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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)

CONNECTED TRANSACTION SIGNING OF STRATEGIC COOPERATION AGREEMENT

Financial adviser to the Company

CAZENOVE

Cazenove Asia Limited

The Directors are pleased to announce that its main operating subsidiary, Paradise Shanghai has entered into the Strategic Cooperation Agreement with Beijing Dazhong and Mr Zhang Dazhong on 19 April 2006 pursuant to which, Paradise Shanghai has agreed to form a strategic alliance with Beijing Dazhong to cooperate in the areas of joint procurement, logistics and delivery, products display, store development, store management, financial management, information system and personnel exchange.

Mr Zhang Dazhong has also agreed to transfer, subject to various conditions, the Dazhong Equity Interest during the term of the Strategic Cooperation Agreement to Paradise Shanghai.

In connection with the transfer of the Dazhong Equity Interest, Paradise Shanghai has agreed to pay the Deposit in cash to Mr Zhang Dazhong or his nominee to guarantee the performance of its obligations in the event of a transfer of the Dazhong Equity Interest.

Each of Beijing Dazhong and Paradise Shanghai is interested in 50% equity interest in Xi An Yongle Dazhong, an equity joint venture established in the PRC. Mr Chen Xiao, a Director, is the sole director of Xi An Yongle Dazhong. Xi An Yongle Dazhong is therefore deemed to be a subsidiary of Paradise Shanghai for the purpose of the Listing Rules.

Beijing Dazhong, as a substantial shareholder of Xi An Yongle Dazhong and Mr Zhang Dazhong, as an associate of Beijing Dazhong are therefore connected persons of the Company within the meanings of the Listing Rules. The transactions contemplated under the Strategic Cooperation Agreement may constitute notifiable transactions under Chapter 14 and/or connected transactions under Chapter 14A of the Listing Rules. The Company will comply with the disclosure and/or independent shareholders' approval requirements under Chapter 14 and/or Chapter 14A of the Listing Rules that may be applicable at the time when these agreement have been finalised for signing.

Shareholders and potential investors of the Company should note that the acquisition of the Dazhong Equity Interest may or may not be implemented. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the shares.

INTRODUCTION

The Directors are pleased to announce that Paradise Shanghai, a non wholly owned subsidiary of the Company, has entered into the Strategic Cooperation Agreement with Beijing Dazhong and Mr Zhang Dazhong on 19 April 2006 pursuant to which (i) Paradise Shanghai has agreed to form a strategic alliance with Beijing Dazhong to cooperate in the areas of joint procurement, logistics and delivery, products display, store development, store management, financial management, information system and personnel exchange; and (ii) Mr Zhang Dazhong has agreed to transfer the Dazhong Equity Interest to Paradise Shanghai during the term of the Strategic Cooperation Agreement on the terms as described below.

STRATEGIC COOPERATION AGREEMENT DATED 19 APRIL 2006

- Parties:
1. Paradise Shanghai
 2. Beijing Dazhong
 3. Mr Zhang Dazhong

* For identification purpose only

Summary:	Paradise Shanghai and Beijing Dazhong have agreed to cooperate in the areas of joint procurement, logistics and delivery, products display, store development, store management, financial management, information system and personnel exchange. In addition, Mr Zhang Dazhong has agreed to transfer the Dazhong Equity Interest during the term of the Strategic Cooperation Agreement to Paradise Shanghai. Mr Zhang Dazhong has also undertaken to procure the Other Investors of Beijing Dazhong to sell their respective equity interests to Paradise Shanghai.
Consideration:	The transactions contemplated under the Strategic Cooperation Agreement will be of mutual benefits to both Paradise Shanghai and Beijing Dazhong. On this basis, Paradise Shanghai and Beijing Dazhong have agreed that no other consideration will be payable in respect of the strategic cooperation described below in the paragraph headed "Strategic Cooperation".
Term of the Strategic Cooperation Agreement:	1 year commencing from the date of the Strategic Cooperation Agreement
Conditions:	The transfer of the Dazhong Equity Interest will be conditional upon: <ol style="list-style-type: none"> 1. a formal equity transfer agreement being entered into between Paradise Shanghai and Mr Zhang Dazhong; 2. the approval being obtained from the independent Shareholders; 3. compliance with any other requirements as required by the Stock Exchange; and 4. approvals being obtained from the relevant PRC government departments including the Ministry of Commerce, State Administration for Foreign Exchange and the State Administration for Industry and Commerce.
Completion:	It is contemplated in the Strategic Cooperation Agreement that the Transfer Notice is to be served within 12 months after the date of the agreement. Completion of the transfer of the Dazhong Equity Interest is expected to occur as soon as possible after Mr Zhang Dazhong has served the Transfer Notice to Paradise Shanghai and all the conditions precedent having been satisfied. The exact date of completion of the transfer will be set out in the formal equity transfer agreement which Paradise Shanghai will enter into with Mr Zhang Dazhong and other minority shareholders of Beijing Dazhong, as the case may be.

Deposit

Paradise Shanghai has agreed to pay the Deposit to Mr Zhang Dazhong or his nominee to guarantee its performance of its obligations in the event of a transfer of the Dazhong Equity Interest. Unless Paradise Shanghai and Mr Zhang Dazhong agree otherwise, the Deposit will not be used to set off any consideration payable by Paradise Shanghai in connection with the transfer of the Dazhong Equity Interest and shall be returned to Paradise Shanghai within 15 days after all the necessary approvals in relation to the transfer of the Dazhong Equity Interest have been obtained from the relevant PRC government authorities.

Mr Zhang Dazhong is entitled to forfeit the Deposit if there is a failure on the part of Paradise Shanghai to fulfill its obligations in relation to a transfer of the Dazhong Equity Interest. If there is a failure on the part of Mr Zhang Dazhong to fulfill its obligations in relation to a transfer of the Dazhong Equity Interest, Mr Zhang Dazhong will be required to pay to Paradise Shanghai RMB300 million, being twice the amount of the Deposit ("**tier one compensation**"). If Mr Zhang Dazhong transfer any of the Dazhong Equity Interest to a third party within 2 years after the date of the Strategic Cooperation Agreement, Mr Zhang Dazhong will be required to pay additional compensation which will result in Paradise Shanghai receiving a total compensation of RMB450 million, being three times the Deposit ("**tier two compensation**"). In the event where the tier one compensation has already been paid, such payment will be taken into account in calculating the amount of tier two compensation. According to the Strategic Cooperation Agreement, both the tier one compensation and tier two compensation are to be paid in RMB.

The Deposit will be funded by internal financial resources of the Company.

The consideration payable by Paradise Shanghai in respect of the transfer of the Dazhong Equity Interest or acquisition of equity interest from the Other Investors is based on a valuation of Beijing Dazhong determined by the following formula:

$$A = B \times (C/D) \times 80\%$$

where;

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

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

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

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

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

Pursuant to the terms of the Strategic Cooperation Agreement, Beijing Dazhong has confirmed that its International Financial Reporting Standards audited net asset value will not be less than RMB500 million as at 30 June 2006. If its net asset value is below this amount, it is proposed that the valuation of Beijing Dazhong and the consideration will be adjusted based on a mechanism to be agreed in the formal equity transfer agreement.

Since the audited net profit of Beijing Dazhong is not expected to be available until after the Transfer Notice has been served, Paradise Shanghai and Mr Zhang Dazhong have agreed to use RMB100 million as the value of B for calculating the consideration payable in connection with the transfer of the Dazhong Equity Interest at the time of the signing of the formal equity transfer agreement. Adjustments will be made to the actual consideration once the relevant figures for determining B become available.

Obligations of the parties

In relation to the transfer of the Dazhong Equity Interest, the obligations of Mr Zhang Dazhong are to serve the Transfer Notice on Paradise Shanghai within one year from the date of the Strategic Cooperation Agreement and to procure that the “other investors” will sell their respective equity interests in Beijing Dazhong to Paradise Shanghai.

The obligations of Paradise Shanghai are to acquire the Dazhong Equity Interest (after the Transfer Notice has been served) and to pay the consideration in accordance with the formula set out in the Announcement.

The deposit of RMB150 million is determined after arm’s length negotiation between Paradise Shanghai and Beijing Dazhong based on the Company’s estimation of the establishment cost of the business of Beijing Dazhong, being the cost of setting up the stores that make up the business of Beijing Dazhong. It is an amount agreed on by both parties after due consideration of the significance of the transactions contemplated under the Strategic Cooperation Agreement.

The respective compensation amounts of RMB 300 million and RMB 450 million are determined after arm’s length negotiation between Paradise Shanghai and Beijing Dazhong. It is an amount agreed on by both parties after due consideration of the significance of the transactions contemplated under the Strategic Cooperation Agreement. As advised by the Company’s PRC counsel, the compensation arrangement is legal and is enforceable under PRC laws.

Given that Mr Zhang Dazhong will be responsible for paying Paradise Shanghai RMB300 million or RMB450 million in the event of a failure on his part to fulfill his obligations, the Directors consider that the arrangement is fair and reasonable.

The Deposit will be paid directly to an account nominated by Mr Zhang Dazhong and will not be kept in a custodian account. This arrangement is the commercial agreement between the two parties. The Directors consider that the position of Paradise Shanghai is safeguarded by the fact that Beijing Dazhong will be jointly responsible for any breaches of the Strategic Cooperation Agreement by Mr Zhang Dazhong. The Directors satisfy that Mr Zhang Dazhong and Beijing Dazhong have the ability to meet their payment obligations under this agreement having considered the fact that Beijing Dazhong is the biggest household electronics retailer in Beijing and the strength of its annual turnover.

If there is a termination of the acquisition of the Dazhong Equity Interest, not being a default or failure on the part of Mr Zhang Dazhong or Paradise Shanghai (e.g., the failure by the parties to obtain the relevant PRC government approvals), Mr Zhang Dazhong will return the Deposit to Paradise Shanghai together with interests accrued (being calculated based on the bank interest rate applicable during the corresponding period). It is not specified in the Strategic Cooperation Agreement when such payment has to be made but the Company has received advice from its PRC lawyers indicating that such payment should be made as soon as possible after termination.

Strategic Cooperation

Pursuant to the Strategic Cooperation Agreement, Paradise Shanghai and Beijing Dazhong have agreed to cooperate in the following areas:

- Joint procurement - Paradise Shanghai and Beijing Dazhong will joint force in procurement activities by way of strategic and district procurement cooperation. It will be conducted via information exchange on merchandise or procurement policies, annual sales budget, etc.
- Logistics and delivery - in relation to district procurement, Paradise Shanghai and Beijing Dazhong will adopt bulk purchase policy, joint warehouse policy and joint delivery policy.
- Products display - Paradise Shanghai and Beijing Dazhong will consult with each other in relation to products display in their retail shops.
- Store development - Paradise Shanghai and Beijing Dazhong will closely cooperate in connection with stores development planning and will consult with each other prior to opening of any new retail stores.
- Store management - Paradise Shanghai and Beijing Dazhong will consult with each other on store management issues and will deploy a set of standard store management handbook.

In addition to the above, Paradise Shanghai and Beijing Dazhong will also cooperate in the areas of financial management, information system and personnel exchange.

Entrustment Arrangement

Once approvals in connection with the transfer of the Dazhong Equity Interest have been obtained from the relevant PRC government authorities, Mr Zhang Dazhong and Paradise Shanghai shall enter into an entrustment agreement whereby, Paradise Shanghai will provide management services to household appliances retail shops (excluding Beijing) owned or controlled, directly or indirectly, by Mr Zhang Dazhong as to 50% or more (“**managed retail shop(s)**”). The managed retail shops shall pay to Paradise Shanghai management fees and royalties for the use of Paradise Shanghai’s trademarks or Beijing Dazhong’s trademarks.

During the management period, a managed retail shop shall be transferred to Paradise Shanghai at a reasonable consideration if it records a profit in its annual audited financial statements. Further details in respect of the management arrangement, the terms and conditions of the transfer shall be determined by Paradise Shanghai, Mr Zhang Dazhong and shareholders of the managed retail shops. If a managed retail shop records a loss in its annual audited accounts, Mr Zhang Dazhong will grant a right of first refusal to Paradise Shanghai such that if Mr Zhang Dazhong intends to sell that managed retail shop, it must be first offered to Paradise Shanghai.

Further details in relation to the entrustment arrangement will be determined when the parties enter into a formal entrustment agreement.

Information about Paradise Shanghai and the Company

Paradise Shanghai is a sino foreign equity joint venture established in the PRC owned as to 90% by the Company. The Company, together with its subsidiaries, is a leading specialty retailer of household appliances and consumer electronics products and related services in China with stores in Shanghai, the Yangtze River Delta region, the Pearl River Delta region, the Capital Economic Zone and Mid-West China.

Information about Beijing Dazhong

Beijing Dazhong is a leading specialty retailer of household appliances and consumer electronics products and related services in various major cities in the PRC including Beijing and Tianjin. It is currently the largest household electronic appliances retailer in Beijing. Beijing Dazhong is currently owned as to 78% by Mr Zhang Dazhong with the remaining 22% owned by the Other Investors.

Upon completion of the transfer of the Dazhong Equity Interest, Beijing Dazhong will become a subsidiary of Paradise Shanghai.

Information on Mr Zhang Dazhong

Mr Zhang Dazhong (張大中先生) is a PRC resident and holder of approximately 78% equity interest in Beijing Dazhong. Mr Zhang Dazhong is the founder of Beijing Dazhong. He has been in the electrical appliances business for over 24 years and has been the key person in the success of Beijing Dazhong. In addition to his business interest, he holds and has held various political positions and public offices.

Benefits/Reasons of the transaction(s)

Paradise Shanghai has entered into the Strategic Cooperation Agreement to enable it to take advantage of the local expertise and on-the-ground support for its stores in the Beijing and Tianjin areas. The Directors believe that the transfer of the Dazhong Equity Interest will enhance the intrinsic equity value of the shares of the Company. On the basis of the areas that Paradise Shanghai and Beijing Dazhong have agreed to cooperate, the Directors expect that the strategic cooperation will generate significant synergies for the benefit of both companies by enabling the two businesses to reduce costs through sharing of operational platform such as logistics, marketing, joint procurement, etc.. It is expected that this will have a positive impact on the earnings per share of the Company. The Directors expect that the acquisition of the Dazhong Equity Interest, if implemented, will enable the Group to quickly expand into new markets with leading position, generate maximum operating and cost synergies and increase financial capacity through combining the financial strengths of two leading players in the industry. The Directors believe that the terms of the transaction are fair and reasonable and in the interests of the Shareholders as a whole.

Connected Transaction

Each of Beijing Dazhong and Paradise Shanghai is interested in 50% equity interest in Xi An Yongle Dazhong, an equity joint venture established in the PRC. Mr Chen Xiao, a Director, is the sole director of Xi An Yongle Dazhong. Xi An Yongle Dazhong is therefore deemed to be a subsidiary of Paradise Shanghai for the purpose of the Listing Rules. Beijing Dazhong, as a substantial shareholder of Xi An Yongle Dazhong and Mr Zhang Dazhong, as an associate of Beijing Dazhong are therefore connected persons of the Company within the meaning of the Listing Rules. The entering into by the Company of the Strategic Cooperation Agreement constitutes a connected transaction under Chapter 14A of the Listing Rules.

The transactions contemplated under the Strategic Cooperation Agreement may constitute notifiable transactions under Chapter 14 and/or connected transactions under Chapter 14A of the Listing Rules. The Company will comply with the disclosure and/or independent shareholders' approval requirements under Chapter 14 and/or Chapter 14A of the Listing Rules that may be applicable at the time when these agreement have been finalised for signing.

Shareholders and potential investors of the Company should note that the acquisition of the Dazhong Equity Interest may or may not be proceed to completion. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the shares.

Cazenove Asia Limited acted as financial adviser to the Company in connection with the Strategic Cooperation Agreement.

Definitions

“Beijing Dazhong”	Beijing Dazhong Electrical Appliances Co., Ltd., (北京市大中電器有限公司) a limited liability company incorporated in the PRC
“Company”	China Paradise Electronics Retail Limited, a limited liability company incorporated in the Cayman Islands whose shares are listed on the main board of the Stock Exchange
“Dazhong Equity Interest”	the 78% equity interest in Beijing Dazhong held by Mr Zhang Dazhong as at the date of this announcement
“Deposit”	the sum of RMB150 million payable by Paradise Shanghai to Mr Zhang Dazhong within 15 days from the date of this announcement
“Director(s)”	the director(s) of the Company
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange
“Other Investors”	Mr Zhang Dapu (張大圃) and Mr Zhang Dajiang (張大江) who are holders of approximately 15% and 7% equity interest in Beijing Dazhong. Mr Zhang Dapu and Mr Zhang Dajiang are brothers of Mr Zhang Dazhong.
“PRC”	The People’s Republic of China
“Paradise Shanghai”	Yongle (China) Electronics Retail Co., Ltd. (previously known as Shanghai Yongle Electronics Retail Co., Ltd.) (永樂(中國)電器銷售有限公司), an indirect non wholly owned subsidiary of the Company
“RMB”	Renminbi, the lawful currency of the PRC
“Shareholder(s)”	holder of the shares of nominal value HK\$0.10 each in the capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Strategic Cooperation Agreement”	the Strategic Cooperation Agreement entered into between Paradise Shanghai, Beijing Dazhong and Mr Zhang Dazhong dated 19 April 2006
“Transfer Notice”	notice to be served by Mr Zhang Dazhong to Paradise Shanghai in respect of the transfer of the Dazhong Equity Interest pursuant to the Strategic Cooperation Agreement

“Xi An Yongle Dazhong”

Xi An Yongle Dazhong Household Appliances Co., Ltd. (西安永樂大中家用電器有限公司), an equity joint venture evenly owned by Paradise Shanghai and Beijing Dazhong as to 50% and 50% respectively

By order of the board of Directors
China Paradise Electronics Retail Limited
Chen Xiao
Chairman

Hong Kong, 21 April 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.

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