國美電器控股有限公司

GOME ELECTRICAL APPLIANCES HOLDING LIMITED

(Incorporated in Bermuda with limited liability)

Stock Code: 493

ANNUAL REPORT 2007

Contents

DIRECTORS

EXECUTIVE DIRECTORS

WONG Kwong Yu *(Chairman)*
DU Juan
CHEN Xiao
NG Kin Wah

NON-EXECUTIVE DIRECTOR

SUN Qiang Chang

INDEPENDENT NON-EXECUTIVE DIRECTORS

SZE Tsai Ping, Michael
CHAN Yuk Sang
Mark Christopher GREAVES
LIU Peng Hui
YU Tung Ho
Thomas Joseph MANNING

COMPANY SECRETARY

WOO Ka Biu, Jackson

AUTHORISED REPRESENTATIVES

DU Juan
NG Kin Wah

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
China Merchants Bank
China Construction Bank
CITIC Bank
Industrial Bank Co. Ltd.

AUDITORS

Ernst & Young
Certified Public Accountants

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Hamilton HM12
Bermuda

HEAD OFFICE

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99 Queen's Road Central
Hong Kong

PRINCIPAL SHARE REGISTRARS

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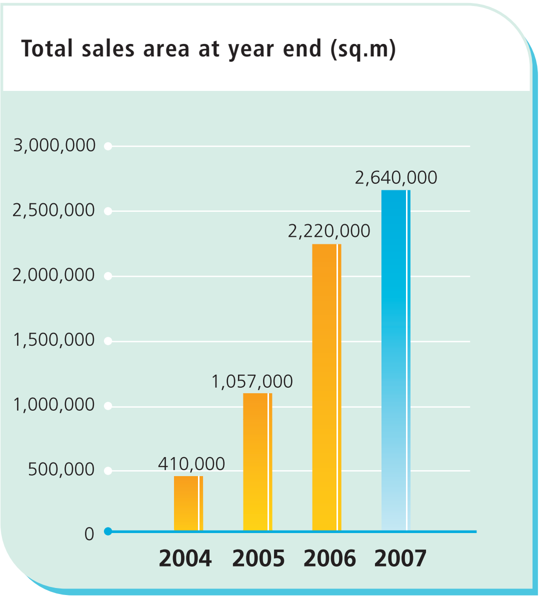
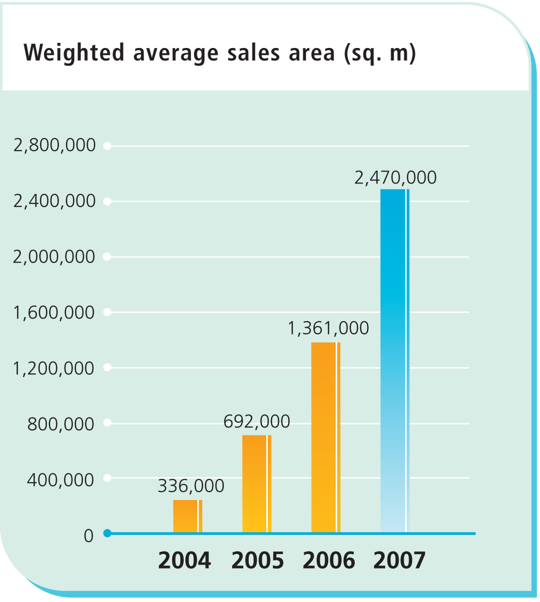
14 Bermudiana Road
Hamilton
Bermuda

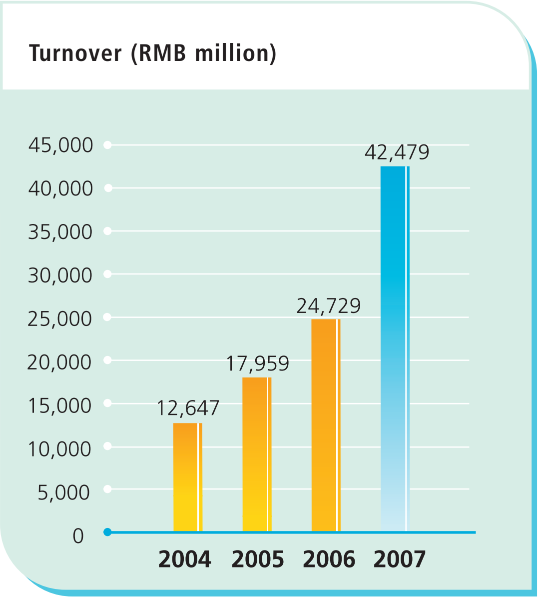
SHARE REGISTRARS IN HONG KONG

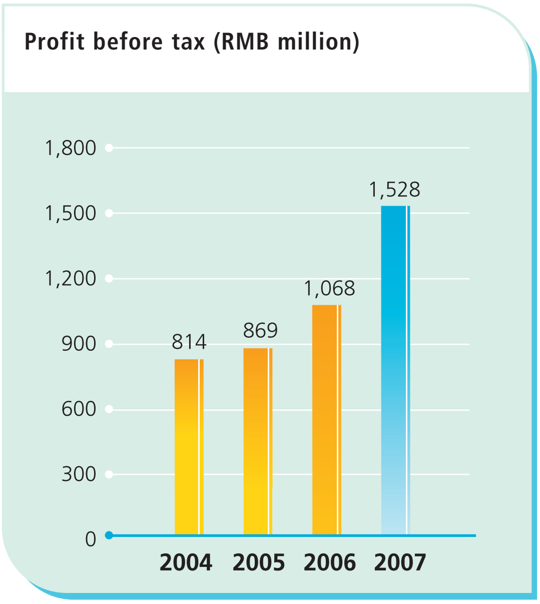
Tricor Abacus Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Hong Kong

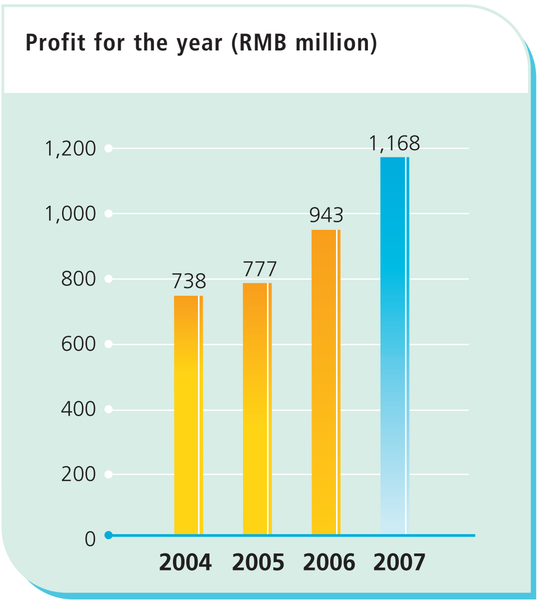
OPERATING PERFORMANCE



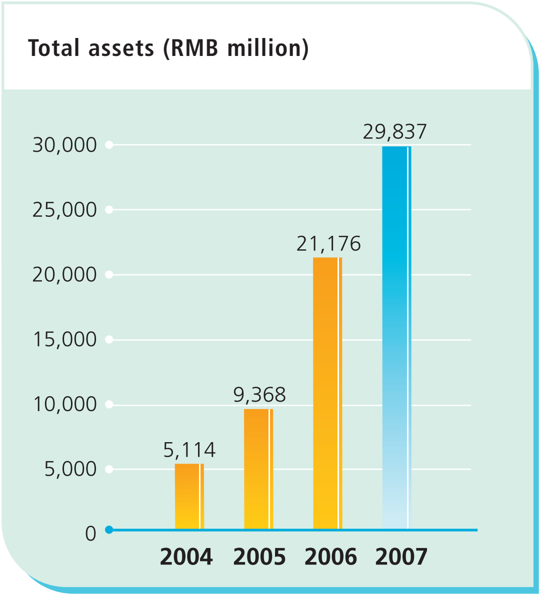


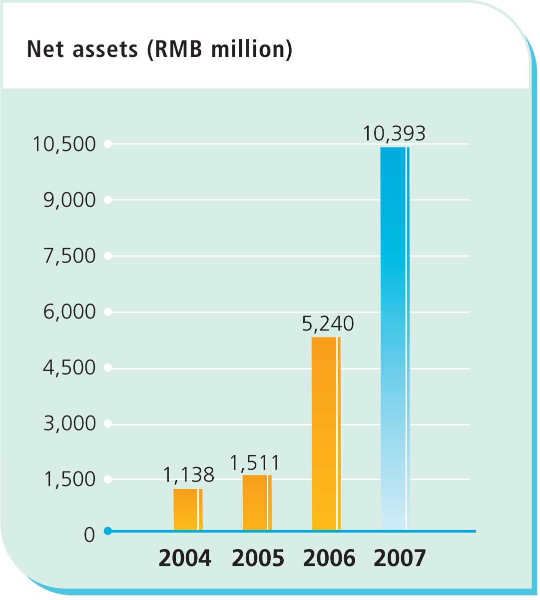






FINANCIAL POSITION





Milestones in 2007

FEBRUARY

Became the first Microsoft VISTA System Partner in retail chain of household electrical appliances in the PRC

MAY

Placed shares and issued convertible bonds

Set up the largest call center in the household electrical appliance retail industry in the PRC

JUNE

Connected with the ERP system of Paradise successfully, symbolizing the complete integration with the Paradise system

SEPTEMBER

Launched Long-term Quality Guarantee Service

Became the exclusive retailer of Dell Computers in the PRC

NOVEMBER

Established a business center to develop the chain store retailing of telecommunication products

DECEMBER

Managed Beijing Dazhong Home Appliances Retail Co., Ltd. (大中電器) exclusively

Acquired Shaanxi Cellstar Telecommunication Retail Chain Company Limited (陝西蜂星電訊零售連鎖有限責任公司)

WONG KWONG YU

Chairman

In 2007, the Company reinforced its position as the leading retailer of household appliances and consumer electronic products in China. The merger with China Paradise in 2007 successfully consolidated the Company's business and realised the anticipated growth and synergy. The loan and management agreements we entered into at the end of 2007 to take control of Beijing Dazhong Electronics gave the Company absolute market advantage in Northern China. The Company will continue to seek the right opportunities for regional integration and consolidation of retail chains in second and third tier cities in China. Currently, the Group owns the largest household appliances retail network in China and enjoys unrivalled advantage in Beijing, Shanghai and Guangdong, which are the cornerstones and the drivers of China's economy. We have consolidated and strengthened our leading position in almost all markets where we have operations.

Financially, the Company recorded revenue of RMB42,479 million in 2007, representing a 72% increase as compared with 2006. Adjusted gross profit, operating profit and net profit attributable to equity holders of the parent were RMB6,642 million, RMB1,803 million and RMB1,127 million respectively. Basic earnings per share was RMB35 fen. Excluding the non-operating loss arising from fair value adjustment on the derivative component of convertible bonds, exchange difference, the fair value adjustment on investment properties, our net profit attributable to equity shareholders reached RMB1,883 million and basic earnings per share reached RMB59 fen. The Board of Directors has proposed a final dividend of HK10.6 cents per share.

Upon the general completion of expansion and consolidation in the industry, a new landscape of market competition and model of business development have emerged. The Company has transformed itself from managing suppliers and commodities into that of customers. It is therefore necessary for the Company to adopt new strategies in a timely manner and uplift our services to a whole new strategic level. We will conduct extensive consumer research to better understand market demand. We will also redesign our store format, offer reliable and long-term warranty and competitive prices in order to continue to strengthen our leading position in national and regional markets. To this end, we identified our direction of development: enhancing single store operational quality and efficiency will be our key growth driver and differentiation will be our key operating strategy.

We are determined to invest substantial resources to develop the handset business and established a professional telecommunication business centre at the end of 2007. Apart from selling handsets in our traditional stores, we will set up standalone handset outlets, develop online sales channels and extended warranty for handsets. We will seek to consolidate telecommunication chains when the right opportunities arise. We aim to establish the most professional and competitive handset sales channel in China and we expect that in the coming three years, we can secure a 15% market share in the handset market.

We have high expectation on the prospects of the Company. We firmly believe that we are well prepared to capture market opportunities and take on the challenges. We owe our success to the constant support of our business partners, directors, management, staff and shareholders. I would like to take this opportunity to thank them all, and I hope we can have their continued support in the years to come.

Wong Kwong Yu
Chairman

GROUP REVIEW

The year 2007 saw the Group reinforcing integration of its internal and external resources, continuing to enhance its competitiveness and maintaining high-speed growth. As at the end of 2007, the Group recorded sales revenue totalling approximately RMB 42,479 million, up 71.77% from the previous year. Net profit attributable to equity holders was RMB1,127 million, up 37.62% over 2006; excluding the non-operating loss/(gain) arising from fair value adjustment on the derivative component of convertible bonds, exchange difference, the fair value adjustment on investment properties, it reached approximately RMB1,883 million, representing a year-on-year increase of 155.8%. All the business plans set out at the beginning of the year were realised successfully. As a result, the Group has been able to maintain its edge and stay in the forefront of China's household appliance sector.

Given that competition of China's household appliance sector was in a deeper dimension, the Group adhered to the dual strategy of running own stores and seeking acquisition opportunities at the same time while maintaining its core competitive strengths with a view to overtaking its rivals through its unique development strategy. It was asserted that improving the operation quality of individual stores will be the Group's key growth driver, while differential operation will be the guiding strategy. The Group achieved satisfactory growth in sales revenue on individual store basis. It did so by establishing flagship stores, launching the "hundred store project", improving competitiveness of the Group's stores in weak markets and second-tier markets, strengthening promotion of brand products and ODM brands. Service-wise, the Group came up with the notion of "improving services to boost competitiveness". In order to perfect the extended warranty service, the membership system and the household appliances hospital, the Group introduced four new services designed to protect consumers' rights. They were, namely, the nine-day satisfaction guarantee, the 19-day price guarantee, the 39-day goods return guarantee, and the 99-days goods exchange guarantee. The measures eased consumers' anxiety over the products they have purchased and offered them a brand new shopping experience.

PLACEMENT OF SHARES AND ISSUANCE OF CONVERTIBLE BONDS

On 21 May 2007, the Group placed a total of 110,000,000 shares at a price of HK$13.3 per share by means of top-up placement.

On 11 May 2007, the Group issued RMB 4,600,000,000 worth of zero-interest convertible bonds that are exercisable in USD by 2014. The conversion price was HK$19.95 per share.

The Group raised net proceeds of RMB 5,960 million through the share placement and bond issue. The proceeds will mainly be used for improving liquidity and operations.

INDUSTRY INTEGRATION

As at the end of June 2007, the Group and China Paradise have completed the integration initiative involving standardizing procurement, financial affairs, information system and human resources. The new management team has already made progress in various aspects. The layout of stores has been refined and cost controlled. Upon the merger of GOME and China Paradise, the larger group have achieved a leading position in most mainland cities in terms

of market share. And as a result of economies of scale brought forth by the merger, the procurement cost has dropped. Storage and distribution costs, and administrative expenses have also gone down. With the all-rounded integration, the Group believes it has become more competitive and the synergy brought forth by the integration has gradually emerged.

On 14 December 2007, the Group issued a notice announcing that its subsidiary Tianjin Consultancy provided a loan by installments in the amount of RMB3.6 billion through Beijing Branch of Industrial Bank Co. Ltd. (the "Lending Bank") to北京戰聖投資有限公司 (the "Purchasing Company") for the purpose of acquiring the entire registered share capital of Beijing Dazhong Home Appliances Retail Co., Ltd. ("Dazhong"). Under the agreement, the Purchasing Company appointed Tianjin Consultancy as the agent to manage and operate the entire business of Dazhong. Tianjin Consultancy was offered an irrevocable exclusive option to purchase all or any part of the registered capital of Dazhong. Prior to the deal, Dazhong was the fourth largest retailer of household appliances and was constantly ranked number one in Beijing. The management believes the deal was significant to the Group. The deal would enable the Group to obtain absolute advantage in Beijing in terms of the number of stores, the scale of sales and market share. It would also consolidate the Group's leading position in Tianjin.

On 31 December 2007, the Group successfully acquired Shaanxi CellStar Telecommunication Retail Chain Company Limited ("Shaanxi CellStar"), the biggest telecommunication retail chain in Shaanxi Province. The deal solidified the Group's market position in the telecommunication market in Shaanxi and would afford the Group a good business model for running the telecommunication business.

The management believes that with the Group's substantial experience in business and brand integration, the Group will be able to carry out smooth business integration within a short period of time. The positive effect of the integration is expected to emerge in 2008.

BUSINESS REVIEW

REVIEW OF THE BUSINESS ENVIRONMENT

China's economy continued to grow at high speed, posting a 11.9% growth in GDP in 2007. Consumption products raked in RMB 8,920 billion in retail sales, representing a 16.8% growth. Household electrical appliances and audio-visual products even posted a 23.4% increase (source: National Bureau of Statistics of China).

Despite the considerable pressure facing China's economy in 2008, domestic consumption, which forms part of China's growth momentum, is expected to grow stronger. Meanwhile, the fact that population grows, coupled with the Beijing Olympics, will bring about positive impact to China's economy. The management believes the prospect of the market remains optimistic, and the economic development of China will continue to fuel demand for electrical appliances and consumer electronic products.

INDUSTRY AND COMPETITION

As at the end of the reporting period, the Group and its parent company have entered every region of China except Tibet, Taiwan and Ningxia. It also had operations in almost all first-tier cities and some second-tier cities. The Group currently operates the biggest retail network in the household appliance sector in China and enjoys absolute advantage in the Beijing, Shanghai and Guangzhou markets, which are the pillars and leaders of China's economy. The Group also has established a solid and strong leading market position in most markets.

The management believes that the consolidation of China's household electrical appliances sector has basically completed. To further solidify the Group's leading position, the management has set out a new development plan: by 2011, the market share of the Group, together with its parent company, will grow to more than 20% and they will overtake its rivals in key areas. The specific strategy involves "seven number ones and one leadership", which refers to "being the number one in scale, profit, regional market share, the operation quality of individual stores and efficiency by area, customers' satisfaction level, the advanced nature of management tools and logistic support, and being the leader in terms of store format and number.

The management believes that with the high-speed growth of the China market and the deepening integration of the industry, and through leveraging on the Group's advanced management and its excellent team, the Group's business development plan will achieve success.

RETAIL NETWORK EXPANSION

During the period under review, the Group continued to expand its network coverage. At the end of 2007, the network coverage of the Group was as follows:

	Group total	GOME	China Paradise	CellStar
Flagship stores	61	42	19	0
Standard stores (including supermarkets)	624	473	151	0
Specialised stores	41	11	7	23
Total	726	526	177	23
Among them				
First-tier cities	472	319	137	16
Second tier cities	254	207	40	7
Net increase in store number	139	131	-15	23
Number of shop closed	43	21	22	0
No. of newly opened stores	182	149	53	6
Among them				
First-tier cities	27	21	10	1
Second-tier cities	155	128	43	5
No. of newly entered cities	22	29	-7	2

(Note: CellStar's 23 stores were incorporated into the Group on 31 December 2007.)

As at the end of 2007, the parent company had a total of 287 stores that were not within the structure of the Group (excluding stores in Hong Kong and Macau).

As at the end of the reporting period, the Group's individual stores had an average size of 3,600 sq. m., and the Group's total operating area amounted to 2,640,000 sq. m., up 18.92% from the end of 2006. During the reporting period, the Group had 21 self-owned store properties, which were all located in the central business districts of respective cities.

A list of the Group's stores (as at 31 December 2007)

Region	Flagship stores	Standard stores (including supermarkets)	Specialised stores	Total
Beijing	7	49	1	57
Shanghai	10	43	6	59
Tianjin	6	25	2	33
Chengdu	2	55	0	57
Chongqing	3	21	0	24
Xián	1	19	23	43
Shenyang	3	17	0	20
Qingdao	2	17	0	19
Jinan	2	15	0	17
Shenzhen	3	53	1	57
Guangzhou	2	82	4	88
Wuhan	1	20	0	21
Kunming	3	12	1	16
Fuzhou	2	38	2	42
Xiamen	1	25	0	26
Hangzhou	2	11	1	14
Henan	1	27	0	28
Ningbo	1	7	0	8
Nanjing	1	21	0	22
Wuxi	2	5	0	7
Changzhou	1	9	0	10
Suzhou	1	14	0	15
Hefei	0	12	0	12
Xuzhou	1	9	0	10
Tangshan	0	9	0	9
Lanzhou	2	7	0	9
Wenzhou	1	2	0	3
Total	61	624	41	726

The management believes the coverage of the Group's retail network has far overtaken that of its rivals. It will further optimise its network in first-tier cities and improve its network in second-tier cities.

EXPANSION IN SECOND TIER MARKETS

During the reporting period, the Group strengthened its operations in the second-tier markets in terms of structure, resources, staff and management. Obvious progress had been made in terms of business expansion and operating quality.

As at the end of the reporting period, the Group has entered 155 second-tier cities, representing 85.16% of the total number of cities the Group entered in 2007. In these markets, the Group had established a total of 247 stores (excluding CellStar stores), representing 35.14% of the total number of stores (excluding CellStar stores). These stores generated sales revenue of approximately RMB 9,904 million, representing approximately 23.32% of the total sales revenue, representing an increase of 2.95 percentage points as compared to the 20.37% for the previous year.

The management believes that with the improvement of the network in the second-tier cities and growing sophistication of the market, sales revenue in these cities will grow more significantly and the percentage of the revenue will gradually go up. And with the improvement of the market network of the second-tier cities, the logistic and management costs will respectively go down. Expectation for the growth of the second-tier markets can be justified by the expected surge in revenue and decrease in costs.

STORE LEASES

At the end of 2007, out of the 726 stores operated by the Group, 21 stores were operated in self-owned properties and the remaining 705 store properties were on leases. The average remaining tenure of the leases of these 705 stores was 6.2 years. Of the above store leases, the number of leases expiring in 2008, 2009 and 2010 are 38, 60 and 57, representing 5.39%, 8.51% and 8.09% of the total number of store leases respectively.

During the reporting period, the Group's rent constituted 3.70% of the sales revenue, a slight increase from the 3.52% recorded in 2006. Compared with the surge in rental a few years ago, the growth in rental expense ratio is being reined in effectively. The year 2007 saw the incessant surge in property price in major mainland cities, which eventually swept across many second- and third-tier cities. Nonetheless, the Group managed to significantly bring down the percentage of rental expenses to sale revenue by increasing the operation quality of individual stores and adjusting the rental level and the operation area. Meanwhile, the Group introduced partial sub-leasing to partnering tenants from different industries to ease the rental pressure on the Company's profit and increase the efficiency of its own stores.

The management of the Group believes that although the property price would continue to go up, the growth would eventually slow down. Also, the change in rental expense as set out in contracts and the period of leases remained under effective control. With the expected growth of new stores and the management's efforts in improving the quality of the operation of stores, the management reckons the ratio of rental expenses on stores to sales revenue will become steady gradually.

PROCUREMENT AND RELATIONSHIP WITH SUPPLIERS

The procurement attributable to the Group's top five largest suppliers (in terms of brands) accounted for approximately 31.74% of total procurement in 2007, as compared to approximately 30.25% in 2006.

Through collaboration with suppliers in various aspects and at different levels, the Group has gained more experience in handling relations with them. The management believes we will establish stronger and long-running strategic collaboration with the suppliers, which will enable the Group to take a more favourable position to compete in the market.

LOGISTICS AND DISTRIBUTION SYSTEM

By the end of the reporting period, the Group had a total of 131 distribution centres, of which 36 were in first-tier markets and 95 were in second tier markets. Aggregate gross floor area of these distribution centres reached 535,300 square meters, of which 376,700 square meters were in first-tier markets and 158,600 square meters were in second tier markets.

The Group stepped up efforts in building large-scale distribution centres in first-tier markets in 2007. Through scaling down frequency of logistic flow with suppliers and expanding the dimension of logistics service, the Group has effectively lowered logistic costs and enhanced customer service. Meanwhile, capitalizing on the sheer geographical size of second-tier markets and the diverse locations of stores in these markets, the Group invested much effort in building warehouse within stores and regional distribution centres, which in effect reduce the number of warehouses and the amount of inventories.

CONTINUOUS IMPROVEMENT OF THE MEMBERSHIP SYSTEM

In 2007, the Group stepped up to promote its membership system and increase the level of interaction, which led to significant increase in the number of members. As at the end of the reporting period, the total number of members reached 11.4 million, up 70.15% from the previous year. The quality of the membership structure continued to improve, with the percentage of silver card holders jumping to 34.47% from the 19.56% in 2006. Member purchase accounted for 63.85% of the total sales and repeat purchase by members reached 34.9%, representing an increase of 11.9 percentage point from the previous year and improving customer loyalty.

The management believes that as an important arrangement that maintains a market-driven approach and strengths customer loyalty, the membership system will enable the Group to attract more valuable customers to consume the Group's products. In future, the Group will use the system as a platform to consolidate internal resources and provide more and better value-added services to customers.

AFTER-SALE SERVICE ARRANGEMENTS

During 2007, the Group's Household Appliance Hospital garnered more attention through promotion initiatives. As at the end of the reporting period, the Group had a total of 32 such hospitals. Meanwhile, the Group has signed up a number of repair and maintenance outlets to facilitate the needs of customers. As at the end of the reporting period, the Group had established or signed up nearly 2,000 repair and maintenance service outlets.

To enhance our efficiency in providing customers with high-quality repair and maintenance service, the Group ran a trial that involved building its own repair and maintenance team in Beijing in the second half of 2007. The initiative will be introduced to key first-tier cities in 2008.

The Group believes that improvement of the after-sale service enables customers to enjoy better service. It also secures more revenue generated from values-added services. In future, the Group will continue to invest more resources and efforts in this area.

EXTENDED WARRANTY SERVICE

The Group took the lead to launch the extended warranty service in the mainland in 2007. The initiative, involved collaboration with professional warranty companies, yielded higher profits and was widely recognized by the market. The warranty service has now been extended to all products. In addition, all first-tier markets and some developed second-tier markets were covered.

During the reporting period, the participation rate of extended warranty for all types of products was 2.22% and proceeds from extended warranty stood at RMB 30.93 million. The management believes that although the Group has posted rapid growth in the extended warranty, there is plenty of room for expansion in future as compared to overseas peers.

CALL CENTRE

In May 2007, the Group set up a call centre in the headquarters according to its plan. The call centre reflected the Group's "Serving Customers with Our Heartfelt Service" philosophy and is the Group's commitment to improving customer service quality and value-added services.

The call centre features 500 personnels and is the biggest of its kind covering the household appliance industry across the country. Its establishment has enabled consumers, GOME and suppliers to communicate more quickly and efficiently among themselves. It is undoubtedly the best and most advanced information interaction service system in the retail household appliance sector in Mainland China.

The call centre offers one-stop services to customers and is linked to the Group's existing CRM system, ERP system, logistic system and after-sale system. The data and information are stored in the call centre's database, so that the centre can promptly address customers' queries regarding sales network, product categories, member bonus points, logistics, and after-sale repair. Obviously that helps raise customers' satisfaction level.

INFORMATION SYSTEM INFRASTRUCTURE

During the reporting period, the Group completed the system change and integration work for China Paradise, a move that solidified China Paradise' business foundation. The call centre system and Qingpu Logistic System were developed. The Group also completed the upgrade of its financial management software. The information system infrastructure boosted the Group's operation efficiency and augmented the level of customer service.

The management believes enhancing information technology will directly help increase the Group's operation efficiency, rein in the cost, and augment the level of customer service. The Group will further invest in information system infrastructure taking into account of its actual needs and future development

ENHANCEMENT OF OPERATION QUALITY OF INDIVIDUAL STORES

During the reporting period, the Group's same-store revenue increased by 3.11% from the previous year, with that in first-tier markets up 3.01% and second-tier markets 3.63%.

The management believes the Group's core strength finds expression in the improvement of the operation quality of individual stores. Therefore, the Group will continue to strengthen store management, boost efforts in the showcase of differential products, seek to offer better customer-end service, open more flagship stores, attach emphasis to second-tier markets and reinforce management of such stores, all with a view to ensure the consistent increase in the operation quality of individual stores.

ACTIVELY PROMOTE DIFFERENTIAL OPERATIONS

Differentiation formed one of the key strategies for the Group's development in 2007, and it will continue to do so in future. In 2007, the Group implemented the strategy by multiple means including focus promoting and underwriting of exclusive and ODM products that enhanced the Group's overall profitability. During the period, the Group began exclusive collaboration initiatives with Dell, Sakura and Noritz. It also started ODM cooperation with Haier small appliances, AMOI, Changhong, Hisense and some Konka TV models.

The management is of the view that providing a wide variety of products is one of the key to boost the Group's competitiveness. In future, the Group will further diversify its product portfolio with the hope to turn it into a new growth driver.

CULTIVATION OF BIG CUSTOMERS AND DEVELOPMENT OF E-COMMERCE

In the reporting period, big customers of the Group generated RMB 1 billion revenue through bulk sales while RMB 105 million was generated through e-commerce.

The management of the Group is of the view that sales and profit can be increased and corporate efficiency improved, without additional investment on stores, by reaching out to different groups of customers through different channels and offering different means of sales according to different purchase behaviour. The Group will continue its endeavour to cultivate big customers and speed up the development of e-commerce. It will also actively explore more sales channels and potential customers.

BUILDING OF CORPORATE CULTURE

During the reporting period, building on the corporate value crytalised over years of experience combining the essence of corporate culture of modern society, a guideline on the Group's new corporate culture was unveiled, which asserts the corporate vision that "in 2015 the Group will become a well respected and the world's number one company in the household appliances retail sector. "Achieving a quality life" constitutes the corporate mission. In addition, the Corporate CultureGeneral Outlines, Executive Behavior Norms, Staff Behavior Norms and Store Staff Service Standard were lectured and promoted across the country. The initiative signified the establishment of systematic corporate culture, the spread of which will serve to consolidate the Group's corporate cultural notion of "customers first".

BREAKTHROUGH IN 3C COLLABORATION

During the reporting period, the Group focused on upgrading its 3C market and actively collaborated with renowned brand suppliers at home and abroad. In February 2007, the Group became Microsoft VISTA's first household appliance chain sales partner in China, thus formed a close strategic alliance with Microsoft. In September 2007, the Group formed exclusive collaboration with Dell Inc. and became Dell's only retail partner in Mainland China.

In November 2007, the Group established a professional telecommunication operation team to manage the telecommunication business separately. The telecommunication business is anchored around the Group's existing stores to expand the network through opening specialized telecommunication stores and acquiring professional telecommunication retail chains. The initiative is also expected to speed up industry consolidation, increase the Group's market share in the telecommunication retail sector and form a new revenue and profit driver by adopting the advanced model of specialized telecommunication retail chains. As at the end of 2007, the Group had a total of 41 telecommunication stores.

FINANCIAL REVIEW

REVENUE

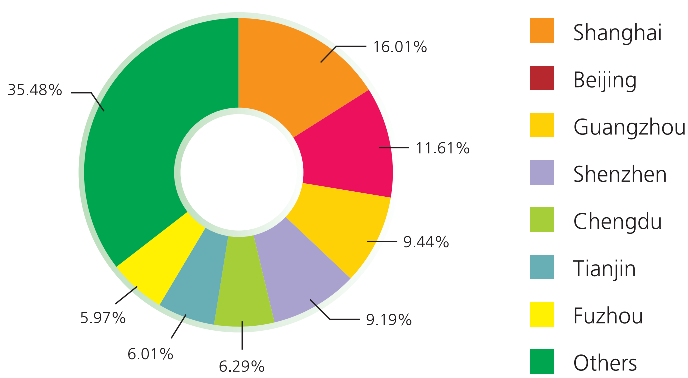
During the period under review, the Group's revenue grew to RMB 42,479 million, up 71.77% from RMB 24,729 million in 2006.

During the period, the Group's weighted average sales area was approximately 2,470,000 square meters, compared to approximately 1,361,000 square meters in 2006, representing an increase of approximately 81.48%.

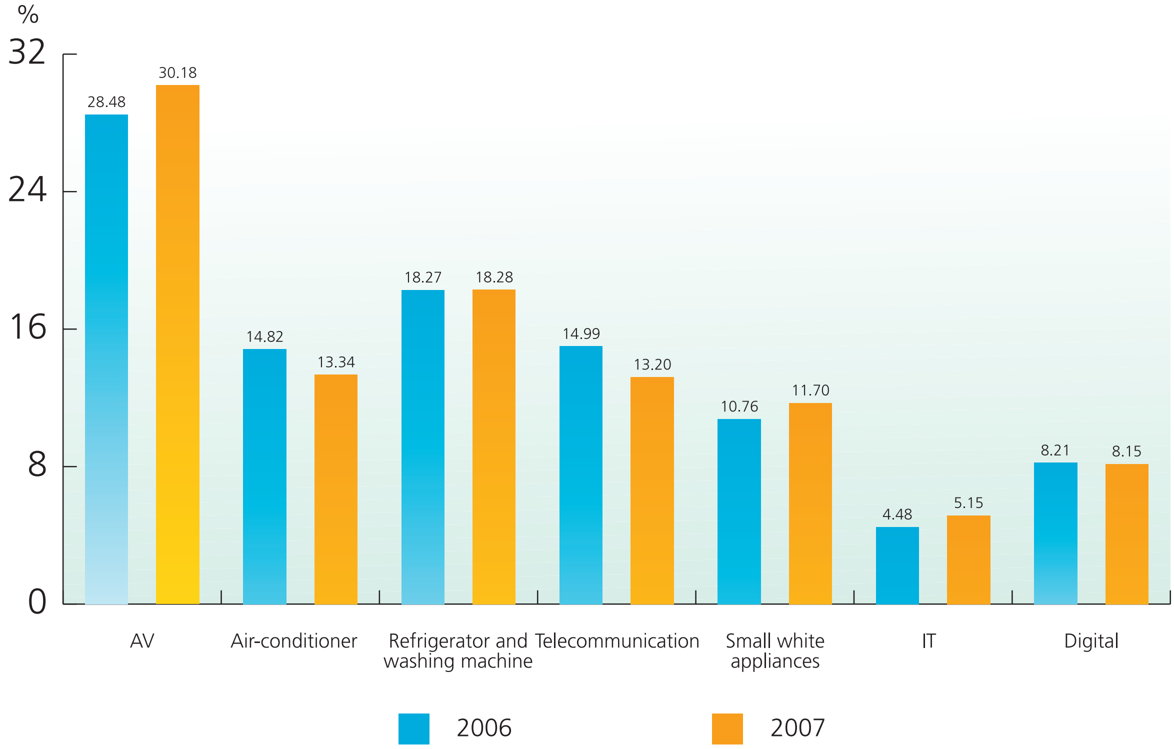
Annualized sales per square metre in the reporting period was RMB 17,200, compared with RMB18,170 in 2006. Sales per square meter for the reporting period declined by approximately 5.34% from the previous year.

During the reporting period, sales of the Group's 232 stores which were qualified for same store comparison accounted for approximately 46.77% of total revenue in the reporting period, representing an increase of approximately 3.11% compared to the corresponding period in 2006, which showed that the Group's strategy of enhancing operation quality of individual stores has paid off.

Sales revenue of the Group by region:



Sales revenue of the Group by product category:



The Group estimates that of the total revenue recorded in 2007, about 62% came from domestic brands and the remainder from international brands. The management believes the balanced ratio indicated consumers' brand preference and demonstrated the Group's ability to promote its products through collaboration with international brands and domestic brands and sell these products through its effective channels.

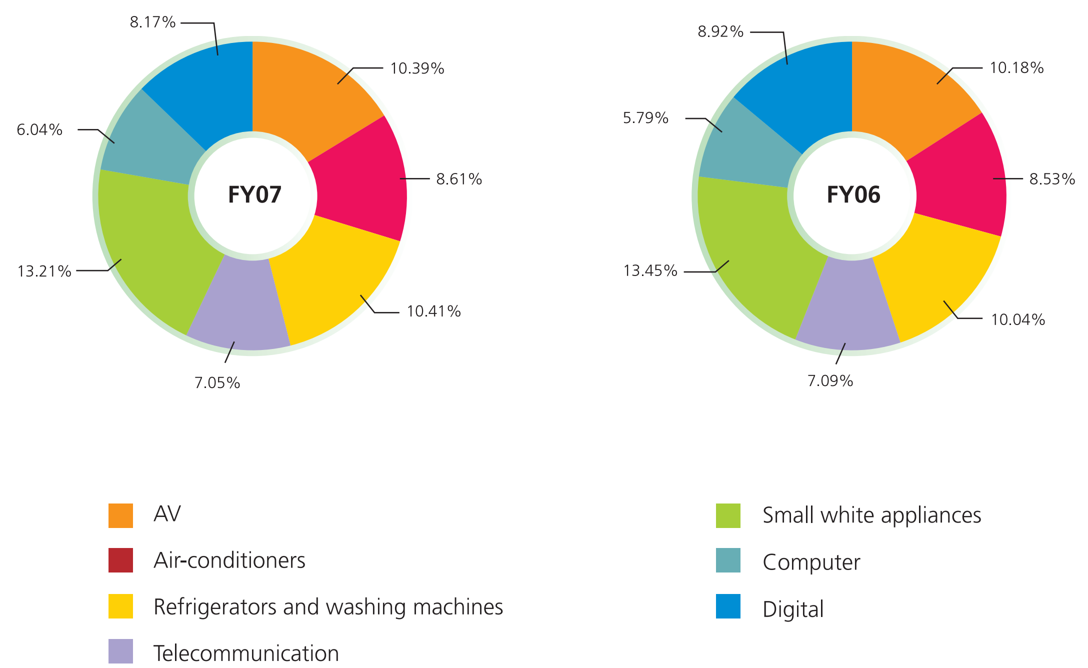
Compared to 2006, there was a slight increase in the percentage of sales generated from international brands, as a result of the increase in high-end customers who tended to purchase high-end products.

COST OF SALES AND GROSS PROFIT

Cost of sales of the Group was approximately RMB 38,383 million in the reporting period, compared to approximately RMB 22,369 million in 2006. In the reporting period, gross profit from sales was approximately RMB 4,095 million, compared to RMB 2,360 million in the previous year. The gross profit margin grew from 9.54% in 2006 to 9.64% in 2007.

The management believes the increase in gross profit margin of its products reflected the stronger economies of scale enjoyed by the Group and that the differentiation and pricing strategies were paying off.

The chart compares the gross profit margin of various products for the years 2006 and 2007:



OTHER INCOME

Other income of the Group increased from approximately RMB1,252 million in 2006 to approximately RMB 2,547 million in 2007. The increase was mainly due to an approximately 107.55% increase in incomes from suppliers, which were approximately RMB 888 million (or approximately 3.59% of sales revenue) in 2006 to approximately RMB 1,843 million (or approximately 4.34% of sales revenue) in 2007, following the expansion of scale of the Group.

The Group's other income mainly came from suppliers, which accounted for 72% of the total other income in the reporting period. As a result of optimization of contracts with suppliers, the revenue the Group generated from suppliers represented 4.34% of the total sales, a significant increase from the 3.59% for the same period in the previous year.

In addition, other income also comprised the management and procurement service fees paid by the parent group for the management and procurement services provide by the Group in designated cities in Mainland China. The amount, as a percentage of sales for the reporting period, saw a relatively big decrease as compared to the same period in 2006.

Other income comprised the following:

	2007	2006
As a percentage of revenue		
Income from suppliers	**4.34%**	3.59%
Management fee from the Parent Group	**0.57%**	0.82%
Rental income	**0.24%**	0.00%
Management fees for air-conditioner installation	**0.21%**	0.24%
Others	**0.64%**	0.41%
Total	**6.00%**	5.06%

ADJUSTED GROSS MARGIN

During the reporting period, the Group's adjusted gross margin reached 15.64%, representing an increase of 1.04 percentage points as compared to the 14.6% for the previous year. Adjusted gross margin is calculated by dividing the gross margin and other income by sales. The increase in the Group's adjusted gross margin reflected the bigger economies of scale after the merger with China Paradise and the overall increase of operating efficiency.

OPERATING EXPENSES

The Group's operating expenses principally include selling and distribution costs, administrative expenses and other expenses. The following table sets out a breakdown of operating expenses as a percentage to sales revenue in 2006 and 2007:

For the reporting year, the Group's operating expenses went up by 79.40% to RMB4,839 million from RMB2,698 million in 2006.

	2007	2006
As a percentage of revenue		
Selling and distribution costs	**8.35%**	8.59%
Administrative expenses	**1.62%**	1.69%
Other expenses	**1.42%**	0.63%
Total	**11.39%**	10.91%

SELLING AND DISTRIBUTION COSTS

Selling and distribution costs of the Group primarily represent shops rental expenses, staff cost of sales-related staff, advertising, promotional expenses, and utility charges. The following table illustrates the major selling and distribution costs items as a percentage to sales revenue:

	2007	2006
As a percentage of revenue		
Rental	**3.70%**	3.52%
Salaries	**1.69%**	1.57%
Advertising expenses	**0.63%**	0.82%
Delivery expenses	**0.37%**	0.42%
Promotional expenses	**0.16%**	0.27%
Utility charges	**0.78%**	0.83%
Other	**1.02%**	1.16%
Total	**8.35%**	8.59%

The percentage of selling and distribution costs of the sales revenue dropped from 8.59% in 2006 to 8.35% in 2007.

While rental cost and salary cost showed slight increase, other costs all went down, a testimony to the Group's effective operation and internal control.

ADMINISTRATIVE EXPENSES

With the completion of the integration with China Paradise, bigger economies of scale and synergy from the merger brought the administrative expenses as a percentage of sales revenue down from 1.69% in 2006 to 1.62% in 2007.

OTHER EXPENSES

Other expenses of the Group, which mainly comprise business tax, bank handling charges, exchange loss and miscellaneous expenses, were approximately RMB 605 million in 2007 and approximately RMB 156 million in 2006, representing approximately 1.42% and 0.63% of the sales revenue respectively. During the reporting period, increase in other expenses was mainly attributable to the foreign exchange loss due to effect of appreciation of the RMB on the Group's foreign currencies deposit.

FINANCE INCOME, NET

The net finance income of the Group was approximately RMB 231 million and RMB 61 million in 2007 and 2006 respectively. The significant rise in finance income was mainly attributable to the rise in bank deposit interest rate increase and the increase in the amount of bank deposit balance.

PROFIT BEFORE TAX

During the reporting period, the Group's profit before tax was approximately RMB 1,528 million, representing approximately 3.60% of total sales, as compared with approximately RMB1,068 million, or approximately 4.32% of total sales in 2006.

INCOME TAX

Income tax paid by the Group increased by about 185.71% to RMB360 million from approximately RMB126 million in 2006. The management of the Group considers that the effective tax rate during the reporting period was within the Group's expectation.

PROFIT FOR THE YEAR AND EPS

As explained above, the Group profit was approximately RMB1,168 million and approximately RMB943 million in 2007 and 2006, representing a profit margin of approximately 2.75% and approximately 3.81% respectively. In 2007 and 2006, profit for the year attributable to equity holders after minority interest was approximately RMB1,127 million and approximately RMB819 million respectively, representing a net profit margin after minority interest of approximately 2.65% and approximately 3.31% respectively. Accordingly, basic earnings per share (EPS) of the Group was approximately RMB35 fen in 2007, as compared to approximately RMB38 fen in the corresponding period of 2006.

Excluding the non-operating loss/(gain) arising from fair value adjustment on the derivative component of convertible bonds, exchange difference, the fair value adjustment on investment properties, the Group's profit attributable to equity shareholders reached RMB1,883 million (2006: RMB736 million) and the corresponding basic earnings per share reached RMB59 fen (2006: RMB34 fen).

CASH AND CASH EQUIVALENTS

At the end of the reporting period, the Group's cash and cash equivalents were approximately RMB6,270 million, as compared to approximately RMB1,452 million at the end of 2006.

INVENTORY

At the end of the reporting period, the Group's inventory amounted to approximately RMB5,383 million and its inventory turnover days decreased from approximately 53 days in 2006 to approximately 49 days in the reporting period.

The management believes that the decrease in inventory turnover days was a positive result of the maturing second-tier market, the improvement of operation quality of individual stores and the trend of earlier holiday purchase before the New Year.

PREPAYMENT, DEPOSITS AND OTHER RECEIVABLES

At the end of the reporting period, prepayment and other receivables of the Group amounted to approximately RMB2,212 million, as compared to approximately RMB1,298 million at the end of 2006.

TRADE AND BILLS PAYABLES

At the end of the reporting period, trade and bills payable of the Group amounted to approximately RMB13,557 million, up 7.47% from approximately RMB12,615 million at the end of 2006. Accounts payable and bills payable turnover days were 124 days for the reporting period, slightly shorter than the 135 days for 2006.

CAPITAL EXPENDITURE

During the reporting period and 2006, capital expenditure incurred by the Group amounted to approximately RMB1,598 million and approximately RMB434 million respectively.

CASH FLOW

During the reporting period and 2006, net cash inflow / (outflow) from operating activities amounted to approximately RMB2,561 million and approximately RMB(117) million respectively. Cash outflow from investing activities amounted to approximately RMB3,142 million and approximately RMB1,004 million respectively during the periods.

Cash inflow from financing activities of the Group during the reporting period amounted to approximately RMB5,490 million, while cash inflow from financing activities in 2006 totalled 1,497 million.

OUTLOOK AND PROSPECTS

2008 OPERATIONAL PLANS AND STRATEGIES

To achieve its business objectives in 2008, the Group has come up with a business strategy revolving around the notion "1.1.3.4", which refers to one centre (customer-centred), one strategy (to implement the business strategy of differentiation), measures to enhance three abilities (operation quality of individual stores, performance in second-tier markets, and percentage sales from 3C products), and four kinds of infrastructure building (brand, network, talent and information system).

ONE CENTER: CUSTOMERS FIRST

Customers' satisfaction level and loyalty is the main growth driver of the Group's long-term development. In 2008, the Group will properly implement the principles of "customers first", "improving services to boost competitiveness" and "enhance the edge of service". The Group will thoroughly carry out the "customer-oriented" strategy through the brand system featuring GOME, China Paradise and Dazhong. Pre-sale, sale and after-sale are the areas where we will invest efforts to enhance customer service. In terms of pre-sale, the Group will offer a wider variety of competitive and high-value products while renovating retail stores to provide a more decent shopping environment to shoppers. For sale, we will simplify the sales process, increase service standard by introducing a quick refund and exchange policy, offer compensation by issuing advanced refund, and establish particular standards for new VI retail outlets. The notion "sincere and long-term guarantee" will serve as the service guarantee and help resolve issues arising in the course of sales. For after-sale, efforts will be made to ensure speedy delivery and installation, diversified value-added service, effective collection and analysis of customer information, and the accuracy and timeliness of feedback. The core tasks are to perfect the call center, implement plans to build logistic bases in major cities, improve the work in relation to building repair, maintenance and installation teams, and launch such teams in first-tier core cities.

One strategy: differential operation

In 2008, the Group will focus on promoting differential operation, improve its competitiveness, and insist on being the pioneer with an edge as a way to promote its differential operation strategy. In terms of brand differentiation, it will step up promotion initiatives with Dell, Sakura and Noritz , gradually expand the scope of brand wholesale. In terms of product differentiation, the Group will do its utmost to launch new products and expand the offer of exclusive models. In addition, it will focus promotion efforts on key products and seek breakthrough on sales enhancement of the category.

Enhance three abilities

In terms of the Group's operation ability, the Group will focus on the sales ability of individual stores, second-tier markets and 3C (telecommunication, digital and computer) products.

Enhance retail ability of individual stores: The Group will focus build more flagship stores at various cities, commercial clusters in core cities, establish cross-industry alliances, boost value for members, support the operation of under-performing stores in second-tier markets, all with a view to boost the sales ability of individual stores.

Boost the business performance of second-tier markets: The headquarters will set up a management institution to manage second-tier markets; core commercial districts will be considered key areas for development so as to bring into full play the economies of scale; big stores and flagship stores will be the key form of stores opened in second-tier markets; the experimental policy that involves introducing household appliances to rural villages will be seized on, with the appliances to be wholesaled to distributors so as to boost sales of the second-tier markets.

Boost sales of 3C products: Actively collaborate with operators to seize on opportunities for developing 3G in the mainland; strengthen differential management of individual product models; change the product sales structure through promotion; develop the accessory business, research and development and value-added business; enrich the product lines; increase the additional value of accessories; set up retail fairs specializing in 3C products within flagship stores in major cities; enrich product brands; increase the number of salespeople selling 3C products; boost the terminal control ability of retail outlets.

Four kinds of infrastructure building

Brand building: Set out customer-driven strategies to upgrade brands as a way to assert the positions of and promotion strategy for GOME, China Paradise and Dazhong. The Group will also strive to promote implementation of the new VI (encompassing office, stores, logistics and exterior), all with a view to offering customers long-term guarantee of good quality.

Network establishment: Expand the retail network revolving around flagship stores and core stores so that they can stay in the forefront in the market; strengthen cross-industry alliance with department stores and supermarkets; seek opportunities to acquire local chains; promote campaigns to cut down rental.

Building talent pool: Maintain the stability and long-term competitiveness of top management teams through the implementation of the cadre contract system; raise the professional standard and quality of top management teams through thorough training and rotation of positions; launch the reservoir project that involves building a talent pool and nurturing the talents; boost the Group's business performance by offering incentives to employees; increase employees' level of satisfaction.

Building corporate culture: Through the systematic promotion of the corporate country, we will spread the corporate culture to every employee by means of regulating their conduct. We will highlight the effect of corporate culture and will promote it through talks and training catering management teams at all levels.

Information system infrastructure: The Group will continue refining all existing systems, deepen systematic integration, and raise the standard and operation quality of the systems. The management believes that with the growth in the Group's scale, the Group will be more demanding for the depth and breadth of the systems. Therefore in 2008, the Group will strive to improve its information systems, be more careful in choosing new information systems which are in line with international standards and reinventing their work flow, and gradually but thoroughly upgrade information systems.

2008 EXPANSION PLAN

In 2008, the Group plans to open 120 new stores, among them 30 are flagship stores. The Group will also expand its telecommunication business, strengthen its distinctive leading position in the business and fully prepare for the 3G age through the dual strategy that involves opening its own stores and acquiring telecommunication retail chains

In 2008, the Group's primary objective is to focus on improving the operation quality of individual stores. While seeking to push up operation quality of individual stores, the Group may adjust the number of stores appropriately. Second, the Group will close down shops that do not have any competitive edge. Third, it will invest immense efforts to develop flagship stores and big stores so that they will be in the forefront of the market. Fourth, having launched collaboration initiatives with Wanda Plaza, Shanghai Brilliance and Guangzhou Tianhe City Plaza in 2007, the Group will actively seek to develop strategic alliances with property developers, department stores and supermarkets, with a view to expand its retail outlets and also minimize business risk. Fifth, the Group will make more efforts to bring down rental by sub-leasing, seek cross-industry collaboration to share the resources and increase the utilization of the store area and lessen the pressure of rental increase on the Group's profit.

DECLARATION OF DIVIDEND AND DIVIDEND POLICY

The board of directors of the Company (the "Board") has recommended to declare a final dividend of HK10.6 cents (equivalent to RMB9.9 fen) per share. Together with the interim dividend of HK8.1 cents (equivalent to RMB7.8 fen) per share paid during the year, the total dividend for the year would amount to HK18.7 cents (equivalent to RMB17.7 fen) per share. Currently, the directors of the Company (the "Directors") anticipate that the dividend payout ratio will be maintained at approximately 30% of the Group's distributable profit of the relevant financial year. However, the actual payout ratio in a financial year will be determined at the Directors' full discretion, after taking into account, among other considerations, availability of investment and acquisition opportunities.

CONTINGENT LIABILITIES AND CAPITAL COMMITMENT

There were no material contingent liabilities as at the end of the reporting period. However, the Group had capital commitment of approximately RMB 438 million at the end of the reporting period.

FOREIGN CURRENCIES AND TREASURY POLICY

All the Group's income and a majority of its expenses were denominated in renminbi. As renminbi has been appreciating against US dollar, the Group's short-term US dollar deposit has recorded an exchange loss in the reporting period. The Group has not hedged its foreign exchange exposure but may consider doing so in future. The Group's treasury policy is that it will only manage such exposure (if any) when it posts significant potential financial impact on the Group.

The management of the Group estimates that less than 10% of the Group's current purchase is imported products, which are sourced indirectly from distributors in the PRC and the transactions are denominated in renminbi.

HUMAN RESOURCES

During the reporting period, the total number of employees of the Group was 48,396. The Group values human resources management and development. Human resources efforts include strengthening training for new employees and organizing the "Gold Eagle Training Camp", introducing the "How to be a Good Manager" training series targeting medium-level management staff and store managers, organizing the "General Manager Reception Day", implementing the employee visit system and the counsellor system, with all a view to offering all-rounded training, promoting growth of employees, enhancing the quality of the staff and their job satifaction.

EXECUTIVE DIRECTORS

Mr. WONG Kwong Yu, aged 38, has been the Chairman of the Group and an executive Director of the Company since April 2002. In 1987, Mr. Wong founded the first retail store for electrical appliance and consumer electronic products in Beijing, and has since developed the GOME Group into the largest chain operators for electrical appliances and consumer electronic products in the PRC. Mr. Wong has 20 years' experience in the retailing of electrical appliances and consumer electronic products.

Ms. DU Juan, aged 35, has been an executive Director since August 2002. Ms. Du has extensive experience in banking and finance industry. From 1998 to 2002, Ms. Du worked in two diversified conglomerates and was responsible for financial and administrative management. Ms. Du is a fellow member of Hong Kong Institute of Directors Limited. Ms. Du is the spouse of Mr. Wong.

Mr. CHEN Xiao, aged 49, has been the president of the Group since 30 November 2006 and was appointed as an executive Director on 22 May 2007. Before joining GOME, Mr. Chen was the chairman and president of China Paradise Electronics Retail Limited. Mr. Chen has over 20 years' experience in business management and electrical appliances retail industry. Mr. Chen is currently the president of Shanghai Electrical Products and Appliances Industry Association.

Mr. NG Kin Wah, aged 48, has been an executive Director since September 2000. Mr. Ng has over 20 years' experience in securities investment and well-versed of corporate finance in Hong Kong. Mr. Ng is a fellow member of the Hong Kong Institute of Directors Limited.

NON-EXECUTIVE DIRECTOR

Mr. SUN Qiang Chang, aged 51, was appointed as a non-executive Director on 28 February 2006. Mr. Sun is the managing director of Warburg Pincus Asia LLC ("Warburg Pincus"), a leading private equity and venture capital firm. Mr. Sun has been with Warburg Pincus since 1995 and has approximately 20 years of experience in the investment banking industry and private equity markets. Before joining Warburg Pincus, Mr. Sun served as an executive director of the investment banking division of Goldman Sachs (Asia) LLC. Mr. Sun is also the founding chairman of the China Venture Capital Association, the founder and executive vice chairman of China Real Estate Developers and Investors Association, and a non-executive director of China Huiyuan Juice Group Limited and Enerchina Holdings Limited, both companies are listed on the Main Board of The Stock Exchange. Mr. Sun is also a director of Harbin Pharmaceutical Group Holding Company Limited and China Bio Solutions Group Limited. Before this appointment, Mr. Sun had held directorships in Kasen International Holdings Limited, a company listed on Main Board at The Stock Exchange, MediaNation Inc., a company listed on the Growth Enterprise Market of the Stock Exchange, Asiainfo Holdings Inc., a company listed on NASDAQ, Hong Leong Asia Limited and Eagle Brand Holdings Limited, both are companies listed on the Singapore Stock Exchange.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. SZE Tsai Ping, Michael, aged 62, was appointed as an independent non-executive Director on 31 October 2002, Mr. Sze has over 30 years experience in the financial and securities field. He graduated with a Master of Laws degree at the University of Hong Kong. He is currently a member of the Disciplinary Appeals Committee of the Stock Exchange of Hong Kong Limited and the Market Misconduct Tribunal. He was a former Council Member, Member of the Main Board Listing Committee of The Stock Exchange of Hong Kong Limited, Member of the Cash Market Consultative Panel of Hong Kong Exchange and Clearing Limited and Member of the SFC Appeals Panel. Mr. Sze is a non-executive director of Burwill Holdings Limited and an independent non-executive director of Greentown China Holdings Limited, Harbour Centre Development Limited, C Y Foundation Group Limited and Walker Group Holdings Limited, all of which are listed on the Stock Exchange. Mr. Sze also served as an independent non-executive director of T S Telecom Technologies Limited until 23 January 2008.

He is a fellow of the Institute of Chartered Accountants in England and Wales, the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. He is also a fellow of the Hong Kong Institute of Directors Limited.

Mr. CHAN Yuk Sang, aged 62, was appointed as an independent non-executive Director on 20 May 2004. Mr. Chan was the chairman of Century Legend (Holdings) Limited in the period since September 1999 until July 2002 and a director of Hong Kong Building & Loan Agency Ltd. from 1993 to 1995, both companies are listed on the Main Board of The Stock Exchange of Hong Kong Limited. Mr. Chan was a senior general manager of a local bank and was an executive director of a joint Chinese-foreign bank in Shenzhen. Mr. Chan has more than 30 years' experience in the banking and finance industry. Mr. Chan is currently an independent non-executive director of Four Seas Mercantile Holdings Limited, a company listed on the Main Board of the Stock Exchange.

Mr. Mark C. GREAVES, aged 51, was appointed as an independent non-executive director on 15 April 2005. Mr. Greaves, an economics graduate from Christ's College, Cambridge University, was the managing director for the Asia region of NM Rothschild & Sons Limited, and a director of the bank in London, until 2002. Mr. Greaves was the founding principal of the specialist consultancy practice Anglo FarEast Group, with a focus on cross-border assignments between Asia and Europe, from 2002 and is currently also chief executive of Hanson Capital Investments Limited. Mr. Greaves was for many years a council representative to the Singapore Investment Banking Association and is an authorised representative and an approved person of the UK Financial Services Authority. Mr. Greaves is also a director of Sinosoft Technology plc, which is listed on the Alternative Investment Market of the London Stock Exchange.

Dr. LIU Peng Hui, aged 43, was appointed as independent non-executive Director on 20 November 2006. Dr. Liu has over 16 years of experience in the areas of law and international relations. He is currently president of the Shanghai Pacific Institute for International Strategy Studies and Chief Editor of the Strategy and Management magazine. Dr. Liu is also a member of several research institutions and think tanks in China, including the World Economics Society, China-Russia Relation Society, and Eastern Europe and Central Asia Society. Dr. Liu was president of the Beijing Pacific Institute for International Strategy Studies from June 1999 to January 2006.

He was an active member of the Centre of Strategy and Diplomacy at Institute of American Studies, Chinese Academy of Social Sciences from 1990 to 1999 with research interests in US-Russia, Sino-US, and US-Korea relationships, as well as US social welfare and public policy and administration. He won the national award of Best Youth Research in 1995 with his book on modern western world and has published enormous number of papers on international relations in the last ten years.

Mr. YU Tung Ho, aged 62, was appointed as an independent non-executive Director on 22 May 2007. Mr. Yu is a director and the chief consultant of Asia Television Limited, the vice president of the Federation of HK Guangxi Community Organisations (香港廣西社團總會) and the honorary president of the Hong Kong Commercial Publicity Association, Limited (香港廣告業聯會). Mr. Yu has over 36 years of experience in the multimedia industry, of which he was the director and chief operation officer of Asia Television Limited from 2002 to 2007, the executive vice president of Phoenix Satellite Television Limited from 1996 to 2002 and the chairman of the Hong Kong Commercial Publicity Association Limited (香港廣告業聯會) from 1999 to 2002. Mr. Yu was also the assistant general manager of China Radio & TV Corporation For International Techno- Economic Cooperation (中國廣播電視國際經濟技術合作總公司) from 1993 to 1996, and president of Radio Guangdong (廣東人民廣播電台) and Zhujiang Economic Broadcasting Radio (珠江經濟廣播電台) from 1989 to 1993. He is currently an independent non-executive director of China Oriental Group Company Limited, a company whose shares are listed on the Main Board of the Stock Exchange.

Mr. Thomas Joseph MANNING, aged 52, was appointed as an independent non-executive Director on 22 May, 2007. Mr. Manning is the CEO of Indachin Limited, a business design firm focused on custom-building information service companies in India and the PRC. He is also the founder of China Board Directors Limited, an influential network of senior executives providing board leadership to companies in the PRC. Earlier in his career, Mr. Manning held leadership positions with McKinsey & Company, CSC Index, and Buddy Systems, Inc., a technology venture. Until recently, he served as a director of Bain & Company and has also served as CEO of Ernst & Young Consulting Asia, as CEO of Capgemini Asia, and as Global Managing Director of the Strategy & Technology Consulting Business of Cap Gemini Ernst & Young. Mr. Manning has worked with numerous retailers across the United States of America, Europe and Japan on operational, strategic, and franchising issues. Mr. Manning is currently an independent non-executive director of the Bank of Communications Co., Ltd., a company whose shares are listed on the Main Board of the Stock Exchange and an independent director of AsiaInfo, Inc., a company based in Beijing and listed on The Nasdaq Stock Market, Inc. He is also a board member of several private companies in China and India.

SENIOR MANAGEMENT PROFILE

Mr. WANG Jun Zhou, Executive Vice President of the Group

Mr. Wang joined the Group in 2001 and previously held the position as General Manager of Operation Centre in the headquarters, General Manager for managing the business of South-China region and General Manager of the Group's Strategic and Cooperation Centre. Mr. Wang assists the President of the Group in the overall management of GOME Group's daily operation, including the formulation of the Group's medium and long-term strategic plans and annual budgets; the standardization of various systems, processes, authorization, etc.; the guidance and supervision of the daily operation in each major region and each division; and the appraisal for business management teams at all levels. He has over ten years of experience in the sale and management of electrical appliances.

Mr. ZHOU Ya Fei, Chief Financial Officer

Mr. Zhou joined the GOME Group in 2000 and held the position as Chief Financial Officer since then. Mr. Zhou is responsible for the planning and implementation of the internal budgeting and auditing systems, and is also involved in all major investment decisions of the Group. He led the design and integration of the Group's ERP system to enhance corporate efficiency. Prior to joining the Group, he worked in an accounting firm, an accounting consultancy as well as the Beijing municipal government. Mr. Zhou has 17 years of experience in PRC accounting, finance and tax consulting. He is a registered accountant (non-practicing) and a registered tax agent (non-practicing) in the PRC.

Ms. WEI Qiu Li, Vice President of the Group

Ms. Wei joined the GOME Group in 2000 and previously held the position as Director of Management Center, Price Centre, Human Resources Centre and Administration Center of GOME Electrical Appliances. Ms Wei is mainly responsible for organizational planning and human resources training of the Group. Ms. Wei has over 10 years' experience in human resources and administrative management.

Mr. LI Jun Tao, Vice President of the Group

Mr. Li joined the GOME Group in 1988 and he is currently the Vice President, Business Development of the Group and he is mainly responsible for the procurement and marketing management. He has over 20 years of experience in electrical appliances retailing and chain store operations. He is one of the important decision makers in operations and development strategies of the Group companies. Mr. Li Jun Tao was jointly named as one of the "Ten Persons of the Year in Electrical Appliances Industry in China in 2002" by China Electronics News and SINA in February, 2003. He was granted the Gold Contribution Award by the GOME Group in February, 2005.

Mr. SUN Yi Ding, Vice President of the Group

Mr. Sun joined the Group in 2001 and previously held the position as Sub-branch General Manager, Deputy General Manager of sale and purchasing center and General Manager of Operation Centre. Mr. Sun is responsible for establishing the Communication Business Center of the Group and its operations. He has fifteen years of sales experience.

Mr. HE Yang Qing, Vice President of the Group and Director of Brand Management Centre

Mr. He joined the Group in 2003. He is now responsible for the management and maintenance of GOME Group's brand name, media relationship and planning of marketing proposals. Mr. He has extensive experience in the field of sales and manufacturing industry and he was awarded one of the Top Ten Persons of Brand Construction in China in 2005 and one of the Ten Outstanding Brand Managers in China in 2007.

The directors of the Company (the "Directors") have pleasure in submitting their report and the audited financial statements of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2007.

PRINCIPAL ACTIVITIES

The Group is principally engaged in the retailing of electrical appliances and consumer electronic products in China. The Group's revenue is mainly derived from business activities in Mainland China. An analysis of the Group's income for the year is set out in note 4 to the financial statements on page 104.

FINANCIAL STATEMENTS

The results of the Group for the year are set out in the Consolidated Income Statement on page 69.

The state of affairs of the Group as at 31 December 2007 is set out in the Consolidated Balance Sheet on pages 71 and 72.

The cash flows of the Group for the year are set out in the Consolidated Cash Flow Statement on pages 74 and 75.

SHARE CAPITAL

Details of the movement in share capital of the Company are set out in note 29 to the financial statements on page 136.

DIVIDENDS

An interim dividend of HK8.1 cents (equivalent to RMB7.8 fen) per ordinary share, amounting to a total of approximately RMB254,193,000.00, was paid to the shareholders of the Company during the year.

The Directors recommend a final dividend of HK10.6 cents (equivalent to RMB9.9 fen) per ordinary share for the year ended 31 December 2007 to be payable to the shareholders of the Company whose names appear on the Register of Members of the Company on 15 May 2008. Subject to the approval by the shareholders of the Company of the final dividend recommended by the Directors, the dividends paid and to be paid in respect of the full financial year ended 31 December 2007 will amount to HK18.7 cents (equivalent to RMB17.7 fen) per share.

RESERVES

The amounts and particulars of material transfers to and from reserves of the Company and of the Group during the year are set out in note 30 to the financial statements on pages 137 to 139 and in the consolidated statement of changes in equity.

As at 31 December 2007, the Company's reserve available for distribution amounted to RMB420.51 million of which RMB328.63 million has been proposed as a final dividend for the year.

PROPERTY, PLANT AND EQUIPMENT

The movements in property, plant and equipment during the year are set out in note 12 to the financial statements on pages 114 and 115.

MAJOR SUPPLIERS

The percentages of purchases for the year attributable to the Group's major suppliers are as follows:

Purchases

– the largest supplier	11.01%
– five largest suppliers combined	31.74%

None of the Directors, their associates or any shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the Company's issued share capital) had an interest in the major suppliers noted above.

DONATIONS

During the year, the Group has made charitable and other donations in Hong Kong and the PRC totaling RMB0.1 million.

DIRECTORS

The Directors who held office during the year and up to the date of this report were:

Executive Directors

Mr. WONG Kwong Yu	
Ms. DU Juan	
Mr. CHEN Xiao	(appointed on 22 May 2007)
Mr. NG Kin Wah	
Mr. LAM Pang	(retired on 22 May 2007)

Non-Executive Director

Mr. SUN Qiang Chang

Independent Non-Executive Directors

Mr. SZE Tsai Ping, Michael	
Mr. CHAN Yuk Sang	
Mr. Mark Christopher GREAVES	
Dr. LIU Peng Hui	
Mr. YU Tung Ho	(appointed on 22 May 2007)
Mr. Thomas Joseph MANNING	(appointed on 22 May 2007)

Pursuant to the existing respective service agreements entered into between a member of the Group and each of Ms. Du Juan, Mr. Chen Xiao and Mr. Ng Kin Wah, each of such Directors was appointed for a term effective from the date of the respective service agreements until the date of the forthcoming annual general meeting whereupon he/she shall retire from office and be eligible for re-election. Thus, each of Ms. Du Juan, Mr. Chen Xiao and Mr. Ng Kin Wah shall retire from office and, being eligible, have offered himself/herself for re-election as Director at the forthcoming annual general meeting.

In addition, all non-executive Directors were appointed with specific term of one year and shall retire from office and are eligible for re-election at the forthcoming annual general meeting of the Company. Thus, each of Mr. Sun Qiang Chang, Mr. Sze Tsai Ping, Michael, Mr. Chan Yuk Sang, Mr. Mark Christopher Greaves, Dr. Liu Peng Hui, Mr. Yu Tung Ho and Mr. Thomas Joseph Manning, all being non-executive Directors, shall retire from office and, being eligible, have offered himself for re-election as Director at the forthcoming annual general meeting.

DIRECTORS' SERVICE CONTRACTS

None of the Directors who are proposed for re-election at the forthcoming annual general meeting of the Company has a service contract with the Company which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

DIRECTORS' INTERESTS IN CONTRACTS

Apart from the transactions which are disclosed in notes 26, 36 and 39 to the financial statements on page 133, page 146, and pages 151 to 152 respectively and in the section headed "Connected Transactions" hereinbelow, there were no other contracts of significance in relation to the Group's business, to which the Company, its holding company, its subsidiaries or fellow subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisting at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

As at 31 December 2007, the interests of the Directors in businesses (other than those businesses where the Directors were appointed as directors to represent the interests of the Company and/ or any member of the Group) which are considered to compete or are likely to compete, whether directly or indirectly, with the businesses of the Group were as follows:

Name of Director	Name of competing entity	Description of business of competing entity	Nature of interest of the Director
Mr. Wong Kwong Yu	Parent Group (as defined below)	Retail of electrical appliances and consumer electronics products	Beneficial owner
Ms. Du Juan	Parent Group	Retail of electrical appliance and consumer electronics products	Family interest *(Note)*

Note: Ms. Du Juan, spouse of Mr. Wong Kwong Yu, is deemed to be interested in the business of the Parent Group by virtue of her spouse's interest.

During the year, Mr. Wong Kwong Yu and Ms. Du Juan, both executive Directors, have beneficial interest in an electrical appliances and consumer electronics products retail network under the brand name "GOME" and operated in different cities in the People's Republic of China (the "PRC") by companies in which Mr. Wong and Ms. Du have interest (the "Parent Group").

Mr. Wong Kwong Yu and the Company entered into the Non-competition Undertaking on 29 July 2004 pursuant to which Mr. Wong Kwong Yu undertook to the Company that he would not and would procure that the Parent Group would not, amongst other things, engage in retail sales of electrical appliances and/or consumer electronic products in places in the PRC where the Company had established any retail outlet for the sale of electrical appliances and consumer electronics products under the "GOME Electrical Appliances" trademark, provided that Mr. Wong Kwong Yu remains as the controlling shareholder of the Company. The Company undertook to Mr. Wong Kwong Yu not to directly or indirectly engage in the retail sales of electrical appliances or consumer electronic products in any of the locations in the PRC in which any member of the Parent Group had established, or was as at 3 June 2004 in the course of establishing, any retail outlet for the sale of electrical appliances and consumer electronic products under the "GOME Electrical Appliances" trademark.

DIRECTORS' BENEFITS FROM RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At the annual general meeting of the Company held on 15 April 2005, the Company adopted a share option scheme (the "Share Option Scheme") pursuant to which the board of Directors may grant share option to subscribe for the shares of the Company (the "Shares") to (inter alia) employees, executives and officers of the Group and such other persons as referred to in the Share Option Scheme whom the Board considers will contribute or have contributed to the Group (the "Participants") to provide them with incentives and rewards for their contribution to the Group *(Note)*. No share option has been granted or is outstanding under the Share Option Scheme since its adoption. Save for the Share Option Scheme, the Company has no other share option scheme.

At no time during the year was the Company, any of its holding companies or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURE

As at 31 December 2007, the interests or short positions of the Directors and chief executive of the Company in the shares, underlying shares of equity derivatives and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were recorded in the register required to be kept under Section 352 of the SFO, or which were otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for

Note: As at 17 April 2008, a maximum number of Shares available for issue under the Share Option Scheme was 164,244,758 Shares, representing approximately 5.15% of the issued share capital of the Company as at 17 April 2008.

The number of the Shares in respect of which options may be granted pursuant to the Share Option Scheme (the "Option") shall not exceed 10% of the Shares in issue on date of adoption of the Share Option Scheme. Unless otherwise approved by the shareholders of the Company in general meeting, the number of Shares in respect of which Options may be granted to each Participant in any 12-month period shall not exceed 1% (except for substantial shareholders as defined in the Listing Rules, or independent non-executive Director, or any of their respective associates, as defined in the Listing Rules, must not exceed 0.1%) of the issued share capital of the Company from time to time.

There is no requirement as to the minimum period during which the Option shall be held before it can be exercised and the Option granted shall be exercised during the period as may be determined by the Board provided that no Option may be exercised more than 10 years after it has been granted.

The exercise price of the Option shall not be less than the highest of (a) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant; (b) average of the closing prices of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant for the five business days immediately preceding the date of grant; and (c) the nominal value of a Share.

Consideration of HK$1.00 is payable on the grant of the Option.

The Share Option Scheme shall be valid and effective for a period of 10 years after the date of its adoption (i.e. 15 April 2005).

Securities Transactions by Directors of Listed Issuers (the "Model Code") adopted by the Company were as follows:

Long positions in the shares of the Company (the "Share(s)"), the underlying Shares and debentures of the Company

Name of Director	Number of Shares held: Personal interest	Interest of spouse	Corporate interest	Trustee	Number of Shares Held under Equity Derivatives	Total	Approximate % Shareholding
Wong Kwong Yu	900,087	1,480,000 *(Note 2)*	1,393,766,947 *(Note 1)*	–	–	1,396,147,034	42.06
Du Juan	–	1,394,667,034 *(Note 1)*	1,480,000 *(Note 2)*	–	–	1,396,147,034	42.06
Chen Xiao	–	–	313,847,615 *(Note 3)*	133,322,467 *(Note 3)*	15,252,398 *(Note 3)*	313,847,615	9.45

Notes:

1. These Shares are held as to 1,075,430,000 Shares by Shinning Crown Holdings Inc. and as to 318,336,947 Shares by Shine Group Limited. Both companies are 100% beneficially owned by Mr. Wong Kwong Yu, the spouse of Ms. Du Juan.

2. These Shares are held as to 280,000 Shares by Smart Captain Holdings Limited and as to 1,200,000 Shares by Wan Sheng Yuan Asset Management Company Limited. Both companies are 100% beneficially owned by Ms. Du Juan, the spouse of Mr. Wong Kwong Yu.

3. These Shares are held by Retail Management Company Limited, which is controlled by Mr. Chen Xiao. Of these 313,847,615 Shares, 15,252,398 Shares are other derivatives not listed or traded on the Stock Exchange, and 133,322,467 Shares are held by Mr. Chen Xiao through Retail Management Company Limited in his capacity as trustee of The Retail Management Trust.

Short Positions in the Shares, the underlying Shares and debentures of the Company

Name of Director	Number of Shares held: Personal interest	Interest of spouse	Corporate interest	Trustee	Total	Approximate % shareholding
Chen Xiao	–	–	188,504,797 *(Note)*	80,076,838 *(Note)*	188,504,797	5.68

Note: These interests comprising 188,504,797 underlying Shares are held by Mr. Chen Xiao through Retail Management Company Limited, a company which is controlled by Mr. Chen Xiao, out of which 80,076,838 underlying Shares are held in his capacity as trustee of The Retail Management Trust, all being other derivatives not listed or traded on the Stock Exchange.

Save as disclosed above, as at 31 December 2007, none of the Directors, chief executives of the Company or their respective associates had any other interests or short positions in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

So far as is known to any Director or chief executive of the Company, as at 31 December 2007, other than the Directors or the chief executive of the Company as disclosed above, the following persons had interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept under Section 336 of the SFO or were otherwise notified to the Company and the Stock Exchange:

Name of Shareholder	**Nature**	**Number of ordinary Shares held**	**Approximate % of shareholding as at 31 December 2007**
Retail Management Company	Long position	313,847,615	9.45
Limited *(Note 1)*	Short position	188,504,797	5.68
JPMorgan Chase & Co.	Long position	264,104,063	7.96
(Note 2)	Short position	4,600,000	0.14
	Lending pool	199,080,963	6.00
Morgan Stanley *(Note 3)*	Long position	232,837,483	7.01
	Short position	57,138,349	1.72
The Capital Group Companies, Inc. *(Note 4)*	Long position	166,044,100	5.00

Notes:

1. Retail Management Company Limited is controlled by Mr. Chen Xiao, an executive Director.

2. JPMorgan Chase & Co. holds long position in 6,812,100 Shares, and short positions in 4,600,000 Shares in its capacity as beneficial owner, long position in 58,211,000 Shares in its capacity as investment manager, and 199,080,963 Shares in the lending pool in its capacity as custodian corporation/approved lending agent. Of these Shares, long position in 201,893,963 Shares were held by JPMorgan Chase Bank, N.A., long position in 7,198,000 Shares were held by J.P. Morgan Investment Management Inc., long position in 45,771,000 Shares were held by JPMorgan Asset Management (UK) Limited, long position in 1,319,000 Shares were held by JP Morgan Asset Management (Canada) Inc., long position in 2,212,100 Shares were held by J.P. Morgan Whitefriars Inc., long position in 1,110,000 Shares were held by JPMorgan Asset Management (Japan) Limited and long position in 4,600,000 Shares and short position in 4,600,000 Shares were held by J.P. Morgan Securities Ltd., all of which are either controlled or indirectly controlled corporations of JPMorgan Chase & Co..

3. Morgan Stanley was interested in these Shares through its interests in controlled corporations. Of these Shares, long position in 160,842,371 Shares were held by Morgan Stanley Investment Management Company, long position in 48,953,322 Shares and short position in 43,794,725 Shares were held by Morgan Stanley & Co. International plc., long position in 9,868 Shares and short position in 18,000 Shares were held by Morgan Stanley Hong Kong Securities Limited, long position in 9,021,000 Shares were held by Morgan Stanley Asset & Investment Trust Management Co., Limited, long position in 13,030,058 Shares and short position in 13,030,058 Shares were held by MSDW Equity Finance Services I (Cayman) Limited, long position in 3,009 Shares were held by Morgan Stanley Swiss Holdings GmbH, short position in 270,000 Shares were held by Morgan Stanley Capital (Cayman Islands) Limited, long position in 579,575 Shares were held by Morgan Stanley Capital Services Inc., long position in 285,000 Shares were held by Morgan Stanley Capital (Luxembourg) S.A. and long position in 113,279 Shares and short position in 25,566 Shares were held by Morgan Stanley & Co., Inc., all of which are either controlled or indirectly controlled corporations of Morgan Stanley.

4. The Capital Group Companies, Inc. was interested in these Shares in its capacity as investment manager. Of these Shares, long position in 13,504,000 Shares were held by Capital Guardian Trust Company, long position in 145,449,100 Shares were held by Capital International, Inc., long position in 4,805,000 Shares were held by Capital International Limited and long position in 2,286,000 Shares were held by Capital International S.A..

As at 31 December 2007, so far as is known to any Director or chief executive of the Company, there was no other person (other than the Directors and the chief executive of the Company), who had an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were recorded in the register to be kept by the Company under Section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange.

SUBSIDIARIES

Details of the Company's principal subsidiaries at 31 December 2007 are set out in note 19 to the financial statements on pages 122 to 128.

CONNECTED TRANSACTIONS

During the year, the Group entered into the following transactions and arrangements with connected persons (as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") of the Company:

(1) The Group sells electrical appliances and consumer electronic products to 北京國美電器有限公司 (Beijing GOME Electrical Appliance Co., Ltd.) ("Beijing GOME"), a company beneficially owned by Mr. Wong, from time to time on an at-cost basis for a term of three financial years ended 31 December 2007, subject to the annual caps of HK$400.00 million (excluding value added tax), HK$500.00 million (excluding value added tax) and HK$550.00 million (excluding value added tax) for each of the three financial years ending 31 December 2007 respectively, pursuant to a conditional supply agreement (the "Master Supply Agreement") entered into between 國美電器有限公司 (GOME Appliance Company Limited) ("GOME Appliance"), a wholly owned subsidiary of the Company, and Beijing GOME on 17 March 2005. On 21 December 2007, Beijing GOME entered into a supplemental agreement to the Master Supply Agreement ("Master Supply Supplemental Agreement") with GOME Appliance, pursuant to which the Master Supply Agreement was supplemented by the following: (a) during the term of the Master Supply Agreement (as supplemented by the Master Supply Supplemental Agreement), GOME Appliance shall (i) supply the electrical appliances and consumer electronics products to Beijing GOME at the request of Beijing GOME from time to time on an at-cost basis or (ii) procure its nominee (being a member of the Group) to supply the electrical appliances and consumer electronics products to Beijing GOME from time to time on an at-cost basis; (b) the term of the Master Supply Agreement (as supplemented by the Master Supply Supplemental Agreement) will be extended from 31 December 2007 to 31 December 2010 unless and until terminated by GOME Appliance giving not less than 60 days' prior notice to Beijing GOME; (c) Beijing GOME shall provide the records of Beijing GOME or its subsidiaries to the auditors of GOME Appliance or its nominee for inspection; and (d) the maximum amounts to be received by GOME Appliance or any member of the Group from Beijing GOME for the electrical appliances and consumer electronics products sold under the Master Supply Agreement (as supplemented by the Master Supply Supplemental Agreement) for the three financial years ending 31 December 2010 shall not exceed RMB500.00 million (excluding value added tax), RMB550.00 million (excluding value added tax) and RMB600.00 million (excluding value added tax), respectively. During the year, the total amount of sales made under the aforesaid agreement was approximately RMB8.05 million.

(2) The Group purchases electrical appliances and consumer electronic products from Beijing GOME from time to time on an at-cost basis for a term of three financial years ending 31 December 2007, subject to the annual caps of HK$400.00 million (excluding value added tax), HK$500.00 million (excluding value added tax) and HK$550.00 million (excluding value added tax) for each of the three financial years ending 31 December 2007 respectively, pursuant to a conditional purchase agreement (the "Master Purchase

Agreement") entered into between GOME Appliance and Beijing GOME on 17 March 2005. On 21 December 2007, Beijing GOME entered into a supplemental agreement to the Master Purchase Agreement ("Master Purchase Supplemental Agreement") with GOME Appliance, pursuant to which the Master Purchase Agreement was supplemented by the following: (a) Beijing GOME shall supply the electrical appliances and consumer electronics products to GOME Appliance or its nominee (being a member of the Group) at the request of GOME Appliance or its nominee from time to time on an at-cost basis during the term of the Master Purchase Agreement (as supplemented by the Master Purchase Supplemental Agreement); (b) the term of the Master Purchase Agreement (as supplemented by the Master Purchase Supplemental Agreement) will be extended from 31 December 2007 to 31 December 2010 unless and until terminated by GOME Appliance giving not less than 60 days' prior notice to Beijing GOME; (c) Beijing GOME shall provide the records of Beijing GOME or its subsidiaries to the auditors of GOME Appliance or its nominee for inspection; and (d) the maximum amounts to be received by Beijing GOME from GOME Appliance or any member of the Group for the electrical appliances and consumer electronics products sold under the Master Purchase Agreement (as supplemented by the Master Purchase Supplemental Agreement) for the three financial years ending 31 December 2010 shall not exceed RMB500.00 million (excluding value added tax), RMB550.00 million (excluding value added tax) and RMB600.00 million (excluding value added tax), respectively. During the year, the total amount of purchases made under the aforesaid agreement was approximately RMB5.63 million.

(3) The Group negotiated with various suppliers for both the Group and the Parent Group on a centralized basis to benefit from the volume purchases and to secure more favourable terms from suppliers. The Group provided purchasing services to the Parent Group (other than GOME Home Appliances H.K. Limited ("Hong Kong GOME"), and charged the Parent Group a fee at the rate of 0.9% of the revenue generated from the sales of the Parent Group (other than Hong Kong GOME) which was determined with reference to the gross profit margin of the Parent Group pursuant to a purchasing service agreement (the "Purchasing Service Agreement") dated 29 July 2004 entered into between 天津國美物流有限公司 (Tianjin Gome Logistics Company Limited) ("Tianjin Logistics"), a subsidiary of the Company, and Beijing GOME. On 4 December 2006, Tianjin Logistics entered into a supplemental agreement to the Purchasing Service Agreement with Beijing GOME, pursuant to which the Purchasing Service Agreement was supplemented by the following: (i) Tianjin Logistics may nominate any member of the Group to provide the purchasing service and/or receive the fees payable under the Purchasing Service Agreement; (ii) the term of the Purchasing Service Agreement has been extended to 31 December 2009 unless and until being terminated by either party by giving prior written notice of not less than 60 days to the other; and (iii) the maximum fees to be receivable by Tianjin Logistics or its nominee from Beijing GOME under the Purchasing Service Agreement shall not exceed RMB150 million (excluding value added tax) in each financial year). The purchasing service fees charged during the year was approximately RMB141.44 million.

(4) The Parent Group is managed by the same management team of the Group for systematic brand building, enhanced market information and optimizing the use of resources in the PRC and Hong Kong. The Group will charge the Parent Group at the rate of 0.75% of the total revenue of the Parent Group if the revenue is equal to or less than RMB5.0 billion or at the rate of 0.6% if the revenue exceeds RMB5.0 billion, which is determined with reference to the expected expenses of the head office level to be allocated to the Parent Group and the expected revenue to be generated from the Parent Group based on the anticipated business growth, pursuant to a management agreement (the "Management Agreement") dated 29 July 2004 entered into between 天津國美商業管理咨詢有限公司 (Tianjin Gome Commercial Consultancy Company Limited) ("Tianjin Consultancy"), a subsidiary of the Company, and Beijing GOME. On 4 December 2006, Tianjin Consultancy entered into a supplemental agreement to the Management Agreement with Beijing GOME, pursuant to which the Management Agreement was supplemented by the following: (i) Tianjin Consultancy may nominate any member of the Group to provide the management service and/or receive the fees payable under the Management Agreement; (ii) the term of the Management Agreement has been extended to 31 December 2009 unless and until being terminated by either party by giving prior written notice of not less than 60 days to the other; and (iii) the maximum fees to be receivable by Tianjin Consultancy or its nominee from Beijing GOME under the Management Agreement shall not exceed RMB100.00 million (excluding value added tax) in each financial year). The management fees charged during the year was approximately RMB100 million.

All independent non-executive Directors have reviewed the above continuing connected transactions as set out paragraphs (1) to (4) above (the "Continuing Connected Transactions") and confirmed that they were entered into:

1. in the ordinary and usual course of business of the Group;

2. either on normal commercial terms or on terms no less favourable to the Group than those available to or from independent third parties; and

3. in accordance with the relevant agreement(s) governing the above-mentioned continuing connected transactions on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Furthermore, the auditors of the Company have confirmed to the board of Directors that the Continuing Connected Transactions:

1. have been approved by the board of Directors;

2. have not exceed the respective caps stated in the relevant announcements;

3. have been entered into in accordance with the terms of the relevant agreements governing such transactions; and

4. are in accordance with the pricing policies of the Group where such transactions involved the provision of goods or services by the Group.

EMPLOYEE AND REMUNERATION POLICY

As at 31 December 2007, the Group employed a total of 48,396 employees. The Group recruits and promotes individuals based on merit and their development potentials. Remuneration package offered to all employees including Directors is determined with reference to their performance and the prevailing salary levels in the market.

COMMITMENTS

Details of commitments are set out in note 38 to the financial statements on pages 148 and 150.

INDEPENDENCE CONFIRMATION

The Company has received from each of the independent non-executive Directors a confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The board of Directors is satisfied with the independence of each of the independent non-executive Directors.

CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance and has complied with the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules. Further information on the Company's corporate governance practices is set out in the Corporate Governance Report on pages 52 to 66.

EXCHANGE RATES EXPOSURE

Details of the exchange rates exposure are set out in note 41 to the financial statements on page 153 to 154.

PURCHASE, SALE AND REDEMPTION OF SHARES

During the year ended 31 December 2007, the Company had not redeemed and neither the Company nor any of its subsidiaries had purchased or sold any of the Company's listed securities.

DISCLOSURE PURSUANT TO RULE 13.20 OF THE LISTING RULES

The information as required to disclosure under Rules 13.20 of the Listing Rules in relation to the Company's advance to an entity is as follows:

As at 31 December 2007, Tianjin Consultancy had made advances in the aggregate amount of RMB1.5 billion (the "Advance") to 北京戰聖投資有限公司 (Beijing Zhansheng Investment Co., Ltd.) ("Zhansheng"), a third party independent of each of the Company and connected persons of the Company, through 興業銀行股份有限公司北京分行 (Beijing Branch of Industrial Bank Co., Ltd) (the "Lending Bank") pursuant to the loan agreement entered into between Tianjin Consultancy, Zhansheng and the Lending Bank on 14 December 2007 in relation to a loan in the principal amount of RMB3.6 billion (the "Loan") to be provided by Tianjin Consultancy to Zhansheng through the Lending Bank (the "Loan Agreement"). The Loan is to be used by Zhansheng for the sole purpose of acquisition of the entire registered capital of 北京市大中家用電器連鎖銷售有限公司 (Beijing Dazhong Home Appliances Retail Co., Ltd.). The Loan is secured and the term of the Loan is from 14 December 2007 to 13 December 2008, and the relevant rate of interest is 6.561% per annum. As at 31 December 2007, the Advance was RMB1.5 billion and the Advance made pursuant to the Loan Agreement represented approximately 5.03% under the assets ratio as defined under Rule 14.07(1) of the Listing Rules. In January 2008, Tianjin Consultancy has made further advance in the amount of RMB1.5 billion through the Lending Bank to Zhansheng pursuant to the Loan Agreement and the remaining balance of RMB0.6 billion will be available to Zhansheng on 1 September 2008.

POST BALANCE SHEET EVENTS

Details of the post balance sheet events are set out in note 42 to the financial statements on page 157.

FIVE YEARS FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for the past five years is set out on page 158.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year.

AUDITORS

Ernst & Young retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of Ernst & Young as auditors of the Company will be proposed at the forthcoming Annual General Meeting.

On behalf of the Board

Du Juan
Director

Hong Kong, 17 April, 2008

CORPORATE GOVERNANCE PRACTICES

The Company is committed to upholding good corporate governance practices. In the past, the board of directors (the "Board") and the management of the Company have been continually reviewing and enhancing its corporate governance practices. The Board believes that its continued efforts have, directly and indirectly, contributed to the strong growth of the Group in the past years and will provide a solid foundation for achieving further business growth, broadening investors' base, promoting high standards of accountability and transparency, all of them will ultimately create value to the shareholders of the Company.

The Stock Exchange of Hong Kong Limited (the "Stock Exchange") introduced the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") effective from 1 January 2005. The Board responded promptly in 2005 to review its corporate governance practices and took appropriate actions to ensure that the Company is in compliance with the CG Code. Since 2005, the Board has reviewed its corporate governance practices and ensured that the Company was in compliance with the CG Code on an annual basis.

The Company has complied with the code provisions of the CG Code for the year ended 31 December 2007.

Set out below are the status and details of compliance by the Company of the CG Code in the year ended 31 December 2007.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the directors of the Company (the "Directors"). Having made specific enquiry to each of the Directors, the Company confirms that all Directors have complied with the Model Code during the year ended 31 December 2007.

BOARD OF DIRECTORS

Board composition

As at 31 December 2007, the Board comprises four executive Directors, one non-executive Director and six independent non-executive Directors and the Board members were:

Mr. Wong Kwong Yu	*(Executive Director and Chairman)*
Ms. Du Juan	*(Executive Director)*
Mr. Chen Xiao	*(Executive Director) (appointed on 22 May 2007)*
Mr. Ng Kin Wah	*(Executive Director)*
Mr. Lam Pang	*(Executive Director) (retired on 22 May 2007)*
Mr. Sun Qiang Chang	*(Non-executive director)*
Mr. Sze Tsai Ping, Michael	*(Independent non-executive Director)*
Mr. Chan Yuk Sang	*(Independent non-executive Director)*
Mr. Mark Christopher Greaves	*(Independent non-executive Director)*
Dr. Liu Peng Hui	*(Independent non-executive Director)*
Mr. Yu Tung Ho	*(Independent non-executive Director) (appointed on 22 May 2007)*
Mr. Thomas Joseph Manning	*(Independent non-executive Director) (appointed on 22 May 2007)*

The biographical details of the Board members are set out on pages 34 to 37 of this Annual Report.

All non-executive Directors are appointed with specific term of one year and shall retire and are eligible for re-election at the forthcoming annual general meeting of the Company. The Board has confirmed with each of the independent non-executive Directors as to his independence with reference to the factors as set out in Rule 3.13 of the Listing Rules. The Board is satisfied with the independence of the independent non-executive Directors.

Ms. Du Juan, an executive Director, is the spouse of Mr. Wong Kwong Yu ("Mr. Wong"), an executive Director and the chairman of the Company. Mr. Wong and Ms. Du Juan jointly own various investment holding companies.

Roles and functions

The Board is responsible for formulating the strategic business development, reviewing and monitoring the business performance of the Group, approving major funding and investment proposals, as well as preparing and approving the financial statements of the Group. The Board gives clear directions as to the powers delegated to the management for the administrative and management functions of the Group.

For the year ended 31 December 2007, the Board, amongst others:–

1. reviewed the performance of the Group and formulated business strategy of the Group;

2. reviewed and approved the annual results of the Group for the year ended 31 December 2006, the quarterly results of the Group for the three months ended 31 March 2007, the interim results of the Group for the 6 months ended 30 June 2007 and the quarterly results of the Group for the nine months ended 30 September 2007;

3. approved the re-appointment of the auditors of the Group;

4. approved the general mandates to issue and repurchase shares of the Company;

5. approved the appointment of Mr. Chen Xiao as an executive Director and each of Mr. Yu Tung Ho and Mr. Thomas Joseph Manning as an independent non-executive Director;

6. accepted the retirement of Mr. Lam Pang as an executive Director;

7. reviewed and approved:

   (a) the placing agreement dated 21 May 2007 entered into between Shinning Crown Holdings Inc., the Company and Goldman Sachs (Asia) L.L.C in relation to the placement of 110,000,000 shares of the Company by Shinning Crown Holdings Inc.;

   (b) the shares subscription agreement dated 11 May 2007 entered into between the Company and Shinning Crown Holdings Inc. in relation to the subscription of 110,000,000 new shares of the Company; and

(c) the bond subscription agreement dated 11 May 2007 entered into between the Company and Goldman Sachs (Asia) L.L.C in relation to the subscription of the US Dollar Settled Zero Coupon Convertible Bonds due 2014 of an initial aggregate principal amount of RMB4,600 million;

8. reviewed and approved the transactions contemplated under the following agreements:

(a) the loan agreement dated 14 December 2007 entered into between 天津國美商業管理諮詢有限公司 (Tianjin Gome Commercial Consultancy Co., Ltd.) ("Tianjin Consultancy"), a subsidiary of the Company, 北京戰聖投資有限公司 (Beijing Zhansheng Investment Co., Ltd.) ("Zhansheng") and 興業銀行股份有限公司北京分行 (Beijing Branch of Industrial Bank Co., Ltd.) (the "Lending Bank") pursuant to which the loan in the principal amount of RMB3.6 billion shall be provided by Tianjin Consultancy by installments through the Lending Bank to Zhansheng (the "Loan") for the sole purpose of acquisition of the entire registered share capital of 北京市大中家用電器連鎖銷售有限公司 (Beijing Dazhong Home Appliances Retail Co., Ltd.) ("Dazhong") ;

(b) the share pledge agreement dated 14 December 2007 entered into between Tianjin Consultancy and Zhansheng pursuant to which the entire registered capital of Dazhong has been charged by Zhansheng in favour of Tianjin Consultancy as a security for the Loan;

(c) the share pledge agreement dated 14 December 2007 entered into between Tianjin Consultancy and the shareholders of Zhansheng pursuant to which the entire registered capital of Zhansheng has been charged to Tianjin Consultancy as a security for the Loan;

(d) the management agreement dated 14 December 2007 entered into between Tianjin Consultancy and Zhansheng pursuant to which Tianjin Consultancy has been appointed as agent on an exclusive basis to manage and operate the business of Dazhong; and

(e) the option agreement dated 14 December 2007 pursuant to which Tianjin Consultancy and/or any of its designated party(ies) has been granted on an exclusive basis by Zhansheng an option to acquire all or any part of the registered capital of Dazhong which can be exercised at any time;

9. reviewed and approved the continuing connected transactions of the Group contemplated under the following agreements:

   (a) the supplemental agreement dated 21 December 2007 entered into between 國美電器有限公司 (GOME Appliance Company Limited) ("GOME Appliance"), a wholly-owned subsidiary of the Company and 北京國美電器有限公司 (Beijing GOME Electrical Appliance Co., Ltd.) ("Beijing GOME") to the Master Supply Agreement dated 17 March 2005 (the "Master Supply Agreement") entered into between GOME Appliance and Beijing GOME, pursuant to which, amongst others, the term of the Master Supply Agreement and the annual cap amount for the three financial years ended 31 December 2010 has been extended and determined, respectively; and

   (b) the supplemental agreement dated 21 December 2007 entered into between GOME Appliance and Beijing GOME to the Master Purchase Agreement dated 17 March 2005 entered into between GOME Appliance and Beijing GOME (the "Master Purchase Agreement"), pursuant to which, amongst others, the term of the Master Purchase Agreement and the annual cap amount for the three financial years ended 31 December 2010 has been extended and determined respectively; and

The Board meets regularly at least once a quarter and additional meetings are convened as and when the Board considers necessary. In 2007, 11 Board meetings (including 4 regular Board meetings) were held. Details of the Directors' attendance record in the year are as follows:

Directors	**Attendance**
Mr. Wong Kwong Yu	9/11 (4/4)*
Ms. Du Juan	10/11 (4/4)*
Mr. Chen Xiao**	3/11 (2/4)*
Mr. Ng Kin Wah	11/11 (4/4)*
Mr. Sun Qiang Chang	2/11 (1/4)*
Mr. Sze Tsai Ping, Michael	6/11 (4/4)*
Mr. Chan Yuk Sang	6/11 (4/4)*
Mr. Mark C. Greaves	1/11 (1/4)*
Dr. Liu Peng Hui	5/11 (3/4)*
Mr. Yu Tung Ho**	2/11 (2/4)*
Mr. Thomas Joseph Manning**	2/11 (2/4)*
Mr. Lam Pang***	4/11 (2/4)*

* *Regular Board meetings - Apart from all regular Board meetings, the Board also met to discuss the day-to-day operations and other affairs.*

** *Mr. Chen Xiao was appointed as an executive Director and each of Mr. Yu Tung Ho and Mr. Thomas Joseph Manning was appointed as an independent non-executive Director, all with effect from 22 May 2007, and therefore did not attend the meetings of the Board prior to their respective appointments.*

*** *Mr. Lam Pang retired as an executive Director with effect from 22 May 2007 and therefore, did not attend the meetings of the Board subsequent to his retirement.*

Board members are provided with complete, adequate and timely information to allow them to fulfill their duties properly. Code provision A.1.3 of the CG Code requires that notice of at least 14 days should be given of a regular board meeting to give all directors an opportunity to attend. Notice and agenda of regular Board meetings are sent to all Directors within reasonable time prior to the meetings. Where the Board considers necessary and desirable to hold a regular Board meeting with notice less than 14 days, the Board will first consult the Directors whether a shorter notice period is acceptable to them and if so, a regular Board meeting will be fixed accordingly. During the year under review, the average notice period for regular Board meetings given to the Directors is about 14 days. Documents relating to a regular Board meeting are sent to all Directors at least 3 days respectively prior to such meeting.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

During the year under review, Mr. Wong serves as the chairman of the Company and is primarily responsible for providing leadership to the Board. Since the acquisition of interests in China Paradise Electronics Retail Limited by the Company, Mr. Chen Xiao has been appointed as president of the Company and an executive Director on 30 November 2006 and 22 May 2007, respectively, and has undertaken the duties of the chief executive officer of the Company to oversee the business of the Group in Mainland China and executing the decisions of the Board.

BOARD COMMITTEES

As at 31 December 2007, the Board established the following committees:

1. Remuneration Committee;
2. Nomination Committee;
3. Audit Committee; and
4. Independent Committee.

Remuneration Committee

The Remuneration Committee was established on 10 November 2005 with terms of reference substantially the same as those contained in paragraph B.1.3 of the CG Code. A majority of the members of the Remuneration Committee is independent non-executive Directors. As at 31 December 2007, the Remuneration Committee comprised five members and members of the committee were as follows:

Mr. Mark C. Greaves	*(Independent non-executive Director and chairman of the Remuneration Committee)*
Mr. Sze Tsai Ping, Michael	*(Independent non-executive Director)*
Mr. Chan Yuk Sang	*(Independent non-executive Director)*
Mr. Thomas Joseph Manning	*(Independent non-executive Director) (appointed as member of Remuneration Committee with effect from 22 May 2007)*
Ms. Du Juan	*(Executive Director)*
Dr. Liu Peng Hui	*(Independent non-executive Director) (retired as member of Remuneration Committee with effect from 22 May 2007)*
Mr. Ng Kin Wah	*(Executive Director) (retired as member of Remuneration Committee with effect from 17 April 2007)*

The Remuneration Committee is primarily responsible for the following duties:

1. to make recommendations to the Board on the Company's policy and structure for all remuneration of Directors and senior management and on the establishment of a formal and transparent procedure for developing the policy on such remuneration;

2. to have the delegated responsibilities to determine the specific remunerations packages of all executive Directors and senior management;

3. to review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time;

4. to review and approve the compensation payable to executive Directors and senior management in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not excessive for the Company;

5. to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is otherwise reasonable and appropriate; and

6. to ensure that no Director or any of his/her associates is involved in deciding his/her own remuneration.

The Remuneration Committee shall meet at least once each year. Meetings of the Remuneration Committee were held on 17 April 2007 and 23 August 2007, respectively. During the year, the Remuneration Committee considered and approved the plan for review of the remuneration policy of the Group.

Attendance records of the members of the Remuneration Committee of such meetings were as follows:

Committee members	**Attendance**
Mr. Mark C. Greaves	1/2
Mr. Sze Tsai Ping, Michael	2/2
Mr. Chan Yuk Sang	1/2
Mr. Thomas Joseph Manning	1/2
Ms. Du Juan	2/2
Dr. Liu Peng Hui*	1/2
Mr. Ng Kin Wah*	1/2

* *Each of Dr. Liu Peng Hui and Mr. Ng Kin Wah retired as member of the Remuneration Committee with effect from 22 May 2007 and 17 April 2007, respectively, and therefore did not attend meetings of the Remuneration Committee subsequent to their respective retirements.*

Nomination Committee

The Nomination Committee was established on 10 November 2005 with terms of reference substantially the same as those contained in paragraph A.4.5 of the CG Code. A majority of the members of the Nomination Committee is independent non-executive Directors. As at 31 December 2007, the Nomination Committee comprised five members and members of the committee were as follows:

Dr. Liu Peng Hui	*(Independent non-executive Director and chairman of the Nomination Committee) (nominated as the chairman of the Nomination Committee with effect from 22 May 2007)*
Mr. Mark C. Greaves	*(Independent non-executive Director)*
Mr. Yu Tung Ho	*(Independent non-executive Director) (appointed as member of the Nomination Committee with effect from 22 May 2007)*
Mr. Sun Qiang Chang	*(Non-executive Director)*
Ms. Du Juan	*(Executive Director)*
Mr. Chan Yuk Sang	*(Independent non-executive Director) (retired as the chairman and member of the Nomination Committee with effect from 22 May 2007)*
Mr. Sze Tsai Ping, Michael	*(Independent non-executive Director) (retired as member of the Nomination Committee with effect from 17 April 2007)*
Mr. Ng Kin Wah	*(Executive Director) (retired as the member of the Nomination Committee with effect from 17 April 2007)*

The Nomination Committee is primarily responsible for the following duties:

1. to review the structure, size and composition (including the skills, knowledge and experience) of the Board on a regular basis and make recommendations to the Board regarding any proposed changes;

2. to identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships;

3. to assess the independence of independent non-executive Directors, having regard to the requirements under the applicable laws, rules and regulations; and

4. to make recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors and succession planning for Directors and, in particular, the chairman and the chief executive officer (if any) of the Company.

The Nomination Committee shall meet at least once each year.

Nomination Committee meetings were held on 17 April 2007 and 23 August 2007, respectively, for, amongst other matters, reviewing the structure, size and composition of the Board, assessing the continual independence of the independent non-executive Directors, considering and recommending the re-election of the retiring Directors, considering the appointment of Mr. Chen Xiao as an executive Director and each of Mr. Yu Tung Ho and Mr. Thomas Joseph Manning as independent non-executive Director.

Attendance records of the members of the Nomination Committee of such meetings were as follows:

Committee members	**Attendance**
Dr. Liu Peng Hui	2/2*
Mr. Mark C. Greaves	1/2
Mr. Yu Tung Ho	1/2
Mr. Sun Qiang Chang	0/2
Ms. Du Juan	2/2
Mr. Chan Yuk Sang	1/2**
Mr. Sze Tsai Ping, Michael	1/2***
Mr. Ng Kin Wah	1/2***

* *Dr. Liu Peng Hui was nominated as the chairman of the Nomination Committee with effect from 22 May 2007.*

** *Mr. Chan Yuk Sang retired as the chairman and member of the Nomination Committee with effect from 22 May 2007, and therefore did not attend the meetings of the Nomination Committee subsequent to his retirement.*

*** *Each of Mr. Ng Kin Wah and Mr. Sze Tsai Ping, Michael retired as member of the Nomination Committee with effect from 17 April 2007, and therefore did not attend the meetings of the Nomination Committee subsequent to their respective retirements.*

In selecting a suitable candidate to become a member of the Board, the Board will consider various criteria such as education, qualification, experience and reputation of such candidate.

Pursuant to Bye-law 99(A) of the Company's Bye-laws, at each annual general meeting of the Company, at least one third of the Directors for the time being shall retire from office, except the director holding office as chairman or managing director of the Company. The Company has reviewed its Bye-laws and the Private Act adopted by the Company in Bermuda in 1992 with reference to the code provision A.4.2 of the CG Code and noted that section 4(e) of the Private Act stipulates that any chairman or managing director of the Company shall not be subject to retirement by rotation under the Bye-laws of the Company. In the circumstances, any proposed amendments to the Company's Bye-laws shall take into account of the provisions of the Company's Private Act, which the Company is subject to.

INDEPENDENT COMMITTEE

The Independent Committee was established by the Board on 14 March 2006 pursuant to a subscription agreement dated 28 January 2006 (the "Subscription Agreement") entered into among the Company, Real Success International Limited and Warburg Pincus Private Equity IX, L.P. relating to the issue of the principal amount of US$125 million 1.5 per cent. convertible bonds due 2011 and the issue of warrants to subscribe in aggregate maximum of US$25 million for new shares of the Company. As at 31 December 2007, the Independent Committee comprised five members and consisted of the following members:

Mr. Sun Qiang Chang	*(Non-executive Director and chairman of the Independent Committee)*
Mr. Chan Yuk Sang	*(Independent non-executive Director)*
Dr. Liu Peng Hui	*(Independent non-executive Director) (appointed as member of the Independent Committee with effect from 17 April 2007)*
Mr. Yu Tung Ho	*(Independent non-executive Director) (appointed as member of the Independent Committee with effect from 22 May 2007)*
Mr. Thomas Joseph Manning	*(Independent non-executive Director) (appointed as member of the Independent Committee with effect from 22 May 2007)*
Mr. Mark C. Greaves	*(Independent non-executive Director) (retired as member of the Independent Committee with effect from 17 April 2007)*

The Independent Committee is primarily responsible for the following duties:

1. to monitor the continuing compliance by Mr. Wong of his obligations ("Mr. Wong's Obligations") under a deed of undertaking executed pursuant to the Subscription Agreement and any other undertaking which Mr. Wong and/or his associates may have given to the Group; and

2. to make recommendations to the Board for the purpose of asserting the Company's rights and preserving its position in the event of any non-compliance of Mr. Wong's Obligations.

The Independent Committee shall meet on a quarterly basis or at least four times a year.

Independent Committee meetings were held on 26 January 2007, 17 April 2007, 23 August 2007 and 20 November 2007, respectively, for, amongst other matters, reviewing continuing compliance of Mr. Wong's Obligations by Mr. Wong.

Attendance records of the members of the Independent Committee of such meetings were as follows:

Committee members	Attendance
Mr. Sun Qiang Chang	3/4
Mr. Chan Yuk Sang	3/4
Dr. Liu Peng Hui	1/4*
Mr. Yu Tung Ho	2/4**
Mr. Thomas Joseph Manning	2/4**
Mr. Mark C. Greaves	1/4***

* *Dr. Liu Peng Hui, was appointed as a member of the Independent Committee with effect from 17 April 2007, and therefore did not attend the meetings of the Independent Committee prior to his appointment.*

** *Each of Mr. Yu Tung Ho and Mr. Thomas Joseph Manning was appointed as a member of the Independent Committee with effect from 22 May 2007, and therefore did not attend the meetings of the Independent Committee prior to their respective appointments.*

*** *Mr. Mark C. Greaves retired as a member of the Independent Committee with effect from 17 April 2007, and therefore did not attend the meetings of the Independent Committee subsequent to his retirement.*

ACCOUNTABILITY AND AUDIT

The Directors have acknowledged by issuing a management representation letter to the Auditors that they bear the ultimate responsibility of preparing the financial statements of the Group.

AUDIT COMMITTEE

The Audit Committee was established in 2004. As at 31 December 2007, the Audit Committee comprised four members and consisted of the following members:

Mr. Sze Tsai Ping, Michael	*(Independent non-executive Director and chairman of the Audit Committee)*
Mr. Chan Yuk Sang	*(Independent non-executive Director)*
Mr. Mark C. Greaves	*(Independent non-executive Director)*
Dr. Liu Peng Hui	*(Independent non-executive Director)*

The Audit Committee has adopted a written terms of reference substantially the same as those contained in paragraph C.3.3 of the CG Code.

The Audit Committee is primarily responsible for, amongst others, the following duties:

1. to make recommendation to the Board on the appointment, re-appointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any questions of resignation or dismissal of that auditor;

2. to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standard;

3. to develop and implement policy on the engagement of an external auditor to supply non-audit services;

4. to monitor integrity of financial statements of the Company and the Company's annual report and accounts, half-year report and quarterly report and to review significant financial reporting judgments contained in them;

5. to review the Company's financial controls, internal control and risk management systems;

6. to discuss with management the system of internal control and ensure that management has discharged its duty to have an effective internal control system;

7. to review the Group's financial and accounting policies and practices; and

8. to review the external auditor's management letter, any material queries raised by the auditor to the management in respect of the accounting records, financial accounts or systems of control and management's response, and to ensure that the Board provide a timely response to the issues raised.

The Audit Committee shall meet at least twice each year. In 2007, Audit Committee meetings were held on 17 April 2007, 10 May 2007 and 23 August 2007, respectively for, amongst other matters, considering the annual results of the Group for the financial year ended 31 December 2006, the quarterly results of the Group for the three months ended 31 March 2007 and the interim results of the Group for the six months ended 30 June 2007, discussing with the auditors of the Company on internal control, auditors' independence, auditors' remuneration and the scope of work in relation to the annual audit and the transfer pricing issue in PRC and reviewing the continuing connected transactions of the Group.

Attendance records of the Audit Committee members in 2007 are as follows:

Committee members	Attendance
Mr. Sze Tsai Ping, Michael	3/3
Mr. Chan Yuk Sang	2/3
Mr. Mark C. Greaves	2/3
Dr. Liu Peng Hui	2/3

The amount of audit fees payable to Ernst & Young, the auditors of the Company, for the year ended 31 December 2007 is RMB 6,800,000 (2006: RMB7,800,000). The amount of remuneration payable to the auditors of the Company relating to non-audit services for the year ended 31 December 2007 is RMB700,000 (2006: RMB800,000). The Audit Committee is of the view that the auditors' independence was not affected by the provision of such non-audit related services to the Group.

Pursuant to the Bye-laws of the Company, the terms of appointment of the auditors of the Company will expire at the end of the forthcoming annual general meeting. The Audit Committee has recommended to the Board that Ernst & Young be nominated for re-appointment as the auditors of the Company at the forthcoming annual general meeting of the Company.

INTERNAL CONTROLS

Management had implemented a system of internal controls to provide reasonable assurance that the Group's assets are safeguarded, proper accounting records are maintained, appropriate legislation and regulations are compiled with, reliable financial information are provided for management and publication purposes and investment and business risks affecting the Group are identified and managed.

The Board has also reviewed the Group's internal control system and is satisfied that there is no material change to the internal control system as compared with those of the Company in 2006, and has reviewed the effectiveness of the Group's material internal controls for the year 2007 and is satisfied that, based on information furnished to it and on its own observations, the present internal controls of the Group are satisfactory.

SHAREHOLDERS' RIGHTS

The Company is committed to ensure shareholders' interest. To this end, the Company communicates with its shareholders through various channels, including annual general meetings, special general meetings, annual and half-yearly reports, notices of general meetings and circulars sent to shareholders by post, announcements on the website of the Stock Exchange, and press releases and other corporate communications available on the Company's website. Since September 2005, the Company has established the practice, on a voluntary basis, of publishing quarterly results of the Group on the website of the Stock Exchange to provide better disclosure to the financial market and to the existing and potential shareholders of the business performance of the Group.

Registered shareholders are notified by post of the shareholders' meetings. Any registered shareholder is entitled to attend and vote at the annual and special general meetings, provided that his/her/its shares have been fully paid up and recorded in the register of members of the Company.

Shareholders or investors can make enquiries or proposals to the Company by putting their enquiries or proposals to the Company through the contact details listed under the section headed "Investor Relations".

INVESTOR RELATIONS

The Company regards the communication with institutional investors as important means to enhance the transparency of the Company and collect views and feedbacks from institutional investors. During the year under review, the Directors and senior management of the Company participated in numerous road shows and investment conferences. In addition, the Company also maintains regular communication with the media through press conferences, news releases to the media and on the Company's website, and answering enquiries from the media.

Shareholders, investors and the media can make enquiries to the Company through the following means:

Telephone number:	2122 9133
By post:	Unit 6101, 61st Floor The Center 99 Queen's Road Central Hong Kong
Attention:	Corporate Finance & Development Department
By email:	info@gome.com.hk

ERNST & YOUNG

18th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong
Phone: (852) 2846 9888
Fax: (852) 2868 4432
www.ey.com/china

To the shareholders of
GOME Electrical Appliances Holding Limited
(Incorporated in Bermuda with limited liability)

We have audited the financial statements of GOME Electrical Appliances Holding Limited set out on pages 69 to 157 which comprise the consolidated and company balance sheets as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2007 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
Hong Kong
17 April 2008

	Notes	2007 RMB'000	2006 RMB'000
Revenue	4(a)	**42,478,523**	24,729,192
Cost of sales		**(38,383,276)**	(22,369,445)
Gross profit		**4,095,247**	2,359,747
Other income and gain	4(b)	**2,546,876**	1,251,780
Selling and distribution costs		**(3,547,907)**	(2,123,158)
Administrative expenses		**(686,740)**	(418,329)
Other expenses		**(604,768)**	(156,087)
Profit from operating activities		**1,802,708**	913,953
Finance costs	7	**(193,369)**	(65,404)
Finance income	7	**424,241**	126,154
(Loss)/gain on the derivative components of convertible bonds	32	**(505,483)**	93,519
Profit before tax	6	**1,528,097**	1,068,222
Tax	10	**(360,262)**	(125,598)
Profit for the year		**1,167,835**	942,624
Attributable to:			
Equity holders of the parent		**1,127,307**	819,167
Minority interests		**40,528**	123,457
		1,167,835	942,624

Year ended 31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
Dividends	31		
Interim		**254,193**	99,186
Proposed final		**328,629**	110,118
		582,822	209,304
Dividend per share	31		
Interim		**RMB7.8 fen**	RMB4.3 fen
Proposed final		**RMB9.9 fen**	RMB3.6 fen
		RMB17.7 fen	RMB7.9 fen
Earnings per share attributable to ordinary equity holders of the parent	11		
Basic		**RMB35 fen**	RMB38 fen
Diluted		**RMB35 fen**	RMB34 fen

	Notes	2007 RMB'000	2006 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	12	**3,144,458**	2,206,673
Investment properties	13	**331,680**	6,229
Goodwill	14	**3,343,012**	3,217,613
Other intangible assets	15	**143,867**	152,324
Prepayments for acquisition of properties	16	**138,300**	–
Lease prepayments	17	**342,744**	61,157
Deferred tax assets	18	**55,873**	35,095
		7,499,934	5,679,091
Current assets			
Hong Kong listed investments, at fair value		**1,058**	908
Investment deposits	22	**30,000**	–
Designated loan	20	**1,500,000**	–
Inventories	23	**5,383,039**	4,882,754
Trade and bills receivables	24	**97,719**	75,189
Prepayments, deposits and other receivables	25	**2,211,998**	1,298,232
Due from related parties	26	**79,024**	189,463
Other financial assets	27	**150,000**	150,000
Pledged deposits	28	**6,614,725**	7,448,755
Cash and cash equivalents	28	**6,269,996**	1,451,837
		22,337,559	15,497,138
TOTAL ASSETS		**29,837,493**	21,176,229

31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Issued capital	29	**343,764**	317,009
Reserves	30(a)	**9,630,586**	4,724,479
Proposed final dividend	31	**328,629**	110,118
		10,302,979	5,151,606
Minority interests		**89,689**	88,783
Total equity		**10,392,668**	5,240,389
Non-current liabilities			
Deferred tax liabilities	18	**80,431**	46,954
Convertible bonds	32	**3,184,303**	933,490
		3,264,734	980,444
Current liabilities			
Interest-bearing bank loans	33	**300,000**	729,330
Trade and bills payables	34	**13,556,545**	12,614,613
Customers' deposits, other payables and accruals	35	**1,939,695**	1,286,431
Due to a related party	36	**–**	120,564
Tax payable		**383,851**	204,458
		16,180,091	14,955,396
Total liabilities		**19,444,825**	15,935,840
TOTAL EQUITY AND LIABILITIES		**29,837,493**	21,176,229

Du Juan
Director

Ng Kin Wah
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2007

		Attributable to equity holders of the parent										
	Notes	Issued capital RMB'000	Share premium RMB'000	Contributed surplus RMB'000	Capital reserve RMB'000	Statutory reserves RMB'000 (note 30(a))	Exchange reserve RMB'000	Retained earnings RMB'000	Proposed final dividend RMB'000	Total RMB'000	Minority interests RMB'000	Total equity RMB'000
At 1 January 2007		**317,009**	**5,235,209**	**657**	**(1,632,736)**	**368,800**	**1,639**	**750,910**	**110,118**	**5,151,606**	**88,783**	**5,240,389**
Exchange realignment		**–**	**–**	**–**	**–**	**–**	**(59,161)**	**–**	**–**	**(59,161)**	**–**	**(59,161)**
Total income and expense for the year recognised directly in equity		**–**	**–**	**–**	**–**	**–**	**(59,161)**	**–**	**–**	**(59,161)**	**–**	**(59,161)**
Profit for the year		**–**	**–**	**–**	**–**	**–**	**–**	**1,127,307**	**–**	**1,127,307**	**40,528**	**1,167,835**
Total income and expense for the year		**–**	**–**	**–**	**–**	**–**	**(59,161)**	**1,127,307**	**–**	**1,068,146**	**40,528**	**1,108,674**
Acquisition of outstanding shares of China Paradise	29(a)	**1,343**	**110,092**	**–**	**–**	**–**	**–**	**–**	**–**	**111,435**	**(33,642)**	**77,793**
Acquisition of minority interests		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(5,980)**	**(5,980)**
Shares issued upon conversion of convertible bonds	29(b)/32	**14,632**	**1,496,466**	**–**	**–**	**–**	**(23,071)**	**–**	**–**	**1,488,027**	**–**	**1,488,027**
Issue of 2014 Convertible Bonds	32	**–**	**–**	**–**	**1,415,770**	**–**	**–**	**–**	**–**	**1,415,770**	**–**	**1,415,770**
Issue of new shares	29(c)	**10,780**	**1,422,960**	**–**	**–**	**–**	**–**	**–**	**–**	**1,433,740**	**–**	**1,433,740**
Share issue costs		**–**	**(1,434)**	**–**	**–**	**–**	**–**	**–**	**–**	**(1,434)**	**–**	**(1,434)**
Transfer to statutory reserves		**–**	**–**	**–**	**–**	**199,529**	**–**	**(199,529)**	**–**	**–**	**–**	**–**
Dividends paid	31	**–**	**–**	**–**	**–**	**–**	**–**	**(254,193)**	**(110,118)**	**(364,311)**	**–**	**(364,311)**
Proposed 2007 final dividend	31	**–**	**–**	**–**	**–**	**–**	**–**	**(328,629)**	**328,629**	**–**	**–**	**–**
At 31 December 2007		**343,764**	**8,263,293***	**657***	**(216,966)***	**568,329***	**(80,593)***	**1,095,866***	**328,629**	**10,302,979**	**89,689**	**10,392,668**
At 1 January 2006		174,099	763,050	657	–	216,667	(10,217)	293,180	73,450	1,510,886	360,408	1,871,294
Exchange realignment		–	–	–	–	–	11,856	–	–	11,856	–	11,856
Total income and expense for the year recognised directly in equity		–	–	–	–	–	11,856	–	–	11,856	–	11,856
Profit for the year		–	–	–	–	–	–	819,167	–	819,167	123,457	942,624
Total income and expense for the year		–	–	–	–	–	11,856	819,167	–	831,023	123,457	954,480
Acquisition of a minority interest		66,986	–	–	(1,632,736)	–	–	–	–	(1,565,750)	(238,219)	(1,803,969)
Issue of warrants		–	22,317	–	–	–	–	–	–	22,317	–	22,317
Acquisition of China Paradise		75,924	4,464,318	–	–	–	–	–	–	4,540,242	87,637	4,627,879
Share issue costs		–	(14,476)	–	–	–	–	–	–	(14,476)	–	(14,476)
Transfer to statutory reserves		–	–	–	–	152,133	–	(152,133)	–	–	–	–
Dividends paid to minority shareholders		–	–	–	–	–	–	–	–	–	(244,500)	(244,500)
Dividend paid	31	–	–	–	–	–	–	(99,186)	(73,450)	(172,636)	–	(172,636)
Proposed 2006 final dividend	31	–	–	–	–	–	–	(110,118)	110,118	–	–	–
At 31 December 2006		317,009	5,235,209*	657*	(1,632,736)*	368,800*	1,639*	750,910*	110,118	5,151,606	88,783	5,240,389

* These reserve accounts comprise the consolidated reserves of RMB9,630,586,000 (2006: RMB4,724,479,000) in the consolidated balance sheet.

Consolidated Cash Flow Statement

Year ended 31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**1,528,097**	1,068,222
Adjustments for:			
Finance income	7	**(424,241)**	(126,154)
Finance costs	7	**193,369**	65,404
Loss/(gain) on the derivative components of convertible bonds	6	**505,483**	(93,519)
Fair value gain on investment properties	6	**(47,176)**	(1,029)
Fair value adjustment to other investments		**(150)**	(47)
Depreciation	6	**256,988**	115,186
Loss on disposal of items of property, plant and equipment	6	**13,104**	4,925
Amortisation of intangible assets	6	**8,457**	2,591
Transaction cost related to the derivative components of convertible bonds		**–**	2,731
		2,033,931	1,038,310
Increase in lease prepayments		**(279,970)**	–
Increase in inventories		**(466,578)**	(1,069,555)
Increase in trade and bills receivables		**(10,230)**	(826)
(Increase)/decrease in prepayments, deposits and other receivables		**(839,136)**	83,104
Decrease/(increase) in amounts due from related parties		**110,439**	(91,631)
Decrease/(increase) in pledged deposits		**839,449**	(2,508,503)
Increase in trade and bills payables		**887,997**	2,286,740
Increase in customers' deposits, other payables and accruals		**547,003**	366,636
(Decrease)/increase in amounts due to a related party		**(120,564)**	120,481
Cash generated from operations		**2,702,341**	224,756
Interest received		**390,864**	105,221
Dividends paid		**(364,311)**	(417,136)
PRC income tax paid		**(168,171)**	(29,772)
Net cash inflow/(outflow) from operating activities		**2,560,723**	(116,931)

	Notes	2007 RMB'000	2006 RMB'000
Net cash inflow/(outflow) from operating activities		**2,560,723**	(116,931)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(1,578,294)**	(278,035)
Proceeds from disposal of items of property, plant and equipment		**1,245**	3,807
Acquisition of subsidiaries		**(6,558)**	361,749
Acquisition of minority interests		**(13,158)**	(1,019,700)
Transaction costs of the acquisition		**–**	(71,684)
Disposal of a jointly-controlled entity		**(5,526)**	–
Prepayment for acquisition of a subsidiary		**(10,000)**	–
Designated loan		**(1,500,000)**	–
Increase in investment deposits		**(30,000)**	–
Net cash outflow from investing activities		**(3,142,291)**	(1,003,863)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares	29	**1,433,740**	–
Share issue expenses		**(1,434)**	(14,476)
Issue of convertible bonds	32	**4,600,000**	999,950
Issue of warrants		**–**	24,102
Transaction costs for issuing convertible bonds and warrants	32	**(71,860)**	(10,710)
New bank loans		**400,000**	507,000
Repayment of bank loans		**(829,330)**	–
Interest paid		**(40,789)**	(9,079)
Net cash inflow from financing activities		**5,490,327**	1,496,787
NET INCREASE IN CASH AND CASH EQUIVALENTS		**4,908,759**	375,993
Cash and cash equivalents at 1 January		**1,451,837**	1,079,347
Exchange differences		**(90,600)**	(3,503)
CASH AND CASH EQUIVALANTS AT 31 DECEMBER		**6,269,996**	1,451,837
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	28	**2,529,443**	1,372,455
Non-pledged time deposits with original maturity of less than three months when acquired	28	**3,740,553**	79,382
		6,269,996	1,451,837

Balance Sheet

31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
ASSETS			
Non-current assets			
Interests in subsidiaries	19	**6,977,529**	5,497,007
Current assets			
Prepayments, deposits and other receivables	25	**12,120**	659
Pledged deposits	28	**1,601,019**	–
Cash and cash equivalents	28	**3,356,064**	66,367
		4,969,203	67,026
TOTAL ASSETS		**11,946,732**	5,564,033
EQUITY AND LIABILITIES			
Equity			
Issued capital	29	**343,764**	317,009
Reserves	30(b)	**8,087,312**	4,022,625
Proposed final dividend	31	**328,629**	110,118
Total equity		**8,759,705**	4,449,752
Non-current liabilities			
Convertible bonds	32	**3,184,303**	933,490
Current liabilities			
Other payables and accruals		**2,724**	180,791
Total liabilities		**3,187,027**	1,114,281
TOTAL EQUITY AND LIABILITIES		**11,946,732**	5,564,033

Du Juan
Director

Ng Kin Wah
Director

1. CORPORATE INFORMATION

GOME Electrical Appliances Holding Limited (the "Company") is a limited liability company incorporated in Bermuda. Its shares are listed on The Stock Exchange of Hong Kong Limited (the "SEHK"). The address of its registered office is Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda.

The principal activity of the Company and its subsidiaries (the "Group") is the retailing of electrical appliances and consumer electronic products in designated cities within the People's Republic of China (the "PRC").

On 30 November 2006, the Company acquired 2,315,123,465 shares, representing 98.24% of the issued shares, of China Paradise Electronics Retail Limited ("China Paradise"). The acquisition of the remaining 41,506,320 outstanding shares, representing 1.76% of the issued shares, of China Paradise was completed on 30 January 2007 and the listing of the shares of China Paradise on the SEHK was withdrawn with effect from 31 January 2007.

On 14 December 2007, Tianjin Gome Commercial Consultancy Co., Ltd. ("Tianjin Consultancy"), a PRC subsidiary of the Company, has entered into a loan agreement (the "Loan Agreement") with Beijing Zhansheng Investment Co., Ltd. ("Beijing Zhansheng") and Beijing Branch of Industrial Bank Co., Ltd (the "Bank"). Under the Loan Agreement, Tianjin Consultancy will provide a designated loan in the amount of RMB3.6 billion (the "Loan") through the Bank to Beijing Zhansheng. The Loan is to be used by Beijing Zhansheng for the sole purpose of acquisition of the entire registered share capital of Beijing Dazhong Home Appliances Retail Co., Ltd. ("Dazhong Appliances"). The loan period is from 14 December 2007 to 13 December 2008, and the relevant interest rate is 6.561% per annum, which is determined by reference to the interest rate published by the People's Bank of China.

On 14 December 2007, Tianjin Consultancy has also entered into a management agreement (the "Management Agreement") with Beijing Zhansheng. Pursuant to the Management Agreement, the Group has been appointed, on an exclusive basis, as the agent to manage and operate the business of Dazhong Appliances up to the date on which Tianjin Consultancy and/or any of its designated parties acquire the entire registered share capital of Dazhong Appliances pursuant to an option agreement as disclosed below.

1. CORPORATE INFORMATION (continued)

Pursuant to an option agreement (the "Option Agreement") dated 14 December 2007, Beijing Zhansheng irrevocably granted Tianjin Consultancy an option (the "Purchase Option"), on an exclusive basis, for Tianjing Consultancy or any party(ies) designated by Tianjing Consultancy to acquire all or part of the registered share capital of Dazhong Appliances held by Beijing Zhansheng, subject to the terms and conditions of the Option Agreement. Under the Option Agreement, no premium is payable by Tianjin Consultancy to Beijing Zhansheng for the grant of the Purchase Option.

Pursuant to a share pledge agreement dated 14 December 2007, Beijing Zhansheng charged to Tianjin Consultancy the entire registered capital of the Dazhong Appliances (including any dividends and other interests arising in relation to the relevant share capital) as security for the Loan (including, but not limited to, the principal, interest, penalty, fees and expenses incurred by Tianjin Consultancy for any enforcement of the Loan Agreement).

Pursuant to a share pledge agreement dated 14 December 2007, the shareholders of Beijing Zhansheng charged to Tianjin Consultancy the entire registered share capital of Beijing Zhansheng (including any dividends and other interest arising in relation to the relevant share capital) as the security of the Loan.

Directors of the Company consider that the Management Agreement allows the Group to achieve integration in the PRC market and in particular the Beijing area market. The Management Agreement and the other arrangements mentioned above provides the Group with additional income streams via various sums payable including management fees and interest, which will in turn increase the earnings per share of the Company. The share pledge agreements provide the Group with security in relation to the Loan.

In December 2007, the designated loan amounted to RMB1.5 billion (note 20) were advanced to Beijing Zhansheng by Tianjin Consultancy through the Bank pursuant to the Loan Agreement. In January 2008, an additional designated loan balance of RMB1.5 billion was lent to Beijing Zhansheng (note 42). Under the terms of the Loan Agreement, the remaining designated loan balance of RMB600 million will be available to Beijing Zhansheng on 1 September 2008.

2.1 BASIS OF PREPARATION

These financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at fair values: Hong Kong listed investments, investment properties and the derivative components of the convertible bonds. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

The Company's functional currency was the Hong Kong dollar. Because of the change in the underlying transactions and events of the Company, the directors determined to change the functional currency of the Company from Hong Kong dollars to Renminbi with effect from 1 January 2007. The effect of the change of the functional currency of the Company has been accounted for prospectively since 1 January 2007.

Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") promulgated by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance.

Basis of consolidation

The financial statements comprise the financial statements of the Company and its subsidiaries for the year ended 31 December 2007. The financial statements of the subsidiaries are prepared for the same reporting year as the Company, using consistent accounting policies.

The acquisition of subsidiaries during the year has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

All intragroup balances, transactions, income and expenses and profits and losses resulting from intragroup transactions that are recognised in assets, are eliminated in full.

2.1 BASIS OF PREPARATION (continued)

Basis of consolidation (continued)

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Minority interests represent the portion of profit or loss and net assets not held by the Group and are presented separately in the income statement and within equity in the balance sheet, separately from the parent shareholders' equity.

2.2 IMPACT OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group has adopted the following new and revised IFRS and International Financial Reporting Interpretations Committee ("IFRIC") interpretations during the year.

IAS 1 Amendment	–	Capital Disclosures
IFRS 7	–	Financial Instruments: Disclosures
IFRIC 7	–	Applying the Restatement Approach under IAS 29 *Financial Reporting in Hyperinflationary Economies*
IFRIC 8	–	Scope of IFRS 2
IFRIC 9	–	Reassessment of Embedded Derivatives
IFRIC 10	–	Interim Financial Reporting and Impairment

Except for IFRS 7 and IAS 1 Amendment, the adoption of these new and revised standards and interpretations did not have any effect on the financial statements of the Group.

IFRS 7 – *Financial Instruments: Disclosures*

This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the financial statements. While there has been no effect on the financial position or results of operations of the Group, comparative information has been included/revised where appropriate.

Amendment to IAS 1 *Presentation of financial Statement – Capital Disclosures*

This amendment requires the Group to make disclosures that enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. These new disclosures are shown in note 41 to the financial statements.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised IFRSs, which have been issued but are not yet effective, in these financial statements:

IFRS 2 Amendment	–	Share-based Payments *Vesting Conditions and Cancellations*
IFRS 3 (Revised)	–	Business Combinations
IFRS 8	–	Operating Segments
IAS 1 (Revised)	–	Presentation of Financial Statements
IAS 1 Amendment	–	Puttable Financial Instruments
IAS 23 (Revised)	–	Borrowing Costs
IAS 27 (Revised)	–	Consolidated and Separate Financial Statements
IAS 32 Amendment	–	Puttable Financial Instruments
IFRIC 11	–	IFRS 2 – Group and Treasury Share Transactions
IFRIC 12	–	Service Concession Arrangements
IFRIC 13	–	Customer Loyalty Programmes
IFRIC 14	–	IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

IFRS 2 Amendment will become effective for annual periods beginning on or after 1 January 2009. This amendment restricts the definition of "vesting condition" to a condition that includes an explicit or implicit requirement to provide services. Any other conditions are non-vesting conditions, which have to be taken into account to determine the fair value of the equity instruments granted. In the case that such award does not vest as the result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this must be accounted for as a cancellation.

IFRS 3 Revised will become effective for annual periods beginning on or after 1 July 2009. The revised standard introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs and future reported results. The changes introduced by the revised standard must be applied prospectively and will affect future acquisitions and transactions with minority interest.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

IFRS 8 will become effective for annual periods beginning on or after 1 January 2009. This standard specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purpose of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The Group has a single operating and reportable segment, i.e. the sale of electrical appliances and consumer electric products in the PRC.

IAS 1 (Revised) will become effective for annual periods beginning on or after 1 January 2009. The revised standard separates owners and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, the revised standard introduces the statement of comprehensive income which presents all items of income and expense recognised in profit or loss, together with all other items of recognised income and expenses, either in one single statement or in two linked statements.

IAS 1 Amendment was issued in February 2008 and will become effective for annual periods beginning on or after 1 January 2009. The amendment requires disclosure of certain information relating to puttable instruments classified as equity.

IAS 23 (Revised) has been revised to require capitalisation of borrowing costs when such costs are directly attributable to the acquisition, construction or production of a qualifying asset. In accordance with the transitional provisions in the revised standard, the Group shall apply the revised standard on a prospective basis to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009.

IAS 27 (Revised) will become effective for annual periods beginning on or after 1 July 2009. The revised standard requires that a change in the ownership interest of a subsidiary be accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by subsidiaries as well as the loss of control of a subsidiary. The changes introduced by the revised standard must be applied prospectively and will affect future acquisitions and transactions with minority interest.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

IAS 32 Amendment will become effective for annual periods beginning on or after 1 January 2009. The amendment requires certain puttable financial instruments and obligations arising on liquidation to be classified as equity if certain criteria are met.

IFRIC 11 will become effective for annual periods beginning on or after 1 March 2007. This interpretation requires arrangements whereby an employee is granted rights to an entity's equity instruments to be accounted for as an equity-settled scheme, even if the entity acquires the instruments from another party, or the shareholders provide the equity instruments needed. The Group currently has no such arrangements.

IFRIC 12 will become effective for annual periods beginning on or after 1 January 2008. This interpretation requires an operator under public-to-private service concession arrangements to recognise the consideration received or receivable in exchange for the construction services as a financial asset and/or an intangible asset, based on the terms of the contractual arrangements. The Group currently has no such arrangements.

IFRIC 13 will become effective for annual periods beginning on or after 1 July 2008. This interpretation requires that loyalty award credits granted to customers as part of a sales transaction are accounted for as a separate component of the sales transaction. The consideration received in the sales transaction is allocated between the loyalty award credits and the other components of the sale. The amount allocated to the loyalty award credits is determined by reference to their fair value and is deferred until the awards are redeemed or the liability is otherwise extinguished.

IFRIC 14 will become effective for annual periods beginning on or after 1 January 2008. This interpretation addresses how to assess the limit under IAS 19 *Employee Benefits*, on the amount of a refund or a reduction in future contributions in relation to a defined benefit scheme that can be recognised as an asset, in particular, when a minimum funding requirement exists. The Group currently has no defined benefit schemes.

The Group is in the process of making an assessment of the impact of these new and revised IFRSs upon initial application. So far, it has concluded that while the adoption of IFRS 8 may result in new or amended disclosures and the adoption of IAS 23 (Revised) will induce a change in the Group's accounting policy in respect of capitalisation of the borrowing costs, these new and revised IFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2.4 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Inventories

The Group does not have a general provisioning policy on inventories based on ageing given the nature of inventories and the purchase return or exchange protections from suppliers. However, operational procedures are in place to monitor this risk as the majority of the Group's working capital is devoted to inventories. The Company reviews its inventory ageing on a periodical basis and compares the carrying value of the aged inventories with the respective net realisable values. The purpose is to ascertain whether allowance is required to be made in the financial statements for any obsolete and slow-moving inventories. In addition, physical counts are carried out on a periodical basis in order to determine whether allowance is needed in respect of any missing obsolete and defective inventories identified.

Operating lease commitments – the Group as lessee

The Group has entered into commercial property leases for its retail business. The Group has determined that the lessor retains all the significant risks and rewards of relevant properties and so accounts for them as operating leases.

Tax provisions

Determining tax provisions involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions, and tax provisions are set up accordingly. The tax treatment of such transactions is assessed periodically to take into account all the changes in the tax legislation and practices.

2.4 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below:

Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment of all non-financial assets at each reporting date. Goodwill is tested for impairment annually and at other times when such indicators exist. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable.

When value in use calculations are undertaken, management must estimate the expected future cash flows from the assets or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

The carrying amount of goodwill at 31 December 2007 was RMB3,343,012,000 (31 December 2006: RMB3,217,613,000). Further details of impairment testing of goodwill are given in note 14 to these financial statements.

Depreciation

The Group has estimated the useful lives of the property, plant and equipment of 5 to 40 years, after taking into account of their estimated residual values, as set out in the principal accounting policies below. Depreciation of items of property, plant and equipment is calculated on the straight-line basis over their expected useful lives. The carrying amount of items of property, plant and equipment as at 31 December 2007 was RMB3,144,458,000 (31 December 2006: RMB2,206,673,000). Further details are given in note 12 to these financial statements.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of recognised tax losses at 31 December 2007 was RMB223,492,000 (31 December 2006: RMB65,990,000) and the unrecognised tax losses at 31 December 2007 amounted to RMB561,500,000 (31 December 2006: RMB286,335,000). Further details are contained in note 18 to the financial statements.

2.4 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Estimates and assumptions (continued)

Estimation of fair value of investment properties

Investment properties were revalued at each balance sheet date based on the appraised market value provided by independent professional valuers. Such valuations were based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. In making the estimation, the Group considers information from current prices in an active market for similar properties and uses assumptions that are mainly based on market conditions existing at each balance sheet date. The carrying amount of investment properties as at 31 December 2007 were RMB331,680,000 (31 December 2006: RMB6,229,000). Further details are given in note 13 to these financial statements.

Fair value of derivatives and other financial instruments

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at each balance sheet date.

3. PRINCIPAL ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities. Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture entity and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

(a) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture;

(b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture; or

(c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture.

Jointly-controlled entities

A jointly-controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

3. PRINCIPAL ACCOUNTING POLICIES (continued)

Jointly-controlled entities (continued)

The Group's interest in its jointly-controlled entities are accounted for by proportionate consolidation, which involves recognising its share of the jointly-controlled entities' assets, liabilities, income and expenses with similar items in the financial statements on a line-by-line basis. Unrealised gains and losses resulting from transactions between the Group and its jointly-controlled entities are eliminated to the extent of the Group's interest in the jointly-controlled entities, except where unrealised losses provide evidence of an impairment of the asset transferred.

Foreign currencies

These financial statements are presented in Renminbi, which is the Company's presentation currency.

Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded at the functional currency exchange rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate ruling at the dates of initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of overseas subsidiaries are their respective local currencies. As at the reporting date, the assets and liabilities of these overseas subsidiaries are translated into the Company's presentation currency at the exchange rates ruling at the balance sheet date and their income statements are translated at the weighted average exchange rates for the year. Exchange differences arising on the translation are taken directly to the exchange reserve inside the equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

For the purpose of the cash flow statement, the cash flows of overseas subsidiaries are translated into Renminbi at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries, which arise throughout the year, are translated into Renminbi at the weighted average exchange rates for the year.

Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing a particular type of products or services (a business segment), or in providing products or services within a particular economic environment (a geographical segment). Each segment is subject to risks and rewards that are different from those of the other segments.

3. PRINCIPAL ACCOUNTING POLICIES (continued)

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured on the following basis:

- Income from the sale of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold.

- Income from suppliers comprises promotion income, management fee income, display space leasing fees and product listing fees. Revenue is recognised according to the underlying contract terms when these services have been provided in accordance therewith.

- Management fee income from the Parent Group (defined in note 39) and contractors for air-conditioner installation is recognised when such services have been rendered.

- Service income is recognised based on the percentage of completion of the transaction, provided that the revenue, the costs incurred and the estimated costs to completion can be measured reliably. The percentage of completion is established by reference to the costs incurred to date as compared to the total costs to be incurred under the transaction. Where the outcome of a contract cannot be measured reliably, revenue is recognised only to the extent that the expenses incurred are eligible to be recovered.

- Rental income is recognised on a time proportion basis over the terms of the respective leases.

- Interest income is recognised as interest accrues (using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset).

Government grants

Government grants are recognised at their fair values when there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant assets by equal annual installment. Where the attaching conditions have not yet been fulfilled, government grants received are recognised as liabilities.

3. PRINCIPAL ACCOUNTING POLICIES (continued)

Employee benefits

(i) Salaries, bonuses, paid annual leave and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Contributions to defined contribution retirement plans are recognised as an expense in the income statement as incurred.

Pursuant to the relevant PRC laws and regulations, each of the PRC subsidiaries and jointly-controlled entities of the Group is required to participate in a defined contribution retirement benefits scheme organised by the local municipal government whereby the Group is required to contribute a certain percentage of the salaries of its employees to the retirement benefits scheme. The only obligation of the Group with respect to the retirement benefits scheme is the ongoing required contributions. Contributions made to the retirement benefits scheme are charged to the income statement as incurred.

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

Taxes

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax

Current tax assets and liabilities for the current and prior periods are measured at the amounts expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amounts are those that are enacted or substantively enacted at the balance sheet date.

3. PRINCIPAL ACCOUNTING POLICIES (continued)

Taxes (continued)

Deferred tax

Deferred tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries and interest in jointly-controlled entities, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries and interest in jointly-controlled entities, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

3. PRINCIPAL ACCOUNTING POLICIES (continued)

Taxes (continued)

Deferred tax (continued)

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is a jointly-controlled entity;

(c) the party is a member of the key management personnel of the Group or its parent;

(d) the party is a close member of the family of any individual referred to in (a) or (c);

(e) the party is an entity that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (c) or (d); or

(f) the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

3. PRINCIPAL ACCOUNTING POLICIES (continued)

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

Impairment of non-financial assets other than goodwill

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses are recognised in the income statement in those expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised to the income statement in the period in which it arises unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

3. PRINCIPAL ACCOUNTING POLICIES (continued)

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through use of an allowance account. The amount of the loss is recognised in the income statement. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to trade and other receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor and significant changes in the technological, market economic or legal environment that have an adverse effect on the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities assumed as at the date of acquisition. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December.

3. PRINCIPAL ACCOUNTING POLICIES (continued)

Goodwill (continued)

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost, less accumulated depreciation and any impairment losses.

The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the item of property, plant and equipment to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the items of property, plant and equipment and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that item of property, plant and equipment or as a replacement.

3. PRINCIPAL ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

Depreciation of property, plant and equipment is calculated on the straight-line basis over the expected useful lives of the items of property, plant and equipment, after taking into account their estimated residual values of 5% to 10%, as follows:

Buildings	20-40 years
Leasehold improvements	The shorter of the remaining lease terms and 5 years
Equipment and fixtures	4-15 years
Motor vehicles	5 years

Construction in progress represents stores and storage facilities under construction, or renovation works in progress and is stated at cost less any impairment loss, and is not depreciated. Cost comprises development and construction expenditure incurred and other direct costs attributable to the development less any accumulated impairment losses. On completion, the relevant assets are transferred to property, plant and equipment at cost less accumulated impairment losses.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the item of property, plant and equipment (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year the item is derecognised.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

Borrowing costs

Borrowing costs are recognised as an expenses when incurred.

3. PRINCIPAL ACCOUNTING POLICIES (continued)

Investment properties

Investment properties are interests in buildings that are held to earn rental income or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes, or for sale in the ordinary course of business.

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the balance sheet date. Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of retirement or disposal.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is charged to the income statement in the year in which the expenditure is incurred. The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the income statement in the expense category consistent with the function of the intangible asset.

3. PRINCIPAL ACCOUNTING POLICIES (continued)

Inventories

Inventories comprised merchandise purchased for resale and consumables and are stated at the lower of cost and net realisable value.

The cost of merchandise is determined on the first-in, first-out basis. The net realisable value is determined based on the estimated selling price less any estimated costs to be incurred to disposal.

Trade and other receivables

Trade receivables are recognised and carried at the original invoice amount less an allowance for any uncollectible amounts.

Other receivables are recognised and carried at cost less an allowance for any uncollectible amounts.

Investments and other financial assets

Financial assets in the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables and held-to-maturity investments, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The Group assesses whether a contract contains an embedded derivative when the Group first becomes a party to it and assesses whether an embedded derivative is separated from the host contract when the analysis shows that the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required under the contract

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at each balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date, which is the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

3. PRINCIPAL ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss includes financial assets held for trading and financial assets designated upon initial recognition as at fair value profit or loss.

Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments or financial guarantee contracts. Gains or losses on investments held for trading are recognised in the income statement. The net fair value gain or loss recognised in the income statement includes any interest charged on these financial liabilities.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial asset at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial assets may be designated at initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis; or (ii) the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial asset contains an embedded derivative that would need to be separately recorded.

Loans and receivables

Loans and receivables are non-derivative financial assets which carry fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and receivables are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

3. PRINCIPAL ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument, which is substantially the same, a discounted cash flow analysis and other valuation models.

Cash and cash equivalents

For the purpose of the balance sheets, cash and cash equivalents comprise cash at banks and on hand and short term deposits, which are not restricted as to use. For the purpose of the cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

Financial liabilities

Financial liabilities in the scope of IAS 39 are classified as financial liabilities measured at fair value through profit or loss and other financial liabilities at amortised cost.

Financial liabilities including trade and other payables and interest-bearing loans and borrowings are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. The related interest expense is recognised within "finance costs" in the income statement. Gains or losses are recognised in the income statement when the liabilities are derecognised as well as through amortisation process.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial liability at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

3. PRINCIPAL ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Financial liabilities may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognising gains or losses on them on a different basis; (ii) the liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial liability contains an embedded derivative that would need to be separately recorded.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as an interest expense.

Provision for coupon liabilities are recognised at fair value based on the bonus points granted to customers in accordance with the announced bonus points scheme and the anticipated level of redemption of bonus points.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;

- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or

- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

3. PRINCIPAL ACCOUNTING POLICIES (continued)

Derecognition of financial assets and liabilities (continued)

Financial assets (continued)

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement.

Convertible bonds

The component of convertible bonds that exhibits characteristics of a liability is recognised as a liability in the balance sheet, net of transaction costs. On issuance of convertible bonds, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond; and this amount is carried as a long term liability on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years. Transaction costs are apportioned between the liability and equity components of the convertible bonds based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

3. PRINCIPAL ACCOUNTING POLICIES (continued)

Convertible bonds (continued)

If the conversion option of convertible bonds exhibits characteristics of an embedded derivative, it is separated from its liability component. On initial recognition, the derivative component of the convertible bonds is measured at fair value and presented as part of derivative financial instruments. Any excess of proceeds over the amount initially recognised as the derivative component is recognised as the liability component. Transaction costs are apportioned between the liability and derivative components of the convertible bonds based on the allocation of proceeds to the liability and derivative components when the instruments are initially recognised. The portion of the transaction costs relating to the liability component is recognised initially as part of the liability. The portion relating to the derivative component is recognised immediately in the income statement.

Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events, for which existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that an outflow of economic resources will be required, or that the amount of the obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that an outflow is probable, a contingent liability will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events, for which existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When an inflow is virtually certain, an asset is recognised.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

4. REVENUE AND OTHER INCOME AND GAIN

(a) Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts. The amount of each significant category of revenue recognised during the year is as follows:

	2007 RMB'000	2006 RMB'000
Sale of electrical appliances and consumer electronic products	**42,478,523**	24,720,112
Others	**–**	9,080
	42,478,523	24,729,192

(b) Other income and gain comprises the following:

	Notes	2007 RMB'000	2006 RMB'000
Income from suppliers		**1,842,782**	888,345
Management fee from the Parent Group	*(i)*	**241,438**	202,470
Management fees for air-conditioner installation		**91,087**	59,496
Rental income		**102,353**	563
Sub-lease rental income from the Parent Group	*(i)*	**35,835**	39,971
Government grants	*(ii)*	**65,632**	28,380
Other Service fee income		**51,843**	13,631
Fair value gain on investment properties	13	**47,176**	1,029
Others		**68,730**	17,895
		2,546,876	1,251,780

Notes:

(i) The Parent Group is defined in note 39 to the financial statements.

(ii) Various local government grants have been received to reward the Group's contributions to the local economy. There were no unfulfilled conditions or contingencies attaching to these government grants.

5. SEGMENT INFORMATION

Over 90% of the Group's turnover and contribution to the operating profit is attributable to the retailing of electrical appliances and consumer electronic products. Over 90% of the Group's turnover and contribution to the operating profit is attributable to customers in the PRC and over 90% of the Group's operating assets are located in the PRC. Accordingly, no analysis of segment information is presented.

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Notes	**2007 RMB'000**	2006 RMB'000
Cost of inventories sold		**38,336,440**	22,369,445
Write-down of inventories to net realisable value		**46,836**	–
		38,383,276	22,369,445
Depreciation	*12*	**256,988**	115,186
Amortisation of intangible assets	*15*	**8,457**	2,591
Loss on disposal of items of property, plant and equipment		**13,104**	4,925
Minimum lease payments under operating leases in respect of land and buildings		**1,612,504**	874,677
Gross rental income		**(138,188)**	(40,534)
Fair value gain on investment properties	*13*	**(47,176)**	(1,029)
Loss/(gain) on the derivative components of convertible bonds:			
2011 convertible bonds	*32(i)*	**553,383**	(93,519)
2014 convertible bonds	*32(ii)*	**(47,900)**	–
		505,483	(93,519)
Fair value gain on listed investments		**(150)**	(47)
Net exchange loss		**286,126**	11,585
Auditors' remuneration*		**6,800**	7,800
Staff costs excluding directors' remuneration *(note 8)*:			
Wages, salaries and bonuses		**911,432**	540,539
Pension scheme contributions		**107,668**	81,087
Social welfare and other costs		**60,316**	73,885
		1,079,416	695,511

* Including a non-audit service fee of RMB700,000 (2006: RMB800,000).

7. FINANCE (COSTS)/INCOME

	Note	2007 RMB'000	2006 RMB'000
Finance costs:			
Interest on bank loans wholly repayable within five years		**(28,900)**	(1,419)
Interest expenses on convertible bonds	32	**(164,469)**	(63,985)
		(193,369)	(65,404)
Finance income:			
Bank interest income		**420,924**	113,839
Other interest income		**3,317**	12,315
		424,241	126,154

8. REMUNERATION OF DIRECTORS AND FIVE HIGHEST PAID EMPLOYEES

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	2007 RMB'000	2006 RMB'000
Fees	**1,270**	803
Other emoluments:		
Salaries, allowances, bonuses and other benefits	**4,304**	3,322
Pension scheme contributions	**60**	52
	4,364	3,374

8. REMUNERATION OF DIRECTORS AND FIVE HIGHEST PAID EMPLOYEES (continued)

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2007	2006
	RMB'000	*RMB'000*
Mr. Chan Yuk Sang	**243**	258
Mr. Sze Tsai Ping, Michael	**243**	258
Mr. Mark Christopher Greaves	**243**	258
Dr. Liu Peng Hui	**243**	29
Mr. Thomas Joseph Manning	**149**	–
Mr. Yu Tung Ho	**149**	–
	1,270	803

(b) Executive directors and non-executive director

2007	**Fees** ***RMB'000***	**Salaries, allowances, bonuses and other benefits** ***RMB'000***	**Pension scheme contributions** ***RMB'000***	**Total** ***RMB'000***
Executive directors:				
Mr. Wong Kwong Yu	**–**	**1,573**	**12**	**1,585**
Mr. Chen Xiao	**–**	**1,290**	**20**	**1,310**
Mr. Ng Kin Wah	**–**	**417**	**12**	**429**
Ms. Du Juan	**–**	**871**	**12**	**883**
Mr. Lam Pang	**–**	**153**	**4**	**157**
	–	**4,304**	**60**	**4,364**
Non-executive director:				
Mr. Sun Qiang Chang	**–**	**–**	**–**	**–**
	–	**4,304**	**60**	**4,364**

8. REMUNERATION OF DIRECTORS AND FIVE HIGHEST PAID EMPLOYEES (continued)

(b) Executive directors and non-executive director (continued)

2006	Fees *RMB'000*	Salaries, allowances, bonuses and other benefits *RMB'000*	Pension scheme contributions *RMB'000*	Total *RMB'000*
Executive directors:				
Mr. Wong Kwong Yu	–	1,596	13	1,609
Ms. Du Juan	–	902	13	915
Mr. Lam Pang	–	372	13	385
Mr. Ng Kin Wah	–	452	13	465
	–	3,322	52	3,374
Non-executive director:				
Mr. Sun Qiang Chang	–	–	–	–
	–	3,322	52	3,374

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2006: nil).

8. REMUNERATION OF DIRECTORS AND FIVE HIGHEST PAID EMPLOYEES (continued)

(c) Five highest paid employees

The five highest paid employees during the year included four (2006: two) directors, details of whose remuneration are set out above. Details of the remuneration the remaining one (2006: three) non-director, highest paid employees for the year are as follows:

	2007	2006
	RMB'000	*RMB'000*
Salaries, allowances, bonuses and other benefits	**1,183**	4,471
Pension scheme contributions	**5**	24
	1,188	4,495

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2007	2006
Nil to HK$1,000,000 (equivalent to Nil to RMB936,400)	**–**	1
HK$1,000,001 to HK$1,500,000 (equivalent to RMB936,401 to RMB1,404,600)	**1**	1
HK$1,500,001 to HK$2,000,000 (equivalent to RMB1,404,601 to RMB1,872,800)	**–**	1
	1	3

9. PENSION SCHEMES

All the PRC subsidiaries and jointly-controlled entities of the Group are required to participate in the employee retirement benefits schemes operated by the relevant local government authorities in the PRC. The PRC government is responsible for the pension liability to these retired employees. The Group is required to make contributions for those employees who are registered as permanent residents in the PRC and are within the scope of the relevant PRC regulations at rates ranging from 20% to 22.5% of the employees' salaries for the years ended 31 December 2007 and 2006.

The Group's contributions to pension schemes for the year ended 31 December 2007 amounted to approximately RMB107,728,000 (2006: RMB81,139,000).

10. TAX

An analysis of the provision for tax in the financial statements is as follows:

	2007	2006
	RMB'000	*RMB'000*
Current income tax-PRC	**347,563**	142,003
Deferred income tax *(note 18)*	**12,699**	(16,405)
Total tax charge for the year	**360,262**	125,598

The Group is subject to income tax on an entity basis on the profit arising in or derived from the tax jurisdictions in which members of the Group are domiciled and operate. The determination of current and deferred income taxes was based on the enacted tax rates.

Under the relevant PRC income tax law, except for certain preferential treatment available to the Group, the PRC companies of the Group are subject to corporate income tax at a rate of 33% on their respective taxable income. During the year, 40 entities (2006: 36 entities) of the Group obtained approval from the relevant PRC tax authorities and were entitled to preferential corporate income tax rates or corporate income tax exemptions.

The Group realised a significant amount of tax benefits during the year through utilising the preferential corporate income tax rates and the corporate income tax exemptions. These preferential tax treatments were available to the Group pursuant to the enacted PRC tax rules and regulations and are subject to assessment by the relevant PRC tax authorities.

No provision for Hong Kong profits tax has been made for the years ended 31 December 2007 and 2006, respectively, as the Group had no assessable profits arising in Hong Kong for the respective years.

10. TAX (continued)

A reconciliation of the income tax expense applicable to profit before tax using the statutory income tax rates for the countries in which the Company and its subsidiaries are domiciled to the income tax expense at the Group's effective tax rates, is as follows:

			2007		
	Hong Kong		**PRC**		**Total**
	RMB'000	**%**	***RMB'000***	**%**	***RMB'000***
Profit/(loss) before tax	**(754,284)**		**2,282,381**		**1,528,097**
Income tax at the statutory income tax rate	**(132,000)**	**17.5**	**753,186**	**33.0**	**621,186**
Tax effect of preferential income tax rates	**–**		**(441,956)**		**(441,956)**
Tax effect of non-taxable income	**(43,186)**		**(5,327)**		**(48,513)**
Tax effect of non-deductible expenses	**172,695**		**25,672**		**198,367**
Tax losses utilised from previous years	**–**		**(21,179)**		**(21,179)**
Tax losses not recognised	**2,491**		**25,246**		**27,737**
Effect of change in income tax rate	**–**		**24,620**		**24,620**
Tax charge at the Group's effective rate	**–**		**360,262**		**360,262**

			2006		
	Hong Kong		PRC		Total
	RMB'000	%	*RMB'000*	%	*RMB'000*
Profit before tax	14,061		1,054,161		1,068,222
Income tax at the statutory income tax rate	2,461	17.5	347,873	33.0	350,334
Tax effect of preferential income tax rates	–		(296,822)		(296,822)
Tax effect of non-taxable income	(16,365)		–		(16,365)
Tax effect of non-deductible expenses	11,196		56,608		67,804
Tax losses utilised from previous years	–		(8,160)		(8,160)
Tax losses not recognised	2,708		26,099		28,807
Tax charge at the Group's effective rate	–		125,598		125,598

11. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

Basic earnings per share are calculated by dividing the profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

The diluted earnings per share are calculated by dividing the profit for the year attributable to ordinary equity holders of the parent (adjusted to add the interest on convertible bonds and the gains or losses on the derivative components of convertible bonds) by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that are assumed to have been issued at no consideration on the deemed exercise or conversion of all the dilutive potential ordinary shares into ordinary shares.

The following reflects the earnings and share data used in the basic and diluted earnings per share computations:

	Notes	**2007** ***RMB'000***	2006 *RMB'000*
Earnings:			
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation		**1,127,307**	819,167
Interest expense on convertible bonds	*(ii)*	**–**	63,985
Fair value gain on the derivative components of convertible bonds	*(ii)*	**–**	(93,519)
Profit attributable to ordinary equity holders of the parent as adjusted for the effect of convertible bonds		**1,127,307**	789,633

11. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (continued)

		Number of shares	
		2007	2006
		'000	*'000*
Weighted average number of ordinary shares for basic earnings per share		**3,193,116**	2,173,340
Effect of dilution:			
Convertible bonds	*(ii)*	**–**	139,875
Warrants	*(iii)*	**9,675**	–
Weighted average number of ordinary shares adjusted for the effect of dilution		**3,202,791**	2,313,215

Notes:

(i) Subsequent to 31 December 2007, the Company repurchased an aggregate number of 129,800,000 ordinary shares of the Company at a total cash consideration of HK$2,236,672,000 (equivalent to RMB2,062,998,000). The shares repurchased were cancelled in February 2008. The earnings per share amount for 2007 have not been adjusted for such repurchased and cancelled shares after the balance sheet date.

(ii) The convertible bonds are anti-dilutive for the year ended 31 December 2007 and are ignored in the calculation of diluted earnings per share for the year ended 31 December 2007.

(iii) On 1 March 2006, the Company issued warrants at a subscription price of US$3,000,000 to a subscriber. The subscriber is entitled to subscribe for in aggregate a maximum amount of US$25 million of new shares of the Company at an exercise price of HK$7.70 per share during an exercise period of five years commencing from 1 March 2006.

None of the warrants were exercised during the years ended 31 December 2006 and 2007.

During the year ended 31 December 2006, the average market price of the Company's shares was less than the exercise price of the warrants and therefore the warrants had an anti-dilutive effect on the basic earnings per share for the year ended 31 December 2006 and were ignored in the calculation of diluted earnings per share.

12. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings	Leasehold improvements	Equipment and fixtures	Motor vehicles	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
31 December 2007						
At 1 January 2007, net of accumulated depreciation	**1,522,086**	**328,042**	**220,269**	**32,362**	**103,914**	**2,206,673**
Additions	**863,987**	**107,615**	**79,009**	**20,809**	**130,676**	**1,202,096**
Acquisition of subsidiaries *(note 37)*	**–**	**3,016**	**4,174**	**210**	**–**	**7,400**
Disposals	**(4,227)**	**–**	**(9,108)**	**(1,014)**	**–**	**(14,349)**
Disposal of a jointly-controlled entity	**–**	**–**	**(219)**	**–**	**–**	**(219)**
Depreciation charge for the year	**(57,553)**	**(119,056)**	**(71,633)**	**(8,746)**	**–**	**(256,988)**
Transfers from construction in progress	**219,884**	**–**	**3,711**	**–**	**(223,595)**	**–**
Exchange realignment	**(56)**	**(39)**	**(25)**	**(35)**	**–**	**(155)**
At 31 December 2007, net of accumulated depreciation	**2,544,121**	**319,578**	**226,178**	**43,586**	**10,995**	**3,144,458**
31 December 2006						
At 1 January 2006, net of accumulated depreciation	535,266	128,736	78,704	13,740	153,185	909,631
Additions	60,336	118,479	61,794	10,434	28,612	279,655
Acquisition of subsidiaries	788,655	140,030	112,354	11,491	88,872	1,141,402
Disposals	–	(2,844)	(5,486)	(402)	–	(8,732)
Depreciation charge for the year	(26,379)	(56,330)	(29,453)	(3,024)	–	(115,186)
Transfers from construction in progress	164,237	–	2,372	146	(166,755)	–
Exchange realignment	(29)	(29)	(16)	(23)	–	(97)
At 31 December 2006, net of accumulated depreciation	1,522,086	328,042	220,269	32,362	103,914	2,206,673

12. PROPERTY, PLANT AND EQUIPMENT (continued)

Group (continued)

	Buildings	Leasehold improvements	Equipment and fixtures	Motor vehicles	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2006						
Cost	538,499	203,911	112,464	22,412	153,185	1,030,471
Accumulated depreciation	(3,233)	(75,175)	(33,760)	(8,672)	–	(120,840)
Net carrying amount	535,266	128,736	78,704	13,740	153,185	909,631
At 31 December 2006						
Cost	1,551,676	459,417	281,211	43,934	103,914	2,440,152
Accumulated depreciation	(29,590)	(131,375)	(60,942)	(11,572)	–	(233,479)
Net carrying amount	1,522,086	328,042	220,269	32,362	103,914	2,206,673
At 31 December 2007						
Cost	2,650,520	694,525	396,009	71,019	10,995	3,823,068
Accumulated depreciation	(106,399)	(374,947)	(169,831)	(27,433)	–	(678,610)
Net carrying amount	2,544,121	319,578	226,178	43,586	10,995	3,144,458

As at 31 December 2007, the legal formalities for the transfer of title of three properties which were acquired by the Group in 2007 with a total carrying value of RMB374,166,000 were still in progress. In opinion of the directors, the transfer procedures will be completed in 2008.

Certain of the buildings of the Group in the PRC, were pledged as security for bank loans (note 33) and bills payable (note 34) of the Group as at 31 December 2007. The aggregate carrying value of the pledged buildings attributable to the Group as at 31 December 2007 amounted to RMB590,406,000 (31 December 2006: RMB327,829,000).

The Group's buildings are located in the PRC under medium term leases.

13. INVESTMENT PROPERTIES

Group

	2007	2006
	RMB'000	*RMB'000*
At 1 January	**6,229**	5,200
Addition	**278,275**	–
Net gain from a fair value adjustment	**47,176**	1,029
At 31 December	**331,680**	6,229

Investment properties comprised commercial properties in the PRC that are leased to third parties and an industrial property and a car park in Hong Kong that are leased to a related party (note 39(A)(vii)) and a third party, respectively.

Investment properties are stated at fair value, which has been determined with reference to the valuations performed by Sallmanns (Far East) Ltd., and B.I. Appraisals Limited, independent firms of professionally qualified valuers, on an income capitalisation approach, as at 31 December 2007. The fair value represents the amount of market value at which the assets could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction at the date of valuation.

As at 31 December 2007, investment properties of approximately RMB7,491,000 (31 December 2006: RMB6,229,000) are located in Hong Kong under medium term leases and investment properties of approximately RMB324,189,000 (31 December 2006: nil) are located in the PRC under medium term leases.

Certain of the investment properties of the Group in the PRC were pledged as security for bank loans (note 33) and bills payable (note 34) of the Group as at 31 December 2007. The aggregate fair value of the pledged investment properties attributable to the Group as at 31 December 2007 amounted to RMB251,469,000 (31 December 2006: nil).

14. GOODWILL

Group

	Note	**2007** **RMB'000**	2006 *RMB'000*
At 1 January, cost and net carrying amount		**3,217,613**	7,300
Acquisition of minority interests	*(i)*	**84,971**	–
Acquisition of subsidiaries		**40,428**	3,210,313
At 31 December, cost and net carrying amount		**3,343,012**	3,217,613

Note:

(i) The addition during the year is attributable to the acquisition of the remaining 41,506,320 outstanding issued shares of China Paradise (note 1).

Impairment testing of goodwill

The carrying amount of goodwill allocated to each of the cash-generating units is as follows:

	2007 **RMB'000**	2006 *RMB'000*
China Paradise	**3,266,424**	3,181,453
Shaanxi Cellstar Telecommunication Retail Chain Company Limited *(note 37)*	**40,428**	–
Shenzhen Gome Electrical Appliances Company Limited and Guangzhou Gome Electrical Appliances Company Limited	**22,986**	22,986
Wuhan Gome Electrical Appliances Company Limited	**7,300**	7,300
Jiangsu Pengrun Gome Electrical Appliance Company Limited and Nanjing Pengze Investment Company Limited	**5,874**	5,874
	3,343,012	3,217,613

14. GOODWILL (continued)

Impairment testing of goodwill (continued)

The recoverable amount of each cash-generating unit has been determined based on a value in use calculation. To calculate this, cash flow projections are prepared based on financial budgets as approved by the executive directors which cover a period of five years. The pre-tax discount rate applied to the cash flow projections is 12.3% (2006: 11.3%).

The growth rate used to extrapolate the cash flows of the cash-generating units beyond the five-year period is 3% (2006: 3%). This growth rate is below the average growth rates of the retail industry of 6.8% to 20.1% for the past 10 years. The directors of the Company believe that a lower growth rate is more conservative and reliable for the purpose of this impairment testing.

Key assumptions used in the value in use calculations

The following describes the key assumptions of the cash flow projections.

Store revenue:	the bases used to determine the future earnings potential are historical sales and average and expected growth rates of the retail market in the PRC.
Gross margins:	the gross margins are based on the average gross margin achieved in the past two years.
Expenses:	the value assigned to the key assumptions reflects past experience and management's commitment to maintain its operating expenses to an acceptable level.
Discount rates:	the discount rates used are before tax and reflect management's estimate of the risks specific to each unit. In determining appropriate discount rates for each unit, regard has been given to the applicable borrowing rate of the Group in the current year.

Sensitivity to changes in assumptions

With regard to the assessment of value in use of the respective cash-generating units, management believes that no reasonably possible change in any of the above key assumptions would cause the respective carrying values, including goodwill, of the cash-generating units to materially exceed the respective recoverable amounts.

15. OTHER INTANGIBLE ASSETS

Group

	Notes	**Trademarks** RMB'000
Cost at 1 January 2007, net of accumulated amortisation		152,324
Amortisation provided during the year		(8,457)
At 31 December 2007, net of accumulated amortisation		143,867
Cost at 1 January 2006, net of accumulated amortisation	*(i)*	25,915
Business combination	*(ii)*	129,000
Amortisation provided during the year		(2,591)
At 31 December 2006, net of accumulated amortisation		152,324
At 1 January 2006		
Cost		25,915
Accumulated amortisation		–
Net carrying amount		25,915
At 31 December 2006		
Cost		154,915
Accumulated amortisation		(2,591)
Net carrying amount		152,324
At 31 December 2007		
Cost		154,915
Accumulated amortisation		(11,048)
Net carrying amount		143,867

15. OTHER INTANGIBLE ASSETS (continued)

Group (continued)

Notes:

(i) The trademark arising from the acquisition of Changzhou Jintaiyang Zhizun Home Appliance Co., Ltd. of RMB25,915,000 is determined based on the valuation performed by B.I. Appraisals Limited, an independent firm of professionally qualified valuers. The trademark is amortised on a straight-line basis over the directors' estimate of its useful economic life of 10 years.

(ii) The fair value of the trademark arising from the acquisition of China paradise of RMB129,000,000, is determined based on the valuation performed by Sallmanns (Far East) Ltd., an independent firm of professionally qualified valuers. The trademark is amortised on a straight-line basis over the directors' estimate of its useful life of 20 years.

16. PREPAYMENTS FOR ACQUISITION OF PROPERTIES

The balance as at 31 December 2007 represented deposits for the acquisition of certain commercial properties in the PRC. Management expects that these acquisition transactions will be completed in 2008.

17. LEASE PREPAYMENTS

Group

	Notes	**2007** **RMB'000**	2006 RMB'000
Prepaid land lease payments	*(i)*	**45,194**	46,396
Rental prepayments	*(ii)*	**297,550**	14,761
		342,744	61,157

(i) Prepaid land lease payments

Group

	2007 **RMB'000**	2006 RMB'000
Carrying amount at 1 January	**46,396**	46,497
Recognised during the year	**(1,202)**	(101)
Carrying amount at 31 December	**45,194**	46,396

The leasehold land is held under a long term lease and is situated in the PRC.

(ii) The balances at 31 December 2006 and 2007 represented the non-current portion of rental prepayments.

18. DEFERRED TAX

Group

	Note	Balance at 1 January 2007 RMB'000	Recognised in the consolidated income statement RMB'000	Balance at 31 December 2007 RMB'000
Deferred tax assets:				
Tax losses	(i)	**27,129**	**28,744**	**55,873**
Deferred revenue		**7,966**	**(7,966)**	**–**
		35,095	**20,778**	**55,873**
Deferred tax liabilities:				
Fair value adjustment on acquisition		**46,954**	**21,998**	**68,952**
Fair value adjustment on investment properties		**–**	**11,479**	**11,479**
		46,954	**33,477**	**80,431**

	Balance at 1 January 2006 RMB'000	Recognised in the consolidated income statement RMB'000	Acquisition RMB'000	Balance at 31 December 2006 RMB'000
Deferred tax assets:				
Tax losses	13,018	14,111	–	27,129
Deferred revenue	–	2,294	5,672	7,966
	13,018	16,405	5,672	35,095
Deferred tax liabilities:				
Fair value adjustment on acquisition	–	–	46,954	46,954

18. DEFERRED TAX (continued)

Group (continued)

Note:

(i) The Group has not recognised deferred tax assets in respect of tax losses arising in Hong Kong of RMB71.9 million (31 December 2006: RMB57.7 million) and in the PRC of RMB489.6 million (31 December 2006: RMB228.6 million) as they have arisen in subsidiaries that have been loss-making for some time.

On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of the People's Republic of China (the "New CIT Law"), which became effective from 1 January 2008. Under the New CIT Law, the corporate income tax rate applicable to the domestic companies from 1 January 2008 will be decreased from 33% to 25% or progressively increased from 15% to 25% within five years. According to IAS 12, the deferred tax assets and deferred tax liabilities shall be measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled. The change in the corporate income tax rate has the following impact on the results and financial position of the Group for the year ended 31 December 2007:

	RMB'000
Decrease in deferred tax assets	2,622
Increase in deferred tax liabilities	21,998
Increase in income tax expenses	24,620

19. INTERESTS IN SUBSIDIARIES

Company

	2007	2006
	RMB'000	*RMB'000*
Unlisted shares, at cost	**5,389,635**	5,498,148
Amounts due from subsidiaries	**1,634,819**	330,004
Amounts due to subsidiaries	**–**	(284,220)
	7,024,454	5,543,932
Impairment	**(46,925)**	(46,925)
	6,977,529	5,497,007

19. INTERESTS IN SUBSIDIARIES (continued)

Company (continued)

The balances with subsidiaries are interest-free, unsecured and have no fixed terms of repayment. The carrying amounts of these balances approximate to their fair values.

Company name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Capital Automation (BVI) Limited	British Virgin Islands/ Hong Kong	US$50,000	100	–	Investment holding
Grand Hope Investment Limited	British Virgin Islands/ Hong Kong	US$1 million	100	–	Investment holding
China Paradise Electronics Retail Limited	Cayman Islands	HK$235,662,979	100	–	Investment holding
Hong Kong Punching Center Limited	Hong Kong	HK$100,000	–	100	Property holding
Ocean Town Int'l Inc.	British Virgin Islands/ Hong Kong	US$50,000	–	100	Investment holding
Gome Appliance Company Limited *(ii)* 國美電器有限公司	PRC	RMB300 million	–	100	*Note (vi)*
Tianjin Gome Electrical Appliance Company Limited *(i)* 天津國美電器有限公司	PRC	RMB40 million	–	100	*Note (iii)*
Tianjin Gome Logistics Company Limited *(i)* 天津國美物流有限公司	PRC	RMB18 million	–	100	*Note (iv)*
Chongqing Gome Electrical Appliance Company Limited *(i)* 重慶國美電器有限公司	PRC	RMB20 million	–	100	*Note (iii)*

19. INTERESTS IN SUBSIDIARIES (continued)

Company (continued)

Company name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Chengdu Gome Electrical Appliance Company Limited *(i)* 成都國美電器有限公司	PRC	RMB20 million	–	100	*Note (iii)*
Xi'an Gome Electrical Appliance Company Limited *(i)* 西安國美電器有限公司	PRC	RMB10 million	–	100	*Note (iii)*
Kunming Gome Electrical Appliance Company Limited *(i)* 昆明國美電器有限公司	PRC	RMB10 million	–	100	*Note (iii)*
Shenzhen Gome Electrical Appliance Company Limited *(i)* 深圳國美電器有限公司	PRC	RMB10 million	–	100	*Note (iii)*
Fuzhou Gome Electrical Appliance Company Limited *(i)* 福州國美電器有限公司	PRC	RMB10 million	–	100	*Note (iii)*
Guangzhou Gome Electrical Appliance Company Limited *(i)* 廣州市國美電器有限公司	PRC	RMB10 million	–	100	*Note (iii)*
Wuhan Gome Electrical Appliance Company Limited *(i)* 武漢國美電器有限公司	PRC	RMB10 million	–	100	*Note (iii)*
Shenyang Gome Electrical Appliance Company Limited *(i)* 瀋陽國美電器有限公司	PRC	RMB10 million	–	100	*Note (iii)*

19. INTERESTS IN SUBSIDIARIES (continued)

Company (continued)

Company name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Jinan Gome Electrical Appliance Company Limited *(i)* 濟南國美電器有限公司	PRC	RMB10 million	–	100	*Note (iii)*
Qingdao Gome Electrical Appliance Company Limited *(i)* 青島國美電器有限公司	PRC	RMB10 million	–	100	*Note (iii)*
Tianjin Gome Commercial Consultancy Company Limited *(i)* 天津國美商業管理諮詢有限公司	PRC	RMB3 million	–	100	*Note (v)*
Kunming Gome Logistics Company Limited *(i)* 昆明國美物流有限公司	PRC	RMB8 million	–	100	*Note (iv)*
Quanzhou Pengrun Gome Electrical Appliance Company Limited *(i)* 泉州鵬潤國美電器有限公司	PRC	RMB5 million	–	100	*Note (iii)*
Changzhou Jintaiyang Zhizun Electrical Appliance Company Limited *(i)* 常州金太陽至尊電器有限公司	PRC	RMB50 million	–	100	*Note (iii)*
Gansu Gome Electrical Appliance Company Limited *(i)* 甘肅國美電器有限公司	PRC	RMB5 million	–	100	*Note (iii)*
Beijing Pengze Real Estate Company Limited (i) 北京鵬澤置業有限公司	PRC	RMB10 million	–	100	Property holding

19. INTERESTS IN SUBSIDIARIES (continued)

Company (continued)

Company name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal Activities
Shenyang Pengrun Gome Electrical Appliance Company Limited *(i)* 瀋陽鵬潤國美電器有限公司	PRC	RMB10 million	–	100	*Note (iii)*
Kunming Qin'an Commercial Management Consultancy Company Limited *(i)* 昆明勤安商業管理諮詢有限公司	PRC	RMB6 million	–	100	*Note (v)*
Jiangsu Pengrun Gome Electrical Appliance Company Limited *(i)* 江蘇鵬潤國美電器有限公司	PRC	RMB10 million	–	100	*Note (iii)*
Eagle Electrical Appliance Company Limited *(i)* 鵬潤電器有限公司	PRC	RMB100 million	–	100	Investment Holding
Shenzhen eHome Commercial Chain Company Limited *(i)* 深圳易好家商業連鎖有限公司	PRC	RMB20 million	–	100	*Note (iii)*
Gansu Gome Logistics Company Limited *(i)* 甘肅國美物流有限公司	PRC	RMB10 million	–	100	*Note (iv)*
Nanjing Pengze Investment Company Limited *(i)* 南京鵬澤投資有限公司	PRC	RMB156 million	–	100	Property holding

19. INTERESTS IN SUBSIDIARIES (continued)

Company (continued)

Company name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal Activities
Yongle (China) Electronics Retail Company Limited *(ii)* 永樂(中國)電器銷售有限公司	PRC	RMB220 million	–	90	*Note (iii)*
Guangdong Yongle Electronics Retail Company Limited *(i)* 廣東永樂家用電器有限公司	PRC	RMB30 million	–	89.91	*Note (iii)*
Henan Yongle Electronics Retail Company Limited *(i)* 河南永樂生活電器有限公司	PRC	RMB20 million	–	89.91	*Note (iii)*
Jiangsu Yongle Electronics Retail Company Limited *(i)* 江蘇永樂家用電器有限公司	PRC	RMB10 million	–	89.91	*Note (iii)*
Shanghai Yongle Communication Equipment Company Limited *(i)* 上海永樂通訊設備有限公司	PRC	RMB10 million	–	89.91	*Note (iii)*
Sichuan Yongle Electronics Retail Company Limited *(i)* 四川永樂家用電器有限公司	PRC	RMB20 million	–	89.91	*Note (iii)*
Xiamen Yongle Siwen Electronics Retail Company Limited *(i)* 廈門永樂思文家電有限公司	PRC	RMB10 million	–	81	*Note (iii)*
Zhejiang Yongle Electronics Retail Company Limited *(i)* 浙江永樂家用電器有限公司	PRC	RMB15 million	–	89.91	*Note (iii)*

19. INTERESTS IN SUBSIDIARIES (continued)

Company (continued)

Company name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal Activities
Shaanxi Yongle • Dazhong Electronics Retail Co., Ltd. *(i)* 陝西永樂 • 大中生活電器有限公司	PRC	RMB10 million	–	90	*Note (iii)*
Shaanxi Cellstar Telecommunication Retail Chain Company Limited *(i) (viii)* 陝西蜂星電訊零售連鎖有限責任公司	PRC	RMB10 million	–	100	*Note (vii)*

Notes:

(i) Registered as private companies with limited liability under the PRC law.

(ii) Registered as Sino-foreign equity joint ventures under the PRC law.

(iii) Retailing of electrical appliances and consumer electronic products.

(iv) Provision of logistics services.

(v) Provision of business management services.

(vi) Investment holding and retailing of electrical appliances and consumer electronic products.

(vii) Retailing of mobile phones and accessories.

(viii) During the year, the Group acquired this subsidiary from independent third parties. Further details of the acquisition are included in note 37 to the financial statements.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

20. DESIGNATED LOAN

The balance of designated loan of RMB1,500 million as at 31 December 2007 represented the aggregate amount of loan provided to Beijing Zhansheng by Tianjin Consultancy through the Bank pursuant to the Loan Agreement as disclosed in note 1 to the financial statements. The loan period is from 14 December 2007 to 13 December 2008, and the relevant interest rate is 6.561% per annum.

The balance of designated loan is secured by i) the pledge of the entire registered share capital of Dazhong Appliances (including any dividends and other interests arising in relation to the relevant share capital) and ii) the pledge of the entire registered share capital of Beijing Zhansheng (including any dividends and other interest arising in relation to the relevant share capital) in favour of Tianjin Consultancy, a PRC subsidiary of the Company.

21. INTEREST IN A JOINTLY-CONTROLLED ENTITY

The Group has an interests in a jointly-controlled entity. Particulars of the jointly-controlled entity as at 31 December 2007 are as follows:

Company name	Place of incorporation/ registration and operations	Nominal value of registered share capital	Ownership interest	Percentage of Voting power	Profit sharing	Principal activities
Shanghai Zhongyongtongtai Electronics Marketing Co., Ltd. 上海中永通泰電器營銷有限公司	PRC	RMB0.9 million	35%	39%	35%	Trading of household appliances

The share of the assets and liabilities of the jointly-controlled entity at the balance sheet date, which is included in the financial statements, is as follows:

	2007	2006
	RMB'000	*RMB'000*
Current assets	**576**	62,595
Non-current assets	**–**	3,134
Current liabilities	**–**	(99,473)
Net assets/(net liabilities)	**576**	(33,744)

21. INTEREST IN A JOINTLY-CONTROLLED ENTITY (continued)

The share of the revenue and expenses of the jointly-controlled entity during the year, which is included in the financial statements, is as follows:

	2007 RMB'000	2006 RMB'000
Revenue	**91,767**	15,509
Cost of sales	**(81,871)**	(15,208)
Other income	**3,933**	1,120
Selling and distribution costs	**(9,117)**	(1,269)
Administrative expenses	**(8,956)**	(2,076)
Other expenses	**(5,158)**	(934)
Finance costs	**(12)**	-
Finance income	**285**	100
Net loss	**(9,129)**	(2,758)

Notes:

(i) The Group acquired the remaining 50% equity interest in Shaanxi Yongle • Dazhong Electronics Retail Co., Ltd., a previous jointly-controlled entity, from Beijing Dazhong Electrical Appliances Co., Ltd. at carrying value on 31 December 2007.

(ii) The Group disposed of its 50% equity interest in Qingdao Dazhong Yongle Electronics Retail Co. Ltd., a previous jointly-controlled entity, to Beijing Dazhong Electrical Appliances Co., Ltd. at carrying value on 31 December 2007.

22. INVESTMENT DEPOSITS

Group

	2007 RMB'000	2006 RMB'000
Investment deposits, in a licensed bank in the PRC, at amortised cost	**30,000**	–

The investment deposits will mature on 26 December 2008 and have expected annual rate of return ranging from 6% to 20%. The investment deposits were classified as loan and receivables as at the balance sheet date.

23. INVENTORIES

Group

	2007	2006
	RMB'000	*RMB'000*
Merchandise for resale	**5,278,968**	4,825,488
Consumables	**104,071**	57,266
	5,383,039	4,882,754

24. TRADE AND BILLS RECEIVABLES

All of the Group's sales are on a cash basis except for certain bulk sales of merchandise which are credit sales. The credit terms offered to customers are generally one month. The Group seeks to maintain strict control over its outstanding receivables and overdue balances are reviewed regularly by senior management. Management considers that there is no significant concentration of credit risk.

An aged analysis of the trade and bills receivables as at the balance sheet date, based on the invoice date of trade receivables, is as follows:

Group

	2007	2006
	RMB'000	*RMB'000*
Outstanding balance, aged:		
Within 3 months	**94,015**	21,885
3 to 6 months	**2,106**	47,664
6 months to 1 year	**–**	3,727
Over 1 year	**1,598**	1,913
	97,719	75,189

The balance of trade and bills receivables as at 31 December 2006 included an amount of receivables from Beijing Dazhong (as defined in note 27) of approximately RMB38,390,000. The balance was settled during 2007.

24. TRADE AND BILLS RECEIVABLES (continued)

The aged analysis of trade and bills receivables that are not considered to be impaired is as follows:

Group

	2007 RMB'000	2006 RMB'000
Neither past due nor impaired	**77,065**	11,522
Less than 3 months past due	**16,950**	55,051
Over 3 months past due	**3,704**	8,616
	97,719	75,189

Receivables that were neither past due nor impaired related to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired related to mainly receivables corporate customers which have long business relationship with the Group. The directors are of the opinion that no provision for impairment is necessary at this stage because there has not been a significant change in credit quality of the individual debtors and the balances are considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

The balances are unsecured, non-interest-bearing and are repayable on demand.

25. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Group

	Note	2007 RMB'000	2006 RMB'000
Prepayments		**279,094**	174,234
Advances to suppliers		**1,114,208**	698,953
Other deposits and receivables	*(i)*	**818,696**	425,045
		2,211,998	1,298,232

Company

	2007 RMB'000	2006 RMB'000
Prepayments	**308**	575
Deposits and other receivables	**11,812**	84
	12,120	659

25. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (continued)

Note:

(i) The other deposits and receivables of the Group as at 31 December 2006 included the balance of rental receivables from a related party amounting to RMB347,000 (note 39(A)(vii)). The balance was interest-free, unsecured and was fully settled subsequent to the balance sheet date.

26. DUE FROM RELATED PARTIES

Group

	Notes	**2007** **RMB'000**	2006 RMB'000
Receivables from the Parent Group	*(i)*	**78,657**	136,227
Receivables from jointly-controlled entities	*(ii)*	**–**	3,521
Due from previous key management personnel of China Paradise	*(iii)*	**–**	49,500
Others		**367**	215
		79,024	189,463

Notes:

(i) The balance mainly represented the management fee due from the Parent Group (note 39). The aforesaid balance was interest-free, unsecured and was fully settled subsequent to the balance sheet date.

(ii) The balance is unsecured, interest-free and is repayable on demand.

(iii) The balance as at 31 December 2006 represented the balances due from certain previous key management personnel of China Paradise, including Mr. Chen Xiao and his affiliates. The balance was unsecured, interest-free and fully settled during 2007.

27. OTHER FINANCIAL ASSETS

The balance represented a deposit (the "Deposit") to Mr. Zhang Dazhong in an amount of RMB150,000,000 in respect of the acquisition transaction entered into among Yongle (China), a 90% owned subsidiary of China Paradise, Beijing Dazhong Electrical Appliances Co., Ltd. ("Beijing Dazhong") and Mr. Zhang Dazhong. The balance was fully settled subsequent to 31 December 2007.

28. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

Group

	2007	2006
	RMB'000	*RMB'000*
Cash and bank balances	**2,529,443**	1,372,455
Time deposits	**10,355,278**	7,528,137
	12,884,721	8,900,592
Less: Pledged time deposits:		
Pledged for bills payable	**(4,488,709)**	(6,168,895)
Pledged for bank acceptance credit	**(2,090,005)**	(1,279,860)
Pledged for purchase of property, plant and equipment	**(36,011)**	–
	(6,614,725)	(7,448,755)
Cash and cash equivalents	**6,269,996**	1,451,837

Company

	2007	2006
	RMB'000	*RMB'000*
Cash and bank balances	**6,701**	428
Time deposits	**4,950,382**	65,939
	4,957,083	66,367
Less: Time deposits pledged for bank acceptance credit	**(1,601,019)**	–
Cash and cash equivalents	**3,356,064**	66,367

28. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS (continued)

For the purpose of the cash flow statement, cash and cash equivalents comprise the following at 31 December:

Group

	2007	2006
	RMB'000	*RMB'000*
Cash and bank balances	**2,529,443**	1,372,455
Short term deposits, non-pledged	**3,740,553**	79,382
Cash and cash equivalents	**6,269,996**	1,451,837

The cash and cash equivalents and the pledged time deposits of the Group amounting to RMB7,549,969,000 as at 31 December 2007 (31 December 2006: RMB7,502,880,000) were denominated in Renminbi, which is not freely convertible in the international market. The remittance of funds out of the PRC is subject to the exchange restrictions imposed by the PRC government.

The bank balances of the Group and the Company earn interest at floating rates based on daily bank deposit rates. Short term deposits of the Group and the Company are made for varying periods of between one day and one year, and earn interest at the respective short term deposit rates. The bank balances and pledged time deposits are deposited with creditworthy banks with no recent history of default.

The carrying amounts of the cash and cash equivalents and pledged time deposits of the Group and the Company approximate to their fair values.

29. ISSUED CAPITAL

	Number of shares	Equivalent to	
	'000	HK$'000	RMB'000
Authorised:			
Ordinary shares of HK$0.1 each	50,000,000	5,000,000	5,300,000
Issued and fully paid:			
At 1 January 2006	1,642,447	164,245	174,099
Shares issued for acquisition of a minority interest	650,347	65,035	66,986
Shares issued for acquisition of China Paradise	751,721	75,172	75,924
At 31 December 2006	3,044,515	304,452	317,009
Shares issued for acquisition of outstanding shares of China Paradise *(note a)*	13,477	1,348	1,343
Shares issued upon conversion of convertible bonds *(note b)*	151,497	15,150	14,632
Shares issued for placement *(note c)*	110,000	11,000	10,780
At 31 December 2007	3,319,489	331,950	343,764

Notes:

(a) As part of the consideration for the acquisition of the remaining 41,506,320 outstanding issued shares of China Paradise in January 2007, the Company issued 13,477,075 ordinary shares of HK$0.10 each.

(b) On 18 May 2007 and 24 October 2007, the 2011 Convertible Bonds (as defined in note 32(i)) with the principal amount of US$75 million and US$50 million were converted at a conversion price of US$0.8251 per share into 90,898,072 and 60,598,715 new ordinary shares of HK$0.10 each, respectively.

(c) On 21 May 2007, the Company issued 110,000,000 ordinary shares of HK$0.10 each to Shinning Crown Holding Inc. ("Shinning Crown"), a substantial shareholder of the Company, at a placing price of HK$13.30 per share. Shinning Crown disposed of the entire 110,000,000 ordinary shares of the Company before 31 December 2007.

30. RESERVES

(a) Group

The movements in the reserves of the Group are set out in the consolidated statement of changes in equity of the financial statements.

Statutory reserves

Pursuant to the relevant PRC laws and regulations, Sino-foreign equity joint ventures registered in the PRC are required to transfer a certain percentage, as approved by the board of directors, of their profits after income tax, as determined in accordance with the PRC accounting rules and regulations, to the reserves funds, the enterprise expansion fund and the employee bonus and welfare fund. These funds are restricted as to use.

In accordance with the relevant PRC laws and regulations, the PRC domestic companies are required to transfer 10% of the profit after income tax, as determined in accordance with the PRC accounting regulations, to the statutory common reserve fund, until the balance of the fund reaches 50% of the registered capital of these companies. Subject to certain restrictions as set out in the relevant PRC laws and regulations, the statutory common reserve fund may be used to offset against accumulated losses, if any.

30. RESERVES (continued)

(b) Company

	Notes	Share premium RMB'000	Contributed surplus RMB'000 Note (ii)	Capital reserve RMB'000	Exchange reserve RMB'000	Retained earnings RMB'000 Note (i)	Total RMB'000
At 1 January 2007		**5,234,005**	**42,849**	**(1,632,736)**	**(49,695)**	**428,202**	**4,022,625**
Acquisition of outstanding shares of China Paradise	29(a)	**110,092**	**–**	**–**	**–**	**–**	**110,092**
Shares issued upon conversion of convertible bonds	29(b)/32	**1,496,466**	**–**	**–**	**–**	**–**	**1,496,466**
Issue of the 2014 Convertible Bonds	32	**–**	**–**	**1,415,770**	**–**	**–**	**1,415,770**
Issue of new shares	29(c)	**1,422,960**	**–**	**–**	**–**	**–**	**1,422,960**
Share issue cost		**(1,434)**	**–**	**–**	**–**	**–**	**(1,434)**
Profit for the year		**–**	**–**	**–**	**–**	**203,655**	**203,655**
Dividends paid	31	**–**	**–**	**–**	**–**	**(254,193)**	**(254,193)**
Proposed 2007 final dividend	31	**–**	**–**	**–**	**–**	**(328,629)**	**(328,629)**
At 31 December 2007		**8,262,089**	**42,849**	**(216,966)**	**(49,695)**	**49,035**	**8,087,312**
At 1 January 2006		761,846	42,849	–	(18,970)	59,508	845,233
Acquisition of a minority interest		–	–	(1,632,736)	–	–	(1,632,736)
Issue of warrants		22,317	–	–	–	–	22,317
Acquisition of China Paradise		4,464,318	–	–	–	–	4,464,318
Share issue cost		(14,476)	–	–	–	–	(14,476)
Profit for the year		–	–	–	–	577,998	577,998
Dividends paid	31	–	–	–	–	(99,186)	(99,186)
Proposed final 2006 dividend	31	–	–	–	–	(110,118)	(110,118)
Exchange realignment		–	–	–	(30,725)	–	(30,725)
At 31 December 2006		5,234,005	42,849	(1,632,736)	(49,695)	428,202	4,022,625

Notes:

(i) The profit attributable to equity holders for the year ended 31 December 2007 dealt with in the financial statements of the Company, was approximately RMB204 million (2006: approximately RMB578 million).

30. RESERVES (continued)

(b) Company (continued)

Notes: (continued)

(ii) The contributed surplus of the Company represents the difference between the nominal value of the Company's shares issued in exchange for the issued ordinary shares of Capital Automation (BVI) Limited and the value of net assets of the underlying subsidiaries acquired as at 27 March 1992. At the group level, the contributed surplus is reclassified into various components of reserves of the underlying subsidiaries.

Under the Bermuda Companies Act 1981 (as amended), the contributed surplus of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of the contributed surplus, if:

(a) it is, or after the payment would be, unable to pay its liabilities as they become due; or

(b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued capital and share premium.

31. DIVIDENDS

	2007 *RMB'000*	2006 *RMB'000*
Declared and paid during the year		
Equity dividends on ordinary shares:		
Final dividend per share for 2006: HK3.6 cents (equivalent to RMB3.6 fen) (2005: HK4.3 cents (equivalent to RMB4.5 fen))	**110,118**	73,450
Interim dividend per share for 2007: HK8.1 cents (equivalent to RMB7.8 fen) (2006: HK4.2 cents (equivalent to RMB4.3 fen))	**254,193**	99,186
	364,311	172,636
Proposed for approval		
Equity dividends on ordinary shares:		
Final dividend per share for 2007: HK10.6 cents (equivalent to RMB9.9 fen) (2006: HK3.6 cents (equivalent to RMB3.6 fen))	**328,629**	110,118

The proposed final dividend for the year (not recognised as a liability as at 31 December 2007) is subject to the approval of the Company's shareholders at the forthcoming annual general meeting. The proposed final dividend has not taken into the effect of share repurchases subsequent to the balance sheet date as mentioned in note 11 above.

32. CONVERTIBLE BONDS

	Notes	2007 RMB'000	2006 RMB'000
Liability components:			
2011 Convertible Bonds	*(i)*	**–**	726,703
2014 Convertible Bonds	*(ii)*	**3,375,803**	–
		3,375,803	726,703
Derivative components:			
2011 Convertible Bonds	*(i)*	**–**	206,787
2014 Convertible Bonds	*(ii)*	**(191,500)**	–
		(191,500)	206,787
		3,184,303	933,490

(i) US$125 million unlisted and unsecured convertible bonds due in 2011 (the "2011 Convertible Bonds")

On 28 January 2006, the Company and a wholly owned subsidiary of Warburg Pincus Private Equity IX, L.P. (the "Subscriber") entered into a subscription agreement (the "Subscription Agreement") in relation to the issuance of US$125 million unlisted and unsecured convertible bonds due in 2011 and warrants to subscribe in aggregate for a maximum amount of US$25 million new shares of the Company to the Subscriber.

Pursuant to the Subscription Agreement, the 2011 Convertible Bonds are:

a. convertible at the option of the bondholders into fully paid ordinary shares on or after 1 September 2006 and up to and including 7 February 2011 at a conversion price of US$0.8251 per share;

b. redeemable at the option of the bondholders at 105.49% of their principal amount on the third anniversary of the issue date; and

c. convertible at the option of the Company to request the bondholders for mandatory conversion of the prescribed amount of the convertible bonds on or after the third anniversary of the issue date.

32. CONVERTIBLE BONDS (continued)

(i) US$125 million unlisted and unsecured convertible bonds due in 2011 (continued)

The 2011 Convertible Bonds bear interest at the rate of 1.5% per annum on the principal amount of the bonds outstanding. The interest will be payable by the Company semi-annually in arrears. The 2011 Convertible Bonds will be redeemed on maturity at a value equal to the aggregate of (1) its principal amount outstanding; (2) the interest accrued; and (3) a premium calculated at 9.48% on the principal amount.

The 2011 Convertible Bonds are denominated in US$, which is different from the functional currency of the bond issuing entity. As such, the exercise of the conversion option would not result in settlement by the exchange of a fixed amount of cash for a fixed number of shares of the Company. The embedded derivative of the conversion option is therefore accounted for as a financial liability. The proceeds from the issuance of the 2011 Convertible Bonds on 1 March 2006 of US$125 million (approximately equivalent to RMB999,950,000) have been split into liability and derivative components. On issuance of the convertible bonds, the fair value of the derivative component is determined using an option pricing model and this amount is carried as a derivative component of the liability until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the liability component and is carried as a liability on the amortised cost basis until extinguished on conversion or redemption. The derivative component is measured at fair value on the issue date and any subsequent changes in fair value of the derivative component as at the balance sheet date are recognised in the consolidated income statement.

The fair values of the derivative component are determined based on the valuations performed by Vigers Appraisal & Consulting Limited ("Vigers") using the applicable option pricing model. Changes in fair value of that component between the issue date and the measurement date are recognised in the consolidated income statement.

On 18 May 2007 and 24 October 2007, the 2011 Convertible Bonds with the principal amount of US$75 million and US$50 million were fully converted into 90,898,072 and 60,598,715 new ordinary shares of the Company, respectively, at a conversion price of US$0.8251 (note 29(b)).

32. CONVERTIBLE BONDS (continued)

(i) US$125 million unlisted and unsecured convertible bonds due in 2011 (continued)

The movements of the liability component and the derivative component of the 2011 Convertible Bonds during the year ended 31 December 2007 are as follows:

	Liability component of convertible bonds *RMB'000*	Derivative component of convertible bonds *RMB'000*	Total *RMB'000*
Principal amount of convertible bonds issued	693,971	305,979	999,950
Transaction cost	(6,194)	–	(6,194)
Interest expenses	63,985	–	63,985
Interest paid	(7,661)	–	(7,661)
Fair value adjustment	–	(93,519)	(93,519)
Exchange realignment	(17,398)	(5,673)	(23,071)
At 31 December 2006	726,703	206,787	933,490
Interest expenses	44,636	–	44,636
Interest paid	(11,889)	–	(11,889)
Fair value adjustment	–	553,383	553,383
Exchange difference	(17,243)	(14,350)	(31,593)
Conversion into ordinary shares	(742,207)	(745,820)	(1,488,027)
At 31 December 2007	–	–	–

(ii) RMB denominated US$ settled zero coupon convertible bonds due in 2014 ("the 2014 Convertible Bonds")

On 11 May 2007, the Company entered into a bond subscription agreement (the "Bond Subscription Agreement") with Goldman Sachs (Asia) L.L.C ("Goldman Sachs") to issue the RMB denominated US$ settled zero coupon convertible bonds due in 2014 in an aggregate principal amount of RMB4,600 million. The settlement of the convertible bonds will be in United States dollars using the spot rate prevailing at the date of the transaction.

Pursuant to the Bond Subscription Agreement, the 2014 Convertible Bonds are:

(a) convertible at the option of the bondholders into fully paid ordinary shares at any time from 18 May 2008 to 11 May 2014 at a conversion price of HK$19.95 (at a fixed exchange rate of RMB0.9823 to HK$1.00) per share;

32. CONVERTIBLE BONDS (continued)

(ii) RMB denominated US$ settled zero coupon convertible bonds due in 2014 (continued)

(b) redeemable at the option of the bondholders on 18 May 2010, being the third anniversary of the issue date, at the United States dollar equivalent of their RMB principal amount multiplied by 102.27% and on 18 May 2012, being the fifth anniversary of the issue date, at the United States dollar equivalent of their RMB principal amount multiplied by 103.81%; and

(c) redeemable at the option of the Company at the cap price of 130% of the early redemption amount at any time from 18 May 2010 to 18 May 2014, provided the prices of the Company's shares for 20 consecutive trading days is over 130% of the early redemption price.

The 2014 Convertible Bonds will be redeemed on maturity at a value equal to the aggregate of (1) its principal amount outstanding; (2) the interest accrued; and (3) a premium calculated at 5.38% of the principal amount. Unless previously redeemed, converted or purchased and cancelled as provided in the terms and conditions of the 2014 Convertible Bonds, the Company will redeem each bond at the United States dollar equivalent of its RMB principal amount multiplied by 105.38% on 18 May 2014.

The 2014 Convertible Bonds are denominated in RMB which is the same as the functional currency of the bond issuing entity. As such, the exercise of the conversion option will give rise to the settlement by the exchange of a fixed amount of cash for a fixed number of shares of the Company. The conversion option is therefore accounted for as an equity instrument and is determined after deducting the liability component and the derivative component from the total proceeds. The embedded derivatives relating to the Company's redemption option in note (c) above which are not closely related to the host contract shall be separately measured and included in the derivative component as a financial liability. The Company determined the fair value of the liability component based on the valuations performed by Vigers using an equivalent market interest rate for a similar bond without a conversion option. The fair value of the derivative component is determined based on the valuations performed by Vigers using an option pricing model. The effective interest rate of the host contract is determined to be 5.85%. The residual amount was assigned as the equity component for the conversion option and was included in the capital reserve as at 31 December 2007.

The liability component is carried as a long term liability on the amortised cost basis until extinguished on conversion or redemption. The derivative component of the convertible bond is subsequently measured at fair value with changes recognised in the income statement. The value of the equity component is not remeasured in subsequent years.

32. CONVERTIBLE BONDS (continued)

(ii) RMB denominated US$ settled zero coupon convertible bonds due in 2014 (continued)

Transaction costs that relate to the issue of the convertible bonds are allocated to the liability and equity components in proportion to the allocation of the proceeds. Transaction costs relating to the equity component are charged directly to equity immediately. Transaction costs relating to the liability component are included in the carrying amount of the liability component and amortised over the period of the convertible bonds using the effective interest method.

The movements of the liability component, the derivative component and the equity component of the 2014 Convertible Bonds for the period from the issue date to 31 December 2007 are as follows:

	Liability component of convertible bonds *RMB'000*	**Derivative component of convertible bonds** *RMB'000*	**Equity component of convertible bonds** *RMB'000*	**Total** *RMB'000*
Principal amount of convertible bonds issued	3,305,362	(143,600)	1,438,238	4,600,000
Transaction costs	(49,392)	–	(22,468)	(71,860)
Interest expenses	119,833	–	–	119,833
Fair value adjustment	–	(47,900)	–	(47,900)
At 31 December 2007	3,375,803	(191,500)	1,415,770	4,600,073

33. INTEREST-BEARING BANK LOANS

Group

	Interest rate and final maturity	**2007** ***RMB'000***	2006 *RMB'000*
PRC bank loans – secured, within one year	Interest rates ranging from 5.38% to 6.39% per annum, with maturity through 2008	**300,000**	729,330

The Group's bank loans are secured by:

(i) the bank acceptance credit in favour of the Group. The bank acceptance credit was secured by the Group's time deposits (note 28);

(ii) the pledge of certain of the Group's buildings (note 12); and

(iii) the pledge of certain of the Group's investment properties (note 13).

The Group's bank loans are all denominated in RMB.

34. TRADE AND BILLS PAYABLES

Group

	2007	2006
	RMB'000	*RMB'000*
Trade payables and bills payable	**13,556,545**	12,614,613
Outstanding balance, aged:		
Within 3 months	**9,299,648**	7,059,361
3 to 6 months	**3,841,131**	5,244,494
Over 6 months	**415,766**	310,758
	13,556,545	12,614,613

The Group's bills payable are secured by:

(i) the pledge of the Group's time deposits (note 28);

(ii) the bank acceptance credit in favour of the Group. The bank acceptance credit was secured by the Group's time deposits (note 28);

(iii) the pledge of certain of the Group's buildings (note 12);

(iv) the pledge of certain of the Group's investment properties (note 13); and

(v) the corporate guarantees provided by the Parent Group and Beijing Xinhengji as at 31 December 2007 (note 39(A)(vi)).

The trade and bills payables are non-interest-bearing and are normally settled on one to six months terms.

35. CUSTOMERS' DEPOSITS, OTHER PAYABLES AND ACCRUALS

Group

	Note	**2007** **RMB'000**	2006 RMB'000
Customers' deposits		**595,705**	334,846
Consideration payable for the acquisition of subsidiaries	*(i)*	**37,000**	63,300
Provision for coupon liabilities	*(ii)*	**62,667**	35,423
Other payables and accruals		**1,244,323**	852,862
		1,939,695	1,286,431

Note:

(i) The balances as at 31 December 2007 and 2006 represented outstanding purchase considerations for the business combination transactions.

(ii) A reconciliation of the provision for coupon liabilities is as follows:

	2007 **RMB'000**	2006 RMB'000
At 1 January	**35,423**	20,417
Arising during the year	**76,773**	36,268
Utilised	**(47,708)**	(10,047)
Unused amounts reversed	**(1,821)**	(11,215)
At 31 December	**62,667**	35,423

36. DUE TO A RELATED PARTY

The amount due to a related party as at 31 December 2006 represented the balance of a non-interest-bearing and unsecured loan drawn down under a loan agreement and a supplementary agreement entered into among the Company, Wan Sheng Yuan Asset Management Company Limited, a related party of the Group, and Ms. Du Juan, a director of the Company, dated 21 July 2006 and 24 August 2006, respectively. The full balance was settled in February 2007.

37. BUSINESS COMBINATION

On 31 December 2007, the Group acquired the entire equity interest in Shaanxi Cellstar Telecommunication Retail Chain Company Limited ("Shaanxi Cellstar"), a limited liability company registered in the PRC, from independent third parties. The fair values of the identifiable assets and liabilities as at the date of acquisition and the corresponding carrying amount immediately before the acquisition were as follows:

	Note	**Fair value recognised on acquisition** *RMB'000*	**Carrying amount** *RMB'000*
Property, plant and equipments	*(i)*	6,269	6,269
Lease prepayments		1,617	1,617
Inventories		30,363	30,363
Trade and bills receivables		12,300	12,300
Prepayments,deposits and other receivables		9,221	9,221
Pledged deposits		5,419	5,419
Cash and cash equivalents		17,762	17,762
Trade and bills payables		(46,668)	(46,668)
Customers' deposits, other payables and accruals		(21,711)	(21,711)
Fair value of net assets		14,572	14,572
Goodwill on acquisition *(note 14)*		40,428	
Cash consideration		55,000	

Note:

(i) The fair value of the property, plant and equipment was determined based on the valuation performed by Sallmanns (Far East) Ltd, an independent firm of professionally qualified valuers, as at the acquisition date.

37. BUSINESS COMBINATION (continued)

It was impracticable to disclose the revenue and profit of the combined entity for the year as though the acquisition had taken place at the beginning of the period, because the relevant information is not available to the Group.

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition is as follows:

	RMB'000
Total cash consideration	55,000
Outstanding payable	(35,000)
Cash and cash equivalents acquired	(17,762)
Net cash outflow during the year	2,238

According to the terms of the agreement, a contingent consideration of RMB20,000,000 will be payable by the Group based on certain future events, including the service period of senior management personnel of Shaanxi Cellstar, the financial performance of Shaanxi Cellstar for the six-month period ended 30 June 2008 and the satisfactory renewal of a rental agreement in respect of a flagship store in 2009.

38. OPERATING LEASE ARRANGEMENTS AND COMMITMENTS

(a) Operating lease arrangements

As lessee

The Group leases certain of its properties under operating lease arrangements. These leases have an average life of between 1 and 20 years and there are no restrictions placed upon the Group by entering into these lease agreements.

As at the balance sheet date, the Group had the following minimum lease payments under non-cancellable operating leases falling due as follows:

	2007	2006
	RMB'000	*RMB'000*
Within one year	**1,798,626**	1,384,183
In the second to fifth years, inclusive	**5,784,470**	4,645,046
After five years	**3,755,870**	3,383,908
	11,338,966	9,413,137

38. OPERATING LEASE ARRANGEMENTS AND COMMITMENTS (continued)

(a) Operating lease arrangements (continued)

As lessee (continued)

A non-cancellable lease is a lease that is cancellable only (a) upon the occurrence of some remote contingencies; (b) with the permission of the lessor; (c) if the lessee enters into a new lease for the same or an equivalent asset with the same lessor; or (d) upon payment by the lessee of such an additional amount that, at inception of the lease, continuation of the lease is reasonably certain.

Pursuant to the relevant lease agreements, upon the payment of early termination compensation rental which in general ranges from 1 to 12 months, the Group is entitled to terminate the underlying lease agreement if a store will not be in a position to continue its business because of the losses or other circumstances as specified under the rental agreements.

As lessor

The Group has leased its investment properties (note 13) and entered into commercial property sub-leases on its leased properties (note 39(A)(iv)) under operating lease arrangements. These non-cancellable leases have remaining terms of between 1 and 10 years. All leases include a clause to enable upward revision of the rental charge on a regular basis according to prevailing market conditions.

The Group had the following future minimum rentals receivable under non-cancellable operating leases:

	2007	2006
	RMB'000	*RMB'000*
Within one year	**150,793**	47,115
In the second to fifth years, inclusive	**363,718**	142,828
After five years	**231,382**	74,429
	745,893	264,372

38. OPERATING LEASE ARRANGEMENTS AND COMMITMENTS (continued)

(b) Capital commitments

In addition to the operating lease commitments above, the Group had the following capital commitments at the balance sheet dates:.

	2007	2006
	RMB'000	*RMB'000*
Contracted, but not provided for:		
Acquisition of buildings	**438,412**	39,705
Authorised, but not contracted for:		
Construction of a warehouse	**–**	61,183

(c) Acquisition commitments

On 13 December 2007, the Group and an independent third party vendor entered into a sales and purchase agreement in respect of the acquisition of electrical appliance retail stores for a total cash consideration of RMB30 million. Pursuant to the agreement, the Group paid a deposit of RMB10 million in December 2007. As at 31 December 2007, the acquisition commitment amounted to RMB20 million.

(d) Other commitments

Pursuant to the Loan Agreement as disclosed in note 1 to the financial statements, the Group agreed to provide an additional designated loan of RMB1.5 billion to Beijing Zhansheng in January 2008 (note 42). The remaining designated loan balance of RMB600 million will be available to Beijing Zhansheng on 1 September 2008.

39. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances which are disclosed in note 26 and note 36 to these financial statements, the Group had the following significant transactions with the Parent Group and Beijing Xinhengji Property Co., Ltd. ("Beijing Xinhengji"). The Parent Group comprises Beijing Eagle Investment Co., Ltd., Beijing Gome Electrical Appliances Co., Ltd. and other companies which are engaged in the retail sales and related operations of electrical appliances and consumer electronic products under the trademark of "GOME Electrical Appliances" in cities other than the designated cities of the PRC in which the Group operates. The companies comprising the Parent Group are controlled by Mr. Wong Kwong Yu ("Mr. Wong"), the controlling shareholder and the Chairman of the Company. Beijing Xinhengji is owned by a family member of Mr. Wong.

(A) The Group had the following transactions with related parties during the year:

	Notes	**2007**	2006
		RMB'000	*RMB'000*
(a) Sales to the Parent Group	*(i)*	**8,046**	8,586
(b) Purchases from the Parent Group	*(i)*	**(5,625)**	(237,159)
(c) Provision of management and purchasing services to the Parent Group	*(ii)&4(b)*	**241,438**	202,470
(d) Rental expenses to Beijing Xinhengji	*(iii)*	**(3,823)**	(4,166)
(e) Sub-lease rental income from audio and visual equipment shops of the Parent Group	*(iv)*	**35,835**	39,971
(f) Sale of merchandise to jointly-controlled entities	*(v)*	**–**	66
(g) Provision of corporate guarantees from the Parent Group and Beijing Xinhengji in respect of the Group's bills facilities	*(vi)*	**853,333**	898,571
(h) Interest income on the amount due from a related party		**–**	12,315
(i) Rental income from a related party	*(vii)*	**539**	563

Notes:

(i) The sales and purchase transactions and the joint purchase transactions entered into between the Group and the Parent Group in respect of the electrical appliances and consumer electronic products were conducted based on the actual purchase cost from the Group's third party suppliers.

39. RELATED PARTY TRANSACTIONS (continued)

Notes: (continued)

(ii) The Group provides management services to the Parent Group in respect of the retailing of electrical appliances and consumer electronic products in cities other than the designated cities of the PRC in which the Group operates. In addition, the Group negotiates with various suppliers for both the Group and the Parent Group on a centralised basis. The total amount of the management service fee and the purchasing service fee was charged based on 0.6% and 0.9%, respectively, of the total turnover of the Parent Group, pursuant to a management agreement and a purchase service agreement entered into between the Group and the Parent Group, respectively.

(iii) On 20 December 2003, the Group entered into a rental agreement with Beijing Xinhengji to lease properties for a term of two years at an annual rental of approximately RMB3.3 million. On 12 January 2006, the parties renewed the agreement at an annual rental of US$523,000. In the opinion of the directors, the rental has been determined based on the prevailing market rentals of offices within the same district.

(iv) The Parent Group has set up counters in the retail outlets operated by the Group for selling audio and visual products. The Parent Group has entered into sub-lease agreements with each of the individual outlets of the Group. According to the sub-lease agreements, the rent is charged at (1) approximately RMB12 per square metre per day; and (2) 5% of the total revenue generated from the sale of audio and visual products.

(v) These transactions were entered into based on mutually agreed terms. The amounts disclosed are arrived at after deducting the Group's share portion, which has been eliminated in the proportionate consolidation of the Group's interests in the jointly-controlled entities.

(vi) The provision of corporate guarantees is at nil consideration. The Group intends to replace the aforesaid guarantees as soon as practicable.

(vii) The Company's subsidiary, Hong Kong Punching Centre Limited, received operating lease rentals in respect of the Group's investment properties from GOME Home Appliances (Hong Kong) Limited ("Hong Kong Gome"), totaling RMB210,000 (31 December 2006: RMB216,000) during the year.

Furthermore, during 2007, the Group had rental income from Hong Kong Gome in respect of the sub-lease of the Group's office premises amounting to RMB329,000 (31 December 2006: RMB347,000). As at 31 December 2006, the balance of rental receivables was RMB347,000 (note 25).

(B) Compensation of key management personnel of the Group:

	2007	2006
	RMB'000	*RMB'000*
Other emoluments:		
Salaries, allowances, bonuses and other benefits	**7,752**	10,232
Pension costs	**178**	162
	7,930	10,394

40. FINANCIAL INSTRUMENTS

The carrying values of the Group's cash and cash equivalents, pledged deposits, trade and bills receivables, designated loan, amounts due from related parties, other current assets, interest-bearing bank loans, trade and bills payables and customers' deposits and other payables approximated to their fair values at the balance shee date due to the short maturity of these instruments.

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial liabilities, other than derivatives, comprise interest-bearing bank loans, convertible bonds, trade payables and other payables. The main purpose of these financial liabilities is to raise finance for the Group's operations. The Group has various financial assets such as deposits and other receivables, trade receivables and pledged deposits which arise directly from its operations.

It is, and has been throughout the period under review, the Group's policy that no trading in derivatives shall be undertaken.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the debt obligations with floating interest rates.

The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts. As at 31 December 2007, the Group did not have debt obligations with floating interest rates other than the balance disclosed in note 33. Accordingly, the Group has no significant interest rate risk.

Foreign currency risk

As at 31 December 2007, cash and bank deposits of RMB5,334,752,000 (2006: RMB1,397,712,000) are dominated in foreign currencies including United States dollars, Hong Kong dollars and Euro dollars. The Group currently does not have a foreign currency hedging policy. However, management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk (continued)

The following table demonstrates the sensitivity to a reasonably possible change in the exchange rates of United States dollars with all other variables held constant, of the Group's profit before tax (due to changes in the fair values of monetary assets and liabilities) and the Group's equity.

	Increase/ (decrease) in United States dollars rate	Increase/ (decrease) in profit before tax *RMB'000*	Increase/ (decrease) in equity *RMB'000*
2007	**8%**	**354,577**	**424,199**
	(8%)	**(354,577)**	**(424,199)**

Credit risk

The Group trades on credit only with third parties who have an established trading history with the Group and who have no history of default. It is the Group's policy that new customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. The maximum exposure is the carrying amount as disclosed in note 24 to these financial statements.

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, short term deposits, pledged deposits, investment deposits, prepayments, deposits and other receivables and amounts due from related parties, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of such financial instruments.

Liquidity risk

The Group monitors its risk to a shortage of funds based on the maturity of its financial instruments, financial assets and liabilities and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bills payable, convertible bonds and other interest-bearing borrowings. As at 31 December 2007, the Group has trade and bills payables amounting to RMB13,556,545,000 (31 December 2006: RMB12,614,613,000). In addition, as at 31 December 2007, the Group had the bank loan balance of RMB300,000,000 (31 December 2006: RMB729,330,000) which will mature within 12 months. The directors have reviewed the Group's working capital and capital expenditure requirements and determined that the Group has no significant liquidity risk.

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2007 based on contractual or expected undiscounted payments.

Year ended 31 December 2007

Group

	Within 1 year *RMB'000*	1-2 years *RMB'000*	2-3 years *RMB'000*	Total *RMB'000*
Convertible bonds	–	–	4,704,420	4,704,420
Interest-bearing bank loans	300,000	–	–	300,000
Trade and bills payables	13,556,545	–	–	13,556,545
Customers' deposits and other payables	988,751	–	–	988,751

Company

	Within 1 year *RMB'000*	1-2 years *RMB'000*	2-3 years *RMB'000*	Total *RMB'000*
Convertible bonds	–	–	4,704,420	4,704,420
Other payables	2,724	–	–	2,724

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

Year ended 31 December 2006

Group

	Within 1 year RMB'000	1-2 years RMB'000	2-3 years RMB'000	Total RMB'000
Convertible bonds	–	–	1,029,675	1,029,675
Interest-bearing bank loans	729,330	–	–	729,330
Trade and bills payables	12,614,613	–	–	12,614,613
Customers' deposits and other payables	555,010	–	–	555,010
Due to a related party	120,564	–	–	120,564

Company

	Within 1 year RMB'000	1-2 years RMB'000	2-3 years RMB'000	Total RMB'000
Convertible bonds	–	–	1,029,675	1,029,675
Customers' deposits and other payables	178,942	–	–	178,942

Capital management

The primary objective of the Group's capital management is to ensure that the Group has healthy capital structure in order to support the Group's stability and growth.

The Group regularly reviews and manages its capital structure and makes adjustments to it, taking into consideration of changes in economic conditions, future capital requirements of the Group, prevailing and projected profitability and operating cash flows, projected capital expenditures and projected strategic investment opportunities.

42. POST BALANCE SHEET EVENTS

In January 2008, an additional designated loan balance of RMB1.5 billion was lent to Beijing Zhansheng pursuant to the Loan Agreement (note 1).

In February 2008, the Group acquired the 10.7% equity interest of an electrical appliances retailing company in the PRC for a cash consideration of RMB541,126,000. The target company is a PRC domestic company listed on the Shanghai Stock Exchange, the PRC.

Save as disclosed in notes 1, 11(i), 27 and above, the Group did not have any significant events taking place subsequent to 31 December 2007.

43. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 17 April 2008.

	Year ended 31 December 2007	Year ended 31 December 2006	Year ended 31 December 2005	Nine-month period ended 31 December 2004	Year ended 31 March 2004	Year ended 31 March 2003
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Turnover	**42,478,523**	24,729,192	17,959,258	9,715,903	10,233,768	4,371
Profit attributable to the equity holders of the parent	**1,127,307**	819,167	498,596	374,089	258,767	(13,102)
Total assets	**29,837,493**	21,176,229	9,367,894	5,113,768	4,232,877	279,204
Total liabilities	**(19,444,825)**	(15,935,840)	(7,496,600)	(3,742,812)	(3,169,938)	(82,086)
Minority interest	**(89,689)**	(88,783)	(360,408)	(233,182)	(131,401)	–
Net assets	**10,302,979**	5,151,606	1,510,886	1,137,774	931,538	197,118

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