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**GOME Electrical Appliances Holding Limited**

**國美電器控股有限公司\***

*(incorporated in Bermuda  
with limited liability)*

**(Stock code: 493)**



**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)**

## **JOINT ANNOUNCEMENT**

**Voluntary conditional offer by  
Goldman Sachs (Asia) L.L.C.**

**on behalf of**

**GOME Electrical Appliances Holding Limited  
to acquire all of the issued shares in the capital of  
China Paradise Electronics Retail Limited**

**not already owned by GOME Electrical Appliances Holding Limited and  
parties acting in concert with it**

**and**

**Major transaction of GOME Electrical Appliances Holding Limited**

**Financial adviser to  
GOME Electrical Appliances Holding Limited**

**Goldman  
Sachs**

**Financial adviser to  
China Paradise Electronics Retail Limited**

**CAZENOVE**  
Cazenove Asia Limited

### **1. INTRODUCTION**

GOME and China Paradise jointly announce 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 not already owned by GOME and parties acting in concert with it.

### **2. CONSIDERATION FOR THE OFFER**

The consideration in respect of the Offer is as follows:

For each China Paradise Share ..... 0.3247 new GOME Shares and HK\$0.1736 in cash

In the event that the Offer is declared or becomes unconditional, an appropriate offer or proposal will be made, in accordance with the provisions of the Takeovers Code, to the holders of any outstanding options.

### **3. CONDITIONS OF THE OFFER**

The Offer is conditional upon:

- (a) the Offer and the issue of the new GOME Shares in connection with the Offer having been approved by the shareholders of GOME in general meeting;
- (b) valid acceptances having been received at or before 4.00 p.m. on the Closing Date (or such other time as GOME may, subject to the Takeovers Code, decide) in respect of at least 90% of the Disinterested Shares;
- (c) 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;
- (d) the total assets of China Paradise, less its total liabilities, being the net asset value, as set out in the unaudited consolidated interim financial statements of China Paradise for the six months ended 30 June 2006, being no less than RMB2,250,000,000;
- (e) the execution of non-competition agreements between China Paradise and certain China Paradise Shareholders (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 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;
- (f) 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
- (g) save in connection with the completion of the Offer, the listing of the China Paradise Shares on the Stock Exchange not having been withdrawn, and no indication being received from the SFC 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 (b), (d), (e), (f) and (g) to the Offer set out above, in whole or in part. Condition (b) 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.

The Offeror intends to exercise the right under Section 88 of the Cayman Islands Companies Law and pursuant to Rule 2.11 of the Takeovers Code, if it acquires not less than 90% of the Disinterested Shares within four months of the posting of the Composite Document, to compulsorily acquire those China Paradise Shares not acquired by the Offeror pursuant to the Offer. On completion of the compulsory acquisition, it is intended that China Paradise will become a wholly-owned subsidiary of the Offeror and an application will be made for the withdrawal of the listing of the China Paradise Shares from the Stock Exchange pursuant to Rule 6.15 of the Hong Kong Listing Rules.

#### **4. IRREVOCABLE COMMITMENTS**

Retail Management and Mr. Chen Xiao have given an irrevocable undertaking to the Offeror under which Retail Management has undertaken that it will, and Mr. Chen Xiao has undertaken that he will use his best endeavours to procure that Retail Management will, accept the Offer in respect of 473,686,307 China Paradise Shares held by Retail Management representing approximately 20.29% of the issued share capital of China Paradise or approximately 20.10% of the issued share capital of China Paradise on a fully diluted basis assuming that the Wang Management Incentive Option is exercised in full. Retail Management currently holds 1,180,675,243 China Paradise Shares representing approximately 50.57% of the issued share capital of China Paradise or approximately 50.10% of the issued share capital of China Paradise on a fully diluted basis assuming that the Wang Management Incentive Option is exercised in full. The remaining 30% of the issued share capital of China Paradise held by Retail Management is currently subject to a lock-up on disposal under Rule 10.07(1)(b) of the Hong Kong Listing Rules, which expires on 13 October 2006. The Takeovers Code provides that the Composite Document must be posted to China Paradise Shareholders within 35 days of this Announcement, and that the last day for the Offer to become or be declared unconditional as to acceptances is the 60th day after the day the Composite Document is posted. The expiry date of 13 October 2006 may therefore fall within the offer period in respect of the Offer permitted under the provisions of the Takeovers Code. Retail Management has not entered into any verbal or written agreement or arrangement to dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of the 30% of the issued share capital of China Paradise held by it which is subject to a lock-up on disposal under Rule 10.07(1)(b) of the Hong Kong Listing Rules, which expires on 13 October 2006. However, upon expiry of the lock-up period, Retail Management fully intends to accept the Offer in respect of the remaining 30% of the issued share capital of China Paradise held by it.

MS Retail has given an irrevocable undertaking to the Offeror to accept the Offer in respect of all of the China Paradise Shares held by it, being 224,392,912 China Paradise Shares representing approximately 9.52% of the issued share capital of China Paradise on a fully diluted basis assuming that the Wang Management Incentive Option is exercised in full.

CDH has given an irrevocable undertaking to the Offeror to accept the Offer in respect of all of the China Paradise Shares held by it, being 36,497,642 China Paradise Shares representing approximately 1.55% of the issued share capital of China Paradise on a fully diluted basis assuming that the Wang Management Incentive Option is exercised in full.

The irrevocable commitments will be binding even if a higher offer is made for the China Paradise Shares.

#### **5. WAIVER OF LOCK-UPS**

The Joint Global Coordinators have granted waivers to Retail Management from its obligations under the Hong Kong Underwriting Agreement and the International Purchase Agreement not to dispose of the China Paradise Shares held by it for the 12-month period specified in the Hong Kong Underwriting Agreement and the International Purchase Agreement for the purposes of the Offer.

The Joint Global Coordinators and Morgan Stanley & Co. International Limited have granted waivers to each of MS Retail and CDH from its obligations under the Lock-Up Agreement not to dispose of the China Paradise Shares held by each of them for the 12-month period specified in the Lock-Up Agreement for the purposes of the Offer.

The Placing Agent has granted a waiver to each of Retail Management, MS Retail, CDH and Tong Ley from the restrictions on the disposal of China Paradise Shares held by them as set out in the Placing Agreements, and further in the case of Tong Ley, from the restriction on the exercise of the Wang Management Incentive Option as set out in the Placing Agreements, and has given its consent, for the purposes of the Offer, to such disposal of China Paradise Shares and the exercise of the Wang Management Incentive Option.

#### **6. WAIVER OF NON-COMPETITION UNDERTAKING**

On 21 July 2006, Mr. Wong Kwong Yu granted a waiver to GOME from its obligations under the Non-competition Undertaking not to directly or indirectly engage in the retail sales of electrical appliances or consumer electronic products in any of the locations in the PRC in which any member of the Parent Group had established, or was as at 3 June 2004 in the course of establishing, any retail outlet for the sale of electrical appliances and consumer electronic products under the “GOME Electrical Appliances” trade mark. Such waiver shall take effect on and as from the Offer having been declared or becoming unconditional in all respects.

#### **7. EXCLUSIVITY AGREEMENT**

GOME, China Paradise, Retail Management and Mr. Chen Xiao, entered into the Exclusivity Agreement on 18 July 2006. The Exclusivity Agreement provides, among other things, that Retail Management, China Paradise and Mr. Chen Xiao will not and will procure that their subsidiaries, directors, employees, advisors, agents and representatives will not sell or dispose of any interest in any China Paradise Shares, provide information to, or participate in discussions with, any third party concerning a sale or issue of China Paradise Shares or China Paradise’s assets and undertakings (other than in the ordinary course of business of China Paradise), for a period commencing on 18 July 2006 until noon on 17 January 2007 (or such earlier date on which GOME has given written notice of its intention (subject to the provisions of the Takeovers Code) not to proceed with the Offer, or the Offer lapses, closes or is withdrawn).

#### **8. MAJOR TRANSACTION**

As the Offer will constitute a major transaction for GOME under the Hong Kong Listing Rules, the Offer is subject to the approval of the shareholders of GOME in general meeting. Further, the issue of the GOME Shares will require the approval of the shareholders of GOME. GOME will convene a special general meeting to, approve the Offer and the issue of the GOME Shares in connection with the Offer, and all the transactions contemplated in connection with the Offer.

#### **9. UNDERTAKING FROM MR. WONG KWONG YU**

Mr. Wong Kwong Yu, the chairman and the controlling shareholder of GOME, SCHI and SGL, two companies wholly-owned and controlled by Mr. Wong Kwong Yu, have on 18 July 2006 given an undertaking to China Paradise to vote in favour of all the resolutions in connection with the Offer to be presented at the special general meeting to approve the Offer and the issue of the new GOME Shares in connection with the Offer. The undertaking also provides that Mr. Wong Kwong Yu, SCHI and SGL will not, among other things, sell, transfer or otherwise dispose of any interest in any GOME Shares such that their combined shareholding falls below 50% of the issued share capital of GOME. Mr. Wong Kwong Yu, his associates and parties acting in concert with him are currently the beneficial owners of 1,564,947,034 GOME Shares representing approximately 68.26% of the issued share capital of GOME. The undertaking to China Paradise to vote in favour of all the resolutions in connection with the Offer to be presented at the special general meeting to approve the Offer and the issue of the new GOME Shares in connection with the Offer shall lapse if, among other things, the condition referred to in paragraph 3(d) is not fulfilled.

#### **10. LIFTING OF TRADING SUSPENSION**

Trading in the GOME Shares on the Stock Exchange was suspended from 9.30 a.m. on 18 July 2006 at the request of GOME and an application will be made to the Stock Exchange to allow dealings in the GOME Shares to resume with effect from 9.30 a.m. on 26 July 2006.

Trading in the China Paradise Shares on the Stock Exchange was suspended from 10.05 a.m. on 17 July 2006 at the request of China Paradise and an application will be made to the Stock Exchange to allow dealings in the China Paradise Shares to resume with effect from 9.30 a.m. on 26 July 2006.

#### **11. CHINA PARADISE RESULTS ANNOUNCEMENT PUBLISHED ON 21 APRIL 2006**

The directors of China Paradise refer to the statements contained in China Paradise's announcement of annual results for the year ended 31 December 2005 published on 21 April 2006, to the effect that China Paradise's profit in the first half of 2006 may be lower than for the corresponding period in 2005. As the statements contained in the 21 April 2006 results announcement were made approximately 3 months ago, and in view of the unsatisfactory performance as a result of stores newly opened in the northern and southern regions in the PRC, and the severe price competition from other companies in the same industry, the directors of China Paradise would like to point out that they are out-of-date and are no longer representative of the financial condition of China Paradise. Investors are urged to exercise extreme caution when making investment decisions in relation to the China Paradise Shares, pending the release of China Paradise's interim results for the six-month period ended 30 June 2006. The directors of China Paradise currently expect that China Paradise will announce its interim results for the first half of 2006 no later than 15 August 2006. These results will be included in the Composite Document.

**WARNING: GOME Shareholders and investors generally should exercise caution when dealing in the securities of GOME. China Paradise Shareholders and investors generally should exercise caution when dealing in the securities of China Paradise.**

#### **INTRODUCTION**

GOME and China Paradise jointly announce 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 is made in compliance with the Takeovers Code, which is administered by the Executive.

#### **THE SHARE OFFER**

The consideration payable under the Offer is as follows:

**For each China Paradise Share ..... 0.3247 new GOME Shares and HK\$0.1736 in cash**

Based on an exchange ratio of 0.3247 GOME Shares per China Paradise Share and 2,334,917,067 China Paradise Shares on an undiluted basis assuming that the Wang Management Incentive Option is not exercised, the maximum number of new GOME Shares that GOME will issue in connection with the Offer is approximately 758,147,572. This represents approximately 33.07% of the existing issued ordinary share capital of GOME of 2,292,794,534 GOME Shares as at the date of this Announcement, and approximately 24.85% of the enlarged issued share capital of GOME of 3,050,942,106 GOME Shares immediately following the issue of the new GOME Shares.

Based on an exchange ratio of 0.3247 GOME Shares per China Paradise Share, and 2,356,629,785 China Paradise Shares on a fully diluted basis assuming that the Wang Management Incentive Option is

exercised in full, the maximum number of new GOME Shares that GOME will issue in connection with the Offer is approximately 765,197,691. This represents approximately 33.37% of the existing issued ordinary share capital of GOME of 2,292,794,534 GOME Shares as at the date of this Announcement, and approximately 25.02% of the enlarged issued share capital of GOME of 3,057,992,225 GOME Shares immediately following the issue of the new GOME Shares.

#### ***Nature of GOME Shares***

The GOME Shares will be issued free from all liens, charges and encumbrances and together with all rights attaching to them, including the right to receive all dividends declared, and will rank pari passu with the existing GOME Shares. There will be no restrictions on the transfer of the GOME Shares to be issued under the Offer. An application will be made to the Stock Exchange for the listing of, and permission to deal in, the new GOME Shares issued in connection with the Offer.

#### ***Comparisons of value***

The aggregate consideration of HK\$2.2354 per China Paradise Share under the Offer (comprising the value of 0.3247 GOME Shares based on the closing price of each GOME Share of HK\$6.35, as quoted on the Stock Exchange on 17 July 2006, being the last trading day for GOME Shares prior to the date of this Announcement, and the cash consideration of HK\$0.1736 per China Paradise Share) represents:

- (a) a premium of approximately 6.3%, 11.4% and 10.9% over the average closing prices of HK\$2.1025, HK\$2.0063 and HK\$2.0158 per China Paradise Share, being the average closing prices of China Paradise Shares as quoted on the Stock Exchange for the 10, 20 and 30 trading days respectively immediately prior to and including the last trading day prior to the date of this Announcement; and
- (b) a premium of approximately 9.0% over the closing price of each China Paradise Share of HK\$2.0500, as quoted on the Stock Exchange on 17 July 2006, being the last trading day for China Paradise Shares prior to the date of this Announcement.

#### ***Highest and lowest prices***

During the six-month period preceding the date of this Announcement, the highest closing price of China Paradise Shares as quoted on the Stock Exchange was HK\$4.30 each on 21 April 2006, and the lowest closing price of China Paradise Shares as quoted on the Stock Exchange was HK\$1.840 each on 28 June 2006.

#### ***Consideration for China Paradise Shares***

On the basis of the aggregate consideration of HK\$2.2354 per China Paradise Share under the Offer (comprising the value of 0.3247 GOME Shares based on the closing price of GOME Shares of HK\$6.35, as quoted on the Stock Exchange on 17 July 2006, being the last trading day for GOME Shares prior to the date of this Announcement, and the cash consideration of HK\$0.1736 per China Paradise Share), the entire issued share capital of 2,356,629,785 China Paradise Shares (on a fully diluted basis assuming that the Wang Management Incentive Option is exercised in full), is valued at approximately HK\$5,268.0 million.

The consideration payable under the Offer was determined on the basis of the recent financial performance of China Paradise including profitability measures such as margins and net income, taking into account the recent trading performance of China Paradise Shares, and was the result of arm's length negotiations between the relevant parties.

#### ***Settlement of consideration***

Settlement of the consideration will be made within ten days of the later of the date on which the Offer becomes or is declared unconditional in all respects and the date on which China Paradise Shares are tendered for acceptance of the Offer.

China Paradise Shareholders should be aware that in accepting the Offer, any resulting fractions of a new GOME Share will be disregarded and such fractions of a new GOME Share will not be issued. China Paradise Shareholders should also be aware that in accepting the Offer, any resulting fractions of a Hong Kong cent will be disregarded and any cash amount payable will be rounded down to the nearest Hong Kong cent.

China Paradise Shareholders should also be aware that GOME Shares are traded in board lots of 1,000 shares and no arrangements are intended to be made for the trading of odd lots of GOME Shares resulting from the acceptance of the Offer.

### ***Outstanding options***

As at the date of this Announcement, part of the Wang Management Incentive Option is still outstanding. The Wang Management Incentive Option is exercisable by Tong Ley within 20 years from 4 July 2005 at an exercise price of HK\$0.83 per China Paradise Share, less an amount calculated based on the aggregate dividends which have been declared by China Paradise up to the time of exercise of the Wang Management Incentive Option which Tong Ley would have been entitled to receive if the China Paradise Shares subject to the Wang Management Incentive Option had already been issued. If the outstanding Wang Management Incentive Option is exercised in full, China Paradise will have to issue 21,712,718 China Paradise Shares to Tong Ley, representing approximately 0.93% of the existing issued share capital of China Paradise. As at the date of this Announcement, China Paradise has not received any indication from Tong Ley as to whether or not it will exercise the Wang Management Incentive Option.

Tong Ley is a private company wholly and beneficially owned by Mr. Wang Jiayu, a senior advisor to China Paradise, and the Wang Management Incentive Option was granted to Tong Ley.

In connection with the Offer, Tong Ley has obtained a waiver from the Placing Agent from the restriction on the exercise of the Wang Management Incentive Option as set out in the Placing Agreements, allowing it to exercise the Wang Management Incentive Option and dispose of the China Paradise Shares held by it.

In the event that the Offer is declared or becomes unconditional, an appropriate offer or proposal will be made, in accordance with the provisions of the Takeovers Code, for the cancellation of any outstanding options.

### **CONFIRMATION OF FINANCIAL RESOURCES**

The maximum cash amount to be paid to the China Paradise Shareholders in connection with the Offer (including the compulsory acquisition exercise to be undertaken in connection with the Offer and assuming that the Wang Management Incentive Option is exercised in full) is HK\$409,110,931, based on cash consideration of HK\$0.1736 per China Paradise Share, and 2,356,629,785 China Paradise Shares on a fully diluted basis assuming that the Wang Management Incentive Option is exercised in full. The amount of HK\$409,110,931 will be funded from GOME's cash reserves and the Loan.

The Loan is an unsecured and interest-free loan for a maximum principal amount of HK\$300,000,000. The loan shall mature on the later of 20 July 2007, or the business day following the end of the period beginning the date of the Loan to the 30th day following the later of:

- (i) the final date on which GOME is required under the Takeovers Code to make any cash payment to any shareholders of China Paradise in relation to the Offer;
- (ii) the final date on which GOME is required to pay any stamp duty in respect of the Offer; or
- (iii) the final date on which GOME is required to make a cash payment to any of the China Paradise Shareholders as a result of an exercise by GOME of any rights of compulsory acquisition of the shares in China Paradise.

Goldman Sachs is satisfied that sufficient financial resources are available to the Offeror to meet full acceptance of the Offer as described above.

### **CONDITIONS OF THE OFFER**

The Offer is conditional upon:

- (a) the Offer and the issue of the new GOME Shares in connection with the Offer having been approved by the shareholders of GOME in general meeting;
- (b) valid acceptances having been received at or before 4.00 p.m. on the Closing Date (or such other time as GOME may, subject to the Takeovers Code, decide) in respect of at least 90% of the Disinterested Shares;
- (c) 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;
- (d) the total assets of China Paradise, less its total liabilities, being the net asset value, as set out in the unaudited consolidated interim financial statements of China Paradise for the six months ended 30 June 2006, being no less than RMB2,250,000,000;
- (e) the execution of non-competition agreements between China Paradise and certain China Paradise Shareholders (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 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;
- (f) 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
- (g) save in connection with the completion of the Offer, the listing of the China Paradise Shares on the Stock Exchange not having been withdrawn, and no indication being received from the SFC 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 (b), (d), (e), (f) and (g) to the Offer set out above, in whole or in part. Condition (b) 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.

### **COMPULSORY ACQUISITION AND WITHDRAWAL OF LISTING**

The Offeror intends to exercise the right under Section 88 of the Cayman Islands Companies Law and pursuant to Rule 2.11 of the Takeovers Code, if it acquires not less than 90% of the Disinterested Shares within four months of the posting of the Composite Document, to compulsorily acquire those China Paradise Shares not acquired by the Offeror pursuant to the Offer. On completion of the compulsory acquisition, it is intended that China Paradise will become a wholly-owned subsidiary of the Offeror and an application will be made for the withdrawal of the listing of the China Paradise Shares from the Stock Exchange pursuant to Rule 6.15 of the Hong Kong Listing Rules.



## **MAINTAINING THE LISTING**

Assuming the Offeror does not effect the compulsory acquisition set out above (whether by reason or not of acquiring 90% of the Disinterested Shares or otherwise), the Offeror will, following the closing of the Offer, ensure that not less than 25% of the China Paradise Shares will be held by the public in compliance with the Hong Kong Listing Rules.

The Stock Exchange has stated that if, at the closing of the Offer, less than 25% of the China Paradise Shares are held by the public, or if the Stock Exchange believes that:

- (a) a false market exists or may exist in the trading of the China Paradise Shares; or
- (b) there are insufficient China Paradise Shares in public hands to maintain an orderly market,

then it will consider exercising its discretion to suspend trading in the China Paradise Shares. In this connection, it should be noted that upon completion of the Offer, there may be insufficient public float for the China Paradise Shares and therefore, trading in the China Paradise Shares may be suspended until a prescribed level of public float is attained.

## **IRREVOCABLE COMMITMENTS**

Retail Management and Mr. Chen Xiao have given an irrevocable undertaking to the Offeror under which Retail Management has undertaken that it will, and Mr. Chen Xiao has undertaken that he will use his best endeavours to procure that Retail Management will, accept the Offer in respect of 473,686,307 China Paradise Shares held by Retail Management representing approximately 20.29% of the issued share capital of China Paradise or approximately 20.10% of the issued share capital of China Paradise on a fully diluted basis assuming that the Wang Management Incentive Option is exercised in full. Retail Management currently holds 1,180,675,243 China Paradise Shares representing approximately 50.57% of the issued share capital of China Paradise or approximately 50.10% of the issued share capital of China Paradise on a fully diluted basis assuming that the Wang Management Incentive Option is exercised in full. The remaining 30% of the issued share capital of China Paradise held by Retail Management is currently subject to a lock-up on disposal under Rule 10.07(1)(b) of the Hong Kong Listing Rules, which expires on 13 October 2006. The lock-up prohibits Retail Management from disposing of, or entering into any agreement to dispose of, such China Paradise Shares, if immediately following such disposal, Retail Management would cease to be the controlling shareholder (as defined in the Hong Kong Listing Rules) of China Paradise. The Takeovers Code provides that the Composite Document must be posted to China Paradise Shareholders within 35 days of this Announcement, and that the last day for the Offer to become or be declared unconditional as to acceptances is the 60th day after the day the Composite Document is posted. The expiry date of 13 October 2006 may therefore fall within the offer period in respect of the Offer permitted under the provisions of the Takeovers Code. Retail Management has not entered into any verbal or written agreement or arrangement to dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of the 30% of the issued share capital of China Paradise held by it which is subject to a lock-up on disposal under Rule 10.07(1)(b) of the Hong Kong Listing Rules, which expires on 13 October 2006. However, upon expiry of the lock-up period, Retail Management fully intends to accept the Offer in respect of the remaining 30% of the issued share capital of China Paradise held by it.

MS Retail has given an irrevocable undertaking to the Offeror to accept the Offer in respect of all of the China Paradise Shares held by it, being 224,392,912 China Paradise Shares representing approximately 9.61% of the issued share capital of China Paradise or approximately 9.52% of the issued share capital of China Paradise on a fully diluted basis assuming that the Wang Management Incentive Option is exercised in full.

MS Retail is controlled by MSPIF, a fund managed by the private equity arm of Morgan Stanley. The general partner of MSPIF is Morgan Stanley Global Emerging Markets L.L.C., the institution managing member of which is Morgan Stanley Global Emerging Markets, Inc., a wholly owned subsidiary of Morgan Stanley. MSPIF is registered as a Delaware limited partnership and focuses on private equity investments in emerging markets.

CDH has given an irrevocable undertaking to the Offeror to accept the Offer in respect of all of the China Paradise Shares held by it, being 36,497,642 China Paradise Shares representing approximately 1.56% of the issued share capital of China Paradise or approximately 1.55% of the issued share capital of China Paradise on a fully diluted basis assuming that the Wang Management Incentive Option is exercised in full.

CDH is a wholly-owned subsidiary of CDH China Fund, L.P., an exempted limited partnership organised and existing under the laws of the Cayman Islands focused on private equity investments in China. The general partner of CDH China Fund, L.P. is CDH China Holdings Company Limited, a limited liability company organised and existing under the laws of the Cayman Islands. CDH China Fund, L.P. is managed by China I Management Company Limited, a limited liability company incorporated in the British Virgin Islands.

The irrevocable commitments will be binding even if a higher offer is made for the China Paradise Shares.

#### **WAIVER OF NON-COMPETITION UNDERTAKING**

On 21 July 2006, Mr. Wong Kwong Yu granted a waiver to GOME from its obligations under the Non-competition Undertaking not to directly or indirectly engage in the retail sales of electrical appliances or consumer electronic products in any of the locations in the PRC in which any member of the Parent Group had established, or was as at 3 June 2004 in the course of establishing, any retail outlet for the sale of electrical appliances and consumer electronic products under the “GOME Electrical Appliances” trade mark. Such waiver shall take effect on and as from the Offer having been declared or becoming unconditional in all respects.

#### **EXCLUSIVITY AGREEMENT**

GOME, China Paradise, Retail Management and Mr. Chen Xiao, entered into the Exclusivity Agreement on 18 July 2006. The Exclusivity Agreement provides, among other things, that Retail Management, China Paradise and Mr. Chen Xiao will not and will procure that their subsidiaries, directors, employees, advisors, agents and representatives will not sell or dispose of any interest in any China Paradise Shares, provide information to, or participate in discussions with, any third party concerning a sale or issue of China Paradise Shares or China Paradise’s assets and undertakings (other than in the ordinary course of business of China Paradise), for a period commencing on 18 July 2006 until noon on 17 January 2007 (or such earlier date on which GOME has given written notice of its intention (subject to the provisions of the Takeovers Code) not to proceed with the Offer, or the Offer lapses, closes or is withdrawn).

#### **WAIVER OF LOCK-UPS**

The Joint Global Coordinators have granted waivers to Retail Management from its obligations under the Hong Kong Underwriting Agreement and the International Purchase Agreement not to dispose of the China Paradise Shares held by it for the 12-month period specified in the Hong Kong Underwriting Agreement and the International Purchase Agreement for the purposes of the Offer.

The Joint Global Coordinators and Morgan Stanley & Co. International Limited have granted waivers to each of MS Retail and CDH from its obligations under the Lock-Up Agreement not to dispose of the China Paradise Shares held by each of them for the 12-month period specified in the Lock-Up Agreement for the purposes of the Offer.

The Placing Agent has granted a waiver to each of Retail Management, MS Retail, CDH and Tong Ley from the restrictions on the disposal of China Paradise Shares held by them as set out in the Placing Agreements, and further in the case of Tong Ley, from the restriction on the exercise of the Wang Management Incentive Option as set out in the Placing Agreements, and has given its consent, for the purposes of the Offer, to such disposal of China Paradise Shares and the exercise of the Wang Management Incentive Option.

## **MAJOR TRANSACTION FOR GOME**

As the Offer will constitute a major transaction for GOME under the Hong Kong Listing Rules, the Offer is subject to the approval of the shareholders of GOME in general meeting. Further, the issue of the new GOME Shares will require the approval of the shareholders of GOME. GOME will convene a special general meeting to approve the Offer and the issue of the GOME Shares in connection with the Offer and all the transactions contemplated in connection with the Offer. As the interest of the controlling shareholder of GOME in the Offer is the same as those of the other shareholders of GOME, no shareholder, including the controlling shareholder, of GOME is required to abstain from voting at such general meeting.

To the best of the knowledge, information and belief of the directors of the Offeror, having made all reasonable enquiries, China Paradise and its substantial shareholders are third parties independent from and not connected with the Offeror and any of the directors, chief executive or substantial shareholders of the Offeror and its subsidiaries and any of their respective associates. The Offer does not constitute a connected transaction for China Paradise.

## **UNDERTAKING FROM MR. WONG KWONG YU**

Mr. Wong Kwong Yu, the chairman and a controlling shareholder of GOME, SCHI and SGL, two companies wholly-owned and controlled by Mr. Wong Kwong Yu, have on 18 July 2006 given an undertaking to China Paradise to vote in favour of all the resolutions in connection with the Offer at the special general meeting to approve the Offer and the issue of the new GOME Shares in connection with the Offer. The undertaking also provides that Mr. Wong Kwong Yu, SCHI and SGL will not, among other things, sell, transfer or otherwise dispose of any interest in any GOME Shares such that their combined shareholding falls below 50% of the issued share capital of GOME. Mr. Wong Kwong Yu, his associates and parties acting in concert with him are currently the beneficial owners of 1,564,947,034 GOME Shares representing approximately 68.26% of the issued share capital of GOME. The undertaking to China Paradise to vote in favour of all the resolutions in connection with the Offer to be presented at the special general meeting to approve the Offer and the issue of the new GOME Shares in connection with the Offer shall lapse if, among other things, the condition referred to in paragraph (d) of the section headed "Conditions of the Offer" is not fulfilled.

## **REASONS FOR THE OFFER AND INTENTIONS IN RELATION TO CHINA PARADISE**

The Offeror believes there are compelling commercial reasons for a combination of GOME and China Paradise as set out below:

- (a) *Enhanced size*: The combined group will become the clear leader in its market with strongholds in key regions including both Beijing and Shanghai. Post-merger, the combined store network of GOME and China Paradise will be 501 stores based on number of stores as at 31 March 2006.
- (b) *Strengthened strategic position*: The combined group will be well positioned for future growth and continued industry consolidation.
- (c) *Operational cost savings*: Increased purchasing power and the integration of procurement and supply chain management functions are expected to enhance operating costs efficiency for the combined group.

The Offeror expects all of the above benefits to significantly strengthen the combined group, and strategically position the business to become the long-term market leader in China.

The following table shows the distribution of stores of GOME and China Paradise in the PRC as at 31 March 2006:

	<b>GOME</b>	<b>China Paradise</b>
Anhui	3	2
Beijing	39	5
Chongqing	15	–
Fujian	20	23
Gansu	1	–
Guangdong	77	21
Hebei	3	–
Henan	–	20
Hubei	16	–
Jiangsu	17	34
Liaoning	15	–
Shaanxi	11	8
Shandong	24	–
Shanghai	–	52
Sichuan	24	13
Tianjin	21	4
Yunnan	10	–
Zhejiang	–	23
<b>Total</b>	<b>296</b>	<b>205</b>

After the completion of the Offer, the Offeror intends to proceed with the continuation of China Paradise's business, and to adopt an appropriate new company name which will reflect its new status as a combination of the businesses of GOME and China Paradise. The Offeror intends to take measures, as is common in the ordinary course of business, to improve the financial and operational performance of the combined group. Pursuant to such goals, the Offeror will look to enhance the performance of China Paradise's current network of stores as well as to seek to optimize the store footprint of the combined group. The Offeror intends the combined group to adopt a dual-brand strategy to capitalise on the strengths of both the GOME and China Paradise brands in the domestic market. The combined store network of GOME and China Paradise stores will position the combined group as a domestic market leader in the consumer electronics retail sector. The directors of GOME believe that the terms of the Offer are fair and reasonable and in the interests of the shareholders of GOME as a whole.

After the completion of the Offer, the Offeror intends to appoint two employees of China Paradise as executive directors of the Offeror and also intends to appoint Mr. Chen Xiao, the current Chairman of China Paradise, as its Chief Executive Officer, and also intends for the current China Paradise management to remain stable. The Offeror has no current plans with regard to the continued employment of the employee workforce of the China Paradise group and intends for it to remain stable. The Offeror intends that the senior management team of China Paradise be utilised to an optimal capacity following completion of the Offer, to ensure a smooth transition and to realise synergies per the business plan of the combined business. The Offeror does not currently intend to change the composition of the board of directors of China Paradise after completion of the Offer.

After completion of the Offer, in the event that China Paradise is not privatised, GOME will give consideration to corporate governance issues relating to:

- (i) the delineation of the businesses of GOME and China Paradise;
- (ii) competition issues between GOME and China Paradise; and
- (iii) the degree of managerial, operational and financial reliance of China Paradise on GOME.

## **NON-COMPETITION AGREEMENTS**

As a condition to the Offer, China Paradise will execute non-competition agreements with certain China Paradise Shareholders who own directly or indirectly, more than 1% of the issued share capital of China Paradise (as at the date of execution of the non-competition agreement) and hold a position of controller or above in China Paradise, who together comprise: Mr. Chen Xiao, Ms. Shu Wei, Mr. Liu Hui, Mr. Shen Ping and Mr. Yuan Yashi, who are all executive directors of China Paradise, and Mr. Huang Baoming and Mr. Shu Weiyi, who are respectively the general manager of China Paradise and director of the handsets department of China Paradise (collectively, the *Managing Shareholders*).

The non-competition agreement provides, inter alia, that the Managing Shareholders will, for a period of 5 years from the date of the non-competition agreement, be prohibited from, among other things, procuring that any of China Paradise's employees resign from China Paradise, procuring that the directors, managers or technicians of China Paradise resign, working for or investing in competitors of China Paradise, having a direct business dealing with any customers and employees of China Paradise and having a direct business dealing with any agents and suppliers of China Paradise.

## **INFORMATION ON THE OFFEROR**

GOME was incorporated on 12 January 1992 under the laws of Bermuda and is the holding company of the GOME group of companies. The Offeror group of companies went through a corporate transformation in July 2004 following the acquisition of a 65% equity interest in Gome Appliance Co., Ltd (*Gome Appliance*). Gome Appliance is principally engaged in the retail of electrical appliances and consumer electronics in the PRC under the brand name "GOME". To reflect its new focus, the name of the Offeror was changed to "GOME Electrical Appliances Holding Limited" in August 2004. A summary of the history of Gome Appliance is as follows:

- In 1987, Gome Appliance's first electrical appliance retail outlet was opened in Beijing. The brand name "GOME" was first adopted in 1993.
- In 1999, Gome Appliance established its first retail outlet in Tianjin. Since then, GOME has rapidly expanded into other major cities in China and gained widespread consumer recognition.
- In July 2004, Gome Appliance obtained its listing in Hong Kong through the injection of a 65% stake in GOME Appliance Co., Ltd into an existing Hong Kong listed company.
- In August 2004, the listed entity officially adopted the name "GOME Electrical Appliances Holding Limited".
- In 2004, Gome Appliance was selected as one of the "Key and Strategically Important Enterprises" in China by the Ministry of Commerce.
- On 29 March 2006, GOME announced that it had entered into an agreement to acquire from Gome Holdings Limited, which is ultimately and wholly owned by Mr. Wong Kwong Yu, the remaining 35% equity interest in Gome Appliance Co., Ltd, the largest electrical appliance and consumer electronics retailer in the PRC in revenue terms for 2005.

The ultimate controlling shareholder of the Offeror is Mr. Wong Kwong Yu. Further information in relation to the Offeror will be contained in the Composite Document.

For the twelve months ended 31 December 2005, the audited consolidated revenue and profit of GOME and its subsidiaries, and the earnings per share of GOME was RMB17,959 million and RMB777 million, and RMB0.30 respectively. For the three months ended 31 March 2006, as set out in the unaudited consolidated results of GOME and its subsidiaries published on 10 May 2006, the unaudited consolidated revenue and profit of GOME and its subsidiaries was RMB5,604 million and RMB154 million respectively. All figures stated in this paragraph were prepared in accordance with IFRS.

### **Shareholding structure of GOME**

As at the date of this Announcement, there are 2,292,794,534 GOME Shares of HK\$0.10 in issue. As at the date of this Announcement, GOME has also issued US\$125 million unlisted and unsecured convertible bonds (the **Convertible Bond**) convertible into 151,496,788 GOME Shares and US\$25 million of unlisted warrants (the **Warrants**) convertible into 25,183,842 GOME Shares. Other than the said GOME Shares, the Convertible Bond and the Warrants, there are no other classes of relevant securities of GOME in issue. Mr. Wong Kwong Yu, his associates and parties acting in concert with him are currently the beneficial owners of 1,564,947,034 GOME Shares representing approximately 68.26% of the issued share capital of GOME.

Assuming all China Paradise Shareholders validly elect to accept the Offer and that the Wang Management Incentive Option has been exercised in full, a total of 765,197,691 new GOME Shares will be issued. The shareholding structure of GOME, both before and after the completion of the Offer, assuming the maximum number of new GOME Shares are issued, is as follows:

Name	Prior to completion of the Offer		After completion of the Offer (assuming the Wang Management Incentive Option is exercised in full)		After completion of the Offer (assuming the Wang Management Incentive Option is not exercised)	
	No. of GOME Shares held	Approximate %	No. of GOME Shares held	Approximate %	No. of GOME Shares held	Approximate %
Mr. Wong Kwong Yu, his concert parties and associates	1,564,947,034 <sup>1</sup>	68.26	1,564,947,034 <sup>1</sup>	51.18	1,564,947,034 <sup>1</sup>	51.29
Retail Management and parties acting in concert with it	–	0.00	383,365,251	12.54	383,365,251	12.57
CDH	–	0.00	11,850,784	0.39	11,850,784	0.39
MS Retail	–	0.00	72,860,379	2.38	72,860,379	2.39
Public Shareholders	727,847,500	31.74	1,024,968,777	33.52	1,017,918,657	33.36
<b>Total</b>	<b><u>2,292,794,534</u></b>	<b><u>100.00</u></b>	<b><u>3,057,992,225</u></b>	<b><u>100.00</u></b>	<b><u>3,050,942,105</u></b>	<b><u>100.00</u></b>

<sup>1</sup> Including the 280,000 GOME Shares held by a company beneficially owned by Ms. Du Juan, the spouse of Mr. Wong Kwong Yu.

### **INFORMATION ON CHINA PARADISE**

China Paradise was incorporated on 9 August 2004 under the laws of the Cayman Islands and is the holding company of the China Paradise group of companies. China Paradise initially commenced business in September 1996 when China Paradise Shanghai, China Paradise's principal operating subsidiary, was established. Since then, China Paradise has grown to become one of the top three household appliances retail chain operators in China in 2005, with a market leading position in Shanghai in 2002, 2003 and 2004 in terms of sales.

The China Paradise Shares were listed on the Stock Exchange on 14 October 2005 after a global offering of the China Paradise Shares.

The net asset value per China Paradise Share, based on the audited financial statements for the two financial years ended 31 December 2004 and 31 December 2005, is as follows:

	<b>Year 2004</b>	<b>Year 2005</b>
NAV per China Paradise Share (RMB)	0.1816	0.9854
NAV per China Paradise Share (HK\$)	0.1780	0.9660
NAV per China Paradise Share on a fully diluted basis (RMB)	0.1799	0.9763
NAV per China Paradise Share on a fully diluted basis (HK\$)	0.1764	0.9571

\* based on the exchange rate of RMB1.02 to HK\$1.00

The total net asset value of all the China Paradise Shares, based on the audited financial statements for the two financial years ended 31 December 2004 and 31 December 2005, was approximately RMB424 million (HK\$416 million) and RMB2,301 million (HK\$2,256 million), respectively.

Based on the latest published audited financial statements of China Paradise, the audited consolidated net profits before and after taxation and minority interest of China Paradise were approximately RMB350 million and RMB289 million respectively for the financial year ended 31 December 2005. The audited consolidated net profits before and after taxation and minority interest of China Paradise were approximately RMB257 million and RMB186 million respectively for the financial year ended 31 December 2004.

#### ***Shareholding Structure of China Paradise***

As at the date of this Announcement, there are 2,334,917,067 China Paradise Shares in issue. Save for the Wang Management Incentive Option, China Paradise does not have any outstanding share options. Other than the China Paradise Shares and the Wang Management Incentive Option, there are no other classes of securities of China Paradise in issue.

Retail Management is the controlling shareholder of China Paradise. Retail Management is the legal and beneficial owner of 1,180,675,243 China Paradise Shares representing approximately 50.57% of the issued share capital of China Paradise.

Mr. Chen Xiao is one of the founders of China Paradise. Mr. Chen Xiao is the chairman and an executive director of China Paradise. Mr. Chen Xiao holds 725,898 shares in Retail Management representing approximately 72.59% of the issued share capital of Retail Management, of which 456,334 shares in Retail Management are held on trust for more than 50 beneficiaries, and Mr. Chen Xiao is the beneficial owner of the remaining 269,564 shares in Retail Management representing approximately 26.96% in the issued share capital of Retail Management. The remaining 274,102 shares in Retail Management representing approximately 27.41% in the issued share capital of Retail Management are held by Ms. Shu Wei, Mr. Liu Hui and Mr. Yuan Yashi as to 13.1%, 9.77% and 4.54%, respectively.

MS Retail and CDH are the financial investors of China Paradise prior to its listing on the Stock Exchange. MS Retail and CDH are currently the registered holders of 224,392,912 and 36,497,642 China Paradise Shares representing approximately 9.52% and 1.55% of the issued share capital of China Paradise, respectively, on a fully diluted basis assuming that the Wang Management Incentive Option is exercised in full.

Assuming the holders of at least 90% of the Disinterested Shares tender their acceptances for the Offer, and assuming the remaining China Paradise Shares are compulsorily acquired by GOME, the shareholding structure of China Paradise, both before and after the completion of the Offer is as follows:

Name	Prior to completion of the Offer (assuming the Wang Management Incentive Option is exercised in full)		Prior to completion of the Offer (assuming the Wang Management Incentive Option is not exercised)		After completion of the Offer*	
	<i>No. of China Paradise Shares held</i>		<i>No. of China Paradise Shares held</i>		<i>No. of China Paradise Shares held</i>	
	<i>Approx. %</i>	<i>Approx. %</i>	<i>Approx. %</i>	<i>Approx. %</i>	<i>Approx. %</i>	<i>Approx. %</i>
GOME and parties acting in concert with it	500,000 <sup>2</sup>	0.0002	500,000 <sup>3</sup>	0.0002	2,356,629,785	100.00
Retail Management and parties acting in concert with it	1,180,675,243	50.10	1,180,675,243	50.57	–	0.00
CDH	36,497,642	1.55	36,497,642	1.56	–	0.00
MS Retail	224,392,912	9.52	224,392,912	9.61	–	0.00
Public Shareholders	915,063,988	38.83	893,351,270	38.26	–	0.00
<b>Total</b>	<b><u>2,356,629,785</u></b>	<b><u>100.00</u></b>	<b><u>2,234,917,067</u></b>	<b><u>100.00</u></b>	<b><u>2,356,629,785</u></b>	<b><u>100.00</u></b>

\* assuming that there is 100% of acceptance of the China Paradise Shares

<sup>2</sup> Including the 500,000 China Paradise Shares held by Goldman Sachs International for the account of Goldman Sachs International's discretionary investment clients.

<sup>3</sup> Including the 500,000 China Paradise Shares held by Goldman Sachs International for the account of Goldman Sachs International's discretionary investment clients.

### **Independent Board Committee**

An independent board committee comprising all non-executive directors of China Paradise who have no direct or indirect interest in the Offer other than as a shareholder of China Paradise, will be appointed to advise the China Paradise Shareholders in respect of the Offer. The independent board committee of China Paradise will approve the appointment of an independent financial adviser to advise the independent board committee of China Paradise in respect of the Offer. A further announcement will be made by China Paradise in relation to the appointment of such independent financial adviser.

Further information in relation to China Paradise will be contained in the Composite Document to be sent to China Paradise Shareholders.

### **China Paradise results announcement published on 21 April 2006**

The directors of China Paradise refer to the statements contained in China Paradise's announcement of annual results for the year ended 31 December 2005 published on 21 April 2006, to the effect that China Paradise's profit in the first half of 2006 may be lower than for the corresponding period in 2005. As the statements contained in the 21 April 2006 results announcement were made approximately 3 months ago, and in view of the unsatisfactory performance as a result of stores newly opened in the northern and southern regions in the PRC, and the severe price competition from other companies in the same industry, the directors of China Paradise would like to point out that they are out-of-date and are no longer representative of the financial condition of Chian Paradise. Investors are urged to exercise extreme caution when making investment decisions in relation to the China Paradise Shares, pending the release of China Paradise's interim results for the six-month period ended 30 June 2006. The directors of China Paradise currently expect that China Paradise will announce its interim results for the first half of 2006 no later than 15 August 2006. These results will be included in the Composite Document.



## **FURTHER TERMS OF THE OFFER**

### ***China Paradise Shares***

The China Paradise Shares will be acquired free from all liens, charges, encumbrances, rights of pre-emption and any other third party rights of any nature and together with all rights attaching to them, including the right to receive in full all dividends and other distributions, if any, declared, made or paid on or after the date of this Announcement.

### ***Hong Kong stamp duty***

Hong Kong stamp duty at a rate of HK\$1 for every HK\$1,000 (or part thereof) of the consideration payable will be deducted from the cash amount payable to China Paradise Shareholders who accept the Offer.

## **GENERAL MATTERS RELATING TO THE OFFER**

### ***Availability of the Offer***

The Offeror intends to make available the Offer to all holders of China Paradise Shares, including those with registered addresses, as shown on the register of members of China Paradise on the Record Date, who are outside Hong Kong. The availability of the Offer to persons not resident in Hong Kong may be affected by the laws of the relevant jurisdictions. Persons who are not resident in Hong Kong should inform themselves about and observe any applicable requirements in their own jurisdictions.

The Offer will extend, to the extent required by law, to those China Paradise Shareholders not resident in Hong Kong. GOME may seek appropriate legal advice in relation to the despatch of the Composite Document to, or the receipt of such Composite Document by, China Paradise Shareholders in jurisdictions other than Hong Kong. The Offeror reserves the right to make special arrangements regarding the terms of the Offer in relation to holders of China Paradise Shares whose receipt of such Offer or Composite Document is subject to the laws of an overseas jurisdiction (including selling the new GOME shares and paying the proceeds, net of any transaction costs, to such China Paradise Shareholders). In addition, the Offeror also reserves the right to notify any matter, including the making of the Offer, to the holders of China Paradise Shares having a registered overseas address by Announcement or by advertisement in a newspaper which may or may not be circulated in the jurisdiction of which such shareholders are resident. The notice will be deemed to have been sufficiently given, despite any failure by such shareholders to receive or see that notice.

In the event that the receipt of the Composite Document, the allotment and issue of GOME Shares, to overseas China Paradise Shareholders is prohibited by any relevant law or may only be effected after compliance with conditions or requirements that the GOME directors regard as unduly onerous or burdensome, the Composite Document will not be despatched to such overseas China Paradise Shareholders. GOME will apply for any waivers as may be required by the Executive pursuant to Note 3 to Rule 8 of the Takeovers Code at such time. In order for the Executive to grant such waivers, the Executive must be satisfied that it would be unduly burdensome not to exclude China Paradise Shareholders in an overseas jurisdiction from receiving the Composite Document, for example, if the issuance of the Composite Document to particular overseas China Paradise Shareholders requires registration of the document as a prospectus under overseas law and the number of China Paradise Shareholders in such jurisdiction is relatively small.

Any arrangements for overseas China Paradise Shareholders to collect the Composite Document will be set out in a further Announcement.

### ***Composite Document and circular***

It is expected that the Composite Document, setting out the terms of the Offer, and other details, together with the acceptance and transfer form in respect of the Offer, will be despatched to China Paradise Shareholders within 35 days of the date of this Announcement.

It is also expected that a circular, containing the notice of the special general meeting of GOME and further details of the Offer will be dispatched to the shareholders of GOME.

***Further agreements or arrangements***

GOME confirms that there are no other arrangements (whether by way of option, indemnity or otherwise) in relation to GOME Shares and which might be material to the Offer. China Paradise confirms that there are no other arrangements (whether by way of option, indemnity or otherwise) in relation to China Paradise Shares and which might be material to the Offer.

GOME confirms that there are no agreements or arrangements to which it is a party which relate to the circumstances in which it may or may not invoke or seek to invoke a pre-condition or a condition to the Offer.

Retail Management has not entered into any verbal or written agreement or arrangement to dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of the 30% of the issued share capital of China Paradise held by it which is subject to a lock-up on disposal under Rule 10.07(1)(b) of the Hong Kong Listing Rules, which expires on 13 October 2006.

***Completion of the Offer***

If the conditions to the Offer are not satisfied (or, if permissible, waived) on or before the Closing Date, the Offer will lapse unless extended by the Offeror. In that case, the Offeror will issue an Announcement in accordance with the Takeovers Code and Hong Kong Listing Rules as soon as practicable thereafter. The latest date on which the Offeror can declare the Offer unconditional as to acceptances is 7 p.m. on the Long Stop Date.

If the conditions to the Offer are satisfied (or, if permissible, waived), the China Paradise Shareholders will be notified by an Announcement in accordance with the Takeovers Code and Hong Kong Listing Rules as soon as practicable thereafter.

***Interests in China Paradise Shares and derivatives***

As at the date of this Announcement, GOME and persons acting in concert with GOME own or control or direct the following China Paradise Shares:

Goldman Sachs International<sup>4</sup> ..... 500,000

<sup>4</sup> *The China Paradise Shares are held by Goldman Sachs International for the account of Goldman Sachs International's discretionary investment clients.*

As at the date of this Announcement, GOME does not, and persons acting in concert with GOME do not, hold any convertible securities, warrants or options (or other outstanding derivatives) in respect of China Paradise Shares.

Save as disclosed above, neither the Offeror nor persons acting in concert with the Offeror owns or controls any China Paradise Shares or has options to acquire (or other outstanding derivatives in respect of) any China Paradise Shares.

The dealings for value of the Offeror and persons acting in concert with the Offeror in the China Paradise Shares, or convertible securities, warrants or options (or other outstanding derivatives in respect of) any China Paradise Shares during the six-month period up to and including the date of this Announcement will be disclosed in the Composite Document.

**IMPORTANT NOTE FOR US INVESTORS**

The Offer will be for the securities of a corporation organised under the laws of the Cayman Islands and will be subject to the procedure and disclosure requirements of Hong Kong, which are different from those of the United States. The financial information to be included in the Composite Document has not been, and will not be, prepared in accordance with generally accepted accounting principles in the United States (*US GAAP*) and thus may not be comparable to financial information of US companies or companies whose financial statements are prepared in accordance with US GAAP. The Offer is subject to

disclosure and other procedural requirements, including with respect to withdrawal rights, the offer timetable, settlement procedures and timing of payments that are different from those applicable under US domestic tender offer procedures and law.

It may be difficult for US holders of China Paradise Shares to enforce their rights and any claim arising out of the US federal securities laws, since the Offeror is located outside of the United States, and some or all of its officers and directors may be resident outside of the United States. US holders of China Paradise Shares may not be able to sue a foreign company or its officers or directors in a foreign court for violations of the US securities laws. Further, it may be difficult to compel a foreign company and its affiliates to subject themselves to a US court's judgment.

To the extent permitted by applicable law, in accordance with normal Hong Kong practice and conditional upon obtaining exemptive relief from the Staff of the Division of Market Regulation of the SEC from Rule 14e-5 of the US Exchange Act, the Offeror or its respective nominees, or brokers (acting as agents) may from time to time make certain purchases of, or arrangements to purchase, China Paradise Shares other than pursuant to any such offer, such as in open market or privately negotiated purchases outside the United States during the period in which the Offer remains open for acceptance. In accordance with the requirements of Rule 14e-5 and exemptive relief granted by the SEC, such purchases, or arrangements to purchase, must comply with Hong Kong law and the Takeovers Code. Any information about such purchases will be disclosed as required in Hong Kong and will be available from [www.sfc.hk](http://www.sfc.hk). This information about such purchases will also be publicly disclosed in the United States to the extent that such information is made public in Hong Kong.

This Announcement may contain various "forward-looking statements" within the meaning of section 27A of the US Securities Act and section 21E of the US Exchange Act relating to the Offer, GOME or China Paradise that are subject to risks and uncertainties, including those pertaining to the anticipated benefits to be realised from the proposed acquisition of China Paradise Shares. The statements can be identified by the use of forward-looking terminology, such as "believe", "expects", "prospect", "estimated", "should", "may" or the negative thereof, or other variations thereof, or comparable terminology indicating GOME's expectations or beliefs concerning future events. GOME cautions that such statements are qualified by important factors that could cause actual results to differ materially from those in the forward-looking statements. Other factors could also cause actual results to differ materially from expected results included in the statements.

## **TRADING**

Trading in the GOME Shares on the Stock Exchange was suspended from 9.30 a.m. on 18 July 2006 at the request of GOME and an application will be made to the Stock Exchange to allow dealings in GOME Shares to resume with effect from 9.30 a.m. on 26 July 2006.

Trading in the China Paradise Shares on the Stock Exchange was suspended from 10.05 a.m. on 17 July 2006 at the request of China Paradise and an application will be made to the Stock Exchange to allow dealings in the China Paradise Shares to resume with effect from 9.30 a.m. on 26 July 2006.

**WARNING: GOME Shareholders and investors generally should exercise caution when dealing in the securities of GOME. China Paradise Shareholders and investors generally should exercise caution when dealing in the securities of China Paradise.**

## **DEFINITIONS**

- Announcement : this announcement dated 25 July 2006
- Cayman Islands Companies Law : the Cayman Islands Companies Law (2004 Revision)
- Cazenove : Cazenove Asia Limited, a licensed corporation under the Securities and Futures Ordinance of Hong Kong (Cap. 571 of the Laws of Hong Kong),

licensed to conduct Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities, and the financial advisor to China Paradise in relation to the Offer

CDH	:	CDH Electronics Limited, a limited liability company incorporated in the British Virgin Islands
China Paradise	:	China Paradise Electronics Retail Limited, a company incorporated in the Cayman Islands the shares of which are listed on the Stock Exchange
China Paradise Group	:	China Paradise and its subsidiaries
China Paradise Shares	:	ordinary shares of HK\$0.10 each in the share capital of China Paradise
China Paradise Shareholders	:	holders of China Paradise Shares
Closing Date	:	the date to be stated in the Composite Document as the first closing date of the Offer or any subsequent closing date as may be announced by GOME and approved by the Executive
Composite Document	:	the composite offer and response document to be issued to all China Paradise Shareholders in accordance with the Takeovers Code containing, among other things, details of the Offer, the acceptance and transfer form in respect of the Offer
Concert Parties	:	persons acting in concert with GOME (within the meaning of the Takeovers Code)
Disinterested Shares	:	all the China Paradise Shares other than those held by GOME and its Concert Parties
Exclusivity Agreement	:	the exclusivity agreement entered into between GOME, China Paradise, Retail Management and Mr. Chen Xiao dated 18 July 2006
Executive	:	the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director
GOME or the Offeror	:	GOME Electrical Appliances Holding Limited, a company incorporated in Bermuda the shares of which are listed on the Stock Exchange
GOME Shares	:	ordinary shares of HK\$0.10 each in the share capital of GOME
GOME Shareholders	:	holders of GOME Shares
Goldman Sachs	:	Goldman Sachs (Asia) L.L.C., a licensed corporation under the Securities and Futures Ordinance of Hong Kong (Cap. 571 of the Laws of Hong Kong), licensed to carry out Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities, and the financial adviser to the Offeror in relation to the Offer
HK\$	:	Hong Kong dollars, the lawful currency of Hong Kong
Hong Kong	:	the Hong Kong Special Administrative Region of the PRC

Hong Kong Underwriters	: MSDW, Cazenove, BOCI Asia Limited, Sun Hung Kai International Limited, Kingsway Financial Services Group Limited, Tai Fook Securities Company Limited and BCOM Securities Company Limited
Hong Kong Underwriting Agreement	: the underwriting agreement dated 3 October 2005 entered into between China Paradise and the Hong Kong Underwriters relating to the public offering of China Paradise Shares in Hong Kong commencing on 4 October 2005
Hong Kong Listing Rules	: the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
IFRS	: International Financial Reporting Standards
Initial Purchasers	: Morgan Stanley & Co. International Limited and Cazenove as representatives of several initial purchasers
International Purchase Agreement	: the international purchase agreement dated 8 October 2005 entered into between, among others, China Paradise and the Initial Purchasers relating to the international offering of China Paradise's Shares
Joint Global Coordinators	: Cazenove and MSDW, the joint global coordinators in connection with the global offering and listing of the China Paradise Shares on the Stock Exchange on 14 October 2005
Loan	: the loan agreement dated 21 July 2006 between GOME, Wan Sheng Yuan Asset Management Company Limited (an investment holding company wholly and beneficially owned by Ms. Du Juan, who is an executive director of GOME, and the spouse of Mr. Wong Kwong Yu, who is the controlling shareholder of GOME) and Ms. Du Juan relating to the loan of an aggregate principal amount of HK\$300,000,000 from Wan Sheng Yuan Asset Management Company Limited to GOME
Lock-Up Agreement	: the lock up agreement dated 8 October 2005 relating to the Hong Kong Underwriting Agreement and the International Purchase Agreement executed by MS Retail and CDH in favour of China Paradise, Morgan Stanley & Co. International Limited and the Joint Global Coordinators
Long Stop Date	: the 60th day after the date of the posting of the Composite Document (or such later date to which the Executive may consent)
MS Retail	: MS Retail Limited, a company incorporated in the Cayman Islands on 9 August 2004
MSDW	: Morgan Stanley Dean Witter Asia Limited, a licensed corporation under the Securities and Futures Ordinance of Hong Kong (Cap. 571 of the Laws of Hong Kong), licensed to conduct Type 1 (dealing in securities), Type 4 (advising on securities), Type 5 (advising on futures contracts) Type 6 (advising on corporate finance) and Type 7 (providing automated trading services) regulated activities
Non-competition Undertaking	: the non-competition undertaking dated 29 July 2004 entered into between Mr. Wong Kwong Yu and China Eagle Group Company Limited (renamed GOME Electrical Appliances Holding Limited in August 2004)

Offer	:	the voluntary conditional offer to acquire all of the issued shares in the share capital of China Paradise
Placing Agreements	:	the four placing agreements dated 24 April 2006 between each of Retail Management, MS Retail, CDH and Tong Ley and the Placing Agent relating to the placing of shares in China Paradise
Placing Agent	:	Morgan Stanley & Co International Limited
PRC or China	:	the People's Republic of China
Retail Management	:	Retail Management Company Limited, a company incorporated in the British Virgin Islands with its registered address at Romasco Place, Wickhams Cay 1, P.O. Box 3140, Road Town, Tortola, British Virgin Islands
RMB	:	Renminbi, the lawful currency of the PRC
SCHI	:	Shinning Crown Holdings Inc. a company incorporated in the British Virgin Islands
SGL	:	Shine Group Limited a company incorporated in the British Virgin Islands
SFC	:	the Hong Kong Securities and Futures Commission
Stock Exchange	:	The Stock Exchange of Hong Kong Limited
Takeovers Code	:	the Hong Kong Code on Takeovers and Mergers
Tong Ley	:	Tong Ley Investment Limited, a limited liability company incorporated in the British Virgin Islands
US\$	:	United States dollars, the lawful currency of the United States of America
Wang Management Incentive Option	:	share option granted by China Paradise to Tong Ley pursuant to an option deed dated 4 July 2005 to subscribe for a maximum number of 43,425,435 China Paradise Shares

By order of the board of  
**GOME Electrical Appliances Holding Limited**  
**Mr. Wong Kwong Yu**  
*Chairman*

By order of the board of  
**China Paradise Electronics Retail Limited**  
**Mr. Chen Xiao**  
*Chairman*

Hong Kong 25 July 2006

*As at the date of this Announcement, the Executive Directors of GOME are Mr. Wong Kwong Yu, Ms. Du Juan, Mr. Lam Pang and Mr. Ng Kin Wah; the Non-Executive Director of GOME is Mr. Sun Qiang Chang; and the Independent Non-Executive Directors of GOME are Messrs Michael Sze Tsai Ping, Chan Yuk Sang and Mark C. Greaves. The Directors of GOME jointly and severally accept full responsibility for the accuracy of the information contained in this Announcement (other than in relation to China Paradise, Mr. Chen Xiao, Retail Management, and their respective affiliates) and confirm, having made all reasonable enquiries, that to the best of their knowledge, their opinions expressed in this Announcement have been arrived at after due and careful consideration and there are no other facts not contained in this Announcement the omission of which would make any of their statements in this Announcement misleading.*

*As at the date of this Announcement, the Executive Directors of China Paradise are Mr. Chen Xiao, Ms. Shu Wei, Mr. Liu Hui, Mr. Yuan Yashi, Mr. Ma Yawei, Mr. Zhou Meng and Mr. Shen Ping; the Non-Executive Director of China Paradise is Mr. Julian Juul Wolhardt; and the Independent Non-Executive Directors of China Paradise are Dr. Yu Zengbiao, Mr. Chu Cheng Chung and Mr. Wang Bing. The Directors of China Paradise jointly and severally accept full responsibility for the accuracy of the information contained in this Announcement (other than in relation to GOME and Mr. Wong Kwong Yu) and confirm, having made all reasonable enquiries, that to the best of their knowledge, their opinions expressed in this Announcement have been arrived at after due and careful consideration and there are no other facts not contained in this Announcement the omission of which would make any of their statements in this Announcement misleading.*

In accordance with Rule 3.8 of the Takeovers Code, reproduced below is the full text of Note 11 to Rule 22 of the Takeovers Code:

*“Stockbrokers, banks and others who deal in relevant securities on behalf of clients have a general duty to ensure, so far as they are able, that those clients are aware of the disclosure obligations attaching to associates and other persons under Rule 22 and that those clients are willing to comply with them. Principal traders and dealers who deal directly with investors should, in appropriate cases, likewise draw attention to the relevant Rules. However, this does not apply when the total value of dealings (excluding stamp duty and commission) in any relevant security undertaken for a client during any 7 day period is less than \$1 million. This dispensation does not alter the obligation of principals, associates and other persons themselves to initiate disclosure of their own dealings, whatever total value is involved. Intermediaries are expected to co-operate with the Executive in its dealings enquiries. Therefore, those who deal in relevant securities should appreciate that stockbrokers and other intermediaries will supply the Executive with relevant information as to those dealings, including identities of clients, as part of that co-operation.”*

\* *For identification purpose only*

Please also refer to the published version of this announcement in The Standard.