Transform to Move Forward

国美电器

2009 Annual Report

Stock Code : 493

Complete Our Mission Together

We are confident that we will continue to lead the home appliance retail industry in China, and we will do our utmost to help improve the quality of people's lives.

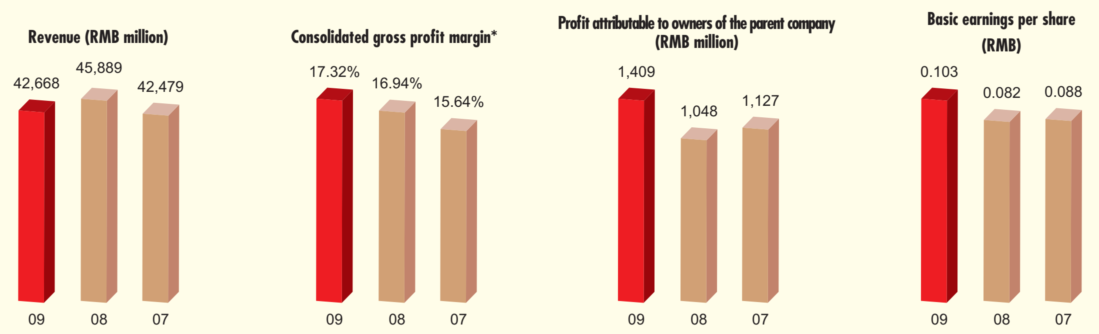
Content

GOME at a Glance

GOME is a leading chain-store retailer of home appliances and consumer electronic products in China. We provide the industry's leading consumers experience, embracing the most extensive range of products, delivered at the most competitive prices. We offer our suppliers a channel platform that creates optimum economies of scale and efficiency.

HIGHLIGHT

- All businesses achieved healthy and sustainable growth, and the plans made in the beginning of the year were well implemented
- Due to the global financial crisis and the strategic reduction in the number of stores during the year, revenue for the year amounted to RMB42,668 million
- Consolidated gross profit margin rose from 16.94% to 17.32%
- Profit attributable to owners of the parent company increased from RMB1,048 million to RMB1,409 million representing a year-on-year increase of 34.45%
- The basic earnings per share were RMB0.103, up 25.61% from RMB0.082 last year.



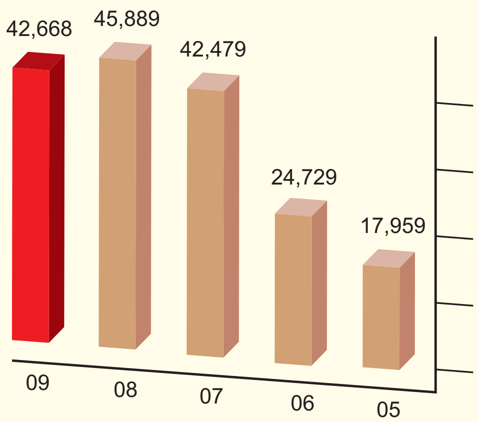
* Consolidated gross profit margin = (gross profit + other income and gain)/revenue

Five Year Financial Summary

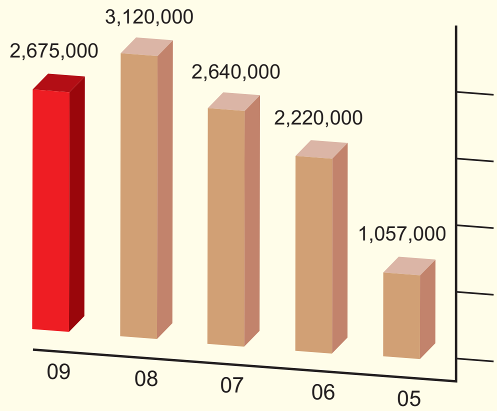
	Year ended 31 December 2009 *RMB'000*	Year ended 31 December 2008 *RMB'000*	Year ended 31 December 2007 *RMB'000*	Year ended 31 December 2006 *RMB'000*	Year ended 31 December 2005 *RMB'000*
Revenue	**42,667,572**	45,889,257	42,478,523	24,729,192	17,959,258
Profit attributable to owners of the parent	**1,409,288**	1,048,160	1,127,307	819,167	498,596
Total assets	**35,763,180**	27,495,104	29,837,493	21,176,229	9,367,894
Total liabilities	**23,960,715**	18,795,069	19,444,825	15,935,840	7,496,600
Minority interests	**–**	140,201	89,689	88,783	360,408
Net assets	**11,802,465**	8,700,035	10,392,668	5,240,389	1,871,294

Financial and Operational Highlights

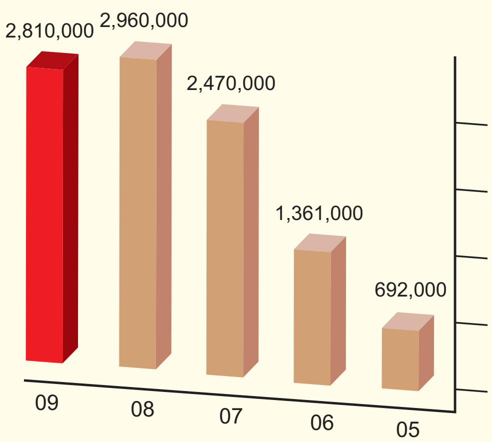
Revenue (RMB million)



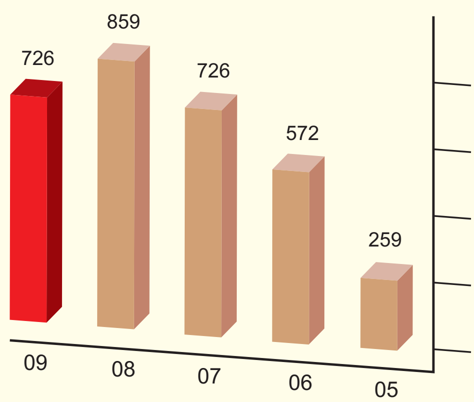
Total sales area at year end (sq.m)



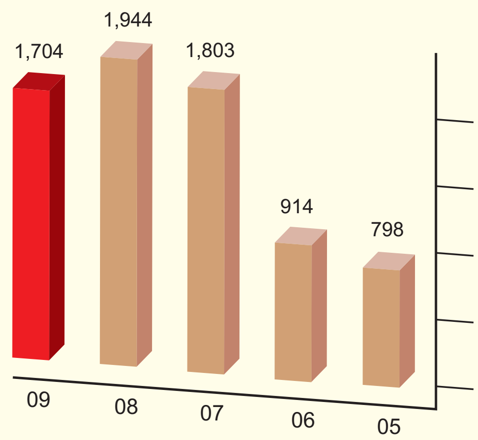
Weighted average sales area (sq.m)



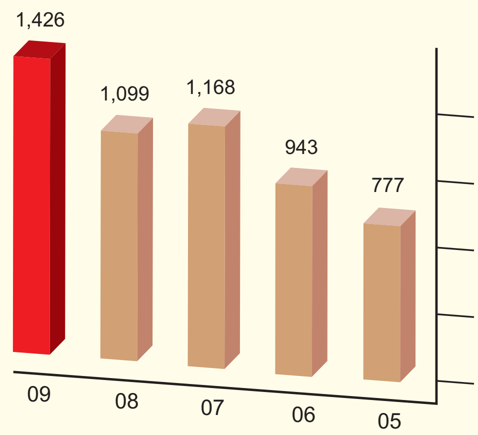
Number of stores at year end



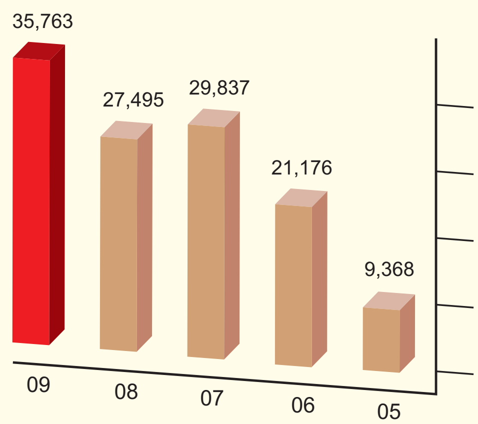
Profit from operating activities (RMB million)



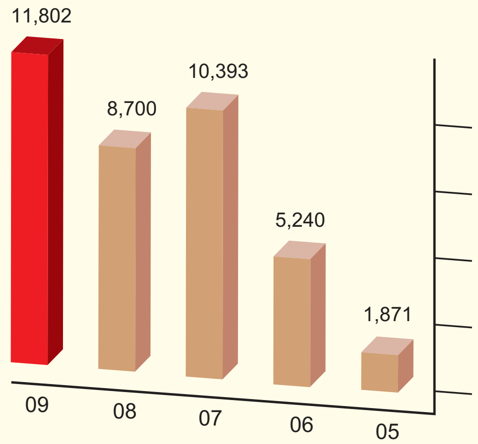
Profit for the year (RMB million)

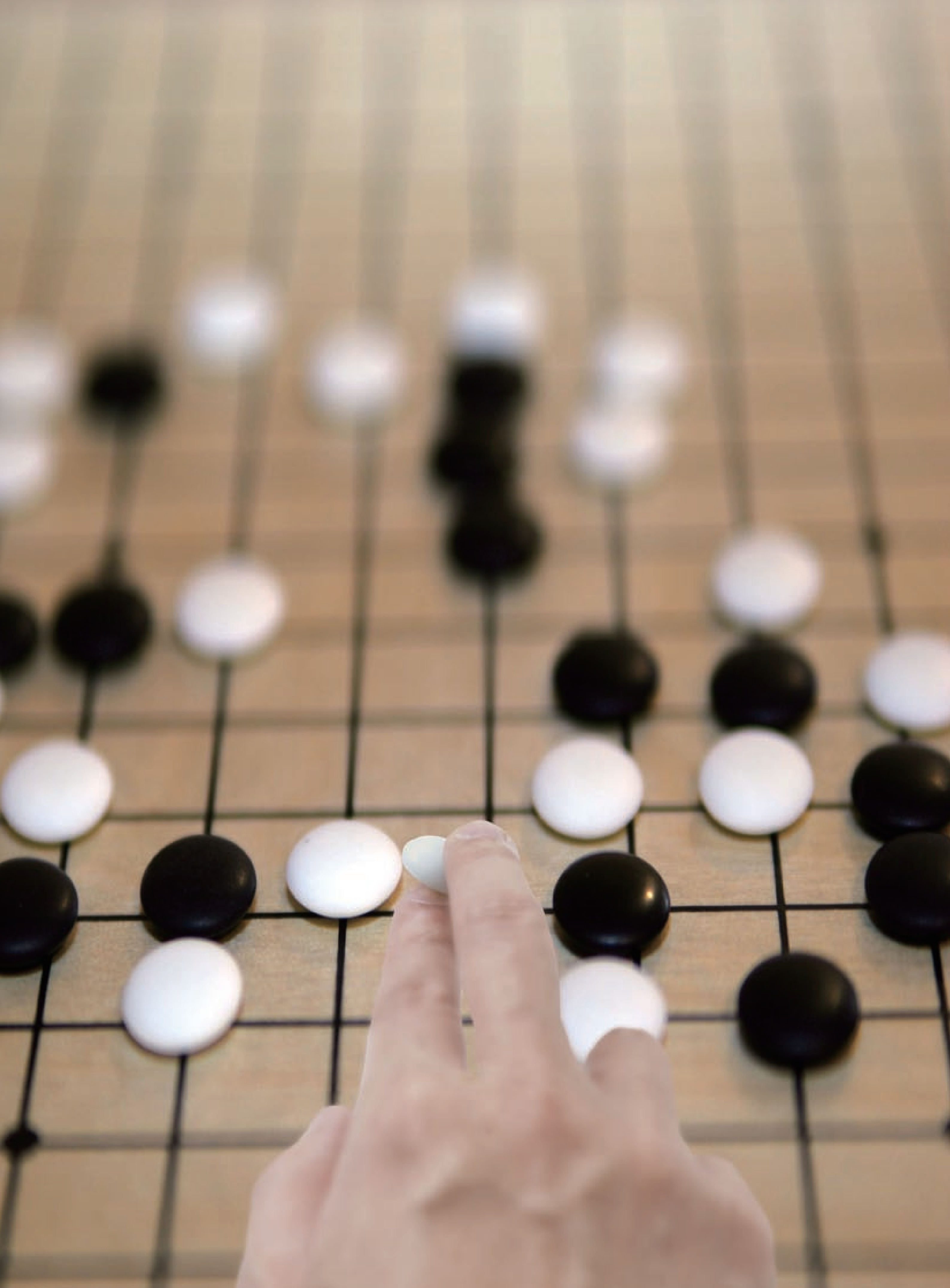


Total assets (RMB million)



Net assets (RMB million)



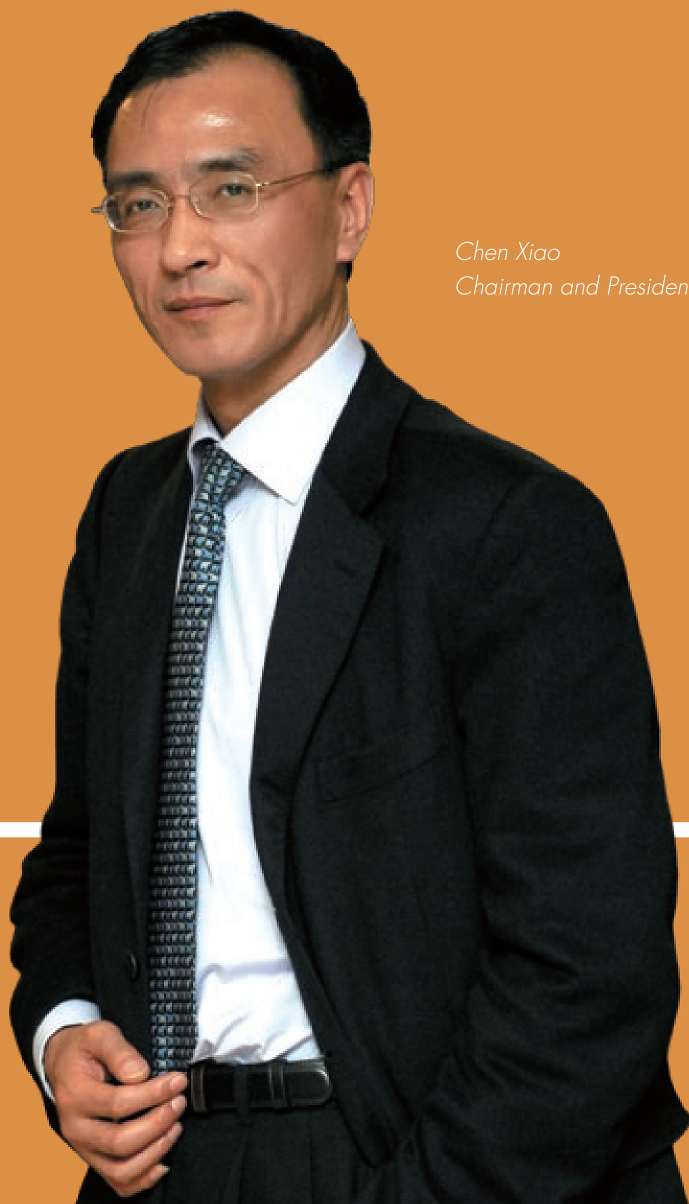


Crafting a pre-emptive and commercially-savvy strategy to grow our presence

Building business success requires wise and pre-emptive insight, similar to playing a chessboard game, where the winner ought to outsmart his counter part constantly. As a winning player, we'll keep abreast of the changing industry landscape at every step and move forward with a clear strategic vision.

Chairman's Statement

Despite the impact this severe corporate crisis had on GOME, we moved on and passed the test with flying colors, ending up with a stronger, more professional and united management team.



Chen Xiao
Chairman and President

Dear Shareholders,

2009 witnessed the most difficult period for GOME Electrical Appliances Holding Limited (the "Company") together with its subsidiaries (collectively known as the "Group" or "GOME ") to date since its initial listing. Amid the contraction of China's economy and the shattering of consumer confidence during the global economic crisis, an unfavorable event involving the founder of the Company unfolded as we marched into 2009. GOME was put to the test in the harshest of ways and had to prove whether the Company could survive and grow again. A year later, I am glad to say that GOME triumphed over this adversity and set out on a path of healthy development. Despite the impact this severe corporate crisis had on our Company, we moved on and passed the test with flying colors, ending up with a stronger, more professional and united management team. We also realized how many diligent and committed staff members we had in our midst, staff who worked with great integrity to forge and deepen relationships with our business partners. In response to the changing market conditions and evolving consumers' needs, the Group adopted a transformation strategy and achieved initial success. In the course of solving the crisis, the Company successfully raised a total of more than RMB5.3 billion from new strategic investors as well as from the issuance of new shares and convertible bonds, the combination of which provided the company with sufficient working capital and an appropriate capital structure. GOME not only strengthened its fundamental capabilities and improved its operating efficiency, but also maintained its leading position in the home appliance retail industry in China, with a 34.45% growth in profit attributable to owners of the parent over the previous year. The Company has already weathered the impact of these crises and is now well-positioned to enter a phase of consistent and healthy development.

2009 BUSINESS PERFORMANCE

In response to the change in macroeconomic conditions and demand, the Company fully implemented its strategy of transformation, focusing on network rationalization and individual store profitability improvement. The Company ensured that large-scale stores were opened in premium locations to accommodate large inflows of customers, while we closed down 189 underperforming stores. As a result of this rationalization, the revenue of the Company for the reporting year dropped approximately 7.02% as compared to that of 2008. At the same time, however, we are pleased to note that the 532 comparable stores recorded same store sales of RMB34,816 million, an increase of 2.81% as compared to RMB33,864 million of last year.

Through a series of measures to enhance the profitability of individual stores, including differentiated product management, and provision of value-added services like extended warranty service and after-sales service, our consolidated gross profit margin increased to 17.32% from 16.94% last year.

In 2009, the Group recorded a 12.35% decrease in operating profit from RMB1,944 million in 2008 to RMB1,704 million. However, the decrease in operating profit narrowed and improved on a quarterly basis thanks to the setting and achievement of precision management targets. Profit for the year attributable to owners of the parent amounted to approximately RMB1,409 million, a sharp rise of 34.45% compared to that of last year. The Basic earnings per share ("EPS") were RMB0.103, a rise of 25.61% as compared to RMB0.082 last year.

GOME shifted its focus and development toward merchandise management.

As of 31 December 2009, cash and cash equivalents were RMB6,029 million. This satisfactory cash position and sound capital structure laid a solid foundation for our future development. However, in May 2010, the redemption rights of the 0% coupon convertible bonds due in 2014 (the "Old 2014 Convertible Bonds") will become exercisable. We also need to prepare for potential requirements for capital to develop second tier markets and rural areas and to upgrade our internal information systems. Therefore, we recommended the board of directors of the Company (the "Board") not to pay a final dividend for 2009.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DEVELOPMENT STRATEGIES

2009 marked a new stage of realignment in the Company's history. Previously, during rapid economic growth we focused only on aggressive territorial expansion and our business depended on consignment from vendors. In 2009, GOME shifted its internal focus and development toward merchandise management, to be aligned with the trends we observed in consumer demand. Due to measures taken in accordance with our new growth model, including network rationalization and differentiated product management, major operating indicators such as consolidated gross profit margin, operating profit margin and net profit margin all showed satisfactory performance.

During the previous year, we repositioned our relationships with suppliers and gradually moved from maximizing benefits to ourselves, which had been our mode of operation in the preliminary development stage of the industry, to a model of win-win cooperation, using the integrated service platform and economies of scale of GOME to operate jointly for mutual benefit. We appreciate our suppliers for the understanding, trust and support they offered us during the crisis. When the crisis subsided, the cooperation between GOME and its suppliers increased to unprecedented high levels.

CORPORATE GOVERNANCE

In 2009, as a result of our corporate crisis and the welcoming of new strategic investors to the company, there was a change in the composition of the Board of GOME. Now the Company has a total of 11 directors, including 5 executive directors, 3 independent non-executive directors as well as 3 non-executive directors from Bain Capital. When the crisis unfolded and the trading of our shares was suspended, the incumbent and existing independent directors made significant contributions toward minimizing the risks faced by the new leadership and protecting the interests of minority shareholders. On behalf of the Board, I hereby express my sincere gratitude to them. I would also like to take this opportunity to formally welcome the 3 non-executive directors from Bain Capital. Together we will strive to implement best practices for openness and transparency in the Board room and in the Board's decision-making processes.

PROSPECTS

GOME will continue to benefit from the state's fiscal policies to boost domestic consumption on a long-term basis. We will seize the opportunity of market growth driven by the policy of "exchange old for new". In addition, as demand in our first-tier market is diversified, the Company will continue to implement network rationalization aligning with consumer demand trends by establishing "new-model stores" and rolling out "Xin Huo Guan" across the country. In the meantime, we will make intensive efforts in markets with fresh growth potential, namely, second tier markets and rural areas, where we will deepen our network coverage to capture growth opportunities that make commercial sense in these areas.

During the year, GOME was named an authorized retailer by the World Expo Shanghai 2010 franchised product operation office, thanks to its efficient network channels, strict product control system and high-quality service. This designation allows GOME, along with other retails brands the Group is operating like China Paradise and Dazhong, to sell licensed home electrical appliances. GOME will also be entitled to contract with manufacturers to produce licensed products if necessary. As a retailer, GOME being granted the authorization by World Expo Shanghai 2010 to manufacture licensed products is proof that GOME's quality control capability is highly appreciated.

In addition, the management has noted the recent emergence and development of online shopping, which will undoubtedly broaden the competitive landscape. GOME is now conducting an in-depth research study of this market segment in China, and we will announce our business plans to the public in due course.

We will continue to push forward a win-win strategy with suppliers to fully utilize GOME's integrated service platform, achieving harmonious, mutually beneficial and sustainable development for both retailers and suppliers. We will also help introduce more energy-saving products to the market in response to China's commitment to save energy and reduce emissions. We are confident that we will continue to lead the home appliance retail industry in China, and we will do our utmost to help improve the quality of people's lives.

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昌化镇
河桥
宋家岭
毕浦
瑶琳镇
钟山
铁堂
桐庐县
富春江镇
杭千高速公路
杨村桥镇
江梅城镇
莲花镇
淤渡岭
屏门
光昌
王阜
唐村镇
建德市
淳安县
千岛湖镇
毛竹源码头
石林镇
里商
胡家
威坪镇
界首
寿昌镇
石屏
西岭
千岛湖

Optimizing and developing our channel network in response to the evolving market environment

Doing the right thing based on thorough comprehension of market dynamics. In the ancient battle in Zhuolu, the Emperor Huang Di captured his enemy Chi You by relying on his compass to guide him in the right direction. Store network rationalization and development is a conscious direction we've taken in response to the evolving market environment. It will solidify our basis for future growth and prepare us well for the inevitable market rebound.

Management Discussion and Analysis

GOME will continue its transformation strategy on the basis of progress made in 2009, to adapt to the changing macro economic environment and capitalize on the rapid growth of electrical home appliance retailing industry.

OVERVIEW

The Chinese economy stablized and recovered in 2009. With favorable state macroeconomic policies and with the implementation of a series of measures in accordance with the Group's transformation strategy, such as performance optimization and network rationalization, as well as the introduction of a strategic investor, GOME weathered the storm and moved forward with exciting development momentum.

We are pleased to see that the strategic targets set for 2009 were successfully met. The Group scaled back expansion, and closed a great number of underperforming stores, hence its total number of stores reduced to 726 as of the end of 2009 from 859 a year ago. As a result, the operational efficiency of individual stores improved, as demonstrated by 2.81% growth in same store sales. Despite reduction in store numbers, net profit significantly increased in 2009.

During the reporting period, the Group recorded sales revenue of approximately RMB42,668 million, down 7.02% compared with RMB45,889 million in the previous year. The profit attributable to owners of the parent rose substantially to approximately RMB1,409 million, of 34.45% over the previous year's RMB1,048 million.

During the year, Bain Capital Glory Limited ("Bain Capital") subscribed to 5% coupon convertible bonds due in 2016 (the "2016 Convertible Bonds") issued by the Company for a total consideration of approximately RMB1,590 million. The Company further raised approximately RMB1,361 million through an open offer of approximately 2,296 million shares, on the basis of 18 new shares for every 100 existing shares held. In addition, the Company issued 3% coupon convertible bonds due in 2014 (the "New 2014 Convertible Bonds"), realizing proceeds of approximately RMB2,357 million. In total, the Group raised approximately RMB5,308 million cash via the above three financing arrangements. This also demonstrated the confidence among the investment communities in the Group as well as the belief in the future prospects for China's home appliance industry.


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次换新机
家安保
齐全
生活家电

The capital raised will be sufficient for working capital and to settle the redemption rights of the Old 2014 Convertible Bonds. During the year, the Company repurchased the Old 2014 Convertible Bonds in the principal amount of RMB1,824.7 million, with the outstanding principal amount of RMB2,775.3 million. Three non-executive directors nominated by Bain Capital were officially appointed to the Board. Their extensive retail sector experience and capital markets expertise will be most valuable to the Company in its business operations, internal controls and corporate governance.

The management believes that Gome, as the industry leader, should continue to embrace innovation and welcome the change brought about by strategic adjustment. At the same time it should continuously enhance its core competences. Thus, the Group decided to undertake a strategic transformation beginning in early 2009. Since then, it has gained strong support and recognition from its suppliers for reshaping its profit distribution model to establish a more rational resource allocation mechanism among the players in the supply chain. We also made significant improvement in individual stores' performance through a series of network rationalization measures including the closure of underperforming stores and introduction of renovated stores with fresh lay-out. In addition, the Group successfully rebuilt its brand image via programs driven by customer needs, not only in product mix and product display, but also in pricing strategy and promotional plans.

BUSINESS ENVIRONMENT AND MARKET POTENTIAL

From the latter half of 2008 through to the end of 2009, the Chinese economy gradually recovered from the impact of the global financial crisis. According to published 2009 data from the National Bureau of Statistics, China's GDP grew 8.7%, and consumer spending on retail goods rose to approximately RMB12,530 billion. Of that total, the total consumption of home appliances and AV equipment was RMB315.4 billion. During 2009, the Chinese government implemented proactive fiscal policy, moderate monetary policy, and programs to stimulate domestic demand and propel economic growth. The RMB4,000 billion financial stimulus plan including "go rural", "exchange old for new" and "energy-saving subsidy" policies created substantial demand for home appliances and effectively contributed to the national economic rebound.

From a regional market perspective, home appliance chained stores currently dominate first-tier markets. With the growth in population and the increase in disposable income, there remains ample room to deepen the first-tier markets, particularly in the segment of high-end products. Continuous network optimization and the roll-out of renovated stores are instrumental to our market share expansion. The increasing penetration in second tier markets and rural areas created emerging demands, which the Group is keen to meet by extending its network, its logistics system and delivery services.

Communications, digital and computer products ("3C") enjoyed higher growth in the Group's existing markets; nevertheless their penetration rates are relatively low compared with those in developed countries. Therefore, the prospect of 3C products remains promising. Demand for traditional home appliance in rural areas will be dominated by the product penetration cycle, while those in first- and second-tier markets will be driven by new generation product replacement, representing good potential. Meanwhile, the addition of new product series, extended lines and value-added services, with innovations made by chain retailers, will also help steadily build up the market size of the home appliance industry.

In light of the favorable macroeconomic stimulus policies and the enormous potential and speed of growth in the electrical appliances market in China, management is committed to adopt a sound business and economic model to achieve sustainable growth, leveraging the strength of its retail brands and unparalleled sales and service network.

With the goal of continuing to be a first-class home electrical appliance retailer in China, we will continue to focus on value creation for customers, and strengthen our ability to grow the business in many incremental ways.

ANALYSIS OF OPERATING ADVANTAGE

SUCCESSFUL INDUSTRY INTEGRATION

Thanks to a series of successful mergers and acquisitions, as well as post-merger integrations in recent years, the Group has established the largest retail store network in the country, with extensive coverage in all tier one and two markets across the mainland with a collection of retail brands including GOME, China Paradise, Dazhong and Cellstar, effectively enhancing our leading position in the industry.

Management believes that the Group has a competitive advantage in its retail store network which is hard for international and domestic peers to replicate. It has helped the Group achieve economies of scale in procurement and sales and enabled all home electrical appliance manufacturers to easily promote and sell their products through the Group's store network. The Group is confident that with its solid industry foundation of over 20 years, it will continue to maintain its leading position in the domestic home appliance retail chain industry.

THE MOST INFLUENTIAL BRAND

At the end of 2009, the GOME brand was named "the most valuable brand" in China's retail industry for the third consecutive time in "The Most Valuable Chinese Brands" by R & F Global Ranking, with the brand value reaching RMB55.3 billion. GOME was also the only home electrical appliance retailer in the ranking, reflecting how well recognized the GOME brand is among consumers and within the industry.

Throughout the Group's history, it has always committed to providing innovative services to best serve consumers' interests. With a comprehensive service value system in place that values high efficiency and superior standards, we can now satisfy all types of needs of our consumers. As a "World Expo Shanghai 2010" authorized retailer to offer electrical appliances, the Group will take full advantage of its brand power and further secure consumers' loyalty.

The Group will continue building its brand value. Together with suppliers and consumers and with the goal of "creating consumer value", we will promote a fair, open and transparent business environment so as to protect consumers' rights.

HIGHLY EFFICIENT RETAIL STORE NETWORK

During the reporting period, the Group swiftly mapped and redeployed its network of stores, which were further improved and optimized based on the strategy of "opening high quality mega stores". In 2009, in an effort to consolidate stores with weak sales, loss making, low-profitability, or in non-ideal locations, the Group closed down 189 such stores and opened 56 new ones at strategic locations. At the same time, after carefully studying leading international electrical home appliance retail chains, the Group remodeled 27 existing stores (including stores that were a part of Beijing Dazhong Home Appliances Retail Co., Ltd ("Dazhong Appliances")). These "new-model stores" featured improved product display, increased product varieties, better shopping environment and in-store service, substantially enhancing customers' shopping experience and boosting revenue growth. In a pilot program designed to maximize customer satisfaction and enhance store operational efficiency, the Group opened 3 super flagship stores (including Dazhong Appliances) called "Xin Huo Guan" ("新活館") stores in Beijing, Shanghai and Tianjin. Besides introducing a large number of small appliances and 3C products and related accessories, Xin Huo Guan also displayed various lifestyle electrical appliances, such as treadmills, beauty equipment, lighting, kitchenware and timepieces, with the number of product series increased from the original 20,000 to over 50,000.

The Group's operation model gradually shifted from a "shopping mall model" to a "retail shop merchandise management model" which put more emphasis on product mix, in-store layout and product display, so as to successfully create a new "value-based" operational model. During the reporting period, the "new-model stores" and super flagship "Xin Huo Guan" stores drew in significant customer traffic. As a result, the Group's same store sales increased.

By the end of 2009, the Group had 726 outlets in 198 large-and-medium-sized cities around the country, 466 of which were in first tier markets with strong consumer spending power.

In addition, counting the 364 outlets of the Non-listed GOME Group (excluding stores in Hong Kong and Macau) and 51 outlets under Dazhong Appliances, the Group's total number of stores reached 1,141 and spanned 329 large-and-medium-sized cities.

By the end of 2009, the total sales area of the 726 stores was 2,675,000m^2, a 14.26% decrease compared with 3,120,000m^2 in 2008. Nevertheless the average sales area per store was 3,685m^2, a 1.46% increase compared with 3,632m^2 in 2008.

The management believes that the home electrical appliance retail industry will see a transition from increasing the number of stores to enhancing same store efficiency. Over-crowded outlets and overlapping store locations will inevitably cause a vicious cycle in peer competition and will weaken overall profitability. The future profit-generating avenues of the electrical home appliance retail industry depend on the optimization of store network mapping and the increase of same store efficiency.


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电脑
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2010年上海世博会特许零售商
SHANGHAI EXPO LICENSED RETAILER
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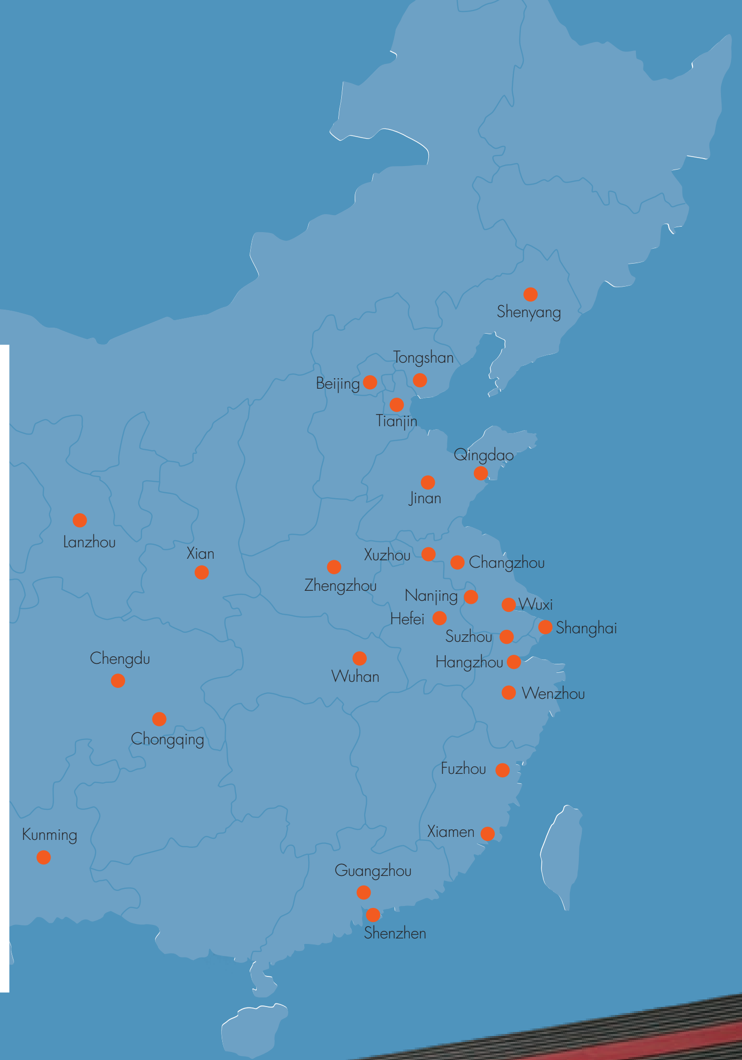

Nationwide Retail Network of the Group

As at 31 December 2009

Development of Network:

	Group total	GOME	China Paradise	CellStar
Flagship stores	76	59	17	–
Standard stores	625	517	108	–
Specialized stores	25	4	1	20
Total	726	580	126	20
Among them:				
First-tier cities	466	351	98	17
Second-tier cities	260	229	28	3
Net decrease in store number	133	77	52	4
Number of stores closed	189	125	59	5
Among them:				
First-tier cities	121	72	44	5
Second-tier cities	68	53	15	–
Number of cities accessed	198	169	24	6
Among them:				
First-tier cities	26	21	9	1
Second-tier cities	172	148	15	5

List of stores:

Region	Flagship stores	Standard stores	Specialized stores	Total
Beijing	9	37	1	**47**
Shanghai	11	45	1	**57**
Tianjin	7	26	–	**33**
Chengdu	4	45	–	**49**
Chongqing	5	29	–	**34**
Xian	2	23	20	**45**
Shenyang	4	20	–	**24**
Qingdao	3	26	–	**29**
Jinan	2	9	–	**11**
Shenzhen	3	62	–	**65**
Guangzhou	3	89	2	**94**
Wuhan	2	22	1	**25**
Kunming	3	14	–	**17**
Fuzhou	3	26	–	**29**
Xiamen	1	30	–	**31**
Hangzhou	–	9	–	**9**
Zhengzhou	1	25	–	**26**
Nanjing	1	24	–	**25**
Wuxi	2	3	–	**5**
Changzhou	1	10	–	**11**
Suzhou	3	12	–	**15**
Hefei	1	7	–	**8**
Xuzhou	1	8	–	**9**
Tangshan	–	12	–	**12**
Lanzhou	3	8	–	**11**
Wenzhou	1	4	–	**5**
Total	**76**	**625**	**25**	**726**


国美电器
FOTON
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SECOND-TIER MARKET NETWORK EXTENSION

Rapid urbanization, development of the real estate market and the increasing disposable income of rural residents in China, together have been driving up the penetration rate of electrical appliances and electronic products in second-tier markets. There are many distinctive cost advantages, that can be reaped in developing the second-tier market, for instance, lower rental, advertising and salary costs. It is also relatively less transparent and competition remains minimal, hence creating enormous business opportunities.

By the end of the reporting period, the Group entered 172 cities in second-tier markets, with 260 store, representing 35.81% of the total number of stores and contributing an aggregate of RMB10,352 million in sales income, accounting for 24.26% of total revenue.

Capitalizing on the favorable macroeconomic policies of the state including its "go rural" policy, the Group focused on operational capability enhancements in product provisioning and logistic services across all parts of the supply chain. In the mean time, we are optimizing our store coverage in this market segment, which will form the basis for future development into rural areas.

STABLE RENTAL

As of the end of the reporting period, 692 stores are currently under lease agreements and 34 are located in properties owned by the Group. Leasing agreements, as a prevailing practice, generally do not require up-front capital investment, and at the same time offer the flexibility of terminating the lease if required. On the other hand, self-owned properties are ideal for building sample stores where we want to implement standardized services and branding initiatives, as well as improve efficiency of individual stores. A fine balance of the two above-mentioned methods of property acquisition is critical in managing the Group's long term business viability. Self-owned properties were purchased for commercial use at relatively inexpensive prices in the early days following the inception of the Group, and their good geographical locations, gave the Group significant first mover advantages.

During the reporting period, the Group's store lease payments were equivalent to 4.67% of total sales income, almost the same as last year's 4.36%. The average remaining lease period of the 692 leased stores was approximately 5.04 years. The number of stores whose lease agreement will expire in 2010, 2011 and 2012 was 59, 52 and 65 respectively.

Accounting for 8.00% of the Group's total floor area, the combined area of self-owned properties reached 214,000 square meters, and are located mostly on the high street of the municipalities like Beijing and Shanghai.

FURTHER STRENGTHENED SUPPLIER RELATIONSHIPS

The Group attaches great importance to maintaining and improving good relations with its suppliers. In 2009, the Group undertook a series of innovative measures to refine the terms of procurement contracts, including standardizing charges to the suppliers outside the scope of contracts and speeding up the regular reconciliation and settlement processes with the suppliers. These initiatives aiming to establish a win-win pattern of collaboration were well received and supported by suppliers.

The Group worked closely with suppliers on multiple fronts, including analysis and research of market demand, product research and development, marketing and promotional programs. We deepened our collaboration in forming service standards which allow both parties a basis for fair distribution of profits. In addition, operational efficiency was enhanced through seamless integration of the management and logistics systems of the Group with those of its suppliers.

During the reporting period, purchases from its five largest brand name suppliers accounted for 31.57% of total procurement.

Management believes that an alliance based on profit-sharing will incentivize additional suppliers to use GOME as a main distribution channel to end users. This will further increase our product offering and will induce more purchases at our stores, improving cost effectiveness per square meter and increasing individual stores' profitability. Stronger in-store sales performance will generate higher profitability for suppliers who will then be further motivated to invest in sales promotions in which consumers will be the end beneficiaries. Such a virtuous cycle among suppliers, retailers and consumers will create an all-win situation.

CLOSE COOPERATION WITH BANKS

Since its establishment, the Group has formed long-term and solid partnerships with all major domestic banks and several international banks in China, based on mutual trust. During the reporting period, the Group entered into a number of strategic cooperation agreements with major national banks in China who provided the Group with extensive financial services including credit lines, settlements and personal finance. To accommodate our unique business model, they have also tailored integrated financial solutions to provide high quality financial services for the Group across borders.

RAPID INFORMATION SYSTEM DEVELOPMENT

To accelerate our business transformation, the Group upgraded its software and hardware applications, and it re-engineered its inventory and logistics processes and procedures within the IT system. That has helped information exchanges among the Group, suppliers and consumers, so that we could meet consumers' needs based on real time and empirical knowledge, systematically stepping up our service quality.

The Group's IT system is primarily comprised of four key modules, i.e. Enterprise Resource Planning (ERP), E-Commerce Information, Customer Relationship Management (CRM) and enterprise daily management. The Group uses these modules to perform its daily operations, including procurement, sales, delivery, after-sales service and pricing control. The IT system provides the managers with market intelligence and instant management data; it also efficiently bridges manufacturers and customers.

To keep up with the rapid development of the internet and meet increasingly complex operational requirements, the Group will further invest in its IT system so as to increase operational efficiency, lower its operating costs and enhance customer service quality.

PREMIER CUSTOMER SERVICE AND AFTER-SALES SERVICE SYSTEM

1) Logistics system

Over the past few years, the Group has been focusing on the development of a modernized logistics system and establishing regional logistics centers and warehouses that support our retail network. The system provided consumers and suppliers with timely, efficient and convenient logistics services, and as a result, significantly increased product delivery efficiency, lowered the rate of defective merchandise and logistics costs, improved inventory and working capital turnover.

As at the end of the reporting period, the Group had 128 delivery centers, including 36 in first-tier cities and 92 in second-tier cities. They jointly cover a total area of 599,000 square meters nationwide.

2) After-sales service system

In 2009, the Group further expanded its after-sales service network by increasing "Home Appliance Clinics" from 44 in 2008 to 48. In order to better serve our customers, the Group has designated a number of professional maintenance providers in first- and second-tier cities. As of the end of the reporting period, the number of maintenance outlets owned and designated by the Group reached 2,354. This extensive coverage provided a good foundation for after-sales service and enabled us to effectively respond to repair requirements. The Group's after-sales service greatly enhanced its brand image and customer satisfaction, and thus cultivated and strengthened customer loyalty. The Group will continue to improve its after-sales

service, which can contribute to revenue in addition to servicing customers, thereby achieving a win-win situation for both the Group and its customers.

In a long term perspective, a strong delivery and after-sales service network are essential to both e-commerce and online shopping business. The Group's logistics and after-sales systems will be able to lay the groundwork for the development of e-commerce and online shopping.

3) Membership system

During the reporting period, the Group upgraded its membership system. Through standardized and transparent systems such as "reward points and redeeming cash," customers can use the reward points earned to make purchases. The new membership system also introduced a rebate system by home appliance manufacturers which brought tangible benefits to consumers.

In 2009, members increased significantly from 22,000,000 in the last year to 26,420,000. Purchases by members accounted for 66.36% of total purchases, and 43.66% of members returned for more purchases.

4) Extended warranty service

In 2009, through cooperation with top international extended warranty service providers, all brands under the Group continued to promote extended warranty services for home appliances to consumers, which was an extension of the value-added service of home appliance retailers. It helped increase the competitiveness of modern home appliance retailers and relieve the burden on home appliance manufacturers for after-sales services. This led to a all-win situation for consumers, manufacturers and retailers.

By working with domestic and international professional extended warranty service companies, the Group expanded the scope of its service while creating a new profit growth avenue. Gross profit margin for products with extended warranty sales reached 52%, and the average nation-wide merchandise warranty rate was nearly 5.13%. Management believes that there is enormous room for growth for extended warranty service given the continuously increasing spending power of the general public and the popularity of high quality home appliance.

5) Call centers

The Group's call centers are staffed by 500 representatives. This is currently the largest and one of the most advanced interactive informational service systems in China's home appliance retail industry. In parallel with the Group's implementation of a multi-brand operations model including GOME, China Paradise and Dazhong, our call center was a pioneer in establishing three service supervising hotlines (GOME: 4008-11-3333, China Paradise: 4008-11-3336, Dazhong: 4008-11-3339). In addition, the Group established an online mailbox (4008@gome.com.cn) and online enquiry service targeting young customers. These have helped us to meet the service demands of customers across many demographics.

The Group's call centers have been adhering to the principle of "customer-centric service with care" and view "customer satisfaction through competitive services" as their No. 1 goal. By providing customers with efficient and timely services, the Group has not only enhanced its brand image, but also supported its retail network, both of which will help the Group achieve its long-term strategic goals.

CONSCIOUS IMPROVEMENT IN CORPORATE GOVERNANCE

Shortly after the detention of Mr. Wong Kwong Yu, the ex-chairman, was confirmed, the Board formed a Special Action Committee, over seeing the interests of minority shareholders throughout the period of suspension. This Committee remained active until the situation was stabilized as the result of the entry of a strategic investor and the completion of refinancing. During the course of trading suspension, the Board managed to announce its decisions on issues of material significance as soon as practicable, in an effort to keep communications channels open. In addition, the Board also engaged an independent advisor to report on and suggest improvements to its internal controls and risk management system.

Following the resignation of Mr. Sun Qiang Chang, Mr. Mark Christopher Greaves and Mr. Yu Tung Ho from the Board, three non-executive directors nominated by new strategic investor, Bain Capital, were officially appointed. The Board would like to extend its sincere gratitude to Messrs. Sun, Greaves and Yu for their diligence, in particular their valuable advice amid the crisis. At the same time, the Board extends its warm welcome to the new directors who will contribute to the Group's continuous improvement in corporate governance, in addition to sharing their extensive retail experience and capital market expertise.

DEEPENING OUR CORPORATE CULTURE

In the course of two decades: GOME has evolved to become a full-fledged sector leader. Building and deepening corporate culture, which is well-aligned with our business strategy, has been the backbone of our corporate success.

Over more than 20 years, the Group has been pursuing a mission of "Perfecting the Quality of Life" and following the principle of "High Volume, Excellence Customer-Low Margin, and Services". The Group has built a well-recognized public image by paying great attention to these details.

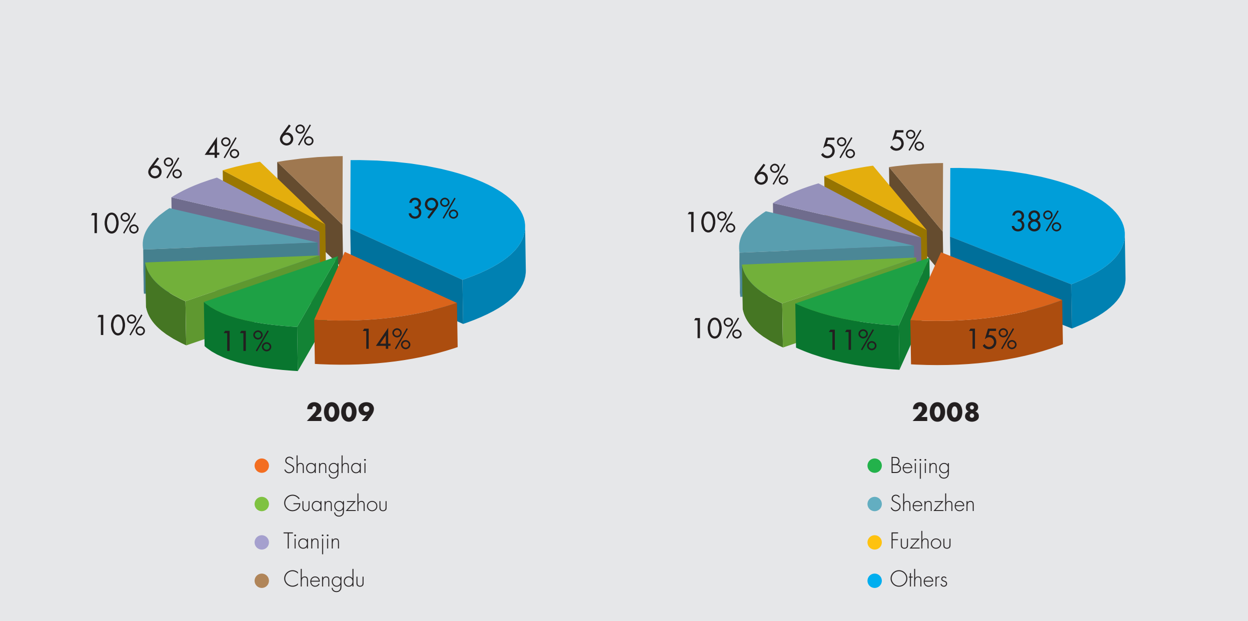
Through both classroom and on-the-job training, we are pleased to see that all our staff have been consistently perform trained to in ways that are aligned with our corporate values and code of conduct. To meet the growing expectations from communities and consumers as we develop, the Group is committed to deepening our corporate culture for the purpose of building a first class, widely respected Chinese enterprise.

TALENT MANAGEMENT

The Group has been attaching great importance to human resource management and development to meet the needs of dedicated management amid high-scale growth. The total number of employees of the Group reached 42,368 by the end of 2009. The Group launched 4 programs designed to provide to all levels 360° development and training and help staff resolve real-life challenges. These include (1) a senior management club and the Executive Development Program (EDP), in collaboration with Beijing Guanghua School of Management, designed for the top 100 senior management; (2) "GOME Seminar Series" provided for 20,000 middle to senior management; (3) "GOME Retail Training School" open to the 200,000 front-line sales force, and lastly "GOME E College" open to all 220,000 staff of the Group. Our continuous education system, underpinned by the above four training programs, sets the largest and most forward-thinking example of top-notch human resources in our industry.

The Group invested resources in its succession planning and retained a talented pool of people with retail industry-specific skill sets. Launched in 2002, our "Reservoir" talent nurturing project attracted a total of 6,300 quality university graduates from all fields of study. In 2009, the Group established 13 "college graduate internship base camps" throughout the nation. These measures helped provide recruitment opportunities, and 80% of those university graduates in terms joined Gome and have added to the core of our business managers, a pool of outstanding individuals ready for business expansion and management enhancement.

Sales revenue of the Group by region:



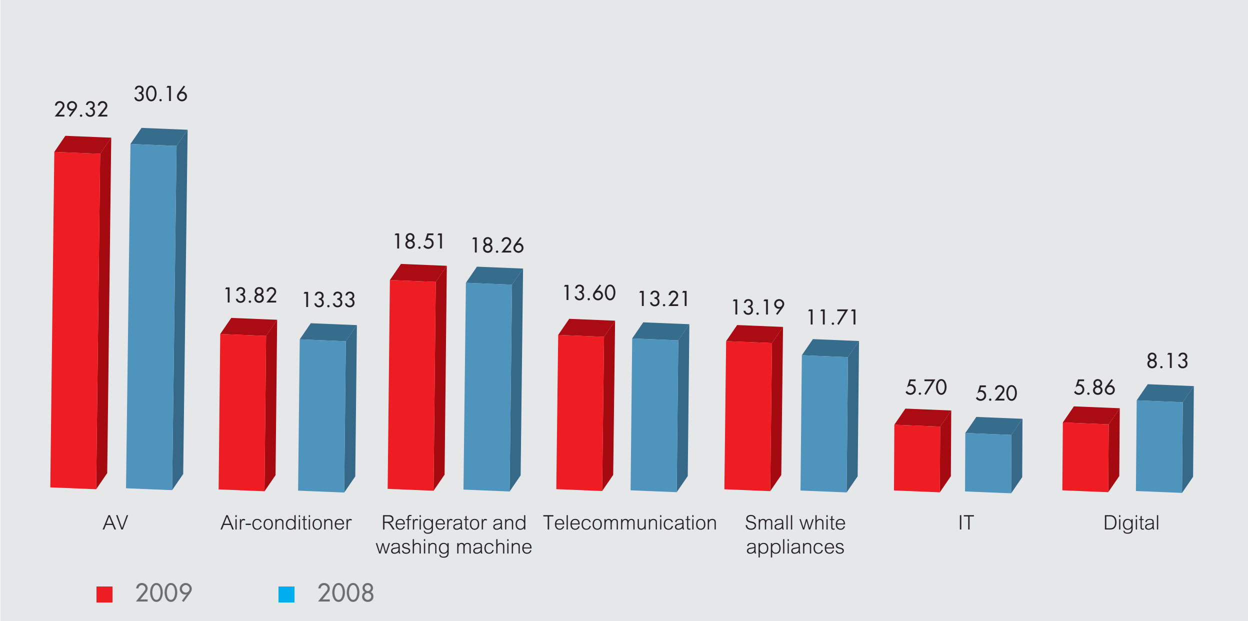
FINANCIAL REVIEW

REVENUE

During the reporting period, with net close down of 133 under-performing stores, the Group's revenue was RMB42,668 million, approximately down 7.02% from RMB45,889 million in 2008. During the reporting period, the Group's weighted average sales area was approximately 2,810,000 square meters, compared to approximately 2,960,000 square meters in 2008, representing a decrease of approximately 5.07%. Sales revenue per square meter was approximately RMB15,184, down 2.06% as compared to RMB15,503 in the corresponding period of 2008. Comparing to the decrease of 9.87% in sales revenue per square meter for the period from 2007 to 2008, the decreasing trend was narrowed and under control this year.

Aggregate sales of 532 comparable stores recorded a revenue of RMB34,816 million in 2009, up 2.81% from RMB33,864 million in 2008. Revenue mix by region remained largely the same as last year. Sales revenue from four regions of Shanghai, Beijing, Guangzhou and Shenzhen amounted to RMB19,341 million, accounting for 45.33% of the total sales revenue.

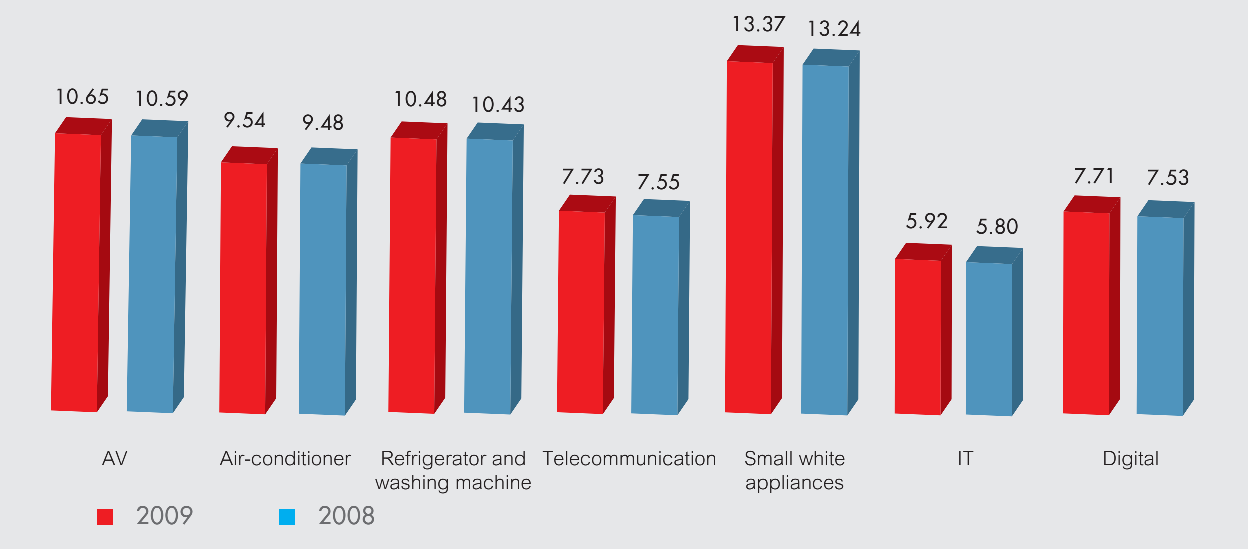
Proportion of revenue from each product category over total revenue:



COST OF SALES AND GROSS PROFIT

Cost of sales of the Group was approximately RMB38,408 million in the reporting period, representing a decrease by 7.18% as compared with that of RMB41,381 million in the corresponding period of 2008. Total gross profit recorded in 2009 was approximately RMB4,260 million with gross profit margin of 9.98% as compared to that of approximately RMB4,508 million with gross profit margin of 9.82% in last year. A rise in gross profit margin was the result of differentiation strategy implementation in product management and the good cooperation with the suppliers.

Gross profit margin of the Group by product category:



OTHER INCOME AND GAIN

During the reporting period, the Group recorded other income and gain of RMB3,132 million, representing a slight decrease of 4.10% over that of RMB3,266 million in 2008. Other income and gain as a percentage of the sales revenue represented a rise of 0.22 percentage points from 7.12% in 2008 to 7.34% in 2009.

Other income and gain comprised the following:

	2009	2008
As a percentage of revenue		
Income from suppliers	5.21%	5.49%
Management fees from the Non-listed GOME Group	0.55%	0.54%
Management fees for air-conditioner installation	0.23%	0.21%
Government grants	0.22%	0.11%
Rental income	0.30%	0.26%
Extended warranty income	0.24%	0.21%
Management fees from Dazhong Appliances	0.06%	0.05%
Others	0.53%	0.25%
Total	7.34%	7.12%

CONSOLIDATED GROSS PROFIT MARGIN

During the reporting period, the Group's consolidated gross profit margin reached 17.32%, representing an increase of 0.38 percentage points as compared to 16.94% for the previous year. (Consolidated gross profit margin = (gross profit + other income and gain)/revenue). As mentioned in the previous section, increase in gross profit margin and percentage of other income and gain to total revenue have contributed to the Group's year-on-year increase in its consolidated gross profit margin.

OPERATING EXPENSES

During the reporting period, the Group's total operating expenses (including selling and distribution costs, administrative expenses and other expenses) were RMB5,688 million, representing 13.33% of the total sales revenue. It is slightly decreased by 2.45% as compared to RMB5,831 million in the corresponding period of 2008.

The following table sets out a summary of operating expenses:

	2009	2008
As a percentage of revenue		
Selling and distribution costs	10.20%	9.78%
Administrative expenses	1.98%	1.80%
Other expenses	1.15%	1.12%
Total	13.33%	12.70%

SELLING AND DISTRIBUTION COSTS

During the reporting period, the Group's total selling and distribution costs amounted to RMB4,352 million, a slight decrease by 3.01% as compared to RMB4,487 million in 2008.

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

	2009	2008
As a percentage of revenue		
Rental	4.67%	4.36%
Salaries	2.38%	2.37%
Utility charges	0.86%	0.90%
Advertising expenses	0.71%	0.64%
Delivery expenses	0.43%	0.51%
Others	1.15%	1.00%
Total	10.20%	9.78%

ADMINISTRATIVE EXPENSES

During the reporting period, the Group's administrative expenses of RMB845 million were slightly higher than that of RMB828 million in 2008 by 2.05%. However, by excluding the amortisation cost of RMB70.53 million related to employee share options granted during the year, the administrative expenses would be approximately RMB774.47 million, representing 1.82% of the revenue, a slight decrease as compared to last year. It was maintained at a relatively low level due to stronger control over administrative expenses.

OTHER EXPENSES

Other expenses of the Group mainly comprised business tax, bank charges, provision of bad debts and fair value loss on transfer of owner occupied properties to investment properties. Other expenses were approximately RMB490 million during the reporting period, representing 1.15% of the sales revenue, which was slightly higher than 1.12% in 2008. This was mainly due to the increase of fair value loss on transfer of owner occupied properties to investment properties during the reporting period.

PROFIT FROM OPERATING ACTIVITIES

As a result of reducing number of stores during the year, the revenue and gross profit were decreased and one-off termination expenses were incurred, the profit from operating activities was then decreased from RMB1,944 million last year by 12.35% to RMB1,704 million this year. After the implementation of precision management and network rationalization at the beginning of the year, the profit from operating activities showed great improvement on a quarterly basis.

NET FINANCE LOSS

During the reporting period, the Group's net finance loss was RMB8 million, as compared to the net finance income of RMB229 million in 2008. A decrease of net finance income was mainly due to rise in the interest expenses from convertible bonds issued during the year and lower deposit interest rates.

PROFIT BEFORE TAX

During the reporting period, the Group's profit before tax was approximately RMB1,833 million, accounting for approximately 4.30% of the sales revenue, representing a 19.49% increase as compared with RMB1,534 million in 2008 and representing an increase of 0.96 percentage points as compared to 3.34% in its percentage to sales revenue.

INCOME TAX EXPENSE

During the reporting period, the Group's income tax expense for the year was RMB406 million, representing a slight decrease as compared with RMB435 million in 2008. The management considers the tax rate applied to the Group for the reporting period is reasonable.

PROFIT FOR THE YEAR AND EARNINGS PER SHARE

During the reporting period, the Group recorded a profit for the year attributable to owners of the parent of approximately RMB1,409 million, representing a drastic increase of 34.45% as compared with RMB1,048 million in 2008. Also, the basic earnings per share increased 25.61% to RMB0.103 as compared to RMB0.082 last year.

CASH AND CASH EQUIVALENTS

At the end of the reporting period, the Group's cash and cash equivalents were approximately RMB6,029 million, representing an increase of nearly two times as compared with RMB3,051 million at the end of 2008, which was mainly attributable to financing activities that raised RMB5,308 million in 2009.

INVENTORY

At the end of the reporting period, the Group's inventory amounted to approximately RMB6,532 million, representing a substantial increase as compared to RMB 5,473 million in 2008. The inventory turnover period was approximately 57 days in the reporting period, as compared with approximately 48 days in 2008. This was mainly attributable to the increased inventory level at the end of 2009 to prepare for the upcoming New Year and the Lunar New Year holidays. However, semi-annual weighted inventory turnover days was stabilized at approximately 48 days for both year 2008 and 2009.

PREPAYMENT, DEPOSITS AND OTHER RECEIVABLES

At the end of the reporting period, prepayment and other receivables of the Group amounted to approximately RMB1,702 million, up 22.98% from approximately RMB1,384 million at the end of 2008. This increase was mainly attributable to the participation in the "exchange old for new" program and increase in the receivables from the program.

TRADE AND BILLS PAYABLE

At the end of the reporting period, trade and bills payable of the Group amounted to approximately RMB15,815 million, up 22.43% in line with the increase in inventory, from approximately RMB12,918 million at the end of 2008. Trade and bills payable turnover days were 137 days, increased by 20 days from 117 days in 2008.

CAPITAL EXPENDITURE

During the reporting period, the capital expenditure incurred by the Group amounted to approximately RMB332 million, representing a significant decrease as compared with approximately RMB1,776 million in 2008. The Group reduced the acquisition of new properties in 2009.

CASH FLOW

During the reporting period, attributable to the increase in inventory and pledged deposits the Group's net cash outflow from operating activities amounted to approximately RMB175 million.

As the Group reduced investment activities for the current period, net cash outflow from investing activities amounted to approximately RMB294 million, representing a significant decrease as compared with outflow of RMB4,515 million in 2008.

Net cash from financing activities amounted to approximately RMB3,467 million, as compared to a net cash outflow from financing activities of approximately RMB2,214 million in 2008. This was mainly due to inflow of RMB5,308 million from 3 financing activities during the year.

DECLARATION OF DIVIDEND AND DIVIDEND POLICY

The Board does not recommend the payment of final dividend so as to preserve for funding needs for future development. Currently, the Board anticipate that the dividend payout ratio will be maintained at not more than 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 Board's full discretion, after taking into account, among other considerations, business environment and availability of investment opportunities.

CONTINGENT LIABILITIES AND CAPITAL COMMITMENT

There were no material contingent liabilities as at the end of the reporting period. However, the Group had capital commitment of approximately RMB119 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. The Group has not hedged its foreign exchange exposure but may consider doing so in future. The Group's treasury policy is that it will only manage such exposure (if any) when it posts significant potential financial impact on the Group.

The management of the Group estimates that less than 10% of the Group's current 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

During the reporting period, the Group's working capital, capital expenditure and cash for investments were funded from cash on hand, cash generated from operations, bank loans, convertible bonds and issue of new shares.

As at 31 December 2009, the total borrowings of the Group, being interest-bearing bank borrowings and convertible bonds, amounting to about RMB5,705 million. Of the total borrowings, 44.35% will be repayable in 2010, 55.65% will be repayable beyond 2010. The Group's financing activities continue to be supported by its bankers.

As at 31 December 2009, the debt to total equity ratio, which expressed a percentage of total borrowings amounting to RMB5,705 million over total equity amounting to RMB11,802 million, increased to 48.34% from 42.99% as at 31 December 2008. Such increase was mainly due to the issue of 2 convertible bonds in 2009.

CHARGE ON GROUP ASSETS

As at the end of 2009, the Group's bank acceptance credit, bills payable and PRC bank loans were secured by the Group's time deposits amounting to RMB6,190 million, the amount in Hong Kong dollar equivalent to RMB2,606 million and certain inventories with the carrying value of RMB500 million and the pledge of certain buildings and self-owned properties of the Group with the carrying value of RMB2,236 million. As at 31 December 2009, the Group's bills payable and PRC bank loans amounting to RMB12,006 million.

OUTLOOK AND PROSPECTS

The Group will continue its transformation strategy on the basis of progress made in 2009, to adapt to the changing macro economic environment and capitalize on the rapid growth of the electrical home appliance retailing industry. With the goal of continuing to be a first-class electrical home appliance retailer in China, we will continue to focus on value creation for customers, and strengthen our ability to grow the business in many incremental ways.

CAPITALIZING ON CHINA'S STIMULUS POLICIES

In 2009, China successively introduced fiscal stimulus policies aiming at "increasing domestic demand and boosting consumption". Electrical home appliances was named as one of the key target industries to benefit from certain stimulus policies. In 2010, these policies are still in place and are expected to increase in depth and breadth. For example, additional cities were entitled to join the "exchange old for new" program with expanded lines of products, and most importantly, the exchange process was simplified. These fiscal policies will effectively expedite the replacement cycle of home appliances across all market segments, becoming catalysts driving our rapid growth.

STRENGTHENING STORE OPERATING EFFICIENCY – "OPEN QUALITY MEGA STORES"

The Group will continue to open quality "mega-stores", particularly in important regional centers. Selected existing stores will be converted into the "new-model stores" and some will be turned into the flagship model of "Xin Huo Guan".

Designed with prevailing international examples in mind, both of the above models were proven successful when we remodeled some of our stores in 2009. We now plan to gradually roll out the new models throughout the network.

IMPLEMENTING DIFFERENTIATION STRATEGY

The Group has adhered to the sales and marketing strategy of product differentiation, which requires speedy introduction of the latest and most popular models and series and a diversified assortment of products which attract consumers by meeting their evolving needs. As a result, we will achieve dominant market position and raise our gross profit margin.

The Group will continue to carry out the product differentiation strategy through various paths, including intensive promotion, exclusive sale, custom-tailoring, OEM and ODM. We will carry more exclusive products and accessories that deliver higher gross profit margin. At the same time, value-added businesses such as extended warranty service and differentiated services such as remote device installation, will be well developed to improve our overall profitability.

STRENGTHENING 3C BUSINESS

3C products refer to digital products such as computers, cameras and communication equipment. They typically have enormous market demand and have short product life cycles, and thus become one of the focal lines promoted by home electrical appliance retailers.

3C products, as a key product category, will also follow the differentiation strategy so as to ensure incremental increases in profitability. We will establish professional 3C outlets to deepen the cooperation with 3C product manufacturers and operators and consequently improve our product lines to attract more customers. We will also improve the logistics operation of 3C products by carrying out daily inventory replenishment to effectively enhance the inventory turnover rate and lower the proportion of slow-moving products. This series of measures will help attract customers to spend more time touring our stores and will improve margins and profitability.

ENHANCING 3G BUSINESS

In 2009, the three telecom operators in China launched their respective "third generation" ("3G") products and services. According to official statistics, the current number of 3G users has already exceeded 10 million and is expected to reach 60 million by 2010 and over 100 million by 2011. 3G products will be the next hot spot in consumer spending.

On the back of 3G campaigns driven by the government and operators, we deepened our cooperation with operators to become the major channel for the sale of 3G products. We will set dedicated areas for the operators to promote their 3G products and areas for customers to take part in free-trials and experiments.

EXPANDING SECOND-TIER MARKETS

Given that the second-tier markets are maturing and that the nation's "go rural" policy will continue for at least another five years, there is huge potential in the second-tier markets. To this end, the Company set up a second-tier market business management center to oversee its retail network in the designated markets.

The Group will continue to enhance the effectiveness of network coverage by increasing the number of stores in second-tier markets and by optimizing its store network. Meanwhile, the Group will establish additional logistics centers in second-tier markets, complementing the extended coverage, so as to effectively

boost our market share in this segment and maintain advantages in each regional market.

IMPROVING RELATIONSHIPS WITH SUPPLIERS

The interests of retailers and suppliers are positively correlated with the supply chain. In 2009, we made a series of adjustments to optimize our network and improve individual store efficiency, changes which also benefit our suppliers.

As a leading home appliance retailer in China, the Group will continue to advocate for change and innovation within the sector. Being desirous of sustainable profitability for both retailers and suppliers, we will focus on improving the quality of individual stores and facilitating the sustainable and healthy development of the whole industry.

ENHANCING THE ECONOMIES OF SCALE BY "CENTRALIZED PROCUREMENT"

The Group has gained significant bargaining power in purchasing due to the economies of scale achieved by a centralized procurement and distribution system. The Group will continue to leverage its extensive retail network to further enhance centralized procurement and delivery. We will try to accelerate inventory turnover and improve working capital, while at the same time reducing operating and management expenses.

DEVELOPMENT OF E–COMMERCE

According to market forecasts, the value of online shopping will reach RMB1 trillion by 2014. In terms of 3C products in the home electrical appliance industry, it is expected that online sales of 3C goods will account for 10-15% of the overall 3C market in the next 5 years. Therefore, e-commerce poses significant growth potential and business opportunities for the electrical home appliance industry.

To satisfy customers' needs for multi-channel shopping experiences, we will provide online virtual shopping option to complement our existing physical stores, maintaining our leading position in the market place.

ADOPTING NEW INFORMATION SYSTEM

Our store network across the country is a natural source of market intelligence, which could be utilized effectively in operations, should a systematic approach on collecting and managing data be put in place.

As such, the Group plans to speed up the implementation of a new ERP system in 2010, which will help improve the timeliness and accuracy of management information, enhance the overall management capability and lower operating costs.

Milestones

January 2010

- GOME has signed a franchise license agreement with the 2010 Shanghai World Expo to become the authorized retailer of World Expo related home appliances. Both parties have set the sales target over RMB billion dollars.

December 2009

- China Foundation of Consumer Protection nominated GOME to be a "3.15 Consumer Pay Credible Company for protecting consumers' rights and interests" Protecting The Rights and Interests of The Consumers (保護消費者權益3.15信用單位)".

- The "2009 Most Valuable Chinese Brands Evaluation" sponsored by R & F Global Ranking was announced in New York, in which the brand value of GOME reached RMB55.3 billion and became the most valuable brand in the PRC retail industry for three consecutive years.

- GOME's fund raising plan was awarded the "China Best Deal" in Country Awards 2009 North Asia by The Asset Magazine.

November

- Mr. Chen Xiao, Chairman of the Group, who named one of the "100 Influential Persons of the World's Chinese Entrepreneurs of 2009 (2009年全球華商影響力100强)" selected by World Eminence Chinese Business Association.

- GOME was accredited with the title of "The Most Competitive Service Trademark of 2009 (2009最具競爭力服務商標)" in the Third China Trademark Fair (中國商標節) (2009) sponsored by Chinese Trademark Association (中華商標協會) and Qingdao Municipal Government with the authorization of State Administration for Industry and Commerce.

- GOME E-stores was awarded "Top 50 China Online Retail Mall Brand of 2009 (2009中國網上零售商城品牌50强)" and "Top 100 Consumer Favorite Websites of 2009 (2009消費者喜愛網站TOP100)" in "the Fourth Annual Meeting for Online Retail Industry of China (中國第四屆網上零售年會)".

October

- GOME ranked the first in "10 Best Brands in the 60 Years of New China (新中國60年十大品牌)" promoted and selected by Sina.

- GOME was recognized as an "Credit Management Technical Specification for Commercial Enterprise Experiment Unit" by Chinese Academy of International Trade and Economic Cooperation of the Ministry of Commerce.

September

- GOME was awarded "No. 1 Chinese Retail Enterprise" in "Top 500 Retail Enterprises in Asia-Pacific Region of 2009 (2009年亞太地區零售500强)."

- The Company issued convertible bonds due 2014 with 3% coupon for a total consideration of RMB2,357 million.

July

- The Company launched an open offer on the basis of 18 open offer shares for every 100 existing shares held and raised RMB1,361 million.

- GOME won "National Company of Special Dedication for After-Sale Service (全國售後服務特殊貢獻單位)" and "National Best 10 Companies of After-Sale Services (全國售後服務十佳單位)" in the "Fourth After-Sale Service Evaluation Campaign of National Product (第四届全國商品售後服務評價活動)" sponsored by various parties including China General Chamber of Commerce.

June

- GOME was accredited with the award of the "Best Mobile Channel of 2009" (2009年度最佳手機渠道商獎) by Southern Weekly《南方周末》.

- The Group entered into an investment agreement with Bain Capital, pursuant to which Bain Capital had subsequently in August 2009 subscribed to convertible bonds due 2016 with 5% coupon issued by the Company for a total consideration of RMB1,590 million.

March

- GOME ranked the first for the third consecutive year in "Top 100 Chinese Chain Stores of 2008 (2008年中國連鎖百强)" announced by China Chain Store & Franchise Association.

February

- GOME commenced the implementation of strategic transformation by optimizing networks, improving efficiency and focusing on the profitability enhancement of individual store, and pioneered the new operation model of super flagship store named as "Xin Huo Guan (新活館)" in the industry.

- GOME held its sixth Employee Annual Meeting in Beijing with the theme of "Passing through 2009 with succession, transformation and confidence".

January

- GOME was accredited as the "Best Enterprise of National Customer Satisfaction (全國顧客最佳滿意企業)" and the "Best Brand of National Customer Satisfaction (全國顧客最佳滿意品牌)" by China General Chamber of Commerce.

A united management team and sound corporate governance knit us together as a strong family

A corbel arch is at the center of much traditional Chinese wooden architecture. It integrates the roof with supporting pillars, while disseminating the weight, and its tenon-mortise joint provides integral strength in resisting earthquakes. We believe that sound corporate governance is to a lasting business what the corbel arch is to the building. At GOME, we look to best practices in corporate governance, and our experienced management team supports the corporation against disruptive external forces.

Directors and Senior Management Profile

The brilliant management team of GOME has attracted many elites.

EXECUTIVE DIRECTORS

Mr. CHEN Xiao, aged 51, 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 a director of various subsidiaries of the Company. Mr. Chen has over 20 years of experience in the 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 October 2005 when it was listed on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") until it became a non-listed wholly owned subsidiary group of the Company upon its delisting in January 2007. Mr. Chen is the president of Shanghai Electrical Products and Appliances Industry Association and the vice president of China Chain Store & Franchise Association.

Mr. WANG Jun Zhou, aged 48, 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. He is also a director of various subsidiaries of the Company. Mr. Wang assists the President of the Group in the overall management of daily operations, including the formulation of the Group's medium and long-term strategic plans and annual budgets as well as standardisation of various systems, processes and authorisations for the Group. Mr. Wang also assists in providing guidance and supervision as to the daily operations 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 the operations centre, general manager of the Southern China Region and general manager of the strategic and cooperation centre of the Group. Mr. Wang is a director of Sanlian Commercial Co., Ltd., a company listed on the Shanghai Stock Exchange.

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 the medium-to-long term strategic planning, preparation of annual budget, standardisation of various policies, systems and authorisations, organisational 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 and had previously held positions as director of the management centre, director of the pricing centre, director of the human resources centre and director of the 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.

Mr. NG Kin Wah, aged 50, 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. With effect from 13 July 2009, Mr. Ng was appointed to be a director of Shinning Crown Holdings Inc. and Shine Group Limited, both of which are wholly owned by Mr. Wong Kwong Yu, a substantial shareholder of the Company.

Mr. SUN Yi Ding, aged 42, has been the Vice President of the Group since November 2006 and an executive Director of the Company since June 2009. Mr. Sun is responsible for the business operations of the Group, including store operations, store locations and furnishing, logistics and after-sale service. He is also a director of various subsidiaries of the Company. He has 15 years of sales experience. Mr. Sun joined the Group in 1999 and had previously held positions such as manager of the 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 the sale and procurement centre, general manager of the operations centre, director of the chain development centre and general manager of the 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. Sun is a director of Sanlian Commercial Co., Ltd., a company listed on the Shanghai Stock Exchange.

NON-EXECUTIVE DIRECTORS

Mr. ZHU Jia, aged 47, has been a non-executive Director of the Company since August 2009. Mr. Zhu is a Juris Doctorate degree holder from Cornell Law School and is currently a managing director of Bain Capital Asia, LLC. Mr. Zhu has solid and extensive experience in a broad range of cross border mergers and acquisitions as well as internal financing transactions involving Chinese companies. Before joining Bain Capital Asia, LLC in 2006, he was a managing director of the investment banking division of and the chief executive officer of the China business of Morgan Stanley Asia Limited. He is also a non-executive director of Sinomedia Holding Limited, a company listed on Hong Kong Stock Exchange.

Mr. Ian Andrew REYNOLDS, aged 37, has been a non-executive Director of the Company since August 2009. Mr. Reynolds is currently a managing director of Bain Capital Asia, LLC. During his 14 years in the private equity industry, Mr. Reynolds has worked with companies in a variety of industries in the United States, Europe and Asia. Prior to Bain Capital Asia, LLC, Mr. Reynolds was a consultant at Bain & Company, where he worked extensively in the technology and consumer products industries. Mr. Reynolds obtained a Master Degree in Business Administration from Harvard Business School where he was a Baker Scholar and graduated cum laude with a Bachelor Degree in Arts from Yale College.

Ms. WANG Li Hong, aged 42, has been a non-executive Director of the Company since August 2009. Ms. Wang is currently a principal of Bain Capital Asia, LLC. Ms. Wang has more than 18 years of experience in the banking and finance industry in the United States and Asia. Before joining Bain Capital Asia, LLC in July 2006, Ms. Wang was an executive director at Morgan Stanley from April 2005 to July 2006, worked at J.P. Morgan Securities Asia Pacific Limited from October 2001 to March 2005 and Credit Suisse First Boston (U.S.) from September 1999 to September 2001. Ms. Wang obtained a Master Degree in Business Administration from Columbia Business School and was a graduate from Fudan University.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. SZE Tsai Ping, Michael, aged 64, has been an independent non-executive Director of the Company since 31 October 2002. Mr. Sze has over 30 years of experience in the financial and securities field. He graduated with a Master of Laws (LLM) degree at the University of Hong Kong. He is currently a member of the Securities and Futures Appeals Tribunal in Hong Kong. Mr. Sze was a former Council Member, member of the Main Board Listing Committee, member of the Disciplinary Appeals Committee of the Hong Kong Stock Exchange and member of the Cash Market Consultative Panel of Hong Kong Exchange and Clearing Limited 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 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 and 3 November 2009 respectively, as an independent non-executive director of T S Telecom Technologies Limited and C Y Foundation Group Limited, both of which are listed on the Hong Kong Stock Exchange. He is a fellow of the Institute of Chartered Accountants in England and Wales, the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants and also a fellow of the Hong Kong Institute of Directors Limited.

Mr. CHAN Yuk Sang, aged 64, 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. Thomas Joseph MANNING, aged 54, 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.

Except as disclosed above, none of the Directors is related to each other or to any substantial shareholder of the Company.

SENIOR MANAGEMENT

Mr. FANG Wei, aged 38, was appointed as the Acting Chief Financial Officer of the Group with effect from 27 November 2008 and is a member of the decision-making committee of the Group. Mr. Fang is responsible for the overall planning and implementation of the Group's internal budget as well as the accounting and auditing system. Mr. Fang also participates in major decision making in relation to the investment, financing and operations of the Group. Mr. Fang is a graduate of the accounting faculty 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 the finance centre and member of the execution committee of the Group. Mr. Fang was 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, aged 44, is the Vice President of the Group, and is mainly responsible for the home electrical appliances business centre and the daily home electrical appliances centre of the Group. He is also a director of various subsidiaries of the Company. He is one of the important decision makers in relation to the business operations and development strategies of the Group. Mr. Li has over 20 years of experience in electrical appliances retail business, chain store operations and management as well as market analysis. Mr. Li joined the Group in 1988, had previously held positions as a member of the decision-making committee, general manager of the sale and procurement centre, director of the strategic cooperation centre and general manager of the Northern China Region of the Group and had also been responsible for the home electrical appliances for rural areas centre 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 has been granted the "Special Contribution Award" and "Outstanding Leader Award" on numerous occasions by the Group.

Mr. HE Yang Qing, aged 46, is the Vice President of the Group, mainly responsible for the brand management centre, the store re-modelling and refurnishing centre as well as the customer service centre of the Group. Mr. He joined the Group in 2003 and had previously held positions as member of Decision-making Committee and assistant director of the sales centre of the Group. Mr. He has 25 years of extensive and solid experience in the industries of retail sale and manufacture of home electrical appliances, 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. He was also a torcher for the Year 2004 and Year 2008 Olympic Games.

Mr. MU Gui Xian, aged 38, is the Vice President of the Group. He is 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 the management centre, general manager of the store management centre, general manager of Region 1 of the Northern China Region, general manager of the Beijing Area, general manager of Northern China and general manager of the telecommunication subsidiary of the Group. Mr. Mu was 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).

Report of the Directors

The board of directors (the "Directors") of the Company (the "Board") have pleasure in submitting their report and the audited financial statements of GOME Electrical Appliances Holding Limited (the "Company") and its subsidiaries (collectively, the "Group") for the year ended 31 December 2009.

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 5 to the financial statements on page 133.

FINANCIAL STATEMENTS

The results of the Group for the year are set out in the Consolidated Income Statement on page 91 and Consolidated Statement of Comprehensive Income on page 92.

The state of affairs of the Group as at 31 December 2009 is set out in the Consolidated Statement of Financial Position on pages 93 and 94.

The cash flows of the Group for the year are set out in the Consolidated Statement of Cash Flows on pages 96 to 97.

SHARE CAPITAL

Details of the movement in share capital of the Company are set out in note 33 to the financial statements on page 184.

DIVIDENDS

The Board does not recommend the payment of a final dividend for the year ended 31 December 2009.

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 35 to the financial statements on pages 188 to 190 and in the consolidated statement of changes in equity.

As at 31 December 2009, the Company's reserve available for distribution amounted to negative RMB173.80 million (2008: 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 147 and 149.

MAJOR SUPPLIERS

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

PURCHASES

– the largest supplier	9.57%
– five largest suppliers combined	31.57%

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 RMB2.32 million.

DIRECTORS

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

EXECUTIVE DIRECTORS

Mr. CHEN Xiao	
Mr. NG Kin Wah	
Mr. WANG Jun Zhou	
Ms. WEI Qiu Li	(re-appointed with effect from 16 January 2009)*
Mr. SUN Yi Ding	(appointed with effect from 30 June 2009)
Mr. WONG Kwong Yu	(resigned on 16 January 2009)

NON-EXECUTIVE DIRECTORS

Mr. ZHU Jia	(appointed with effect from 3 August 2009)
Mr. Ian Andrew REYNOLDS	(appointed with effect from 3 August 2009)
Ms. WANG Li Hong	(appointed with effect from 3 August 2009)
Mr. SUN Qiang Chang	(resigned on 23 July 2009)

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. SZE Tsai Ping, Michael	
Mr. CHAN Yuk Sang	
Mr. Thomas Joseph MANNING	
Mr. Mark Christopher GREAVES	(resigned on 30 July 2009)
Dr. LIU Peng Hui	(retired on 30 June 2009)
Mr. YU Tung Ho	(resigned on 30 July 2009)

* Ms. Wei Qiu Li was re-appointed as an executive Director on 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. 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. Ms. Wei has not acted in the capacity as Director since the discovery by the Board of her invalid appointment as an executive Director.

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 21, 27 and 38 to the financial statements on page 159, page 170, and pages 193 to 196 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

With the resignation of Mr. Wong Kwong Yu as a Director of the Company on 16 January 2009, as at 31 December 2009, no Director is interested in any business (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.

During the year, both Mr. Wong Kwong Yu ("Mr. Wong") and Ms. Du Juan ("Ms. Du"), who resigned as Directors of the Company 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").

Mr. Wong and the Company entered into the Non-competition Undertaking on 29 July 2004 pursuant to which Mr. Wong 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 remains as the controlling shareholder of the Company. The Company undertook to Mr. Wong 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 may grant share option to subscribe for the shares of the Company (the "Share(s)") 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)*. During the year ended 31 December 2009, share options to subscribe for an aggregate of 383,000,000 Shares had been granted pursuant to the Share Option Scheme. 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 7 April 2010, a maximum number of Shares available for issue under the Share Option Scheme was 656,979,032 Shares, representing approximately 4.36% of the issued share capital of the Company as at 7 April 2010.

The number of Shares in respect of which options may be granted pursuant to the Share Option Scheme (the "Option(s)") shall not exceed 10% of the Shares in issue on date of adoption of the Share Option Scheme. Unless otherwise approved by the shareholders of the Company in general meeting, the number of Shares in respect of which Options may be granted to each Participant in any 12-month period shall not exceed 1% (except for any grant to substantial shareholders as defined in the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the "Listing Rules"), or an independent non-executive Director 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 Hong Kong Stock Exchange on the date of grant; (b) average of the closing prices of the Shares as stated in the Hong Kong 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).

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

As at 31 December 2009, the interests and short positions of the Directors and chief executives 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 Hong Kong 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, THE UNDERLYING SHARES AND DEBENTURES OF THE COMPANY

Name of Director	Personal interest	Interest of spouse	Corporate interest	Trustee	Total	Approximate % shareholding
Chen Xiao	22,000,000 *(Note 1)*	–	198,682,228 *(Note 2)*	–	220,682,228	1.47
Wang Jun Zhou	20,000,000 *(Note 1)*	–	–	–	20,000,000	0.13
Wei Qiu Li	18,000,000 *(Note 1)*	–	–	–	18,000,000	0.12
Sun Yi Ding	13,000,000 *(Note 1)*	–	–	–	13,000,000	0.09
Ng Kin Wah	10,000,000 *(Note 1)*	–	–	–	10,000,000	0.07
Zhu Jia	1,168,920	–	–	–	1,168,920	0.01

Notes:

1. The relevant interests represent the number of Shares issuable upon exercise of the Options granted to these Directors pursuant to the Share Option Scheme as was particularly described in the section headed "Share Option Scheme" below. These Options were held by these Directors beneficially.

2. These Shares were held by Retail Management Company Limited, a company which is controlled by Mr. Chen Xiao.

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	–	–	20,000,000 *(Note)*	–	20,000,000	0.13

Note: These interests were held by Retail Management Company Limited, a company which is controlled by Mr. Chen Xiao.

Save as disclosed above, as at 31 December 2009, 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 Hong Kong Stock Exchange pursuant to the Model Code.

SHARE OPTION SCHEME

As at 31 December 2009, Options to subscribe for an aggregate of 383,000,000 Shares of the Company granted pursuant to the Share Option Scheme were outstanding. Details of which were as follows:

			Number of Options				
Name of grantee	Date of grant	Exercise price per Share	As at 1 January 2009	Granted during the year	Exercised during the year	Lapsed during the year	As at 31 December 2009
		HK$					*(Note 1)*
Directors							
Chen Xiao	7 July 2009	1.90	–	22,000,000	–	–	22,000,000
Wang Jun Zhou	7 July 2009	1.90	–	20,000,000	–	–	20,000,000
Wei Qiu Li	7 July 2009	1.90	–	18,000,000	–	–	18,000,000
Sun Yi Ding	7 July 2009	1.90	–	13,000,000	–	–	13,000,000
Ng Kin Wah	7 July 2009	1.90	–	10,000,000	–	–	10,000,000
Senior management							
Fang Wei	7 July 2009	1.90	–	10,000,000	–	–	10,000,000
Li Jun Tao	7 July 2009	1.90	–	18,000,000	–	–	18,000,000
He Yang Qing	7 July 2009	1.90	–	10,000,000	–	–	10,000,000
Mu Gui Xian	7 July 2009	1.90	–	13,000,000	–	–	13,000,000
Other employees *(Note 2)*	7 July 2009	1.90	–	249,000,000	–	(8,300,000) *(Note 5)*	240,700,000
Total				383,000,000	–	(8,300,000)	374,700,000

The closing price of the Company's Shares immediately before 7 July 2009, being the date of grant of the Options, was HK$1.76 per Share.

Notes:

1. Each Option has a 10-year exercise period and may be exercised after the expiry of twelve months from the date of the grant of options.

   Each grantee may exercise up to 25%, 50%, 75% and 100% of the Options granted commencing from the first, second, third and fourth anniversaries, respectively, of the date of the grant of the Options.

2. 96 employees have been granted Options under the Share Option Scheme to acquire an aggregate of 249,000,000 Shares at HK$1.90 per Share.

3. The fair value of Options granted on 7 July 2009 under the Share Option Scheme, determined by using the Binomial Model value model, was approximately RMB296.45 million. The significant inputs into the model were the exercise price of HK$1.90, expected volatility and historical volatility of 63%, expected dividend yield rate of 1.2% and annual risk-free interest rate is 2.565%. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

4. The vesting period of these Options is from the date of grant until the commencement of the exercise period mentioned above.

5. 8,300,000 Options had been cancelled during the year ended 31 December 2009.

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 2009, 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 Hong Kong Stock Exchange:

Name of Shareholder	Nature	Number of ordinary Shares held	Approximate % of shareholding
Mr. Wong Kwong Yu *(Note 1)*	Long position	5,116,439,490	33.98
Shinning Crown Holdings Inc. *(Note 2)*	Long position	4,249,000,000	28.22
Bain Capital Investors, LLC *(Note 3)*	Long position	1,627,924,595	10.81
JPMorgan Chase & Co *(Note 4)*	Long position	1,467,219,454	9.75
	Short position	64,926,000	0.43
	Lending pool	1,006,318,745	6.68
Morgan Stanley *(Note 5)*	Long position	1,111,263,939	7.38
	Short position	253,923,653	1.69

Notes:

(1) Of these 5,116,439,490 Shares, 4,249,000,000 Shares were held by Shinning Crown Holdings Inc. and 624,453,890 Shares were held by Shine Group Limited (both companies are 100% beneficially owned by Mr. Wong), and 237,321,600 Shares were held by Smart Captain Holdings Limited and 5,664,000 Shares were held by Wan Sheng Yuan Asset Management Company Limited (both companies are 100% beneficially owned by Ms. Du Juan, the spouse of Mr. Wong).

(2) Shinning Crown Holdings Inc. is 100% beneficially owned by Mr. Wong.

(3) These Shares represent unlisted derivatives held by Bain Capital Investors, LLC (which will be physically settled) through its interests in controlled corporations.

(4) JPMorgan Chase & Co. held long position in 167,357,029 Shares and short positions in 64,926,000 Shares in its capacity as beneficial owner, long position in 293,543,680 Shares in its capacity as investment manager, and long position in 1,006,318,745 Shares in the lending pool in its capacity as custodian corporation/approved lending agent. Of these Shares, 92,507,649 Shares are listed derivatives which will be physically settled.

(5) Morgan Stanley was interested in these Shares through its interests in controlled corporations.

SUBSIDIARIES

Details of the Company's principal subsidiaries at 31 December 2009 are set out in note 22 to the financial statements on pages 160 to 166.

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 and thus, a connected person of the Company, 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 RMB360.13 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 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 RMB92.53 million.

(3) The Group negotiated with various suppliers for both the Group and the Parent Group, being connected persons of the Company, 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 "2004 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 2004 Purchasing Service Agreement with Beijing GOME (the "2006 Purchasing Service Agreement"), pursuant to which the 2004 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 2006 Purchasing Service Agreement; (ii) the term of the 2006 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 2006 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 RMB138.33 million.

In addition, on 22 June 2009, 昆明恒達物流有限公司 (Kunming Hengda Logistics Company Limited) ("Kunming Hengda"), another indirect wholly-owned subsidiary of the Company, entered into a purchasing service agreement (the "2010 Purchasing Service Agreement") with 國美電器零售有限公司 (Gome Electrical Appliances Retail Co. Ltd.) ("Gome Retail"), a subsidiary of Beijing GOME and thus, a connected person of the Company, pursuant to which Kunming Hengda will provide and will procure other members of the Group to provide purchasing services to the Parent Group for a period of three years from 1 January 2010 to 31 December 2012. The terms of the 2010 Purchasing Service Agreement are the same as those in the 2006 Purchasing Service Agreement. The maximum fees to be receivable by Kunming Hengda or its nominee from the Parent Group under the 2010 Purchasing Service Agreement shall not exceed RMB150.0 million (excluding value added tax) in each financial year.

(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 to be generated from the Parent Group based on the anticipated business growth, pursuant to a management agreement (the "2004 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 2004 Management Agreement with Beijing GOME (the "2006 Management Agreement"), pursuant to which the 2004 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 2006 Management Agreement; (ii) the term of the 2006 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 2006 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 RMB95.21 million.

In addition, on 22 June 2009, 濟南萬盛源經濟諮詢有限公司 (Jinan Wansheng Yuan Economic Consulting Company Limited) ("Jinan Wansheng"), another indirect wholly-owned subsidiary of the Company, entered into a management agreement (the "2010 Management Agreement") with Gome Retail, pursuant to which Jinan Wansheng will provide and will procure other members of the Group to provide management services to the Parent Group for a period of three years from 1 January 2010 to 31 December 2012. The terms of the 2010 Management Agreement are the same as those in the 2006 Management Agreement. The maximum fees to be receivable by Jinan Wansheng or its nominee from the Parent Group under the 2010 Management Agreement shall not exceed RMB100.0 million (excluding value added tax) in each financial year.

(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 and thus, a connected person of the Company), 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 (i) the Purchaser agreed to provide loans in the total amount of RMB653,423,000 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; (ii) 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 (iii) 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. As at 31 December 2009, the Purchaser had exercised its option to acquire from the Vendors 10% in the registered share capital of Yongle (China) for a total consideration of RMB811,080,800 and the acquisition had been completed. The loans in the total amount of RMB653,423,000 to the Vendors (other than Shanghai Hegui) under the four loan agreements dated 28 August 2008 have been treated as investment funds on the Purchaser's balance sheet. The above transactions had been completed as at 31 December 2009.

All independent non-executive Directors 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 that the Continuing Connected Transactions:

1. have been approved by the Board;

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 2009, the Group employed a total of 42,368 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.

PENSION SCHEME

Particulars of the Group's pension schemes are set out in note 9 to the financial statements on page 142.

COMMITMENTS

Details of commitments are set out in note 37 to the financial statements on pages 191 and 192.

INDEPENDENCE CONFIRMATION

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

CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance and has complied with the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules. Further information on the Company's corporate governance practices is set out in the Corporate Governance Report on pages 73 to 88.

EXCHANGE RATES EXPOSURE

Details of the exchange rates exposure are set out in note 42 to the financial statements on pages 204 and 205.

PURCHASE, SALE AND REDEMPTION OF SHARES

During the year ended 31 December 2009, the Company had repurchased the Old 2014 Convertible Bonds in the principal amounts of RMB1,326,300,000 and RMB498,400,000 by way of over-the-counter purchases on 24 September 2009 and 19 November 2009 respectively. The repurchased bonds had been cancelled upon the repurchases during the year. As at 31 December 2009, the principal amount of the Old 2014 Convertible Bonds outstanding was RMB2,775,300,000.

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 2009.

CONVERTIBLE SECURITIES, OPTIONS, WARRANTS OR SIMILAR RIGHTS

Save for the share options as set out above and the outstanding convertible bonds and warrants as set out in note 32 and 6 to the financial statements, the Company had no outstanding convertible securities, options, warrants or other similar rights as at 31 December 2009.

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 2009, Tianjin Consultancy had made advances in the aggregate amount of RMB3.6 billion (as at 31 December 2008: RMB3.6 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 in year 2008, and the interest rate was 5.103% per annum. It has been further renewed for a period of two years from 15 December 2009 to 14 December 2011 in year 2009 and the interest rate is 4.86%. As at 31 December 2009, the Advance was RMB3.6 billion and the Advance represented approximately 10.07% under the assets ratio as defined under Rule 14.07(1) of the Listing Rules.

EVENTS AFTER THE REPORTING PERIOD

Details of the events after the reporting period are set out in note 43 to the financial statements on page 211.

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.

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, 7 April 2010

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 other 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 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 2009, most of the retail outlets leased by the Group are 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 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 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 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 of the Company, 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.

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The Company is committed to upholding good corporate governance practices. In the past, 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 Hong Kong 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 Hong Kong Stock Exchange (the "Listing Rules") effective from 1 January 2005. The Board responded promptly in 2005 to review its corporate governance practices and took appropriate actions to ensure that the Company is in compliance with the CG Code. Since 2005, the Board has reviewed its corporate governance practices and ensured that the Company was in compliance with the CG Code on an annual basis.

Save for the deviation as disclosed in the paragraph headed "Chairman and Chief Executive Officer" below, the Company has complied with the code provisions of the CG Code for the year ended 31 December 2009.

Set out below are the status and details of compliance by the Company of the CG Code in the year ended 31 December 2009.

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. Having made due and careful enquiry, the Company confirms that all Directors have complied with the Model Code during the year ended 31 December 2009.

BOARD OF DIRECTORS

BOARD COMPOSITION

During the year ended 31 December 2009, the Board comprises the following executive Directors, non-executive Directors and independent non-executive Directors:

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)*
Ms. Wei Qiu Li*	*(Executive Director) (appointed with effect from 1 September 2008 and re-appointed with effect from 16 January 2009)*
Mr. Sun Yi Ding	*(Executive Director) (appointed with effect from 30 June 2009)*
Mr. Wong Kwong Yu	*(Executive Director and Chairman) (resigned on 16 January 2009)*
Mr. Zhu Jia	*(Non-executive Director) (appointed on 3 August 2009)*
Mr. Ian Andrew Reynolds	*(Non-executive Director) (appointed on 3 August 2009)*
Ms. Wang Li Hong	*(Non-executive Director) (appointed on 3 August 2009)*
Mr. Sun Qiang Chang	*(Non-executive Director) (resigned on 23 July 2009)*
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)*
Mr. Mark Christopher Greaves	*(Independent non-executive Director) (resigned on 30 July 2009)*
Dr. Liu Peng Hui	*(Independent non-executive Director) (retired on 30 June 2009)*
Mr. Yu Tung Ho	*(Independent non-executive Director) (resigned on 30 July 2009)*

* Ms. Wei Qiu Li was re-appointed as an executive Director 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. 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. Ms. Wei has not acted in the capacity as Director since the discovery by the Board of her invalid appointment as an executive Director.

The biographical details of the Board members are set out on pages 46 to 51 of this Annual Report.

All non-executive Directors are appointed with specific term from the date of the 2009 annual general meeting of the Company or the date of the appointment to the conclusion of the forthcoming annual general meeting of the Company (the "2010 AGM"). The Board has confirmed with each of the independent non-executive Directors as to his independence with reference to the factors as set out in Rule 3.13 of the Listing Rules. The Board is satisfied with the independence of the independent non-executive Directors.

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 2009, 17 Board meetings (including 4 regular Board meetings) were held. Details of the Directors' attendance records during the year are as follows:

Directors	Attendance
Mr. Chen Xiao	17/17 (4/4)*
Mr. Ng Kin Wah	17/17 (4/4)*
Mr. Wang Jun Zhou	17/17 (4/4)*
Ms. Wei Qiu Li**	16/17 (4/4)*
Mr. Sun Yi Ding***	7/17 (2/4)*
Mr. Wong Kwong Yu****	0/17 (0/4)*
Mr. Zhu Jia***	5/17 (2/4)*
Mr. Ian Andrew Reynolds***	5/17 (2/4)*
Ms. Wang Li Hong***	5/17 (2/4)*
Mr. Sun Qiang Chang****	9/17 (2/4)*
Mr. Sze Tsai Ping, Michael	15/17 (4/4)*
Mr. Chan Yuk Sang	16/17 (4/4)*
Mr. Thomas Joseph Manning	15/17 (4/4)*
Mr. Mark Christopher Greaves****	11/17 (2/4)*
Dr. Liu Peng Hui****	2/17 (0/4)*
Mr. Yu Tung Ho****	10/17 (1/4)*

* *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.*

** *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 re-appointment as Director.*

*** *Mr. Sun Yi Ding was appointed as an executive Director with effect from 30 June 2009 and therefore did not attend any meeting of the Board prior to his appointment. Each of Mr. Zhu Jia, Mr. Ian Andrew Reynolds and Ms. Wang Li Hong was appointed as a non-executive Director with effect from 3 August 2009 and therefore did not attend any meeting of the Board prior to his/her appointment.*

**** *Mr. Sun Qiang Chang resigned as a non-executive Director on 23 July 2009. Each of Mr. Mark Christopher Greaves and Mr. Yu Tung Ho resigned as an independent non-executive Director on 30 July 2009. Mr. Wong Kwong Yu resigned as an executive Director on 16 January 2009. Therefore, they did not attend any meeting of the Board subsequent to their respective resignations. Dr. Liu Peng Hui retired on 30 June 2009 and therefore did not attend any meeting of the Board subsequent to his retirement.*

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 two 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 12 days. Agenda accompanying Board papers relating to three out of four regular Board meetings during the year under review were sent to all Directors at least 3 days respectively prior to such meeting in compliance with the CG Code except for one regular Board meeting where the agenda accompanying Board papers were sent to all Directors 2 days prior to such meeting as the relevant information was not available earlier.

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. 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 appointed Mr. Chen Xiao who is an executive Director and the President of the Company to be the Acting Chairman of the Company with effect from 27 November 2008 and then to be the Chairman of the Company with effect from 16 January 2009. 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 and then the Chairman of the Company constituted a deviation from code provision A.2.1 of the CG Code. Given that Mr. Chen Xiao has been 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 Chairman of the Company 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. Chen Xiao served as the Acting Chairman of the Company until 16 January 2009 on which date he was appointed 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.

BOARD COMMITTEES

As at 31 December 2009, the Board had the following committees:

1. Remuneration Committee;
2. Nomination Committee;
3. Audit Committee;
4. Independent Committee; and
5. Executive 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 2009, the Remuneration Committee comprised the following members:

Mr. Mark Christopher Greaves	*(Independent non-executive Director and chairman of the Remuneration Committee) (retired on 30 July 2009)*
Mr. Sze Tsai Ping, Michael	*(Independent non-executive Director)*
Mr. Chan Yuk Sang	*(Independent non-executive Director) (appointed as chairman of the Remuneration Committee with effect from 15 September 2009)*
Mr. Thomas Joseph Manning	*(Independent non-executive Director)*
Mr. Wang Jun Zhou	*(Executive Director) (appointed on 16 January 2009)*
Mr. Zhu Jia	*(Non-executive Director) (appointed on 3 August 2009)*

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;

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 4 meetings. Attendance records of the members of the Remuneration Committee of such meetings are as follows:

Committee members	Attendance
Mr. Mark Christopher Greaves*	2/4
Mr. Sze Tsai Ping, Michael	4/4
Mr. Chan Yuk Sang	4/4
Mr. Thomas Joseph Manning	4/4
Mr. Wang Jun Zhou**	3/4
Mr. Zhu Jia**	2/4

* *Mr. Mark Christopher Greaves retired as member of the Remuneration Committee with effect from 30 July 2009 and therefore did not attend any meeting of the Remuneration Committee subsequent to his retirement.*

** *Mr. Wang Jun Zhou and Mr. Zhu Jia were appointed as members of Remuneration Committee with effect from 16 January 2009 and 3 August 2009 respectively and therefore did not attend any meeting of the Remuneration Committee prior to their respective appointments.*

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 2009, the Nomination Committee comprised the following members:

Dr. Liu Peng Hui	*(Independent non-executive Director and ceased to be chairman of the Nomination Committee with effect from 27 May 2009) (retired on 30 June 2009)*
Mr. Mark Christopher Greaves	*(Independent non-executive Director) (retired on 30 July 2009)*
Mr. Yu Tung Ho	*(Independent non-executive Director) (retired on 30 July 2009)*
Mr. Sun Qiang Chang	*(Non-executive Director) (retired on 23 July 2009)*
Ms. Wei Qiu Li	*(Executive Director) (appointed with effect from 16 January 2009) (appointed to be the chairman of the Nomination Committee with effect from 15 September 2009)*
Mr. Zhu Jia	*(Non-executive Director) (appointed with effect from 3 August 2009)*
Mr. Sze Tsai Ping, Michael	*(Independent non-executive Director) (appointed with effect from 15 September 2009)*
Mr. Chan Yuk Sang	*(Independent non-executive Director) (appointed with effect from 27 May 2009) (acted as chairman of Nomination Committee from 27 May to 15 September 2009)*
Mr. Thomas Joseph Manning	*(Independent non-executive Director) (appointed with effect from 15 September 2009)*

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 as well as considered the re-appointment and/or appointment of Directors.

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*	1/3
Mr. Mark Christopher Greaves*	3/3
Mr. Yu Tung Ho*	2/3
Mr. Sun Qiang Chang*	3/3
Ms. Wei Qiu Li**	2/3
Mr. Zhu Jia**	0/3
Mr. Sze Tsai Ping, Michael**	0/3
Mr. Chan Yuk Sang**	0/3
Mr. Thomas Joseph Manning**	0/3

* *Dr. Liu Peng Hui, Mr. Mark Christopher Greaves, Mr. Yu Tung Ho and Mr. Sun Qiang Chang retired as members of the Nomination Committee with effect from 30 June, 30 July, 30 July and 23 July 2009 respectively and therefore did not attend any meeting of the Nomination Committee subsequent to their respective retirements.*

** *Ms. Wei Qiu Li, Mr. Zhu Jia, Mr. Sze Tsai Ping, Michael, Mr. Chan Yuk Sang and Mr. Thomas Joseph Manning were appointed as members of the Nomination Committee on 16 January, 3 August, 15 September, 27 May and 15 September 2009 respectively and therefore did not attend any meeting of the Nomination Committee prior to their respective appointments.*

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

Pursuant to Bye-law 99(A) of the Company's Bye-laws, at each annual general meeting of the Company, at least one third of the Directors for the time being shall retire from office, except for the director holding the office as the chairman or managing director of the Company. Pursuant to the code provision A.4.2 of the CG Code, every director appointed should be subject to retirement by rotation at least once every three years. 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 COMMITTEES

An independent committee was established by the Board on 14 March 2006 pursuant to a subscription agreement dated 28 January 2006 (the "Subscription Agreement") entered into among the Company, Real Success International Limited and Warburg Pincus Private Equity IX, L.P. ("Warburg Pincus") for the following purposes:

1. monitoring 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. making 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.

With the resignation of Mr. Sun Qiang Chang (who was nominated by Warburg Pincus as non-executive Director under the Subscription Agreement) as a Director on 23 July 2009, the Board considered that the continuous existence of such independent committee was no longer necessary. As such, the Board resolved to dissolve the above mentioned independent committee on 29 July 2009.

Another new independent committee was established by the Board on 21 August 2009 (the "Independent Committee"). During the year ended 31 December 2009, such newly established Independent Committee comprised the following members:

Mr. Thomas Joseph Manning	*(Independent non-executive Director and chairman of the Independent Committee)*
Mr. Zhu Jia	*(Non-executive Director)*
Ms. Wang Li Hong	*(Non-executive Director)*
Mr. Sze Tsai Ping, Michael	*(Independent non-executive Director)*
Mr. Chan Yuk Sang	*(Independent non-executive Director)*

The Independent Committee is primarily responsible for the following duties:

1. to evaluate, assess and advise on the material connected transactions of the Group before execution;

2. to oversee the execution and performance of the material connected transactions of the Group;

3. to devise and review the internal control systems, policies and/or procedures relating to connected transaction management of the Group;

4. to monitor the compliance of material connected transactions of the Group with the applicable law and regulations;

5. to devise and review the internal control systems, policies and/or procedures of the Group generally;

6. to report to the Board on all matters relating to connected transactions and internal control matters of the Group; and

7. to consider other matters and/or special projects as assigned and authorized by the Board.

During the year under review, no Independent Committee meeting was held.

EXECUTIVE COMMITTEE

Pursuant to the investment agreement dated 7 June 2009, as amended by a supplemental agreement thereto dated 19 June 2009, in each case made between the Company and Bain Capital Glory Limited regarding the issue by the Company of RMB1,590 million US Dollar settled 5% convertible bonds due 2016 to Bain Capital Glory Limited, the Executive Committee was established by the Board on 29 July 2009. All members of the Executive Committee shall be executive Directors and the Executive Committee shall consist of not less than three members. During the year ended 31 December 2009, the Executive Committee comprised the following members:

Mr. Chen Xiao	*(Executive Director and chairman of the Executive Committee)*
Mr. Wang Jun Zhou	*(Executive Director)*
Ms. Wei Qiu Li	*(Executive Director)*

The Executive Committee is primarily responsible for the following duties:

1. to oversee the day-to-day management and operation of the Group;

2. to make recommendations to the Board on annual budgets and performance targets;

3. to make recommendations to the Board on strategic development plans and potential acquisitions;

4. to appoint, and terminate the employment of, any officer of the Group at or above the level of vice president, including appointment of the Chief Financial Officer and Senior Legal Officer (PRC) of the Company as referred to in the Investment Agreement between the Company and Bain Capital Glory Limited;

5. to determine the specific remuneration packages and terms of employment of officers of the Group at or above the level of vice president;

6. to approve the opening and closing of bank accounts of any Group members;

7. to approve any transaction which is not required to be disclosed under the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange; and

8. to approve the dissolution/deregistration of any Group member which has become dormant or ceased business or otherwise become inactive.

During the year under review, no meeting of the Executive Committee was held.

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 2009, 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. Thomas Joseph Manning	*(Independent non-executive Director) (appointed on 29 July 2009)*
Mr. Mark Christopher Greaves	*(Independent non-executive Director) (retired on 30 July 2009)*
Dr. Liu Peng Hui	*(Independent non-executive Director) (retired or 30 June 2009)*

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

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

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

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

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

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

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

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

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

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

The Audit Committee shall meet at least twice each year. In 2009, 10 Audit Committee meetings were held for, amongst other matters, considering the annual results of the Group for the financial year ended 31 December 2008, the quarterly results of the Group for the three months ended 31 March 2009, the interim results of the Group for the six months ended 30 June 2009 and the quarterly results of the Group for the nine months ended 30 September 2009, 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.

Attendance records of the Audit Committee members in 2009 are as follows:

Committee members	Attendance
Mr. Sze Tsai Ping, Michael	10/10
Mr. Chan Yuk Sang	9/10
Mr. Thomas Joseph Manning*	2/10
Mr. Mark Christopher Greaves**	5/10
Dr. Liu Peng Hui**	1/10

* *Mr. Thomas Joseph Manning was appointed as member of the Audit Committee on 29 July 2009 and therefore did not attend any meeting of Audit Committee prior to his appointment.*

** *Mr. Mark Christopher Greaves and Dr. Liu Peng Hui retired as members of Audit Committee on 30 July and 30 June 2009 respectively and therefore did not attend any meeting of Audit Committee after their respective retirements.*

The amount of audit fees payable to Ernst & Young, the auditors of the Company, for the year ended 31 December 2009 is RMB8,100,000 (2008: RMB9,850,000). The amount of remuneration payable to the auditors of the Company relating to non-audit services for the year ended 31 December 2009 is RMB4,586,000 (2008: RMB500,000). The Audit Committee is of the view that the auditors' independence was not affected by the provision of such non-audit related services to the Group.

Pursuant to the Bye-laws of the Company, the terms of appointment of the auditors of the Company will expire at the end of the 2010 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 2010 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.

As the fund raising of the Company had been completed and the crisis of the Company was over, the Special Action Committee was dissolved by the Board on 7 July 2009.

For the year ended 31 December 2009, 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 14 meetings in connection with the Investigation for, amongst other matters, considering the independent external review on 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. Thomas Joseph Manning	14/14
Mr. Sun Qiang Chang*	1/14
Mr. Chan Yuk Sang	13/14
Mr. Mark Christopher Greaves	13/14

* *Mr. Sun Qiang Chang resigned as member of Special Action Committee on 22 January 2009 and therefore did not attend any meeting of Special Action Committee subsequent to his resignation.*

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 2008, and has reviewed the effectiveness of the Group's material internal controls for the year 2009 and is satisfied that, based on information furnished to it and on its own observations, the present internal controls of the Group are satisfactory.

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 disclosed in the announcement of the Company dated 22 June 2009, having considered the results of the Company's internal audit, the Internal Control Review and the Financial Review, and the financial results of the Group for the year ended 31 December 2008, the Board confirmed that: (i) there had not been any deficiencies in the internal control system of the Group in any material respect as at 30 November 2008; (ii) there had not been any misappropriation of funds or assets in the past transactions and accounting records of the Group as at 30 November 2008; and (iii) during the year ended 31 December 2008, the actual amount of connected transactions did not exceed the relevant threshold as approved by the independent shareholders of the Company. The Board is also generally satisfied that the overall internal control system of the Group is adequate and effective.

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 Hong Kong 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 Hong Kong Stock Exchange to provide better disclosure to the financial market and to the existing and potential shareholders of the business performance of the Group.

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

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

INVESTOR RELATIONS

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

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

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

Independent Auditors' Report

ERNST & YOUNG
安 永

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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 91 to 211, which comprise the consolidated and company statements of financial position as at 31 December 2009, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

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

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

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

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

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2009 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
7 April 2010

Consolidated Income Statement

Year ended 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
REVENUE	5	**42,667,572**	45,889,257
Cost of sales		**(38,408,042)**	(41,381,223)
Gross profit		**4,259,530**	4,508,034
Other income and gains	5	**3,131,646**	3,266,244
Selling and distribution costs		**(4,352,350)**	(4,487,131)
Administrative expenses		**(845,235)**	(828,028)
Other expenses		**(490,062)**	(515,357)
Profit from operating activities		**1,703,529**	1,943,762
Finance costs	7	**(348,969)**	(212,118)
Finance income	7	**341,209**	441,017
Gain/(loss) on the derivative component of convertible bonds	32(i)	**136,740**	(189,220)
Impairment of other investments	16	**–**	(449,592)
PROFIT BEFORE TAX	6	**1,832,509**	1,533,849
Income tax expense	10	**(406,310)**	(435,156)
PROFIT FOR THE YEAR		**1,426,199**	1,098,693
Attributable to:			
Owners of the parent		**1,409,288**	1,048,160
Minority interests		**16,911**	50,533
		1,426,199	1,098,693
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	11		
– Basic		**RMB10.3 fen**	RMB8.2 fen
– Diluted		**RMB9.5 fen**	RMB8.2 fen

Consolidated Statement of Comprehensive Income

Year ended 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
PROFIT FOR THE YEAR		**1,426,199**	1,098,693
OTHER COMPREHENSIVE INCOME			
Available-for-sale assets:			
Changes in fair value		**44,550**	(434,742)
Reclassification adjustments for impairment losses of other investments included in the consolidated income statement	6	**–**	449,592
		44,550	14,850
Gains on property revaluation	12	**98,253**	32,425
Income tax effect		**(24,563)**	(8,106)
		73,690	24,319
Exchange differences on translation of foreign operations		**(20,804)**	(101,617)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX		**97,436**	(62,448)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**1,523,635**	1,036,245
Attributable to:			
Owners of the parent		**1,506,724**	985,712
Minority interests		**16,911**	50,533
		1,523,635	1,036,245

Consolidated Statement of Financial Position

31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	12	**3,391,950**	3,719,829
Investment properties	13	**820,671**	389,473
Goodwill	14	**4,014,981**	3,363,012
Other intangible assets	15	**125,199**	134,241
Other investments	16	**153,360**	108,810
Prepayments for acquisition of properties	17	**21,129**	270,160
Lease prepayments	18	**332,407**	355,089
Deferred tax assets	19	**30,763**	18,356
Designated loan	20	**3,600,000**	–
Other assets	21	**–**	653,423
Total non-current assets		**12,490,460**	9,012,393
CURRENT ASSETS			
Hong Kong listed investments, at fair value		**1,635**	399
Investment deposits	23	**–**	30,000
Designated loan	20	**–**	3,600,000
Inventories	24	**6,532,453**	5,473,497
Trade and bills receivables	25	**54,199**	45,092
Prepayments, deposits and other receivables	26	**1,701,884**	1,384,355
Due from related parties	27	**157,146**	57,843
Pledged deposits	28	**8,796,344**	4,840,456
Cash and cash equivalents	28	**6,029,059**	3,051,069
Total current assets		**23,272,720**	18,482,711

Consolidated Statement of Financial Position (continued)

31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
CURRENT LIABILITIES			
Interest-bearing bank loans	29	**350,000**	170,000
Trade and bills payables	30	**15,815,261**	12,917,958
Customers' deposits, other payables and accruals	31	**1,829,514**	1,530,141
Convertible bonds	32	**2,180,357**	–
Tax payable		**507,245**	529,148
Total current liabilities		**20,682,377**	15,147,247
NET CURRENT ASSETS		**2,590,343**	3,335,464
TOTAL ASSETS LESS CURRENT LIABILITIES		**15,080,803**	12,347,857
NON-CURRENT LIABILITIES			
Deferred tax liabilities	19	**103,429**	78,269
Convertible bonds	32	**3,174,909**	3,569,553
Total non-current liabilities		**3,278,338**	3,647,822
Net assets		**11,802,465**	8,700,035
EQUITY			
Equity attributable to owners of the parent			
Issued capital	33	**382,408**	331,791
Reserves	35(a)	**11,420,057**	8,228,043
		11,802,465	8,559,834
Minority interests		**–**	140,201
Total equity		**11,802,465**	8,700,035

Chen Xiao
Director

Ng Kin Wah
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2009

	Note	Attributable to owners of the parent												
		Issued capital RMB'000	Share premium RMB'000	Contributed surplus RMB'000	Capital reserve RMB'000	Asset revaluation reserve RMB'000	Other investment valuation reserve RMB'000	Statutory reserves RMB'000 note 35(a)	Exchange fluctuation 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
Total comprehensive income for the year		-	-	-	-	24,319	14,850	-	(101,617)	1,048,160	-	985,712	50,533	1,036,245
Repurchase and cancellation of shares		(11,973)	(2,055,584)	-	-	-	-	-	-	-	-	(2,067,557)	-	(2,067,557)
Dividend attributable to cancelled shares		-	-	-	-	-	-	-	-	12,025	(12,025)	-	-	-
Disposal of a jointly-controlled entity		-	-	-	-	-	-	(210)	-	-	-	(210)	(21)	(231)
Transfer to statutory reserves		-	-	-	-	-	-	192,958	-	(192,958)	-	-	-	-
Dividends paid	36	-	-	-	-	-	-	-	-	(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

	Notes	Attributable to owners of the parent												
		Issued capital RMB'000	Share premium RMB'000	Contributed surplus RMB'000	Capital reserve RMB'000	Share option reserve RMB'000	Asset revaluation reserve RMB'000	Other investment valuation reserve RMB'000	Statutory reserves RMB'000 note 35(a)	Exchange fluctuation reserve RMB'000	Retained earnings RMB'000	Total RMB'000	Minority interests RMB'000	Total equity RMB'000
At 1 January 2009		**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**
Total comprehensive income for the year		**-**	**-**	**-**	**-**	**-**	**73,690**	**44,550**	**-**	**(20,804)**	**1,409,288**	**1,506,724**	**16,911**	**1,523,635**
Acquisition of minority interests	38(c)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(157,112)**	**(157,112)**
Issue of shares	33	**50,617**	**1,234,282**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,284,899**	**-**	**1,284,899**
Repurchases of the Old 2014 Convertible Bonds	32(i)	**-**	**-**	**-**	**(444,957)**	**-**	**-**	**-**	**-**	**-**	**-**	**(444,957)**	**-**	**(444,957)**
Issue of the 2016 Convertible Bonds	32(ii)	**-**	**-**	**-**	**137,411**	**-**	**-**	**-**	**-**	**-**	**-**	**137,411**	**-**	**137,411**
Issue of the New 2014 Convertible Bonds	32(iii)	**-**	**-**	**-**	**688,021**	**-**	**-**	**-**	**-**	**-**	**-**	**688,021**	**-**	**688,021**
Equity-settled share option arrangements	34	**-**	**-**	**-**	**-**	**70,533**	**-**	**-**	**-**	**-**	**-**	**70,533**	**-**	**70,533**
Transfer to statutory reserves		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**175,642**	**-**	**(175,642)**	**-**	**-**	**-**
At 31 December 2009		**382,408**	**7,441,991***	**657***	**163,509***	**70,533***	**98,009***	**59,400***	**936,719***	**(203,014)***	**2,852,253***	**11,802,465**	**-**	**11,802,465**

* These reserve accounts comprise the consolidated reserves of RMB11,420,057,000 (2008: RMB8,228,043,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**1,832,509**	1,533,849
Adjustments for:			
Finance income	7	**(341,209)**	(441,017)
Finance costs	7	**348,969**	212,118
(Gain)/loss on the derivative component of convertible bonds	6	**(136,740)**	189,220
Gain on repurchases of the Old 2014 Convertible Bonds	5	**(67,083)**	–
Impairment of goodwill	6	**2,000**	8,000
Impairment of other investments	6	**–**	449,592
Impairment of property, plant and equipment	6	**–**	31,725
Fair value loss on transfer of owner-occupied properties to investment properties	6	**81,493**	6,632
Fair value loss on investment properties	6	**3,723**	34,441
Fair value (gain)/loss on Hong Kong listed investments	6	**(1,236)**	659
Loss on disposal of items of property, plant and equipment	6	**28,798**	13,763
Depreciation	6	**345,597**	296,256
Gain on disposal of a jointly-controlled entity		**–**	(3)
Amortisation of intangible assets	6	**9,042**	9,626
Cash settlement for top-up subscription shares for warrants	6	**18,608**	–
Equity-settled share option expenses	34	**70,533**	–
		2,195,004	2,344,861
Decrease/(increase) in lease prepayments		**22,682**	(12,345)
Increase in inventories		**(1,058,956)**	(90,458)
(Increase)/decrease in trade and bills receivables		**(9,107)**	52,627
(Increase)/decrease in prepayments, deposits and other receivables		**(378,627)**	1,007,795
(Increase)/decrease in amounts due from related parties		**(99,303)**	21,181
Decrease in other financial assets		**–**	150,000
(Increase)/decrease in pledged deposits		**(3,955,888)**	1,774,269
Increase/(decrease) in trade and bills payables		**2,897,303**	(638,587)
Increase/(decrease) in customers' deposits, other payables and accruals		**144,475**	(335,928)
Cash (used in)/generated from operations		**(242,417)**	4,273,415
Interest received		**507,734**	260,645
Dividends paid		**–**	(661,090)
PRC income tax paid		**(440,023)**	(262,610)
Net cash flows (used in)/from operating activities		**(174,706)**	3,610,360

Consolidated Statement of Cash Flows (continued)

Year ended 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
Net cash flows (used in)/from operating activities		**(174,706)**	3,610,360
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(329,527)**	(1,179,635)
Proceeds from disposal of items of property, plant and equipment		**6,555**	15,042
Acquisition of a subsidiary		**–**	(8,000)
Acquisition of other investments		**–**	(543,552)
Payment of outstanding considerations for business combinations		**(2,760)**	(45,000)
Increase in a designated loan		**–**	(2,100,000)
Increase in other assets		**–**	(653,423)
Cash receipt for investment deposits		**31,891**	–
Net cash flows used in investing activities		**(293,841)**	(4,514,568)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares	33	**1,360,573**	–
Share issue expenses		**(75,674)**	–
Repurchase of shares		**–**	(2,067,557)
Repurchases of the Old 2014 Convertible Bonds	32(i)	**(1,820,100)**	–
Issue of the 2016 Convertible Bonds	32(ii)	**1,590,000**	–
Transaction costs for issue of the 2016 Convertible Bonds	32(ii)	**(37,835)**	–
Issue of the New 2014 Convertible Bonds	32(iii)	**2,357,200**	–
Transaction costs for issue of the New 2014 Convertible Bonds	32(iii)	**(52,159)**	–
Cash settlement for top-up subscription shares for warrants	6	**(18,608)**	
New bank loans		**860,000**	100,000
Repayment of bank loans		**(680,000)**	(230,000)
Interest paid	7	**(16,064)**	(16,088)
Net cash flows from/(used in) financing activities		**3,467,333**	(2,213,645)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**2,998,786**	(3,117,853)
Cash and cash equivalents at beginning of year		**3,051,069**	6,269,996
Effect of foreign exchange rate changes, net		**(20,796)**	(101,074)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**6,029,059**	3,051,069
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	28	**5,492,859**	2,055,835
Non-pledged time deposits with original maturity of less than three months when acquired	28	**536,200**	995,234
		6,029,059	3,051,069

Statement of Financial Position

31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
NON-CURRENT ASSETS			
Interests in subsidiaries	*22*	**8,698,491**	8,891,592
Total non-current assets		**8,698,491**	8,891,592
CURRENT ASSETS			
Prepayments, deposits and other receivables	*26*	**21,190**	4,731
Pledged deposits	*28*	**2,606,371**	–
Cash and cash equivalents	*28*	**1,918,775**	1,004,394
Total current assets		**4,546,336**	1,009,125
CURRENT LIABILITIES			
Other payables		**55,786**	6,334
Convertible bonds	*32*	**2,180,357**	–
Total current liabilities		**2,236,143**	6,334
NET CURRENT ASSETS		**2,310,193**	1,002,791
TOTAL ASSETS LESS CURRENT LIABILITIES		**11,008,684**	9,894,383
NON-CURRENT LIABILITIES			
Convertible bonds	*32*	**3,174,909**	3,569,553
Total non-current liabilities		**3,174,909**	3,569,553
Net assets		**7,833,775**	6,324,830
EQUITY			
Issued capital	*33*	**382,408**	331,791
Reserves	*35(b)*	**7,451,367**	5,993,039
Total equity		**7,833,775**	6,324,830

Chen Xiao
Director

Ng Kin Wah
Director

Notes to Financial Statements

31 December 2009

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 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 at the date of approval of these financial statements, in the opinion of the board of directors, the Board and the management of the Company were stable and the Company maintained normal operation. The Board considers that the subsidiary's involvement in the litigation, as set out in note 43 to these financial statements, would not have any material impact on the operation and financial condition of the Company.

2.1 BASIS OF PREPARATION

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. They have been prepared under the historical cost convention, except for Hong Kong listed investments, investment properties, other investments which classified as available-for-sale financial assets and the derivative components of the convertible bonds, which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

BASIS OF CONSOLIDATION

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2009. Adjustments are made to bring into line any dissimilar accounting policies that may exist. 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.

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. Contingent consideration is recognised if the adjustment is probable and can be measured reliably. Subsequent measurement to the contingent consideration affects goodwill.

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 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Group has adopted the following new and revised IFRSs for the first time for the current year's financial statements. Except for in certain cases, giving rise to new and revised accounting policies and additional disclosures, the adoption of these new and revised IFRSs has had no significant effect on these financial statements.

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*
IFRS 2 Amendments	Amendments to IFRS 2 *Share-based Payment – Vesting Conditions and Cancellations*
IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments: Disclosure – Improving Disclosures about Financial Instruments*
IFRS 8	*Operating Segments*
IAS 1 (Revised)	*Presentation of Financial Statements*
IAS 18 Amendment*	Amendment to Appendix to IAS 18 *Revenue – Determining whether an entity is acting as a principal or as an agent*
IAS 23 (Revised)	*Borrowing Costs*

Notes to Financial Statements (continued)

31 December 2009

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (continued)

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*
IFRIC 9 and IAS 39 Amendments	Amendments to IFRIC 9 *Reassessment of Embedded Derivatives* and IAS 39 *Financial Instruments: Recognition and Measurement – Embedded Derivatives*
IFRIC 13	*Customer Loyalty Programmes*
IFRIC 15	*Agreements for the Construction of Real Estate*
IFRIC 16	*Hedges of a Net Investment in a Foreign Operation*
IFRIC 18	*Transfers of Assets from Customers* (adopted from 1 July 2009)
Improvements to IFRSs (May 2008)	Amendments to a number of IFRSs

* Included in *Improvements to IFRSs 2009* (as issued in April 2009).

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

(a) Amendments to IFRS 7 *Financial Instruments: Disclosure – Improving Disclosures about Financial Instruments*

The IFRS 7 Amendments require additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by sources of inputs using a three-level fair value hierarchy, by class, for all financial instruments recognised at fair value. In addition, a reconciliation between the beginning and ending balance is now required for level 3 fair value measurements, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management. The fair value measurement disclosures are presented in note 41 to the financial statements while the revised liquidity risk disclosures are presented in note 42 to the financial statements.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (continued)

(b) IFRS 8 *Operating Segments*

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 purpose of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The Group's segment information is disclosed in note 4 to the financial statements.

(c) IAS 1 (Revised) *Presentation of Financial Statements*

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 includes 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 has elected to present two statements.

(d) IAS 23 (Revised) *Borrowing Costs*

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 has adopted the revised standard on a prospective basis. Therefore, borrowing costs are capitalised on qualifying assets with a commencement date on or after 1 January 2009.

Notes to Financial Statements (continued)

31 December 2009

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (continued)

(e) IFRIC 13 *Customer Loyalty Programmes*

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.

(f) Improvements to IFRSs

In May 2008, the IASB issued its first *Improvements to IFRSs* which sets out amendments to a number of IFRSs. Except for the amendments to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations – Plan to sell the controlling interest in a subsidiary* which are effective for annual periods beginning on or after 1 July 2009, the Group adopted all the amendments from 1 January 2009. While the adoption of some of the amendments results in changes to accounting policies, none of these amendments has had a significant financial impact to the Group. Details of the key amendments most applicable to the Group are as follows:

- IAS 1 *Presentation of Financial Statements:* Clarifies that assets and liabilities which are classified as held for trading in accordance with IAS 39 are not automatically classified as current in the statement of financial position.

- IAS 16 *Property, Plant and Equipment:* Replaces the term "net selling price" with "fair value less costs to sell" and states that the recoverable amount of property, plant and equipment is the higher of an asset's fair value less costs to sell and its value in use.

2.3 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* [1]
IFRS 1 Amendments	Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards – Additional Exemptions for First-time Adopters* [2]
IFRS 1 Amendments	Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards – Limited Exception from Comparative IFRS 7 Disclosures for First-time Adopters*[4]
IFRS 2 Amendments	Amendments to IFRS 2 *Share-based Payment – Group Cash-settled Share-based Payment Transactions* [2]
IFRS 3 (Revised)	*Business Combinations* [1]
IFRS 9	*Financial Instruments* [6]
IAS 24 (Revised)	*Related Party Disclosures* [5]
IAS 27 (Revised)	*Consolidated and Separate Financial Statements* [1]
IAS 32 Amendments	Amendment to IAS 32 *Financial Instruments: Presentation – Classification of Rights Issues* [3]
IAS 39 Amendment	Amendment to IAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items* [1]
IFRIC 14 Amendments	Amendments to IFRIC 14 *Prepayments of a Minimum Funding Requirement* [5]
IFRIC 17	*Distributions of Non-cash Assets to Owners* [1]
IFRIC 19	*Extinguishing Financial Liabilities with Equity Instruments* [4]
Amendments to IFRS 5 included in *Improvements to IFRSs* issued in May 2008	Amendments to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations – Plan to sell the controlling interest in a subsidiary* [1]

Notes to Financial Statements (continued)

31 December 2009

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

Apart from the above, the IASB has issued *Improvements to IFRSs 2009* which sets out amendments to a number of IFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009 while the amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010 although there are separate transitional provisions for each standard or interpretation.

[1] Effective for annual periods beginning on or after 1 July 2009
[2] Effective for annual periods beginning on or after 1 January 2010
[3] Effective for annual periods beginning on or after 1 February 2010
[4] Effective for annual periods beginning on or after 1 July 2010
[5] Effective for annual periods beginning on or after 1 January 2011
[6] Effective for annual periods beginning on or after 1 January 2013

The Group is in the process of making an assessment of the impact of these new and revised IFRSs upon initial application. So far, the Group considers it has considered that except for the adoption of IFRS 3 (Revised) and IAS 27 (Revised) as further explained below, these new and revised IFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

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 Rates*, IAS 28 *Investments in Associates* and IAS 31 *Interests in Joint Ventures*.

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 the accounting of future acquisitions, loss of control and transactions with minority interests.

2.4 SUMMARY OF SIGNIFICANT 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 statement of financial position 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 (continued)

31 December 2009

2.4 SUMMARY OF SIGNIFICANT 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 the end of each reporting period 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.

2.4 SUMMARY OF SIGNIFICANT 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 the 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 the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation.

2.4 SUMMARY OF SIGNIFICANT 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 financial year end.

An item of property, plant and equipment and any significant part initially recognised 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 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 end of the reporting period.

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.

2.4 SUMMARY OF SIGNIFICANT 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. Changes in the values of property, plant and equipment are dealt with as movements in the asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the income statement.

INTANGIBLE ASSETS (OTHER THAN GOODWILL)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

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

Initial recognition and measurement

Financial assets within 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. The Group determines the classification of its financial assets at initial recognition. 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

INVESTMENTS AND OTHER FINANCIAL ASSETS (continued)

Initial recognition and measurement (continued)

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.

The Group's financial assets include cash and bank balances, trade and other receivables, loans receivable, quoted and unquoted financial instruments, and derivative financial instruments.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

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. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with changes in fair value recognised in the income statement.

The Group evaluates its financial assets at fair value through profit or loss (held for trading) to assess whether the intent to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets in rare circumstances. The reclassification from financial assets at fair value through profit or loss to loans and receivables, available-for-sale financial assets or held-to-maturity investments depends on the nature of the assets.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement. 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.

2.4 SUMMARY OF SIGNIFICANT 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. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in the income statement. The loss arising from impairment is recognised in the income statement in other operating expenses.

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the other investment valuation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the income statement in other income, or until the investment is determined to be impaired, at which time the cumulative gain or loss is recognised in the income statement and removed from the investment revaluation reserve. Interest and dividends earned are reported as interest income and dividend income, respectively and are recognised in the income statement as other income in accordance with the policies set out for "Revenue recognition" below.

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.

The Group evaluates its available-for-sale financial assets whether the ability and intention to sell them in the near term are still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets in rare circumstances. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or to maturity. The reclassification to the held-to-maturity category is permitted only when the entity has the ability and intent to hold until the maturity date of the financial asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

INVESTMENTS AND OTHER FINANCIAL ASSETS (continued)

Available-for-sale financial investments (continued)

For a financial asset reclassified out of the available-for-sale category, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to 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 when:

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

- the Group has transferred its rights to receive cash flows from the asset, or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, 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. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

IMPAIRMENT OF FINANCIAL ASSETS

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss 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 yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

Notes to Financial Statements (continued)

31 December 2009

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

IMPAIRMENT OF FINANCIAL ASSETS (continued)

Financial assets carried at amortised cost (continued)

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the income statement.

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale investment 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 removed from other comprehensive income and recognised in the income statement.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. The determination of what is "significant" or "prolonged" requires judgement. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement – is removed from other comprehensive income and recognised in the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement. Increases in their fair value after impairment are recognised directly in other comprehensive income.

FINANCIAL LIABILITIES

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss and loans and borrowings. The Group determines the classification of its financial liabilities at initial recognition.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

FINANCIAL LIABILITIES (continued)

Initial recognition and measurement (continued)

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, derivative financial instruments and interest-bearing loans and borrowings.

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

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

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. 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 recognized in the income statement does not include any interest charged in these financial liabilities.

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate method amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the income statement.

Notes to Financial Statements (continued)

31 December 2009

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

FINANCIAL LIABILITIES (continued)

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. 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 end of the reporting period; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

Convertible bonds

The component of convertible bonds that exhibits characteristics of a liability is recognised as a liability in the statement of financial position, 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

FINANCIAL LIABILITIES (continued)

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.

OFFSETTING OF FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate 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 option pricing models or other valuation models.

DERIVATIVE FINANCIAL INSTRUMENTS

Current versus non-current classification

Derivative instruments that are not designated and effective hedging instruments are classified as current or non-current or separated into a current or non-current potion based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows).

- Where the Group will hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the end of the reporting period, the derivative is classified as non-current (or separated into current and non-current portions) consistently with the classification of the underlying item.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Current versus non-current classification (continued)

- Embedded derivatives that are not closely related to the host contract are classified consistently with the cash flows of the host contract.

- Derivative instruments that are designated as, and are effective hedging instruments, are classified consistent with the classification of the underlying hedged item. The derivative instruments are separated into current portions and non-current portions only if a reliable allocation can be made.

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. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to disposal.

CASH AND CASH EQUIVALENTS

For the purpose of the consolidated statement of cash flows, 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 statement of financial position, 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

PROVISIONS (continued)

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period 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.

Provisions for product warranties granted by the Group on certain products are recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate.

INCOME TAX

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or 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, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

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

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

- where the deferred tax liability arises from or the initial recognition of goodwill or 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.

Notes to Financial Statements (continued)

31 December 2009

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

INCOME TAX (continued)

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 the end of each reporting period 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. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 comprising promotion income, management fee income, display space leasing fees and product listing fees 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.

- Rental income is recognised on a time proportion basis over the lease terms.

- Interest income is recognised 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 or a shorter period, when appropriate, to the net carrying amount of the financial asset.

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

SHARE-BASED PAYMENT TRANSACTIONS

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity settled transactions").

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date on which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 34 to the financial statements.

Notes to Financial Statements (continued)

31 December 2009

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

SHARE-BASED PAYMENT TRANSACTIONS (continued)

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market condition or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms has not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph. All cancellations of equity-settled transaction awards are treated equally.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

OTHER 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 directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Notes to Financial Statements (continued)

31 December 2009

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

DIVIDENDS

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the statement of financial position, 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.

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. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective 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 end of the reporting period. 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 the 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 end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the end of the reporting period and their income statements are translated into Renminbi at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in a separate component of equity. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the income statement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

FOREIGN CURRENCIES (continued)

For the purpose of the consolidated statement of cash flows, 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.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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 end of the reporting period. 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 or 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.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

JUDGEMENTS (continued)

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 end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Impairment of 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 2009 was RMB4,014,981,000 (2008: RMB3,363,012,000). Further details are given in note 14 to the financial statements.

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment of all non-financial assets the end of each reporting period. 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. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The calculation of the fair value less costs to sell is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. 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.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

ESTIMATION UNCERTAINTY (continued)

Estimation of fair value of investment properties

Investment properties were revalued at each end of the reporting period 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 end of the reporting period. The carrying amount of investment properties as at 31 December 2009 was RMB820,671,000 (31 December 2008: RMB389,473,000). Further details are given in note 13 to the financial statements.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to tax losses at 31 December 2009 was RMB8,861,000 (31 December 2008: RMB18,356,000).

The unrecognised tax losses at 31 December 2009 amounted to RMB1,047,500,000 (31 December 2008: RMB793,600,000). Further details are given 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. During the year ended 31 December 2008, impairment losses of RMB449,592,000 have been recognised for available-for-sale assets. As at 31 December 2009, the carrying amount of available-for-sale assets was RMB153,360,000 (2008: RMB108,810,000). Further details are given in note 16 to the financial statements.

Notes to Financial Statements (continued)

31 December 2009

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

ESTIMATION UNCERTAINTY (continued)

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 modelling which requires various sources of information and assumptions. The carrying amount of derivative components of convertible bonds as at 31 December 2009 was RMB100,689,000 (31 December 2008: RMB2,280,000). Further details are given in note 32(i) to these financial statements.

Depreciation

The Group has estimated the useful lives of the property, plant and equipment of 5 to 40 years, after taking into account of their estimated residual values, as set out in the principal accounting policies. 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 2009 was RMB3,391,950,000 (31 December 2008: RMB3,719,829,000). Further details are given in note 12 to the financial statements.

4. SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has one reportable operating segment which is the operations and management of networks of electrical appliances and consumer electronic products retail stores in the PRC. The corporate office in Hong Kong does not earn revenues and is not classified as an operating segment.

Management monitors the results of its operating segment for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted profit before tax. The adjusted profit before tax is measured consistently with the Group's profit before tax except that bank interest income, interest expenses, the fair value gain on the derivative component of convertible bonds, gain on repurchases of the Old 2014 Convertible Bonds and other expenses incurred for the corporate office in Hong Kong are excluded from such measurement.

Segment assets exclude deferred tax assets, pledged deposits, cash and cash equivalents, equity investments at fair value through profit or loss, other investments and other unallocated head office and corporate assets as these assets are managed on a group basis.

4. SEGMENT INFORMATION (continued)

Segment liabilities exclude interest-bearing bank loans, convertible bonds, tax payable, deferred tax liabilities and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

	2009 RMB'000	2008 RMB'000
Segment revenue		
Sales to external customers	**42,667,572**	45,889,257
Segment results	**1,945,269**	2,264,753
Reconciliation		
Interest income	**160,027**	236,335
Unallocated gains	**4,421**	708
Gain/(loss) on the derivative component of convertible bonds	**136,740**	(189,220)
Gain on repurchases of the Old 2014 Convertible Bonds	**67,083**	–
Finance costs	**(348,969)**	(212,118)
Impairment of other investments	**–**	(449,592)
Corporate and other unallocated expenses	**(132,062)**	(117,017)
Profit before tax	**1,832,509**	1,533,849

Notes to Financial Statements (continued)

31 December 2009

4. SEGMENT INFORMATION (continued)

	2009 RMB'000	2008 RMB'000
Segment assets	**20,752,019**	19,476,014
Reconciliation		
Corporate and other unallocated assets	**15,011,161**	8,019,090
Total assets	**35,763,180**	27,495,104
Segment liabilities	**17,644,775**	14,448,099
Reconciliation		
Corporate and other unallocated liabilities	**6,315,940**	4,346,970
Total liabilities	**23,960,715**	18,795,069
Other segment information		
Impairment losses recognised in the consolidated income statement	**31,866**	61,450
Depreciation and amortisation	**354,639**	305,882
Capital expenditure	**471,244***	999,142*

* Capital expenditure consists of additions to property, plant and equipment.

4. SEGMENT INFORMATION (continued)

GEOGRAPHICAL INFORMATION

(a) Revenue from external customers

	2009 RMB'000	2008 RMB'000
The PRC	**42,667,572**	45,889,257

The revenue information above is based on the location of the customers.

(b) Non-current assets

	2009 RMB'000	2008 RMB'000
The PRC	**8,698,144**	8,223,340
Hong Kong	**8,193**	8,464
	8,706,337	8,231,804

The non-current asset information above is based on the location of assets and excludes deferred tax asset, designated loan, other investments and other assets.

Notes to Financial Statements (continued)

31 December 2009

5. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts.

An analysis of revenue, other income and gains is as below:

	Notes	2009 RMB'000	2008 RMB'000
Revenue			
Sale of electrical appliances and consumer electronic products		**42,667,572**	45,889,257
Other income			
Income from suppliers		**2,221,466**	2,519,137
Management fees:			
– from the Non-listed GOME Group	*(i)*	**233,541**	250,000
– from Dazhong Appliances	*(ii)*	**25,496**	23,799
Management fees for air-conditioner installation		**98,290**	97,992
Rental income		**127,610**	125,045
Government grants	*(iii)*	**93,497**	52,371
Other service fee income		**102,177**	98,243
Compensation income from a landlord	*17(i)*	**59,271**	–
Others		**89,057**	99,657
		3,050,405	3,266,244
Gains			
Gain on repurchases of the Old 2014 Convertible Bonds	*32(i)*	**67,083**	–
Foreign exchange difference, net		**14,158**	–
		81,241	–
		3,131,646	3,266,244

Notes:

(i) The Non-listed GOME Group is defined in note 38(a) 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 and the Management Agreement was renewed on 15 December 2009. 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 were received to reward the Group's contributions to the local economy. There was no unfulfilled condition or contingency attached to these government grants.

6. PROFIT BEFORE TAX

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

	Notes	2009 RMB'000	2008 RMB'000
Cost of inventories sold		**38,408,042**	41,378,707
Write-down of inventories to net realisable value		**–**	2,516
		38,408,042	41,381,223
Depreciation	*12*	**345,597**	296,256
Amortisation of intangible assets	*15,(i)*	**9,042**	9,626
Loss on disposal of items of property, plant and equipment		**28,798**	13,763
Minimum lease payments under operating leases in respect of land and buildings		**2,038,504**	2,051,023
Gross rental income		**(127,610)**	(125,045)
Fair value loss on transfer of owner occupied properties to investment properties:			
– properties acquired from Beijing Centergate Technologies (Holding) Co., Ltd. ("Centergate Technologies")		**73,956**	–
– other properties		**7,537**	6,632
	12	**81,493**	6,632

Notes to Financial Statements (continued)

31 December 2009

6. PROFIT BEFORE TAX (continued)

	Notes	2009 RMB'000	2008 RMB'000
Fair value loss on investment properties	*13*	**3,723**	34,441
Management fees from Dazhong Appliances	*5*	**(25,496)**	(23,799)
Interest income from Beijing Zhansheng	*7*	**(181,182)**	(204,682)
(Gain)/loss on the derivative components of convertible bonds	*32(i)*	**(136,740)**	189,220
Fair value (gain)/loss on Hong Kong listed investments		**(1,236)**	659
Foreign exchange differences, net		**(14,158)**	84,520
Impairment of property, plant and equipment	*12*	**–**	31,725
Impairment of goodwill	*14*	**2,000**	8,000
Impairment of other investments	*16*	**–**	449,592
Impairment of prepayments, deposits and other receivables		**29,866**	21,725
Cash settlement for top-up subscription shares for warrants	*(ii)*	**18,608**	–
Auditors' remuneration			
– audit services		**8,100**	9,850
– non-audit services	*(iii)*	**1,200**	500
Staff costs excluding directors' remuneration *(note 8)*:			
Wages, salaries and bonuses		**1,119,682**	1,212,757
Pension scheme contributions		**241,200**	249,985
Social welfare and other costs		**6,841**	21,645
Equity-settled share option expense		**53,923**	–
		1,421,646	1,484,387

Notes:

(i) The amortisation of intangible assets for the year is included in "Administrative expenses" on the face of the consolidated income statement.

6. PROFIT BEFORE TAX (continued)

Notes: (continued)

(ii) On 28 January 2006 and 28 February 2006, the Company and Warburg Pincus Private Equity IX, L.P. ("Warburg Pincus") entered into a subscription agreement and a supplemental agreement respectively (collectively referred to as the "Subscription Agreement"), pursuant to which the Company issued warrants at a subscription price of US$3,000,000 to a subsidiary of Warburg Pincus on 1 March 2006. The holder of the warrants is entitled to subscribe for a maximum amount of US$25 million of new shares of the Company during an exercise period of five years commencing from 1 March 2006. None of the warrants was exercised up to the end of the reporting period.

In accordance with the Subscription Agreement, Warburg Pincus has the right to subscribe for certain top-up subscription shares of the Company as a result of the open offer announced by the Company on 22 June 2009 (the "Open Offer") (note 33) and the issuance of the 2016 Convertible Bonds (note 32(ii)) by the Company. During the year ended 31 December 2009, the Company paid an amount of approximately RMB18,608,000 to Warburg Pincus to settle the top-up subscription shares for the warrants and it was recognised as an expense in the consolidated income statement.

(iii) Exclude non-audit service fees of RMB3,386,000 (2008: Nil), which were recognised as the share issue costs under the Open Offer as disclosed in note 33 and transaction costs for issue of the New 2014 Convertible Bonds as disclosed in note 32 to these financial statements.

7. FINANCE (COSTS)/INCOME

An analysis of finance costs and finance income is as follows:

	Notes	2009 RMB'000	2008 RMB'000
Finance costs:			
Interest on bank loans wholly repayable within five years		**(16,064)**	(16,088)
Interest expenses on convertible bonds	32	**(332,905)**	(196,030)
		(348,969)	(212,118)
Finance income:			
Bank interest income		**160,027**	236,335
Other interest income	*(i)*	**181,182**	204,682
		341,209	441,017

Note:

(i) Other interest income represented interest income from the RMB3,600 million designated loan (note 20) to Beijing Zhansheng through the Beijing Branch of Industrial Bank Co., Ltd. The loan bears interest at rates ranging from 4.86% to 5.103% (2008: 6.561%) per annum, which were determined by reference to the interest rates published by the People's Bank of China.

Notes to Financial Statements (continued)

31 December 2009

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:

	2009 RMB'000	2008 RMB'000
Fees	**4,555**	1,584
Other emoluments:		
Salaries, allowances, bonuses and other expense	**5,803**	5,320
Equity-settled share option expense	**16,610**	–
Pension scheme contributions	**109**	72
	22,522	5,392

During the year, certain directors were granted share options in respect of their services to the Group under the share option scheme of the Company, further details of which are set out in note 34 to the financial statements. The fair value of such options which has been recognised in the income statement over the vesting period was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' remuneration disclosures.

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:

	Notes	2009 RMB'000	2008 RMB'000
Mr. Chan Yuk Sang		**705**	247
Mr. Sze Tsai Ping, Michael		**264**	247
Mr. Thomas Joseph Manning		**705**	247
Mr. Mark Christopher Greaves	*(iii)*	**1,018**	247
Dr. Liu Peng Hui	*(ii)*	**132**	247
Mr. Yu Tung Ho	*(iii)*	**595**	247
		3,419	1,482

Notes:

(i) There was no other emolument payable to the independent non-executive directors during the year (2008: Nil).

(ii) Dr. Liu Peng Hui retired as a director with effect from 30 June 2009.

(iii) Mr. Yu Tung Ho and Mr. Mark Christopher Greaves resigned as directors with effect from 30 July 2009.

Notes to Financial Statements (continued)

31 December 2009

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

(b) EXECUTIVE DIRECTORS AND NON-EXECUTIVE DIRECTORS

2009	Notes	Fees RMB'000	Salaries, allowances, bonuses and other expense RMB'000	Equity-settled share option expense RMB'000	Pension scheme contributions RMB'000	Total RMB'000
Executive directors:						
Mr. Wong Kwong Yu	(i)	-	-	-	-	-
Mr. Chen Xiao		-	2,254	4,402	25	6,681
Mr. Ng Kin Wah		-	740	2,001	11	2,752
Mr. Wang Jun Zhou	(ii)	-	1,013	4,003	27	5,043
Ms. Wei Qiu Li	(iii)	-	966	3,602	27	4,595
Mr. Sun Yi Ding	(iv)	-	830	2,602	19	3,451
		-	5,803	16,610	109	22,522
Non-executive directors:						
Mr. Sun Qiang Chang	(v)	809	-	-	-	809
Mr. Zhu Jia	(vi)	109	-	-	-	109
Ms. Wang Li Hong	(vi)	109	-	-	-	109
Mr. Ian Andrew Reynolds	(vi)	109	-	-	-	109
		1,136	5,803	16,610	109	23,658

Notes:

(i) Mr. Wong Kwong Yu ("Mr. Wong") ceased to be a director of the Company on 16 January 2009.

(ii) Mr. Wang Jun Zhou was appointed as an executive director with effect from 23 December 2008.

(iii) Ms. Wei Qiu Li was appointed as an executive director with effect from 16 January 2009.

(iv) Mr. Sun Yi Ding was appointed as an executive director with effect from 30 June 2009.

(v) Mr. Sun Qiang Chang resigned as a director with effect from 23 July 2009.

(vi) Mr. Zhu Jia, Ms. Wang Li Hong and Mr. Ian Andrew Reynolds were appointed as non-executive directors with effect from 3 August 2009.

(vii) There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2008: Nil).

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

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

2008	Note	Fees RMB'000	Salaries, allowances, bonuses and other expense RMB'000	Pension scheme contributions RMB'000	Total RMB'000
Executive directors:					
Mr. Wong Kwong Yu		–	2,138	11	2,149
Mr. Chen Xiao		–	1,751	22	1,773
Mr. Ng Kin Wah		–	596	11	607
Ms. Du Juan	*(i)*	–	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

Note:

(i) Ms. Du Juan ceased to be a director of the Company on 23 December 2008.

Notes to Financial Statements (continued)

31 December 2009

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 (2008: four) directors, details of whose remuneration are set out above. Details of the remuneration of the remaining one (2008: one) non-director, highest paid employee for the year are as follows:

	2009 RMB'000	2008 RMB'000
Salaries, allowances, bonuses and other expense	**953**	567
Pension scheme contributions	**27**	23
Equity-settled share option expense	**3,175**	–
	4,155	590

The remuneration of the non-director, highest paid employee fell within the following bands:

	Number of employees 2009	2008
Nil to HK$1,000,000 (equivalent to Nil to RMB881,900)	**–**	1
HK$4,500,001 to HK$5,000,000 (equivalent to RMB3,968,551 to RMB4,409,500)	**1**	–
	1	1

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 2009 and 2008.

The Group's contributions to pension schemes for the year ended 31 December 2009 amounted to approximately RMB241,309,000 (2008: RMB250,057,000).

10. INCOME TAX EXPENSE

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

	2009	2008
	RMB'000	*RMB'000*
Current income tax – PRC	**418,120**	407,907
Deferred income tax *(note 19)*	**(11,810)**	27,249
Total tax charge for the year	**406,310**	435,156

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% (2008: 25%) on their respective taxable income. During the year, 21 entities (2008: 24 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.

Notes to Financial Statements (continued)

31 December 2009

10. INCOME TAX EXPENSE (continued)

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

No provision for Hong Kong profits tax has been made for the years ended 31 December 2009 and 2008, respectively, as the Group had no assessable profits arising in Hong Kong for the respective years.

A reconciliation of the tax expense applicable to profit/(loss) before tax at the statutory rates for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the Group's effective tax rates, is as follows:

	2009				
	Hong Kong		PRC		Total
	RMB'000	%	RMB'000	%	RMB'000
Profit/(loss) before tax	(239,935)		2,072,444		1,832,509
Income tax at the statutory tax rate	(39,589)	16.5	518,111	25.0	478,522
Tax effect of preferential tax rates	–		(186,439)		(186,439)
Income not subject to tax	(39,095)		–		(39,095)
Expense not deductible for tax	70,706		30,632		101,338
Tax losses utilised from previous years	–		(20,538)		(20,538)
Tax losses not recognised	7,978		64,544		72,522
Tax charge at the Group's effective rate	–		406,310		406,310

10. INCOME TAX EXPENSE (continued)

	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 tax rate	(73,909)	16.5	495,446	25.0	421,537
Tax effect of preferential tax rates	–		(237,206)		(237,206)
Income not subject to tax	(14,363)		–		(14,363)
Expense not deductible for tax	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

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 2009, 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 (2008:Nil). In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future.

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

The calculation of basic earnings per share is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 13,721,430,000 (2008: 12,804,958,000) in issue during the year.

The calculation of diluted earnings per share is based on the profit for the year attributable to ordinary equity holders of the parent, adjusted to reflect the interest on the convertible bonds, where applicable (see below). The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares 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 calculations of basic and diluted earnings per share are based on:

	2009 RMB'000	2008 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent used in the basic earnings per share calculation	**1,409,288**	1,048,160
Interest on convertible bonds	**189,770**	–
Fair value gain on the derivative component of the convertible bonds	**(136,740)**	–
Gain on repurchases of the Old 2014 Convertible Bonds	**(67,083)**	–
Profit attributable to ordinary equity holders of the parent as adjusted for the effect of convertible bonds	**1,395,235**	1,048,160

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

	Note	Number of shares 2009 '000	2008 '000
Shares			
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation		**13,721,430**	12,804,958
Effect of dilution-weighted average number of ordinary shares:			
Warrants		**31**	31,342
Convertible bonds	*(i)*	**944,754**	–
		14,666,215	12,836,300

Notes:

(i) The 2016 Convertible Bonds and the New 2014 Convertible Bonds had an anti-dilutive effect on the basic earnings per share for the year ended 31 December 2009 and were therefore ignored in the calculation of diluted earnings per share. Therefore, only the effect of the Old 2014 Convertible Bonds was considered in the calculation of diluted earnings per share for the year ended 31 December 2009.

The Old 2014 Convertible Bonds had an anti-dilutive effect on the basic earnings per share for the year ended 31 December 2008 and were therefore ignored in the calculation of diluted earnings per share.

(ii) During the year ended 31 December 2009, the average quoted market price of the Company's shares was less than the exercise price of the share options (note 34). Therefore, the share options had an anti-dilutive effect on the basic earnings per share for the year ended 31 December 2009 and were therefore ignored in the calculation of diluted earnings per share.

Notes to Financial Statements (continued)

31 December 2009

12. PROPERTY, PLANT AND EQUIPMENT

GROUP

31 December 2009

	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 31 December 2008 and 1 January 2009:						
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
At 1 January 2009, net of accumulated depreciation and impairment	3,093,427	317,350	237,067	48,331	23,654	3,719,829
Additions	232,140	162,981	45,211	2,976	27,936	471,244
Disposals	-	(8,003)	(25,325)	(1,161)	(864)	(35,353)
Depreciation provided during the year	(92,622)	(163,997)	(76,093)	(12,885)	-	(345,597)
Transfers from construction in progress	7,832	-	21,084	492	(29,408)	-
Surplus on revaluation of properties transferred to investment properties	98,253	-	-	-	-	98,253
Deficit on revaluation of properties transferred to investment properties	(81,493)	-	-	-	-	(81,493)
Transfers to investment properties *(note 13)*	(434,933)	-	-	-	-	(434,933)
At 31 December 2009, net of accumulated depreciation and impairment	2,822,604	308,331	201,944	37,753	21,318	3,391,950
At 31 December 2009:						
Cost	3,077,107	946,796	468,128	80,045	21,318	4,593,394
Accumulated depreciation and impairment	(254,503)	(638,465)	(266,184)	(42,292)	-	(1,201,444)
Net carrying amount	2,822,604	308,331	201,944	37,753	21,318	3,391,950

12. PROPERTY, PLANT AND EQUIPMENT (continued)

GROUP (continued)

31 December 2008

	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 2008:						
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 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 of properties transferred to investment properties	32,425	–	–	–	–	32,425
Deficit on revaluation of properties transferred 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
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

Notes to Financial Statements (continued)

31 December 2009

12. PROPERTY, PLANT AND EQUIPMENT (continued)

GROUP (continued)

Included in the deficit on revaluation of properties transferred to investment properties during the year ended 31 December 2009 of RMB81,493,000 was an amount of RMB73,956,000 attributable to properties located in Beijing which were acquired by the Group in November 2007 from Centergate Technologies, a related party as further defined in note 38(a) to the financial statements.

Certain of the buildings of the Group in the PRC were pledged as security for bank loans (note 29) and bills payable (note 30) of the Group as at 31 December 2009. The aggregate carrying value of the pledged buildings attributable to the Group as at 31 December 2009 amounted to RMB1,610,839,000 (31 December 2008: RMB753,846,000).

13. INVESTMENT PROPERTIES

GROUP

	2009	2008
	RMB'000	*RMB'000*
Carrying amount at 1 January	**389,473**	331,680
Transfer from owner-occupied properties *(note 12)*	**434,933**	92,670
Net loss from a fair value adjustment	**(3,723)**	(34,441)
Exchange realignment	**(12)**	(436)
Carrying amount at 31 December	**820,671**	389,473

Investment properties comprised commercial properties in the PRC that are leased to third parties and an industrial property and a car park in Hong Kong that are leased to a related party (note 38(a)(v)) 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 2009. 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 2009, investment properties of approximately RMB7,044,000 (31 December 2008: RMB7,055,000) are located in Hong Kong under medium term leases and investment properties of approximately RMB813,627,000 (31 December 2008: RMB382,418,000) are located in the PRC under medium term leases.

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 29) and bills payable (note 30) of the Group as at 31 December 2009. The aggregate fair value of the pledged investment properties attributable to the Group as at 31 December 2009 amounted to RMB625,197,000 (31 December 2008: RMB300,216,000).

14. GOODWILL

GROUP

	Note	2009 RMB'000	2008 RMB'000
At 1 January:			
Cost		**3,371,012**	3,343,012
Accumulated impairment		**(8,000)**	–
Net carrying amount		**3,363,012**	3,343,012
Cost at 1 January, net of accumulated impairment		**3,363,012**	3,343,012
Acquisition of minority interests	*(i)*	**653,969**	–
Acquisition of subsidiaries		**–**	28,000
		4,016,981	3,371,012
Impairment during the year		**(2,000)**	(8,000)
At 31 December		**4,014,981**	3,363,012
At 31 December:			
Cost		**4,024,981**	3,371,012
Accumulated impairment		**(10,000)**	(8,000)
Net carrying amount		**4,014,981**	3,363,012

Note:

(i) The addition during the year ended 31 December 2009 arose from the acquisition of the 10% minority interest in Yongle (China) Electrical Retail Co., Ltd. ("Yongle (China)") (note 38(c)).

Notes to Financial Statements (continued)

31 December 2009

14. GOODWILL (continued)

IMPAIRMENT TESTING OF GOODWILL

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

	2009 RMB'000	2008 RMB'000
China Paradise Electronics Retail Limited ("China Paradise")	**3,920,393**	3,266,424
Shaanxi Cellstar	**60,428**	60,428
Shenzhen Gome Electrical Appliances Company Limited and Guangzhou Gome Electrical Appliances Company Limited	**22,986**	22,986
Longji Island	**8,000**	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
	4,024,981	3,371,012
Impairment	**(10,000)**	(8,000)
	4,014,981	3,363,012

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 five years. The pre-tax discount rate applied to the cash flow projections is 12.29% (2008: 11.6%).

The growth rate used to extrapolate the cash flows of the cash-generating units beyond the five-year period is 3% (2008: 3%). This growth rate is below the average growth rates of the retail industry of 6.8% to 21.6% 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.

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 the Group's 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 the values 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 (continued)

31 December 2009

15. OTHER INTANGIBLE ASSETS

GROUP

	Trademarks RMB'000
31 December 2009	
At 31 December 2008 and 1 January 2009:	
Cost	**154,915**
Accumulated amortisation	**(20,674)**
Net carrying amount	**134,241**
Cost at 1 January 2009, net of accumulated amortisation	**134,241**
Amortisation provided during the year	**(9,042)**
At 31 December 2009	**125,199**
At 31 December 2009:	
Cost	**154,915**
Accumulated amortisation	**(29,716)**
Net carrying amount	**125,199**
31 December 2008	
At 1 January 2008:	
Cost	154,915
Accumulated amortisation	(11,048)
Net carrying amount	143,867
Cost at 1 January 2008, net of accumulated amortisation	143,867
Amortisation provided during the year	(9,626)
At 31 December 2008	134,241
At 31 December 2008 and 1 January 2009:	
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 their useful lives of 10 years and 20 years respectively.

16. OTHER INVESTMENTS

	2009	2008
	RMB'000	*RMB'000*
PRC equity investments, at fair value	**153,360**	108,810

The balance as at 31 December 2009 represented the fair value of the Group's investments in 27,000,000 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 Group classified these investments as available-for-sale financial assets at 31 December 2009 and 2008. The fair value of these investments is based on quoted market prices of the listed shares, which was RMB5.68 at 31 December 2009 (31 December 2008: RMB4.03). 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. An 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. Accordingly, the amount of impairment loss which was recognised in the Company's 2008 consolidated income statement of RMB449,592,000 was not reversed in the current year.

According to a public announcement of Sanlian dated 2 February 2009, the Group nominated two independent directors and three 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. Of the seven directors of Sanlian, five were nominated by the Group. With reference to Sanlian's memorandum and articles of association and by taking into account the current shareholding structure of Sanlian, the directors of the Company consider that the Group has no absolute right to determine the composition of the board of directors of Sanlian or appoint directors to it and thus the Group does not have control or significant influence over Sanlian.

During the year ended 31 December 2009, the Group sold electrical appliances and consumer electronic products to Sanlian amounting to RMB4,335,000 (2008: Nil).

Notes to Financial Statements (continued)

31 December 2009

17. PREPAYMENTS FOR ACQUISITION OF PROPERTIES

	Notes	2009 RMB'000	2008 RMB'000
Prepayment to Wuhan Yinhe Property Co., Ltd. ("Wuhan Yinhe")	*(i)*	–	107,315
Prepayments for acquisition of properties	*(ii)*	**21,129**	162,845
		21,129	270,160

Notes:

(i) On 13 July 2008, the Group entered into a sale and purchase agreement with Wuhan Yinhe, an independent third party vendor, to acquire the first to the fourth floors of a commercial property located in Wuhan, the PRC, at a total cash consideration of RMB214,629,000. Pursuant to the agreement, the Group paid an amount of RMB107,315,000, representing 50% of the total purchase consideration, to the vendor in 2008 and the remaining balance was payable upon the completion and hand over of the property.

Due to the default of the vendor to fulfil its obligation under the sale and purchase agreement, on 6 July 2009, the Group applied to the Hubei Provincial People's High Court to freeze the assets of Wuhan Yinhe up to an amount of RMB135,808,000. On 21 July 2009, the court granted an injunction and froze the first, the second and the fourth floors of the property.

On 30 July 2009, the Group filed a civil complaint against Wuhan Yinhe with the Hubei Provincial People's High Court. On 25 November 2009, the Intermediate People's Court of Huanggang City, Hubei Province, issued the civil judgment and ordered: (i) the sale and purchase agreement and its supplementary agreement are void; (ii) Wuhan Yinhe shall refund the consideration paid by the Group of RMB107,315,000 to the Group; (iii) Wuhan Yinhe shall pay interest of RMB5,638,000 and damages of RMB38,633,000 to the Group; and (iv) Wuhan Yinhe shall pay other damages to the Group in the amount of RMB15,000,000. Wuhan Yinhe did not raise any appeal within the time limit. The directors of the Company have consulted the Group's PRC legal advisers and consider that the decision is final and binding. The aggregate amount of the compensation in items (iii) and (iv) above of approximately RMB59,271,000 has been recognised as income in the Group's income statement for the year ended 31 December 2009. In the opinion of the directors, the Group is able to recover the prepayment of RMB107,315,000 and the compensation receivables of RMB59,271,000 within 2010 and these balances are included in prepayments, deposits and other receivables as set out in note 26 below.

For the purpose of assessment of asset impairment in preparation of these financial statements, the Group has engaged Jones Lang LaSalle Sallmanns Limited, an independent firm of professionally qualified valuers, to determine the market value of the frozen property. The market value of the relevant property as at 31 December 2009 was RMB190.7 million, based on an open market approach, pursuant to the valuation report.

(ii) The balances represented deposits for the acquisition of certain commercial properties in the PRC. Management expects that these acquisition transactions will be completed within 2010.

18. LEASE PREPAYMENTS

GROUP

	Notes	2009 RMB'000	2008 RMB'000
Prepaid land lease payments	*(i)*	**42,815**	43,992
Rental prepayments	*(ii)*	**289,592**	311,097
		332,407	355,089

Notes:

(i) Prepaid land lease payments

Group

	2009 RMB'000	2008 RMB'000
Carrying amount at 1 January	**43,992**	45,194
Recognised during the year	**(1,177)**	(1,202)
Carrying amount at 31 December	**42,815**	43,992

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

(ii) The balances at 31 December 2009 and 2008 represented the non-current portion of rental prepayments.

Included in rental prepayments as at 31 December 2009 was the long term portion of rental prepayments to Centergate Technologies, a related company as further defined in note 38(a) to the financial statements, of RMB65,565,000 (31 December 2008: RMB72,177,000) (note 38(a)(vi)).

19. DEFERRED TAX

GROUP

	Note	Balance at 1 January 2009 RMB'000	Recognised in the consolidated income statement RMB'000	Recognised in the consolidated statement of comprehensive income RMB'000	Balance at 31 December 2009 RMB'000
Deferred tax assets:					
Tax losses	(i)	18,356	(9,495)	-	8,861
Fair value adjustment on investment properties		-	1,529	-	1,529
Fair value adjustment on transfer of owner occupied properties to investment properties		-	20,373	-	20,373
		18,356	12,407	-	30,763
Deferred tax liabilities:					
Fair value adjustment on acquisition		68,952	-	-	68,952
Fair value adjustment on investment properties		1,211	597	-	1,808
Fair value adjustment on transfer of owner occupied properties to investment properties		8,106	-	24,563	32,669
		78,269	597	24,563	103,429

19. DEFERRED TAX (continued)

GROUP (continued)

	Note	Balance at 1 January 2008 RMB'000	Recognised in the consolidated income statement RMB'000	Recognised in the consolidated statement of comprehensive income RMB'000	Balance at 31 December 2008 RMB'000
Deferred tax assets:					
Tax losses	*(i)*	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 transfer of owner occupied properties to investment properties		–	–	8,106	8,106
		80,431	(10,268)	8,106	78,269

Notes:

(i) The Group has not recognised deferred tax assets in respect of tax losses arising in Hong Kong of RMB270.0 million (2008: RMB221.6 million), that are available indefinitely, and in the PRC of RMB777.5 million (2008: RMB572.0 million), that will expire in one to five years, 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 tax recognised in the consolidated income statement for the year ended 31 December 2009 amounted to RMB11,810,000 (2008: RMB27,249,000).

Notes to Financial Statements (continued)

31 December 2009

20. DESIGNATED LOAN

The designated loan of RMB3,600 million as at 31 December 2009 (31 December 2008: RMB3,600 million) represented the aggregate amount of loans provided to Beijing Zhansheng by the Group through the Beijing Branch of Industrial Bank Co., Ltd. (the "Bank"). The loan had a maturity date on 12 December 2009 and the interest rate of 5.103% per annum. On 15 December 2009, the designated loan was renewed to 14 December 2011 with an interest rate of 4.86% per annum. Accordingly, the designed loan was classified as a non-current asset as at 31 December 2009.

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 and the renewed option agreement dated 15 December 2009, 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 approvals from the PRC government authorities and other terms and conditions of the option agreement.

As at the date of the financial statements, the board of directors of the Company is considering to exercise the Purchase Option in the future.

21. OTHER ASSETS

The balance as at 31 December 2008 represented loans to Mr. Chen Xiao, the Chairman of the Company, and other minority shareholders of Yongle (China), a 90%-owned PRC subsidiary of the Group. The loans were secured by a 10% interest in the registered capital of Yongle (China) and were interest-free. They formed part of the transactions to acquire the remaining 10% equity interest of Yongle (China) by the Group and have been utilised to settle part of the purchase consideration upon the completion of the transactions during the year. Further details of the acquisition transactions are disclosed in note 38(c) to the financial statements.

22. INTERESTS IN SUBSIDIARIES

COMPANY

	2009 RMB'000	2008 RMB'000
Unlisted shares, at cost	**5,389,635**	5,389,635
Amounts due from subsidiaries	**3,355,781**	3,548,882
	8,745,416	8,938,517
Impairment	**(46,925)**	(46,925)
	8,698,491	8,891,592

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

Notes to Financial Statements (continued)

31 December 2009

22. 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
Ocean Town Int'l Inc.	British Virgin Islands/ Hong Kong	US$50,000	–	100	Investment holding
Gome Appliance Company Limited *(ii)* 國美電器有限公司	PRC	RMB300 million	–	100	*Note (vi)*
Tianjin Gome Electrical Appliance Company Limited *(i)* 天津國美電器有限公司	PRC	RMB40 million	–	100	*Note (iii)*
Tianjin Gome Logistics Company Limited *(i)* 天津國美物流有限公司	PRC	RMB18 million	–	100	*Note (iv)*
Chongqing Gome Electrical Appliance Company Limited *(i)* 重慶國美電器有限公司	PRC	RMB20 million	–	100	*Note (iii)*
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)*

22. 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
Shenzhen Gome Electrical Appliance Company Limited *(i)* 深圳國美電器有限公司	PRC	RMB10 million	–	100	*Note (iii)*
Fuzhou Gome Electrical Appliance Company Limited *(i)* 福州國美電器有限公司	PRC	RMB10 million	–	100	*Note (iii)*
Guangzhou Gome Electrical Appliance Company Limited *(i)* 廣州市國美電器有限公司	PRC	RMB10 million	–	100	*Note (iii)*
Wuhan Gome Electrical Appliance Company Limited *(i)* 武漢國美電器有限公司	PRC	RMB10 million	–	100	*Note (iii)*
Shenyang Gome Electrical Appliance Company Limited *(i)* 沈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)*

Notes to Financial Statements (continued)

31 December 2009

22. 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
Kunming Gome Logistics Company Limited *(i)* 昆明國美物流有限公司	PRC	RMB8 million	–	100	*Note (iv)*
Quanzhou Pengrun Gome Electrical Appliance Company Limited *(i)* 泉州鵬潤國美電器有限公司	PRC	RMB5 million	–	100	*Note (iii)*
Changzhou Jintaiyang Zhizun Electrical Appliance Company Limited *(i)* 常州金太陽至尊電器有限公司	PRC	RMB50 million	–	100	*Note (iii)*
Gansu Gome Electrical Appliance Company Limited *(i)* 甘肅國美電器有限公司	PRC	RMB5 million	–	100	*Note (iii)*
Beijing Pengze Real Estate Company Limited *(i)* 北京鵬澤置業有限公司	PRC	RMB10 million	–	100	Property holding
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)*

22. 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
Eagle Electrical Appliance Company Limited *(i)* 鵬潤電器有限公司	PRC	RMB100 million	–	100	Investment holding
Shenzhen eHome Commercial Chain Company Limited *(i)* 深圳易好家商業連鎖有限公司	PRC	RMB20 million	–	100	*Note (iii)*
Gansu Gome Logistics Company Limited *(i)* 甘肅國美物流有限公司	PRC	RMB10 million	–	100	*Note (iv)*
Nanjing Pengze Investment Company Limited *(i)* 南京鵬澤投資有限公司	PRC	RMB156 million	–	100	Property holding
Yongle (China) Electronics Retail Company Limited *(ii)* 永樂(中國)電器銷售有限公司	PRC	RMB220 million	–	100	*Note (iii)*
Guangdong Yongle Electronics Retail Company Limited *(i)* 廣東永樂家用電器有限公司	PRC	RMB30 million	–	100	*Note (iii)*
Henan Yongle Electronics Retail Company Limited *(i)* 河南永樂生活電器有限公司	PRC	RMB20 million	–	100	*Note (iii)*
Jiangsu Yongle Electronics Retail Company Limited *(i)* 江蘇永樂家用電器有限公司	PRC	RMB10 million	–	100	*Note (iii)*

Notes to Financial Statements (continued)

31 December 2009

22. 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
Shanghai Yongle Communication Equipment Company Limited *(i)* 上海永樂通訊設備有限公司	PRC	RMB10 million	–	100	*Note (iii)*
Sichuan Yongle Electronics Retail Company Limited *(i)* 四川永樂家用電器有限公司	PRC	RMB20 million	–	100	*Note (iii)*
Xiamen Yongle Siwen Electronics Retail Company Limited *(i)* 廈門永樂思文家電有限公司	PRC	RMB10 million	–	100	*Note (iii)*
Zhejiang Yongle Electronics Retail Company Limited *(i)* 浙江永樂家用電器有限公司	PRC	RMB15 million	–	100	*Note (iii)*
Shaanxi Yongle • Dazhong Electronics Retail Co., Ltd. *(i)* 陝西永樂•大中生活電器有限公司	PRC	RMB10 million	–	100	*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)* 山東龍脊島建設有限公司	PRC	RMB10 million	–	100	Investment holding
Suzhou Jiayue Trading Company Limited *(i)* 蘇州嘉悅商貿有限公司	PRC	US$49.9 million	–	100	*Note (iv)*

22. 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
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:

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

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

(iii) Retailing of electrical appliances and consumer electronic products

(iv) Provision of logistics services

(v) Provision of business management services

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

(vii) Retailing of mobile phones and accessories

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.

Notes to Financial Statements (continued)

31 December 2009

23. INVESTMENT DEPOSITS

GROUP

	2009 RMB'000	2008 RMB'000
Investment deposits, in a licensed bank in the PRC, at amortised cost	–	30,000

The Group fully received the investment deposits in 2009.

24. INVENTORIES

GROUP

	2009 RMB'000	2008 RMB'000
Merchandise for resale	**6,439,237**	5,391,740
Consumables	**93,216**	81,757
	6,532,453	5,473,497

As at 31 December 2009, the Group's inventories amounting to RMB500 million (31 December 2008: RMB700 million) were pledged as security for the Group's bank loans (note 29) and bills payable (note 30).

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 end of the reporting period, based on the invoice date of the trade and bills receivables, is as follows:

GROUP

	2009	2008
	RMB'000	*RMB'000*
Outstanding balances, aged:		
Within 3 months	**50,419**	41,787
3 to 6 months	**3,071**	1,615
6 months to 1 year	**273**	1,043
Over 1 year	**436**	647
	54,199	45,092

The balance of trade and bills receivables as at 31 December 2008 includes a receivable from Dazhong Appliances of approximately RMB10,235,000 which was fully settled during the year.

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

GROUP

	2009	2008
	RMB'000	*RMB'000*
Neither past due nor impaired	**49,582**	41,557
Less than 3 months past due	**837**	230
Over 3 months past due	**3,780**	3,305
	54,199	45,092

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.

Notes to Financial Statements (continued)

31 December 2009

25. TRADE AND BILLS RECEIVABLES (continued)

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

	Notes	2009 RMB'000	2008 RMB'000
Prepayments	*(i)*	**384,398**	335,538
Advances to suppliers		**457,567**	425,151
Other deposits and receivables		**630,886**	379,608
Receivables from Wuhan Yinhe	17	**166,586**	–
Management fees receivable from Dazhong Appliances	*(ii)*	**61,555**	36,059
Interest income receivable from Beijing Zhansheng		**892**	207,999
		1,701,884	1,384,355

COMPANY

	2009 RMB'000	2008 RMB'000
Prepayments	**11,952**	4,053
Other receivables	**9,238**	678
	21,190	4,731

Notes:

(i) The balance includes the current portion of the rental prepayments to Centergate Technologies amounting to RMB6,612,000 as at 31 December 2009 (31 December 2008: RMB6,612,000) (note 38(a)(vi)).

(ii) In the opinion of the directors, the management fees receivable from Dazhong Appliances will be settled before 30 June 2010.

27. DUE FROM RELATED PARTIES

GROUP

	Note	2009 RMB'000	2008 RMB'000
Receivables from the Non-listed GOME Group	*(i)*	**156,912**	57,656
Others		**234**	187
		157,146	57,843

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 end of the reporting period.

28. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

GROUP

	2009 RMB'000	2008 RMB'000
Cash and bank balances	**5,492,859**	2,055,835
Time deposits	**9,332,544**	5,835,690
	14,825,403	7,891,525
Less: Pledged time deposits:		
Pledged for bills payables	**(6,189,973)**	(4,639,192)
Pledged for bank acceptance credit	**(2,606,371)**	(201,264)
	(8,796,344)	(4,840,456)
Cash and cash equivalents	**6,029,059**	3,051,069

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

COMPANY

	2009 RMB'000	2008 RMB'000
Cash and bank balances	**1,382,575**	9,160
Time deposits	**3,142,571**	995,234
	4,525,146	1,004,394
Less: Time deposits pledged for bank acceptance credit	**(2,606,371)**	–
Cash and cash equivalents	**1,918,775**	1,004,394

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

GROUP

	2009 RMB'000	2008 RMB'000
Cash and bank balances	**5,492,859**	2,055,835
Short term deposits, non-pledged	**536,200**	995,234
Cash and cash equivalents	**6,029,059**	3,051,069

At the end of the reporting period, the cash and bank balances and the time deposits of the Group denominated in RMB amounted to RMB10,198,403,000 (31 December 2008: RMB6,585,823,000). The RMB is not freely convertible into other currencies; however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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.

29. INTEREST-BEARING BANK LOANS

GROUP

	2009 RMB'000	2008 RMB'000
PRC bank loans – secured, within one year	**350,000**	170,000

The Group's bank loans are all denominated in RMB and bear interest at rates ranging from 4.86% to 5.841% per annum (2008: 6.225% to 7.47%).

The Group's bank loans are secured by guarantees and pledges as set out in note 30 below.

The carrying amounts of the Group's bank loans approximate to their fair values.

30. TRADE AND BILLS PAYABLES

GROUP

	2009 RMB'000	2008 RMB'000
Trade payables	**4,159,579**	4,431,020
Bills payable	**11,655,682**	8,486,938
	15,815,261	12,917,958

Notes to Financial Statements (continued)

31 December 2009

30. TRADE AND BILLS PAYABLES (continued)

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

	2009 RMB'000	2008 RMB'000
Within 3 months	**9,617,687**	8,933,715
3 to 6 months	**5,921,009**	3,553,829
Over 6 months	**276,565**	430,414
	15,815,261	12,917,958

The Group's bills payable and PRC bank loans (note 29) 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 Mr. Wong and Mr. Chen Xiao (note 38(a)(iv)).

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

31. CUSTOMERS' DEPOSITS, OTHER PAYABLES AND ACCRUALS

GROUP

	Notes	2009 RMB'000	2008 RMB'000
Customers' deposits		**649,710**	478,972
Consideration payable for the acquisition of subsidiaries	*(i)*	**7,240**	10,000
Provision for coupon liabilities	*(ii)*	**61,619**	78,619
Other payables and accruals	*(iii)*	**1,110,945**	962,550
		1,829,514	1,530,141

Notes:

(i) The balances as at 31 December 2009 and 2008 represented outstanding purchase considerations for the business combination transactions.

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

	2009 RMB'000	2008 RMB'000
At 1 January	**78,619**	62,667
Arising during the year	**95,500**	136,831
Revenue recognised on utilised points	**(73,140)**	(89,836)
Revenue recognised on expired points	**(39,360)**	(31,043)
At 31 December	**61,619**	78,619

(iii) Included in the Group's other payables and accruals as at 31 December 2009 was individual income tax payable amounting to RMB157,658,000 which has been withheld from the Vendors, other than Shanghai Hegui, under the transactions to acquire the remaining 10% equity interest of Yongle (China). Further details of the acquisition transactions are disclosed in note 38(c) to these financial statements. Among the outstanding balance of individual income tax payable as at 31 December 2009 of RMB157,658,000, RMB113,589,000 was payable on behalf of Mr. Chen Xiao.

Notes to Financial Statements (continued)

31 December 2009

32. CONVERTIBLE BONDS

	Notes	2009 RMB'000	2008 RMB'000
Liability components:			
Old 2014 Convertible Bonds	*(i)*	**2,281,046**	3,571,833
2016 Convertible Bonds	*(ii)*	**1,502,733**	–
New 2014 Convertible Bonds	*(iii)*	**1,672,176**	–
		5,455,955	3,571,833
Derivative components:			
Old 2014 Convertible Bonds	*(i)*	**(100,689)**	(2,280)
		5,355,266	3,569,553
Classified as current liabilities		**(2,180,357)**	–
Non-current liabilities		**3,174,909**	3,569,553

(i) RMB denominated United States dollar ("USD") settled zero coupon convertible bonds due in 2014 (the "Old 2014 Convertible Bonds")

On 11 May 2007, the Company issued RMB denominated USD settled zero coupon convertible bonds due in 2014 in an aggregate principal amount of RMB4,600 million.

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

(a) 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;

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

32. CONVERTIBLE BONDS (continued)

(i) RMB denominated United States dollar ("USD") settled zero coupon convertible bonds due in 2014 (the "Old 2014 Convertible Bonds") (continued)

(c) 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 a US dollar amount equivalent to their early redemption amount as at the date fixed for redemption, provided that the prices of the Company's shares for each of 20 consecutive trading days are over 130% of the early redemption price.

The Old 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.

Pursuant to the Company's announcements dated 5 July 2009 and 3 August 2009, the conversion price of the Old 2014 Convertible Bonds has been adjusted from HK$4.96 per share to HK$4.46 per share in accordance with the terms and conditions of the Old 2014 Convertible Bonds as a result of the Open Offer (note 33(i)) and issuance of the 2016 Convertible Bonds (note (ii) below).

The Company has reclassified the convertible bonds from non-current liabilities to current liabilities during the current period as the Old 2014 Convertible Bonds are redeemable at the option of the bondholders on 18 May 2010 in accordance with the terms and conditions of the Old 2014 Convertible Bonds.

32. CONVERTIBLE BONDS (continued)

(i) RMB denominated United States dollar ("USD") settled zero coupon convertible bonds due in 2014 (the "Old 2014 Convertible Bonds") (continued)

During the year ended 31 December 2009, the Company repurchased part of the Old 2014 Convertible Bonds with an aggregate principal amount of RMB1,824,700,000 through over-the-counter purchases. The bonds repurchased have been cancelled. The consideration for the repurchases were allocated to the liability component, the derivative component and the equity component of the Old 2014 Convertible Bonds at the dates of the repurchases. The method used in allocating the consideration paid to the separate components is consistent with that used in the original allocation to the separate components of the proceeds received by the Company when the Old 2014 Convertible Bonds were issued. The Company determined the fair value of the liability component at the dates of the repurchases transactions based on the valuations performed by Vigers Appraisal & Consulting Limited ("Vigers"), an independent firm of professionally qualified valuers, using an equivalent market interest rate for a similar bond without a conversion option. The fair value of the derivative component was determined based on the valuations performed by Vigers using an option pricing model. The amount of gains which related to the liability component amounting to RMB67,083,000 was recognised in profit or loss and the amount of consideration which related to the equity component of RMB444,957,000 was recognised in equity.

As at 31 December 2009, the Old 2014 Convertible Bonds with an aggregate principal amount of RMB2,775,300,000 remained outstanding.

32. CONVERTIBLE BONDS (continued)

(i) RMB denominated United States dollar ("USD") settled zero coupon convertible bonds due in 2014 (the "Old 2014 Convertible Bonds") (continued)

The movements of the liability component, derivative component and equity component of the Old 2014 Convertible Bonds for 2008 and 2009 are as follows:

	Liability component of convertible bonds	Derivative component of convertible bonds	Equity component of convertible bonds	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2008	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
Interest expenses	189,770	–	–	189,770
Fair value adjustment	–	(136,740)	–	(136,740)
Repurchases of bonds	(1,480,557)	38,331	(444,957)	(1,887,183)
At 31 December 2009	2,281,046	(100,689)	970,813	3,151,170

The fair values of the derivative component were determined based on the valuations performed by Vigers using the applicable option pricing model.

(ii) RMB denominated USD settled 5% coupon convertible bonds due in 2016 (the "2016 Convertible Bonds")

On 7 June 2009, the Company and Bain Capital Glory Limited ("Bain Capital") entered into an investment agreement pursuant to which Bain Capital has conditionally agreed to subscribe for RMB1,590 million USD settled 5% coupon convertible bonds due 2016 at their full face value. The transaction was completed on 3 August 2009.

Notes to Financial Statements (continued)

31 December 2009

32. CONVERTIBLE BONDS (continued)

(ii) RMB denominated USD settled 5% coupon convertible bonds due in 2016 (the "2016 Convertible Bonds") (continued)

Pursuant to the terms of the agreement, the 2016 Convertible Bonds are:

(a) convertible at the option of the bondholder, at any time during the period commencing 30 days after the issue date and ending on the close of business on 3 August 2016, both dates inclusive, in whole, or in any part, of the outstanding principal amount of the bonds into fully-paid shares (at a fixed exchange rate of RMB0.88 to HK$1.00), at a conversion price of HK$1.108 per share;

(b) redeemable at the option of the bondholders on or at any time after the fifth anniversary of the issue date and prior to the bond maturity date in a USD amount equivalent to the principal amount of the bond multiplied by 1.12^n, where "n" equals the number of days from the issue date until the early redemption date (both days inclusive) divided by 360; minus the amount of interest paid on such bond for the period from (and including) the issue date to (but excluding) the early redemption date; and

(c) redeemable at the option of the bondholders upon the occurrence of a specified event or any of the events default at the USD equivalent of the higher of: (A) the amount equal to 1.5 times the principal amount of the said bond (or, if the maximum amount permitted by applicable law is lower, then such maximum amount permitted by applicable law); and (B) the principal amount of the said bond multiplied by 1.25^n, where "n" equals the number of days from the issue date until the date of redemption (both days inclusive) divided by 360; minus the amount of interest paid on such bond for the period from (and including) the issue date to (but excluding) the date of redemption.

32. CONVERTIBLE BONDS (continued)

(ii) RMB denominated USD settled 5% coupon convertible bonds due in 2016 (the "2016 Convertible Bonds") (continued)

The Company shall on 3 August 2016, the bond maturity date, redeem in USD all the bonds then outstanding at the USD equivalent of the principal amount of each bond multiplied by 1.12^n, where "n" equals the number of days from the issue date until the bond maturity date (both days inclusive) divided by 360; minus the amount of interest paid on such bond for the period from (and including) the issue date to (but excluding) the bond maturity date.

Based on the terms and conditions of the 2016 Convertible Bonds, the exercise of the conversion option will give rise to the settlement by exchanging of a fixed amount of cash for a fixed number of shares of the Company and it was accounted for as an equity component. At inception, the host debt instrument was fair valued and accounted for as a liability component. The equity component was assigned as the residual amount after deducting the liability component from the consideration received for the instrument. The Company determined the fair value of the liability component based on the valuations performed by Vigers using an equivalent market interest rate for a similar bond without a conversion option. The residual amount was assigned as the equity component for the conversion option and was included in the capital reserve at inception.

The liability component is carried as a long term liability on the amortised cost basis until extinguished on conversion or redemption. The value of the equity component is not remeasured in subsequent years.

Notes to Financial Statements (continued)

31 December 2009

32. CONVERTIBLE BONDS (continued)

(ii) RMB denominated USD settled 5% coupon convertible bonds due in 2016 (the "2016 Convertible Bonds") (continued)

Transaction costs that relate to the issue of the 2016 Convertible Bonds are allocated to the liability and equity components in proportion to the allocation of the proceeds. Transaction costs relating to the equity component is charged to equity. Transaction costs relating to the liability component are included in the carrying amount of the liability component and amortised over the period of the convertible bonds using the effective interest method.

The movements of the liability component and equity component of the 2016 Convertible Bonds during the period from the issue date to the end of the reporting period are as follows:

	Liability component of convertible bonds	Equity component of convertible bonds	Total
	RMB'000	*RMB'000*	*RMB'000*
Principal amount of convertible bonds issued	1,449,240	140,760	1,590,000
Transaction costs	(34,486)	(3,349)	(37,835)
Interest expenses	87,979	–	87,979
At 31 December 2009	1,502,733	137,411	1,640,144

32. CONVERTIBLE BONDS (continued)

(iii) RMB denominated USD settled 3% coupon convertible bonds due in 2014 (the "New 2014 Convertible Bonds")

On 23 September 2009, the Company entered into a bond subscription agreement with J.P. Morgan Securities Ltd. ("J.P. Morgan") to issue the RMB denominated USD settled 3.0% coupon convertible bonds due 2014 with an aggregate principal amount of RMB2,050 million (with the option (the "Option") for the issue of up to RMB340 million aggregate principal amount of USD settled 3.0% coupon convertible bonds due 2014). J.P. Morgan has exercised the Option and the Company issued the bonds on 25 September 2009 with an aggregate principal amount of RMB307.2 million. Accordingly, the total principal amount of the New 2014 Convertible Bonds issued by the Company is RMB2,357.2 million.

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

(a) convertible at the option of the bondholders on or after 5 November 2009 up to the 10th day prior to 25 September 2014 at a conversion price of HK$2.8380 (at the fixed rate of HK$1.1351 = RMB1.00) per share;

(b) redeemable at the option of the bondholders in all or some only of the bonds on 25 September 2012 at a USD amount equivalent of 103.634% of their RMB principal amount together with interest accrued to the date fixed for redemption; and

(c) redeemable at the option of the Company at any time after 25 September 2012 in all, but not some only, of the bonds for the time being outstanding at a USD amount equivalent of their early redemption amount as at the date fixed for redemption together with interest accrued to the date fixed for redemption, provided that the closing prices of the Company's shares for 30 consecutive trading days prior to the date upon which notice of such redemption is published are at least 130% of the early redemption amount of a bond divided by the conversion ratio.

Unless previously redeemed, converted or purchased and cancelled in the circumstances referred to in the terms and conditions of the New 2014 Convertible Bonds, each bond will be redeemed at a USD amount equivalent of 106.318% of its RMB principal amount together with unpaid accrued interest thereon on 25 September 2014, the bond maturity date.

Notes to Financial Statements (continued)

31 December 2009

32. CONVERTIBLE BONDS (continued)

(iii) RMB denominated USD settled 3% coupon convertible bonds due in 2014 (the "New 2014 Convertible Bonds") (continued)

Based on the terms and conditions of the New 2014 Convertible Bonds, the exercise of the conversion option will give rise to the settlement by exchanging of a fixed amount of cash for a fixed number of shares of the Company and it was accounted for as an equity component. At inception, the host debt instrument was fair valued and accounted for as a liability component. The equity component was assigned as the residual amount after deducting the liability component from the consideration received for the instrument. The Company determined the fair value of the liability component based on the valuations performed by Vigers using an equivalent market interest rate for a similar bond without a conversion option. The residual amount was assigned as the equity component for the conversion option and was included in the capital reserve as at inception.

The liability component is carried as a long term liability on the amortised cost basis until extinguished on conversion or redemption. The value of the equity component is not remeasured in subsequent years.

Transaction costs that relate to the issue of the New 2014 Convertible Bonds are allocated to the liability and equity components in proportion to the allocation of the proceeds. Transaction costs relating to the equity component is charged to equity. Transaction costs relating to the liability component are included in the carrying amount of the liability component and amortised over the period of the convertible bonds using the effective interest method.

The movements of the liability component and equity component of the New 2014 Convertible Bonds during the period from the issue date to the end of the reporting period are as follows:

	Liability component of convertible bonds	**Equity component of convertible bonds**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
Principal amount of convertible bonds issued	1,653,610	703,590	2,357,200
Transaction costs	(36,590)	(15,569)	(52,159)
Interest expenses	55,156	–	55,156
At 31 December 2009	1,672,176	688,021	2,360,197

33. ISSUED CAPITAL

	Number of shares '000	HK$'000	Equivalent to RMB'000
Authorised:			
Ordinary shares of HK$0.025 each			
at 1 January 2009 and 31 December 2009	**200,000,000**	**5,000,000**	**5,300,000**
Issued and fully paid:			
Ordinary shares of HK$0.025 each			
at 1 January 2009	**12,758,756**	**318,970**	**331,791**
Issue of shares *(note (i))*	**2,296,576**	**57,414**	**50,617**
Ordinary shares of HK$0.025 each			
at 31 December 2009	**15,055,332**	**376,384**	**382,408**

Note:

(i) On 22 June 2009, the Company announced an open offer (the "Open Offer") of not less than 2,296,576,044 open offer shares and not more than 2,484,657,375 open offer shares at the subscription price of HK$0.672 per open offer share on the basis of 18 open offer shares for every 100 existing shares held by the qualifying shareholders on the record date and payable in full on application. Upon the completion of the Open Offer on 31 July 2009, 2,296,576,044 shares of the Company have been issued and fully paid, 816,321,278 shares of which are subscribed by Mr. Wong and his associates. The aggregate amount of proceeds from the open offer shares was, before expenses, HK$1,543,299,000 (equivalent to RMB1,360,573,000). The net proceeds from the open offer shares was about RMB1,284,899,000.

Notes to Financial Statements (continued)

31 December 2009

34. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") which was adopted on 15 April 2005 ("Adoption Date") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include employees, executives and officers of the Company (including executive and non-executive directors of the Company) or any of the subsidiaries and business consultants, business partners, suppliers, customers, agents, financial or legal advisers, debtors and creditors who the board of directors of the Company considers, in its sole discretion, will contribute or have contributed to the Company or any of the subsidiaries.

This Scheme shall be valid and effective for the period (the "Scheme Period") commencing on the Adoption Date and ending on the day immediately preceding the tenth anniversary of the Adoption Date (both dates inclusive). The options granted prior to the end of the Scheme Period but not yet exercised shall continue to be valid and exercisable in accordance with the Scheme.

The maximum number of shares in respect of which options may be granted is 656,979,032 shares. The maximum number of shares in respect of which options may be granted under this Scheme to any eligible participant shall not, in any 12-month period up to the offer date, exceed 1% of the number of shares of the Company in issue on the offer date. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors (excluding any independent non-executive director of the Company who is the relevant eligible participant). In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

34. SHARE OPTION SCHEME (continued)

The offer of a grant of share options may be accepted within 30 days from the date of offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and in any event such period of time shall not exceed a period of ten years commencing on the commencement date, being the date upon which the option is deemed to be granted and accepted.

The exercise price in relation to each option offered shall be determined by the board of directors of the Company in its absolute discretion but in any event must not be less than the highest of: (a) the official closing price of the shares as stated in the daily quotation sheet of the stock exchange on the offer date; (b) the average of the official closing price of the shares as stated in the daily quotation sheets of the stock exchange for the five business days immediately preceding the offer date; and (c) the nominal value of a share of the Company.

Share options do not confer right on the holders to dividends or to vote at shareholders' meetings.

The following share options were outstanding under the Scheme during the year:

	2009		2008	
	Weighted average exercise price ***HK$ per share***	**Number of option** ***'000***	Weighted average exercise price *HK$ per share*	Number of option *'000*
At 1 January	**-**	**-**	–	–
Granted during the year *(note (i))*	**1.90**	**383,000**	–	–
Forfeited during the year	**1.90**	**(8,300)**	–	–
At 31 December	**1.90**	**374,700**	–	–

Note:

(i) Out of the 383,000,000 share options, 125,500,000 share options have been granted to the directors and 257,500,000 share options have been granted to the employees of the Group.

Notes to Financial Statements (continued)

31 December 2009

34. SHARE OPTION SCHEME (continued)

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

2009 Number of options *'000*	Exercise price* *HK$ per share*	Exercise period
93,500	1.90	7 July 2010 to 6 July 2019
93,500	1.90	7 July 2011 to 6 July 2019
93,500	1.90	7 July 2012 to 6 July 2019
93,500	1.90	7 July 2013 to 6 July 2019

* The exercise price of the share options is subject to adjustment in case of rights or bonus issues, or other similar changes in the Company's share capital.

The fair value of the share options granted during the year was RMB296,448,000 (RMB0.77 each) of which the Group recognised a share option expense of RMB70,533,000 during the year ended 31 December 2009.

The fair value of equity-settled share options granted during the year was estimated as at the date of grant, using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

	2009
Stock price as at grant date	**HK$1.9**
Expected volatility	**63%**
Historical volatility	**63%**
Risk-free interest rate	**2.565%**
Dividend yield	**1.2%**

34. SHARE OPTION SCHEME (continued)

The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the option was incorporated into the measurement of fair value.

At the end of the reporting period, the Company had 374,700,000 share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 374,700,000 additional ordinary shares of the Company and additional share capital of HK$9,368,000 (equivalent to approximately RMB8,248,000) and share premium of HK$702,562,000 (equivalent to approximately RMB618,592,000) (before issue expenses).

At the date of approval of these financial statements, the Company had 374,700,000 share options outstanding under the Scheme, which represented approximately 2.5% of the Company's shares in issue as at that date.

35. 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, each of the PRC domestic companies is 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 its 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.

Notes to Financial Statements (continued)

31 December 2009

35. RESERVES (continued)

(b) COMPANY

	Notes	Share premium RMB'000	Contributed surplus RMB'000 Note (ii)	Capital reserve RMB'000	Share option reserve RMB'000 Note (iii)	Exchange fluctuation reserve RMB'000	Retained earnings/ accumulated losses 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
Total comprehensive income for the year		–	–	–	–	–	293,772	293,772
Repurchase and cancellation of shares		(2,055,584)	–	–	–	–	–	(2,055,584)
Dividend attributable to cancelled shares		–	–	–	–	–	12,025	12,025
Dividends paid	36	–	–	–	–	–	(344,486)	(344,486)
At 31 December 2008 and 1 January 2009		**6,206,505**	**42,849**	**(216,966)**	**-**	**(49,695)**	**10,346**	**5,993,039**
Total comprehensive loss for the year		**-**	**-**	**-**	**-**	**-**	**(226,962)**	**(226,962)**
Issue of shares	33	**1,234,282**	**-**	**-**	**-**	**-**	**-**	**1,234,282**
Repurchases of the Old 2014 Convertible Bonds	32(i)	**-**	**-**	**(444,957)**	**-**	**-**	**-**	**(444,957)**
Issue of the 2016 Convertible Bonds	32(ii)	**-**	**-**	**137,411**	**-**	**-**	**-**	**137,411**
Issue on the New 2014 Convertible Bonds	32(iii)	**-**	**-**	**688,021**	**-**	**-**	**-**	**688,021**
Equity-settled share option arrangements	34	**-**	**-**	**-**	**70,533**	**-**	**-**	**70,533**
At 31 December 2009		**7,440,787**	**42,849**	**163,509**	**70,533**	**(49,695)**	**(216,616)**	**7,451,367**

35. RESERVES (continued)

(b) COMPANY (continued)

Notes:

(i) The loss attributable to owners for the year ended 31 December 2009 dealt with in the financial statements of the Company was approximately RMB227 million (2008: profit of RMB294 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.

(iii) The share option reserve represents the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payment transactions in note 2.4 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to retained profits should the related options expire or be forfeited.

36. DIVIDENDS

	2009 **RMB'000**	2008 RMB'000
Interim: Nil (2008: HK3.0 cents (equivalent to RMB2.7 fen) per ordinary share)	**–**	344,486
Proposed final: Nil (2008: Nil)	**–**	–
	–	344,486

37. OPERATING LEASE ARRANGEMENTS AND COMMITMENTS

(a) OPERATING LEASE ARRANGEMENTS

As lessee

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

As at the end of the reporting period, the Group had the following minimum lease payments under non-cancellable operating leases falling due as follows:

	2009	2008
	RMB'000	*RMB'000*
Within one year	**1,788,597**	1,993,406
In the second to fifth years, inclusive	**5,659,127**	6,969,730
After five years	**2,928,621**	4,171,095
	10,376,345	13,134,231

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 one month to one year, 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.

37. OPERATING LEASE ARRANGEMENTS AND COMMITMENTS (continued)

(a) OPERATING LEASE ARRANGEMENTS (continued)

As lessor

The Group has leased its investment properties (note 13) and entered into commercial property sub-leases on its leased properties under operating lease arrangements. These non-cancellable leases have remaining terms of between 1 and 15 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:

	2009	2008
	RMB'000	*RMB'000*
Within one year	**166,564**	164,692
In the second to fifth years, inclusive	**506,847**	370,014
After five years	**327,831**	198,317
	1,001,242	733,023

(b) CAPITAL COMMITMENTS

In addition to the operating lease commitments above, the Group had the following capital commitments at the end of the reporting period:

	2009	2008
	RMB'000	*RMB'000*
Contracted, but not provided for:		
Acquisition of buildings	**118,571**	500,862

Notes to Financial Statements (continued)

31 December 2009

38. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances which are disclosed in notes 18, 21, 26, 27, 31 and 33 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	2009 RMB'000	2008 RMB'000
Sales to the Non-listed GOME Group	*(i)*	**360,134**	68,602
Purchases from the Non-listed GOME Group	*(i)*	**(92,527)**	(26,352)
Provision of management and purchasing services to the Non-listed GOME Group	*(ii),5*	**233,541**	250,000
Rental expenses to Beijing Xinhengji	*(iii)*	**(3,574)**	(3,577)
Provision of corporate guarantees from Mr. Wong and Mr. Chen Xiao in respect of the Group's bills facilities	*(iv)*	**880,000**	530,000
Rental income from a related party	*(v)*	**524**	535
Rental expenses to Centergate Technologies	*(vi)*	**(6,612)**	(6,612)

The Non-listed GOME Group comprises Beijing Eagle Investment Co., Ltd., Beijing Gome Electrical Appliance Co., Ltd., 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 and the former chairman 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.

38. RELATED PARTY TRANSACTIONS (continued)

(a) The Group had the following ongoing transactions with related parties during the year: (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. During 2009, Jinan Wansheng Yuan Economic Consulting Company Limited ("Jinan Wansheng Yuan"), an indirect wholly-owned subsidiary of the Company, entered into a management agreement with the Non-listed GOME Group, pursuant to which Jinan Wansheng Yuan will provide and will procure other members of the Group to provide management services to the Non-listed GOME Group for a period of three years from 1 January 2010 to 31 December 2012. In addition, Kunming Hengda Logistics Company Limited ("Kunming Hengda"), an indirect wholly-owned subsidiary of the Company, entered into a purchasing service agreement with the Non-listed GOME Group, pursuant to which Kunming Hengda will provide purchasing services to the Non-listed GOME Group for a period of three years from 1 January 2010 to 31 December 2012. The amount of the management service fee and the purchasing service fee will be charged based on 0.6% and 0.9%, respectively, of the total turnover of the Non-listed GOME Group.

(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 provision of corporate guarantees is at nil consideration.

(v) The Company's subsidiaries, Hong Kong Punching Centre Limited and China Eagle Management Limited, received operating lease rentals in respect of the Group's investment properties from GOME Home Appliances (Hong Kong) Limited, a company owned by Mr. Wong, totalling RMB524,000 (2008: RMB535,000) during the year.

(vi) 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 2009 amounted to RMB72,177,000 (31 December 2008: RMB78,789,000), among which RMB65,565,000 (31 December 2008: RMB72,177,000) (note 18) was classified as long term and RMB6,612,000 (31 December 2008: RMB6,612,000) (note 26) was classified as short term in the financial statements.

Notes to Financial Statements (continued)

31 December 2009

38. RELATED PARTY TRANSACTIONS (continued)

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

	2009 RMB'000	2008 RMB'000
Fees	**4,555**	1,587
Other emoluments:		
Salaries, allowances, bonuses and other expense	**8,661**	7,920
Pension costs	**182**	207
Equity-settled share option expense	**25,606**	–
	39,004	9,714

(c) Transactions to acquire the remaining 10% equity interest of Yongle (China)

On 28 August 2008, the Group and Mr. Chen Xiao, the 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 was 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 were 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 were interest-free and have been utilised by the Group to settle the purchase considerations when the acquisition transactions were approved by the PRC government authorities on 30 November 2009.

38. RELATED PARTY TRANSACTIONS (continued)

(c) Transactions to acquire the remaining 10% equity interest of Yongle (China) (continued)

The outstanding consideration of RMB157,658,000, representing the withholding individual income tax payable for the Vendors other than Shanghai Hegui, was included in the balance of customers' deposits, other payable and accruals (note 31(iii)) as at 31 December 2009.

39. CONTINGENCIES

(a) At the end of the reporting period, contingent liabilities not provided for in the financial statements were as follows:

	31 December 2009 *RMB'000*	31 December 2008 *RMB'000*
Guarantees given to banks in connection with bill facilities granted in favour of:		
Dazhong Appliances	**205,650**	242,901

(b) Enforcement action by the Securities and Futures Commission

Court grants injunction to freeze assets of Mr. Wong and his spouse

On 7 August 2009, the Securities and Futures Commission ("SFC") of the Hong Kong Special Administrative Region announced that the High Court has granted an interim injunction to freeze assets of up to HK$1,655,167,000 in relation to the former chairman of the Company, Mr. Wong, his spouse Ms. Du Juan and two companies.

Mr. Wong and Ms. Du Juan are alleged to have organised a share repurchase by the Company in January and February 2008 in order to use the Company's funds to buy shares originally held by Mr. Wong so that Mr. Wong could use the proceeds of that share sale to repay a HK$2.4 billion personal loan to a financial institution.

39. CONTINGENCIES (continued)

(b) Enforcement action by the Securities and Futures Commission (continued)

Court grants injunction to freeze assets of Mr. Wong and his spouse (continued)

The SFC alleges that the share repurchase had a negative impact on the Company's financial position and was not in the best interests of the Company and its shareholders. The SFC alleges that it provided the demand for the Company's shares and stabilised its share price when Mr. Wong disposed of his shares, thereby enabling him to earn more from his share sale. The SFC also alleges that this transaction was a fraud or deception in a transaction involving securities and caused a loss of approximately HK$1.6 billion to the Company and its shareholders.

The SFC is seeking orders that Mr. Wong, Ms. Du Juan and two companies owned and controlled by them:

- to restore the parties to any transaction, in particular the Company, to the position in which they were before the transaction was entered into; and/or

- to pay damages to the Company.

The injunction serves to prevent the dissipation of assets pending the conclusion of the SFC's investigation and to ensure that there are sufficient assets to satisfy any restoration or compensation orders, if orders are made against Mr. Wong, Ms. Du Juan and the two companies.

Court continues orders against Mr. Wong and his spouse

The order is an ex parte interim injunction obtained by the SFC. The defendants have not yet had a chance to reply to the SFC's allegations.

On 7 August 2009, the Company announced that it has been provided with a copy of the court order (the "Court Order") by the SFC and confirmed that (a) the Company is not a defendant to the Court Order; and (b) the assets of the Company are not subject to the Court Order. In view of the above, the business of the Company or its subsidiaries is not and will not be adversely affected by the Court Order.

39. CONTINGENCIES (continued)

(b) Enforcement action by the Securities and Futures Commission (continued)

Court continues orders against Mr. Wong and his spouse (continued)

According to the enforcement news of the SFC dated 8 September 2009, the High Court ordered the two companies associated with Mr. Wong and Ms. Du Juan not to dispose of, deal with or encumber 779,255,678 shares of the Company pending further order.

The two companies, Shinning Crown Holdings Inc. and Shine Group Limited, deposited with the court share certificates representing these shares pursuant to the interim injunctions ordered against them, Mr. Wong and Ms. Du Juan, freezing their assets up to the amount of HK$1,655,167,000.

The delivery of these share certificates into the custody of the court, together with the orders made on 8 September 2009 prohibiting the disposal of the shares, will preserve them for the purposes of the legal proceedings initiated by the SFC. Accordingly, the interim injunctions against the two companies were discharged. However, the interim injunctions remain effective against Mr. Wong and Ms. Du Juan.

Separately, the court declined to order the defendants to provide additional assets if the value of the Company's shares deposited with the court fell below HK$1,655,167,000.

The SFC is obliged to comply with and follow the court's rules and procedures for due service of the proceedings on Mr. Wong and Ms. Du Juan in the PRC. This process started after the SFC commenced these proceedings. The SFC continues to liaise with PRC authorities with a view to assisting the court to effect service on them.

Other than the above, the Group did not have any significant contingencies at the end of the reporting period.

Notes to Financial Statements (continued)

31 December 2009

40. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

2009

Financial assets

	Group			
	Financial assets at fair value through profit or loss – held for trading RMB'000	Loans and receivables RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000
Other investments	–	–	153,360	153,360
Hong Kong listed investments	1,635	–	–	1,635
Designated loan	–	3,600,000	–	3,600,000
Trade and bills receivables	–	54,199	–	54,199
Financial assets included in prepayments, deposits and other receivables	–	859,919	–	859,919
Due from related parties	–	157,146	–	157,146
Pledged deposits	–	8,796,344	–	8,796,344
Cash and cash equivalents	–	6,029,059	–	6,029,059
	1,635	19,496,667	153,360	19,651,662

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	–	350,000	350,000
Trade and bills payables	–	15,815,261	15,815,261
Financial liabilities included in customers' deposits, other payables and accruals	–	1,767,895	1,767,895
Liability components of convertible bonds	–	5,455,955	5,455,955
Derivative components of convertible bonds	(100,689)	–	(100,689)
	(100,689)	23,389,111	23,288,422

40. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

2008

Financial assets	Group			
	Financial assets at fair value through profit or loss – held for trading RMB'000	Loans and receivables RMB'000	Available-for-sale financial assets RMB'000	Total 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

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

Notes to Financial Statements (continued)

31 December 2009

40. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Financial assets

	Company	
	2009	2008
	Loans and receivables	Loans and receivables
	RMB'000	*RMB'000*
Financial assets included in prepayments, deposits and other receivables	**9,238**	678
Pledged deposits	**2,606,371**	–
Cash and cash equivalents	**1,918,775**	1,004,394
	4,534,384	1,005,072

Financial liabilities

	2009	2008
	Financial liabilities at amortised cost	Financial liabilities at amortised cost
	RMB'000	*RMB'000*
Liability components of convertible bonds	**5,455,955**	3,571,833
Derivative components of convertible bonds	**(100,689)**	(2,280)
	5,355,266	3,569,553

41. FAIR VALUE HIERARCHY

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

As at 31 December 2009, the Group held the following financial instruments measured at fair value:

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets measured at fair value:				
Available-for-sale investments:				
Equity investments	**153,360**	**–**	**–**	**153,360**
Equity investments at fair value through profit or loss	**1,635**	**–**	**–**	**1,635**
	154,995	**–**	**–**	**154,995**
Liabilities measured at fair value:				
Derivative component of convertible bonds	**–**	**–**	**(100,689)**	**(100,689)**
	–	**–**	**(100,689)**	**(100,689)**

Notes to Financial Statements (continued)

31 December 2009

41. FAIR VALUE HIERARCHY (continued)

As at 31 December 2009, the Company held the following financial instruments measured at fair value:

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets measured at fair value:				
Equity investments at fair value through profit or loss	1,635	–	–	1,635
Liabilities measured at fair value:				
Derivative component of convertible bonds	–	–	(100,689)	(100,689)

The movements in fair value measurements in Level 3 during the year are as follows:

	Group and Company RMB'000
Derivative financial instruments	
At 1 January 2009	(2,280)
Gain recognised in the income statement *(note 32(i))*	(136,740)
Repurchases *(note 32(i))*	38,331
At 31 December 2009	(100,689)

42. 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.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk, liquidity risk and equity price 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 2009, the Group did not have debt obligations with floating interest rates. Accordingly, the Group has no significant interest rate risk.

FOREIGN CURRENCY RISK

As at 31 December 2009, the Group had cash and bank deposits of RMB4,627,000,000 (2008: RMB1,305,702,000), which are denominated in foreign currencies including US and Hong Kong 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.

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

FOREIGN CURRENCY RISK (continued)

The following table demonstrates the sensitivity to a reasonably possible change in the exchange rate of US and Hong Kong 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). Other components of equity would not change.

	Increase/ (decrease) in foreign currency rate	Increase/ (decrease) in profit before tax *RMB'000*
2009		
If RMB weakens against USD	**5%**	**163,971**
If RMB strengthens against USD	**(5%)**	**(163,971)**
If RMB weakens against Hong Kong dollar	**5%**	**67,366**
If RMB strengthens against Hong Kong dollar	**(5%)**	**(67,366)**
2008		
If RMB weakens against USD	8%	99,989
If RMB strengthens against USD	(8%)	(99,989)
If RMB weakens against Hong Kong dollar	8%	541
If RMB strengthens against Hong Kong dollar	(8%)	(541)

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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, other receivables and amounts due from related parties, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of such financial instruments.

LIQUIDITY RISK

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

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bills payable, convertible bonds and other interest-bearing borrowings. As at 31 December 2009, the Group had trade and bills payables amounting to RMB15,815,261,000 (31 December 2008: RMB12,917,958,000). In addition, as at 31 December 2009, the Group had the bank loan balance of RMB350,000,000 (31 December 2008: RMB170,000,000) 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 the end of the reporting period, based on contractual or expected undiscounted payments.

Notes to Financial Statements (continued)

31 December 2009

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

LIQUIDITY RISK (continued)

Group

	2009			
	Within 1 year RMB'000	2 to 3 years RMB'000	Over 3 years RMB'000	Total RMB'000
Convertible bonds	2,988,515	2,743,293	2,586,652	8,318,460
Interest-bearing bank loans	350,000	–	–	350,000
Trade and bills payables	15,815,261	–	–	15,815,261
Financial liabilities included in customers' deposits and other payables	1,027,386	–	–	1,027,386
Guarantees given to banks in connection with bill facilities granted in favour of Dazhong Appliances	205,650	–	–	205,650
	20,386,812	2,743,293	2,586,652	25,716,757

	2008		
	Within 1 year RMB'000	1 to 2 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
Guarantees given to banks in connection with bill facilities granted in favour of Dazhong Appliances	242,901	–	242,901
	14,207,008	4,704,420	18,911,428

Company

	2009			
	Within 1 year RMB'000	2 to 3 years RMB'000	Over 3 years RMB'000	Total RMB'000
Convertible bonds	2,988,515	2,743,293	2,586,652	8,318,460
Other payables	55,786	–	–	55,786
	3,044,301	2,743,293	2,586,652	8,374,246

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

LIQUIDITY RISK (continued)

Company

	2008 Within 1 year RMB'000	2008 1 to 2 years RMB'000	2008 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

EQUITY PRICE RISK

Equity price risk is the risk that the fair values of equity securities decrease as a result of changes in the levels of equity indices and the value of individual securities. The Group is exposed to equity price risk arising from individual equity investments classified as trading equity investments and available-for-sale investments (note 16) as at 31 December 2009. The Group's listed investments are valued at quoted market prices at the end of the reporting period.

The market equity indices for the following stock exchanges, at the close of business of the nearest trading day in the year to the end of the reporting period, and their respective highest and lowest points during the year were as follows:

	31 December 2009	**High/low 2009**	31 December 2008	High/low 2008
Hong Kong – Hang Seng Index	**21,873**	**22,944/ 11,345**	14,387	27,616/ 11,016
Shanghai – A Share Index	**3,437**	**3,644/ 1,956**	1,912	5,771/ 1,793

Notes to Financial Statements (continued)

31 December 2009

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

EQUITY PRICE RISK (continued)

The following table demonstrates the sensitivity to every 10% change in the fair values of the equity investments, with all other variables held constant and before any impact of tax, based on their carrying amounts at the end of the reporting period.

	Carrying amount of equity investments *RMB'000*	Increase/ decrease in profit before tax *RMB'000*	Increase/ decrease in equity* *RMB'000*
2009			
Investments listed in:			
Hong Kong – Held-for-trading	**1,635**	**164**	**–**
Shanghai – Available-for-sale	**153,360**	**–**	**15,336**
2008			
Investments listed in:			
Hong Kong – Held-for-trading	399	40	–
Shanghai – Available-for-sale	108,810	–	10,881

* Excluding retained earnings

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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.

The Group monitors capital using a gearing ratio, which is net debt divided by the total capital plus net debt. Net debt includes interest-bearing bank loans, trade and bills payables and customers' deposits, other payables and accruals, less cash and cash equivalents and pledged deposits. Capital includes convertible bonds and equity attributable to owners of the parent. The gearing ratios as at the ends of the reporting periods were as follows:

	2009 ***RMB'000***	2008 *RMB'000*
Interest-bearing bank loans	**350,000**	170,000
Trade and bills payables	**15,815,261**	12,917,958
Customers' deposits, other payables and accruals	**1,829,514**	1,530,141
Less: Cash and cash equivalents	**(6,029,059)**	(3,051,069)
Pledged deposits	**(8,796,344)**	(4,840,456)
Net debt	**3,169,372**	6,726,574
Convertible bonds, the liability component	**5,455,955**	3,571,833
Equity attributable to owners of the parent	**11,802,465**	8,559,834
Total capital	**17,258,420**	12,131,667
Capital and net debt	**20,427,792**	18,858,241
Gearing ratio	**16%**	36%

Notes to Financial Statements (continued)

31 December 2009

43. EVENTS AFTER THE REPORTING PERIOD

As set out in the Company's announcement dated 1 March 2010, on 25 February 2010, GOME Appliance Company Limited (the "Subsidiary"), a wholly- owned PRC subsidiary of the Company, received a copy of the indictment (the "Indictment") in respect of an alleged bribery offence by an organisation served by the Second Intermediate People's Court of Beijing Municipality.

According to the Indictment, the bribery offence by an organisation which the Subsidiary was alleged to be involved in occurred from 2006 to 2008, during which time Mr. Wong was the Chairman and director of the Company and the legal representative of the Subsidiary. The Subsidiary was one of the subjects alleged to be involved in the bribery offence by an organisation, and was suspected of committing the offence involving part of the aggregate amount of RMB4,560,000. Upon receipt of the Indictment, the Company has been highly concerned about the case and has engaged an experienced criminal defence attorney as the Subsidiary's advocate. The Company will actively defend against the accusation at the Subsidiary.

After considering the professional opinion from such criminal defence attorney, the Company is of the preliminary view that even under the worst case scenario of the Subsidiary being finally judged as having committed the bribery offence by an organisation, the Subsidiary would only be subject to a fine according to the relevant laws of the PRC, the amount of which would not have any substantive adverse effect on the operation and the financial condition of the Group. The Company will actively contest the case and strive for the most favourable judgment for the Company.

According to the Indictment, Mr. Wong was suspected of committing offences involving insider dealing, illegal operation and bribery by an organisation and was subject to residential surveillance by the Beijing Municipal Public Security Bureau on 18 November 2008 for being suspected of committing an insider dealing offence. He was subject to criminal detention by the Beijing Municipal Public Security Bureau on 23 January 2009, and was arrested on 2 March 2009 upon approval by the Second Branch of the Beijing Municipal People's Procuratorate.

Save as disclosed above, the Group did not have any significant events taking place subsequent to 31 December 2009.

44. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors of the Company on 7 April 2010.

Corporate Information

31 December 2009

DIRECTORS

EXECUTIVE DIRECTORS

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

NON-EXECUTIVE DIRECTORS

ZHU Jia
Ian Andrew REYNOLDS
WANG Li Hong

INDEPENDENT NON-EXECUTIVE DIRECTORS

SZE Tsai Ping, Michael
CHAN Yuk Sang
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.
China Merchant Bank
Agricultural Bank of China

AUDITORS

Ernst & Young
Certified Public Accountants

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Hong Kong

PRINCIPAL SHARE REGISTRAR IN BERMUDA

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Bermuda

BRANCH SHARE REGISTRAR IN HONG KONG

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