

**BEA securities**

EAST ASIA SECURITIES COMPANY LIMITED

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**HONG KONG RESEARCH****4<sup>th</sup> October 2005****Main Board Listing - Research**

中國永樂電器銷售有限公司

China Paradise Electronics Retail Limited [Stock Code: 0503]

**Joint Global Coordinator, Joint Bookrunner, Joint** : Morgan Stanley Dean Witter Asia Limited  
**Lead Managers and Joint Sponsors** Cazenove Asia Limited

**Sector** : Consumer Discretionary**Business** : Retail of household appliances and consumer electronics products

|   |  |
|---|--|
| <b>Total share offer:</b> 455,778,000 shares<br>(22.79% of the enlarged share capital)<br><br><b>Public Offer:</b> 45,578,000 shares (10%)<br><b>Placing:</b> 410,200,000 shares (90%)<br><br><b>Greenshoe:</b> 68,366,000 shares   | <b><u>Business of China Paradise ("the Group")</u></b><br><br>The Group is mainly engaged in the retail of household appliances and consumer electronics products and the provision of related services. The Group has been the largest household appliances and consumer electronics products retail chain operator in Shanghai since 2001. It is also one of the leading household appliances and consumer electronics products retailers in term of sales in the Yangtze River Delta region.<br><br>Since establishment in September 1996, the Group has expanded rapidly from 14 stores in Shanghai at the end of 2002 to 151 stores as of 20 <sup>th</sup> September 2005, situating in 58 cities in six provinces and three centrally-administered municipalities in the mainland China.<br><br>The Group has worked with MS Retail, which is under control of a fund managed by the private equity arm of Morgan Stanley since March 2003. MS Retail became a shareholder of the Group with a 23.5% stake in January 2005. Meanwhile, MS Retail, along with another Financial Investor, CDH, have the right to subscribe for 85,499,107 and 13,855,586 shares, respectively at HK\$1.38 – a 27.4%-40.0% discount to the indicative price range. |
| <b>Price:</b> HK\$1.90 – HK\$2.30 per share<br><b>Market Cap.:</b> HK\$3.80 billion – HK\$4.60 billion<br><br><b>FY2005E P/E:</b> 13.8x – 16.7x<br>(On a pro forma basis)<br><br><b>Adjusted NTA per share:</b> RMB0.77 – RMB0.86<br><br><b>Staffing:</b> 11,260 (as of 30 <sup>th</sup> June 2005)   |  |
| <b>HK Public Offer period:</b><br>4 <sup>th</sup> October 2005 – 7 <sup>th</sup> October 2005 noon<br><br><b>Receiving bank:</b> Standard Chartered Bank<br><br><b>Share registrar:</b> Computershare Hong Kong<br>Investor Service Limited<br><br><b>Listing date:</b> 14 <sup>th</sup> October 2005 |  |

**Major Shareholders after Listing** (Assuming the over-allotment option, the Management Incentive Options and the financial investors' option are not exercised)

|                   |               |
|-------------------|---------------|
| Retail Management | 56.09%        |
| MS Retail         | 18.16%        |
|                   | <u>74.25%</u> |

*This report has been prepared solely for information purposes and we are not soliciting any action based upon it. Neither this document nor its contents shall be construed as an offer, invitation, advertisement, inducement or representation of any kind or form whatsoever. The information is based upon information, which we consider reliable, but accuracy or completeness is not guaranteed. Opinions expressed herein are subject to change without notice. At time of this report, East Asia Securities Company Limited has no position in securities of the company or companies mentioned herein.*

### Use of Proceeds

Net proceeds from the offer are estimated to be HK\$890 million.

(Assuming the over-allotment option is not exercised, and at an issue price of HK\$2.10 each, which is the mid-point of the indicative price range)

|   | HK\$<br>million   |
|---|-------------------|
| For opening new stores  | 350-400           |
| For acquiring suitable business targets and premises to be used as the Group's stores | 100-150           |
| For the construction of the new distribution centre in Qingpu, Shanghai               | 180               |
| For the upgrade and integration of the Group's information system network             | 100               |
| For the acquisition of 2% registered capital of Paradise Shanghai from key management | 70                |
| For funding the Group's working capital and other general corporate purposes          | Remaining balance |

### Financial Highlights

|                            | Year ended 31 <sup>st</sup> December |                     |                     | 6 months ended<br>30 <sup>th</sup> June<br>2005 |
|----------------------------|--------------------------------------|---------------------|---------------------|---|
|                            | 2002<br>RMB million                  | 2003<br>RMB million | 2004<br>RMB million | RMB million                                     |
| Revenue                    | 2,390.9                              | 4,944.8             | 8,267.0             | 5,699.9   |
| Gross profit/(loss)        | 96.3                                 | 306.6               | 582.9               | 396.5   |
| Attributable profit/(loss) | 23.4                                 | 127.4               | 185.7               | 140.6   |
| <b>EPS – basic</b>         | <b>RMB0.015</b>                      | <b>RMB0.083</b>     | <b>RMB0.120</b>     | <b>RMB0.091</b>                                 |

### Strengths/Opportunities

- ✓ Since establishment in 1996, the Group has built up a strong reputation as a leading specialty retailer of household appliances and consumer electronics products in Shanghai – one of the most affluent cities in the Mainland – with a market share of about 19%. Besides, the Group's retail network also covers Jiangsu, Zhejiang, Guangdong and other provinces. With its extensive retail network, the Group is well positioned to expand business amid robust economic growth and strong consumer spending in the Mainland.
- ✓ The Group's IPO is to be priced at 13.8-16.7x FY2005E P/E, which would be largely in line with peer GOME Electrical Appliances (HKEx: 0493)'s 14.5x FY2005E P/E. Meanwhile, according to market sources, the IPO has also drawn positive response from institutional investors, with its international offer tranche five times oversubscribed.

### Weaknesses/Threats

- × The Group's net profit margin was 2.74% in 1H2005, compared with 2.57% in FY2004 and 2.98% in FY2003, which was similar to that of peer GOME. However, one should note that any breakout of price war will undoubtedly create serious pressure on the counters' margin and eat into their profits.
- × The penetration rate of specialty retailers in the household appliances and consumer electronics sector in Shanghai rose 80.5% – the second highest among major cities in the Mainland, against the countrywide level of 48.6%. High penetration rate means there is little room for taking business from other segments of the retail sector like department stores and other small independent retailers.

**Recommendation: Trading Buy**