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If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your securities in GOME Electrical Appliances Holding Limited, you should at once hand this circular to the purchaser or to the transferee or to the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser or to the transferee.

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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)

**PROPOSED APPROVAL AND RATIFICATION OF
(1) CERTAIN SHARE REPURCHASES CONDUCTED IN 2008
(2) BREACHES OF DIRECTORS' DUTIES BY MR. WONG AND MS. DU AND
(3) PAYMENT OF COMPENSATION
BY MR. WONG AND MS. DU TO THE COMPANY
PURSUANT TO A REQUISITION FOR
A SPECIAL GENERAL MEETING
BY SHINNING CROWN HOLDINGS INC. AND SHINE GROUP LIMITED
AND
NOTICE OF SPECIAL GENERAL MEETING**

A letter from the Board of GOME Electrical Appliances Holding Limited (the "Company") is set out on pages 5 to 16 of this circular. A letter from the Special Committee is set out on pages 17 to 18 of this circular and the Statement of Agreed Facts is set out on page I-1 to page I-13 of this circular. The Independent Expert Report is set out on page II-1 to page II-26 of this circular. The Tomlin Order is set out on page III-1 to page III-20 of this circular.

A notice convening a special general meeting (the "Special General Meeting") of the shareholders of the Company to be held at Gloucester Room I, 3/F, The Excelsior, 281 Gloucester Road, Causeway Bay, Hong Kong on Thursday, 17 April 2014 at 3:00 p.m. is set out on pages N-1 to N-2 of this circular. Shareholders are advised to read the notice of the Special General Meeting.

Whether or not you are able to attend the meeting in person, please complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the Company's branch share registrar in Hong Kong, Tricor Abacus Limited, as soon as practicable and in any event not later than 48 hours before the time designated for holding the Special General Meeting or any adjournment thereof. The Company's branch share registrar is at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong on or before 30 March 2014 but will change to Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong with effect from 31 March 2014. Completion and return of the relevant forms of proxy will not preclude you from attending and voting in person at the Special General Meeting or at any adjourned meeting should you so wish.

* For identification purposes only

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DEFINITIONS

In this circular, the following expressions have the following meanings unless the context requires otherwise:

“%”	per cent
“2010 Announcement”	the announcement made by the Company on 5 August 2010 pursuant to Rule 13.09(1) of the Listing Rules
“2010 Circular”	the circular of the Company dated 23 August 2010
“associates”	has the meaning ascribed to it in the Listing Rules
“Board”	the board of Directors
“Breaches of Duties”	the alleged breaches of directors’ duties on the part of Mr. Wong and Ms. Du, as more particularly set out in paragraphs 42 and 43 of the Statement of Agreed Facts
“Bye-laws”	the bye-laws of the Company
“Companies Act”	the Companies Act 1981 of Bermuda (as amended)
“Company Action”	the legal proceedings brought by the Company against Mr. Wong on 5 August 2010 for, inter alia, for breaches of fiduciary duties as director of the Company and breach of trust in connection with the Share Repurchases
“Company”	GOME Electrical Appliances Holding Limited, an exempted company incorporated in Bermuda with limited liability and the securities of which are listed on the main board of the Stock Exchange
“controlling shareholder”	has the meaning ascribed to it in the Listing Rules
“Court”	the High Court of Hong Kong
“Defendants”	Mr. Wong, Ms. Du, Shinning Crown and Shine Group, being the defendants in the SFC Action
“Directors”	the directors of the Company from time to time
“Gains”	the gains which had accrued to Mr. Wong as a result of the Share Repurchases

DEFINITIONS

“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Expert Report”	the independent expert report issued on 18 March 2014 prepared by Mr. Richard Harris at the request of the Board as to whether the amount of the compensation agreed by the Defendants with the SFC for the resolution of the SFC Action represents a fair and reasonable compensation for the loss incurred by the Company as a result of the actions carried out by Mr. Wong and Ms. Du in relation to the Share Repurchases set out as Appendix II to this circular
“Independent Expert Report of the SFC”	the independent expert report issued on 2 May 2012 prepared by Mr. Richard Harris at the request of the SFC to value the quantum of the Gains and the loss caused to the Company as a result of the actions carried out by Mr. Wong and Ms. Du in relation to the Share Repurchases
“Independent Shareholders”	Shareholders other than Mr. Wong, Ms. Du, Shinning Crown, Shine Group and their respective associates
“Latest Practicable Date”	20 March 2014, being the latest practicable date for ascertaining certain information in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mr. Wong”	Mr. Wong Kwong Yu, the controlling shareholder and former executive director of the Company and former chairman of the Board
“Ms. Du”	Ms. Du Juan, the wife of Mr. Wong and the controlling shareholder and former executive director of the Company

DEFINITIONS

“Payment”	the proposed payment of HK\$420,608,765.75 in aggregate by Mr. Wong and Ms. Du to the Company in full and final compensation due to the Company as a result of the actions carried out by Mr. Wong and Ms. Du in relation to the Share Repurchases, calculated on the basis of the Independent Expert Report of the SFC of HK\$294,015,119 together with simple interest accrued thereon at a rate of prime rate plus 2% per annum from 5 February 2008 until payment is made by the Defendants into the Court
“Requisition Letter”	the letter from Shinning Crown and Shine Group to the Board on 17 March 2014, requisitioning a special general meeting of the Company for the purposes of proposing the Requisitioned Resolution
“Requisitioned Resolution”	the proposed resolution as more particularly set out in the notice of the Special General Meeting
“SFC”	The Securities and Futures Commission of Hong Kong
“SFC Action”	the legal proceedings brought by the SFC in August 2009 against the Defendants pursuant to section 213 of the SFO in relation to the Share Repurchases
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share Repurchases”	certain share repurchases conducted by the Company between 22 January 2008 and 5 February 2008 involving approximately 129.8 million Shares (of which approximately 70% were originally held by or for Mr. Wong) which are the subject of the SFC Action and the Company Action, as more fully described in this circular in the section entitled “Letter from the Board”
“Share(s)”	ordinary share(s) of HK\$0.025 each in the capital of the Company
“Shareholder(s)”	the holder(s) of the Shares
“Shine Group”	Shine Group Limited, a company wholly-owned by Mr. Wong and a shareholder of the Company

DEFINITIONS

“Shinning Crown”	Shinning Crown Holdings Inc., a company wholly-owned by Mr. Wong and a substantial shareholder of the Company
“Special Committee”	the special committee of the Board comprising all the independent non-executive Directors, to advise the Company on, and to deal with on behalf of the Company, matters with respect to the Share Repurchases
“Special General Meeting”	the special general meeting of the Company to be held at Gloucester Room I, 3/F, The Excelsior, 281 Gloucester Road, Causeway Bay, Hong Kong on Thursday, 17 April 2014 at 3:00 p.m. or any adjournment thereof
“Statement of Agreed Facts”	a statement of facts setting out details of various events leading up to the Share Repurchases, details of the Share Repurchases and the claims of the SFC as agreed between the SFC and the Defendants for the purpose of resolving the SFC Action, the full text of which is set out in Appendix I to this circular
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial shareholder”	has the meaning ascribed to it in the Listing Rules
“Tomlin Order”	the Tomlin Order granted by the Court on 10 March 2014 to stay the SFC Action on terms agreed by the SFC and the Defendants for the purpose of resolving the SFC Action set out as Appendix III to this circular

LETTER FROM THE BOARD



GOME ELECTRICAL APPLIANCES HOLDING LIMITED

國美電器控股有限公司*

(incorporated in Bermuda with limited liability)

(Stock Code: 493)

Executive Director:

ZOU Xiao Chun

Non-executive Directors:

ZHANG Da Zhong (*Chairman*)

ZHU Jia

WANG Li Hong

CHEUNG Leong

Independent non-executive Directors:

SZE Tsai Ping, Michael

CHAN Yuk Sang

LEE Kong Wai, Conway

NG Wai Hung

LIU Hong Yu

Registered Office:

Canon's Court

22 Victoria Street

Hamilton HM12

Bermuda

*Principal place of business
in Hong Kong:*

Unit 6101, 61st Floor

The Center

99 Queen's Road Central

Hong Kong

26 March 2014

To the Shareholders

Dear Sir or Madam,

**PROPOSED APPROVAL AND RATIFICATION OF
(1) CERTAIN SHARE REPURCHASES CONDUCTED IN 2008
(2) BREACHES OF DIRECTORS' DUTIES BY MR. WONG AND MS. DU AND
(3) PAYMENT OF COMPENSATION
BY MR. WONG AND MS. DU TO THE COMPANY
PURSUANT TO A REQUISITION FOR
A SPECIAL GENERAL MEETING
BY SHINNING CROWN HOLDINGS INC. AND SHINE GROUP LIMITED
AND
NOTICE OF SPECIAL GENERAL MEETING**

INTRODUCTION

Reference is made to (1) the 2010 Announcement and the 2010 Circular in respect of the legal proceedings instituted (a) by the Company against Mr. Wong, the controlling shareholder, former executive Director and former chairman of the Board, and (b) by the SFC against Mr.

* *For identification purposes only*

LETTER FROM THE BOARD

Wong and Ms. Du, the wife of Mr. Wong and a former executive Director, among others, in connection with the Share Repurchases conducted between January and February 2008; and (2) the Company's announcement dated 11 March 2014 regarding the proposed resolution of the SFC Action and the Company's update on the Company Action.

On 17 March 2014, the Company received a requisition letter together with a draft circular jointly issued by Shinning Crown, a company wholly-owned by Mr. Wong holding 4,550,100,000 Shares (representing 26.96% of the issued share capital of the Company as at the date of the Requisition Letter) and Shine Group, a company wholly-owned by Mr. Wong holding 624,453,890 Shares (representing 3.70% of the issued share capital of the Company as at the date of the Requisition Letter), requesting the Board to convene a special general meeting for the purposes of considering the Requisitioned Resolution to approve, confirm and ratify the Share Repurchases and the Breaches of Duties and to confirm and approve the acceptance of the Payment by Mr. Wong and Ms. Du to the Company.

On 20 March 2014, a board meeting of the Company was held to consider the Requisition Letter. Mr. Zou Xiao Chun, an executive Director of the Company, who is nominated by Shinning Crown as a Director of the Company, is considered to be interested in the Requisitioned Resolution and has abstained from voting at the board meeting held for considering the matters in the Requisition Letter and the proposal of the Requisitioned Resolution.

An announcement regarding the Company's receipt of the Requisition Letter was made by the Company on 20 March 2014 following the conclusion of the board meeting.

The purpose of this circular is to provide you with background and further information in relation to the Requisitioned Resolution, and to give you notice of the Special General Meeting at which such resolution will be proposed. Shareholders are advised to read this circular thoroughly and carefully before deciding how to vote on the resolution.

SFC ACTION

On 5 August 2009, the SFC commenced court proceedings against the Defendants under section 213 of the SFO alleging that Mr. Wong and Ms. Du organized the Share Repurchases in or about January and February 2008 to raise funds to repay a HK\$2.4 billion personal loan due from Mr. Wong to a financial institution.

The SFC alleged in its action that Mr. Wong had directed the Company to repurchase the majority of the 136,937,000 Shares originally held by or for him and which represented approximately 70% of the total number of Shares repurchased by the Company under the Share Repurchases. The Share Repurchases had stopped when the amount of money raised by Mr. Wong was sufficient for him to repay his personal loan notwithstanding the budget the Company had set for the Share Repurchases had not been fully utilised. The SFC alleged that the Share Repurchases had the effect of absorbing the sudden increase in the supply of the Shares on market caused by the offering of a large amount of Shares owned by Mr. Wong for sale in a short period of time, thereby resulting in a short-term increase in the price of the Shares.

LETTER FROM THE BOARD

The SFC further alleged that the Company had suffered financial loss as a result of repurchasing its own shares in a rising market, and the Company had therefore significantly reduced its cash reserves. Mr. Wong also benefitted from the Share Repurchases in the following ways:

- Mr. Wong did not have to discount the sale price of the Shares he offered to the Company in the Share Repurchases as he would have had to do if he had offered such a significant amount of Shares to other investors in a private placement;
- Mr. Wong benefitted from higher prices the Company paid for the shares it bought in the Share Repurchases; and
- Mr. Wong benefitted from the higher prices at which he was able to sell shares to parties other than the Company while the Share Repurchases were being conducted.

The SFC alleged that the first two of these benefits to Mr. Wong resulted in losses to the Company.

The SFC Action comprised a number of claims against the Defendants, including that the Company had suffered losses and damages as a result of the Share Repurchases. Pursuant to section 213 of the SFO, the SFC sought a court order to require the Defendants to take such steps as the Court may direct, including the steps to restore the Company and/or Mr. Wong to the position in which they were before the Share Repurchases had taken place, and/or that each of the Defendants pay damages to the Company.

The Company has been informed that, as a result of the mediation between the SFC and the Defendants, the SFC and the Defendants have reached an agreement to resolve the SFC Action subject to certain conditions being fulfilled by them, including (i) requisitioning by Shinning Crown and Shine Group of a shareholders' meeting and the ratification by the Independent Shareholders of the Share Repurchases and the Breaches of Duties on the part of Mr. Wong and Ms. Du; and (ii) the payment of compensation by Mr. Wong and Ms. Du to the Company.

The Company has been informed that the Court had, upon the joint application of the SFC and the Defendants, granted the Tomlin Order to stay the SFC Action pending performance of the terms in the schedule of the Tomlin Order. Please refer to Appendix III to this circular for further details of the Tomlin Order. Upon passing of the Requisitioned Resolution by the Independent Shareholders and payment of the compensation, the SFC will terminate the SFC Action.

LETTER FROM THE BOARD

For the purposes of resolving the SFC Action and seeking ratification from the Independent Shareholders, Mr. Wong and Ms. Du agreed that they have breached the duties they owed to the Company to act properly and in the best interest of the Company and, in the case of Mr. Wong, not to make any unauthorised and undisclosed gain at the expense of the Company. Mr. Wong and Ms. Du also accepted that:

- they failed to ensure proper authorisation of the Share Repurchases from the Board;
- Mr. Wong did not make full disclosure of such personal interest as he may have had in the Share Repurchases as seller of the Shares; and
- given such personal interest as Mr. Wong may have had in the Share Repurchases, he should not have participated in the meeting of the executive Directors of the Company that authorised the Share Repurchases nor should he have participated in implementing and directing the Company in the Share Repurchases.

STATEMENT OF AGREED FACTS

The Company was informed that, as part of resolving the SFC Action, the SFC and the Defendants had agreed to the Statement of Agreed Facts, which set out details of various events leading up to the Share Repurchases, the Share Repurchases and the Breaches of Duties on the part of Mr. Wong and Ms. Du as Directors of the Company. It also sets out the claims which form the basis of the SFC Action and details on the calculation of the Gains.

The agreed facts as set out in paragraphs 16-23, 32, 35, 36, 38, 39, 41, 44 and 48 of the Statement of Agreed Facts may suggest that the resolutions passed by the Board at the time on 21 and 24 January 2008 sanctioning the Share Repurchases, may not be effective due to the manner in which the Board had approved the Share Repurchases, and (without admission) certain shortcomings on the part of the Board.

Please refer to the Statement of Agreed Facts set out in Appendix I to this circular for further details of the SFC Action and the SFC's allegations.

PAYMENT OF COMPENSATION BY MR. WONG AND MS. DU

In the course of resolving the SFC Action, subject to the Requisitioned Resolution being passed by the Independent Shareholders at the Special General Meeting, Mr. Wong and Ms. Du have agreed to pay the Company an aggregate amount of HK\$420,608,765.75, representing the Gains which amount to HK\$294,015,119 together with interest accrued thereon with respect to their misconduct in engineering the Share Repurchases as alleged by the SFC. Such amount represents the Gains as stated in the Independent Expert Report of the SFC that Mr. Wong has accrued as a result of his sale of the Shares to the Company during the Share Repurchases as alleged by the SFC.

LETTER FROM THE BOARD

Based on the valuation in the Independent Expert Report of the SFC, the SFC has determined that the Gains comprise three components:

- the discount that would have applied to the sale of the same amount of Shares by way of private placement at that time, namely, the amount that the Company would have saved had those shares been paid by way of private placement rather than in the market;
- the benefit caused by the increase in the price of the Shares due to the heavy demand for the Shares during the relevant period of the Share Repurchases; and
- the gains earned from the sale of an additional 7,137,000 Shares originally held by Mr. Wong to other purchasers which occurred at the highest price of the Shares during the relevant period of the Share Repurchases.

Mr. Richard Harris is an independent expert engaged by the SFC for the purpose of the SFC Action. According to Mr. Harris' curriculum vitae, he is an investment manager with over 20 years of working experience in the financial markets. He has previously been accepted by the courts in Hong Kong as an expert witness on securities market matters in criminal proceedings. He is currently licensed by the SFC, namely as a holder of Type 1 (dealing in securities) licence and previously he was a holder of Type 4 (advising on securities) and Type 9 (asset management) licences between 2008 and 2012.

As at the Latest Practicable Date, Mr. Richard Harris did not have any direct or indirect interest in any assets which had been acquired, disposed of by, or leased to any member of the Group, or was proposed to be acquire, or disposed of by, or leased to any member of the Group, since 31 December 2013, the date to which the latest audited financial statements of the Group was made up; and was not beneficially interested in the share capital of any member of the Group and did not have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As mentioned above, the Payment reflects the SFC's independent expert valuation of the amount of the Gains. The SFC considered that the Payment represents a proper expiation of the Gains and also full compensation for the loss incurred by the Company as a result of the actions carried out by Mr. Wong and Ms. Du in relation to the Share Repurchases.

Whilst the independent expert valuation obtained by the SFC in relation to the amount of the gains which had accrued to Mr. Wong as a result of the Share Repurchases is substantially higher than the figure estimated by the expert engaged by Mr. Wong and Ms. Du, in the interests of resolving the SFC Action in a manner which will cause the Company to receive in full the compensation sought for it by the SFC, both Mr. Wong and Ms. Du have agreed to pay to the Company the Payment which is calculated on the basis of the SFC's independent expert valuation of the Gains and the accrued interest, subject to the approval by the Independent Shareholders being obtained at the Special General Meeting.

Separately, if the Requisitioned Resolution is passed, Mr. Wong and Ms. Du will also pay the SFC costs arising out of the SFC Action and all costs involved in convening and holding the Special General Meeting.

LETTER FROM THE BOARD

As a result of the above discussions to resolve the SFC Action, Mr. Wong and Ms. Du had on 17 March 2014 paid HK\$423,613,368.49 in aggregate into an account held with the Court.

As disclosed in the SFC's press release dated 11 March 2014, in agreeing with the proposal by the Defendants in resolving the SFC Action, the SFC has taken into account that:

- the agreement will enable the Company to receive in full the compensation calculated on the basis of the Independent Expert Report of the SFC without the costs and risks of separate legal proceedings;
- Mr. Wong and Ms. Du accepted the Breaches of Duties and by paying a sum higher than their own valuation, they could do right by the Company and the Independent Shareholders;
- the Independent Shareholders will be given an opportunity at the Special General Meeting to consider whether to approve, confirm and ratify the Share Repurchases, the Breaches of Duties and the Payment by Mr. Wong and Ms. Du; and
- the agreement, if accepted by the Independent Shareholders, will bring the matter to an appropriate end for the benefit of the Independent Shareholders.

In considering whether the amount of the Payment agreed by the Defendants with the SFC represents a fair and reasonable compensation to the Company and therefore acceptable to the Company, the Board has commissioned Mr. Richard Harris to issue a report, the full text of which is set out in Appendix II to this circular. Notwithstanding that Mr. Richard Harris was an expert engaged by the SFC for the purpose of the SFC Action, the Board accepts his independence in providing the Independent Expert Report, in particular given that the SFC itself acts in the public interest as a statutory independent regulator and that Mr. Richard Harris has expressly confirmed that he is impartial and independent from the Company and that he fulfils the requisite requirements of an independent expert witness.

Mr. Richard Harris has given, and has not withdrawn, his written consent to the issue of this circular with the inclusion of the Independent Expert Report and references to his name in the form and context in which it appears.

On the basis of the information available as set out below, and with the benefit of the Independent Expert Report, the Board (including the Special Committee) considers that the amount of the Payment agreed by the Defendants with the SFC, for the resolution of the SFC Action, represents a fair and reasonable compensation to the Company and therefore acceptable to the Company and the Independent Shareholders as a whole:

- the amount of the Gains set out in the Independent Expert Report of the SFC is substantially higher than the amount valued by the independent expert commissioned by Mr. Wong and Ms. Du which will cause the Company to receive in full the compensation sought for it by SFC;

LETTER FROM THE BOARD

- all the factors that the SFC has taken into account in accepting the proposed resolution of the SFC Action as set out in the SFC's press release dated 11 March 2014;
- the SFC's acceptance of the current terms of the proposed resolution of the SFC Action (including the amount of the Payment);
- it will obviate all risks, uncertainties, opportunity costs to the Company (as set out below) if the Requisitioned Resolution is passed;
- there is no other comparable in respect of the Gains/losses to the Company and there is no assurance that a sum greater than the amount of the Gains can be obtained if assessed by another expert;
- As stated in the Independent Expert Report, Mr. Richard Harris is of the view that the amount of the Gains of HK\$294,015,119 represents a fair and reasonable compensation for the Company's loss as a result of the actions carried out by Mr. Wong and Ms. Du in relation to the Share Repurchases; and
- there is no evidence indicating that the amount of the Payment is not fair or reasonable in the circumstances.

COMPANY ACTION

Since the Share Repurchases, the Company had been growing financially and its businesses had achieved healthy and sustainable growth. On 5 August 2010, in order to preserve its cause of action against Mr. Wong pending the conclusion of the SFC Action, the Company filed a writ of summons against Mr. Wong in the Court for, inter alia, damages suffered by the Company for breaches of fiduciary duties as a director of the Company and breach of trust by Mr. Wong arising from or in connection with the Share Repurchases.

The Company Action has not progressed after the filing of the writ of summons on 5 August 2010 because the Company recognised that the SFC had already commenced the SFC Action and the relief sought by the SFC in that action, if granted by the Court, would effectively achieve what the Company was seeking and would have obtained in the Company Action (if successful). Further, evidence would be revealed in the SFC Action, which could be used in the Company Action and which the Company might have difficulties in gathering through its own resources. Taking into account also the difficulty in serving the proceedings on Mr. Wong at the time and the possibility that the Company Action might in any case be stayed by the Court in the light of the then ongoing SFC Action, the Company was of the view that the best course was to commence the Company Action but not to progress with it whilst observing the developments of the SFC Action. The writ issued on 5 August 2010 expired on 5 August 2011 and no step has been taken to renew the writ.

LETTER FROM THE BOARD

The limitation period in respect of the Company's claim expired in January 2014. Taking into account all the difficulties and reasons for the Company's decision not to actively progress with the Company Action, which remained dormant since the writ was issued, the Board resolved not to issue a fresh writ of summons against Mr. Wong for the same relief. In reaching this decision, the Board took into account the difficulty it would face in serving the proceedings on Mr. Wong, which was one of the reasons why the Company never progressed with the Company Action. The Board also took into account the proposed resolution of the SFC Action. If the SFC Action is amicably resolved, resulting in payment of compensation to the Company, the Company Action would become nugatory.

The Board has resolved that, subject to the approval of the Requisitioned Resolution by the Independent Shareholders being obtained at the Special General Meeting, the Company shall accept the Payment in full and final compensation to the Company for its losses and damages as a result of the Share Repurchases.

OUTCOME FOR THE COMPANY IF THE REQUISITIONED RESOLUTION IS PASSED

The Independent Shareholders are asked to consider and, if thought fit, to pass the Requisitioned Resolution to ratify, confirm and approve the Share Repurchases and the Breaches of Duties, and to confirm and approve the acceptance of the Payment in order for the Defendants and any other persons to be released from all liabilities and all claims arising from or in connection with the Share Repurchases.

If the Requisitioned Resolution is passed by the Independent Shareholders,

- (a) the Share Repurchases and the Breaches of Duties by Mr. Wong and Ms. Du identified in the Statement of Agreed Facts will be ratified;
- (b) the SFC Action will be resolved and discontinued, and the Company will receive the Payment from the account held with the Court shortly after the Special General Meeting and the Company can also avoid becoming embroiled in protracted, costly and time-consuming legal proceedings in the event that the Company is joined as a defendant to the SFC Action, which would be a distraction from the Company's business;
- (c) The Board will be in a position to report in the Company's annual report that the SFC Action, which has been reported as one of the contingencies in its annual reports since 2009, has achieved finality having regard to the best interests of the Company and its Shareholders as a whole; and
- (d) the Company will be precluded from bringing any proceedings, and individual shareholders will be precluded from bringing any derivative proceedings in the name of the Company, against the Directors involved, including Ms. Du and Mr. Wong, in relation to the Share Repurchases because the Directors will be released from any such liabilities and claims.

LETTER FROM THE BOARD

CONSEQUENCES IF THE REQUISITIONED RESOLUTION IS NOT PASSED

If the Requisitioned Resolution is not passed by the Independent Shareholders, the consequences set out below are likely to occur.

The SFC Action

The Board has been informed by the SFC that if the Requisitioned Resolution is not passed by the Independent Shareholders by 7 June 2014, it will continue to pursue the SFC Action. The Statement of Agreed Facts will be nullified. The SFC has also indicated that it strongly believes its claims are meritorious.

If the SFC Action is to be pursued, the SFC will restore the action and proceed to prepare for the hearing of a trial. It is ultimately a matter for the Court as to whether any order to restore the Company to the position it was in before the Share Repurchases occurred or for damages, if any, would be made. It is also a matter for the Court as to what the value of such an order or the quantum of any damages paid to the Company would be and whether it would be more or less than the amount of the Payment. The progress and timing of any SFC Action (and therefore the timing of the Company receiving any sum awarded by the Court as the case may be) would also be subject to various factors including the availability of the Court to hear the relevant proceedings.

The Company considers that there is a possibility for the SFC to apply to join the Company as a defendant to the SFC Action on the basis that the Company is an interested party despite the SFC has not made any such indication. Any decision made by the Court in light of the Company's involvement in the matters pleaded in the SFC Action will be binding on the Company. For instance, the Defendants may be ordered to pay damages to the Company. The fact that it will be named as a defendant to a court action (albeit in a nominal capacity), may, on outward appearances, cause unnecessary misunderstanding, and negative publicity, about the nature of the Company's position and involvement in the SFC Action. Further, the Company will inevitably have to incur time and costs in the SFC Action, which would be a distraction from the Company's business.

Currently, the Company is not a party to the SFC Action and no allegations have been made against either the Company or any of the other Directors involved in the Share Repurchases. The Company considers that there is a remote possibility that the SFC may join the Company and/or the other Directors as defendant(s) to the SFC Action on the basis of the circumstances in which the Board sanctioned the Share Repurchases, and (without admission) certain alleged shortcomings on the part of the Board, as set out in paragraphs 16-23, 32, 35, 36, 38, 39, 41, 44 and 48 of the Statement of Agreed Facts. It could prove difficult for the Company or any of the Directors involved in the Share Repurchases to resist the SFC's application to join them. In the event that the Company is joined as defendant to the SFC Action, it may become embroiled in protracted, costly and time-consuming legal proceedings, which would be a distraction from the Company's business. Further, if any adverse finding is made against the Company or any of the other Directors in the SFC Action, it may cause concerns to investors and contribute to unfounded market rumours with negative connotations.

LETTER FROM THE BOARD

Due to uncertainties inherent in any litigation (such as the merits of the claim, the availability of witnesses and evidence, the outcome (liability and quantum), and potential difficulties in enforcement, there is always a possibility that the Court might not grant some or all the reliefs sought by the SFC in the SFC Action. Also, in the event that liability is established in the SFC Action, there is no guarantee that the sum awarded by the Court will be greater than the amount of the Payment.

If the Requisitioned Resolution is not passed, one of the consequences is that the Company will not be receiving the Payment in the near future given that it may take a while before the SFC Action comes to trial.

SPECIAL GENERAL MEETING AND ELIGIBILITY OF VOTING

Shinning Crown, as a holder of more than 10% of the issued share capital of the Company, together with Shine Group, have requisitioned the holding of the Special General Meeting.

As at the Latest Practicable Date, Mr. Wong and Ms. Du were collectively interested in 5,417,539,490 Shares (representing 32.10% of the issued share capital of the Company), among which 4,550,100,000 Shares (representing 26.96% of the issued share capital of the Company) were held by Shinning Crown and 624,453,890 Shares (representing 3.70% of the issued share capital of the Company) were held by Shine Group. Under section 74(1) of the Companies Act, the Board shall on the requisition of members of the Company holding at the date of the requisition not less than one-tenth of the paid-up capital of the Company as at the date of the deposit carries the right to voting at general meetings of the Company, forthwith proceed duly to convene a special general meeting of the Company. Shinning Crown and Shine Group are therefore entitled to requisition the Special General Meeting. Under section 74(3) of the Companies Act and the Bye-laws, the Board has up to 21 days after its receipt of a requisition to proceed duly to convene a special general meeting. As such, the Board resolved to dispatch this circular and the notice of the Special General Meeting and to convene the Special General Meeting.

A notice convening the Special General Meeting to be held at Gloucester Room I, 3/F, The Excelsior, 281 Gloucester Road, Causeway Bay, Hong Kong on Thursday, 17 April 2014 at 3:00 p.m., is set out on pages N-1 to N-2 of this circular.

A form of proxy for use at the Special General Meeting is enclosed with this circular and such form of proxy is also published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.gome.com.hk). Whether or not you are able to attend the Special General Meeting in person, please complete and sign the enclosed form of proxy in accordance with the instructions printed thereon and deposited, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of that power of attorney or authority at the Company's branch share registrar in Hong Kong, Tricor Abacus Limited as soon as possible but in any event not less than 48 hours before the time appointed for holding the Special General Meeting or any adjournment thereof. The Company's branch share registrar is at 26th Floor, Tesbury Centre, 28 Queen's Road East,

LETTER FROM THE BOARD

Hong Kong on or before 30 March 2014 but will change to Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong with effect from 31 March 2014. Completion and delivery of the form of proxy will not preclude you from attending and voting in person at the Special General Meeting or at any adjourned meeting should you so wish.

The Requisitioned Resolution will be voted by way of poll in accordance with Rule 13.39(4) of the Listing Rules. Any Shareholder who, or whose associates, has a material interest in the Share Repurchases and the Payment by Mr. Wong and Ms. Du will abstain from voting on the Requisitioned Resolution. Accordingly, Mr. Wong, Ms. Du, Shinning Crown and Shine Group and their respective associates, who as at the Latest Practicable Date hold in aggregate 5,417,539,490 Shares (representing 32.10% of the entire issued share capital of the Company), will abstain from voting at the Special General Meeting.

Mr. Wong and Ms. Du will be responsible for all costs involved in convening and holding the Special General Meeting.

The Company will publish an announcement to inform the Shareholders of the poll results of the Special General Meeting.

CLOSURE OF REGISTER OF MEMBERS

In order to determine the Shareholders who are entitled and vote at the Special General Meeting, the Company's register of members will be closed on Thursday, 17 April 2014, during which period no transfer of Shares will be effected. In order to qualify for attending and voting at the Special General Meeting, Shareholders shall ensure that all the transfer documents accompanied by the relevant Share certificate must be lodged with the Company's branch share registrar in Hong Kong, Tricor Abacus Limited, no later than 4:30 p.m. on Wednesday, 16 April 2014. The Company's branch share registrar is at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong on or before 30 March 2014 but will change to Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong with effect from 31 March 2014.

RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the proposed resolution. The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this circular and confirm having made all reasonable enquiries that to the best of their knowledge opinions expressed in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular the omission of which would make any statement therein misleading.

RECOMMENDATION

Your attention is drawn to (i) the letter from the Special Committee set out on pages 17 to 18 of this circular, which contains its recommendations to the Independent Shareholders regarding the Requisitioned Resolution, (ii) the Statement of Agreed Facts set out on pages I-1

LETTER FROM THE BOARD

to I-13 of this circular, and (iii) the Independent Expert Report set out on pages II-1 to II-26 of this circular, which advises as to whether the amount of the compensation agreed by the Defendants with the SFC for the resolution of the SFC Action represents a fair and reasonable compensation for the loss incurred by the Company as a result of the actions carried out by Mr. Wong and Ms. Du in relation to the Share Repurchases.

The Special Committee, having taken into account the valuation set out in the Independent Expert Report of the SFC, and the Independent Expert Report, the Statement of Agreed Facts, the outcome of the Requisitioned Resolution being passed and the consequences of the Requisitioned Resolution not being passed, considered that (1) the amount of the Payment is fair and reasonable so far as the Company and the Independent Shareholders are concerned; and that (2) passing of the Requisition Resolution to approve, confirm and ratify the Share Repurchases and the Breaches of Duties and to confirm and approve the acceptance of the Payment in order for the Defendants and any other persons to be released from all liabilities and claims in relation thereto, are in the interests of the Company and the Shareholders as a whole. Accordingly, the Special Committee recommends the Independent Shareholders to vote in favour of the Requisitioned Resolution.

Yours faithfully,
For and on behalf of
GOME Electrical Appliances Holding Limited
Zhang Da Zhong
Chairman



GOME ELECTRICAL APPLIANCES HOLDING LIMITED

國美電器控股有限公司*

(incorporated in Bermuda with limited liability)

(Stock Code: 493)

26 March 2014

To the Independent Shareholders

Dear Sir or Madam,

**PROPOSED APPROVAL AND RATIFICATION OF
(1) CERTAIN SHARE REPURCHASES CONDUCTED IN 2008
(2) BREACHES OF DIRECTORS' DUTIES BY MR. WONG AND MS. DU AND
(3) PAYMENT OF COMPENSATION
BY MR. WONG AND MS. DU TO THE COMPANY
PURSUANT TO A REQUISITION FOR
A SPECIAL GENERAL MEETING
BY SHINNING CROWN HOLDINGS INC. AND SHINE GROUP LIMITED
AND
NOTICE OF SPECIAL GENERAL MEETING**

We refer to the circular (the “Circular”) of the Company dated 26 March 2014, of which this letter forms part. Unless the context requires otherwise, terms and expressions defined in the Circular shall have the same meanings in this letter.

We have been appointed to advise the Independent Shareholders in respect of the Requisitioned Resolution, details of which are set out in the letter from the Board in the Circular.

We, having taken into account the valuation set out in the Independent Expert Report of the SFC, the Statement of Agreed Facts, the Independent Expert Report, the outcome of the Requisitioned Resolution being passed and the consequences of the Requisitioned Resolution not being passed, consider that (1) the amount of the Payment is fair and reasonable so far as the Company and the Independent Shareholders are concerned; and that (2) passing of the Requisitioned Resolution to approve, confirm and ratify the Share Repurchases and the Breaches of Duties and to confirm and approve the acceptance of the Payment in order for the Defendants and any other persons to be released from all liabilities and claims in relation thereto, are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the Requisitioned Resolution.

* *For identification purposes only*

LETTER FROM THE SPECIAL COMMITTEE

Yours faithfully,
The Special Committee of
GOME Electrical Appliances Holding Limited

Ng Wai Hung
*Independent non-executive
Director*

Chan Yuk Sang
*Independent non-executive
Director*

Lee Kong Wai, Conway
*Independent non-executive
Director*

Sze Tsai Ping, Michael
*Independent non-executive
Director*

Liu Hong Yu
*Independent non-executive
Director*

The following is the full text of the Statement of Agreed Facts setting out details of various events leading up to the Share Repurchases and claims of the SFC as agreed between the SFC and the Defendants for the purpose of resolving the SFC Action.

APPENDIX 1

Statement of Agreed Facts**The Parties**

1. GOME Electrical Appliances Holding Limited ("**GOME**" or the "**Company**") was and still is a company incorporated in Bermuda with limited liability. It has been listed on the main board of the Stock Exchange of Hong Kong Limited (the "**SEHK**") since 1992.
2. At all material times, GOME's board of directors ("**GOME's Board**") consisted of the 1st Defendant ("**Wong**"), the 2nd Defendant ("**Du**"), Chen Xiao ("**Chen**"), Ng Kin Wah ("**Ng**") and seven non-executive directors.
3. Wong was the chairman and executive director of GOME until he resigned on 16 January 2009.
4. Du was and still is the wife of Wong. She was also an executive director of GOME until she resigned on 23 December 2008.
5. The 3rd Defendant ("**Shinning Crown**") and the 4th Defendant ("**Shine Group**") were incorporated in the British Virgin Islands ("**BVI**"). At all material times they were, and continue to be, solely and beneficially owned by Wong, who is also a director of both companies. Du has been the director of Shine Group since 2004 but ceased to be so on 19 June 2009.
6. Wong held beneficially (in his own name and also through Shinning Crown and Shine Group) 1,394,667,034 GOME shares representing about 42% of the then total of 3,319,489,000 GOME issued shares.
7. Huang Xiuhong ("**Huang**") is the sister of Wong. Huang is the sole beneficial owner of Megatop Investment Limited ("**Megatop**"), a company incorporated in the BVI.

The Goldman Sachs Loan

8. On 8 August 2007, Wong through Shinning Crown entered into a credit facility agreement with Goldman Sachs International Bank ("**Goldman Sachs**") borrowing HK\$2.4 billion (the "**Goldman Sachs Loan**"). One of the principal purposes of the Goldman Sachs Loan was said to be to finance the acquisition of real property in the People's Republic of China by Shinning Crown, Wong and/or his associates yet the Goldman Sachs Loan was a short term facility denominated in Hong Kong dollars and due to be repaid in November 2007. Wong personally guaranteed repayment of the Goldman Sachs Loan.
9. Under the terms of the Goldman Sachs Loan, Wong was also required to and did mortgage 1,075,430,000 GOME shares held by him through Shinning Crown to Goldman Sachs as security for the Goldman Sachs Loan, representing approximately 33% of the issued share capital of GOME and 77% of Wong's interest in GOME.
10. The whole amount of the credit facility was drawn down and paid to Shinning Crown in three tranches of HK\$800 million each on 8, 14 and 21 August 2007 respectively. The funds were withdrawn from Shinning Crown after being drawn down.
11. The whole amount of the Goldman Sachs Loan was originally due to be repaid in mid-November 2007. At Wong's request, the repayment deadline was extended to 11 February 2008. In January 2008, Goldman Sachs reminded Wong through Du that there would be no further extension of the repayment deadline of the Goldman Sachs Loan.
12. Shinning Crown did not have sufficient funds of its own to repay the Goldman Sachs Loan. Nonetheless, Shinning Crown repaid the Goldman Sachs Loan on 12 February 2008. The repayment was funded predominantly (HK\$2.25 billion) out of funds transferred to Shinning Crown by Megatop on the same day.

13. These moneys were in turn sourced from the sale of 136,937,000 GOME shares originally held by or for Wong. These shares were sold to GOME as part of share repurchase activity carried out by GOME between 22 January 2008 and 5 February 2008 (the “Share Repurchase”) that was instigated predominantly by Wong and also by Du.
14. During this period of 11 trading days, GOME spent approximately HK\$2.2 billion out of its freely convertible cash reserves (reserves of cash, cash equivalents and pledged deposits being approximately RMB5.33 billion as of the end of December 2007) to purchase about 129.8 million of its own shares, of which approximately 71% were purchased from Megatop who was selling GOME shares transferred to it by Wong. The proceeds of these sales were the source of nearly the whole of the moneys used to repay the Goldman Sachs Loan.

Authorisation for the Share Repurchase

15. At the Annual General Meeting convened on 22 May 2007, the shareholders had approved a general mandate for share repurchases. In the explanatory statement included in the circular issued by GOME dated 23 April 2007, it was stated, inter alia, that the directors of GOME would only exercise the power to repurchase in circumstances where they consider that the repurchase would:
 - (i) be in the best interests of GOME; and
 - (ii) where they consider that the shares can be repurchased on terms favourable to GOME.
16. On 21 January 2008, Wong caused the executive directors of GOME, namely himself, Du, Chen and Ng to meet by telephone. At the meeting, the executive directors purported to resolve, unanimously, that GOME would make an on-market offer to repurchase GOME shares and, for that purpose, they allocated a budget of about HK\$3 billion to repurchase GOME’s own shares at a maximum price of HK\$18 per share. The maximum price of \$18 per share represented a premium of 10% over the current share price on that day.

17. The minutes of the meeting recorded the following reasons for the Share Repurchase:
- a. in view of the U.S. sub-prime event and the exchange loss as a result of the appreciation of the Renminbi, the price of the shares of GOME had fallen below their intrinsic value;
 - b. GOME had not identified any investment opportunity to pursue in the short term; and
 - c. the directors present were of the view that the repurchase of shares was in the best interests of GOME and its shareholders as a whole and that GOME and its shareholders would benefit from the Share Repurchase.
18. The meeting was not a meeting of the GOME's Board that had been convened in accordance with the Bye-Laws of the Company. No notice of meeting was prepared for this meeting, as required, nor were the seven non-executive directors invited to the meeting, as required. No board paper was prepared or tabled at the meeting nor was there any adequate assessment as to why the Share Repurchase was in the best interests of GOME at the time.
19. Neither Wong, Du nor anyone else sought or obtained any professional advice from an investment bank, stockbroker or financial adviser on implementing the Share Repurchase to ensure the Share Repurchase was conducted properly and, as stated in the circular dated 23 April 2007 seeking the general mandate, on terms that were favourable to GOME.
20. Following the meeting, an additional resolution was purportedly circulated to the seven non-executive directors seeking their approval of the Share Repurchase. No board paper or other analysis was provided to the non-executive directors assessing whether the Share Repurchase was in the best interests of GOME at the time.
21. The written resolution is dated 24 January 2008 but it was not, in fact, circulated or signed by all non-executive directors on that date. One non-executive director says he only signed the written resolution in May or June 2008 without knowing

any details of the Share Repurchase. Another confirms the non-executive directors did not discuss the Share Repurchase nor did he ever see the minutes of the executive directors' meeting held on 21 January 2008. He says he probably did not sign the written resolution until after 24 January 2008.

22. In fact, the approval of the non-executive directors was neither operative nor decisive because the Share Repurchase was already underway at the time they were asked to approve it. In reality, the non-executive directors took no part in the decision to undertake the Share Repurchase.
23. The telephone meeting between the four executive directors on 21 January 2008 was not a proper board meeting and the purported resolution passed was accordingly ineffective. The approval of the executive directors was also affected by Wong's non-disclosure of his interest in the proposed Share Repurchase, including his interest in participating in the transaction as sellers of shares. Wong fully accepts that he should have made a complete disclosure of such personal interest as he may have had in the Share Repurchase transactions. Wong accepts that this is a matter that ought to have been disclosed as matter of duty to GOME and was required under the Bye-Laws of the Company.

The Repurchase Scheme

24. Immediately after the board meeting referred to in paragraph 16 above, between 22 January 2008 to 5 February 2008 (the "**Repurchase Period**"), GOME made on-market repurchases of its own shares. Within 11 trading days, GOME spent approximately HK\$2.2 billion to purchase about 129.8 million of its own shares. Most repurchases took place on 4 February 2008 and 5 February 2008 as set out in paragraph 27 below.
25. On 28 January 2008, Wong transferred 136,937,481 GOME shares to Megatop (Wong transferred 900,087 GOME shares held under his own name and 136,037,394 GOME shares held through Shine Group i.e. a total of 136,937,481 GOME shares), purportedly for a consideration other than cash at an average of HK\$12.79 per share (the "**Share Transfer**"). On the immediately previous

trading day, GOME's share price had closed more than 30% higher at HK\$16.84. Wong and Du caused GOME to make a public announcement on 1 February 2008 to the effect that Wong had on 28 January 2008 transferred a total of 186,937,481 shares to his family members at the afore-stated average consideration.

26. Immediately after Wong transferred 136,937,481 GOME shares to Megatop ("**the Transferred Shares**"), Huang (Wong's sister and the beneficial owner of Megatop) caused Megatop to start selling the Transferred Shares in the market. The share price of GOME closed that day at \$16.98.
27. Because of the constant buying demand from GOME as part of the Share Repurchase, GOME's share price continued to rise during the Repurchase Period from \$16.98 on 28 January 2008 peaking at \$17.66 (4.00 % higher) on 4 February 2008 and \$17.62 (3.77% higher) on 5 February 2008. Megatop sold 107,596,000, approximately 80% of its 136,937,481 Transferred Shares, on 4 February 2008 and 5 February 2008 when the share price of GOME was at its highest in the Repurchase Period.
28. Wong instructed Ng to stop the Share Repurchase after the market closed on the same day (i.e. 5 February 2008).
29. Immediately after GOME ceased the Share Repurchase, the share price began to decline, consistently with the reduction in demand, returning to its pre-Share Repurchase levels.
30. In total Megatop's sales of the Transferred Shares represented about 71% of the total repurchases made by GOME. In addition to the sales to GOME, Megatop also sold 7,137,000 shares to other purchasers at the highest prices during the Repurchase Period.
31. Megatop received about HK\$2.39 billion (the "**Sale Proceeds**") by selling the Transferred Shares. On 12 February 2008, Huang transferred about HK\$2.25 billion out of the HK\$2.39 billion Sale Proceeds to Wong through Shinning Crown's bank account. On the same day, Wong transferred HK\$2.43 billion from

the same bank account of Shinning Crown to Goldman Sachs for the purpose of repaying the Goldman Sachs Loan.

The Stated Rationale for the Share Repurchase

32. Three reasons for the Share Repurchase were recorded in the minutes of the executive directors' telephone meeting held on 21 January 2008 namely the effect of foreign exchange fluctuations on the share price of GOME shares, no other investment opportunity had been identified and the scheme would benefit shareholders. These reasons were neither adequate nor wholly accurate because of the non-disclosure described in paragraph 23.
33. In reality, GOME had been incurring notional foreign exchange translation losses since early 2005 when the Renminbi had begun to appreciate against the US dollar. The issue was not a new one on 21 January 2008.
34. Thus it could be said that Wong did not have GOME's foreign exchange translation risk in mind at all when instigating the Share Repurchase.
35. Neither Wong nor the executive directors had proposed to the GOME's Board any strategies to mitigate the foreign exchange risk at any point during 2007 nor, when considering the Share Repurchase, is there any evidence GOME conducted any due diligence into the proposed Share Repurchase or conducted any assessment of other options, including the comparative costs and benefits of a Share Repurchase as opposed to those other options, such as hedging GOME's position.
36. Another factor which has to be noted is that the Share Repurchase was implemented very quickly, creating sudden demand for GOME shares with a corresponding increase in the share price, meaning, inevitably, that GOME paid higher prices than it would likely have paid if the repurchase had been handled with due care and diligence and to the best advantage of GOME.

37. The Share Repurchase did not resolve GOME's foreign exchange translation risk and GOME continued to incur notional foreign exchange losses in 2008 after the Share Repurchase.
38. There having been no due diligence conducted in relation to the Share Repurchase, it could also be said that the funds used in the Share Repurchase were not surplus to the Company's needs. The total freely convertible cash assets available to GOME at the time were approximately RMB5.334 billion. This is almost the same amount raised from a placement and convertible bond issue that had taken place only seven months earlier, in May 2007 ("**the May 2007 Fundraising**"). The purpose of the May 2007 Fundraising was to raise money for specific and general corporate purposes. No such purposes had been achieved with these funds at the time of the Share Repurchase. The balance of freely convertible cash available to GOME at this time were not and could not have been or become surplus to GOME's needs within 7 months of them being raised. The Share Repurchase meant the specific and corporate purposes of the May 2007 Fundraising could not be achieved.
39. Nor did the shareholders in general derive any benefit from the Share Repurchase. On the other hand, whatever benefit accrued from the increase in GOME's share price dissipated when the Share Repurchase ceased. The Share Repurchase left the Company with significantly less cash than beforehand. GOME paid the highest prices in the period for most of the shares that were purchased during the Share Repurchase. These sales were transacted at prices that would not have been achieved in the absence of the Share Repurchase, given the demand created for them by GOME and the budget of HK\$3 billion and up to HK\$18.00 per share which Wong himself had decided on 21 January 2008.
40. The Share Repurchase stopped when the amount of money raised by or for Shinning Crown was sufficient to enable Shinning Crown to repay the Goldman Sachs Loan, even though the allocated budget for the Share Repurchase had not been spent.

41. Nor was the Share Repurchase in the interests of GOME and the shareholders. Wong and Du accept in hindsight that they should certainly have caused a more thorough and professional analysis of the reasons for and likely effects of the Share Repurchase to be undertaken so that the potential advantages and disadvantages could be clearly identified for consideration by the GOME's Board.

Breach of Duty

42. Wong and Du owed duties to GOME and its shareholders:
- a. to act in the best interests of GOME and its shareholders;
 - b. to act properly, and only properly, at all times as directors; and
 - c. not to make any unauthorized gains at the expenses of GOME.
43. Wong and Du breached these duties because:
- a. they failed to ensure the Share Repurchase was authorised at a properly constituted meeting of the GOME's Board convened in accordance with the Bye-Laws of the Company, with notice to all directors, and with all relevant information;
 - b. in the context of the consideration by the board of directors of GOME of the proposal for the Share Repurchase, Wong accepts that he should have made a complete disclosure of such personal interest as he may have had in the Share Repurchase transaction;
 - c. they failed to exclude themselves from deliberations concerning the Share Repurchase at the meeting of the executive directors held on 21 January 2008, including the assessment of the budget and the maximum price per share that GOME would pay;
 - d. Wong failed to exclude himself from helping to implement and direct the Share Repurchase, in particular, in directing the Share Repurchase to cease before the allocated budget had been spent, but at a time when sufficient funds had been raised to repay the Goldman Sachs Loan; and
 - e. by doing so, Wong obtained an unauthorised and undisclosed gain, at the expense of GOME, through the disposal of a large parcel of GOME

shares (136,937,000 shares) at a higher price than would have been achievable if normal market forces had been engaged in the transaction.

Breach of Rules

44. Wong also acknowledges that in the circumstances Wong's actions had caused GOME to breach Rule 10.06(2) of the Rules Governing the Listing of Securities on the SEHK (the "**Listing Rules**") and Rule 2 of the Codes on Takeovers and Mergers and Share Repurchases (the "**Code**").
45. These rules apply to transactions with listed company directors and are designed to protect the interests of the company in repurchasing its own shares. Rule 10.06(2) of the Listing Rules prevents a listed company from repurchasing shares on-market from a connected person and Rule 2 of the Code requires any off-market share repurchases to require prior approval from the Securities and Futures Commission (the "**SFC**").

Return to GOME of Wong's Gain

46. In normal circumstances, it is unlikely Wong could have sold such a large quantity of GOME shares within such a short period on market without depressing the market price of the GOME shares. The only other alternative for Wong to dispose of such a large quantity of GOME shares would be by way of a private share disposal, which would only be achievable at a significant discount to the prevailing market price of the GOME shares.
47. The Share Repurchase had the effect of absorbing the sudden increase in the market supply of GOME shares caused by Megatop's selling of 136,937,000 GOME shares in a short period, thereby causing a short term increase in the share price of GOME and avoiding depressing the price of the said GOME shares.
48. The disadvantage to GOME is that it repurchased its own shares in a rising market i.e. on terms that were less favourable than they should or would have

been if Wong and Du had not acted in breach of their duties to GOME and Wong had not breached or caused GOME to breach the Listing Rules and the Code.

49. On the 11 trading days in which the Share Repurchase was conducted, GOME's repurchases constituted more than 40% of the total turnover in the stock on six days; more than 50% of total turnover on four days; more than 60% of total turnover on three days and on one day GOME's repurchasing represented just over 75% of total turnover. GOME's buying in the market was a heavy influence on the market for GOME shares during this period.
50. Wong and Du are willing to agree, as part of resolving the litigation brought by the SFC in the Hong Kong High Court against them, Shinning Crown and Shine Group that the gain which accrued to Wong as a result of the sale of 136,937,000 GOME shares to GOME as part of the Share Repurchase should be paid to GOME, together with an appropriate amount of interest thereon.
51. The SFC has determined that the gain that Wong received has three components:
 - a. the discount that would have applied to the sale of the same parcel of GOME shares by way of private placement at the time, i.e., the amount that GOME would have saved had those shares been paid by way of private placement rather than in the market;
 - b. the benefit caused by the increase in GOME's share price which was a consequence of GOME's heavy demand for the shares during the Repurchase Period; and
 - c. the gain earned from the sale of 7,137,000 GOME shares sold by Megatop to other purchasers which occurred at the highest prices during the Repurchase Period.
52. The SFC has obtained an independent expert valuation of these gains in which the benefits are assessed respectively as follows:
 - a. gain over private placement at 9% discount – HK\$216,175,612 plus interest;
 - b. gain from increased prices due to heavy demand by GOME at 3% – HK\$72,058,537 plus interest; and

c. gain on sale of 7,137,000 GOME shares sold to other purchasers at highest prices in the Repurchase Period assessed as HK\$0.81 per share – HK\$5,780,970 plus interest, i.e. an aggregate amount of HK\$ 294,015,119 plus interest, as at 4 July 2013 constituting a total sum of HK\$112,154,517.27¹.

53. An independent expert valuation obtained by Wong and Du suggests that the independent expert valuation obtained by the SFC is too high, and that the appropriate aggregate amount should be HK\$ 180,146,343 plus interest. In particular, the valuation obtained by Wong and Du indicates that the gain over private placement should be assessed, in the light of all of the circumstances prevailing at the time, on the basis of a discount range of 4% to 6.5% and that the calculation of any gain from increased prices due to heavy demand by GOME should be based on a percentage figure of 1.232%, and not 3%.
54. Nevertheless, noting that the SFC strongly rejects the expert evidence obtained by Wong and Du, and in the interests of resolving the litigation with the SFC in a manner which will without any shadow of a doubt cause GOME to receive in full the compensation sought for it by the SFC, Wong and Du are prepared to resolve this matter by payment to GOME of compensation calculated on the basis of the SFC's independent expert valuation. Wong and Du will also pay all costs involved in convening and holding an Extraordinary General Meeting of GOME with a view to obtaining approval and will pay the SFC's reasonable costs of the litigation brought against Wong, Du, Shinning Crown and Shine Group. The repayment of these gains to GOME together with interest will compensate GOME for the loss incurred as a result of the aforesaid breaches of duty.
55. Wong and Du regret that, whilst they had subjectively felt at the time that the Share Repurchase was in the best interests of GOME, they fully accept that in hindsight they should have caused a professional analysis to be undertaken of the Share Repurchase before it was proposed for approval by the GOME's Board. Wong further regrets that he had not given sufficient thought to the need for full

¹Agreed at a rate of prime rate plus 2% per annum, from 5 February 2008 until payment made by the Defendants into the Court or other arrangement to be agreed.

disclosure by Megatop during the Share Repurchase and the use of the proceeds of such sale to repay the Goldman Sachs Loan and he hopes that, by making payment at a higher figure than what he has been advised, he can now do right by GOME and its minority shareholders.

Signed by: 

Name: BERNARD CHEN EDA, DAVIS PARK & WARDWELL

Date: 10th March 2014

For and on behalf of the Defendants

Witnessed by: 

Name: CHENG WAI LEUNG

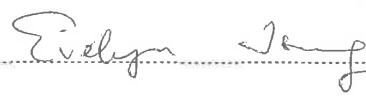
Date: 10th March 2014

Signed by: 

Name: MARK STEWART

Date: 10th March 2014

For and on behalf of the Securities and Futures Commission

Witnessed by: 

Name: EVELYN TANG

Date: 10th March 2014

The following is the full text of the Independent Expert Report from Mr. Richard Harris, prepared at the request of the Board to advise whether the amount of compensation agreed by the Defendants and the SFC for the resolution of the SFC Action represents a fair and reasonable compensation for the loss incurred by the Company as a result of the Share Repurchases.

GOME Electrical Appliances Holding Limited (The Company)

Stock code: 493

Report to the Company

Expert Opinion by
Richard Harris



*Port Shelter Investment Management
2 Jonsim Place
338 Queen's Road East
Hong Kong
info@portshelter.com
www.portshelter.com*

18th March 2014

GOME Electrical Appliances Holding Limited (The Company)*Expert Opinion***Contents**

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Definitions

AGM	Annual general meeting
Board	Board of directors of the Company
Circular	circular for the special general meeting of the Company for the passing of requisitioned resolution for the purposes of approving, confirming and ratifying the Share Repurchases, certain breaches of duties on the part of Mr. Wong and Ms. Du, and confirming and approving the acceptance of the Payment
Company	GOME Electrical Appliances Holding Limited, an exempted company incorporated in Bermuda with limited liability and the securities of which are listed on the main board of the Stock Exchange
Defendants	Mr. Wong, Ms. Du, Shinning Crown and Shine Group
Gains	the gains which had accrued to Mr. Wong as a result of the Share Repurchases
Group	the Company and its subsidiaries
HSI	Hang Seng Index
Independent Shareholders	Shareholders other than Mr. Wong, Ms. Du, Shinning Crown, Shine Group and their respective associates
Independent Expert Report of the SFC	the independent expert report issued on 2 May 2012 prepared by Mr. Richard Harris at the request of the SFC to value the quantum of the Gains and the loss caused to the Company as a result of the actions carried out by Mr. Wong and Ms. Du in relation to the Share Repurchases
Megatop	Megatop Investment Limited, a company owned by Mr. Wong's younger sister, Ms. Huang
Mr. Wong	Mr. Wong Kwong Yu, the controlling shareholder and former executive director of the Company and former chairman of the Board

Ms. Du	Ms. Du Juan, the wife of Mr. Wong and the controlling shareholder and former executive director of the Company
Payment	the proposed payment of HK\$294,015,119 in aggregate by Mr. Wong and Ms. Du to the Company in full and final compensation due to the Company as a result of the actions carried out by Mr. Wong and Ms. Du in relation to the Share Repurchases, calculated on the basis of the Independent Expert Report of the SFC together with simple interest accrued thereon at a rate of 2% per annum above the prime rate of the HongKong and Shanghai Banking Corporation from 5 February 2008 until payment is made by the Defendants into the Court
SEHK	The Stock Exchange of Hong Kong Limited
Shares	ordinary share(s) of HK\$0.025 each in the capital of the Company
Shine Group	Shine Group Limited, a company wholly-owned by Mr. Wong and a shareholder of the Company
Shinning Crown	Shinning Crown Holdings Inc., a company wholly-owned by Mr. Wong and a substantial shareholder of the Company
SFC	The Securities and Futures Commission of Hong Kong
SFC Action	the legal proceedings in the High Court action HCMP 1496/2009 brought by the SFC in August 2009 against the Defendants pursuant to section 213 of the SFO in relation to the Share Repurchases
Share Repurchases	certain share repurchases conducted by the Company between 22 January 2008 and 5 February 2008 involving approximately 129.8 million Shares (of which approximately 70% were originally held by or for Mr. Wong) which are the subject of the SFC Action and the Company Action
VIX Index	Chicago Board Options Exchange Market Volatility Index

1. Executive Summary

1. My opinion based upon an analysis of contemporary activity and prices is that the transaction undertaken by the Defendants did result in a loss to the Company.
2. I have calculated the quantum of loss for the Company from first principles, including a momentum effect causing a higher price because the Company was dealing against its own stock, and the opportunity loss due to the Company not being able to negotiate a discount with the large seller (through a private placement).
3. In my opinion, Mr. Wong gained in a closely mirrored way to the Company's losses. However, Mr. Wong did better than the Company because he sold more shares than the Company bought and benefited from a higher price because of the transactions.
4. The conclusions in this report are entirely consistent with my independent expert report commissioned by the SFC and dated 2nd May 2012. The analytical approach that I have adopted is the same and so are the conclusions.
5. The loss to the Company that I have calculated due to the transactions is: **HK\$269,570,766.**
6. The gain made by Mr. Wong as a result of the series of transactions is: **HK\$294,015,119.**
7. In my opinion, the amount of the Payment, in point 6 above, represents a fair and reasonable compensation for the Company's loss as a result of the actions carried out by Mr. Wong and Ms. Du in relation to the Share Repurchases.

2. Expert Qualifications

8. My name is Richard Harris and I am a seasoned investment specialist with 36 years of experience, 28 years of which is in the financial markets.
9. I have served as a court expert on a wide variety of financial cases. I have provided expert evidence to Court in both Hong Kong and Singapore for criminal and civil cases. My qualifications and experience are detailed in Appendix A.
10. I have extensive global experience in many jurisdictions in a wide range of financial disciplines. I have made Hong Kong my home since 1970 but I have also lived and worked in Africa, China, Europe and the US. I have worked professionally all over Asia.
11. I have attended London (1977, 1978) and Harvard Universities (1986) for full degrees, and Stanford University (2006) and Peking Universities (2010) for certificates of education.
12. I have attended and, if examined passed, HK Securities and Futures Commission approved courses and internal bank employee courses on investment and derivative investment.

13. I am licensed by the HK Securities and Futures Commission for the Type 1 licence; number AAK411, and I have held Type 4 and Type 9 licences between 2008 and 2012. I had served as a HK-based Responsible Officer for each of those license types, and I currently serve as a Type 1 Responsible Officer for Hodes Weill Asia Limited, a fund manager.
14. I have held senior management positions within global companies, as are known today: Citi, JPMorgan (worked pre-acquisition for Jardine Fleming) and BNY Mellon (previously Mellon Asset Management).
15. My technical skills include managing portfolios on the ‘buy side’ (investor’s side of the marketplace) for institutions, private clients, family offices and private portfolios, managing both long-only and hedge funds. I have traded (dealt, bought and sold) in all financial asset classes including financial securities, property and private equity for clients.
16. I have also been responsible for advising clients (‘the sell side’) when working in stockbroking and for the financial sales of products.
17. I have worked closely with collective investment products, holding listed as well as private equity investments. I have invested or built portfolios using these products. I am therefore familiar with financial investment pricing, market pricing and product pricing.
18. I wrote position papers on derivatives (synthetic financial instruments that are priced off the value of other assets) as far back as the late 1980’s. I have developed derivative products for clients and been a customer of such products. I have also given training sessions on investment to a range of audiences.
19. I have significant experience in managing both existing asset management and private banking investment businesses. I have established new companies both inside and outside the financial sector. I have implemented a number of targeted and novel investment marketing campaigns. As a result, I have developed a working knowledge of most parts of the financial services business and a very detailed knowledge of some areas, as befits nearly 30 years of experience.
20. I am the author of a book on portfolio management, *Investment Insights*, which was published in Hong Kong in 1995 (ISBN book number: 962-85068-3-8). My investment philosophy and current market ideas are illustrated in that book and on the website, www.portshelter.com.
21. I am frequently invited to appear on global television as a Guest Host, on RTHK radio, and industry conferences to speak on financial matters of the day. I also write frequently in newspapers (e.g. *Financial Times*, *SCMP*, *China Daily*) on global economic and political issues.
22. I was granted Chartered Engineer status in 1983 and held membership of several professional and scientific institutions. My six years as an engineer has given me an appreciation of operational and organisational issues.

23. I have a special interest in Behavioural Psychology, that body of knowledge that seeks to understand how research, news, timing, emotion and psychology interact to impact pricing within financial markets.
24. However, it remains the case that market price movements are still able to surprise the most experienced of investors, even if with hindsight the reasons become somewhat clearer.

3. Information Reviewed

I have examined papers given to me by the solicitors of the Company, Norton Rose Fulbright Hong Kong. These include:

- i. the Independent Expert Report of the SFC;
 - ii. A copy of the draft Circular dated 3rd March 2014.
25. I have sought to corroborate data from different sources, such as industry journals or global financial newspapers both current and using historical searches such as the *Financial Times*, *the Economist*, *the Wall Street Journal*, *the South China Morning Post* and other similar sources.
 26. I also use the Internet for general information, corporate websites, U-Right website and search, information websites such as those operated by *Quam*, *aastocks* and *Webb-site.com*, *BBC news*, *Bloomberg* and *CNBC*. Academic publications are referred to as necessary and are attached to this document.

4. Background Information

I set out below the background information provided by Norton Rose Fulbright Hong Kong for the purpose of assisting me in producing this report:–

27. *The following is a summary of the background information in relation to this matter; please refer to the Circular for further details of the Share Repurchases. As the summary contains certain allegations made by the SFC in the SFC Action which the Company did not take part (which we will specify if applicable), for the purpose of my Report, I have been instructed to give my opinion on the assumption that those allegations were made out.*
28. *The Company has been listed on the main board of the SEHK since 1992. It is principally engaged in the retailing of electrical appliances and consumer electronic products. At the material time of the Share Repurchases, Mr. Wong was the chairman and executive director the Company, and Ms. Du was also an executive director of the Company. Mr. Wong and Ms. Du currently are the controlling shareholders of the Company.*
29. *On 22 May 2007, at the AGM, the Board was granted a general mandate for share repurchase up to 10% of the aggregate nominal amount of the issued share capital of the Company.*

30. *In a telephone meeting held by the Board on 21 January 2008 (attended by all executive directors, including Mr. Wong and Ms. Du), it was unanimously resolved that the Company would exercise its powers under the general mandate to conduct share repurchase. It was also resolved that the Company would allocate a budget of about HK\$3 billion to repurchase the **Shares** at a maximum price of HK\$18 per share.*
31. *The Share Repurchases took place between 22 January 2008 and 5 February 2008 when the Company bought on-market an aggregate of 129.8 million of Shares for approximately HK\$2.2 billion, which represented approximately 3.9% of the issued share capital of the Company.*
32. *As alleged by the SFC in the SFC Action, after market closed on 1 February 2008, the Company announced that Mr. Wong had transferred 186,937,481 Shares, representing 5.66% of the Company's issued share capital, to his family members on 28 January 2008. According to the SFC, among the Shares being transferred, 50 million Shares were transferred to Ms. Du and 136,937,481 Shares were transferred to Megatop.*
33. *Immediately after Mr. Wong allegedly transferred 136,937,481 Shares to Megatop, Ms. Huang was alleged to have caused Megatop to start selling those Shares on the market. On 5 February 2008, Megatop had nearly sold its entire shareholding in the Company; the Company also stopped its share repurchase. According to the SFC, about 70% of the Shares bought back by the Company were from Megatop, and about 67% of the Shares sold by Megatop were bought by the Company.*
34. *On 12 February 2008, after the Share Repurchases completed, Megatop allegedly transferred approximately HK\$2.25 billion to Shinning Crown. As alleged by the SFC in the SFC Action, Shinning Crown then repaid approximately HK\$2.43 billion to satisfy a debt owed by Mr. Wong to Goldman Sachs.*
35. *The SFC Action alleging that Mr. Wong and Ms. Du organised the Share Repurchases to raise funds to repay a personal loan due from Mr. Wong to a financial institution.*
36. *Based upon the same set of facts, I have been engaged by the SFC to produce the Independent Expert Report of the SFC dated 2 May 2012 for the purpose of the SFC Action. In the said Report, I as an independent expert, conclude that the loss incurred by the Company as a result of the actions carried out by Mr. Wong and Ms. Du in relation to the Share Repurchases is HK\$269,570,766, and that the gains made by Mr. Wong as a result of the actions carried out by Mr. Wong and Ms. Du in relation to the Share Repurchases is HK\$294,015,119.*
37. *Recently, the Company has been informed that the Defendants have agreed with the SFC to resolve the SFC Action subject to certain conditions being fulfilled by them, one of which is the payment of HK\$294,015,119 (being the Gains as assessed in the Independent Expert Report of the SFC of 2nd May 2012) together with an appropriate amount of interest accrued thereon by Mr. Wong and Ms. Du to the Company (the Payment) as compensation for the loss incurred by the Company as a result of the actions carried out by Mr. Wong and Ms. Du in relation to the Share Repurchases.*

5. Instructions to Expert

38. I have been asked to review the information contained within the materials provided and to provide a written report, as stated:
39. *Assuming the Share Repurchases are found to have proceeded on the basis that is alleged by the SFC, the Company would like to seek my expert opinion on the following:*
- (a) *The approach to be taken in assessing whether the Company suffered any loss or damage as a result of the actions carried out by Mr. Wong and Ms. Du in relation to the Share Repurchases;*
 - (b) *The approach in calculating the quantum of loss or damage suffered by the Company as a result of the actions carried out by Mr. Wong and Ms. Du in relation to the Share Repurchases;*
 - (c) *The approach to be taken in:*
 - i. *assessing whether Mr. Wong obtained any financial or other benefit from the Share Repurchases; and*
 - ii. *if my answer is in the affirmative, calculating the quantum of the financial or other benefit obtained by Mr. Wong from the Share Repurchases;*
 - (d) *What are the amounts of gains accrued to Mr. Wong and loss incurred by the Company based on the approaches which I consider should be adopted in (a) to (c) above?*
 - (e) *Whether the amount of the Payment for the proposed resolution of the SFC Action represents a fair and reasonable compensation for the loss or damage incurred by the Company as a result of the actions carried out by Mr. Wong and Ms. Du in relation to the Share Repurchases; and*
 - (f) *Based on the aforementioned, any other views I think may be relevant or helpful.*

6. Research Approach

40. My approach in assessing whether the transactions were influential in the market at that particular time is to look at the stock trading patterns of the days in question. The price of the stock in the market is almost certain to have been affected during the trading period by the transactions that were carried out.
41. This is because there was such a high volume of trading on successive days that it would have affected market prices to participants. Big volumes were placed by the parties through the market; purchases up to 75% of the trading by volume on a particular day, and averaging around 43% of the daily volume in the shares, were recorded.

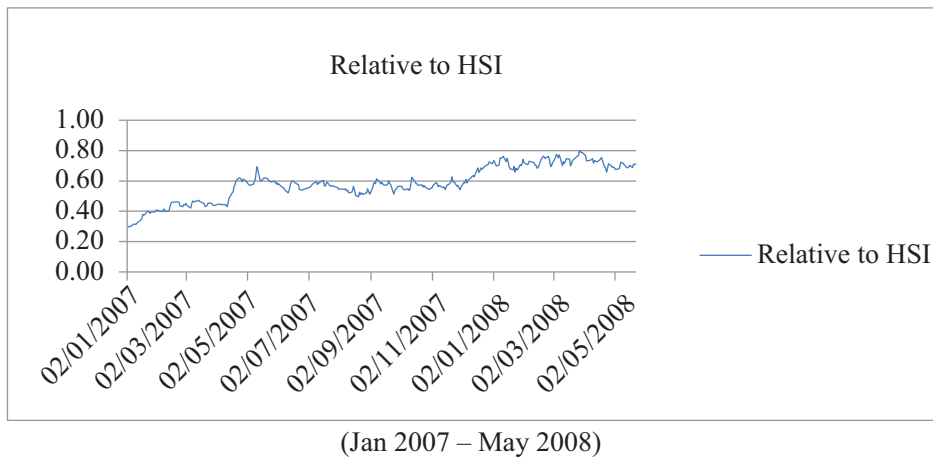
42. The price at which the deal was done was therefore not that which a willing buyer and a willing seller is likely to have transacted in the open market as the connections between the actual buyer and the actual seller would have affected the settling of market prices.
43. The buying did in fact commence at a low point in the market – prices had fallen 27% from a high of \$20.51 around 9th January 2008 to \$15.01 on 22nd January 2008; subsequent trading is likely to have helped the price bottom out (also impacted by the big HSI rise on 23rd January 2008) and rise to \$17.49 by 5th February 2008.
44. In the stock market, especially one as active and momentum driven as Hong Kong, the general market will sense a big buyer in the market and move accordingly. This is because an uptick in the share price will cause market makers to ‘tick-up’ the next bid/offer price in the market. So the level of demand sensed for the stock will send a signal to the market to make the next price change.
45. If there is then specific news about a stock this may in turn cause prices to rise; or fall as appropriate.
46. The stock price will also be impacted by the prevailing sentiment in the marketplace so that if the HSI is rising, then the stock in general might be priced up. Thus demand for the stock plus a rising market may well have a reinforcing impact on each other, pushing the price up faster proportionally than if only one factor was involved.

Market conditions at the time

47. The market conditions at the time were extremely volatile. The VIX index on the Chicago Board of Exchange – a measure of US market volatility – moved from 23.2 on 1st January 2008, to 31.0 on 22nd January 2008, and was 28.2 on 5th February 2008 having seen 24.0 on 1st February 2008. These were very volatile moves when compared to the almost docile volatility of the mid 2000’s. The HK market tends to be more volatile than the US.
48. The HSI having reached a high of 31,587 in October 2007 was at 21,758 by 22nd January 2008 – a low point. It subsequently rose throughout the trading period to 24,809 (on 5th February 2008) but was very volatile, with significant daily moves (up 10.7% to 24,090 on 23rd January 2008 alone) both upwards and downwards. I would describe market sentiment as being turbulent, with a weak bias.
49. This was a period of extreme volatility as the 22nd January 2008 saw the stock bottoming after a fall of over 26% in less than three weeks in January 2008. On 23rd January 2008, the HSI rose some 11% of its total 12.3% rise during the trading period. The stock rose 4.76% on that second day but made up for that relative sluggishness later in the trading period.
50. During this kind of volatility, it is very difficult to assess the reasons for stock movements against the index, however figures 1 and 2 below show qualitatively the relative movement of the Company’s stock against the HSI.

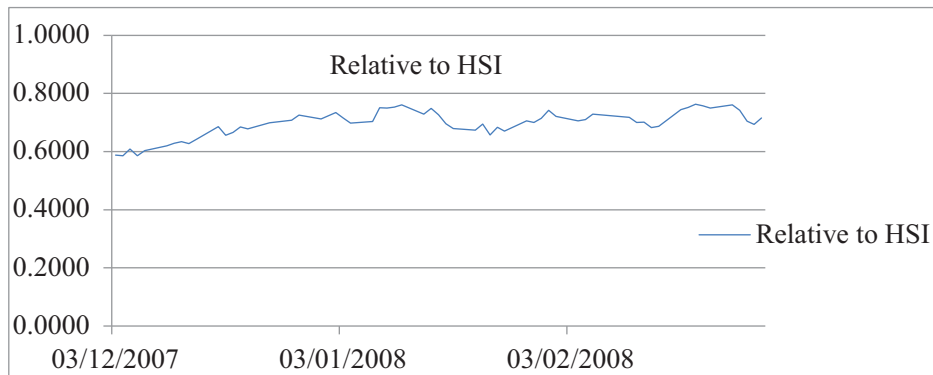
- 51. The movement over the longer period of time is typical of ‘China-theme’ stocks in 2007 (figure 1). The Company was in demand as the relative performance against the index is up over 2007, showing good outperformance against the stock market index (HSI). Over the trading period however it was only slightly up.
- 52. It is clear that the positive relative performance was ‘rounding off’ as we move into 2008, with the stock being a ‘market performer’ at best – and by May 2008 it was showing some fragility. A stock, having been in demand previously is likely to be widely owned by the market and therefore in some danger of selling pressure if market sentiment weakens.

Figure 1. HSI (Jan 2007 – May 2008)



- 53. Figure 2 shows a narrower trading range (‘zooming-in’ around the trading period) showing the stock as being a market neutral performer at best.

Figure 2. HSI (Dec 2007 – Feb 2008)



Contemporary market sentiment

54. I have also reviewed broker reports from around the period. Six reports on the Company were identified as noted in Appendix C.
55. All reported similar views in terms of the Company's plans for consolidation and improvement of margins and the likely performance of recent acquisitions. There was only one optimistic (buy) recommendation from Bank of China International, which on 2nd January 2008 stated a target price of HK\$23.70; some 20% higher than market. Ten days later, Deutsche Bank published a 'hold' recommendation and an upside target price of 10%. This was downgraded on 11th February 2008 (after the transaction period but reflecting the ongoing market sentiment towards the stock) to an upside of just 4% to \$17.70.
56. The study of contemporary broker research attempts to identify the sentiment towards the stock at the time, as this might impact the discount of a private placement. We know that the stock and the market fell significantly in January 2008 and this would have significantly impacted the appetite for the market to absorb stock, even of a well-regarded company. The broker reports suggest that the market had no particular negative views on the stock, although it is clear (from the lack of convincing buy recommendations) that sentiment was developing towards a less enthusiastic bias.

7. Process of calculation of quantum

57. The trading volumes indicate that there will be gains to Mr. Wong and losses to the Company in this case. I then developed a methodology based on various critical assumptions covering different facets of the case to determine a quantum of losses/gains.
58. It is not possible to determine an absolutely precise quantum of losses as a result of this kind of trading. If a deal or a sequence of deals were done a day before or a day after – indeed one could argue a minute before or a minute after – the precise quantum could be different. However, it is possible to develop lower and upper boundaries defining a range of quanta using first principles; or indeed to define a single figure that is considered representative. Metaphorically speaking, while we are not able to draw a single line representing a river, it is possible to define the river banks.
59. This process of using different methodologies produces a range of representative numbers for gains/losses and (should the numbers coalesce) a single representative figure can be recovered. Beginning with a range and narrowing down to a representative figure is a robust way of determining how much might have been gained or lost as a result of a particular action.

8. Was the Company a 'willing buyer?'

60. This is a key question that I wish to address from a market viewpoint. It is true that the transaction was conducted through the stock market but the action of the buyer (the Company) indicates that the buying was done in some haste.

61. If the Company had wanted to buy its own stock, the traditional stockbroking advice would have been to buy in the event that the share price had dropped sharply; which was done. However, then it should still buy carefully in the market, over a sustained period of time, and not into a rising market.
62. The Company itself had no time imperative so, as a 'willing buyer', it would have had no need to buy continuously in volume into a rising market especially after a sharp market fall. The professional advice in a case where the Company was buying in its own stock would have been to hold off buying, or buy in smaller volumes over time until the other buying pressure had left the market.
63. The Company had no need to 'deal against itself' by trading its own shares in a reasonably short period of time and in such volume. The fact that the controlling shareholder was selling the same stock in some size at the same time indicates that the buyer was not a willing party and was being required to purchase its own stock within a particular time period.
64. The most appropriate way to sell the shares would have been to place the block in the market through a large stockbroker as a private placement.

9. Academic Research

65. I have reviewed a number of academic papers that discuss private placement discounts, many of which look at private equity placements but some at private placements of public stock. Hertz et al (1993) (Appendix B) note that private placements sell at substantial discounts. Discounts reflect perceived costs borne by private investors in such placements who require a discount in return for the relative lack of information at placement time. Such discounts are not always a reflection of company health.
66. They elaborate in an associated article that a shortage of information and tightness of liquidity create discounts. The bigger the seller; the bigger the discount – as in this case. However as the Company is listed, the shares are indeed marketable which should lower the information risk. Nevertheless, this merely means that the risk is lower than that of a privately held company (which is the basis of their study) and such a company may have to sell at a discount of 15-20% or more.
67. Huson et al (2009) (Appendix B) review a decade of data and record that by 2008 placement discounts were narrowing. This is a US exercise in private placements and the narrowing reflected accurately the 'risk off' nature of the bull market in 2005-2007, as they suggest. Before that period, discounts were over 16% during the 'bad markets' of the turn of the century and less than 10% during the better markets.
68. These figures seem to accord with market practice but are from the US market and the HK market would be undoubtedly more volatile. As a result, discounts are likely to be higher to allow for the greater risk.

10. Loss to The Company*Approaches to calculating the Losses**(a) Void the Trade*

69. The methodology in specifying a Reversal Order is to take the actual market loss from the date of the transaction to a *certain point in time*. This essentially voids the trade and is mathematically a simple one to determine.
70. The key issue is that the relevant period to a point in time must be agreed. The absolute loss may be taken; or it may be adjusted for non-specific risk factors such as the relative movement of the stock against the HSI, and the ‘beta’ of the stock – a proxy for the volatility of movement of the stock around the index.
71. If the price ‘today’ (3rd March 2014) is taken as a point to ‘void the trade’, the notional loss to the Company is very high; as the current price is the equivalent of HK\$5.78. This is a loss of 66.59% from the *weighted average* price paid by The Company of HK\$17.30.
72. Taking the price (say) three months after Mr. Wong resigned (which might be taken as a ‘reasonable period’ for the Company to make its own decision to sell the stock) would show an even greater loss of some 74%.
73. The price one month after the buying ended (5th March 2008) was \$17.53; showing a slight gain of 1.3%. If one takes the *average* price over that month, the price was \$17.25; a slight loss of 0.2%. The average loss after two weeks would have been 1.6% but the market was down 4.5%, which should be taken into account – although it might be argued that it was the buying that had helped the stock outperform over that period.
74. The determination of the end point of a voided transaction is therefore critical and is likely to be subject to legal guidance. For this reason, and because the volatility of the stock makes it difficult to determine an obvious date, I shall not consider the voiding methodology in this report and use the further methodologies below in determining a quantum.

(b) ‘Big buyer’ momentum effect

75. This refers to the appreciation of the share price during the transaction period as a result of the purchase of 4% of the shares of the Company in ten trading days. (It was almost 8% of the market in ‘free float’ (non-tightly held stock) terms).
76. Trading of a significant volume of the shares (often >50% of daily trading volume) over a relatively short period meant that the Company was essentially dealing against itself and this is likely to have caused an upwards momentum in the share price. The market would have sensed a big buyer was in the market (the Company bidding against itself); so pushing price up and keeping it supported.

77. Momentum is important as the Company bought at a higher price than the market averages for the period and most likely kept the price higher. The impact on the market price was, net of HSI movements, probably just a few per cent but the buying is likely to have supported the stock for longer in the future because of this momentum effect.
78. Over the trading period (22nd January – 5th February 2008), the major price points are as follows:

Market price simple average (HK\$):	\$16.81
Market price weighted average: (driven up by the Company's purchases)	\$17.10
The Company weighted average paid:	\$17.31
Megatop (selling vehicle) weighted average received:	\$17.54
Megatop excess received: (extra shares not sold to The Company)	\$17.62

Memo: Outperformance of the Company's stock over the trading period: Hang Seng Index rise, 14.0%, stock price rose, 16.5%; net over market, 2.5%.

The Momentum effect is defined by the price the Company paid over the weighted market average share price; or $\text{HK\$}17.31 - 16.81 = 3.0\%$.

(c) Opportunity cost

79. This is the opportunity cost to the Company of buying quickly as opposed to trading over a lengthier period of time, which would occur if a company were looking to buy back its own stock.
80. If the Company had wanted to buy a big block of shares in the market on its own accord, it would probably have used a stockbroker or an investment bank to find big sellers and bid for the stock. A professional firm is likely to have bought in the market more cheaply and without damaging the price.
81. If a big seller wanted to sell 4% of a share back to its company, the seller would normally have to take a discount (see academic research discussion above and in Appendix B). This discount is unlikely to be less than 5% even in a bull market. The reason for this is that sellers may sell their stock in a block to an investment bank, which may in turn sell to big buyers such as institutions; who would be looking for a discount. The bank is likely to want at least 2% for itself (even if it was not on risk to the price) and the investor will want some discount, so 5% is a floor even in a bull market.
82. During this time market enthusiasm in both the HSI and the Company was waning rapidly from the beginning of January and market interest in a large block of this stock was unlikely to be forthcoming. In earlier times, the stock was a darling of the market but with signs of the Chinese economy slowing, the price was likely to be fragile.

83. A seller is therefore likely to have to lower his price well towards the lower end of the range to execute the transaction. In this kind of environment, a discount of as much as 20% or more might be possible, depending on the sellers' level of distress.
84. My opinion of the cost of the opportunity lost to the Company by buying this stock over a short period of time, using the above research, would be in the range of 8 – 15%, (say) 9%.

Quantum of Loss to Company

Value of trade:

(weighted average price traded times number of shares)	HK\$2,246,423,052
Big buyer effect: 3.0%:	67,392,691
Opportunity cost: (say) 9%:	202,178,075
<i>Total quantum of losses to the Company:</i>	<i>HK\$ 269,570,766</i>

11. Gain to Mr. Wong

(a) Big Buyer effect

As above, gain is equivalent to losses to the Company.

(b) Private placement discount

85. The advantage to Mr. Wong dealing with the Company is two fold: there was likely to be a price advantage (or cost saving) to dealing with the company that he controlled; and a pure convenience factor.
86. The advantage of a private placement to a seller is that you do get an assurance that the block of shares is sold at a given price; the disadvantage is that price may be a heavy discount. Selling in the open market is more of a risk on the price achieved. In this case, with a buyer available to take the stock, that risk was lessened, as the share price was likely to be supported by the extra market volume.
87. The transaction could easily have been done by a private placement in the market – this is the mirror of the Company's opportunity cost issue. In return for dealing quickly, the Company would have earned a discount on the shares. The loss was caused because the Company was not able to bid for a block of shares in the market, which would likely come at a discount in the market environment and because the Company was unable to take its time in buying the stock at more favourable prices.
88. Assuming for a moment that Mr. Wong's personal Goldman Sachs loan and the transaction as a whole are linked, then it is easy to see why the shares were better sold rather than given to Goldman as collateral. Goldman would likely have taken a very large discount of perhaps as high as 20% to take the stock 'on the book' as repayment of the loan.

89. The deals were traded in the market so they were visible and announced. However, the Company essentially traded against itself – technically supporting the price. This is most likely to have led to a higher price received by Megatop when it sold the ‘extra shares’ that were not bought by The Company. Megatop sold these shares at the highest price of the trading period.
90. The saving that Mr. Wong made on the private placing discount is equal and opposite to the opportunity cost incurred by the Company (described above). Therefore Mr. Wong made savings of 9% (based on the research above) by trading with his Company.

(c) Gain on surplus shares sold

91. Mr. Wong also made a gain on the excess 7,137,000 shares sold by Megatop over those bought by the Company, which were sold at the highest price of the trading period.
92. It is thus fair to take the actual price of that sale (\$17.62) against the weighted average of the stock market share price over that period (\$16.81). This gives a gain of \$0.81 on each share; so 7,137,000 = HK\$5,780,970. This is a conservative calculation as it ignores the inflation of the market price on 5th February 2008 caused by the transactions.

Quantum of Gain to Mr. Wong

Value of trade (HK\$):	2,401,951,249
Big buyer effect: 3.0%:	72,058,537
Gain over private placement: 9%:	216,175,612
Gain on excess shares (HK\$0.81 each):	5,780,970
<i>Total quantum of gain to Mr. Wong:</i>	<i>HK\$ 294,015,119</i>

12. Conclusion

93. The findings in this report are entirely consistent with my independent expert report commissioned by the SFC and dated 2nd May 2012. The analytical approach that I have adopted is the same and so are the conclusions.
94. The methodology of the calculations above has been explained throughout the report. I have sought to take a fair and reasonable line. I have dismissed one methodology (the voiding process) that would have led to an unreasonably high Payment. The notional private placement methodology has the benefit of some precision especially when benchmarked against two academic studies.
95. The transaction was in fact carried out at or near the all-time high price of the stock and this flatters the sale receipts to Mr. Wong and does the same to the size of the Payment.
96. My opinion is that the Payment for the resolution of the SFC Action represents a fair and reasonable compensation for the loss or damage incurred by the Company as a result of the actions carried out by Mr. Wong and Ms. Du in relation to the Share Repurchases.

Expert Witness Declaration and Disclaimer

The purpose of this report is to provide expert evidence by answering, where I can, specific questions put to me about the case facts as detailed in Section 4 and 5.

- (a) I believe that the facts stated in this report are true and the opinion expressed in it is honestly held.
- (b) I hereby give my consent to the issue of the Circular with the inclusion of this report and references to my name in the form and context in which it appears.
- (c) I confirm that I have not entered into any arrangement where the amount or payment of my fees is in any way dependent on the outcome of the matter.
- (d) I confirm that I am impartial and independent from the Company and I did not and do not have any direct or indirect interest in any assets which had been acquired, disposed of by, or leased to any member of the Group, or was proposed to be acquired, disposed of by, or leased to any member of the Group since 31 December 2013, the date to which the latest audited financial statements of the Group was made up.
- (e) I also confirm that I was not beneficially interested in the share capital of any member of the Group and did not have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.
- (f) I prepared the Independent Expert Report of the SFC on 2 May 2012 at the request of the SFC to value the quantum of the Gains and the loss caused to the Company as a result of the actions carried out by Mr. Wong and Ms. Du in relation to the Share Repurchases. Notwithstanding that I am an independent expert engaged by the SFC for the purpose of the SFC Action, I know of no conflict of interest of any kind, other than any which I have disclosed in my report.
- (g) I have shown the sources of all information I have used.
- (h) I have exercised reasonable care and skill in order to be accurate and complete in preparing this report.
- (i) I have endeavoured to include in my report those matters, of which I have knowledge or of which I have been made aware, that might adversely affect the validity of my analysis, I have clearly stated any qualifications to my analysis.
- (j) I have not, without forming an independent view, included or excluded anything, which has been suggested to me by others, including my instructing party.

- (k) I will notify those instructing me immediately and confirm in writing if, for any reason, my existing report requires any correction or qualification.

- (l) I have never been convicted of any criminal offence; nor have I been the subject of an adverse finding by any statutory, disciplinary or professional body or tribunal, nor so far as I am aware, am I the subject of any investigation by any statutory, disciplinary or professional body or tribunal.

- (m) My paramount duty is to assist the Independent Shareholders of the Company impartially and independently, on matters relevant to my area of expertise. I have complied with and will continue to comply with that duty. I am not an advocate for any party.

Disclaimer

This report is for the specific use by those for which it is intended, namely the Board of Directors, its Special Committee and the Independent Shareholders of the Company. It is not for use by third parties (other than those aforementioned) who should not rely on the opinion in this report and who must seek their own professional advice.

Signature: (Signature)
RICHARD HARRIS

APPENDICES

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Appendix A

Richard Harris

curriculum vitae

BUSINESS EXPERIENCE

2008 – present **PORT SHELTER INVESTMENT MANAGEMENT**, Hong Kong. *Founder*. PSIM provides creative investment management, portfolio solutions, expert advice to private and public clients, institutions, family offices and private clients.

2010 – 2012: QUAM ASSET MANAGEMENT, HK. *Chief Executive*. Responsible for the management of the business and managed a China hedge fund, a Middle East Fund and established the first liquid Mongolia Fund.

2008: GRACE FINANCIAL, *Managing Partner*. Helped UHNW family establish a multi-asset, global fund manager.

2004 – 2008 **CITI PRIVATE BANK**, H.K. *Investment Director. Head Asset Allocation/Manager Selection*

- Established investment framework in India. Advisor on regional, global, country portfolios – outperforming benchmarks
- Member Global Investment Policy Committee.
- Initiated Asia-Pacific asset allocation policy
- Established and developed a comprehensive Fund Manager selection function
- Regional Investment Director establishing the investment function in many onshore national private banks in Asia
- Initiation, execution and delivery of investment ideas/services at a national level; including strategy “calls” for the teams, portfolio risk and asset management.
- Achieved approval of the Korean investment philosophy and sales material, under CPB control rules (2005)

2000 – 2004 **ENTERPRISE PRIVATE CAPITAL**, London. *Founder*.

- Founded, ran and sold a UK FSA-regulated fund manager, developed an innovative private equity fund.

- 1997-2000 **NEWTON INVESTMENT MANAGEMENT** (acquired by BNY Mellon), London. *Director*
- Led global offshore team managing US\$1 billion for retail and institutional clients.
 - Managed and sold directly invested portfolios.
 - Member of the NPIM Management and Investment Committees.
 - Responsible for award-winning team 1999 & 2000.
 - Significantly outperformed benchmarks 1997-00
- 1990-1996 **JARDINE FLEMING** (acquired by JP Morgan Chase) HK. *Chief Executive Private Banking*
- Appointed to manage the Pacific region private bank through a time of change.
 - Responsible for US\$1 billion of global assets and 1,000 managed, broking and banking clients.
- Global institutional fund manager.*
- Managed US\$450m of research-based, actively managed, multi-currency, multi-market institutional pension and mutual funds. Global marketing of JF product offerings, retail and wholesale.
 - Wide experience of investment instruments, including currency overlays and derivatives (hedged funds).
 - My mutual fund was a first-quartile performer throughout my management.
- 1986-1990 **SKANDINAVISKA ENSKILDA BANKEN (Enskilda Securities)**, London and Hong Kong.
- Responsible for Asia, Japan and Australasia. Member SE Bank (HK) Management Committee (1988-90).
- 1985 **ROYAL DUTCH SHELL**, London & The Hague. Strategic Planner.
- 1978-1984 **CHARTERED ENGINEER**. Consulting civil engineer based in Hong Kong
- divisional director at age 24, team of 9.

EDUCATION

2009-10	PEKING UNIVERSITY, Beijing. College of Intensive Chinese Studies.
2006	STANFORD BUSINESS SCHOOL, USA. Strategic Leadership. <i>Executive Program.</i>
2000	HARVARD BUSINESS SCHOOL, Executive Program: Entrepreneur's Tool Kit.
1984-1986	HARVARD BUSINESS SCHOOL, Boston USA. <i>Master in Business Administration.</i>
1977-1978	IMPERIAL COLLEGE OF SCIENCE AND TECHNOLOGY, London. <i>MSc, DIC.</i>
1974-1977	LONDON SCHOOL OF ECONOMICS & POLITICAL SCIENCE – UNIVERSITY OF LONDON KING'S COLLEGE. <i>First Class Honours, BSc, AKC.</i> Sambrooke Prize
pre – 1974	ISLAND SCHOOL, Hong Kong

PROFESSIONAL DISTINCTIONS

1986 – current	Qualified to be a “ <i>Responsible Officer</i> ” or “ <i>Registered Representative</i> ” for Investment Management/Advice registered by the SFC HK and the SFA, London (and relevant preceding registrations and acquiring such registrations) for type 1, type 4 and type 9 licenses.
1997 – 2004	FSA London. Responsible Officer, Compliance Officer, Registered Representative
2000	UK Financial Planning Certificate; I & II.
1997 – 2000	Representative: Association of Private Client Investment Managers and Stockbrokers UK
1990 – 1994	Investment and Commodities Adviser/Dealer (HK) (and preceding registrations)
1983 – 2009	Corporate Manager, British Institute of Management.
1982	<i>Chartered Engineer</i> , the Royal Charter of the Institution of Mining, Metals and Metallurgy.
1982	Awarded the Institution of Civil Engineers Prize – for the top young engineer of 1982.

1980 – 1988	Member of the Geological Society of London; Institute of Geomorphology
1988 – 2005	SFC HK. Investment and Commodities Adviser/Dealer (HK).
1986 – 1988	FSA London. Registered Representative.

PERSONAL

HK Permanent ID Card. Married, two adult children. Family all HK Permanent Residents. Lived in Europe, US, Africa (8 years) as well as Asia (HK/China).

Extensive global experience and contacts in Asia.

Significant media skills; regular Guest Host CNBC, the global business news channel; panelist Bloomberg.

Other TV/radio/press. Conference leader/speaker.

Published twelve scientific papers and a book, *Investment Insights*.

Director of Stewards, HK social welfare group (1988 – 1996).

Director of International China Concern; an orphanage in Changsha (2004 – present)

EXPERIENCE IN GIVING EXPERT EVIDENCE

2008 – present	Numerous reports on offences such as alleged mis-selling, distribution of misleading information, insider trading, improper use of price sensitive information, improper dealings and analyses of opposing expert evidence; for both public and private sector clients.
February 2011	Gave expert evidence during a trial in the District Court of HKSAR in relation to possible offences of disclosure of misleading information inducing transactions in the shares of Vongroup Limited (DCCC 764/2009).
January 2014	Gave evidence in the High Court of Singapore in relation to a Statement of Claim for a significant sum by a client to his financial adviser

APPENDIX B

Academic papers

Abstracts only – full papers available if required.

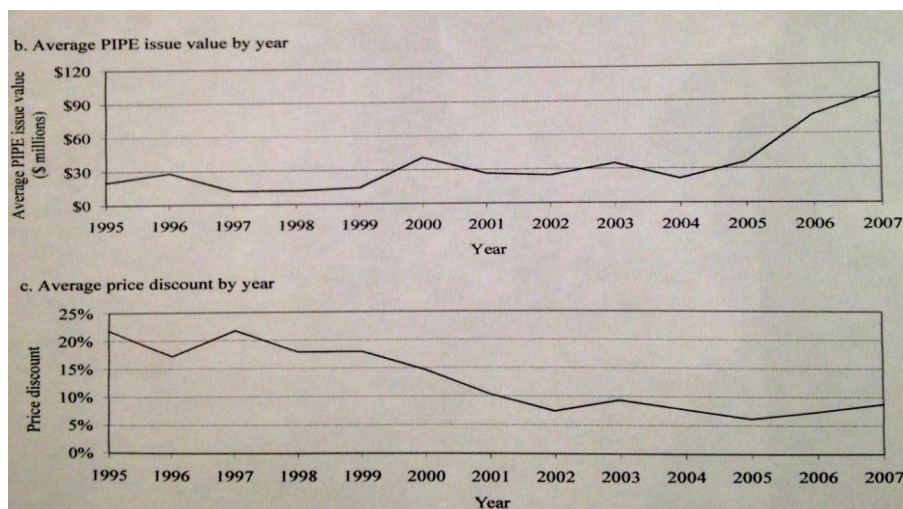
Hertzel, M and Smith, R (1993) *Journal of Finance*, Vol XLVIII No.2. “Market Discounts and Shareholder Gains for Placing Equity Privately”

Despite selling at substantial discounts, private placements of equity are associated with positive abnormal returns. We find evidence that discounts reflect information costs borne by private investors and abnormal returns reflect favourable information about firm value. Results are consistent with the role of private placements as a solution to the Myers and Majluf underinvestment problem and with the use of private placements to signal undervaluation. We also find some evidence of anticipated monitoring benefits from private sales of equity. For the smaller firms that comprise our sample, information effects appear to be relatively more important than ownership effects.

For a further illustration of their thinking see: <http://knowwpcarey.com/pdf.cfm?aid=910>. “The conundrum of private placing discounts”

Huson M, Malatesta P and Parrino, R (2009) *American Finance Association Meetings 2010*. “The Decline in the Cost of Private Placements”

This study documents and examines a decrease in the price discounts associated with private investments in public equity (PIPE) issues. PIPE discounts decreased from an average of 16.4 per cent during the 1995 to 2000 period to an average of 9.8 per cent during the 2001 to 2007 period. This decrease reflects changes in the characteristics of the public firms that are accessing the PIPE markets as well as changes in the pricing of issue characteristics. In addition, part of the decrease is attributable to contracting practices that caused PIPE discounts in recent years to better reflect market conditions on the day that the securities were issued.



APPENDIX C**List of Broker Reports**

- | | |
|-----------------------|------------------|
| 1. BoC International, | 2 January 2008 |
| 2. Kingsway Ltd, | 7 Jan 2008 |
| 3. Deutsche Bank, | 14 January 2008 |
| 4. Datamonitor, | 22 January 2008 |
| 5. Datamonitor, | 11 February 2008 |
| 6. Deutsche Bank, | 11 February 2008 |

The following is the full text of the Tomlin Order granted by the Court on 10 March 2014 to stay the SFC Action on terms agreed by the SFC and the Defendants for the purpose of resolving the SFC Action.

HCMP 1496/2009



IN THE HIGH COURT OF THE
HONG KONG SPECIAL ADMINISTRATIVE REGION
COURT OF FIRST INSTANCE
MISCELLANEOUS PROCEEDINGS NO. 1496 OF 2009

IN THE MATTER of Section 213 of the
Securities and Futures Ordinance (Cap. 571)

10 MAR 2014

BETWEEN

SECURITIES AND FUTURES COMMISSION

Plaintiff

and

WONG KWONG YU

1st Defendant

DU JUAN

2nd Defendant

SHINNING CROWN HOLDINGS INC

3rd Defendant

SHINE GROUP LIMITED

4th Defendant

CONSENT ORDER

UPON THE JOINT APPLICATION of the Plaintiff and the Solicitors for the Defendants pursuant to Order 42 Rule 5A of the Rules of the High Court.

AND UPON the Plaintiff and the Defendants having agreed to the terms set out in the Schedule hereto.

BY CONSENT IT IS ORDERED THAT:-


1. all further proceedings in this action be stayed upon the terms agreed between the parties set out in the Schedule herein except for the purpose of carrying into effect this Order and the terms in the Schedule and that there be liberty to apply for the said purpose; and

2. the Defendants shall pay the costs of this action including the costs of this application.


Dated this 0th day of March 2014.

Registrar


We consent to an Order being made in terms of the above.



Andrew Young
Solicitor HKSAR
Solicitors for the Plaintiff
(Ref: 122/LG/1000/0218)



Anthony Wood
Solicitor HKSAR



Davis Polk and Wardwell
Solicitors for the Defendants
(Ref: 92038/002 Martin Rogers)

Schedule to Tomlin Order

WHEREAS the Securities and Futures Commission (the “**Plaintiff**”) has on 5 August 2009 commenced proceedings (HCMP 1496/2009, the “**Proceedings**”) in the High Court of Hong Kong against Wong Kwong Yu (the “**1st Defendant**”), Du Juan (the “**2nd Defendant**”), Shinning Crown Holdings Inc. (the “**3rd Defendant**”) and Shine Group Limited (the “**4th Defendant**”) under section 213 of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong).

AND as a result of mediation conducted by an independent mediator, Mr. John L Saunders (former High Court Judge), on 17 June and 18 July 2013, the parties have reached agreement on the following terms:

1. The Plaintiff and the Defendants agree to the matters set out in the Statement of Agreed Facts attached to this Schedule and marked Appendix 1 (the “**Statement**”) and confirm the same to be true and accurate.
2. The Defendants shall within seven (7) days from the date of the relevant Tomlin Order to be made (the “**Order**”) to deliver to the Plaintiff an original of the Statement duly signed, in counterparts if necessary, by each and every of the Defendants in their own personal capacity or their legal representatives.
3. The Plaintiff and the Defendants have entered into a separate resolution agreement that sets forth the full terms of the resolution of these Proceedings (the “**Agreement**”).
4. As soon as reasonably practicable and in any event within seven (7) days after the Order is made, the Defendants shall forthwith pay into Court the following sums to be held in the Court’s interest-bearing account designated for payment to the following parties:
 - (1) to GOME Electrical Appliances Holding Limited (“**GOME**”), a sum of HK\$294,015,119 reflecting the Defendants’ gain from the Share Repurchase (as defined below) together with simple interest at the rate of two percent per

annum above the prime rate of the Hongkong and Shanghai Banking Corporation from 5 February 2008 until actual payment into Court (the “**Payment**”); and

(2) to the Plaintiff, the Securities and Futures Commission, a sum of HK\$3,000,000 together with interest at judgment rate from the date of the Order until payment, in full and final settlement of the Plaintiff’s costs in these Proceedings.

5. The 1st and 2nd Defendants as indirect shareholders of GOME shall procure the 3rd and 4th Defendants as registered shareholders of GOME to make a requisition to GOME to convene a special general meeting (the “**Meeting**”) by serving, within 7 days from the date of the Order, written notice of such requisition to the Board of Directors of GOME (the “**Board**”) with a copy to be sent at the same time to the Plaintiff.

6. The entire Agreement is conditioned upon ratification of the following (the “**Resolution**”) at the Meeting:

(1) the share repurchase conducted by GOME between 22 January 2008 and 5 February 2008 involving approximately 129.8 million GOME shares (the “**Share Repurchase**”) and thereby effectively

(2) the breaches of directors’ duties by the 1st and 2nd Defendants in connection with the Share Repurchase as set out in paragraph 42 and 43 of the Statement; and

(3) the Payment to GOME by the Defendants reflecting the 1st Defendant’s gain from the Share Repurchase on the basis of an independent expert valuation.

7. The Defendants shall procure the Board to obtain the Plaintiff’s prior written approval of the contents of the notice to convene the Meeting (the “**Notice**”), Circular to shareholders (“**Circular**”) and any documents annexed thereto prior to

their being sent to all shareholders of GOME. In particular, the Circular shall include copies of the following documents:

- (1) the Order together with this Schedule; and
- (2) the Statement as signed by the Defendants and provided to the Plaintiff under paragraph 2 above.

For the purpose of the above, the Defendants undertake to and shall copy the Plaintiff on all relevant correspondence between them and the Board.

8. At the Meeting (including any adjournment thereof), the Defendants (including their agents, proxies and any third parties acting on their behalf) undertake to and shall abstain from voting on the Resolution. For the avoidance of doubt, the Defendants shall procure any shareholders associated with them or otherwise accustomed to act in accordance with the Defendants' directions or instructions to abstain from voting on the Resolution. The Defendants acknowledge and agree that the Plaintiff may at its absolute discretion investigate and verify the independence of the votes cast at the Meeting.
9. Upon passing of the Resolution, the Defendants shall forthwith apply to the Court to withdraw the sums referred to in paragraph 4(1) and (2) above and pay the same to GOME and the Plaintiff respectively. The Plaintiff shall within twenty-eight (28) days thereafter:
 - (1) file a Notice of Discontinuance of these Proceedings with no order as to costs; and
 - (2) together with the Defendants apply to the Court for a joint order for the discharge of the injunction against the 1st Defendant, release of all undertakings of the 3rd and 4th Defendants and release of Defendants' shares in GOME held in Court in connection with these Proceedings.

10. For the avoidance of doubt, all parties undertake not to enforce any previous costs order made in their favour and agree to waive their rights in respect of any costs that they may be entitled to or otherwise reserved save as to costs referred to in paragraph 4(2).

11. In the event that, for any and whatever reason, (i) the Meeting is not held within sixty (60) days of this Order or (ii) the Resolution is not passed in its entirety within ninety (90) days of this Order, any of the Defendants and the Plaintiff shall without seeking leave of the Court, be at liberty to nullify the Agreement and continue the Proceedings.

APPENDIX 1

Statement of Agreed Facts

The Parties

1. GOME Electrical Appliances Holding Limited ("**GOME**" or the "**Company**") was and still is a company incorporated in Bermuda with limited liability. It has been listed on the main board of the Stock Exchange of Hong Kong Limited (the "**SEHK**") since 1992.
2. At all material times, GOME's board of directors ("**GOME's Board**") consisted of the 1st Defendant ("**Wong**"), the 2nd Defendant ("**Du**"), Chen Xiao ("**Chen**"), Ng Kin Wah ("**Ng**") and seven non-executive directors.
3. Wong was the chairman and executive director of GOME until he resigned on 16 January 2009.
4. Du was and still is the wife of Wong. She was also an executive director of GOME until she resigned on 23 December 2008.
5. The 3rd Defendant ("**Shinning Crown**") and the 4th Defendant ("**Shine Group**") were incorporated in the British Virgin Islands ("**BVI**"). At all material times they were, and continue to be, solely and beneficially owned by Wong, who is also a director of both companies. Du has been the director of Shine Group since 2004 but ceased to be so on 19 June 2009.
6. Wong held beneficially (in his own name and also through Shinning Crown and Shine Group) 1,394,667,034 GOME shares representing about 42% of the then total of 3,319,489,000 GOME issued shares.
7. Huang Xiuhong ("**Huang**") is the sister of Wong. Huang is the sole beneficial owner of Megatop Investment Limited ("**Megatop**"), a company incorporated in the BVI.

The Goldman Sachs Loan

8. On 8 August 2007, Wong through Shinning Crown entered into a credit facility agreement with Goldman Sachs International Bank ("**Goldman Sachs**") borrowing HK\$2.4 billion (the "**Goldman Sachs Loan**"). One of the principal purposes of the Goldman Sachs Loan was said to be to finance the acquisition of real property in the People's Republic of China by Shinning Crown, Wong and/or his associates yet the Goldman Sachs Loan was a short term facility denominated in Hong Kong dollars and due to be repaid in November 2007. Wong personally guaranteed repayment of the Goldman Sachs Loan.
9. Under the terms of the Goldman Sachs Loan, Wong was also required to and did mortgage 1,075,430,000 GOME shares held by him through Shinning Crown to Goldman Sachs as security for the Goldman Sachs Loan, representing approximately 33% of the issued share capital of GOME and 77% of Wong's interest in GOME.
10. The whole amount of the credit facility was drawn down and paid to Shinning Crown in three tranches of HK\$800 million each on 8, 14 and 21 August 2007 respectively. The funds were withdrawn from Shinning Crown after being drawn down.
11. The whole amount of the Goldman Sachs Loan was originally due to be repaid in mid-November 2007. At Wong's request, the repayment deadline was extended to 11 February 2008. In January 2008, Goldman Sachs reminded Wong through Du that there would be no further extension of the repayment deadline of the Goldman Sachs Loan.
12. Shinning Crown did not have sufficient funds of its own to repay the Goldman Sachs Loan. Nonetheless, Shinning Crown repaid the Goldman Sachs Loan on 12 February 2008. The repayment was funded predominantly (HK\$2.25 billion) out of funds transferred to Shinning Crown by Megatop on the same day.

13. These moneys were in turn sourced from the sale of 136,937,000 GOME shares originally held by or for Wong. These shares were sold to GOME as part of share repurchase activity carried out by GOME between 22 January 2008 and 5 February 2008 (the “**Share Repurchase**”) that was instigated predominantly by Wong and also by Du.
14. During this period of 11 trading days, GOME spent approximately HK\$2.2 billion out of its freely convertible cash reserves (reserves of cash, cash equivalents and pledged deposits being approximately RMB5.33 billion as of the end of December 2007) to purchase about 129.8 million of its own shares, of which approximately 71% were purchased from Megatop who was selling GOME shares transferred to it by Wong. The proceeds of these sales were the source of nearly the whole of the moneys used to repay the Goldman Sachs Loan.

Authorisation for the Share Repurchase

15. At the Annual General Meeting convened on 22 May 2007, the shareholders had approved a general mandate for share repurchases. In the explanatory statement included in the circular issued by GOME dated 23 April 2007, it was stated, inter alia, that the directors of GOME would only exercise the power to repurchase in circumstances where they consider that the repurchase would:
 - (i) be in the best interests of GOME; and
 - (ii) where they consider that the shares can be repurchased on terms favourable to GOME.
16. On 21 January 2008, Wong caused the executive directors of GOME, namely himself, Du, Chen and Ng to meet by telephone. At the meeting, the executive directors purported to resolve, unanimously, that GOME would make an on-market offer to repurchase GOME shares and, for that purpose, they allocated a budget of about HK\$3 billion to repurchase GOME’s own shares at a maximum price of HK\$18 per share. The maximum price of \$18 per share represented a premium of 10% over the current share price on that day.

17. The minutes of the meeting recorded the following reasons for the Share Repurchase:
 - a. in view of the U.S. sub-prime event and the exchange loss as a result of the appreciation of the Renminbi, the price of the shares of GOME had fallen below their intrinsic value;
 - b. GOME had not identified any investment opportunity to pursue in the short term; and
 - c. the directors present were of the view that the repurchase of shares was in the best interests of GOME and its shareholders as a whole and that GOME and its shareholders would benefit from the Share Repurchase.
18. The meeting was not a meeting of the GOME's Board that had been convened in accordance with the Bye-Laws of the Company. No notice of meeting was prepared for this meeting, as required, nor were the seven non-executive directors invited to the meeting, as required. No board paper was prepared or tabled at the meeting nor was there any adequate assessment as to why the Share Repurchase was in the best interests of GOME at the time.
19. Neither Wong, Du nor anyone else sought or obtained any professional advice from an investment bank, stockbroker or financial adviser on implementing the Share Repurchase to ensure the Share Repurchase was conducted properly and, as stated in the circular dated 23 April 2007 seeking the general mandate, on terms that were favourable to GOME.
20. Following the meeting, an additional resolution was purportedly circulated to the seven non-executive directors seeking their approval of the Share Repurchase. No board paper or other analysis was provided to the non-executive directors assessing whether the Share Repurchase was in the best interests of GOME at the time.
21. The written resolution is dated 24 January 2008 but it was not, in fact, circulated or signed by all non-executive directors on that date. One non-executive director says he only signed the written resolution in May or June 2008 without knowing

any details of the Share Repurchase. Another confirms the non-executive directors did not discuss the Share Repurchase nor did he ever see the minutes of the executive directors' meeting held on 21 January 2008. He says he probably did not sign the written resolution until after 24 January 2008.

22. In fact, the approval of the non-executive directors was neither operative nor decisive because the Share Repurchase was already underway at the time they were asked to approve it. In reality, the non-executive directors took no part in the decision to undertake the Share Repurchase.
23. The telephone meeting between the four executive directors on 21 January 2008 was not a proper board meeting and the purported resolution passed was accordingly ineffective. The approval of the executive directors was also affected by Wong's non-disclosure of his interest in the proposed Share Repurchase, including his interest in participating in the transaction as sellers of shares. Wong fully accepts that he should have made a complete disclosure of such personal interest as he may have had in the Share Repurchase transactions. Wong accepts that this is a matter that ought to have been disclosed as matter of duty to GOME and was required under the Bye-Laws of the Company.

The Repurchase Scheme

24. Immediately after the board meeting referred to in paragraph 16 above, between 22 January 2008 to 5 February 2008 (the "**Repurchase Period**"), GOME made on-market repurchases of its own shares. Within 11 trading days, GOME spent approximately HK\$2.2 billion to purchase about 129.8 million of its own shares. Most repurchases took place on 4 February 2008 and 5 February 2008 as set out in paragraph 27 below.
25. On 28 January 2008, Wong transferred 136,937,481 GOME shares to Megatop (Wong transferred 900,087 GOME shares held under his own name and 136,037,394 GOME shares held through Shine Group i.e. a total of 136,937,481 GOME shares), purportedly for a consideration other than cash at an average of HK\$12.79 per share (the "**Share Transfer**"). On the immediately previous

trading day, GOME's share price had closed more than 30% higher at HK\$16.84. Wong and Du caused GOME to make a public announcement on 1 February 2008 to the effect that Wong had on 28 January 2008 transferred a total of 186,937,481 shares to his family members at the afore-stated average consideration.

26. Immediately after Wong transferred 136,937,481 GOME shares to Megatop ("**the Transferred Shares**"), Huang (Wong's sister and the beneficial owner of Megatop) caused Megatop to start selling the Transferred Shares in the market. The share price of GOME closed that day at \$16.98.
27. Because of the constant buying demand from GOME as part of the Share Repurchase, GOME's share price continued to rise during the Repurchase Period from \$16.98 on 28 January 2008 peaking at \$17.66 (4.00 % higher) on 4 February 2008 and \$17.62 (3.77% higher) on 5 February 2008. Megatop sold 107,596,000, approximately 80% of its 136,937,481 Transferred Shares, on 4 February 2008 and 5 February 2008 when the share price of GOME was at its highest in the Repurchase Period.
28. Wong instructed Ng to stop the Share Repurchase after the market closed on the same day (i.e. 5 February 2008).
29. Immediately after GOME ceased the Share Repurchase, the share price began to decline, consistently with the reduction in demand, returning to its pre-Share Repurchase levels.
30. In total Megatop's sales of the Transferred Shares represented about 71% of the total repurchases made by GOME. In addition to the sales to GOME, Megatop also sold 7,137,000 shares to other purchasers at the highest prices during the Repurchase Period.
31. Megatop received about HK\$2.39 billion (the "**Sale Proceeds**") by selling the Transferred Shares. On 12 February 2008, Huang transferred about HK\$2.25 billion out of the HK\$2.39 billion Sale Proceeds to Wong through Shinning Crown's bank account. On the same day, Wong transferred HK\$2.43 billion from

the same bank account of Shinning Crown to Goldman Sachs for the purpose of repaying the Goldman Sachs Loan.

The Stated Rationale for the Share Repurchase

32. Three reasons for the Share Repurchase were recorded in the minutes of the executive directors' telephone meeting held on 21 January 2008 namely the effect of foreign exchange fluctuations on the share price of GOME shares, no other investment opportunity had been identified and the scheme would benefit shareholders. These reasons were neither adequate nor wholly accurate because of the non-disclosure described in paragraph 23.
33. In reality, GOME had been incurring notional foreign exchange translation losses since early 2005 when the Renminbi had begun to appreciate against the US dollar. The issue was not a new one on 21 January 2008.
34. Thus it could be said that Wong did not have GOME's foreign exchange translation risk in mind at all when instigating the Share Repurchase.
35. Neither Wong nor the executive directors had proposed to the GOME's Board any strategies to mitigate the foreign exchange risk at any point during 2007 nor, when considering the Share Repurchase, is there any evidence GOME conducted any due diligence into the proposed Share Repurchase or conducted any assessment of other options, including the comparative costs and benefits of a Share Repurchase as opposed to those other options, such as hedging GOME's position.
36. Another factor which has to be noted is that the Share Repurchase was implemented very quickly, creating sudden demand for GOME shares with a corresponding increase in the share price, meaning, inevitably, that GOME paid higher prices than it would likely have paid if the repurchase had been handled with due care and diligence and to the best advantage of GOME.

37. The Share Repurchase did not resolve GOME's foreign exchange translation risk and GOME continued to incur notional foreign exchange losses in 2008 after the Share Repurchase.
38. There having been no due diligence conducted in relation to the Share Repurchase, it could also be said that the funds used in the Share Repurchase were not surplus to the Company's needs. The total freely convertible cash assets available to GOME at the time were approximately RMB5.334 billion. This is almost the same amount raised from a placement and convertible bond issue that had taken place only seven months earlier, in May 2007 ("**the May 2007 Fundraising**"). The purpose of the May 2007 Fundraising was to raise money for specific and general corporate purposes. No such purposes had been achieved with these funds at the time of the Share Repurchase. The balance of freely convertible cash available to GOME at this time were not and could not have been or become surplus to GOME's needs within 7 months of them being raised. The Share Repurchase meant the specific and corporate purposes of the May 2007 Fundraising could not be achieved.
39. Nor did the shareholders in general derive any benefit from the Share Repurchase. On the other hand, whatever benefit accrued from the increase in GOME's share price dissipated when the Share Repurchase ceased. The Share Repurchase left the Company with significantly less cash than beforehand. GOME paid the highest prices in the period for most of the shares that were purchased during the Share Repurchase. These sales were transacted at prices that would not have been achieved in the absence of the Share Repurchase, given the demand created for them by GOME and the budget of HK\$3 billion and up to HK\$18.00 per share which Wong himself had decided on 21 January 2008.
40. The Share Repurchase stopped when the amount of money raised by or for Shinning Crown was sufficient to enable Shinning Crown to repay the Goldman Sachs Loan, even though the allocated budget for the Share Repurchase had not been spent.

41. Nor was the Share Repurchase in the interests of GOME and the shareholders. Wong and Du accept in hindsight that they should certainly have caused a more thorough and professional analysis of the reasons for and likely effects of the Share Repurchase to be undertaken so that the potential advantages and disadvantages could be clearly identified for consideration by the GOME's Board.

Breach of Duty

42. Wong and Du owed duties to GOME and its shareholders:
- a. to act in the best interests of GOME and its shareholders;
 - b. to act properly, and only properly, at all times as directors; and
 - c. not to make any unauthorized gains at the expenses of GOME.
43. Wong and Du breached these duties because:
- a. they failed to ensure the Share Repurchase was authorised at a properly constituted meeting of the GOME's Board convened in accordance with the Bye-Laws of the Company, with notice to all directors, and with all relevant information;
 - b. in the context of the consideration by the board of directors of GOME of the proposal for the Share Repurchase, Wong accepts that he should have made a complete disclosure of such personal interest as he may have had in the Share Repurchase transaction;
 - c. they failed to exclude themselves from deliberations concerning the Share Repurchase at the meeting of the executive directors held on 21 January 2008, including the assessment of the budget and the maximum price per share that GOME would pay;
 - d. Wong failed to exclude himself from helping to implement and direct the Share Repurchase, in particular, in directing the Share Repurchase to cease before the allocated budget had been spent, but at a time when sufficient funds had been raised to repay the Goldman Sachs Loan; and
 - e. by doing so, Wong obtained an unauthorised and undisclosed gain, at the expense of GOME, through the disposal of a large parcel of GOME

shares (136,937,000 shares) at a higher price than would have been achievable if normal market forces had been engaged in the transaction.

Breach of Rules

44. Wong also acknowledges that in the circumstances Wong's actions had caused GOME to breach Rule 10.06(2) of the Rules Governing the Listing of Securities on the SEHK (the "**Listing Rules**") and Rule 2 of the Codes on Takeovers and Mergers and Share Repurchases (the "**Code**").
45. These rules apply to transactions with listed company directors and are designed to protect the interests of the company in repurchasing its own shares. Rule 10.06(2) of the Listing Rules prevents a listed company from repurchasing shares on-market from a connected person and Rule 2 of the Code requires any off-market share repurchases to require prior approval from the Securities and Futures Commission (the "**SFC**").

Return to GOME of Wong's Gain

46. In normal circumstances, it is unlikely Wong could have sold such a large quantity of GOME shares within such a short period on market without depressing the market price of the GOME shares. The only other alternative for Wong to dispose of such a large quantity of GOME shares would be by way of a private share disposal, which would only be achievable at a significant discount to the prevailing market price of the GOME shares.
47. The Share Repurchase had the effect of absorbing the sudden increase in the market supply of GOME shares caused by Megatop's selling of 136,937,000 GOME shares in a short period, thereby causing a short term increase in the share price of GOME and avoiding depressing the price of the said GOME shares.
48. The disadvantage to GOME is that it repurchased its own shares in a rising market i.e. on terms that were less favourable than they should or would have

been if Wong and Du had not acted in breach of their duties to GOME and Wong had not breached or caused GOME to breach the Listing Rules and the Code.

49. On the 11 trading days in which the Share Repurchase was conducted, GOME's repurchases constituted more than 40% of the total turnover in the stock on six days; more than 50% of total turnover on four days; more than 60% of total turnover on three days and on one day GOME's repurchasing represented just over 75% of total turnover. GOME's buying in the market was a heavy influence on the market for GOME shares during this period.
50. Wong and Du are willing to agree, as part of resolving the litigation brought by the SFC in the Hong Kong High Court against them, Shinning Crown and Shine Group that the gain which accrued to Wong as a result of the sale of 136,937,000 GOME shares to GOME as part of the Share Repurchase should be paid to GOME, together with an appropriate amount of interest thereon.
51. The SFC has determined that the gain that Wong received has three components:
 - a. the discount that would have applied to the sale of the same parcel of GOME shares by way of private placement at the time, i.e., the amount that GOME would have saved had those shares been paid by way of private placement rather than in the market;
 - b. the benefit caused by the increase in GOME's share price which was a consequence of GOME's heavy demand for the shares during the Repurchase Period; and
 - c. the gain earned from the sale of 7,137,000 GOME shares sold by Megatop to other purchasers which occurred at the highest prices during the Repurchase Period.
52. The SFC has obtained an independent expert valuation of these gains in which the benefits are assessed respectively as follows:
 - a. gain over private placement at 9% discount – HK\$216,175,612 plus interest;
 - b. gain from increased prices due to heavy demand by GOME at 3% – HK\$72,058,537 plus interest; and

- c. gain on sale of 7,137,000 GOME shares sold to other purchasers at highest prices in the Repurchase Period assessed as HK\$0.81 per share – HK\$5,780,970 plus interest, i.e. an aggregate amount of HK\$ 294,015,119 plus interest, as at 4 July 2013 constituting a total sum of HK\$112,154,517.27¹.
53. An independent expert valuation obtained by Wong and Du suggests that the independent expert valuation obtained by the SFC is too high, and that the appropriate aggregate amount should be HK\$ 180,146,343 plus interest. In particular, the valuation obtained by Wong and Du indicates that the gain over private placement should be assessed, in the light of all of the circumstances prevailing at the time, on the basis of a discount range of 4% to 6.5% and that the calculation of any gain from increased prices due to heavy demand by GOME should be based on a percentage figure of 1.232%, and not 3%.
54. Nevertheless, noting that the SFC strongly rejects the expert evidence obtained by Wong and Du, and in the interests of resolving the litigation with the SFC in a manner which will without any shadow of a doubt cause GOME to receive in full the compensation sought for it by the SFC, Wong and Du are prepared to resolve this matter by payment to GOME of compensation calculated on the basis of the SFC's independent expert valuation. Wong and Du will also pay all costs involved in convening and holding an Extraordinary General Meeting of GOME with a view to obtaining approval and will pay the SFC's reasonable costs of the litigation brought against Wong, Du, Shinning Crown and Shine Group. The repayment of these gains to GOME together with interest will compensate GOME for the loss incurred as a result of the aforesaid breaches of duty.
55. Wong and Du regret that, whilst they had subjectively felt at the time that the Share Repurchase was in the best interests of GOME, they fully accept that in hindsight they should have caused a professional analysis to be undertaken of the Share Repurchase before it was proposed for approval by the GOME's Board. Wong further regrets that he had not given sufficient thought to the need for full

¹Agreed at a rate of prime rate plus 2% per annum, from 5 February 2008 until payment made by the Defendants into the Court or other arrangement to be agreed.


disclosure by Megatop during the Share Repurchase and the use of the proceeds of such sale to repay the Goldman Sachs Loan and he hopes that, by making payment at a higher figure than what he has been advised, he can now do right by GOME and its minority shareholders.

Signed by: 

Name: BERNARD CHEN ZHU, DAVIS POLK & WARDWELL

Date: 10th March 2014

For and on behalf of the Defendants

Witnessed by: 

Name: CHENG WAI LEUNG

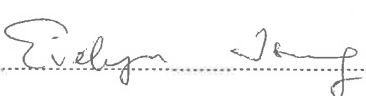
Date: 10th March 2014

Signed by: 

Name: MARK STEWART

Date: 10th March 2014

For and on behalf of the Securities and Futures Commission

Witnessed by: 

Name: EVELYN TANG

Date: 10th March 2014

HCMP 1496/2009

IN THE HIGH COURT OF THE
HONG KONG SPECIAL ADMINISTRATIVE REGION
COURT OF FIRST INSTANCE
MISCELLANEOUS PROCEEDINGS NO. 1496 OF 2009

IN THE MATTER of Section 213 of
the Securities and Futures Ordinance
(Cap. 571)

BETWEEN

SECURITIES AND FUTURE COMMISSION *Plaintiff*
and

WONG KWONG YU *1st Defendant*

DU JUAN *2nd Defendant*

SHINNING CROWN HOLDINGS INC *3rd Defendant*

SHINE GROUP LIMITED *4th Defendant*

CONSENT ORDER

Dated this 10th day of March 2014
Filed this 10th day of March 2014

Securities and Futures Commission

35th Floor, Cheung Kong Center

2 Queen's Road Central

Hong Kong

Tel: 2231 1342

Fax: 2521 7884

Ref: 122/LG/1000/0218

NOTICE OF SPECIAL GENERAL MEETING



GOME ELECTRICAL APPLIANCES HOLDING LIMITED

國美電器控股有限公司*

(incorporated in Bermuda with limited liability)

(Stock Code: 493)

NOTICE OF SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that a special general meeting (“**Special General Meeting**”) of GOME Electrical Appliances Holding Limited (the “**Company**”) will be held at Gloucester Room I, 3/F, The Excelsior, 281 Gloucester Road, Causeway Bay, Hong Kong on Thursday, 17 April 2014 at 3:00 p.m. for the following purposes. Expressions that are not expressly defined in this notice of Special General Meeting shall bear the same meaning as that defined in the circular dated 26 March 2014 (the “**Circular**”).

ORDINARY RESOLUTION

To consider and, if thought fit, pass the following resolution, proposed by Shinning Crown Holdings Inc. and Shine Group Limited pursuant to its requisition for a special general meeting, as an ordinary resolution of the Company:

“**THAT:** (1) certain share repurchases conducted by the Company between 22 January 2008 and 5 February 2008 involving approximately 129.8 million shares of the Company (of which approximately 70% were originally held by or for Mr. Wong Kwong Yu) (the “**Share Repurchases**”) be approved, confirmed and ratified; (2) certain breaches of duties to the Company by Mr. Wong Kwong Yu and Ms. Du Juan as more particularly set out in paragraphs 42 and 43 of the Statement of Agreed Facts included as Appendix I to the Circular (the “**Breaches of Duties**”) be approved, confirmed and ratified; and (3) the payment of HK\$420,608,765.75 in aggregate by Mr. Wong Kwong Yu and Ms. Du Juan to the Company in full and final compensation in order for Mr. Wong Kwong Yu, Ms. Du Juan, Shinning Crown Holdings Inc., Shine Group Limited and any other persons to be released from all liabilities and claims arising from the Share Repurchases and the Breaches of Duties be confirmed and approved.”

Yours faithfully,

For and on behalf of

GOME Electrical Appliances Holding Limited

Zhang Da Zhong

Chairman

Hong Kong, 26 March 2014

Principal place of business in Hong Kong:

Unit 6101, 61st Floor

The Center

99 Queen's Road Central

Hong Kong

* *For identification purposes only*

NOTICE OF SPECIAL GENERAL MEETING

Notes:

- (1) Any member of the Company entitled to attend and vote at the Special General Meeting is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is holder of two or more shares of the Company may appoint more than one proxy to attend and vote instead of him/her. A proxy need not be a member of the Company.
- (2) A form of proxy for use at the Special General Meeting is enclosed herewith.
- (3) The form of proxy must be signed by you or your attorney duly authorised in writing or, in the case of a corporation, must be under its seal or the hand of an officer or attorney duly authorised.
- (4) The form of proxy and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy thereof must be lodged at the Company's branch share registrar in Hong Kong, Tricor Abacus Limited not later than 48 hours before the time appointed for holding the Special General Meeting or any adjourned meeting (as the case may be) and in default the proxy shall not be treated as valid. The Company's branch share registrar is at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong on or before 30 March 2014 but will change to Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong with effect from 31 March 2014. Completion and return of the form of proxy shall not preclude members from attending and voting in person at the Special General Meeting or at any adjourned meeting (as the case may be) should they so wish.
- (5) Where there are joint registered holders of any share, any one of such persons may vote any meeting, either in person or by proxy, in respect of such share as if he/she was solely entitled thereto; but if more than one of such joint holders be present at the meeting in person or by proxy, the vote of one of the said persons so present whose name stands first on the register of members in respect of such share shall be accepted to the exclusion of the votes of the other joint holders.
- (6) As at the date of this notice, the Board comprises Mr. Zou Xiao Chun as executive director, Mr. Zhang Da Zhong, Mr. Zhu Jia, Ms. Wang Li Hong and Mr. Cheung Leong as non-executive directors, and Mr. Sze Tsai Ping, Michael, Mr. Chan Yuk Sang, Mr. Lee Kong Wai, Conway, Mr. Ng Wai Hung and Ms. Liu Hong Yu as independent non-executive directors.