国美电器

GOME ELECTRICAL APPLIANCES HOLDING LIMITED

(Incorporated in Bermuda with limited liability)

Stock Code : 493

OPTIMIZING OUR TRANSFORMATION

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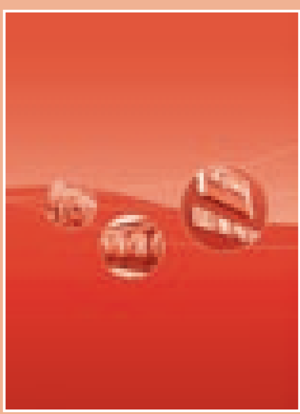
Annual Report 2008

Our Mission

Perfecting the Quality of Life

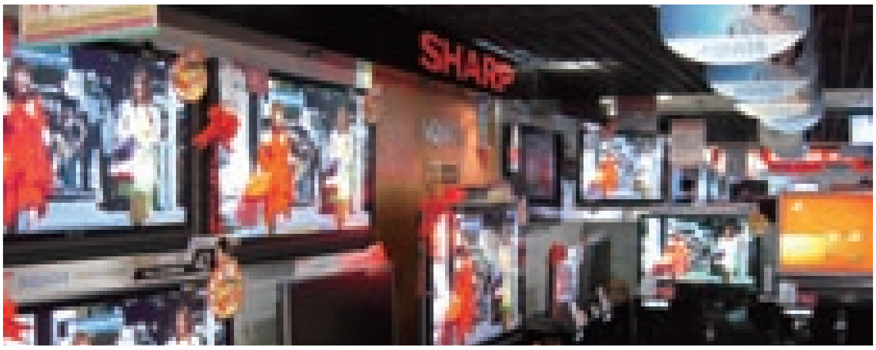
Contents



GOME is undergoing a period of strategic transformation from scale expansion to efficiency management with the operational focus moving from revenue growth driven by increase of new stores to earnings enhancement driven by individual store profitability.

GOME at a Glance

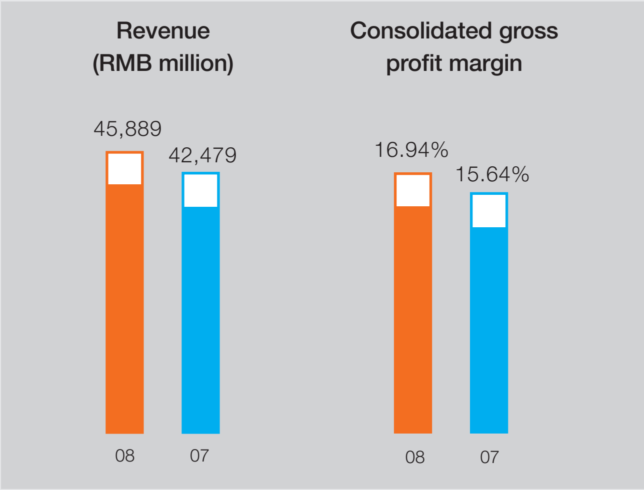
The number of GOME's members reached 22,000,000 at the end of 2008.



Leading chain-store retailer of household appliances and consumer electronic products in China

OUTLOOK PROSPECTS

In 2009, GOME will continue to provide the industry's leading consumers experience, embracing the most extensive range of products, delivered at the most competitive prices. The Group will offer its suppliers a channel platform that creates optimum economies of scale and efficiency. In such a way, the Group will achieve healthy and sustainable growth of the business, as well as ensuring a long-term and stable return for investors.



	2008 RMB million	2007 RMB million
Revenue	**45,889**	42,479
Gross profit	**4,508**	4,095
Consolidated gross profit margin*	**16.94%**	15.64%
Profit from operating activities	**1,944**	1,803

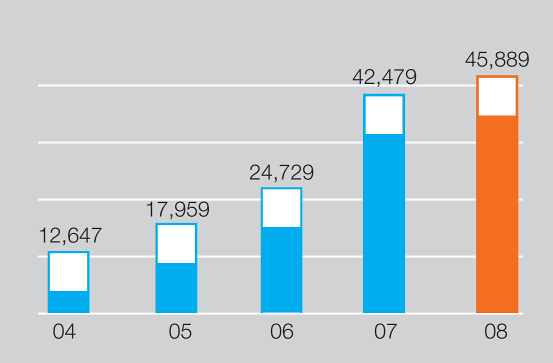
* Consolidated gross profit margin = (gross profit + other income)/revenue

Five Year Financial Summary

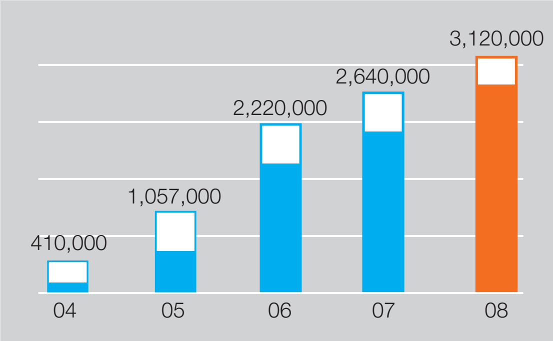
	Year ended 31 December 2008 *RMB'000*	Year ended 31 December 2007 *RMB'000*	Year ended 31 December 2006 *RMB'000*	Year ended 31 December 2005 *RMB'000*	Nine-month period ended 31 December 2004 *RMB'000*	Year ended 31 March 2004 *RMB'000*	Year ended 31 March 2003 *RMB'000*
Revenue	**45,889,257**	42,478,523	24,729,192	17,959,258	9,715,903	10,233,768	4,371
Profit attributable to the equity holders of the parent	**1,048,160**	1,127,307	819,167	498,596	374,089	258,767	(13,102)
Total assets	**27,495,104**	29,837,493	21,176,229	9,367,894	5,113,768	4,232,877	279,204
Total liabilities	**18,795,069**	19,444,825	15,935,840	7,496,600	3,742,812	3,169,938	82,086
Minority interest	**140,201**	89,689	88,783	360,408	233,182	131,401	–
Net assets	**8,700,035**	10,392,668	5,240,389	1,871,294	1,370,956	1,062,939	197,118

Financial and Operational Highlights

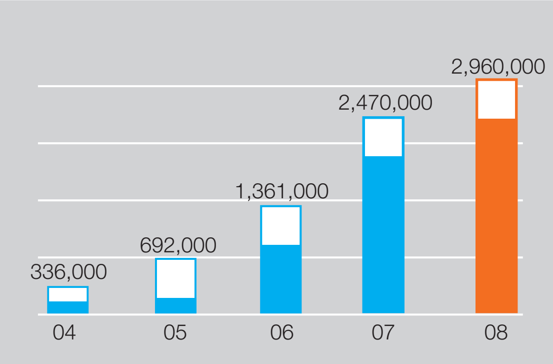
Revenue (RMB million)



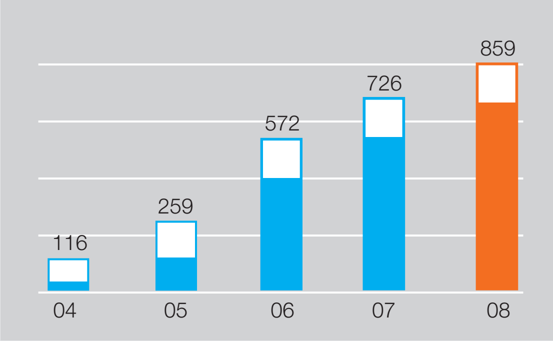
Total sales area at year end (sq.m)



Weighted average sales area (sq.m)

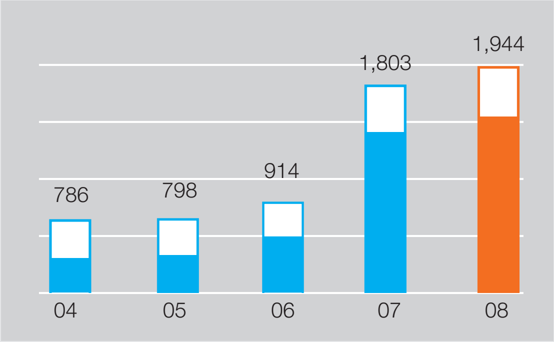


Number of stores at year end

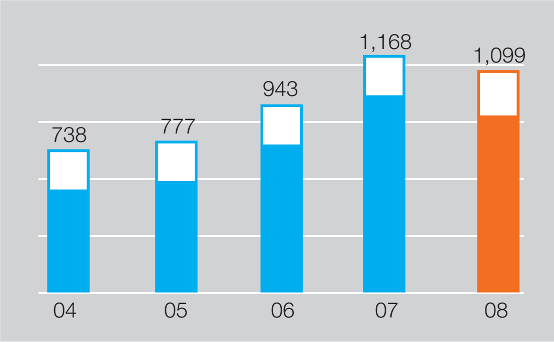


Financial and Operational Highlights

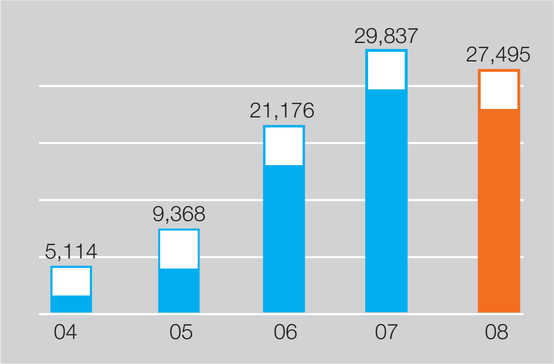
Profit from operating activities (RMB million)



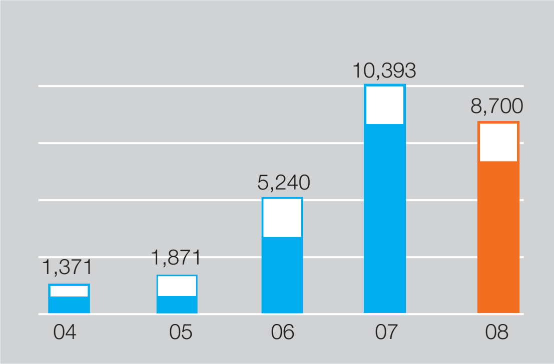
Profit for the year (RMB million)



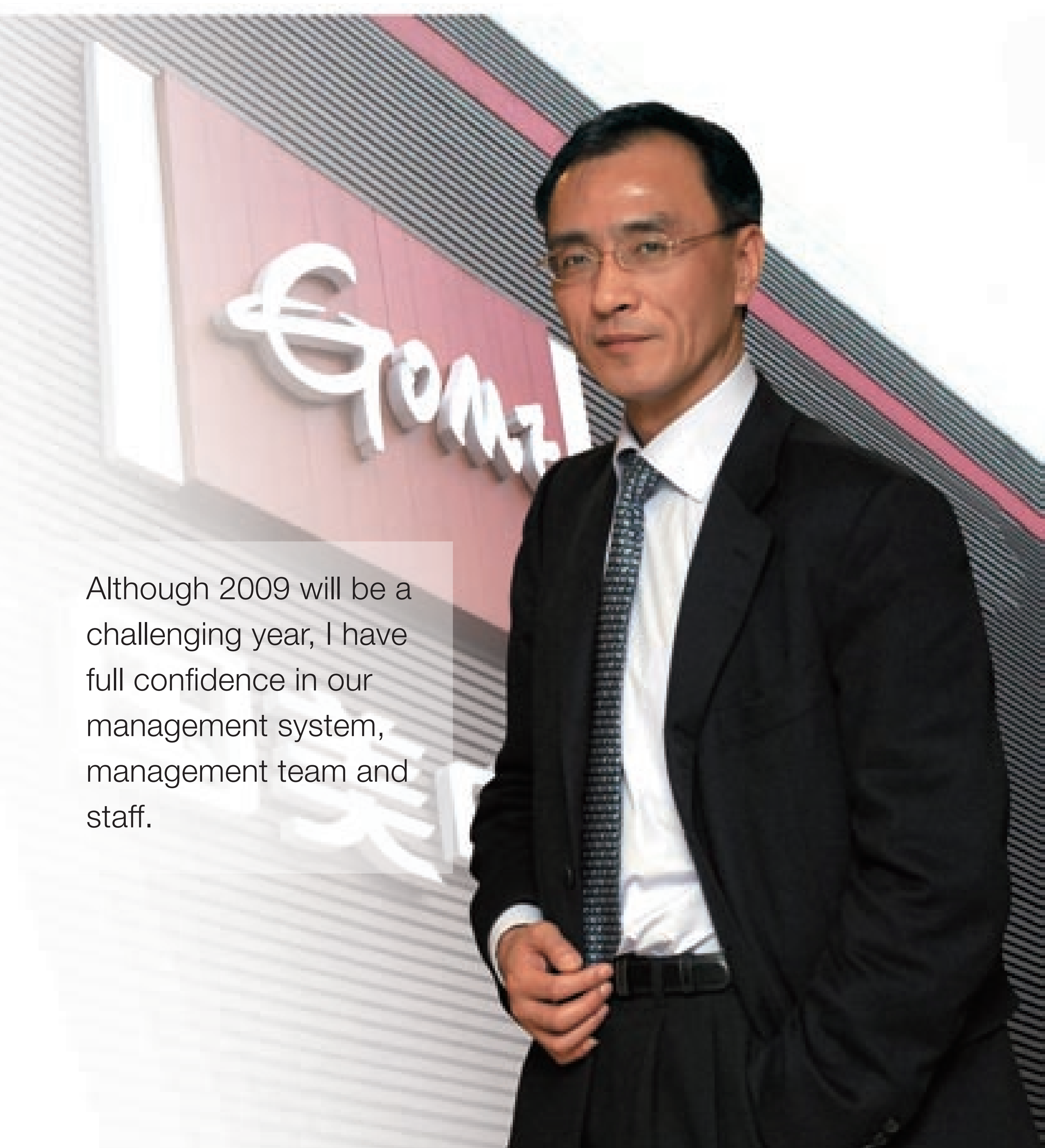
Total assets (RMB million)



Net assets (RMB million)



Chairman's Statement



Although 2009 will be a challenging year, I have full confidence in our management system, management team and staff.

Chairman's Statement

Mr. Chen Xiao
Chairman and President

INTRODUCTION/ OVERVIEW

On behalf of the board of directors (the "Board") of GOME Electrical Appliances Holding Limited (the "Company"), I am pleased to report the audited financial statements of the Company and its subsidiaries (collectively "GOME" or the "Group") for the year ended 31 December 2008.

2008 was the most difficult year in GOME's history, during which the Group experienced unprecedented challenges in both corporate governance and strategy in response to the growth pressure caused by the overall economic slowdown. In late November 2008, Mr. Wong Kwong Yu ("Mr. Wong"), our former Chairman of the Board, was unable to perform his executive duties as a result of the investigation launched against him by government authorities in China. This has aroused great concern among the public and all stakeholders. Additionally, the impact of the global economic crisis followed by the slowdown of China's economic growth had deepened since the fourth quarter of last year. Being exposed to a weakening domestic retail environment, the Group was brought under pressure to review its rapid expansion model which had succeeded in recent years over the period of accelerated economic growth. In such context, I was elected as the Chairman of the Board. I fully appreciate the trust and understand the responsibilities that come along with the role.

In response to the crisis situation, the Board immediately set up a special action committee (SAC) and activated our internal crisis management systems. In view of the uncertainties at the time and in the interest of the shareholders, the Company applied to the Hong Kong Stock Exchange in a timely manner for the suspension in trading of its shares with effect from 24 November 2008. In order to prevent our daily operations from distractions, the Board made a

Chairman's Statement

The total operating area of GOME's stores was over 3,120,000 square meters at the end of 2008.

number of decisions relating to changes in top management and governance in the subsequent weeks, including the appointment of a new Chairman and an acting Chief Financial Officer. To protect the interests of shareholders and business partners, the Board also engaged independent third party advisors and auditors to report on the Group's financial position, internal controls of connected transactions and internal risk management. The management team has been maintaining informative communications with investors, creditors, suppliers, employees and the public with various approaches. Thanks to the above measures, our efforts were recognized by the public, the regulators and our business partners.

It is reassuring that no irregularity nor misappropriation of funds or assets was identified during our internal audit. The Group has formulated and is implementing specific measures to improve the corporate governance, internal monitoring on connected transactions and internal controls and risk management.

2008 RESULTS PERFORMANCE

In 2008, the Group realized a sales revenue for the year of approximately RMB45,889 million, up 8.03% from previous year. Profit attributable to shareholders was RMB1,048 million and basic earnings per share was RMB0.082. Excluding the non-operating items, the profit from operating activities

Chairman's Statement

was RMB1,944 million showing an increase of 7.82% from RMB1,803 million in 2007. In view of the current situation and other potential capital and operational requirements, which might put pressure on working capital, the Board does not recommend payment of final dividend.

The year-on-year increase of sales revenue was moderate. The revenue growth was constrained by a sequence of factors, such as the snow storm at the beginning of 2008, the catastrophic earthquake in Sichuan in May, the flood in South China in June and the traffic control during the Olympic Games from July to September. Since October 2008, the market demand in China has met with a sharp decline as a result of the deepening global financial crisis, significantly hampering our sales performance in the fourth quarter.

Nevertheless, GOME still managed to operate the largest retail network in China, with 151 distribution centres and has developed an effective loyalty program with members reaching 22,000,000. The Group's call centres featured 500 operators and the Group's own and contracted repair service stations amounted to 2,376. All of these laid a solid foundation for future rebound.

We have implemented a differentiation strategy in product mix management by increasing the proportion of customized products which carry higher margin in general. This, combining with the effect unleashed from economies of scale, drove the adjusted gross profit margin further up for the 3rd consecutive year to 16.94%, up 1.30 percentage points from 15.64% recorded last fiscal year.

The Group's overall expense ratio increased as a result of increase in rental and salary expenses, fair value loss arising from investment properties, impairment of property, plant and equipment and goodwill. However, only rental and salaries expenses were related to operation and the reasons for such increase were mainly due to the opening of new stores. With adjustment to the overall strategies in the coming year, those expenses will be effectively controlled.

STRATEGY

GOME strives to ensure that its development strategies are in line with the market situation. In the past few years, our expansion strategies were built to benefit from a high growth market environment. And the Group grew its business organically, as well as via mergers and acquisitions. Thanks to these efforts, both the number of stores and sales generated in each store have achieved a remarkable growth. When an enterprise expands to a certain scale, with a considerable market share, the rules in the market evolve accordingly. This calls for the Group to review the competitive environment, and determine the core capabilities required in the new dynamics, ultimately transform its scale advantage effectively into profitability. In the coming year, the Group will slow its pace in opening new stores, instead steer its focus to increase the efficiency of individual store so as to drive overall profitability growth.

Chairman's Statement

Consumers in China have diverse preferences in choosing electronic products. While consumers in the economically developed regions pay more attention to special features and the appearance and design of electronic products, those in the less economically developed regions, who buy electronic household products for the first time, are more price sensitive, and care about basic features and maintenance costs. In view of the complexity and diversity in consumer demand, the Group will deploy differentiated marketing strategies, targeting customers according to demographic and regional features. Performance indicators driving effective implementation will also be adopted. As such, the Group will set industry leading service standards with tailored programmes, ultimately maximizing the Group's profitability. These include not only our in-depth exploration in the series and models of electronic products, and our vision on the change in lifestyle as a result of the application of revolutionary technologies, but also our overall care for consumers' experience in the store and afterwards. They are all set to get GOME to be recognized as the benchmarking brandname for modern lifestyle.

Suppliers are an essential part in the industry chain. It is important for the Group to continuously review and improve on how to cooperate with suppliers in order to survive in the down cycle of the market. The substitute products developed by applying advanced technology or new inventions introduced in meeting latent demand will directly drive the market growth as consumers aspire to a higher quality of life. An integrated and good relationship among consumers, retailers and suppliers must be achieved in order to ensure the healthy and sustainable development of the entire industry. By duly summarizing past experiences, the Group will launch new terms with its suppliers to maximize the economic benefits of using GOME as an effective platform. Besides, building steady long-term cooperation with major banks is one of our important tasks. We will strengthen our cooperation with major banks, in an effort to secure the level of working capital required by the business.

FUTURE OUTLOOK

The Chinese government announced a series of measures to boost the domestic economy and estimated a GDP growth of 8% in 2009. The economic stimulus policy and preferential policy for the home appliance industry, as rolled out by the government, will eventually boost domestic demand and increase the penetration rate of home appliances. Home appliances and the electronic products industry is characterized by its ability to launch new products through continuous technological breakthroughs, which in turn serve to attract

Chairman's Statement

different consumer segments, thus increasing sales and profit growth.

In 2009, the Group will focus on the overall upgrading of its flagship stores, introduction of new visual image and refurbishment of its stores' facades. Following portfolio rationalisation, the Group will improve the stores' ability to attract and retain customers, in order to achieve growth of sales and the consolidated contribution of individual stores through differentiation and strategy by increasing sales proportions of 3C and home appliances.

Although 2009 will be a challenging year, I have full confidence in our management system, management team and staff. At the beginning of 2009, the Group's operational goals were cascaded together with performance appraisal plan, in order to ensure that strategic plans will be effectively implemented.

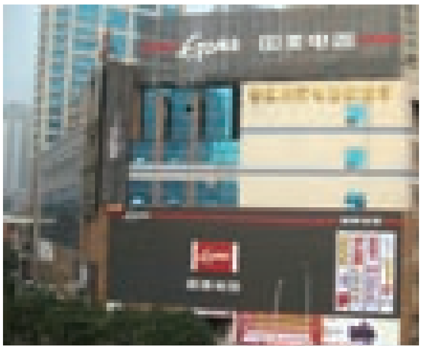
In 2009, GOME will continue to provide the industry's leading consumer experiences, embracing the most extensive range of products, delivered at the most competitive prices. The Group will offer its suppliers a channel platform that creates optimum economies of scale and efficiency. In such a way, the Group will achieve healthy and sustainable growth of the business, as well as ensuring a long-term and stable return for investors.

Chen Xiao
Chairman and President

Management Discussion and Analysis

In June 2008, GOME commenced optimization and upgrading of its exisiting selling process. Under the new process, customers' average shopping time was shortened to 4.68 minutes per order from the previous 11.32 minutes per order, representing a decrease in order time of more than 58%.

Management Discussion and Analysis



At the end of 2008, the Group's stores distributed in 205 first and second tier cities in China

GROUP REVIEW

In 2008, the Group experienced the most severe challenges in the history of its development, set against the backdrop of the global economic crisis as well as the adverse effects of the Sichuan Earthquake and floods in South China in the first half of the year. Despite this, the development momentum of the Group remained sound, thanks to a number of effective counter-measures adopted by the Group. As at the end of 2008, the Group recorded sales revenue of approximately RMB45,889 million, up 8.03% from the previous year. Net profit attributable to equity holders of the Company was RMB1,048 million as compared to RMB1,127 million last year. Excluding the non-operating items, the profit from operating activities was RMB1,944 million, an increase of 7.82% as compared to RMB1,803 million in 2007. Meanwhile, the Group has been able to maintain its competitive edge and leadership in China's household appliance retail industry.

The management of the Group is of the view that differentiation strategy in operations is an effective solution to bring profits to the Group at a time when outlet location, product display, product varieties and prices have become homogeneous within the household appliance retail industry. Adhering to this strategy, the Group introduced exclusive models of either best selling or high margin products to improve profitability. To maintain our leading position in the industry and enhance service capabilities, the Group's operations have been transforming into a customer-led model which is at the heart of our competitive strength.

Management Discussion and Analysis

Dazhong Appliances shop in Beijing

Through the rapid opening of new stores and mergers and acquisitions activities, the number of our retail outlets surged to 859 by the end of 2008, up 18.32% from 726 at the end of 2007. Consumers from cities and towns are now more willing to turn to professional chain stores to purchase electrical and electronic products, and as such, the second-tier cities have become the new growth centres of the household appliance industry. In 2008, the Group implemented preferential policies in resource allocation to second tier cities, in an effort to expand its market share and strengthen its leading position by capitalizing on its brand strength, its distribution capability, and its advantage in scale and service.

INDUSTRY INTEGRATION

With the successful integration of China Paradise in 2007, the Group has acquired considerable experience in merger and acquisition activities and brand integration, which lays a strong foundation for the Group to implement further integration strategies. Since December 2007, Tianjin Gome Commercial Consultancy Co., Ltd., a subsidiary of the Group, was entrusted to take charge of the management and operation of Beijing Dazhong Home Appliances Retail Co., Ltd. ("Dazhong Appliances"), a well established retailer in Beijing. In parallel, the Group completed a post-acquisition integration of Shaanxi Cellstar Telecommunication Retail Chain

Management Discussion and Analysis

Company Limited ("Shaanxi Cellstar") which was acquired in 2007. These two enterprises are complementary to our existing business, and synergies will arise from the sharing of consumer bases, product intelligence and operational experience. Business restructuring was conducted in areas such as information systems, procurement, logistics, storage, accounting and human resources, and a new management team was established. Controls on expenses and network rationalization together helped bring the regional competitive strength and profitability to the Group.

Through a series of mergers and acquisitions in recent years and subsequent integration activities, as well as having widespread footholds established in all first and second-tier cities nation-wide, the Group has the largest household appliance retail network in China. Moreover, the Group has also integrated a number of regional retail brands to mitigate regional competition, and has thereby enhanced the Group's leading industry position in China. Our current network coverage and resultant scale, which can not be replicated by any other domestic and international peers, effectively provide the manufacturers access to wider and deeper consumer segments. Leveraging the capabilities and experiences built over 20 years, together with a well-established management team, the Group believes that it will maintain its leading position in China's household appliance retail industry.

ANALYSIS OF MARKET SENTIMENTS

REVIEW OF BUSINESS ENVIRONMENT

In 2009, the Chinese government will implement macroeconomic policies to boost domestic demand and increase citizens' incomes. The policies, including the RMB4,000 billion investment plan and the rural household appliances subsidy policy, will continue to promote the progress of urbanization and the development of residential properties. The government policies will have a positive impact on the demand for electrical appliances and consumer electronic products.

The management believes that with the implementation of China's macroeconomic stimulus policies and the rapid development of the electrical appliance market, the Group will be able to maintain its stable growth by leveraging its strong retail brands, extensive sales network, continuing innovations and the improvements to the way we manage our business.

INDUSTRY AND COMPETITION

After over 20 years of development, the Group is well established in all first-tier and some second-tier cities in China and operates the largest household appliance retail network in China, with the highest number of stores and the greatest number of cities covered in the industry.

Management Discussion and Analysis

Looking at the development of the entire industry, household appliance chains have passed their infancy, a stage characterized by expansion of operational scale and largely determined by the supply of capital, effective management, success of execution and good foresight, making it the toughest and most capital-consuming stage. After over 20 years of expansion, the Group has laid a solid foundation and received high brand recognition and satisfaction from customers. In 2008 R&F Global Ranking sponsored a competition in which GOME came first in the household appliance section with a brand value of RMB55 billion. At present, the Group is striding forward towards its second stage of development, during which business success depends on more detailed and targeted management.

ADVANTAGES OF GOME

DEVELOPMENT OF RETAIL NETWORKS

During the reporting period, the Group continued to deepen its networks as well as rationalizing its portfolios nation-wide. Following careful analysis, unattractive or loss-making stores were closed or restructured to reduce operating loss. In the meantime, the Group focused on building flagship stores in commercial clusters of major cities so as to stay in the forefront of the market. This process of brand augmentation also complemented the efforts in market share expansion.

By the end of 2008, the Group's sales network covered 205 large and medium sized cities, owned 859 stores (an increase of 133 stores as compared with 2007), of which 537 stores are located in first-tier cities where there is stronger consumer spending power. During the year, the Group's chain store network entered 23 new cities which further widened its network coverage.

In addition, as at the end of 2008, the Non-listed GOME Group had a total of 413 stores that were not within the structure of the Group (excluding stores in Hong Kong and Macau) plus 61 stores of Dazhong Appliances managed by the Group. The total number of stores operated by the Group, the Non-listed GOME Group and Dazhong Appliances amounted to 1,333 stores, covering 329 large and medium sized cities in China.

As at the end of the reporting period, the Group's total operating store area amounted to 3,120,000 square meters, up 18.18% from 2,640,000 square meters in 2007, and average individual store area reached 3,632 square meters. The Group will further rationalize its network in first-tier markets and deepen its network in second-tier markets.

EXPANSION TO SECOND-TIER MARKETS

With the rapid urbanization and ever-increasing income of the town and rural residents in China, the management of the Group believes that penetration and replacement of electric appliances and consumer electronic products in second tier markets will increase. For this reason second tier cities have become integral to the Group's future development plans. Based on previous exploration and cultivation of second tier markets,

Management Discussion and Analysis

the Group has implemented various policies including, in 2008, allocating more resources to these markets. In view of the large number of geographically widespread second-tier markets, the Group has optimized its logistics system and strengthened cross-regional cooperation with suppliers, aiming to reduce logistical and storage costs and improve profitability. As regards the relatively lower sales per square meter in the second-tier markets, alternative sales approaches were encouraged to increase sales. Owing to the lack of high quality talent in the second tier markets, the Group relocated experienced personnel to supervise the local operations in the second-tier cities.

By the end of 2008, the Group had entered 178 second-tier cities, representing an increase of 14.84% as compared to 155 cities in 2007. All 23 cities that the Group entered in 2008 were second-tier cities. In those 178 second-tier cities, the Group has established altogether 322 chain stores, representing 37.49% of total chain stores, and recorded a sales revenue of RMB11,564 million (2007: RMB9,904 million), accounting for 25.20% of total sales revenue or an increase of 1.88 percentage points over 23.32% last year.

The management believes that because of China's macroeconomic policies and economic stimulus packages, and with the government's promotion of the "go rural" subsidy policy, the Group has the strongest competitive advantage in the industry, leveraging its established chain stores network and first mover advantage in the second-tier market, and turning them into another highlight of its enterprise development strategy.

CHAIN STORE LEASES

As at the end of 2008, of the 859 chain stores, 30 are located in Group-owned properties (2007: 21 stores) with a total area of 231,600 square meters, accounting for 7.42% of the entire operation area. The Group owned properties, which are all located in the core business areas of first-tier cities have gained substantially in value since they were purchased, according to current market value. Additionally, the annual depreciation of the properties was far below the rental for equivalent properties, hence helped lower the Group's operating costs to a great extent.

In addition to the Group-owned chain stores, the Group also has 829 chain stores located in leased properties, where the average remaining lease period is 5.2 years. Among the aforementioned leases, the leases for 34, 49 and 53 chain stores will expire in 2009, 2010 and 2011 respectively, accounting for 4.10%, 5.91% and 6.39% of the total leased stores.

During the reporting period, the Group's lease payments accounted for 4.36% of sales, representing an increase of 0.66 percentage points as compared with 3.70% in the same period of 2007. It was principally due to an increase in the number of stores leased by the Group, and also an increase in the corresponding lease expenses, as a result of the increase in rental cost for certain chain stores upon renewal of their leases with reference to prevailing market rate.

Management Discussion and Analysis

The management believes the coverage of the Group's retail network is very extensive. It will further optimise its network in first-tier markets and improve its network coverage in second-tier markets.

Management Discussion and Analysis

Nationwide Retail Network of the Group:

(as at 31 December 2008)

LIST OF STORES:

Region	Flagship stores	Standard stores (including supermarket)	Specialised stores
Beijing	9	47	1
Shanghai	11	48	8
Tianjin	7	32	1
Chengdu	4	50	–
Chongqing	4	29	–
Xian	2	22	24
Shenyang	3	22	–
Qingdao	2	29	–
Jinan	2	12	–
Shenzhen	3	69	–
Guangzhou	3	100	6
Wuhan	2	28	1
Kunming	3	16	2
Fuzhou	3	41	–
Xiamen	1	32	1
Hangzhou	2	19	–
Zhengzhou	1	26	–
Ningbo	1	3	–
Nanjing	1	29	–
Wuxi	2	4	–
Changzhou	1	11	–
Suzhou	2	13	–
Hefei	1	14	–
Xuzhou	1	10	–
Lanzhou	2	12	–
Wenzhou	3	4	–
Tangshan	–	17	–
Total	**76**	**739**	**44**

DEVELOPMENT OF NETWORK:

	Group total	GOME	China Paradise	CellStar
Flagship stores	76	56	20	–
Standard stores (including supermarkets)	739	590	149	–
Specialised stores	44	11	9	24
Total	859	657	178	24
Among them				
First-tier cities	537	380	137	20
Second-tier cities	322	277	41	4
Net increase in store number	133	131	1	1
Number of stores closed	95	60	28	7
Among them				
First-tier market	55	35	17	3
Second-tier market	40	25	11	4
No. of entered cities	205	170	55	7
Among them				
First-tier cities	27	21	10	1
Second-tier cities	178	149	45	6
No. of newly entered cities	23	21	2	–

Management Discussion and Analysis

Purchases from the five largest suppliers accounted for 31.03% of the total purchases

The management considers that, in the next few years, prices in the property market will come down to a reasonable and more stable level, thereby reducing the lease expenses of the Group. Meanwhile, the Group will re-negotiate leases, expand cross-industry alliances, increase the utilization of properties, and improve the operation quality of chain stores, etc., to reduce the rental expense ratio and improve the Group's profitability.

PURCHASES AND SUPPLIER RELATIONSHIP

During the reporting period, the Group maintained a good relationship with its suppliers. Thanks to its well established long-term and stable relationships with domestic and overseas home appliances manufacturers, the Group has gained trust and goodwill from its suppliers and accumulated valuable experience in how to maintain these relationships.

In 2008, purchases from the five largest suppliers (by brandname) of the Group accounted for 31.03% of total purchases.

The management considers that the home appliance industry nowadays is an integrated system formed by numerous co-existing and interrelated parts. Being a well-developed sales platform, the Group will take the lead to work closely with all major home appliance manufacturers. Besides, in order to provide a broader platform with a more harmonious sales and purchase environment for manufacturers,

Management Discussion and Analysis

the Group will establish a better, long term, stable strategic partnership with each major supplier, thus enabling the Group to improve its competitiveness within the markets.

CUSTOMER SERVICE AND AFTER-SALES SERVICE SYSTEM

As a chain retailer of home appliances and consumer electronic products, the Group has always paid much attention to the improvement of its Customer Relationship Management System ("CRM"). In 2008, supported by the Customer Management System ("CMS") platform, the Group continued to implement and promote its membership system, home appliance hospital, extended warranty service, call centre and after-sales services. Such all-rounded services greatly enhanced customer satisfaction towards the Group, increased the Group's brand image and corporate image and thus cultivated and improved customers' loyalty.

(1) Customer management system

The Group's CRM, being integrated effectively with the Enterprise Resource Planning System ("ERP"), can offer full scale services to customers, and a standardized and improved daily sales system, membership management, customer complaint handling and after sales interviews, etc.. The management believes that a complete service system guarantees promotion of sales results, and the accumulated customer information and service reputation will have a positive effect on the operations of the Group.

(2) Loyalty Program

Marketing through our loyalty program has been progressing and the number of members increased significantly since the Group launched this program in 2005; the number of members by the end of each year from 2005 to 2008 was 1,200,000, 6,700,000, 11,400,000 and 22,000,000 respectively. At present, member purchases account for 75.30% of total sales. Repeat purchases by members reached 49.40%, representing an increase of 14.50 percentage points from 34.90% in the previous year and reflecting the increase in customer loyalty.

During the reporting period, the Group has launched various activities for its members, and by multi-faceted and frequent communications with them, the Group has greatly enhanced their loyalty. Membership marketing is a long-term process. The Group is committed to continuous innovation and it will do everything possible to enhance member loyalty, increase the value of membership and expand the competitive edge of the Group, turning membership into a channel for in-depth communications between the Group and its consumers.

Management Discussion and Analysis

Shopping at GOME, free delivery is available within 80 kilometres in first-tier cities, 120 kilometres in primary cities

(3) *Logistics system*

As at the end of the reporting period, the Group had 151 distribution centres, including 39 in first-tier cities and 112 in second-tier cities. The above distribution centres cover an area of 617,000 square meters in total, of which 411,800 square meters are from the first-tier cities and 205,200 square meters from the second-tier cities.

For a retail enterprise with hundreds of outlets nation-wide, logistics systems are a crucial part of operations. During the reporting period, the Group fully engaged its regional distribution centres to provide timely customer service while reducing logistics costs for the Group and its suppliers, as well as increasing its inventory turnover rate.

The Group will roll out a plan to set up local logistic capabilities in regional centers in an effort to improve its operational efficiency.

(4) *After-sales service*

In 2008, the Group further expanded its after-sales network by establishing 12 new "Household Appliance Clinic" in addition to the existing 32 opened in 2007. The Group has also cooperated with a number of professional repair service providers in the first and second-tier cities to better serve our customers. During the reporting period, the Group's opened or contracted repair service stations totaling 2,376, which enabled the Group to meet the needs of its customers and ensure the quality of its after-sales service.

In respect of installation and repair services, the Group established its own service team in 2007. All of its frontline service personnel are well-trained professional technicians with problem solving skills, who can provide satisfactory services to customers.

The after-sales network and installation service has not only satisfied the customers with quality service, but also

Management Discussion and Analysis

"Jia An Bao" is China's first registered brand of extended warranty service for household appliance

contributed profit to the Group, as such, the Group will continue to strengthen its after-sales service to achieve a win-win situation for both of the Group and its customers.

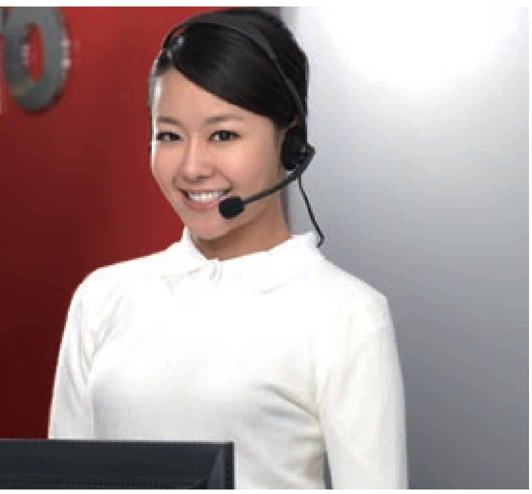
(5) *Extended warranty service*

In 2008, the Group set up "Jia An Bao" extended-warranty service for all brand products to provide after-sales services to its customers following expiry of the warranty period of the manufacturers. Although it is a common practice in the developed countries, "Jia An Bao" is China's first registered brand of extended warranty service for household appliances, which is in fact an extended service adding value to household appliance retailers. It helps to expand the competitive edge of modern household appliance retailers and relieve the burden on household appliance manufacturers for after-sales service, so that they can focus on improving the functions and quality of their products. This contributes to a smooth industrial chain and a triple-win situation for the consumers, the manufacturers and the retailers. It also marks the transformation of household appliance retailers into service providers. "Jia An Bao" is a paid service with coverage, measures and duration of protection. It is being viewed as a high-value product. Since the launch of "Jia An Bao", the extended warranty service has spread from 460 stores at the beginning to over 1086 stores (including the Non-listed GOME Group's stores) in 249 cities all over the country.

Through establishing partnerships with professional extended warranty service providers both in China and overseas, we have formed new profit-generating possibilities while expanding the service coverage for greater customer satisfaction. During the reporting period, the participation rate of extended warranty for all types of products was 5.93% and the profit margin of extended warranty sales was 51.25%. The management is of the opinion that there is enormous room for growth for extended warranty service given the continuously increasing

Management Discussion and Analysis

GOME rests its customers worry-free by providing them with the safeguard policy.



Our call center provides operator access within 3 seconds by applying the advanced technology and achieves a call completion ratio of over 99%. The call center implements the principle of "Four Quicks", namely quick check, quick settlement, quick handling and quick response.

spending power of the general public and the popularity of high quality household appliances.

(6) Safeguard policy

The Group's safeguard policy allows its customers to return their purchases within 9 days for a refund, and to claim for a compensation of price difference within 19 days if they have found any price reduction for the same goods since their purchase, or lower price for the same goods in any other stores in the same city. They are also eligible for a refund or exchange within 39 days or 99 days respectively, if they find their goods are defective, if this proves to be true on authentication. This leaves its customers worry-free when making decisions.

(7) Call Centre

Self service capability is one of the important criteria for assessment of competitiveness of modern retailers. The Group's call centre offers the most complete and advanced interactive information service system in the household appliance industry in Mainland China. Relying on a call centre and CRM system, a team of several hundred customer service representatives will generally handle tens of thousands of customer inquiries and complaints a day, becoming the bridge of communications between the Group and its customers.

The call centre features 500 representatives and takes the greatest advantage of the service network and 400-811-3333 service hotline to enable online self service and interactive voice response system ("IVR"). As a one-stop service solution, customers can check order status including delivery and installation simply by identifying the serial number on the invoice. The Group is now capable of conducting more interactive communications with its customers. By linking to the Group's existing CRM system, ERP system, logistic system and after-sales system, the centre can promptly address customers' queries regarding sales network, product categories, member bonus points, logistics and after-sales service.

Management Discussion and Analysis

The smooth operation of the customer care centre has remarkably improved customer satisfaction and achieved faster and more effective information circulation among consumers, GOME and the suppliers, providing unwavering support to the Group's sales network. It has not only enhanced the Group's brand image, but also propelled realization of the long-term strategic goal of the Group.

INFORMATION SYSTEM AND E-COMMERCE INFRASTRUCTURE

To catch up with the rapid development of the Internet and meet increasingly complicated operating requirements, the Group is determined to accelerate its IT system construction so as to improve work efficiency, save operating costs and enhance the quality of its customer service while taking advantage of the online business to diversify its sales models.

OPERATION STRATEGY OF GOME

OPERATION QUALITY OF INDIVIDUAL STORES

In view of the changes in the economic environment and the way our suppliers manage their businesses, the Group expanded the variety of products and improved in-store space utilization by introducing new models and series, to enhance operating capability of each store and the customers' trading volume. In addition, the Group also strengthened its exclusive product selling and promoting activities by establishing a good relationship with suppliers so as to increase its profitability.

The management believes that the Group's core strength will be reflected in individual stores' ability to improve operation quality. Therefore, the Group will continue to strengthen store management, boost efforts in the display 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.

DIFFERENTIAL OPERATIONS

Differential operation was the key operating strategy put forward by the Group in 2007. Since its implementation two years ago, the Group realized differential operation by adopting multiple means, including focused promotion, exclusive product selling, OEM and ODM. Thanks to these efforts, the Group's overall gross profit margin has been improving consistently.

The management is of the view that the capability of providing differentiated products and services is one of the core competencies the Group targets to build continuously, in hope that it will drive future profit growth.

CULTIVATION OF BIG CUSTOMERS

Being a dominant player in China's household appliance retail industry, the Group always pays great attention to bulk sales, in fact, the weighing of which in our total sales has been increasing year-on-year. In 2008, bulk sales to big customers recorded RMB2,600 million.

The Group is of the opinion that bulk sales are one of the important means for revenue and profits growth. The Group will continue to develop bulk sales, so as to enhance its sales and profits as well as operational efficiency without making further investment to the stores.

Management Discussion and Analysis

The management is of the view that the capability of providing differentiated products and services is one of the core competencies.

MULTI-BRANDS STRATEGY

As at the end of the reporting period, the Group owned two national brands, namely "GOME" and "China Paradise", as well as a number of regional brands such as "Cellstar". In 2008, the Group took the charge of the management and operation of "Dazhong", and held approximately 10.70% of the equity of Sanlian Commercial Co., Ltd. The Group leveraged on the dominant market positions of both its national and regional brands to cross-cover the entire household appliance market in the PRC, and secured maximum market share and distribution advantage through the complementary networks of its different brands.

DEVELOPMENT OF CORPORATE CULTURE

In 2008, GOME achieved significant progress in corporate culture series building. The corporate culture of GOME comprises three series, namely the Handbook series, the Learning Information series and the Preliminary Courses series. These three series are composed of 13 books and divided into 12 courses. Through various activities such as lectures, knowledge contests, themed activities, propaganda information and GOME stories, the Group established the essence of its corporate culture of "building a centennial enterprise and cultivating staff loyalty", all with the aim of allowing the staff a better understandings of the essence of the corporate culture of GOME and put it into practice as far as possible.

During the reporting period, building on the corporate value crystalised over years of experience, the Group combined the essence of corporate culture of modern society, with focus on the corporate vision of "in 2015 the Group will become a well respected and the world's number one company in the household appliances retail sector" and the corporate mission of "Perfecting the quality of life". It was committed to build a well-trained service team with strong sense of belonging, as well as great team integrity and cohesion.

FINANCIAL REVIEW

REVENUE

During the period under review, the Group's revenue grew to RMB45,889 million, up 8.03% from RMB42,479 million in 2007. During the period, the Group's weighted average sales area

Management Discussion and Analysis

was approximately 2,960,000 square meters, compared to approximately 2,470,000 square meters in 2007, representing an increase of approximately 19.84%. Annualized sales per square meter in the reporting period was RMB15,503, declined slightly from the corresponding period in 2007, which was primarily due to the slowdown in growth of sales revenue and the growth in sales area was greater than that of revenue.

Aggregate sales of 471 comparable stores recorded a revenue of RMB33,075 million, accounting for approximately 72.08% of the total revenue in the reporting period. Revenue mix by region remained largely the same as last year. Sales revenue from four regions of Beijing, Shanghai, Guangzhou and Shenzhen amounted to RMB20,982 million, accounting for 45.72% of the total revenue recorded in the reporting period.

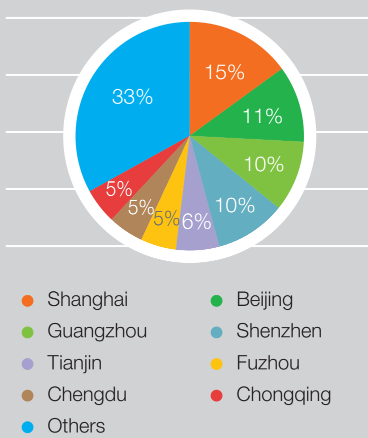
COST OF SALES AND GROSS PROFIT

Cost of sales of the Group was approximately RMB41,381 million in the reporting period, representing 90.18% of sales revenue, declining slightly from 90.36% of last year. Sales revenue increased faster than cost of sales, this was mainly due to the differentiation strategy implemented in product management which warranted an increase in gross profit margin. Total gross profit recorded was approximately RMB4,508 million, representing an increase of 10.09% compared to RMB4,095 million in the previous year. We have achieved continued growth in gross profit margin over the last three years, the management believes that such increase is a result of effective pricing and product variety management, as well as stronger economies of scale.

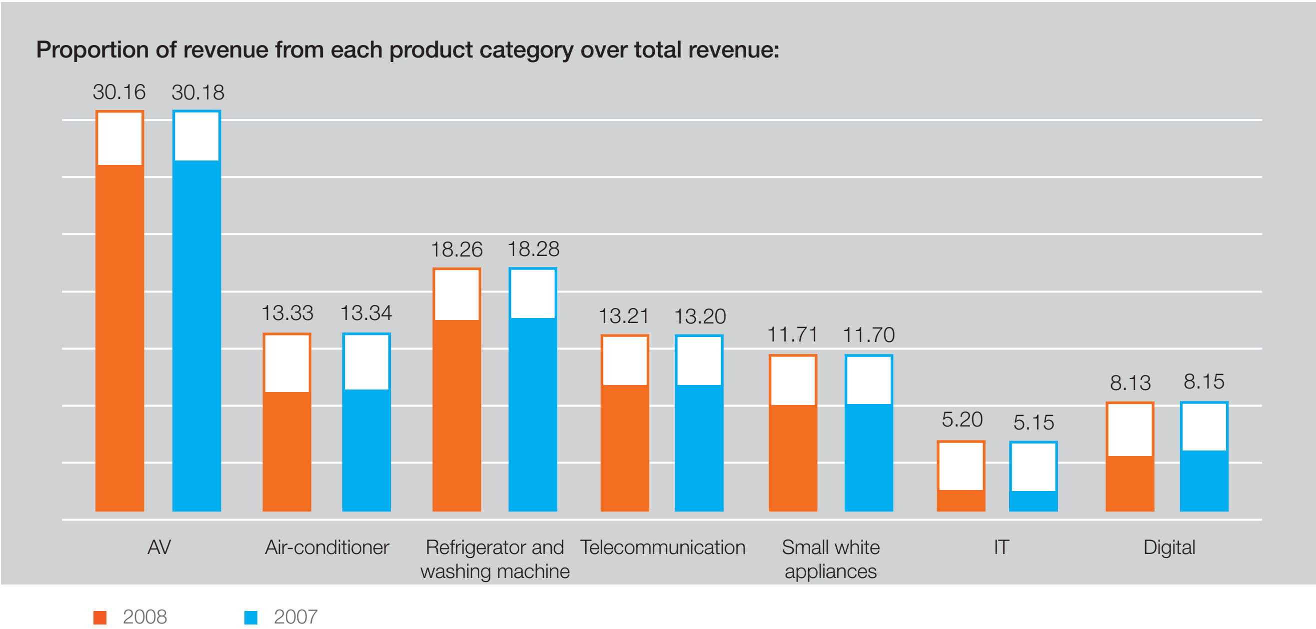
OTHER INCOME

During the reporting period, the Group recorded other income of RMB3,266 million, representing an increase of 28.23% over that of RMB2,547 million in 2007, and the proportion of other income to sales revenue increased from 6% to 7.12%. This was mainly due to the increase in income from suppliers following the scale expansion)of the Group and the management fee of RMB24 million from Dazhong Appliances according to the Management Agreement signed by Beijing Zhansheng Investment Co., Ltd. (北京戰聖投資有限公司) ("Beijing Zhansheng") and Tianjin Gome

Sales revenue of the Group by region:



Management Discussion and Analysis



Commercial Consultancy Co., Ltd. In addition, other income also comprised the management and procurement service fees received from the Non-listed GOME Group, income from air-conditioner installation, and rental income from investment properties.

Income from suppliers mainly included: promotion income from suppliers in promotional activities held by the Group, management service fees paid by suppliers to the Group for advertising their products, and display space leasing fees paid by suppliers for selling their products in the Group's stores.

Other income comprised the following:

	2008	2007
As a percentage of revenue		
Income from suppliers	5.49%	4.34%
Fees from the Non-listed GOME Group	0.54%	0.57%
Management fees for air-conditioner installation	0.21%	0.21%
Government grants	0.11%	0.15%
Rental income	0.26%	0.24%
Management fees from Dazhong Appliances	0.05%	0.03%
Others	0.46%	0.46%
Total	7.12%	6.00%

Management Discussion and Analysis

CONSOLIDATED GROSS PROFIT MARGIN

During the reporting period of 2008, the Group's consolidated gross profit margin reached 16.94%, representing an increase of 1.3 percentage points as compared to the 15.64% for the previous year. Consolidated gross profit margin is the sum of gross profit and other income as a percentage of revenue. As mentioned in the previous section, increase in gross profit margin and other income has contributed to the Group's year-on-year increase in its consolidated gross profit margin.

The increase in the Group's consolidated gross profit margin reflected the gradual expansion in its scale, which further embodied the bigger economies of scale and the overall increase of operating efficiency after differentiation and pricing strategies were realized.

OPERATING EXPENSES

The Group's operating expenses principally include selling and distribution costs, administrative expenses and other expenses. The Group's operating expenses reached RMB5,831 million compared to RMB4,839 million in 2007, or an increase of RMB992 million.

The following table sets out a summary of operating expenses:

	2008	2007
As a percentage of revenue		
Selling and distribution costs	9.78%	8.35%
Administrative expenses	1.80%	1.62%
Other expenses	1.12%	1.42%
Total operating expenses	12.70%	11.39%

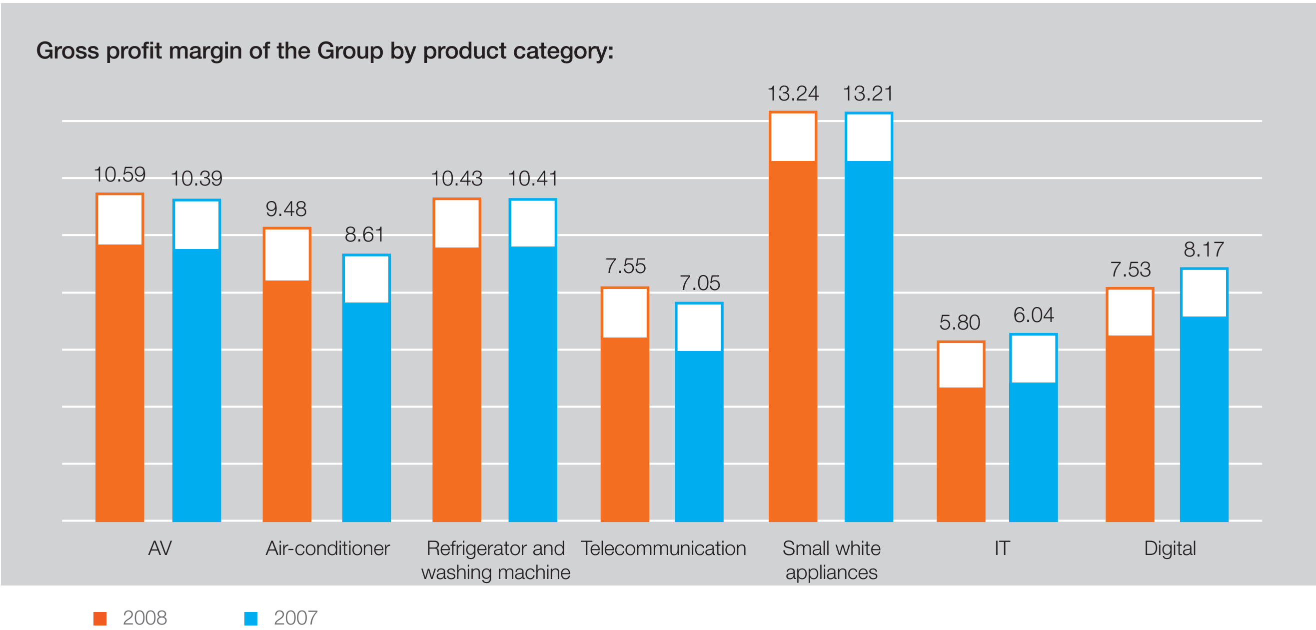
SELLING AND DISTRIBUTION COSTS

During the reporting period, the Group's total selling and distribution costs amounted to RMB4,487 million, which mainly included store rental, salaries, utility charges, advertising expenses and delivery expenses. The sum of the said five expenses accounted for 90% of the total selling and distribution costs.

The following table sets out a summary of selling and distribution expenses:

	2008	2007
As a percentage of revenue		
Rental	4.36%	3.70%
Salaries	2.37%	1.69%
Utility charges	0.90%	0.78%
Advertising expenses	0.64%	0.63%
Delivery expenses	0.51%	0.37%
Others	1.00%	1.18%
Total selling and distribution expenses	9.78%	8.35%

Management Discussion and Analysis



As illustrated in the table above, as 133 new stores were opened during the year and because of rental increases on leased properties in the downtown area, the rental expenses increased accordingly. In addition, an increase in salaries costs was attributed by increase in head count and social security contributions for staff, in compliance with relevant state policies.

ADMINISTRATIVE EXPENSES

As a result of the enlarging scale and the need for detailed management, administrative expenses were slightly increased. During the reporting period, the Group's administrative expenses as a percentage of sales revenue went up slightly to 1.80% from 1.62% in 2007. However, with stronger control over administrative expenses, it was maintained at a lower level than the industry norm.

OTHER EXPENSES

Other expenses of the Group mainly comprised business tax, bank charges, fair value loss on investment properties, impairment of goodwill and property, plant and equipment. Other expenses were approximately RMB515 million during the reporting period, representing 1.12% of revenue, which was slightly lower than 1.42% in 2007.

FINANCE INCOME, NET

During the reporting period, the Group's net finance income was RMB229 million, compared to RMB231 million in 2007.

PROFIT BEFORE TAX

During the reporting period, the Group's profit before tax was approximately RMB1,534 million, accounting for 3.34% of sales revenue, slightly increased as

Management Discussion and Analysis

compared with RMB1,528 million in 2007.

INCOME TAX

During the reporting period, the Group's income tax for the year was RMB435 million, representing a 20.83% increase as compared with RMB360 million in 2007. This was mainly attributable to the expiry of preferential tax treatment for some of the subsidiaries and the increase in non-deductible expenses. The management considers the tax rate applied to the Group for the reporting period to be reasonable.

PROFIT FOR THE YEAR AND EPS

During the reporting period, the Group recorded a profit from the operating activities for the year of approximately RMB1,944 million (2007: RMB1,803 million), representing an operating profit margin of 4.24% (2007: 4.24%).

The Group's net profit less minority interest for the year attributable to equity holders was approximately RMB1,048 million, accounting for 2.28% of revenue. Accordingly, the basic earning per share (EPS) of the Group was approximately RMB0.082 in 2008 as compared with RMB0.088 in 2007.

CASH AND CASH EQUIVALENTS

At the end of the reporting period, the Group's cash and cash equivalents were approximately RMB3,051 million, as compared with approximately RMB6,270 million at the end of 2007.

INVENTORY

At the end of the reporting period, the Group's inventory amounted to approximately RMB5,473 million, which was basically unchanged from 2007. The inventory turnover period was approximately 48 days in the reporting period, which was basically unchanged as compared with approximately 49 days in 2007.

PREPAYMENT, DEPOSITS AND OTHER RECEIVABLES

At the end of the reporting period, prepayment and other receivables of the Group amounted to approximately RMB1,384 million, down 37.43% from approximately RMB2,212 million at the end of 2007. This decrease was mainly attributable to the continued improvement of the process for settling trade payables with suppliers and the reduction of prepayments to suppliers by shortening the settlement cycles, thereby keeping our funds from being tied up.

TRADE AND BILLS PAYABLE

At the end of the reporting period, trade and bills payable of the Group amounted to approximately RMB12,918 million, down 4.71% from approximately RMB13,557 million at the end of 2007. Trade and bills payable turnover days slightly decreased to 117 days from 124 days in 2007.

CAPITAL EXPENDITURE

During the reporting period, the capital expenditure incurred by the Group amounted to approximately RMB1,776 million, slightly up from approximately RMB1,598 million in 2007. This was mainly used for purchases of retail stores in prime locations, business acquisitions, leasehold improvements and office equipments in connection with the expansion of the Group's retail store network, improving logistic system and upgrading of IT system.

Management Discussion and Analysis

GOME aims to provide a shopping experience which satisfies customers' expectations.

CASH FLOW

During the reporting period, net cash inflow from operating activities amounted to approximately RMB3,610 million, up approximately 40.96% from RMB2,561 million in 2007 and reflecting the considerable improvements in management of accounts receivables and payables in our daily operations.

Cash outflow from investing activities amounted to approximately RMB4,515 million, mainly due to capital expenditures and the payment of RMB2,100 million for the designated loan.

Cash outflow from financing activities amounted to approximately RMB2,214 million, as compared to a cash inflow from financing activities of approximately RMB5,490 million in 2007. This was mainly due to a cash payment of RMB2,068 million for buyback of the Company's Shares during the reporting period.

OUTLOOK AND PROSPECTS

2009 OPERATIONAL PLANS

In response to domestic economic slowdown following the global financial crisis, the Group is undergoing a period of strategic transformation from scale expansion to efficiency management with the operational focus moving from revenue growth driven by increase of new stores to earnings enhancement driven by individual store profitability.

For this purpose, the Group has formulated five major operational strategies:

1. ***Profit-oriented operating strategy***

   In 2009, the Group will steer from former sale-oriented operating model to a profit-oriented one. While continually increasing its consolidated gross profit margin through differentiating both brands and products, expanding customized sales and formulating product structures, the Group will also strive to reduce the overall costs by imposing stringent control on all expenses, especially rental expense, which accounts

Management Discussion and Analysis

for a relatively higher proportion of the overall costs.

2. ***To improve the sales and profitability of our stores***

   Stores are profit generating units, therefore the Group will increase the overall turnover and profit by improving the operational proficiency of each individual store. The Group aims to increase revenue by employing the experience of leading international retail enterprises to introduce innovations to the store operating model, and complete store refurbishments to establish the first comprehensive shopping mall of consumer electronic products in the industry to provide a satisfactory shopping experience for the customer. Meanwhile, the Group is committed to increasing the frequency of customers' visit and repurchase rate through upgrading services to members of loyalty program and promoting its extended warranty service.

   The Group is determined to increase its profitability through improving product structures, such as increasing sales of 3C products and accessories, launching own brand products, and increasing the sales proportion of "Healthy Lifestyle" household appliances, all of which carry higher gross profit margin. Moreover, the Group is planning to control its expense via organizational restructuring, as well as effective integration of China Paradise and Dazhong Appliances to reap synergy from operation and human resources.

3. ***To optimize the networks of stores***

   In 2009, the Company will rationalize its network without compromising the established advantages of its network. The Company will be committed to running flagship stores and profit making stores to fend off the impact of increasing rental costs in the first and second-tier cities while restructuring and closing down the loss-making stores. Capitalizing on the favorable stimulus policies of the State, the Company will deepen its network by establishing dedicated counter facilitating "go rural" program in the existing stores, as well as franchising in third and fourth-tier cities.

The Group will engage in deeper cooperation with its major banks and provide more information on products and discounts to customers.

Management Discussion and Analysis

4. ***Build up win-win relationships with suppliers and banks***

With suppliers, the Group is willing to manage its business in the context of fostering a healthy relationship among all members of the supply chain. The Group is committed in building a transparent relationship and consistency in commercial terms and conditions with its suppliers so as to allow sustainable profit for both. Meanwhile, the Group and its suppliers will jointly work against vicious price competition and irregular practices, and achieve win-win situation by establishing a feasible price management mechanism and minimizing the profit-loss of both parties.

The Group currently works with dozens of banks, among which three to four are primary partners, with whom we will work to establish a stable and long-term relationship so as to obtain more preferential financing terms in securing sufficient working capital for the Group. This relationship will be deepened by potential business cooperations including the sharing of market trend information and customer intelligence and membership information as well as provision of financial products such as joint credit cards.

5. ***To enhance corporate governance and align the interests of the management and investors***

The Group will reinforce internal management on the existing organizational structure and conduct comprehensive appraisal on all of the staff, in accordance with the performance assessment targets for 2009. The Group will also adopt a system of elimination of the worst performers to spruce up the team and to ensure the operating costs are under effective control. At the same time, the Group will establish incentive schemes, including a profit-sharing plan to allow the employees to share profit and risks with the Company. The Group also plans to further enhance the governance transparency and improve in internal risks assessment and process control.

MARKET OPPORTUNITIES

POLICY OF BOOSTING SALES OF HOUSEHOLD APPLIANCES IN RURAL AREAS

On 1 February 2009, the "go rural" subsidy policy was launched across the country. Rural dwellers buying household appliances will enjoy a 13% government subsidy. Total government subsidies will amount to RMB10.4 billion in year 2009 and consumption will be driven up to RMB920 billion.

As a participant of the "go rural" project, and with high quality and low price products, stable and sufficient supply, comprehensive logistics and distribution systems, and innovative sales and services model, GOME has become a leading force to implement the state policy.

As such, the Group has set up a special functional department, the "go rural" center to manage related business in rural areas

Management Discussion and Analysis

and to promote business development in second-tier markets. Two systems shall be formed, one operating system to support "go rural" business in self-owned stores, the other to support authorized franchises in those rural areas not yet covered by the Group's own network. Thereby, the Group will speed up the roll out of sales outreach in the rural areas, accelerate the distribution of products in rural areas, and increase the percentage of sales through agents by diversifying product portfolio to maximize its market share.

FAVORABLE CYCLE

Currently, domestic consumers are fond of more high-end products rather than traditional household appliances. This trend has been evidenced by the upgrade from analog TVs to digital TVs, smaller sized and lighter notebook computers and increasing demand for, and shortening life cycle of, 3C products. Meanwhile, consumers are becoming more and more censorious towards services.

Therefore, the Group will strive to expand its product line and improve its capability of obtaining 3C businesses through further strengthening cooperation with operators and suppliers and upgrading the logistical operation model for high-class products so as to better serve the needs of its customers.

As for services, the Group will improve its overall service capability and customer satisfaction by improving items which affect customers' shopping experiences directly. Improvements are to be made in areas ranging from training programs on image, expertise and service awareness of employees to the shopping environment, the logistics and after-sale service system and the distribution, installation and customer service system.

3G BUSINESS

With the grant of 3G licenses by the PRC government, 3G business is expected to stimulate market demands for a new generation of 3G mobiles and 3G network services. As a major mobile telephone sales platform in China, the Group will enhance cooperation with mobile suppliers and telecom operators to promote 3G mobiles and 3G network services.

The Group supports "boosting sales of household appliances in rural areas" in self owned stores.

Management Discussion and Analysis

DECLARATION OF DIVIDEND AND DIVIDEND POLICY

The board of directors of the Company does not recommend the payment of final dividend. Together with the interim dividend of HK3.0 cents (equivalent to RMB2.7 fen) per share paid during the year, the total dividend for the year will amount to HK3.0 cents (equivalent to RMB2.7 fen) per share. Currently, 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

Except for the guarantees of RMB243 million given to banks in connection with bill facilities granted in favour of Dazhong Appliances, which was not provided in the statements, there were no material contingent liabilities as at the end of the reporting period. However, the Group had capital commitment of approximately RMB501 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 3% of the Group's current purchases are imported products, which are sourced indirectly from distributors in the PRC and the transactions are denominated in Renminbi.

FINANCIAL RESOURCES AND GEARING RATIO

The Group's capital expenditure and investments were funded from cash on hand, internal cash generation, convertible bonds and bank loans.

As at 31 December 2008, the total borrowings of the Group, being interest-bearing bank borrowings and convertible bonds amount to about RMB3,740 million. Of the total borrowings, 4.55% will be repayable in 2009, 95.45% will be repayable beyond 2009. The Group's financing activities continue to be well received and fully supported by its bankers.

As at 31 December 2008, the debt to total equity ratio, which is expressed as a percentage of total borrowings amounted to RMB3,740 million over total equity amounted to RMB8,700 million of the Group increased by 9.46 percentage points to 42.99% from 33.53% as at 31 December 2007. Such increase was mainly due to buyback of the Company's shares which reduced the Group's equity by RMB2,068 million during the reporting period.

Management Discussion and Analysis

The Group's flagship stores are usually staffed with 50 to 90 employees, and its ordinary stores usually staffed with 35 to 45 employees.

CHARGE ON GROUP ASSETS

As at 31 December 2008, the Group's bank acceptance credit was secured by the Group's time deposits amounted to RMB201 million. The Group bills payable and PRC bank loans amounted to RMB8,657 million are secured by the pledge of the Group's time deposits amounted to RMB4,639 million, the pledge of certain of the Group's inventories with carrying value of RMB700 million, the pledge of certain of the Group's buildings with carrying value of RMB754 million, the pledge of certain of the Group's investment properties with carrying value of RMB300 million.

HUMAN RESOURCES

To the end of 2008, the total number of employees of the Group was 48,697. Staff's cost (excluding directors' emoluments) amounted to RMB1,484 million. The Group ensures that the pay level of its employees are competitive and that its employees are rewarded on performance related basis within the Group's salary and bonus system. The Group values human resources management and development. Human resources efforts include launching various training platforms, organizing "reservoir project", "GOME Seminar Series" and "GOME School of Management", offering all-rounded training, enhancing the skills and quality of both the management staff and other staff and strengthening human resources support for sustainable development, in order to provide the talent base for the expansion of the business scope and for enhancement of the management of the Group.

Since December 2007, the Group integrated the store networks, operations, and systems of new Dazhong, meanwhile the Group also launched corporate cultural integration and introduced the "Corporate Culture Promotion and Immersion Training Scheme", to ensure the staff of new Dazhong would feel the care and concern from the Group and would be encouraged.

Major Events 2008

DECEMBER

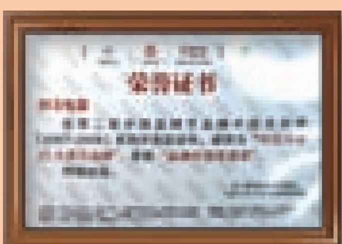
- The brand value of the "GOME" reached RMB55 billion and ranked first in household appliance chain stores of China in "2008 Most Valuable Chinese Brands Evaluation" sponsored by R & F Global Ranking.

- GOME placed a huge purchase order of over RMB30.0 billion in celebration of its 22nd anniversary, and launched the Campaign of "Serve the Communities Face-to-Face" by offering heart-warming services, including on-site consultation services by professional installation and repair personnel, free home-visiting design by our designers, on-site testing and repair of small appliances, repurchase of used appliances on discount, repair appointment for large traditional appliances and free test and repair of appliances for the aged single people.

NOVEMBER

- GOME made donations to the earthquake-stricken regions in Sichuan Province, proactively giving away "Caring Cotton Quilts" in an effort to help the victims to survive the cold winter.

December November October



OCTOBER

- Awarded as one of the 25 all-star companies for the third consecutive year in the "Most Admirable Chinese Companies of 2008" sponsored by Fortune China, in which GOME was elected China's most admirable retail enterprise of home electrical appliances.

- In the selection of "Awards for Top 500 Retail Asia-Pacific", an activity sponsored by Retail Asia Publishing Pte Ltd, GOME was awarded the "Top Ten Retailer 2008 Gold Prize – 2008 Retail Asia-Pacific Top 500" and was ranked "Top Ten Retailer 2008 Hardline Outlets of the 2008 Retail Asia-Pacific Top 500".

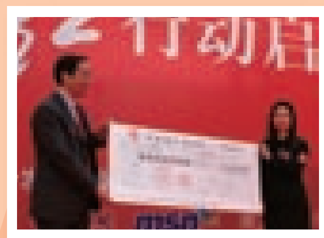
- GOME made a donation of RMB2.32 million through China Foundation for Poverty Alleviation, for the construction of "New Great Wall Sunshine Playground", a project aimed to improve basic sports facilities in the poor and remote areas.

- In the announcement of "Brand China Top Brand Awards", GOME was awarded the "Brand China Jinpu Award – Champion Brand of the Electrical Appliance Retail Chain Industry" and the "Brand China Huapu Award – China's Top 25 Annual Model Brands" for the second consecutive year.

Major Events 2008

SEPTEMBER

- GOME was elected as one of "Asia's 50 Best Performing Companies" by Business Week of the America in 2008 and was the only household electrical appliance retail enterprise in Mainland China so selected.
- GOME was elected as one of "The Asian Fabulous 50" by Forbes for the first time.



JANUARY

- Our President Mr. Chen Xiao was accredited as "Top Ten Innovative Personage – China Household Electrical Appliances Industry" at 2007 China Household Electrical Appliance Innovation Forum and Award Ceremony of Top Ten Innovative Personage in China's Household Electrical Appliances Industry and Top Ten Innovative Products organized by the People's Daily Online.
- At the 6th China IT Annual Awards Selection, GOME was accredited as "Top Ten IT Enterprises for 2007".
- Chengdu Yongle set up *"Obsolete Household Appliances Disposal Alliance"* in joint efforts with other fifteen manufactures with an aim to contribute positively to environmental protections.

MAY

- GOME and its employees assumed their social responsibilities and responded swiftly by donating a total of RMB60 million in cash and resources to the earthquake-stricken areas of Sichuan Province.
- GOME and its employees donated RMB1.5 million to the Red China Project of China Red Cross and established medical rescue stations in the impoverished and remote areas.

September May March February January

MARCH

- GOME ranked first among "Top 100 Retailers for 2007" as released by China Chain Store & Franchise Association.
- GOME held its fifth Employee Annual Meeting in Beijing with the theme of "Improving Services to Boost Competitiveness".
- GOME acquired the controlling interests of Sanlian Commercial Co., Limited.

FEBRUARY

- The southern parts of China hit by a snowstorm, GOME responded quickly by donating cotton quilts, food and water to the victims.

Directors and Senior Management Profile

The brilliant management team of GOME has attracted many elites.

Directors and Senior Management Profile

EXECUTIVE DIRECTORS

Mr. CHEN Xiao, aged 50, is the Chairman, the President and an executive Director of the Group. Mr. Chen has been the President of the Group since 30 November 2006 and an executive Director since 22 May 2007, and was appointed as the Chairman of the Group on 16 January 2009 shortly after being appointed as the Acting Chairman of the Group on 27 November 2008. Mr. Chen is the director of various subsidiaries of the Company and the sole director of Retail Management Company Limited which holds more than 5% of shareholding in the Company. Mr. Chen has over 20 years of experience in business management and electrical appliances retail industry in China. As early as in September 1996, Mr. Chen, as one of the founders, set up the group of Yongle (China) Electronics Retail Company Limited (永樂（中國）電器銷售有限公司), one of the leading electrical appliances retailers in China and previously listed as the group of China Paradise Electronics Retail Limited on Hong Kong Stock Exchange. Before joining the Group, Mr. Chen was the President, the Chairman and an executive Director of China Paradise Electronics Retail Limited since its listing in October 2005 on Hong Kong Stock Exchange until its delisting in January 2007 becoming a non-listed wholly owned subsidiary group of the Company. Mr. Chen is the President of Shanghai Electrical Products and Appliances Industry Association and the Vice President of China Chain Store & Franchise Association.

Mr. NG Kin Wah, aged 49, has been an executive Director of the Company since September 2000. Mr. Ng also serves as a director of various subsidiaries of the Company. Mr. Ng has over 20 years of experience in securities investment and is well-versed in corporate finance. Mr. Ng is a fellow member of the Hong Kong Institute of Directors Limited.

Mr. Wang Jun Zhou, aged 47, has been the Executive Vice President of the Group since November 2006 and was re-appointed as an executive Director of the Company with effect from 23 December 2008 after his appointment as an executive Director with effect from 1 September 2008 was discovered by the Board to be invalid due to a technical defect. Mr. Wang assists the President of the Group in the overall management of daily operation, including formulation of the Group's medium and long-term strategic plans and annual budgets as well as standardization of various systems, processes and authorizations for the Group. Mr. Wang also assists in providing guidance and supervision as to the daily operation in each major region and each division of the Group as well as the appraisal and review for business management teams at all levels. Mr. Wang has over 10 years of experience in the sale and management of electrical appliances. Mr. Wang joined the Group in 2001 and previously held positions as General Manager of Operation Centre, General Manager of Southern China Region and General Manager of Strategic and Cooperation Centre of the Group.

Ms. Wei Qiu Li, aged 42, has been the Vice President of the Group since November 2006 and was re-appointed as an executive Director of the Company with effect from 16 January 2009 after her appointment as an executive Director with effect from 1 September 2008 was discovered by the Board to be invalid due to a technical defect. She is also a director of various subsidiaries of the Company. Ms. Wei is mainly responsible for organizational planning and human resources training of the Group. Ms. Wei has over 10 years of experience in human resources and administrative management. Ms. Wei joined the Group in 2000

Directors and Senior Management Profile

and had previously held positions as Director of Management Centre, Director of Pricing Centre, Director of Human Resources Centre and Director of Administration Centre of the Group. Ms. Wei was a director of Beijing Centergate Technologies (Holding) Co. Ltd. (北京中關村科技發展（控股）股份有限公司), a company listed on the Shenzhen Stock Exchange, between 11 January 2007 and 15 January 2009.

NON-EXECUTIVE DIRECTOR

Mr. SUN Qiang Chang, aged 52, has been a non-executive Director of the Company since 28 February 2006. Mr. Sun has been the managing director of Warburg Pincus Asia LLC, a leading private equity and venture capital firm since 1995 and has over 20 years of experience in the investment banking industry and private equity markets. Before joining Warburg Pincus Asia LLC, 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 as well as the founder and executive vice chairman of China Real Estate Developers and Investors Association. Mr. Sun has been a non-executive director of China Huiyuan Juice Group Limited since 2007 and Enerchina Holdings Limited since 2000, both being companies listed on Hong Kong Stock Exchange. Mr. Sun is also a director of two other non-listed companies, Harbin Pharmaceutical Group Holding Company Limited and China Bio Solutions Group Limited.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. SZE Tsai Ping, Michael, aged 63, has been an independent non-executive Director of the Company since 31 October 2002. Mr. Sze has over 30 years of experience in the securities and investment 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, a member of the Market Misconduct Tribunal in Hong Kong as well as a member of the Securities and Futures Appeals Tribunal in Hong Kong. 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 in Hong Kong. Mr. Sze has been a non-executive director of Burwill Holdings Limited since June 2000 and an independent non-executive director of Greentown China Holdings Limited since June 2006, Harbour Centre Development Limited, C Y Foundation Group Limited and Walker Group Holdings Limited since May 2007, all of which are listed on the Hong Kong Stock Exchange. Mr. Sze resigned on 23 January 2008 as an independent non-executive director of T S Telecom Technologies Limited, a company listed on the Hong Kong Stock Exchange. He is a fellow of the Institute of Chartered Accountants in England and Wales, a fellow of the Hong Kong Institute of Certified Public Accountants, a fellow of the Association of Chartered Certified Accountants, a practising accountant in Hong Kong and also a fellow of the Hong Kong Institute of Directors Limited.

Directors and Senior Management Profile

Mr. CHAN Yuk Sang, aged 63, has been an independent non-executive Director of the Company since 20 May 2004. Mr. Chan has more than 30 years of experience in the banking and finance industry. Mr. Chan was the chairman of Century Legend (Holdings) Limited from September 1999 to July 2002 and a director of Hong Kong Building & Loan Agency Ltd. from 1993 to 1995, both being companies listed on Hong Kong Stock Exchange. Mr. Chan was a senior general manager of a local bank and an executive director of a joint Chinese-foreign bank in Shenzhen. Mr. Chan is currently an independent non-executive director of Four Seas Mercantile Holdings Limited, a company listed on Hong Kong Stock Exchange.

Mr. Mark Christopher GREAVES, aged 52, has been appointed as an independent non-executive Director of the Company since 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, from 1977 to 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 to 2004. Mr. Greaves is currently the chief executive of Hanson Capital Investments Limited and an authorized representative and approved person of UK Financial Services Authority. Mr. Greaves was for many years a council representative to the Singapore Investment Banking Association. 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 45, has been as an independent non-executive Director of the Company since 20 November 2006. Dr. Liu has over 16 years of experience in the areas of law and international relations. He is currently the President of Shanghai Pacific Institute for International Strategy Studies and the Chief Editor of 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 as well as Eastern Europe and Central Asia Society. Dr. Liu was the President of 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 U.S.-Russia relationship, Sino-U.S. relationship, U.S.-Korea relationship, U.S. social welfare as well as U.S. 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, has been an independent non-executive Director of the Company since 22 May 2007. Mr. Yu has more than 37 years of experience in broadcasting industry. Mr. Yu currently serves as the senior vice president of Phoenix Satellite Television Company Limited and a director of Asia Television Limited. Mr. Yu had served as the chief operation officer of Asia Television Limited, the executive vice president of Phoenix Satellite Television as well as the chairman of the 12th and 13th sessions of Hong Kong

Directors and Senior Management Profile

Advertising Industry Association (香港廣告業聯會). Mr. Yu was also the deputy 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 as well as the president of Radio Guangdong (廣東人民廣播電台) and the president of Zhujiang Economic Broadcasting Radio (珠江經濟廣播電台) from 1989 to 1993. He is also an independent non-executive director of China Oriental Group Company Limited, a company listed on Hong Kong Stock Exchange.

Mr. Thomas Joseph Manning, aged 53, has been an independent non-executive Director of the Company since 22 May 2007. Mr. Manning is the Chief Executive Officer of Indachin Limited, a business design firm focused on custom-building information service companies in India and China. He is also the founder of China Board Directors Limited, a company comprising influential senior executives providing board leadership to companies in China. Earlier in his career, Mr. Manning held leadership positions with McKinsey & Company, CSC Index and Buddy Systems, Inc., a technology venture. He had previously served as a director of Bain & Company and the Chief Executive Officer of Ernst & Young Consulting Asia, the Chief Executive Officer of Capgemini Asia and the Global Managing Director of 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 an independent non-executive director of Bank of Communications Co., Ltd., a company listed on Hong Kong 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. FANG Wei, Acting Chief Financial Officer of the Group
Mr. Fang, aged 37, was appointed as the Acting Chief Financial Officer of the Group with effect from 27 November 2008 and is a Member of Decision-making Committee of the Group. Mr. Fang is responsible for overall planning and implementation of the Group's internal budget as well as accounting and auditing system. Mr. Fang also participates in major decision making for the investment, financing and operation of the Group. Mr. Fang is a graduate of the Accounting Faulty of Central University of Finance and Economics (中央財經大學會計系) and a holder of a Master degree in Management. He is qualified as a senior accountant and senior economist in China. Mr. Fang has extensive and solid experience in finance management, internal control, budget control and capital management in China. Since 1994, Mr. Fang had held senior management positions in China National Electronics Import & Export Corporation (中國電子進出口公司), KPMG Huanzhen and 北京朝歌寬頻數碼科技有限公司. He joined the Group in January 2005 and had previously held positions as Assistant Director and the Director of Finance Centre and Member of Execution Committee of the Group. Mr. Fang is named as the "Talented Youth of Retail Sector in China for Year 2008" (2008年度中國零售業青年英才) by China Business Herald (中國商報) and linkshop.com.cn (聯商網) jointly.

Mr. LI Jun Tao, Vice President of the Group Mr. Li, aged 43, is the Vice President of the Group, mainly responsible for the Home Electrical Appliances Business Centre, Daily Home Electrical Appliances Centre and Home Electrical Appliances for Rural Areas Centre of the Group. He is also a director of various subsidiaries of the Company. He is one of the important decision makers in the business operation and development strategies of the Group.

Directors and Senior Management Profile

Mr. Li has over 20 years of experience in electrical appliances retail business, chain store operation and management as well as market analysis. Mr. Li joined the Group in 1988 and had previously held positions as Member of Decision-making Committee, General Manager of Sale and Procurement Centre, Director of Strategic Cooperation Centre and General Manager of Northern China Region of the Group. Mr. Li was named as one of the "Ten High-Profile Persons of Electrical Appliances Industry in China for Year 2002" (2002年度中國家電十大風雲人物) by China Electronics News (中國電子報) and SINA (新浪網) jointly in February 2003 and was granted the Gold Contribution Award by the Group in February 2005. In addition, Mr. Li was granted the "Special Contribution Award" and "Outstanding Leader Award" on numerous occasions by the Group.

Mr. SUN Yi Ding, Vice President of the Group
Mr. Sun, aged 41, is the Vice President of the Group, responsible for business operation, including store operation, store location and furnishing, logistics and after-sale service. He is also a director of various subsidiaries of the Company. He has 14 years of sales experience. Mr. Sun joined the Group in 1999 and had previously held positions as Manager of Business Division of a Tianjin subsidiary, General Manager of a Henan subsidiary, General Manager of the telecommunication subsidiary, General Manager of a Jinan subsidiary, Deputy General Manager of Region A, Deputy General Manager of Sale and Procurement Centre, General Manager of Operation Centre, Director of Chain Development Centre and General Manager of Northern China Region of the Group. Mr. Sun was named as one of the "100 Influential Persons of Mobile Phone Industry in China for Year 2007" (2007年度中國手機界影響力100人), and was awarded the Silver Award for Outstanding Achievement by the Group and the "Best Sales Leader Award" by Sony Ericsson.

Mr. HE Yang Qing, Vice President of the Group
Mr. He, aged 46, is the Vice President, the Director of Brand Management Centre and the Director of Store Refurnishing Centre of the Group. He is responsible for the management and maintenance of the Group's brand names, the operation model and research and development of new stores, the media and public relationship as well as the overall planning of sales and marketing in China. He has extensive and solid experience in the sales and manufacturing of home electrical appliances. Mr. He joined the Group in 2003 and had previously held positions as Assistant Director of Sales Centre and Director of Sale and Procurement Centre of the Group. Mr. He was a torcher for Year 2004 and Year 2008 Olympic Games, and was awarded one of the "Top Ten Persons of Brand Building in China for Year 2005" (2005年中國品牌建設十大人物) and one of the "Ten Outstanding Brand Managers in China for Year 2007" (2007年中國十大傑出品牌經理人).

Mr. MU Gui Xian, Vice President of the Group
Mr. Mu, aged 37, is the Vice President of the Group, responsible for the Group's communication equipment, IT equipment and office equipment business. He has over 10 years of experience in sales and marketing of retail business. He is also a director of various subsidiaries of the Company. Mr. Mu joined the Group in 2001 and had previously held positions as Assistant Director of Management Centre and General Manager of Store Management Centre, General Manager of Region 1 of Northern China Region, General Manager of Beijing Area, General Manager of Northern China and General Manager of the telecommunication subsidiary of the Group. Mr. Mu is named as one of the "100 Influential Persons of the Mobile Phone Industry in China for Year 2008" (2008年度中國手機界影響力100人).

Risk Factors

China's consumer electronics market will undergo rapid growth as a result of government's policy in supporting domestic demand. China's consumer electronics consumption per capita is merely 12% of that of the U.S., implying huge growth potential for GOME.

Risk Factors

The Group's businesses, financial condition, results of operations or growth prospects may be affected by risks and uncertainties pertaining to the Group's businesses. The factors set out below are those that the Group believes could result in the Group's businesses, financial condition, results of operations or growth prospects differing materially from expected or historical results. These factors are by no means exhaustive or comprehensive, and there may be other risks in addition to those shown below which are not known to the Group or which may not be material now but could turn out to be material in the future. In addition, this Annual Report does not constitute a recommendation or advice for you to invest in the shares of the Company and investors are advised to make their own judgment or consult their own investment advisors before making any investment in the shares of the Company.

RISKS ASSOCIATED WITH THE GROUP'S BUSINESS

CREDIT TERMS

The Group relies on the credit terms contained in the supply agreements with its suppliers and the credit terms of its banking facilities. Pursuant to these supply agreements, most of the suppliers, according to the contracts, have granted favourable credit terms in exchange for, among others things, receiving acceptance drafts from the Group's banks for settlement of the invoices. The issuing banks currently require an upfront pledge over the Group's accounts with such banks and with the remainder to be settled upon the expiry of such bank acceptance drafts. The Group relies heavily on these favourable credit terms granted by the suppliers and issuing banks in order to conserve its working capital. In the event that the suppliers or issuing banks are unable or unwilling to offer these favourable credit terms to the Group, the operations and profitability of the Group may be adversely affected.

TERMS OF THE SUPPLY AGREEMENTS

One of the competitive strengths of the Group is its ability to offer products at competitive prices. Pursuant to most of the supply agreements between the Group and its suppliers, these suppliers have undertaken to guarantee the gross profit margin of the Group with respect to specific products supplied and sold and to offer the lowest product prices to the Group within specific locations where the Group operates. However, there is no guarantee that the Group will be able to secure these favourable terms with its suppliers after the expiry of the existing supply agreements. In the event that the Group is unable to maintain its leading position and scale of operations in the PRC retail market of electrical appliances and consumer electronics products, the suppliers may not offer the same terms to the Group after the expiry of the existing supply agreements. In such event, the business performance and profitability of the Group may be adversely affected.

RECENT FINANCIAL CRISIS

Since the second half of 2007, global credit and capital markets, particularly in the United States and Europe, have experienced difficult conditions. These challenging market conditions have resulted in reduced liquidity, greater volatility, widening of credit spreads and reduction in available financing. The credit crunch may aggravate the Group's interest expenses on bank borrowings or banks may reduce the amount of or discontinue their banking facilities available to the Group. Given the changes in the overall credit environment and economy, it is difficult to predict how long these conditions will

Risk Factors

exist and the extent to which we may be affected. As a result, prolonged disruptions to the global credit and capital markets and the global economy may materially and adversely affect our liquidity, results of operations, financial condition, prospect and future expansion plan.

RELIANCE ON KEY MANAGEMENT PERSONNEL

The success of the Group in expanding its growth in operations and maintaining growth in its profitability relies on the strategy and vision of its key management, efforts of key members of the management and their experience in the PRC electrical appliance and consumer electronics products retail market. The unanticipated resignation or departure of any of these key management members of the Group could have a material adverse impact on the operations of the Group. There is no assurance that the Group will be able to manage its expansion by retaining its existing management team and by attracting additional qualified employees.

LOCATION OF OUTLETS AND LEASE RENEWAL

One of the key factors in the success of the Group is its ability to establish its retail outlets at suitable and convenient locations where there is high pedestrian flow and good accessibility (whether by public transportation or otherwise). During the year ended 31 December 2008, most of the retail outlets leased by the Group with a term of 5 to 10 years. Given the scarcity of retail premises at these suitable and convenient locations, there is no assurance that the Group will be able to find premises suitable for its retail operations or to lease them on commercially acceptable terms.

In the event that there is any material difficulty in finding retail premises at suitable locations or securing the leasing of such premises on commercially acceptable terms, the Group's expansion plans and business performance may be adversely affected.

RISKS ASSOCIATED WITH THE INDUSTRY

THE OUTBREAK OF ANY SEVERE COMMUNICABLE DISEASE IN THE PRC

The Directors recognise that the outbreak of SARS in the PRC in early 2003 had an adverse impact on the PRC's retail industry. There can be no assurance that there will not be any outbreak of SARS or similar infectious diseases in the future. The outbreak of any severe communicable disease in the PRC, if uncontrolled, could have an adverse effect on the overall business sentiment and environment in the PRC, which in turn may have an adverse impact on domestic consumption and the retail market. As we are primarily involved in the retailing business in the PRC, any contraction or slowdown in the growth of domestic consumption or slowdown in the growth of GDP of the PRC may materially and adversely affect our financial condition, results of operations and future growth. In addition, if our employees are affected by a severe communicable disease, we may be required to institute measures to prevent the spread of the disease, which may materially and adversely affect or disrupt our operations, resulting in an adverse effect on our results of operations. The spread of any severe communicable disease in the PRC may also affect the operations of our customers and suppliers, which again, may have a potentially

Risk Factors

adverse effect on our financial condition and results of operations.

NATURAL DISASTERS

To the understanding of the Directors, the outbreak of natural disasters such as Sichuan Earthquake and floods in South China in the first half of 2008 had adverse effects on the retailing industry in China. As the retailing stores of the Group are scattered in provinces across the country, the management cannot assure that the operating results of the Company will not be significantly affected in the event of the outbreak of similar natural disasters in the future. Should any natural disaster occurs, certain businesses of the Group may be disrupted and accordingly the financial position and profitability of the Group will be adversely affected.

RISKS ASSOCIATED WITH THE PRC

CHANGES IN FOREIGN EXCHANGE REGULATIONS AND FLUCTUATION OF RMB

All of the operating revenues of the Group are denominated in RMB. In order to fund its foreign currency needs, including its payment of dividends to Shareholders, a portion of the Group's RMB-denominated revenue must be converted into Hong Kong dollars. Pursuant to current PRC laws and regulations on foreign exchange, foreign currencies required for the distribution of profits and payment of dividends must be purchased from designated foreign exchange banks upon presentation of tax clearance certificates issued by the relevant government authorities in respect of such dividends and board resolutions authorising the distribution of profits or dividends of the Group. The PRC government has abolished most of the restrictions on convertibility of RMB in respect of current account items while retaining restrictions on foreign exchange transactions in respect of capital account items. Despite such developments, RMB is still not freely convertible into other foreign currencies. Under the current foreign exchange control system, there is no guarantee that sufficient foreign currency will be available at a given exchange rate to the Group to enable it to fund its foreign currency needs or to pay dividends declared.

Report of the Directors

GOME's unique business mode has been included as a successful example in the case study of the MBA courses of Harvard University.

Report of the Directors

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 2008.

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 122.

FINANCIAL STATEMENTS

The results of the Group for the year are set out in the Consolidated Income Statement on page 84.

The state of affairs of the Group as at 31 December 2008 is set out in the Consolidated Balance Sheet on pages 86 and 87.

The cash flows of the Group for the year are set out in the Consolidated Cash Flow Statement on pages 90 and 91.

SHARE CAPITAL

Details of the movement in share capital of the Company are set out in note 29 to the financial statements on page 157.

DIVIDENDS

An interim dividend of HK3.0 cents (equivalent to RMB2.7 fen) per ordinary share, amounting to a total of approximately RMB344,486,000, was paid to the shareholders of the Company during the year.

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2008.

Report of the Directors

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 158 to 160 and in the consolidated statement of changes in equity.

As at 31 December 2008, the Company's reserve available for distribution amounted to RMB53.20 million of which RMB nil 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 134 and 136.

MAJOR SUPPLIERS

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

PURCHASES

– the largest supplier	9.39%
– five largest suppliers combined	31.03%

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 China totaling RMB10.82 million.

Report of the Directors

DIRECTORS

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

EXECUTIVE DIRECTORS

Mr. WONG Kwong Yu	(resigned on 16 January 2009)
Ms. DU Juan	(resigned on 23 December 2008)
Mr. CHEN Xiao	
Mr. NG Kin Wah	
Mr. WANG Jun Zhou	(re-appointed with effect from 23 December 2008)*
Ms. WEI Qiu Li	(re-appointed with effect from 16 January 2009)*

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
Mr. Thomas Joseph MANNING

* Each of Mr. Wang Jun Zhou and Ms. Wei Qiu Li was re-appointed as an executive Director on 23 December 2008 and 16 January 2009 respectively, after his/her appointment as an executive Director with effect from 1 September 2008 was discovered by the Board to be invalid due to a technical defect. As disclosed in the Company's announcement dated 24 December 2008, according to the Bye-laws of the Company, all acts bona fide done by any meeting of the Board or by any committee or any person acting as a Director before the discovery of the invalid appointments of the Directors would be valid. Each of Mr. Wang and Ms. Wei has not acted in the capacity as Director since the discovery by the Board of his/her invalid appointment as an executive Director.

Report of the Directors

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 20, 27 and 38 to the financial statements on page 144, page 155, and pages 172 to 175 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 any member of the Group 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 2008, 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, both Mr. Wong Kwong Yu and Ms. Du Juan, executive Directors, resigned on 16 January 2009 and 23 December 2008, respectively, have beneficial interest in an electrical appliances and consumer electronics products retail network under the brand name "GOME" and operated in different cities in China by companies in which Mr. Wong and Ms. Du have interest (the "Parent Group").

Report of the Directors

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 China 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 China 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 to 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.

Note: As at 27 April 2009, a maximum number of Shares available for issue under the Share Option Scheme was 656,979,032 Shares, representing approximately 5.15% of the issued share capital of the Company as at 27 April 2009.

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 of the Company 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 any grant to substantial shareholders as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), or independent non-executive Directors or any of their respective associates as defined in the Listing Rules, must not in aggregate 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 daily quotations sheet of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the date of grant; (b) average of the closing prices of the Shares as stated in the Stock Exchange's daily quotations sheet 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 by each grantee.

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).

Report of the Directors

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

As at 31 December 2008, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares 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")) 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 for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

LONG POSITIONS IN THE SHARES OF HK$0.025 EACH IN THE SHARE CAPITAL OF THE COMPANY (THE "SHARE(S)"), THE UNDERLYING SHARES AND DEBENTURES OF THE COMPANY

Name of Director	Personal interest	Interest of spouse	Corporate interest	Trustee	Total	Approximate % shareholding
Wong Kwong Yu	–	205,920,000 *(Note 2)*	4,329,198,212 *(Note 1)*	–	4,535,118,212	35.55
Chen Xiao	–	–	929,128,064 *(Note 3)*	394,693,600 *(Note 3)*	929,128,064	7.28

Notes:

1. These Shares were held as to 3,800,000,000 Shares by Shinning Crown Holdings Inc. and as to 529,198,212 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 were held as to 201,120,000 Shares by Smart Captain Holdings Limited and as to 4,800,000 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 were held by Retail Management Company Limited, a company which is controlled by Mr. Chen Xiao. Of these 929,128,064 Shares, 394,693,600 Shares were held by Mr. Chen Xiao through Retail Management Company Limited in his capacity as trustee of The Retail Management Trust.

Report of the Directors

LONG POSITIONS IN THE SHARES OF ASSOCIATED CORPORATION OF THE COMPANY

		Number of Shares held				
Name of Director	Name of associated corporation	Personal interest	Corporate interest	Trustee	Total	Approximate % shareholding
Chen Xiao	Yongle (China) Electronics Retail Company Limited	6,368,624	–	9,579,832 *(Note 1)*	15,948,456	7.25
	上海民融投資有限公司	239,151	–	341,566 *(Note 2)*	580,717	0.73

Notes:

1. These interests were held by Mr. Chen Xiao in his capacity of the trustee of 上海永樂信託.
2. These interests were held by Mr. Chen Xiao in his capacity of the trustee of 民融信託.

SHORT POSITIONS IN THE SHARES, THE UNDERLYING SHARES AND DEBENTURES OF THE COMPANY

	Number of Shares held					
Name of Director	Personal interest	Interest of spouse	Corporate interest	Trustee	Total	Approximate % shareholding
Chen Xiao	–	–	756,000,000 *(Note)*	369,465,600 *(Note)*	756,000,000	5.93

Note: These interests comprising 756,000,000 underlying Shares were held by Mr. Chen Xiao through Retail Management Company Limited, a company which is controlled by Mr. Chen Xiao, out of which 369,465,600 underlying Shares were held in his capacity as trustee of The Retail Management Trust through Retail Management Company Limited, of these interests, short position in 672,000,000 underlying Shares were derivatives not listed or traded on the Stock Exchange and short-position in 84,000,000 underlying Shares were physically settled options not traded or listed on the Stock Exchange.

SHORT POSITIONS IN THE SHARES OF ASSOCIATED CORPORATION OF THE COMPANY

		Number of Shares held				
Name of Director	Name of associated corporation	Personal interest	Corporate interest	Trustee	Total	Approximate % shareholding
Chen Xiao	Yongle (China) Electronics Retail Company Limited	6,368,624	–	9,579,832 *(Note 1)*	15,948,456	7.25
	上海民融投資有限公司	239,151	–	341,566 *(Note 2)*	580,717	0.73

Notes:

1. These interests were held by Mr. Chen Xiao in his capacity of the trustee of 上海永樂信託.
2. These interests were held by Mr. Chen Xiao in his capacity of the trustee of 民融信託.

Report of the Directors

Save as disclosed above, as at 31 December 2008, 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 2008, 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
Du Juan *(Note 1)*	Long position	4,535,118,212	35.55
Shinning Crown Holding Inc. *(Note 2)*	Long position	3,800,000,000	29.78
JPMorgan Chase & Co.	Long position	1,306,890,353	10.24
(Note 3)	Short position	17,400,000	0.14
	Lending pool	1,069,875,353	8.39
T. Rowe Price Associates, Inc. and its Affiliates *(Note 4)*	Long position	1,176,697,360	9.22
Morgan Stanley *(Note 5)*	Long position	1,081,600,976	8.47
	Short position	115,811,722	0.90
Capital Research and Management Company *(Note 6)*	Long position	1,022,761,000	8.02
Retail Management Company	Long position	929,128,064	7.28
Limited *(Note 7)*	Short position	756,000,000	5.93

Notes:

1. Of these 4,535,118,212 Shares, 201,120,000 Shares were held by Smart Captain Holdings Limited and 4,800,000 Shares were held by Wan Sheng Yuan Asset Management Company Limited (both companies are 100% beneficially owned by Ms. Du Juan) and as to 3,800,000,000 Shares were held by Shinning Crown Holdings Inc. and 529,198,212 Shares were held by Shine Group Limited (both companies are 100% beneficially owned by Mr. Wong Kwong Yu, the spouse of Ms. Du Juan.)

2. Shinning Crown Holdings Inc. is 100% beneficially owned by Mr. Wong Kwong Yu.

Report of the Directors

3. JPMorgan Chase & Co. held long position in 23,922,000 Shares and short positions in 17,400,000 Shares in its capacity as beneficial owner, long position in 213,093,000 Shares in its capacity as investment manager, and long position in 1,069,875,353 Shares in the lending pool in its capacity as custodian corporation/approved lending agent. Of these Shares, long position in 1,081,868,353 Shares were held by JPMorgan Chase Bank, N.A., long position in 56,328,000 Shares were held by J.P. Morgan Investment Management Inc., long position in 144,772,000 Shares were held by JPMorgan Asset Management (UK) Limited, long position in 6,522,000 Shares were held by J.P. Morgan Whitefriars Inc., and long position in 17,400,000 Shares and short position in 17,400,000 Shares were held by J.P. Morgan Securities Ltd., all of which are either controlled or indirectly controlled corporations of JPMorgan Chase & Co.

4. T. Rowe Price Associates, Inc and its affiliates were interested in these Shares in their capacities as investment managers.

5. Morgan Stanley was interested in these Shares through its interests in controlled corporations. Of these Shares, long position in 948,599,484 Shares were held by Morgan Stanley Investment Management Company, long position in 92,089,492 Shares and short position in 115,460,722 Shares were held by Morgan Stanley & Co. International plc., short position in 39,000 Shares were held by Morgan Stanley Hong Kong Securities Limited, long position in 40,488,000 Shares were held by Morgan Stanley Asset & Investment Trust Management Co., Limited, long position in 60,000 Shares were held by Morgan Stanley Swiss Holdings GmbH, short position in 312,000 Shares were held by Morgan Stanley Capital (Cayman Islands) Limited and long position in 364,000 Shares were held by Morgan Stanley Capital (Luxembourg) S.A., all of which were either controlled or indirectly controlled corporations of Morgan Stanley.

6. Capital Research and Management Company, a company controlled by Capital Group Companies Inc., was interested in the Shares in its capacity as investment manager.

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

As at 31 December 2008, 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 2008 are set out in note 21 to the financial statements on pages 145 to 151.

Report of the Directors

CONNECTED TRANSACTIONS

During the year, the Group entered into the following transactions and arrangements with connected persons (as defined in the Listing Rules) of the Company:

(1) The Group sold 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 Kwong Yu, 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) is 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 RMB68.60 million.

(2) The Group purchased 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

Report of the Directors

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) is 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 RMB26.35 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 is 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 were approximately RMB150 million.

(4) The Parent Group is managed by the same management team of the Group for systematic brand building, enhancing market information exchange and optimizing the use of resources in China 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 to be allocated to the Parent Group by the head office of the Company and the expected revenue

Report of the Directors

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 is 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 were approximately RMB100 million.

(5) On 28 August 2008, 北京國美恒信商貿有限公司, a wholly-owned subsidiary of the Company (the "Purchaser") entered into five conditional sale and purchase agreements with Mr. Chen Xiao ("Mr. Chen") (an executive Director), Ms. Shu Wei, Mr. Liu Hui, Mr. Yuan Yashi and Shanghai Hegui Property Management Co., Ltd. (上海和貴物業管理有限公司) ("Shanghai Hegui"), (collectively, the "Vendors") pursuant to which the Purchaser agreed to acquire and the Vendors agreed to sell, in aggregate, 10% in the registered share capital of Yongle (China) Electronics Retail Company Limited (永樂（中國）電器銷售有限公司) ("Yongle (China)") for a total sum of RMB811,080,800. Mr. Chen, Ms. Shu Wei, Mr. Liu Hui, Mr. Yuan Yashi and Shanghai Hegui were interested, immediately before this transaction, approximately 7.25%, 1.31%, 0.98%, 0.45% and 0.01% respectively in registered capital of Yongle (China).

In addition, on 28 August 2008, the Purchaser and the Vendors entered into certain control arrangements, pursuant to which (1) the Purchaser agreed to provide loans in the total amount of RMB653,422,662 to the Vendors (other than Shanghai Hegui) pursuant to the four loan agreements dated 28 August 2008 and entered into between the Purchaser and each of the Vendors (other than Shanghai Hegui), which were secured by the equity pledge under the five equity pledge agreements dated 28 August 2008 and entered into between the Vendors and the Purchaser and a personal guarantee from Mr. Chen; (2) the Vendors agreed to exercise the voting rights attaching to their 10% interests in Yongle (China) as the Purchaser may direct and account to the Purchaser all their entitlements to the dividends and other distributions declared by Yongle (China) pursuant to the terms of the five entrustment agreements dated 28 August 2008 and entered into between the Purchaser and the Vendors; and (3) the Vendors also granted to the Purchaser an exclusive option to acquire all or any part of the 10% in the registered share capital of Yongle (China) from the Vendors for RMB811,080,800 or a proportional sum of RMB811,080,800 pursuant to the five option agreements dated 28 August 2008 and entered into between the Purchaser and the Vendors.

On 28 August 2008, the Purchaser entered into four equity transfer agreements with the Vendors (other than Shanghai Hegui) pursuant to which the Purchaser agreed to acquire and the Vendors (other than Shanghai Hegui) agreed to sell, in aggregate, 1% in the registered share capital of Shanghai Minrong Investment Co., Ltd. (上海民融投資有限公司) for a total sum of RMB1,000,000.

Report of the Directors

All independent non-executive Directors (except for Dr. Liu Peng Hui who has not signed and returned the relevant confirmation) have reviewed the above continuing connected transactions as set out in paragraphs (1) to (4) above (collectively, 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 2008, the Group employed a total of 48,697 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 37 to the financial statements on pages 169 and 171.

INDEPENDENCE CONFIRMATION

The Company has received from each of the independent non-executive Directors (except for Dr. Liu Peng Hui who has not signed and returned the relevant confirmation) 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 (except for Dr. Liu Peng Hui who has not signed and returned the relevant confirmation).

Report of the 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 67 to 81.

EXCHANGE RATES EXPOSURE

Details of the exchange rates exposure are set out in note 41 to the financial statements on page 180.

PURCHASE, SALE AND REDEMPTION OF SHARES

During the year ended 31 December 2008, the Company had repurchased its own shares on the Stock Exchange, details of which are as follows:

Month/Year	Number of shares repurchased	Highest price *HK$*	Lowest price *HK$*	Aggregate consideration (excluding expenses) *HK$*
January 2008	39,811,000 shares of HK$0.10 each in the share capital of the Company prior to the subdivision of shares of the Company becoming effective on 22 May 2008 (Equivalent to 159,244,000 Shares)	17.10 per Original Share (Equivalent to 4.275 per Share)	14.04 per Original Share (Equivalent to 3.51 per Share)	657,250,940
February 2008	89,989,000 Original Shares (Equivalent to 359,956,000 Shares)	17.86 per Original Share (Equivalent to 4.465 per Share	17.30 per Original Share (Equivalent to 4.325 per Share	1,579,420,440
	129,800,000 Original Shares (Equivalent to 519,200,000 Shares)			2,236,671,380

Report of the Directors

The Original Shares repurchased during the year ended 31 December 2008 were cancelled upon repurchase and accordingly, the issued share capital of the Company was diminished by the nominal value thereof.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2008.

DISCLOSURE PURSUANT TO RULE 13.20 OF THE LISTING RULES

The information required for 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 2008, Tianjin Consultancy had made advances in the aggregate amount of RMB3.6 billion (as at 31 December 2007: RMB1.5 billion) (the "Advance") to 北京戰聖投資有限公司 (Beijing Zhansheng Investment Co., Ltd.) ("Beijing Zhansheng"), a third party independent of each of the Company and its connected persons (within the meaning of the Listing Rules), 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, Beijing Zhansheng and the Lending Bank on 14 December 2007. The Advance is to be used by Beijing 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 Advance is a secured loan. The term of the Advance is initially from 14 December 2007 to 13 December 2008 and the interest rate was 6.561% per annum. It has been renewed and extended to 12 December 2009 during the year, and the interest rate is 5.103% per annum. As at 31 December 2008, the Advance was RMB3.6 billion and the Advance represented approximately 13.09% under the assets ratio as defined under Rule 14.07(1) of the Listing Rules.

POST BALANCE SHEET EVENTS

Details of the post balance sheet events are set out in note 42 to the financial statements on page 183.

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 3.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Bye-laws of the Company or the laws of Bermuda requiring the Company to offer new shares to the existing shareholders of the Company in proportion to their respective shareholders if new shares are issued.

SUFFICIENCY OF PUBLIC FLOAT

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

Report of the Directors

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 of the Company.

On behalf of the Board

Chen Xiao
Chairman and President

Hong Kong, 27 April 2009

Corporate Governance Report

GOME has comprehensive operating manual formulated by the management to standardize and unify business operation of stores across the country.

Corporate Governance Report

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 of Hong Kong Limited (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 2008.

Set out below are the status and details of compliance by the Company of the CG Code in the year ended 31 December 2008.

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 due and careful enquiry, the Company confirms that all Directors have complied with the Model Code during the year ended 31 December 2008.

Corporate Governance Report

BOARD OF DIRECTORS

BOARD COMPOSITION

During the year ended 31 December 2008, the Board comprises the following executive Directors, one non-executive Director and six independent non-executive Directors:

Mr. Wong Kwong Yu	*(Executive Director and Chairman) (resigned on 16 January 2009) (spouse of Du Juan)*
Ms. Du Juan	*(Executive Director) (resigned on 23 December 2008)*
Mr. Chen Xiao	*(Executive Director, appointed as Acting Chairman with effect from 27 November 2008 and appointed as Chairman with effect from 16 January 2009)*
Mr. Ng Kin Wah	*(Executive Director)*
Mr. Wang Jun Zhou*	*(Executive Director) (appointed with effect from 1 September 2008 and re-appointed with effect from 23 December 2008)*
Ms. Wei Qiu Li*	*(Executive Director) (appointed with effect from 1 September 2008 and re-appointed with effect from 16 January 2009)*
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)*
Mr. Thomas Joseph Manning	*(Independent non-executive Director)*

* Each of Mr. Wang Jun Zhou and Ms. Wei Qiu Li was re-appointed as an executive Director after his/her appointment as an executive Director with effect from 1 September 2008 was discovered by the Board to be invalid due to a technical defect. As disclosed in the Company's announcement dated 24 December 2008, according to the Bye-laws of the Company, all acts bona fide done by any meeting of the Board or by any committee or any person acting as a Director before the discovery of the invalid appointments of the Directors would be valid. Each of Mr. Wang and Ms. Wei has not acted in the capacity as Director since the discovery by the Board of his/her invalid appointment as an executive Director.

The biographical details of the Board members are set out on pages 40 to 45 of this Annual Report.

All non-executive Directors are appointed with specific term from 22 May 2008 to the conclusion of the forthcoming annual general meeting of the Company (the "2009 AGM"). The Board has confirmed with each of the independent non-executive Directors (except for Dr. Liu Peng Hui who has not signed and returned the relevant confirmation) 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 (except for Dr. Liu Peng Hui who has not signed and returned the relevant confirmation).

Corporate Governance Report

ROLES AND FUNCTIONS

The Board is responsible for formulating strategic business development, reviewing and monitoring business performance of the Group, approving major funding and investment proposals as well as preparing and approving 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.

The Board meets regularly at least once a quarter and additional meetings are convened as and when the Board considers necessary. In 2008, 14 Board meetings (including 4 regular Board meetings) were held. Details of the Directors' attendance records during the year are as follows:

Directors	Attendance
Mr. Wong Kwong Yu***	7/14 (3/4)*
Ms. Du Juan***	8/14 (2/4)*
Mr. Chen Xiao	13/14 (4/4)*
Mr. Ng Kin Wah	14/14 (4/4)*
Mr. Wang Jun Zhou**	6/14 (1/4)*
Ms. Wei Qiu Li****	6/14 (1/4)*
Mr. Sun Qiang Chang	11/14 (4/4)*
Mr. Sze Tsai Ping, Michael	10/14 (4/4)*
Mr. Chan Yuk Sang	10/14 (3/4)*
Mr. Mark Christopher Greaves	10/14 (3/4)*
Dr. Liu Peng Hui	9/14 (3/4)*
Mr. Yu Tung Ho	9/14 (2/4)*
Mr. Thomas Joseph Manning	10/14 (4/4)*

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

** *Mr. Wang Jun Zhou was invalidly appointed as an executive Director with effect from 1 September 2008 and was validly re-appointed as an executive Director with effect from 23 December 2008 but his attendance as an executive Director at the meetings of the Board before the discovery of his invalid appointment by the Board on 22 December 2008 would be regarded as valid according to the Bye-laws of the Company. Mr. Wang Jun Zhou did not attend any meeting of the Board as an executive Director prior to his first appointment as Director.*

*** *Due to Mr. Wong Kwong Yu's inability to perform his duties as a Director as a result of the investigation by the Chinese authorities, the Board has resolved that his executive duties be suspended with effect from 23 December 2008. Ms. Du Juan resigned as an executive Director with effect from 23 December 2008 and therefore did not attend any meeting of the Board subsequent to her resignation.*

**** *Ms. Wei Qiu Li was invalidly appointed as an executive Director with effect from 1 September 2008 and was validly re-appointed as an executive Director with effect from 16 January 2009 but her attendance as an executive Director before the discovery of her invalid appointment by the Board on 22 December 2008 would be regarded as valid according to the Bye-laws of the Company. Ms. Wei Qiu Li did not attend any meeting of the Board as an executive Director before her first appointment as Director and from the discovery of her invalid appointment as Director by the Board to her re-appointment as Director.*

Corporate Governance Report

Board members were 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. Notices of three out of the four regular Board meetings during the year under review were sent to all Directors in compliance with the said requirement. 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 was about 14 days. Agenda accompanying Board papers relating to a regular Board meeting were sent to all Directors at least 3 days respectively prior to such meeting in compliance with the CG Code.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Under code provision A.2.1 of the CG Code, the roles of the chairman and chief executive officer of a listed company should be separate and should not be performed by the same individual. The Company was in compliance with Code Provision A.2.1 during the review period up to 27 November 2008. As disclosed in the announcement of the Company dated 28 November 2008, as a result of Mr. Wong Kwong Yu's inability to perform his duties as a Director and the Chairman of the Company, the Board with effect from 27 November 2008 appointed Mr. Chen Xiao who is an executive Director and the President of the Company to be the Acting Chairman of the Company. As Mr. Chen Xiao, being the President of the Company, has been performing the role and function of the chief executive officer of the Company, his appointment as the Acting Chairman constituted a deviation from code provision A.2.1 of the CG Code. Given that Mr. Chen Xiao has been the substantial shareholder (as defined in the Listing Rules) and the President of the Group since completion of the Company's acquisition of China Paradise Electronics Retail Limited (which he founded) and has over 20 years of experience in the electrical and electronic retail sector in China, the Board believes that it is in the best interest of the Group and its shareholders as a whole to also appoint Mr. Chen Xiao as the Acting Chairman in the interim period to provide stability to the Group and to oversee the operations of the Group in the circumstances.

The Board will continue to review the effectiveness of the Group's corporate governance structure to assess whether changes, including separation of the roles of the Chairman and the President of the Company, are necessary.

During the year under review, Mr. Wong Kwong Yu served until 27 November 2008 and Mr. Chen Xiao served since 28 November 2008 as the Chairman of the Company, primarily responsible for providing leadership to the Board; and Mr. Chen Xiao was the President of the Company and an executive Director undertaking the duties of the chief executive officer of the Company to oversee the business of the Group and executing decisions of the Board.

Corporate Governance Report

BOARD COMMITTEES

As at 31 December 2008, the Board established the following committees:

1. Remuneration Committee;
2. Nomination Committee;
3. Audit Committee;
4. Independent Committee; and
5. Special Action 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. During the year ended 31 December 2008, the Remuneration Committee comprised the following members:

Mr. Mark Christopher 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)*
Ms. Du Juan	*(Executive Director) (retired with effect from 23 December 2008)*

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 remunerations of Directors and senior management and on the establishment of formal and transparent procedures for developing policy on all such remunerations;

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

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

4. to review and approve 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 fair and not excessive for the Company;

Corporate Governance Report

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 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. During the year, the Remuneration Committee considered and approved the plan for the review of the remuneration policy of the Group and the terms of Directors' service contracts.

During the year under review, the Remuneration Committee had held 3 meetings. Attendance records of the members of the Remuneration Committee of such meetings are as follows:

Committee members	Attendance
Mr. Mark Christopher Greaves	2/3
Mr. Sze Tsai Ping, Michael	3/3
Mr. Chan Yuk Sang	2/3
Mr. Thomas Joseph Manning	2/3
Ms. Du Juan*	2/3

* *Ms. Du Juan retired as member of the Remuneration Committee with effect from 23 December 2008 and therefore did not attend any meeting of the Remuneration Committee subsequent to her retirement.*

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. During the year ended 31 December 2008, the Nomination Committee comprised the following members:

Dr. Liu Peng Hui	*(Independent non-executive Director and chairman of the Nomination Committee)*
Mr. Mark Christopher Greaves	*(Independent non-executive Director)*
Mr. Yu Tung Ho	*(Independent non-executive Director)*
Mr. Sun Qiang Chang	*(Non-executive Director)*
Ms. Du Juan	*(Executive Director) (retired with effect from 23 December 2008)*

Corporate Governance Report

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 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.

During the year under review, the Nomination Committee, amongst other matters, reviewed the structure, size and composition of the Board, assessed the continual independence of the independent non-executive Directors, considered and recommended the re-election of the retiring Directors and considered the re-appointment of Mr. Wang Jun Zhou as an executive Director.

During the year under review, 3 meetings of Nomination Committee were held. Attendance records of the members of the Nomination Committee of such meetings are as follows:

Committee members	Attendance
Dr. Liu Peng Hui	3/3
Mr. Mark Christopher Greaves	2/3
Mr. Yu Tung Ho	1/3
Mr. Sun Qiang Chang	3/3
Ms. Du Juan*	2/3

* *Ms. Du Juan retired as member of Nomination Committee with effect from 23 December 2008 and therefore did not attend any meeting of the Nomination Committee subsequent to her retirement.*

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.

Corporate Governance Report

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 companies, 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. During the year ended 31 December 2008, the Independent Committee comprised 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)*
Mr. Yu Tung Ho	*(Independent non-executive Director)*
Mr. Thomas Joseph Manning	*(Independent non-executive Director)*

The Independent Committee is primarily responsible for the following duties:

1. to monitor the continuing compliance by Mr. Wong Kwong Yu 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.

Corporate Governance Report

4 Independent Committee meetings were held during the year under review, for, amongst other matters, reviewing continuing compliance of Mr. Wong's Obligations by Mr. Wong Kwong Yu. Attendance records of the members of the Independent Committee of such meetings were as follows:

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

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. During the year ended 31 December 2008, the Audit Committee comprised 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 Christopher 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.

Corporate Governance Report

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 2008, 6 Audit Committee meetings were held for, amongst other matters, considering the annual results of the Group for the financial year ended 31 December 2007, the quarterly results of the Group for the three months ended 31 March 2008, the interim results of the Group for the six months ended 30 June 2008 and the quarterly results of the Group for the nine months ended 30 September 2008, 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 reviewing the continuing connected transactions of the Group.

Corporate Governance Report

Attendance records of the Audit Committee members in 2008 are as follows:

Committee members	Attendance
Mr. Sze Tsai Ping, Michael	6/6
Mr. Chan Yuk Sang	5/6
Mr. Mark Christopher Greaves	4/6
Dr. Liu Peng Hui	4/6

The amount of audit fees payable to Ernst & Young, the auditors of the Company, for the year ended 31 December 2008 is RMB9,850,000 (2007: RMB6,800,000). The amount of remuneration payable to the auditors of the Company relating to non-audit services for the year ended 31 December 2008 is RMB500,000 (2007: RMB700,000). 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. In addition, the amount of fees payable to Ernst & Young (China) Advisory Limited, independent internal control and risk management advisors, for the Internal Control Review is RMB1,800,000 during the year ended 31 December 2008.

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 2009 AGM. The Audit Committee has recommended to the Board that Ernst & Young be nominated for re-appointment as the auditors of the Company at the 2009 AGM.

SPECIAL ACTION COMMITTEE

As disclosed in the Company's announcement dated 28 November 2008, in order to provide independent assurance to the shareholders of the Company in light of Mr. Wong Kwong Yu being investigated by the Beijing Municipal Public Security Bureau (the "Investigation"), the Board set up the Special Action Committee on 27 November 2008 to:

(a) closely monitor and assess the impact on the Group's financial condition and operations caused by the Investigation;

(b) advise on the Company's timely disclosure, investor relations and regulatory compliance; and

(c) propose recommendations to the Board concerning the actions to be taken by the Company in connection with the Investigation.

Corporate Governance Report

For the year ended 31 December 2008, the Special Action Committee comprised the following members:

Mr. Sun Qiang Chang	*(Non-executive Director and chairman of Special Action Committee) (Resigned as member and chairman of Special Action Committee on 22 January 2009)*
Mr. Chan Yuk Sang	*(Independent non-executive Director)*
Mr. Mark Christopher Greaves	*(Independent non-executive Director)*
Mr. Thomas Joseph Manning	*(Independent non-executive Director) (appointed as chairman of Special Action Committee with effect from 13 February 2009)*

During the year under review, the Special Action Committee had held 6 meetings in connection with the Investigation for, amongst other matters, considering proposed appointment of independent external auditors to review the accounts, risk assessment and internal control systems of the Company, making recommendations to the Board on crisis management, media control and corporate governance, advising the Board on regulatory compliance in relation to trading suspension and price sensitive information disclosure as well as monitoring and assessing the current status of the Group's financial position and operations.

Attendance records of the members of the Special Action Committee of such meetings are as follows:

Committee members	Attendance
Mr. Sun Qiang Chang	6/6
Mr. Chan Yuk Sang	6/6
Mr. Mark Christopher Greaves	6/6
Mr. Thomas Joseph Manning	6/6

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 2007, and has reviewed the effectiveness of the Group's material internal controls for the year 2008 and is satisfied that, based on information furnished to it and on its own observations, the present internal controls of the Group are satisfactory.

Corporate Governance Report

The Company had implemented a system of internal control to safeguard assets of the Group against unauthorized use or disposition, provide proper accounting records, ensure compliance of applicable legislations and regulations and to provide reliable financial information for the business and disclosure purposes.

In the end of 2008, in order to assist the Board to (1) assess the Group's internal control and risk management functions and (2) establish that there has been no irregularity nor misappropriation of funds or assets within the Group in light of the Investigation, the Company has started its internal audit and has also appointed:

(a) independent external internal control and risk management advisers to conduct (i) an assessment of the recording and reporting controls over the connected transactions of the Group; and (ii) an assessment of the Group's internal control system and risk management mechanism (the "Internal Control Review"); and

(b) independent external auditors to conduct a review on the Group's financial position as at 30 November 2008 (the "Financial Review").

As at 31 December 2008, work in relation to the Company's internal audit, the Internal Control Review and the Financial Review was still in progress and not yet completed.

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".

Corporate Governance Report

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

Independent Auditors' Report

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 84 to 183, which comprise the consolidated and company balance sheets as at 31 December 2008, 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.

Independent Auditors' Report

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 2008 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
27 April 2009

Consolidated Income Statement

Year ended 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
Revenue	4(a)	**45,889,257**	42,478,523
Cost of sales		**(41,381,223)**	(38,383,276)
Gross profit		**4,508,034**	4,095,247
Other income and gain	4(b)	**3,266,244**	2,546,876
Selling and distribution costs		**(4,487,131)**	(3,547,907)
Administrative expenses		**(828,028)**	(686,740)
Other expenses		**(515,357)**	(604,768)
Profit from operating activities		**1,943,762**	1,802,708
Finance costs	7	**(212,118)**	(193,369)
Finance income	7	**441,017**	424,241
Loss on the derivative components of convertible bonds	32	**(189,220)**	(505,483)
Impairment of other investments	16	**(449,592)**	–
Profit before tax	6	**1,533,849**	1,528,097
Tax	10	**(435,156)**	(360,262)
Profit for the year		**1,098,693**	1,167,835
Attributable to:			
Equity holders of the parent		**1,048,160**	1,127,307
Minority interests		**50,533**	40,528
		1,098,693	1,167,835

Consolidated Income Statement (continued)

Year ended 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
Dividends	*31*		
Interim		**344,486**	254,193
Proposed final		**–**	328,629
		344,486	582,822
Dividend per share	*31*		
Interim		**RMB2.7 fen**	RMB7.8 fen
Proposed final		**–**	RMB9.9 fen
		RMB2.7 fen	RMB17.7 fen
Earnings per share attributable to ordinary equity holders of the parent	*11*		
Basic		**RMB8.2 fen**	RMB8.8 fen
Diluted		**RMB8.2 fen**	RMB8.8 fen

Consolidated Balance Sheet

31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	12	**3,719,829**	3,144,458
Investment properties	13	**389,473**	331,680
Goodwill	14	**3,363,012**	3,343,012
Other intangible assets	15	**134,241**	143,867
Other investments	16	**108,810**	–
Prepayments for acquisition of properties	17	**270,160**	138,300
Lease prepayments	18	**355,089**	342,744
Deferred tax assets	19	**18,356**	55,873
Other assets	20	**653,423**	–
		9,012,393	7,499,934
Current assets			
Hong Kong listed investments, at fair value		**399**	1,058
Investment deposits	22	**30,000**	30,000
Designated loan	23	**3,600,000**	1,500,000
Inventories	24	**5,473,497**	5,383,039
Trade and bills receivables	25	**45,092**	97,719
Prepayments, deposits and other receivables	26	**1,384,355**	2,211,998
Due from related parties	27	**57,843**	79,024
Other financial assets		**–**	150,000
Pledged deposits	28	**4,840,456**	6,614,725
Cash and cash equivalents	28	**3,051,069**	6,269,996
		18,482,711	22,337,559
TOTAL ASSETS		**27,495,104**	29,837,493

Consolidated Balance Sheet (continued)

31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Issued capital	29	331,791	343,764
Reserves	30(a)	8,228,043	9,630,586
Proposed final dividend	31	–	328,629
		8,559,834	10,302,979
Minority interests		140,201	89,689
Total equity		8,700,035	10,392,668
Non-current liabilities			
Deferred tax liabilities	19	78,269	80,431
Convertible bonds	32	3,569,553	3,184,303
		3,647,822	3,264,734
Current liabilities			
Interest-bearing bank loans	33	170,000	300,000
Trade and bills payables	34	12,917,958	13,556,545
Customers' deposits, other payables and accruals	35	1,530,141	1,939,695
Tax payable		529,148	383,851
		15,147,247	16,180,091
Total liabilities		18,795,069	19,444,825
TOTAL EQUITY AND LIABILITIES		27,495,104	29,837,493
NET CURRENT ASSETS		3,335,464	6,157,468
TOTAL ASSETS LESS CURRENT LIABILITIES		12,347,857	13,657,402

Chen Xiao
Director

Ng Kin Wah
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2008

		Attributable to equity holders of the parent												
	Notes	Issued capital RMB'000	Share premium RMB'000	Contributed surplus RMB'000	Capital reserve RMB'000	Asset revaluation reserve RMB'000	Other investment revaluation reserve RMB'000	Statutory reserves RMB'000 note 30(a)	Exchange reserve RMB'000	Retained earnings RMB'000	Proposed dividend RMB'000	Total RMB'000	Minority interests RMB'000	Total equity RMB'000
At 1 January 2008		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
Changes in fair value of other investments		-	-	-	-	-	(434,742)	-	-	-	-	(434,742)	-	(434,742)
Impairment of other investments	16	-	-	-	-	-	449,592	-	-	-	-	449,592	-	449,592
Revaluation surplus on property, plant and equipment	12	-	-	-	-	32,425	-	-	-	-	-	32,425	-	32,425
Related deferred tax liability arising from the revaluation of property, plant and equipment	19	-	-	-	-	(8,106)	-	-	-	-	-	(8,106)	-	(8,106)
Exchange realignment		-	-	-	-	-	-	-	(101,617)	-	-	(101,617)	-	(101,617)
Total income and expense for the year recognised directly in equity		-	-	-	-	24,319	14,850	-	(101,617)	-	-	(62,448)	-	(62,448)
Profit for the year		-	-	-	-	-	-	-	-	1,048,160	-	1,048,160	50,533	1,098,693
Total income and expense for the year		-	-	-	-	24,319	14,850	-	(101,617)	1,048,160	-	985,712	50,533	1,036,245
Repurchase and cancellation of shares	29	(11,973)	(2,055,584)	-	-	-	-	-	-	-	-	(2,067,557)	-	(2,067,557)
Dividend attributable to cancelled shares	31	-	-	-	-	-	-	-	-	12,025	(12,025)	-	-	-
Disposal of a jointly-controlled entity		-	-	-	-	-	-	(210)	-	-	-	(210)	(21)	(231)
Transfer to statutory reserves		-	-	-	-	-	-	192,958	-	(192,958)	-	-	-	-
Dividends paid	31	-	-	-	-	-	-	-	-	(344,486)	(316,604)	(661,090)	-	(661,090)
At 31 December 2008		331,791	6,207,709*	657*	(216,966)*	24,319*	14,850*	761,077*	(182,210)*	1,618,607*	-	8,559,834	140,201	8,700,035

Consolidated Statement of Changes in Equity (continued)

Year ended 31 December 2008

		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		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		14,632	1,496,466	–	–	–	(23,071)	–	–	1,488,027	–	1,488,027
Issue of 2014 Convertible Bonds		–	–	–	1,415,770	–	–	–	–	1,415,770	–	1,415,770
Issue of new shares		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

* These reserve accounts comprise the consolidated reserves of RMB8,228,043,000 (2007: RMB9,630,586,000) in the consolidated balance sheet.

Consolidated Cash Flow Statement

Year ended 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**1,533,849**	1,528,097
Adjustments for:			
Finance income	*7*	**(441,017)**	(424,241)
Finance costs	*7*	**212,118**	193,369
Loss on the derivative components of convertible bonds	*6*	**189,220**	505,483
Impairment of goodwill	*6*	**8,000**	–
Impairment of other investments	*6*	**449,592**	–
Impairment of property, plant and equipment	*6*	**31,725**	–
Fair value loss on property, plant and equipment	*6*	**6,632**	–
Fair value loss/(gain) on investment properties	*6*	**34,441**	(47,176)
Fair value loss/(gain) on Hong Kong listed investments	*6*	**659**	(150)
Depreciation	*6*	**296,256**	256,988
Loss on disposal of items of property, plant and equipment	*6*	**13,763**	13,104
Gain on disposal of a jointly-controlled entity		**(3)**	–
Amortisation of intangible assets	*6*	**9,626**	8,457
		2,344,861	2,033,931
Increase in lease prepayments		**(12,345)**	(279,970)
Increase in inventories		**(90,458)**	(466,578)
Decrease/(increase) in trade and bills receivables		**52,627**	(10,230)
Decrease/(increase) in prepayments, deposits and other receivables		**1,007,795**	(839,136)
Decrease in amounts due from related parties		**21,181**	110,439
Decrease in other financial assets		**150,000**	–
Decrease in pledged deposits		**1,774,269**	839,449
(Decrease)/increase in trade and bills payables		**(638,587)**	887,997
(Decrease)/increase in customers' deposits, other payables and accruals		**(335,928)**	547,003
Decrease in an amount due to a related party		**–**	(120,564)
Cash generated from operations		**4,273,415**	2,702,341
Interest received		**260,645**	390,864
Dividends paid	*31*	**(661,090)**	(364,311)
PRC income tax paid		**(262,610)**	(168,171)
Net cash inflow from operating activities		**3,610,360**	2,560,723

Consolidated Cash Flow Statement (continued)

Year ended 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
Net cash inflow from operating activities		**3,610,360**	2,560,723
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(1,179,635)**	(1,578,294)
Proceeds from disposal of items of property, plant and equipment		**15,042**	1,245
Acquisition of a subsidiary	36	**(8,000)**	(6,558)
Acquisition of minority interests		**–**	(13,158)
Acquisition of other investments		**(543,552)**	–
Payment of outstanding considerations for business combinations		**(45,000)**	–
Disposal of a jointly-controlled entity		**–**	(5,526)
Prepayment for acquisition of a subsidiary		**–**	(10,000)
Increase in a designated loan	23	**(2,100,000)**	(1,500,000)
Increase in other assets	20	**(653,423)**	–
Increase in investment deposits		**–**	(30,000)
Net cash outflow from investing activities		**(4,514,568)**	(3,142,291)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		**–**	1,433,740
Share issue expenses		**–**	(1,434)
Repurchase of shares		**(2,067,557)**	–
Issue of convertible bonds		**–**	4,600,000
Transaction costs for issuing convertible bonds and warrants		**–**	(71,860)
New bank loans		**100,000**	400,000
Repayment of bank loans		**(230,000)**	(829,330)
Interest paid		**(16,088)**	(40,789)
Net cash (outflow)/inflow from financing activities		**(2,213,645)**	5,490,327
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(3,117,853)**	4,908,759
Cash and cash equivalents at 1 January		**6,269,996**	1,451,837
Exchange differences		**(101,074)**	(90,600)
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		**3,051,069**	6,269,996
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	28	**2,055,835**	2,529,443
Non-pledged time deposits with original maturity of less than three months when acquired	28	**995,234**	3,740,553
		3,051,069	6,269,996

Balance Sheet

31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
ASSETS			
Non-current assets			
Interests in subsidiaries	*21*	**8,891,592**	6,977,529
Current assets			
Prepayments, deposits and other receivables	*26*	**4,731**	12,120
Pledged deposits	*28*	**–**	1,601,019
Cash and cash equivalents	*28*	**1,004,394**	3,356,064
		1,009,125	4,969,203
TOTAL ASSETS		**9,900,717**	11,946,732
EQUITY AND LIABILITIES			
Equity			
Issued capital	*29*	**331,791**	343,764
Reserves	*30(b)*	**5,993,039**	8,087,312
Proposed final dividend	*31*	**–**	328,629
Total equity		**6,324,830**	8,759,705
Non-current liabilities			
Convertible bonds	*32*	**3,569,553**	3,184,303
Current liabilities			
Accruals		**6,334**	2,724
Total liabilities		**3,575,887**	3,187,027
TOTAL EQUITY AND LIABILITIES		**9,900,717**	11,946,732
NET CURRENT ASSETS		**1,002,791**	4,966,479
TOTAL ASSETS LESS CURRENT LIABILITIES		**9,894,383**	11,944,008

Chen Xiao
Director

Ng Kin Wah
Director

Notes to Financial Statements

31 December 2008

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 activities of the Company and its subsidiaries (the "Group") are the operations and management of networks of electrical appliances and consumer electronic products retail stores in the People's Republic of China (the "PRC").

As set out in the Company's announcements dated 24 November 2008, 28 November 2008, 10 December 2008, 24 December 2008 and 18 January 2009, the Company was verbally informed by the Beijing Municipal Public Security Bureau (the "Bureau") on 27 November 2008 that Mr. Wong Kwong Yu ("Mr. Wong"), the former chairman and the former executive director and a substantial shareholder of the Company, was being investigated by the Bureau in connection with certain suspected economic crime (the "Investigation"). The Company confirms that it has not received any legal documents in connection with the Investigation from any regulatory, governmental or judicial authority in the People's Republic of China. To the best of the knowledge, information and belief of the Company and based on the information available to the Company as at the date of this report, the Investigation is not related to the Group.

Due to the ongoing Investigation and her close association with Mr. Wong as his spouse, Ms. Du Juan ("Ms. Du") considered it is in the interests of the Company and the shareholders of the Company that she resigns as a director of the Company. Ms. Du has resigned as a director of the Company with effect from 23 December 2008. In view of Mr. Wong's inability to perform his duties as a director of the Company, Mr. Wong considered it is in the interests of the Company and the shareholders of the Company that he resigns as a director of the Company. Mr. Wong has resigned as a director of the Company and its subsidiaries with effect from 16 January 2009. Upon Mr. Wong's resignation as a director of the Company, Mr. Wong has also automatically ceased to be the chairman of the Company with effect from 16 January 2009.

The Company confirms that the Group's management team has, since 27 November 2008, remained stable under the leadership of Mr. Chen Xiao, an executive director of the Company and the president of the Company. Mr. Chen Xiao has been appointed the chairman of the Company and has also acted as the president of the Company with effect from 16 January 2009.

Notes to Financial Statements

31 December 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, other investments 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.

STATEMENT OF COMPLIANCE

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

BASIS OF PRESENTATION

The directors have given careful consideration to the Group's financial performance, working capital, liquidity position and relationship with its principal bankers. On the basis that the Group's management team has remained stable under the leadership of Mr. Chen Xiao, the chairman and the president of the Company, and the Group's business, operations and relationships with its suppliers have also remained stable, the directors are of the view that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future. Management is taking steps to maintain the relationship with the bankers and are confident that the Group is in a position to obtain the ongoing support from its principal bankers. Accordingly, the financial statements have been prepared on a going concern basis.

BASIS OF CONSOLIDATION

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2008. The financial statements of the subsidiaries are prepared for the same reporting year as the Company, using consistent accounting policies.

The results of subsidiaries are 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. All income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

Notes to Financial Statements

31 December 2008

2.1 BASIS OF PREPARATION (continued)

BASIS OF CONSOLIDATION (continued)

The acquisition of subsidiaries 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.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries. An acquisition of minority interests is accounted for using the parent entity extension method whereby the difference between the consideration and the book value of the share of the net assets acquired is recognised as goodwill.

2.2 IMPACT OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group has adopted the following new interpretations and amendments to IFRSs for the first time for the current year's financial statements.

IAS 39 and IFRS 7 Amendments	Amendments to IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosures – Reclassification of Financial Assets*
IFRIC 11	*IFRS 2 – Group and Treasury Share Transactions*
IFRIC 12	*Service Concession Arrangements*
IFRIC 14	*IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

Notes to Financial Statements

31 December 2008

2.2 IMPACT OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

The principal effects of adopting these new and revised IFRSs are as follows:

(a) Amendments to IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosures – Reclassification of Financial Assets*

The amendments to IAS 39 permit an entity to reclassify a non-derivative financial asset classified as held for trading, other than a financial asset designated by an entity as at fair value through profit or loss upon initial recognition, out of the fair value through profit or loss category if the financial asset is no longer held for the purpose of selling or repurchasing in the near term, if specified criteria are met.

A debt instrument that would have met the definition of loans and receivables (if it had not been required to be classified as held for trading at initial recognition) may be classified out of the fair value through profit or loss category or (if it had not been designated as available for sale) may be classified out of the available-for-sale category to the loans and receivables category if the entity has the intention and ability to hold it for the foreseeable future or until maturity.

In rare circumstances, financial assets that are not eligible for classification as loans and receivables may be transferred from the held-for-trading category to the available-for-sale category or to the held-to-maturity category (in the case of a debt instrument), if the financial asset is no longer held for the purpose of selling or repurchasing in the near term.

The financial asset shall be reclassified at its fair value on the date of reclassification and the fair value of the financial asset on the date of reclassification becomes its new cost or amortised cost, as applicable. The amendments to IFRS 7 require extensive disclosures of any financial asset reclassified in the situations described above. The amendments are effective from 1 July 2008.

As the Group has not reclassified any of its financial instruments, the amendments have had no impact on the financial position or results of operations of the Group.

Notes to Financial Statements

31 December 2008

2.2 IMPACT OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

(b) IFRIC 11 *IFRS 2 – Group and Treasury Share Transactions*

IFRIC 11 requires arrangements whereby an employee is granted rights to the Group's equity instruments to be accounted for as an equity-settled scheme, even if the Group buys the instruments from another party, or the shareholders provide the equity instruments needed. IFRIC 11 also addresses the accounting for share-based payment transactions involving two or more entities within the Group. As the Group currently has no such arrangements, the interpretation has had no impact on the financial position or results of operations of the Group.

(c) IFRIC 12 *Service Concession Arrangements*

IFRIC 12 applies to service concession operators and explains how to account for the obligations undertaken and the rights received in service concession arrangements. No member of the Group is an operator and, therefore, this interpretation has had no impact on the financial position or results of operations of the Group.

(d) IFRIC 14 *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

IFRIC 14 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, including situations when a minimum funding requirement exists. As the Group has no defined benefit scheme, the interpretation has had no effect on these financial statements.

Notes to Financial Statements

31 December 2008

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 1 (Revised)	*First-time Adoption of International Financial Reporting Standards*[2]
IFRS 1 and IAS 27 Amendments	Amendments to IFRS 1 *First-time Adoption of IFRSs* and IAS 27 *Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*[1]
IFRS 2 Amendments	Amendments to IFRS 2 *Share-based Payment – Vesting Conditions and Cancellations*[1]
IFRS 3 (Revised)	*Business Combinations*[2]
IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments*[1]
IFRS 8	*Operating Segments*[1]
IAS 1 (Revised)	*Presentation of Financial Statements*[1]
IAS 23 (Revised)	*Borrowing Costs*[1]
IAS 27 (Revised)	*Consolidated and Separate Financial Statements*[2]
IAS 32 and IAS 1 Amendments	Amendments to IAS 32 *Financial Instruments: Presentation* and IAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation*[1]
IAS 39 Amendments	Amendments to IAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*[2]
IFRIC 9 and IAS 39 Amendments	Amendments to IFRIC 9 *Reassessment of Embedded Derivatives* and IAS 39 *Financial Instruments: Recognition and Measurement – Embedded Derivatives*[5]
IFRIC 13	*Customer Loyalty Programmes*[3]
IFRIC 15	*Agreements for the Construction of Real Estate*[1]
IFRIC 16	*Hedges of a Net Investment in a Foreign Operation*[4]
IFRIC 17	*Distribution of Non-cash Assets to Owners*[2]
IFRIC 18	*Transfers of Assets from Customers*[6]

Apart from the above, in May 2008, the IASB issued Improvements to IFRSs* which sets out amendments to a number of IFRSs primarily with a view to removing inconsistencies and clarifying wording. Except for the amendment to IFRS 5 which is effective for annual periods on or after 1 July 2009, other amendments are effective for annual periods beginning on or after 1 January 2009 although there are separate transitional provisions for each standard.

The IASB also issued Improvements to IFRSs[#] in April 2009. These amendments are generally effective for annual periods beginning on or after 1 January 2010 although the Group is permitted to adopt them earlier.

Notes to Financial Statements

31 December 2008

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

[1] Effective for annual periods beginning on or after 1 January 2009
[2] Effective for annual periods beginning on or after 1 July 2009
[3] Effective for annual periods beginning on or after 1 July 2008
[4] Effective for annual periods beginning on or after 1 October 2008
[5] Effective for annual periods ending on or after 30 June 2009
[6] Effective for transfers of assets from customers received on or after 1 July 2009
* Improvements to IFRSs contain amendments to IFRS 5, IFRS 7, IAS 1, IAS 8, IAS 10, IAS 16, IAS 18, IAS 19, IAS 20, IAS 23, IAS 27, IAS 28, IAS 29, IAS 31, IAS 34, IAS 36, IAS 38, IAS 39, IAS 40 and IAS 41.
# Improvements to IFRSs contain amendments to IFRS 2, IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 18, IAS 36, IAS 38, IAS 39, IFRIC 9 and IFRIC 16.

IFRS 1 (Revised) has an improved structure but does not contain any changes to the substance of accounting and this standard does not apply to the Group as the Group is not a first-time adopter of IFRSs.

The IAS 27 Amendment requires all dividends from subsidiaries, associates or jointly-controlled entities to be recognised in the income statement in the separate financial statements. The amendment is applied prospectively only. The IFRS 1 Amendment allows a first-time adopter of IFRSs to measure its investment in subsidiaries, associates or jointly-controlled entities using a deemed cost of either fair value or the carrying amount under the previous accounting practice in the separate financial statements. The Group expects to adopt the IAS 27 Amendment from 1 January 2009. The amendments have no impact on the consolidated financial statements.

The IFRS 2 Amendments clarify that vesting conditions are service conditions and performance conditions only. Any other conditions are non-vesting conditions. Where an award does not vest as a result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this is accounted for as a cancellation. The Group has not entered into share-based payment schemes with non-vesting conditions attached and, therefore, the amendments are unlikely to have any significant implications on its accounting for share-based payments.

IFRS 3 (Revised) 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.

IAS 27 (Revised) requires that a change in the ownership interest of a subsidiary without loss of control is 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 the subsidiary as well as the loss of control of a subsidiary. Other consequential amendments were made to IAS 7 *Statement of Cash Flows,* IAS 12 *Income Taxes,* IAS 21 *The Effects of Changes in Foreign Exchange Rate,* IAS 28 *Investments in Associates* and IAS 31 *Interests in Joint Ventures.*

Notes to Financial Statements

31 December 2008

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

The Group expects to adopt IFRS 3 (Revised) and IAS 27 (Revised) from 1 January 2010. The changes introduced by these revised standards must be applied prospectively and will affect future acquisitions, loss of control and transactions with minority interests.

The amendments to IFRS 7 are made to enhance disclosures about fair value measurement and liquidity risk, and do not have any financial impact on the Group.

IFRS 8, which replaces IAS 14 *Segment Reporting*, 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 purposes 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 expects to adopt IFRS 8 from 1 January 2009.

IAS 1 (Revised) introduces changes in the presentation and disclosures of financial statements. The revised standard separates owner 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, this standard introduces the statement of comprehensive income, with all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense recognised directly in equity, either in one single statement, or in two linked statements. The Group expects to adopt IAS 1 (Revised) from 1 January 2009.

IAS 23 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.

The IAS 32 Amendments provide a limited scope exception for puttable financial instruments and instruments that impose specified obligations arising on liquidation to be classified as equity if they fulfill a number of specified features. HKAS 1 Amendments require disclosure of certain information relating to these puttable financial instruments and obligations classified as equity. As the Group currently has no such financial instruments or obligations, the amendments are unlikely to have any financial impact on the Group.

Notes to Financial Statements

31 December 2008

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

The amendment to IAS 39 addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as hedged item. As the Group has not entered into such hedges, the amendment is unlikely to have any financial impact on the Group.

The amendments to IFRIC 9 and IAS 39 are made in response to the earlier amendments to IAS 39 and IFRS 7 regarding reclassification of financial assets. As the Group has not reclassified hybrid financial instruments in accordance with the October 2008 amendments to IAS 39, the amendments are unlikely to have any financial impact on the Group.

IFRIC 13 requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted. 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. The Group's current accounting policy aligns with the requirement of this interpretation.

IFRIC 15 will replace IFRIC 3 *Revenue – Pre-completion Contracts for the Sale of Development Properties.* It clarifies when and how an agreement for the construction of real estate should be accounted for as a construction contract in accordance with IAS 11 *Construction Contracts* or an agreement for the sale of goods or services in accordance with IAS 18 *Revenue*. As the Group currently is not involved in any construction of real estate, the interpretation is unlikely to have impact on the Group.

IFRIC 16 provides guidance on the accounting for a hedge of a net investment in a foreign operation. This includes clarification that (i) hedge accounting may be applied only to the foreign exchange differences arising between the functional currencies of the foreign operation and the parent entity; (ii) a hedging instrument may be held by any entities within a group; and (iii) on disposal of a foreign operation, the cumulative gain or loss relating to both the net investment and the hedging instrument that was determined to be an effective hedge should be reclassified to the income statement as a reclassification adjustment. As the Group currently has no hedge of a net investment in a foreign operation, the interpretation is unlikely to have any financial impact on the Group.

Notes to Financial Statements

31 December 2008

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

IFRIC 17 standardises practice in the accounting for non-reciprocal distributions of non-cash assets to owners. The Group expects to apply the interpretation from 1 January 2010 prospectively. The Interpretation clarifies that (i) a dividend payable should be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity; (ii) an entity should measure the dividend payable at the fair value of the net assets to be distributed; and (iii) an entity should recognise the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss. Other consequential amendments were made to IAS 10 *Events after the Balance Sheet Date* and IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations.* While the adoption of the interpretation may result in changes in certain accounting policies, the interpretation is unlikely to have any material financial impact on the Group.

IFRIC 18 applies to all entities that receive from customers an item of property, plant and equipment or cash for the acquisition or construction of such items. These assets must then be used to connect the customer to a network or to provide ongoing access to a supply of goods or services, or both. The Interpretation is applied prospectively. As the Group did not receive from customers such assets, the Interpretation is unlikely to have any financial impact on the Group.

IMPROVEMENTS TO IFRSS

In May 2008 and April 2009, the IASB issued Improvements to IFRSs which set out amendments to a number of IFRSs. The Group expects to adopt the amendments from the effective date of each amendment. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments are expected to have a significant financial impact on the Group.

Notes to Financial Statements

31 December 2008

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 values 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.

ESTIMATION UNCERTAINTY

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:

Notes to Financial Statements

31 December 2008

2.4 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

ESTIMATION UNCERTAINTY (continued)

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2008 was RMB3,363,012,000 (2007: RMB3,343,012,000). More details are given in note 14 to these financial statements.

Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment of all non-financial assets at each reporting date. Indefinite life intangible assets are 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 asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

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 2008 was RMB3,719,829,000 (31 December 2007: RMB3,144,458,000). Further details are given in note 12 to these financial statements.

Notes to Financial Statements

31 December 2008

2.4 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

ESTIMATION UNCERTAINTY (continued)

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 deferred tax assets relating to tax losses at 31 December 2008 was RMB18,356,000 (31 December 2007: RMB55,873,000).

The unrecognised tax losses at 31 December 2008 amounted to RMB793,600,000 (31 December 2007: RMB561,500,000). Further details are contained in note 19 to the financial statements.

Impairment of available-for-sale financial assets

The Group classifies certain assets as available-for-sale and recognises movements of their fair values in equity. When the fair value declines, management makes assumptions about the decline in value to determine whether there is an impairment that should be recognised in the consolidated income statement. At 31 December 2008, impairment losses of RMB449,592,000 have been recognised for available-for-sale assets (2007: Nil). The carrying amount of available-for-sale assets was RMB108,810,000 (2007: Nil). Further details are given in note 16 to these financial statements.

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 2008 was RMB389,473,000 (31 December 2007: RMB331,680,000). 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 estimates the fair value of financial derivatives based on financial modeling which requires various sources of information and assumptions. The carrying amount of derivative components of convertible bonds as at 31 December 2008 was RMB2,280,000 (31 December 2007: RMB191,500,000). Further details are given in note 32 to these financial statements.

Notes to Financial Statements

31 December 2008

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.

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.

GOODWILL

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. 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.

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. An impairment loss recognised for goodwill is not reversed in a subsequent period.

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.

Notes to Financial Statements

31 December 2008

3. PRINCIPAL ACCOUNTING POLICIES (continued)

EXCESS OVER THE COST OF BUSINESS COMBINATIONS

Any excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of acquisition of subsidiaries (previously referred to as negative goodwill), after reassessment, is recognised immediately in the income statement.

IMPAIRMENT OF NON-FINANCIAL ASSETS OTHER THAN GOODWILL

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, financial assets, investment properties and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, 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, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds 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. An impairment loss is charged to the income statement in the period in which it arises in those expense categories consistent with the function of the impaired asset, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

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 an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Notes to Financial Statements

31 December 2008

3. PRINCIPAL ACCOUNTING POLICIES (continued)

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 an associate;

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

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

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

(f) 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 (d) or (e); or

(g) 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.

PROPERTY, PLANT AND EQUIPMENT AND DEPRECIATION

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 asset 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 an item 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 asset or as a replacement.

Notes to Financial Statements

31 December 2008

3. PRINCIPAL ACCOUNTING POLICIES (continued)

PROPERTY, PLANT AND EQUIPMENT AND DEPRECIATION (continued)

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life, after taking into account the estimated residual value of 5% to 10%, as follows:

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

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

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents stores under construction, which is stated at cost less any impairment loss, and is not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment or investment properties when completed and ready for use.

INVESTMENT PROPERTIES

Investment properties are interests in land and buildings held to earn rental income and/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. Such properties are measured initially at cost, including transaction costs. 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 the retirement or disposal.

Notes to Financial Statements

31 December 2008

3. PRINCIPAL ACCOUNTING POLICIES (continued)

INVESTMENT PROPERTIES (continued)

If a property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under "Property, plant and equipment and depreciation" up to the date of change in use, and any difference at that date between the carrying amount and the fair value of the property is accounted for as a revaluation.

INTANGIBLE ASSETS (OTHER THAN GOODWILL)

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 balance sheet date.

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.

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 available-for-sale financial assets, 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.

Notes to Financial Statements

31 December 2008

3. PRINCIPAL ACCOUNTING POLICIES (continued)

INVESTMENTS AND OTHER FINANCIAL ASSETS (continued)

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 required to be 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 the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date, that 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.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale 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 these investments are recognised in the income statement.

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 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 assets or recognising gains or losses on them on a different basis; (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.

Notes to Financial Statements

31 December 2008

3. PRINCIPAL ACCOUNTING POLICIES (continued)

INVESTMENTS AND OTHER FINANCIAL ASSETS (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets 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.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets in listed and unlisted equity securities that are designated as available for sale or are not classified in any of the other two categories. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement. Losses arising from the impairment of such investments are recognised in the income statement and are transferred from the other investment revaluation reserve.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

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.

Notes to Financial Statements

31 December 2008

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 a 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 impairment 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.

Notes to Financial Statements

31 December 2008

3. PRINCIPAL ACCOUNTING POLICIES (continued)

IMPAIRMENT OF FINANCIAL ASSETS (continued)

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to the income statement. A provision for impairment is made for an available-for-sale equity investment when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires judgement. In addition, the Group evaluates other factors, such as the share price volatility. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement.

DERECOGNITION OF 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.

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.

Notes to Financial Statements

31 December 2008

3. PRINCIPAL ACCOUNTING POLICIES (continued)

DERECOGNITION OF FINANCIAL ASSETS (continued)

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 in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where 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 AT AMORTISED COST (INCLUDING INTEREST-BEARING LOANS AND BORROWINGS)

Financial liabilities including trade and other payables, an amount due to the ultimate holding company 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 and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

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

Financial liabilities are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the income statement. The net fair value gain or loss recognised in the income statement does not include 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 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.

Notes to Financial Statements

31 December 2008

3. PRINCIPAL ACCOUNTING POLICIES (continued)

FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (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.

FINANCIAL GUARANTEE CONTRACTS

Financial guarantee contracts in the scope of IAS 39 are accounted for as financial liabilities. A financial guarantee contract is recognised initially at its fair value less transaction costs that are directly attributable to the acquisition or issue of the financial guarantee contract, except when such contract is recognised at fair value through profit or loss. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the balance sheet date; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with IAS 18 Revenue.

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.

Notes to Financial Statements

31 December 2008

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.

DERECOGNITION OF FINANCIAL LIABILITIES

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

When 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 a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

INVENTORIES

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

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

TREASURY SHARES

Own equity instruments which are reacquired are deducted from equity. No gain or loss is recognised in the income statement on the purchase, sale, issue or cancellation of the Group's own equity instruments.

Notes to Financial Statements

31 December 2008

3. PRINCIPAL ACCOUNTING POLICIES (continued)

CASH AND CASH EQUIVALENTS

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, 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.

For the purpose of the balance sheets, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

PROVISIONS

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

INCOME TAX

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 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.

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

Notes to Financial Statements

31 December 2008

3. PRINCIPAL ACCOUNTING POLICIES (continued)

INCOME TAX (continued)

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

- where the deferred tax liability arises from goodwill or 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 taxable temporary differences associated with investments in subsidiaries, 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 differences 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, deferred tax assets are only recognised 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.

The carrying amount of deferred 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 tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

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.

Notes to Financial Statements

31 December 2008

3. PRINCIPAL ACCOUNTING POLICIES (continued)

INCOME TAX (continued)

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

GOVERNMENT GRANTS

Government grants are recognised at their fair value 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.

REVENUE RECOGNITION

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

- 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 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, on a time proportion basis over the lease terms.

Notes to Financial Statements

31 December 2008

3. PRINCIPAL ACCOUNTING POLICIES (continued)

REVENUE RECOGNITION (continued)

- Interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

- Dividend income, when the shareholders' right to receive payment has been established.

EMPLOYEE BENEFITS

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.

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, the employees of the Group's PRC subsidiaries are required to participate in a central pension scheme operated by the local municipal government. This subsidiary is required to contribute a certain percentage of the salaries of its employees to the central pension scheme. The only obligation of the subsidiary with respect to the central pension scheme is the ongoing required contributions. Contributions made to the retirement benefit scheme are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

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.

BORROWING COSTS

Borrowing costs are recognised as expenses in the income statement in the period in which they are incurred.

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.

Notes to Financial Statements

31 December 2008

3. PRINCIPAL ACCOUNTING POLICIES (continued)

FOREIGN CURRENCIES

These financial statements are presented in Renminbi, which is the Company's functional and 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 dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates 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 rates 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 certain overseas subsidiaries are other than Renminbi. As at the reporting date, the assets and liabilities of these entities are translated into the Company's presentation currency at the exchange rates ruling at the balance sheet date and their income statements are translated into Renminbi at the weighted average exchange rates for the year. The resulting exchange differences are included in a separate component of 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 consolidated 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.

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 revenue recognised during the year is as follows:

	2008	2007
	RMB'000	*RMB'000*
Sale of electrical appliances and consumer electronic products	**45,889,257**	42,478,523

Notes to Financial Statements

31 December 2008

4. REVENUE AND OTHER INCOME AND GAIN (continued)

(b) Other income and gain comprise the following:

	Notes	2008 RMB'000	2007 RMB'000
Income from suppliers		**2,519,137**	1,842,782
Management fee:			
– from the Non-listed GOME Group	*(i)*	**250,000**	241,438
– from Dazhong Appliances	*(ii)*	**23,799**	12,260
Management fees for air-conditioner installation		**97,992**	91,087
Rental income		**120,863**	102,353
Sub-lease rental income from the Non-listed GOME Group	*(i)*	**4,182**	35,835
Government grants	*(iii)*	**52,371**	65,632
Other service fee income		**98,243**	51,843
Fair value gain on investment properties	*13*	**–**	47,176
Others		**99,657**	56,470
		3,266,244	2,546,876

Notes:

(i) The Non-listed GOME Group is defined in note 38 to the financial statements.

(ii) The Group entered into a management agreement (the "Management Agreement") with Beijing Zhansheng Investment Co., Ltd. ("Beijing Zhansheng") on 14 December 2007. Pursuant to the Management Agreement, the Group manages and operates the retailing business of Beijing Dazhong Home Appliances Retail Co., Ltd. ("Dazhong Appliances") for management fees.

(iii) 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 and assets are attributable to the operations and management of retailing business 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.

Notes to Financial Statements

31 December 2008

6. PROFIT BEFORE TAX

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

	Notes	2008 RMB'000	2007 RMB'000
Cost of inventories sold		**41,378,707**	38,336,440
Write-down of inventories to net realisable value		**2,516**	46,836
		41,381,223	38,383,276
Depreciation	*12*	**296,256**	256,988
Amortisation of intangible assets*	*15*	**9,626**	8,457
Loss on disposal of items of property, plant and equipment		**13,763**	13,104
Minimum lease payments under operating leases in respect of land and buildings		**2,051,023**	1,612,504
Gross rental income		**(125,045)**	(138,188)
Fair value loss on property, plant and equipment	*12*	**6,632**	–
Fair value loss/(gain) on investment properties	*13*	**34,441**	(47,176)
Management fees from Dazhong Appliances	*4(b)*	**(23,799)**	(12,260)
Interest income from Beijing Zhansheng	*7*	**(204,682)**	(3,317)
Loss/(gain) on the derivative components of convertible bonds:			
2011 convertible bonds	*32*	**–**	553,383
2014 convertible bonds	*32*	**189,220**	(47,900)
		189,220	505,483
Fair value loss/(gain) on Hong Kong listed investments		**659**	(150)
Net exchange loss		**84,520**	286,126
Impairment of property, plant and equipment	*12*	**31,725**	–
Impairment of goodwill	*14*	**8,000**	–
Impairment of other investments	*16*	**449,592**	–
Auditors' remuneration		**9,850**	6,800
Staff costs excluding directors' remuneration *(note 8)*:			
Wages, salaries and bonuses		**1,212,757**	911,432
Pension scheme contributions		**249,985**	107,668
Social welfare and other costs		**21,645**	60,316
		1,484,387	1,079,416

* The amortisation of intangible assets for the year are included in "Administrative expenses" on the face of the consolidated income statements.

Notes to Financial Statements

31 December 2008

7. FINANCE (COSTS)/INCOME

	Notes	2008 RMB'000	2007 RMB'000
Finance costs:			
Interest on bank loans wholly repayable within five years		**(16,088)**	(28,900)
Interest expenses on convertible bonds	32	**(196,030)**	(164,469)
		(212,118)	(193,369)
Finance income:			
Bank interest income		**236,335**	420,924
Other interest income	(i)	**204,682**	3,317
		441,017	424,241

Note:

(i) Other interest income represented interest income from the RMB3,600 million designated loan (note 23) to Beijing Zhansheng through the Beijing Branch of Industrial Bank Co., Ltd. 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.

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:

	2008 RMB'000	2007 RMB'000
Fees	**1,584**	1,270
Other emoluments:		
Salaries, allowances, bonuses and other benefits	**5,320**	4,304
Pension scheme contributions	**72**	60
	5,392	4,364

Notes to Financial Statements

31 December 2008

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:

	2008 RMB'000	2007 RMB'000
Mr. Chan Yuk Sang	247	243
Mr. Sze Tsai Ping, Michael	247	243
Mr. Mark Christopher Greaves	247	243
Dr. Liu Peng Hui	247	243
Mr. Thomas Joseph Manning	247	149
Mr. Yu Tung Ho	247	149
	1,482	1,270

(b) EXECUTIVE DIRECTORS AND NON-EXECUTIVE DIRECTOR

2008	*Notes*	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	*(i)*	–	2,138	11	2,149
Mr. Chen Xiao		–	1,751	22	1,773
Mr. Ng Kin Wah		–	596	11	607
Ms. Du Juan	*(ii)*	–	821	27	848
Mr. Wang Jun Zhou		–	14	1	15
		–	5,320	72	5,392
Non-executive director:					
Mr. Sun Qiang Chang		102	–	–	102
		102	5,320	72	5,494

Notes to Financial Statements

31 December 2008

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

(b) EXECUTIVE DIRECTORS AND NON-EXECUTIVE DIRECTOR (continued)

Notes:

(i) As further disclosed in note 1 to these financial statements, Mr. Wong Kwong Yu ceased to be a director of the Company on 16 January 2009.

(ii) As further disclosed in note 1 to these financial statements, Ms. Du Juan ceased to be a director of the Company on 23 December 2008.

(iii) Subsequent to the balance sheet date, Ms. Wei Qiu Li has been appointed as an executive director of the Company with effect from 16 January 2009.

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

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2007: Nil).

Notes to Financial Statements

31 December 2008

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 (2007: four) directors, details of whose remuneration are set out above. Details of the remuneration of the remaining one (2007: one) non-director, highest paid employees for the year are as follows:

	2008 RMB'000	2007 RMB'000
Salaries, allowances, bonuses and other benefits	567	1,183
Pension scheme contributions	23	5
	590	1,188

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

	Number of employees	
	2008	2007
Nil to HK$1,000,000 (equivalent to Nil to RMB881,900)	1	–
HK$1,000,001 to HK$1,500,000 (equivalent to RMB881,901 to RMB1,322,850)	–	1
	1	1

Notes to Financial Statements

31 December 2008

9. PENSION SCHEMES

All the PRC subsidiaries of the Group are required to participate in the employee retirement benefit 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 2008 and 2007.

The Group's contributions to pension schemes for the year ended 31 December 2008 amounted to approximately RMB250,057,000 (2007: RMB107,728,000).

10. TAX

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

	2008	2007
	RMB'000	*RMB'000*
Current income tax – PRC	**407,907**	347,563
Deferred income tax *(note 19)*	**27,249**	12,699
Total tax charge for the year	**435,156**	360,262

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 subsidiaries of the Group are subject to income tax at a rate of 25% (2007: 33%) on their respective taxable income. During the year, 24 entities (2007: 40 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.

Notes to Financial Statements

31 December 2008

10. TAX (continued)

No provision for Hong Kong profits tax has been made for the years ended 31 December 2008 and 2007, 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:

	2008				
	Hong Kong		PRC		Total
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*
Profit/(loss) before tax	(447,933)		1,981,782		1,533,849
Income tax at the statutory income tax rate	(73,909)	16.5	495,446	25.0	421,537
Tax effect of preferential income tax rates	–		(237,206)		(237,206)
Tax effect of non-taxable income	(14,363)		–		(14,363)
Tax effect of non-deductible expenses	63,566		151,669		215,235
Tax losses utilised from previous years	–		(60,080)		(60,080)
Tax losses not recognised	24,706		85,327		110,033
Tax charge at the Group's effective rate	–		435,156		435,156

Notes to Financial Statements

31 December 2008

10. TAX (continued)

	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

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in the PRC. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between the PRC and the jurisdiction of the foreign investors. At 31 December 2008, no deferred tax liabilities have been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in the PRC. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future.

Notes to Financial Statements

31 December 2008

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

The basic earnings per share amount is calculated by dividing the profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares in issue during the year (having taken into account the Company's repurchase of shares during the year as described in note 29(i) to the financial statements), as adjusted to reflect the subdivision of shares on the basis of every one existing share of HK$0.1 into four new shares of HK$0.025 each on 30 April 2008 (note 29(ii)).

The diluted earnings per share is calculated by dividing the profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares in issue during the year as used in the basic earnings per share calculation 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:

	2008 ***RMB'000***	2007 *RMB'000*
Earnings:		
Profit attributable to ordinary equity holders of the parent	**1,048,160**	1,127,307

Notes to Financial Statements

31 December 2008

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

	Number of shares	
	2008	2007
	'000	*'000*
		Note (ii)
Weighted average number of ordinary shares for basic earnings per share	**12,804,958**	12,772,464
Effect of dilution:		
Warrants	**31,342**	38,700
Weighted average number of ordinary shares adjusted for the effect of dilution	**12,836,300**	12,811,164

Notes:

(i) The convertible bonds are anti-dilutive for years ended 31 December 2008 and 2007 and are ignored in the calculation of diluted earnings per share for the year.

(ii) The comparative information of the share data for 2007 is adjusted retrospectively to reflect the subdivision of shares (note 29(ii)).

Notes to Financial Statements

31 December 2008

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 2008						
At 1 January 2008, net of accumulated depreciation	2,544,121	319,578	226,178	43,586	10,995	3,144,458
Additions	684,229	171,890	87,200	18,616	37,207	999,142
Disposals	–	(8,982)	(16,843)	(2,980)	–	(28,805)
Depreciation charge for the year	(90,203)	(133,385)	(61,799)	(10,869)	–	(296,256)
Impairment	–	(31,725)	–	–	–	(31,725)
Transfers from construction in progress	22,200	–	2,348	–	(24,548)	–
Surplus on revaluation upon transfers to investment properties	32,425	–	–	–	–	32,425
Deficit on revaluation upon transfers to investment properties	(6,632)	–	–	–	–	(6,632)
Transfers to investment properties *(note 13)*	(92,670)	–	–	–	–	(92,670)
Exchange realignment	(43)	(26)	(17)	(22)	–	(108)
At 31 December 2008, net of accumulated depreciation and impairment	3,093,427	317,350	237,067	48,331	23,654	3,719,829
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	–	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

Notes to Financial Statements

31 December 2008

12. PROPERTY, PLANT AND EQUIPMENT (continued)

GROUP (continued)

	Buildings RMB'000	Leasehold improvements RMB'000	Equipment and fixtures RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
At 1 January 2007:						
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
At 31 December 2008:						
Cost	3,283,662	834,657	452,529	81,837	23,654	4,676,339
Accumulated depreciation and impairment	(190,235)	(517,307)	(215,462)	(33,506)	–	(956,510)
Net carrying amount	3,093,427	317,350	237,067	48,331	23,654	3,719,829

During the year, the Group obtained ownership certificates in respect of the properties acquired in November 2007 by the Group from Beijing Centergate Technologies (Holding) Co., Ltd. ("Centergate Technologies"), a related company as further defined in note 38(a) to the financial statements, for a cash consideration of RMB209,276,000.

As at 31 December 2008, the legal formalities for the transfer of titles of certain properties in the PRC, which have been acquired by the Group from independent third parties in 2008 with an aggregate carrying value of RMB268,973,000 were still in progress. In the opinion of the directors, the transfer procedures will be completed by the end of 2009.

Notes to Financial Statements

31 December 2008

12. PROPERTY, PLANT AND EQUIPMENT (continued)

GROUP (continued)

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 2008. The aggregate carrying value of the pledged buildings attributable to the Group as at 31 December 2008 amounted to RMB753,846,000 (31 December 2007: RMB590,406,000).

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

13. INVESTMENT PROPERTIES

GROUP

	2008 *RMB'000*	2007 *RMB'000*
At 1 January	**331,680**	6,229
Additions	**–**	278,275
Transfer from owner-occupied properties *(note 12)*	**92,670**	–
Net gain/(loss) from a fair value adjustment	**(34,441)**	47,176
Exchange realignment	**(436)**	–
At 31 December	**389,473**	331,680

Investment properties comprised commercial properties in the PRC that are leased to third parties and industrial properties and car park in Hong Kong that are leased to a related party (note 38(a)(vi)) and a third party, respectively.

Investment properties are stated at fair value, which has been determined with reference to the valuations performed by Jones Lang LaSalle Sallmanns Limited and B.I. Appraisals Limited, independent firms of professionally qualified valuers, on an income capitalisation approach, as at 31 December 2008. 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 2008, investment properties of approximately RMB7,055,000 (31 December 2007: RMB7,491,000) are located in Hong Kong under medium term leases and investment properties of approximately RMB382,418,000 (31 December 2007: RMB324,189,000) are located in the PRC under medium term leases.

Notes to Financial Statements

31 December 2008

13. INVESTMENT PROPERTIES (continued)

GROUP (continued)

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 2008. The aggregate fair value of the pledged investment properties attributable to the Group as at 31 December 2008 amounted to RMB300,216,000 (31 December 2007: RMB251,469,000).

14. GOODWILL

GROUP

	Notes	2008 RMB'000	2007 RMB'000
At 1 January, cost and net carrying amount		**3,343,012**	3,217,613
Acquisition of minority interests		**–**	84,971
Acquisition of subsidiaries	*(i)*	**28,000**	40,428
		3,371,012	3,343,012
Impairment loss recognised during the year	*(ii)*	**(8,000)**	–
At 31 December, cost and net carrying amount		**3,363,012**	3,343,012

Notes:

(i) The additions during the year ended 31 December 2008 comprised (a) an additional amount of goodwill arising from the recognition of a contingent consideration of RMB20,000,000 which is attributable to the acquisition of Shaanxi Cellstar Telecommunication Retail Chain Co., Ltd. ("Shaanxi Cellstar") and (b) goodwill of RMB8,000,000 arising from the acquisition of the entire equity interest in Shandong Longji Island Construction Co., Ltd. ("Longji Island") during the year (note 36).

In December 2007, the Group acquired the entire equity interest in Shaanxi Cellstar. According to the terms of the agreement, a contingent consideration of RMB20,000,000 would be payable by the Group based on certain future events regarding the service period of senior management personnel of Shaanxi Cellstar, the financial performance of Shaanxi Cellstar and the satisfactory renewal of a rental agreement in respect of a flagship store in December 2009. During the year, the Group paid an additional consideration of RMB10,000,000 to the vendors upon fulfilment of certain conditions and fully provided for the remaining contingent consideration of RMB10,000,000 because management estimates that the remaining conditions become probable to be fulfilled by the vendors.

(ii) The impairment loss recognised during the year is attributable to the goodwill arising from acquisition of Longji Island.

Notes to Financial Statements

31 December 2008

14. GOODWILL (continued)

IMPAIRMENT TESTING OF GOODWILL

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

	2008 *RMB'000*	2007 *RMB'000*
China Paradise Electronics Retail Limited ("China Paradise")	**3,266,424**	3,266,424
Shaanxi Cellstar	**60,428**	40,428
Shenzhen Gome Electrical Appliances Company Limited and Guangzhou Gome Electrical Appliances Company Limited	**22,986**	22,986
Longji Island	**8,000**	–
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
	3,371,012	3,343,012
Impairment	**(8,000)**	–
	3,363,012	3,343,012

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 5 years. The pre-tax discount rate applied to the cash flow projections is 11.6% (2007: 12.3%).

The growth rate used to extrapolate the cash flows of the cash-generating units beyond the five-year period is 3% (2007: 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.

Notes to Financial Statements

31 December 2008

14. GOODWILL (continued)

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 exceed the respective recoverable amounts.

Notes to Financial Statements

31 December 2008

15. OTHER INTANGIBLE ASSETS

GROUP

	Trademarks *RMB'000*
Cost at 1 January 2008, net of accumulated amortisation	143,867
Amortisation provided during the year	(9,626)
At 31 December 2008, net of accumulated amortisation	134,241
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
At 1 January 2007	
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
At 31 December 2008	
Cost	154,915
Accumulated amortisation	(20,674)
Net carrying amount	134,241

Note:

The cost includes the fair value of the trademark arising from the acquisition of Changzhou Jintaiyang Zhizun Home Appliance Co., Ltd. of RMB25,915,000 in 2005 and the fair value of the trademark arising from the acquisition of China Paradise of RMB129,000,000 in 2006, which are amortised on a straight-line basis over the directors' estimate of its useful life of 10 years and 20 years respectively.

Notes to Financial Statements

31 December 2008

16. OTHER INVESTMENTS

	2008 RMB'000	2007 RMB'000
PRC equity investments, at fair value	**108,810**	–

The balance as at 31 December 2008 represented the fair value of the Group's investments in 27,000,000 non-listed shares, representing approximately 10.7% of the outstanding issued shares, of Sanlian Commercial Co., Ltd. ("Sanlian"). Sanlian is a PRC company listed on the Shanghai Stock Exchange, the PRC. As at 31 December 2008, the Group had no participation in the decision making of Sanlian's financial and operating policies. The Group classified these investments as available-for-sale financial assets at 31 December 2008. The fair values of these investments are based on quoted market prices of the listed shares. The quoted market price of Sanlian shares was RMB4.03 at 31 December 2008.

After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognised as a separate component of equity until the investments are derecognised or until the investments are determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the consolidated income statement. During the year, there has been a significant decline in the market value of the Sanlian shares and the impairment loss attributable to the Group's investments in Sanlian which has been charged to the consolidated income statement amounted to RMB449,592,000. Impairment loss recognised in profit or loss for an investment in an equity instrument classified as available for sale will not be reversed through profit or loss.

According to a public announcement of Sanlian dated 2 February 2009, the Group has nominated 2 independent directors and 3 executive directors to the board of directors of Sanlian. Such nominations have been approved by the shareholders of Sanlian at a shareholders' meeting on 2 February 2009.

17. PREPAYMENTS FOR ACQUISITION OF PROPERTIES

The balance as at 31 December 2008 represented deposits for the acquisition of certain commercial properties in the PRC. Management expects that these acquisition transactions will be completed in 2009.

Notes to Financial Statements

31 December 2008

18. LEASE PREPAYMENTS

GROUP

	Notes	2008 RMB'000	2007 RMB'000
Prepaid land lease payments	*(i)*	**43,992**	45,194
Rental prepayments	*(ii)*	**311,097**	297,550
		355,089	342,744

Notes:

(i) Prepaid land lease payments

Group

	2008 RMB'000	2007 RMB'000
Carrying amount at 1 January	**45,194**	46,396
Recognised during the year	**(1,202)**	(1,202)
Carrying amount at 31 December	**43,992**	45,194

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

(ii) The balances at 31 December 2008 and 2007 represented the non-current portion of rental prepayments.

Included in the balance of rental prepayments as at 31 December 2008 was the long term portion of rental prepayments to Centergate Technologies of RMB72,177,000 (31 December 2007: RMB78,789,000) (note 38(a)(vii)).

Notes to Financial Statements

31 December 2008

19. DEFERRED TAX

GROUP

	Balance at 1 January 2008 *RMB'000*	Recognised in the consolidated income statement *RMB'000*	Recognised in the consolidated statement of changes in equity *RMB'000*	Balance at 31 December 2008 *RMB'000*
Deferred tax assets:				
Tax losses	55,873	(37,517)	–	18,356
Deferred tax liabilities:				
Fair value adjustment on acquisition	68,952	–	–	68,952
Fair value adjustment on investment properties	11,479	(10,268)	–	1,211
Fair value adjustment on property, plant and equipment	–	–	8,106	8,106
	80,431	(10,268)	8,106	78,269

Notes to Financial Statements

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19. DEFERRED TAX (continued)

GROUP (continued)

	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	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

Notes:

(i) The Group has not recognised deferred tax assets in respect of tax losses arising (1) in Hong Kong of RMB221.6 million (2007: RMB71.9 million) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose, and (2) in the PRC of RMB572.0 million (2007: RMB489.6 million) that will expire in one to five years for offsetting against future taxable profit, as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

(ii) The deferred income tax recognised in the consolidated income statement for the year ended 31 December 2008 amounted to RMB27,249,000 (2007: RMB12,699,000).

20. OTHER ASSETS

The balance represented loans to Mr. Chen Xiao, the Chairman of the Company, and other minority shareholders of Yongle (China) Electrical Retail Co., Ltd. ("Yongle (China)"), a 90%-owned PRC subsidiary of the Group. The loans are secured by 10% interest in the registered capital of Yongle (China) and interest-free. They form part of the transactions to acquire the remaining 10% equity interest of Yongle (China) by the Group and will be utilised to settle part of the purchase considerations. Further details of the acquisition transactions are disclosed in note 38(c) to the financial statements. Among the outstanding balance of the loans as at 31 December 2008 of RMB653,423,000, RMB474,360,000 was due from Mr. Chen Xiao.

Notes to Financial Statements

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21. INTERESTS IN SUBSIDIARIES

COMPANY

	2008 RMB'000	2007 RMB'000
Unlisted shares, at cost	**5,389,635**	5,389,635
Amounts due from subsidiaries	**3,548,882**	1,634,819
	8,938,517	7,024,454
Impairment	**(46,925)**	(46,925)
	8,891,592	6,977,529

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.

Particulars of the principal subsidiaries are as follows:

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 Centre 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)*

Notes to Financial Statements

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21. 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
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)*
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)*

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21. 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
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)*
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)*

Notes to Financial Statements

31 December 2008

21. 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
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
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)*

Notes to Financial Statements

31 December 2008

21. 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
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
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)*

Notes to Financial Statements

31 December 2008

21. 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
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)*
Shaanxi Yongle • Dazhong Electronics Retail Company Limited *(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)* 陝西蜂星電訊零售連鎖有限責任公司	PRC	RMB10 million	–	100	*Note (vii)*
Shandong Longji Island Construction Company Limited *(i)(viii)* 山東龍脊島建設有限公司	PRC	RMB10 million	–	100	Investment holding
Suzhou Jiayue Trading Company Limited *(i)* 蘇州嘉悦商貿有限公司	PRC	US$49.9 million	–	100	Note (iv)
Xuzhou Pengze Trading Company Limited *(i)* 徐州鵬澤商貿有限公司	PRC	US$99 million	–	100	Note (iv)
Xinjiang Hongsheng Logistics Company Limited *(i)* 新疆鴻盛物流有限公司	PRC	US$50 million	–	100	Note (iv)
Tianjin Pengze Logistics Company Limited *(i)* 天津鵬澤物流有限公司	PRC	US$50 million	–	100	Note (iv)

Notes to Financial Statements

31 December 2008

21. INTERESTS IN SUBSIDIARIES (continued)

COMPANY (continued)

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 to the group companies.

(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 36 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.

22. INVESTMENT DEPOSITS

GROUP

	2008 *RMB'000*	2007 *RMB'000*
Investment deposits, in a licensed bank in the PRC, at amortised cost	**30,000**	30,000

The investment deposits were repaid to the Group subsequent to the balance sheet date.

Notes to Financial Statements

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23. DESIGNATED LOAN

The designated loan of RMB3,600 million (31 December 2007: RMB1,500 million) as at 31 December 2008 represented a designated loan provided to Beijing Zhansheng by the Group, through the Beijing Branch of Industrial Bank Co., Ltd. (the "Bank"). The loan had a term from 14 December 2007 to 13 December 2008, and the interest rate was 6.561% per annum. The designated loan was renewed to 12 December 2009 with an interest rate of 5.103% per annum.

The 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 interests arising in relation to the relevant share capital) in favour of the Group.

In addition, pursuant to an option agreement dated 14 December 2007, Beijing Zhansheng irrevocably granted the Group an option (the "Purchase Option"), on an exclusive basis, for the Group or any party(ies) designated by the Group 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.

As at the date of this report, the directors of the Company are yet to decide on the exercise of the Purchase Option and the outcome of the Company's decision cannot be presently determined.

24. INVENTORIES

GROUP

	2008	2007
	RMB'000	*RMB'000*
Merchandise for resale	**5,391,740**	5,278,968
Consumables	**81,757**	104,071
	5,473,497	5,383,039

As at 31 December 2008, the Group's inventories amounting to RMB700 million (31 December 2007: Nil) were pledged as security for the Group's bank loans (note 33) and bills payable (note 34).

Notes to Financial Statements

31 December 2008

25. 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 the trade receivables, is as follows:

GROUP

	2008 RMB'000	2007 RMB'000
Outstanding balances, aged:		
Within 3 months	**41,787**	94,015
3 to 6 months	**1,615**	2,106
6 months to 1 year	**1,043**	–
Over 1 year	**647**	1,598
	45,092	97,719

The balance of trade and bills receivables as at 31 December 2008 includes an amount of receivables from Dazhong Appliances of approximately RMB10,235,000 (31 December 2007: RMB46,713,000).

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

GROUP

	2008 RMB'000	2007 RMB'000
Neither past due nor impaired	**41,557**	77,065
Less than 3 months past due	**230**	16,950
Over 3 months past due	**3,305**	3,704
	45,092	97,719

Notes to Financial Statements

31 December 2008

25. TRADE AND BILLS RECEIVABLES (continued)

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.

26. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

GROUP

	Note	2008 RMB'000	2007 RMB'000
Prepayments	(i)	**335,538**	279,094
Advances to suppliers		**425,151**	1,114,208
Other deposits and receivables		**379,608**	803,119
Management fees receivable from Dazhong Appliances		**36,059**	12,260
Interest income receivable from Beijing Zhansheng		**207,999**	3,317
		1,384,355	2,211,998

COMPANY

	2008 RMB'000	2007 RMB'000
Prepayments	**4,053**	308
Other receivables	**678**	11,812
	4,731	12,120

Note:

(i) The balance includes the current portion of the rental prepayments to Centergate Technologies amounting to RMB6,612,000 (note 38(a)(vii)) as at 31 December 2008 (31 December 2007: RMB6,612,000).

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27. DUE FROM RELATED PARTIES

GROUP

	Note	2008 RMB'000	2007 RMB'000
Receivables from the Non-listed GOME Group	(i)	**57,656**	78,657
Others		**187**	367
		57,843	79,024

Note:

(i) The balance mainly represented the management fee due from the Non-listed GOME Group (note 38(a)(ii)). The aforesaid balance was interest-free, unsecured and was fully settled subsequent to the balance sheet date.

28. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

GROUP

	2008 RMB'000	2007 RMB'000
Cash and bank balances	**2,055,835**	2,529,443
Time deposits	**5,835,690**	10,355,278
	7,891,525	12,884,721
Less: Pledged time deposits:		
Pledged for bills payable	**(4,639,192)**	(4,488,709)
Pledged for bank acceptance credit	**(201,264)**	(2,090,005)
Pledged for purchase of property, plant and equipment	**–**	(36,011)
	(4,840,456)	(6,614,725)
Cash and cash equivalents	**3,051,069**	6,269,996

Notes to Financial Statements

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

COMPANY

	2008 RMB'000	2007 RMB'000
Cash and bank balances	**9,160**	6,701
Time deposits	**995,234**	4,950,382
	1,004,394	4,957,083
Less: Time deposits pledged for bank acceptance credit	**–**	(1,601,019)
Cash and cash equivalents	**1,004,394**	3,356,064

Subsequent to the balance sheet date, on 25 March 2009, the Company and the Group's time deposits of US$130,000,000 (equivalent to RMB886,977,000) were pledged to Standard Chartered Bank in respect of the new banking facilities available to the Group.

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

GROUP

	2008 RMB'000	2007 RMB'000
Cash and bank balances	**2,055,835**	2,529,443
Short term deposits, non-pledged	**995,234**	3,740,553
Cash and cash equivalents	**3,051,069**	6,269,996

The cash and cash equivalents and the pledged time deposits of the Group amounting to RMB6,585,823,000 as at 31 December 2008 (31 December 2007: RMB7,549,969,000) 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.

Notes to Financial Statements

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

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$0.10 each at 1 January 2008	50,000,000	5,000,000	5,300,000
Share subdivision *(note (ii))*	150,000,000	–	–
Ordinary shares of HK$0.025 each at 31 December 2008	200,000,000	5,000,000	5,300,000
Issued and fully paid:			
Ordinary shares of HK$0.10 each at 1 January 2008	3,319,489	331,950	343,764
Repurchase and cancellation of shares *(note (i))*	(129,800)	(12,980)	(11,973)
Subdivision of one ordinary share into four subdivided shares *(note (ii))*	9,569,067	–	–
Ordinary shares of HK$0.025 each at 31 December 2008	12,758,756	318,970	331,791

Notes to Financial Statements

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29. ISSUED CAPITAL (continued)

Notes:

(i) During the year, the Company repurchased in aggregate 129,800,000 ordinary shares of the Company at a total cash consideration of HK$2,236,671,000 (equivalent to RMB2,063,040,000). The repurchased shares were cancelled in February 2008. The aggregate amount of premium and related costs paid on the share repurchase of approximately RMB2,055,584,000 was charged against the share premium.

(ii) On 22 May 2008, the shareholders of the Company passed an ordinary resolution to approve the subdivision of each of the existing issued and unissued shares of HK$0.10 in the share capital of the Company into four shares of HK$0.025 each (the "Subdivided Shares"). Immediately after the share subdivision, the authorised share capital of the Company comprised 12,758,755,804 issued Subdivided Shares and 187,241,244,196 unissued Subdivided Shares of HK$0.025 each.

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.

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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 2008		8,262,089	42,849	(216,966)	(49,695)	49,035	8,087,312
Repurchase and cancellation of shares	29	(2,055,584)	–	–	–	–	(2,055,584)
Dividend attributable to cancelled shares	31	–	–	–	–	12,025	12,025
Profit for the year		–	–	–	–	293,772	293,772
Dividends paid	31	–	–	–	–	(344,486)	(344,486)
At 31 December 2008		6,206,505	42,849	(216,966)	(49,695)	10,346	5,993,039
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		110,092	–	–	–	–	110,092
Shares issued upon conversion of convertible bonds		1,496,466	–	–	–	–	1,496,466
Issue of the 2014 Convertible Bonds		–	–	1,415,770	–	–	1,415,770
Issue of new shares		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

Notes to Financial Statements

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30. RESERVES (continued)

(b) COMPANY (continued)

Notes:

(i) The profit attributable to equity holders for the year ended 31 December 2008 dealt with in the financial statements of the Company, was approximately RMB294 million (2007: RMB204 million).

(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.

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31. DIVIDENDS

	Note	2008 RMB'000	2007 RMB'000
Declared and paid during the year			
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
Effect of share repurchases	*(i)*	**(12,025)**	–
Interim dividend per share for 2008: HK3.0 cents (equivalent to RMB2.7 fen) (2007: HK8.1 cents (equivalent to RMB7.8 fen))		**344,486**	254,193
		661,090	364,311
Proposed for approval			
Equity dividends on ordinary shares:			
Final dividend per share for 2008: Nil (2007: HK10.6 cents (equivalent to RMB9.9 fen))		**–**	328,629

Note:

(i) The 129,800,000 shares repurchased by the Company (note 29(i)) were subsequently cancelled in February 2008 and they did not rank for the 2007 final dividend. As such, the total amount of the 2007 final dividend payables was reduced by RMB12,025,000 during the current year.

32. CONVERTIBLE BONDS

	2008 RMB'000	2007 RMB'000
Liability components	**3,571,833**	3,375,803
Derivative components	**(2,280)**	(191,500)
	3,569,553	3,184,303

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32. CONVERTIBLE BONDS (continued)

RMB denominated United States dollar settled zero coupon convertible bonds due in 2014

On 11 May 2007, the Company issued RMB denominated United States dollar ("USD") settled zero coupon convertible bonds due in 2014 (the "2014 Convertible Bonds") in an aggregate principal amount of RMB4,600 million.

Pursuant to the bond subscription agreement, the 2014 Convertible Bonds are:

(i) convertible at the option of the bondholders into fully paid ordinary shares at anytime 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;

(ii) redeemable at the option of the bondholders on 18 May 2010, being the third anniversary of the issue date, in an USD amount equivalent to their RMB principal amount multiplied by 102.27% and on 18 May 2012, being the fifth anniversary of the issue date, in an USD amount equivalent to their RMB principal amount multiplied by 103.81%; and

(iii) redeemable at the option of the Company at any time after 18 May 2010 and prior to 18 May 2014 in all or some only of the bonds for the time being outstanding at the US dollar equivalent of their early redemption amount as at the date fixed for redemption, providing the prices of the Company's shares for each of 20 consecutive trading days are over 130% of the early redemption price.

The 2014 Convertible Bonds will be redeemed on maturity at a value equal to the aggregate of (a) its principal amount outstanding; (b) the interest accrued; and (c) a premium calculated at 5.38% of the principal amount. The settlement of the convertible bonds will be in USD using the spot rate prevailing at the date of transaction.

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32. CONVERTIBLE BONDS (continued)

In accordance with the terms and conditions of the 2014 Convertible Bonds, the conversion price has been adjusted from HK$19.95 per share to HK$4.96 per Subdivided Share with effect from 23 May 2008 as a result of the declaration of the 2007 interim and final dividends by the Company and the share subdivision as disclosed in note 29(ii) above.

The movements of the liability component, derivative component and equity component of the 2014 Convertible Bonds for the year 2007 and year 2008 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
Interest expenses	196,030	–	–	196,030
Fair value adjustment	–	189,220	–	189,220
At 31 December 2008	3,571,833	(2,280)	1,415,770	4,985,323

The fair values of the derivative component are determined based on the valuations performed by Vigers Appraisal & Consulting Limited, an independent firm of professionally qualified valuers, using the applicable option pricing model.

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32. CONVERTIBLE BONDS (continued)

US$125 million unlisted and unsecured convertible bonds due in 2011

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 (the "2011 Convertible Bonds") and warrants to subscribe in aggregate for a maximum amount of US$25 million new shares of the Company to the Subscriber. 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. 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.

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.

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

	Liability component of convertible bonds *RMB'000*	Derivative component of convertible bonds *RMB'000*	Total *RMB'000*
At 1 January 2007	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	–	–	–

* The aggregate amount of losses on the derivative components of the 2011 Convertible Bonds and the 2014 Convertible Bonds which were charged to the consolidated income statements for the year ended 31 December 2007 amounted to RMB505,483,000.

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33. INTEREST-BEARING BANK LOANS

GROUP

	2008 *RMB'000*	2007 *RMB'000*
PRC bank loans – secured, within one year	**170,000**	300,000

The Group's bank loans are all denominated in RMB and bear interest at rates ranging from 6.225% to 7.47% per annum.

The Group's bank loans are secured by guarantees and pledges as set out in note 34 below.

34. TRADE AND BILLS PAYABLES

GROUP

	2008 *RMB'000*	2007 *RMB'000*
Trade payables	**4,431,020**	5,622,928
Bills payable	**8,486,938**	7,933,617
	12,917,958	13,556,545

An aged analysis of the trade and bills payables as at the balance sheet date, based on the goods receipt date, is as below:

	2008 *RMB'000*	2007 *RMB'000*
Outstanding balances, aged:		
Within 3 months	**8,933,715**	9,299,648
3 to 6 months	**3,553,829**	3,841,131
Over 6 months	**430,414**	415,766
	12,917,958	13,556,545

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34. TRADE AND BILLS PAYABLES (continued)

The Group's bills payable and PRC bank loans (note 33) above 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 inventories (note 24);

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

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

(vi) the corporate guarantees provided by the Non-listed GOME Group, Mr. Wong and Mr. Chen Xiao as at 31 December 2008 (note 38(a)(v)).

The trade and bills payables are non-interest-bearing and are normally settled on 1 to 6 months terms.

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35. CUSTOMERS' DEPOSITS, OTHER PAYABLES AND ACCRUALS

GROUP

	Notes	2008 RMB'000	2007 RMB'000
Customers' deposits		**478,972**	595,705
Consideration payable for the acquisition of subsidiaries	*(i)*	**10,000**	37,000
Provision for coupon liabilities	*(ii)*	**78,619**	62,667
Other payables and accruals		**962,550**	1,244,323
		1,530,141	1,939,695

Notes:

(i) The balances as at 31 December 2008 and 2007 represented outstanding purchase considerations for the business combination transactions.

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

	2008 RMB'000	2007 RMB'000
At 1 January	**62,667**	35,423
Arising during the year	**136,831**	76,773
Utilised	**(89,836)**	(47,708)
Unused amounts reversed	**(31,043)**	(1,821)
At 31 December	**78,619**	62,667

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36. BUSINESS COMBINATION

On 18 February 2008, the Group acquired the entire equity interest in Longji Island, a limited liability company registered in the PRC and principally engaged in the business of investments, from certain independent third parties. The fair values of the identifiable assets and liabilities of Longji Island as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were as follows:

	Fair value recognised on acquisition *RMB'000*	Carrying amount *RMB'000*
Prepayments, deposits and other receivables	10,000	10,000
Cash and cash equivalents	10,000	10,000
Interest-bearing bank loans	(10,000)	(10,000)
	10,000	10,000
Goodwill on acquisition	8,000	
Cash consideration	18,000	

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

	RMB'000
Total cash consideration	(18,000)
Cash and cash equivalents acquired	10,000
Net cash outflow during the year	(8,000)

Since the acquisition, Longji Island contributed no revenue and a loss of RMB449,512,000, respectively, to the Group's results for the year ended 31 December 2008. The loss of Longji Island was mainly attributable to the impairment loss on its investments in Sanlian of RMB449,592,000 (note 16).

There is no material effect to the Group's revenue and profit had the combination taken place at the beginning of the year.

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37. OPERATING LEASE ARRANGEMENTS AND COMMITMENTS

(a) OPERATING LEASE COMMITMENTS

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:

	2008	2007
	RMB'000	*RMB'000*
Within one year	**1,993,406**	1,798,626
In the second to fifth years, inclusive	**6,969,730**	5,784,470
After five years	**4,171,095**	3,755,870
	13,134,231	11,338,966

As defined under IAS 17, 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 3 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.

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37. OPERATING LEASE ARRANGEMENTS AND COMMITMENTS (continued)

(a) OPERATING LEASE COMMITMENTS (continued)

As lessor

The Group has leased its investment properties (note 13) and entered into commercial property sub-leases on its leased properties (note 38(a)(iv)) under operating lease arrangements. These non-cancellable leases have remaining terms of between 1 and 10 years. A majority of the Group's 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:

	2008	2007
	RMB'000	*RMB'000*
Within one year	**164,692**	150,793
In the second to fifth years, inclusive	**370,014**	363,718
After five years	**198,317**	231,382
	733,023	745,893

(b) CAPITAL COMMITMENTS

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

	2008	2007
	RMB'000	*RMB'000*
Contracted, but not provided for:		
Acquisition of buildings	**500,862**	438,412

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37. OPERATING LEASE ARRANGEMENTS AND COMMITMENTS (continued)

(c) ACQUISITION COMMITMENTS

As at 31 December 2008, the Group had commitments attributable to the acquisition of the remaining 10% interests of Yongle (China) amounting to RMB811,081,000 (note 38(c)). The balance of the Group's loans to the vendors of RMB653,423,000 as at 31 December 2008 will be utilised to settle the amount of purchase considerations on the date of completion of the relevant acquisition transactions.

As at the date of approval of the financial statements, the parties are in the process of obtaining approval from the relevant PRC government authorities regarding to the acquisition transactions.

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38. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances which are disclosed in notes 12, 18, 20, 26, 27 and 37(c) to these financial statements, the Group had the following significant transactions with the related parties.

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

	Notes	2008 RMB'000	2007 RMB'000
Sales to the Non-listed GOME Group	*(i)*	**68,602**	8,046
Purchases from the Non-listed GOME Group	*(i)*	**(26,352)**	(5,625)
Provision of management and purchasing services to the Non-listed GOME Group	*(ii)&4(b)*	**250,000**	241,438
Rental expenses to Beijing Xinhengji	*(iii)*	**(3,577)**	(3,823)
Sub-lease rental income from audio and visual equipment shops of the Non-listed GOME Group	*(iv)*	**4,182**	35,835
Provision of corporate guarantees from the Non-listed GOME Group, Mr. Wong and Mr. Chen Xiao in respect of the Group's bills facilities	*(v)*	**530,000**	853,333
Rental income from a related party	*(vi)*	**535**	539
Rental expenses to Centergate Technologies	*(vii)*	**(6,612)**	(551)

The Non-listed GOME Group comprises Beijing Eagle Investment Co., Ltd., Beijing Gome Electrical Appliance Co., Ltd. and Gome Electrical Appliance Retail 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 Non-listed GOME Group are owned by Mr. Wong, a substantial shareholder of the Company. Beijing Xinhengji Property Co., Ltd. ("Beijing Xinhengji") is owned by a close member of the family of Mr. Wong.

Centergate Technologies is a listed company in the PRC in which Mr. Wong had significant influence. As further disclosed in note 1 to the financial statements, Mr. Wong ceased to be the chairman and director of the Company with effect from 16 January 2009.

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38. RELATED PARTY TRANSACTIONS (continued)

(a) (continued)

Notes:

(i) The sales and purchase transactions and the joint purchase transactions entered into between the Group and the Non-listed GOME 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.

(ii) The Group provides management services to the Non-listed GOME Group in respect of the retailing of electrical appliances and consumer electronic products. In addition, the Group negotiates with various suppliers for both the Group and the Non-listed GOME 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 Non-listed GOME Group, pursuant to a management agreement and a purchase service agreement entered into between the Group and the Non-listed GOME Group. The maximum fees shall not exceed RMB100 million and RMB150 million, respectively, under the management agreement and the purchase service agreement.

(iii) The Group entered into a rental agreement with Beijing Xinhengji to lease properties at an annual rental of approximately 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 Non-listed GOME Group has set up counters in the retail outlets operated by the Group for selling audio and visual products. The Non-listed GOME 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 (a) approximately RMB12 per square metre per day; and (b) 5% of the total revenue generated from the sale of audio and visual products. The sub-lease transactions were terminated during 2008.

(v) The provision of corporate guarantees is at nil consideration.

(vi) 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"), a company owned by Mr. Wong, totalling RMB535,000 (2007: RMB210,000) 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. The sub-lease transaction was terminated during 2007.

(vii) In November 2007, the Group entered into a lease agreement with Centergate Technologies to lease certain commercial properties for the Group's retail operations for a period from 1 December 2007 to 30 November 2020 with a prepaid rental of RMB85,952,000. The balance of the rental prepayments at 31 December 2008 amounted to RMB78,789,000 (31 December 2007: RMB85,401,000), among which RMB72,177,000 (31 December 2007: RMB78,789,000) (note 18) was classified as long term and RMB6,612,000 (31 December 2007: RMB6,612,000) (note 26) was classified as short term in the financial statements.

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38. RELATED PARTY TRANSACTIONS (continued)

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

	2008 RMB'000	2007 RMB'000
Fees	**1,587**	–
Other emoluments:		
Salaries, allowances, bonuses and other benefits	**7,920**	7,752
Pension costs	**207**	178
	9,714	7,930

(c) Transactions to acquire the remaining 10% equity interest of Yongle (China) Electrical Retail Co., Ltd. ("Yongle (China)")

On 28 August 2008, the Group and Mr. Chen Xiao, Chairman of the Company, Ms. Shu Wei, Mr. Liu Hui, Mr. Yuan Yashi and Shanghai Hegui Property Management Co., Ltd. ("Shanghai Hegui") (collectively referred to as the "Vendors") entered into the following transactions.

Pursuant to the sales and purchase agreements, the Group agreed to acquire and the Vendors agreed to sell the remaining 10% equity interest of Yongle (China), a 90%-owned subsidiary of the Group, at a total cash consideration of RMB811,081,000. Among the total cash consideration, RMB587,949,000 was related to the acquisition of an approximately 7.25% equity interest in Yongle (China) held by Mr. Chen Xiao. The completion of the acquisition transactions is conditional on the fulfilment of certain conditions including approvals from the PRC government authorities.

The Group also agreed to provide loans in the total amount of RMB653,423,000 to the Vendors other than Shanghai Hegui (the "Borrowers"). The loans are secured by (i) the pledge of each of the Vendors' interests in Yongle (China); and (ii) a personal guarantee in favour of the Group from Mr. Chen Xiao in respect of the fulfilment obligations of the Borrowers. The loans are interest-free and will be utilised by the Group to settle the purchase considerations upon the date of completion of the acquisition transactions. Early repayment of the loans could not be made without the prior written consent from the Group.

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38. RELATED PARTY TRANSACTIONS (continued)

(c) Transactions to acquire the remaining 10% equity interest of Yongle (China) Electrical Retail Co., Ltd. ("Yongle (China)") (continued)

The parties also entered into the entrustment agreements pursuant to which each of the Vendors agreed to exercise the voting rights attaching to their 10% equity interest in Yongle (China) as the Group may direct.

The Vendors also granted to the Group an exclusive option to acquire all or any part of the 10% equity interest of Yongle (China) from the vendors for RMB811,081,000 or a proportional sum of RMB811,081,000.

Among the outstanding balance of the loans of RMB653,423,000 (note 20), RMB474,360,000 was due from Mr. Chen Xiao.

Up to the date of this report, the Group and the Vendors are in the process obtaining the approval from the relevant PRC government authorities and the Company's directors estimate that all the transactions will be completed within 2009.

(d) During the year, the Non-listed GOME Group paid on behalf of the Group the monthly salaries to certain management staff of the Group which amounted to approximately RMB1.1 million per month. The Group repaid such an amount in the following month. The transactions were terminated in September 2008.

39. CONTINGENT LIABILITIES

At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

	2008	2007
	RMB'000	*RMB'000*
Guarantees given to banks in connection with bill facilities granted in favour of:		
Dazhong Appliances	**242,901**	–

Other than the above, the Group did not have any significant contingent liabilities at the balance sheet date.

Notes to Financial Statements

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40. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the balance sheet date are as follows:

2008	Group			
Financial assets	Financial assets at fair value through profit or loss – held for trading	Loans and receivables	Available-for-sale financial assets	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Other investments	–	–	108,810	108,810
Hong Kong listed investments	399	–	–	399
Investment deposits	–	30,000	–	30,000
Designated loan	–	3,600,000	–	3,600,000
Trade and bills receivables	–	45,092	–	45,092
Financial assets included in prepayments, deposits and other receivables	–	526,817	–	526,817
Due from related parties	–	57,843	–	57,843
Pledged deposits	–	4,840,456	–	4,840,456
Cash and cash equivalents	–	3,051,069	–	3,051,069
Other assets	–	653,423	–	653,423
	399	12,804,700	108,810	12,913,909

Notes to Financial Statements

31 December 2008

40. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

2008

Financial liabilities	Group		
	Financial liabilities at fair value through profit or loss – held for trading *RMB'000*	Financial liabilities at amortised cost *RMB'000*	Total *RMB'000*
Interest-bearing bank loans	–	170,000	170,000
Trade and bills payables	–	12,917,958	12,917,958
Financial liabilities included in customers' deposits, other payables and accruals	–	876,149	876,149
Liability components of convertible bonds	–	3,571,833	3,571,833
Derivative components of convertible bonds	(2,280)	–	(2,280)
	(2,280)	17,535,940	17,533,660

2007

Financial assets	Group		
	Financial assets at fair value through profit or loss – held for trading *RMB'000*	Loans and receivables *RMB'000*	Total *RMB'000*
Hong Kong listed investments	1,058	–	1,058
Investment deposits	–	30,000	30,000
Designated loan	–	1,500,000	1,500,000
Trade and bills receivables	–	97,719	97,719
Financial assets included in prepayments, deposits and other receivables	–	778,230	778,230
Due from related parties	–	79,024	79,024
Pledged deposits	–	6,614,725	6,614,725
Cash and cash equivalents	–	6,269,996	6,269,996
	1,058	15,369,694	15,370,752

Notes to Financial Statements

31 December 2008

40. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

2007

Financial liabilities	Group Financial liabilities at fair value through profit or loss – held for trading *RMB'000*	Financial liabilities at amortised cost *RMB'000*	Total *RMB'000*
Interest-bearing bank loans	–	300,000	300,000
Trade and bills payables	–	13,556,545	13,556,545
Financial liabilities included in customers' deposits, other payables and accruals	–	988,751	988,751
Liability components of convertible bonds	–	3,375,803	3,375,803
Derivative components of convertible bonds	(191,500)	–	(191,500)
	(191,500)	18,221,099	18,029,599

Financial assets	**Company** **2008** **Loans and receivables** ***RMB'000***	2007 Loans and receivables *RMB'000*
Financial assets included in prepayments, deposits and other receivables	**678**	11,812
Pledged deposits	**–**	1,601,019
Cash and cash equivalents	**1,004,394**	3,356,064
	1,005,072	4,968,895

Notes to Financial Statements

31 December 2008

40. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Financial liabilities

	Company					
	2008			2007		
	Financial liabilities at fair value through profit or loss - held for trading RMB'000	Financial liabilities at amortised cost RMB'000	Total RMB'000	Financial liabilities at fair value through profit or loss - held for trading RMB'000	Financial liabilities at amortised cost RMB'000	Total RMB'000
Liability components of convertible bonds	–	3,571,833	3,571,833	–	3,375,803	3,375,803
Derivative components of convertible bonds	(2,280)	–	(2,280)	(191,500)	–	(191,500)
	(2,280)	3,571,833	3,569,553	(191,500)	3,375,803	3,184,303

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 year 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 2008, 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.

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41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

FOREIGN CURRENCY RISK

As at 31 December 2008, the Group had cash and bank deposits of RMB1,305,702,000 (2007: RMB5,334,752,000), which are denominated 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.

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 other components of equity would not change.

	Increase/ (decrease) in United States dollars rate	Increase/ (decrease) in profit before tax *RMB'000*
2008	**8%**	**99,989**
	(8%)	**(99,989)**
2007	8%	354,577
	(8%)	(354,577)

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 25 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.

Notes to Financial Statements

31 December 2008

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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 2008, the Group had trade and bills payables amounting to RMB12,917,958,000 (31 December 2007: RMB13,556,545,000). In addition, as at 31 December 2008, the Group had the bank loan balance of RMB170,000,000 (31 December 2007: RMB300,000,000) 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.

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2008 based on contractual undiscounted payments.

Year ended 31 December 2008

Group	Within 1 year *RMB'000*	1 to 2 years *RMB'000*	2 to 3 years *RMB'000*	Total *RMB'000*
Convertible bonds	–	4,704,420	–	4,704,420
Interest-bearing bank loans	170,000	–	–	170,000
Trade and bills payables	12,917,958	–	–	12,917,958
Financial liabilities included in customers' deposits and other payables	876,149	–	–	876,149
	13,964,107	4,704,420	–	18,668,527

Company	Within 1 year *RMB'000*	1 to 2 years *RMB'000*	2 to 3 years *RMB'000*	Total *RMB'000*
Convertible bonds	–	4,704,420	–	4,704,420
Other payables	6,334	–	–	6,334
	6,334	4,704,420	–	4,710,754

Notes to Financial Statements

31 December 2008

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

LIQUIDITY RISK (continued)

Year ended 31 December 2007

Group	Within 1 year *RMB'000*	1 to 2 years *RMB'000*	2 to 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
Financial liabilities included in customers' deposits and other payables	988,751	–	–	988,751
	14,845,296	–	4,704,420	19,549,716

Company	Within 1 year *RMB'000*	1 to 2 years *RMB'000*	2 to 3 years *RMB'000*	Total *RMB'000*
Convertible bonds	–	–	4,704,420	4,704,420
Other payables	2,724	–	–	2,724
	2,724	–	4,704,420	4,707,144

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.

Notes to Financial Statements

31 December 2008

42. POST BALANCE SHEET EVENTS

On 9 January 2009, the Group received a notice from the People's High Court of Shangdong Province, the PRC. According to the court statement, Shandong Sanlian Group Co., Ltd. (the "Sanlian Group") is seeking (1) to void the auction transaction; (2) RMB50 million in damages from the defendants and it reserves the right to claim for other significant economic damages; and (3) the litigation costs from the six defendants, including two PRC subsidiaries of the Group, Shandong Longji Island Construction Co., Ltd. and Gome Appliance Company Limited, and four other companies in the PRC, alleging the Group improperly bought a 10.67% interest (the "Sanlian Shares") in Sanlian Commercial Co., Ltd., a listed company in the PRC.

According to a court statement dated 17 March 2009, the People's High Court of Shangdong Province, the PRC, dismissed the allegations made by Sanlian Group, based on the ground that the allegations had not fulfilled the relevant provision of the PRC Civil Procedural Law.

Save as disclosed above and in notes 1, 16, 27 and 28 above, the Group did not have any significant events taking place subsequent to 31 December 2008.

43. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 27 April 2009.

Corporate Information

DIRECTORS

EXECUTIVE DIRECTORS

CHEN Xiao *(Chairman)*
NG Kin Wah
WANG Jun Zhou
WEI Qiu Li

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

CHEN Xiao
NG Kin Wah

PRINCIPAL BANKERS

Bank of Shanghai
Standard Chartered Bank
(China) Limited
CITIC Bank
Industrial Bank Co., Ltd.
Agricultural Bank of China

AUDITORS

Ernst & Young
Certified Public Accountants

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Bermuda

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Hong Kong

PRINCIPAL SHARE REGISTRARS

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(Bermuda) Limited
14 Bermudiana Road
Hamilton
Bermuda

SHARE REGISTRARS IN HONG KONG

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国美电器

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