

# 永·永乐家

China Paradise has a solid foundation, a clear business structure and sound corporate governance. These pave the way for us to stay at the forefront of the industry.



**Mr. Chen Xiao**  
*Chairman*



Leveraging on our prestigious brand name, the Group advanced into new markets to drive its growth

I am pleased to report the first set of annual results of China Paradise Electronics Retail Limited ("**China Paradise**" or the "**Company**") and its subsidiaries (collectively, the "**Group**") after its listing.

The year 2005 carried a significant meaning to China Paradise. With the hard work of a team of dedicated staff, the Group was successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 14 October 2005, setting a milestone for its corporate development and recognizing its remarkable achievements. On behalf of the Company, I would like to express my heartfelt gratitude to all investors for their continuous support. I am also pleased to announce that the annual results of the Group for the year 2005 has exceeded the profit forecast as set out in our prospectus (the "**Prospectus**").

## RESULTS IN REVIEW

- Number of retail stores doubled to 193 (2004: 92 stores)
- Turnover surged by 48.1% to RMB12,246,168,000
- Gross profit margin increased by 0.4 percentage point to 7.5% compared with 2004
- Total return from suppliers increased by 1.3 percentage points to 12.1%
- Net profit surged by 55.9% to RMB289,474,000
- Net profit margin increased by 0.2 percentage point to 2.4% compared with 2004
- The Board proposed the payment of a final dividend of HK2.6 cents per share and a special dividend of HK1.3 cents per share

The Group made considerable progress on various operational fronts. We achieved rapid growth in retail network through organic growth and selective acquisitions. During the year under review, the Group completed three acquisitions projects in Henan, Fujian and Sichuan. The Group is the largest household appliances chain retailer in Shanghai and Henan and has maintained a dominant position in the Fujian and Zhejiang area. Furthermore, in December 2005, Yongle (China) Electronics Retail Co., Ltd. ("**Yongle (China)**", formerly known as Shanghai Yongle Electronics Retail Co., Ltd.), a subsidiary of the Group, entered into a co-operation framework agreement with Beijing Dazhong Electric Appliance Co., Ltd. ("**Beijing Dazhong**"), a leading retailer of household appliances and consumer electronics products in Beijing. The two industry leaders joined hands to leverage on their combined strengths to tap opportunities in designated new markets. A joint venture has been established to run the business under a new co-branded name. This collaboration marked a major breakthrough in the household appliances retail industry in China and is expected to strengthen the competitiveness of both parties in new markets and accelerate expansion. It will be beneficial to the Group's long-term development.

On 19 April 2006, Yongle (China) entered into a comprehensive strategic co-operation agreement with Beijing Dazhong and Mr. Zhang Dazhong, the controlling shareholder of Beijing Dazhong. This marks a historical step toward the industry consolidation taken jointly by Beijing Dazhong and the Group. We anticipate that the two leading household

appliances retailers of the two largest cities in China will precipitate industry consolidation with their future merger.

In respect of corporate governance, the Group introduced MS Retail Limited ("**MS Retail**") as a financial investor in January 2005. MS Retail has offered valuable advice on corporate governance, business strategies and day-to-day operational management and has assisted the Group in formulating equity incentive schemes, defining a clear and focused business plan and recruiting high level management talents. The Group also took a series of initiatives to enhance its corporate governance through the introduction of professional management to various lines of business administration and to minimize related party transactions.

Shanghai has always been our major profit contributor. Having entered the Yangtze River Delta region for two years, the Group has already started reaping returns. The newly acquired retail platforms in Henan and Fujian, which were well managed with strong foothold as market leaders in the respective regions before the Group's acquisitions, are expected to contribute to the Group in the coming year. We believe that the Group will benefit from a solid and diversified revenue base.

Leveraging on its prestigious brand name, the Group advanced into new markets such as the Pearl River Delta region, the Capital Economic Zone and Mid-West China that have promising potential. Nevertheless, as the Group

is also entering into second tier markets where consumption power is relatively lower as compared to first tier cities, the Group expects a relatively longer pay-back period. However, it is our belief that these new markets will eventually become the cornerstones for the Groups' future development.

Moving into 2006, with the shrinking profit margin for upstream suppliers, competition among specialty household appliances chain retailers is intensifying. We anticipate that the specialty household appliances chain retail industry is about to enter into a stage of consolidation and such consolidation is expected to complete in the near future. In the short term, the entire industry faces severe pressure on profit growth. As a leading industry player, we are no exception. More importantly, due to the delay of confirmation of rebate and sponsorship fees from suppliers, our profit in the first half of 2006 may be lower than that of last year. However, the Company is optimistic towards both short term and long term growth in sales, and it expects that with the continuous consolidation and improvement of the market, sales of the Group shall continue to increase. We shall take the following measures to strengthen our competitiveness:

- focus more on our core business, evaluate our non-core business in due course and adopt appropriate measures
- review the layout of our stores and restructure stores with negative profit
- take all necessary measures to minimize cost of management

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In the years to come, the specialty household appliances chain retail industry will become more concentrated with a larger market share captured by key players and the scale of these enterprises will grow as a result. We have confidence in the future development of specialized household appliances chain retail industry in China. We also believe that being a dominant player in the industry, the Group shall take on an important role and fully make use of its strategic importance in the industry consolidation process so as to bring fruitful returns to shareholders.

We take much pride in having a team of esteemed and professional directors and management talents. Under their leadership, the Group has been able to uphold a distinct governance structure and excellent disclosure policies that benchmark against the best practice to maintain an open channel for shareholders and investors. I would like to take this opportunity to express my gratitude towards the directors for their invaluable input throughout the year, to the shareholders and customers for their support to the Group, and last but not least to our dedicated employees for their hard work and enthusiasm. We endeavour to maintain China Paradise's leading position in China's household appliances and consumer electronics products retail market, to create value for customers and to generate satisfactory return to shareholders.

**Chen Xiao**

*Chairman*

Hong Kong, 21 April 2006