



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)

CLARIFICATION ANNOUNCEMENT AND RESUMPTION OF TRADING

This announcement is made pursuant to Rule 13.09 of the Hong Kong Listing Rules and Rule 8.1 of the Takeovers Code.

The Board has noticed that Beijing Dazhong has issued the Press Release regarding the status of the Strategic Cooperation Agreement. The Company announces that it received the Notice from Beijing Dazhong on 17 October 2006. The Company also noticed that Beijing Dazhong issued the Press Release on 23 October 2006 regarding the status of the Strategic Cooperation Agreement. The purpose of this announcement is to update the China Paradise Shareholders and potential investors the developments of the Strategic Cooperation Agreement and to clarify certain information contained in the Press Release to avoid any unnecessary conjecture.

The Company will consider, and take all appropriate steps to safeguard, the interests of China Paradise Shareholders in this matter, including possibly entering into arbitration proceedings against Beijing Dazhong in accordance with the terms of the Strategic Cooperation Agreement.

Shareholders and potential investors are advised to exercise caution when dealing in the shares of the Company. Further announcements in relation to any material developments in connection with the Strategic Cooperation Agreement will be made if necessary.

Trading in the China Paradise Shares on the Stock Exchange was suspended from 10:00 a.m. on 24 October 2006 at the request of the Company and 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 25 October 2006.

Unless otherwise defined, terms used herein shall have the same meanings as in the announcements of the Company dated 21 April 2006, 17 August 2006 and 9 September 2006, respectively and the announcement dated 25 July 2006 issued jointly by GOME Electrical Appliances Holding Limited and the Company.

The Company announces that it received a written notice dated 17 October 2006 from Beijing Dazhong in which Beijing Dazhong purported to rescind the Strategic Cooperation Agreement (“**Notice**”) for reason of the Offer. The Company also noticed that Beijing Dazhong issued a press release on 23 October 2006 (“**Press Release**”) regarding the status of the Strategic Cooperation Agreement. The purpose of this announcement is to update the China Paradise Shareholders and potential investors the developments of the Strategic Cooperation Agreement and to clarify certain information contained in the Press Release to avoid any unnecessary conjecture.

According to the Press Release, Beijing Dazhong filed an arbitration request notice to the China International Economic Trade Arbitration Commission (“**CIETAC**”) on 18 October 2006. However, as at the date of this announcement, the Company has not received the arbitration request notice from either Beijing Dazhong or CIETAC, nor has it received any information from CIETAC regarding such notice.

The Company will consider, and take all appropriate steps to safeguard, the interests of the China Paradise Shareholders in this matter, including possibly entering into arbitration proceedings against Beijing Dazhong in accordance with the terms of the Strategic Cooperation Agreement.

As at the date of this announcement, the Deposit of RMB150 million which was paid to Mr Zhang Dazhong pursuant to the terms of the Strategic Cooperation Agreement is still being held by Mr Zhang Dazhong. The Strategic Cooperation Agreement provides that any disputes arising from or in connection with the Strategic Cooperation Agreement shall be determined by arbitration at CIETAC. If such arbitration were to take place and an award made against the Company, the Company has been advised by its PRC legal advisers that its exposure would be limited to the loss of the Deposit of RMB150 million together with the costs of the arbitration. However, the Company’s PRC legal advisers have also advised that such an outcome is unlikely as the Company has a strong case against Beijing Dazhong and Mr Zhang Dazhong for the refund of the Deposit. The Company’s PRC legal advisers have advised that the issue of the Notice by Beijing Dazhong constitutes a breach of the Strategic Cooperation Agreement. The Strategic Cooperation Agreement contains no provision which prohibits the Company from entering into the proposed merger with GOME. The Company wishes to state that it remains committed to the performance of the terms of the Strategic Cooperation Agreement.

According to the terms of the Strategic Cooperation Agreement, Mr Zhang Dazhong is only entitled to forfeit the Deposit if there is a failure on the part of Yongle China to fulfil its obligations in relation to a transfer of the Dazhong Equity Interest. On the other hand, if there is a failure on the part of Mr Zhang Dazhong to fulfil his obligations in relation to a transfer of the Dazhong Equity Interest, Mr Zhang Dazhong will be required to pay to Yongle China RMB300 million, being twice the amount of the Deposit. If Mr Zhang Dazhong transfers 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 Yongle China receiving a total of RMB450 million, of which RMB150 million represents a refund of the Deposit.

The Directors wish to confirm that the consummation of the Strategic Cooperation Agreement does not form part of the Offer Conditions. China Paradise Shareholders are reminded that the Offer is conditional only upon the Offer Conditions, which are set out on page 83, Appendix I of the Composite Document. As at the date of this announcement, the Offer Conditions which have not been fulfilled or waived by the Offeror are Offer Conditions (f) and (g) as follows:

- “(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)
- (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”

Shareholders and potential investors are advised to exercise caution when dealing in the shares of the Company. Further announcements in relation to any material developments in connection with the Strategic Cooperation Agreement will be made if necessary.

Trading in the China Paradise Shares on the Stock Exchange was suspended from 10:00 a.m. on 24 October 2006 at the request of the Company and 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 25 October 2006.

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

Hong Kong, 24 October 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.

The directors of the Company jointly and severally accept full responsibility for the accuracy of the information contained in this announcement and confirm, having made all reasonable enquiries, that to the best of their knowledge, 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 statement in this announcement misleading.

* For identification purpose only

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