



**GOME ELECTRICAL APPLIANCES HOLDING
LIMITED**

國美電器控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code : 493)

**ANNUAL RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2007**

2007 FINANCIAL HIGHLIGHTS

- Revenue reached approximately RMB42,479 million, representing growth of 71.77%
- Gross profitability (Gross profit margin plus Other income margin) rose by 1.04% to 15.64%
- Profit before tax reached approximately RMB1,528 million, representing a margin of 3.60%
- Net profit attributable to equity holders rose by 37.62% to approximately RMB1,127 million
- Basic EPS reached RMB35 fen
- 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 (representing a year-on-year increase of 155.8%.) and the corresponding basic earnings per share reached RMB59 cents (2006: RMB34 fen).
- The Board has declared a final dividend of HK10.6 cents per share, bringing total dividend pay out in 2007 to HK18.7 cents per share

The board of directors of GOME Electrical Appliances Holding Limited (the “Company”) announces the audited results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2007 as follows:

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
Revenue	3(a)	42,478,523	24,729,192
Cost of sales		<u>(38,383,276)</u>	<u>(22,369,445)</u>
Gross profit		4,095,247	2,359,747
Other income and gain	3(b)	2,546,876	1,251,780
Selling and distribution costs		<u>(3,547,907)</u>	<u>(2,123,158)</u>
Administrative expenses		<u>(686,740)</u>	<u>(418,329)</u>
Other expenses		<u>(604,768)</u>	<u>(156,087)</u>
Profit from operating activities		1,802,708	913,953
Finance costs	5	<u>(193,369)</u>	<u>(65,404)</u>
Finance income	5	424,241	126,154
(Loss)/gain on the derivative components of convertible bonds		<u>(505,483)</u>	<u>93,519</u>
Profit before tax	6	1,528,097	1,068,222
Tax	7	<u>(360,262)</u>	<u>(125,598)</u>
Profit for the year		1,167,835 =====	942,624 =====
Attributable to:			
Equity holders of the parent		1,127,307	819,167
Minority interests		<u>40,528</u>	<u>123,457</u>
		1,167,835 =====	942,624 =====
Dividends	9		
Interim		254,193	99,186
Proposed final		<u>328,629</u>	110,118
		582,822 =====	209,304 =====
Earnings per share attributable to ordinary equity holders of the parent	8		
- Basic		RMB35 fen =====	RMB38 fen =====
- Diluted		RMB35 fen =====	RMB34 fen =====

CONSOLIDATED BALANCE SHEET

31 December 2007

		2007	2006
	Notes	RMB'000	RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment		3,144,458	2,206,673
Investment properties		331,680	6,229
Goodwill		3,343,012	3,217,613
Other intangible assets		143,867	152,324
Prepayments for acquisition of properties	12	138,300	-
Lease prepayments		342,744	61,157
Deferred tax assets		<u>55,873</u>	<u>35,095</u>
		<u>7,499,934</u>	<u>5,679,091</u>
Current assets			
Hong Kong listed investments, at fair value		1,058	908
Investment deposits		30,000	-
Designated loans	10	1,500,000	-
Inventories		5,383,039	4,882,754
Trade and bills receivables	11	97,719	75,189
Prepayments, deposits and other receivables		2,211,998	1,298,232
Due from related parties		79,024	189,463
Other financial assets	12	150,000	150,000
Pledged deposits		6,614,725	7,448,755
Cash and cash equivalents		<u>6,269,996</u>	<u>1,451,837</u>
		<u>22,337,559</u>	<u>15,497,138</u>
TOTAL ASSETS		<u>29,837,493</u>	<u>21,176,229</u>
		=====	=====

CONSOLIDATED BALANCE SHEET (CONTINUED)

31 December 2007

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

Notes:

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 with Beijing Zhansheng (“Management Agreement”). 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.

Pursuant to an option agreement (“Option Agreement”) dated 14 December 2007, Beijing Zhansheng irrevocably granted Tianjin Consultancy an option (the “Purchase Option”), on an exclusive basis, for Tianjin Consultancy or any party(ies) designated by Tianjin 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 Dazhong Appliances for the grant of the 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).

1. CORPORATE INFORMATION (CONTINUED)

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, designated loans amounted to RMB1.5 billion (note 10) 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. 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. 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 <i>Financial Reporting in Hyperinflationary Economies</i>
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.

3. 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 <i>RMB'000</i>	2006 <i>RMB'000</i>
Sale of electrical appliances and consumer electronic products	42,478,523	24,720,112
Others	<u>-</u>	<u>9,080</u>
	<u>42,478,523</u>	<u>24,729,192</u>

- (b) Other income and gain comprises the following:

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

Note:

- (i) 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.

4. 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.

5. FINANCE (COSTS)/INCOME

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

6. PROFIT BEFORE TAX

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

	2007 <i>RMB'000</i>	2006 <i>RMB'000</i>
Cost of inventories sold	38,336,440	22,369,445
Write-down of inventories to net realisable value	46,836	-
	<u>38,383,276</u>	<u>22,369,445</u>
Depreciation	256,988	115,186
Amortisation of intangible assets	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	(138,187)	(40,534)
Fair value gain on investment properties	(47,176)	(1,029)
Loss/(gain) on the derivative components of convertible bonds		
2011 convertible bonds	553,383	(93,519)
2014 convertible bonds	(47,900)	-
	<u>505,483</u>	<u>(93,519)</u>
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:		
Wages, salaries and bonuses	911,432	540,539
Pension scheme contributions	107,668	81,087
Social welfare and other costs	60,316	73,885
	<u>1,079,416</u>	<u>695,511</u>
	=====	=====

7. TAX

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

	2007 <i>RMB'000</i>	2006 <i>RMB'000</i>
Current income tax – PRC	347,563	142,003
Deferred income tax	12,699	(16,405)
	<hr/>	<hr/>
Total tax charge for the year	360,262	125,598
	<hr/> <hr/>	<hr/> <hr/>

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 year ended 31 December 2007 and 2006, respectively, as the Group had no assessable profits arising in Hong Kong for the respective years.

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	<u>(754,284)</u>		<u>2,282,381</u>		<u>1,528,097</u>
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 year	-		(21,179)		(21,179)
Tax losses not recognized	2,491		25,246		27,737
Effect of change in income tax rate	<hr/>		<u>24,620</u>		<u>24,620</u>
Tax charge at the Group's effective rate	<hr/> <hr/>		<u>360,262</u>		<u>360,262</u>

7. TAX (CONTINUED)

	Hong Kong		2006 PRC		Total
	RMB'000	%	RMB'000	%	RMB'000
Profit before tax	<u>14,061</u>		<u>1,054,161</u>		<u>1,068,222</u>
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 year	-		(8,160)		(8,160)
Tax losses not recognised	<u>2,708</u>		<u>26,099</u>		<u>28,807</u>
Tax charge at the Group's effective rate	<u>-</u>		<u>125,598</u>		<u>125,598</u>

8. 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:

		2007	2006
		RMB'000	RMB'000
Earnings:	Notes		
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)	<u>-</u>	<u>(93,519)</u>
Profit attributable to ordinary equity holders of the parent as adjusted for the effect of convertible bonds		<u>1,127,307</u>	<u>789,633</u>
		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)	<u>9,675</u>	<u>-</u>
Weighted average number of ordinary shares adjusted for the effect of dilution		<u>3,202,791</u>	<u>2,313,215</u>

8. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (CONTINUED)

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.

9. DIVIDENDS

	2007	2006
	RMB'000	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: HK8.1cents (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: HK10.6cents (equivalent to RMB9.9fen)		
(2006: HK3.6 cents (equivalent to RMB3.6 fen))	328,629	110,118
	=====	=====

9. DIVIDENDS (CONTINUED)

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 which is before any effect of share repurchases subsequent to the balance sheet date (note 8).

10. DESIGNATED LOANS

The balance of designated loans of RMB1,500 million as at 31 December 2007 represented the aggregate amount of loans provided to Beijing Zhansheng by Tianjin Consultancy through the Bank pursuant to the Loan Agreement as disclosed in note 1. 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 loans 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.

11. 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 RMB'000	2006 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	<u>1,598</u>	<u>1,913</u>
	<u>97,719</u>	<u>75,189</u>

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

The aged analysis of trade 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	<u>3,704</u>	<u>8,616</u>
	<u>97,719</u>	<u>75,189</u>

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.

12. PREPAYMENTS FOR ACQUISITION OF PROPERTIES AND OTHER FINANCIAL ASSETS

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.

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.

13. CONVERTIBLE BONDS

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

13. CONVERTIBLE BONDS (continued)

(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.

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 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 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 income statement.

During the year, the 2011 Convertible Bonds with the principal amount of US\$125 million were fully converted into 151,496,787 new ordinary shares of the Company at a conversion price of US\$0.8251.

13. CONVERTIBLE BONDS (continued)

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

The movements of the liability component and 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
At the issuance date	687,777	305,979	993,756
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 1 January 2007	<u>726,703</u>	<u>206,787</u>	<u>933,490</u>
Interest expenses	44,636	-	44,636
Interest paid	(11,889)	-	(11,889)
Fair value adjustment	-	553,383	553,383
Conversion into ordinary shares	(742,208)	(745,820)	(1,488,028)
Exchange realignment	(17,242)	(14,350)	(31,592)
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 the 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.

13. CONVERTIBLE BONDS (continued)

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

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;
- (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 condition of the 2014 Convertible Bonds, the Company will redeem each bond at 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 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 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.

13. CONVERTIBLE BONDS (continued)

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

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.

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	<u>-</u>	<u>(47,900)</u>	<u>-</u>	<u>(47,900)</u>
At 31 December 2007	<u>3,375,803</u>	<u>(191,500)</u>	<u>1,415,770</u>	<u>4,600,073</u>

14. TRADE AND BILLS PAYABLES

Group	2007 RMB'000	2006 RMB'000
Trade payables and bills payable	<u>13,556,545</u>	<u>12,614,613</u>
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	<u>415,766</u>	<u>310,758</u>
	<u>13,556,545</u>	<u>12,614,613</u>

The Group's bills payable are secured by:

- (i) the pledge of the Group's time deposits;
- (ii) the bank acceptance credit in favour of the Group. The bank acceptance credit was secured by Group's time deposits;
- (iii) the pledge of certain of the Group's buildings;
- (iv) the pledge of certain of the Group's investment properties; and
- (v) the corporate guarantees provided by the Parent Group and Beijing Xinhengji as at 31 December 2007.

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

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 Tianjin 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 entered cities	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
Xian	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 766 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 strengthens 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 value-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 crystalised 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:

Region	Sales %
Shanghai	16.01%
Beijing	11.61%
Guangzhou	9.44%
Shenzhen	9.19%
Chengdu	6.29%
Tianjin	6.01%
Fuzhou	5.97%
Others	35.48%
total	100.00%

Sales revenue of the Group by product category : (RMB '000)

Item	January to December 2007		January to December 2006	
	Sales revenue	% of revenue	Sales revenue	% of revenue
AV	12,818,237	30.18%	7,043,009	28.48%
Air-conditioner	5,667,109	13.34%	3,664,439	14.82%
Refrigerator and washing machine	7,763,476	18.28%	4,517,925	18.27%
Telecommunication	5,607,683	13.20%	3,706,751	14.99%
Small white appliance	4,970,851	11.70%	2,659,798	10.76%
IT	2,190,479	5.15%	1,106,780	4.48%
Digital	3,460,687	8.15%	2,030,490	8.21%
Total	42,478,522	100.00%	24,729,192	100.00%

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:

Item	2007	2006
	Gross Margin from Sales	Gross Margin from Sales
AV	10.39%	10.18%
Air-conditioner	8.61%	8.53%
Refrigerator and washing machine	10.41%	10.04%
Telecommunication	7.05%	7.09%
Small white appliance	13.21%	13.45%
Computer	6.04%	5.79%
Digital	8.17%	8.92%
Total	9.64%	9.54%

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 RMB 4,839 million from RMB 2,698 million in 2006.

	2007	2006
<i>As a percentage of revenue</i>		
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
<i>As a percentage of revenue</i>		
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 RMB 360 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 RMB 943 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 RMB 1,127 million and approximately RMB 819 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 RMB 35 cent in 2007, as compared to approximately RMB 38 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 RMB 1,883 million (2006: RMB 736 million) and the corresponding basic earnings per share reached RMB 59 cents (2006: RMB 34 fen).

Cash and Cash Equivalents

At the end of the reporting period, the Group's cash and cash equivalents were approximately RMB 6,270 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 RMB 5,383 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 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 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 about 48,000. 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 satisfaction.

CORPORATE GOVERNANCE

During the year ended 31 December 2007, the Company was in compliance with the code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules.

AUDIT COMMITTEE

The Audit Committee of the Company comprises Messrs. SZE Tsai Ping, Michael, CHAN Yuk Sang, Mark C. GREAVES and Dr. LIU Peng Hui, all of whom are independent non-executive Directors. The Audit Committee assists the Board in providing an independent review on the completeness, accuracy and fairness of the financial statements of the Group, as well as the efficiency and effectiveness of the Group’s operations and internal controls. The Audit Committee had reviewed the audited consolidated financial statements of the Group for the year ended 31 December 2007 and the auditors’ report thereon and submitted its reports to the Board.

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.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 16 May, 2008 to 22 May, 2008, both days inclusive. During this period, no transfer of shares will be registered. In order to qualify for the final dividends, all transfers, accompanied by the relevant share certificates, must be lodged with the Company’s Share Registrar, Abacus Share Registrars Limited, at Level 25, Three Pacific Place, 1 Queen’s Road East, Hong Kong for registration no later than 4:00 p.m. on 15 May, 2008.

APPRECIATION

On behalf of the Board, I wish to thank our shareholders and business partners for their support to the Group and to extend my appreciation to all staff members for their dedication and contribution through out the period.

By Order of the Board
**GOME Electrical Appliances
Holding Limited**
Du Juan
Executive Director

Hong Kong, 17 April 2008

As at the date of this announcement, the executive Directors are Mr. Wong Kwong Yu, Ms. Du Juan, Mr. Chen Xiao, Mr. Ng Kin Wah, the non-executive Director is Mr. Sun Qiang Chang and the independent non-executive Directors are Mr. Sze Tsai Ping, Michael, Mr. Chan Yuk Sang, Mr. Mark C. Greaves and Dr. Liu Peng Hui, Mr. Yu Tung Ho and Mr. Thomas Joseph Manning..

** For identification purpose only*