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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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

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

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**GOME ELECTRICAL APPLIANCES HOLDING LIMITED**

**國美電器控股有限公司\***

*(incorporated in Bermuda with limited liability)*

**(Stock Code: 493)**

**PROPOSED REMOVAL OF CERTAIN DIRECTORS,  
PROPOSED APPOINTMENT OF NEW DIRECTORS  
AND  
PROPOSED CANCELLATION OF GENERAL MANDATE  
TO ALLOT, ISSUE AND DEAL WITH SHARES  
PURSUANT TO A REQUISITION FOR  
A SPECIAL GENERAL MEETING BY  
SHINNING CROWN HOLDINGS INC.  
AND  
NOTICE OF SPECIAL GENERAL MEETING**

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A letter from the Board of GOME Electrical Appliances Holding Limited (the "Company") is set out on pages 5 to 28 of this circular. A notice convening a special general meeting (the "Special General Meeting") of the shareholders of the Company to be held at B/1, Regal Ballroom, Regal Hong Kong Hotel, 88 Yee Wo Street, Causeway Bay, Hong Kong on 28 September 2010 at 2:30 p.m. is set out on pages 36 to 37 of this circular. Shareholders are advised to read the notice of the Special General Meeting set out on pages 36 to 37 of this circular.

Whether or not you are able to attend the meeting, please complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the Company's branch share registrar in Hong Kong, Tricor Abacus Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong as soon as practicable and in any event not later than 48 hours before the time designated for holding the Special General Meeting or any adjournment thereof. Completion and return of the relevant forms of proxy will not preclude you from attending and voting in person at the meeting or at any adjourned meeting should you so wish. Should you have any questions, please contact the Company on +852 3769 8388.

\* *For identification purposes only*

## **Cautionary Language Regarding Forward-Looking Statements**

This circular includes certain “forward-looking statements”. These statements are based on the current expectations of the management of the Company and are naturally subject to uncertainty and changes in circumstances. The forward-looking statements contained in this circular include statements about the expected effects on the Company of the proposals set out in the Requisition Letter, the expected benefits of the Five-Year Plan and all other statements in this circular other than those of historical facts. Forward-looking statements include, without limitation, statements typically containing words such as “intends”, “expects”, “anticipates”, “targets”, “estimates”, “envisages” and words of similar import. By their nature, forward-looking statements involve risks and uncertainty because they relate to events and depend on circumstances that will occur in the future. There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by such forward-looking statements. All forward-looking statements attributable to the Company or persons acting on behalf of it are expressly qualified in their entirety by the cautionary statements above. The forward-looking statements included in this circular are made only as of the date of this circular.

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## DEFINITIONS

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

“%”	per cent.
“Announcement”	the announcement made by the Company on 5 August 2010 pursuant to Rule 13.09(1) of the Listing Rules
“associates”	has the meaning ascribed to it in the Listing Rules
“Bain Capital”	Bain Capital Glory Limited, a company incorporated in the Cayman Islands
“Bain Convertible Bonds”	the 5% coupon convertible bonds with an aggregate principal amount of RMB1,590 million due 2016 issued by the Company to Bain Capital
“Baker & McKenzie Report”	the internal review report prepared by Baker & McKenzie for the Company in relation to certain share repurchases by the Company
“Beijing Centergate”	Beijing Centergate Technologies (Holding) Co., Ltd, a company listed on the Shenzhen Stock Exchange under the stock code 000931
“Board”	the board of Directors
“Bye-laws”	the bye-laws of the Company
“the Charges”	the charges for which Mr. Wong was investigated by the Beijing Municipal Public Security Bureau, and subsequently arrested and convicted, more fully described in this circular in the section entitled “Letter from the Board – Events Leading Up to the Requisition”
“Companies Act”	the Companies Act 1981 of Bermuda (as amended)
“the Company” or “GOME”	GOME Electrical Appliances Holding Limited, an exempted company incorporated in Bermuda with limited liability and the securities of which are listed on the main board of the Stock Exchange
“connected transaction”	has the meaning ascribed to it in the Listing Rules

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## DEFINITIONS

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“controlling shareholder”	has the meaning ascribed to it in the Listing Rules
“Directors”	the directors of the Company from time to time
“ERP”	Enterprise Resource Planning
“Existing Issue Mandate”	a general and unconditional mandate granted to the Board at the annual general meeting of the Company held on 11 May 2010 to exercise all the powers of the Company to allot, issue and deal with new Shares not exceeding 20 per cent. of the aggregate nominal amount of the issued share capital of the Company as at 11 May 2010
“Financial Review”	the review by Ernst & Young, Certified Public Accountants, Hong Kong, independent external auditors, of the Group’s financial position as at 30 November 2008
“Five-Year Plan”	the new 5-year blueprint for the Group, developed by the Company’s management team together with Bain Capital, designed to maximise value for all Shareholders, as more fully described in the section of this circular entitled “Letter from the Board – Management’s Five-Year Blueprint to Maximise Shareholder Value”
“Group”	the Company and its subsidiaries, but for the avoidance of doubt, excluding the group which is majority owned by Mr. Wong
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Internal Control Review”	the review by Ernst & Young (China) Advisory Limited of the Group’s internal control system and risk management mechanisms as at 30 November 2008, as more fully described in the section of the circular entitled “Letter from the Board – Improvements in corporate governance, practices and incentivisation arrangements

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## DEFINITIONS

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“Investment Agreement”	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 regarding the issue by the Company of the Bain Convertible Bonds to Bain Capital
“Latest Practicable Date”	20 August 2010
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Management Agreement”	the management agreement between Jinan Wansheng Yuan Economic Consulting Company Limited (濟南萬盛源經濟諮詢有限公司) and Gome Electrical Appliances Retail Co. Ltd. (國美電器零售有限公司) dated 22 June 2009
“Mr. Chen”	Mr. Chen Xiao, executive Director and Chairman of the Board
“Mr. Wong”	Mr. Wong Kwong Yu, an indirect shareholder and former executive director of the Company and former chairman of the Board
“Old 2014 Convertible Bonds”	the 0% coupon convertible bonds with an initial aggregate principal amount of RMB4,600 million due 2014 issued by the Company on 11 May 2007 and redeemed or repurchased for RMB4,450 million by the Company in 2009 and 2010
“Open Offer”	the open offer to Shareholders launched by the Company on 22 June 2009
“the PRC”	the People’s Republic of China
“Procurement Agreement”	the procurement agreement between Kunming Hengda Logistics Company Limited (昆明恒達物流有限公司) (“Kunming Hengda”) and Gome Electrical Appliances Retail Co. Ltd. (國美電器零售有限公司) (undated)
“Requisition Letter”	the letter received from Shinning Crown on 4 August 2010, as supplemented by a letter received from Shinning Crown on 5 August 2010, requisitioning the Special General Meeting for the purpose of proposing the Requisitioned Resolutions

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## DEFINITIONS

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“Requisitioned Resolutions”	resolutions 4, 5, 6, 7 and 8 as set out in the notice of the Special General Meeting and proposed by Shinning Crown by way of the Requisition Letter
“RMB”	Renminbi, the lawful currency of the PRC
“SFC”	The Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	ordinary share(s) of HK\$0.025 each in the capital of the Company
“Share Repurchases”	the share repurchases which are the subject of ongoing proceedings brought against Mr. Wong by the SFC on 4 August 2009, and by the Company on 5 August 2010, as more fully described in this circular in the section entitled “Letter from the Board – Events Leading Up to the Requisition”
“Shareholder(s)”	the holder(s) of the Shares
“Shinning Crown”	Shinning Crown Holdings Inc, a company wholly-owned by Mr. Wong and a substantial shareholder of the Company
“Special Action Committee”	the committee set up by the Board on 27 November 2008, as more fully described in the section of this circular entitled “Letter from the Board – Management’s Response to the Crisis”
“Special General Meeting”	the special general meeting of the Company to be held at B/1, Regal Ballroom, Regal Hong Kong Hotel, 88 Yee Wo Street, Causeway Bay, Hong Kong on 28 September 2010 at 2:30 p.m. or any adjournment thereof
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“the Subsidiary”	GOME Appliance Company Limited (國美電器有限公司), a subsidiary of the Company
“substantial shareholder”	has the meaning ascribed to it in the Listing Rules

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LETTER FROM THE BOARD

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**GOME ELECTRICAL APPLIANCES HOLDING LIMITED**

**國美電器控股有限公司\***

*(incorporated in Bermuda with limited liability)*

**(Stock Code: 493)**

*Executive Directors:*

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

*Registered Office:*

Canon's Court  
22 Victoria Street  
Hamilton HM12  
Bermuda

*Non-executive Directors:*

ZHU Jia  
Ian Andrew REYNOLDS  
WANG Li Hong

*Principal place of business*

*in Hong Kong:*

Unit 6101, 61st Floor  
The Center  
99 Queen's Road Central  
Hong Kong

*Independent Non-executive Directors:*

SZE Tsai Ping, Michael  
CHAN Yuk Sang  
Thomas Joseph MANNING

23 August 2010

*To the Shareholders*

Dear Sir or Madam,

**PROPOSED REMOVAL OF CERTAIN DIRECTORS,  
PROPOSED APPOINTMENT OF NEW DIRECTORS  
AND  
PROPOSED CANCELLATION OF GENERAL MANDATE  
TO ALLOT, ISSUE AND DEAL WITH SHARES  
PURSUANT TO A REQUISITION FOR  
A SPECIAL GENERAL MEETING BY  
SHINNING CROWN HOLDINGS INC.  
AND  
NOTICE OF SPECIAL GENERAL MEETING**

**INTRODUCTION**

On 4 August 2010, the Company received a requisition letter, which was supplemented by a letter received on 5 August 2010, from Shinning Crown, a company wholly-owned by Mr.

\* *For identification purposes only*



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## LETTER FROM THE BOARD

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Wong, requesting that the Board convenes a special general meeting for the purpose of proposing the following resolutions:

1. the cancellation of the general mandate to allot, issue and deal with the Shares of the Company as approved by Shareholders at this year's annual general meeting of the Company held on 11 May 2010;
2. the removal of Chen Xiao as executive Director and Chairman of the Board;
3. the removal of Sun Yi Ding as executive Director of the Company;
4. the appointment of Zou Xiao Chun as an executive Director of the Company; and
5. the appointment of Huang Yan Hong as an executive Director of the Company.

On 5 August 2010, a Board meeting was held to consider the Requisition Letter and to provide an initial response to such letter. Various matters were discussed during the meeting, including the crisis faced by the Company following the arrest of Mr. Wong, the joint efforts of the Board, management team and employees to keep the Company on track following Mr. Wong's arrest, and the future outlook of the Company under the leadership of Mr. Chen. The Board was unanimous in its belief that the proposals put forward in the Requisition Letter were unwarranted, driven by the interests of Mr. Wong, and not in the best interests of the Company and its Shareholders as a whole. An announcement disclosing that the Requisition Letter had been received, as well as the initial view of the Board in response to the Requisition Letter, was made by the Company on 5 August 2010 following the conclusion of the Board meeting.

Under the Companies Act and the Bye-laws, the Board has up to 21 days to proceed to duly convene a Special General Meeting. As such, the Board met again on 23 August 2010 and resolved to duly convene the Special General Meeting on 28 September 2010 at 2:30 p.m. and to approve the dispatch of this circular and the notice of the Special General Meeting.

In addition to the matters put forward in the Requisition Letter, given the requirement under the Bye-laws for any Director appointed to fill a casual vacancy to the Board to hold office only until the next following general meeting of the Company, Mr. Zhu Jia, Mr. Ian Andrew Reynolds and Ms. Wang Li Hong, representatives of Bain Capital who were appointed as non-executive Directors pursuant to a resolution of the Board on 11 May 2010, will retire and will stand for re-election as non-executive Directors at the Special General Meeting.

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## LETTER FROM THE BOARD

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

The Board strongly urges you to support the Company by endorsing the existing management team, and by giving that management team the mandate they need to continue to build on the achievements of the Group since commencement of the formal investigation into Mr. Wong in November 2008, and to maximise value for the benefit of all Shareholders.

**For the reasons set out in this circular, the Board considers that Resolutions 1, 2 and 3 are in the best interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends all Shareholders to vote for Resolutions 1, 2 and 3 (being to re-elect Mr. Zhu Jia, Mr. Ian Andrew Reynolds and Ms. Wang Li Hong as non-executive Directors) to be proposed at the Special General Meeting, details of which are set out in the notice of Special General Meeting at the end of this circular.**

**For the reasons set out in this circular, the Board considers that Resolutions 4, 5, 6, 7 and 8, as proposed by Shinning Crown, are not in the best interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends all Shareholders to vote against Resolutions 4, 5, 6, 7 and 8 (being the Requisitioned Resolutions) to be proposed at the Special General Meeting, details of which are set out in the notice of Special General Meeting at the end of this circular.**

Bain Capital has confirmed to the Board that it plans to exercise the conversion rights under the Bain Convertible Bonds at least five Business Days prior to the Special General Meeting, which will enable Bain Capital to exercise all of its voting rights in the Company to vote against the Requisitioned Resolutions, and in favour of the re-election of Mr. Zhu Jia, Mr. Ian Andrew Reynolds and Ms. Wang Li Hong as non-executive Directors.

### **BACKGROUND LEADING UP TO THE REQUISITION**

#### **Arrest and conviction of Mr. Wong for various criminal offences in the PRC**

In November 2008, Mr. Wong was investigated for offences involving insider dealing, illegal operation and bribery by the Beijing Municipal Public Security Bureau. In particular, the insider dealing charge related to Mr. Wong's directorship of Beijing Centergate, and bribery related to the Subsidiary.

Mr. Wong was formally arrested in March 2009 and was found guilty of the Charges by first instance in May 2010 by the Beijing Second Intermediate People's Court (北京市第二中级人民法院). Among the Charges, Mr. Wong was found guilty of using other peoples' securities accounts to trade in the shares of Beijing Centergate, and personally benefitting from such trading. He was also found guilty of bribing a number of government officials concerning certain affairs of the Subsidiary. He was sentenced to a prison term of 14 years and fined RMB600 million. In the same judgment, the Subsidiary of the Company was also fined RMB5 million for bribery committed between the period of 2006 and 2008 when Mr. Wong was the chairman and executive director of the Company as well as the legal representative of the Subsidiary.

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## LETTER FROM THE BOARD

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### **Criminal proceedings brought by the SFC against Mr. Wong in Hong Kong**

Following an investigation, on 4 August 2009, the SFC brought proceedings against Mr. Wong and his wife, Ms. Du, in Hong Kong. It is alleged that Mr. Wong and Ms. Du engineered on-market Share Repurchases in or about January and February 2008 in order to use the Company's funds to buy Shares held by Mr. Wong, so that Mr. Wong could use the proceeds of such Share Repurchases to repay a HK\$2.4 billion personal loan to a financial institution.

The SFC alleges that the Share Repurchases were a fraud or deception involving the Company's securities, engineered for Mr. Wong's personal benefit, and were not in the best interests of the Company and the Shareholders, and caused a loss of approximately HK\$1.6 billion to the Company and the Shareholders. On 7 August 2009, following an application by the SFC, the High Court in Hong Kong granted an interim injunction to freeze assets of up to HK\$1,655,167,000 in relation to Mr. Wong and his wife, Ms. Du Juan, and two companies owned and controlled by them (including Shinning Crown). The amount of assets frozen by the High Court was the largest that the SFC has ever applied to the court to freeze as at the time the freezing order was granted.

On 8 September 2009, the High Court in Hong Kong continued orders freezing certain assets of Mr. Wong and Ms. Du. In addition, Shinning Crown (which is the company which served the Requisition Letter on GOME) and Shine Group Ltd, which are owned and controlled by Mr. Wong and Ms. Du, were ordered to deposit share certificates in relation to 779 million Shares with the High Court in Hong Kong.

The SFC is seeking orders that Mr. Wong, Ms. Du and two companies owned and controlled by them restore the Company to the position it was in before the Share Repurchases were entered into, and pay damages to the Company to compensate the Company and the Shareholders for losses caused by Mr. Wong and Ms. Du's actions. The freezing orders granted by the High Court in Hong Kong serve to prevent the dissipation of assets by Mr. Wong and Ms. Du pending the conclusion of the SFC's investigation, and to ensure that assets are available sufficient to satisfy any orders that might be made against Mr. Wong and Ms. Du.

### **Claim brought by the Company against Mr. Wong**

The Company engaged outside counsel to conduct its own investigations in relation to the Share Repurchases following the claim made by the SFC. After several months of investigation, outside counsel determined that *prima facie* evidence has been found to suggest that Mr. Wong and Ms. Du had indeed acted in breach of their fiduciary duties as Directors of the Company, and recommended that the Company file its own legal action against Mr. Wong and Ms. Du. Following Board approval and in order to fulfil fiduciary duties of the Directors, the Board filed a writ of summons against Mr. Wong on 5 August 2010 for damages suffered by the Company on the grounds of breach of fiduciary duties relating to the Share Repurchases and breach of trust. The Directors are united in their belief that the Company should pursue this claim against Mr. Wong to seek compensation on behalf of all Shareholders, at whose expense Mr. Wong is alleged to have profited for his own personal benefit.

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## LETTER FROM THE BOARD

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### **Impact on the Company of Mr. Wong's arrest and subsequent conviction**

The impact on the Group of speculation against Mr. Wong, culminating in Mr. Wong being formally placed under investigation in November 2008, was severe.

#### *Liquidity crisis*

The uncertainty surrounding Mr. Wong's position caused a dramatic decline in the availability of credit to the Group, resulting in the Group facing an acute liquidity crisis by the end of the first half of 2009. The net credit available to the Group as at 30 June 2009 fell by 44% as compared to 30 June 2008, and at times the net credit available to the Group declined further. During the same period, the ratio of pledged deposits to bills payable increased from 66 per cent. to 78 per cent adding pressure to liquidity.

In addition, the severe decline in the Company's Share price to a level significantly below the conversion price under the Old 2014 Convertible Bond had resulted in the Company facing a significant redemption risk, involving an amount of RMB4.6 billion. This in turn raised questions as to the Company's ability to meet its financial obligations in view of the pressure on the Company's cash flows at the time.

The doubts cast over the strength of the Group's credit strained the Group's relationship with its banking partners, resulting in a tightening or even cancellation of credit terms by several banks. The situation also restricted the Company's ability to obtain credit from other sources.

#### *Impact on the ongoing operation of the Group's business and its customers and suppliers*

The liquidity crisis also made it difficult for the Group to settle accounts with suppliers. Whilst the Group was able to maintain relationships with its key suppliers, many suppliers became more cautious in their dealings with the Group given the uncertainty surrounding it and its future viability as a going concern, with average payment terms shortening compared to the period prior to Mr. Wong's arrest.

This absence of liquidity created pressure on inventory replenishment, causing many stores to suffer shortages or outages of product stocks. Given the association between Mr. Wong and the GOME brand, the Group's brand and image was inevitably affected in the eyes of customers by the criminal activities for which Mr. Wong was arrested and ultimately convicted, and the intense media coverage of the story. This combination of factors caused the turnover at certain stores to drop resulting in those stores becoming loss making. At the same time, the emergence of the problems accumulated from the previous radical expansion of the Group together with the financial crisis, seriously threatened the ongoing viability of the Group.

#### *Impact on the Company's Share price performance and the investment community*

Between 1 August 2008 and 1 September 2008, the average closing price of Shares in the Company was HK\$3.23 (HK\$2.91 as adjusted for the Open Offer). During September, as

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## LETTER FROM THE BOARD

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rumours began to circulate concerning the investigation into Mr. Wong's activities, the Share price began to decline rapidly, eventually declining to HK\$1.12 (HK\$1.01 as adjusted for the Open Offer) at the market close on 21 November 2008, the last trading day before the Shares were suspended.

Trading in the Company's shares on the Stock Exchange was suspended for seven months with effect from 24 November 2008, a very protracted period, which was seriously damaging to the perception of the Company in the investment community. In May 2009, 18 per cent. of analysts gave GOME a 'buy' or 'strong buy' rating, down from 73 per cent. in August 2008 (source: Factset, IBES estimates), again reflecting the instability caused by the events concerning Mr. Wong. The analyst ratings for the Company during this period clearly indicate the adverse attitude of the investment community to the Company during this time. The Company's Share price closed at HK\$1.89 (HK\$1.70 as adjusted for the Open Offer) on 23 June 2009, the first trading day after the resumption of trading in the Shares, following the announcement that the Company had entered into the Investment Agreement with Bain Capital and was launching the Open Offer.

### **MANAGEMENT'S RESPONSE TO THE CRISIS**

#### **Providing decisive new leadership under Mr. Chen**

When it became clear that Mr. Wong would no longer be able to carry out his duties as Chairman of the Board, Mr. Chen was appointed at this critical time as Acting Chairman of the Board on 27 November 2008. Mr. Chen was by this stage already very familiar with the Group's business, having been chief executive officer of the Company since the acquisition of China Paradise in 2006. Mr. Wong was formally suspended from all duties in relation to the Company on 23 December 2008, and at the same time his spouse, Ms. Du Juan, resigned her position as a Director. On 16 January 2009, Mr. Wong resigned his positions as a Director and Chairman of the Board, at which time Mr. Chen became Chairman of the Board.

#### **The management team's immediate response to the crisis**

Mr. Chen and the management team took a number of steps to immediately address the crisis facing the Group following the events surrounding Mr. Wong since the end of 2008:

- A Special Action Committee was established by the Company immediately following the suspension of trading in the Shares on 24 November 2008. The Special Action Committee was initially chaired by Mr. Sun Qiang Chang, who subsequently stepped down and was replaced as chairman by Mr. Thomas Joseph Manning, an independent non-executive Director, and also comprised the Company's other independent non-executive Directors, Mr. Chan Yuk Sang and Mr. Mark C. Greaves. The Special Action Committee provided counsel, advice and oversight in relation to the Company's response to the crisis, to ensure that minority investors' interests were well represented. The Special Action Committee sought advice from an independent financial adviser and independent legal counsel to assist in its decision

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## LETTER FROM THE BOARD

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making process. Further details on the Special Action Committee are set out in the section of this circular entitled ‘Improvements in corporate governance practices and incentivisation arrangements’.

- Ernst & Young conducted an internal control review (as well as a review of the Group’s financial position as at 30 November 2008), and GOME carried out an internal audit, in order to assist the Board to:
  - assess the Group’s internal control system and risk management functions; and
  - establish that there has been no irregularity or misappropriation of funds or assets within the Group.
- The management team actively engaged with suppliers to provide regular updates of the situation and the steps the Company was taking to move out of the crisis, in an effort to reverse the deterioration of credit terms which suppliers were prepared to offer the Group. Steps were also taken to improve transparency with suppliers in order to create a more efficient and professional sales channel for suppliers products. For example, standardised contract terms were introduced to protect both suppliers’ and GOME’s profit margins and eliminate the less transparent fee rebates adopted in the past.
- The management team also took steps to improve the Group’s credit position. Mr. Chen had been providing personal guarantees for certain of the Company’s loans since February 2009, which amounted to RMB1.38 billion as at 30 June 2009 (all such obligations were released on 7 September 2010). He had also worked extensively with banks and other organisations to explain what was happening, demonstrate management effectiveness and to restore and retain confidence in the Group.
- The Board, the management team and the Group’s employees were united and committed under Mr. Chen’s leadership throughout the extremely difficult period the Group faced at the end of 2008 and during the first half of 2009. No members of the senior management team left the Company during this difficult period, and the same team remains together today.

### **Strategic Transformation**

The crisis precipitated by events concerning Mr. Wong forced the Company to reconsider its business strategy. Under severe liquidity stress and facing a significant market downturn, the management team concluded that the Group’s former radical expansion strategy was no longer viable at this stage. Accordingly, the management team embarked on a transformation strategy focusing on the quality of stores and profitability rather than the number of stores. As part of this strategy, the management team identified and closed stores which were underperforming and had no realistic prospect of becoming profitable, which were draining the Group’s limited resources and contributing negatively to profitability.

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## LETTER FROM THE BOARD

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The transformation strategy includes the following:

- during the course of 2009, steps were taken to optimise the Group's store network by closing 189 underperforming stores. This in turn enabled the Group to channel capital and resources to profit making stores, improving overall profitability. This process has assisted the Group to improve operational efficiency in spite of the liquidity stress the Group had been under;
- the Group has launched new store formats (for example, New Life Plaza (新活館)) in an effort to provide customers with a better shopping experience. Store layout changed from traditional brand-oriented to both product- and brand-oriented, and over 200 new brands and 20,000 new standard knockdown units have been added. In addition, the Group has improved its customer services by streamlining check-out procedures, reducing delivery time, introducing a multi-media customer experiencing centre, and providing training to ensure sales staff provide more professional and personalised services, improving the Group's customer service quality; and
- the management team's focus on store network optimisation has also had encouraging results, with same store sales growth increasing from -20.8 per cent. in the first quarter of 2009, to 23.9 per cent. in the first quarter of 2010 and to 26.8 per cent. in the second quarter of 2010. Over the same period, sales per square metre have increased from RMB3,183 in the first quarter of 2009 to RMB4,418 in the first quarter of 2010 and RMB4,809 in the second quarter of 2010.

### **Further response initiatives**

The management team has also identified a number of further initiatives that are being implemented as part of the longer term response to the crisis.

- The previous Enterprise Resource Planning, or ERP, system used by the Group can no longer satisfy the Group's development needs as the number of stores has increased, and the management team views a new ERP system as critical to the future success of the Group's business. The new system will help enhance the Group's operations including re-engineering operational processes and procedures, building more rigorous risk assessment and internal audit mechanisms, a faster and more accurate capability for the collection and analysis of data, leading to better connectivity with suppliers' inventory management systems. The new system is geared towards accommodating future scalability and improving controls over potential risks.
- Implementing stricter cost control and through subleasing, reduction of rent and cutting unutilised floor space to seek reduced rental rates. The company will be dedicated to adjusting marketing fees, reducing overlapping roles and optimising the Group's internal organisational structure.



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## LETTER FROM THE BOARD

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- Introducing more differentiated products, including products which are manufactured for the Group under outsourcing arrangements, and sold under brands licensed from third parties, which have higher margins and seeking to obtain more exclusive selling rights for the most popular products, and to expand the Group's product mix with new categories of products that have higher margins, such as small home appliances, beauty electronics, running machines and kitchen wares.
- The management team will focus on expansion in tier two markets, and in particular in regions where it can leverage the Group's existing scale and infrastructure to accelerate market penetration. The management team will introduce a number of strategies to optimise operations in these markets, including improving supply chain management, streamlining the Group's internal organisational structure and developing regional logistics centres.

### **Strengthening the Company's balance sheet**

The Company undertook a number of capital raising activities to return the Group to a position of financial strength and to assist in restoring confidence with the Group's business partners.

- During the first half of 2009, the Company sought a strategic investor to deal with the liquidity crisis and stabilise the Company's operations. Despite the difficult circumstances faced by the Company at the beginning of 2009, the Company was able to identify a number of potential investors who continued to believe in the long term prospects of the Group, and held initial negotiations with them. Following several rounds of negotiations and a competitive process involving a small number of leading investment firms, the Company finally agreed terms with Bain Capital to invest RMB1,590 million in the Company through a subscription for 5% coupon convertible bonds due 2016. In addition to offering the most competitive investment terms, of the proposals made to the Company, Bain Capital's proposed investment was the least dilutive for the then Shareholders, and accordingly the Directors believed that Bain Capital's proposal was the most attractive for the Shareholders as a whole. As well as assisting to provide an immediate solution to the liquidity crisis facing the Company, Bain Capital were also able to:
  - bring international best practices in business strategy and corporate governance to the operations of the Company;
  - offer the Company extensive retail experience, capital markets expertise and strategic insight, which has already proved to be of great benefit to the Company; and
  - participate in the development of the Five-Year Plan.



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## LETTER FROM THE BOARD

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- On 22 June 2009, the Company launched an open offer on the basis of 18 new Shares offered for every 100 existing Shares at a price of HK\$0.672 per Share. 98.48 per cent. of the Shares offered under the open offer were subscribed, raising RMB1,361 million in total. The high take up of the open offer demonstrated a strong vote of confidence from the Shareholders in the new management team and the future prospects for the Group. In addition, the Company raised a further RMB2,357 million through the issue of a 3% convertible bond due 2014 which partially funded the redemption and repurchase the Old 2014 Convertible Bonds for an aggregate amount of RMB4,450 million, and to replenish the Company's general working capital.
- In total, the Company raised RMB5,308 million during the course of 2009 and successfully redeemed and repurchased the Old 2014 Convertible Bonds, which returned the Group to a sound financial position and averted the liquidity crisis which had faced the Group at the start of 2009.

### **Improvements in corporate governance practices and incentivisation arrangements**

#### *Corporate governance*

Since the investigation of Mr. Wong by the Beijing Municipal Public Security Bureau in November 2008, the management team has implemented several new corporate governance initiatives to ensure transparency in the operations of the Group.

- In order to provide independent assurance to Shareholders following the investigations of Mr. Wong, the Board set up the Special Action Committee on 27 November 2008. The Special Action Committee was initially chaired by Mr. Sun Qiang Chang, who subsequently stepped down and was replaced as chairman by Mr. Thomas Joseph Manning, an independent non-executive Director of the Company, and also comprised the Company's other independent non-executive Directors, Mr. Chan Yuk Sang and Mr. Mark C. Greaves. The terms of reference of the Special Action Committee were to:
  - closely monitor and assess the impact on the Group's financial condition and operations caused by the investigations into Mr. Wong;
  - advise the Company on timely disclosure, investor relations, regulatory compliance and other matters; and
  - propose recommendations to the Board concerning the actions to be taken by the Company in connection with the investigations into Mr. Wong.

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## LETTER FROM THE BOARD

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- On the recommendation of the Special Action Committee, the Company appointed:
  - Ernst & Young (China) Advisory Limited, independent 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 mechanisms as at 30 November 2008; and
  - Ernst & Young, Certified Public Accountants, Hong Kong, independent external auditors, to conduct a review on the Group's financial position as at 30 November 2008.
- The Special Action Committee reviewed the results of the Internal Control Review and the Financial Review and reported its findings to the Board. Having considered the results of the Company's internal audit, the results of the Internal Control Review and the Financial Review, and the financial results of the Company for the year ended 31 December 2008, the Board confirmed in an announcement on 22 June 2009 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 value of connected transactions did not exceed the relevant threshold as approved by the independent Shareholders.
- Following the appointment of representatives of Bain Capital, Mr. Zhu Jia, Mr. Ian Andrew Reynolds and Ms. Wang Li Hong as non-executive Directors in August 2009, the composition of the Board became more balanced with three independent non-executive Directors, three non-executive Directors and five executive Directors.
- An independent committee of the Board was established by the Board on 21 August 2009, comprising the three independent non-executive Directors of the Company, and Mr. Zhu Jia and Ms. Wang Li Hong, both non-executive Directors of the Company. The terms of reference of the independent committee include: (i) to evaluate, assess and advise on the material connected transactions of the Group before execution; (ii) to oversee execution and performance of the material connected transactions of the Group; (iii) to devise and review the internal control systems, policies and/or procedures relating to management of the connected transactions of the Group; (iv) to monitor the compliance of material connected transactions of the Group with applicable law and regulations; (v) to devise and review the internal control systems, policies and/or procedures of the Group generally and (vi) to consider other matters and/or special projects assigned and authorised by the Board.

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## LETTER FROM THE BOARD

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- After the SFC brought proceedings against Mr. Wong on 4 August 2009, the Board engaged Baker & McKenzie to carry out an internal review in relation to the share repurchases carried out by the Company in January and February 2008. The Baker & McKenzie Report provides an independent legal review of the circumstances surrounding the share repurchases, the compliance and decision making processes of the Board in relation to the share repurchases, and provides recommendations for improvements that could be made to the internal control procedures of the Company in relation to share repurchases.
- As recommended in the Baker & McKenzie Report, the Board adopted and approved internal guidelines in relation to share repurchases on 14 May 2010, and the legal department of the Company issued the approved version to all relevant departments on 17 May 2010.
- As recommended in the results of the Internal Control Review and the Financial Review, as a measure to further improve corporate governance, the Board adopted and approved internal guidelines on the management of connected transactions on 14 May 2010, and the legal department of the Company issued the approved version to all relevant departments on 17 May 2010.

### *Alignment of management's and shareholders' interests*

The Company operates an employee share option scheme under which 383,000,000 options (representing 2.48 per cent. of the issued share capital of the Company on a fully diluted basis as at the Latest Practicable Date) granted on 7 July 2009 and exercisable at HK\$1.90 per Share, remain outstanding, of which 35.0 per cent. have been granted to five executive Directors and four members of senior management. As at the Latest Practicable Date, 364,200,000 options remained outstanding and unexercised. Each option has a 10-year exercise period and vests over a four year period, with 25 per cent. of the options granted vesting each year. Including all of the executive Directors and members of senior management, 105 managers participate in the share option scheme, and accordingly a large proportion of the management team have their interests closely aligned to those of Shareholders and are incentivised to ensure that the Company continues to succeed.

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## LETTER FROM THE BOARD

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### FINANCIAL PERFORMANCE LEADING UP TO AND SINCE THE CRISIS

#### Financial results

The second half of 2008 saw a 1.4 per cent. drop in revenue and a 26.1 per cent. drop in profit from operating activities compared with the second half of 2007.

The first half of 2009 proved to be a challenging period for the Company, with continued uncertainty in relation to the events concerning Mr. Wong, compounded by the global financial crisis, resulting in a 17.7 per cent. drop in revenue and a 47.2 per cent. drop in profit from operating activities compared with the first half of 2008. However, following the efforts of the management team to stabilise the Group during the first half of 2009, and assisted by a more favourable business environment, revenue and profit from operating activities grew by 5.7 per cent. and 53.7 per cent., respectively, during the second half of 2009 compared with the second half of 2008.

The Company's strong recovery has continued through the first half of 2010, with revenue and profit from operating activities growing by 21.6 per cent. and 86.1 per cent., respectively, compared with the first half of 2009.

#### Capital markets performance



Source: FactSet, market data as of 8/20/2010

Note: Share price and Hang Seng Index are rebased to the price on 11/27/2008; Share prices have been adjusted for the Open Offer to make the basis for comparison consistent.

Since Mr. Chen was appointed as Acting Chairman of the Board on 27 November 2008, GOME Shares have outperformed the Hang Seng Index. Between 27 November 2008 (being the date that Mr. Chen was appointed as Acting Chairman of the Board) and 4 August 2010 (being the date of receipt of the Requisition Letter by the Company), GOME shares have risen from HK\$1.12 (being the closing price on the last trading day on 23 November 2008 before suspension of trading) (HK\$1.01 after adjustment for the Open Offer) to HK\$2.73 (an increase

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## LETTER FROM THE BOARD

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of 170.3 per cent. accounted for on the same basis after adjustment for the Open Offer). During the same period, the Hang Seng Index has risen from 13,552.06 to 21,549.88 (an increase of 59.0 per cent.).

In May 2009, 18 per cent. of analysts gave GOME a ‘buy’ or ‘strong buy’ rating, down from 73 per cent. in August 2008, again reflecting the instability caused by the events concerning Mr. Wong. However, in June 2009 following the management team’s steps to resolve the liquidity crisis, 62 per cent. of analysts gave GOME a ‘buy’ or ‘strong buy’ rating, and by May 2010, 77 per cent. of analysts gave GOME a ‘buy’ or ‘strong buy’ rating, and have continued to do so through to August 2010 (source: Factset, IBES estimates).

### **MANAGEMENT’S FIVE-YEAR BLUEPRINT TO MAXIMISE SHAREHOLDER VALUE**

#### **The Five-Year Plan**

The Company’s management team, together with Bain Capital, have developed a new 5-year blueprint for the Group designed to maximise value for all Shareholders. The core elements of the Five-Year Plan are summarised below.

#### *Expansion of store network*

The management team will aim to maintain a market leading position in its store network, with the target of approximately 700 net new openings during the term of the Five-Year Plan, bringing the total number of stores to approximately 2,000 by the end of 2014, of which the Group will own approximately 1,400 stores and the remainder will be owned by the unlisted group owned by Mr. Wong. Network expansion will initially focus in (but is not limited to) five key regions, namely Greater Beijing, Greater Shanghai, Greater Sichuan, Guangdong and Shandong. The Group can leverage its existing scale and infrastructure in these regions to accelerate penetration of tier two markets, while strengthening its presence in tier one markets. The management team aims to establish the presence of the Group’s ‘New Life Plazas’ (‘新活館’), the super flagship stores of the Group, across key commercial districts of all strategic tier one cities by remodelling existing stores and opening new stores.

In relation to tier two markets, the management team aims to introduce various strategies to improve operations and to set the stage for further development. Such strategies will include improving the supply chain management, reviewing the Group’s internal organisational structure, adjusting key performance indicators and developing regional logistics centres. In addition, the management team will seek to develop national- and regional-level strategic collaborations with suppliers to tier two markets, and will intensify marketing efforts in these markets.

More importantly, new store openings, reflecting ever changing customer demands, will have different formats, such as super flagship stores, specialized stores, community stores and standard stores. During the first half of 2010, a majority of the 39 new stores opened by the Group were in the Company’s strategic key development regions. In addition, according to the plan, the Group intends to build eleven super flagship stores in the first phase of the Five-Year Plan.

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## LETTER FROM THE BOARD

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The new stores are expected to bring a cumulative five year additional revenue contribution from the date of implementation of the Five-Year Plan of approximately RMB30 to RMB35 billion. As part of this expansion plan, the Group intends to construct regional and national distribution centres to accommodate the expanded store network.

### *Improving productivity and operating efficiency*

Under the Five-Year Plan, the management team will continue to implement the transformation strategy to strengthen the Company's business operation (as outlined above in the section of this circular entitled 'Strategic Transformation'). In particular, the management team will focus on:

- remodelling of existing stores to reflect a store layout shift from traditional brand-oriented to both product- and brand-oriented; widen product offerings, particularly more small home appliances and other high margin products; and provide training to sales representatives to improve customer service;
- adjusting the mode of contracts and developing product management and pricing capabilities to facilitate a transfer from a traditional rebate model to a true retail model to lower procurement cost and develop own capabilities in pricing those products; and
- promotion of differentiated products, including products which are manufactured for the Group under outsourcing arrangements, and sold under brands licensed from third parties, which have higher margins. The management team has also sought to obtain exclusive selling rights with the Group's most popular products, and increase the types of higher margin products, such as small home appliances, beauty electronics and fitness equipment.

In addition, the management team will seek to improve operating efficiency by focusing on inventory management to reduce both excess stock and stock outs, optimise sales planning to achieve greater profitability per square metre, and enhance margin through diversified value added after sales services. The Five-Year Plan will also see the continued implementation of the new ERP system, which is expected to help improve the timeliness and accuracy of management information, enhance overall management capability and lower operating costs.

These steps to improve productivity and operating efficiency are expected to bring a cumulative five year additional revenue contribution from the date of implementation of the Five-Year Plan of approximately RMB5 to RMB8 billion.

### *Improving customer and supplier relationships*

The management team will seek to improve vendor and customer relationships. The Company will seek to build a mutually beneficial structure with key suppliers by developing a joint platform for supply chain management, through which the Company and its suppliers

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## LETTER FROM THE BOARD

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can forecast and plan for inventory needs. The management team expects this to be mutually beneficial for both suppliers and the Company, who will benefit from the margin improvement. To build customer loyalty, the Company will invest and strengthen the Group's brand identity to become the centre of our customers' consumer electronics world, and take a more consumer segment specific approach in providing personalised services. Upgrading the membership programme will also be an important task. As part of the initiative to improve customer's shopping experience, the Group will continue its store remodelling programme (over 400 stores remain to be remodelled). During the first half of 2010, 75 stores have been through the store transformation programme, and together with the number of remodelled stores in 2009, a total of 102 stores have been through the transformation programme.

These steps to improve customer and supplier relationships are expected to bring a cumulative five year additional revenue contribution from the date of implementation of the Five-Year Plan of approximately RMB4 to RMB6 billion.

### *Developing new businesses*

The management team will focus on a number of new business opportunities.

- Following continued growth in online retailing, e-commerce will be an investment hotspot and the management team will seek to grow the business in this area.
- The Group will seek to capture acquisition opportunities that arise from tier two and tier three market consolidations.
- The Group will aim to extend further into the value chain and explore potential partnerships with upstream and downstream suppliers and service providers in order to expand differentiated product offerings and value-adding services and enhance product management expertise.

The development of new businesses is expected to bring a cumulative five year additional revenue contribution from the date of implementation of the Five-Year Plan of approximately RMB10 to RMB20 billion or more.

### **Capital requirements for the Five-Year Plan**

Implementation of the Five-Year Plan will require significant further investment by the Group in a number of key areas, including:

- construction of distribution centres to serve tier two and tier three markets, including four national distribution centres, expected to cost RMB400-500 million each, and seven regional distribution centres, expected to cost RMB200-250 million each;
- construction of super flagship stores, including 11 stores in the first phase of the Five-Year Plan, expected to cost approximately RMB400 million per store for four stores in tier one cities, and approximately RMB150 million per store for seven stores in tier two cities;



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## LETTER FROM THE BOARD

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- continuation of the store remodelling programme (over 400 stores remain to be remodelled), expected to cost RMB1 million per store;
- continuation of the store expansion plan, with a view to opening approximately 700 new stores by the end of 2014, expected to cost RMB1 – 3 million per store;
- implementation of brand rationalisation, repositioning and rebranding for various brands used by the Group as well as maintaining the flexibility of the priority brands to cater for market and customer segmentation;
- continuation of investment in the ERP system, expected to cost RMB400 – 500 million;
- implementation of the Group's investment in e-commerce business;
- acquisition opportunities that arise from tier two and tier three market consolidations; and
- continuation of the development of differentiated products and enhancing product management expertise.

The capital expenditures outlined above will assist the Group in meeting the sales increase and profit improvement targets set out in the Five-Year Plan.

### **ALLEGATIONS MADE BY MR. WONG IN THE REQUISITION LETTER**

#### **Financial performance of the Company**

In the Requisition Letter, Mr. Wong alleges that the Company's financial performance and market share have fallen behind those of its main competitors. As the Company's results set out above demonstrate, the Company has in fact recovered strongly from the difficult position the Company was in following the investigation into Mr. Wong in 2008 and his subsequent arrest and conviction in 2009. On 24 November 2008, the date that trading in the Shares was suspended, Mr. Wong owned Shares in the Company with an aggregate value of HK\$5,079 million (HK\$1.12 per Share, or HK\$1.01 per Share if adjusted for the Open Offer). By 4 August 2010, the date that the Requisition Letter was received, Mr. Wong owned Shares in the Company with an aggregate value of HK\$13,968 million (HK\$2.73 per Share, an increase of 170.3 per cent. in the Share price accounted for on a consistent basis after adjustment for the Open Offer). It is therefore clear that Mr. Wong, along with other Shareholders, has prospered under Mr. Chen's leadership.

#### **The need to retain the Existing Issue Mandate**

In the Requisition Letter, Mr. Wong suggested that the Existing Issue Mandate approved by the Shareholders of the Company at the Company's annual general meeting on 11 May 2010, was no longer necessary. As noted in the Announcement, the Board is strongly opposed to the cancellation of the Existing Issue Mandate, which could significantly restrict management's flexibility to access capital, and put the Company at a distinct competitive disadvantage in a highly competitive market environment.



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## LETTER FROM THE BOARD

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Whilst the Company has returned to financial stability under the current management team, the sudden withdrawal of credit facilities or the acceleration of payment demands by suppliers, as occurred following the arrest and conviction of Mr. Wong, could again result in the need to be able to access capital quickly. The Existing Issue Mandate provides the Board with a readily accessible source of capital, the availability of which provides security and stability to the Company's operations.

In addition to providing security to enable the Company to withstand unexpected adverse events, the availability of the Existing Issue Mandate also provides the management team with the means to pursue ongoing projects (such as store expansion and remodelling programmes), and to pursue any potential acquisition opportunities that may arise from time to time.

Shareholders have in the past acknowledged the benefits a general mandate offers, and accordingly have approved the grant of a general mandate at the last six annual general meetings of the Company, going back to 2005.

The Board notes that all of the 17 PRC retailers of which the Board is aware which are listed on the Stock Exchange have the benefit of a general mandate.

For these reasons, the Board firmly believes that retention of the Existing Issue Mandate is in the best interests of the Company and its Shareholders as a whole, and considers the cancellation of the Existing Issue Mandate, as proposed by Mr. Wong, makes the Company susceptible to unforeseen events and market uncertainties, whilst at the same time frustrating management's ability to grow the Group's business to its full potential.

### **Experience of the current executive Directors and Mr. Wong's proposed nominees**

Pursuant to Resolutions 5, 6, 7 and 8 of the notice of the Special General Meeting, which have been proposed by Shinning Crown, Mr. Wong proposes to remove Mr. Chen Xiao, currently an executive Director and the Chairman of the Board, and Mr. Sun Yi Ding, currently an executive Director, and replace them with Mr. Zou Xiao Chun and Ms. Huang Yan Hong.

Mr. Chen is an executive Director of the Company, has been the Chairman of the Group since 16 January 2009, and was President of the Group from 30 November 2006 until 28 June 2010 when he resigned the position so that the roles of the Chairman and President of the Company would not be performed by the same individual in compliance with the Corporate Governance Code set out in Appendix 14 to the Listing Rules. Mr. Chen has over 20 years of experience in the business management and electrical appliances retail industry in the PRC. As early as in September 1996, Mr. Chen, as one of the founders, set up 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 the PRC, and previously listed as China Paradise Electronics Retail Limited on the Stock Exchange. Biographical details of Mr. Chen are set out in Appendix II to this circular.

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## LETTER FROM THE BOARD

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Mr. Sun 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 services. He is also a director of various subsidiaries of the Company. He has 15 years of sales experience. Mr. Sun was named as one of the “100 Influential Persons in the 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. Biographical details of Mr. Sun are set out in Appendix II to this circular.

In contrast, Mr. Zou and Ms. Huang appear to have no experience as executive directors of a company operating in the home electronic appliances retail market, such as GOME. Biographical details of Mr. Zou and Ms. Huang, which were provided to the Company by Mr. Wong’s representatives, are set out in Appendix III to this circular.

Not only are Mr. Chen and Mr. Sun more experienced in the business of the Company, but, as described above in the sections of this Letter entitled “Management’s Response to the Crisis” and “Financial Performance Since the Crisis”, their leadership has brought financial stability to the Group during a very difficult period in the Company’s history.

For these reasons, the Board firmly believes that it is in the best interests of the Company and its Shareholders as a whole to retain quality and experienced management personnel such as Mr. Chen and Mr. Sun, and considers that to remove them and replace them with Mr. Zou and Ms. Huang, as proposed by Mr. Wong, would significantly weaken the leadership of the Company.

### **PROPOSED RE-ELECTION OF NON-EXECUTIVE DIRECTORS**

Pursuant to Bye-law 102(B) of the Bye-laws, any Director appointed to fill a casual vacancy to the Board shall hold office only until the next following general meeting of the Company and shall then be eligible for re-election at that general meeting (but shall not be taken into account in determining the Directors or number of Directors who are to retire by rotation at such meeting). Accordingly, Mr. Zhu Jia, Mr. Ian Andrew Reynolds and Ms. Wang Li Hong, who are representatives of Bain Capital and were appointed as non-executive Directors pursuant to Bye-law 102(B) of the Bye-laws by resolution of the Board on 11 May 2010, will retire at the Special General Meeting and, being eligible, offer themselves for re-election.

As the Board noted in an announcement dated 12 May 2010, it is a term of the investment agreement between the Company and Bain Capital that the Company shall use its best endeavours, subject to any mandatory requirements of law and the Listing Rules from time to time, to appoint three persons nominated by Bain Capital as non-executive Directors, or a lesser number of non-executive Directors, if the interest of Bain Capital in the Company has been reduced. In view of the Company’s obligations under the investment agreement with Bain Capital, and considering the valuable contribution made to the Company by Mr. Zhu Jia, Mr. Ian Andrew Reynolds and Ms. Wang Li Hong since their appointment, the Board (excluding

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## LETTER FROM THE BOARD

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Mr. Zhu Jia, Mr. Ian Andrew Reynolds and Ms. Wang Li Hong) unanimously believes that re-election of Mr. Zhu Jia, Mr. Ian Andrew Reynolds and Ms. Wang Li Hong as non-executive Directors is in the best interests of the Company and the Shareholders as a whole.

Resolutions to consider and, if thought fit, to approve the re-election of Mr. Zhu Jia, Mr. Ian Andrew Reynolds and Ms. Wang Li Hong as non-executive Directors, as set out in Resolutions 1, 2 and 3 respectively of the notice of the Special General Meeting will be proposed at the Special General Meeting.

Biographical details of the Directors proposed for re-election at the Special General Meeting are set out in Appendix I to this circular.

### **RESOLUTIONS PROPOSED BY SHINNING CROWN**

#### **Proposed Cancellation of Existing Issue Mandate**

At the annual general meeting of the Company held on 11 May 2010, ordinary resolutions were passed granting the Existing Issue Mandate to the Board. For further details of the Existing Issue Mandate, please refer to the circular issued by the Company on 12 April 2010.

In accordance with the provisions of the Listing Rules and the terms of the Existing Issue Mandate, the Existing Issue Mandate shall lapse if, inter alia, it is revoked or varied by ordinary resolution of the Shareholders in general meeting.

A resolution to consider and, if thought fit, to approve the cancellation of the Existing Issue Mandate as set out in Resolution 4 of the notice of the Special General Meeting will be proposed at the Special General Meeting. Upon the passing of such resolution, the Board will have no power to allot, issue or deal with new Shares without specific authorisation by further resolution of the Shareholders.

#### **Removal of Chen Xiao as executive Director and Chairman of the Board and of Sun Yi Ding as executive Director**

Pursuant to section 93(1) of the Companies Act, subject to the Bye-laws, shareholders of a Bermuda company may at a special general meeting call for the removal of a director provided that notice of such meeting shall be served on the director concerned not less than 14 days before the meeting and he shall be entitled to be heard at such meeting.

Bye-law 104 of the Bye-laws provides that the Company may remove any Director by ordinary resolution (including a managing Director or other executive Director) before the expiration of his period of office notwithstanding anything in the Bye-laws or in any agreement between the Company and such director (but without prejudice to any claim which such Director may have for damages for breach of any contract between him and the Company) and may elect another person in his stead.

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## LETTER FROM THE BOARD

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Resolutions to consider and, if thought fit, to approve the removal of Mr. Chen Xiao as executive Director and Chairman of the Board and of Mr. Sun Yi Ding as executive Director while maintaining his operational role as a Vice President of the Company, with immediate effect pursuant to section 93(1) of the Companies Act and Bye-law 104 of the Bye-laws, as set out in Resolutions 5 and 6 respectively of the notice of the Special General Meeting, will be proposed at the Special General Meeting.

### **Appointment of New Directors**

Pursuant to section 91(1) of the Companies Act, Directors may be elected or appointed by the Shareholders in such other manner and for such term as may be provided in the Bye-laws. In addition, pursuant to section 93(2) of the Companies Act, a vacancy created by the removal of a Director at the Special General Meeting may be filled at that meeting by the election of another Director in his place or, in the absence of any such election, by the other Directors.

Bye-law 102A of the Bye-laws provides that the Company may elect any person to be a Director by ordinary resolution, either to fill a casual vacancy or as an addition to the Board.

Resolutions to consider and, if thought fit, to approve the appointments of Mr. Zou Xiao Chun and Ms. Huang Yan Hong as executive Directors of the Company pursuant to Bye-law 102(A) of the Bye-laws, section 91(1) of the Companies Act and, in the event that resolution(s) 5 and/or 6 of the notice of the Special General Meeting are passed, section 93(2) of the Companies Act, as set out in Resolutions 7 and 8 respectively of the notice of the Special General Meeting, will be proposed at the Special General Meeting.

Biographical details of Mr. Zou Xiao Chun and Ms. Huang Yan Hong are set out in Appendix II to this circular.

### **OTHER ARRANGEMENTS CONCERNING MR. WONG**

Given the clear difference of opinion between the Directors and Mr. Wong in relation to the management of the Group, the Board has sought advice to ensure that the potential impact of any actions by Mr. Wong in relation to existing arrangements between the Group and the unlisted group, which is ultimately owned and controlled by Mr. Wong, is understood and mitigated to the extent possible.

### **Management Agreement and Procurement Agreement**

The Company, through its wholly owned subsidiaries, Jinan Wansheng and Kunming Hengda, currently provides certain management services and procurement services pursuant to the Management Agreement and the Procurement Agreement in relation to stores which are ultimately owned by Mr. Wong. The Management Agreement and the Procurement Agreement may be terminated by either party on 60 days notice in writing to the other party. The Company has no current intention to terminate these agreements but Mr. Wong could choose to do so

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## LETTER FROM THE BOARD

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unilaterally. In 2009, the Group received gross fees of RMB233,541,000 under the Management Agreement and the Procurement Agreement. However, satisfying the Group's obligations under the Management Agreement and the Procurement Agreement does take up a significant amount of internal resources, both the financial and human, and termination of these agreements would enable such resources to be focused on implementation of the Five-Year Plan, which the Board and the management team believe to be in the longer term interest of the Company.

### **Trade marks**

The Group has various arrangements with companies which are ultimately owned and controlled by Mr. Wong in relation to trade marks used by the Group. Whilst the Company cannot completely rule out the possibility of being involved in future disputes in relation to these trade marks, the Company believes it has valid rights to continue to use the trade marks. Apart from the "GOME" brand, the Group also has a number of valuable trade marks at its disposal and is using these trade marks, which are not subject to licenses from Mr. Wong, including "大中電器 Dazhong Electronics" and "永樂家電", the trade mark of Yongle (China) Electronics Retail Company Limited. These alternative trade marks give the Group some flexibility in developing its long-term brand development strategy.

### **SPECIAL GENERAL MEETING**

A notice convening the Special General Meeting is set out on pages 36 to 37 of this circular.

A form of proxy for use at the Special General Meeting is also enclosed with this circular.

**Whether or not you are able to attend the Special General Meeting, please complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch share registrar in Hong Kong, Tricor Abacus Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong as soon as possible, and in any event not less than 48 hours before the time appointed for holding of the Special General Meeting or any adjournment thereof. Completion and return of the form of proxy shall not preclude Shareholders from attending and voting in person at the Special General Meeting or any adjournment thereof if they so wish.**

Pursuant to Rule 13.39(4) of the Listing Rules, any vote of shareholders at a general meeting must be taken by poll. Therefore, all resolutions proposed at the Special General Meeting shall be voted by poll.

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## LETTER FROM THE BOARD

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### **YOUR SUPPORT FOR THE COMPANY AND RECOMMENDATION**

Mr. Chen, the Board and the entire senior management team are united in their belief that the Group is now beginning to put the difficulties caused by Mr. Wong's arrest and subsequent conviction for various financial crimes behind it. The entire management team have worked relentlessly, not only to return the Group to a position of strength, but also to formulate the new Five-Year Plan, implementation of which the Board believes will deliver strong returns for the benefit of all Shareholders.

Given this positive outlook for the Group, the Board is concerned that the actions of Mr. Wong would undermine the achievements of the Group since commencement of the formal investigation into Mr. Wong in November 2008 and would disrupt the new found stability of the Group. The Board does not see any merit in the proposals put forward in the Requisition Letter, which would, if implemented, deprive the Group of two experienced executive Directors and senior management members and unnecessarily expose the Group to a potential liquidity risk by removing the Board's access to capital under the Existing Issue Mandate. In that context, the Board can only assume that Mr. Wong's actions are motivated by his desire to assert control over the Group at all costs, and regardless of any detriment to other Shareholders.

The Board strongly urges you to support the Company by endorsing the existing management team, and by giving that management team the mandate they need to continue to build on the achievements of the Group since commencement of the formal investigation into Mr. Wong in November 2008, and to maximise value for the benefit of all Shareholders.

**For the reasons set out above, the Board considers that Resolutions 1, 2 and 3 are in the best interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends all Shareholders to vote for Resolutions 1, 2 and 3 (being to re-elect Mr. Zhu Jia, Mr. Ian Andrew Reynolds and Ms. Wang Li Hong as non-executive Directors) to be proposed at the Special General Meeting, details of which are set out in the notice of Special General Meeting at the end of this circular.**

**For the reasons set out above, the Board considers that Resolutions 4, 5, 6, 7 and 8, proposed by Shinning Crown, are not in the best interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends all Shareholders to vote against Resolutions 4, 5, 6, 7 and 8 (being the Requisitioned Resolutions) to be proposed at the Special General Meeting, details of which are set out in the notice of Special General Meeting at the end of this circular.**

**Bain Capital has confirmed to the Board that it plans to exercise the conversion rights under the Bain Convertible Bonds at least five Business Days prior to the Special General Meeting, which will enable Bain Capital to exercise all of its voting rights in the Company to vote against the Requisitioned Resolutions, and in favour of the re-election of Mr. Zhu Jia, Mr. Ian Andrew Reynolds and Ms. Wang Li Hong as non-executive Directors.**

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## LETTER FROM THE BOARD

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### RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, except Mr. Ng Kin Wah, who has a conflict of interest in relation to the matters set out in this circular, collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading.

Should you have any questions, please contact us on +852 3769 8388.

Yours faithfully,  
For and on behalf of  
**GOME Electrical Appliances Holding Limited**  
**Mr. Chen Xiao**  
*Chairman*

23 August 2010

*The biographical details of the Directors proposed for re-election at the Special General Meeting are set out as follows:*

**NON-EXECUTIVE DIRECTORS**

**Mr. Zhu Jia**, aged 47, has been a non-executive Director since 3 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 the Stock Exchange.

Save as disclosed above, Mr. Zhu has not held any directorships in any other listed public companies or other major appointments and qualifications during the past three years.

Save for the directorship in the Company, Mr. Zhu does not hold any other positions with the Company or other members of the Group.

Save as disclosed above, Mr. Zhu does not have any relationship with any director, senior management or substantial or controlling shareholder of the Company. As at the Latest Practicable Date, Mr. Zhu is interested in 1,168,920 shares of the Company representing approximately 0.0078% of the total issued share capital of the Company.

Pursuant to a letter of appointment entered into between Mr. Zhu and the Company, (a) the term of appointment of Mr. Zhu as a non-executive Director is for a fixed term commencing from 11 May 2010 and ending on the date of the general meeting of the Company next following such appointment, and shall continue thereafter for no more than two successive terms of one year each commencing from the day following the expiry of the then current term, subject to retirement by rotation and re-election in accordance with the Bye-laws of the Company; and (b) Mr. Zhu is not entitled to any remuneration.

Save as disclosed above, the Board is not aware of any other matters in relation to the appointment of Mr. Zhu as a non-executive Director to be disclosed pursuant to any provisions under Rule 13.51(2) of the Listing Rules, nor are there other matters that need to be brought to the attention of the shareholders of the Company in relation to the appointment of Mr. Zhu.



**Mr. Ian Andrew Reynolds**, aged 38, has been a non-executive Director since 3 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.

Save as disclosed above, Mr. Reynolds has not held any directorships in any other listed public companies or other major appointments and qualifications during the past three years.

Save for the directorship in the Company, Mr. Reynolds does not hold any other positions with the Company or other members of the Group.

Save as disclosed above, Mr. Reynolds does not have any relationship with any director, senior management or substantial or controlling shareholder of the Company. As at the Latest Practicable Date, Mr. Reynolds does not have any interest in shares of the Company within the meaning of Part XV of the SFO.

Pursuant to a letter of appointment entered into between Mr. Reynolds and the Company, (a) the term of appointment of Mr. Reynolds as a non-executive Director is for a fixed term commencing from 11 May 2010 and ending on the date of the general meeting of the Company next following such appointment, and shall continue thereafter for no more than two successive terms of one year each commencing from the day following the expiry of the then current term, subject to retirement by rotation and re-election in accordance with the Bye-laws of the Company; and (b) Mr. Reynolds is not entitled to any remuneration.

Save as disclosed above, the Board is not aware of any other matters in relation to the appointment of Mr. Reynolds as a non-executive Director to be disclosed pursuant to any provisions under Rule 13.51(2) of the Listing Rules, nor are there other matters that need to be brought to the attention of the shareholders of the Company in relation to the appointment of Mr. Reynolds.

**Ms. Wang Li Hong**, aged 42, has been a non-executive Director since 3 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 (US) 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.

Save as disclosed above, Ms. Wang has not held any directorships in any other listed public companies or other major appointments and qualifications during the past three years.

Save for the directorship in the Company, Ms. Wang does not hold any other positions with the Company or other members of the Group.

Save as disclosed above, Ms. Wang does not have any relationship with any director, senior management or substantial or controlling shareholder of the Company. As at the Latest Practicable Date, Ms. Wang does not have any interest in shares of the Company within the meaning of Part XV of the SFO.

Pursuant to a letter of appointment entered into between Ms. Wang and the Company, (a) the term of appointment of Ms. Wang as a non-executive Director is for a fixed term commencing from 11 May 2010 and ending on the date of the general meeting of the Company next following such appointment, and shall continue thereafter for no more than two successive terms of one year each commencing from the day following the expiry of the then current term, subject to retirement by rotation and re-election in accordance with the Bye-laws of the Company; and (b) Ms. Wang is not entitled to any remuneration.

Save as disclosed above, the Board is not aware of any other matters in relation to the appointment of Ms. Wang as a non-executive Director to be disclosed pursuant to any provisions under Rule 13.51(2) of the Listing Rules, nor are there other matters that need to be brought to the attention of the shareholders of the Company in relation to the appointment of Ms. Wang.

*The biographical details of the Directors proposed by Shinning Crown to be removed at the Special General Meeting are set out as follows:*

**Mr. CHEN Xiao**, aged 52, is the Chairman and an executive Director of the Group. Mr. Chen was the chief executive officer of the Group between 30 November 2006 and 28 June 2010 and has been an executive Director since 22 May 2007. Mr. Chen 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 chairman, the chief executive officer and an executive director of China Paradise Electronics Retail Limited since October 2005 when it was listed on the 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. 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 aftersale 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 a Jinan subsidiary, general manager of the telecommunication subsidiary, deputy general manager of the sale and procurement centre, general manager of the operations centre, director of the chain development centre of the headquarter 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.

*The biographical details of the Directors proposed by Shinning Crown to be appointed at the Special General Meeting are set out as follows:*

#### EXECUTIVE DIRECTORS

**Mr. Zou Xiao Chun**, aged 40, graduated from the Department of Law of Jiangxi University (江西大學法律專業專科) in June 1990, and was granted the Chinese Lawyers Qualification Certificate (中國律師資格證書) by the Judicial Department of Jianxi Province (江西省司法廳) in July 1991 by passing an examination in August 1990. Mr. Zou was also granted the Chinese Tax Advisers Qualification Certificate (中國稅務師資格證書) by the National Tax Bureau of Jiangxi Province (江西省國家稅務局) in September 1995, the Pass Certificate for the National Notary Public Qualification Examination (國家公證員資格考試合格證書) by the National Ministry of Justice (國家司法部) in December 1995, the Training Completion Certificate for Lawyers Practising in Tenders of Large-to-Medium Infrastructure Projects (律師從事基本建設大中型項目招標投標業務培訓結業證書) by the Judicial Department of Jiangxi Province (江西省司法廳) and the Planning Committee of Jiangxi Province (江西省計劃委員會) jointly in July 1999, Qualification Certificate for Lawyers Practising in Securities Law (律師從事證券法律業務資格證書) by the National Ministry of Justice (中國司法部) and the Chinese Securities Regulatory Commission (中國證監會) jointly in February 2000, Training Completion Certificate for Independent Directors of Listed Companies (上市公司獨立董事培訓班結業證書) by the Chinese Securities Regulatory Commission (中國證監會) and the Economic Management Faculty of Tsinghua University jointly in October 2001 and the Seminar Completion Certificate for Foreign-related Arbitration Law (涉外仲裁法律業務講座結業證書) by the Chinese Lawyers Association (中華全國律師協會) in April 2002. Furthermore, Mr. Zou was qualified as an industrial economist (工業經濟師) by the National Human Resources Department (國家人事部) in October 1996.

Mr. Zou practiced as the lawyer, vice-managing partner and person-in-charge at Jiangxi Sui Long Law Firm (江西遂龍律師事務所), a state law firm, from 1991 to 1999. From 2000 to May 2006, Mr. Zou practised as a securities lawyer and a partner at Beijing Sinosource Law Firm (北京市中潤律師事務所). In June 2006, Mr. Zou founded the Beijing John & Law Firm (北京中逸律師事務所) and has been acting as the founding partner and the managing partner since then. Mr. Zou has also been a member of the Professional Committee for Mergers, Acquisitions and Reorganizations of the Beijing Lawyers Association (北京律師協會併購與重組專業委員會) since June 2005.

Mr. Zou has been acting as the retainer legal adviser for Beijing Eagle Investment Co. Ltd (北京鵬潤投資有限公司) and Beijing Gome Electrical Appliance Co., Ltd (北京國美電器有限公司) since 2001. Prior to 2009, Mr. Zou was also the retainer legal adviser of GOME Appliance Company Limited (國美電器有限公司). He had participated in the legal structure design and important mergers and acquisitions of the above three companies (collectively, the "GOME Group").

Since December 2008, Mr. Zou has been acting as the vice-chairman of the third and fourth sessions of the board of directors of Beijing Centergate Technologies (Holdings) Co., Limited (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) and the chairman of the board of directors of its various subsidiaries. He was also the acting chairman and acting chief executive officer of Beijing Centergate Technologies (Holdings) Co., Limited (a company listed on the Shenzhen Stock Exchange) between December 2008 and December 2009 in charge of the overall management of the listed company. From April 2002 to May 2006, Mr. Zou was an independent director of Guangdong Meiyuan Hydropower Co., Ltd (廣東梅雁水電股份有限公司), a company listed on the Shenzhen Stock Exchange and from June 2002 to November 2007, was also an independent director of Hunan Investment Group Co., Ltd (湖南投資集團股份有限公司), a company listed on the Shenzhen Stock Exchange. Furthermore, Mr. Zou had also acted as the retainer or project-based legal adviser for Sanlian Commercial Co., Ltd (三聯商社股份有限公司), a company listed on the Shanghai Stock Exchange, Taiyuan Coal Gasification Company Limited (太原煤氣化股份有限公司), a company listed on the Shenzhen Stock Exchange, and Ningcheng Laojiao Company Limited (內蒙古寧城老窖股份有限公司), a company listed on the Shanghai Stock Exchange, and other large enterprises.

Mr. Zou has been a practising lawyer for almost 20 years and has practised in legal areas relating to capital markets in the PRC for 10 years. He had provided legal services to the GOME Group for 9 consecutive years. He has solid experience in managing listed companies and has considerable working experience in listed companies and large enterprises.

Mr. Zou does not have any relationship with any other Directors, senior management, substantial shareholders, or controlling shareholders of the Company. As at the Latest Practicable Date, Mr. Zou does not have any interests in the shares of the Company within the meaning of Part XV of the SFO. Save as disclosed above, Mr. Zou has not held any position in other listed companies or other major appointments or qualifications during the past three years. If Mr. Zou is appointed as a Director at the SGM, the Company will enter into a service contract with Mr. Zou on such terms as may be agreed by the parties. Mr. Zou will not be entitled to any emoluments until such terms are approved by Shareholders. Save for the proposed appointment as director of the Company, he currently holds no positions with the Company and other members of the Group.

Save as disclosed above, Mr. Zou has confirmed that there are no other matters in relation to the appointment of Mr. Zou as an executive Director to be disclosed pursuant to any provisions under Rule 13.51(2) of the Listing Rules, nor are there other matters that need to be brought to the attention of the shareholders of the Company in relation to the appointment of Mr. Zou.

**Ms. Huang Yan Hong**, aged 33, graduated from The China Europe International Business School (中歐國際工商學院). Ms. Huang served as the accountant and the manager of the Finance Department of GOME Appliance Company Limited (國美電器有限公司) from January 1994 to December 1996, the deputy general manager of GOME Appliance Company Limited (國美電器有限公司) from January 1997 to June 2000, the deputy general manager of Beijing Eagle Real Estate Development Co., Ltd. (北京鵬潤房地產開發有限責任公司) from June 2000 to May 2003, the director of the Supervision Centre of GOME Appliance Company Limited (國美電器有限公司) from June 2003 to August 2004, and the chairwoman of the board of directors of Beijing Mingtian Xinhua Investment Co., Ltd. (北京明天信華投資有限公司) from January 2008 to date. Ms. Huang is the sister of Mr. Wong.

Save as disclosed above, Ms. Huang does not have any relationship with any other Directors, senior management, substantial shareholders, or controlling shareholders of the Company. As at the Latest Practicable Date, Ms. Huang does not have any interests in the shares of the Company within the meaning of Part XV of the SFO. Save as disclosed above, Ms. Huang has not held any position in other listed companies or other major appointments or qualifications during the past three years. If Ms. Huang is appointed as a Director at the SGM, the Company will enter into a service contract with Ms. Huang on such terms as may be agreed by the parties. Ms. Huang will not be entitled to any emoluments until such terms are approved by the Shareholders. Save for the proposed appointment as director of the Company, she currently holds no position with the Company and other members of the Group.

Save as disclosed above, Ms. Huang has confirmed that there are no other matters in relation to the appointment of Ms. Huang as an executive Director to be disclosed pursuant to any provisions under Rule 13.51(2) of the Listing Rules, nor are there other matters that need to be brought to the attention of the shareholders of the Company in relation to the appointment of Ms. Huang.

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## NOTICE OF SPECIAL GENERAL MEETING

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### GOME ELECTRICAL APPLIANCES HOLDING LIMITED

國美電器控股有限公司\*

*(incorporated in Bermuda with limited liability)*

(Stock Code: 493)

### NOTICE OF SPECIAL GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that a special general meeting (“Special General Meeting”) of GOME Electrical Appliances Holding Limited (the “Company”) will be held at B/1, Regal Ballroom, Regal Hong Kong Hotel, 88 Yee Wo Street, Causeway Bay, Hong Kong on 28 September 2010 at 2:30 p.m. for the following purposes:

#### AS SPECIAL BUSINESS

To consider and, if thought fit, pass the following resolutions as ordinary resolutions of the Company:

1. **THAT** Mr. Zhu Jia be re-elected as a non-executive director of the Company;
2. **THAT** Mr. Ian Andrew Reynolds be re-elected as a non-executive director of the Company; and
3. **THAT** Ms. Wang Li Hong be re-elected as a non-executive director of the Company.

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

4. **THAT** the Company’s general mandate to allot, issue and deal with the Company’s shares, as passed at this year’s annual general meeting of the Company held on 11 May 2010, be cancelled;
5. **THAT** Mr. Chen Xiao be removed with immediate effect from his office as executive director and Chairman of the Board of the Company;
6. **THAT** Mr. Sun Yi Ding be removed with immediate effect from his office as executive director of the Company;
7. **THAT** Mr. Zou Xiao Chun be appointed as an executive director of the Company with immediate effect; and

\* *For identification purposes only*



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## NOTICE OF SPECIAL GENERAL MEETING

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8. **THAT** Ms. Huang Yan Hong be appointed as an executive director of the Company with immediate effect.

### RECOMMENDATIONS

**For the reasons set out in the shareholder circular published by the Company dated 23 August 2010 (the “Circular”), the Board (as defined below) considers that Resolutions 1, 2 and 3 are in the best interests of the Company and the shareholders as a whole and recommends all shareholders to vote for Resolutions 1, 2 and 3.**

**For the reasons set out in the Circular, the Board considers that Resolutions 4, 5, 6, 7 and 8 are not in the best interests of the Company and the shareholders as a whole and recommends all shareholders to vote against Resolutions 4, 5, 6, 7 and 8.**

Yours faithfully,  
For and on behalf of  
**GOME Electrical Appliances Holding Limited**  
**Mr. Chen Xiao**  
*Chairman*

Hong Kong, 23 August 2010

*Principal place of business in Hong Kong:*

Unit 6101, 61st Floor  
The Center  
99 Queen’s Road Central  
Hong Kong

*Notes:*

- (1) Any member of the Company entitled to attend and vote at the Special General Meeting is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is holder of two or more shares of the Company may appoint more than one proxy to attend and vote instead of him/her. A proxy need not be a member of the Company.
- (2) A form of proxy for use at the Special General Meeting is enclosed herewith.
- (3) The form of proxy must be signed by you or your attorney duly authorised in writing or, in the case of a corporation, must be under its seal or the hand of an officer or attorney duly authorised.
- (4) The form of proxy and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy thereof must be lodged at the Company’s branch share registrar in Hong Kong, Tricor Abacus Limited, at 26th Floor, Tesbury Centre, 28 Queen’s Road East, Hong Kong, not later than 48 hours before the time appointed for holding the Special General Meeting or any adjourned meeting (as the case may be) and in default the proxy shall not be treated as valid. Completion and return of the form of proxy shall not preclude members from attending and voting in person at the Special General Meeting or at any adjourned meeting (as the case may be) should they so wish.
- (5) Where there are joint registered holders of any share, any one of such persons may vote any meeting, either in person or by proxy, in respect of such share as if he/she was solely entitled thereto; but if more than one of such joint holders be present at the meeting in person or by proxy, the vote of one of the said persons so present whose name stands first on the register of members in respect of such share shall be accepted to the exclusion of the votes of the other joint holders.
- (6) As at the date of this notice, the Board of Directors of the Company (the “Board”) comprises Mr. CHEN Xiao, Mr. NG Kin Wah, Mr. WANG Jun Zhou, Ms. WEI Qiu Li and Mr. SUN Yi Ding as executive Directors; Mr. ZHU Jia, Mr. Ian Andrew REYNOLDS and Ms. WANG Li Hong as non-executive Directors; and Mr. SZE Tsai Ping, Michael, Mr. CHAN Yuk Sang and Mr. Thomas Joseph MANNING as independent non-executive Directors.