash equivalents	**1,789,463**	1,541,407
Total current assets	**7,294,442**	6,712,136
CURRENT LIABILITIES		
Trade payables	**1,472,937**	1,161,772
Bills payable	**3,852,853**	3,632,762
Tax payable	**50,579**	16,339
Other payables and accruals	**256,845**	219,157
Current portion of interest-bearing bank loans	**230,000**	340,000
Total current liabilities	**5,863,214**	5,370,030
NET CURRENT ASSETS	**1,431,228**	1,342,106
TOTAL ASSETS LESS CURRENT LIABILITIES	**2,402,443**	2,346,666
NON-CURRENT LIABILITIES		
Deferred income	**2,950**	6,939
Deferred tax liabilities	**40,519**	39,011
Total non-current liabilities	**43,469**	45,950
Net assets	**2,358,974**	2,300,716
EQUITY		
Equity attributable to equity holders of the Company		
Issued capital	**242,664**	225,443
Reserves	**2,017,910**	1,884,153
Proposed final and special dividends	–	87,339
	2,260,574	2,196,935
Minority interests	**98,400**	103,781
Total equity	**2,358,974**	2,300,716

INTERIM CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	For the six months ended 30 June	
	2006	2005
	(Unaudited)	(Audited)
	RMB'000	*RMB'000*
NET CASH INFLOW FROM OPERATING ACTIVITIES	**401,701**	541,603
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	**(80,032)**	(601,886)
NET CASH (OUTFLOW)/INFLOW FROM FINANCING ACTIVITIES	**(73,613)**	440,686
NET INCREASE IN CASH AND CASH EQUIVALENTS	**248,056**	380,403
Cash and cash equivalents at beginning of period	**1,541,407**	494,943
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**1,789,463**	875,346
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	**427,300**	875,346
Time deposits	**1,362,163**	–
	1,789,463	875,346

NOTES TO THE ACCOUNTS

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.

On 25 July 2006, GOME Electrical Appliances Holding Limited (**"GOME"**) and the Company jointly announced that Goldman Sachs (Asia) L.L.C. (**"Goldman Sachs"**), on behalf of GOME, intends to make a voluntary conditional offer to acquire all of the issued shares in the share capital of the Company not already owned by GOME and parties acting in concert with it. Further details of the transaction are set out in the Company's announcement dated 25 July 2006.

2. Basis of presentation and accounting policies

Basis of preparation

The interim condensed consolidated financial statements for the six months ended 30 June 2006 have been prepared in accordance with IAS 34 *Interim Financial Reporting*.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2005.

Significant accounting policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2005, except for the adoption of the following amendments mandatory for annual periods beginning on or after 1 January 2006:

(i) IAS 39 – Financial Instruments: Recognition and Measurement (**"IAS 39"**) – Amendment for financial guarantee contracts – which amended the scope of IAS 39 to include financial guarantee contracts issued. The amendment addresses the treatment of financial guarantee contracts by the issuer. Under IAS 39 as amended financial guarantee contracts are recognised initially at fair value and generally remeasured at the higher of the amount determined in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with IAS 18 *Revenue*;

(ii) IAS 39 – Amendment for hedges of forecast intragroup transactions – which amended IAS 39 to permit the foreign currency risk of a highly probable intragroup forecast transaction to qualify as a hedged item in a cash flow hedge, provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and that the foreign currency risk will affect the financial statements; and

(iii) IAS 39 – Amendment for the fair value option – which restricted the use of the option to designate any financial asset or any financial liability to be measured at fair value through profit and loss.

The adoption of these amendments did not affect the Group's results of operations or financial position.

3. **Segment information**

During the six months ended 30 June 2006 and 2005, the Group principally operated in one business segment, which is the retailing of household appliances and consumer electronics products. The revenue, operating results and assets in relation to this business segment accounted for more than 90% of the Group's total. In addition, all the Group's operating activities are carried out in the Mainland China. Accordingly, no further business and geographical segment analyses are presented.

4. **Revenue, other income and gain**

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

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

	For the six months ended 30 June	
	2006	2005
	(Unaudited)	(Audited)
	RMB'000	*RMB'000*
Revenue		
Sale of household appliances and consumer electronics products	**7,699,075**	5,633,044
Phone service charges sharing and deferred revenue recognised in the sale of CDMA mobile phone service packages	**23,732**	66,840
	7,722,807	5,699,884
Other income		
Sponsorship from suppliers	**363,575**	241,397
Provision of air-conditioner installation services	**16,666**	15,093
Rental income	**13,397**	3,101
Management fee income	**595**	–
Provision of repair and maintenance services	**881**	1,726
Sale of household furniture and decoration materials	**–**	229
Subsidy income	**27,503**	27,484
Others	**6,510**	3,527
	429,127	292,557
Gain		
Gain on disposals of subsidiaries	**41,597**	175
	41,597	175
	470,724	292,732

5. **Profit before tax**

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

	For the six months ended 30 June	
	2006	2005
	(Unaudited)	(Audited)
	RMB'000	*RMB'000*
Cost of inventories recognised as expenses	**7,136,162**	5,285,224
Depreciation	**52,710**	18,033
Amortisation of intangible assets	**1,545**	862
Exchange loss	**12,530**	–
Write-back of provision for slow-moving inventories	**(2,583)**	(16,088)
Impairment of goodwill*	**15,702**	696
Loss on disposal of property, plant and equipment	**490**	1,061
Minimum lease payments under operating leases of land and buildings	**286,723**	127,050
Auditors' remuneration	**1,978**	1,337
Staff costs	**256,631**	122,219

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

6. **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 period under the income tax rules and regulations of the PRC:

- Yongle (China) Electronics Retail Co., Ltd. (**"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 Yongle Hengyuan Electronics Service Co., Ltd. (formerly known as Shanghai Yongfu Technique Service Co., Ltd.), Shanghai Yongle Stock Purchase Electronics Co., Ltd. and Shanghai Zhongyongtongtai Electronics Marketing Co., Ltd. are subject to a corporate income tax rate of 15% as they are registered in the Pudong New Area, Shanghai. In addition, Shanghai Minrong Investment Co., Ltd. is subject to a corporate income tax rate of 15% for the financial years ended/ending 31 December 2005 and 2006 as prescribed by the tax authority in accordance with the relevant tax laws and regulations.

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

- Shanghai Yongle Communication Equipment Co., Ltd. was granted a full tax exemption of income tax for the financial year ended 31 December 2005, as prescribed by the tax authority in accordance with the relevant tax laws and regulations. In 2006, the company is subject to a corporate income tax rate of 15% as it is registered in the Pudong New Area, Shanghai.

- Xiamen Yongle Siwen Electronics Retail Co., Ltd. was granted a full and 50% tax exemption of income tax for the financial years ended/ending 31 December 2005 and 2006, respectively, as prescribed by the tax authority in accordance with the relevant tax laws and regulations.

	For the six months ended 30 June	
	2006	2005
	(Unaudited)	(Audited)
	RMB'000	*RMB'000*
Group:		
Current – PRC		
Charge for the period	**44,873**	36,088
Underprovision in prior years	**2,767**	3,705
Deferred tax	**22,648**	(23,230)
Total tax charge for the period	**70,288**	16,563

7. Dividend

	30 June	
	2006	2005
	(Unaudited)	(Audited)
	RMB'000	*RMB'000*
Declared and paid during the six-month period		
Final dividend for 2005: HK 2.6 cents	**62,717**	–
Special dividend for 2005: HK 1.3 cents	**31,359**	–
	94,076	–

The directors do not recommend the payment of an interim dividend (six-month period ended 30 June 2005: Nil).

8. Earnings per share attributable to ordinary equity holders of the Company

Basic earnings per share

The calculation of basic earnings per share amount for the six months ended 30 June 2006 is based on the net profit attributable to ordinary equity holders for the six months ended 30 June 2006 of RMB15,018,000 and the weighted average number of shares outstanding during the six months ended 30 June 2006 of 2,229,611,000.

The calculation of basic earnings per share amount for the six months ended 30 June 2005 is based on the net profit attributable to ordinary equity holders for the six months ended 30 June 2005 of RMB140,570,000 and the weighted average number of shares outstanding during the six months ended 30 June 2005 of 1,544,222,000, on the assumption that 1,544,222,000 shares, representing the number of the shares before the offering of the Company's shares in relation to the listing of the Company on The Stock Exchange of Hong Kong Limited (the **"Stock Exchange"**), had been in issue throughout the period.

Diluted earnings per share

The calculation of diluted earnings per share amounts for the six months ended 30 June 2006 and 2005 is based on the net profit attributable to the ordinary equity holders and number of shares as used in the basic earnings per share calculation, adjusted for 96,342,000 (2005: 288,264,000) shares assumed to have been issued since 1 January throughout the six months ended 30 June 2006 and 2005, respectively, at no consideration on the deemed exercise of all share options.

9. Post balance sheet events

On 25 July 2006, GOME (also known as the **"Offeror"** below) and the Company jointly announced that Goldman Sachs, on behalf of the Offeror, intends to make a voluntary conditional offer to acquire all of the issued shares in the share capital of China Paradise (the **"Offer"**). The consideration in respect of the Offer is 0.3247 new GOME shares and HK$0.1736 for each of the China Paradise shares. In the event that the Offer is declared or becomes unconditional, or an appropriate offer or proposal will be made, in accordance with the provisions of the Hong Kong Code on Takeovers and Mergers (the **"Takeovers Code"**).

The Offer is conditional upon:

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

(ii) valid acceptances having been received at or before 4:00 p.m. on the date to be stated in the composite offer and response document to be issued to all China Paradise's shareholders (or such other time as GOME may, subject to the Takeovers Code, decide) in respect of at least 90% of the China Paradise shares other than those held by GOME and persons acting in concert with GOME;

(iii) The Stock Exchange granting its approval of the listing of, and permission to deal in, the new GOME shares to be issued in consideration for the transfer of the China Paradise shares pursuant to the terms of the Offer;

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

(v) the execution of non-competition agreements between China Paradise and certain shareholders of China Paradise (i) each holding 1% or more of the issued share capital of China Paradise (as at the date of the execution of the relevant non-competition agreements) and (ii) being the members of China Paradise's senior management, who together comprise: Mr. Chen Xiao, Ms. Shu Wei, Mr. Liu Hui, Mr. Shen Ping, Mr. Huang Baoming, Mr. Yuan Yashi and Mr. Shu Weiyi;

(vi) the fact that there is no relevant government, governmental, quasi-governmental, statutory or regulatory body, court or agency having granted any order or made any decision that would make the Offer void, unenforceable or illegal, or restrict or prohibit the implementation of, or impose any additional material conditions or obligations with respect to, the Offer (other than such orders or decisions as would not have a material adverse effect on the legal ability of the Offeror to proceed with or consummate the Offer); and

(vii) save in connection with the completion of the Offer, the listing of the China Paradise shares on the Stock Exchange not having been withdrawn, with no indication being received from the Hong Kong Securities and Futures Commission and/or the Stock Exchange to the effect that the listing of the China Paradise shares on the Stock Exchange is or is likely to be withdrawn.

The Offeror reserves the right to waive conditions (ii), (iii), (iv), (v) and (vi) to the Offer set out above, in whole or in part. Condition (ii) may be waived subject to the Offeror having received acceptances in respect of China Paradise shares which would result in the Offeror and parties acting in concert with it holding more than 50% of the voting rights in China Paradise.

Currently, management is negotiating the professional fees in connection with the above transaction with various professional firms engaged by the Company. Management estimated that the professional fees will not be more than RMB40,000,000.

MANAGEMENT DISCUSSION AND ANALYSIS

RESULT HIGHLIGHTS

The Group posted unsatisfactory interim results for the first half of 2006. Notwithstanding a 35.5% and 50.8% growth in turnover and total return from suppliers to RMB7,722,807,000 and RMB937,667,000 respectively, the increases were not sufficient to offset the significant surge in operating costs such as rental and staff costs. Furthermore, the Group's business in newly entered markets was still in a preliminary investment stage and had yet to have profit contribution. Therefore, profit attributable to equity holders of the Company was down by 89.3% to RMB15,018,000 during the period under review. Basic earnings per share decreased to RMB0.7 cents (approximately HK0.7 cents).

INTERIM DIVIDEND

The Board does not recommend payment of interim dividends for the six months ended 30 June 2006.

MARKET REVIEW

Boosted by China's rising economy and the increasingly strong domestic demand stimulated by the 11th Five-Year Plan of the PRC government, the retail market of household appliances in China offers enormous growth potential. This lucrative market, however, has also attracted foreign players, which intensified competition. In order to gain market shares, retail operators offered cutthroat discounts, exerting pressure to the industry as a whole. Further burden came from continuous increases in rental and staff costs. All of these served as catalysts to accelerate the pace of industry consolidation.

BUSINESS OVERVIEW

The Group is one of the top three household appliances retail chain operators in China. It enjoys a leading position in Shanghai with a 50% market share in terms of turnover. It is also the top retail chain operator in Henan province and maintains a leading position in the Zhejiang and Fujian areas. As at 30 June 2006, the Group had 225 stores covering 75 cities throughout China. Currently, the Group's operation covers major markets including the Pearl River Delta region, the Capital Economic Zone and Mid-Western China.

The Group underwent network expansion while streamlining its operations. During the period under review, 49 new stores were opened and 17 stores with unsatisfactory performance were closed down, bringing a net increase of 32 stores. Such an expansion pace was slightly behind the Group's schedule as the Group adopted a more prudent approach in order to avoid negative impact arising from initial investment in opening new stores.

STORE DISTRIBUTION

		As at 30 June 2006	
Region	**Provinces/ centrally-administered municipalities**	**No. of cities covered**	**Total no. of stores**
Eastern China	Shanghai	1	62
	Jiangsu	22	33
	Zhejiang	16	23
	Anhui	3	4
	Subtotal	**42**	**122**
Southern China	Fujian	9	27
	Guangdong	7	22
	Subtotal	**16**	**49**
Central China	Sichuan	4	14
	Henan	9	22
	Shaanxi	2	7
	Subtotal	**15**	**43**
Northern China	Beijing	1	7
	Tianjin	1	4
	Subtotal	**2**	**11**
Total		**75**	**225**

STORE FORMAT

The Group has established a comprehensive retail network which covers the Eastern China region and is extending into other potential markets. Its stores can be classified into the following three categories:

- Standardized store: normally with a floor area of approximately 2,000 sq.m. to 5,000 sq. m., which provides a wide array of household appliances and electronics products for basic household needs of customers.
- Flagship stores: large retail outlets that typically have a total floor area of 5,000 sq.m. to 12,000 sq.m. They are designed to provide a more comprehensive range of products and better shopping experience to customers and to enhance brand profile.
- Specialty stores: small outlets with floor area of approximately 300 sq.m. to 500 sq.m.. They are located in urban districts with heavy pedestrian flow. Specialty stores are mainly engaged in the sales of mobile phones and accessories, computers and digital products in order to satisfy the increasing demand of customers who wish to upgrade their personal electronic products with advanced technology and functions.

Region	Standardised stores	Flagship stores	Specialty stores
		As at 30 June 2006	
Eastern China	105	4	13
Southern China	48	1	–
Central China	42	1	–
Northern China	11	–	–
Total number of stores	**206**	**6**	**13**

TURNOVER ANALYSIS

Revenue

The Group's revenue mainly came from the sale of household appliances and consumer electronics products. Revenue was also derived from telephone service charges based on shared promotion scheme of mobile communication businesses. The Group's revenue for the six months ended 30 June 2006 was approximately RMB7,722,807,000, representing an increase of 35.5% from approximately RMB5,699,884,000 for the same period of last year. This was mainly attributable to the expansion of the retail network. The number of stores increased from 193 as at 31 December 2005 to 225 as at 30 June 2006.

Geographically, the Eastern China region (including Shanghai, Jiangsu, Zhejiang and Anhui provinces) remained as the major source of revenue, accounting for 74.0% of the turnover of the Group for the first six months of 2006, which was 12.1 percentage point lower than that for the same period of last year. The decrease was due to increased contribution from the Southern China and Central China regions, which rose by 2.5 percentage point and 7.3 percentage point respectively, to 12.2% and 10.9% during the period under review.

As at 30 June 2006, the number of standardised stores, flagship stores and specialty stores were 206, 6 and 13, respectively, representing an addition of 90, 3 and 11 stores, respectively over the same period of previous year.

REVIEW OF OPERATIONS

As market competition became increasingly ferocious, the Group adopted a number of development strategies to maintain its competitiveness during the period under review, which included:

Expansion of Stores Network

The Group pursued stores network expansion during the period under review to further extend its market coverage. In December last year, the Group entered into a framework cooperation agreement with Beijing Dazhong Electrical Appliances Co., Ltd. ("**Beijing Dazhong**") for the establishment of joint ventures to tap new markets in Xi'an and Qingdao. In order to further strengthen its competitiveness, the Group further entered into a strategic cooperation agreement with Beijing Dazhong in April this year, under which China Paradise is given the right to acquire the equity interest of Beijing Dazhong during the one-year term of the strategic cooperation agreement, with details to be finalized.

Concurrently, the Group expanded its coverage through organic growth. Its approximate total sales area increased by 27.0% to 705,569 sq.m. during the period under review.

Nevertheless, the Group faced keen competition from existing players in the newly entered markets. As the Group was still in a preliminary investment stage in these markets, it had yet to enjoy the benefits from scale of operation and market experience as it does in the Shanghai region. All these underlined the unsatisfactory store performance in these markets. For the six months ended 30 June 2006, the Group's approximate weighted average revenue per sq. m. per annum was RMB22,512, representing a decrease of 13.1% over the same period of last year. Owing to fierce price competition from its peers, same-store sales of the Group was down by 9.5% to RMB4,036,776,000, as compared to RMB4,458,152,000 for the same period of last year.

Disposal of Non-core Business

In order to concentrate its resources on the development of its core business, the Group entered into agreements with its key management on 17 May 2006 with respect to the disposal of the equity interests in seven subsidiaries engaging in non-core businesses, which included the sales of lightings, home furnishings, building materials, etc. The aggregate consideration (including assignment of debts), which amounted to RMB70,289,000, will be allocated as additional working capital. The disposal generated a one-off extraordinary gain of RMB41,597,000 to the Group.

Enhancing Operating Efficiency

During the period under review, the Group restructured its store network and closed down 17 stores with low profitability. Sales area was reduced by 79,940 sq.m. through subletting a portion of operation area or terminating leases to alleviate the pressure of rental increases. In addition, the Group streamlined its staff structure and reduced its staff force by 1,779 employees to lower operating costs.

Strengthening Relationship with Suppliers

The Group is committed to strengthening its relationship with suppliers. During the period under review, it launched a series of unique and creative marketing programmes to assist its suppliers to promote their brands and to provide excellent services to its customers.

BUSINESS PERFORMANCE

FINANCIAL HIGHLIGHTS

	For the six months ended 30 June			
	2006		2005	
Revenue by Region	**(RMB million)**	**As a percentage of revenue (%)**	(RMB million)	As a percentage of revenue (%)
Eastern China (including Anhui Area)	**5,718**	**74.0**	4,908	86.1
Southern China	**941**	**12.2**	554	9.7
Central China	**839**	**10.9**	207	3.6
Northern China	**225**	**2.9**	31	0.6
Total	**7,723**	**100.0**	5,700	100.0

Revenue by Principal Product Categories

	2006	**As a percentage of sales**	2005	As a percentage of sales	Change to such percentage
Air conditioners	**1,421**	**18.4%**	1,284	22.5%	-4.1%*
Television sets	**1,734**	**22.4%**	1,220	21.4%	1.0%
Refrigerators and washing machines	**1,153**	**14.9%**	840	14.7%	0.2%
Audio visual systems	**108**	**1.4%**	93	1.6%	-0.2%
Small black household appliances	**231**	**3.0%**	205	3.6%	-0.6%
Small white household appliances	**857**	**11.1%**	663	11.7%	-0.6%
I.T. digital products	**792**	**10.3%**	491	8.6%	1.7%
Mobile communication products	**1,427**	**18.5%**	904	15.9%	2.6%
Total	**7,723**	**100.0%**	5,700	100.0%	

* With the changes in the State policies towards the real estate sector, the sluggish real estate business led to a decline in the sales of air conditioners.

With respect to product sales, conventional household appliances such as air conditioners, television sets, refrigerators and washing machines remained as the major revenue stream. Such products accounted for 55.7% of the turnover for the six months ended 30 June 2006 compared to 58.6% for the same period last year. The Group deployed additional resources to boost the sales of rapidly evolving digital electronic appliances with short product cycles such as I.T. digital and mobile communication products. Sales of these products accounted for 28.8% of total revenue, up from 24.5% in the same period of last year. The Group is optimistic of the growth potential of such products.

Approximate Weighted Average Revenue per sq. m. per Annum

The Group's approximate weighted average revenue per sq. m. per annum decreased from RMB25,917 for the same period of 2005 to RMB22,512 during the period under review. This was mainly due to the Group's strategy of expanding to new markets including the Southern and Northern China regions where the disposable income per capita was relatively lower than that in Eastern China. In addition, sales of new stores were generally lower in the initial stage after opening.

Comparison of Same-store Sales

Same-store sales in the first half of the year was RMB4,036,776,000, representing a decrease of 9.5% compared to the same period of 2005, which was mainly due to:

- Continuous fierce competition, as competitors sped up new store opening which exerted pressure on the Group's existing stores; and
- New stores opened by the Group which diverted sales from existing stores to new ones.

COST OF SALES AND GROSS PROFIT MARGIN

The Group's cost of sales for the six months ended 30 June 2006 was RMB7,146,132,000, increased by 34.7% as compared to the same period of 2005.

Gross profit included price difference rebate and price subsidy from suppliers. During the period under review, the Group's gross profit recorded a period-on-period increase of 45.3% to RMB576,675,000, while gross profit margin expanded by 0.5 percentage point to 7.5%. The gross profit margin expansion was attributable to increased return from suppliers rebate resulting from sales growth.

Gross Profit Contribution by Principal Product Categories

	For the six months ended 30 June			
	2006		2005	
Revenue	**Gross margin** *(%)*	**Percentage of total gross profit** *(%)*	Gross margin *(%)*	Percentage of total gross profit *(%)*
Air conditioners	**5.3**	**13.1**	4.1	13.1
Television sets	**4.8**	**14.5**	2.4	7.5
Refrigerators and washing machines	**7.2**	**14.5**	5.3	11.2
Audio visual system	**21.2**	**4.0**	22.9	5.4
Small black household appliances	**10.1**	**4.0**	8.3	4.3
Small white household appliances	**14.3**	**21.2**	10.4	17.4
I.T. digital products	**1.8**	**2.5**	6.9	8.5
Mobile communication products	**10.6**	**26.2**	14.3	32.6
Total	**7.5**	**100.0**	7.0	100.0

PURCHASING AND LOGISTICS MANAGEMENT

For the six months ended 30 June 2006, 70% of the Group's purchase was direct purchase from manufacturers, and the remaining 30% was mainly procured from mobile handsets and digital product distributors. The mix was approximately the same as that in the previous year.

The Group is committed to strengthening the back-end support. In the first half of the year, the Group commenced the construction of the logistics center in Qingpu, Shanghai. With total investments amounting to RMB200,000,000, it will be the largest logistics center built by a retail operator in China. The center is expected to commence its operation by early 2007. Upon completion, the Group will benefit from reduced logistics costs and enjoy greater flexibility in product procurement to meet market demand while reducing its inventory levels.

SPONSORSHIP FEES FROM SUPPLIERS

Revenue from sponsorship fees included promotion fees and display fees. For the six months ended 30 June 2006, sponsorship fees from suppliers amounted to RMB363,575,000, representing an increase of 50.6% from RMB241,397,000 over the same period of 2005. This was mainly attributable to the expansion of scale of operation and the increased promotional activities the Group offered to suppliers.

TOTAL RETURN FROM SUPPLIERS

For the six months ended 30 June 2006, the total return from suppliers increased from RMB621,831,000 for the same period last year to RMB937,667,000. The precentage of total return from suppliers to the turnover of the period increased from 10.9% for the first half of 2005 to 12.1% for the first half of 2006, representing an increase of 1.2 percentage point.

OTHER INCOME AND GAIN (EXCLUDING SPONSORSHIP FEES FROM SUPPLIERS)

Other income and gain for the six months ended 30 June 2006 rose by 108.7% to RMB107,149,000, which was mainly attributable to:

1. An extraordinary gain of RMB41,597,000 from the disposal of non-core businesses; and
2. Increase in rental income of RMB13,397,000 from leasing of certain properties in idle and subletting of certain store areas with unsatisfactory performance.

OPERATING COSTS

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

	For the six months ended 30 June As a percentage of revenue (%)	
	2006	2005
Selling and distribution costs	**10.4**	7.4
Administrative expenses	**2.1**	1.8
Other expenses	**0.5**	0.1
Total	**13.0**	9.3

Selling and Distribution Costs

The selling and distribution costs of the Group for the six months ended 30 June 2006 amounted to RMB807,025,000, denoting an increase of 91.4% over RMB421,592,000 for the same period of 2005. Percentage of selling and distribution costs to turnover also increased from 7.4% in the first six months of 2005 to 10.4% for the period under review.

	For the six months ended 30 June As a percentage of revenue (%)	
	2006	2005
Store rental	**3.6**	2.0
Advertising and promotion expenses	**1.9**	1.9
Staff costs of sales team	**2.3**	1.2
Logistics costs	**0.7**	0.8
Water and electricity charges	**0.7**	0.6
Depreciation	**0.8**	0.4
Others	**0.4**	0.5
Total	**10.4**	7.4

The increase in selling and distribution costs was mainly attributable to the increase in sales, rising rental and staff costs resulting from business expansion. During the period under review, rental costs recorded a period-on-period increase of 142.6%, from RMB115,869,000 for the same period of last year, accounting for 2.0% of the Group's turnover to RMB281,137,000 for the period under review, accounting for 3.6% of the Group's turnover. The significant rise in rental costs was as a result of the increased demand from competitors seeking prime store locations for stores in the region which pushed up store rents. In addition, staff costs increased by 156.2% to RMB175,761,000 and accounted for 2.3% of the turnover. The increase was attributable to intensified competition, as the growth in sales of new stores lagged behind the increase in staff costs.

Cost Control Measures

In view of the rising trend in rentals and staff costs, the Group re-engineered internal management during the period under review by streamlining corporate structure, reducing headcounts by 1,779 employees and adjusting staff salaries in accordance with their performance. Furthermore, the Group sublet a portion of areas in some of its stores, closed down certain under-performing stores and demanded rental reduction so as to increase operation efficiency.

Administrative Expenses

Administrative expenses increased by 59.5% to RMB163,058,000 during the period under review, which accounted for 2.1% of our turnover. The main reason for such rise was the increase in staff costs of our administrative team as we actively recruited more senior management personnel from international retail enterprises to cope with our business expansion. Thus, percentage of staff costs to turnover increased to 1.1% for the period under review from 0.9% during the same period of last year. In addition, other administrative expenses such as office expenses, legal and professional fee after IPO also increased.

Other Expenses

Other expenses of the Group for the first half of 2006 amounted to RMB36,383,000, which increased significantly over the same period of 2005 mainly due to impairment of goodwill of the purchased subsidiaries which amounted to RMB15,702,000 and exchange loss of RMB12,530,000 resulted from RMB appreciation on the listing proceeds currently placed in Hong Kong in US dollars deposits.

NET INTEREST INCOME

The Group's interest income for the first six months of 2006 amounted to RMB44,872,000, an increase of 245.4% as compared to the same period of last year. This was mainly due to the increase in interest income resulting from the increased bank deposits with the proceeds from listing.

INCOME TAX AND EFFECTIVE TAX RATE

Our income tax expenses for the six months ended 30 June 2006 amounted to RMB70,288,000, an increase of 324.4% over the same period of 2005. It was attributable to the substantial increase in deferred taxes of RMB45,878,000 as a result of write off of deferred tax assets recognised in prior year on unutilised tax losses of certain subsidiaries and the non-recognition of deferred tax assets on unutilised tax losses of certain subsidiaries during the current period. In the meantime, as Shanghai Yongle Communication Equipment Co. Ltd. was exempted from income tax during 2005, for which it was subject to tax at 15% after the tax exemption period expired, income taxes for the first half of the year thus amounted to RMB27,490,000.

PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY AND BASIC EARNINGS PER SHARE

Owing to the aforesaid reasons, the profit attributable to equity holders of the Company for the six months ended 30 June 2006 decreased by 89.3% period on period to RMB15,018,000. The net profit margin for the period was 0.2%, a decrease by 2.3 percentage point over the same period of last year. Basic earnings per share for the period under review decreased by 92.3% to RMB0.7 cents.

CURRENT LIQUIDITY AND CASH BALANCE

	As at 30 June		
	2006	2005	**Change**
	(RMB million)	*(RMB million)*	*(%)*
Cash and cash equivalents	**1,789**	875	104.5
Bank loans	**230**	226	1.8
Net cash[1]	**1,559**	649	140.2
Current ratio[2]	**1.2**	1.0	20.0
Turnover of inventory[3] (days)	**38.7**	31.3	23.6
Turnover of trade receivables and bills receivable (days)	**2.7**	0.7	285.7
Turnover of trade payables and bills payable (days)	**127.4**	121.7	4.7

Notes:

1. cash and cash equivalents – bank loans
2. current assets/current liabilities
3. average inventory during the period/selling cost x 180
   average inventory = (inventory at beginning of period + inventory at end of period)/2

Analysis of Cash Flow

Increase in net cash outflow from investment activities in the last year was mainly attributable to the additional use of bills payable for purchases, which resulted in the deposits pledged increased by RMB383,700,000, as well as the consideration for acquisition arising from the restructuring of the Group. The payments made during the year were mainly for capital expenditures of RMB88,711,000.

Increase in net cash inflow from financing activities for the same period in the last year was the cash received for the subscription of the Company's shares by financial investors, namely MS Retail Limited and CDH Electronics Limited. For the six months ended 30 June 2006, the net cash outflow from financing activities was due to the repayment of bank loans of RMB110,000,000, and the payment of dividend of RMB94,076,000. The cash outflow arising therefrom was offset by the inflow of RMB142,712,000 received from the exercise of share options by Tong Ley Investment Ltd. and Retail Management Company Limited, respectively.

Capital Expenditure

The Group's capital expenditure in the first half of 2006 (net of the amount transferred from long-term land deposits) amounted to RMB94,960,000, of which RMB65,166,000 was spent on opening new stores, RMB27,511,000 was spent on construction of distribution centre and RMB2,283,000 was spent on upgrading of our information system network.

Use of Proceeds from Listing

The Group was successfully listed on the Stock Exchange in October 2005. As the Group is waiting for the approval of the Chinese government for remittance of funds raised back to China, approximately RMB1.2 billion has not yet been applied as at the end of June 2006. Given the rising interest rate of US dollars, the fund was deposited in US dollar fixed deposit in order to maximize interest income.

MANAGEMENT OF WORKING CAPITAL

Current ratio

The Group's current ratio as at 30 June 2006 was 1.2, representing an increase of 20.0% as compared to 1.0 as at 30 June 2005. The increase was attributable to the net proceeds of approximately RMB1.2 billion received from listing in October 2005, resulting in a substantial increase in our cash balance at the end of June 2006.

Inventory Turnover

The inventory turnover as at 30 June 2006 increased by 7.4 days to 38.7 days over the same day in 2005. The increase was mainly because the Group stocked up to mitigate the impact of raw material cost increase on the price of air-conditioners, and stocked up for enlarged store network.

Trade Receivables and Bills Receivable Turnover

The receivables turnover for the first half of 2006 was 2.7 days, which was similar to last year, indicating that most sales continued to be conducted in cash.

Turnover of Trade Payables and Bills Payable

The payables turnover for the first half of 2006 was 127.4 days, 5.7 days more than that for the same period of 2005. It is due to the increase in proportion of bills used, and the repayable period for bills payable was longer than trade payables.

PLEDGE OF ASSETS

The Group's pledge of assets is disclosed under notes 17 and 18 of the notes to the interim condensed consolidated financial statements.

CONTINGENT LIABILITIES

The Group's contingent liabilities is disclosed under note 24 of the notes to the interim condensed consolidated financial statements.

RISK OF FOREIGN EXCHANGE

All of the Group's operations are in China and sales are denominated in Renminbi. Other than the listing proceeds which were denominated in Hong Kong dollars, all of our financial assets and liabilities are denominated in Renminbi. However, the prices at which the Group purchases from suppliers may be affected as a result of fluctuations in the prices of imported raw materials or parts or the foreign exchange rate. In view of the risk of appreciation of Renminbi, the Group has applied to the Chinese government to remit the funds which are currently placed in Hong Kong in US dollar deposit back to China.

FUTURE PROSPECTS

Owing to fierce price wars and the lacklustre performance of new stores in the Northern China and Southern China regions, the Group's results for the first half of this year was not as good as that of the same period last year. The participation by foreign players also greatly intensified competition. The Group believes that the best way of resolving the issue of competition altogether and to improve our results substantially is to merge with other industry players.

The Group published an announcement concerning the proposed merger with GOME under which GOME intends to make a voluntary conditional offer to us. Both parties believe that the merger will bring along a series of benefits and enhance shareholders' return. Firstly, the combined group will become the clear market leader, and enjoy leading positions in key regions including both Beijing and Shanghai. After the merger, the combined store network of GOME and the Group will increase to 501 stores based on the number of stores of both companies as at 31 March, 2006, which will further expand the scale of operation. The combined group will be well positioned for future growth and continued industry consolidation. In addition, the merger will also increase purchasing power and enable integration of procurement and supply chain management functions which will reduce the operating costs and enhance operating costs efficiency for the combined group.

Both parties expect all of the above benefits to significantly strengthen the combined group, and strategically position the businesses to become the long-term market leader in China.

For details of the offer, please refer to the announcement dated 25 July 2006 and the composite offer document to be issued to shareholders.

The Group will continue to pursue the acquisition of Beijing Dazhong to secure a leading position in Beijing.

CORPORATE GOVERNANCE

As mentioned in our 2005 annual report, the Company has put in place a code on corporate governance practices (the "**Corporate Governance Code**") that complies with the "Code on Corporate Governance Practices and Corporate Governance Report" as contained in Appendix 14 to The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

The Board has reviewed the implementation of our Corporate Governance Code. The Company has complied with the Corporate Governance Code throughout the six months ended 30 June 2006 except that the role of Chairman and Chief Executive Officer is performed by the same individual Mr. Chen Xiao, which is not in compliance with Code Provision A.2.1 of the Code on Corporate Governance Practices and Corporate Governance Report. The Board believes that vesting the roles of both Chairman and Chief Executive Officer (which is equivalent to the President) in Mr. Chen Xiao provides the Group with strong and consistent leadership and allows for more effective planning and execution of long-term business strategies.

Save as mentioned above, none of the directors of the Company is aware of any information which would reasonably indicate that the Company was not in compliance with the Code on Corporate Governance Practices and Corporate Governance Report set out in Appendix 14 to the Listing Rules at any time during the reporting period.

REMUNERATION COMMITTEE

The Company's remuneration committee consists of three members, two of whom are independent non-executive directors, being Mr. Chu Cheng Chung and Mr. Wang Bing. The remuneration committee is chaired by Mr. Chen Xiao, an executive director. The Company's remuneration committee has been established with written terms of reference. The primary duties of the remuneration committee include without limitation: (i) establishing a formal and transparent procedure for developing policies on remuneration; (ii) determining the terms of the specific remuneration package of each executive director and senior management, etc.

AUDIT COMMITTEE

The Company's audit committee comprises of three independent non-executive directors, namely Dr. Yu Zengbiao, Mr. Chu Cheng Chung and Mr. Wang Bing. The audit committee is chaired by Dr. Yu Zengbiao. The audit committee is established with the aim of monitoring the financial reporting procedures, reviewing internal control and risk management system of the Group and monitoring the relationship with external auditors, which includes the review of the unaudited interim condensed consolidated financial statements for the six months ended 30 June 2006. The audit committee has reviewed the unaudited interim condensed consolidated financial statements of the Group for the six months ended 30 June 2006.

PURCHASE, SALE OR REDEMPTION OF LISTED SHARES OF THE COMPANY

During the six months ended 30 June 2006, none of the Company or any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

COMPLIANCE WITH THE MODEL CODE

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as the Company's code of conduct and rules governing dealings by all directors in the securities of the Company. The Company has made specific enquiries with all directors and the directors had confirmed their strict compliance with the Model Code during the six months ended 30 June 2006.

By Order of the Board
China Paradise Electronics Retail Limited
Chen Xiao
Chairman

Hong Kong, 14 August 2006

As at the date of this announcement, the Board of Directors comprises Mr. Chen Xiao, Ms Shu Wei, Mr. Liu Hui, Mr. Yuan Yashi, Mr. Ma Yawei, Mr. Zhou Meng and Mr. Shen Ping who are executive directors; Mr. Julian Juul Wolhardt who is a non-executive director; Dr. Yu Zengbiao, Mr. Chu Cheng Chung and Mr. Wang Bing who are independent non-executive directors.

* *For identification purpose only*

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